



**United Nations Conference
on Trade and Development**

Distr.: General
6 November 2007

Original: English

Trade and Development Board
Commission on Enterprise, Business Facilitation and Development
Expert meeting on increasing the participation of developing
countries' SMEs in global value chains
Geneva, 18–19 October 2007

**Report of the expert meeting on increasing the
participation of developing countries' SMEs in
global value chains**

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I. Chair's summary

1. The expert meeting addressed policies and measures for integrating and expanding the participation of small and medium-sized enterprises (SMEs) in global value chains (GVCs). The main sources of reference were the findings of a recent research project jointly conducted by UNCTAD, the Organization for Economic Cooperation and Development (OECD) and the University of Fribourg and Geneva, entitled "Enhancing the Role of SMEs into Global Value Chains" (funded by the Government of Switzerland through the Geneva International Academic Network) and the OECD report presented at the Conference on Enhancing the Role of SMEs in Global Value Chains, held in Tokyo in June 2007.

Key findings of the case studies by UNCTAD and OECD on clusters and GVCs

2. It was noted that, in the automotive sector, domestic suppliers in Mexico and South Africa had only managed to break into the second tier, while the first tier was still dominated by transnational suppliers. In the software sector, the industry in Viet Nam was export-oriented, while the Egyptian software industry had specialized in adapting standard software products of leading brands into Arabic. However, the software industries lacked originality and had little innovative capacity. In the creative industries, emerging clusters in Colombia and Nigeria revealed that local preferences in terms of culture, formats and language were key factors in shaping the emergence of new value chains.

3. It was observed that clusters permitted Governments to provide focused and specialized support to domestic suppliers, allowing information to be rapidly diffused. However, not all clusters were innovative and dynamic. Those which had developed sustained export competitiveness exhibited high innovative capacity in a wide range of areas – from design, quality control and marketing to more conventional innovation-related activities such as new product development, technology mastery, and research and development. It was noted that when clustered companies generated collective efficiencies that made them attractive to global producers, productive linkages between transnational corporations and local SME suppliers became more sustainable in the long term.

Bottlenecks of SMEs' participation in GVCs

4. Experts highlighted the main characteristics of GVCs, including the different types of organizational and internal governance structures, and the varying opportunities they offered for SMEs' learning and growth. Understanding such characteristics of the chain was a crucial element in identifying challenges and opportunities for SMEs' participation and upgrading in GVCs. Therefore, policies that sought to help SMEs participate in GVCs should be dynamic and take into consideration the entire chain, including its governance.

5. Reforms to create an enabling business environment in developing countries had not, in some cases, enabled the successful integration of SMEs into regional and global markets. Governments could have a major impact on the business environment through effective policy measures in areas such as labour, taxation, competition, exchange control, contract enforcement and intellectual property rights. In all areas, the effectiveness of measures depended on policy transparency, good governance, economic and political stability, and the ability to generate a culture of change.

Best practices in developing local suppliers and creating business linkages

6. Experts emphasized that linkage-building in developing countries required a systemic policy approach that created an enabling investment climate for both local and transnational companies. Such policy measures might focus on taxation, infrastructure development, red tape reduction, international property protection, competition policy, finance and measures that impacted the overall competitiveness of an economy. However, these policy interventions might not meet the expected outcomes in terms of linkage creation if they were not accompanied and complemented by policy initiatives enhancing the supply-side capacity of SMEs, enabling them to meet supplier requirements of transnational corporations and other large companies.

7. Experts identified a set of guidelines which had to be considered for any successful business linkages programme. They emphasized that the programme would have to be led by the private sector on a voluntary basis to ensure long-term commitment of all participants. A business-to-business approach enabled a win-win situation for all stakeholders in the programme.

Formalizing the informal sector

8. Experts agreed that the large size of the informal economy should be dealt with in order to help potential SMEs currently trapped in the informal sector integrate into GVCs. In some countries, such as Peru and the United Republic of Tanzania, 80 per cent of businesses were informal. This required long-term support measures in areas such as land reform, property rights, credit facilitation and networking. The United Republic of Tanzania, for example, was mapping homes to facilitate the certification and legal ownership of land in the informal sector. Some of the beneficiaries had already used their title deeds or land ownership certificates to obtain credit. In Uganda, small-scale farmers had transformed their association into a company. The company could then use its clout to obtain loans and equipment for use by farmers. Such policies could help build opportunities for private sector development and assist the informal business to grow their activities, units or enterprises.

Regional development and market integration

9. Most SMEs were likely to first grow in their domestic market and then export to neighbouring countries. It was noted that SMEs in the United Republic of Tanzania exported to countries such as Kenya, Malawi and Zambia. Such countries often had similar levels of sophistication and product and service standards. In addition, the cost of transport and services related to exports in the region were likely to be low. However, it was observed that an export-oriented culture might be lacking and this might hinder the fast growth of regional trade. Entrepreneurship training, such as that offered by EMPRETEC, proved very useful in creating a culture of change and the right mindset for entrepreneurs, improving their skills, motivation and work attitude. EMPRETEC, an integrated capacity-building programme of UNCTAD, helped promising entrepreneurs build innovative and internationally competitive SMEs through specific entrepreneurial skills training and advisory services, including promoting business linkages.

Policy recommendations

10. Experts emphasized the importance of developing a favourable business environment as a precondition, but that alone was not sufficient. Efforts should be made to improve the capacity of SMEs to meet international standards and

innovate or upgrade. Experts recalled that one of the most relevant issues in the context of integrating SMEs into GVCs was compliance with standards. This referred both to product and process quality standards. A special effort should be devoted to creating a regulatory framework that encouraged the emergence of commercial providers that operated in competitive markets, and thus drove down the price of services.

11. In some cases, policies might be needed to formalize potential SMEs trapped in the informal sector. This could be achieved by (a) providing entrepreneurship training, business development services and access to finance; (b) increasing technological competitiveness; and (c) linking SMEs to sources of knowledge both at the primary level (e.g. universities and research centres) and at the industry level (e.g. product development, quality standards and testing).

12. Experts reminded participants that, within the context of the African business environment, the situation of women entrepreneurs required special attention. They were usually segregated into certain sectors such as petty trading, food processing, textile and clothing, and business services. Both the legal and educational systems were often biased against them. Therefore, there was a need for new initiatives that focused especially on assisting women-owned enterprises to access business development services, such as the entrepreneurship training services provided by EMPRETEC, which helped them grow and compete.

13. Experts highlighted the fact that clusters, as units of policy interventions, permitted Governments to provide focused and specialized support to domestic suppliers. This allowed information to be rapidly diffused and powerful demonstration effects to occur, thus generating possibilities for accessing new markets and resources, acquiring new skills and capabilities, and becoming internationally competitive. Any policy interventions in value chains should appreciate the unique characteristics of the chains and help to improve the conditions of all the players in the chain. Governments and stakeholders should always be informed about the structure and evolution of GVCs when carrying out cluster promotion efforts to support local suppliers.

14. Regarding the creation of linkages between transnational corporations and SMEs, experts highlighted the need for a linkage programme to be well structured and clearly defined in its scope. It should develop policy guidelines, facilitate the matchmaking and networking process, promote monitoring and auditing, and in some cases provide financial assistance.

15. Lack of policy coherence was also highlighted as one of the challenges that might hinder the growth of vibrant SMEs that were capable of integrating in GVCs. Good policies seeking to promote SME development were often nullified by less supportive policies in other areas. Most often, policies ignored support services that were generally provided by SMEs. It was pointed out that in some sectors, such as tourism, the policies focused on the large hotels and transport providers while neglecting SMEs, whose services provided tourists a complete and unique experience. In other cases, the multiplication of SME support agents might be confusing.

II. Organizational matters

A. Convening of the expert meeting

16. The expert meeting on increasing the participation of developing countries' SMEs in global value chains was held at the Palais des Nations, Geneva, 18–19 October 2007.

B. Election of officers

(Agenda item 1)

17. At its opening meeting, the expert meeting elected the following officers to serve on its bureau:

Chair: Mr. Dmitry Godunov (Russian Federation)
Vice-Chair-cum-Rapporteur: Mr. Conrado José Falco Scheuch (Peru)

C. Adoption of the agenda and organization of work

(Agenda item 2)

18. At the same meeting, the expert meeting adopted the provisional agenda circulated in document TD/B/COM.3/EM.31/1. The agenda for the meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Expert meeting on increasing the participation of developing countries' SMEs in global value chains
4. Adoption of the report of the meeting

D. Documentation

19. For its consideration of the substantive agenda item, the expert meeting had before it a background note by the UNCTAD secretariat entitled "Enhancing the participation of small- and medium-sized enterprises in global value chains" (TD/B/COM.3/EM.31/2).

E. Adoption of the report of the meeting

(Agenda item 4)

20. At its closing meeting, the expert meeting authorized the Rapporteur to prepare the final report of the meeting under the authority of the Chair.

Annex

Attendance*

1. Experts from the following States members of UNCTAD attended the meeting:

Algeria	Malaysia
Angola	Mauritius
Argentina	Mexico
Benin	Morocco
Belarus	Mozambique
Bolivia	Nigeria
Botswana	Pakistan
Cameroon	Peru
Chile	Russian Federation
Côte d'Ivoire	Senegal
Ecuador	Spain
Ethiopia	Sudan
Ghana	Swaziland
Guyana	Thailand
Honduras	Togo
Indonesia	Trinidad and Tobago
Italy	United Republic of Tanzania
Jordan	United States of America
Lesotho	Venezuela (Bolivarian Republic of)
Madagascar	Zimbabwe
Malawi	

2. The following intergovernmental organizations were represented at the meeting:

Groupe des états d'Afrique, des Caraïbes et du Pacifique
Organisation internationale de la francophonie

3. The following United Nations agencies were represented at the meeting:

Economic Commission for Europe
International Trade Centre

4. The following United Nations specialized agencies attended the meeting:

International Labour Organization
United Nations Industrial Development Organization

5. The following panellists attended the meeting:

What are the bottlenecks for developing countries' SMEs to become global suppliers?

Mr. Moris Ngabitho, Kinyara Sugarcane Growers Ltd., Uganda

Mr. Carlo Pietrobelli, Director, Centre for Research on the Economics of Institutions, University of Roma Tre, Italy

Ms. Cecile Duvanel, R&D Director, Augurix Medical Diagnostic, Geneva

Mr. Sergio Arzeni, Director, OECD Centre for Entrepreneurship, SMEs and Local Development

* For the list of participants, see TD/B/COM.3/EM.31/INF.1.

Are the business environment reforms sufficient to increase the participation of SMEs into GVCs?

Mr. Bede Lyimo, Ministry of Planning, Economy and Empowerment,
United Republic of Tanzania

Mr. Charles Ocici, Director, Enterprise Uganda

Ms. Karen Wilson, European Foundation for Entrepreneurship Research

Ms. Natou Thiam, Director of Nucléus, Senegal

Mr. Federico Bonaglia, OECD Development Centre

What are the best practices in developing local suppliers and creating business linkages?

Mr. David Lovegrove, Senior Industrial Adviser, Ireland

Mr. Antonio Macamo, Investment Promotion Centre, Mozambique

Mr. Roberto Castillo, Unilever, Viet Nam

Ms. Eliane Borges, Portfolio Manager, SEBRAE, Brazil

Ms. Virginia Littlejohn, President and CEO, Quantum Leaps Inc., United
States of America

What is the link among clusters, linkages and global value chains?

Ms. Olga Memedovic, Industrial Development Officer, UNIDO

Mr. Paul Dembinski, University of Fribourg and EcoDiagnostic,
Switzerland

Mr. Sascha Furst, EAFIT University, Colombia

Mr. Glen Robbins, University of Kwazulu-Natal, South Africa

Mr. Tarek Assad, General Manager, CID, Egypt
