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Agenda item 7

**DRAFT REPORT OF THE COMMISSION ON ENTERPRISE, BUSINESS
FACILITATION AND DEVELOPMENT ON ITS SECOND SESSION
(1-5 December 1997)**

Rapporteur: Mr. Sek Wannamethee (Thailand)

INTRODUCTION AND AGENDA ITEM 3

Speakers:

Secretary-General of UNCTAD
Secretariat
Sri Lanka (for Asian Group and China)
South Africa (for African Group)
Peru (for GRULAC)
Luxembourg (for European Union)
Russian Federation
Cuba

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements of individual delegations - to be submitted in English or French - should be communicated by **Friday, 12 January 1997 at the latest**, to:

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INTRODUCTION

1. The second session of the Commission on Enterprise, Business Facilitation and Development was held at the Palais des Nations, Geneva, from 1 to 5 December 1997. In the course of the session, the Commission held ... plenary meetings (7th to ... meetings) and ... informal meetings.

Opening statement

2. The **Secretary-General of UNCTAD**, referring to the role of UNCTAD's Commissions in general, said that expert meetings were intended to provide expert inputs to the Commissions, which would in turn assist the Trade and Development Board in its role as a decision-making body. The Commissions should have a permanent role to play and should have mechanisms to allow them to follow up decisions between sessions. They should become partners with the secretariat in the implementation of the work programme.

3. With regard to agenda item 3, he drew the attention of the Commission to the recommendations of the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development, which had taken place in Geneva from 23 to 25 July 1997. Some 110 national experts from 65 countries, as well as representatives from several United Nations agencies, other international bodies and NGOs, had participated in the Expert Meeting, which had focused on four major issues: (i) channels for Government-private sector dialogue; (ii) policy coherence for SME development; (iii) SME support mechanisms and agencies; and (iv) the role of professional organizations in Government-private sector dialogue and SME support.

4. The Expert Meeting had made a number of recommendations for attaining effective dialogue, mainly that dialogue had to be an interactive process and had to involve a balanced representation of all sectors of the business community. Effective dialogue could promote a coherent policy framework. The challenge before the Commission was to translate these recommendations into practical suggestions for implementation at the country level.

5. Concerning item 4 of the agenda, he noted that seven sub-items would have to be addressed, but he hoped that there would be enough time for practical discussions on the expert meetings' conclusions. The transit issue was of great importance all over the world in terms of revenue. During his last visit to the European Commission, he had been informed that lost income resulting from transit problems was estimated at US\$ 5 billion each year for the European countries alone. The recommendations that had emerged from the Expert Meeting on the Use

of Information Technologies to Make Transit Arrangements More Effective should therefore be looked at carefully and practical ways to implement them at the country level should be examined. Four of the seven sub-items were related to trade efficiency and to the activities launched at Columbus (Ohio) in 1994. The time had come to seek a comprehensive approach to the issues involved and, in the case of Trade Points, to take stock of the experience acquired. He concluded by inviting delegations to reflect on the role of the Commission and its relationship with the secretariat and to ensure that the Commission's conclusions aimed at concrete actions.

Chapter I

ENTERPRISE: ISSUES RELATING TO AN ENTERPRISE DEVELOPMENT STRATEGY

(Agenda item 3)

6. For its consideration of this item, the Commission had before it the following documentation:

"Progress towards strategies for enterprise development: Note by the UNCTAD secretariat" (TD/B/COM.3/9);

"Report of the Expert Meeting on Government and Private Sector Roles and Interaction in SME Development" (TD/B/COM.3/6-TD/B/COM.3/EM.2/3).

7. The **Director of the Division on Investment, Technology and Enterprise Development** (DITE), introducing item 3, said that globalization reflected a number of fundamental changes in the process of production and in the way firms competed in the global economy. One was the growing knowledge-intensity of production, which was breaking down the distinction between "traditional" and "high tech" industries. Knowledge and knowledge-based skills and capabilities were what distinguished dynamic and competitive firms of all sizes.

8. Within this context of more knowledge-intensive production, firms had begun to compete not only in terms of price but also on the basis of their ability to sustain a process of innovation. With liberalization, this innovation-based mode of competition had diffused worldwide and broken down another traditional distinction between firms which were focused on the domestic market and those that exported.

9. Small and medium-sized enterprises had fewer resources of their own to meet these new challenges, and their ability to articulate their needs was weaker than that of larger firms. Enterprise development strategies, particularly those concerned with SMEs, must thus be conceptualized as a set of integrated elements whose interactive effects were critical to the success of the overall effort. The role of public-private sector dialogue, considered by an Expert Meeting in July 1997, was one such element, but there were several others, including the need for a well developed regulatory system and a strong accounting capability in the SME sector. DITE's accounting programme was working with the entrepreneurship and innovation training programme - EMPRETEC - to build this capability.

10. SMEs depended upon a host of other support programmes to sustain their ability to undertake the many small changes that ensured their competitiveness. The provision of services to SMEs had been strengthened through clustering, notably in the development of incubators and technology parks. The role that networking, partnering and clustering might play to strengthen the SME sector in developing countries and economies in transition was a subject for further policy analysis and required the preparation of case studies which highlighted best practice.

11. With respect to the Commission's request to report on the possibility of creating a network of research bodies and other support agencies working in the area of enterprise development, research had shown that such networks already existed and that a new one would not be needed. The Expert Meeting on public-private sector dialogue had requested that UNCTAD provide a place on its web site where those who had participated in the Meeting might continue their exchange of views, and the web site was being developed to this end.

12. Concerning the request to report to the Commission on DITE's cooperation with other United Nations agencies and international organizations in the area of enterprise development, she noted that much work on strengthening the EMPRETEC programme and the pilot network of centres for innovation and enterprise development in Africa built upon the close links established with ITC, UNDP's Enterprise Africa programme, ILO, UNIDO and Canada's IDRC. DITE had begun to explore ways and means of spreading enterprise development concepts and programmes to economies in transition through its cooperation with Directors of EMPRETEC programmes in Latin America and Africa and with OECD through its training centre in Istanbul. The UNCTAD-ECE Task Force on enterprise-development-related issues in economies in transition had a role to play there as well.

13. The spokesman for the Asian Group and China (Sri Lanka) said that the development of SMEs had been accorded an important place in the economic and social strategy of developing countries, and Governments were now attempting to address their problems through specific policies. He did not favour uniform policies or strategies to develop or assist SMEs, as there were wide differences among developing countries in terms of stages of development and industrial tradition.

14. His Group recognized the need for an effective dialogue between government and the private sector at all levels, and it drew attention to the importance of the quality of the working relationship between them. He highlighted the importance of finance, training, innovation, technology, market information and business support for SME development and stressed the overall impact of positive government policies. Policy coherence for SME development implied a favourable

overall policy framework which depended not only upon government policy but also on a variety of macro-economic factors and international factors, such as the provisions of international agreements.

15. The Asian Group and China supported the need for a framework of proactive policies for a broad range of support mechanisms and business development services based on integrated programmes. The secretariat document raised a number of relevant issues in this respect.

16. Owing to changes in demand associated with new systems of globalized production, inter-firm cooperation had assumed great significance. Many firms found that such cooperation was necessary in order to lower costs and to become more innovative. International institutions could play a leading role in this area, especially to encourage networking of firms of developed countries with those of developing countries. He underlined the importance of effective dissemination of information relating to opportunities for cooperation among firms.

17. Future work by UNCTAD should include case studies of effective mechanisms to promote dialogue at all levels and to examine the implementation of the subsidiarity principle, the impact of liberalization on the development of SMEs, the role of governments in promoting inter-firm cooperation, including clustering, networking and technology partnerships, between and among SMEs, as well as with larger enterprises, and a review of the coherence between trade and micro policies and its impact on SMEs.

18. The spokesman for the African Group (South Africa) said that the Commission's discussions should take into account firstly the international dimension of the issues raised and secondly African reality, in which some countries were dealing with issues of clustering, strategic partnership and technology transfers, while others were still grappling with issues of training, information, finance and access to modern technology. There was still need for donor assistance.

19. The Expert Meeting on Government and Private Sector Roles and Interactions in SME Development had set solid foundations for addressing the roles of Governments and the private sector, the need for coherent policy frameworks and effective support measures. In general, his Group supported its recommendations, though much work remained to be done by UNCTAD to assist developing countries in this field.

20. Further work was also needed on the issues of subsidiarity, coherence between trade and micro policies and the effects of liberalization on SME development.

21. The report entitled "An overview of activities in the area of inter-firm cooperation" (UNCTAD/ITE/EDS/2) was an extremely useful document. Two key elements for the African Group emerged: firstly, there was a lack of analytical and policy-oriented work on inter-firm cooperation involving firms from developing countries; secondly, Africa had been left behind in matters of strategic alliances, inter-firm technology cooperation and especially information technology. This illustrated the fact that developing countries were still struggling with strategies to promote sustainable enterprise development. Technological capacity-building would not take place without the necessary international support measures, and further work on clustering was also necessary.

22. He stressed the crucial role of the international community in providing a conducive policy environment as a corollary to stable and consistent national policies. The information made available on research bodies was useful, and UNCTAD should begin setting up a directory of such databases. He encouraged the development of UNCTAD's presence on the Worldwide Web, and requested that those who had no access to the Web be provided with information in printed format.

23. He called upon the development partners to provide resources to ease budgetary constraints so as to allow UNCTAD to participate in important events related to enterprise development. His Group welcomed the extension of EMPRETEC programmes to an additional 10 African countries and pointed to the need for technical cooperation in many other areas, hoping that UNCTAD would be in a position to comply with requests received.

24. The spokesman for the Latin American and Caribbean Group (Peru) said that the secretariat's documentation highlighted important elements for SME development strategies. There were fundamental social and economic reasons for focusing on SME development, since SMEs contributed to sustainable growth and assured a better distribution of wealth, thereby providing social equity. Both the redefinition of the role of the state and the process of industrial conversion had led to an increase in the number of SMEs. These SMEs were aware of the need to increase their competitiveness and drew upon their characteristic asset, namely flexibility. SMEs developed through their own efforts but faced important problems in their expansion, particularly in opening up new markets. Management skills and knowledge to respond to legal and regulatory requirements and gain access to finance and technology were among the areas where they faced problems.

25. Latin American and Caribbean countries had included SME development in their national agendas, and they encouraged UNCTAD to work in the following areas: the provision of SME services, especially in rural areas; an assessment of the efficiency of business support services; and the impact of obligations arising from international agreements, including the Uruguay Round agreements, on national policies for SME support.

26. The representative of Luxembourg, speaking on behalf of the European Union, said that, in a world characterized by globalization and liberalization and stimulated by technological progress, the market economy had become the norm, and enterprises played an increasingly important role in the development process. This situation posed new challenges to enterprises, and particularly in developing countries and in countries in transition, the role of the different actors in the process needed to be reconsidered. Policy coherence was needed to strengthen the enterprise sector and increase competitiveness, and the public/private-sector dialogue should be given particular attention in this respect.

27. For SMEs to participate more effectively in the international economy, they had to focus on key factors such as improving their capacity to adapt to structural changes, technological innovation, and inter-firm cooperation and collaboration. In that connection, the European Union's development cooperation with developing countries and countries in transition was designed to assist the private sector, a major development actor today, in establishing inter-firm cooperation.

28. The representative of the Russian Federation said that the analytical and practical work done by the secretariat was helpful, especially the work on changing trends and their impact on enterprise development. The need to reform state enterprises was providing opportunities for SME development, and the key tasks in that process were to provide an enabling legislative framework, improve management structures and restore links between enterprises. He proposed that an expert meeting on inter-firm cooperation should be convened in 1998.

29. The representative of Cuba said that important transformations were taking place in his country's economy. The disappearance of the Eastern European markets had made it necessary to take a series of measures to improve efficiency and integrate into the world economy. The reform of the constitution had made possible the existence of private property, the restructuring and reduction of ministries and the transfer of responsibility for the management of material and financial resources to the entrepreneurial sector. The re-establishment of monetary and fiscal equilibrium had been achieved by reducing subsidies to

enterprises. The new tax law and financial system allowed enterprises to retain profits, while the new investment law permitted investment. With respect to SMEs, they included mixed enterprises, agricultural cooperatives and small landowners, as well as artisanal organizations. In the case of small landowners, both the Government and the private sector was providing assistance in respect of credit and marketing. Cuba had also organized a chamber of commerce, whose function was to provide information to the entrepreneurial sector concerning business opportunities, markets and information technology. Finally, for trade facilitation and enterprise development, it was necessary to promote a favourable international environment.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

.. The second session of the Commission on Enterprise, Business Facilitation and Development was opened on 1 December 1997 by Ms. Janina Del Vecchio (Costa Rica) on behalf of Mr. Manuel Dengo (Costa Rica), Chairperson at the first session of the Commission.

B. Election of officers

(Agenda item 1)

.. At its 7th plenary meeting, on 1 December 1997, the Commission elected its Bureau as follows:

<u>Chairperson:</u>	Mr. Ali Said Mchumo	(United Republic of Tanzania)
<u>Vice-Chairmen:</u>	Mr. Petko Baev	(Bulgaria)
	Ms. Heather Booth di Giovanni	(United Kingdom of Great Britain and Northern Ireland)
	Mr. Jean-Marie Noirfalisse	(Belgium)
	Mr. Dilip Sinha	(India)
	Mr. Trevor Spencer	(Trinidad and Tobago)
<u>Rapporteur:</u>	Mr. Sek Wannamethee	(Thailand)

C. Adoption of the agenda and organization of work

(Agenda item 2)

.. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.3/8. Accordingly, the agenda for the second session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work

3. Enterprise: issues relating to an enterprise development strategy
4. Services infrastructure for development and trade efficiency assessment
5. Provisional agenda for the third session of the Commission
6. Other business
7. Adoption of the report of the Commission to the Trade and Development Board.

D. Provisional agenda for the third session of the Commission

(Agenda item 5)

[To be completed]

E. Other business

(Agenda item 6)

[To be completed as appropriate]

**F. Adoption of the report of the Commission
to the Trade and Development Board**

(Agenda item 7)

[To be completed]