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TRADE AND DEVELOPMENT BOARD  
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Geneva, 23 November 1998  
Agenda item 7

**DRAFT REPORT OF THE COMMISSION ON ENTERPRISE, BUSINESS  
FACILITATION AND DEVELOPMENT ON ITS THIRD SESSION  
(23-27 November 1998)**

Rapporteur: Mrs. Sima Eivazova (Azerbaijan)

**INTRODUCTION AND AGENDA ITEM 3**

Speakers:

Deputy Secretary-General of UNCTAD  
Secretariat  
Argentina (for GRULAC)  
Mauritius (for the African Group)  
India (for the Asian Group and China)

Austria (for the European Union)  
Russian Federation  
Japan  
Bangladesh

**Note for delegations**

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

Requests for amendments to statements should be communicated by **Friday, 4 December 1998 at the latest**, to:

UNCTAD Editorial Section  
Room E.8102  
Fax No. 907 0056  
Tel. No. 907 5654/5655

## INTRODUCTION

1. The third session of the Commission on Enterprise, Business Facilitation and Development was held at the Palais des Nations, Geneva, from 23 to 27 November 1998. In the course of the session, the Commission held ... plenary meetings (10th to ... meetings) and ... informal meetings.

### Opening statement

2. The **Deputy Secretary-General of UNCTAD** said that the Commission on Enterprise, Business Facilitation and Development had achieved a number of results in the two years of its existence. With regard to agenda item 3 and the Commission's work on enterprise development, he highlighted the results of two expert meetings held in 1998, one on inter-firm partnerships (TD/B/COM.3/12-TD/B/COM.3/EM.4/3) and the other on clustering and networking (TD/B/COM.3/14-TD/B/COM.3/EM.5/3). The first had reaffirmed the role of small and medium-sized enterprises (SMEs) and their critical contribution to employment, growth and development, while the second had stressed the importance of partnerships, clustering and networking as a mechanism to help firms to grow and survive in the post-Uruguay Round competitive environment. Cooperation could be particularly useful in promoting capacity-building in technology, marketing and managerial know-how. The expert meetings had adopted a series of recommendations aimed at different groups of development actors, including Governments, the international community and UNCTAD.

3. With regard to agenda item 4, he outlined several key areas of work, including the expert meeting on "Capacity-building in the area of electronic commerce: human resource development" (TD/B/COM.3/13-TD/B/COM.3/EM.6/3), held from 29 June to 1 July 1998, which addressed human resource development in the context of the emerging global information economy. The experts had proposed practical solutions to address those issues. Further to the expert meeting's recommendations, UNCTAD had pursued its work on: (a) conceptual and quantitative analysis of the impact of electronic commerce on trade and development; (b) the organization of regional seminars to raise the level of awareness of member countries about the possibilities and challenges of electronic commerce; (c) the

production and dissemination of training packages, in particular through its TRAINFORTRADE/electronic trade activities; and (d) use of the Global Trade Point Network (GTPNet). Since the second session of the Commission, the secretariat had pursued its work on the quantitative and policy aspects of electronic commerce, and its impact on trade and development.

4. The "Partners for Development" meeting, held in Lyon from 9 to 12 November 1998, had dealt with issues of direct relevance to the work of the Commission. The Lyon meeting had had practical results in the area of enterprise development, partnering and investment promotion, including the conclusion of 18 partnership agreements, of which five were on enterprise development focusing on entrepreneurship and SME development in developing countries. An important aspect of inter-firm cooperation was the relation between domestic firms and foreign firms, and in Lyon local entrepreneurs had had an opportunity to talk with executives from global corporations about big firms helping small firms. Officials of investment promotion agencies were made aware of the fact that their clients were not only foreign investors but also domestic investors, and that a key role of such agencies was to facilitate cross-border partnerships between firms that contributed to innovation and sustained development in the enterprise sector.

5. The Lyon meeting had also been a milestone event with regard to UNCTAD's work on microfinance, business facilitation and electronic commerce. Particular mention should be made of important statements made at the opening session of GET UP (Global Electronic Trade - United Nations Partnerships) by the Deputy Secretary-General of the Organisation for Economic Co-operation and Development (OECD) and by the Vice-President of the World Bank on the role of UNCTAD in shaping a global framework for electronic commerce, and in contributing to enhancing the access of developing countries to the infrastructures and techniques of electronic commerce.

Chapter I

**THE IMPLICATIONS OF THE POST-URUGUAY ROUND ECONOMIC ENVIRONMENT FOR  
ENTERPRISE DEVELOPMENT, INCLUDING POLICY ISSUES RELEVANT TO  
INTER-FIRM COOPERATION AND CLUSTERING**

(Agenda item 3)

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

"Policy issues relevant to inter-firm cooperation, clustering and networking" (TD/B/COM.3/19);

"Report of the Expert Meeting on Inter-firm Cooperation" (TD/B/COM.3/12-TD/B/COM.3/EM.4/3);

"Report of the Expert Meeting on Clustering and Networking for SME Development" (TD/B/COM.3/14-TD/B/COM.3/EM.5/3).

7. The representative of the **UNCTAD secretariat**, introducing agenda item 3, said that the Uruguay Round negotiations had extended the process of trade liberalization, giving further impetus to the globalization of markets and competition. The resulting economic environment presented new challenges, particularly for the SME sector, which was the backbone of the production structure in the majority of countries. SMEs were under tremendous pressure to change but had limited means to do so. That fact had emerged clearly during the Asian financial crisis and could be seen in the impact of the crisis at the enterprise level. The externalities, support structures and trust-based relationships that developed within clusters might have attenuated some of the stress associated with the need for rapid change and might have avoided the high bankruptcy and unemployment rates which had resulted.

8. The monitoring of changes in competitive conditions, the evaluation of new technological alternatives and market opportunities, the availability of access to such information and building up the skills needed to manage information flows were all areas which would be critical to SMEs in the future. Together with the issue of the interface between the global and the local levels, those areas would require the attention of policy makers and their social partners. From a clustering, networking and partnering perspective, tremendous advantages could be gained by complementing local networking and partnering with similar linkages to firms and other actors abroad. The post-Uruguay Round era had also brought with it new rules governing international commerce, which firms would be obliged to respect; clustering, networking and partnering were powerful instruments in that area. Clustering made possible the cost-effective provision of new technologies. Research and development networks were a vital way for research institutes and firms in developing countries to leverage their knowledge base with respect to new technologies, including environmentally sound technologies, while partnerships amongst firms in close proximity made possible the creation of the positive externalities such as training programmes and testing laboratories that were needed to meet the new quality standards.

9. The post-Uruguay Round era had also created new challenges for policy makers trying to provide support to the enterprise sector. There were many areas in which new policies and support structures had proved invaluable in strengthening the ability of SMEs to build and sustain competitiveness under the new conditions, but many policy issues required further study.

10. Referring to the progress report on the implementation of the recommendations of the first and second sessions of the Commission (TD/B/COM.3/CRP.1), she highlighted the analytical work and technical assistance undertaken by the secretariat over the past two years, much of which had been increasingly carried out in collaboration with other international agencies. The technical assistance work carried out by the Division on Investment, Technology and Enterprise Development on the development of innovation, entrepreneurial and technological capabilities was an ongoing process; much of it was being undertaken through EMPRETEC and the programmes on Centres for Innovation and Enterprise Development, which were being extended to new regions and countries.

11. The representative of **Argentina**, speaking on behalf of the **Latin American and Caribbean Group**, suggested that the Commission should consider how to tackle the loss of competitiveness experienced by Central American enterprises as a result of the damage caused by Hurricane Mitch. With regard to competitiveness, the access by SMEs to financing was an important issue. The expert meetings held in the course of the year had made some important recommendations. One of the basic functions of Governments was to create a stable and favourable macroeconomic environment, a suitable legal framework and the necessary infrastructure for promoting inter-firm cooperation through partnerships, clustering and networking. Work by UNCTAD in that domain should continue, in cooperation with other organizations such as the United Nations Industrial Development Organization (UNIDO), the International Trade Centre (ITC), the International Labour Organization (ILO) and the United Nations Development Programme (UNDP). UNCTAD's independent advice to Governments with regard to inter-firm cooperation would be particularly useful. In studying innovative, non-fiscal incentives which could be used to stimulate clustering and networks of enterprises as recommended by the experts, the limits and consequences of such incentives with regard to commitments made within WTO would need to be taken into account.

12. The representative of **Mauritius**, speaking on behalf of the **African Group**, said that the new competitive environment of the post-Uruguay Round era had triggered a wave of liberalization and globalization and brought challenges as well as threats to entrepreneurs. African SMEs, which provided employment to large sections of the population, were dominated by a sectoral dualism in which weaker economic structures were often dominant. The interdependence in which SMEs were supposed to live was fraught with increased complexity and risks of instability and marginalization. For many African SMEs, the opportunities created by technological advances, the increased mobility of production factors and regional trading arrangements were either still nominal or not fully accessible. There was a need to create conditions which would allow African SMEs to catch up with the bandwagon of sustainable development, sustained economic growth and stability.

13. The younger generation of educated African entrepreneurs, many of whom were women, were not able to use all their knowledge and ideas, mainly because of the lack of means to give shape to their ideas or to implement projects that were already conceived or planned. There was a need for complementary financial and technical resources. In that regard, EMPRETEC could respond to the needs of African entrepreneurs, judging from the results of the pilot projects in Africa and other parts of the world. There was also a need to promote microfinancing, and UNCTAD's idea of organizing an international microfinance market, microbusiness points and micro-insurances schemes should be supported. UNCTAD could also endeavour to play a role in addressing the concerns of African SMEs with respect to the activity of African stock exchanges, with a view to encouraging the latter to pay more attention to the interests of those firms.

14. Referring to UNCTAD's work on a positive agenda for developing countries in the upcoming multilateral trade negotiations, he pointed to the need to highlight what members of the African Group regarded as the loss of policy autonomy that had arisen from their commitments under various Uruguay Round agreements, especially the Agreements on Trade-Related Investment Measures. Certain policy measures should be considered as special and differential treatment for developing countries, not as trade-distorting measures. The international community should urgently devise appropriate support structures and mechanisms which would address the specific needs of African SMEs and enhance their participation in the global economy. He expressed the hope that the various partnership agreements between UNCTAD and other parties in the area of enterprise development, signed at the Lyon meeting, would expand further to include African concerns.

15. The representative of **India**, speaking on behalf of the **Asian Group and China**, drew attention to the context of the topic, which was the developing countries' efforts to achieve economic growth. Referring to the expert meeting on inter-firm partnerships, he stressed that the meeting had reached valuable conclusions and specific recommendations addressed to Governments, the international community and UNCTAD. The meeting had highlighted the role of Governments in providing a physical infrastructure and suitable legal environment, as well as raising awareness of the potential benefits of partnerships. It was also the Government's role to ensure that the results of

research and development reached the enterprises. However, there was a need for a suitable international environment for which the international community would take some responsibility, for example, in facilitating access to finance or in shielding enterprises from the negative effects of international competitiveness and the volatility associated with globalization.

16. The representative of **Austria**, speaking on behalf of the **European Union**, emphasized the importance of a comprehensive approach to enterprise-related development issues and of UNCTAD's activities to foster the dynamism and creativity of the private sector, particularly SMEs. In that context, the expert meetings on inter-firm partnerships and on clustering and networking had been helpful. Such work needed to focus on countries with particularly low levels of human and physical capital. The implementation of the Uruguay Round agreements was largely on track, with landmark agreements recently being concluded in WTO on trade and information technology, basic telecommunications and financial services. A key to successful enterprise policies was innovation-based modes of competition, including continuing quality improvement, better after-sales service and continuous improvements in production and processing methods, technology and organization. However, equitable economic growth, which would be essential for any significant reduction of poverty over time, required the creation by Governments of a growth-oriented economic framework, institutional reform and good governance.

17. The representative of the **Russian Federation** said that in the current conditions of globalization and increased competition, forms of inter-firm cooperation such as international partnerships, networking and clustering were among the most effective ways of enhancing the competitiveness of enterprises. He stressed the role of Governments in providing favourable macroeconomic conditions, a suitable legal framework and basic infrastructure for such cooperation. Governments should more actively collaborate with business associations, research and development institutions, business servicing centres and non-governmental organizations, and should empower all of them so that they could contribute more effectively to such cooperation. At the same time, Governments should not impose structures on enterprises but should facilitate the development of partnerships among them. Measures to stimulate the creation



and strengthening of clusters and networks should also be taken at local and regional levels, and the Government's support should be addressed not to individual enterprises but to local trade, professional and business associations, non-governmental organizations and agencies supporting SMEs. Effective collaboration between international organizations dealing with enterprise development was also needed, so that a common approach to the issues of development of clusters and networks and enterprise development in general could be devised.

18. UNCTAD's work in the area of inter-firm cooperation was of practical interest to countries with economies in transition, and should be continued in various forms. For example, UNCTAD, in cooperation with other international organizations, could analyse the most positive experiences of promoting inter-firm cooperation, develop a checklist of conditions for successful partnerships, provide advisory services to Governments attempting to formulate policies to support inter-firm cooperation, and prepare a study on innovative non-fiscal ways of stimulating the creation of clusters.

19. The representative of **Japan** emphasized the relevance of inter-firm partnerships in the light of the Partners for Development meeting in Lyon, which had resulted in specific partnerships with civil society. A follow-up mechanism should be established. Japan was concerned to avoid the further marginalization of developing countries, particularly the least developed countries. Networking and clustering could compensate for some of the shortages of funds and increase the competitiveness of firms. The Asian financial crisis had created a difficult situation for many firms in the region and the Japanese Government was prepared to provide support through a new financial aid scheme worth US\$ 30 billion for Asia. As the Japanese Prime Minister had said recently at the second Tokyo International Conference on African Development, the private sector had a critical role to play in African development.

20. The representative of **Bangladesh** said that SMEs were critical for economic development, and a global enabling environment was important for SME growth in low-income economies. Microfinance schemes, technical assistance and the transfer of technology all had an important role to play in that growth.

## Chapter II

### **ORGANIZATIONAL MATTERS**

#### **A. Opening of the session**

21. The third session of the Commission on Enterprise, Business Facilitation and Development was opened on 23 November 1998 by Mr. Carlos Fortin, Deputy Secretary-General of UNCTAD.

#### **B. Election of officers**

(Agenda item 1)

22. At its 10th plenary meeting, on 23 November 1998, the Commission elected its Bureau as follows:

<u>Chairperson:</u>	Mrs. Heather Booth di Giovanni	(United Kingdom of Great Britain and Northern Ireland)
<u>Vice-Chairpersons:</u>	Mr. Tadeous Chifamba	(Zimbabwe)
	Mr. Nathan Irumba	(Uganda)
	Mr. Jean Luc Le Bideau	(France)
	Mr. Sugeng Rahardjo	(Indonesia)
	Mr. Antonio Rodas Pozo	(Ecuador)
<u>Rapporteur:</u>	Mrs. Sima Eivazova	(Azerbaijan)

#### **C. Adoption of the agenda and organization of work**

(Agenda item 2)

23. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.3/18. Accordingly, the agenda for the third session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. The implications of the post-Uruguay Round economic environment for enterprise development, including policy issues relevant to inter-firm cooperation and clustering
4. The impact and relevance of electronic commerce on trade growth and development
5. Provisional agenda for the fourth 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 fourth 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]