



**United Nations
Conference
on Trade and
Development**

Distr.
GENERAL

TD/B/COM.3/EM.28/3
22 December 2006

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business Facilitation and Development
Expert Group Meeting on Best Practices and Policy Options
in the Promotion of SME-TNC Business Linkages
Geneva, 6–8 November 2006

**REPORT OF THE EXPERT GROUP MEETING ON BEST PRACTICES
AND POLICY OPTIONS IN THE PROMOTION
OF SME-TNC BUSINESS LINKAGES**

Held at the Palais des Nations, Geneva,
from 6 to 8 November 2006

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Chapter I

CHAIRPERSON'S SUMMARY

1. The Expert Meeting focused on the development and effective implementation of business linkages. Experts agreed that there is a need for greater cooperation at policy and implementation level to provide a conducive environment for the development of domestic enterprises. The Meeting also considered the role of UNCTAD and donors in technical assistance programmes based on partnerships between transnational corporations and small and medium-size enterprises. Experts noted that all linkages promotion programmes contain an element of supply-side capacity building and pointed to the useful role played by facilitating agencies in upgrading the potential of supplier companies. Experts noted with appreciation the quality of the resource persons and the insight of private sector participants. The Meeting identified key success factors in the area of enterprise development through business linkages that can address constraints faced by developing countries and particularly the least developed countries.

The role of policies

2. Experts agreed that a systemic policy approach to linkage building in developing countries is necessary. This includes improving the general investment environment and specific linkages development policies. The regulatory and institutional environment in which firms operate impacts on their ability to initiate productivity improvements through the optimal allocation of inputs, technology transfer and the ability to generate spillovers. Most policy initiatives in this area place their emphasis on horizontal policies such as taxation, infrastructure, red tape reduction, intellectual property protection, competition policy, finance, and measures that impact on the overall competitiveness of an economy. One expert pointed out that efforts to reduce the red tape burden on the private sector are necessary, particularly because red tape costs weigh far more heavily on small and medium-size enterprises (SMEs) than on larger firms. It was noted, for example, that 45 per cent of South African informal SMEs would like to enter the formal economy but are put off by the regulatory requirements. A stable and supportive tariff regime can also assist in facilitating linkages.

3. Experts pointed out the important role of investment in building productive capacities. The Aid for Trade initiative should seek to integrate the investment component, which should embrace policies promoting technology transfer, enterprise development and the consolidation of productive chains. The recommendations of the recently adopted WTO task-force report on the Aid-for-Trade initiative were presented at the meeting. UNCTAD should participate actively in the Aid for Trade initiative.

4. Experts agreed that specific policies are helpful in promoting linkages. Such policies include strategic foreign direct investment attraction and strengthening of the absorptive capacities and competitiveness of domestic enterprises. Adequate institutional support and the development of a specialized industrial linkage programme as in the case of Malaysia have contributed to Malaysia's successful business linkages development. The Malaysian Government has provided incentives to strengthen industrial linkages and funding for technology development, established skills development centres and implemented other initiatives such as provision of information, match-making and cross-border investments to increase the capabilities of Malaysian enterprises to establish and deepen business linkages with foreign affiliates in the country and potentially abroad.

5. Experts noted that in some cases developing countries' SMEs have proven capable of becoming global players themselves, thereby contributing to local capacity building through South-South cooperation. UNCTAD should assist in gaining a better understanding of the conditions under which the potential benefits of developing countries' outward investment can be maximized and the risk factors minimized to enhance enterprise competitiveness. It was also noted that suppliers have to face increased competition and are often required to perform as regional or global suppliers within TNC networks.

6. Strengthening of public/private partnership is another important area for business linkage development. This could include arrangements for greater public/private sector dialogue and the inclusion of industry needs in policy formulation, better focusing of SME policies, and advocacy. Business organizations – such as chambers of commerce, industry clubs, business fora – should take the lead in increasing cooperation among large firms in promoting standardization of safety standards, environmental requirements and other requirements pertaining to suppliers. Raising awareness and improving dialogue among different stakeholders at national and local levels, including municipalities and private sector stakeholders, can bring positive results in addressing immediate practical issues, as well as the broader issues of the regulatory environment and the investment climate.

7. Entrepreneurship development such as that provided by EMPRETEC has proved very useful in creating a culture of change and the right mind set for entrepreneurs, raising their skills, motivation and attitude towards work. Experts identified the role of entrepreneurship as crucial and noted the effectiveness of the EMPRETEC programme in many countries. EMPRETEC is an integrated capacity-building programme of UNCTAD to help promising entrepreneurs to build innovative and internationally competitive SMEs through specific entrepreneurial skill training and advisory services. Experts welcomed the launch of a regional networking initiative “EMPRETEC Africa Forum” to reinvigorate the EMPRETEC programme in Africa, an initiative agreed at the International Meeting of EMPRETEC Directors held in Geneva on 1-3 November 2006. The initiative includes identifying the best ways to mobilize resources, establish an effective communication and marketing strategy, consolidate existing programmes and create new programmes in Africa. Experts called on UNCTAD to increase its efforts to strengthen and expand the EMPRETEC programme, and invited development partners to provide appropriate support.

8. Experts noted that, at the enterprise level, there is a need to scale up and upgrade SMEs' capabilities so that they can become effective partners for TNCs. Absorptive and productive capacities are strongly dependent on interactions with firms' environment, e.g. the availability of educated persons with management and engineering skills, the quality of basic public services and of infrastructure (universities, a diversified financial sector, specialized research and training institutions, etc.) and the underlying incentive system of the institutions involved. Cluster development, supply chain mapping and networking of firms can facilitate the development of linkages with a larger group of firms, generating economies of scale and ensuring an effective impact.

9. Business schools can also play a role in facilitating TNC-SME linkages by helping SMEs to increase their understanding of linkage programmes, human resource development and improving management capacities. A project in a business school in Brazil developed and coordinated a partnership network of SMEs with larger companies to improve the competitiveness of local SMEs and to support sustainable business linkages.

Key success factors of business linkages programmes

10. Experts agreed that no two linkages programmes are the same and that a successful business linkages programme has to take into consideration the specific features of the target country's economic environment. They pointed out that one size does not fit all, and any programme therefore requires a detailed review and an individual implementation plan. Nevertheless, experts identified a set of guidelines that have to be considered for any successful business linkages programme.

11. Experts pointed out that a crucial prerequisite for successfully implementing a business linkages programme is a conducive macroeconomic environment that provides economic stability and reduces the risks for participating companies. Furthermore, in order to guarantee the development of successful linkages, there has to be a critical mass of companies on both the supplier and the purchaser side. Another condition for guaranteeing successful linkages programme results is long-term commitment on the part of all participants. Results cannot normally be shown in the short term, which makes it even more fundamental that a long-term commitment by all participants is secured. In this context, one expert emphasized the importance of a strict selection process of both SMEs and TNCs when implementing a linkage programme, the development of a pilot phase, and the need for a champion. In the case of company-led initiatives, there is normally one person with the mandate and passion to make a project succeed. In the case of national programmes; it is critical to have a programme leader who is from the private sector and can speak the "language" of the TNCs.

12. Evidence from Ireland and Uganda has shown that a pilot programme, encouraging general acceptance of the programme by bringing evidence of benefits to potential participants, is of great importance. The involvement of financial institutions and provision of credit facilities for SME upgrading in the context of linkage development has also proved crucial in Uganda. In all backward linkage programmes, the financial aspect is critical. Without access to credit, SMEs do not commit to a programme, since in order to upgrade it is necessary to undertake a range of technology acquisition and training initiatives that they cannot finance alone.

13. Experts emphasized that the business linkage programme has to be led by the private sector, while the public sector plays the role of facilitator to develop effective linkages through support mechanisms, financing and monitoring. When linkages are based on commercial rationale, they allow a win-win situation for all stakeholders in the programme. The best way to ensure the participation of TNCs is a business-to-business approach addressing the ideas and requirements of TNCs regarding their SME suppliers. Hence experts pointed out the necessity to include TNCs in the process of selection of their suppliers. In order to assure beneficial outcomes for all, suppliers and purchasers need to have common goals, and their participation should be on a voluntary basis.

14. Experts highlighted the importance of establishing an efficient and sustainable information network to overcome information gaps. In this regard, they agreed on the importance of business development services. Examples of such services include Genilem in Switzerland, EMPRETEC Argentina and Enterprise Uganda, as well as the Micro-enterprise Acceleration Programme (MAP) provided by the Micro-enterprise Acceleration Institute of Hewlett Packard. Business development services can bring an indispensable element of innovation and technology upgrading, particularly to SMEs. They also help potential supplier companies to meet the technical and other requirements set by TNCs.

15. The experience of Ireland shows that a business linkages programme needs to change and evolve over time. In Ireland the programme underwent an evolution from a classical linkage programme, providing support for local SMEs, to an outsourcing programme, since local suppliers can no longer be cost-competitive. In developing countries, linkages programmes should always be adapted to local conditions and development needs.

16. Experts agreed that the main lessons learned from successful business linkages programmes include the following:

- Business linkages are an important component of building productive capacities and should form part of the Aid for Trade initiative.
- A conducive and coherent policy framework is necessary for business linkages. Specific proactive measures are also required in the investment attraction and facilitation area, as well as in the area of enterprise development.
- Value chain mapping by sector is necessary to facilitate business linkages. Synergies with cluster development initiatives can also enhance the effectiveness of linkage promotion programmes.
- Linkage programmes should be designed to strengthen the absorptive capacities of domestic enterprises. They should evolve dynamically to address higher-value-added products and services and constitute a launching pad for SME internationalization.
- Linkage development should address financing requirements for SME upgrading to meet the technical and other requirements of purchasing companies.
- Linkages should not only focus on TNC and SME linkages but should also develop a business-to-business relationship between indigenous companies.
- Business linkage programmes need greater outreach to avoid imbalanced costs and benefits.
- To enhance linkage benefits, there is a need for a facilitating agency/institution, although the programme should be private-sector-led.
- There is a need to coordinate the work of the various multilateral and bilateral agencies that provide SMEs with technical assistance to create synergies of action. Synergies between bilateral and multilateral programmes –as developed by UNCTAD and GTZ in Brazil – constitute good practice that can be replicated.

The private sector perspective

17. Some experts argued that at present there is a dynamic and positive environment for collaboration between TNCs and SMEs in developing countries. Corporations are increasingly launching new initiatives as part of their corporate social responsibility programmes and philanthropy. For example, initiatives led by the private sector for sustainable development towards the achievement of the Millennium Development Goals are increasingly part of the corporate social responsibility programmes of individual firms, though they are also a consequence of regional and global integration initiatives. The UN Global Compact and Business Action for Africa, an association of large TNCs operating in the continent, were cited as examples by experts.

18. It was noted that successful and profitable TNCs that operate in a transparent and accountable way can be engines for economic growth and sustainable development. On the one hand, large TNCs are increasingly implementing their own supplier development programmes in order to upgrade the skills and standards of their strategic networks of local SME suppliers (e.g. BASF in Brazil). On the other, value chain and innovative “bottom-of-the-pyramid” business models have proven instrumental in promoting sustainable development from a social and/or an environmental perspective and supporting very small-scale producers in rural areas (e.g. SAB Miller in Zambia). Ethical fashion is an emerging area where several opportunities are opening up for developing country producers. It was noted that, in addition to the production of cotton, developing countries could participate in the entire fair-trade textile and apparel value chain. This segment of the market is no longer a niche, and it now provides growing trade and investment opportunities. At the last Ethical Fashion Fair in Paris, held in October 2006, it was decided that all products with the “ethical fashion” label should be produced in compliance with ILO conventions and environmental protection standards and contribute to sustainable development through community-level development projects.

19. Experts agreed that further efforts are needed to raise awareness of good practices in respect of corporate contributions to business linkages promotion, including issues such as: how to integrate corporate social responsibility (CSR) initiatives into corporate strategies; how to integrate SME education and training into corporate social responsibility activities; how to communicate best practices on CSR to consumers and to the public; and how to balance business priorities and corporate responsibility activities.

20. In both developed and developing countries, TNCs increasingly tend to perceive building up SME supplier networks as a long-term investment. Representatives from the private sector explained that TNCs worldwide are specializing in their core functions and changing their sourcing patterns, increasing local content in countries that have capable suppliers and that are monitored and benchmarked by auditing systems. In this regard, meeting TNC requirements is a prerequisite for domestic SMEs to integrate into global value chains. This opens up both opportunities and threats for developing country SMEs. The latter should think globally and have both vision and commitment to become competitive. Business linkages development can represent a win-win opportunity for both TNCs and SMEs to address constraints.

21. However, the negotiating power of SMEs and the related challenges vary substantially, depending on their position and specialization within the chain. In the case of niche suppliers or of small producers of very specialized know-how or equipment, SMEs are under pressure to preserve their knowledge through intellectual property protection and to innovate continuously to maintain a few strategic partnerships. In the case of mass subcontractors, SMEs are constantly struggling to keep access to the final customer and are often caught out by cost-reduction and standard-upgrading efforts initiated by TNCs. It is therefore crucial that tailor-made assistance programmes be put in place in the light of different SME needs and local circumstances. Experts pointed to the need to initiate value chain mapping and to coordinate business programmes regionally to match regional TNC strategies.

22. SMEs can benefit from targeted development programmes, as shown by the case of an SME in Jordan that specializes in plastic recycling. The company received assistance from the National Linkage Programme (NLP), a component of JUMP, a joint endeavour between

the public and private sector in Jordan headed by the Minister of Industry and Trade and coordinated by the Jordan Chamber of Industry. Thanks to the NLP, the company was able to increase its knowledge base, widen its customer base, enhance the quality of its products and production processes, and finance 30 per cent of its expansion projects, thereby becoming the leader in its sector. As shown by the Serbian Supplier Development Programme, chambers of commerce, as well as export promotion agencies, may be key actors in developing competitive local suppliers. The involvement of TNCs at the initial investment phase and at the inception of linkage promotion programmes and the implementation of cost-sharing mechanisms on both the TNC and the SME side were recommended as key measures to ensure the success of all linkages promotion initiatives.

The role of development assistance

23. Experts recognized the useful role of international development organizations in building productive capacities and delivering technical assistance to many developing countries. It was also agreed that, while recognizing the unique role of each programme, there should be a response based on a common set of principles. In particular, representatives of international organizations and agencies agreed to the principle of better coordination and enhanced partnership. It was pointed out that some overlapping may occur in technical assistance at the country level, particularly with bilateral aid programmes. In this respect, recipient countries have an important role to play in coordinating the work of the various multilateral and bilateral agencies that provide them with technical assistance.

24. The United Nations Development Programme (UNDP), the International Finance Corporation (IFC), the International Labour Organization (ILO), the United Nations Industrial Development Organization (UNIDO), the International Trade Centre (ITC) and the German Society for Technical Cooperation (GTZ) have put in place different programmes targeting specific private-sector development issues. UNDP has presented the ART Initiative for local development focused on productive capacity enhancement and supply chain upgrading, working with stakeholders such as regions, municipalities and local businesses in the achievement of the Millennium Development Goals. The Initiative operates as a facilitator in regard to establishing public/private-sector partnerships. Its main services range from the provision of technical assistance such as training and consultation to local entrepreneurs to advising local ministries on the improvement of legislative and regulatory frameworks. GTZ is also implementing Projecto Vinculos in Brazil – a joint activity with UNCTAD which combines the approaches of both a multilateral and a bilateral agency.

25. The activities of the International Trade Centre are cross-cutting and are part of the export-development and capacity-building assistance the Centre offers. UNIDO's projects on business linkages are sometimes carried out in partnership with other development partners, and they include a corporate social responsibility component. They have developed supply capacities of SMEs in selected sectors, such as the auto parts industry in South Africa. SME upgrading is geared towards successfully integrating local suppliers into global value chains.

26. The International Finance Corporation highlighted its role in providing assistance across the spectrum of linkages objectives from supply and value chain development to income and employment generating activities involving local communities. It intervenes mainly in projects to provide development financing, such as mining, infrastructure and hotel construction. The IFC also plays a role in facilitating financing for suppliers, but it tries to limit its role to advising linkage partners in respect of obtaining credit facilities, acting as a

bridge and improving suppliers' cash flow management and expertise. IFC also helps suppliers in accessing electronic bidding and e-procurement.

27. UNCTAD's activities in policy analysis, research and technical assistance were discussed and its important role in promoting business linkages as part of its development agenda was recognized by experts. Experts requested UNCTAD to continue its efforts in this area and to participate actively in the Aid for Trade initiative. UNCTAD is well positioned to compile guidelines for good practices on business linkages and to initiate dissemination. It should also work on generating a coordination mechanism with stakeholders involved in business linkages development, initiating a business linkages networking mechanism and a reference book of what is available from each programme. Programmes could also be coordinated at the regional level to match regional TNC strategies and TNC partnership and sustainable development initiatives at the regional and global level. UNCTAD was encouraged to build on the complementarities of the work of the EMPRETEC Centres, which could include business linkages in their core activities.

Chapter II

ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

28. The Expert Meeting on Best Practices and Policy Options in the Promotion of SME-TNC Business Linkages was held at the Palais des Nations, Geneva, from 6 to 8 November 2006.

B. Election of officers

(Agenda item 1)

29. At its opening meeting, the Expert Meeting elected the following officers to serve on its bureau:

Chairperson:	Mr. Fredrik Arthur (Norway)
Vice-Chairperson-cum-Rapporteur:	Mr. Dario Celaya (Argentina)

C. Adoption of the agenda and organization of work

(Agenda item 2)

30. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in document TD/B/COM.3/EM.28/1. The agenda for the Meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Best practices and policy options in the promotion of SME-TNC business linkages
4. Adoption of the report of the Meeting

D. Documentation

31. For its consideration of the substantive agenda item, the Expert Meeting had before it a note by the UNCTAD secretariat entitled “Developing business linkages” (TD/B/COM.3/EM.28/2).

E. Adoption of the report of the Meeting

(Agenda item 4)

32. At its closing meeting, the Expert Meeting authorized the Rapporteur to prepare the final report of the Meeting under the authority of the Chairperson.

Annex

ATTENDANCE¹

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

Afghanistan	Moldova
Angola	Morocco
Argentina	Mozambique
Bangladesh	Norway
Belgium	Oman
Brazil	Peru
China	Philippines
Colombia	Russian Federation
Germany	Saudi Arabia
Ghana	Spain
Haiti	Syrian Arab Republic
Hungary	Switzerland
Indonesia	Tajikistan
Iran (Islamic Republic of)	Thailand
Iraq	United States of America
Kenya	Venezuela
Lesotho	Yemen

2. The following intergovernmental organizations were represented at the Meeting:
 - African Union
 - Organisation internationale de la francophonie

3. The following United Nations agency was represented at the Meeting:
 - United Nations Development Programme

4. The following specialized agencies and related organizations were represented at the Meeting:
 - United Nations Industrial Development Organization
 - World Intellectual Property Organization
 - World Trade Organization

5. The following non-governmental organizations attended the Meeting:
 - Arab Federation for Engineering Industries
 - International Confederation of Free Trade Unions

¹ For the list of participants, see TD/B/COM.3/EM.28/INF.1.

6. The following panellists attended the Meeting:
- H.E. Ms. Claudia Uribe, Ambassador, Permanent Representative of Colombia to the WTO, Geneva
 - Mr. Paulo Resende, Fundaçao Dom Cabral, Brazil
 - Mr. Manmohan Singh, MIDA, Malaysia
 - Ms. Mónica Vazquez, Division for Support for SMEs, Ministry of Industry, Tourism and Trade, Madrid
 - Mr. David Lovegrove, Ireland
 - Mr. Charles Ocici, Director, Enterprise Uganda
 - Mr. Evandro Mazo, Project Director, UNCTAD-GTZ Projecto Vinculos, Brazil,
 - Mr. Corin Mitchell, Director of Operations SBP, South Africa
 - Ms. Sandrine Moittier, GENILEM, Geneva
 - Mr. Didier Philippe, President, Micro-enterprise Acceleration Institute, Switzerland
 - Ms. Christine Thompson, Policy Issues Manager, SABMiller plc
 - Mr. Marc Defossé, Director of European and International Affairs, BASF
 - Mr. Alain Schoenenberger, Eco Diagnostic
 - Mr. Fawaz H. Mously, Mously and Company
 - Mr. Dejan Trifunovic, Chamber Of Commerce, Serbia
 - Mr. Sujata Lamba, Global Linkages Unit, SME Department, IFC
 - Mr. Rainer Engels, GTZ
 - Mr. Khai Bethke, UNIDO
 - Mr. Hernan Manson, ITC
 - Mr. Giancarlo Canzanelli, UNDP
 - Mr. Laurent Acouturier, Gherzi
 - Mr. Christian Kemp Griffin, EDUN
 - Mr. Ton Van Lier, General Manager Central Europe, Timberland
 - Ms. Monica Fossati, Mode Ethique (by videoconference)

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