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**ASSESSMENT OF INNOVATIVE POLICIES AND NON-FISCAL MEASURES FOR
UPGRADING SME CLUSTERS, PROMOTING INVESTMENT TO SMEs AND
DEVELOPING THEIR EXTERNAL LINKAGES, TAKING INTO ACCOUNT THE
RESPECTIVE ROLES OF THE PRIVATE SECTOR AND GOVERNMENTAL AND
OTHER INSTITUTIONS, WITH THE AIM OF FOSTERING COMPETITIVENESS,
INNOVATION AND PRODUCTIVITY IN A GLOBALIZING WORLD ECONOMY**

Draft agreed conclusions and recommendations

Importance of clustering

1. The Commission recognizes that clusters and networks of small and medium-sized enterprises (SMEs) are among the most effective ways of delivering technical assistance to SMEs in order to upgrade technology, increase participation in domestic and international trade and strengthen entrepreneurship and management and marketing skills.
2. In addition, clustering can create a critical mass which permits economies of scale and scope in sharing facilities, sourcing inputs and utilizing support services, such as training and marketing. Clustering can also contribute to SMEs' speed in reacting to market needs and pressures.

3. Benefits are to be gained in areas where SMEs face particular constraints in their absorptive capacity, such as knowledge acquisition and knowledge deployment in the field of new technologies.

A. Addressed to Governments

4. Governments are invited to intensify their efforts to create an enabling environment, including stable macroeconomic policies, a coherent and flexible regulatory framework that encourages free competition, efficient physical infrastructure and the necessary improvement in education and human resource development in order to promote SME upgrading and business and technological capability development.

5. Governments are invited to promote policy coherence between all branches of Government, particularly in the areas of trade, industry, finance and education, such that an integrated approach is offered to domestic companies and foreign investors.

6. SMEs and research and technological organizations (RTOs) that have the appropriate absorptive capacity are better positioned to access and maximize the technological benefits from FDI. It is necessary to define and implement policies that will enhance the ability of SMEs to acquire, absorb and adopt the technology brought by foreign investors. In this context:

- (a) Governments are invited to consider ways to encourage transnational corporations (TNCs) to contribute to development by working with RTOs and SMEs to build technological capability;
- (b) Governments are invited to consider ways to make the work of RTOs more responsive to the needs of SMEs, and more effective in delivering the services that their markets demand.

7. Governments should encourage partnerships and facilitate networking among and between technology supply-side institutions such as RTOs, business associations and universities at the local, regional, national and international levels.

8. Since innovation policies can be most effective when directed at networks or clusters, Governments, together with the private sector and the international community, are invited to accelerate their efforts to promote SME clustering and networking through the facilitation rather than the direct provision of business development services.

9. Maintaining or increasing competitiveness in a globalizing economy requires a larger volume and set of resources, including financial resources, than SMEs traditionally have in-house or can easily access. Accordingly, Governments are invited to adopt policies and foster appropriate partnerships to facilitate collaborative research and development (R&D) and the development of human resources to assist SMEs to upgrade or enhance their technological capabilities.

10. In order to avoid that product and service standards and certification requirements become non-tariff barriers to trade, Governments are invited to develop policies which will assist enterprises to comply with such standards. In this context, Governments are invited to develop policies to create national certification and accreditation bodies which comply with international standards.

B. Addressed to the international community

11. The Commission has addressed issues of networking and clustering as possible tools to increase the competitiveness and technological capability of SMEs in developing countries, least developed countries and economies in transition. Such tools can take many forms, ranging from inter-firm cooperation to public-private partnerships or targeted networking for specific technologies. Technology cooperation between economic actors from industrialized, developing and transition economies continue to be promising strategies – among others – to overcome limited access to information and technology. The international community and especially the relevant international organizations are called upon to:

- (a) Support technology cooperation by linking TNCs, SMEs and RTOs in their programmes where appropriate;
- (b) Identify how the growth and competitiveness of existing and emerging clusters can be upgraded and develop pilot projects/programmes.

C. Addressed to UNCTAD

12. UNCTAD is also called upon to support developing countries and economies in transition in their attempts to make operational such strategies, particularly through:

- (a) Assisting countries to regularly review their science, technology and innovation policies with a view to prioritizing activities that encourage cooperation, partnerships and networks between local and foreign economic actors (firms, business organizations, enterprise development agencies, R&D institutions, etc.);
- (b) Diffusing information on successful initiatives related to cooperation between SMEs, TNCs and RTOs. Attention should be focused on the most effective ways of enabling SMEs to achieve higher quality standards, including the analysis of best practices in diffusing innovation to SMEs in sectors of particular importance to developing countries;
- (c) Examining best practices in attracting, retaining and gaining benefits from foreign direct investment (FDI) with the aim of establishing mechanisms for innovation and technology transfer to SMEs and local capability development through clustering.