



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/COM.3/L.34/Add.1
22 February 2007

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD

Commission on Enterprise, Business Facilitation and Development

Eleventh session

Geneva, 19–23 February 2007

Agenda item 9

**DRAFT REPORT OF THE COMMISSION ON ENTERPRISE, BUSINESS
FACILITATION AND DEVELOPMENT ON ITS ELEVENTH SESSION**

Held at the Palais des Nations
from 19 to 23 February 2007

Rapporteur: Ms. Asako Sato (Japan)

BUILDING KNOWLEDGE AND SKILLS FOR TRADE IN DEVELOPING COUNTRIES

(Agenda item 8)

Chairperson's summary

1. The Commission discussed the building of knowledge for trade when considering the results of the Ad Hoc Expert Meeting on Building Skills in Developing Countries: Training, Networking and ICTs, held November 2006. The Commission had before it the background paper (TD/B/COM.3/AHM.1/2) and the report (TD/B/COM.3/AHM.1/3) of that meeting.

2. Many developing countries have problems in integrating into international trade because of gaps in the knowledge and skill capacities of their human resources, and of their training and research institutions. The need for trade-related technical assistance and capacity-building in developing countries has been widely acknowledged by, inter alia, the Doha Development Declaration, the Monterrey Consensus on Financing for Development and the Aid for Trade Task Force. UNCTAD recognizes the importance of this through its work on technical assistance, research and intergovernmental consensus-building in the fields of knowledge and skills for development.

3. Capacity-building must focus on local institution-building, so as to promote autonomy and the long-term sustainability of human resource training and research. Furthermore, investment in the building of knowledge should be a permanent fixture in the budget allocations and policy priorities of developing countries. It is important that countries invest in local research capacity, since the results of local research can inform, and be mainstreamed into, policymaking and the positions of developing countries in trade negotiations. The UNCTAD Virtual Institute encourages the links between government and academia in developing countries in order to arrive at evidence-based policymaking.

4. ICT and networks can support trade-related capacity-building for individuals and institutions, offering new ways of collaboration and access to information. Knowledge and skills development are multidisciplinary and thus require the support of all UNCTAD Divisions, as well as inter-agency cooperation.

5. When presenting the report of the Ad Hoc Expert Meeting on Building Skills in Developing Countries, the Chairperson of that meeting stressed that trade-related capacity building was a key component of countries' competitiveness and the effectiveness of Governments. The experts had felt that UNCTAD's unique perspective on trade and development added value to its trade-related capacity-building activities. This should continue to be reflected in UNCTAD support for training and research programmes, as well as in the delivery of its training and advisory services. Developing countries are not always aware of UNCTAD's activities, particularly since it does not have field offices, and capacity-building activities, such as technical assistance, can be a useful means of disseminating UNCTAD's work.

6. The organization should continue its analytical work on building knowledge and skills in developing countries, analysing country experiences and studying, for example, the links between research and policymaking. In the area of consensus-building, follow-up meetings should be organized, and their conclusions examined by the intergovernmental machinery of UNCTAD. The secretariat should also continue to provide technical assistance on trade-related capacity-building, particularly through the Virtual Institute, the TRAINFORTRADE

programme and the Training Course on Key Issues on the International Economic Agenda. UNCTAD could also contribute to a future forum established in the context of the Aid for Trade initiative.

7. Technical cooperation and capacity-building are increasingly important for developing countries and essential for their fulfilment of multilateral commitments. Countries need to make supply-side adjustments in order to take advantage of liberalization and avoid economic marginalization. UNCTAD is one of the few organizations that actively promote the participation of developing countries, and technical assistance programmes such as the UNCTAD Virtual Institute strengthen the links between UNCTAD and developing countries, as well as helping them with their research needs.

8. Some delegates agreed that donors should continue to support UNCTAD in this work, since building capacities in the field of knowledge and skills for trade is a long-term process, and suggested that the issue of trade-related capacity-building should become a standing item on the Commission's agenda.

**IMPLEMENTATION OF AGREED CONCLUSIONS AND
RECOMMENDATIONS OF THE COMMISSION**

(Agenda item 6)

Chairperson's summary

9. The secretariat presented its "Progress report on the implementation of the agreed recommendations of the Commission at its tenth session" (TD/B/COM.3/78).

10. The Investment and Enterprise Competitiveness Branch of the Division on Investment, Technology and Enterprise Development informed the Commission that it had continued work on policy analysis in enterprise competitiveness through its Expert Meeting on Best Practices and Policy Options in the Promotion of TNC-SME Linkages (November 2006) and by contributing to the Expert Meeting on Building Productive Capacities (September 2006). It had also carried out several developing country case studies on the internationalization of enterprises through outward foreign direct investment (OFDI), and collaborated with GTZ on country case studies on best practices in the promotion of business linkages from a policy perspective. In addition, it had provided advisory services to Asian Governments, including through ASEAN regional meetings and seminars on OFDI and enterprise regionalization.

11. The Branch had produced guidelines for building capacity and facilitating the growth of SMEs in developing countries and economies in transition through business linkages. A publication entitled "Deepening development through business linkages" reviewed three important elements for private sector development (an enabling business environment, access to finance and public-private sector partnerships) that are critical for a linkage strategy. Finally, the Branch had conducted a joint research project with OECD on how to increase the participation of SMEs in global value chains, financed by RUIG-GIAN.

12. The Branch had continued to provide technical assistance and capacity-building for an SME-conducive environment through its EMPRETEC programme. It had consolidated EMPRETEC in Latin America, and in anglophone and francophone Africa (launching the African EMPRETEC Forum), while launching new business linkages programmes in three countries and preparing project proposals to expand EMPRETEC in South and South-East Asia. Cross-training and mutual assistance between EMPRETEC programmes encouraged South-South cooperation. Finally, the Branch had produced a business linkages tool kit.

13. The Trade Logistics Branch of the Division on Services Infrastructure for Development and Trade Efficiency (SITE) reported that it had continued to monitor and analyse developments relating to international transport and trade facilitation and their implications for developing countries. In its *Review of Maritime Transport 2006*, and in its quarterly Transport Newsletters, it had focused on the special situation of landlocked and transit developing countries and least developed countries. It had also produced a guide to the international legal framework for the carriage of goods by air. Through an Expert Meeting in October 2006, the Branch had facilitated the discussion of the emerging issue of ICT solutions to facilitate trade at border crossings and ports.

14. The Trade Logistics Branch continued to address the issue of international standards by analysing the economic implications for developing countries of the SOLAS amendments and the International Ship and Port Facility Security (ISPS) Code, port benchmarking and

trade transaction modelling, and by producing technical material (a CD-ROM) on existing customs and transit conventions affecting multimodal transport.

15. The Branch had continued to help developing countries to participate in the ongoing trade facilitation and transport and logistics services negotiating processes through the activities of the Trust Fund funded by Spain and Sweden. It had organized 10 regional workshops and two round tables for Geneva-based delegates, while participating in various related national and regional events and producing a series of technical notes on specific trade facilitation measures on proposals regarding GATT Articles V, VIII and X. The Branch had continued work to support the creation of facilitation clusters, the assessment of developing countries' needs and priorities in trade facilitation, the establishment of trade facilitation platforms, and international multimodal transport operations. Further technical assistance had also continued under the ASYCUDA programme, which had launched several new projects, including in LDCs and regional centres (in Central America and the Caribbean, and East, Southern and West Africa). The secretariat highlighted its fruitful cooperation with other organizations on international transport and trade facilitation (UNCITRAL, the Global Facilitation Partnership, UNECE and the World Bank).

16. Finally, SITE's ICT and E-Business Branch reported on its continued development and policy-oriented research and analytical work on the implications for economic development of the different aspects of ICT and e-business. The main product of this research and analysis was the *Information Economy Report 2006*, which provided updated information on the uptake of ICT in developing countries and examined, inter alia, the implications of ICT for employment. Also, the report proposed for the first time a model framework for ICT policy reviews in developing countries, so that Governments can assess the progress and effectiveness of their ICT for development policies. The report also examines the recently adopted United Nations Convention on the Use of Electronic Communications in International Contracts in order to help developing countries establish a legal framework for e-business.

17. The Branch had also started to implement its Development Account Project on Capacity Building for Information and Communication Technology Measurement, which should enhance the ability of developing countries to produce more and better official statistical data on ICT to support their policymaking in this area. A training manual on the collection of ICT- in-business statistics and the related training course are in preparation, as well as a database on e-business indicators in developing countries. The Branch also conducted several advisory missions on ICT measurement, and provided on-site training at the national and regional levels. Much of this work was carried out in the framework of the UNCTAD XI Partnership on Measuring ICT for Development.

18. The ICT and E-Business Branch also ensures that UNCTAD provides a forum for international discussion and the exchange of experiences on ICTs and e-business, and their economic implications. The Branch delivered a module on the policy issues of the information economy during the courses on key issues on the international economic agenda, and provided advisory services and training on the legal aspects of e-commerce to several developing country Governments. To support the implementation of the outcome of, and follow-up to, WSIS, UNCTAD organized the first facilitation meeting on the action lines for e-business and e-employment (May 2006). Also in connection with WSIS, it organized jointly with ILO and OECD an Expert Meeting on the use of ICTs to achieve growth and development (December 2006).

19. Finally, on the issue of free and open source software (FOSS), the ICT and E-Business Branch organized a seminar with UNITAR (August 2006) that examined the role of FOSS in economic and social development as well as its use in the UN system. Further work on FOSS took place within the framework of partnerships with public and private sector entities that are active in the field of human capacity-building through FOSS training and awareness-raising.

**IMPROVING THE COMPETITIVENESS OF SMES THROUGH
ENHANCING PRODUCTIVE CAPACITY**

(Agenda item 3)

Chairperson's summary

20. "Improving the competitiveness of SMEs through enhancing productive capacity" has been a central theme since UNCTAD XI in São Paulo. At its eleventh session, the Commission focused on how to enhance the competitiveness of SMEs through their participation in global value chains (GVCs) and draw lessons from the experience of Latin American countries. It was noted that in 2006 it had discussed at length the Asian context and that in 2008, on the eve of UNCTAD XII, its session could be devoted to deliberations mainly covering enterprise issues in Africa.

21. UNCTAD's policy advice work and technical assistance have shown that the organization of production at the world level has increased the number of opportunities and serious challenges for SMEs to reach international markets and provided new entrepreneurial possibilities. In particular, the challenge for all firms participating in GVCs is, inter alia, to create competitive advantages and to continuously upgrade skills and technology in order to meet global quality standards and requirements. Once such standards have been met, participation in global value chains could provide SMEs with opportunities to upgrade to higher-valued-added functions, and to diversify and expand their business.

22. The Latin American experience shows that the regional integration process has advanced with Mercosur, the Community of Andean Nations (CAN) and the Bolivarian Alternative for the Americas (ALBA), and there have been five consecutive years of some economic growth, employment creation and macroeconomic stability. However, data have also shown that the whole continent still has to improve its competitiveness, especially in terms of innovation, institutions and infrastructure. Export diversification continues to be insufficient and confined mainly to natural resources.

23. Experts agreed on the importance, for developing countries, of implementing competitiveness programmes dealing with all production factors, improving the enabling business environment by removing obstacles related to both the physical infrastructure (roads, ports, airports, water and electricity) and the soft infrastructure (policies, procedures and institutions), and promoting skills development and education. Also, the need for, and importance of, bilateral and international cooperation, including UNCTAD's, was highlighted. It was noted, for example, that the Andean Development Corporation (Corporación Andina de Fomento — CAF) had implemented competitiveness programmes in Colombia, Venezuela, Peru, Bolivia and Ecuador, aimed at diversifying existing exports and increasing their value added. The main pillars of the programme are market intelligence, quality certification, logistics and product diversification operations. Additionally, CAF is very committed to cluster development, and in particular to promoting learning, innovation and networking dynamics in existing clusters with high growth potential, such as shrimps in Ecuador, auto parts in Colombia and software in Venezuela. On the other hand, the Iberoamerican Secretariat, based in Madrid, has put in place a programme on "SME Productivity and Corporate Social Responsibility". The objectives of this programme are to identify, replicate and expand the scope of corporate social responsibility initiatives which have an impact on the productivity of SMEs and their integration into GVCs.

24. It was noted that four different kinds of GVC upgrading could be identified. Process upgrading is triggered and often supported by the lead firms, most commonly in order to adopt ISO standards or good manufacturing practices. The example of BASF in Brazil was mentioned as a showcase, where the company had selected a number of strategic suppliers and supported their upgrading process in order to meet its safety, health and environmental requirements and to achieve more efficient control of dangerous products. Product upgrading includes the ability to produce new or more competitive products, as in the case of Royal Philips Electronics, which stimulated its supplier network capabilities by embedding the environmental sustainability concept into the entire business system. Functional upgrading increases the value added of firms by changing the focus of the activity performed (for example, from manufacturing to design, or from assembly to manufacturing), while chain upgrading creates opportunities for suppliers that have developed new competences and skills to move to a new value chain (for example, a Ludhiana bicycles producer in India, Hero Cycles Limited, started to produce motorcycles after creating a joint venture with Honda Motors of Japan).

25. Evidence from different continents shows, however, that GVC upgrading in its different forms is neither easy nor automatic. The participation of developing countries' SMEs into GVCs is hampered by their lack of resources to support adequate R&D costs, training of personnel and the fulfilment of the strict requirements of global quality standards. Insufficient working capital was also identified as a barrier to SMEs' participation in GVCs, as well as their lack of self-confidence regarding their ability to meet much more stringent delivery requirements in terms of both product quantity and quality and non-tariff barriers. In sum, it was agreed that developing countries' SMEs often faced, inter alia, information and supply capacity gaps that called for innovative policies to be put in place to favour domestic enterprise upgrading. Additionally, it was recommended that the enterprise dimension be included in the Aid for Trade initiative, namely measures to build productive capacities, release entrepreneurial talents and promote the transfer of technology to developing country enterprises. Policy measures to attract FDI strategically are also important, since many cases, such as that of Intel of Costa Rica, have shown that investor targeting could be critical for attracting GVC leaders.

26. In this respect, it was noted that UNCTAD had recently undertaken a research project together with the OECD, the University of Fribourg and the University of Geneva to explore the main obstacles to, and potential benefits of, SME participation in GVCs and to prepare a set of policy recommendations to be included in a final declaration entitled "Strengthening the Role of SMEs in Global Value Chains". It was expected that this declaration would be endorsed by OECD member Governments in Tokyo in June 2007, while UNCTAD would circulate it at the forthcoming intergovernmental meeting related to item 3 of the Commission's agenda, together with the results of the case studies carried out by the project in developing countries. Preliminary results have shown that the clustering of SMEs in specialized parks has proved to be an effective vehicle for facilitating skills upgrading and the development of long-term relationships with clients.

27. Several delegates further underlined that the cluster development approach, which was based on enhancing specialized skills in a specialized area, had proved to be a powerful tool for integrating local firms into global value chains. In India, for example, different cities had become famous over the years for the production of different products, and it was estimated that about 350 clusters contributed to approximately 60 per cent of Indian manufacturing exports. In those clusters a competitive supply chain had evolved owing to the

availability of raw material, technical expertise and marketing channels. The formation of clusters, however, could be also stimulated through policy incentives, subsidized training, public procurement and efficient transportation. For example, the development of the automotive cluster in Thailand was based on the creation of a network of lower-tier suppliers in neighbouring countries, with local suppliers and assemblers being upgraded to the next tier.

28. Experts agreed that it had become increasingly important to explore the dynamic effects of enterprise internationalization and regional integration on South–South cooperation and on the creation of new business opportunities for SMEs in developing countries. In this respect, it was noted that in 2006 UNCTAD had extended its advisory services regarding enterprise internationalization to 10 countries in Asia by participating in various regional meetings held in ASEAN. UNCTAD had also provided advisory services and technical assistance on entrepreneurship and SME development through the EMPRETEC programme, through a network of almost 30 centres located in developing countries and transition economies. In the field of business linkages, UNCTAD had extended its technical assistance to Brazil, Uganda and Viet Nam, and was in the process of doing the same for additional countries in Africa and for Argentina. In particular, it was emphasized that, according to a preliminary survey completed by UNCTAD and the Banco de la Nación Argentina in 2006, Argentine local suppliers were developing rapidly, driven by the boom in domestic demand. The usefulness of the installation of the joint UNCTAD–Banco de la Nación business linkage programme was highlighted, together with the interest already expressed by several existing TNCs (such as Toyota, Quickfood and Fiat) in such a programme.

29. The Chairperson of the Expert Meeting on Building Productive Capacities, held from 4 to 6 September 2006, presented the main findings related to the role of enterprises in developing productive capacities. The full report of the meeting appears in document TD/B/COM.2/EM.19/3. Ongoing liberalization reforms in developing countries have not always yielded the expected benefits in terms of successful integration into the global economy, economic growth and social development. Overcoming constraints that hamper successful integration would require broad-based national-level capacity-building supported by development partners. The report noted that the ability of developing countries to compete in world markets is undermined by supply-side constraints. Successful business linkages can provide a channel for strengthening the enterprise sector and the growth of SMEs. There is a need to identify institutional support and mechanisms that would promote mutually beneficial and sustainable linkages. The role of insurance in development and in relation to enterprise growth was recognized. Five technical assistance programmes on insurance for Africa were presented by UNCTAD. Development partners were urged to consider providing support to those five areas of insurance capacity-building for Africa.

30. It was suggested that UNCTAD assist developing countries and countries with economies in transition in building productive capacities by:

(a) Increasing its efforts to strengthen and expand the EMPRETEC programme to cover more developing countries, including economies in transition, and ensuring that development partners be invited to provide appropriate support;

(b) Providing a better understanding of the conditions under which the potential benefits of developing countries' outward investment could be maximized to enhance enterprise competitiveness and the risk factors minimized;

(c) Participating actively in the formulation and implementation of the Aid for Trade initiative, as it relates to enterprise development.

31. The report of the Expert Group Meeting on Best Practices and Policy Options in the Promotion of SME–TNC Business Linkages (TD/B/COM.3/EM.28/3), held from 6 to 8 November 2006, was presented by the Chairperson of that meeting. It noted that in supporting the business linkages programme at national and international levels a number of factors needed to be considered:

(a) There is a need for greater coherence between policy advice and implementation efforts to provide a conducive environment for enterprise development and to promote the growth of SMEs.

(b) The Aid for Trade initiative should seek to integrate the investment component that embraces policies promoting technology transfer, enterprise development and the consolidation of productive chains.

(c) UNCTAD and donor partners have a crucial role to play in supporting technical assistance programmes for business linkages, including efforts to strengthen and expand the EMPRETEC programme to cover more developing countries and economies in transition.

32. Policy suggestions for supporting effective SME–TNC business linkage programmes include the following:

(a) There should be specific proactive measures for FDI attraction and facilitation, and for enterprise development.

(b) There should be value chain mapping by sector to facilitate business linkages. Synergies with cluster development initiatives can also enhance the effectiveness of linkage promotion programmes.

(c) Linkage programmes should be designed in such a way that they can evolve dynamically to address higher-value-added products and services. They constitute a launching pad for SME internationalization.

(d) Linkage development should address financing requirements for SME upgrading to meet the technical and quality requirements of purchasing companies.

(e) Linkages should not only focus on TNCs and SMEs linkages but also develop a business-to-business relationship between indigenous companies.

(f) A greater outreach of business linkage programmes is needed to avoid imbalanced costs and benefits.

(g) Public–private partnerships should be strengthened.

33. International agencies and donor partners play an important role in building productive capacities, which is an important component of the Aid for Trade initiative. For example, the Consolidated Programme of the International Trade Centre (ITC) supports capacity-building in developing countries and improving SME competitiveness for exports. It includes activities aimed at strengthening supply capabilities and helping SMEs integrate into global value chains. The ITC collaborates closely with UNCTAD in these areas through multi-agency initiatives such as the Integrated Framework, joint projects and programme-

level activities, including in respect of EMPRETEC and business linkages programmes. The representative of OECD presented a study on building productive capacities in the agriculture sector in five African countries by examining the role of donor partners and that of private sector. The OECD Development Aid Committee explained how new indicators had been developed to monitor the impact of trade-related technical assistance programmes.

* * * * *