Presentation Outline

- Trade and Globalisation: Enterprise level challenges in developing countries / LDCs
- Private Sector Role in Capacity Development initiatives
- Using ‘Aid for Trade’ Effectively
- Case Study: Strategies & Preparedness for Globalisation (UNCTAD/DFID/Govt. of India)
## SMEs in exports (case: India)

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<tr>
<td>Number of SMEs* in India</td>
<td>11.8 million</td>
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<td>Employment &amp; investment</td>
<td>28.2 million persons, $38 billion</td>
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<td>Production output value</td>
<td>US$ 89 billion</td>
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<tr>
<td>Share of GDP</td>
<td>14%</td>
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<td>Exports (50,600 regd. units)</td>
<td>US$ 21 billion</td>
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<td>Exportability index</td>
<td>28%</td>
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<tr>
<td>Share of India’s exports</td>
<td>33%</td>
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<td>Principal sectors</td>
<td>Leather goods, light engg components, clothing, gems &amp; jewellery, handicrafts</td>
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* SMEs must have less than US$ 220,000 investment in capital goods
Private sector in trade: enterprise profile

• SMEs are very small, vulnerable entities
  – Actual average investment: $3000
  – Average employment: 3 persons
  – Average revenue: $ 7600
    (under reported)
  – Manufacture of 500 tariff lines is reserved for SMEs
  – However, these products are allowed for imports

*Implication: SMEs are vulnerable to import competition from large international players*

**Exporters**
- Average revenues: $420,000

*Implication: High degree of intermediation and vulnerability to trade developments*
Key Challenges faced at home

- Limited capacity/ access to professional skills and financial resources
- Technologically backward
- Increasing competition from imports, following trade liberalisation in 2001
- High incidence of sickness (17.8%), due to:
  - shortage of working capital (46%)
  - marketing problems (36%)
  - power shortage (13%),
  - Inadequate equipment (11%)
  - Non-availability of raw material (12%)
  - labour problems (5%) and
  - management problems (4%).
Challenges in exports

Retaining business:
- Trade Information
- Import Compliance:
  - Adjustment costs
  - Detentions/rejections
  - Automation and IT
- Commercial risks:
  - Credit sales
  - Intermediary costs
- Trade measures
  - Antidumping duties

Expanding business:
- Supply side constraints:
  - Resources for Upscaling/expansion
  - Institutional finance
  - Business acquisition costs
- Market linkages
- Cross border investments
## Awareness levels of impact of trade agreements at enterprise level

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<td>India’s RTAs/ PTAs</td>
<td>50% had no idea, 24% were aware but did not understand implications, 7% were well aware of implications</td>
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<tr>
<td>WTO commitments</td>
<td>27% had no idea, 41% were aware but did not understand implications; 11% were well aware of implications</td>
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<tr>
<td>Stakeholder Interactions with government</td>
<td>Only 33% reported any interactions with government</td>
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<td>Representations on trade issues in past 2 years</td>
<td>25% made more than 5, 40% made less than 5 submissions</td>
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National Baseline Survey: Strategies and Responses to Globalisation (UNCTAD India)
Perceptions: Trade Development Programmes

• Many programmes at the higher-end: policy analysis, export strategy, trade negotiation support

• End products are high-level directives, not adequately followed by budgetary/aid support to key sectors

• Some programmes tend to be ‘clinically localised’- address some wounds in an infested mass

• Mismatches in sequencing of needs and available offers
Aid experiences- what’s not well

- Unduly long pre-disbursement phases
- Funding conditionality and (non) fungibility
- Selection of TRTA providers
  - Limited or no beneficiary involvement
  - Absence of local content and customisation
  - Procurement rules pre-empt capable regional/local suppliers and partners
- Big ticket items dropped eventually
- Final projects very different and diluted from log frame
- Projects close on time, irrespective of starting delays, as budget lines are time-bound

In a nut shell: Mostly intent, not content
Aid for Trade- a current experience in India (a 15 mn € grant supporting trade /investment)
Expectations from Aid for Trade

• Private sector focus means an enterprise/sector-oriented approach
  – ‘De-mystification’ of trade jargon; customisation of content to ‘real targets’- specific products and markets
  – Wholesome package: trade information, enterprise training, market linkages, and investments for trade conformance (quality standards and others)
  – Intervention should be sustained, not sporadic
  – Funding: Conditionalities and procedures should be reduced
  – Beneficiaries should have more influence and ownership in selection, delivery and evaluation
Involving Private Sector as Partners in Aid for Trade

Global Sourcing Programmes

Triangular production networks

Pure-play technical assistance
Partnering with Private Sector in Aid for Trade - Case I

- Cost sharing
- Large customers (partners)
- AID Donors
- Global Sourcing Programmes
- Beneficiary enterprises
- Trade facilities
- Training, Sampling

Example: Developing African Supply chains for AGOA
Partnering with Private Sector in Aid for Trade - Case II

Pre investment support

AID Donors

Foreign Investors (partners)

Triangular production networks

Beneficiary enterprises

Example:
Relocation Investments in yarn/fabric segments for AGOA origin cumulation
Partnering with Private Sector in Aid for Trade - Case III

Indian cashew nut processors (partners)

AID Donors

Investment support

Pure-play technical assistance

Beneficiary enterprises

Supply side interventions

Production facilities

Example:
Development of semi-automatic cashew processing activities in Tanzania
Improving Aid Effectiveness

Programme Design Aspects

Ownership by Private Sector
Implementation by Specialist Agencies
Size: Critical mass
Strategies and Preparedness for Globalisation in India

UNCTAD/DFID/Govt of India

Programme Director:
Dr. Veena Jha, UNCTAD INDIA

Objective: Enhanced Competitiveness of enterprises in export markets, and vis-à-vis imports in home market

Coverage: 5 sectors having specific opportunities/ vulnerabilities under trade liberalisation

Component I-Govt
Component II- Pvt. sector

2005-2009
£5 million
Features of Component II:

- Focus on Private Sector Networks
- Led by sector-level apex organisations
- Large control groups (~500 exporters)
- Demand-driven activities, focus on current problems faced in exports
- 6-monthly monitoring of control group performance

A large enough beneficiary group providing critical mass in each sector

Programme activities are flexible, relate to immediate, pressing problems
Knowledge is institutionalised in the sector network, apex body is strengthened through the Programme
Tripartite Partnership

**DONOR**
DFID

**SPECIALISED AGENCY**
UNCTAD

**BENEFICIARIES**
Sector Apex Bodies
(local technical absorption, and outreach)

Flexible, multi sector medium term funding

(linkages to international best practices, specialist service providers, and HONEST BROKER)
Strategies & Preparedness for Globalisation
UNCTAD/DFID/GoI Programme (£5 mn, 2005-2009)