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**SMEs in developing countries with special  
emphasis on OIC Member States, and policy  
options to increase the competitiveness of SMES**

by

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The views expressed are those of the author and do not necessarily reflect views of the United Nations.

Honourable Chair, Honourable Ministers, Distinguished Participants:

It is a great pleasure for me to address the 28<sup>th</sup> Session of the COMCEC and particularly this Ministerial Session devoted to the important topic of competitiveness of SMEs in OIC Member States.

The 2008 global economic and financial crisis greatly affected the economies of OIC member states. The topic of this meeting is therefore of the utmost relevance to the recovery of these economies and to their future growth.

The development of the private sector has become an important component of overall development policy. In an era of rapid social and technological change, but facing slow economic recovery and jobless growth, many countries have shifted the focus of their policies to facilitating new firm creation and SME growth. As H.E. President Abdullah Güll stated at the opening of the Fourth United Nations Conference on Least Developed Countries last year, productive capacity building and the diversification of economies are “development multipliers” and, in this regard, the role of the private sector is crucial.

More countries in the region can emulate the good experience of Turkey in providing jobs through SME development. Towards this end, there has been strong political will among OIC member states that have taken many proactive measures at the intergovernmental level. Keeping the issue of SMEs high on the policy agenda, for example through multi-stakeholder initiatives like this one, will be essential for sustained recovery and long term development.

In this context, UNCTAD recognises the commitment of the OIC to fostering policy dialogue and intra-OIC cooperation on entrepreneurship and SMEs. UNCTAD welcomes the recommendations that followed the workshop on "Enhancing the competitiveness of Small and Medium Sized Enterprises in the OIC Member States", which took place in June of this year. These included, among others, a commitment to creating the necessary enabling environment to promote and support SME productivity and competitiveness, backed up by appropriate national legislation, strategies and institutional mechanisms.

Against this background, I would like to share with you some of UNCTAD's research and experience in this area. This forum seeks to answer a challenging issue: what policy options exist for governments to increase SME competitiveness? Starting from the creation of an enabling environment for entrepreneurship, my presentation will review policy options aimed at promoting the emergence of new entrepreneurs and facilitating new business start-ups. I will then discuss how to promote growth opportunities for existing SMEs through the attraction of investment and the facilitation of linkages between local SMEs and global value chains.

Entrepreneurship needs to be addressed in a systemic manner. UNCTAD's research and policy analysis show that entrepreneurship development sometimes follows a narrow approach, overlooking some of the other relevant policy areas that have an impact on entrepreneurship. Policymakers therefore need to adopt a comprehensive policy approach. In doing so, many countries encounter challenges in designing and implementing entrepreneurship policies in a coherent and coordinated manner.

In response to this, UNCTAD has developed an Entrepreneurship Policy Framework which aims to support developing country policymakers and those from economies in transition in the design of initiatives, measures and institutions to promote entrepreneurship. The framework outlines 6 key policy areas that have a direct impact on entrepreneurial activity. These areas are:

- (1) *formulating a national entrepreneurship strategies;*
- (2) *optimizing the regulatory environment;*
- (3) *enhancing entrepreneurship education and skills;*
- (4) *facilitating technology exchange and innovation;*
- (5) *improving access to finance; and*
- (6) *promoting awareness and networking.*

A coordinated approach to policy within and between these areas may help policymakers to facilitate the move towards a more dynamic and entrepreneurial economy and society.

Of course, national entrepreneurship strategies need to be tailored to each country's specific conditions. Deciding which policy package is the most appropriate depends on the existing

level of entrepreneurship in a given country and its structural characteristics. The Entrepreneurship Policy Framework draws attention to policy objectives and recommendations that can be adapted and adopted on an à la carte basis by countries and regional organisations. Let us now look at the Framework more closely. I shall highlight some of the policy recommendations for each of the 6 policy areas, providing examples of good practices in OIC Member countries.

**1) Formulating a national entrepreneurship strategy:** this is the starting point for policymakers, as it provides the foundations of the government's approach to entrepreneurship development:

- One of the main recommendations is that policymakers first need to come to a full understanding of country-specific challenges in the creation of an entrepreneurial environment, and specific objectives they may wish to pursue through the promotion of entrepreneurship. For example, **Malaysia**, in its Vision 2020, identifies entrepreneurship as a key element of economic policy that is necessary to generate economic growth in order to achieve higher income, inclusiveness and sustainability.

**2) Optimizing the Regulatory Environment:** this enables the entrepreneur to create, operate, manage, and if necessary, close a business in compliance with the rule of law governing disclosure, licensing and registration procedures. It should also guarantee the protection of physical and intellectual property.

- The first step in establishing a regulatory environment conducive to business is to understand the extent to which existing rules and procedures may hold back entrepreneurial activity. This can be achieved through various measures, including benchmarking the national business climate against other countries. For example, **Indonesia** has set up benchmarks comparing the ease of doing business between administrative regions. In 2006, Indonesia also introduced One-Stop-Shop service centres for business registration and licensing. The introduction of these centres has reduced the time taken to register a business and secure a trading permit from more than 30 days to 10 days. Similar reforms have taken place in **Burkina Faso** which

adopted in 2008 an action plan aimed to simplify procedures for registering a land title.

**3) Enhancing Entrepreneurship Education and Skills Development:** this is a central component of entrepreneurship development, which includes behavioural attributes on the one hand, and enabling skills on the other hand.

It is worth mentioning here UNCTAD's entrepreneurship training programme, Empretec. The Empretec programme strengthens 10 key entrepreneurial competencies through training workshops that involve self-assessment, individual transformation and business simulation activities. The 10 key entrepreneurial competencies to be enhanced include: opportunity-seeking and initiative-taking, persistence, fulfilment of commitments, efficiency and quality control, calculated risks, goal-setting, information-seeking, planning and monitoring, persuasion and networking, and independence and self-confidence. UNCTAD's Empretec programme is now operating in 33 countries around the world, having trained to date more than 200,000 entrepreneurs.

- For example, **Jordan:** the Business Development Centre (BDC) is the national counterpart of UNCTAD's Empretec programme. Its training programme is highly interactive and experiential. As a complement to the Empretec training, the BDC also offers follow-up services including consulting, mentorship programmes and business development services.

**4) Facilitating Technology Exchange and Innovation:** in this regard, I would like to focus on two policy options which I think are particularly relevant for OIC member countries:

- Firstly, it is important to support a greater diffusion of ICTs to the private sector and the use of ICT tools such as mobile phones for business, including in rural areas that may be disconnected from the capital. Several OIC countries are finding innovative ways to accomplish this. For example, in **Uganda**, the CELAC initiative (Collecting and Exchanging Local Agricultural Content) is helping farmers and rural entrepreneurs organize their production and distribution using information provided over mobile phones as well as other ICT tools.

- Secondly, supporting high tech start-ups is key. Governments have a spectrum of possible policy interventions to support technological innovation. A notable example is **Egypt**, where the Ministry of Communications and Information Technology has launched a strategy to support SMEs.

**5) Improving Access to Finance:** Inadequate access to finance remains a major obstacle for many aspiring entrepreneurs in developing countries. The global financing gap for SMEs remains enormous. Entrepreneurs of all types and size require a variety of financial services, including facilities for making deposits and payment as well as accessing credit, equity and guarantees.

- It is important to build the capacity of the financial sector to serve start-ups. This can be achieved by promoting public-private sector "access to finance partnerships" for specific groups in society. For example in **Nigeria**, a public-private partnership was created between the Enterprise Development Centre, Nigerian Banks and the International Finance Corporation. Furthermore, the cornerstone of most financial systems is the easy availability of credit information. In this regard, initiatives such as **Egypt's IScore** exemplify the expansion of private credit bureau and public registry coverage. IScore is a public-private partnership by the Egyptian Central Bank that encouraged more active participation from the private sector in credit reporting.

**6) Promoting Awareness and Networking:** negative socio-cultural perceptions about entrepreneurship can act as significant barriers to enterprise creation. It can undermine the impact of policy intervention in support of entrepreneurship. More efforts are required in many OIC member countries to foster an entrepreneurial culture that positively values entrepreneurs.

- At the policy level, the value of entrepreneurship to society should be highlighted and negative cultural biases addressed. Fostering policy dialogue and putting entrepreneurship high on the policy agenda, through initiatives such as the COMCEC meeting this week, signal the importance of entrepreneurship at the policy level.
- Other measures include launching entrepreneurship outreach and awareness campaigns at national, regional and local levels in collaboration with all stakeholders.

For example, in **Uzbekistan**, a State programme was launched in 2011 named, "The Year of Small Business and Entrepreneurship" which contributed to generating a more favourable environment for entrepreneurs and a positive image of entrepreneurship.

The UNCTAD Entrepreneurship Policy Framework contains many useful tools, including checklists and monitoring indicators. UNCTAD can assist OIC countries in their policy implementation. In each area of the Entrepreneurship Policy Framework, UNCTAD can develop road maps to address gaps, bottlenecks and outline the next steps. Furthermore, UNCTAD can contribute to strengthening institutional synergies by developing tailor-made workshops to train focal points within ministries and institutions.

Let me move now to the second part of my presentation. In promoting the international competitiveness of SMEs, national policy has to deal with the dynamic interplay between foreign direct investment (FDI) and the development of local productive capacities. The potential of FDI flows for catalysing national development is enormous.

As confirmed by the most recent data, transnational corporations (TNCs) drive global trade, accounting for some 80% of exports of goods and services. Nevertheless, the potential for local firms to link into TNC global value chains will go largely untapped if the local economy, its firms and human capital, do not have the required absorptive capacity. Building linkages between SMEs and TNCs therefore requires policymakers to target domestic resources towards strengthening the absorptive capacity of the local economy so as to gain access to and benefit from global value chains.

There are several options that governments can consider in order to target TNCs active in global value chains and improve their domestic SMEs' access to these networks. Relevant options include an enabling investment environment, facilitated by investment promotion services, and investment "targeting" strategies, as well as a comprehensive TNCs-SMEs linkages programme, which I now turn to.

For host countries, business linkages with TNC networks are one of the most effective ways of upgrading domestic enterprises, enhancing their competitiveness and providing them access to international markets, finance, technology, management skills and specialized

knowledge. For TNCs, partnerships with local firms also allow them to reduce their transaction costs, increase their flexibility and adapt technologies and products better and faster to local conditions. In this respect, it is a win-win option for TNCs and local SMEs.

UNCTAD's Business Linkages Programme aims to facilitate the creation of new partnerships and deepen existing relationships between foreign companies and domestic SMEs. The programme has so far been implemented in 8 countries, including 2 OIC member countries, namely Mozambique and Uganda.

In Mozambique, UNCTAD's Business Linkages Programme has developed sustainable business relationships between SMEs and transnational corporations in the barley production industry, working with SAB Miller - a large brewer from South Africa. The impact has been impressive. The suppliers in the programme, mainly small farmers, have doubled sales and increased their productivity by 150%. In Uganda, the programme involved agribusiness, telecommunications and the automotive industry. SMEs participating in the programme grew by up to 460%, employment increased by 100% and productive efficiency increased by 25%.

The primary focus of UNCTAD's linkage programme is to upgrade domestic suppliers that do not meet international standards of production. We assist them in acquiring skills, knowledge, technology, and machinery that would enable them to become new suppliers to TNCs. Our business linkages programme include; (a) addressing information asymmetry between SMEs and TNCs; (b) improving access to finance; (c) promoting skills upgrading; and (d) acquiring new technology. We also provide support to supplier development programmes to facilitate the associations of small firms to provide products that meet the quantity, quality and lead time requirements of TNCs.

I will end here and I look forward to your reactions, comments and questions. Last but not least, I wish to thank COMSEC for inviting me to share some of our work with you and for your attention today.