



**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

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DAC Network on Poverty Reduction

Trade Capacity Building

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This document is circulated for INFORMATION under agenda item 5) Key work themes, briefings on Trade Capacity Building. It contains: A) Outcomes and Action Points emerging from the DAC/WTO meeting on Trade Capacity Building held at the OECD on 2-3 March 2004 and B) the summary of the Regional Workshop on Trade Capacity Building and Private Sector Development held in Phnom Penh, Cambodia on 2-3 December 2003.

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TABLE OF CONTENTS

A. OECD DAC/WTO MEETING ON TRADE CAPACITY BUILDING: IMPLEMENTATION PROGRESS AND CHALLENGES	3
ACTION POINTS FROM THE OECD-DAC/WTO MEETING ON TRADE CAPACITY BUILDING 2-3 MARCH 2004 PARIS	5
Specific Action Points	6
B. REGIONAL WORKSHOP ON TRADE CAPACITY BUILDING AND PRIVATE SECTOR DEVELOPMENT IN ASIA - PHNOM PENH, CAMBODIA 2-3 DECEMBER 2003: WORKSHOP REPORT	8
EXECUTIVE SUMMARY	8
PROVISIONAL SUMMARY OF PROCEEDINGS.....	9
I. Trade and Investment – the post Monterrey and Doha Challenges	9
II. Strengthening Enterprise Competitiveness	11
Agribusiness.....	13
Light Manufacturing	14
III. Strengthening the Support Structures	16
Improving the Efficiency of SMME Service Provision.....	16
Strengthening Private Sector Associations	18
Strengthening Investment Support Services	20
IV. Fostering Competitiveness – the Policy Response	21
RECOMMENDATIONS.....	24
For Governments:	24
For The Private Sector	24
For Development Partners	25
NEXT STEPS FOR THE OECD.....	25
I. Policy analysis	25
II. Good practices	25
III. Monitoring of Trade Capacity Building activities	26
IV. Effectiveness of trade capacity building	26

Boxes

Box 1. Business Surveys - Bangladesh	11
Box 2. Pro-Active Firm Level Strategy	12
Box 3. Vietnam Association of Seafood Exporters and Producers (VASEP).....	13
Box 4. Garment firms expect public-private joint committees to contribute to:	15
Box 5. Facilitation of SMMEs - provision of services to SMMEs needs to be:.....	17
Box 6. Cluster Development in India	18
Box 7. Business associations can contribute to SMME development by facilitating:.....	18
Box 8. Public Private Dialogue - Mauritius' Joint Economic Council	20
Box 9. SMME Policies in Thailand.....	22
Box 10. Donor Support to the Private Sector: Mekong Private Sector Development Facility	23



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ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
 ORGANISATION DE COOPERATION ET DE DEVELOPPEMENT ECONOMIQUE
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The Chairman
 Le Président

23 March 2004

To: Development Ministers and Heads of Agencies
From: Mr. Richard Manning, DAC Chairman and
 Dr. Kipkorir Aly Azad Rana, Deputy Director General, WTO

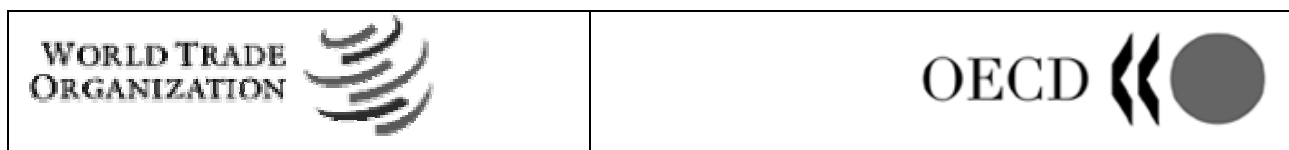
OECD DAC/WTO MEETING ON TRADE CAPACITY BUILDING: IMPLEMENTATION PROGRESS AND CHALLENGES

2-3 March 2004, Paris, France

We are writing to report to you the key action points emerging from the joint meeting of the OECD-DAC and WTO held at the OECD on 2-3 March 2004, which we co-chaired. The meeting was designed to take stock of progress in trade capacity building and to make concrete recommendations for improving delivery, monitoring and evaluation of activities in this area. This is the third of such joint meetings since Doha, bringing together the trade and development communities from bilateral and multilateral agencies as well as from developing countries, in an ongoing constructive dialogue responding to the Doha Declaration mandate to ensure a coordinated and effective trade capacity building effort.

The meeting recognised the significant achievements that have been made in the area of trade capacity building. The dialogue between the trade and development communities which was initiated just a few years ago has helped to raise awareness of the importance of trade for development and poverty reduction and to identify principles of good practice in this area. It has underlined the need for the donor community to give greater and sustained attention to helping build productive capacities in developing countries as an important complement to assisting beneficiaries to integrate more fully into the multilateral trading system. At the same time, the trade community is paying more systematic attention to development issues in relation to the trade agenda.

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The trade capacity building agenda is continuously expanding and no single agency can respond to the range of interlinked challenges facing developing countries. This calls for bilateral and multilateral agencies to work more effectively together, fully exploiting their respective comparative advantage in trade capacity building and to send clear signals from head offices to field agencies on the importance of effective responses to developing country needs.

Participants identified a number of key thematic areas for specific follow-up actions including the need to better exploit the OECD/WTO Trade Capacity Building Database, strengthen country-driven trade policy processes and associated action matrices, and design a common monitoring and evaluation framework for trade capacity building. The specific suggestions and “Action Points” that emerged from the meeting, presented under our own responsibility, are attached for your consideration.

Participants also welcomed the forthcoming workshop on cotton, to be held in Benin from 23-25 March, which aims to identify and clarify existing and future financial and technical assistance to be provided in this area.

We would be grateful if you could circulate these action points within your agencies. In particular you might wish to reinforce the clear and central conclusion from the meeting that we, individually and collectively, need to send strong signals to donor agency field offices on the importance of the trade capacity building agenda for growth and poverty reduction and the achievement of the Millennium Development Goals. First, there must be a more concerted effort to help partners integrate trade priorities into their national development and poverty reduction strategies, in order to facilitate the prioritization of strategic development needs, as well as donor coordination around the latter. Subsequently, bilateral and multilateral agencies need to better work together to support the implementation of the intersecting PRSP/ trade capacity building action matrices emerging from the dialogue and policy process led by our developing partner countries. This message might also be incorporated into the Communiqué of the DAC High Level Meeting in April and other relevant official statements, including the forthcoming meeting of the Development Committee.



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DAC Chairman



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 DAC-WTO (2-3 March 2004) participants

**ACTION POINTS FROM THE
OECD-DAC/WTO MEETING ON TRADE CAPACITY BUILDING
2-3 MARCH 2004
PARIS**

1. The Doha Ministerial Declaration confirmed that trade-related technical assistance and capacity-building are core elements of the development dimension of the multilateral trading system. These core elements are necessary for enabling beneficiary countries to participate effectively in the open, rules-based trading system, implement their obligations, exercise their rights, draw on the benefits of the system and exploit the development opportunities of a global economy.
2. The meeting recognised both the *short-term*, urgent needs for supporting negotiating capacity and responding to new problems and opportunities in a rapidly changing trade environment and the *long-term* commitment needed to build sustainable institutional capacity.
3. A number of key thematic fields and specific areas were identified, where common action could contribute to better achieving the objectives of building sustainable capacity:
 - Support domestic efforts to mainstream trade into national plans for economic development and strategies for poverty reduction. Reinforce the contribution of trade capacity building in reaching the Millennium Development Goals for poverty reduction.
 - Assist developing countries to identify and prioritize needs for trade-related technical assistance.
 - Address supply side (production and export) constraints. In the framework of PRSPs and similar national development strategies, reinforce the importance of trade-related infrastructure, private sector development and associated institution building in helping countries to expand and diversify their export base.
 - Take into account the structural constraints to private sector development and export diversification in less advanced developing countries - as identified and agreed in the Monterrey Consensus. Address also the import side of trade development strategies, by assisting with structural adjustment and by facilitating the access of local enterprises to new sources of competitive intermediate inputs of goods and services.
 - Support institutional capacity building as a fundamental requirement for sustainable trade capacity and reflect this in the design, implementation and evaluation of donor programmes.
 - Encourage institutionalization of consultations with relevant private sector and civil society groupings in the national trade policy process (some countries have written them into law) as an essential basis for identifying, executing and evaluating trade strategies and priorities for trade capacity building, and for increasing legitimacy and pooling of resources.

- Support a well planned, targeted and coordinated delivery of timely technical assistance to assist resource constrained countries in trade negotiations, adjust to WTO rules and disciplines, implement obligations and exercise the rights of membership.
- Encourage home grown research, based on high quality academic work and debate, responding to the needs of policy makers and other stakeholders and helping to enhance understanding of country-level implications of WTO agreements and changes in the global environment. Support coherent and coordinated strategies for building the statistical capacity needed for evidence-based research and policy making.
- Mainstream regional approaches into trade capacity building and PRSPs as a means of harnessing and strengthening resources, overcoming cross-border challenges and generating new trading opportunities.
- Strengthen the international arrangements and coordination schemes for supporting integrated, partner country driven approaches to trade capacity building, taking account of the lessons of the recent evaluation of the Integrated Framework and the competence and expertise and respective roles of multilateral and bilateral agencies.
- Strengthen donor commitment to the trade capacity agenda in the field and provide the flexibility in donor programme planning and implementation needed to respond on the ground as and when required to emerging needs in the partner country.
- Ensure stable, predictable and rapidly disbursing funding for trade-related technical assistance and capacity building, particularly for the *implementation* of programmes in the frame of the Integrated Framework, the JITAP and other country-owned trade capacity building initiatives in developing and least-developed countries.
- Welcome the forthcoming Workshop on Cotton to be held in Benin from 23 to 25 March, which aims to identify and clarify existing financial and technical assistance, with enhanced coordination in existing mechanisms and, to explore and identify additional value-added financial and technical assistance.

Specific Action Points

- Strengthen and exploit the OECD/WTO Trade Capacity Building Database
 - Assess use of the database and client needs (see also Annex),
 - Improve the quality, consistency and speed of reporting,
 - Disseminate the tool more widely, particularly at field level, for improved communication and transparency of activities,
 - Explore ways to strengthen the links between the Integrated Framework and the database by connecting it to the action matrix and associated donor co-ordination initiatives.
- Strengthen support for country driven trade policy processes and associated action matrices
 - Develop a generic tool to help partner countries, in the context of their national trade policy processes, to undertake their own trade capacity building needs assessments drawing on best

practice methodologies currently in use (e.g. use of the value chain approach when identifying sectoral needs),

- Improve communications between donor agency head offices and field missions,
 - Carry forward with application of the Integrated Framework, building on lessons from the evaluation, confronting diverging expectations, perceptions and realities, strengthening the IF secretariat and recognising the medium/long term nature of the commitment involved,
 - Scale up funding for the IF in the context of an expanding number of IF countries while exploiting the potential for replication of best practices and for learning among IF countries,
 - Assess practice and potential in the use of knowledge management systems as a key component of trade capacity and the sustainability of technical assistance and capacity building programmes.
- Build and apply a common framework for monitoring and evaluation of trade capacity building
 - Pull together common themes and challenges identified in the existing body of recent evaluations,
 - Consider the relevance and implications of the concurrent work by bilateral and multilateral agencies on core principles for managing for results (Results-Based Management),
 - Develop a TRTA/CB evaluation toolkit and methodology, including a set of indicators and benchmarks,
 - OECD/DAC to convene an initial small experts group, with partner country participation, followed by wider consultation.

**REGIONAL WORKSHOP ON
TRADE CAPACITY BUILDING AND PRIVATE SECTOR DEVELOPMENT IN ASIA**

Phnom Penh, Cambodia 2-3 December 2003

WORKSHOP REPORT

EXECUTIVE SUMMARY

1. As globalization proceeds, developing countries and their enterprises face major challenges in strengthening their human and institutional capacities to take advantage of trade and investment opportunities. While governments make policies in trade and investment areas, it is enterprises that trade and invest. The workshop placed particular emphasis on understanding the enterprise perspective, specifically the supply-side bottlenecks in the trade and investment areas and how governments, development partners and the private sector itself addressed these constraints.

2. The medium-term outlook for the South and Southeast Asia is positive; however, both firms and governments have to adjust to maintain the momentum of growth. Economies showed that they were resilient to shocks in the face of the SARS epidemic, threats of terrorism and volatile oil prices. Exports and domestic demand continue to contribute significantly to higher growth in the region. In order to sustain current growth rates and realize their potential more fully, governments will have to maintain the momentum of economic reform and regional integration efforts. Barriers to investment have to be removed by implementing the rule of law, cutting down the bureaucracy, investing in infrastructure and fighting corruption. Firms have to adjust as well, by gaining a better understanding of their competitive advantage and new consumer demands. They need to invest more in helping themselves, by adopting pro-active upgrading strategies and cooperating with other firms.

3. Small, Medium and Micro Enterprises (SMMEs) play a key role in Asia and comprehensive national SMME development strategies, which ought to be closely linked to trade, investment and poverty reduction strategies, can enhance their competitiveness. Adjusting to globalization poses particular challenges to SMMEs, which are also abundantly found in export sectors like agro-industry and light manufacturing. Such challenges include overcoming new obstacles—technical barriers to trade (TBT) and sanitary and phytosanitary standards, (SPS)—on OECD markets, but also old ones—tariffs—on non-OECD Asian markets, and dealing with the consequences of the eventual removal of quota restrictions imposed on trade in textiles and clothing. Appropriate and coordinated actions at the national and regional levels must be undertaken to overcome these obstacles and help SMMEs to cope with increasing competitive pressure and to seize emerging trade and investment opportunities.

4. Structured public-private dialogue mechanisms have to be strengthened, and on the part of the private sector, SMMEs have to get more involved in business associations. Such associations should be representative, legitimate and speak with one voice if they are to be effective channels through which the private sector articulates its needs and concerns to the Government and lobby for its support. In addition, associations can facilitate networking and partnerships between firms and provide a number of other services to members. Yet, many associations are still under-funded, under-staffed and face “capacity deficits” in numerous areas.

5. Business support services are supplied by many different sources, yet they do not deliver, as they should. Often, support structures are insufficiently geared towards SMME needs and lack funding as well as specialized staff. Service provision could be improved by becoming more demand-driven, customized

and being managed in a business-like manner. Moreover, it is essential to enhance coordination amongst the different public and private support structures.

6. Governments, the private sector and development partners have to invent new ways of working together to foster competitiveness. Trade-related technical assistance and capacity building programmes must be formulated and delivered in such way that they address the “capacity gap” of all stakeholders on the ground. More particularly, it is recommended that development partners increase assistance to intermediary (i.e. “meso-level”) institutions and processes, such as private sector associations, SME support structures and public-private dialogue. In addition, it is essential that they increase consultation with local stakeholders, especially SMMEs, and amongst themselves to enhance local ownership and coordination.

PROVISIONAL SUMMARY OF PROCEEDINGS

7. In their opening remarks, H. E. Mr. Sok Siphana, Secretary of State, Cambodian Ministry of Commerce, Mr. Kiyotaka Akasaka, Deputy Secretary General, OECD and H. E. Mr. Tran Duc Minh, Vice Minister, Ministry of Commerce, Vietnam mentioned the common challenges facing the developing economies of South and Southeast Asia: the WTO accession, changes in preferential trade agreements, developments in the agribusiness sector in light of a growing array of requirements and standards abroad, and the liberalization of trade regimes governing textiles and clothing. They recognized the fact that while governments made policies in trade and investment areas, it was the enterprises that traded and invested.

8. As globalization proceeds, developing countries and their enterprises face major challenges in strengthening their human and institutional capacities to take advantage of trade and investment opportunities. This has become a top priority on the global development agenda and features prominently in the final statements of key international meetings over the past few years, including the Doha Declaration and the Monterrey Consensus.

9. The workshop placed particular emphasis on understanding the enterprise perspective; specifically, the supply-side bottlenecks in the trade and investment areas, the extent to which enterprise needs were being met by governments and development partners and how critical gaps might be closed.

10. The workshop brought together approximately ninety participants from the public and private sectors, research community, and development partners to:

- a) Identify challenges and lessons of experience in enhancing the competitiveness of small, medium and micro enterprises (SMMEs),
- b) Seek ways to strengthen the institutional support structures for the private sector,
- c) Identify lessons for national policy makers and development partners in responding more effectively to the needs of the productive sectors, particularly the SMMEs.

I. Trade and Investment – the post Monterrey and Doha Challenges

11. Proceedings started with a stock taking exercise on the medium-term economic outlook and the challenges the countries in the region are facing. Empirical evidence provided by the Asian Development Bank showed that developing Asia remained the fastest growing region in the world in 2003, with 5.6 % GDP growth, led by strong growth in China, Vietnam, Thailand and India. Projections for 2004 and 2005 were also encouraging, with expected average regional GDP growth rates of 6.2% and 6.3%, respectively.

12. Despite the effects of the SARS epidemic, threats of terrorism, and volatile oil prices, economies in the region showed that they were resilient to shocks and governments were able to keep inflation at generally low levels. In *Southeast Asia*, stronger exports to China, and stronger domestic demand, particularly consumption drove growth. This trend is expected to continue in the medium term. Current accounts remain in surplus and foreign reserves are comfortable. In *South Asia*, rising agricultural incomes and strengthening exports are expected to be the main driver of growth in the medium term. Current account surpluses are foreseen and foreign reserves will be building up, though some South Asian countries might still face fiscal concerns (due to relatively high deficits, low public savings, low tax-GDP ratios and poor resource mobilization).

13. Trade and investment liberalization, business facilitation and economic and technical cooperation figure prominently on the agenda of the Asia-Pacific Economic Co-operation (APEC). Regional institutions, such as the ASEAN, have also contributed to increased regional cooperation. However, trade within the region is still hampered by tariffs and non-tariff barriers. More needs to be done to integrate within the region, which represents a large potential market. Partnerships at the national and regional levels may serve as the building blocks for further integration.

14. With the slowing down of multilateral trade talks, bilateral trade agreements are proliferating even more rapidly in the region. This is not very desirable, since the region's countries have little negotiating clout individually. They are usually confronted with "non-negotiable blueprints", which they either have to take or leave. It is under the multilateral trading system that non-discriminatory liberalization and strengthened rules are guaranteed. This is one of the reasons, though not the only one, why the Doha Development Agenda must be reinvigorated. If developing countries are to maximize benefits from further trade liberalization, measures to improve market access should be complemented by domestic policy reforms and trade capacity building.

15. Although the medium-term outlook is positive, weak business investment keeps growth in South and Southeast Asian countries below its long-term potential. In South Asia, reforms to liberalize and open economies, coupled with a major investment programme in physical infrastructure, are essential for higher growth. In Southeast Asia, reforms to raise productivity and competitiveness are needed to sustain growth.

16. Participants agreed that investments in the region had to speed up. Countries in the region are advised to improve their institutions, infrastructures and approaches to encourage private investment. Domestic reform programmes should thus place more emphasis on implementing the rule of law, cutting down the bureaucracy and fighting corruption, while continuing to make major investments in infrastructure. This is of foremost importance to create a functioning regional market. Improved infrastructure and lower transaction costs would greatly boost regional and international trade. Presentations during the workshop showed that improved transport and customs administration would reduce trade costs significantly, especially for poorer countries of the region. In this context, further trade liberalization is essential, but it is not sufficient to ensure the availability of a competitive supply from the enterprise sector. Without improving the domestic supply capacity, policy reform would not fully yield the envisaged results.

17. Against this backdrop of medium-term needs and requirements, workshop participants indicated a number of issues that were of *immediate concern*. How to deal with China, which has emerged as a global force after WTO accession, topped the list. China is both a huge market and a global exporter. The smaller economies in the region see their manufacturing bases eroding away in the face of highly competitive products from China, as trade liberalization proceeds. The need to diversify and differentiate their export products and to improve their competitiveness is strongly felt throughout the region. Other issues of immediate concern were the phasing-out of export quotas in the textiles and garment sectors by the end of 2004 and increasing pressures felt by developing country exporters in meeting standards, particularly SPS, in agricultural and food exports. All participants agreed that appropriate capacity building programmes

must be implemented to support the national efforts for improving the competitiveness of their firms, including SMMEs, and the trade performance of their economies as a whole.

II. Strengthening Enterprise Competitiveness

18. SMMEs play a key role in Asia. These firms typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant export earnings. Globalization and trade liberalization have ushered in new opportunities and challenges for them. Workshop participants indicated that national and regional efforts to enhance their competitiveness had to be based on a sound understanding of the nature of the impact of globalization and trade liberalization on them.

19. The concept of SMMEs is based on classification of firms by size: in most cases, by number of employees, value of sales or value of assets. Defined by size, the SMME sector covers a wide array of activities, ranging from a single artisan producing agricultural implements for the village market and an internet café in a small town to a small sophisticated engineering firm selling in overseas markets and a medium-sized automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. SMMEs are indeed a heterogeneous group of firms. Therefore, national SMME development strategies must take into account the different needs of firms (e.g. exporters, potential exporters, micro enterprises, etc.) that make up the SMME sector. One way of identifying priorities is to conduct thorough surveys amongst private sector stakeholders, as was done in Bangladesh (see Box 1).

Box 1. Business Surveys - Bangladesh

The Centre for Policy Dialogue (CPD) and Ministry of Commerce have been conducting a number of different surveys to identify required priority actions for national government and donors.

The *Business Environment Perception Survey* (conducted by CPD since 2001) covers the investment and business environment as perceived by captains of Industry and Commerce in key corporate sectors of the economy. Results of the survey have been analyzed statistically to provide comparative information on export-oriented and non-export enterprises. The findings indicate that there is a perception of greater challenges with regard to *investment* than *trade*. On the other hand, challenges faced by *export* and *non-export* sectors are perceived equally.

Additional surveys have been conducted amongst entrepreneurs to better understand the challenges faced by export-oriented enterprises (below), and to identify trade-related technical assistance (TRTA) needs (CPD, 1999, TRTA Needs Assessment, in the frame of the Integrated Framework initiative).

Survey on Constraints Faced by Bangladesh's Export-Oriented Enterprises

A survey to identify key constraints was carried out as part of the Bangladesh Export Development Project of the Ministry of Commerce in Bangladesh in 2002. The sample consisted of 152 small, medium and large enterprises.

The Survey showed that export finance, international transportation, skilled labour and complicated regulations were perceived as the most serious internal constraints, while trade information, market intelligence and marketing channels were seen as the most serious external constraints. More specifically, the Survey identified for each sector and type of firm (according to size and location): 1) the most desired business services to increase exports; 2) major problems relating to infrastructure facilities; 3) major difficulties with regulatory services; and 4) the limitations of services offered by the public Export Promotion Bureau and Missions Abroad.

Source : Debapriya Bhattacharya and Mustafizur Rahman

20. SMMEs are particularly constrained by a high cost of and limited access to finance, demanding taxation regimes, excessive overvaluation of the exchange rate, cumbersome bureaucratic procedures, scarcity of skilled workers, and a poor state of infrastructure. The removal of these constraints is a daunting task calling for a holistic SMMEs support strategy.

21. The government could facilitate access to finance, e.g. by establishing and supporting specialized SMME financing institutions and schemes (e.g. Small Industry Bank in India; Export Support Fund in Vietnam); providing collateral/ risk management schemes (e.g. Vietnam's Fund for SME Credit Guarantee); grants for SMMEs obtaining ISO 9000 (India); enforcing bankruptcy and secure transaction laws, establishing a commercial court and streamlining procedures for obtaining financial support.

22. Although the circumstances would differ by country, recent evidence suggests that globalization has opened up new export opportunities to a relatively small group of SMMEs. These SMMEs are already competing effectively in overseas markets. A much larger group of SMMEs face new competitive challenges and threats from abroad as a result of globalization. Within this group, SMMEs that are potentially competitive may be able to upgrade their capabilities to enter export markets. Those that are less likely or unable to adapt would be at risk and may eventually not survive without significant improvements in quality, costs and management practices. (The rest of SMMEs that tend to be relatively small service providers would largely be insulated from the effects of globalization, at least for some time).

23. Developing country SMMEs that have learned to help themselves are more competitive and can become successful exporters. Self-initiative shown by exporting SMMEs from developing countries demonstrates that firms that are able to design and implement efficient business strategies (based on competitive advantage and consumer demands, and on sound business planning) and adopt proactive upgrading strategies (i.e. deliberate investments in training, R&D, etc.) will be able to survive in the face of intensifying competition (see Box 2).

Box 2. Pro-Active Firm Level Strategy

Business strategy:

- Know what your consumers want and what your market is
- Be adaptable; think of new products
- Cooperate with other firms (through networks and clusters).

Pro-active upgrading means:

- Systematically acquiring production and product design capability
- Improving metrology, standards, quality and productivity
- Recruiting qualified staff and training
- Making use of technology institutions and other business services
- Actively seeking foreign buyers and marketing agents

Source : Ganeshan Wignaraja and other

24. It is also possible to help a larger number of SMMEs to enhance their competitiveness through effective national support systems. National SMME development strategies need to (a) remove economic distortions created by past government actions discouraging SMME growth and exporting (e.g. providing tax and export incentives, reforming institutions), (b) overcome systems failures which impede collective learning and the creation of new competitive advantages by SMMEs (promoting a wide range of support services for SMEs), and (c) improve the competitiveness of specific industrial clusters. Countries that have

succeeded in developing successful SMME exports have demonstrated that SMME development strategies have to be consistently implemented over the long term (see para. 54-55).

Agribusiness

25. Agribusiness sector is important in the developing Asia context. The sector is characterized by SMMEs that have high backward linkages with the rest of the economy, contribute particularly towards poverty reduction, job creation and improved health and nutrition. The sector can provide a domestic basis for scaling up of enterprises to the point where they become capable of export. Stability of the agribusiness sector requires diversity of both products and markets and primary attention to sustainability of resources. Agribusiness sectors in the countries of the region are at different stages of development. Experiences and investment from more advanced countries such as Thailand can, and are already bringing tangible improvements to the productivity and upgrading of agricultural firms in less-advanced countries of the region.

26. A strong consensus emerged on the important role industry associations can play in helping firms to deal with constraints such as SPS, developing vertical and horizontal linkages and upgrading along the value chain. Hence, agribusiness associations in specific sub-sectors (such as the Thai Frozen Food Association and the Vietnam Association of Seafood Exporters and Producers, cf. Box 3) are of central importance in dealing with export-related concerns of SMMEs, which initially justifies both government and development partner support. While individual business interests might prevail over wider industry interests during early stages, the ability to plan strategically and contribute to sector development emerges over time. It is also important to accept at the outset that financial support for associations does not mean that the associations will always agree with the government or the development partner.

Box 3. Vietnam Association of Seafood Exporters and Producers (VASEP)

VASEP was established in 1998 and has 176 members. The association represents and protects the rights and interests of the seafood industry of Vietnam.

It provides its members various benefits, including:

- Supply of information regarding export markets and market price (e.g. through weekly and monthly Seafood Trade Newsletters; reports posted on their website, etc.)
- Strategy to deal with non-tariff barriers: VASEP calls for tighter quality control and tracking of suppliers; lobbies government for higher investment in testing facilities; provides information regarding SPS requirements, and represents the industry during disputes.
- Advice for business management
- Participation in international seafood events (e.g. trade fairs)

Source : Nguyen Huu Dzung; www.vasep.org

27. Participants also recognized the practical difficulty of starting up an agribusiness enterprise targeting an international export market from the beginning. In many cases, the domestic and regional markets tend to provide a stepping stone from which SMMEs can learn important lessons concerning product quality, timely deliveries and managing risk involved in international business. Where there is an inadequate domestic market, or the products are only attractive for export, considerable effort needs to be put into strategic positioning and reliable production so as to reduce risk of failure.

28. While the advance of trade liberalization brings down tariffs and quantitative restrictions, new barriers to trade, such as the TBT and SPS, require disproportionate efforts from developing countries and are perceived to be unequally and sometimes unfairly applied by developed countries. Indeed, many participants shared the view that market access of developing-country agribusiness products is increasingly hampered by TBT (e.g. regulations, product standards, testing and certification procedures) and SPS (e.g. food safety and animal and plant health standards). Moreover, the change in these non-tariff barriers can cause considerable fluctuations in returns from investment in agribusiness.

29. Many poor countries confront a multitude of challenges in dealing with TBT and SPS requirements: they are unable to keep up with the “scientific” basis upon which these standards originate, they are unable to invest in the physical infrastructure to meet quality control, assurance and certification requirements, they are unable to invest in organizational, institutional and human resource development requirements in time with the changes, and at times, they are unable to counteract new TBT and SPS measures with equal force, due to the unbalanced power relationships between respective countries, even when they may have evidence that TBT and SPS are used as protectionist instruments. This issue requires joint action from developing countries in order to develop capacities to improve compliancy with TBT and SPS.

30. What is critical in this respect is that all need to start at a very early stage to ensure high standards of traceability and hazard control throughout the entire value chain. As this requirement cannot be added later, participants agreed that a significant proportion of trade-related technical assistance in the agribusiness sector has to be devoted to improving capacities in satisfying TBT and SPS. Sometimes joint ventures with foreign firms and business relationships with buyers—such as supermarkets—can help meet quality and safety standards (e.g. Thai firms engaging in joint-ventures with Japanese buyers have increased their ability to meet stringent quality requirements of the Japanese market, yet have also become dependent on their partners for marketing and distribution).

Light Manufacturing

31. In a significant number of South and Southeast Asian economies, the garment sector constitutes the majority of light manufacturing and more than 50% of exports. Garments account for 50% of exports in Laos, 52% in Sri Lanka, 85% in Cambodia, 75% in Bangladesh and 67% in Pakistan. Similarly, other light manufactures such as footwear and electronic equipment represent an important share of exports in Thailand and Vietnam.

32. Globalization is progressing at a speed. Unfortunately, governments and firms have been slow in responding to upcoming changes such as the phasing out of quotas as per the Agreement on Textiles and Clothing (ATC) on 1 January 2005. The ATC had allowed a 10-year transitional period, for the elimination of quotas that were carried over, when the Multi-fiber Arrangements (MFA) expired in 1994. Countries have been scrambling to adjust to an era of more intensive global competition in textiles and clothing trade by seeking duty free access to large OECD markets through bilateral trade agreements. Some have been successful and some are still trying. Diverse interests have prevented the formation of a collective approach within the region.

33. The prospects of intensive competition have also given the stakeholders an impetus to assess the weaknesses and strengths of their garment industries. Countries having diversified product ranges, including high-end products and markets (e.g. branded intimate apparel in Sri Lanka), and countries that have invested in backward linkages (e.g. investments in selected inputs in Bangladesh) and started developing forward linkages are in a better position. Strategies that would support diversification, differentiation and specialization within economies, sectors and at the level of firms appear viable and need to be given consideration in designing trade-related technical assistance. Participants agreed on the

usefulness of the *value chain approach* to identify bottlenecks and opportunities for designing strategies aimed at strengthening the competitive edge of Asian firms.

34. At the national level, the sense of urgency has encouraged governments and the private sector to start joining forces. Public-private sector dialogue with high level leadership (e.g. involving Prime Ministers) and joint committees may convene as frequently as every month. Private sector stakeholders expect the sector- or issue-specific public-private sector joint committees to undertake tasks ranging from policy/strategy design and implementation to monitoring and review.

Box 4. Garment firms expect public-private joint committees to contribute to:

- Preparation of a medium-term development strategy
- Improvement of the business climate by decreasing cost of utilities and transaction costs, and by facilitating better labour relations
- Human resource development in the sector
- Stepped-up benchmarking initiatives at the domestic, regional and international levels
- Support for forward integration, marketing, brand-building and networking

35. Purchasers' codes of conduct and business practices in the textile and garment sectors have come to play a greater role in purchase decisions made by OECD-based buyers. Requirements may be limited to worker rights undersigned internationally and environment-friendly process requirements, but they may also include among other things stringent and detailed factory standards regarding the technical specifications for storage and social spaces, and audits to confirm compliance. Adherence to corporate social responsibility standards and codes requested are a double-edged sword. On the one hand, they may burden the firms disproportionately, as each buyer may require different standards; on the other hand, they can lead to improvements in the industries, add to competitiveness and ethical sourcing and buying, and respond to a less price-elastic, niche-type demand.

36. Development partners place great emphasis on poverty reduction and achievement of Millennium Development Goals, especially in the smaller South and Southeast Asian economies. Poverty reduction strategies (PRS), prepared and implemented with strong support of development partners, usually include measures that will improve human resource development (through primary education and health), physical infrastructure (primarily clean water and roads) and agriculture sector development (mainly extension services and R&D). Increasingly, yet still inadequately, PRS acknowledge the importance of international trade and developing a strong private sector as an integral part of poverty reduction. Although PRS have started yielding some benefits, expected outcomes will only be achieved in the long term.

37. There is common understanding that poverty can be reduced and eliminated through stable private sector jobs. Development partners encourage and financially support the development of a plethora of policies and strategies that relate to the private sector in one way or another: private sector development strategy, SMME development strategy, trade and investment policies and strategies, export strategy, and so on. Yet, the responsibility for implementing these various national policies/strategies and programmes are disbursed throughout the public sector institutions, where both capacities and authority to coordinate are weak.

38. A closer look at the measures constituting SMME development strategies and trade capacity building strategies, specifically the building up of supply-side capacities, suggests that there are significant overlaps between the two. For instance, it is difficult to discern whether capacity building in satisfying TBT and

SPS in agribusiness by strengthening laboratory, technical and certification capacities, or developing human resources in supply chain management in the garment sector, or strengthening industry-specific business associations should be handled as SMME development or trade capacity building. A way forward would be to mainstream SMME and trade capacity development in the overall PRS, thus giving greater importance to economic growth, employment generation and trade development in a coherent national development and poverty reduction strategy.

III. Strengthening the Support Structures

39. A look at trade and investment support services, as they currently exist in many countries in Asia shows that these services are almost exclusively delivered by public sector organizations. Institutions available include SMME Agencies, Trade Promotion Organizations and Investment Promotion Agencies. SMME Agencies generally target the domestic business sector and may be delivering a wide range of services in management, technology and human resource development, trade and investment support services, and sometimes, concessionary finance. Trade Promotion Organizations usually devote their attention to provision of trade information and organization of market development activities for domestic exporters and SMMEs with potential to export. In most cases, Investment Promotion Agencies aim to develop the country as an investment destination and service foreign direct investors. There is usually very little or no coordination between these institutions.

40. Most public sector service organizations are at the lowest levels of the public bureaucracy, underfunded, aid reliant and/or require on-going public subsidies and are resourced by generalists. Services available are largely of an awareness-building type, and are either too narrow or too general, thereby, lacking the potential to have much of an impact on the competitiveness of firms. Largely as a consequence, the business community has a low opinion of these public sector services. On the other hand, the business community does little to influence how these public sector services are designed and delivered and does even less to improve the quality of services delivered by the private sector's own organizations, such as the chambers of commerce or industry associations.

Improving the Efficiency of SMME Service Provision

41. There has been a gradual and global shift in the paradigm on how SMMEs should be supported. Initial efforts, which date back to the early 1950's in the region and worldwide, perceived the SMME sector through paternalistic lens and identified it as *an entity to be protected*. Lessons learned, and advances especially, in biotechnology, information, communication and materials technologies and efforts to liberalize, shifted the paradigm to one of *SMME promotion*, starting in the 1980's. The result was an enhanced focus on specific sub-sectors and activities; with considerably larger amounts of assistance and subsidies going to high-technology oriented manufacturing and service firms and entrepreneurship development. With the advent of globalization and trade liberalization, the paradigm shifted again, and is now, one of *facilitation, where a holistic approach to competitiveness takes priority*. Indian experiences presented at the workshop vividly illustrated how the institutional SMME support infrastructure in the country evolved as the paradigm shifted.

Box 5. Facilitation of SMMEs - provision of services to SMMEs needs to be:*Demand-driven*

- Customer has to pay, at least partially, so that demand can be verified objectively;
- Consultation with the private sector is encouraged in design of services;
- Public institutions should include private sector members on their executive boards or set up private sector based advisory bodies, etc.

Differentiated and customized, making use of

- Sub-sector approaches;
- Value/supply chain methodologies;
- Cluster and network development;
- Professional market research findings on the amount and nature of demand.

Delivered in a business-like manner

- Institutions delivering services should be managed according to business principles rather than administered;
- Private service design and delivery are promoted with public sector subsidies.

Sustainable

- Institutional and operational sustainability linked with good management practices in service organization;
- Financial sustainability linked with demand for services, commitment of central and local governments to private sector development and development partner priorities.

42. Enhancing cohesion within the network of institutions may increase efficiency of SMME service provision. A common action plan aiming to improve competitiveness of SMMEs, and identify opportunities to specialize, may be the instrument around which public institutions realign their objectives. Furthermore, inclusion of private sector directors in the executive boards of these institutions and appointment of a network coordinator that would organize “first-stop shop services” may be helpful. These public sector networks should also be encouraged and enabled to cooperate and coordinate with private networks of service suppliers and business associations.

43. Effective SMME service provision calls for partnerships to start at strategy design, to extend into service provision and review of progress. Cluster development is an SMME development modality that takes the local governance framework as its basis and demonstrates the importance of partnerships and linkages from the design stage onwards. A cluster is a system of sectorally and geographically concentrated firms, SMME service providers, local public institutions and industry associations, and raw materials and machinery suppliers. Stakeholders in the cluster are energized to set up partnerships to achieve an articulated vision and interventions span the macro (policy), meso (intermediary) and micro (firm) levels.

Box 6. Cluster Development in India

India has over 400 modern SME clusters and about 2,000 rural and artisan-based clusters. It is estimated that these clusters contribute 60% of the manufactured exports and have a significantly high share in employment generation.

Both private and public sector institutions at the Central as well as the State levels are increasingly undertaking cluster development initiatives, with the support of the UNIDO Cluster Development Programme (CDP). UNIDO/CDP has been engaged in the implementation of the cluster support initiative in selected pilot clusters as well as assistance to central and local institutions in their programmes of cluster modernization and restructuring. Policy-level support is provided by a Focal Point Office based in New Delhi. It seeks to disseminate the principles of cluster development through awareness building, technical support in policy formulation, training at the implementation level and assistance to programme monitoring and evaluation.

The Development Commissioner in the Ministry of Small Scale Industries supports and monitors the UNIDO/CPD and coordinates with a great number of partner institutions (e.g. Ministry of Textiles, Small Industries Development Bank of India; National Small Industries Corporation Ltd. etc.).

Source : www.smallindustryindia.com (SIDO)*; www.unido.org

Strengthening Private Sector Associations

44. In the past, many poor countries and regions hardly considered the private sector as a real partner in trade and SMME development processes. While, top-down, control oriented attitudes by governments reduced the scope for private sector participation in policy formulation and implementation, non-constructive criticisms of governments by the private sector worked to strengthen confrontational attitudes and mutual mistrust. This situation is rapidly changing, as demonstrated by the emerging public-private dialogue in agribusiness and garment sectors.

45. Private sector associations, specifically those that are industry-based, are the channels through which the private sector voices its needs and concerns to the Government and lobby for its support, facilitate networking and partnerships between members (firms) and with similar institutions abroad and provide a number of other services to members.

Box 7. Business associations can contribute to SMME development by facilitating:

- Lobbying and guiding the government (and development partners) in strategic policies and interventions, such as R&D, infrastructure, market access issues, non-tariff barriers (NTBs) and government regulation;
- Exchanging information and mutual learning about market standards, operation of the market, suppliers...
- Opportunities for joint action (e.g. establishment of quality control systems; joint action in case of anti-dumping) and scaling-up of enterprises for export;
- A channel for training in business skills and other education;
- Improved access to finance.

46. Despite their important role in facilitating private sector participation in policy making and development processes, private sector associations in developing countries have problems related to representation of SMMEs, capacity and funding. Despite their numbers in the economy, and also within

the membership of associations, smaller firms do not seem to have the requisite weight and voice in private sector associations.

47. Due to lack of funding, associations usually operate without qualified and professional management staff and are unable to benefit from specialist inputs and research, upon which they should base their advocacy efforts. Lack of funding and “free riding” problems also constrain associations in developing and delivering appropriate information, facilitation, and networking services to their membership. Their weaknesses work in almost a vicious circle eroding the expectations of members, in turn, resulting in further funding, representation and capacity problems.

48. Development partners, coming from countries where business associations are organized with completely voluntary membership, usually discourage business associations from seeking government financial support for capacity building, even on project basis. However, there are also a significant number of OECD countries, where voluntary and statutory business associations have demonstrated the ability of safeguarding their independence and positions, despite large amounts of ad-hoc (to voluntary associations) and regular (statutory associations) public transfers.

49. Lack of effective mechanisms for structured public-private dialogue further reduces the motivation of private sector stakeholders, including associations, in investing in and learning to help themselves. There is growing consensus that public-private dialogue can help to (a) improve the ownership and quality of policy making in general and in SMME/trade/investment development in particular, (b) consolidate the democratic legitimacy of governments, (c) foster conducive policy environment and increase national cohesion, (d) provide an instrument for interest mediation, and (e) improve service provisioning. Workshop participants agreed that there should be more opportunities to act as partners in structured, public-private dialogue and capacity-building programmes to address their needs.

50. A significant gap in most of existing institutional SMME support structures in Asia is the lack of an institution, placed at a sufficiently high-level and mandated to advocate “within” the public sector for the policy reform agenda and to coordinate/drive through its implementation. In most OECD countries, as well as in some non-OECD countries, these organizations do exist, provide secretariat services for public-private dialogue bodies and work under their guidance.

Box 8. Public Private Dialogue - Mauritius' Joint Economic Council

In Mauritius, the Joint Economic Council (JEC), established in 1970, operates as the coordinating body of the nine major multi-sectoral institutions and industry associations in Mauritius (Chamber of Commerce; Chamber of Agriculture; Employers' Federation; Sugar Producers' Association; Export Processing Zone Association; Bankers' Association; Insurers' Association; Hotels and Restaurants Association).

The JEC is managed by a Council of 18 associates (2 per member), a Chairman who rotates every two years and a full-time Director. The structure and functioning of JEC enable an enhanced coordination amongst the different institutions while permitting to build an institutional expertise for each represented industry. Hence, sectoral issues are dealt with the relevant industry association, while crosscutting issues such as national budget, wage negotiations, international trade negotiations are dealt with all the JEC members. The dialogue takes place in a structured manner as well as on an ad hoc basis. The JEC is fully funded by its members.

Consultations with the private sector

Formal

1. Government/JEC meetings: chaired by the Prime Minister and attended by senior Ministers; held usually twice a year; on broad economic policies.
2. Tripartite wage negotiations
3. Private sector proposals for the National Budget: with Minister of Finance; once a year.
4. Representation in a number of joint Government/Private Sector committees: e.g. the National Negotiating Committee on Post-Lomé discussions; the WTO Standing Committee (the private sector was represented in all the WTO Ministerial Conferences); the Regional Cooperation Council.

Informal

1. Regular meetings between the relevant private sector organizations and relevant Ministries on sectoral issues
2. Joint promotional activities (conducted by the Government abroad).
3. Ad hoc Committees

Source : Geert Laporte; www.jec-mauritius.org

Strengthening Investment Support Services

51. Almost all South and Southeast Asian countries have investment promotion agencies (IPAs) that lend service mostly to foreign investors. With advances in globalization and in view of the incentives provided to SMMEs in OECD countries for internationalization of operations, a number of IPAs in developing countries have also started to provide investment incentives to domestic SMMEs.

52. Key challenges facing IPAs involve a number of issues. Topping the agenda is the need to understand the costs and benefits of incentives in promoting investments. Policy impact assessments, although mentioned frequently, are in short supply. A second challenge relates to the ways and means of facilitating knowledge and technology transfer from foreign-invested to local firms. This would be a matter of enhancing the latter's absorptive capacity, while providing an environment conducive for the former to transfer technologies, for example, by strengthening the protection of intellectual property rights. A further challenge is to identify and implement measures to insert domestic SMMEs into global MNE supply chains

to ensure that wider benefits accrue to the host economy. This is also a matter of improving SMME competitiveness with appropriate development strategies and capacity building, as already discussed above.

53. Finally, SMMEs, business associations, trade and investment service providers - public and private – should make more use of the services provided by a large number of regional and international organizations to establish partnerships and strengthen networking. In the region, secretariats of APEC, ASEAN and SAARC operate Internet-based facilitation. Internationally, organizations such as WASME and INSME help to facilitate linkages, networking and information sharing among support institutions and SMMEs. Of the many UN organizations, UNIDO, ILO, ITC provide valuable information services and networking and partnership opportunities for SMMEs, business associations and service providers. Progress in information and communication technologies has eased and lowered the costs of on-line information sharing, on-line partnerships and networking at local, national, regional and international levels.

IV. Fostering Competitiveness – the Policy Response

54. The focus of SMME policies in the region has varied in line with national priorities. Some governments in the region have had dedicated SMME development policies for more than two decades. As discussed in the previous section, the evolution of support measures and institutional structures has followed the shift in the SMME development paradigm. This means that initial efforts focused on provision of free, public services, concessionary loans and infrastructure to SMMEs, without due regard to the creation of an enabling domestic investment environment. These governments have recently amended their approaches and ways of working. For instance, a larger number of amended SMME policies now reflect an emphasis on lowering administrative burdens and costs imposed on SMMEs and measures to fight corruption, institutionalize public-private dialogue (e.g. SME Development Council chaired by Prime Minister) and involve them in policy formulation and review of implementation. These SMME policies, amended with lessons from experience, also foresee enhanced private sector delivery of services, with the help of public subsidies when needed.

55. Some governments in the region have only recently issued SMME policies and others are still developing an SMME policy (e.g. Laos). In the recently issued and work-in-progress SMME policies of the region, the establishment of public-private dialogue mechanism, one type or another, has been observed. The importance of such mandate adopted for public-private dialogue mechanism often depends on the strength of the private sector in the country, its representation capabilities through associations and the need for the government to enhance political credibility prior to taking policy actions. Countries without prior experience with public SMME support structures, at least in some cases, seem willing to try out past models, based on the impressive results achieved in OECD countries in the region and elsewhere. In other cases, the extent of SMME support services offered by governments in the region depends on availability of own resources and contributions from development partners.

Box 9. SMME Policies in Thailand

Thailand's SMME strategy for 2002-6 aims to (i) enhance the efficiency of SMMEs and focus on restructuring the manufacturing, service and trading sectors; (ii) enable SMEs to support the micro- and grass roots enterprises and (iii) foster the emergence of new potential entrepreneurs.

A number of *measurable targets* have been defined: 1) increase SMME share of total GDP to 50% by 2006; 2) increase employment growth in SMMEs to 180,000 people annually; 3) enhance SMME productivity growth rate to 2,5% annually; 4) encourage SMMEs to register formally, having min. 72% of total SMMEs registered by 2006; 5) create 50,000 new entrepreneurs annually; 6) focus on: Food Processing, Automobile & Parts, Fashion, Tourism, Software & IT sectors.

To attain the set objectives, actions have been undertaken in a number of areas:

1. **Enhancing the business environment:** e.g. through an SME Act, establishment of an SME Promotion Office, a First Start Service Centre; incentives for new entrepreneurs, etc.;

2. **Improving education and training:** through the "Manufacturing Development to Improve Competitiveness Programme"; delivery of technical training and technology advisory services; development of networks with R&D institutions; provision of management advisory and consultation services.

3. **Facilitating capital formation and financing:** through an SME Fund; establishment of SME Bank; special loans and credits extended by commercial banks; provision of credit guarantees; venture capital funds; etc.

4. **Improving access to innovation:** by supporting R&D programmes targeted at SMMEs.

5. **Enhancing public private partnerships:** by using private consultants in most of the government projects including research, training, and coaching; using private networks (e.g. Chamber of Commerce, Federation of Industry, Academic Institutes) in publicizing the government policies and activities; facilitating business incubation in colleges and universities throughout the country; Joint Public-Private Sector Consultative Committee headed by the Prime Minister.

Major SMME programmes:

1. **Invigorating Thai Business Programme-** provides organizational diagnosis and business counselling to SMEs facing difficulties. The project was implemented countrywide; 2500 companies participated.

2. **One Tambol One Product ("One village, one product"):** the Government has allocated a 1 million baht revolving fund to each of 45,000 villages across the country to promote entrepreneurship. Local villagers identify the businesses and products to produce as well as the products that are to become "champion products". OTOP products are eligible for support from the government in various areas e.g. business consultancy, design and packaging, marketing and distribution, technical assistance and networking. The main marketing channel for OTOP products are shops established by Thai nationals living abroad.

3. **New Entrepreneur Creation (NEC):** aims to promote the systematic building of new entrepreneurs through: opportunity building, capability building, and enabler building. More than 1,000 new enterprises have been created and 5,000 new jobs have been generated in 2002-2003.

Source : Pramode Vidtayasuk

56. Bilateral and multilateral development partners have been very active in supporting SMME development in the region with interventions dating back over three decades. However, the perception is that policy advice and technical assistance frequently fall short on concrete results, in many cases because of little or no consultation with the SMME sector itself. For instance, when there is no mandate to have an input into policy reforms, policy advice is not implemented. And technical assistance programmes have not been sustainable due to lack of financial resources for institution building and delivering services for SMMEs. At times, development partners provide conflicting policy advice and/or non-complementary technical assistance without consultation and adequate local ownership. These past experiences indicate that ownership, sustainability and coordination issues have to be addressed at the earliest stage possible in development assistance.

57. The more recent trend in development assistance in the region is encouraging. Like-minded development partners have started pooling their resources to increase impact, avoid overlaps and conflicting approaches and to lower administrative costs on their side. Resource pooling also cuts down on transaction costs for developing country partners in terms of human resources, administration and reporting requirements. Some development partners have been focusing on private sector association building and working directly with the private sector. However, workshop participants indicated that there is still an overhang of public sector-oriented technical assistance and that innovative ways of supporting the private sector and the civil society should be encouraged.

Box 10. Donor Support to the Private Sector: Mekong Private Sector Development Facility

The Mekong Private Sector Development Facility (MPDF) is a multi-donor programme of ADB, Australia, Canada, Finland, France, IFC, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, and the UK, managed by the IFC. It promotes private sector development in Cambodia, Vietnam, and Lao PDR, by providing technical assistance to local SMEs (for obtaining project finance), intermediary organizations that deliver essential services to SMEs and supporting public-private policy dialogue mechanisms.

MPDF has for example recently launched the *Business Associations Support Initiative* (BASI) in Vietnam. This locally-driven project aims to improve the capacity of business associations via management training, assisting with strategic and action plans, and promoting linkages with counterpart organizations in other countries. MPDF has selected six partner business associations in Vietnam to be supported on a pilot basis, focusing on those that have a dynamic leadership and members that come primarily from the private sector.

Source : Lili Sisombat; www.mpdf.org

58. Workshop participants agreed that governments, the private sector and development partners have to adopt new approaches and invent new ways of working together to foster competitiveness. Trade-related technical assistance and capacity building programmes must address the capacity gaps of all local stakeholders.

RECOMMENDATIONS

1. Workshop participants have collectively decided to provide the following summary recommendations for governments, the private sector and the development partners:

For Governments:

- Implement the rule of law, cut down on bureaucracy, invest in infrastructure and fight corruption to improve the domestic investment environment and facilitate trade.
- Develop and consistently implement a comprehensive national SME strategy:
 - Analyze need for (product/market) specialization, differentiation and diversification, at national and sectoral level;
 - Pinpoint SMEs' specific constraints (per size/ sector) and identify priority actions (e.g. support competitive industrial clusters; facilitate access to finance);
 - Assign responsibilities for action and set measurable targets;
 - Establish or reinforce a coordinating body;
 - Conduct regular assessments and adapt when necessary;
 - Make sure the overall SME strategy is coherent and linked with national export, trade, investment and poverty reduction strategies.
- Work with the private sector through public-private dialogue in strategy design, implementation, monitoring and review of results achieved:
- Develop institutionalized dialogue mechanisms (e.g. SME Development Council; SME Committees).
- Transform existing SMME support organizations to be demand-driven, business-like and sustainable. Develop differentiated and customized services to enhance the competitiveness of SMMEs.
- Review the impact of investment incentives.

For The Private Sector

- Invest in your business: e.g.:
 - Enhance strategic positioning through a better understanding of your competitive advantage and market opportunities/consumer demands;
 - Upgrade production, business and financial management capabilities;
 - Improve quality and comply with market standards;
 - Improve marketing and business development capability.

- Cooperate with other firms: organize yourself and invest more of own resources in industry associations and clusters, in order to:
 - Advocate reforms and participate in relevant policy/strategy design, management, monitoring and review, through public-private dialogue.
 - Overcome challenges related to integrating national/global value chains (obtaining market information; help with compliance of SPS/TBT; joint purchasing and marketing, etc.)

For Development Partners

- Trade capacity building and enhanced market access have to go hand in hand.
- Disseminate best practices on SME competitiveness and adjustment in OECD countries.
- Invest more in capacity building: build up internal capacities to make technical assistance's results sustainable.
- Enhance coordination among bilateral and multilateral partners and allow sufficient time to consult with domestic stakeholders, especially with SMMEs.
- Already, like-minded donors pool resources, and allow national execution of programmes: continue and increase efforts to match national priorities, and improve efficiency and effectiveness of implementation.
- Support and help strengthen public-private dialogue processes and institutions; (national, regional, international) industry associations and networks; and SME support services.

NEXT STEPS FOR THE OECD

1. The outcome of the Workshop will serve as an important input into preparations for the Istanbul Ministerial Conference on "Promoting Entrepreneurship and Innovative SMEs in a Global Economy" in June 2004. The workshop indicated that the OECD could make a valuable contribution by taking forward work in the following four broad areas:

I. Policy analysis

- Standards and regulations that have an important influence on the export performance of the agribusiness sector, including compliance with Sanitary and Phyto-Sanitary Standards (SPS) and Technical Barriers to Trade (TBT).
- Strategic responses by governments, producers and industry associations to the emergence of quota-free trade in textiles and clothing in 2005.
- The impact of globalization and trade liberalization on SMMEs.

II. Good practices

- Exchange of experiences among donors in mainstreaming and implementing trade capacity building activities, particularly activities that support private sector development/ meso-level institutions.

- Support for dialogue in developing countries within the public sector and between the public and private sectors, such as through further regional workshops.

III. Monitoring of Trade Capacity Building activities

- Ensure that the WTO/OECD database continues to evolve as an effective tool for co-ordination and dialogue with developing-country partners.
- Create a dedicated OECD website on trade capacity building and private sector development in order to allow for a better sharing of information on common challenges, good practices and policy research.

IV. Effectiveness of trade capacity building

- Prepare a desk study synthesizing available evaluations on trade capacity building to identify common themes and challenges ahead.
- Develop an evaluation framework with quantitative and qualitative indicators with a view to facilitating self assessments and learning processes in developing countries.