Support Systems for SMEs in Developing Countries

- A Review -

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1 Introduction

Virtually all countries, at whatever stage of economic development, recognise the importance of SMEs and the need to support their development. In some cases the enthusiasm for SMEs becomes excessive, giving enterprises privileges which may distort market forces to the point that the SMEs fail to achieve the very objectives for which the sector was supported in the first place. Over zealousness for small enterprises making them sole producers of certain items (as in the past in countries such as in India) and providing subsidised finance at substantially less than commercial rates, only contributes in the end to the maintenance of weak, uncompetitive SMEs. Firms within such a cosseted SME sector will inevitably become inefficient and will not create employment at low levels of capital investment - considered to be one of the major comparative advantages of small enterprises in countries where capital is scarce and labour relatively abundant.

There are still development economists who believe that, if policies are set correctly to allow a free market and competition to flourish, good entrepreneurs who manage their small businesses efficiently will be competitive and will not have need for any special help or support programme. It was accepted gradually in the 1980's that government interventionist policies to help SMEs through subsidies, protection from imports, cheap premises on industrial estates and special preference for SME in government procurement were failing to produce a strong competitive SME sector. Most of these interventionist assistance measures involved a constraining bureaucratic regulatory framework. As developing countries were influenced towards structural adjustment and policy reform based on liberalisation, deregulation and removal of constraints to develop trade and technology flows, there were expectations that new entrepreneurial initiatives would be released and SME would grow and flourish. The results were generally disappointing, especially in African countries. Most SMEs were unable to exploit the increased market opportunities because of low productivity, incapacity to face competition from imports or in export markets, constraints to adapt new technologies combined with a lack of (access to) finance to introduce innovations.

A favourable policy environment and a less restrictive regulatory framework may help SMEs in the long run to compete in the market and may, in some cases, ease access to finance, but there remain imperfections in the working of free markets which put SMEs at a distinct disadvantage. SMEs typically lack access to new technologies and to improved management techniques. They also lack the financial records and collateral to be able to convince financial institutions to lend to them. Transactional costs for managing loans to SMEs continue to be too high to be profitable for banks to engage in such loans.

Studies of SMEs and their problems have concluded that they suffer from similar weaknesses in developing countries, though to a greater extent, as they do in industrialised countries. The entrepreneurs who own and manage small businesses
typically lack management skills, are forced through lack of capital - and perhaps in part through ignorance of technological advances - to use obsolete and less efficient equipment, resulting both in lower productivity and poorer product quality and do not have ready access to new markets for their output.

The recognition of SME difficulties and weaknesses has led in most countries to the creation and continuous expansion of special institutions targeted at providing assistance to small enterprises to remedy their deficiencies. There have been variations in the form of institutions set up to cater for SMEs, depending often on the advice of donor agencies but also sometimes on the political and economic development of the country concerned.

For well over three decades, both multi-lateral and bilateral donor agencies have supported small enterprise development but have often approached this aid with differing objectives or objectives which have varied over time. Agencies have been drawn to helping small enterprises out of social motives after disillusionment in the “trickle-down” theory. They believed aid for small enterprises can help to alleviate poverty and improve distribution of income. Later on, most bilateral and multilateral donors, saw this also as a way of stimulating the private sector, seeing in small enterprise development a balance to large-scale public investments and government control of the economy. Donor supported projects were really aiming to promote indigenous entrepreneurship to enable the local population to contribute to and have a greater share in the benefits resulting from the economic development of their country.

Although the objectives may have somewhat differed, all programmes were justified by arguing that small enterprises generated more employment for a given investment of scarce capital. Some more socially oriented multilateral agencies and bilateral donors tried to use small enterprise programmes to make better use of available local skills and materials and to train the rising labour force. Donors also looked to small enterprises as a way of dispersing economic development and of raising the standard of living of the rural sectors of the population. Sometimes donors saw the drive for assisting small enterprise development as a way of catering for rural markets and providing suitable cheap products for low income consumers. This emphasis on rural small enterprise development was often seen as a way to promote more linkages with agriculture and rural development in general.

A review of these different approaches (which in many cases can still be valid) does not lead one to conclude that such different objectives made the programmes implemented more effective. But they have had an important influence on the counterparts sought in the recipient country, the institutional channels employed, the type of projects supported and the target group of beneficiaries.
2 Initial Support Efforts for SME Development

2.1 An overview of past approaches

The earliest efforts of the UN agencies to assist SME development involved the sending out of individual experts in the late 1950's and early 1960’s to help governments work out programmes for the sector. A major advance in donor assistance came, when in 1958 the Ford Foundation made a five-year grant to the Stanford Research Institute to analyze programmes and policies that would be suitable in Latin America and Asian countries for promoting small enterprise development. The major Stanford recommendation was the adoption of the so-called “Indian model” - the recommended government programme for supporting small enterprise development in India.

It may be argued that the reason why the “Indian model” was later followed by several donors and governments in proposing small enterprise support programmes was because no suitable other institutional arrangement or programme prototype existed in developed countries which could be copied. In fact, developed countries have often tried to avoid the creation of large comprehensive national public institutions and most government assistance has been channelled through private sector groups, business associations, consultants, university or research institutions. The role of government has been seen more as a facilitator or provider of resources rather than implementing and offering services directly, although information services have been offered by public agencies and sometimes through ministries.

In the 1950’s and 1960’s in India, publicly supported promotion of small enterprises fitted the ideological thinking of government of the time. Government direction of the economy was considered the major force promoting industrial development. The “Indian model” primarily concentrated on the creation of special public institutions and directed programmes for assisting the small enterprise sector. The government offered assistance in all fields and directly implemented the programmes - in the identification of opportunities for small enterprise development, in the provision of factory space on industrial estates, in direct financial assistance and in obtaining government orders as well as advice and training for small enterprises. All these services and inputs were to be offered on a subsidised basis (usually given free), since the small enterprise sector was regarded as needing special help to overcome its weaknesses. The Indian approach was that small enterprises could not afford to pay for finance at the same rate as the large enterprises could and therefore needed concessional interest rates. Factory space on industrial estates was to be offered at below the market rental levels and large public enterprises and the government were to be required to buy the output of small enterprises even if their prices were higher than other sources. In the final analysis the Indian assistance programme for small enterprise development actually reserved hundreds of items for small enterprise manufacture only, and mandated state-owned banks, which was the entire commercial banking system, to ensure that
a fixed percentage of their loans went to small-scale borrowers. This whole programme required a large country-wide network of small industry service institutes and by the 1980’s well over 3,000 professional extension workers were engaged in helping small enterprises overcome their technical, management and marketing problems.

Opinions differ as to the success of the Indian programme in achieving its objectives. There is no doubt that the small enterprise sector in that country is now large and powerful and employs millions of persons producing an impressive variety of products, many of which would in other countries be expected to be manufactured on a larger scale.

On the other hand, there have been Indian economists who have argued that over the years the concessional assistance given to this sector and government policies in restricting other sections of the economy in favour of SME have reduced the competitiveness of industry as a whole and have had adverse effects on the full economic utilisation of some large-scale investments. By the late 1980’s there was evidence that the programme was constraining the growth of many enterprises that preferred to stay small rather than lose their privileged status. Some aspects of the programme were reexamined and the definition of small industry was raised to include a larger section of the economy and so encourage growth of existing SMEs. Some other features of the programme including the reservation of certain products have also been amended. The list has been reduced and is gradually being eliminated altogether. Interest rates for loans to SME have been raised and efforts have been made in recent years to encourage the private sector organisations to participate in helping SMEs.

Of the UN Agencies, ILO and UNIDO were among the first ones to promote SME development. ILO’s interest in assisting small enterprise development stemmed from its desire to promote employment and to foster artisanal and craft activities, and its early efforts to assist in small enterprise development laid heavy emphasis on training. Taking the model of the Small Industry Service Institutes in India in the early 1960’s, ILO, with UNDP financing, developed projects to create similar institutions in Egypt, Sri Lanka, Singapore, and Thailand. The model at this period was similar in all cases: a public institution staffed by government employees, attempting to offer advisory and training services. These institutions set up workshops, in some cases testing centres, ostensibly to help small-scale industries such as in the areas of textile, ceramic, foundry, metalworking, wood-working and food industries. These common service facilities were amply equipped, often with equipment beyond what could conceivably be at the disposal of small-scale entrepreneurs in the country and were to train individual artisans and small-scale entrepreneurs to improve operations.

Beset by problems of finding the right staff and by a reluctance of governments to

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1 Sandesara (1982) and Kashyap (1986) are among economists who published crucial reviews of the Indian Small Industries programme.
Beset by problems of finding the right staff and by a reluctance of governments to provide adequate budgets, these institutions generally failed to continue operations in the form conceived after the end of the UN financed projects. By the late 1970’s these institutions had either closed down altogether or were converted to institutions providing limited range of services for industry as a whole (as in Egypt and Thailand for instance).

UNIDO, which came into existence in 1967, continued and expanded programmes started on a small scale previously by the UN, with UNDP financing, focused on industrial development. Like the ILO, UNIDO’s programme was also concerned initially with the development and strengthening of central public institutions based on the “Indian model”. In keeping with UNIDO’s general orientation such institutions tended to lay emphasis on promoting industrial estates, the provision of technical services and the creation of Industrial Promotion Centres.

Industrial estates for small enterprises proved costly (heavy investments in technical and common service facilities). Some projects were never implemented fully and it took much longer than originally envisaged to have the facilities occupied. Although in the course of time some of the estates and facilities were taken over by the national authorities, the projects generally did not develop into cost effective programmes for small enterprise support. Also, the Government supported promotional agencies turned out to have service problems in terms of impact, outreach, effectiveness etc.

The basic approach of donors was that they would help develop public institutions to provide services for SMEs that would carry on with local staffing and funding after donor support came to an end.

A number of factors later influenced donors to question this approach of supporting these public government financed institutions. These institutions were generally poorly managed and staffed with inadequately qualified personnel. Several grew into unwieldy bureaucratic structures expanding into a whole range of activities while failing to consolidate the major core work of providing technical, management and promotional services for small enterprises. Such agencies also developed ambitious industrial estate construction programs (with costly technical service centres), which failed to attract enough occupants and clients. The institutions concerned were either unable to identify (many) suitable investment projects or sufficiently qualified entrepreneurs or they failed to convince the financing institutions to provide the funds needed. Some of these institutions turned to developing inventories of profiles of investment projects based more on theoretical concepts and then tried to find entrepreneurs to implement them.

After failing to convince the banks to finance investment projects, some of these institutions began to press for their own source of financing. In a number of cases these institutions were transformed into organisations engaged not only in promoting
small enterprises but also in the actual financing of the projects using government donor funds. The promotional objective to create as many new small enterprises as possible and to assist in their expansion then conflicted with the objective appraisal of the economic viability of the projects. The very reasons that had caused the banks to refuse to finance the technical and financial projects submitted, namely their over-optimistic forecasts and doubts about their viability, became the seeds of the loan recovery problems of the institutions that developed their own financing programmes. KIE (Kenya Industrial Estates), SIDO (Small Industries Development Organisation) in Tanzania and BSCIC (Bangladesh Small and Cottage Industries Corporation) are just a few examples of institutions that faced such difficulties.

An additional factor affecting the overall performance of such public agencies was the political (and government) influence in the decision-making process. In many cases credits were offered at subsidised levels of interest and this led to political influence and distortions in the clientele eager to take advantage of such credits, which only served to compound loan recovery problems later on. The subsidies also caused the erosion of the value of the original loan funds, making these programmes dependent on the continuous flow of donor funds. The institutions managed to assist only a relatively small number of enterprises and their operations were very costly in relation to the volume of support actually delivered. Furthermore, the failure to forge links between the technical help offered and the credits given by the financial institutions led in many cases to a failure to implement the advice given.

The original idea that the national counterparts and local resources would gradually take over became less and less realistic. Some institutions facing budgetary problems began to engage more actively in activities to help generate income. Donors began to complain that some of these institutions were moving away from helping the really small enterprises of “the poor”, which donors, especially those involved in this field for social objectives, felt should be the real recipients of that aid.

Many projects were also based on the optimistic assumption that they would be able to offer competent advice on management or technology to SMEs. Unfortunately, good, competent, experienced staff were either non-existent or difficult to recruit and the only staff available were young graduates in engineering, economics or business who, at best, were able to offer mainly theoretical advice and training in basic management tools and techniques, which few of the entrepreneurs were able to use or were convinced were needed. These publicly financed institutions offered conditions of salary, travel expenses, etc. that could not attract the experienced or more talented persons in the country. Most of the young inexperienced staff recruited regarded the work in the institutions as a transient phase, as a springboard to gain experience before moving to more substantial and rewarding positions in larger private or public enterprises, in government, work overseas or in private consultancy. Ambitious managers, often political appointees, or bureaucrats, pushed the institutions to expand into every new programme offered by donors. (Including sometimes activities for
which they neither had the competence nor the resources).

Where the institutions survived, it was often because they were able to substitute funding from new donors to replace, or to supplement, the funds of those that had formerly helped them. In several cases, bilateral donors developed projects to support institutions that had depended previously on UN agency and/or government support. In some other cases, in order to survive, the institutions tried to develop income-generating activities related to industrial estates, bulk purchasing, marketing of small enterprise or craft products, and the operation of technical services or training centres for fees (usually this meant helping larger or at least medium sized firms). They were generally not any more successful in these more commercial activities which often resulted in losses.

2.2 Lessons learned

Despite the disappointing experience in establishing and/or strengthening institutions, all those who assessed the situation concluded that the SME sector does need some form of institutional support. Most reviews conclude that most institutions failed to develop along the lines envisaged because they were allowed to grow too big and too centralised. It seems that for institutions to be effective they have to be kept small and completely decentralised in their operations. They need to operate as smaller, local or regional centres or, if a national institution is warranted (as might be the case in smaller countries), the operations, staffing and decision making must be decentralised. There is evidence to show that small promotional, advisory or assistance agencies or centres with small staffs operating either in a limited locality or confined to a specific sector, perform better. They can avoid the bureaucratic weakness of large headquarters organisations and of too many activities. They can cater for a clearly defined target group, either within a region or for a specific sector or, when feasible, both. Local extension services should refer clients to other more specialised institutions or persons with greater competence to provide specialized support wherever available in the country. This should involve close collaboration with the private sector, including business associations, chambers of commerce, management development and technical institutions, universities, large enterprises and private consulting groups, where they exist. The smaller local institutions of this type should aim at wider impact through collective actions, transferring information and guidance to groups rather than through the costly method of trying to help individual enterprises “on their own”.

Later in this paper the approaches mentioned above are developed in greater detail. Collective approaches, which can help to make technical advice and assistance more cost-effective, often require the breakdown of mutual suspicions within a local or common sectoral group. Collective actions can help expand, to some degree, the number of beneficiaries of most programmes.
Competent and experienced staff is needed who are able to communicate with the entrepreneurs and command their respect. Consideration might be given to offering consultancy contracts using older or retired experienced personnel or engaging part-time specialists to overcome the practical problems of how to staff smaller local agencies with competent, experienced persons.

3 Need for Decentralisation

Many of the reviews of the effectiveness of small enterprise support institutions have drawn attention to frequent overlapping of functions between institutions and to waste involved in duplication. When examined further, what is often taking place is some form of competition for clients taking place between smaller agencies operating locally or regionally (sometimes on a subsectoral basis), with limited outreach to potential clients. While there may at times be limited overlap, the choice available in such cases to an SME seeking assistance may be a healthy feature of competition leading perhaps to a minimum quality of service. In such a situation a larger number of small businesses may really receive support. On the other hand, there are larger national, centralised, more diffuse institutions attempting to offer a wide array of advisory industrial support services rather unrealistically on a countrywide scale. Large centralised SME support institutions for their size and cost usually help a relatively small number of enterprises.

The 1988 review of the UNDP, the Netherlands Government, ILO and UNIDO team examined the experience of more than 20 years of institutions set up to help the promotion and development of SMEs. They concluded that highly centralised organisations were not very effective because such institutions needed strong field links and this required considerable local presence. Also local autonomy of action was essential. These decentralised operations had to be technically competent and this was at times a problem since, as already mentioned, the recruitment of qualified personnel in some provincial regions was especially difficult. Special training schemes need to be undertaken for persons with suitable qualifications, experience and an aptitude for the work and remuneration and reward systems have to provide incentives and motivation for such outposting.

All review and evaluations have concluded time and again that SMEs cannot be serviced by office staff based at a distance and that the cost of such manner of operating was too great, especially to try to provide a service to SME on a one-to-one basis. Inevitably, strong pressures for staff to remain in or near urban developed offices, implied that, even where large centralised organisations tried to develop a significant branch network, there was a reluctance for the more qualified personnel to leave the urban centres (particularly a metropolis or capital city). As a result, the experience and qualifications of those who were working in the branches was only a small part of the large reservoir of professional staff members who remained at head office. Those who were sent out and agreed to go to serve in provincial offices were not
well motivated and often lacked the local knowledge. Inevitably these centralised institutions served few SME clients and those they did, were mostly located in urban centres.

Strong field links are essential to develop and promote SMEs and such links may only be sustained through a local decentralized organisation. There is the need to give local organisations autonomy to take decisions, since any other form of organisation tends to result in heavy administrative costs and limited effectiveness.

A large national organisation might, in some cases, be effective in some large(r) countries, if it operates as a loose federation with a wide network of branches who are allowed to operate autonomously with adequate budgets, without having to refer to headquarters for relatively minor allocations of finance or support. Powers to raise funds locally or regionally should be encouraged. There could be some justification for a pool of sectoral specialists or specially qualified personnel, possibly located at selected regional centres - who may be called upon from time to time when the local organisation is unable to cope with a particular problem presented by their SME clients. However, these promotional, development and assistance organisations should increasingly try to provide less and less support services themselves directly but rather to utilise the network of possible sources of assistance available in the region by referring requests from a particular SME to those from whom they could obtain the support they need. The promotional agency would first undertake a relative short consultation and diagnosis confirming what the problem is and the help needed.

One of the lessons of experience over the past 20 or more years during which various types of centres and institutions in support of small enterprises have operated, is that it is extremely difficult to achieve cooperation between institutions. Even where programmes of collaboration are initiated, they are problematic to maintain and expand. For this reason, there is a tendency for existing institutions to enter more and more fields for which they are ill-equipped and unqualified to provide quality assistance. In some cases, new institutions are however, set up rather than to try to foster cooperation with existing institutions who, with some degree of modification or strengthening, could well serve the purpose and provide the assistance adequately and with less cost. There is neither justification nor is it cost-effective for institutions to expand into forms of advice or assistance for which they do not have adequate competence nor to create new costly institutions when existing organisations are quite able to provide the support needed, possibly with some modifications. Donor agencies should be careful when recommending to set up new institutions and should rather aim to help work out forms of cooperation between organisations already staffed and operating.
4 Industrial Districts and Clusters

4.1 Experiences

As has been stated, the weaknesses of small firms are similar both in industrialised countries and developing countries. Obsolete machinery, low technological levels, weak management, inadequate controls are among the deficiencies of SME the world over. These defects which undermine the small firm’s efforts to operate competitively were generally considered to be a result of their small size and consequent lack of adequate financial and human resources to cope with these problems. Studies of recent years have led some researchers to the conclusion that it may not be the size as such that is the real cause of the weakness but the isolation of small firms. It is argued, based on some very valid experiences in Europe, that the limited resources and the consequent weakness of SMEs (because of the relative powerlessness of these enterprises to influence markets and policies) could, to a significant extent, be overcome by grouping of SMEs within the same sectors. Industrial districts can and do provide the physical framework for such groupings leading to integration through inter-firm relations.

For historical reasons certain regions and localities, even suburbs of the major cities, have become known nationally and internationally as the centres of certain sub-sectors and the manufacture of specific products. Gradually, as these concentrations expand and more and more SMEs manufacturing similar products are attracted to the area, backward and forward linkages also develop as well as special services to cater for the needs of the firms.

The European examples of such industrial districts are in some regions in Italy, Southern Germany as well as in other Western European countries where some of the small firms in these districts linked themselves together through strong networks, based on an array of inter-firm relations. These linkages, together with the close geographical proximity to each other, enhanced the division of labour among firms and have led to increased cooperation between them including the spread of ideas and technical innovations. Backward and forward linkages between the small firms, and in some cases with larger firms in the vicinity, have sometimes even led to the joint manufacture of various products. The location of the small enterprises in such a network or cluster of enterprises has resulted over the course of time in much closer working (and social) relations and greater mutual trust between the businesses. In Europe generally - a particularly outstanding example is in Italy - strong self-help organisations have evolved and local and regional authorities have given strong support to these ‘grass roots’ developments.

Such networking initiatives are widespread not only in developed/industrialized but also in developing countries. Industrial districts and clusters have grown up
spontaneously in the latter, demonstrating a desire and need of SMEs from the same sub-sector to group their activities together and locate themselves close to each other. This spontaneous development of clustering of SMEs from specific sub-sectors create opportunities to support efforts focused on promoting ‘flexible specialisation’ - a term given to a new alternative to ‘mass production’, based on the flexible use of general purpose machinery by skilled workers in smaller firms who, by working together, are thus able to manufacture a range of products for changing markets. The key elements of ‘flexible specialisation’ would be the cooperation within innovative clusters of small enterprises operating at close proximity to each other through networking involving a range of relationships and leading finally to what has been termed ‘collective efficiency’. This phrase (coined by Hubert Schmitz) is based on the idea that “clustering” leads to greater efficiency and flexibility not attainable for individual firms operating in isolation. Such ‘collective efficiency’ can come out both spontaneously through pressures of the market forcing cooperation towards innovation or through initiated ‘collective actions’ to facilitate expansion into international markets.

There are several interesting examples of sub-sectoral clustering throughout the developing world. The Sinos Valley in Brazil has for over the past thirty years been a huge cluster (Schmitz refers to it as a ‘super cluster’) of shoe making. There are over 500 firms and over a 100 tanneries in the Sinos Valley within a radius of 50 kilometres with more than 200 component manufacturers and 45 leather and footwear machinery producers (Schmitz - 1994). Now a range of services have developed as well shoe designers, machine maintenance units, export agencies and four technical magazines. Brazil is the third largest leather shoe exporter in the world and a large part of its exports comes from the Sinos Valley.

It would seem that clustering is a popular feature of footwear industries. The provincial town Leon Guanajato in Central Mexico is the major concentration of small footwear manufacturers in the country and there is also a large cluster of shoe producers in the city of Guadalajara. Together these locations have 1700 and 1200 firms respectively out of a total of 4500 shoe making firms in Mexico (Rabellotti 1993). There are a number of institutions related to the footwear industry in Leon and Guadalajara including both footwear producer associations and centres providing special services to the footwear industries. A Technological Institute for the Shoe Industry is active in Guadalajara as well as credit unions (in both towns), and a Chamber of the Shoe Industry (Camara de Calzado).

There are many other cases of industrial clustering on a sub-sectoral basis in the footwear industry in developing countries. There are 1000 small scale and microenterprises manufacturing footwear including tanneries and component suppliers clustering in the El Porvenir district of Trujillo in Peru (Villaran 1993) accounting for 35% of the Peruvian domestic shoe market. Ecuador has a similar clustering of shoe manufacturers in Ambato. In Asia there is the example of large shoe making concentrations in Agra in India as well as other more confined industrial districts of
footwear producers on the outskirts of Manila in the Philippines and in Western Java in Indonesia. All have developed spontaneously over years without any outside decision-taking towards concentration in clusters.

Industrial clusters or districts exist in developing countries not only for the footwear manufacturing sector. There are numerous industrial clusters in India, e.g., in metalworking and hosiery in Ludhiana in Punjab, in textiles in Trippuri, power loom producers at Bhiwadi, diamond polishing in Surat, electronics in Bangalore and so on (Schmitz 1994). In Pakistan there are industrial clusters of sports goods firms (Sialkot), textiles, farm machinery, stainless steel cutlery, metal products, electrical appliances, steel utensils, machine tools, etc. In Argentina there are districts of machine tool small factories in Cordoba province and in metalworking in Rafada. In Korea small firm clusters mainly surround large industrial conglomerates, notably in the automobile industry. Also in Africa, such as in Kenya, Ghana, Tanzania, there are industrial clusters of carpentry shops, metal workshops, clothing producers, etc.

**Inter-firm linkages and clusters**

There is no doubt that clustering fosters productivity through inter-firm relations. Some of these are simply daily exchange of views and information between the small industries working close by each other. However, all studies show that this leads to more concrete forms of cooperation such as sharing of orders and subcontracting of parts of production, especially when there are capacity problems in supplying customers on time. The physical proximity can stimulate the development of such relations. There is also conclusive evidence that the occupants of such clusters acquire trust in each other and share information on suppliers of materials and parts, on traders and distributors and on availability of skilled labour. Information on the reliability of other manufacturers as possible subcontractors and on technological advances in new equipment is also by all accounts the subject of informal (as well as formal) exchanges. These inter-firm relations are stronger in some clusters than in others (as witnessed in the case of the footwear industrial districts in Mexico). As the relations between firms develop, specialisation takes place and integration of productive processes occurs, leading ideally to real joint product development.

In most cases the inter-firm relations referred to occur between SMEs actually operating within the cluster but there are cases of cooperation with larger firms, generally with these enterprises integrating their production plans with specialised subcontractors in the cluster (as earlier case of Brazil). In theory, this type of ‘specialised subcontracting’ should in time develop from ‘capacity subcontracting’ relationships (where both large and small firms use the spare capacity of other firms to fulfil orders when they are unable to effect delivery in time with their own facilities), but unfortunately this does not always happen. Specialisation tends first to develop within groupings of small producers and only then are larger firms ready
to use these more specialised firms as suppliers of components or services within their production process. It is therefore important for clusters of small firms to be encouraged and helped to develop specialisation within their own ‘self-help’ efforts and to set up joint cooperative ventures if they want to expand the volume of subcontracting on a more permanent basis. Normally, horizontal subcontracting linkages (of a capacity nature) should ultimately lead to upgrading of technologies. In practice, while all the occupants within an industrial district or cluster may fall within the SME category, there are different levels of technology and capacity within the group of occupants and in a few cases the more advanced SMEs have initiated joint efforts towards integrated production and specialisation which have resulted in the general raising of technological standards.

Quality is always presented as a major concern and this in fact is the reason why capacity subcontracting does not always lead to specialisation or technology upgrading since the contracting firm wants to keep full control of quality and is slow to subcontract out key features of the production requiring specialised skills. Long term subcontracting relationships, whether between large and small or between SMEs, can only really develop when specialisation takes place and the contracting firm has confidence in the technical capability of the subcontractor(s) to produce at the required quality and on time. In some instances a larger contracting firm may collaborate in helping develop the skills and abilities involved but this is generally when the relationship is well established and mutual confidence has developed.

Although the emphasis in specialisation is on cooperation, there usually remains a significant degree of competition between SMEs in offering themselves as potential ‘vertical subcontractors’. Generally, this competition is positive and helps raise productivity and quality. After some time, forms of cooperation may also develop, even despite the competition. Still, one should not underestimate the problem of breaking down mutual suspicions and barriers of secrecy in getting SMEs to cooperate in industrial clusters. An interesting effort to break down these mutual suspicions was made in the mid 1980’s in Mexico where a course was organised for managers of the SME footwear manufacturers in the Leon district; the participants had to agree to organise a visit to their own enterprises by the other entrepreneurs in the group and to allow a diagnosis of the firm to be made by an external consultant which was then to be discussed in the group. Over 7 years, 120 firms participated in this form of information exchange and went on to meet regularly by themselves to discuss problems related to technology, marketing, suppliers, etc. and exchange information about clients, orders, workers and machines. If such approaches are followed persistently, it ultimately becomes apparent to the SMEs that cooperation is in everyone’s interest.

UNIDO has already promoted projects in Jamaica and Honduras which are showing promising results. In Jamaica UNIDO is aiming to support an industrial cluster of flexibly specialised furniture makers. A group of 10 or so small woodworking establishments are initiating a programme to upgrade their technology and production
methods and try to produce furniture together for export. One of the leading firms of the group has more advanced production technology and a common organisation is arranging bulk purchasing of raw materials and the marketing of the products.

In Honduras, UNIDO has helped organise cooperative frameworks for several groups of small firms in clothing, footwear, woodworking, metalworking, agroprocessing and packaging. The groups are being helped to establish joint technical services, sales outlets, facilitate loan applications and training. One group of about 15 workshops making garments (employing 4 to 10 workers each), has agreed for each member to specialise in specific garments that together make a clothing collection to be sold through their own retail outlet. The workshops in the group are organizing joint purchase of raw materials. Similar forms of cooperation are being developed with a small group from the footwear sector, each specialising in manufacturing a component of the product. A group of small woodworking enterprises has established a joint wood seasoning facility and 18 small engineering firms are planning, through specialisation, to manufacture jointly more complex items. These cooperative efforts have all strengthened ties with larger enterprises and have increased sales.

Cooperation between firms has to be approached cautiously. The process of providing technical assistance to firms who are working in close proximity to each other and, as mentioned, who may be in competition, is a sensitive matter. The service (and the personnel involved) will have to overcome mutual suspicion and act in a transparent, strictly impartial fashion to avoid even the slightest hint of transmitting any commercial information. The trust of the firms can be attained only by following a careful code of practice and moving very sensitively.

4.2 Policies Towards Encouraging SME Cooperation

Industrial districts are seen by some donors - both bilateral and multilateral as one of the most cost-effective opportunities to deliver targeted technical assistance for upgrading technology, management and marketing of the SMEs involved. The geographical concentration of relatively large numbers from a single sub-sector makes advice and assistance more focused and less diffused and therefore less costly. The assistance offered should, wherever feasible, be formalised as a resident service, (e.g. within the association of an industrial sub-sector) ensuring that the capacity, scope and type of support is commensurate to the needs and volume of potential demand. The service may vary from 1 or 2 technical specialists with practical experience in the sub-sector to a team depending on the number of firms in the cluster and the demand for advice and help (paid for by the occupants of the district).

In general, ‘industrial districts’ are spontaneous developments. Historical and social forces have in most cases been the driving factor in the growth of the clustering. The spontaneous character of the grouping of SMEs into an industrial district has generally
given its development a dynamism lacking in several of the planned industrial estates, science and technology parks and incubators. However, these planned forms of location and relocation of SMEs may have greater success potential when based on existing districts or clusters. They then can serve as a way of promoting new SME start-ups or the relocation of suitable occupants from outside.

Using the industrial district or clusters as the basis for many SME support programmes has, with some justification, been described as a new approach to SME development. However, it would also be a mistake to base SME support exclusively on the cluster approach. There will always be need to offer help to dynamic viable SMEs with important (social and) economic potential that for one reason or another are not located within a cluster. The benefit of relocation within a cluster should, if existing and where appropriate, be considered as an option.

The question has then been raised as to what policy measures undertaken by government (or a regional authority) can help encourage greater interfirm cooperation between SMEs including possibly the fostering of clustering i.e. entrepreneurs setting up their production units in close proximity to similar producers from the same sub-sector and seeking ways of cooperating in groups together with competing units. This recognises that in the present conditions it is not always within the capacity and ability of the individual firm to produce a cheaper and better product, but that may be achieved through a network of producers and institutions and as part of a ‘production system’. The new role of support services is then to influence SMEs to help each other and work together towards the creation of integrated networks of small firms. This network will be aimed at increased output and upgraded technology to produce, through combined effort, a product source able to compete in local and global markets. Policy makers in developing countries must aim to generate conditions that move SMEs away from relying on their own limited capability towards cooperation within groupings to gain greater competitive strength.

At the same time, government and donor programmes should see that training and job creation policies fit the needs of SMEs. High grade technical schools, appropriate technological institutes, universities and research centres need to be located, where possible, in the vicinity of the industrial districts and the clusters.

Government, representative private sector organizations and donor programmes should assist those operating as specialised SMEs in industrial clusters by promoting:

- specialization and cooperation between the firms of the cluster with a view to developing “collective efficiencies”;
- common services to improve forward and backward linkages with markets and with suppliers of inputs;
cooperation between the firms in upgrading technology;
consultative meetings, organised dissemination of information, et.;
development of sub-sectoral business associations to provide leadership and coordination;
setting up of “sub-sectoral service centres” to provide services to enterprises in the districts.

5 Technology Issues

A great deal of lip-service is paid by proponents of different development paths for developing countries, to the importance of transfer of technology for SMEs. Few have found reliable practical ways for the achievement of such transfers.

Technologies are transferred through a variety of forms and often in a serendipitous fashion: sometimes through personal contacts with friends or relatives in the same or in other countries through visits undertaken on their own initiative (and expense) by entrepreneurs. The practical implementation of technology upgrading or modernisation for SMEs has too often taken place in the past through the guidance and information provided by machine manufacturers’ agents who, in many cases, have exerted undue influence on the technology (i.e. equipment) purchased and used by SMEs. Rarely has the choice of equipment or technology been influenced by advice from technical or research institutes or technology centres even where these exist.

The term ‘transfer of technology’ when referred to developing countries used to imply transfer of the technology in question (and the related know-how) from a more advanced country. This may not be the only transfer possible nor necessarily the most appropriate. Nowadays there are many possibilities in various countries for the acquisition of suitable equipment from within the country or from other developing countries especially from middle income countries. Also, even if the source of the technology may be outside the country, the choice of the technology has to be made according to advice and guidance received within the country where the machinery or process will be used.

There are a number of recognised formal arrangements for implementing a transfer of technology, technical assistance agreement, ‘know-how’ agreements, joint ventures, subcontracting, licensing and franchising. Which of these will be most appropriate for a SME in a developing country will depend on the particular needs and abilities of the enterprises both at the source and receiving end. The ‘know-how’ or technical
assistance agreements generally consists of an enterprise - quite often a SME in a more advanced country - selling technical information usually relating to the design, manufacture, servicing or testing of a product, and would probably involve the sales of drawings, blueprints, specifications and detailed data on the designs of products or parts as well as the equipment and tooling that may be needed to produce the item. Clearly this agreement can, and must in some cases, involve a relationship over a longer period and include training of personnel from the receiving enterprise. Although ‘know how’ and ‘technical assistance’ agreements are very similar, the latter tends to imply a more ‘hands-on’ arrangement over a wider range and a longer period. There are ‘pitfalls’ in such agreements and most SMEs need advice on choosing the most suitable and economic technology and source of ‘transfer’ as well as help to ensure that the enterprise concerned is able and willing to provide all the information and help needed. Such advice and guidance on both the choice of technology and the appropriate provider and the manner of implementation of the agreement, can be provided by private consultants (if such qualified and knowledgeable consultants are available in the country) or possibly by a technical (technology) advisory service which in more industrialised countries is usually supported by private sector organisations: Chamber of Commerce and Industry, business associations, etc. UNIDO supports transfer programmes by providing framework or model agreements which enterprises can use when negotiating contracts (i.a. UNIDO also helps with local capacity building in this field).

As regards other forms of more specific transfer agreements - licensing, joint ventures, franchising - these are generally the main forms of technology transfer within the industrialised countries today. However, for developing countries, these agreements can present problems. Licensing agreements require that the receiving SME and the country where it operates, has adequate technical skills to handle the technology involved. The more advanced developing countries, e.g., Korea, India, Mexico have sufficient technical infrastructure and skills to use licensing agreements effectively and do so, but many developing countries are not in that situation.

**Licensing** also means that the enterprise, for a cash payment - either a lump sum payment annually, or on occasions royalties per item produced - receives the technical details (drawings, specifications etc.) regarding manufacture of the product and permission to produce and market the product often under an agreed brand name. No capital is contributed by the provider of the licence and this is usually a problem which is solved when a ‘joint venture’ is set up - a common manufacturing facility whose ownership is shared by both the provider and receiver of the licence. Most SMEs in developing countries require more than a licence to produce; they generally need a more comprehensive ‘know-how’ and/or technical assistance agreement to make a success of the transfer of the technology.

**Franchising**, another form of transfer of ‘know-how’ is mostly confined to industrialised countries and most often takes place in service industries. It involves the use of
trademarks and rarely the actual transfer of real technology although it often includes some limited technical advice. Until now it has had limited application in developing countries.

Subcontracting has been presented as an important way to effect transfers of technology. Because of rapid changes in technology, it more and more happens that, when a SME carries out orders for another firm, usually large but sometimes another SME, the contracting firm who gives the order provides the ‘know-how’ and ‘technical assistance’ needed by the subcontractor to carry out the work according to the required quality, price and delivery date. This is sometimes true and there are many examples - many from Japan but to a lesser extent from some other countries - where firms help their subcontractors with specifications, detailed drawings, designs, tooling and even special production and quality control equipment to do the work. However, experience until now has shown that subcontracting in large orders in developing countries (such as for the benefit of firms set up in export processing zones) simply uses cheaper labour to carry out assembly and finishing jobs, adding only about 20 - 25 % of added value and involving virtually no real technology transfer. Efforts to promote new and stronger linkages are needed by both government and private sector organisations and to convince foreign firms, multinationals and other investors, that it makes sense to subcontract more work with a greater technology content and so raise the skill and technical level of SMEs working as subcontractors. Development and promotion centres, advisory agencies as well as technological institutions can help by assisting the local SME subcontractors to satisfy the technical and quality requirements of the contracting firms.

Upgrading technology of SMEs in developing countries is vital for the development of the firm and the economy at large and ways have to be explored to accomplish this. While improving the management skills of SME owners and managers is important, without a raising of technological levels, SMEs will not be able to modernise and expand into efficient competitive businesses. There may have been an over-emphasis in the past by donors on improving management skills. At the same time, they neglected the more difficult task of upgrading technologies which, in most cases, requires financial investment.

Over the years a whole range of subsectoral centres and research and development (R & D) institutes have been set up in many countries. Most have not been very effective in assisting SMEs to upgrade their technologies, mainly because they had virtually no ‘outreach’ to SMEs. Their sophisticated equipment and, in most cases, qualified staff worked mainly for large industries or engaged in direct production of items for the public sector principally to earn revenue to maintain themselves. A few such centres did help upgrade the manufacture of local agricultural implements but examples were few. Most of the R & D institutes and centres and similar subsectoral institutions faced little demand for help from SMEs and had no field extension service to promote interest. There is need to find ways to better utilise these facilities through
a more effective referral system, and to make these institutions more “demand driven”.

Technical service centres set up as part of industrial estates faced similar fates to the R&D centres, ending up mainly grossly underutilised or operating as commercial production or service units for industries of all sizes. Most of them were established with donor help with limited assessment of the real demand for the services offered on the part of the SME occupants. Many have now been sold off to the private sector and the question may be asked whether they should not have been privately owned in the first place.

There have, on the other hand, been some interesting and successful efforts at upgrading technology in developed countries concentrating on setting up research and technological development centres and institutes related to sub-sectors in the districts where many small firms from the sector are working (Baden Württemberg, Germany; Sakaki, Japan; Bologna, Italy, SYSLAB programme in Norway - OECD Secretariat paper 1995). New efforts are now under way in a few developing countries (e.g. Chile for the shoe-making sector).

A final word on types of technology favourable to SMEs: much has been written on the need for SMEs to use simpler, more ‘appropriate’ or ‘intermediate technology’ as it has been called, namely technology that is more labour intensive. There is some justification for such an approach in many cases, but when SMEs are poised for modernisation and expansion to make themselves more competitive - which is evermore becoming the case in a number of developing countries - the enterprises concerned may have to upgrade their technologies beyond the basic simple level associated with “appropriate technology” which may more suit micro-entrepreneurs and the informal sector. However, it should be stressed that all technology adopted by SMEs, at whatever stage of their growth, should conform with their needs, resources and capabilities and this means that equipment introduced can be installed, operated and maintained with the skills available and that the output generated at economic levels of operation is in accordance with the real market potential. Recommendation on technologies should only be made after all these factors and alternatives have been assessed.

6  The Role of Private Consultants

The reservoir of knowledge and experience in technology, management, marketing skills that could be of help to SMEs is to be found in various elements of the business community and beyond. Certainly one major group that can provide such support are private consultants in the country. In advanced industrialised countries SMEs needing help turn to consultants, although to a lesser extent than they may need to, and less than larger businesses.
The costs of using consultants for longer periods and to resolve more complex problems of technical modernisation, product development or reorganisation may prove beyond the resources of many SMEs. For this reason most independent consultants look to large enterprises or public bodies as their potential clients and provide less help to small business than they could do.

The independent group of local private consultants in most developing countries is relatively undeveloped, in many cases somewhat unreliable and their services are not always of the quality standard to inspire confidence in potential clients. In some cases, the local consultant groups develop as branches or affiliates of international consulting organisations and the local operations are strengthened by more qualified and experienced expatriates. Professional staff from government offices, banks, large enterprises, universities, technical colleges, management and small enterprise development agencies usually all try their hand as consultants (full-time or part-time) in an effort to enhance their income, their status and independence. They tend to rely more on their contacts to obtain clients rather than selling their services on the basis of their ability and experience; generally this leads them to work for large, often multinational businesses, donor agencies or parastatals, where they look to relatively large rewards for their services.

Despite all their weaknesses as a group, private consultants can become a significant source of help for SMEs. In the course of time they might even develop as the main source of assistance for SMEs but some difficulties have first to be overcome. These are:

1. the costs to the SMEs in using these services;
2. the reliability of the services offered and the ethical behaviour and quality standards of the consultants involved.

As regards the costs it must be accepted that with a few rare exceptions, SMEs will not use private consultant services to any extent if they have to pay the full price of long-term intensive services, i.e., the same as would be paid by larger, wealthier clients. On the other hand, the SMEs benefitting from consultancy services must be prepared to pay some of the costs of these services themselves. It is a general view of donor agencies and those who are familiar with all aspects of SME development, that the true demand for services based on the real needs of SME for help, and real recognition and appreciation of the help received will only be evident, if the SMEs are required to pay themselves - at least in part - for the service.

The arrangement attempted in some countries to cover the costs from a mix of sources has been along the following lines:

1. a group of consultants - or the representative organisation, if such exists - agree to provide a minimum number of days - say 80 to 100 per year - at a rate which
would be 20 to 30% below the rate for other larger clients.

2. the SME client would be required to pay at least 25-30% of the reduced consultancy fees.

3. the remainder of the fee would be paid from a fund created from contributions by donors, central government, local or regional authorities and, if feasible, from smaller additional contributions from chambers, associations and, possibly, banks.

4. consultant help on these terms would be limited for any specific SME to an agreed number of days per year, after which the SME itself would pay a higher part of the daily fee or perhaps all of it at a certain point.

There are arrangements similar to the above in various European countries such as Germany and France. Clearly, the details of the arrangements and percentages would differ with the special conditions prevailing in each country but the principles of costing (and its limits) should be adhered to. If this is not possible at the launch of such a programme there should be a general indication that the payment of contributions will be achieved in stages over a maximum of three years. The two conditions of reduced fees for a minimum number of days by the consultant, a minimum fee paid by the SMEs themselves and a limit on number of days for each SME are essential conditions for the success of such a scheme.

The quality and reliability of the service offered could best be achieved by the setting of minimum standards and background - qualifications, experience etc. - for a person to offer consultancy services and the registration of all consultants, personal resumes, and lists of their main clients. A code of practice needs to be laid down and action taken against those who violate the code. The control, registration and monitoring of clients would best be undertaken by the Chamber of Commerce and Industry or a national Association of entrepreneurs through a small office and committee composed of respected business and public figures including possibly some legal and academic representation. The monitoring should also cover adherence to the agreed financial arrangements. It is inevitable that in the early stages this arrangement will entail administration and bureaucracy (and costs) but this is a small price to pay to ensure that consultancy businesses with acceptable standards develop. Control of the consultancy profession in developing countries should be through a combination of government standards and regulation and self control of the profession by its members together with the business community.

After some years, SMEs will themselves be able to choose suitable consultants and ensure the required standard of service and integrity so that unreliable consultants who do not deliver as agreed will not find clients, but this will take time.
Donor agencies and promotion agencies (such as UNIDO) can help raise the standard of the consultancy profession and see for it, that it will respond to the needs of the SME sector. Such assistance could include:

(a) support to government and private sector organisations to develop procedures for laying down minimum criteria in qualifications, experience and integrity for the screening and registration of consultants, as well as setting out a code of practice for ethical behaviour and reliability of the consultant profession;

(b) assistance in developing a scheme to enable SMEs to benefit from the help of private consultants at reasonable levels of costs that correspond to their needs and ability to pay;

(c) guiding consultants as to the background, structure and needs of the SME sector and appropriate approaches to working with these enterprises;

(d) training of consultants, including facilitating their access to tools they can use in their work;

(e) sensitise the consultant community on ways of working through networking/referral (a referral system and cooperation with the network of sources of support for SME in all aspects of their businesses);

(f) promoting, within the SME sector, information on the availability of consultants with the type of specialist knowledge they may need, conditions under which consultants may be hired and the potential benefits that might accrue from working with them.

(g) stimulating institutions supporting the SME sector to make greater use of appropriate, independent consultants in expanding their services.

7 Private Sector Support Services

As has been indicated in earlier parts of this paper, most of the first efforts to develop support systems have involved the setting up of a major central small and medium enterprise development agency (sometimes referred to as a SMIDA), publicly owned and staffed. The supply-side approach (developing services thought to be needed) of such centralised institutions proved to be flawed and, it is generally acknowledged, achieved far less than anticipated for the expenditure involved and reached much fewer beneficiaries than envisaged.
Apart from all the deficiencies of such SMIDA's described earlier, a major problem was that these agencies were unable to win the confidence of the small businesses that they were supposed to serve or even of the financial institutions who were expected concurrently to provided financial assistance for SMEs. Those who worked in these support agencies were often treated with the usual suspicion of government officials that is prevalent among SMEs. The inadequate competence and experience of professional staff and management of these institutions has already been mentioned.

Evaluations and studies of donor supported programmes - relatively few in number - have expressed the view that the functions carried out by the SMIDA's could be performed more cost-effectively if these services were provided through private organisations. These bodies:

- have greater access to the target group of potential beneficiaries and a realistic appreciation of the needs of small enterprises;
- are more generally accepted by enterprises, as they provide services that they feel belong to such organisations and do not like services offered by a government for which they generally harbour suspicions and reservations;
- are less prone to direct political influences although it would be unrealistic to suppose that such organisations may not be influenced politically.
- by their nature can potentially operate with greater flexibility and less bureaucracy.

Agencies or services that are offered by private sector organisations are more usually staffed by those with industrial and business experience and so should be able to offer more practical “hands-on” assistance. The transfer of a number of services to private sector organisations can be the basis for an appropriate division of responsibility and cooperation between the private sector and the government in providing together the most effective programme possible of support for small enterprises. There are specific functions and responsibilities that are the tasks of government and others which in an ideal situation in a more advanced economy may be carried out more effectively by the private sector and its representative organisations.

In this division of responsibility:
- The government must ensure the legal and fiscal framework in which SMEs will have to operate is conducive to growth and development. The government must initiate, in consultation with the sector and its representative bodies, the incentives and environment needed to stimulate SME development. Governments will be responsible for setting appropriate policies (financial, fiscal etc.), which are are a basic factor in determining the economically and financially sustained well-being of SMEs;
The government should be responsible for providing basic education and skills training to guarantee an adequately trained and skilled labour force to meet the need of the various sectors of the economy. It may delegate some of these responsibilities to institutions outside the government, in the private sector or to independent institutions, but in the final analysis government must provide the resources and ensure an adequate volume and quality of training.

Beyond the need to ensure adequate basic training in technical and management skills, governments usually, through their public agencies, disseminate information on programmes and schemes for regional development, on efforts to promote exports and the incentives and assistance they are offering for enterprise development. Some governments may help to forge links between enterprises and the research and technological development being undertaken in institutions of higher learning and public financed research centres. The degree of direct government intervention in support of SME will have to vary with the stage of business, economic and political development of the country concerned, but all experience shows that the more the interventions is reduced, the better;

The private sector organisations should be able to gradually take over more and more of the direct provision of support services. However, the main functions of such organisations - in many cases their very “raison d’être” - is advocacy, namely transmitting the opinion and needs of their members, to the government in consultations on the setting of policies.

While “advocacy” may be the prime role, private sector organisations must keep their members informed on policy matters and on the availability of all forms of assistance being offered from whatever source. They might also help to put out information on new technologies and data that could be of assistance in the production and marketing of products and rendering of services. Private sector organisations would also be expected to provide training opportunities in the upgrading of skills to complement the governments basic training schemes. Limited direct counseling and consultancy for SMEs might also be carried out by private sector organisations in the course of time. The degree to which organisations are able to offer effective services at an acceptable quality level will differ from country to country. It will take time before a private sector organisation in a developing country can offer all such forms of direct help to meet the needs of its members. Also, and this is a key aspect, they need to refer to other organizations and work with them in a networking fashion.

Most successful operations, as has been shown in various countries, including advanced economies, take the form of decentralised local advice and assistance, information services and technology management, marketing, combined with a type of diagnosis of the particular problems of various member enterprises and the referral of SME needing help to different sources of “know-how” and “expertise” such as technological
institutions, large enterprises, universities, private consultants or any other body or person in the country who may be able to provide them with the help they seek.

Unfortunately, as indicated, private sector organisations in most developing countries are weak, have low capability to offer quality services and lack the financial resources to recruit and maintain qualified staff to help their SME members. There is also danger of domination and control of such organisations (chambers, business associations etc.) by a few influential members. Some such organisations become corrupt with those in leading positions exploiting the institutions to their own commercial advantage.

Nevertheless, despite the above severe constraints, in the last years donor agencies have slowly moved towards getting the private sector more involved in providing services in support of SME. Efforts are being made in many developing countries for private sector organisations to offer their members tax and legal advice, market and export information, some limited basic consultancy services on technical and management aspects, a referral service to appropriate advisory, research and information facilities, special information on sources of new and improved technologies and seminars on skills and management upgrading. Some private sector organisations such as Korean Federation of Small Businesses (see below) and some Latin American associations (Chile, Colombia, Peru) operate subcontracting exchanges and a clearing house to promote commercial linkages. In the financial field, more advanced private sector organisations offer members insurance schemes, credit guarantees, mutual funds and access to limited credits as well as help in preparing business plans for applying to banks for loans.

Agencies such as UNIDO are helping to build up private sector organisations and work to convince governments to transfer more and more of support services gradually to these bodies even when there is still some doubt as to their competence to undertake this role. Only through actually operating such services will they progressively acquire greater competence. This will in turn encourage more entrepreneurs to belong to these organisations as they become convinced that they can benefit from various specialised services offered by these bodies. There must inevitably be a lengthy transition period - possibly up to 10 years - when public and private sector organisations will need to work together in operating a support system for SMEs. Private sector organisations will slowly attain the experience they need to operate such services and be recognised as having the resources needed. On the government’s side there must be a full recognition on their part of the role of representative private sector organisations and a readiness to work with them, to consult them on all policy matters impacting on SMEs and to be prepared to transfer a limited statutory role to these bodies.

A programme can be worked out between government and the relevant and representative business organisations so that gradually private sector organisations will take over in providing more and more services to the SME sector. An example of
the limited statutory tasks that these private sector organisations may take over from
government are the certification of origin of products for export and possibly also some
role in the transmission of tax returns by enterprises. The business community has
for its part to be ready to form suitable business associations according to regions and
different trades or sectors. They must accept the need for a mutual collaboration with
government representatives and abandon confrontational and adversarial conflict
between the public and private sectors. This need not mean that the business
community or the SME sector gives up its right to speak out clearly in support of
members as regards the preparation of policy and regulatory measures to be adopted
by the government, when they feel there is a need for more support and understanding
on the side of government to their efforts and needs. However, they have to accept
that the relations between the business community and the government must be one
of consultation, collaboration and partnership.

It is hoped that this type of collaboration between the public sector and private sector
membership organisations will be capable of responding to the actual needs of specific
target groups of SMEs. It is to be expected that, if these support activities are being
implemented by the representative organisation of the target group itself, they will be
carried out in a manner and on a scale corresponding to the ability of the recipient
firms to absorb the assistance they are offered. This should result in support being
given to a much wider group of beneficiaries than has been the case in the past. The
public organisations will then gradually be relieved of exclusive responsibility for
designing, implementing and evaluating numerous different types of support activities.
Government will play a role in the design-monitoring and evaluation of such
programmes (in cooperation with the private sector) and in the gradual phasing out
of direct implementation of programmes as they are taken over by the private sector
organisations. The representative organisations of the business community (e.g.
business associations and chambers of commerce and industry) should be free to turn
to the public authorities during the transition period to obtain additional support in
order to be able to start this programme of advice, information and assistance which
is based on the principles set above.

8. Some examples of successful support services

8.1 Korea and other Asian countries

An example of a representative private organisation which has already taken over an
important part of assistance programmes to small business is the Korean Federation
of Small Business (KFSB) set up in 1962. Already by 1988 the Federation had a full
time staff of 235 and an annual budget of close to US$ 3.3 million equivalent. The
KFSB offers some indication of how such organisations can strengthen both their
membership and their financial resources. The KFSB wields considerable political
power and provides significant benefits for its 16,000 members. Its activities include promotion of subcontracting, bulk purchasing of materials, establishing contacts with overseas buyers and investors as well as offering valuable information services, particularly on new technologies. KFSB generally does not offer training, except to a very limited extent, nor technical advisory services, leaving these activities to the SMIPC - Small and Medium Industries Promotion Corporation - established and operated with public funding. One attractive feature of KFSB (which increases its membership) is the Small Business Mutual Aid Fund (allocated to KFSB by the government), which is available for members as credits for investment or for working capital.

In some Asian countries, self-help representative organisations of business have tended to develop along subsectoral lines. The SMEs in these countries, as elsewhere, seem to prefer exchanges and joint activities with those engaged in the same branch of industry as themselves. In, e.g. the Philippines and Indonesia, local and regional small business organisations, many on a subsectoral basis, and Chambers of Commerce and Industry have sprung up, possibly reflecting the specific geographical character of these countries which have far-flung territories and various separate islands.

8.2 Latin America

In Latin America, stronger private sector involvement in national small industry assistance has developed. Relatively strong SME associations exist in Colombia and Peru while in Brazil the National Confederation of Industry (CNI) has been instrumental in setting up and operating a formidable network of services for SMEs. More recently, with fundamental changes taking place in Brazil since 1990, and a major cut in government subsidies, the CNI and its subsidiary federations, together with other representative business organisations, are taking over even more major services of support for SME.

The Chilean Case

Chile offers an interesting example. Since the 1950’s the Servicio de Cooperacion Tecnica (SERCOTEC - Technical Cooperation Service) has provided an extensive nationwide support system for SMEs combining credit programmes - both directly for artisans and very small enterprises and in cooperation with banks for larger SMEs -, technical consultancy, management training as well as marketing and export assistance and operating a subcontracting exchange. At its peak in the early 1970’s SERCOTEC, which is a subsidiary of CORFO (Corporacion de Fomento Development Corporation), the most powerful development finance institution in the country, had a staff of over 300 with 14 branches spread out over the 4000 km length of the country. During the military regime of 1973-90 SERCOTEC was greatly reduced in staff and
budget (under the policy of less direct government support for industry) and at one time (early 1980's) had less than 50 staff. However, later, even before the change of government, the institution was revived and given a role closer to that which it had in the 1970's.

While there is now in Chile a general presumption in government against intervention in the economy, and in particular against sectoral interventions that might distort the market, an exception is made for support to SMEs, and SERCOTEC is very active in this field. Its activities are divided into two types - extension work to individual enterprises and support to the business associations. This include training for entrepreneurs, (limited) consultancies, facilitating access to credit, export promotion, including participation in trade fairs and information on standards and regulations.

More recently, there has been a change in the structure of support for SMEs with CORFO directly in charge of implementing the modernisation programme for SMEs (Programa Nacional de Apoyo a la Mediana y Pequeña Empresa - National Support Programme for SMEs). In an effort to bring in the private sector in providing support services for SMEs, CORFO has created some new instruments call PROFOs (Projectos de Fomento) - voluntary groups of entrepreneurs from the same subsector who are organised under sub-sectoral associations (gremios) with financial support from CORFO.

Activities with associations are directed towards groups of firms and are aimed at promoting cooperation. These include credit and savings cooperatives, collective purchase of raw materials and inputs, collective sales organisations, clearing houses for subcontracting relations, export committees, design centres, small firm incubators, and industrial parks. In addition to these, there are the PROFOS, which are of a distinct nature and aimed at promoting both direct cooperation between firms and an increased take-up of the other services provided by SERCOTEC or other support services for SMEs.

PROFOs are based on the assumptions that (i) the biggest problem facing small firms is isolation not size, (ii) that small firms should be grouped to export, (iii) that the absorption of all of SERCOTECs services needs to be improved, and (iv) that cooperation between firms can be fostered by the State. A PROFO is formed by a group of firms in the same sub-sector and geographical area. The number of firms is small - usually between 10 and 30. Any group of firms can ask to form itself into a PROFO, but CORFO must be convinced that a basis for collaboration exists and that there are clear short-term and medium-term goals which might be met. SERCOTEC is promoting PROFOs for the local market whereas ASEXMA (Association of small export manufacturers) is organizing groups of exporting SMEs along the same principles and under the same name.
CORFO provides grants to subsidise the management (mainly the salary of the manager) of each PROFO, which then prepares a workplan of how to put into effect a programme for modernising the operations and upgrading the technology of the enterprises in the subsector. The PROFOs are expected to reach agreement between enterprises on a common commercial strategy. Other activities of PROFOs include seminars, exhibitions of products, hiring of consultants to help the subsector and their individual firms, management training and in some cases, a common services Centre.

At the start, the above activities are subsidised up to 70% by CORFO (limited to a maximum of US$75,000 equivalent for two years). PROFOs are launched by agreement with representatives of the subsector for a trial 2 year period after which if there is general consensus they will continue to work together within the same framework and will consider establishing a Technological Transfer Centre (CTT) or possibly a common marketing company and/or other joint operations. The initial understanding was that in addition to CORFO's subsidy of $75,000 for each PROFO, the entrepreneurs would contribute $30,000 themselves to start the initiative. In the first PROFO to become active, the entrepreneurs themselves actually contributed more than $100,000. By April 1994 there were 16 PROFOs of export enterprises (grouped in ASEXMA) active in the following subsectors (in some sectors there are more than one active PROFO):

- Textiles and knitting
- Wines
- Computer software
- Electronic appliances
- Electrification equipment
- Shoes and shoe components
- Capital goods
- Metalworking
- Furniture
- Dairy products

Other PROFOs are planned to be set up in the woodworking and auto parts sectors: in all 300 SMEs are working within PROFOS for export and some 200 firms within PROFOs for the local market.

The idea behind the PROFOs is to foster SME modernisation under the initiative and responsibility of the private sector enterprises themselves with initial financial help from a central government agency. The PROFO concept is also based on the principle of stimulating collaboration between firms through helping to organise the most progressive and forward thinking entrepreneurs in a subsector. It is hoped that in the course of time - after 2 years - more permanent forms of mutual cooperation will develop especially in the fields of technology and marketing.
9. **Donor Financial Support to Private Sector Organisations**

One of the key problems faced by all private sector organisations in developing countries which affects their ability to provide quality services is a lack of finance. Activities such as training, providing consultancy and information as well as the routine operations of such organisations in fields such as lobbying, require staff and this can be expensive. The private sector organisations in developing countries are either voluntary (in the Anglo-Saxon tradition) or compulsory (“French system”); but in any case, membership fees have to be kept relatively low if they are not to deter enterprises from becoming members (and from leaving the informal sector).

Governments and private sector organisations considered to have the potential to develop quality support service, should work out, together with donor support, some schedule for transferring and up-grading the SMEs’ services needed to the private sector organisations, and agree on how this can be financed. A German aid programme in the Philippines has been engaged in such a project since 1990, starting with covering, from donor funds, 50% of costs of operating services, reduced to 20% after 5 years and then expect the local organisation to finance the operation themselves. Although the local counterpart organisations (generally regional Chambers of Industries) have been able to develop some matching funding, this (as might have been expected) has not been enough to replace the German aid funds.

10. **Support from Universities**

The term ‘networking’ is used to describe a support system where SMEs seeking assistance will benefit from help and advice from a variety of sources - technology research institutes, management or business development advisory centres, universities’ postgraduate students and faculty members, professional staff and management of large firms, retired executives and private consultants. The SME looking for advice will, through the ‘network’, reach the appropriate person (or persons) able to provide the assistance through referral from a central business advisory centre (or an institution with a similar function) which, through a preliminary consultation and diagnosis, will decide who (and where) suitable help can be available. Some facilitating financing arrangement has to be worked out - either in the manner outlined in the section on ‘Private Consultants’, through partial funding by large firms or direct funding from public sources. Successful networking may depend on full information and data on possible assistance available at the first point of enquiry (advisory or promotion service), which then becomes the main focal point for directing SMEs to where they can obtain help.
As pointed out earlier, no single organisation can expect to have all the information, knowledge, experience and 'know-how' to resolve all the problems faced by all SMEs in a developing country. A well designed support system should mobilise and focus all the resources available to help SMEs. The sources of assistance in any country may be wider than generally thought. One major source - private consultants - has already been mentioned. But support for SMEs may also be available from academic staff (and post-graduate students) of Universities and Technical Colleges. There is the example in the US where Small Business Development Centres (SBDC) were set up in 1977 in more than 50 universities throughout the country (USA) with funding from the Small Business Administration (SBA).

The SBDC services range from free counselling to individual businesses in financial management, marketing, technical problems and in investment decisions, to training programmes, usually short courses on such subjects as legal matters, financial and cash management, record keeping, marketing and advertising, franchising, how to develop a business plan and personnel management. Use is also made in these courses of instructors from SCORE (Senior Corps of Retired Executives), a group of volunteers of retired persons with long experience in business who offer their services for no fee (only limited expenses). SCORE also runs its own training and counselling services for small business, also with financial support from SBA. SBDC counselling and training activities are generally not organized along subsectoral lines. Service enterprises such as retail stores, restaurants, personal services, etc. are prominent among the recipients of SBDC assistance and participants in the courses. Some claim that SBDC concentrate too much on management counselling and neglect help in technical innovation and introducing new technologies.

In recent years, however, SBDC activities have tended to focus assistance to small businesses along lines in keeping with national priorities. For instance SBDC's now offer counselling and guidance on how to obtain research funding to develop or improve products. Other courses and workshops help inventors to evaluate the technical and market feasibility of new products developed. SBDC also offers counselling and training to help small businesses to export.

SBDC's also work closely with the 'incubator' programmes designed to provide new entrepreneurs and businesses with small affordable premises to help cut costs by sharing administrative services such as bookkeeping, secretarial help, marketing services, etc., where they also can more easily take advantage of on-site management counselling and training provided.

The location of SBDC's within academic institutions was intended to make use of all faculty expertise but in practice this has not always proved feasible. The demands of the ongoing educational programmes have often made it difficult to use all the specialists available in the academic institution concerned. This conflict is even more pronounced in the consulting to individual SMEs, where the extension and advisory
work is undertaken by students (graduates and undergraduates) as part of their course requirements with only limited supervision of faculty staff.

The US experience shows how universities and academic institutions can be harnessed for SME support but it would be wise to proceed cautiously in replicating the US system although the Philippines and some Latin American countries (Argentina, Mexico) have in some districts set up similar types of programme with universities. Similar roles are undertaken in relation to SMEs by Universities in Canada, Australia, the U.K. and others.

11  Support from Large Enterprises

In recent years many observers of the SME scene have expressed the view that there is a great deal of scope for support to SMEs from large enterprises. As has been noted, linkages such as subcontracting relationships which should be mutually beneficial can open opportunities for large firms to advise and assist small firms directly. There are however more possibilities for such collaboration than just through subcontracting relationships. Large enterprises often see assistance to SME as a way of increasing purchase of their own products (e.g. equipment manufacturers, producers of raw materials, steel, aluminium, plastics, etc.) and/or as a public relations operation.

Several studies have found that successful small firms rely overwhelmingly on customers and larger suppliers for technical advice and assistance, especially when setting up new production lines, organising testing facilities and advice on materials and equipment. In some countries (Korea, Colombia, Indonesia) some firms report increasing reliance for information on private (or informal) networks of firms and institutions in the district in which they operate (Pyke 1994).

In several European countries - France is an example - business associations and chambers of commerce arrange meetings, seminars and consultation forums and clinics where SMEs obtain information on new technologies, new equipment, improved techniques, management and marketing from representatives of larger firms operating in the same or similar sub-sector. In some localities in Europe - in France and Italy for instance - professional staff from large firms answer questions from SME owners/managers and discuss how to tackle particular problems. Mutual visits are sometimes arranged to expand the interaction to ‘on the spot’ explanations and advice.

There have been programmes, e.g. in the UK, for formalising assistance from large enterprises to SMEs notably through the creation of ‘enterprise agencies’ on a local basis. By the end of the 1980’s there were 240 such locally based agencies providing what has been called “grass roots advice and counselling”. Started with the founding of the London Enterprise Agency in 1976 and Enterprise North for the Northern part
of the country soon after, the enterprise agencies were efforts by the local or regional larger businesses to provide help to smaller businesses. Most of the support was through referrals (or ‘signposting’ as it has been called), i.e., to tell entrepreneurs possible ways of raising finance through both equity and loans, where to go to obtain training or information, how to get suitable premises or assistance with accounting or taxes, obtaining government orders, or get into export markets. The agencies are centrally located, funded by the large businesses and staffed by qualified and experienced professionals (usually nearing retirement) seconded from large companies who pay their salaries and benefit. Most local enterprise agencies have small staffs of two or three professionals with the largest - such as London - up to 20 persons. The large companies fund most of the operating costs of the agencies - office rental, travel expenses, support staff, materials etc., but the Government Department of Trade and Industry has been contributing in recent years and so have local authorities. There is now a coordinating ‘umbrella’ organisation for sub-agencies called ‘Business in the Community’. The enterprise agencies in the U.K. therefore are a significant example of a cooperative effort between the public bodies and the local private sector. The enterprise agencies now collaborate in several SME assistance projects with the Small Firm Service of the Department of Trade and Industry (DTI).

The possibility of developing local enterprise agencies on the U.K. pattern could also be explored as to their suitability and possible effectiveness or relevance and need for adaptation before introduction to developing countries.

Although it would be difficult to develop enterprise agencies (or similar forms of local collaboration between large and small enterprises in all developing countries), there have been some initiatives in Eastern Europe (Hungary) and, in late 1970, in Singapore and the Philippines where there is an organisation formed by larger businesses to help SMEs (and micro-entrepreneurs), i.e., the Philippines Business for Social Progress (PBSP). It mobilises funds from the business community (with the prime objective of reducing social unrest and helping the disadvantaged) to provide credit and extension services to help the poor to generate income through starting businesses. PBSP has mainly operated a small credit programme for micro-enterprises from funds raised from members (reaching US$ 4 million by 1988), but it has also assisted small businesses with some limited training and advice, (it has received support from USAID.)

In some Latin American countries (Colombia, Mexico, Dominican Republic, Ecuador and others) foundations have been set up and funded by large corporations and wealthy individuals to help SMEs (mainly micro-entrepreneurs). Some of such agencies actually offer direct practical help such as credit, guarantees to banks for loans, training, management development and consultancy. Others have helped promote ‘incubators’ and ‘industrial clusters’ with common services and facilities.
There are also a number of examples of less formal links through which large firms help SMEs in developing countries. There is an example in Kenya where there are now some direct aid programmes carried out by large firms. The British American Tobacco Company (BAT) has co-sponsored a project to help SMEs in marketing through organising and financing exhibitions and symposia held in collaboration with small business associations. General Motors (Kenya) provides workspace for artisans in Nairobi (and in other areas) to expand their business activities, and at the same time is helping to organise suppliers of motor vehicle spare parts. There are now 80 suppliers of local vehicle components, most SMEs with less than 20 employees. There is an organisation K-MAP in Kenya (Kenya Monitoring and Business Counselling) - supported by USAID as well as by ODA and the Netherlands - using volunteer counsellors from large businesses to help SMEs.

In Indonesia and the Philippines schemes have been launched of ‘fostering’ the ‘adoption’ of SMEs by larger firms. The ‘adopted’ SMEs are supposed to meet regularly with professional staff members and managers, consult on their problems and visit the large firms periodically. The idea is based on similar arrangements between large enterprises and SMEs in France or Italy but the difference is that (in France) the meetings and assistance given by the larger ‘brother firm’ is monitored through the local chamber or business associations. In Indonesia and Philippines the scheme, although well intentioned, has only limited success and tends to degenerate into social activities only. Such schemes can be of assistance to SMEs and provide support but should preferably be monitored through a private sector association or a business advisory centre to ensure that the large firm provides some real assistance pertinent to the SME’s situation and is responsive to its needs.

12 Problems of Creating ‘Support Networks’

The difficulties of developing a suitable support ‘network’ for SME in developing countries should not be underestimated. Institutions are notoriously reluctant in most developing countries to cooperate with each other. A high and exaggerated degree of individualism permeates most institutions and their management and there is an intensity of competition for funding, especially from governments and from donors.

Building cooperation between institutions in the public and private sector, between academics and the business world and between large and small enterprise is a mixture of coercion, pressure, explanation, information and incentives. At times it may be necessary for governments, donors and regional authorities to deprive institutions that refuse to cooperate with other agencies or seek to duplicate facilities of the funds to carry out their programmes.
It will be necessary to assign the role of initiating the ‘networking’ to one smaller promotion centre or an enterprise development agency, in the initial stages of launching and building up the system. The process will require patience and will take time to develop and become accepted. In the final analysis if over time it is clear that certain institutions are major barriers to the development of the system, then radical steps will have to be taken by the concerned authorities, such as stimulating restructuring of the institutional framework, ‘downsizing’ the recalcitrant institutions, replacing executives or even eliminating the organisations completely.

In the least developed countries, ‘networking’ could be more difficult to start because there are less available sources of SME assistance. However, this does not mean that a start cannot be made. Some limited referral system can be initiated even in least developed countries where there are always some larger enterprises, a university, SME support institutions and some foreign expert teams who can form a basic ‘network’,

Within the scope of this major thrust towards helping the dynamic expanding industrial SMEs there may be justification in certain countries, under suitable conditions, to offer help to very small units that could be classified as micro-enterprises, if and when they are set up and being developed by dynamic entrepreneurs, displaying growth potential and moving towards graduation into the mainstream of the formal SME sector.

13 Finance for SMEs

It is beyond the scope of this paper to discuss forms of financial assistance for SME. In any case, it is generally accepted that it is not UNIDO's role, nor has it the resources, to provide direct financial assistance for SMEs or, indeed, for any other sub-sector of the economy. UNIDO's role is only complementary, e.g. by building national capabilities to prepare bankable projects or by monitoring such credit schemes. However, it is also recognised that access to finance is a major constraint for all SMEs and can seriously affect the ability of a small industry to survive, to increase capacity, upgrade its technology and even, in many cases, expand its markets, improve management or raise productivity.

Most financial assistance for SMEs is offered as loans but lack of collateral, the fear of excessive debt burdens and the low profitability for banks in lending to SMEs, impose definite limits on the levels of finance, in the form of credit, that SMEs can expect to receive. SMEs in developing countries need equity or venture capital as well as finance in the form of loans. Most SMEs in developing countries are undercapitalised and usually rely, to an extent more than prudent, on loan capital (i.e. debt) or on retained earnings which are usually inadequate. Most SMEs in developing countries badly need an injection of equity capital where the investor participates in the risk so that returns are linked to the success of the business. Equity or venture
capital often (although not by any means on all occasions) involves investment not only in additional financial capital but also in the introduction of new technology, management assistance and, in some cases, new market(ing) outlets. Most venture capital for SME comes from private or public companies, but there are some investments that are from individuals (referred to often as ‘business angels’), who, in most cases, want to make a direct contribution to the management of the company and to improve and/or expand its operations.

The SME support systems reviewed in this paper may in some circumstances find it most effective to be linked to an investment of new equity capital which may come from an individual investor (‘business angel’) from a venture capital fund (perhaps linked to a financial institution), or may take the form of a merger with another small business (less usual). Preparing a convincing ‘business plan’ may be the first vital step by an SME to obtaining the financing in the form of an equity investment and the support network is expected to offer substantial help in this respect.

CONCLUSIONS: PRIORITIES FOR UNIDO

1.) In recent years most donors have increasingly focused on micro-enterprises, artisans, cottage industries or informal sector businesses in the belief that through helping this group they are contributing to poverty alleviation and assisting in the development of income generation for the poor. Most of this assistance is channelled through NGOS.

UNIDO has been mandated within the UN community to promote and support industrial development, to contribute to overall economic and social development by promoting the industrial sector.

UNIDO has, in its staffing and structure, a relatively strong technological base. The agency should therefore focus both in fulfilment of its mandate and in the best utilisation of its limited resources, on helping the development of competitive and dynamic SMEs poised to expand into wider domestic and global markets. UNIDO’s assistance can continue to focus on the development of efficient and competitive production systems of SMEs in both urban and rural areas.

2.) The primary focus of the technical assistance offered by a multilateral organization, such as UNIDO, in support of small enterprise development, should be to help develop a system in which SMEs can rely on a ‘network’ of sources of assistance to overcome the constraints on its competitive and successful growth. Experience indicates that the major sources of assistance likely to be most effective in the long run will be from the various elements of the private sector and through non-governmental organisations.
3.) **Policies:** It is now generally recognised that the policy environment is a crucial factor in stimulating SME development but it cannot be expected that an organisation such as UNIDO, offering to furnish non-financial assistance would have the leverage on governments alone to be able to convince authorities to effect major changes. UNIDO can, however, join with other donors, possibly with some who have financial programmes, because greater aid resources may have more influence on governments towards changes in policies in situations where this is seen to be indispensable to foster and strengthen SME development. UNIDO personnel, especially those working for longer periods in the countries concerned can contribute to this process by helping to discuss the results of certain policies, measures and decisions of the government.

3.1 **With the Private Sector:** UNIDO should continue to direct its support programmes and projects towards the strengthening (and creating such organisations when non-existent) of private sector representative organisations to convince members and management of such bodies to establish and expand services to assist SMES. One of the first steps in some developing countries will be to convince government representatives to increasingly work with the private sector organisations in promoting SME support services. In a few countries, UNIDO will probably have to confront a reluctance on the part of government officials to forego their central role of receiving and using directly donor funds and to agreeing to transfer such funding as well as government subsidies to the private sector organisations.

The major objective of UNIDO’s technical assistance efforts should be to advise on and assist in the creation of a ‘network’ of potential providers of support to SMEs by identifying institutions and individuals who can offer assistance. Assistance for SMEs could be from technological research centres and institutes, business associations, banks, business advisory or promotion centres, small business development agencies, universities, professional staff or managers of large enterprises, private consultants, retired executives.

UNIDO could support the implementation of an agreement with governments and financial institutions on a cost sharing basis of financing consultancies for SMEs and a code of practice for consultants, a method of screening and registering those who offer consultancy services and ways of handling those who violate the ‘code’.

UNIDO is helping and should help in the promotion of subcontracting through organising exchanges, clearing houses, exhibitions and special meetings between potential partners in subcontracting relationships and to work out how the ‘network’ of assistance providers can be utilised to raise standards of subcontractors, to meet quality levels, costs and delivery times as required.

Large and Small Enterprises: UNIDO should continue to promote the assistance by large firms to SMEs. Innovative approaches used in different countries (both advanced and developing countries) to foster such interfirm cooperation should be
studied including the resultant achievements and their suitability for replication in other developing countries with appropriate adaptations to fit the local situations.

3.2 Industrial Districts and Clusters: Innovations in ‘collective actions’ to achieve great cost-effectiveness through group meetings, mutual visits and training sessions, adoption schemes and clinics to diagnose problems and discuss remedies should also be studied, evaluated and initiated with UNIDO support where appropriate.

UNIDO should continue in this field (in addition to activities already suggested):

- to identify such ‘districts’ and ‘clusters’ and their needs for assistance;
- to help foster establishment of organised groups, formal and informal associations and other institutions, to develop cooperation among the ‘occupants’ of the ‘clusters’;
- to promote vertical and horizontal integration between enterprises through subcontracting and other joint production arrangements;
- to work with local representatives to improve support services as needed;
- to support the development of additional facilities such as incubators, etc.

3.3 Technology: UNIDO should analyze in more depth the ways in which technology is now transferred to SME in developing countries, including experience in locating sources of suitable technologies and the results of ‘know-how’ or technical assistance agreements.

Proposals should then be developed on ways of facilitating and improving the flow of information on new and better technologies and more modern and efficient equipment. Through the use of networking it is important to assist in this process by encouraging SMEs to use existing technological institutes or agencies according to their real needs.

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MAIN REFERENCES


