

UNITED NATIONS INDUSTRIAL  
DEVELOPMENT ORGANIZATION



# SUPPORTING PRIVATE INDUSTRY

PRIVATE SECTOR DEVELOPMENT BRANCH

Investment Promotion and  
Institutional Capacity Building Division

Contact information:

Wilfried Lütkenhorst  
Director

Private Sector Development Branch  
Investment Promotion and Institutional  
Capacity-Building Division  
United Nations Industrial Development Organization  
P.O. Box 300, A-1400 Vienna, Austria

Tel:(+431)26026-4820/4821  
Branch Fax:(+431)26026-6842  
E-Mail: [wluetkenhorst@unido.org](mailto:wluetkenhorst@unido.org)

PRIVATE SECTOR DEVELOPMENT BRANCH

Investment Promotion and  
Institutional Capacity Building Division

# SUPPORTING PRIVATE INDUSTRY



UNITED NATIONS INDUSTRIAL  
DEVELOPMENT ORGANIZATION

Vienna, 1999

# Contents

Industry in economic and social development .....	1
The United Nations and the business community .....	2
The role of UNIDO in private sector development .....	3
Private Sector Development Branch (PSD) .....	6
PSD as a coordinator of UNIDO private sector programmes .....	6
PSD as a provider of technical cooperation services .....	6
SME policy framework .....	9
SME networking .....	12
Industrial business development services .....	14
Rural SME development .....	16
Women in business .....	19





*This brochure presents the activities of the Private Sector Development Branch (PSD) of the Investment Promotion and Institutional Capacity-Building Division of UNIDO. Recognizing that a thriving private sector is crucial for economic growth and social progress, PSD's mission is to promote private industrial entrepreneurship in developing countries and countries with economies in transition. It pursues this objective with 18 highly skilled and experienced professional economists, who have developed a variety of methodologies and tools designed specifically for this purpose.*

## Industry in economic and social development

Industrialization has historically been a significant driver of modernization. It has retained its importance for developing countries and countries with economies in transition to the present day, providing them with the principal means to increase their productivity. This, in turn, provides the foundation for a long-term and sustainable increase in the standard of living and a corresponding decline in poverty. Industrial development is also critically important because of the support it provides to other sectors of the economy, for example by raising agricultural productivity and through the processing of agricultural goods. In addition, it provides the base for the emergence of many firms offering high-tech services in support of manufacturing activities.

In recent decades, the process of industrialization has undergone profound changes. Just as in other sectors, the market has replaced the State as the primary driving force. While industrial development has remained the basic instrument of economic modernization for developing countries, this shift in emphasis from the public to the private sector (see table) has not proved to be the panacea that many expected. Serious challenges continue to confront developing countries and the economies in transition in their efforts to become competitive and integrated

into the world economy. It has become clear that the role of government has not declined, but has shifted from the exercise of direct ownership and control over the means of industrial production and distribution to the provision of an enabling environment required to support sustainable industrial development.

The recent advances in communications and production technology, combined with the liberalization of global and regional trade, point to a significant worldwide increase in the productivity of enterprises. The new opportunities offered to large numbers of producers in developing countries, including small and medium enterprises (SMEs), through the resulting access to new markets, sub-contracting relationships

### Private fixed investment as a share of total fixed investment (weighted average, in per cent)

Region	Average 1970-1979	Average 1980-1989	Average 1990-1996
East Asia	73.2	70.4	74.8
South Asia	55.8	50.5	61.1
Europe, Middle East and North Africa	53.1	51.6	62.8
Latin America and the Caribbean	63.9	68.6	76.2
Sub-Saharan Africa	50.8	57.6	68.5
<b>All developing regions</b>	<b>61.8</b>	<b>63.1</b>	<b>71.2</b>

Source: IFC, Trends in Private Investment in Developing Countries Statistics for 1970-1996, December 21, 1998, figures re-calculated.

and new technologies have greatly enhanced the prospects for a significant acceleration of sustainable industrial development. These opportunities are accompanied by a number of challenges, however, since SMEs in developing countries will now increasingly be forced both to compete against and seek cooperation with

highly efficient international competitors, even in once-protected markets. In view of these challenges, it is becoming increasingly important to design supportive national and local strategies, policies and programmes in order to unleash the full productive potential of SMEs (see box 1).

#### Box 1. The development contribution of SMEs

It is widely recognized that at all levels of development SMEs, the backbone of the private sector, have a significant role to play in economic development in general and in industrial development in particular. SMEs make up over 90 per cent of enterprises in the world and account for 50 to 60 per cent of employment. SMEs engaged in manufacturing account for between 40 and 80 per cent of manufacturing employment. In the Least Developed Countries (LDCs), UNIDO's priority clients, the role is even more important since SMEs often offer the only realistic prospects for increases in employment and value added. This applies equally to the countries with economies in transition, where large inefficient State-owned enterprises are giving way to much smaller and more efficient private entities.

SMEs make a vital contribution to the development process for the following reasons:

- ❑ *SMEs are more labour-intensive and tend to lead to a more equitable distribution of income than larger enterprises.* They play an important role in generating employment and thus alleviating poverty, often providing employment opportunities at reasonable rates of remuneration to workers from poor households and women who have few alternative sources of income.
- ❑ *SMEs contribute to a more efficient allocation of resources in developing countries.* They tend to adopt labour-intensive production methods and thus more accurately reflect the resource endowments in developing countries where labour is plentiful and capital is scarce. To the extent that these enterprises operate in "informal" markets, the factor and product prices they face also provide a better reflection of social opportunity costs than the prices faced by large enterprises.
- ❑ *SMEs support the building of systemic productive capacities.* They help to absorb productive resources at all levels of the economy and contribute to the establishment of dynamic and resilient economic systems in which small and large firms are interlinked. They also tend to be more widely dispersed geographically than larger enterprises, support the development and diffusion of entrepreneurial spirit and skills, and help to reduce economic disparities between urban and rural areas.

#### The United Nations and the business community

*"The United Nations once dealt only with Governments. By now we know that peace and prosperity cannot be achieved without partnerships involving Governments, international organizations, the business community and civil society. In today's world, we depend on each other. The business of the United Nations involves the businesses of the world."*

*Kofi Annan  
United Nations Secretary-General*

Responding to the changes in the economic realities facing developing and developed nations, the Secretary-General of the United Nations has launched a new partnership between the United Nations and the private sector as one of the cornerstones of his reform programme to prepare the United Nations system for the 21st century.

Serious imperfections still exist in the global market, as shown by the recent financial turmoil with its worldwide economic and socio-political repercussions. Thus, it has become evident that strong international cooperation and a coherent framework of global rules are necessary to avoid future crises and a possible social backlash. Few would now deny that there is a growing need for a partnership between the United Nations system and the private sector in order to meet more effectively the challenges of globalization with its strong influence on industrial production, trade, financial markets and information flows across the globe.

*“More and more, in a world of common interests, common challenges and common vulnerabilities, the United Nations and business are finding common ground.”*

Louise Fréchette  
United Nations Deputy Secretary-General

With this understanding, a Joint Statement on Common Interests was issued in February 1998 by the United Nations Secretary-General and the International Chamber of Commerce to further the dialogue between the United Nations and the private sector. One of the main objectives of this cooperation is to move from the narrow concept of “shareholder value” to a broader acceptance of the need for “shared values”, acknowledging that there are more stakeholders in the success of an enterprise than those who own and trade its stock. This reflects an enhanced awareness of the impact that enterprises have on the social and economic conditions of the countries in which they work, and an increasing acceptance by them of their responsibility in helping to raise the ethical values, working conditions and environmental practices in these countries.

## The role of UNIDO in private sector development

UNIDO is the specialized agency of the United Nations dedicated to improving the lives of people in developing countries and in countries with economies in transition through industrial development. Acknowledging private sector leadership in business matters, the promotion of private sector development is a key principle of the Organization’s work. UNIDO’s aim is to help lay a firm foundation for long-term sustainable economic and social progress in its partner countries, enabling them to overcome their development constraints and generate their own economic wealth.

### Box 2. United Nations—Business cooperation

The advantages and the joint agenda of United Nations—Business cooperation as seen by the Secretary-General are summarized below.

The United Nations can:

- ❑ Promote the development and peace essential for trade and investment to occur and for business to grow
- ❑ Provide “soft infrastructure” for the global economy, setting technical standards and norms, and collecting statistics and information to facilitate economic activity
- ❑ Prepare the ground for investment by promoting political stability and good governance, and working to improve education and social well-being
- ❑ Work to solve global environmental problems

The private sector can:

- ❑ Help in integrating the developing world into the global economy by fostering worldwide economic growth
- ❑ Provide technical and managerial expertise, technology and know-how, and financial and other resources, as well as market outlets
- ❑ Invest in developing countries to help improve living standards and social well-being in these countries
- ❑ Assume responsibility for providing solutions to environmental problems

Together they can:

- ❑ Spread the benefits of globalization more widely
- ❑ Expand economic opportunities, especially in countries which may face marginalization
- ❑ Make investments conducive to sustainable growth and development
- ❑ Alleviate poverty and develop human resources
- ❑ Promote the creation of a business-friendly environment

UNIDO does this by:

- ❑ Acting as a forum for global debate on industrial development, and as a facilitator for the exchange and dissemination of industrial information, best practice principles, and norms and standards.
- ❑ Providing integrated technical cooperation services focused on helping to build national capacities, especially at the policy and institutional levels, according to the requests and needs of its client countries.

"I have no doubt that the multilateral institutions have a major and positive role to play. I have also no doubt that the business community, in its own interest, has a role in defining the multilateral institutions' mandate as we move into the new millennium. Working with the private sector is one of my highest aspirations and priorities."

*Carlos Magariños*  
*Director-General of UNIDO*

In line with the priorities of the United Nations, UNIDO's work addresses three broad dimensions referred to as the "3Es":

- Competitive Economy
- Sound Environment
- Productive Employment

These basic dimensions capture the essence of UNIDO's services, which are intended to enhance the competitiveness of enterprises and of the countries in which they operate (Economy), to address and prevent ecological problems in industrialization (Environment), and to stimulate the creation of productive jobs (Employment).

The key word in the delivery of UNIDO's services is *integration*, by which the Organization ensures that any support rendered to client countries is provided in a complementary and coherent manner, and leads to synergy at the level of both the direct and ultimate beneficiaries, be they enterprises, private and public support institutions, ministries or other public bodies.

Although the work of UNIDO is global, in line with its mandate as a specialized agency of the United Nations system, the Business Plan adopted by its Member States at the end of 1997 places a special focus on Africa and the Least Developed Countries (LDCs). Special attention is also given to agro-related industries, as well as the integration of women in industrial development.

UNIDO places particular emphasis on supporting SMEs because of their dominant role and

unfulfilled potential in many developing economies, especially LDCs, and in the economies in transition. Clearly, there is no formal and generally accepted definition for SMEs, which are categorized differently from country to country and within countries depending on the objectives of various regulatory and incentive systems. In a functional approach, UNIDO defines SMEs as enterprises that are too small to achieve an optimal division of labour, and thus an internal specialization in their business operations. In supporting SMEs, UNIDO focuses on the institutional level of intervention: strengthening national capabilities to provide a conducive and demand-led support environment for the establishment and growth of competitive enterprises.

In line with the global shift from government intervention towards the creation of an environment in which market forces play a dominant role, UNIDO places private sector development issues at the core of its vision, mission and operations. Over the years, private sector development has increasingly become the objective of most of UNIDO's technical cooperation projects in developing countries. Such cooperation now focuses on the creation, survival, expansion, modernization or rehabilitation of private enterprises, the strengthening of their representative business organizations, and the creation of a more favourable policy and institutional environment. In addition, UNIDO has increasingly established linkages with institutions and enterprises in the private sector of developed countries, many of which have become partners in projects and contributed to UNIDO's work both as a global forum and as a provider of technical cooperation.

With regard to the funding of UNIDO's technical cooperation activities, it is important to note that private sector institutions in developing countries are increasingly paying directly for the assistance received. For example, a UNIDO project in Brazil aimed at providing institution-building support to increase the productivity and competitiveness of the textile and garment industry, is being funded by the Servicio Nacional de Aprendizagem (SENAI), an important support institution providing education and training in the industrial field.

**Box 3. UNIDO's guiding principles**

Past efforts to support private sector development have taught many lessons to both bilateral and multilateral donor and technical cooperation agencies including UNIDO. From these, UNIDO has distilled a set of guiding principles aimed at maximizing the impact of the assistance it provides. These are as follows:

- ❑ *Design support programmes on the basis of sound preparatory work:* undertake strategic baseline assessments of priority sub-sectors with the greatest development potential, institutional strengths and weaknesses, key bottlenecks etc.;
- ❑ *Promote networking:* bring together enterprises, support institutions and government in conceiving and implementing strategies and action plans;
- ❑ *Give a key role to, and bring together, national stakeholders:* include private and public, national, regional and local representatives in the process of priority-setting and programme design, with a view to ensuring national ownership of the programme and its results, thereby contributing to sustainability;
- ❑ *Focus on capacity building:* emphasize the policy and institutional levels so that recipient countries become able to establish and maintain an enabling environment for doing business and can deliver effective, focused and efficient support to industry and manufacturing-related services;
- ❑ *Use national expertise and work with existing institutions whenever possible:* increase the sustainability of support and reduce the cost of intervention;
- ❑ *Promote decentralized access to support services:* consider the issues of regional imbalance and reflect the subsidiarity principle; also take into account the capacities of the target beneficiaries and the need for proximity to them;
- ❑ *Contribute to closing the gender gap:* increase the access of women to resources and economic opportunities;
- ❑ *Introduce a commercial orientation in the delivery of support services:* cost-share with beneficiaries whenever possible to enhance the cost-effectiveness and sustainability of projects;
- ❑ *Work through institutions to reach groups of enterprises rather than providing one-to-one support to individual enterprises:* select groups of enterprises to enhance the impact and outreach of projects, and reduce the risk of market distortions;
- ❑ *Monitor progress in line with performance indicators:* analyse performance and impact periodically with the stakeholders as defined in the design stage of a project;
- ❑ *Seek cooperation and coordination with related assistance:* work with other donors to create synergy and maximize impact; and
- ❑ *Promote socially and environmentally sustainable approaches to industrial development:* safeguard equitable development and employ environmentally friendly technologies.

## Private Sector Development Branch (PSD)

In providing services to its clients, UNIDO has moved away from the concept of implementation by one single unit of the Organization and now stresses the need for a greater impact of its support efforts through better coordination and more synergy among various UNIDO units. While the various branches of UNIDO are responsible for different types of core services, the Organization now provides its support primarily through integrated packages of services, involving multidisciplinary teams of staff whose composition depends on the problems and priorities of the client. For activities relating to private sector development, the Private Sector Development Branch (PSD) assumes a coordinating role.

## PSD as a coordinator of UNIDO private sector programmes

The coordinating role of PSD in the field of technical cooperation can be illustrated by reference to the integrated private sector support programme for Guinea (see box 4), in which the branch leads a cross-organizational team. Another good example of the coordinating role of PSD is the UNIDO—Private Sector Partnership Programme as described below.

Within its global forum function PSD collects, disseminates and exchanges information on the lessons learned and best practice principles identified from support programmes for private sector development, as well as stimulating debate on these issues both within UNIDO and among client countries. In fulfilling this function PSD also represents UNIDO in private sector fora and networks with donors active in the field of private sector development. In addition, it serves as the entry point and facilitator for private sector organizations seeking cooperation with UNIDO as partners or clients.

## UNIDO—Private Sector Partnership Programme

SMEs in developing countries can benefit from being linked to the supply networks of trans-

national corporations (TNCs). To enable them to realize these benefits, UNIDO has launched a programme which forges an innovative multi-sector partnership between SMEs, government institutions, civil society organizations, the international business community and industrial research institutions.

The objective of the UNIDO—Private Sector Partnership Programme is to devise a joint strategy to identify the challenges and opportunities faced by SMEs and support them in improving their performance. Case-work, UNIDO expertise, and the use of analytical tools developed by UNIDO and its partners permit the formulation of appropriate findings and recommendations. UNIDO then works with national Governments and business associations to formulate and implement long-term solutions to sector-specific problems so identified.

India is the first country in which the Programme is being applied, with the objective of strengthening the supply chain among SMEs in the automotive component sector through technical cooperation (see box 5).

## PSD as a provider of technical cooperation services

The entrepreneur constitutes the core of the private sector. It is the entrepreneur who takes a business initiative and the corresponding risk. Unfortunately, many entrepreneurs, especially women entrepreneurs and those in LDCs, operate at the bottom of the market, competing on the basis of low cost, low price and low quality. To some degree the limited size and weakness of the indigenous private sector in many developing countries can be attributed to a lack of entrepreneurship and an inability to respond effectively to business opportunities. This seriously inhibits the survival and growth of micro, small and medium enterprises.

Key to the success of SMEs and the programmes supporting them is the appropriateness of the policy, legal and regulatory environment in which they operate. Many obstacles facing SMEs are related to the overall environment. Policies that

are not directly aimed at SMEs often nevertheless have an impact on them and can put them at a disadvantage, making it difficult for them to gain access to the human, technological and financial resources needed to upgrade levels of quality and productivity. In response to this, a core activity of the PSD Branch is to support a “levelling of the playing field” through the establishment and maintenance of a legal and regulatory framework and an enabling institutional support infrastructure in which SMEs can thrive and prosper.

The inherent limitations of entrepreneurs and SMEs increase the importance of linkages with markets and sources of supply in order for these enterprises to compete and grow effectively. Thus, support to the formation and strengthening of networking and pooling arrangements among smaller firms and between SMEs and larger firms is given

special attention, often in the context of sectoral industrial clusters.

While entrepreneurs in developing countries and countries with economies in transition may be good at identifying opportunities, they tend to have limited knowledge of the administrative, regulatory and financial aspects of business management necessary for success. Properly targeted business development services providing access to information, training and advice can overcome these problems. Business centres or business incubators can be an efficient way of providing managerial and technical support services to SMEs.

Special attention is given to promoting and supporting micro, small and medium enterprises in rural areas where, in Africa and the LDCs, typically more than half of the population lives.

#### **Box 4. Integrated support to the national private sector development programme in Guinea**

Guinea is one of the African countries for which an integrated UNIDO programme was formulated in November 1998. The UNIDO assistance covers support to a national private sector development programme (Programme Cadre de Soutien et de Développement du Secteur Privé). This national programme, elaborated with the financial support of UNDP and validated by the national stakeholders in September 1998, reflects a comprehensive and ambitious plan of actions at the sectoral and cross-sectoral levels. Its implementation involves a vast range of national and local organizations and actors in both the public and the private sector. The objective of the national programme is to gradually reduce the barriers hampering private sector development, and to combat poverty by promoting the creation of income and employment opportunities.

A unit established under the lead Ministry, the Ministry of Trade, Industry and Small and Medium Enterprises, is responsible for the day-to-day coordination of the programme, including its ongoing funds mobilization efforts. A Board consisting of representatives of the major stakeholders will guide and monitor the overall programme, thus reflecting a private-public partnership and shared ownership in both the formulation and implementation stages of the national programme.

The PSD branch is leading a multidisciplinary and cross-organizational team to implement the programme, which covers an array of fields such as: industrial policy; investment and technology promotion; SME policy framework; business support services; quality, metrology and standardization; information; agro-industry; cleaner production and waste management.

UNIDO's support to the national programme consists of a package of complementary services at three levels:

- policy and strategy implementation (including start-up support to the coordination of the national programme);
- capacity building at the level of a number of service providers; and
- enterprise-level support through existing institutions.

The focus of UNIDO's support is on sub-sectors where potential impact is highest: agro-industry including fisheries, building materials industries and mechanical industries. The types of enterprises targeted depend on the activities covered, varying from micro- and small enterprises (such as artisans in the traditional textile sector) to formal, medium-sized enterprises (such as the ones seeking partnerships with foreign investors).

The programme involves a range of local partners that are expected to work together in a network to create synergies not only among UNIDO services but also among local institutions. The local partner institutions vary, depending on the nature of the activities and include, *inter alia*, the Ministry of Trade, Industry and Small and Medium Enterprises; the Chamber of Commerce, Industry and Handicrafts; the Investment Promotion Bureau; the Standards Institute; the National Environment Division; the principal agency to support SME development (l'Agence Autonome d'Assistance aux Entreprises); and NGOs.

**Box 5. UNIDO-Private Sector Partnership Programme in India**

The automotive component industry in India is characterized by a large number of small enterprises with a low volume of production of varying quality. These conditions have played a part in inhibiting the evolution of effective linkages between component suppliers at different levels of the supply chain, thus creating a highly fragmented market in which the automobile manufacturers must operate. The low local content and domestic value added of new automobiles on the road in India bear witness to this fact.

In response, UNIDO has taken the initiative to form a partnership between FIAT, INSEAD, the Prince of Wales Business Leaders Forum, the Automotive Component Manufacturers Association of India (ACMA) and the Automotive Research Association of India (ARAI). The Programme will take advantage of the wealth of know-how, technology, and experience of each partner as a building block for the formulation and delivery of an integrated package of solutions for the automotive component sector. Through a demonstration approach, supported by inter- and intra-regional outreach programmes, expert advice in areas such as management, quality, productivity, market access, and supply chain and partnership identification will be provided to local enterprises at the shop-floor level. The Programme expects to help increase the production volume of export-quality components as well as employment levels in small and medium component suppliers producing such quality products.

The contribution of such enterprises to the creation of rural off-farm employment and income-generating activities, as well as backward and forward linkages between the industrial and agricultural sectors, is well known.

As a cross-cutting global issue, levelling the playing field in terms of gender is a major concern. This is reflected in PSD services specifically addressing policy-based constraints faced by women entrepreneurs, as well as facilitating their more equitable access to business development services.

In this landscape, PSD thus focuses on providing information, direct advice, training and institution-building services addressing:

- SME policy framework
- SME networking
- Industrial business development services
- Rural SME development
- Women in business

## SME policy framework

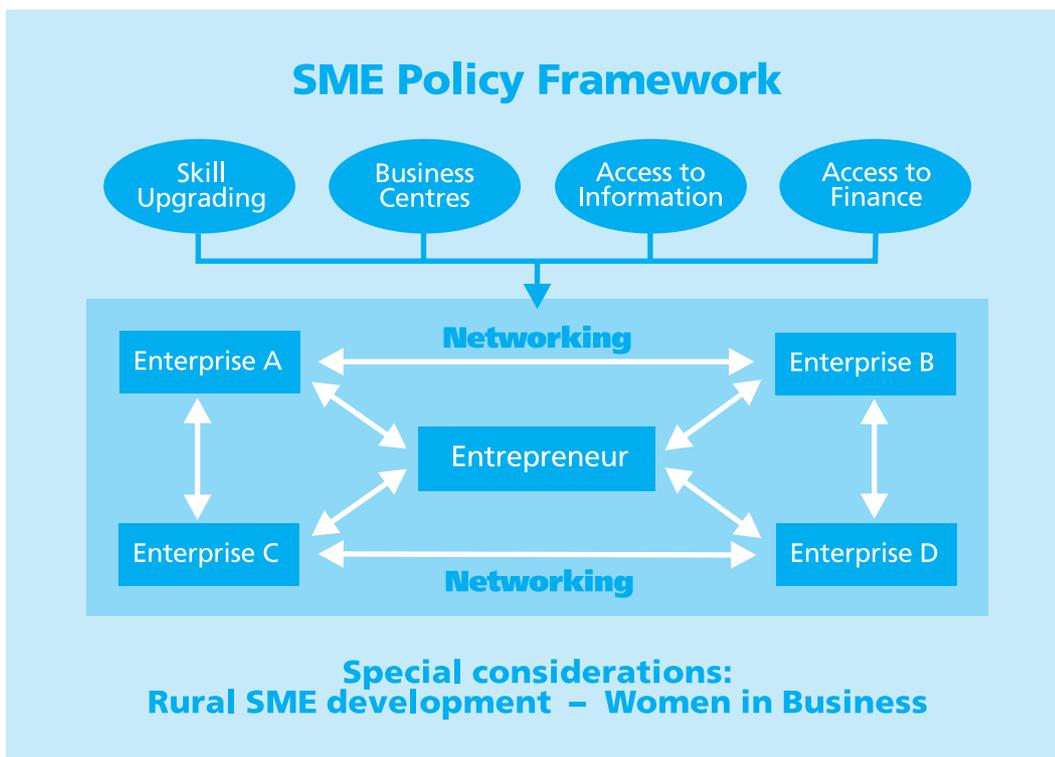
### The problem

*The business environment in which SMEs operate is often not conducive to their growth and success due to lack of a supportive policy framework and appropriate institutional arrangements for promoting the SME sector.*

### Issue addressed

A coherent SME policy is an essential component of a private sector development strategy where the primary objective is to create productive employment, increase income and foster equitable development.

Often, however, policies supporting private sector SMEs are either non-existent or policies





directed at other sectors of the economy have unintentional adverse effects on SMEs. As a result, there is a need to “level the playing field” between SMEs and large enterprises.

This situation frequently arises due to a lack of coordination in policy making and implementation, a lack of information on private sector performance, and insufficient participation of the private sector in policy formulation and subsequent implementation.

#### PSD response

The PSD Branch supports the formulation of national SME development strategies and action plans in a number of countries. An overview of policy towards the private sector in general and an assessment of the degree to which it is supportive of private industry and SMEs in particular, is the first step towards developing a coherent SME policy framework.

Specific policies for SME development are then recommended and their rationale explained. They may include the following elements:

- ❑ A coherent SME policy linked to broader economic and social goals;

- ❑ Appropriate institutional arrangements for implementation and monitoring of policy measures and support programmes;
- ❑ Public-private sector partnership in policy formulation and implementation by enhancing the dialogue between representative business organizations and public bodies on SME policy;
- ❑ Competent business representative organizations to participate actively in the policy dialogue; and
- ❑ Specific support policies for SME development to facilitate access to crucial resources such as finance and information, and to stimulate a more balanced geographic distribution of business activities.

Typically, SME policy issues are an integral component of projects comprising a range of services provided by PSD or other branches of UNIDO. For example, SME policy is a component of an ongoing project in Viet Nam, which also has a major institutional capacity-building dimension in a number of fields involving business development services (see box 6).

UNIDO also cooperates with the OECD in its Forum on Entrepreneurship and Enterprise

**Box 6. Viet Nam: recognizing the importance of industrial SMEs**

The role of SMEs was almost ignored in the context of the centrally planned economy of Viet Nam. After the adoption of the “Doi Moi” (renovation) policy in the late 1980s, SMEs were not immediately identified by policy-makers as an engine of economic growth and social progress. During the 1990s, however, the contribution of SMEs has been increasingly recognized and the Government has begun to include policies and measures in support of SMEs into its agenda.

The project, funded by Germany, began in September 1996. It is based on a detailed assessment of the problems faced by SMEs in Viet Nam and has two distinct components:

- ❑ Direct advice aimed at improving the policy and regulatory framework and enhancing the competitiveness of SMEs, and
- ❑ Capacity-building in business development services.

The development of an appropriate SME policy framework is thus a major component of this project. Work on strengthening and streamlining the legal and regulatory framework for SMEs began to yield concrete results in 1998. Research reports prepared with the assistance of the project contributed to a greater awareness of the importance of SMEs in economic development, and led to such Government decisions as the Circular of the Prime Minister’s Office No. 681/CP-KTN of 20 June 1998, in which SMEs were recognized and defined for the first time. The same decree appointed the Ministry of Planning and Investment (MPI) as the coordinating agency for the drafting of an SME promotion policy. A draft proposal was submitted to the Government by the MPI at the end of 1998.

In the process of elaborating concrete recommendations to streamline legislation affecting SMEs, the project has led to an enhancement of the dialogue between the Government and the business sector. In addition, the project supported the MPI by sponsoring a seminar on “Coordinated Support to SMEs” in May 1998, which was attended by most of the national and international agencies and donors working in this field. The project’s periodic Advisory Board meetings also provide a discussion platform for SME-related organizations participating in the project, and are expected to evolve gradually into a forum for the discussion of SME issues at large.



Development programme (FEED). The objective of the programme is to facilitate the exchange of experience and knowledge on best practices among policy makers and SME development practitioners in Central and Eastern Europe and the newly independent States of the former USSR. This is achieved through a policy dialogue among themselves, as well as between them and the OECD countries. A combination of instruments is employed to achieve this end, including an annual forum supported by preparatory working groups, an Internet site and a directory providing information about FEED members and partner institutions.

### SME networking

#### The problem

*Individual SMEs are often unable to respond to market demand and compete in a globalized production environment.*

#### Issue addressed

Individually, SMEs are ill equipped to capture market opportunities, which require large pro-

duction runs, homogeneous inputs and consistent quality standards. Due to their small size, they experience difficulties in achieving economies of scale and internalizing specialized functions, such as training, market intelligence, logistics and technological innovation.

Networking of individual SMEs can address the problems arising from their size and improve their competitive position. Through horizontal cooperation (with other SMEs occupying the same level in the value chain) enterprises can collectively achieve economies of scale beyond the reach of individual small firms. Vertical integration with other SMEs and with large-scale enterprises allows these firms to specialize in their core business and participate in a system of external division of labour.

Inter-firm cooperation also gives rise to a collective learning space, where ideas are exchanged and developed, and knowledge is shared in a collective attempt to improve product quality and access more profitable market segments. Furthermore, networking among enterprises, providers of business development services (e.g. training institutions or technology



centres) and local policy makers can help to shape a shared local development vision and give strength to collective actions to improve entrepreneurial strategies.

### PSD response

PSD has formulated a technical cooperation strategy for the promotion of SME networking through the development of systematic linkages among enterprises and between enterprises and institutions. This allows SMEs to achieve new collective competitive advantages beyond the reach of individual small firms. The approach has two main components: promotion of inter-enterprise networks, and cluster promotion. A network refers to a group of firms that cooperate on joint development projects, complementing each other and specializing in order to overcome common problems, achieve collective efficiency and conquer markets beyond their individual reach. A cluster is defined as an economic system made up of geographically and sectorally concentrated firms, which give rise to external economies, such as the emergence of specialized suppliers of raw materials and components and the growth of a pool of sector-

specific skills. Such a system also favours the growth of local institutions, both private and public, that foster collective learning and local development by providing technical, managerial and financial services.

UNIDO assists in the design, implementation and evaluation of networking projects. The nature and structure of the projects depends on the specific needs prevailing in particular countries and regions. Thus, a preliminary phase is always launched in order to assess local strengths and weaknesses, shape a focused local development vision with the participation of all actors and establish an action plan to enact that vision. The action plans generally include the following elements:

- Promotion of networks between complementary SMEs;
- Training of cluster and network brokers;
- Promotion of linkages between large and small firms with a view to upgrading suppliers;
- Improvement of institutions that enhance the competitive advantage of clusters or offer specialized services to enterprise-to-enterprise networks; and
- Creation of mechanisms to foster dialogue between the private and public sectors.

#### Box 7. Honduras: Improving SME performance through networking

Small enterprises in Honduras are characterized by low productivity and the poor quality of their output. They survive on extremely narrow profit margins by paying low wages and using cheap inputs. Few are capable on their own of undertaking the process and product innovations that would allow them to become more viable.

In 1995, UNIDO undertook a project to support groups of SMEs in the same sub-sectors to allow them collectively to tap resources and services for greater efficiency and productivity. By developing relations with other enterprises, buyers, customers, subcontractors and service providers, the SMEs were able to improve their competitiveness. By banding together and breaking out of their isolated operating environments, they have generated economies of scale, created complementary strengths and specializations, reduced transaction costs and improved their flexibility in responding to market challenges.

In its three years of operation, the project established 33 networks with common development projects involving some 300 enterprises. Common projects focused on the joint purchasing of raw materials, the joint establishment of retail shops to sell finished products, the launching of new products, product or process specialization, the sharing of large orders (including public procurement), and the creation of new enterprises to complement existing production facilities. A recent in-depth evaluation of six networks showed a positive trend for all basic performance indicators. By the end of 1998, these networks recorded an increase in sales of up to 200 per cent, a rise in employment levels by as much as 50 per cent, and increased investment in fixed assets of up to 100 per cent.

In order to guarantee long-term sustainability, a foundation was established, Centro de Recursos y Tecnología (CERTEC), which began operations in 1997. During its first year of operation, it generated US\$60,000 in revenue from fees charged for its services to enterprises and institutions. This represents more than 50 per cent of CERTEC's annual costs. The institution is now managing the networking programme in Honduras.

## Industrial business development services

### The problem

*Entrepreneurs in developing countries and countries with economies in transition face entry barriers and growth constraints stemming from a general lack of business management skills.*

#### Box 8. Romanian business centres

As a country facing a transition from a centrally-planned to a market-oriented economy, Romania lacked the basic business support services required by the private sector. This project aimed to develop local capacities for providing such services to the private sector throughout the country.

Between 1994 and 1997, PSD helped to establish 16 business centres in Romania, providing general business services such as manuals and guidelines for preparing feasibility studies and business plans, guides to other sources of business support services and access to business consultants. Business counsellors were recruited and trained, and UNIDO's successful Computer Model for Feasibility Analysis and Reporting (COMFAR), was translated into Romanian.

The centres were established as non-profit foundations, each of which was controlled by a Board of "Founders". These founders consisted of various local public and private sector organizations, which were responsible for the overall financial and managerial operation of their respective business centres. The centres all had a business-like orientation that kept costs low enough in the early years to enable them to survive on low fees and small subsidies. The project has been very successful, and all 16 business centres are still operational.

A follow-up study of three of the 16 centres found that the smallest of these had grown from two to 11 employees, and the largest from five to 31 employees. Operations and financial strength (net worth) have also grown over the period. While their sustainability appears to derive partially from a diversification of their sources of income to work not related to SMEs, the centres have retained their original mission of providing support to SMEs.

### Issue addressed

Entrepreneurs are generally able to identify economic opportunities, but are often not able to take advantage of them due to a lack of knowledge and skills. Such skill and information gaps can, however, be narrowed or closed through specific and targeted business development services (BDS). These may include information (by direct contact and publications) and referral; general business counselling with regard to such issues as loan packaging and the preparation of business plans; management training and specialized advisory services such as market research; facilitation of business linkages, technology acquisition and use; and enterprise restructuring and expansion. These services are often provided through business advisory centres or similar units in institutions that offer a mix of services such as Chambers of Commerce.

In a market economy, most BDS should be provided by the market. Governments intervene, however, when it is felt that the problems confronting existing and potential entrepreneurs are not being addressed by market institutions. Small enterprises, because of their size, isolation and inexperience, often lack adequate access to important information and other inputs. The situation is worse in countries with economies in transition, since they have relatively little experience of entrepreneurship and business ownership. As a result, there is a shortage of skilled entrepreneurs and business managers, and of institutions capable of providing enterprises with good quality services in close proximity and at a cost the new entrepreneurs can afford.

### PSD response

PSD's activities in the provision of BDS include support for the design, establishment or strengthening of business service centres operated by a variety of private and public service providers. They help to assess the type of services to be provided, strengthen the institutions that provide them and create awareness of international "best practices" in the provision of such services. In this way, PSD assists developing coun-

tries and countries with economies in transition in formulating and strengthening BDS-related programmes that address many of the needs of the private sector with a high degree of cost-effectiveness.

Business incubators are a specialized form of BDS used by PSD to provide start-up enterprises with a location in which to operate, plus a variety of support services, such as business

counselling, management training, use of equipment and administrative support services. Business incubators can offer a supportive environment in which new businesses can receive intensive support for a limited period of time, usually three to five years. After that, businesses are expected to expand and move out of the incubator, to be replaced by new start-up enterprises. Business incubators thus promote the constant creation and expansion of new enterprises.



## Rural SME development

### The problem

*Establishing and expanding micro, small and medium industrial enterprises is particularly difficult in the rural areas of developing countries, above all in least developed countries, due to poor infrastructure, weak support institutions and policy-induced disadvantages.*

### Issues addressed

In many LDCs and most of sub-Saharan Africa, where the economies are predominantly rural, the private sector is weak and poverty is pervasive.



Some 80 per cent of the world's poor live in rural areas where they face limited income and employment opportunities. The level of social and physical infrastructure in rural areas is poor, while human resource development institutions, private sector industrial organizations and professional services are limited, and public administration is often over-centralized.

Operating small and medium, in particular micro, enterprises is a manageable activity for most entrepreneurs in rural and poverty-stricken areas, and the promotion of these enterprises helps to create the basis for a resilient economy. Moreover, industrial micro-enterprises can act as a seedbed for the emergence of growth-oriented formal SMEs, either within the lifetime of the original enterprise or over several generations. They help to secure sustainable livelihoods and contribute to the growth of household incomes in rural areas by providing alternative and supplemental sources of income for small farmers and reducing unemployment and underemployment.

### PSD response

The PSD approach to the development of rural SMEs rests upon supporting local initiatives in the formulation of strategies and integrated service programmes, including through private-sector self-organization. The aim is to reduce rural-urban imbalances by increasing non-farm income and employment opportunities for the rural population through appropriate technical cooperation activities in a broader political, economic, social, cultural and environmental framework. These activities are designed to help carefully selected groups of target beneficiaries, in particular the rural poor, and to complement other economic, agricultural, literacy, health and infrastructure development programmes.

PSD activities in this field emphasize capacity-building of existing institutions. In particular, they seek to strengthen the capacity of private sector organizations to help themselves and to become active partners of local authorities in promoting economic and social development.

**Box 9. Solomon Islands: development of small-scale industries**

Most of the people in the Solomon Islands live in rural areas and derive their income from a mix of subsistence and commercial activities. They face an acute shortage of job opportunities and are forced to migrate to the urban areas to seek employment.

The objective of this project is to promote the creation and expansion of small-scale industries to generate jobs in rural communities in Makira, Malaita, Isabel and Western Provinces, in order to reduce migration to the capital where there are not enough job opportunities for all employment seekers.

The project aims to strengthen the capacity of the provincial Industrial Development Divisions (IDDs) of the Ministry of Commerce, Employment and Tourism, and of other similar institutions, to provide support services to potential and existing entrepreneurs to start up or expand their businesses. A United Nations volunteer is stationed in each province to train the IDD staff to provide the required services. The volunteers offer managerial and technical training, advisory services for entrepreneurs, and on-the-job training for the IDD staff and other institutions and NGOs to ensure that there will be broader national capacities to carry out these services when the project is completed.

The project has also established consultative committees, consisting of the local authorities and private sector representatives in each province, to develop measures to promote small-scale entrepreneurship. In 1998, the project assisted the Government in formulating policies to overcome the shortage of land for business purposes arising from communal land ownership. The formation of business associations and networking of institutions and programmes were also supported.

During the 20 months of the project, 512 potential and existing entrepreneurs received entrepreneurial and technical training, while the IDDs provided customized advice to 670 entrepreneurs. As a result, 45 new businesses were created and 30 existing businesses expanded their operations. More than 200 new jobs were created.

**Box 10. Lesotho: SME development and informal sector promotion**

Lesotho is predominantly rural, with 60 per cent of its population living in the poor highlands. The main source of employment is subsistence agriculture and exporting labour to the mining sector of the Republic of South Africa. There is an urgent need to create job opportunities in rural areas to counteract the decline in agricultural employment and for miners returning from South Africa. In the past, Lesotho's dependence on South Africa resulted in the neglect of indigenous entrepreneurship development, while policy was more supportive of the trade sector and foreign-owned, medium-sized export-oriented enterprises.

The project, which began in June 1995, is aimed at increasing employment in indigenous small-scale enterprises throughout Lesotho, and particularly in the highland districts.

The project focuses on the following areas:

- ❑ *Improving the policy environment for SMEs* by assisting the Ministry of Industry, Trade and Marketing (MITM) in preparing an SME White Paper; improving the policy implementation capabilities of MITM staff through training, and establishing an enterprise statistics system based on UNIDO's National Industrial Statistics Programme (NISP).
- ❑ *Providing improved access to credit* through the establishment of an NGO Credit Centre in cooperation with the Lesotho Chamber of Commerce, the Lesotho Association of NGOs and Lesotho Women in Business. MITM provided land and premises, while the United Nations Capital Development Fund and the Africa Development Foundation contributed capital, and Irish Aid provided start-up funds for the centre's operation. More than 100 loans, averaging US\$ 500 each, were disbursed in the first six months of its operation, with a repayment rate of more than 80 per cent.
- ❑ *Upgrading technical skills of MSE entrepreneurs and workers* by strengthening the capability of seven training institutions. Irish Aid shared the costs.

A sample survey of the beneficiaries who received training, advisory services and loans showed that 21 per cent had hired new employees, 92 per cent had reported increased business income and 60 per cent had increased the salaries of their employees.

Specific support services offered by rural PSD programmes include the following elements:

- ❑ Assisting Governments in identifying and taking measures to improve the policy environment for, and provide encouragement to, rural entrepreneurial initiatives, in particular for micro and small-scale enterprises;
- ❑ Designing training programmes on entrepreneurship for potential young entrepreneurs in rural areas and for local officials engaged in the implementation of rural entrepreneurship development policies;
- ❑ Assisting rural entrepreneurs to develop collective self-help activities for the establishment of common services, common procurement of inputs, and common marketing of their products;
- ❑ Developing programmes to link local private sector organizations with rural authorities, local service institutions and civil society organizations in order to improve entrepreneurship skills, enhance the capacity of SMEs to absorb new technologies, and create a conducive business environment for rural SMEs to expand into the formal sector;
- ❑ Improving access to small-scale finance.



## Women in business

### The problem

*Women are often unable to contribute to industrial development due to gender-specific constraints and biases. This calls for special measures to tap their potential fully.*

### Issue addressed

Although women can play a key role in the dynamics of industrial development in most developing countries, their potential is not yet fully realized. A serious gender gap has developed over the years as women entrepreneurs have faced a variety of impediments when competing for scarce resources and services due to socio-cultural constraints, lack of legal rights, low educational and skill levels, and limited access to financial resources. These constraints make it more and more difficult for women entrepreneurs, who usually operate on a small scale and at low levels of technology, to enter and remain in markets. Their limited access to appropriate and new technologies makes it particularly difficult for women entrepreneurs to meet the requirements of environmentally sustainable production processes, ecolabelling and strict quality standards imposed by the increasing globalization of markets.

The importance of promoting women entrepreneurship is being increasingly recognized in most developing countries. It is coming to be more and more widely accepted as good economics to encourage women's engagement in productive activities, to bring them into the mainstream of development, and to provide them with employment and other economic opportunities.

### PSD response

PSD follows two approaches in addressing the gender issue. The first is through mainstreaming, whereby the roles and needs of both men and women entrepreneurs are analysed and

solutions are introduced accordingly within a programme. The second is through the adoption of women-specific activities where the particular needs and constraints of women in business are addressed in order to close the gender gap. Generally, programmes specifically designed for women entrepreneurs are intended to promote the social, technical and economic integration of women in the industrial development process by means of appropriate support at the policy, institution and sector level.

A typical PSD programme for women entrepreneurs would include: gender-awareness building to develop the skills of decision-makers to

#### Box 11. Kenya: women entrepreneurs in traditional textiles

Traditionally, women who manufactured textiles and garments produced their products in the backyard or in small production units, and sold them in outdoor markets. They lacked the technical, managerial and marketing skills to improve the quality of their products and diversify them in order to enter new markets.

The objective of this project was to assist women manufacturers of textiles, garments and soft furnishings to make the transition from the informal to the formal sector. The project offered training programmes in textile and garment making in Nairobi, and entrepreneurship, marketing and product development courses in the rural area of Nyeri. Six-month training programmes were organized in production techniques and business management, which were complemented by training-of-trainers programmes. A wide range of short-term courses was also organized in specialized areas such as environmental aspects of dyeing and marketing skills. A non-governmental organization, the Enterprise Development Agency, was founded to ensure the continuation of the programme.

Seven hundred women in Nairobi and Nyeri completed the six-month training programme while 1,000 women participated in short-term courses. Some 670 women now run their own businesses compared with 140 at the beginning of the project. Product lines have been expanded from garments to home accessories, bed linen and children's toys, and 40 per cent of the women now export their products to other African countries. These businesswomen on average doubled their income, and 2,240 jobs were created through the opening of new businesses or through improved and increased production in existing businesses. In addition, the Enterprise Development Agency trains 100 businesswomen and 25 trainers annually.

assess the needs and constraints of women during policy formulation and implementation; gender-specific data and information collection and research, influencing the participation of women entrepreneurs in industry; policy advice; and capacity building including skill upgrading for

women entrepreneurs combining business management and production techniques with confidence building and negotiation skills. Experience has demonstrated that these kinds of programmes enable women entrepreneurs to respond effectively to economic challenges and opportunities.



