

## ~Final Report~

### **“APEC High Level Meeting on Driving SMEs’ Growth to Promote Local Development”**

SMEs are the key players in local economy and also a key force to local development. They can bring employment and prosperity to local communities, and to some extent, they are also able to increase social cohesion and stability. Against this backdrop, a local environment conducive to SMEs’ growth is needed in order to grasp the advantages brought by SMEs. As stated by OECD, “Local strategies which integrate economic, social and labor market aspects within a good governance framework are instrumental to sustainable development reconciling economic growth and social cohesion.” Therefore, SMEs’ contribution to local development depends on a good governance and policy environment on the local level. Acknowledging the importance of SMEs to local development, many other major international organizations, such as OECD, have been actively exploring this issue and have searched ways to promote SMEs’ growth in the local context, while the development in APEC still lags behind. The “APEC High Level Meeting on Driving SMEs’ Growth to Promote Local Development” Meeting was held to address this issue.

The APEC High Level Meeting on Driving SME Growth to Promote Local Development was held from March 31-April 1, 2008, at the Ambassador Hotel, Kaohsiung, Chinese Taipei and was attended by about 140 participants. Representatives from APEC’s 17 member economies (Australia; Brunei Darussalam; Canada; Chile; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; Papua New Guinea; Peru; Singapore; Chinese Taipei; Thailand; USA and Viet Nam), participant (ABAC) and observers (OECD and Macao) attended this meeting. Other local participants had included government officials and representatives of the private sector which included scholars and experts, firms, and industry associations.

The meeting was held in conjunction with the 26th APEC SMEWG meeting with the theme on Driving SMEs’ Growth to Promote Local Development. The meeting is a two-day meeting with 1.5-day seminar and 0.5-day field trip. The final output of the meeting is the “APEC Best Practices Guidelines on Driving

SMEs' Growth to Promote Local Development." A local product exhibition was also held during the meeting at the same venue.

The meeting invited experts from APEC member economies and OECD to speak and share their opinions in the following sessions:

1. Local Development Strategies, Tools and Instruments;
2. Better Local Governance for SME Growth;
3. Promoting Local Innovation and Entrepreneurship;
4. Financial Support for Local SMEs;
5. SME Strategies to Develop Local Markets and
6. Building Partnership for Local Development.

Some of the discussion points are as follow:

### **1. Local Development Strategies, Tools and Instruments**

The principles for SME development include: 1. Partnership: build a network of valued relationships and resources, and partnership with business chambers, industry associations and market players; 2. Consultative: Consult extensively with partners and market players when developing market based solutions to address SMEs' needs; 3. Self-help: adopt a self-help approach in the delivery of government services to SMEs; 4. Cost-sharing: adopt a cost-sharing arrangement between the private sectors and government

Traditionally, local economic development is top-down, the new tendency is toward a bottom-up approach. The cities or municipalities can design community-based policy tools to increase the welfare of residents on the one hand, and promote local economic development on the other hand. There are a variety of tools that can reach this goal, such as the creation of the municipal card, which are issued to contributors for city development, and implementing new public construction initiatives that can also benefit SMEs.

Local problems require local solutions. The central authority should have a subsidiary role, performing only those tasks which cannot be performed effectively at a more immediate or local level.

### **2. Better Local Governance for SME Growth**

Local government is already deeply involved in local business activity as suppliers of infrastructure, tax collectors, and regulators of land, building, and

activities. With an increasing move toward decentralization and the devolution of service delivery to local authorities, the roles and responsibilities of local governments continue to increase.

Local governments need to simplify bureaucratic procedures, create regulatory certainty, encourage local business networks; support training to meet market demands, support linkages with informal economy and pursue broadly supported actions.

Local governments should provide public services such as: 1. Infrastructure: such as roads, waters, electricity, and public facilities; 2. Administration and Communication: population identity and permission, and information access; 3. Social Economy and Culture.

### **3. Promoting Local Innovation and Entrepreneurship**

Economies' industry competitiveness is often built upon geographically limited agglomerations or clusters. These clusters are important to the development of entrepreneurship and innovation at the local level because of the contribution they give to the creation of a favorable environment for business interactions and resource sharing. Entrepreneurship and innovation are strengthened in clusters by a host of factors: better access to skilled workers and competitive suppliers; access to specialized information; linkages and complementarities between industries located at different stages of the production chain; eased access to credit and, especially important for knowledge-intensive industries, equity finance; access to public goods supplied as a result of the large demand originated by the cluster ( e.g. vocational programs, specific infrastructure, etc.); etc.

Utilization of regional specialties is important for building foundation for the self-reliant development of regional economies. A number of policy measures are able to support independent efforts by regional SMEs such as support for SMEs' new products and service development and market cultivation outside regions, support for finding out new businesses utilizing regional industrial resources, and support for enhancing regional industrial resources.

### **4. Financial Support for Local SMEs**

The roles of financial institutions in assisting the development of SMEs are varied in terms of the stage of development: founding stage, growth stage, maturity stage, and transformation stage. Measures of helping SMEs acquire financing and achieve sound management include: working with relevant consultancy agencies to help SMEs establish sound financial systems and accounting systems; working with relevant agencies in management consultancy to improve SMEs' production, product quality, marketing organization structure, internal control and IT. Some economies have established banks specialized in providing medium/long term credits to SMEs.

SME credit guarantee fund is also a mechanism to provide financial support for local SMEs. The objectives of SME credit guarantee fund can be: 1. Help SMEs secure financing by offering credit guarantee; 2. Remove SMEs' obstacle to lack of collateral when applying for finance; 3. Enhance the financial institutions willingness to extend loans to SMEs; 4. Support related assistance agencies to increase effect of SME assistance.

## **5. SME Strategies to Develop Local Markets**

For most APEC economies, traditional craft industries play an important role in defining the distinctive character of each region, and they usually originate from regional culture, which makes them indeed the "regional cultural industries." However, the changes along with economic development, such as establishment of the mass-production and mass consumption economy system resulting from technological innovation, lead to the decline of the traditional craft industries. To revitalize the regional development, some governments have begun to provide support for the employers when they hired new craft people.

Strategies to promote local market could include:

1. public and private sectors linkage through government procurement;
2. SMEs and LEs linkage through supply chain, subcontractor, suppliers, and franchise;
3. cultural/local industries development through special promotional activities such as OTOP;
- 4 application of the program in communities with less human development rate;
5. identify the potential communities to detonate viable projects;

6. offer technical and business training;
7. develop entrepreneurs;
8. promote associations; and
9. develop channels of marketing.

## **6. Building Partnership for Local Development**

Local development is dependent on a large degree on the partnership between public, business and non-governmental sector. The partnership not only benefits community building, but also helps strengthen business operation. The formation of cooperative network and the development of mutual trust through the development of comprehensive assistance packages supported by the government will increase local SMEs competitiveness.

Local development is a task required networking between stakeholders with the same goal to promote local development, which include not only the actors on the local level. The core of this partnership is a mechanism to coordinate different resources and efforts from different stakeholders. An intermediate organization or some is necessary to take responsibility to coordinate the joint efforts.

### ***APEC Best Practice Guidelines-Driving SME Growth to Promote Local Development***

Given the comprehensiveness of the subject, the discussions help member economies understand that SME policies and programs can achieve better outcomes if their design takes into account the view from the local level where SMEs really operate. Well-crafted local strategies that cover economic, social and labor aspects create a good governance framework, which in turn increases the SMEs' contribution to local development. Deriving from the seminar, the outlined best practice guidelines on driving SME growth to promote local development also pave the way for cross-border cooperation among member economies in the region.

#### **1. Local Development Strategies, Tools and Instruments**

- In today's globalized economic environment, each local community is facing different challenges deriving from the external environment. A "one

size fits all” policy designed at the central government level cannot hope to resolve all problems across regions. Differentiated local policies and strategies drawn up and implemented by local communities should be promoted to closely reflect local conditions and allow for the interaction of multiple local stakeholders.

- Local problems require local solutions. The central authority should have a subsidiary role, performing only those tasks which cannot be performed effectively at a more immediate or local level.
- Local development strategy should adopt a collaborative process to integrate all relevant efforts within the community. Policies and strategies should be built upon the efficient utilization of local resources, including natural, human, and cultural resources. Stakeholders in the community should work together to increase the value of their local resources.
- SMEs play a key role in the creation of wealth and jobs and the improvement of living standards in local communities. The growth of SMEs depends on local business-enabling conditions created by joint efforts between SMEs, local governments, and community entities.
- The elements of a favorable business environment for SMEs include: availability of capital, infrastructure and facilities, the supply of skilled labor, education and training services, knowledge networks, availability of business services, the existence of an institutional environment supporting local development, and the quality of public sector management.
- The conditions to draw a workable local development strategy include the assessment of a community's strengths and weaknesses, identifying opportunities for SMEs, reducing obstacles to business operation, and allowing local stakeholders to participate in the process. In particular, it should emphasize sustainable development and employ environmentally-friendly mechanisms.
- A number of strategies and tools can be employed to promote local development: (1) Investing in infrastructure; (2) Providing incentives for business investment; (3) Encouraging the establishment of new

businesses; (4) Developing industry clusters; (5) Developing partnerships between stakeholders; (6) Expanding employment opportunities; (7) Providing training and consulting services; (8) Building microfinance institutions; (9) Strengthening environmental protection; (10) Promoting corporate social responsibility; (11) Preserving cultural heritage; and (12) Establishing local development institutions.

## **2. Better Local Governance for SME Growth**

- Local governance is a process integrating all stakeholders, including local governments, businesses, non-profit organizations and residents, to jointly manage local development. Stakeholders work together to create formal and informal frameworks or institutions to enhance interactions and regulate relationships. Flexibility is an important principle for these frameworks and institutions. Frameworks and institutions should be able to flexibly channel relevant concerns and interests into the process and mobilize resources from communities.
- The enhancement of local governance may require the buildup of specialized development organizations, which are responsible for coordinating all relevant stakeholders, and function as a communication platform. These organizations should endeavor to form a local development network with the aims of efficiently allocating resources and sharing knowledge and information. The operation and funding of these organizations should be supported by local stakeholders.
- One of the core missions of the local governance entity is to draw up and implement an overall development strategy. This process should start with the setting of clear goals and investigation of local conditions. The entity should also take sustainability into consideration at all stages of planning and implementation, to ensure a healthy environment and a good quality of life. The strategy should also stipulate the division of labor among stakeholders based on their respective strengths and resources.
- With the trend towards decentralization, local governments have come to assume a more important role in local development. Local government

authorities should provide guidance and assistance for effective and efficient implementation of the development strategy. Simplification and deregulation of bureaucratic procedures should be an ongoing process undertaken by local governments to reduce businesses' costs. Local governments should also serve as a bridge between communities and higher-level government authorities.

### **3. Promoting Local Innovation and Entrepreneurship**

- Entrepreneurship provides economically distressed areas with opportunities to reinvigorate their economic capacity and efficiently allocate resources. Under the new trends in economic development, entrepreneurship triggers competition and stimulates innovation, resulting in economic growth, technological upgrading, job creation and welfare improvement for local economies.
- Local resources should be utilized to encourage business creation by facilitating entrepreneurs' access to the information, knowledge, technology, capital, and human resources that are necessary to the success of their ventures. More importantly, local authorities should make efforts to simplify administrative processes for new business start-up.
- The local innovation system is the fundamental mechanism for enhancing innovation capacity at the local level. The main actors in this system include local governments, industries, research institutes and universities. To strengthen the operation of the local innovation system, local authorities need to promote industry-university collaboration by providing incentives for joint ventures between local businesses and universities. The buildup of business incubators will also increase the dissemination of knowledge within the innovation system.
- The formation of industrial clusters stimulates the establishment of new businesses and attracts firms from outside the region, thereby boosting industrial output and creating new job opportunities. Through these interactions and resource sharing in the network, innovations and technological improvements can be stimulated. Local authorities need to



build a favorable environment for industrial cluster development based on local conditions.

#### **4. Employment and Human Resources Development**

- Employment policies are closely linked to economic development strategies and social stability policies. They strongly reinforce each other, and the success of one kind of policy depends heavily on the success of the others. The interaction elements influencing the success of employment policy include how well this policy dovetails with overall economic development strategy, the extent to which it builds a partnership network with other economic and social service organizations, and how the economic and social conditions influence the flexibility of its implementation.
- SMEs and startups are main drivers of job creation at the local level. Fostering SMEs and startups therefore constitute an important component of local employment policy in many regions. To develop a properly functioning SME and startup policy, local authorities need to include SMEs and startups in each step of the process of policy formation and implementation.
- Establishment of local training organizations requires coordination among businesses, experts, and universities. Inputs from businesses can help ensure that the content of training correctly reflects state-of-the-art skills and the nature of both current and future demand in the labor market. Local authorities can offer incentives to stimulate vocational training, and to encourage participation in such training activities by SMEs and startups.
- Under globalization, the skills rewarded by the market are changing rapidly. The labor force should be flexible enough to adapt to changes. Therefore, it is extremely important to foster workers' capacity for learning new skills, and for the transferring of skills to other industries.

#### **5. Financial Support for Local SMEs**

- A number of mechanisms based on different conditions address SMEs

and micro-enterprises' difficulties in accessing to finance. For financing micro-enterprises, it usually requires the building of microfinance institutions and the provision of micro-credit to enable them to access to finance. For startups, developing local networks of business angels can resolve some of the financial problems faced by them. Mutual credit guarantee associations and local credit unions are also suitable institutional arrangements for smaller local markets.

- SME credit guarantee fund is a mechanism to provide financial support for local SMEs. The objectives of an SME credit guarantee fund can be: 1. To help SMEs secure financing by offering credit guarantees; 2. To help SMEs overcome the difficulties that they experience when applying for loans due to the inability to provide sufficient collateral; 3. To enhance financial institutions' willingness to extend loans to SMEs; 4. To support other agencies' efforts to expand their provision of assistance to SMEs.
- Local authorities can provide incentives and cooperate with different kinds of financial institutions to supply capital to local SMEs and micro-enterprises. Working with relevant local consultancy agencies to help SMEs establish sound financial and accounting systems constitutes an important measure that local authorities can take to increase SMEs' capacity to access to finance.

## **6. Marketing Strategy for Local Products**

- In many localities, marketing strategy is mainly concerned with how to sell local specialty products, particularly local cultural goods. Traditional local cultural industries may still be using outdated marketing methods, which may cause these industries to go into decline. Policies to revitalize local cultural industries by innovative and modern marketing skills can help them to regain market advantage. These policies also aim to prevent businesses with cultural and historical value from disappearing due to the impact of globalization.
- The products of local cultural industries are an expression of local culture and art, which are often attractive to foreign buyers and therefore have high export potential. Nevertheless, most producers in local cultural

industries are micro-enterprises and have difficulties selling their products overseas. The development of e-commerce is an important strategy that can help them to expand into overseas markets at a relatively low cost. Before this goal is achieved, the digital divide will need to be narrowed, and additional Internet infrastructure may also need to be constructed.

- To overcome disadvantages of limited size and resources, local cultural businesses can employ a number of strategies to build cooperative relationships so that they can extend their market reach. These strategies include marketing partnerships with businesses in the local cultural industry, as well as other kinds of businesses that can benefit from partnering with the industry. These partners can work together to establish an association or some form of network to jointly promote their products. Local authorities and associations can launch innovative promotional activities such as OVOP/OTOP, to gain wider exposure for their products.

## **7. Building Partnerships for Local Development**

- Local development depends to a large degree on a partnership between public agencies, businesses and the non-government sector. This partnership facilitates coordination and cooperation, benefiting not only community building, but also business operation. Local partners from the private sector can help exploit local opportunities and tailor policy and strategy to local needs.
- The core of local partnership is a mechanism to correctly organize and coordinate the different resources and efforts of different stakeholders. Planning and implementation are carried out according to their respective abilities and strengths. During this process, it is important to form cooperative networks and develop mutual trust.
- Due to the lack of institutionalization, the partnership for local development often suffers from instability. It is therefore suggested that local governments should take the lead in the building of a more stable and formal mechanism to help give the partnership an institutional basis and the capacity to design and implement development plans.

- The concept of the partnership for local development is closely linked to corporate social responsibility (CSR). In line with the philosophy of CSR, companies are willing to dedicate themselves to establishing local partnerships, strengthening local capacity building, protecting environment, and even contributing funds for local development. Awareness of the importance of CSR among business enterprises is an important precondition for incorporating businesses into the partnership for local development. Building this awareness is an area where local government has a major role to play.