

**How to diagnose what services and help individual
entrepreneurs need to success**

**UNCTAD's work on SMEs
and lessons**

**APEC Training course on Enhancing
Entrepreneurship for SMEs**

17-19 June 2008

Ha Noi, Viet Nam

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I. Research

- FDI by and in SMEs
- Internationalization of SMEs
- Joint research project with OECD on global value chains

II. Intergovernmental machinery and consensus building

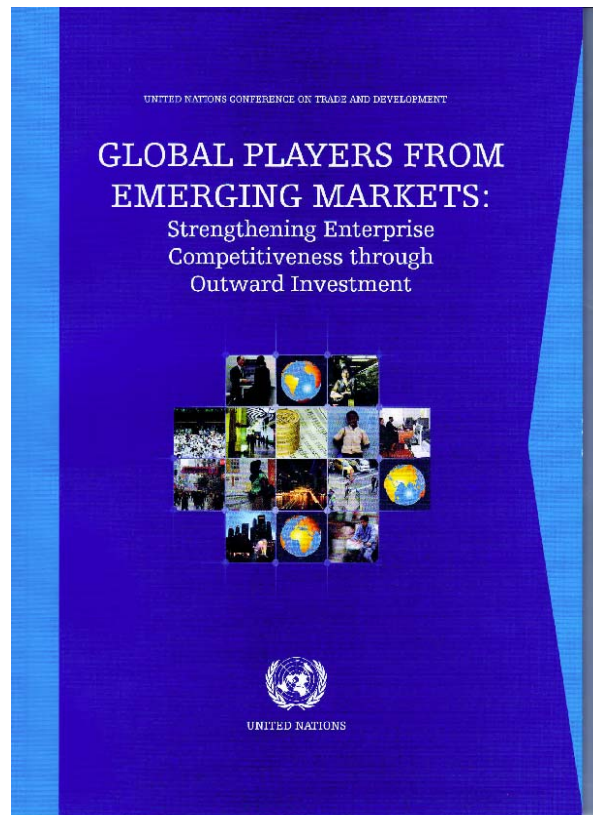
- Host countries: can benefit when linkages contribute to the upgrading of domestic enterprises and as foreign affiliates become more firmly embedded in the host economy

III. Technical assistance

FDI by and in SMEs

- Handbook on Foreign Direct Investment By Small and Medium-Sized Enterprises: Lessons from Asia, UNCTAD, 1998
- Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries, UNCTAD, 2007

Internationalization of SMEs



- **Published “Global Players from Emerging Markets: Strengthening Competitiveness through Outward Investment”**
- **High-level policy seminar organized in collaboration with ASEAN in Bangkok, 18-19 October 2007**

Joint research project with OECD on global value chains

The joint UNCTAD-OECD-University of Fribourg research project on “Enhancing the participation of SMEs into Global Value Chains”

- The Government of Switzerland through the Geneva International Academic Network (GIAN/RUIG) funded the research.
- Case studies carried out by UNCTAD cover local suppliers of large transnational corporations (TNCs) operating in developing countries in the automotive (Toyota in South Africa, Volkswagen in Mexico and Tata Motors in India), software sector (Microsoft in Egypt and IBM in Vietnam) and the cinema and audiovisuals sector (Caracol in Colombia and NuMetro in Nigeria).
- The case studies look at structurally different sectors and therefore their findings cannot be generalized nor compared across industries. However, they provide useful insights on the issues investigated and point to new relevant matters.
- The findings of the joint research project were presented at the OECD Conference held in Tokyo on 31 May and 1 June 2007. At the Conference, OECD member states endorsed the OECD Tokyo Action Statement, which includes policy recommendations on strengthening the role of small and medium enterprises (SMEs) and for further work in this area.

Joint research project with OECD on global value chains (Cont'd)

Results of UNCTAD's case studies on the automobile industry

- Most local suppliers in developing countries did not succeed to become global sourcing partners.
- Developing countries SMEs have started to link up with first tier suppliers of large TNCs.
- Large opportunities appear to have emerged in second-tier sourcing in Mexico and South Africa.

Joint research project with OECD on global value chains (Cont'd)

UNCTAD's case studies results on the software industry

- Leading software providers (such as Microsoft in Egypt or IBM in Vietnam) depend on local companies to adapt their products to the local market and to support local customers.
- Rivalry among local companies is strong and is driving a constant upgrading process.
- This, in turn, gives companies visibility and credibility not only in their domestic market but also in their region.

Joint research project with OECD on global value chains (Cont'd)

UNCTAD's case studies results on the cinema industry

- TNCs dominate the most important production networks. Creative industries face structural changes triggered by technology, both at the production and the distribution side.
- The issue of local preferences, culture, formats and language is still a determining factor in shaping the emergence of new value chains in creative industries.
- This opens up new opportunities for new, specialized entrants, such as the Colombian 3-D animation producers and local movie producers in “Nollywood” (Nigeria).

UNCTAD's Policy recommendations (1)

- The findings of the case studies are industry-specific, and they are influenced by industry structure, stages of industry development and the buying behaviours of lead firms in a given industry.
- However, they provide useful information on TNC suppliers in developing countries and indications of their requirements, and may thus help identify key policies for SME development.

UNCTAD's Policy recommendations (2)

- The studies demonstrate that an enabling business environment is a necessary pre-condition for promoting SMEs to integrate into the global market.
- However, there is also a need for Governments, the business community and international organizations to play a role in designing and implementing targeted assistance programmes to build capacity in SMEs, so that they can overcome the challenges of entering or upgrading their position in the GVCs.

UNCTAD's Policy recommendations (3)

1. In developing countries, policies should improve the capacity of SMEs to upgrade.
2. Upgrading should involve process, product, functional and chain upgrading.
3. Upgrading should be accompanied by measures for connecting to final markets.
4. Evidence shows that upgrading SMEs is easier when achieved collectively.

1. Intergovernmental machinery

- **Commission on Enterprise, Business Facilitation and Development: 4 Issues Notes on:**
 - Improving the competitiveness of SMEs through enhancing productive capacities
 - Promoting TNC-SME linkages to enhance the productive capacities of developing country firms: a policy perspective
 - Global value chains for building national productive capacities
 - Trade logistics and global value chains

2. Expert meetings

- Promoting SMEs export competitiveness (2004)
- Enhancing productive capacities of developing country firms through internationalization (2005)
- Building productive capacities (2006)
- Best practices and policy options in the promotion of SME-TNC business linkages (2006)
- Increasing the participation of developing countries' SMEs in global value chains (2007)

UNCTAD linkage programme

- Advisory services on policies: Policy advice on improving the environment for sustainable business linkages and on outward investment.
- Business linkages: Projects developed in Brazil, Uganda and Vietnam. Starting in Zambia and Mozambique.
- Empretec: Opened new centres in Romania and Mexico. Started installations in Tanzania, Zambia and the Dominican Republic.

UNCTAD's linkage programme (cont'd)

Business linkage between foreign TNCs and SMEs in local economy.

- Policy advice (e.g. no more withholding tax by cane growers in Uganda; credit facilities by financial institutions to meet requirements of foreign affiliates in Uganda).
- Identification of business linkages (e.g. BASF provides a supplier upgrading programme in Brazil to meet quality and environmental standards).
- Supply chain management and entrepreneurship training (e.g. Unilever supports the training of suppliers in Viet Nam to meet quality standards and help increase export capacity of local suppliers in cooperation with the Royal Melbourne Institute of Technology University in Viet Nam, Investment Promotion Centre of North Viet Nam).

Business Linkages: Uganda

- Six firms have teamed up with 26 local businesses to streamline their supply chains.
- For example, Uganda Breweries assists over 2,000 farmers with supply chain management and guarantees barley supplies locally. In Western Uganda, Kinyara Sugar Works Limited has introduced a new credit scheme enables farmers to save and access small loans.



Signing of partnership agreements in Uganda

Business Linkages: Brazil

- Projeto Vinculos: 11 large corporations are helping over 80 local partners upgrade in order to meet quality and environmental standards. For example, following a successful pilot phase, BASF has decided to extend its supplier upgrading programme to all its Brazilian operations, covering 100 per cent of the costs.



Projeto Vinculos in Brazil

Business Linkages: Vietnam

- Unilever Viet Nam plans to step up domestic production by 59 per cent.
- Unilever Viet Nam supports the training and development of SMEs in total productive maintenance (TPM) in safety, hygiene, performance monitoring and a manufacturing sustainability improvement programme.
- Domestic producers became exporters



UNCTAD's Empretec (entrepreneurial development) programme

- Focuses on 10 areas of competences:
 - Opportunity-seeking and initiative
 - Persistence
 - Fulfilment of commitments
 - Demand for quality and efficiency
 - Calculated risks
 - Goal-setting
 - Information-seeking
 - Systematic planning and monitoring
 - Persuasion and networking
 - Independence and self-confidence

- Works in association with local SME institutions

Empretec results

- Empretec trained in 27 countries 120,000 entrepreneurs and developed 600 certified local trainers
- In Chile, for example, 80 per cent of entrepreneurs trained become exporters
- In Empretec Guatemala and Brazil 2 out of 3 women trained started a businesses
- In Empretec Ghana, 900 entrepreneurs obtained credit, 65% of which are women
- Nina Interiors, a Ugandan SME founded by Nina Karugaba which came to Enterprise Uganda for business development services, has increased the amount of its annual tax revenue from \$30,000 to \$850,000 after three years of training, hand-holding and mentoring – all this at a combined cost of only \$12,000!

Empretec: Strengthening the network

- Held the 14th Directors Meeting in Geneva
- Initiated needs assessment and impact methodology
- Set certification guidelines
- Developed training the trainers material
- Received 12 new requests
- Developed the *Women in Business Award Initiative* that will be launched at UNCTAD XII.



Empretec Women Workshop in Guatemala, 2007

Empretec Africa Forum

- Roll out of the Empretec programme in Tanzania
- Preliminary work started in Zambia and Mozambique under the One UN initiative
- Business plan developed for the regional network with an action plan



SIDO incubator in Tanzania



Commodity exchange board in Zambia

How to diagnose what services and help individual entrepreneurs need to success

Promoting linkages between foreign TNCs and local SMEs

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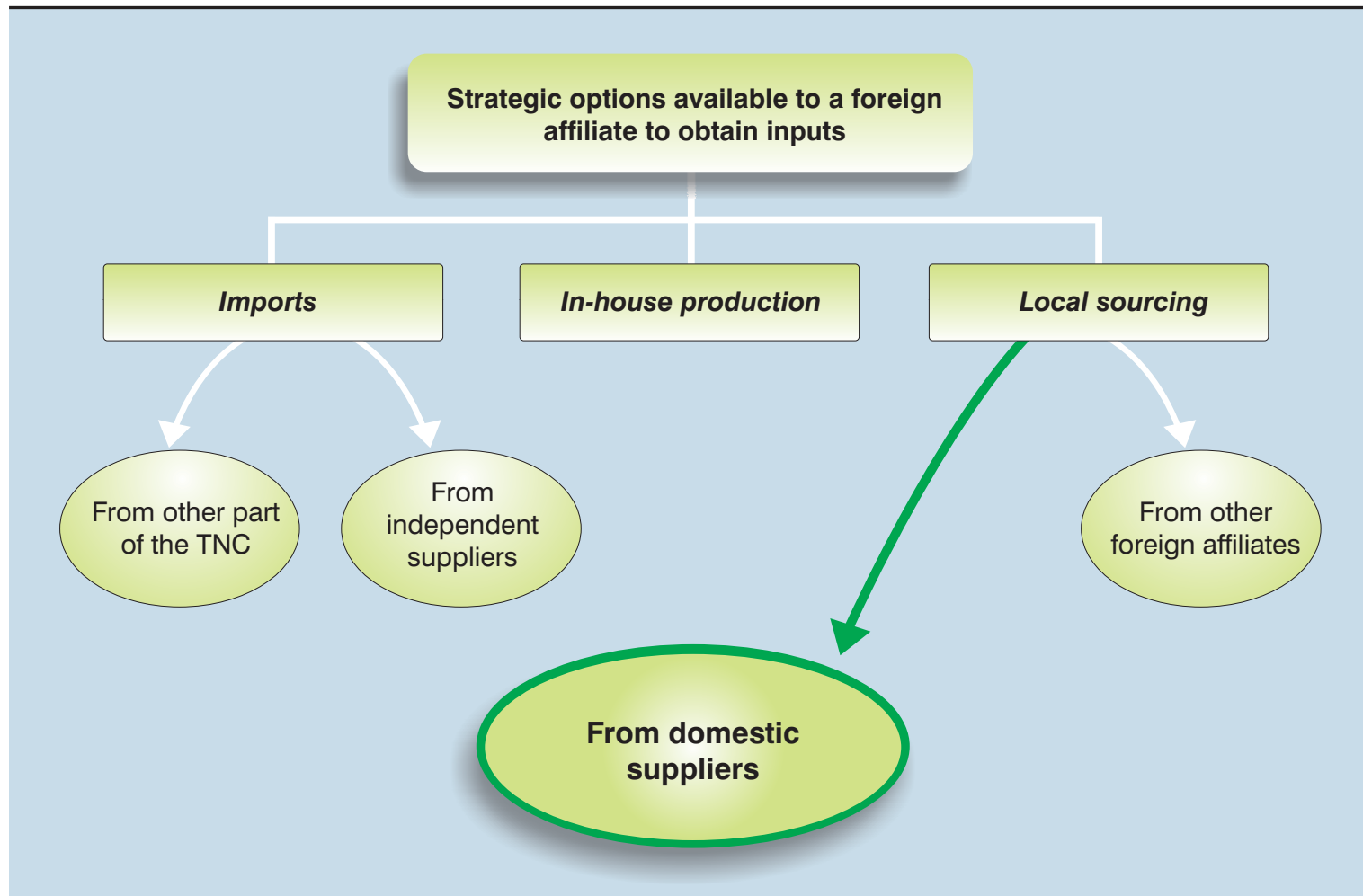
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Why promote backward linkages?

- Potential benefits to foreign affiliates, local firms and host countries.
- Foreign affiliates: using suppliers in a host country a way to reduce costs, increase flexibility and expand sales. Outsourcing and sub-contracting raise the need for inter-firm linkages.
- Local firms: become part of global production networks of TNCs, can increase sales and benefit from productivity-enhancing information and knowledge transmitted from foreign affiliates.
- Host countries: can benefit when linkages contribute to the upgrading of domestic enterprises and as foreign affiliates become more firmly embedded in the host economy.

Strategic options for obtaining inputs



Source: UNCTAD.



Many factors affect the linkage creation process

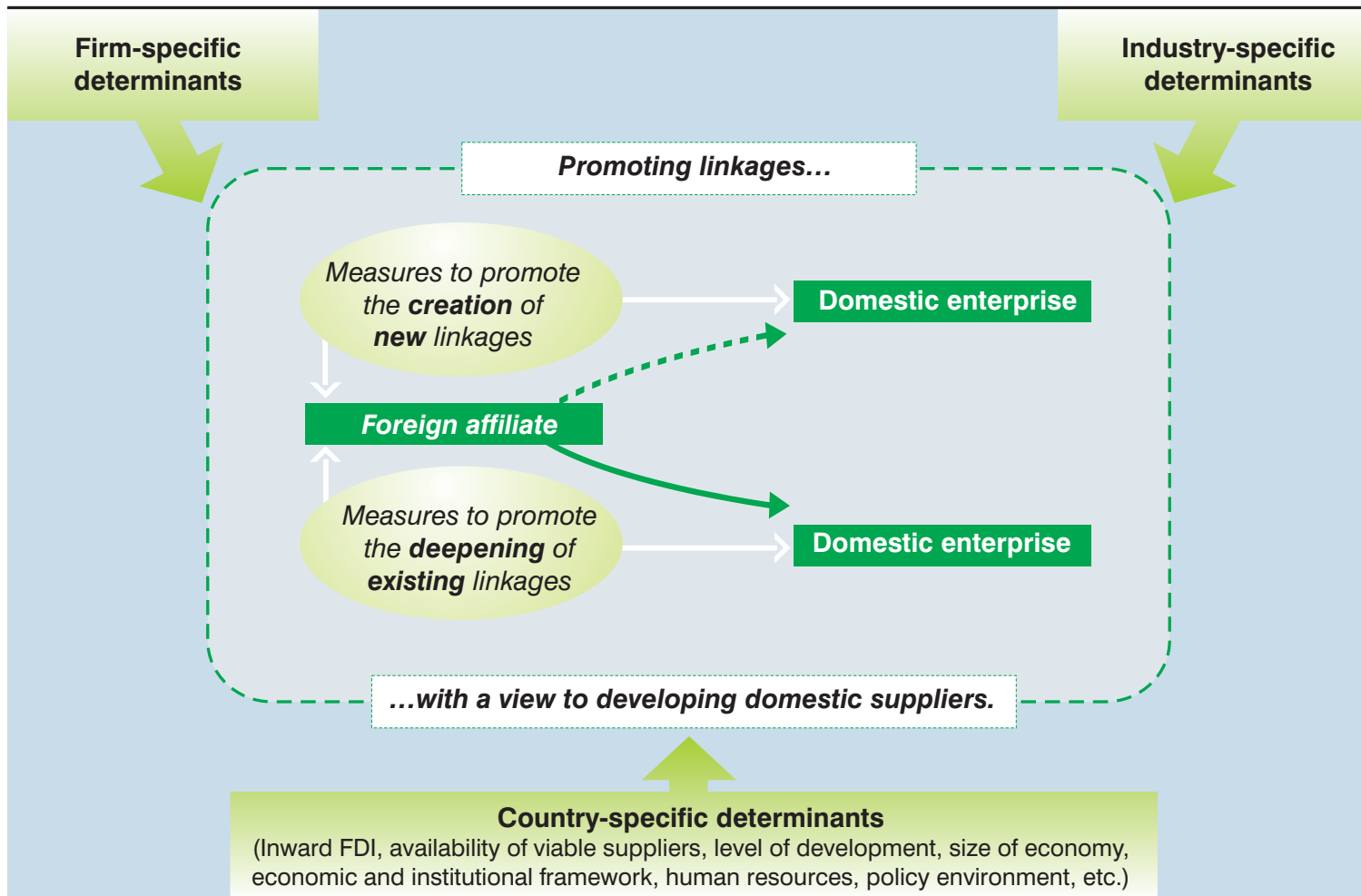
- Industry-specific determinants
- TNC-specific determinants
 - investment motives and strategies;
 - technology and market position of the TNC;
 - role assigned to a foreign affiliates;
 - age of foreign affiliate;
 - mode of establishment
 - size of affiliate
- Host-country-specific determinants
 - level of economic development
 - availability of competitive suppliers
 - availability of support institutions
 - legal and economic policy framework



Supplier development efforts by TNCs

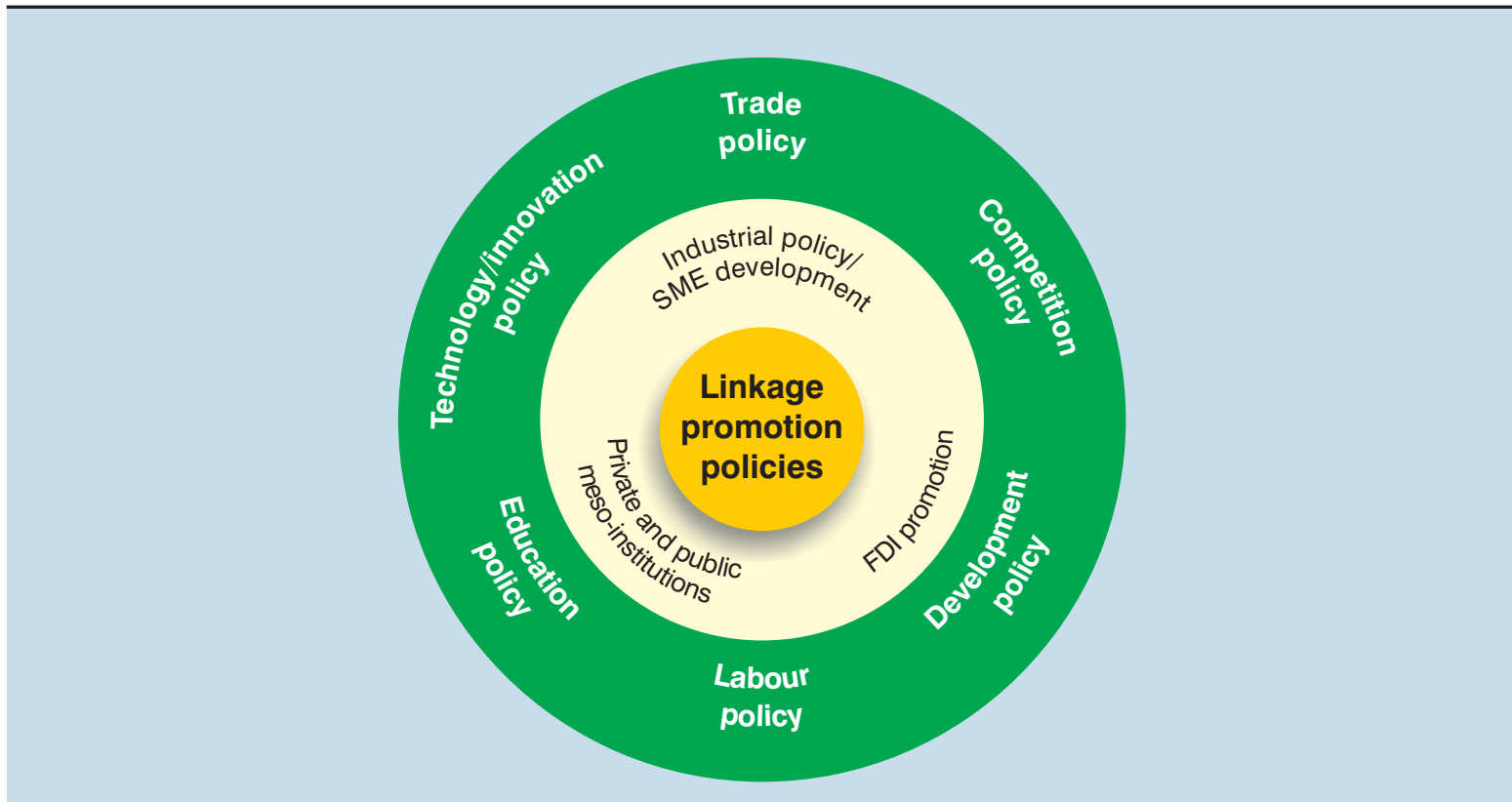
- Supply chain management more important.
- Some TNCs have established special linkage development programmes.
- Objective: expand the number of efficient suppliers, and/or to help existing suppliers improve their capabilities.
- Efforts have been made to e.g.:
 - find new suppliers;
 - provide technology and technical assistance;
 - give training;
 - share information; and/or
 - extend financial support.

Policy framework for promoting backward linkages



Source: UNCTAD.

The linkages policy environment



Source: UNCTAD.



The role of trade and investment measures

- Various performance requirements
 - local content
 - joint venture
 - export performance

- FDI and trade liberalization, and more intense competition for FDI, have reduced the reliance by countries on many performance requirements.

- Incentives
 - incentives linked to local content are not permissible under the TRIMs Agreement;
 - the use of incentives must also be compatible with the Agreement on Subsidies and Countervailing Measures;
 - Well targeted incentives to promote the strengthening of linkages can be important. Maybe such development-related subsidies should be rendered non-actionable.



Best linkage promotion

The need for public-private partnerships

- Role of foreign affiliates
 - indicate scope for local sourcing
 - help identify suppliers with greatest potential
 - specify requirements
 - participate in training, provide information and knowledge

- Role of government
 - formulate and adopt adequate laws and incentives
 - set up an appropriate institutional framework
 - make sure that support required is provided (by public or private service providers) to the firms targeted
 - policy coherence



Best practice in linkage promotion

some key lessons

- Matchmaking needs to be complemented by measure to upgrade local supply capacity
- Supplier development efforts should be selective and target SMEs that show the greatest potential for growth
- Cooperation and coordination among the various government agencies involved is important.
- Efforts need to tally with SME development and FDI policies
- Identify the best service providers of business support -- whether they be private or public.
- Efforts must be adapted to the specific circumstances of each country or sub-national location.



Success stories

- Successful policies promoting linkages can be found in Ireland, Chile, Jordan, Malaysia, Thailand, Singapore and South Africa.
- Large TNCs - Toyota, Unilever, FIAT, AngloAmerican, DymlerChrysler, Volkswagen, INTEL, IBM and Tata implement their own supplier developing programmes.
- Many donors and international organization are active in linkages building. Among others, DFID (the Business Challenge Fund), IFC, ITC, UNDP, UNIDO, USAID, the World Bank, GTZ, UNCTAD.



The National Linkage Programme in Ireland

basic facts

- Run by Enterprise Ireland
- Dates back to the mid-1980s
- Two main tasks:
 - to support Irish enterprises to build capacity, innovate and create new partnerships
 - to assist international investors to source and identify key suppliers in Ireland
- Key industries: electronics, engineering and pharmaceuticals
- Has focused on 70-80 Irish firms and involved some 250 foreign affiliates.
- Rapid growth of local purchases of raw materials and services
- Several SMEs have become successful international subcontractors.



The Local Industry Upgrading Programme (LIUP) in Singapore

- Run by the Economic Development Board (EDB)
- Started in 1986
- Aim: to upgrade, strengthen and expand the pool of local suppliers to foreign affiliates by enhancing their efficiency, reliability and international competitiveness.
- Close collaboration with foreign affiliates.
- Some 30 foreign affiliates and more than 10 large domestic companies were partnering some 700 vendors under the LIUP.
- Several local firms under the programme have managed to become preferred global first-tier suppliers to their customers and TNCs in their own right.



Main lesson learned from successful cases

- The establishment of sustainable linkages does not happen automatically, as a direct consequence of the presence of TNCs, but requires the participation and collaboration of all interested stakeholders (i.e. TNCs, local suppliers, government).
- Only if a conducive policy environment is set up, specific linkages promotion programmes have a chance to be transformed from isolated cases, to sustainable and inclusive mechanisms to build the local productive capacity.



A Linkage Promotion Programme

key elements

- 1. Setting the policy objectives**
- 2. Identifying the targets of the programme**
 - selection of industries, foreign affiliates and domestic firms
- 3. Identifying specific measures to be adopted:**
 - information and matchmaking
 - technology and technical assistance
 - training
 - provision of finance
- 4. Setting up institutional and administrative framework to implement and monitor the programme**



UNCTAD Business Linkage

Programme perspective

Approach: "Demand driven" business linkages
with TNCs affiliates

- From “input driven” (upgrading capacity of SME's in general)
- To “output driven” (meeting needs of TNCs' affiliates)



UNCTAD Business Linkage

Programme perspective

Beginning of the Process: Market analysis

- Establish potential scope for linkages between TNC's and local suppliers, by sectors, type and region
- Gain understanding of business trends through contacts with business development services providers; investment promotion agencies; business associations; chambers of commerce; Trading companies (import, exports of raw materials, packing materials, finished goods)



Partnering with TNCs affiliates

- Explore linkages opportunities that are beneficial to both TNCs and their potential suppliers
- Define potential candidates for linkages
- Agree requirements in quantity, specifications, price etc.
- Align business processes, information flows
- Agree suppliers upgrade programme



Training provided by TNCs

Mainly through company programs

- Technical, manufacturing processes, management, quality, productivity, health and safety, preventive maintenance
 - Feedback, monitoring, coaching
 - Environmental issues
- + International initiatives: e.g. FFGA (Fit For Global Approach) by Bosch and Philips, covering issues of sustainability, responsibility, accountability, partnership



Implementation process and steps

- Assist suppliers in the preparation of feasibility studies and business plans
- Assist in the preparation of supply contracts and in closing linkage deals
- Upgrade capabilities of linkage partners through tailor-made programs
- Facilitate suppliers' access to technology, finance
- Provide feedback, mentoring, coaching to suppliers
- Monitor progress in implementation of linkage deals
- Enlist support of government bodies to improve business environment

Current technical assistance projects by UNCTAD


- Brazil
- Uganda
- Viet Nam
- Argentina
- Egypt
- Mozambique
- Ghana





All are « **ENGAGING THE PRIVATE SECTOR** »

- Business Linkage Programme, Uganda
 - Supported by UNCTAD and its local EMPRETEC centre, SIDA and the Uganda Investment Authority (UIA)
 - e.g. linkages partnership with Uganda Breweries
-
- Projecto Vínculos, Brazil
 - Supported by UNCTAD, GTZ, Ethos Institute, Fundacao Dom Cabral
 - e.g. linkage partnership between Petrobras and Sebrae under the National Mobilization Programme for the Oil and Natural Gas Industry
- Business Linkage Programme, Viet Nam
 - Supported by UNCTAD, RMIT International University Vietnam and the Investment Promotion Center of North Viet Nam (IPCN)
 - e.g. linkages partnership with Unilever



Governments/donors assure consistency between business linkage promotion and other private sector development initiatives.



Enhancing Entrepreneurship for SMEs

Hanoi 17 -19 June 2008

APEC SME WG

How the private sector can help entrepreneurs to
start up, grow and prosper

and why it is important for governments to work hand in hand with the
private sector in providing intangible and tangible infrastructure

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Shirlaws Australia

Business Coach to the SME sector

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Shirlaws
Love business.

Agenda

- Introductions
- What makes us different
- An example of how we work with SMEs



Introductions



Shirlaws
Love business.

Who am I

- Based in Sydney, Australia
- Have worked in SME market for over 18 years
- Have owned and started 3 businesses, managed 2 other SMEs and been an advisor to this market for 4 yrs
- Hold a Masters of Business Management from MGSM
- Am a senior business coach with Shirlaws



Who are Shirlaws

- Global organisation specialising in coaching businesses
- Founded in Australia in 1999. Now in UK, USA, Australia, New Zealand, Spain & UAE
- Developed full suite of own IP (frameworks)
- Fast growth credentials
- At the forefront of the coaching industry (MBC)



Shirlaws
Love business.



Where do we play

Shirlaws started out focusing on the small business market (5-20 staff)

Over time we have expanded this offering to the mid tier market (20-200 staff) and also the corporate market (200+ staff)

The team I work with in the Sydney market have developed a specialised offering to the micro market (0-5 staff)



What is our value proposition

Typically service providers to the SME market have concentrated on providing low cost or free services due to the view that small businesses can't afford to pay high fees.

Shirlaws instead offer a higher value proposition. Our services are not inexpensive, but our clients receive a multiple return on this investment, so are happy to pay.

The SMEs who are predispositioned to take a **high value** rather than **low cost** approach to support are generally the higher growth, higher contributing businesses within the economy.

What makes us
different



Shirlaws
Love business.



Coaching not Consulting

The business support providers for SMEs in our markets are generally **consulting** based. That is they provide solutions and advice but rely on the client to implement this.

Shirlaws have pioneered a business coaching approach which seeks to:

1. Provide not only advice but assist with implementation
2. Facilitate a skills transfer
3. Work on a partnership model over a period of time (avg 12-24 months)

Cultural and Commercial

Sustainable growth comes from working on both the **Commercial** and **Cultural** outputs in a business





Cultural and Commercial – getting the balance right



We understand the benefit of working on both the commercial and cultural agenda and specialise in helping clients get this balance right.



Our service offering

Coaching
Programme

Projects

Workshops

An example of our
coaching approach



Shirlaws
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Introducing the Stages Framework

When working with clients, we use contextual frameworks to help understand and communicate common business issues.

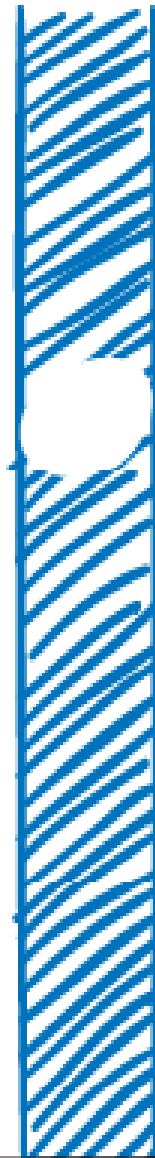
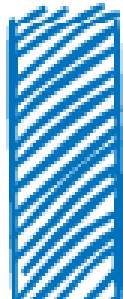
Shirlaws have developed 20 individual frameworks that cover issues ranging from managing staff and resources, to communication skills.

Our best known framework, Stages, charts the journey of a business through the typical business cycle. We use this as the basis of much of the analysis and strategy setting we do with a client.



Stages

'feelings'



time

Stages

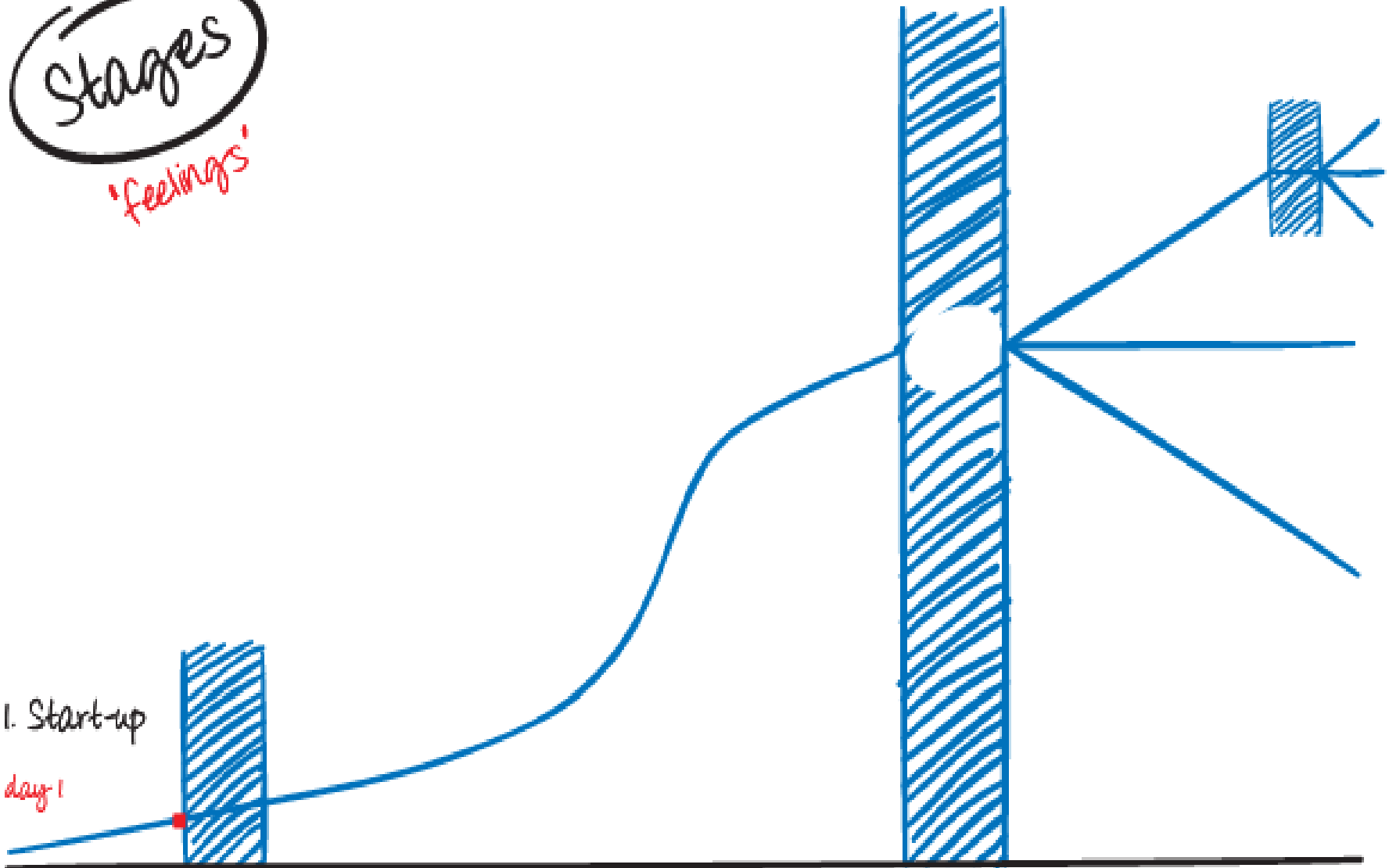
'feelings'

1. Start-up

day 1

excited

time



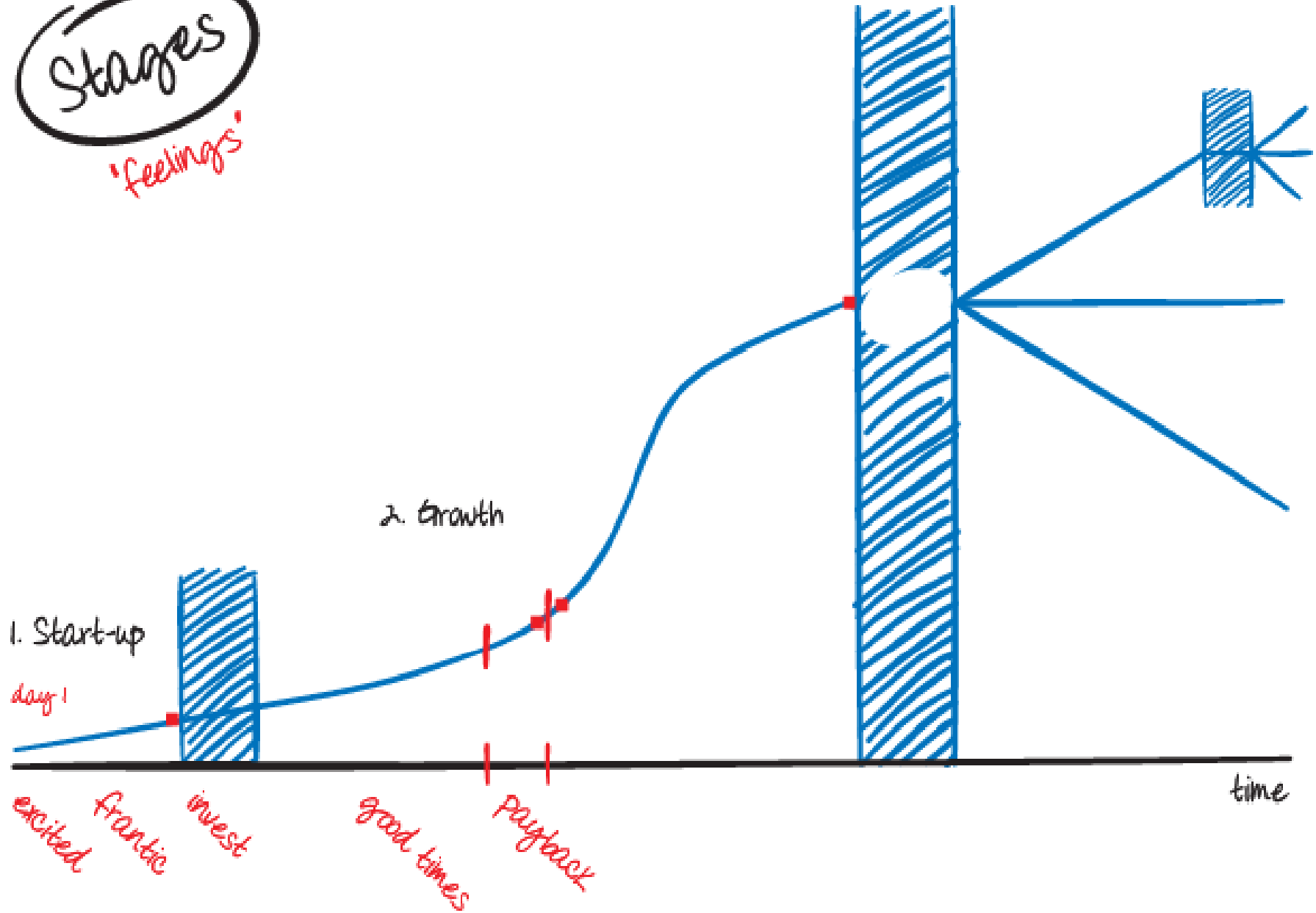
Stages

'feelings'



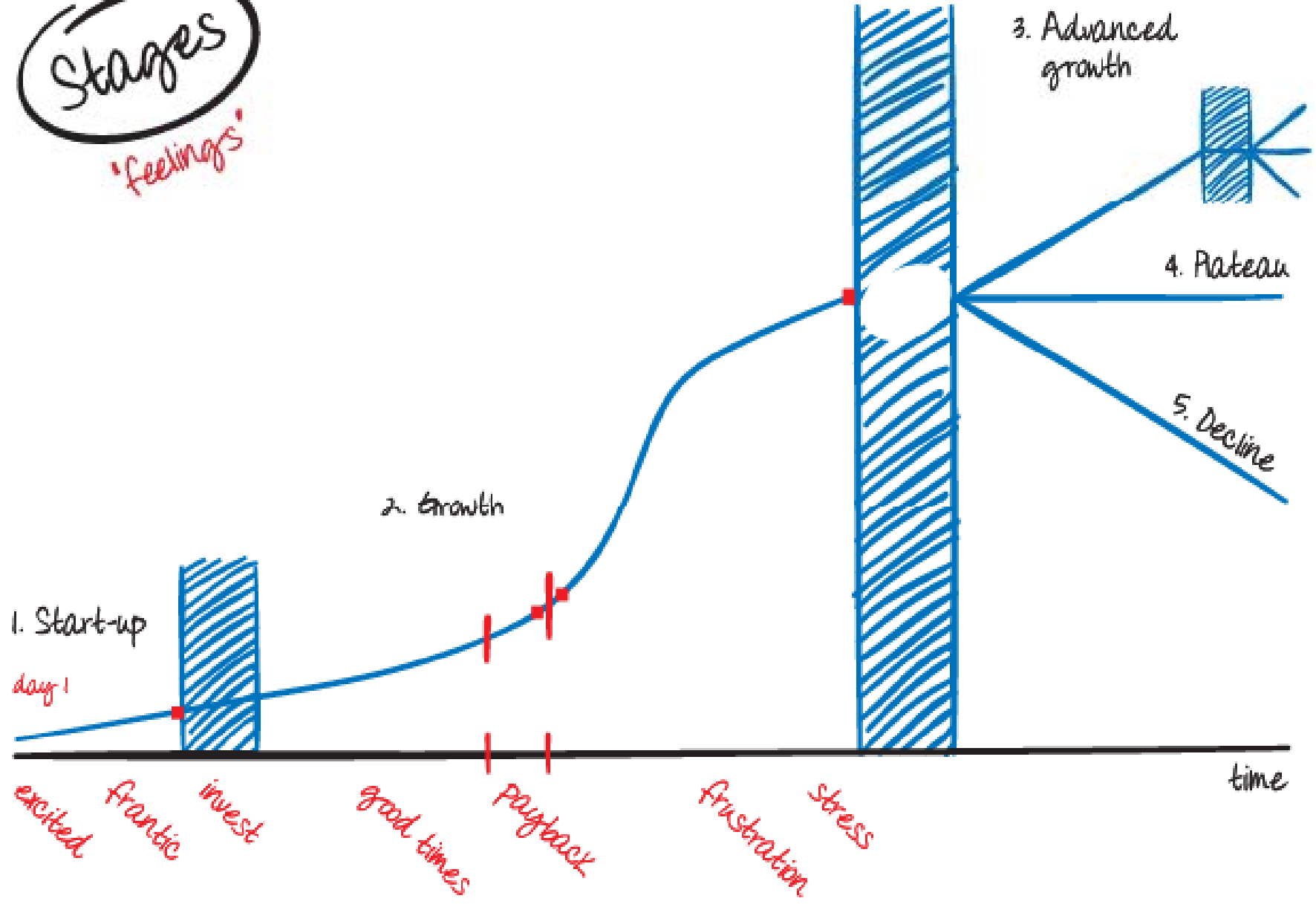
Stages

'feelings'



Stages

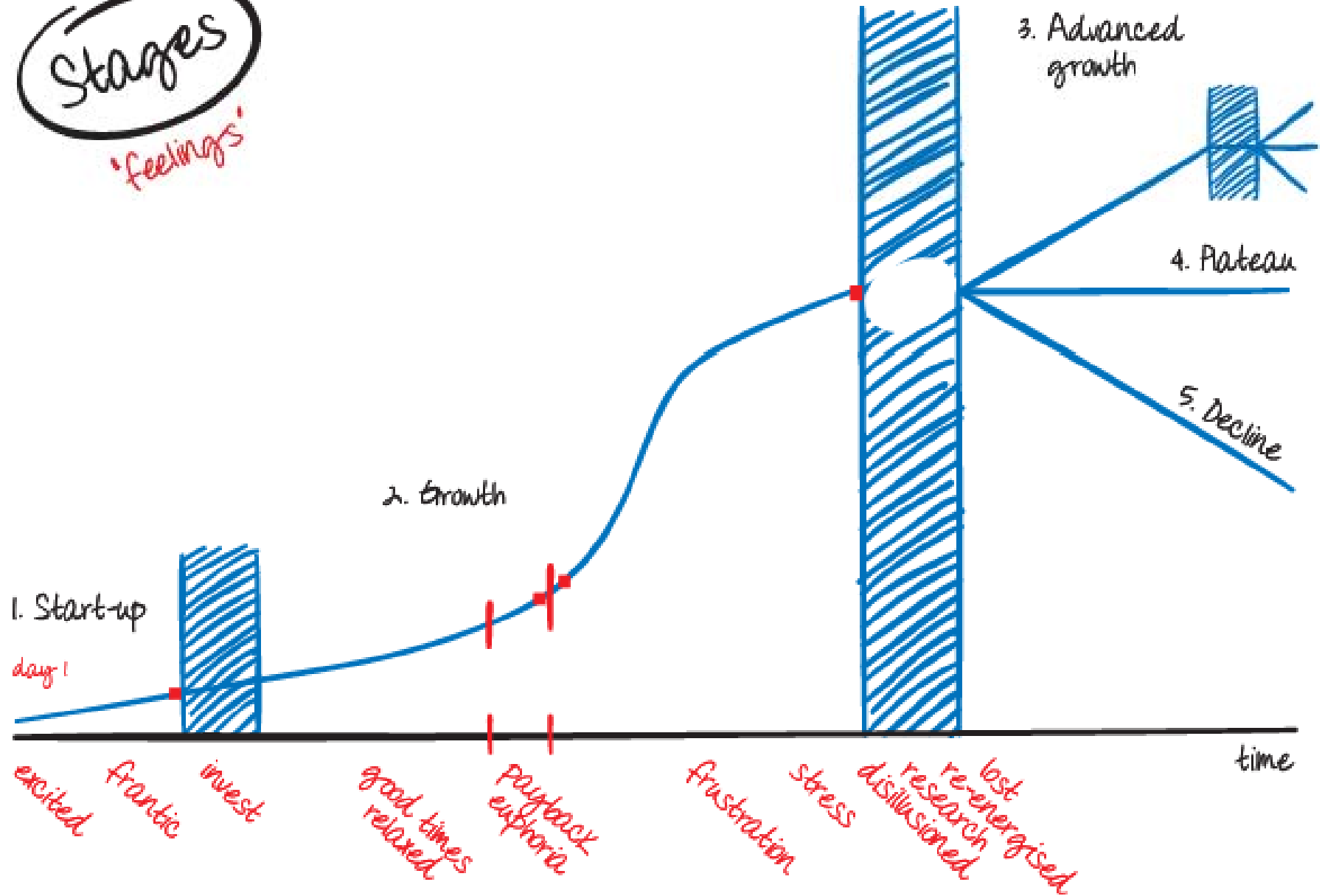
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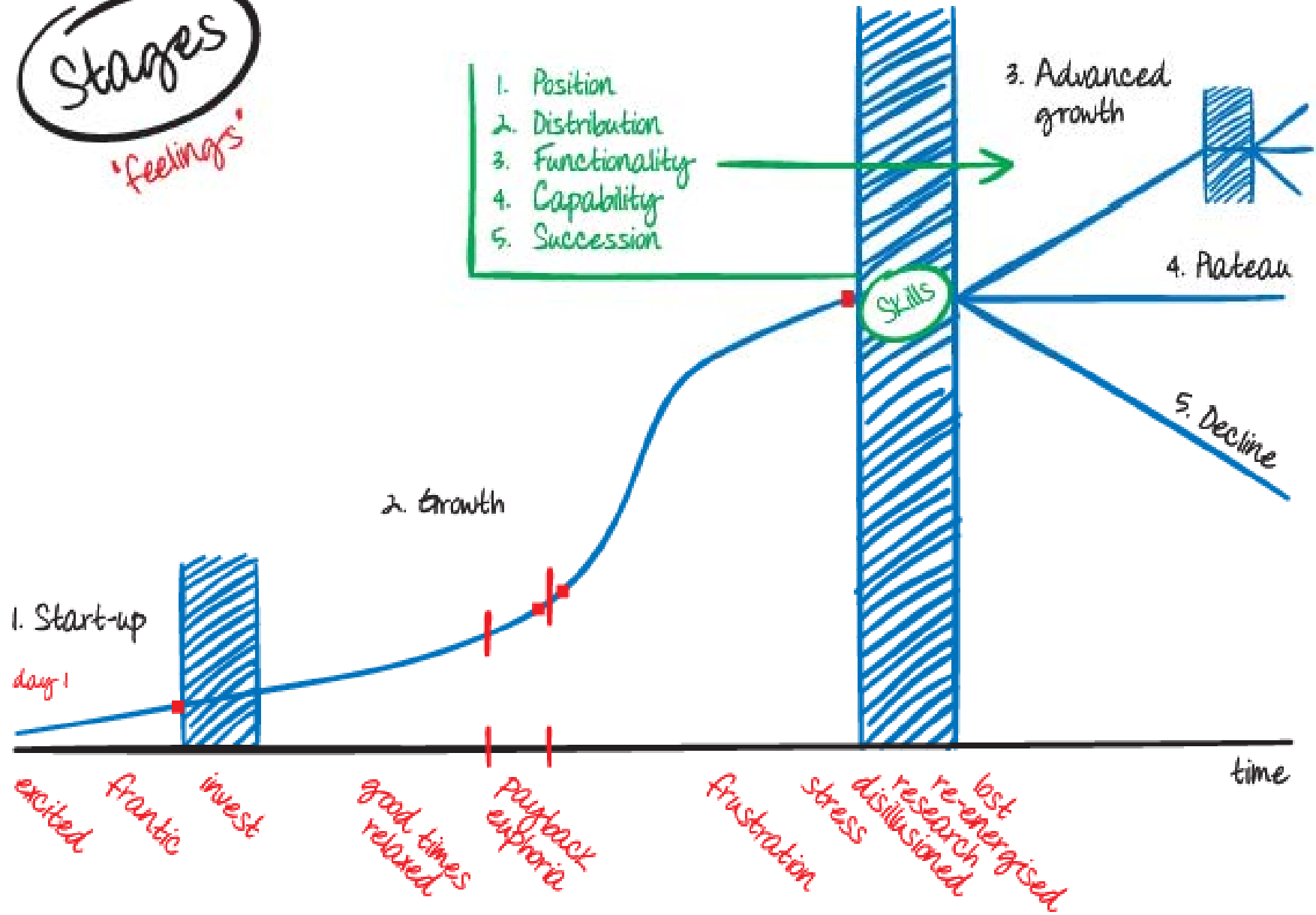
Stages

"feelings"



Stages

"Feelings"





— End of Presentation —

Shirlaws
Love business.



Difficulties of Vietnamese SMEs through Living Examples

Nguyen Huong Tra
Associate Expert
Bureau for Employers' Activities
Vietnam Chamber of Commerce and Industry

Presentation Overview

1. Difficulties of SMEs

Weaknesses

- Quality improvement
- Brand name
- Finance
- Strategic management
- PR/ marketing
- Human resource
- Innovation

Threats

- Administrative requirements
- Law/ contract honoring
- Social prejudice
- Pressure from SOE giants

2. Needs for Government support

Difficulties of SMEs - Weakness (1)

- Improvement of quality of products/ services

Example:

- GMP quality assurance system for animal feed producers (country-wide)

Difficulties of SMEs - Weakness (2)

- Brand name

Example:

- 98% SMEs do not have any branding strategy (Survey of NEU Business School, Hanoi, Jan. 2008)

Difficulties of SMEs - Weakness (3)

■ Finance

Example:

- In application for a bank loan, SMEs cannot meet the requirements that they should not have to meet (Former Chairman of State Bank of Vietnam, Chairman of Vietnam SME Association)
- “Why should I afford 4% when it costs them only 2.5%?” (AFD Euro loan for rural SMEs via Agribank)

Difficulties of SMEs - Weakness (4)

- Strategic Management

Example:

- Expansion of the notebook binder into paper production business (Hochiminh City, South East)

Difficulties of SMEs - Weakness (5)

- PR/ marketing

Example:

- Ceiling of PR/ marketing costs in annual income calculation (country-wide)

Difficulties of SMEs - Weakness (6)

- Human resource

Example:

- Where are good programmers? (IFI software company, Danang, South Centre)
- Alarming turnover rate of 12% (FPT Securities Company, Hanoi, Red River Delta)

Difficulties of SMEs - Weakness (7)

- Innovation

Example:

- New product development in sea-grass home furnishings manufacturers (Ninh Binh Province, North Centre)

Difficulties of SMEs - Threat (1)

■ Administrative requirements

Example:

- “According to MY Enterprise Law you have to wait for another 15 days.” (Government official of Business Registration Office, Hanoi, in response to business license application of Lucky International Company)
- “Can you do another business at your filling station?” (People’s Committee of Thanh Ba District, Phu Tho Province, in response to Viet Trung private enterprise, North West)

Difficulties of SMEs - Threat (2)

- Law/ contract honoring

Example:

- Dishonor of court verdict by People's Committee of Ha Giang Province against Song Lo mining company (Ha Giang Province, North West)

Difficulties of SMEs - Threat (3)

- Social prejudice

Example:

- “Don’t marry him. Only jobless guys work at a private firm.” (love story of an IT business owner, Ninh Binh Province, North Centre)

Difficulties of SMEs - Threat (4)

- Pressure from SOE giants

Example:

- Subsidy for that State-owned guy and nothing for you (SOE vs. private enterprise in rural water supply market, Lai Chau and Lao Cai Provinces, North West)

2. Needs for Government support

- Simplified & transparent administrative requirements
- Land access
- Finance access
- Trade promotion
- Capacity building & competitiveness enhancement
- Human resource and labor market development
- Improved laws/ policy-making
- Law/ contract enforcement
- Improved social attitude
- Better planning and focus of public investment
- Even playing field with SOE giants