

DESKTOP STUDY

CASE STUDIES AND SUPPORTING DOCUMENTS



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INTERNATIONALE MICRO INVESTITIONEN AKTIENGESELLSCHAFT¹

IMI is an equity investment company that was set up to expand the “frontier of finance”, i.e. to extend downward the range of market segments served by formal and commercial financial institutions.

IMI’s equity capital currently totals €43.3 million and is owned by the following shareholders:

- Internationale Projekt Consult(IPC GmbH): 20%
- IPC Employees Invest: 7%
- DOEN Foundation: 16%
- ProCredito: 6%
- KfW/DEG: 14%
- International Finance Corporation (IFC): 16%
- Netherlands Development Finance Company (FMO): 14%
- Belgian Investment Fund for Developing Countries (BIO): 7%

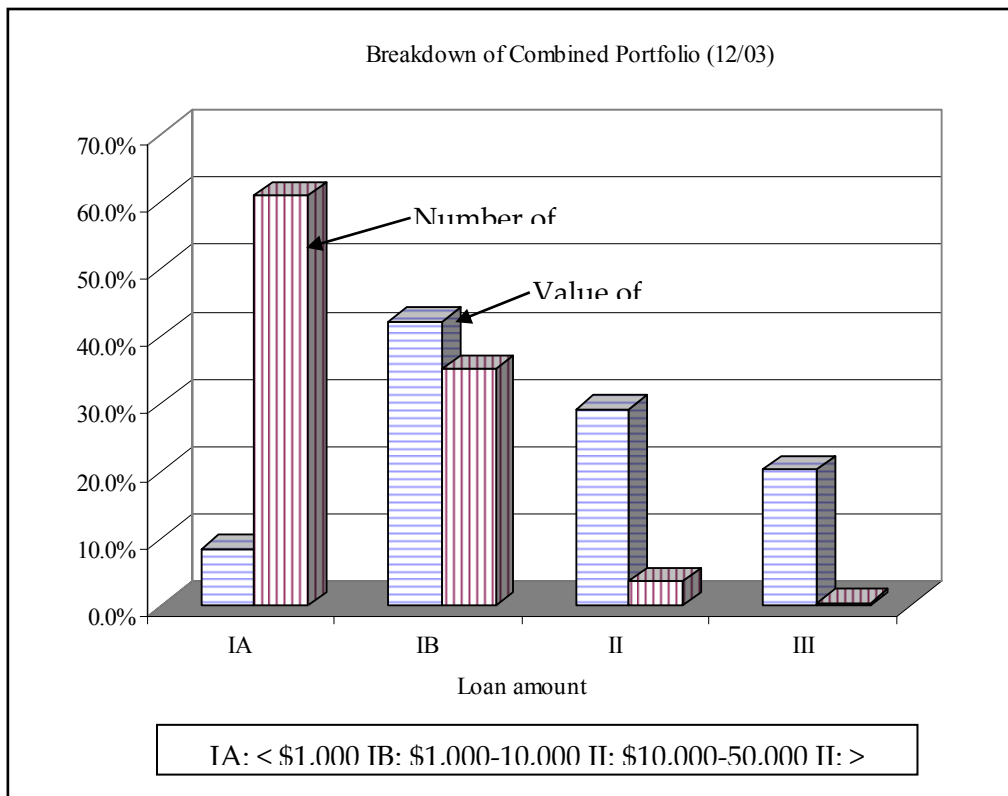
The results of the 18 institutions in which IMI has invested to date are encouraging. In December 2003, their combined loan portfolio was €597 million with more than 295,000 loans with an average outstanding loan size of approximately €2,000. Typically, the banks are the country’s largest provider of loans to the small and micro enterprise target group.

The development of deposit taking has also been encouraging, despite the microfinance banks being relatively young. The combined volume of deposits is €550 million with some 150,000 depositors, a testament to widespread trust in the institutions. Results indicate that after three years of operation, these microfinance banks can achieve a sustainable return on equity (after tax) of 10-15%. By the end of 2004, the average ROE is projected to be 14%

IMI’s business plan estimates that by the end of 2008, the outstanding loan portfolio of all the institutions in which IMI invests will have reached some €2.7 billion with more than 800,000 customers. The total equity base of all of the institutions will have reached some €350 million, with the average return on equity of some 20%.

Overview of 18 IMI investments to date (December 2003):

	PORTFOLIO (€MM)	OUTSTANDING LOANS	AVG AMOUNT (€)	LOAN
EASTERN EUROPE				
ProCredit Bank, Georgia	37.9	28,494	1,328	
ProCredit Bank, BiH	44.2	10,761	4,104	
ProCredit Bank, Kosovo	66.3	16,007	4,141	
MIRO Bank, Romania	21.2	5,010	4,225	
Micro Enterprise Credit, Moldova	5.2	2,887	1,802	
ProCredit Bank, Albania	47.0	9,003	5,215	
ProCredit Bank, Serbia	75.7	25,437	2,976	
ProCredit Bank, Ukraine	46.9	12,580	3,725	
ProCredit Bank, Bulgaria	80.1	16,585	4,831	
ProCredit Bank, Macedonia	7.5	1,484	5,037	
Subtotal:	431.8	128,248	3,367	
LATIN AMERICA				
Caja Los Andes, Bolivia	66.2	53,449	1,239	
Financiera CONFIA, Nicaragua	20.2	30,741	657	
Financiera Calpiá, El Salvador	52.7	54,298	971	
Sociedad Financiera Ecuatorial	17.5	11,130	1,568	
Micro Credit National, Haiti	4.5	4,953	915	
Subtotal:	161.1	154,571	1,042	
REST OF WORLD				
NovoBanco, Mozambique	2.3	8,178	284	
Micro Enterprise Bank, Philippines	0.6	3,108	178	
Sikaman SLC, Ghana	1.2	1,793	682	
	4.1	13,079	314	
Subtotal:				
Total:	597.0	295,898	2,018	



Financial return for IMI's portfolio, while preliminary, is +9.9%:

	Start Date	ROE*
Caja Los Andes, Bolivia	1995	25.5%
Financiera Calpiá, El Salvador	1995	14.7%
ProCredit Bank, BiH	1997	4.5%
ProCredit Bank, Georgia	1999	16.7%
ProCredit Bank, Albania	1999	8.2%
ProCredit Bank, Kosovo	1999	34.0%
Financiera CONFIA, Nicaragua	2000	64.7%
Micro Credit National, Haiti	2000	7.5%
Micro Enterprise Credit, Moldova	2000	28.6%
NovoBanco, Mozambique	2000	-14.1%
ProCredit Bank, Ukraine	2001	4.0%
Sociedad Financiera Ecuatorial	2001	17.9%
ProCredit Bank, Bulgaria	2001	12.5%
Micro Enterprise Bank, Philippines	2001	-4.9%

ProCredit Bank, Serbia	2001	1.0%
Sikaman SLC, Ghana	2002	-1.4%
MIRO Bank, Romania	2002	-11.9%
ProCredit Bank, Macedonia	2003	-9.2%

Average Return on Equity for all IMI investments: 9.9%

* Annualized, After tax, Includes impact of local currency devaluation

APPENDIX 2

AUREOS CAPITAL²

- Aureos Capital is an international manager of private equity funds
- A risk capital investor in emerging markets
- Over US\$300 million of committed capital
- A defined market niche – SMEs
- Funds have invested in 163 transactions
- 89 exits achieved to date
- Local market presence and local decisions
- Institutional shareholders – CDC and Norfund

2001

Aureos was formed in July 2001 as a joint venture between CDC Capital Partners (“CDC”) and the Norwegian Investment Fund for Developing Countries (“Norfund”). This was for the purpose of taking over the management of SME funds originally sponsored by CDC and for creating and managing new SME private equity funds in emerging markets.

When Aureos was set up, there were 14 country funds under management in Central America, Sub-Saharan Africa, South Asia and Pacific Islands, that made investments typically between US\$200,000 and US\$2 million. The total committed capital of these funds was US\$170 million.

2002

The first of the regional Aureos funds, the Aureos Central America Fund (“ACAF”) achieved its first closing, having raised US\$33 million for investment in SMEs within the Central American region. The fund is focused on Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic. Typical deal sizes are likely to be from US\$500,000 to US\$5 million. With the region's businesses in severe need of fresh investment capital, the Fund secured commitments from the International Finance Corporation, the Swiss State Secretariat for Economic Affairs (SECO), the Norwegian Investment Fund for Developing Countries (Norfund), and CDC Capital Partners. The closing of this fund brought Aureos’ total capital under management to US\$202.2 million.

2003

Aureos Capital raised US\$107.5 million in a first close of its three private-equity funds targeting small and medium-sized enterprises in Sub-Saharan Africa. Following a regional strategy, investments will be made through the Aureos Southern Africa Fund, the Aureos East Africa Fund and the Aureos West Africa Fund. Investors in the Funds include the International Finance Corporation, the European Investment Bank, the Norwegian Investment Fund for Developing Countries (Norfund), CDC Capital Partners, the Swiss State Secretariat for Economic Affairs (SECO), FMO, The Nordic Development Fund, and PTA Bank and Trans Century Ltd of Kenya. Aureos' target for this new fund is US\$120 million through future marketing to local investors.

With African businesses in severe need of risk capital, the Funds will provide equity and quasi-equity to local companies, with transactions ranging from US\$500,000 to US\$4 million. Investments will be sourced and executed through dedicated local teams operating out of 11 countries. These new funds bring Aureos' total capital under management to US\$309 million in Africa, Asia, and Latin America.

2004

Having successfully raised three private-equity funds targeting small and medium-sized enterprises (SMEs) in Sub-Saharan Africa in 2003, the funds will continue to focus on making profitable and sustainable investments in the region. The Aureos East Africa Fund has already made two investments—one in a pharmaceuticals company in Tanzania and the other in a plastics manufacturer in Kenya—while the Aureos West Africa Fund has invested in a paint producer and is now considering its second investment. It is expected that the Aureos Southern Africa Fund will make its first investment soon in the coming months.

Aureos is now promoting a new regional fund in South-East Asia, focusing on SMEs in Thailand, Philippines, Indonesia and the Mekong Region, including Vietnam, Cambodia and Laos. While many private-equity funds are focused on opportunities in North Asia, particularly China and South Korea, there is a lack of equity capital for SMEs in South-East Asia. Later in 2004, Aureos plans to promote a new regional fund for South Asia, including India, Sri Lanka, Bangladesh and the Maldives. These new funds should bring Aureos' total capital under management to over US\$400 million world wide.

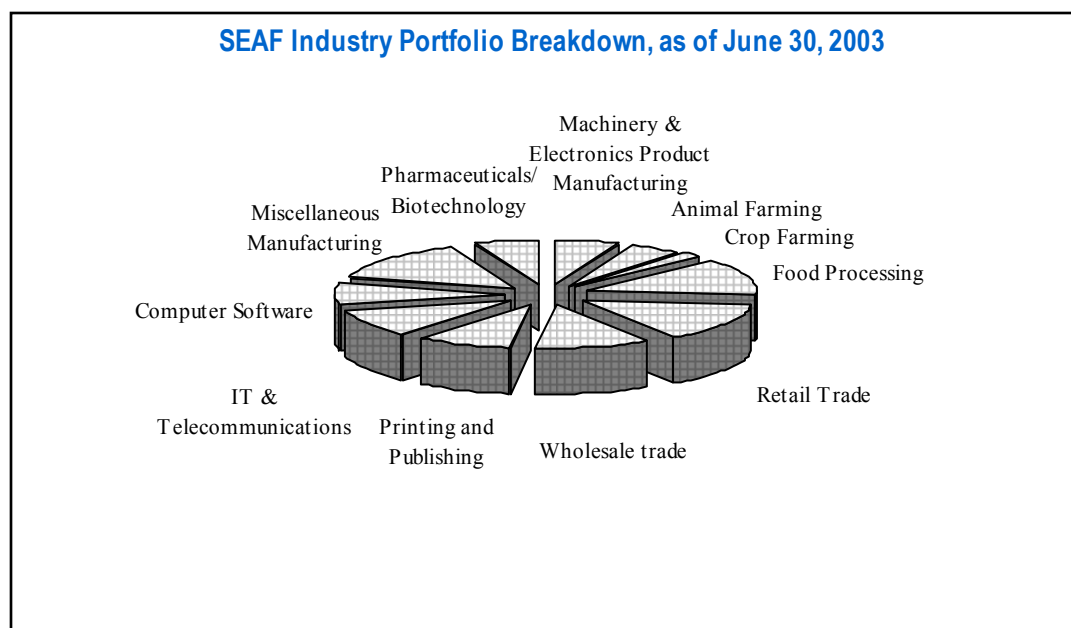
APPENDIX 3

SMALL ENTERPRISE ASSISTANCE FUNDS³

SEAF invests in SMEs through limited liability partnerships ("Funds"). These may be joint ventures, wholly- or partially-owned subsidiaries, managed funds or any other type of entity for which SEAF has primary responsibility. SEAF's funds have approximately \$150 million in capital under management. Sources of capital for the Funds include both official international financial institutions and private investors. SEAF Funds provide direct financing to locally established SMEs in amounts typically ranging between \$200,000 and \$1.5MM per business. Investments are made primarily through minority equity participations, often combined with quasi-equity financial instruments and subordinated debt.

Through local offices, SEAF's headquarters in Washington, and Stichting-SEAF in the Netherlands, SEAF staff work in close partnership with investee enterprises, both directly and in cooperation with publicly-funded business support programs and volunteer technical advisors, to help build the SME's business and achieve exits that provide investors participating in the Funds with commercially attractive returns.

SEAF primarily invests in locally-registered, private companies in which at least 51% of the ownership interest is held by locally resident nationals and SEAF will typically make investments which result in SEAF owning between 20% and 49% of the investee. SEAF recently completed the project "The Development Impact of Small and Medium Enterprises: Lessons Learned from SEAF Investments" on behalf of the Ford Foundation.



U.K. SOCIAL INVESTMENT TASK FORCE

This Task Force was an initiative of the UK Social Investment Forum, in partnership with the New Economics Foundation and the Development Trusts Association. Its formation was announced by the Chancellor of the Exchequer in February 2000. The announcement of the Task Force's formation included the following statements:

"After a period of sustained growth, the UK enjoys more material wealth than ever before. Yet, at the same time, poverty has become more concentrated and inequality more marked. Some of our poorest urban and rural areas have become no-go areas for investment. In spite of this, they contain a strong core of entrepreneurs and the potential for more to emerge. What is lacking is the capital and managerial expertise to support them.

At present such communities are heavily dependent upon philanthropy and public money, whether in the form of welfare payments or grants aimed at supporting community regeneration. This money is vital for the maintenance of basic living standards, but on its own it will never be sufficient - and in some circumstances public money can discourage or crowd out private sector investment. The long-term aim of the Social Investment Task Force is to achieve a move away from this culture of philanthropy, paternalism and dependence towards one of empowerment, entrepreneurship and initiative. This cannot happen without the addition of significant private investment and management expertise." ⁴

The remit of the Social Investment Task Force was:

"to set out how entrepreneurial practices can be applied to obtain higher social and financial returns from social investment, to harness new talents and skills to address economic regeneration and to unleash new sources of private and institutional investment. In addition, the Task Force should explore innovative roles that the voluntary sector, businesses and Government could play as partners in this area."

The UK Social Investment Forum defines "social investment" as "financial transactions intended both to achieve social objectives and to deliver financial returns to investors". The Task Force focused on the specific issue of community development finance to meet the needs of under-invested communities.

The recommendations of the Task Force were:

A Community Investment Tax Credit to encourage private investment in community development. The resulting investment of £1 billion over the programme duration would be invested in both profit-seeking and not-for-profit enterprises in under-invested communities.

Community Development Venture Funds. A matched funding partnership was suggested between Government on the one hand and the venture capital industry, entrepreneurs, institutional investors and banks on the other. Initially, it was proposed that £100 million be made available by the Government on attractive terms in matching funding over the programme's duration.

Disclosure of individual bank lending activities in under-invested communities. This should if possible be done on a voluntary basis, but if voluntary disclosure is not made, legislation should require disclosure.

Greater latitude and encouragement for charitable trusts and foundations to invest in community development initiatives, even where these include a significant for-profit element.

Support for Community Development Financial Institutions, including Community Development Banks, Community Loan Funds, Micro-loan Funds and Community Development Venture Funds. This requires action by the Government and its agencies (such as the Small Business Service), the private sector and the voluntary sector.

Completion or significant progress has been made in all five areas, including the establishment of Bridges Community Ventures (see Appendix 5).

APPENDIX 5

BRIDGES COMMUNITY VENTURES⁵

ESTABLISHED

2002

TOTAL COMMITTED CAPITAL

£40 million

AMOUNT INVESTED

£2,075,000

GEOGRAPHIC FOCUS

Wards around England that are in the most deprived 25 percentile on the Index of Multiple Deprivation.

BACKGROUND

Bridges Community Ventures (BCV) makes equity investments in businesses with high growth potential in the most under-invested parts of England (though it may, as appropriate, supplement its equity investments with near-equity investments). BCV is dedicated to managing funds that are both for-profit and mission-driven, aiming to stimulate economic growth and create jobs, wealth, and role models of business success in under-invested communities. BCV identifies businesses with growth potential that are located in, or that directly benefit, under-invested communities and supports them with business advice, networks of contacts, and appropriate financing. Aiming to demonstrate that financial returns can be made by backing entrepreneurs in these communities, BCV hopes its successes will result in the attraction of increased private sector finance into under-invested communities.

SOCIAL MISSION

The Fund aims to stimulate economic growth and create jobs, wealth and role models of business success in under-invested communities.

INVESTMENT INFORMATION

The Fund invests in all industries and typically makes investments of between £100,000 and £2 million for 20-45% of the equity. The companies in which BCV invests will usually have fewer than 250 employees and turnover £25MM a year or less. They have to be linked to their local community by jobs, market or supply chain. The Fund seeks growth companies at the early and expansion stages, as well as management buy-outs and buy-ins.

COMMITTEE OF DONOR AGENCIES FOR SMALL ENTERPRISE DEVELOPMENT

BILATERAL AGENCIES

- Austria: Ministry of Foreign Affairs*
- Australia: Australian Agency for International Development
- Belgium: Belgian Administration for Development Cooperation*
- Canada: Canadian International Development Agency, CIDA
- Denmark: Ministry of Foreign Affairs
- Finland: Ministry for Foreign Affairs (FINNIDA)
- France: Ministère des Affaires Étrangères
- Germany:
 - Federal Ministry for Economic Cooperation and Development (BMZ)
 - Die Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
 - Kreditsanstalt für Wiederaufbau (KfW)
- Italy: Ministry of Foreign Affairs
- Japan:
 - Japan Bank for International Cooperation (JBIC)
 - Japan International Cooperation Agency (JICA)*
- The Netherlands: Ministry of Foreign Affairs
- Norway: Norwegian Agency for Development Cooperation (NORAD)
- Sweden: Swedish International Development Agency (SIDA)
- Switzerland: Swiss Agency for Development and Cooperation (SDC)
- United Kingdom: DFID - Department for International Development (DFID)
- United States: United States Agency for International Development (USAID)

MULTILATERAL AND OTHER DEVELOPMENT AGENCIES

- African Development Bank (AfDB)*
- Asian Development Bank (ADB)

- European Bank for Reconstruction and Development (EBRD)
- The European Commission (EC)
- Food and Agriculture Organization (FAO)*
- The Ford Foundation
- Inter-American Development Bank (IADB)
- International Development Research Centre (Canada)*
- International Fund for Agricultural Development (IFAD)
- International Labour Organization (ILO)
- International Trade Centre (ITC)*
- Organisation for Economic Co-operation and Development (OECD)*
- Organization of American States (OAS)*
- Soros Foundation*
- United Nations Conference on Trade and Development (UNCTAD)*
- United Nations Development Fund for Women (UNIFEM)*
- United Nations Development Programme (UNDP)
- United Nations Industrial Development Organization (UNIDO)*
- The World Bank Group

** Non-CGAP Members*

RECOMMENDATION 189 OF THE INTERNATIONAL LABOUR ORGANISATION

The General Conference of the International Labour Organization,

Having been convened at Geneva by the Governing Body of the International Labour Office, and having met in its Eighty-sixth Session on 2 June 1998, and

Recognizing the need for the pursuit of the economic, social, and spiritual well-being and development of individuals, families, communities and nations,

Aware of the importance of job creation in small and medium-sized enterprises, Recalling the resolution concerning the promotion of small and medium-sized enterprises adopted by the International Labour Conference at its 72nd Session, 1986, as well as the Conclusions set out in the resolution concerning employment policies in a global context, adopted by the Conference at its 83rd Session, 1996,

Noting that small and medium-sized enterprises, as a critical factor in economic growth and development, are increasingly responsible for the creation of the majority of jobs throughout the world, and can help create an environment for innovation and entrepreneurship,

Understanding the special value of productive, sustainable and quality jobs,

Recognizing that small and medium-sized enterprises provide the potential for women and other traditionally disadvantaged groups to gain access under better conditions to productive, sustainable and quality employment opportunities,

Convinced that promoting respect for the Forced Labour Convention, 1930, the Freedom of Association and Protection of the Right to Organise Convention, 1948, the Right to Organise and Collective Bargaining Convention, 1949, the Equal Remuneration Convention, 1951, the Abolition of Forced Labour Convention, 1957, and the Discrimination (Employment and Occupation) Convention, 1958, will enhance the creation of quality employment in small and medium-sized enterprises and in particular that promoting respect for the Minimum Age Convention and Recommendation, 1973, will help Members in their efforts to eliminate child labour,

Also convinced that the adoption of new provisions on job creation in small and medium-sized enterprises, to be taken into account together with:

(a) the relevant provisions of other international labour Conventions and Recommendations as appropriate, such as the Employment Policy Convention and Recommendation, 1964, and the Employment Policy (Supplementary Provisions) Recommendation, 1984, the Co-operatives (Developing Countries) Recommendation, 1966, the Human Resources Development Convention and Recommendation, 1975, and the Occupational Safety and Health Convention and Recommendation, 1981; and

(b) other proven ILO initiatives promoting the role of small and medium-sized enterprises in sustainable job creation and encouraging adequate and common application of social protection, including Start and Improve Your Business and other programmes as well as the work of the International Training Centre of the ILO in training and skills enhancement,

will provide valuable guidance for Members in the design and implementation of policies on job creation in small and medium-sized enterprises,

Having decided upon the adoption of certain proposals with regard to general conditions to stimulate job creation in small and medium-sized enterprises, which is the fourth item on the agenda of the session, and

Having determined that these proposals shall take the form of a Recommendation;

adopts this seventeenth day of June of the year one thousand nine hundred and ninety-eight the following Recommendation which may be cited as the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998.

I. DEFINITION, PURPOSE AND SCOPE

1. Members should, in consultation with the most representative organizations of employers and workers, define small and medium-sized enterprises by reference to such criteria as may be considered appropriate, taking account of national social and economic conditions, it being understood that this flexibility should not preclude Members from arriving at commonly agreed definitions for data collection and analysis purposes.

2. Members should adopt measures which are appropriate to national conditions and consistent with national practice in order to recognize and to promote the fundamental role that small and medium-sized enterprises can play as regards:

(a) the promotion of full, productive and freely chosen employment;

(b) greater access to income-earning opportunities and wealth creation leading to productive and sustainable employment;

- (c) sustainable economic growth and the ability to react with flexibility to changes;
- (d) increased economic participation of disadvantaged and marginalized groups in society;
- (e) increased domestic savings and investment;
- (f) training and development of human resources;
- (g) balanced regional and local development;
- (h) provision of goods and services which are better adapted to local market needs;
- (i) access to improved quality of work and working conditions which may contribute to a better quality of life, as well as allow large numbers of people to have access to social protection;
- (j) stimulating innovation, entrepreneurship, technology development and research;
- (k) access to domestic and international markets; and
- (l) the promotion of good relations between employers and workers.

3. In order to promote the fundamental role of small and medium-sized enterprises referred to in Paragraph 2, Members should adopt appropriate measures and enforcement mechanisms to safeguard the interests of workers in such enterprises by providing them with the basic protection available under other relevant instruments.

4. The provisions of this Recommendation apply to all branches of economic activity and all types of small and medium-sized enterprises, irrespective of the form of ownership (for example, private and public companies, cooperatives, partnerships, family enterprises, and sole proprietorships).

II. POLICY AND LEGAL FRAMEWORK

5. In order to create an environment conducive to the growth and development of small and medium-sized enterprises, Members should:

- (a) adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal economic environment (as regards, in particular, inflation, interest and exchange rates, taxation, employment and social stability);

(b) establish and apply appropriate legal provisions as regards, in particular, property rights, including intellectual property, location of establishments, enforcement of contracts, fair competition as well as adequate social and labour legislation;

(c) improve the attractiveness of entrepreneurship by avoiding policy and legal measures which disadvantage those who wish to become entrepreneurs.

6. The measures referred to in Paragraph 5 should be complemented by policies for the promotion of efficient and competitive small and medium-sized enterprises able to provide productive and sustainable employment under adequate social conditions. To this end, Members should consider policies that:

(1) create conditions which:

(a) provide for all enterprises, whatever their size or type:

(i) equal opportunity as regards, in particular, access to credit, foreign exchange and imported inputs; and

(ii) fair taxation;

(b) ensure the non-discriminatory application of labour legislation, in order to raise the quality of employment in small and medium-sized enterprises;

(c) promote observance by small and medium-sized enterprises of international labour standards related to child labour;

(2) remove constraints to the development and growth of small and medium-sized enterprises, arising in particular from:

(a) difficulties of access to credit and capital markets;

(b) low levels of technical and managerial skills;

(c) inadequate information;

(d) low levels of productivity and quality;

(e) insufficient access to markets;

(f) difficulties of access to new technologies;

(g) lack of transport and communications infrastructure;

(h) inappropriate, inadequate or overly burdensome registration, licensing, reporting and other administrative requirements, including those which are disincentives to the hiring of personnel, without prejudicing the level of conditions of employment effectiveness of labour inspection or the system of supervision of working conditions and related issues;

(i) insufficient support for research and development;

(j) difficulties in access to public and private procurement opportunities;

(3) include specific measures and incentives aimed at assisting and upgrading the informal sector to become part of the organized sector.

7. With a view to the formulation of such policies Members should, where appropriate:

(1) collect national data on the small and medium-sized enterprise sector, covering inter alia quantitative and qualitative aspects of employment, while ensuring that this does not result in undue administrative burdens for small and medium-sized enterprises;

(2) undertake a comprehensive review of the impact of existing policies and regulations on small and medium-sized enterprises, with particular attention to the impact of structural adjustment programmes on job creation;

(3) review labour and social legislation, in consultation with the most representative organizations of employers and workers, to determine whether:

(a) such legislation meets the needs of small and medium-sized enterprises, while ensuring adequate protection and working conditions for their workers;

(b) there is a need for supplementary measures as regards social protection, such as voluntary schemes, cooperative initiatives and others;

(c) such social protection extends to workers in small and medium-sized enterprises and there are adequate provisions to ensure compliance with social security regulations in areas such as medical care, sickness, unemployment, old-age, employment injury, family, maternity, invalidity and survivors' benefits.

8. In times of economic difficulties, governments should seek to provide strong and effective assistance to small and medium-sized enterprises and their workers.

9. In formulating these policies, Members:

(1) may consult, in addition to the most representative organizations of employers and workers, other concerned and competent parties as they deem appropriate;

(2) should take into account other policies in such areas as fiscal and monetary matters, trade and industry, employment, labour, social protection, gender equality, occupational safety and health and capacity-building through education and training;

(3) should establish mechanisms to review these policies, in consultation with the most representative organizations of employers and workers, and to update them.

III. DEVELOPMENT OF AN ENTERPRISE CULTURE

10. Members should adopt measures, drawn up in consultation with the most representative organizations of employers and workers, to create and strengthen an enterprise culture which favours initiatives, enterprise creation, productivity, environmental consciousness, quality, good labour and industrial relations, and adequate social practices which are equitable. To this end, Members should consider:

(1) pursuing the development of entrepreneurial attitudes, through the system and programmes of education, entrepreneurship and training linked to job needs and the attainment of economic growth and development, with particular emphasis being given to the importance of good labour relations and the multiple vocational and managerial skills needed by small and medium-sized enterprises;

(2) seeking, through appropriate means, to encourage a more positive attitude towards risk-taking and business failure by recognizing their value as a learning experience while at the same time recognizing their impact on both entrepreneurs and workers;

(3) encouraging a process of lifelong learning for all categories of workers and entrepreneurs;

(4) designing and implementing, with full involvement of the organizations of employers and workers concerned, awareness campaigns to promote:

(a) respect for the rule of law and workers' rights, better working conditions, higher productivity and improved quality of goods and services;

(b) entrepreneurial role models and award schemes, taking due account of the specific needs of women, and of disadvantaged and marginalized groups.

IV. DEVELOPMENT OF AN EFFECTIVE SERVICE INFRASTRUCTURE

11. In order to enhance the growth, job-creation potential and competitiveness of small and medium-sized enterprises, consideration should be given to the availability and accessibility of a range of direct and indirect support services for them and their workers, to include:

- (a) business pre-start-up, start-up and development assistance;
- (b) business plan development and follow-up;
- (c) business incubators;
- (d) information services, including advice on government policies;
- (e) consultancy and research services;
- (f) managerial and vocational skills enhancement;
- (g) promotion and development of enterprise-based training;
- (h) support for training in occupational safety and health;
- (i) assistance in upgrading the literacy, numeracy, computer competencies and basic education levels of managers and employees;
- (j) access to energy, telecommunications and physical infrastructure such as water, electricity, premises, transportation and roads, provided directly or through private sector intermediaries;
- (k) assistance in understanding and applying labour legislation, including provisions on workers' rights, as well as in human resources development and the promotion of gender equality;
- (l) legal, accounting and financial services;
- (m) support for innovation and modernization;
- (n) advice regarding technology;
- (o) advice on the effective application of information and communication technologies to the business process;
- (p) access to capital markets, credit and loan guarantees;
- (q) advice in finance, credit and debt management;

(r) export promotion and trade opportunities in national and international markets;

(s) market research and marketing assistance;

(t) assistance in product design, development and presentation;

(u) quality management, including quality testing and measurement;

(v) packaging services;

(w) environmental management services.

12. As far as possible, the support services referred to in Paragraph 11 should be designed and provided to ensure optimum relevance and efficiency through such means as:

(a) adapting the services and their delivery to the specific needs of small and medium-sized enterprises, taking into account prevailing economic, social and cultural conditions, as well as differences in terms of size, sector and stage of development;

(b) ensuring active involvement of small and medium-sized enterprises and the most representative organizations of employers and workers in the determination of the services to be offered;

(c) involving the public and private sector in the delivery of such services through, for example, organizations of employers and workers, semi-public organizations, private consultants, technology parks, business incubators and small and medium-sized enterprises themselves;

(d) decentralizing the delivery of services, thereby bringing them as physically close to small and medium-sized enterprises as possible;

(e) promoting easy access to an integrated range of effective services through "single window" arrangements or referral services;

(f) aiming towards self-sustainability for service providers through a reasonable degree of cost recovery from small and medium-sized enterprises and other sources, in such a manner as to avoid distorting the markets for such services and to enhance the employment creation potential of small and medium-sized enterprises;

(g) ensuring professionalism and accountability in the management of service delivery;

(h) establishing mechanisms for continuous monitoring, evaluation and updating of services.

13. Services should be designed to include productivity-enhancing and other approaches which promote efficiency and help small and medium-sized enterprises to sustain competitiveness in domestic and international markets, while at the same time improving labour practices and working conditions.

14. Members should facilitate access of small and medium-sized enterprises to finance and credit under satisfactory conditions. In this connection:

(1) credit and other financial services should as far as possible be provided on commercial terms to ensure their sustainability, except in the case of particularly vulnerable groups of entrepreneurs;

(2) supplementary measures should be taken to simplify administrative procedures, reduce transaction costs and overcome problems related to inadequate collateral by, for example, the creation of non-governmental financial retail agencies and development finance institutions addressing poverty alleviation;

(3) small and medium-sized enterprises may be encouraged to organize in mutual guarantee associations;

(4) the creation of venture capital and other organizations, specializing in assistance to innovative small and medium-sized enterprises, should be encouraged.

15. Members should consider appropriate policies to improve all aspects of employment in small and medium-sized enterprises by ensuring the non-discriminatory application of protective labour and social legislation.

16. Members should, in addition:

(1) facilitate, where appropriate, the development of organizations and institutions which can effectively support the growth and competitiveness of small and medium-sized enterprises. In this regard, consultation with the most representative organizations of employers and workers should be considered;

(2) consider adequate measures to promote cooperative linkages between small and medium-sized enterprises and larger enterprises. In this connection, measures should be taken to safeguard the legitimate interests of the small and medium-sized enterprises concerned and of their workers;

(3) consider measures to promote linkages between small and medium-sized enterprises to encourage the exchange of experience as well the sharing of resources and risks. In this

connection, small and medium-sized enterprises might be encouraged to form structures such as consortia, networks and production and service cooperatives, taking into account the importance of the role of organizations of employers and workers;

(4) consider specific measures and incentives for persons aspiring to become entrepreneurs among selected categories of the population, such as women, long-term unemployed, persons affected by structural adjustment or restrictive and discriminatory practices, disabled persons, demobilized military personnel, young persons including graduates, older workers, ethnic minorities and indigenous and tribal peoples. The detailed identification of these categories should be carried out taking into account national socio-economic priorities and circumstances;

(5) consider special measures to improve communication and relations between government agencies and small and medium-sized enterprises as well as the most representative organizations of such enterprises, in order to improve the effectiveness of government policies aimed at job creation;

(6) encourage support for female entrepreneurship, recognizing the growing importance of women in the economy, through measures designed specifically for women who are or wish to become entrepreneurs.

V. ROLES OF ORGANIZATIONS OF EMPLOYERS AND WORKERS

17. Organizations of employers or workers should consider contributing to the development of small and medium-sized enterprises in the following ways:

(a) articulating to governments the concerns of small and medium-sized enterprises or their workers, as appropriate;

(b) providing direct support services in such areas as training, consultancy, easier access to credit, marketing, advice on industrial relations and promoting linkages with larger enterprises;

(c) cooperating with national, regional and local institutions as well as with intergovernmental regional organizations which provide support to small and medium-sized enterprises in such areas as training, consultancy, business start-up and quality control;

(d) participating in councils, task forces and other bodies at national, regional and local levels established to deal with important economic and social issues, including policies and programmes, affecting small and medium-sized enterprises;

(e) promoting and taking part in the development of economically beneficial and socially progressive restructuring (by such means as retraining and promotion of self-employment) with appropriate social safety nets;

(f) participating in the promotion of exchange of experience and establishment of linkages between small and medium-sized enterprises;

(g) participating in the monitoring and analysis of social and labour-market issues affecting small and medium-sized enterprises, concerning such matters as terms of employment, working conditions, social protection and vocational training, and promoting corrective action as appropriate;

(h) participating in activities to raise quality and productivity, as well as to promote ethical standards, gender equality and non-discrimination;

(i) preparing studies on small and medium-sized enterprises, collecting statistical and other types of information relevant to the sector, including statistics disaggregated by gender and age, and sharing this information, as well as lessons of best practice, with other national and international organizations of employers and workers;

(j) providing services and advice on workers' rights, labour legislation and social protection for workers in small and medium-sized enterprises.

18. Small and medium-sized enterprises and their workers should be encouraged to be adequately represented, in full respect for freedom of association. In this connection, organizations of employers and workers should consider widening their membership base to include small and medium-sized enterprises.

VI. INTERNATIONAL COOPERATION

19. Appropriate international cooperation should be encouraged in the following areas:

(a) establishment of common approaches to the collection of comparable data, to support policy-making;

(b) exchange of information, disaggregated by gender, age and other relevant variables, on best practices in terms of policies and programmes to create jobs and to raise the quality of employment in small and medium-sized enterprises;

(c) creation of linkages between national and international bodies and institutions that are involved in the development of small and medium-sized enterprises, including organizations of employers and workers, in order to facilitate:

(i) exchange of staff, experiences and ideas;

(ii) exchange of training materials, training methodologies and reference materials;

(iii) compilation of research findings and other quantitative and qualitative data, disaggregated by gender and age, on small and medium-sized enterprises and their development;

(iv) establishment of international partnerships and alliances of small and medium-sized enterprises, subcontracting arrangements and other commercial linkages;

(v) development of new mechanisms, utilizing modern information technology, for the exchange of information among governments, employers' organizations and workers' organizations on experience gained with regard to the promotion of small and medium-sized enterprises;

(d) international meetings and discussion groups on approaches to job creation through the development of small and medium-sized enterprises, including support for female entrepreneurship. Similar approaches for job creation and entrepreneurship will be helpful for disadvantaged and marginalized groups;

(e) systematic research in a variety of contexts and countries into key success factors for promoting small and medium-sized enterprises which are both efficient and capable of creating jobs providing good working conditions and adequate social protection;

(f) promotion of access by small and medium-sized enterprises and their workers to national and international databases on such subjects as employment opportunities, market information, laws and regulations, technology and product standards.

20. Members should promote the contents of this Recommendation with other international bodies. Members should also be open to cooperation with those bodies, where appropriate, when evaluating and implementing the provisions of this Recommendation, and take into consideration the prominent role played by the ILO in the promotion of job creation in small and medium-sized enterprises.

OECD CONFERENCE (JUNE 4-5, 2004) AGENDA, SPEAKERS, AND ISTANBUL MINISTERIAL DECLARATION

PLENARY SESSION

Chair:

Mr. Ali Coskun, Minister of Trade and Industry, Turkey

Speakers:

Mr. Recep Tayyip Erdogan, Prime Minister, Turkey

Mr. Donald J. Johnston, Secretary-General, OECD

Mr. Antonio Marzano, Minister for Productive Activities, Italy

JOINT SESSION OF MINISTERS AND BUSINESS REPRESENTATIVES ON: “SMEs COMPETING IN A KNOWLEDGE-BASED ECONOMY”

Chair:

The Hon. John Tamihere, Minister of Small Business and Associate Minister of Commerce, New-Zealand

Co-Chairs of the Business Symposium:

Mr. Faruk Eczacibasi, Chairman of the Board, Turkish Informatics Foundation, Turkey

Mr. Peter Fritz, Group Managing Director, TCG, Australia

Speakers:

Ministers:

Mr. Luiz Fernando Furlan, Minister for Development, Industry and Foreign Trade, Brazil

Mr. Rezzo Schlauch, Parliamentary State Secretary, Germany

Mr. Noer Soestrino, Deputy Minister, Ministry for Cooperative and Small and Medium-Sized Enterprises, Indonesia

The Hon. Peter Ochieng Odoyo, Assistant Minister in the Ministry of Labour and Human Resource Development, Kenya

Mr. Liaquat Ali Jatoi, Minister for Industries and Production, Pakistan

Mr. Krzysztof Krystowski, Undersecretary of State, Ministry of Economy, Labour and Social Affairs, Poland

Mr. Franquelim Alves, Secretary of State, Assistant to the Minister of Economy, Portugal

Business Representatives

Mr. Christian Poyau, President, GrowthPlus, France

Mr. Stef Wertheimer, Chairman, ISCAR Group, Israel

Mr. Eugenio Caponi, Vice President, Unicredit Bank, Italy

Mr. Tsugio Ide, Executive Director, Japan Small and Medium Enterprise Corporation (JASMEC),
Japan

Ms. Zeynep Bodur Okyay, President, KALE Group, Turkey

Ms. Marilyn Carlson Nelson, Chairman and CEO, Carlson Companies, Inc., USA

Rapporteurs:

Mr. Takayuki Matsuo, Director, Directorate for Science, Technology and Industry (DSTI), OECD

Mr. Peter Ladegaard, Administrator, Public Governance and Territorial Development (GOV),
OECD

WORKSHOP 1: ENTREPRENEURSHIP AND SME INNOVATION

Chair:

Mr. Martin Wyn Griffith, Chief Executive, Small Business Service (SBS), United Kingdom

Keynote Speaker:

Mr. Heinz Zourek, Deputy Director General, Enterprise Directorate-General, European
Commission

PANEL 1: POLICIES FOR ENTREPRENEURSHIP AND SME INNOVATION

Speakers:

The Hon. Motiur Rahman Nizami, Minister of Industries, Bangladesh

Mr. Conor O'Mahony, Principal Officer, Department of Enterprise Trade and Employment,
Ireland

Mr. Yuji Fukushita, Deputy Director-General, SME Agency, METI, Japan

The Hon. John Tamihere, Minister of Small Business and Associate Minister of Commerce, New-
Zealand

Mrs. Darja Osvald, Undersecretary of State, Minister of Economy, Slovenia

Discussants:

Mr. Jonathan Ortman, President, the Public Forum Institute, United States

Mr. David Storey, Director, Small Business Centre, University of Warwick, United Kingdom

Rapporteurs:

Mme Marie-Florence Estimé, Head, SME Unit, DSTI, OECD

Mr. Daniel Malkin, Head, Science and Technology Policy Division, OECD

PANEL 2: FOSTERING WOMEN'S ENTREPRENEURSHIP

Speakers:

Mr. Nerijus Eidukevicius, Vice Minister of Economy, Lithuania
Mr. Adem Sahin, Vice Minister, Ministry of Industry and Trade, Turkey
Ms. Melanie Sabelhaus, Deputy Administrator, US Small Business Administration, United States

Discussant:

Mr. Gerry Finnegan, Senior Specialist, International Labour Organisation (ILO)

Rapporteurs:

Ms. Monica Fong, Gender Co-ordinator, OECD

Mr. Frederic Delmar, Associate Professor, Stockholm School of Economics, Sweden

WORKSHOP 2: TOOLS FOR SME INNOVATION

Chair:

Mr. Christian Jacob, Minister Delegate for SMEs, France (14:30 -14:50)

Keynote speaker:

Mrs. Xinqian OU, Vice Chair, National Development and Reform Commission, China

PANEL 1: FINANCING FOR SMEs: INNOVATIVE SOLUTIONS

Speakers:

Mr. Frederico Poli, Undersecretary of Small and Medium Enterprises, Argentina

Mr. Chang-Moo Ryu, Administrator, SMBA, Korea

Mr. Alami Talbi, Minister for Industry, Commerce and Telecommunications, Morocco

Discussants:

Ms. Isabel Martín Castellá, Vice-President, European Investment Bank

Mr. Yohanan Levy, Deputy Director General, Ministry of Industry and Trade, Israel

Rapporteurs:

Mr. Marcos Bonturi, Head of Private Office of the Deputy Secretary-General, OECD

Mr. Izak Atiyas, Professor, Sabanci University, Turkey

PANEL 2: NETWORKS, PARTNERSHIPS, CLUSTERS AND INTELLECTUAL PROPERTY

Speakers:

Mr. Renato Caporali Cordeiro, Advisory Head for International Subjects, Brazilian Micro and Small Business Support Service, Brazil

Mr. Giovanni Dell'Elce, Undersecretary, Ministry of Productive Activities, Italy

Ms. Dato' Kalsom Abdul Rahman, Deputy Secretary General, Ministry of International Trade and

Industry, Malaysia

Mr. Joan Trullen i Thomás, General Secretary for Industry, Ministry for Industry, Tourism and Trade, Spain

Discussant:

Mr. Guriqbal Singh Jaiya, Director, Small and Medium-sized Enterprises (SMEs) Division, WIPO

Rapporteurs:

Mr. Jean Guinet, Principal Administrator, Science and Technology Policy Division, OECD

Mr. Sergio Arzeni, Head, Local Economic and Employment Development (LEED) Programme, OECD

SPECIAL WORKSHOP ON SME STATISTICS

OPENING TOWARDS A MORE SYSTEMATIC STATISTICAL MEASUREMENT OF SME BEHAVIOR

Co-Chairs:

Mr. Luigi Biggeri, President of the National Institute of Statistics (ISTAT), Italy

Mr. Ömer Demir, President of the State Institute of Statistics (SIS), Turkey

PANEL 1: STRENGTHS AND WEAKNESSES OF SME STATISTICS SYSTEMS -THE PRODUCERS' PERSPECTIVE

OECD Presentation of identified key issues of Panel 1

Mr. Enrico Giovannini, Chief Statistician and Director, Statistics Directorate, OECD

Speakers:

Mr. Tim Davis, Director General, Agriculture, Technology and Transportation Statistics Branch, Statistics Canada, Canada

Mr. Andrea Mancini, Director, ISTAT, Italy

Mme Gunnel Bengtsson, Assitant Director, Economics Statistics Statistics Sweden, Sweden

Rapporteur:

Mr. Andreas Lindner, Head of Trade and Structural Economic Statistics, Statistics Directorate, OECD

PANEL 2: STRENGTHS AND WEAKNESSES OF SME STATISTICS SYSTEMS - THE USERS' PERSPECTIVE

OECD Presentation of identified key issues of Panel 2

Mr. Paul Atkinson, Deputy Director, Directorate for Science, Technology and Industry, OECD

Speakers:

Mrs. Claire Lefebvre, Deputy Director, Directorate for Trading, Craft and Service Companies (DECAS) and Vice-Chair of the OECD Working Party on SMEs and Entrepreneurship, France

Mr. Ömer Toprak, Vice-President, SIS, Turkey

Mr. Chris Hall, SME Network Leader, Pacific Economic Cooperation Council, PECC

Rapporteur:

Mr. Andreas Lindner, Head of Trade and Structural Economic Statistics, Statistics Directorate, OECD

Workshop 3: SMEs IN A GLOBAL ECONOMY

Chair:

Mr. István Csillag, Minister of Economy and Transport, Hungary

Keynote speaker:

Mr. Dimitris Sioufas, Minister of Development, Greece

PANEL 1: FACILITATING SMEs' ACCESS TO INTERNATIONAL MARKETS

Speakers:

Mr. Miroslav Somol, Deputy Minister of Industry and Trade, Czech Republic

Mr. Mogaji Mohammad, Minister of Industry, Nigeria

Mr. Sven- Eric Söder, State Secretary for Trade and Industry, Sweden

Discussants:

Ms. Tatiana Krylova, Chief, Enterprise Internationalization Section, DITE, UNCTAD

Mr Severi Keinälä, Senior Advisor, Confederation of Finnish Industry and Employers, Finland

Rapporteurs:

Ms Marian Murphy, Administrator, SME Unit, DSTI, OECD

Mr. Paul Dembinski, University of Fribourg, Switzerland

PANEL 2: STRENGTHENING THE CONTRIBUTION OF E-BUSINESS

Speakers:

Mr. Ansgar Gabrielsen, Minister of Trade and Industry, Norway

Mr. Yen-Shiang Shih, Vice-Minister of Economic Affairs, Chinese Taipei

Mr. Erkki Virtanen, Permanent Secretary, Ministry of Trade and Industry, Finland

Discussants:

Mr. Antal Szabo, Regional Advisor, UN Economic Commission for Europe (UNECE)

Mr. Fabien Gelinas, Associate Professor, Faculty of Law, Mc Gill University, Montreal, Canada

Rapporteurs:

Mr. Hagbong SIM, Project Manager, Industry Division, DSTI, OECD

Mme Muriel Faverie, Université Paris X, France

WORKSHOP 4: ENHANCING THE ROLE OF SMEs FOR DEVELOPMENT

Chair:

Mr. Carlos Magarinos, Director General, UNIDO

Keynote speaker:

Mr. Bernd Eisenblätter, Managing Director, GTZ, Germany

PANEL 1: ENHANCING SME COMPETITIVENESS

Speakers:

Mr. Aydar Kalimatayevic Kazibayev, Chairman of the SME Support Committee, Kazakhstan

Mr. Vachara Phanchet, Chairman of the SME Support Committee, Kazakhstan

Mr. Fethi Merdassi, Vice-Minister of Industry, Thailand

Mr. Bruce Jenks, Assistant Administrator, Director for the Bureau of Resources and Strategic Partnerships, United Nations Development Programme

Discussant:

Ms. Noreen Doyle, 1st Vice President, European Bank for Reconstruction and Development (EBRD)

Rapporteurs:

Mr. William Nicol, Head, Policy Coherence Division, Development Co-operation Directorate (DCD), OECD

M. Mehmet Ogutcu, Forum Manager, Global Forum and Regional Outreach, Directorate for Financial and Enterprise Affairs (DAF), OECD

PANEL 2: SMEs AND POVERTY REDUCTION

Speakers:

Mr. Alihuseyn Shaliyev, Undersecretary of Economic Development, Azerbaijan

Mr. B.S Minhas State Secretary of Small Scale Industries and ARI, India

Mrs. Maimouna Sourang Ndir, Minister for Social Development, Senegal

Ms. Emmy B. Simmons, Assistant Administrator for Economic Growth, Agriculture and Trade, USAID, United States

Discussant:

Mr. Luciano Borin, Director, Private Sector Operations, African Development Bank

Rapporteurs:

Mme Ebba Dohlman, Principal Administrator, Policy Coherence Division, DCD, OECD

Mr. Federico Bonaglia, Economic Analysis and Development Policy Dialogue, Development Centre (DEV), OECD

The Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs

Ministers and Representatives of governments participating in the OECD conference held in ISTANBUL on 3-5 June 2004, (hereafter the Ministers),

RECOGNISING that small and medium-sized enterprises (SMEs):

- are the dominant form of business organisation in all countries, typically accounting for over 95 per cent of the business population;
- constitute an important dynamic element in all economies as they drive innovation, especially in knowledge-based industries; and
- play a key role in driving sustainable economic growth and job creation while contributing to the social, cultural and environmental capital of nations;

ACKNOWLEDGING:

- that for SMEs and entrepreneurship to flourish there needs to be a conducive business environment where the rule of law is paramount; and
- that SMEs operate within distinct business cultures around the world, but that the economic and dynamic market conditions they face create similar challenges for the firm and how it prospers;

RECALLING the outcome of the first OECD Conference for Ministers responsible for SMEs on *"Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies"*, held in Bologna on 13-15 June 2000;

NOTING that the *"The Bologna Charter on SME Policies"* provides a frame of reference for the design of SME policies to contribute coherently to economic growth and social development, both in OECD countries and the rest of the world;

REAFFIRMING their commitment to working to put in place policies which support the development, growth and competitiveness of SMEs and to pursuing policy dialogue and co-operation among OECD countries and non-member economies;

RECALLING the *"Future Actions"* agreed upon at Bologna and **WELCOMING** those that have been undertaken to date, in particular:

- The analytical work of the OECD in preparation for this Conference of Ministers responsible for SMEs, in line with the recommendations of the Charter, which has focused on: entrepreneurship, including women’s entrepreneurship; access to financing; partnerships, networks and clusters; SMEs’ access to international markets; information and communication technologies and e-business; and promoting SMEs for development;
- Practical outputs, including the development of a framework for strengthening evaluation of SME programmes and policies which should benefit both OECD and non-OECD economies; the creation of educational instruments for SMEs wishing to resolve e-business disputes on line; and the first steps towards the improvement of SME-related data and statistics;
- The launch of the “OECD Bologna Process” which brings together OECD and non-OECD economies for strengthened dialogue and co-operation to foster the entrepreneurship agenda and SME competitiveness at the global level, and encourages increasing co-operation between the OECD and other international organisations in this area;
- The increased role of the OECD in providing a forum for sharing best-policy practices in the area of women’s entrepreneurship, in partnership with the private sector; and
- Following a successful feasibility study, the International Network for SMEs (INSME) was set up on the initiative of Italy. INSME is a non-profit international association aimed at improving transnational co-operation and public and private partnership in the field of innovation and technology transfer to SMEs. INSME, which groups a number of OECD and non-OECD stakeholders, including governments, benefits from OECD sponsorship;

WELCOMING the second Conference of Ministers responsible for SMEs, jointly organised by the OECD and Turkey in ISTANBUL in June 2004, which has provided a major opportunity to extend the policy dialogue on enhancing entrepreneurship and SME innovation as drivers of growth in a global economy;

WELCOMING the participation of the business community through the Business Symposium,

NOTING the recommendations endorsed at the Symposium, and **CONFIRMING** that these recommendations have been taken into account in the framing of this Declaration [See the Conference document containing the recommendations of the Business Symposium on “SMEs Competing in a Knowledge Economy”];

HIGHLIGHTING the benefits of exchanging views and experiences with regard to: strengthening entrepreneurship and SME innovation; policy tools for supporting innovation using an interdisciplinary approach; and ways to take advantage of international markets and to contribute to development; and

RECOGNISING that an important theme cutting across this discussion is the need to build a culture of evaluation in which programmes and policies are systematically reviewed in order to strengthen and improve those that should be retained;

I. REAFFIRM the need to support the development of the best set of public policies that will foster the creation and rapid growth of innovative SMEs. This requires:

a) Policies and an institutional framework that contribute to a business environment that is conducive to entrepreneurship and facilitates entry, growth, transfer of ownership and smooth exit of enterprises. These should be coherent at international, national, regional and local levels and should include:

- Stable macroeconomic policies and well-designed structural policies in areas that impinge on SMEs, such as competition, international trade and investment, financial markets, labour markets and education; and, as regards to developing economies, embedding private sector SME strategies in broader development strategies and poverty reduction programmes;
- Enabling regulatory frameworks, which are developed taking into account the needs of SMEs and facilitating their integration into the formal sector; tax systems that entail low compliance costs; the transparent and equitable application of rules and legislation; simple and transparent licence and permit systems; efficient bankruptcy laws and procedures; understandable and coherent product standards in world markets; clearly defined property rights; fair and reasonably priced dispute settlement procedures; and light, predictable administrative procedures;
- Laws and systems of governance that support the development and diffusion of new technologies in ways that enable and encourage SMEs to take full advantage of them, notably by strengthening the science-innovation interface; ensuring that intellectual property rights systems are coherent, easy to understand and used effectively; and promoting access to and use of quality information and communication infrastructure and promoting enhanced security and trust in the digital economy;

b) SME assistance and development programmes which are clear in terms of their rationale, objectives and beneficiaries. These policies and programmes should be:

- Based on sound research, empirical evidence, public-private dialogue and partnerships, and evaluated regularly for effectiveness and efficiency;
- Cost-effective and designed to encourage activity that would otherwise not have taken place and help SMEs overcome the effects of market failures, without unduly distorting market structures or creating barriers to competition;
- Designed to provide support to large groups of SMEs, including micro-enterprises, for example by helping them to: improve their management skills; obtain finance on reasonable terms; increase their capacity to compete for government procurement; have access to timely advice and information; enhance their ability to take full advantage of information and communication technologies; and improve linkages with other SMEs and large firms to encourage the emergence and development of innovative clusters;

c) Policies that contribute to mobilising human resources in order to promote entrepreneurship. This involves:

- Developing a culture that encourages entrepreneurship and recognises entrepreneurial success. The integration of entrepreneurship at all levels of the formal education system can facilitate this. Formal education should be complemented by learning-by-doing activities and other practical workshops. This objective requires paying particular attention to teacher training programmes;
- Promoting the diffusion of training programmes and lifelong learning opportunities by stimulating market provision of such services and, where the need exists, providing hands-on focused courses funded by the public sector;
- Promoting women's entrepreneurship through the elimination of barriers to enterprise creation and growth, such as impediments to the right to hold property or to sign contracts, where such impediments exist, and by taking into account at the design stage the impact of SME-related policies on women's entrepreneurship;
- Mobilising disadvantaged groups. One way to pursue this objective is to develop policies and programmes which provide business support services targeted to these groups and disseminate information to those wanting to start and grow a business;

II. RECOGNISE that, while priorities in terms of specific elements of SME policies vary greatly among participants due to their differing stages of development, political contexts and institutional arrangements, several key themes stand out as being of particular importance:

a) The need to reduce barriers to SME access to global markets. Policies should aim to encourage the smooth, cross-border growth of SMEs including in some instances through the promotion of business linkages between large enterprises and SMEs. This can be achieved by reducing administrative and legal burdens, by facilitating compliance by internationally active SMEs with multiple sets of rules and requirements (in areas such as intellectual property rights, product standards, financial market regulations and customs procedures), by promoting harmonisation – as appropriate – of rules and requirements in order to reduce the cost of such compliance, and by fostering – to the fullest possible extent – the development of alternative dispute resolution mechanisms;

b) The need to improve access to financing for SMEs on reasonable terms. While SMEs' financing requirements differ at each stage of their development, policies should aim to ensure that markets can provide financing for credit-worthy SMEs and that innovative SMEs with good growth prospects have access to appropriately structured risk capital at all stages of their development. Policies should also contribute to increasing the managerial and technical expertise of those intermediaries whose role is to evaluate and monitor companies with a view to matching expanding small firms with investors;

c) The need to develop a strong “evaluation culture” in ministries and agencies responsible for SME policies and programmes. Evaluation provides a means of ensuring that SME programmes remain cost-effective and adapt to changing conditions in a dynamic world. Ideally, evaluation would be mandated and budgeted for when programmes are designed, would be carried out by independent but informed evaluators, and would generate recommendations for improving and strengthening those programmes that should be retained;

d) The need to strengthen the factual and analytical basis for policy making so that policy makers can make decisions in an informed manner based on empirical evidence. This requires both reliable and internationally comparable data and statistics on which analytical work can be based as well as cross-country comparative studies and longitudinal analyses which can assess the impact of economic forces and developments on SMEs over time. The lack of an empirical foundation is particularly marked in the area of women's entrepreneurship;

III. TAKE NOTE with interest of the “**Regional Emerging Markets Technology Transfer Network – REMTECH**”, initiated by Turkey, which aims at integrating and promoting technology- oriented SMEs at global level in various strategic sectors, and **WELCOME** the intention to implement a pilot project in the field of automotive components, with the goal of developing technology transfers among clusters of

specialised innovative SMEs in this market at the global and sub-regional levels;

IV. COMMIT to:

- Working co-operatively to achieve progress in reducing barriers to SMEs' access to international markets;
- Considering SME needs, including for simplified, streamlined and integrated administrative processes, when formulating new legislation, regulations and product standards;
- Assessing the effects of globalisation on SMEs and in particular examine issues related to SME access to financing and to support for innovation;
- Recognising and building on SMEs' role as engine for growth, employment and poverty alleviation, particularly in developing countries;

V. **ACKNOWLEDGING** that the OECD offers a global perspective and should capitalise on its access to sources of information and inspiration from around the globe, identifying good and innovative practices in areas of well-established interest to encourage the development of SME and entrepreneurship policies and initiatives that work, INVITE the OECD to consider:

- Strengthening its peer-review processes for specific thematic issues and policies affecting SMEs, and of the SME sector as a whole. Peer reviews would be carried out on a voluntary basis;
- Developing a robust and comparable statistical base on which SME policy can be developed. *The action plan emerging from the Istanbul Conference Special Workshop on SME Statistics* provides a good basis for this work;
- Enabling a better understanding of *international value chains* and the way in which SMEs can benefit from them;
- Identifying ways in which unnecessary *barriers to SMEs' access to international markets* can be removed, in collaboration with interested countries and other relevant international organisations and fora;
- Proactively disseminating the work it has carried out on best practices for *the evaluation of SME policies and programmes*, for example by working with OECD members and interested non-member economies and organisations to develop and test a handbook of best practices for evaluation of SME policies and programmes;
- Organising focused thematic workshops and conferences involving interested OECD members, non-member economies and international organisations with a view to making concrete progress in specific areas identified for analysis and policy action. One such conference could be focused on *financing SMEs* at all

stages of their development, with a particular emphasis on innovative SMEs;

- Proactively disseminating OECD activities related to the development of *women's entrepreneurship*. This could be undertaken through the organisation of meetings and seminars, as well as training workshops, to enable the exchange, transfer and diffusion of best practices amongst member and non-member economies. The OECD-Istanbul Private Sector Development Centre can play a particular role in this regard.

APPENDIX 9

SUPPLEMENTAL INTERVIEWS CONDUCTED

INTERNATIONAL FINANCE CORPORATION

Peter Tropper
Senior Investment Officer
Investment Department

Luc Vallaincourt
Business Development Officer
SME Department

SMALL ENTERPRISE ASSISTANCE FUNDS

Mildred Callear
Executive Vice President and Chief Operating Officer

UNITED NATIONS DEVELOPMENT PROGRAMME

Ken Tatsuo Fujimura
Senior Adviser of South-South Cooperation
Special Unit for Technical Cooperation among Developing Countries

¹ www.imi-ag.com.

² www.aureos.com.

³ www.seaf.com.

⁴ “Enterprising Communities: Wealth Beyond Welfare”. October 2000. *Social Investment Task Force*.

⁵ www.bridgesveneture.com.