

NHDR Network Group
Consolidated Reply
17 March 2000

NHDR on Small and Medium Sized Enterprises

Request from UNDP Uzbekistan

Original request from UNDP Uzbekistan, through Juliette el Hage

We are now developing an outline for the Uzbek NHDR 2000. The topic which was preliminary suggested is the role of Small and Medium Enterprises in HD. Though there are a lot of publications dealing with the SME development, I could not get any specific one on the relations between SME and HD. In fact the topic is more or less clear and the relation is more or less evident, but we hope we could get a reference to some publications if there are any on this subject in order to have a better understanding for the conceptual approaches. That would be really important for us in order to come with a solid outline and for continuing our dialogue on the theme and the process of the preparation of the report with our colleagues in the Government, research institutions, NGOs and etc.

Bakhodur Eshonov [bakhodur@cer.uz]

Responses in full

1. Ibro Abdou, UNDP Niger <ibro.abdou@undp.org>

[Approximate translation from French]

With reference to the above subject, please find below my contribution.

1). It is important in the first instance to approach the issue with the following question: [What is the] contribution of Small and Medium Sized Enterprises (SME) towards human development (i.e. the progress measured by HDI: income, life expectancy and school enrolment)?

Taking this approach one can quickly show that SMEs benefit a large portion of the medium-level and poor populations, that SMEs are an important source of income generation, one of the variables that affects the level of HDI [...]

2) Finding the correlation between income growth on the one hand and school enrolment and life expectancy on the other. If one shows that incomes have increased, one could (?) possibly show that this additional income has been used to meet needs in the areas of housing, nutrition, health and education, etc. All these contribute to improve school enrolment and life expectancy indicators.

The results of these two exercises mentioned above, leads to the following conclusion: the proliferation of SMEs could contribute to an improvement in HDI, and in human development in general.

Dear colleague, I hope that these thoughts, albeit 'mechanical', can positively contribute to the discussion [that you have launched]

2. Gerardo Berthin, UNDP Bulgaria <gerardo.berthin@undp.org>

Here are some thoughts and inputs for the Uzbekistan CO on the topic of SME's and HD:

If we depart from the premise that the purpose of HD is to create an enabling environment for people to enjoy long, healthy and creative lives, then there are indirect and direct links between SMEs and HD, which in fact makes the topic actually less clear and the relation even less evident.

Here are a few factors, which may help to articulate and highlight better the relationship between SMEs and HDs (in no particular order and by all means non-exhaustive)

1. Participation
2. Economic growth
3. Private sector development
4. Synergy between private and public investment
5. Resources/credit
6. Social and organisational capital
7. Governance

I think also that a few theoretical/conceptual elements would be important to consider in the analysis of the relationship between SMEs and HD, which could make the topic clearer and the relation more evident. For example:

1. That human development implies not only an economic transformation, but also a social transformation in terms of relations, ways of thinking, and modes of production.
2. That a human development strategy should be aimed at facilitating the transformation of society in identifying barriers as well as opportunities for change.
3. And, that as part of such strategy, SMEs can become means and ends of, and for, human development

Let me try to put all of the above in some logical framework. Approaching human development from the perspective of SMEs (especially for transition countries), I think implies first addressing the issue of how to foster and push a social transformation that would have profound impact on what government donors, business organizations and NGOs do, as well as on which type of policies can engage and articulate SME issues, such as participation, partnerships, credit and even values/attitudes.

Thus any analysis that tries to make a more clear and evident link between HD with SMEs must incorporate within a very coherent framework, elements such as economic activity, conditions for business development, a survey and typology of business, taxonomy of types of entrepreneurs, normative and legal basis of entrepreneurship, institutional context of entrepreneurship and possibly some case studies to show what works and what doesn't.

I do not know of any publication that treats specifically the issue of HD and SMEs, but there are a number of them that have attempted to provide frameworks to analyze the linkages. For example within the UNDP/UN literature I would recommend:

UNDP Global Human Development Report, 1993, Chapter 3 especially
UNDP Global Human Development Report, 1997, Chapter 4 especially
Mahbub Ul Haq, Reflections on Human Development, 1995 Oxford
Mahbub Ul Haq, Human Development Report for South Asia, 1997
Jorge Zapp, Virtual Popular Enterprises, UNDP, Bolivia, 1995-96
ECLA, Productive Transformation with Equity, Santiago de Chile, 1990

In addition, last year here in Bulgaria we consulted a substantive bibliography outside the UNDP/UN framework on the issue of SMEs, because our 1999 NHDR analyzed regional policy inputs for SMEs. Here is a selected group of relevant literature that can also provide possible frameworks for analyzing HD and SMEs.

Battat, J., I. Frank, X. Shen. September 1996. Suppliers to Multinationals: Linkage Programs to Strengthen Local Companies in Developing Countries. FIAS Occasional Paper No. 6. Order from World Bank Publications.

Bennett, L. M. Goldberg. October 1993. Providing Enterprise Development and Financial Services to Women: A Decade of Bank Experience in Asia. Order from World Bank Publications.

Berry, A., J. Escandon. December 1994. Colombia's Small and Medium-Size Exporters and Their Support Systems. Working Paper No. 1401. Order from World Bank InfoShop.

Berry, A., B. Levy. December 1994. Indonesia's Small and Medium-Size Exporters and Their Support Systems. Working Paper No. 1402. Order from World Bank InfoShop.

De Melo, M., G. Ofer. May 1994. Private Service Firms in a Transitional Economy: Findings of a Survey in St. Petersburg. Studies of Economies in Transformation Paper 11. Order from World Bank Publications.

Dhevan Meyanathan, S., Ed. October 1994. Industrial Structures and the Development of Small and Medium Enterprise Linkages: Examples from East Asia. World Bank Discussion Paper No. 379. Order from World Bank Publications.

Hahm, H. December 1993. The Development of the Private Sector in a Small Economy in Transition: The Case of Mongolia. World Bank Discussion Paper 223. Order from World Bank Publications.

Kim, L., J. B. Nugent. December 1994. The Republic of Korea's Small and Medium-Size Enterprises and Their Support Systems. Working Paper No. 1404. Order from World Bank InfoShop.

Levitsky, J., R. N. Prasad. March 1987. Credit Guarantee Schemes for Small and Medium Enterprises. World Bank Technical Paper No. 58. Order from World Bank InfoShop.

Tan, H.W., G. Batra. 1995. Enterprise Training in Developing Countries: Incidence, Productivity Effects, and Policy Implications. World Bank, Private Sector Development Department. Request by e-mail to aamuah@worldbank.org.

Tan, H.W., G. Batra. October 1995. Technical Efficiency of SMEs. Comparative Evidence from developing Countries. World Bank, Private Sector Development Department Occasional Paper No. 19. Request by e-mail to aamuah@worldbank.org.

Webster, L. M., D. Swanson. January 1996. The Emergence of Private Sector Manufacturing in the Former Czech and Slovak Federal Republic. A Survey of Firms. World Bank Technical Paper 230. Order from World Bank Publications.

Webster, L., R. Riopelle, A. M. Chidzero. World Bank Lending for Small Enterprises 1989-1993. World Bank Technical Paper No. 311. Order from World Bank Publications.

Wyznikiewicz, B., B. Pinto, M. Grabowski. June 1993. Coping with Capitalism. The New Polish Entrepreneurs. IFC Discussion Paper 18. Order from World Bank Publications.

I hope these help the colleagues from Uzbekistan. Please feel free to contact me for any additional questions or clarifications.

3. Thomas Gittens, UNDP/SURF Trinidad & Tobago <tgittens@surf.undp.org.tt>

Ibro's approach may be 'mechanical', but it certainly helps us to focus the discussion. I believe, as Ibro suggests, that the link between SMEs and HD can be best made if we ask ourselves how the development of SMEs can contribute to enhancing HD in a particular country situation. Given the pervasive poverty that afflicts most of our programme countries, the possible contribution of SMEs to promoting sustainable livelihoods and alleviating poverty, must surely be seen as a major potential spin-off from the development of the SME sector. Of course, having said that, the task is to devise models and to sharpen the effectiveness of our interventions to ensure that SMEs do produce the much-vaunted improvements in people's livelihoods, and contribute to reducing poverty and increasing HD.

4. Michael Constable, OSG <michael.constable@undp.org>

A NHDR on Small and Medium Enterprises and SHD might possibly address some of the following questions:

What experiences have vulnerable groups in Uzbekistan had with SMEs? Have SME type interventions resulted in vulnerable people "graduating" out of their core vulnerabilities? How many, who, where, how, when? What could SMEs have done better, as perceived by the vulnerable groups concerned? What were the pro-poor best practices? Again as perceived by vulnerable groups themselves? What were the constraints to reaching more vulnerable people, to increasing graduation, to doing better? What suggestions would vulnerable groups have themselves to make SMEs more relevant to their circumstances?

An empirical study aimed at addressing such questions, if conducted in a meaningful participatory manner (eg using PRA) would in all probability generate a wealth of data and suggestions for making SMEs work better for the poor in Uzbekistan. Such an analysis might be used by UNDP in Uzbekistan to **speak out for the more vulnerable**, whose voices might not otherwise be heard, in not only drawing attention to specific concerns and issues relating to SMEs as articulated by the poor, but in suggesting ways to address them. This may well take UNDP up-stream into the policy area; it may also lead to more immediately

actionable micro suggestions too; and convincing analyses with effective advocacy might mobilise funds from others wanting to make SMEs work better for the poor in Uzbekistan.

A bottom-up approach along these lines might be supplemented by other approaches, including the culling of best practices from other countries. Does BDP have a specialist in this area? [Note from Hakan: Yes, Casper Sonesson and his unit] Has the evaluation office distilled lessons? [Note from Hakan: Yes, please see contribution from Casper Sonesson, second item in his list of references] On leaving UNDP/Bangladesh in 1997, I seem to remember work being initiated on a NHDR on [sustainable livelihoods]. It might be worthwhile contacting Shams.Mustafa@undp.org to whom I am copying this.

But what matters most is how SMEs work or don't work for the poor in Uzbekistan and conceptual or other studies from other countries cannot address this question. Good luck!

5. Nadia Hijab, Consultant <nadia17@email.msn.com>

There is an interesting SME programme underway in the Dominican Republic, which I visited recently, where up to 50% of the people may live in poverty - and about 50% also work in the informal sector and in SMEs. I am copying this email to colleagues in UNDP Santo Domingo in case they want to contribute to the discussion.

What the programme does among other things is build trust among small producers so they can pool their resources and get a bigger share of the market (a brief description extracted from the Report I wrote on institutional change and reform in the Dominican Republic is pasted at the end of this message).

The kinds of questions SME programmes raise in my mind, and which could be considered in an NHDR is:

- How is donor or national support for SMEs linked to thinking about a country's existing or future comparative advantages in a rapidly globalizing economy? The dangers of not doing so are clear, but the issue is rarely raised.
- Do SME projects trap poor people in general - and poor women in particular - in ongoing traditional activities and occupations (eg. handicrafts), when the world is headed into IT at breakneck speed.
- Or, worse, do SMEs pull people, particularly women, out of traditional activities (food production) that are vital for a country (food security) and into other traditional activities that are considered "appropriate" by project experts, eg. sewing, even when there is no present or future market. I witnessed this in many poverty alleviation activities in Yemen (and pretty much in the rest of the Arab world).
- Is support for SMEs linked to a discussion of policy or legal frameworks regarding the informal sector?

Description of DR programme

Since nearly half the country's population works in the informal sector, some quarters are helping communities become more efficient and effective in these areas. Luis Toirac of the Instituto Dominicano de Tecnologia Industrial has been working with employers, workers and business associations since 1996. They are supporting strategies to promote competitiveness in areas such as footwear, leather goods, mechanics, textiles, furniture, crafts, coffee and wine.

"We have formed 'Collective Efficiency Teams' in each business area, and in the same part of the city. We promote cooperation and solidarity between them since they face common problems. Of course, it wasn't easy but we argued that instead of trying to eliminate each other, they could increase their market share by pooling their strengths and eliminating their weakness".

So far, the Instituto has established 35 Teams throughout the country, which cover 240 enterprises and some 2,000 people. Common problems include dirty workplaces, bad labour relations, high turn-over, big inventories, old designs and difficulty in competing. Toirac added, "They don't know where the suppliers are, even here in the Dominican Republic. Sometimes they can't get credit". They now pool efforts by ordering in bulk, setting up joint bank accounts, sharing warehouses, and following common business rules.

A big plus is that a Dominican "culture of production" already exists. The Instituto is encouraging the enterprises to be more client-oriented. "In Moca, we organized a meeting between shoe factory owners and workers with local townspeople. It started out tense, with people complaining that soles came off a few days after shoes were purchased. Owners began to look for ways to improve quality, and they gained community respect. Now factories consult the community before designing new products. There's a whole cultural dimension to this work. Many institutions assist micro-enterprises on financial issues, rather than also helping them to solve their technical and cultural issues".

The Instituto also advises medium-size enterprises, urging them to specialize and sub-contract areas where they lack in-house expertise. Companies include a factory that makes modular kitchens, which supplies both the Republic and other countries, and which is now sub-contracting part of its work to smaller businesses in Santo Domingo. "They saw that this helps them produce in volume when they get a big client. If they collaborate across enterprises they are able to respond as a big business".

Through the Teams, the Instituto hopes that the "disorganized informal sector will turn into a more organized semi-formal sector. Once you convince the factory owners, they become advocates in their regions. We can't reach everyone, but they can. We can disappear and they would still be working together because they now have many things that join them".

6. Kate Raworth, HDRO <kate.raworth@undp.org>

There is one factor that will determine more than any other the quality of the Uzbek report on HD and SMEs. It is simply this: who is writing the report?

I know that in previous years, the Uzbek NHDR has been written in collaboration with the government, with the majority of chapter authors coming from the government. Although this provides a very good learning opportunity for civil servants to think in more detail about the impact of their policies, it does not make for the best quality document and I believe the report gets usurped to some degree as an opportunity for the government to "present its plans".

When visiting Uzbekistan to help in last year's NHDR process, I was struck by what I was heard from people in the private sector: that the reality of foreign disinvestment was being glossed over by officials. Of course FDI is different from SMEs but I would suspect that there would be the

same disparity in opinion between what is really happening on the ground and what the government wants to represent as the case.

I would strongly urge the NHDR team, before focusing in on topic and chapter themes, to rethink its composition and get more independence so that the picture presented - on SMEs or any other topic - is closer to the facts. On SMEs, for example, it would be wonderful to include in the team people from the private sector who have first hand experience. The report could be a valuable opportunity to collate existing information from diverse sources and to collect original data on what are the major constraints facing SMEs. The NHDR would then inform government policy, instead of reflecting it.

Of course the issue of independence of the report is tricky. As I recommended while visiting, the first step would be for the Center for Economic Research to play less of a administrative/coordinating role and have more confidence in providing intellectual leadership in the process.

I hope these comments are useful. Many good wishes with the Report.

7. Casper Sonesson, Enterprise Development Unit UNCDF <casper.sonesson@undp.org>

Focusing an NHDR on the impact of SMEs on human development is an interesting, though challenging, approach. As far as I am aware, not many efforts have been undertaken to study the links between human development / poverty and SME development per se, which could make the Uzbek effort pioneering.

I agree with much of both Gerardo Berthrin's and Ibro Abdou's contributions to the discussion and believe it necessary to break the analysis down to a more detailed, perhaps "mechanical", level as many of the SME-HD links are indirect and/or simply intuitive.

Just a few general observations:

First of all, it is important to make a distinction between a microenterprise on one hand (normally a 1-2 person "subsistence level" businesses in the informal sector) and a small and medium-size enterprise (SME) on the other (normally a registered business that is part of the formal economy with a concrete business plan etc.). Supporting microenterprises, primarily through microfinance, many times tend to have a more immediate impact on poverty. Many studies have been undertaken on this subject, the latest I saw was an interesting case study on BRAC in Bangladesh on "Assessing the Poverty and Vulnerability Impact of Microcredit". At the same time, microenterprises contribute little to a country's macro economic development.

SMEs however, can play a very important role in contributing to a country's economic growth. However, it is important to recognize that SMEs are established by their owners not so much to survive but primarily as a way to advance themselves and make money and they should not be seen as mechanisms that directly support the most vulnerable groups in society. Employees of SMEs, for example, normally require some degree of education / literacy and do not often come from the most vulnerable segments of society (even though they still many times are considered poor).

Asking questions like how SMEs can become more relevant to vulnerable groups is, I believe, therefore not very useful. Instead, the key question that should be asked is simply how to best

support and enable small businesses to thrive and prosper. If they do, and if the policy environment is right and the government is doing its job, there will be a positive effect on society as a whole, including more vulnerable groups.

Having said this much, one of the most important contribution of SMEs to human development is still the creation of employment and income-generating opportunities. In countries with unemployment numbers in the range of 30-40-50% and more the employment generating role of SMEs cannot be underestimated.

As Ibro mentioned, the challenge would be to show the correlation between higher employment levels and increased income due to SME development on one hand and other HDI indicators such as life expectancy, school enrolment etc on the other.

The generation of taxes from SMEs should also be looked upon. As the SME sector in a country grows and creates employment, it also generates the tax revenues that allow government to provide social and other services that help build a more fair and prosperous society.

On perhaps a more psychological level (which may be especially relevant in former communist countries) an environment that supports and encourages entrepreneurship and free enterprise helps to release the creative energies and allow for innovation and personal choice to take place, which in turn tend to create business opportunities that will benefit society at large. SMEs can many times be viewed as 'change agents', playing a leading role in the transformation of a society. This aspect may of course be a bit difficult to measure but has much to do with broader human development I believe.

Other contributions of SMEs to HD that perhaps could be discussed in the report are:

- the development of civil society through business associations etc
- development of human capital / skills through on-the-job training
- the effect of employment on individuals' self-esteem and dignity
- and the social and political empowerment (in addition to the economic) that comes with it.

In addition to looking at SMEs contributions to HD, the NHDR would of course also be a golden opportunity to inform government and others of some of the main constraints and needs of the SME sector in Uzbekistan.

In addition to a broad review of the constraints of the macro policy environment for private sector growth and SME development (which could include case studies from other countries), an effort should also be made to look at the constraints and needs at the meso / institutional level. Here one could look at the status / needs / constraint of business support institutions of various kinds (or the business services industry), including both the supply of financial services as well as non-financial business development services. The important role of SMEs in globalization and what kind of support they need for this is also critical.

When looking at business support systems, 'good practices' in small enterprise support could also be discussed, as this is a topic of much concern to governments, donors and businesses themselves. The Committee of Donor Agencies for Small Enterprise Development has done some work on this (see below).

I am enclosing a list of publications that may be useful (even though I think none of them explicitly deals with SMEs' impact on HD).

Casper Sonesson
Enterprise Development Unit
UNCDF

In April-May, we (the Enterprise Development Unit) will send out to all COs a new publication entitled "UN Inter-Agency Resource Guide for Small Enterprise Development", which will include chapters on policy and good practice etc. as well as profiles of the main SME services of the specialized UN agencies (UNIDO, ILO, ITC, UNCTAD, FAO)

In its "Essentials" series, UNDP's Evaluation Office has prepared two related publications with lessons learned that are available at <http://www.undp.org/eo/mainessentialpage.html> :
"Essentials: Small and Medium Enterprise Development",
"Essentials: Entrepreneurship Development"

Abell, D. and Kollermier, T., (Eds) "Dynamic Entrepreneurship in Central and Eastern Europe", European Foundation for Entrepreneurship Research, 1992.

- Centre for Cooperation with Economies in Transition (CCET), "Small Business in Transitional Economies", OECD, Paris, 1996.

- Committee of Donor Agencies for Small Enterprise Development, "International Conference on building a development services industry for small enterprises", Rio de Janeiro, 1999, Case Studies available at
<http://www.ilo.org/public/english/employment/ent/sed/bds/donor/rio.htm>

- Committee of Donor Agencies for Small Enterprise Development, "Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions", 1999, available at
<http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>

Harper, M. And Finnegan, G., "Value for Money: impact of small enterprise development", Oxford and IHI Publishing Co. New Delhi, 1998.

-Havers, M. and Gibson, A., "The role of small business membership organizations (SBMOs) in small enterprise development", 1994

-Lalkaka, R. and Bishop, J., "Business incubators in economic development", UNDP, UNIDO, OAS, New York, May 1996

Lalkaka, R., "Supporting the Start and Growth of New Enterprises: Good Practices in Transition and Industrializing Economies", UNDP, 1997

Levitsky, J., Ed., "Small Business in Transition Economies", IT Publications, 1996

Organization for Economic Cooperation and Development (OECD), "Small Business in transition economies", Centre for Cooperation with Economies in Transition, Paris, 1996

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