



BACKGROUND AND OBJECTIVES

The OECD Bologna Process, *i.e.* the follow-up to the first OECD Conference of Ministers Responsible for SMEs held in Bologna in June 2000, is a mechanism to foster the entrepreneurship and SME agenda at the global level. It involves at present more than 80 economies, including all OECD countries and APEC economies, and a number of African and Latin American countries. Its aim is to help governments design policies to assist entrepreneurs and SMEs worldwide to meet the challenges and reap the benefits of globalisation.

The Bologna Charter on SME Policies, which was adopted in Bologna in June 2000, provides a frame of reference and general principles to improve the efficiency of policies for enhancing SME competitiveness in a global economy.

This second Conference of Ministers Responsible for SMEs offers an opportunity to deepen analysis of the main themes of the Charter (*e.g.* globalisation, innovation, financing, clusters and partnerships, e-business, regulatory framework and administrative simplification, partnerships for development, entrepreneurship, women's entrepreneurship, etc.) and to consider policy options and priorities in greater depth.

The conference provides Ministers with the opportunity to:

- *Assess the impact on SMEs of new developments relating to globalisation, four years after Bologna.*
- *Further increase the understanding of issues and policies related to entrepreneurship, SME competitiveness and growth in the global economy.*
- *Identify “best practices”, and develop policy recommendations.*
- *Strengthen the SME-related policy dialogue and co-operation among OECD and non-OECD economies and among international organisations and institutions working in this field.*
- *Agree on policy initiatives through which entrepreneurial activity can be enhanced and SME competitiveness and globalisation may be facilitated.*

Following the conference opening on 4 June, the recommendations from the Business Symposium (which takes place on 3 June) will be presented to Ministers and Heads of Delegation in a joint session with business representatives. Following a working lunch, the conference will continue on the afternoon of 4 June with two thematic workshops focusing on *Entrepreneurship and SME Innovation* and *Tools for SME Innovation* in parallel with a more technically oriented workshop focusing on ways to *improve SME-related statistics*. On the morning of 5 June there will be two more thematic workshops, focused on *SMEs in a Global Economy* and *Enhancing the Role of SMEs for Development*. These will be followed by a final plenary session at which Chairs of the Joint Session and the five workshops will report the conclusions and recommendations that emerge from the discussion. The conclusions from the conference will be presented in a policy document, the *Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs*.

Suggested issues for discussion are set out below.

JOINT SESSION OF MINISTERS AND BUSINESS REPRESENTATIVES

Friday, 4 June, 10:30-13:00

SMEs COMPETING IN A KNOWLEDGE ECONOMY

This joint session will bring together Ministers and Heads of Delegations along with business representatives, with the aim of establishing a more effective dialogue in the design and implementation of policies and programmes for SMEs to better compete in a global knowledge-based economy.

The Business Symposium on “SMEs Competing in a Knowledge Economy” (3 June) will focus in particular on issues related to:

- *Access to knowledge: developing an innovation culture within SMEs and creating new enterprises.*
- *Knowledge capital.*
- *Implementing technical innovation: adoption by SMEs.*

The conclusions/recommendations from the Business Symposium will be brought forward to the designated Ministers participating in the Joint Session by eight business representatives. Each Minister will be presented with one particular recommendation by a selected business representative, so that a dialogue can take place, including the audience, with particular focus on two issues:

- *Financing innovative SMEs.*
- *Promoting a business-friendly environment to support international industry partnerships and the enhancement of SMEs' access to international markets.*

Workshop 1
ENTREPRENEURSHIP AND SME INNOVATION
Friday, 4 June, 14:30-18:00

Panel 1
POLICIES FOR ENTREPRENEURSHIP AND SME INNOVATION

Encouraging entrepreneurship and facilitating rapid growth by innovative SMEs are increasingly recognised by governments as effective means of creating jobs, increasing productivity and competitiveness, and alleviating poverty. Identifying the factors and implementing policies that can achieve these is high on the agendas of governments, of the OECD, transition and developing economies. This requires a broad range of consistent and mutually reinforcing policies including *i)* economic and regulatory policies affecting the overall business environment in which entrepreneurial and innovative firms operate; *ii)* programmes designed to provide assistance and support while overcoming market failures; and *iii)* measures to mobilise human resources and strengthen an entrepreneurial culture.

Ministers may wish to discuss the following issues:

- *What policies for building an entrepreneurial society, in which start-up rates are high and non-viable firms exit smoothly, should have highest priority?*
- *How best to reduce and minimise the administrative and regulatory burdens placed on SMEs?*
- *How can obstacles to rapid growth by innovative new firms best be eliminated from the business environment?*
- *What are good examples of government programmes and policies for innovative SMEs?*

Panel 2
FOSTERING WOMEN'S ENTREPRENEURSHIP

Women's entrepreneurship has been recognised during the last decade as an important untapped source of economic growth. Women entrepreneurs create new jobs for themselves and others, and by being different also provide society with different solutions to management, organisation, and business problems as well as to the exploitation of entrepreneurial opportunities. However, they still represent a minority of all entrepreneurs. Equal opportunity between men and women from the perspective of entrepreneurship is still not a reality. There is evidence that a market failure exists which needs to be addressed by policy makers so that the economic potential of this group can be fully utilised.

Ministers may wish to discuss the following issues:

- *How best to incorporate a women's entrepreneurial dimension in considering all entrepreneurship related policies?*
- *What are the needs of women entrepreneurs and what are good examples of government programmes and policies targeted to women?*

Workshop 2 TOOLS FOR SME INNOVATION

Friday, 4 June, 14:30-18:00

Panel 1 FINANCING FOR SMEs: INNOVATIVE SOLUTIONS

Access to financing continues to be a serious obstacle for entrepreneurs, would-be entrepreneurs and SMEs in general. In particular, innovative enterprises operate in environments of high complexity and rapid change, while the difficulty of assessing the credit worthiness of SMEs is amplified for innovative SMEs. This makes it more difficult for such enterprises to obtain financing on reasonable terms.

Addressing these problems is less an issue of increasing the pool of available capital than ensuring the availability of entrepreneurial, technical and management expertise to the providers of finance and engaging investors active in the development of the firm. The active involvement of investors, entrepreneurs and creditors in the investment process is crucial. Without that active involvement, investors perceive high risks and low returns from investment and entrepreneurs find themselves unable to raise capital. Entrepreneurs are therefore discouraged from applying for finance and the cost of finance appear high. The impression can be given that entrepreneurs and finance are both in short supply - whereas the real problem lies in accessing the supply.

Ministers may wish to discuss the following issues:

- *What are the most effective and efficient SME financing schemes and incentives, taking into account policy targets/priorities, the various types of SMEs they serve and overall budget constraints and financial markets?*
- *What are the best ways to encourage the active involvement of informed intermediaries, without which investors perceive high risks and low returns from investment and entrepreneurs find themselves unable to raise capital?*
- *Do national and international regulatory and supervisory arrangements unnecessarily restrict the pool of available risk capital, an important source of financing for SMEs, in some contexts and countries? What measures can be taken that are consistent with safeguarding the soundness of financial systems to improve SME access to such risk capital?*

Panel 2
NETWORKS, PARTNERSHIPS, CLUSTERS AND
INTELLECTUAL PROPERTY

To build their innovative capacities and identify their markets SMEs need access to information and external competencies through networking strategies that they can only seldom implement without assistance. Networking often yields more benefits when part of broader clustering strategies. Innovative clusters are characterised by intense flows of tacit knowledge that are facilitated by physical/cultural proximity and by efficient tangible and intangible infrastructures for innovation that are built through close cooperation between firms and government. Another crucial challenge faced by SMEs is how to manage their knowledge effectively in order to obtain maximum benefit from their innovative and creative capacity; intellectual property rights have emerged as key tools for such management.

The tasks of government are to improve SMEs information about networking opportunities, to remove impediments and provide incentives to the participation of SMEs in research and innovation networks and to support the emergence and maintenance of innovative clusters. Overall, it is important to ensure a better understanding of the intellectual property system and practices by small firms in order that they both use the system effectively to protect their own innovations while being able to cope with the strategic use of intellectual property by large firms.

Ministers may wish to discuss the following issues:

- *How to increase the participation of SMEs, including start-ups, in research and innovation networks, especially public-private partnerships (PP/Ps) that connect science to innovation?*
- *What is the respective role of the private sector and of different levels of government in promoting the emergence and development of innovative clusters? What can be learned from successful experiences regarding the most appropriate forms of government involvement?*
- *How to promote a more effective use of the intellectual property system by SMEs? How to enhance awareness and knowledge of all elements of the intellectual property system among entrepreneurs and business advisers within public and private SME support institutions, as well as the teaching of intellectual property rights and related issues at universities and training institutions?*

**Special workshop on SME statistics:
TOWARDS A MORE SYSTEMATIC STATISTICAL
MEASUREMENT OF SME BEHAVIOUR**

Friday, 4 June, 14:30-18:00

In recognition of the OECD's specific role and capability, this special workshop will focus on systemic and specific needs of both producers and users of statistical data on SMEs in order to make tangible and measurable improvements in a number of areas.

The workshop is divided into two parts: the producers' and the users' perspectives on the strengths and weaknesses of SME statistical systems. Both perspectives will help us analyse current statistical systems in order to distil a feasible and pragmatic statistical strategy to be implemented and to improve and enhance our understanding of the different facets of SMEs and entrepreneurship.

The workshop will address key issues identified by experts and formulated into five recommendations as well as an OECD Action Plan for achieving concrete and tangible results:

- Recommendation 1:
Promote international convergence of statistical concepts and processes.

- Recommendation 2:
Foster greater international comparability of statistics.

- Recommendation 3:
Develop an integrated business statistical register.

- Recommendation 4:
Promote data linking to make better use of existing data and reduce the respondent burden on SMEs.

- Recommendation 5:
Carry out policy-relevant empirical analyses to underpin evidence-based policymaking.

Workshop 3
SMEs IN A GLOBAL ECONOMY
Saturday, 5 June, 8:30-12:00

Panel 1
FACILITATING SMEs' ACCESS TO INTERNATIONAL MARKETS

Globalisation is opening up opportunities for SMEs. Evidence suggests that a large proportion of net new job and wealth creation comes from a relatively small proportion of growth-oriented SMEs and entrepreneurs. However, the evidence suggests that SMEs' contribution to the global economy is less than what might be expected and, in particular, the internationalisation of the activity of SMEs lags behind that of large firms. While SMEs contribute around 50% of value added, and 60% of jobs in most national and local economies, they contribute around only 30% of exports and 10% of FDI. Given the steady reduction in trade barriers in the last decade, and a significant improvement in availability of information, through ICTs, the Web, etc., there should be greater scope for SMEs to access international markets, whether through traditional exports, relationships with multi-national firms, or investing abroad.

Since many SMEs are facing increasing pressures to compete and to adjust as a result of globalization, governments are less able to hide behind protectionist barriers, and must address structural adjustment in politically sensitive areas.

Ministers may wish to discuss the following issues:

- *What are the most promising ways for SMEs to go beyond traditional exporting to take advantage of international opportunities? How can foreign direct investment (FDI) best play a role in this regard, particularly through business linkages.*
- *Why do SMEs lag behind large firms in their success in taking advantage of international opportunities? What impediments do SMEs face, especially of a non-tariff nature, in pursuing such opportunities?*
- *What action can be taken to reduce impediments to access to international markets faced by SMEs, either by governments acting individually or by co-ordinated international action? How can policy coherence be achieved between national and international agendas.*
- *How to enhance incentives for new public-private partnerships (PP/Ps) initiatives that would help SMEs reach international markets for innovative products and access foreign sources of advanced technologies and knowledge?*

Panel 2
STRENGTHENING THE CONTRIBUTION OF E-BUSINESS

Basic information and communications technology (ICT) connectivity (PCs and Internet connection) in advanced economies is very widespread in businesses of all sizes, although small businesses are slower than larger ones to adopt e-business and Internet strategies. Potential business benefits and firm strategies drive adoption and use of ICTs and the main reasons for non-adoption is lack of applicability and little incentive to change business models when returns are not clear. SMEs also face barriers including management skills and in-house technological capabilities, trust and transaction security factors, and IPR concerns. These vary across sectors and countries, and will largely be determined by industry structure and where businesses are positioned in sector value-chains. Finally, legal uncertainties as well as the difficulty of obtaining redress may be significant barriers to e-commerce adoption.

The policy challenges for governments are how to develop the broad business environment for e-business and ICT uptake (e.g. to diffuse broadband, enhance competition), and targeted programmes to the extent that they are needed to overcome specific market failures (e.g. skill formation, specialised information), while taking small business diversity into account.

Ministers may wish to discuss the following issues:

- *To what extent have SMEs moved beyond basic connectivity and are adopting more sophisticated approaches to e-business and the Internet?*
- *What is the appropriate mix of policies in terms of establishing a favourable business environment for e-business (e.g. network infrastructure, legal and regulatory environment), and more focused programmes to overcome specific market failures (e.g. training, better information)?*
- *How can alternative dispute resolution (ADR) policy initiatives be improved to better meet the concerns of SMEs? How can online dispute resolution (ODR) be promoted, given its potential to provide effective solutions to cross-border disputes, particularly involving smaller stakes?*
- *How can governments improve policy effectiveness? What evaluation methods are most effective in improving e-business policy efficiency and enhancing economic impacts?*

Workshop 4
ENHANCING THE ROLE OF SMEs FOR DEVELOPMENT
Saturday, 5 June, 8:30-12:00

Panel 1
ENHANCING SME COMPETITIVENESS

While SMEs are playing an increasingly important role in the process of export-led industrialisation, the majority of SMEs in developing countries, particularly in Sub-Saharan Africa, have been slow to reap the full range of benefits of globalisation. Business investments have kept growth below long-term potential, SMEs have lacked exposure to good practice in clustering and supply chain management and their policy frameworks have been ill-adapted to deal with the intense global competition now facing them. While considerable progress is being made to improve the business environment, much remains to be done to enhance competitiveness, particularly as regards strengthening human and institutional capacity.

Ministers may wish to discuss the following issues:

- *How can a successful Doha Round contribute to enhanced integration of SMEs in the global economy and strengthen regional and sub-regional trade and investment linkages?*
- *Through what mechanisms could developing country SMEs be better exposed to good business practices and benefit from collective learning?*
- *How can capacities of institutions in developing countries, such as service providers, business associations and labelling and certification authorities be strengthened in order to provide a better foundation for development of SMEs and their contribution to potential economic growth?*
- *How to promote the role that foreign direct investment can play as a vehicle for strengthening SME development in developing economies? What incentives could be given to encourage business linkages between large and small enterprises?*

Panel 2
SMEs AND POVERTY REDUCTION

SMEs have a special role to play in the achievement of broad based growth and poverty reduction in developing countries. The importance of SMEs in employment generation, skills enhancement and technology diffusion are well known. The potential for SMEs to support export-led industrialisation in ways that also benefit the poor should be assessed further. But if SMEs are to maximise their contribution to development and poverty reduction, there needs to be a national consensus and vision around the trade and competitiveness strategy which involves the SMEs themselves, business associations, government and the international aid community. This strategy must then be embedded in the broader national development and poverty reduction strategies.

Ministers may wish to discuss the following issues:

- *How can governments best integrate efforts to enhance SME competitiveness with national development and poverty reduction goals? What can donors do to facilitate this process?*
- *What policy reforms and donor programmes can help bridge the divide between the informal and formal sectors in developing countries?*
- *What contribution can donors make to improve linkages between local entrepreneurs (including smallholders) to domestic, regional and international markets? How can a dialogue on policy and programme coherence be achieved between those entrusted with SME development and those devoted to poverty reduction in the donor community.*