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SDC Small Enterprise Development Workshop  
6- 7 January 2005 Gerzensee (Bern), Switzerland

Effective Small Enterprises in the Context of Local Economic Development  
**Workshop Report**

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Cambridge and Zürich, 24.01.2005  
Jim Tanburn  
Bernhard Wenger

## 1. Programme

### Objectives

- Present the current picture of the approaches, instruments and lessons learnt in the field of LED, in combination with SED.
- Based on concrete cases, initiate a reflection on SED (sectoral approaches) and LED (spatial approaches): How to reinforce the effects on employment creation and income generation through the combination of these different approaches?

### Methods

- Presentation / discussion of 5 cases
- In-depth discussion of specific topics in working groups (2 sessions)
- Plenary Discussion: conclusions on conceptual level

Thursday 06 January 2005		
10:00 – 10:15	Welcome Programme, working methods	Dora Rapold, Head F Department (SDC) Bernhard Wenger (Moderator)
10:15 – 11:15	<b>Effective Small Enterprises in the Context of Local Economic Development</b> Conceptual Input and discussion	Jim Tanburn (Thematic Resource Person)
11:15 – 12:15	<b>Presentation of cases</b> • Case 1: Involving Vietnamese SMEs in LED	Corinna Kuesel
12:15 – 13:45	Lunch	
13:45 – 14:45	• Case 2: SME development in LED in Bosnia and Croatia	Milford Bateman
14:45 – 15:45	• Case 3: Participation of the informal economy in LED in West-Africa	François Yatta
15:45 – 16:15	Coffee break	
16:15 – 17:30	<b>Thematic working groups</b> • Enabling Environment for SED • Private – Public Dialog • Rural – Urban Linkages • Clusters	Workshop moderators Resource persons Participants according to registration
Friday 07 January 2004		
08:30 – 09:30	<b>Presentation of cases (continued)</b> • Case 4: Sector based intervention and LED in Bolivia	Maribel Arce
09:30 – 10:30	• Case 5: Clusters and LED in India	Tamal Sarkar
10:30 – 11:00	Coffee break	
11:00 – 12:15	<b>Thematic working groups (continued)</b>	
12:15 – 14:00	Lunch	
14:00 – 15:30	<b>Final Discussion</b> on conceptual aspects of the presented cases and thematic discussions	Panel
15:30 – 16:00	Conclusion	Brigit Hagmann

## 2. Inputs

The powerpoint presentations are available on the Intercooperation website.

<http://www.intercooperation.ch/sed/main>

### 3. Conceptual overview

The fields of Small Enterprise Development (SED) and Local Enterprise Development (LED) have tended to evolve slightly in parallel over the years, as they have involved different groups of practitioners and, to some extent, different views of the world and how development is most likely to be achieved. The Table below summarises some of the key trends in the two disciplines, and shows that they have probably been converging for some time; the LED trends are summarised from the World Bank Primer on LED, 2003.

LED	SED
<b>1960s to early 1980s</b>	
<ul style="list-style-type: none"> <li>• Large subsidies used to attract inward investment, especially in manufacturing</li> <li>• Production costs reduced through cheap labour etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Local production favoured over integration into the global economy</li> <li>• High level of subsidy focussed on small-scale manufacturers</li> </ul>
<b>1980s to mid-1990s</b>	
<ul style="list-style-type: none"> <li>• Generic services to small businesses, to start up, find premises, get training and advice from entities sponsored by local government</li> <li>• Inward investment still sought, but more targeted</li> </ul>	<ul style="list-style-type: none"> <li>• Management and entrepreneurship training, delivered on a subsidised basis often by NGOs and parastatals</li> <li>• Interest in broader supports, e.g. financial services, group actions, infrastructure</li> </ul>
<b>1990s to present</b>	
<ul style="list-style-type: none"> <li>• Focus on business environment, and rationalisation of regulations</li> <li>• 'Soft' infrastructure: networks, clusters, collaborations, workforce development</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing interest in the business environment, 'level playing field', costs of doing business</li> <li>• Focus on systems for business support, more than on assistance to individual businesses</li> </ul>

It can be seen that the interests and focus of the two fields are now rather comparable, even though the SED community is probably more interested in the national regulatory environment for the time being.

A show of hands in the workshop revealed that perhaps two thirds of the participants felt that they were principally coming from an SED background, and one third from an LED background. Not many felt equally comfortable with both disciplines; this shows that the workshop had considerable value as an inter-disciplinary initiative. On the other hand, it made the break-out discussion groups more challenging, as the participants were contributing from a different set of experiences and perspectives. If a multi-theme workshop is planned for next year, it would probably be better to keep participants together in carefully-moderated plenary discussions. If break-out groups are envisaged, they would need much more preparation, in terms of selecting and briefing moderators, structuring the discussions etc.

A diagram (see Annex) was presented early in the workshop, to form the basis for some of the discussions; it showed some of the key stakeholders in typical LED processes. It was not intended to be particularly literal, or comprehensive; there was not room to include, for example, universities, trade unions, religious groups, mass media, utilities or health care providers – even though they often play key roles in LED processes.

Local Government was put at the centre of the diagram, as there is general consensus that the political will for LED in the Local Government is the most important factor determining success. For example, a recent survey of GTZ's experience ("What works in LRED?") concluded that the political will and commitment of Local Government were the most important pre-requisites for success, in the view of project managers.

Much also depends on the dynamic between National Government and LGs; the Ministry of Local Government is often not a strong Ministry in the national hierarchy, and LGs must liaise with many different Ministries. The degree of decentralisation, particularly in distribution of funds, is very important. LGs that are dependent on National Government may feel that they have less room for manoeuvre. In Uganda, for example, only 3-6% of total revenue is apparently generated locally.

#### **4. Working groups**

In terms of the Enabling Environment (one working group theme), it was noted that many of the national laws are not very clear; LGs often have the role, in this case, of interpreting them and putting them into practice. The difference between a “can-do” attitude, that tries to find solutions, and a cautious approach, that waits for clarification from the Centre, is obvious. One encourages small business, and the other leads to frustration, delays and possibly corruption.

LGs have many other important parts to play locally, providing a whole range of basic infrastructure and services, law and order etc., that are the pre-requisite for a supportive business environment. Zoning decisions are crucial if small enterprises are to find premises, and to have security to operate in them. Frequent changes to zoning, removal of small business premises etc. are often the most urgent concern of small businesses. On the other hand, some countries feel that giving priority to allocation of land to small enterprises (e.g. in Italy) has led to rapid economic growth. Registration is also a vital role; in the best cases, LGs provide registration cards through a simple procedure, so that even the smallest enterprise can be protected from harassment by officials.

Public-Private Dialogue (another working group theme) was much discussed, for example in the context of who is representing whom. The poorest and most rural have the least time available for meetings, and are often also the least articulate and confident in presenting their points of view. They also lack the networks and contacts, so it is a recurring challenge for development agencies to ensure that their voice is heard. It was noted that, in principle, a geographically-focused approach should be able to identify win-win situations through dialogue, for example to identify market niches where small enterprises in that particular area could have a competitive advantage.

In addition, the various stakeholder groups may not normally mix socially, coming from different social, ethnic or religious backgrounds. An external agency can then have a catalytic effect, by acting as an honest broker and bringing people together. Adding some matching funds can lead to action, where previously the various parties had not communicated clearly – or communication had even broken down.

The many LED toolkits that are now available tend to focus on the dialogue process, at least as their starting point. As with any process-oriented approach, though, the potential outcomes of these processes are so many and varied that it is difficult to marshal the expertise and understanding required to respond to every eventuality. Some of the toolkits have over 100 modules or elements as a result.

A third working group theme was Rural-Urban Linkages, which remains one of the more challenging topics; it also attracts great interest among development practitioners. For many reasons, rural enterprises are harder and more expensive to reach; one of the most promising avenues of outreach into rural areas, in terms of cost-effectiveness, is probably the traders and larger companies further up the supply chain (as we saw in Gerzensee 2004).

There are many reasons to strengthen these links, for example to provide access to urban markets for rural produce and to mitigate rural-urban migration. Also, UNDP notes that those urban areas with closer links to rural areas grow in more equitable ways. Nonetheless, much of the LED literature retains an urban focus – or is even taken to be synonymous with urban development in some agencies, for the time being.

The fourth working group covered Clusters; examples were given of LGs playing a key role in aspects of cluster development. In Penang, Malaysia, for example, LG and MNCs with local plants together created a vocational training facility to meet the demand for skilled labour in those plants. The presentation took a different angle, though, working through existing clusters as its entry point. Interactions with LGs were therefore based on expressed needs within the clusters, rather than on a pre-determined framework or methodology for supporting LGs in taking the initiative.

Finally, some challenges were identified for the field. For example, some agencies stress the identification of 'champions' in local government, while others generate rather large toolkits of methodology and resources. Achieving scale is also a challenge, when local authorities are by definition both numerous and scattered. Many are under-resourced, and capacity-building is a major challenge. Power relations locally may be opaque to outsiders, since they may have developed over hundreds of years. Finally, although convergence of disciplines promotes integration and coordination, it also blurs dividing lines and can lead to some confusion about roles; a better conceptual framework would be helpful.

The presentations made during the workshop came from very different parts of the world (India, Balkans, Bolivia, West Africa, Vietnam); this made for a very rich and diverse set of materials, that was actually quite remarkable. In retrospect, though, this ambitious approach might have benefited from a more thorough briefing in each case on the specific background in each country, with respect to decentralisation, the dynamic processes under way, the nature of local government etc. Time did not anyway allow for this, and so some of the required information came out subsequently in discussion. The presentations themselves are available separately; some brief concluding comments are therefore given below.

## **5. Concluding Synthesis**

Four of the presentations featured in this Workshop described efforts to look at the system of local government, with respect to small enterprise development; the fifth started with a particular target group, clusters, and then sought to meet all the needs of that particular group of small enterprises. The final panel discussion pointed to the shortfalls of public-private dialogue, if the voice of the private sector is essentially only representing the interests of the largest and most powerful enterprises. A similar concern applies to the clusters work; people working in clusters may be keen to benefit, explicitly at the expense of smaller micro-enterprises outside the cluster.

Other than this shared concern, though, cluster development brings a number of advantages. One is that it can follow a process approach, being demand-led in rather a clear way – albeit being led exclusively by demand from one target group. It is also able to take the local knowledge of those in the cluster – knowledge accumulated over hundreds of years, sometimes – as a partial proxy for exhaustive research. There may be no particular need to substitute for local knowledge, or to pay for research to confirm what local people already know.

Working with clusters also provides the rather clear entry point, from which all other potential partners emerge later in implementation. The other four, more systemic interventions may not have the benefit of such a clear entry point, if the local government is very weak. We saw this dilemma, for example, in Milford Bateman's presentation, where the local governments had apparently been relieved of some of their previous mandates and roles in strategic planning. As a consequence, it was not very clear where systemic interventions should start.

Indeed, at the macro level, decentralisation was a constant thread running through the systemic presentations. There are clearly degrees of decentralisation, good and bad ways to do it, and dynamic processes going on in the background in many countries. Many of the choices made during implementation had apparently been rather influenced by this background.

Where local governments were strong, on the other hand, it was clear that they could provide an entry point for rapid and effective implementation; Corinna Kuesel's description of the situation in Vietnam implied, for example, that local governments there were able to act quickly and impressively. So while it may be concluded from these presentations that decentralisation is a Good Thing, it is nonetheless clear that an effective central government is also essential. For a development agency, there may remain a rationale for prioritising national government, to attract and retain the best people and to ensure adequate national policies and infrastructure etc.

Interestingly, discussions about the macro-level picture and degrees of decentralisation tended to focus on economic growth in their terminology and vision. On the other hand, presentations at the micro level, for example around local taxation and services, tended to refer more to issues of inclusion or exclusion. This is probably partly because local governments are generally the first point of contact for people who are entering the formal system. For example, registration of a micro-enterprise may be the first official recognition for many people, and as Maribel Arce noted, it tends to be rather an important step, being rather hard to reverse.

Therefore, it brings up issues around the degree of legitimacy that the system is perceived to have. If government is seen as representative, broadly transparent and effective, people at the local level will see entry into the system as a necessary part of their personal and social development. If on the other hand, government is seen as operating a system left over from a colonial era, characterised by corruption and waste, then they will try to avoid registration and entry into the system. The process does bring up some rather fundamental issues.

Francois Yatta's presentation was interesting in this regard. His argument was that, in West Africa, local governments lack information about the economy in their area. Their taxation system is therefore rather arbitrary, missing some important opportunities for income generation. The chosen entry point was therefore some high-quality research, to show the local governments where they could be more rational and systematic in their taxation policies.

Groups of small enterprises were identified, during this research, that were earning far more than their tax level would suggest. Dialogue was therefore launched between the local government and these enterprises; during this dialogue, they asked for – and got – a range of additional facilities from the local government, in return for their higher taxes. Questions remain about how this approach can evolve over time, since the research was too expensive for local stakeholders to replicate in future. Nonetheless, it involved radical change with respect to tax policy, and hopefully this will not be necessary again.

The issue of how local governments raise taxes remains problematic; it may be easiest to raise money from those with the least to start with, since they are the most vulnerable and least well-connected. Also, graduated tax systems are expensive to administer, but flat taxes can penalise the poorest most, since the sums involved are far more important for them. In some parts of Africa, the increased effectiveness of taxation by local authorities is considered to be increasing poverty levels significantly.

Apart from the system by which taxes are raised, there is also the question of how local governments provide meaningful services, and more broadly value for money, to their electorate. This was touched on by several presenters; Maribel Arce, for example, talked of the Bolivian experience in encouraging local governments to procure more from small enterprises. Corinna Kuesel spoke of local governments organising study tours to other countries for local SMEs. In general, though, the issue of how local governments could be directly strengthened, beyond the West African experience in tax policy, was not covered in any detail.

In conclusion, the macro-level opportunities, for example around decentralisation processes, tend to be rather long-term, and development agencies need to be prepared for that. Micro-level interventions can be implemented in a shorter timescale, but as Milford Bateman pointed out, they may not achieve the desired result if the macro-environment is hostile to the desired processes.

Annex: Some of the key stakeholders

