

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⁽¹⁾, (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 ⁽²⁾;

- 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.

Notes:

(1) The full list of adherents to the Declaration is provided in [Annex I](#).

(2) The full list of background documents is provided, for information, in [Annex II](#) to the Declaration.

ANNEX

I

Albania, Algeria, Argentina, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bosnia & Herzegovina, Brazil, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Georgia, Germany, Ghana, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Kazakhstan, Kenya, Kyrgyzstan, Korea, Latvia, Lithuania, Luxembourg, FYR Macedonia, Malaysia, Mexico, Moldova, Morocco, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Papua New Guinea, Poland, Portugal, Romania, Russian Federation, Senegal, Serbia & Montenegro, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Chinese Taipei, Tajikistan, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, United States, Uzbekistan, Venezuela, Vietnam, European Community.

1. Fostering Entrepreneurship as a Driver of Growth in a Global Economy
2. Women's Entrepreneurship: Issues and Policies
3. Facilitating SMEs Access to International Markets
- . Financing Innovative SMEs in a Global Economy
5. Networks, Partnerships, Clusters and Intellectual Property Rights: Opportunities and Challenges for Innovative SMEs in a Global Economy
6. ICT, E-Business and SMEs
7. Alternative Dispute Resolution (ADR) On-line Mechanisms for SME Cross-border Disputes
8. Promoting SMEs for Development
9. SME Statistics: Towards a More Systematic Statistical Measurement of SME Behaviour
10. Evaluation of SME Policies and Programmes