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SMALL AND MEDIUM INDUSTRIES DEVELOPMENT IN THE ASEAN*

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* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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CONTENTS

Introduction

In line with UNIDO's overall programme related to the promotion of economic cooperation among development countris. it is providing assistance to the development of industrial cooperation between the Gulf Cooperation Council (GCC) Member States in the field of Small and Medium-Scale Industries. As part of the effort. a review of SME policies. achievements and constraints in selected East and Southeast Asian countries and the potential implications of these experiences for the GCC region has been requested.

Mr. Melito Salazar. Jr., industrial economist has been asked to prepare an analytical paper on SME development, SME policy approaches, achievement and constraints in the ASEAN countries. with emphasis on Singapore. Malaysia and Thailand. The paper seeks to survey the role of SMEs in the ASEAN countries both quantitative and qualitative terms: the number and size structure of SMEs: contribution of SMEs to overall production. employment. exports. income contribution. etc.: business performance. productivity. degree of technological sophistication: nature and extent of linkage among SMEs and with non-SME sectors.

The strategies and policies pursued as well as major measures taken with respect to the promotion of SMEs in the ASEAN countries will be reviewed. This will encompass the overall approach and policy objectives: shape. tasks and performance of

the institutional support framework in place: available incentives and other support measures.

The paper puts particular emphasis on key issues of current SME support policies' e.g., the role of industrial estates: the promotion of linkages among SMEs and large enterprises (subcontracting) access to and forms of industrial financing for SMEs.

The constraints and achievements of SME policies in the ASEAN countries are critically assessed with a view to identifying prerequisites and determinants of successful SME promotion in GCC countries, particularly at the regional level.

I. THE ROLE OF SMEs IN THE ASEAN

A. The ASEAN

Composed of the six countries of Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand, the Association of Southeast Asian Nations has embarked on mutual cooperation programs in economic development. Helped by moderately high growth rates in the last decade, except for the Philippines, these countries have attained a level of confidence in their national life and multi-lateral relations, to establish an ASEAN Free Trade beginning 1993.

While much of the strength in the respective economies have been traced to the market-oriented and liberalization policies followed in varying degrees by each country, it should also be noted that these countries have focused a significant portion of

their concerns on the promotion and development of small and medium-scale industries.

B. Definition of SMEs

There is some degree of diversity in the definition of Small and Mediun Enterprises in the ASEAN. In Indonesia, this refers primarily to small scale industrial enterpises which employ -10 workers (small) or 10-50 workers (medium). There are 3 main sets of criteria to define small enterprises in Indonesia: (1) the Department of Industry defines it according to total investment (not more than Rp. 70 million) and investment per employee (not more than Rp. 650.000); (2) the Bank of Indonesia uses the total assets as the single criteria (not more than Rp. 40 million); and (3) the Indonesian Central Bureau of Statistics classifies size of business enterprises according to number of employees, as follows: 1-4 very small: 5-19 small: 20-49 medium.In Singapore, SME is defined as a company with at least 30% local equity and with no more than US$8 million in net fixed assets (if in the manufacturing sector) or employing not more than 50 workers (if in the commerce or serious sectors). This definition is based on the eligibility requirement used by the Economics Development Board, the coordinator in the multi-agency administration of incentives to SMEs. In the Thai context, an enterprise with registered capital ranging from 1 to 10 million baht (or S$40.000-390.000) and with less than 50 employees is classified

as small-scale. On the other hand, an enterprise with registered capital of anywhere from 10 to 50 million baht and with 50-200 employees is listed as medium-scale. In Malaysia, the definition has changed overtime. The Industrial Coordination Act of 1975 considered a small business as one employing less than 25 full-time workers and having less than M$250,000 in shareholder's funds. In 1986, an amendment was made making it less than M$2.5 million in shareholders' funds and employing less than 75 full-time workers. As a catch-all definition, it can be specified that SMEs in Malaysia employ up to 199 persons and/or possess fixed or net assets, or paid up capital, or shareholders' funds of less than M$2.5 million. In the Philippines, a National Economic Development Authority Resolution redefined small industries as enterpises with total assets of ₱500,000 to less than ₱10 million while medium industries are those with total assets of ₱10-20 million. Based on the number of employees, small industries are those employing 10-99 workers and medium industries are those with 100-199 workers.

Considering the diversity of the definitions, Narongchai Akrasanee has suggested that it would be more meaningful to group small and medium industries in three groups. The first would be the village-based SMIs which are very small with an informal system of operation. Sometimes they operate as an off-farm activity. Straddling this group and the next would be the handicraft industry. The second group comprises of town-based enterprises, which operate in small towns and are typically in

food processing. textiles. construction materials and machinery and metal products. The important characteristic is that they cater specially to the market in town or nearly areas. The third group is made up of city-based enterpises. While they may be in the same industries as those in the town-based group there are district differences. For example. there are thousands of machinery and metal prodcuts firms in the cities but they do more manufacturing than repairing compared to town-based firms. The city-based enterprises have a greater tendency to cater to the export market

The definition of SMEs and their characteristics are important considerations in formulating the appropriate policies and programs to enhance their contribution to the national economy.

C. Contribution of ASEAN SMEs

In Singapore. small and medium enterprise dominate the economy. SMEs in the manufacturing. commerce and services sectors make up about 90 per cent of the business establishments in Singapore. They also account for 44 per cent of the employment in the country as well as for 24 per cent of Singapore's value added and 16 percent of its direct exports. The SME sector shows an unmistakable growth trend. The number of registered SMEs grew from 20,000 in 1978 to 71.000 in 1988. In 1988 alone. their total jumped by 6.000 compared with an increase of only 900 in 1987. and contrast to the declines of 12.100 and

3,600 in 1986 and 1985. These firms, however, show a high sensitivity to the changing international environment. The commerce sector accounted for about 50 per cent of registered businesses: the services sector, 30 percent: and the manufacutring sector, 12 percent. In 1987, SMEs accounted for 79 per cent (2,700) of all establishments in the manufacturing sector with more than 10 workers. They employed 36 percent of the 99,000 member workforce and contributed 18 percent of the S$2.6 billion worth of value added in the manufacturing sector. Between 1980 and 1987, the net fixed assets per worker in SMEs rose by an annual average of 8 percent, against an average 12 percent yearly growth in those of the manufacturing sector. In value added per worker, productivity increased by an annual average of over 5 percent: direct exports, by 2 percen .

In Thailand, the 80,000 registered SMEs make up over 99 percent of the total number of manufacturing and processing businesses in the country. About 70 percent of these SMEs are located and in the central region, where they have access to market, communication, transport and export facilities. Raw materials and specialized labor are available in these areas as well, thereby allowing enterprises engaged in silk weaving, handicraft making, latex processing and tin mining to thrive. Thailand SMEs engage in the manufacture of a diverse range of goods from processed food and garments, to leather goods, furniture and handicraft, to plastic, metal and wood products, tools and equipment and construction materials. The importance

of SMEs can be gleaned from their contributions to the Thai economy; 52 percent of the total value of industrial output; 80 percent of industrial employment; and 48 percent of total value added. More specifically, SMEs help Thailand's socioeconomic development by:

(a) creating employment opportunities;

(b) contributing to the dispersal of industries from urban to rural centers; promoting a more efficient agricultural sector; and controlling the migration of people from the countryside to the already congested metropolitan areas;

(c) adding value to indigenous raw materials by using them in manufacturing operations;

(d) providing linkages to large-scale enterprises (LSEs) by supplying them with semi-finished products for manufacturing; and

(e) channeling local investment to businesses that not only all labor-intensive but employ low capital capital input and indigenous technical know-how as well.

In Malaysia, it is estimated that more than 125,000 establishments were engaged in a variety of non-agricultural economic activity in the formal sector in Peninsula Malaysia. An overwhelming majority (98 percent) employ less than 50 workers per establishment and may thus be regarded as SMEs. Collectively, they shared 51 percent of the total employment, 55 percent of the gross output, 36 percent of the value added and 31

percent of the fixed assets. Within the manufacturing sector. SMEs accounted for nearly 90 percent of all manufacturing establishments. employed nearly 26 percent of total paid manufacturing employees while accounting for 16.4 percent of the total value of fixed assets employed in the manufacturing sector.

In the Philippines. 99% of the total manufacturing industry was dominated by micro, cottage, small and medium-scale industries. Leading CSMEs were food, garments. furniture, wood and wood products fabricated metal products. non-metallic mineral products and printing, publishing and allied industries. Of the total employment in the manufacturing sector. 71% come from the CSMEs. However. only 18% of manufacturing value added was accounted for by the small and medium-scale sector.

It can be seen that in the ASEAN region, the small and medium industries sector have their greater contributions in employment and by being in the countryside promote rural industrialization and income distribution. Considering that many of the countries in the ASEAN still have growing labor forces. it is clear why the governments are focusing their attention on SMI development. However the increases in value added from the sector are not high indicating the need for greater productivity and efficiency in this sector. This suggests that beyond increasing the numbers of small and medium industries. governments must focus on the problems of SMEs.

D. Constraints to SME Development

The ability of the SMEs in the ASEAN region to contribute more to the economy is affected by many constraints, some of which are being addressed by the government's policies and programs. However to have a better sense of where the SMEs in the ASEAN came from and where some are still coming from it is worth it to view the contraints to SME development.

In the Philippines, access to financing has been a perennial problem of SMEs. SMEs are faced with the problems of stringent borrowing conditions, especially the high cost of money or high interest rates inhibiting them to expand. Moreover, since majority of the government's credit programs for SMEs are coursed through financial institutions, SMEs have to contend with too many paper and documentary requirements, stringent collateral requirements, long loan processing time and difficulties in raising the required counterpart capital. And even if they can hurdle these, the regular financing institutions hesitate to lend to SMEs because they consider these enterprises as high ris projects. Moreover, the relatively small credit requirement of SMEs make it more expensive and cumbersome for the financial institutions to process.

In the area of marketing, SME generally do not have adequate marketing skills because of inadequate market information, shipping problems, poor distribution channels and inadequate

design capabilities thus resulting to poor market planning and forecasting. Most often, SMEs continue to producing the same kind of product in the same design which does not make them competitive in the domestic market, let alone the international market. They do not have up-to-date market information and lack of knowledge on export procedures and promotional services such as product design, packaging, pricing and servicing. They face severe competition in the local and foreign markets and have limited market opportunities and/or seasonal demand for their products. The latter may be due to the localized nature of their products and poor channels of distribution.

In the area of production, SMEs are besieged with problems of labour, lack of new raw materials and low resource productivity. And since SMEs concentrate mostly on the production aspect, research and development (r & d) take a back seat in their budget. This means therefore lack of information on technology and poor technology transfer mechanisms. Related to this is the increasing costs of inputs. Another problem in this area is the limited technical know-how and low level of technology resulting to poor quality of output. Lack of quality control as well as knowledge in production control systems (production scheduling and inventory management) significantly affect the capability of SMEs to compete, especially in the export market. On the labor side, there is a high turnover and insufficient supply of skilled labor, low productivity of workers including the increasing cost of restiveness of labor. Since most SMEs are family-owned enterprises, the quality of

management generally depends on the level of education, experience and training of the owner-operator. In general, there is lack of management skills and too centralized decision making system.

In the area of technology, the problems faced by SMEs are as follows: lack of information on available matured technologies and appropriate machinerie . inadequate promotion of technologies developed by research institutions and inadequate mechanism for the transfer of technologies available from other countries.

Apart from the aforementioned problems, the policy environment also affects the development of SMEs. SMEs find it difficult to register their business and to get appropriate clearances and permits to operate. There is also a lack of incentives for enterprises located in the countryside.

An ADB Study has pointed out that "the influence of the economic environment on the evolution of SMEs is significantly greater than the effect of individual government programmes". In the Philippines, SMEs are affected by a host of government policies which they find to be irrelevant and impractical; high sales and import taxes; minimum wage regulations; and tedious registration and renewal of business permits required by various government agencies. Trade, fiscal, monetary and investment incentives policies likewise favor capital-intensive, and hence large, enterprises. Despite government efforts to simplify systems and procedures, customs and other registration

requirements still entail considerable paperwork and other administrative inputs which represent relatively higher costs for SMEs than for large firms. In addition, the high-interest rate regime resulting from tight monetary policy has put pressure on financial institutions to lend prime borrowers (which are usually the large corporations) or borrowers with good track records. With regard to registration for investment incentives, the regionalization of the Board of Investments (BOI)/Department of Trade and Industry (DTI) has increased the access of SMEs to the services of these agencies but the level of services as well as knowledge of procedures in these regional/provincial offices still has to be upgraded to equal that available at the Manila office.

In Thailand, technological development in SMEs has been at a very low level. Technologies are acquired from foreign investment, either in the form of direct in estment or joint venture.. Such is possible among the large scale enterpises. In comparison the SMEs, due to lack of funds are unable to take advantage of foreign assistance for technological exposure and upgrading. Thus, they tend to imitat product designs and in the process, may not be able to satisfy the technical requirements of the concerned products. For SMEs, therefore, a major constraint is the lack of understanding of technological developments as well as limited access to information on improved technologies. There are also ohter constraints that impede the growth of Thai SMEs, which are also similar to those that hold back SMEs in

other countries:

(a) a heavy reliance on local raw materials;

(b) labor-intensiveness;

(c) low productivity resulting from the use of crude or obsolete equipment;

(d) lack of experienced manpower;

(e) lack of technical know-how;

(f) poor quality control;

(g) reliance on either traditional or trial and error methods;

(h) poor bookkeeping and accounting;

(i) inadequate financial resources, collateral and credit;

(j) lack of managerial skills;

(k) family-style marketing;

(l) the concentration of authority for decision-making on the owner alone; and

(m) the constraints of strict laws and regulations.

In Singapore, local SMEs lag behind their foreign counterparts in productivity, management and marketing skills and technology. Such enterprises lack financing and all-around knowhow and experience in marketing, finance and administration. It was also observed that economic success in Singapore had created a social environment which was not conducive to risk-taking and an entrepreneurial spirit. The Economic Subcommittee on Entrepneurship Development noted that Singaporeans are not against taking risks, but the risks taken tended to be short term or "opportunistic". This stems from the country's traditional

role as a trading economy. However, success in the new technological society requires a change in attitude from that of a random response to opportunity to one guided by a well-defined strategy.

In Malaysia, the problems encountered by SMI are not very different from that of other countries. Some of the major problems faced by SMI are inherent in their small size. Broadly, the problems of SMIs can be grouped accordingly: lack of technical know-how, inadequate financial support, limited market and inadequate linkages with large industry.

A study undertaken by Universiti Pertanian, ITM and University Saskatchewan Research Center on SMI in four subsectors (food, wood, light emgineering and construction materials) revealed that the majority of SMI (72-82%) were still at lower state of technology. Only 14%-19% utilised end technology and these tended to be medium scale industries.

In light engineering, while the majority of SMI owned some form of machines, only 30% utilised milling machine but none of them owned numerically controlls milling machine. Of the food processing factories (217 altogether), the most regular drying method used was sun drying. Solar, freeze or vacuum dryer were not widely used. Most SMI were semi-mechanized but the level of mechanization is higher in food pro essing and construction materials rather than in light engineering and wood-based SMI. It is also noted that in food processing the level of

mechanization increased with the size of the firm. The study concluded that Malaysian SMI were not u ing the latest manufacturing processes and equipment in greater number. The study however does nct believe thaat compamies should be encourage to use the latest technology. The technology used should depend on the economics and business conditions of the individual SMI.

In terms of manufacturing management techniques. most SMI observed did not use a statictical quality control. Inspection was carried out by sampling or when there is a problem. Most SMI alsc applied ther own standards. with only 18 percent applying international standards. 15 percent of SMI undertook maintainance of machine only when breakdown occured. In general. SMI did not use the latest manufacturing management techniques. Decisions on quality control, product design and development. plant maintainance and production planning and control are primary made by the manufacturing manager/owner of the firm.

The most cited problem confronting SMI is the inadequacy of finance. As revealed in the survey of SMI undertaken by the Tokyo Institute of Developing Economies in collaboration with the University of Malaya in 1986, 50% of entrepreneurs ranked inadequacy of financial resource as the most crucial business difficulty, while 28% percent ranked it as their second major business difficulty. This crucial inadeq acy arises from the small size of businesses which are traditionally family-owned. with capital mainly from personal savings or loans from friends

and relatives. 80 percent of the firms surveyed listed their own funds as the major source of financing. The inability of SMI to provide adequate collateral for loans from the banking system has also restricted access to commercial bank credit in most cases. resulting in shortage of working capital.

Linkages with bigger industry is marginal among Malaysian SMI. Unlike Japan where 60% of the SMI are involved in subcontracting, only a number of Malaysian SMI produce intermidiate products for bigger industries. Most produce final product for the consumer. The survey conducted in collaboration with the Univesity of Malaya indicated that 13.8 percent of the firms surveyed had fostered some linkage with other large and foreign joint-venture firms in terms of subcontracting and business transaction. Based on data from subcontracting exchanges established by the government in 1986, 2,289 firms were registered for subcontracting works. Because of the government emphasis on engineering support in subcontracting, these firms are engineering in nature. Six areas have been emphasized - automotive, electric, electronic, light emgineering, rubber and plastic. Light engineering is the most subscribed at 65 percent, plastic 4 percent, rubber 8 percent, electric 6 percent, electronic 4 percent and others 3 percent.

SMI face numerous problems in exporting their product. The major ones being the difficulty of finding an export market. Other external problems are the increasing competition from other exporting countries, the increased prices of raw marterials and

the unstable movement of international currencies. SMI are more vulnerable to these external factors than their large counterparts.. A a result of these problems SMI in Malaysia do not contribute significantly to the export earnings. Indirectly, SMI play an important role in the manufacture of parts and components which are incorporated into finished product exported by large industries.

In Indonesia, the constraints facing SMIs are focused on the need to increase their bargaining power. the need to produce better products consistently, the need to improve business performance and the need to start and maintain new SMEs. One of the predicaments of SMIs is that they are in a less powerful portion vis-a-vis other business actors. Loans from banks are less available to small enterpises those large companies. For example. the Government of Indonesia advocated the importance of developing SMEs and is committed to provide special loans to them but the actual amounts of loans extended by state-owned banks to SMEs declined from 8.97 to 3.7% of the total amount of loans between 1983-1988. SMI owners are often forced to borrow money at exorbitant interest rates from money lenders who in most cases are also the middlemen and suppliers. Thus. one of the primary needs of the SMIs is empowerment. Alone. they would not have a chance to increase their bargaining power. united they may equalise their power positions vis-a-vis other stakeholders in their businesses. What they need, therefore. are the knowledge and skills to collaborate for their common purpose.

Many SMI have difficulties in producing standardized products in large quantity. They often fail to meet the design and quality specifications of the products required by their customers. They also frequently miss their delivery time. specifcally they have problems in job scheduling.

Financial management problems covered inadequate financial records. mixing of personal and business expenditures. erroneous method of calcuting profit and loss improper management of investment and working capital and loan repayment. Another problem area is materials management, especially stock control and materials usage. Many SMIs had difficulty in promoting selling and distributing their products. They also lack ability in pricing. When they are able to sell on credit they have difficulties in managing their accounts receivables. They also have a lot to learn to keep good relatives with their customers and to maintain a consistent service level for them. A more basic deficiency is the lack of ability to identify market needs/demands and to identify new business opportunities.

All constraints faced by SMEs in the ASEAN region have been studied. noted and are being or have been addressed by government policies and programs.

II. POLICIES AND PROGRAMS FOR SME PROMOTION

A. Policies and Strategies for SME Development

Government policies regarding the development of SMI are as varied as the number of countries in the ASEAN region. Some policies are very supportive of SMI while others are less so. For example, in Indonesia, SMI has long been recognized as a priority sector while in Thailand, SMI have only received recently the attention it deserves.

In most countries, government support for SMI is universal while in some countries, it may be restricted to certain groups. For example, in Malaysia and Indonesia, in line with these countries' restructuring policies, support for SMI is generally limited to bumiputra and pribumi SMI respectively. At the same time, a few countries in the region such as Singapore and the philippines have formulated clear and comprehensive policies towards SMI, while in many of the other countries, the policies are rather ambigous and fragmented.

On the whole, the policy environment for SMI has become more favorable. The improvement, especially in the last ten years, may be attributed partly to recent changes in the global environment. For example, during the period of political instabi ity preceding the collapse of the Marcos administration, several large corporations, especially those which were foreign owned, withdrew their investments from the Philippines. At that

time, the economy was virtually sustained by SMI. Similarly, consider the performance of SMI during the 1973-1975 economic crisis in Singapore. According to Lau (1983/84:28), while 9 large firms closed down due to the recession, 215 new SMI came into operation; while large firms retrenched some 20,000 workers, SMI took in more than 5,000 new employees; while the value of output for large firms fell by S$810 million, that for SMI increased by S$74 million; and while the value-added of large firms decreased by S$216 million, that of SMI increased by S$99 million. It can thus be argued that SMI cushioned the recessionary pressures and provided a stabilizing effect for the Singapore economy.

The above developments convinced both the Philippines and Singapore that SMI play a compensatory role in the economy within the context of a changing world environment. This factor has induced these countries to adopt a more favourable policy towards SMI.

Government policies towards SMI are generally expressed in the countries' development plans.

A country which had a headstart in promoting SMI was the Philippines which was one of the earliest countries in Southeast Asia to express its support for SMI. In 1960, the National Economic Council (now the National Economic and Development Authority or NEDA), in cooperation with UNESCO Research Centre in Calcutta, India conducted a survey of SMI in the Philippines.

The survey results brought to light the serious difficulties of SMI in the country, as well as the sector's potential contribution to the country's economic development. Consequently, the government of the Philippines initiated in 1963 negotiation with the Netherlands government for the creation of the Institute for Small Scale Industries within the University of the Philippines (UP-ISSI). In 1966, the UP-ISSI was established and, until 1974, was the only government agency exclusively engaged in extending assistance to SMI. In 1969, the Singaporean government's commitment to the development of SMI was explicitly articulated in the public and private sectors' support in implementing the master plan formulated for SMEs. This master plan recognizes that a small domestic market coupled with limited production factors, discourages the emergence of SMEs. For SME ventures to succeed, the combination of elements is required:

(a) entrepreneurship;

(b) innovation;

(c) strong customer orientation;

(d) sound management practices;

(e) high value added and technological content;

(f) a global perspective; and

(g) strong linkages to the international business community.

In Singapore, Government development assistance is concentrated on local strategies which have the critical mass and a strong commitment to growth and innovation.

The objectives of SMI promotion in ASEAN countries are

generally stated in terms of employment creation, equity, linkages, training and regional development. For example, in Indonesia, the Fourth Five Year Development Plan stated that SMI were to be promoted for the following reasons:

(a) a more equitable spread of business opportunities;

(b) the expansion of employment opportunities;

(c) the development plan of a modern industrial society.

In Malaysia, the Second Malaysia Plan (1971-1975) stressed that the Government's objectives in the promotion of SMI were:

(a) to develop bumiputra entrepreneurship;

(b) to increase productive employment and ensure higher income for the largest and poorest segment of the population;

(c) to achieve regional dispersion of business and industrial activities to secure better use of natural resources.

The Third Malaysia Plan (1976-1980) recognized the contribution of SMI as a training ground for future entrepreneurship and as a means for restructuring racial economic balance as well as a means for mobilising private savings of the middle income class for investment in industrial ventures.

The main strategies for developing and promoting SMIs in the Mid-Term Review of the Fourth Malaysia Plan were:

a. Non-duplication of activities of SMIs with those already

undertaken by larger industries:

b. The choice of industries must be in line with the need to achieve the objectives of the New Economic Policy (NEP).

c. Promotion of SSIs was to be undertaken as an integral part of the overall strategy to promote the manufacturing sector. Measures to be implemented were to be part of a comprehensive package encompassing improvement of production capabilities, provision of support services such as marketing, credit, consultancy and technology development. The strategy of subcontracting and franchising was also adopted for gaining access to markets.

With the government's recognition of the importance of SMI in creating inter industry linkages, the strategy adopted in the Fifth Malaysia Plan was the expansion and modernization of SMI through the provision of financial assistance of about M$234 million from the World Bank, assistance in export promotion and establishing links between SMI and research agencies to ensure quality and product competitiveness and to obtain up-to-date information on existing and potential markets. The Industrial Master Plan also stresses the need to modernise and rationalise the SMI.

In the Philippines, the 1978-1982 development plan set up a balance growth strategy which included, as a key component, the promotion of SMI, particularly in the less developed parts of the

country. The objectives of the plan were to meet sufficiently the basic needs of the people, to provide the goods that would enlarge the base for further economic expansion and foreign exchange, to generate greater employment, to promote new skills and technology transfers, and to expand the trade sector. More recently, in view of the economic problems facing the Philippines, the government formulated a cohesive package of strategies to develop the country's resources. One of the elements of the package included the promotion of SMI. This was in line with the present thrust of achieving greater employment, dispersal of industries to the rural areas and earning foreign exchange. SMI aside from encouraging self-reliance, would serve as a backbone in attaining national economic stability. Resources which would otherwise remain idle such as entrepreneurial skills, capital, labour skills and indigenous raw material would be tapped and mobilized for productive use. Apart from this, SMI would serve as supporting industries to large enterprises on complementary relationships like subcontracting and in the creation of forward and backward linkages with existing industries. Thus, the new Medium-term Philippine Development Plan for 1987-1992 stressed that the strategic policy for industrial development would focus the efforts on "the development of world markets to complement the growth in agricultural output and rural income".

In order to achieve their objectives in ASEAN countries, support for SMI has been translated into various policy measures.

The focus of government policy measures in Malaysia in support of SMI has been on the training of small entrepreneurs and the provision of credit. technical expertise and extension services. The Mid-term Review of the Third Malaysia Plan noted that besides providing physical facilities. training and financial assistance to SMI. the Government had identified the National Productivity Centre (NPC), MARA. the Ministry of Culture. Youth and Sports in association with other agencies such as the Malaysian Entrepreneur Development Centre (MEDEC) and the Natio al Entrepreneur Research Development Association (NERDA), to conduct a number of entrepreneuraial development programmes and to carry out research to help the government formulate effective programmes for the development of SMI.

Policy measures for promoting SMI and provincial industries in Thailand are specified in the Sixth Plan and include the following:

a) Identifying investment opportunities for investors in the provinces and Bangkok;

b) Upgrading the quality and standard of provincial products in line with the requirements of export markets;

c) Strengthening the capabilities of provincial agencies of the Ministry of Industry;

d) Setting up more industrial promotion centres and increasing the efficiency of the Ministry of Industry in promoting and formulating development plans at regional and provincial levels;

e) Considering the possibility of increasing financial credit at reasonable interest rates to SMI;

f) Considering the feasibility of granting BOI privileges to support SMI.

By promoting SMEs, the Government hopes to boost the use of indigenous resources, disperse economic activity to the countryside and spur industrial development. The government is helping export-oriented SMEs improve their international competitiveness. For instance, it has set the upgrading of the technology and product of these small exporters as a target in the country's Sixth National Economic and Social Development Plan.

The Government is putting emphasis on the development of six areas in accordance with its national policy objectives:

i) manufacturing - to promote new product development and processing techniques; boost the supply of raw materials; and improve product quality.

ii) investment - to provide facilities for the development of industries with export potential; improve the trade information service; increase the use of exclusive processing or industrial zones; and promote joint ventures through foreign investments;

iii) financing - to institute policy adjustments on currency exchange; simplify the tax and duty structure; and make more low-interest loans available;

iv) trading - to expand export markets: surmount trade barriers: promote market analysis: streamline the legal mechanisms that govern exports and imports: and make trade policies promotional rather than mandatory.

v) infrastructure

a) sea transport - to accelerate the use of deep-sea ports and improve the containerization system by encouraging the establishment of inland container depots (ICDs), as well as the operation of container freight stations (CFSs) and container yards (CYs) and link railways to ports to ease congestions in Bangkok port;

b) air transport - to expand air cargo operations and build new airports to facilitate exports by air freight, which have risen by more than 35% since October 1987: and

c) land transport - to promote the intermodal transport connection to sea ports: and expand the road and communications network: and

iv) science and technology - to promote R & D based on science and technology: encourage the transfer of appropriate production, marketing and management technology from abroad; and support academic institutions for the development of the country's human resources in science and technology.

From the above account, it would appear that policies on SMI in ASEAN countries are generally favourable and that they have been translated into various policy measures which are quite effective in some countries. However, a closer analysis reveals that there are a few shortcomings.

First, many of the policies on SMIs are not comprehensive but fragmented. They are neither carefully integrated at the overall level with general development policies nor at the sectoral level, with industrial development policies. Another fact which is evident is that, policy formulations do not indicate a clear and long-term view of the role of SMIs. In addition, the frequent revision of SMI policies in some countries reveals a good degree of adhocism and perhaps even lack of conviction about the role of SMI.

Secondly, some of the SMI policies, such as those in Indonesia and Malaysia appear to provide too much protection or assistance to SMI, so much so that SMI in those countries appear to be overprotected. For example, the "product reservation" policy for SMI in Indonesia. Is it really necessary? Such policy implies that SMI are non-competitive and need to be protected fro competition with their large-scale counterparts.

In Malaysia, some SMIs have been provided with so much assistance that they may never develop any self-reliance. This is a tragedy since the vital entrepreneurial role of the individual will be smothered by assistance programmes which are

too comprehensive or generous. Consequently, the SMI will become over-dependent and will be incapable of responding to any challenge. External assistance should try to reinforce and supplement private sector initiatives rather than supplant them. Similarly, SMI assistance programmes which are too generous may become counter-productive. An example of a policy which tries to assist SMI but ends up being counter-productive relates to financial assistance. In Malaysia, as well as several other countries, financial institutions, especially commercial banks are directed to set aside minimum percentage of their loans at a subsidized rate to SMI. As a result, deserving SMIs may not have adequate access to commercial bank credit which may be monopolized by certain highly favoured SMIs. Analysis of the capital markets in developing countries and of the economies of SMI does not support the view that such subsidization is called for, especially as there is no prima facie case that there are normally benefits from the point of view of overall income distribution. Thus, in general, banks should be permitted to charge higher rates for loans to the SMI, since they are both more risky and more costly to process.

Thirdly, very few of the SMI policies in ASEAN countries encourage private sector participation in SMI development with the notable exception of Singapore. The governments seem to think that they know what is best for SMI and the private sector has little to contribute. As a result, the private sector is not usually represented in any SMI advisory or policy formulation body and SMI agencies are predominantly, if not wholly controlled

by government representatives. Such policy is a myopic since the private sector can play a very useful role in SMI promotion. However, recent development in Malaysia and the Philippines show an increasing realization of private sector participation.

Fourthly, there is often a wide gap between SMI policy formulation and implementation. In Thailand for example, almost two years have passed since the adoption of policies on SMI as expressed in the Sixth Economic and Social Development Plan (1987-1991). However, various promotional measures for SMI specified in the Plan have still not been formulated. Consequently, several economists believe that the various guidelines laid out for the promotion of SME in the Sixth Plan will again merely be policy statements which will not actually be implemented. On other countries, measures may even be implemented which are in contradiction to policies supporting SMI.

Fifthly, although there is a variety of policy measures in support of SMI in many of the ASEAN countries, there is a lack of balance among the various measures. Briefly, SMI policy measures may be grouped under three categories, namely, those which are stimulatory, supportive and sustaining. Stimulatory measures are those which stimulate entrepreneurship such as entrepreneurial development measures. Supportive measures help SMI establish and run their enterprises and include financial, marketing and technological assistance. Sustaining measures ensure the continued, efficient and profitable functioning of SMI

and include measures relating to modernization and expansion. An analysis of SMI policy measures in various ASEAN countries reveals that many of them are focussed on support activities, especially on financial support. For example, up to 1970, policy measures in support of SMI in the Philippines mainly paid attention to the financial needs of SMI. Another example may be seen in Malaysia. Clearly, policy formulation on SMI appear to have by and large ignored the problem of nurturing and promoting qualities of entrepreneurship. Similarly, the technological and managerial problems of SMI do not appear to have received adequate emphasis.

Finally, at the regional level, many of the ASEAN countries have formulated and implemented their policies on SMI without any careful assessment and analysis of the experiences of the other countries even though their environment and basic problems are similar. Obviously, countries in the region can gain from an exchange of information and experiences in SMI development and there could be significant benefits from regional cooperation. Thus, exchanges of information and experience should be systematically organized through bilateral and multilateral institutions.

B. Program for SME Development

Singapore has drawn up a comprehensive package called the SME Initiative to help local SMEs gain competitive advantage. The initiative is being implemented by a wide network of Government and private organizations, thereby fostering linkages between SMEs and bankers, investors, financial experts and Government administrators.

The initiative provides local SMEs with:

(i) fiscal incentives and financial assistance;

(ii) assistance in technical problem solving, as well as in technology adoption, automation, innovation and product development;

(iii) chances to exploit formation technology;

(iv) expert help in productivity improvement and labor force training;

(v) practical advice on business development and on the establishment of business partnerships;

(vi) assistance in international marketing and design; and

(vii) help in building up support industries through the Local Industry Upgrading Program.

Singapore's SMEs can avail themselves of many fiscal and financial incentives designed to assist them in all their developmental needs. The EDB acts as coordinator in the multiagency administration of these incentives. Local SMEs with

commercially viable ideas, as well as the critical mass, commitment and capacity for innovation and growth, are possible beneficiaries.

The Major tax incentives extended by the Government to qualified SMEs include:

(i) an Investment Allowance, which allows SMEs tax deduction equivalent to 30-50 per cent of their approved investment costs;

(ii) a Pioneer Status, which provides SMEs with five-year to ten-year tax breaks;

(iii) a Double Tax Deduction, which is given to companies engaged in R & D and product development; and

(iv) an Overseas Investment Incentive, which aims to encourage local enterprises to go international.

The Government also offers various types of grants and technical assistance schemes. These include:

(i) Small Industry Technical Assistance Scheme (SITAS). This financing scheme was devised to defray part of the costs of raising the productivity, as well as the managerial and technological capabilities, of SMEs.

Through the initiative of EDB, SITAS founded a program called the Local Industry Upgrading Program (LIUP) in 1986 to lend a hand in the development of local technology-oriented firms. The objective of the program is to upgrade the efficiency, reliability and

international competitiveness of support industries by forging close ties between local SMEs and MNCs.

The LIUP enables technology-oriented firms to gradually increase their capabilities by helping them improve their operating efficiency, introducing them to new technologies and collaborating with them in the development of their products and processes. As of December 1988, LIUP had a total of 31 MNC and 65 SME participants. The target is to have at least 100 local SMEs (or 10 percent of the SMEs in the support industries) participating in the program within the next two years.

(ii) Product Development Assistance Scheme (PDAS). A portion of the expenses incurred by SMEs in product or process development - i.e., up to 50 percent of their direct manpower and consultation expenses - is eligible for support under this scheme. The SMEs can also avail themselves of financial plans for information technology development (Software Devleopment Assistance Scheme [SDAS]) or for long-term R & D (Research and Development Assistance Scheme [RDAS]).

(iii) Initiative in New Technologies Scheme (INTECH) and Skill Development Fund (SDF). These financial grants are extended to companies for manpower training in new technologies, industrial R & D, and advanced products

and processes.

SMEs can also avail themselves of the Small Industry Finance Schemes (SIFS). Under this sch me. SMEs are provided with soft loans to help them acquire equipment and machinery, industrial buildings, and export factories. The loans are operated on a risk-sharing basis by some 20 participating banks and financial institutions. Firms not only from the SME sector, but also from all other industrial sectors can apply for these loans.

Many local have taken advantage of these incentives. Some 3,000 of their projects have so far been approved for various tax exemptions. In 1988, SMEs received S$1.3 billion worth of soft loans under the Sm 11 Industry Finance Scheme (S FS) for more than 5,400 of their projects, another 30,000 projects were awarded grants.

The way the Government has developed venture capital, automation and information technology illustrates its effort to promote technology-oriented ventures in Singapore.

The role of venture capital (VC) as catalyst in the development of new businesses has been proven and is widely recognized in Singapore. The Government provides support the VC industry by inducing risk capital (investors) as well as investment projects (entrepreneurs), providing mechanisms for matching investors with entrepreneurs, and creating an environment that ensures the realiability and liquidity of the industry.

Several major corporations in Singapore began showing interest in venture-capital (VC) in the early 1980s. South East Asia Venture Investment (SEAVI) established the first venture VC fund in 1983. Since then, the VC industry in Singapore has considerably expanded, with the formation of several major VC funds and investment portfolios among private corporations. The pool of capital managed by professional VC funds has, in fact, quadruple over the last four years to approximately S$450 million.

In 1985, EDB put up its own S$100 million VC fund further stimulate the industry. The SESDAQ, a secondary stock exchange, was also established in 1987 as a major divestment route for investee companies.

Of the more than 40 companies in Singapore that have received venture funding thus far, several have been successfully listed on SESDAQ. Many of these companies have even expanded their operations beyond Singapore with the help their VC investors.

The structure of VC funds in Singapore is similar to that of public companies with limited liability, which operate as closed-end VC investment companies that acquire and hold, on a medium-term to long-term basis, investments in unquoted firms. A separate fund management company than takes care of these investments on the holding company's behalf for a fee.

If the fund managers come from the investing public, each of them is required to hold an Investment Adviser's License. Thus, it is not the VC investment company itself that is mandated to have a license.. By allowing only reputable fund managers with proven track records and sound financial backgrounds to deal in VC investment services, this licensing arrangement accords VC investors suitable protection for their interests.

At least two tax incentives are available to VC firms.

(i) Pioneer Service Incentive. To encourage the formation of locally incorporated and professionally managed VC funds in Singapore, the Government currently grants a Pioneer Service Incentive (PSI) to VC funds that fulfill PSI requirements. Any VC fund - made up of an investment holding company company and a fund management company - of reasonable size can be exempted from paying corporate taxes for five to ten years if it in the development of local VC manpower, and to have achieved technology transfer if investing overseas.

(ii) Venture Capital Incentive. This tax incentive is intended to urge companies and individuals to get into new technology ventures that may be risky but which are nonetheless desirable for Singapore's future economic development. The incentive is apppicable to direct VC investments made in both local and foreign projects. The recipients of the incentive are allowed to write off (against their other income) the losses they may incur in the sale of shares in an approved VC

investment. The maximum amount of write-off is 100 percent of the investment made.

In 1986, EDB launched an informal "Venture Capital Club" to provide local entrepreneurs with a venue where they can interact with potential investors. Entrepreneurs are invited to present their ideas on possible funding projects to investors during club meetings, which are normally held once every two months. Following the presentations, interested parties can make arrangements for more detailed discussions.

These club meetings give entrepreneurs and investors the chance to exchange experiences and information on ongoing and future VC projects.

The EDB publishes a Singapore Venture Capital Directory containing a list of potential VC investors, their contact address and their investment preferences for the benefit of local entrepreneurs.

The EDB became a leader in the promotion of VC financing in Singapore when it put up its own S$100-million VC fund in 1985. Besides helping local companies acquire new technology and diversify into untapped markets, the fund also foster innovation and entrepreneurship in these firms. The objective of the fund is not just to maximize the companies' profits but to let them develop more advanced techno ogies and innovative business concepts. The EDB acts as a facilitator for the fund: it also works closely with other private VC funds and corporate

investors. To date, more than a third of the EDB fund has already been committed to local and overseas enterprises.

A second-tier stock exchange called SESDAQ was introduced in Singapore in early 1987. The exchange provides emerging companies with an alternative source of funds, besides ensuring the liquidity of the capital market.

The Singapore Science Park and several other technical centers in tertiary educational institutions are the source of potential VC projects.

Thus far, judging by the increase in the industry's size and in the number of local companies with VC financing, the Government's efforts have had positive impact on the VC industry in Singapore. The free interaction of venture capitalists and entrepreneurs (both local and foreign) in Singapore can be expected to create stronger linkages between them and thus lead to further improvements in current technologies.

Government agencies in Singapore have instituted many support measures for the technological improvement of local SMEs. The Singapore Institute of Standard and Industrial Research (SISIR), for instance, provides manpower and facilities for contractual R & D, technical consultancy and expert services. The EDB also assists in manpower training to match the needs of SMEs.

Automation is an area that SMEs can explore so as to improve

their productivity, minimize labor dependency and ensure product quality. To accelerate the automation process in SMEs, EDB recently introduced several incentives:

(i) providing companies with grants for carrying out automation feasibility studies;

(ii) providing companies with grants for training automation engineers and technicians; and

(iii) furnishing companies with an Investme t Allowance for installing automation equipment.

The results of this incentives program have so far been very encouraging.

Knowledge-intensive businesses, especially those dealing in information technology, are important to the future industrial growth of Singapore. The National Computer Board (NCB) has been devising measures for the development of the infrastructure and manpower needs of these businesses. The Small Enterprise Computerization Program (SECP) is one of the NCB's programs intended specifically for SMEs.

Under this program, NCB assigns an advisor to an SME to help initiate and implement its computerization projects. The SME is eligible for a grant equivalent to 70 percent of the advisor's consultancy fees up to the feasibility-study phase, as well as to 50 percent of the fees charged by the advisor during the implementation phase.

SMEs may also apply for SIFS loans at special interest rates

and for investment allowances for their computer hardware and software expenses.

International economic developments have vast implementations on the future role and strategy of technology-oriented SMEs not just in Singapore but also in the entire Asia-Pacific region. The region is fast emerging as the most dynamic in the world. It will be a strong rival to the new economic blocs yet to be formed in Western and Eastern Europe, where economic liberalization is now taking place.

Singapore is home to over 3,000 MNCs, some 600 of which are large manufacturing operations. Local SMes are in position to gain greater access to markets and technologies worldwide with the help of these MNCs, the backbone of Singapore's intern tional linkages.

While the government support may induce the SME's growth, these enterprises can only achieve world-class capabilties through their own initiative. It is in this context that the exchange of information among local SMEs becomes essential. Collaboration among SMEs in various parts of the world is equally important.

In Malaysia, it is of interest to note that, according to the Economic Report 1988/89 published by the Ministry of Finance, there are currently 12 ministries and 30 government agencies each guided by slightly different objectives in their attempts to render various types of support services directly to SMEs. It

should be of interest to note that in five years from 1984, the nummber of ministries that are providing assitance for SME development has increased by 20% and the number of government agencies by about 58%. These are signs that some of these new government agencies are associated with the promotion and development of the rural handicrafts industry in Malaysia.

Action had been taken to include in the Promotion of Investments Act 1986 a provision which would allow for the assistance of adjusted income for a period of five consecutive years of assessment of payment of income tax for small-scale companies.

In the presentation of the National Budget by the Minister of Finance in Parliament in October 1988, new incentives were introduced to encourage the development of small local manufacturers. These included:

* granting of pioneer status to SMIs which fulfill specific criteria concerning residence and incorporation in Malaysia under the Companies Act 1965;
* increase of the reinvestment allowance from 40% to 50%;
* full exemption from payment of import duties on raw materials, components, machinery and equipment;
* abatement allowance to large manufacturing companies which obtain their components from a SMI. The abatement will cover 5% of the adjusted income or the 5% value of the components purchased, whichever is the lower; and
* allowing for double deduction of income tax of cost

training performed by the National Productivity entre (NPC), Standards and Industrial Research Institute of Malaysia (SIRIM), the Mara Institute of Technology (ITM) and the Malaysian Agricultural and Research Development Institute (MARDI).

These incentives were introduced to actively encourage the increased contribution of SMIs in providing linkages to the LSIs and in the manufacturing of quality products that can compete effectively in local and foreign markets.

The Minister also announced the allocation of M$890 million by the government to overcome the problem of SMIs in getting adequate financing on reasonable terms. The money for this scheme will come from the ASEAN-Japan Development Fund (AJDF). The SMIs will be able to obtain credit on concessional rates from four financial institutions, namely the Malaysian Industrial Development Finance Company (MIDF), the Development Bank of Malaysia Limited (BPMB), the Industrial Development Bank and the Bank of Agriculture. A maximum of M$20 million is permitted for each project, but priority will be for loan applications th t do not exceed M$5 million.

Reference was also made to the proposed action to be taken by the Credit Guarantee Corporation to restructure its credit guarantee schemes to a single consolidated scheme. The new scheme will be designed to enable a small business, with insufficiently security or none at all, to get ready access to

credit facilities. with the added feature of encouraging the commercial banks to extend their credit facilities to this type of enterprise.

The government agencies that are actively involved in offering management development programs for SMEs are the National Productivity Centre (NPC) and the Malaysian Entrepreneurship Development Center (MEDEC) of the Mara Institute of Technology.

National Productivity Centre (NPC) was established in 1962. The Bumiputra Services Division was set up by the centre in 1972 to formalize the offering of management development programs for SMEs. All the programs offered by this division are restricted to Bumiputra participants only. During the early days, the courses offered were directed to creating awareness among the Bumiputras on the need of their involvement in the business sector. In 1976, a massive expansion of the division took place with the introduction of the Entrepreneur development Program in cooperation with MARA and other government agencies. By 1985, the division was divided into six sectors, offering programs in construction, retailing, food processing, woodwork, automechanics/metalwork, and transport. An information centre and a research unit were also set up. Further expansion took place in 1988 with the six sectors divided into four functional areas covering finance, marketing, general management and production.

Malaysian Entrepreneurial Development Centre (MEDEC). This

center is attached to the Mara Institute of Technology and is housed in the premises of the Institute in Shah Alam. There are currently 22 full-time lecturing staff attached to the centre. Approximately 80% of them are trained in the United States and possess master's degrees.

Only Bumiputras are admitted to these programs. The program that forms the flagship of the center is the Entrepreneur Development Program (EDP). By the end of 1988, the centre had conducted this program 60 times and produced 1,408 graduates. Of these, 46.6% have been engaged in business before attending the program. 18.4% started their businesses after completing the program and the remaining graduates have not taken any step to set up their businesses.

The primary role of promoting SMEs has been, as a matter of policy, left to the government generally. The same sort of promotion as such has not been widespread in the private sector. There are over 30 government departments , agencies and private bodies, including financial institutions involved in the development of SMEs.

A single entity association has been formally registered to cater for SMEs. This is the Medium and Small Industries Association of Malaysia (MESIAM) which has been quite active in the industrial scene. In addition, different chambers of commerce such as:

* Malay Chambers of Commerce & Industry

* Associated Indian Chambers of Commerce & Industry
* Associated Chinese Chambers of Commerce & Industry
* Malaysian International Chambers of Commerce & Industry
* Federation of Malaysia Manufacturers

have their own interest in developing firms which fall within the definition of SMEs. All these constituent chambers currently organize programs on a racial pattern for Malays, Indians, Chinese, expatriates and manufacturers.

In addition, there are various associations, formal and informal, established to cater the following trades/industries or business:

* rubber products
* food and drink processing
* metal fabrication and manufacturing
* light engineering
* brick, pottery, clay, ceramics
* building, construction materials
* woodworking and furniture
* garments and apparel manufacturing
* cement, asbestos and allied products
* mat weaving, basketry, rattan
* footwear (plastic and leather
* printing and publishing
* paints manufacture
* brewing beer , liquor
* cottage industries and others

The overall responsibility for small-scale trade and industry projects was handed over to the Ministry of Trade and Industry since March 1989. As late as this date, the Ministry of National and Rural Development had the responsibility of SMEs under its portfolio. However, with the exception of cottage type industries, the rest of the SMEs has now come again under the Ministry of Trade and Industry. The Ministry needs to coordinate the efforts of some 30 SME promotion organizations.

Development Strategies

There are some of the strategies that the Government has adopted to aid the growth of SMEs:

(i) encouraging SMEs to locate in provincial areas

The Government is encouraging the processing of raw materials for exports in the rural areas to cope with the rising cost of transport to the production plants in the main processing zones. The idea is to make SMEs locate their factories near the sources of raw materials in the provinces, thereby increasing employment opportunities and investments in these areas.

Investors, however, are drawn to specific locations not only by the lower wage rates in these places, but also by making available to them tax incentives and soft loans from the Industrial Finance

Corporation of Thailand (IFCT) and the Small Industry Finance Office (SIFO). The Government also extends technical assistance to entrepreneurs setting up businesses in the countryside.

(ii) providing financial support

The Bank of Thailand (BOT) and SIFO are two of the financial institutions that extend credit to SMEs. The Government has persuaded commercial banks to do likewise. The BOT, for instance, makes funds available to IFCT for relending to high-priority rural export industries at low interest rates; it also extends credit assistance by discounting promissory notes for production and exports.

The IFCT has been extending loans to SMEs since 1984. The Government also relends money from the Organization for Economic Cooperation Fund (OEFC), a Japanese aid agency, through a two-step loan program that was set up for these purpose:

a. to enhance the international competitiveness of export-oriented SMEs in the manufacturing sector by modernizing their production facilities, improving the quality of their products and upgrading their management systems;
b. to provide both technical and financial assistance to borrowers throughout the project cycle; and
c. to develop the priority export sectors.

The export modernization program initially had at least 30-40 beneficiary firms; the number of firms has gradually increased since then.

The SIFO extend credit to SMEs at an interest rate of 12 percent per annum, compared with the 14.5 percent interest charged by other lending institutions. The SIFO's funds and operations, however, are very limited.

Venture capital financing companies have also started to provide soft loans to SMEs to support the commercialization of the results of their R & D.

(iii) enhancing technical assistance

The Government makes available to SMEs an integrated technical assistance program that provides for, among other things, managerial support, financing and technical skills training. The program will be complemented with appropriate incentives. It will give priority to the engineering industries - e.g., the production of iron and steel, motor vehicles, electrical appliances, agricultural machinery, wooden parts, furniture, textiles, and processed foods. This integrated industry development program is being jointly implemented by the Ministry of Commerce (MOC), the Ministry of Industry (MOI), and the Ministry of Science, Technology and Energy (MOSTE). The Metal Working and Machinery Industries Development Institute (MIDI) was also recently established under the MOI to extend technical assistance to SMEs.

(iv) promoting subcontracting arrangements between SMEs and

LSEs

Subcontracting is a system that has been widely employed in the rural areas for the production of ready-to-wear garments, silk, wood carvings, and furniture. This system, however, still needs to be developed. Besides, some problems may arise if SMEs and LSEs rely extensively on subcontracting - e.g., loss of Government control over the enforcement of labor laws, collection of taxes, and the management of risks by LSEs.

(v) fostering new industrial investments

New investments can provide impetus for the growth of the export-oriented industrial sector. Thus, in 1977, the Government enacted an Investment Promotion Act, which provides for several forms of assistance - e.g., various types of guarantees, special permits, income tax incentives, and the imposition of mport duty and temporary surcharges on imports that compete with local products that the Government wants to protect or promote. As part of its effort to lure foreign investments, the Government will set up an organization that will promote, select, and monitor foreign investments and technology transfer.

Government Institutions and Agencies

The Government agencies promote and extend assistance to

SMEs:

(i) the Department of Industrial Promotion (DIP)

The DIP, which is under the Ministry of Industry, has 14 central and regional divisions with about 1,200 full-time employees assigned to serve the needs of SMEs.

The primary activities and goals of DIP are:

a. to help manufacturers produce more efficiently and grow through the development of management and marketing techniques, as well as production technologies, appropriate to their industries; to help them promote their products; to give them financial assistance; and to secure Government measures for th benefit of SMEs; and

b. to promote the establishment of new manufacturing enterprises in the regions by providing them with technical assistance and other consultancy services.

(ii) the Board of Investment (BOI)

The Board of Investment, which is under the Prime Minister's Office, has the Prime Minister as Chairman and the MInister of Industry as Vice Chairman. In line with the Government's policy of promoting industrial development by drawing domestic and foreign investments, BOI is authorized to reduce corporate and business taxes, lift import duties on selected machinery and equipment used in the manufacture of

export products and offer other privileges to stimulate the growth of export-oriented manufacturing industries.

(iii) The Thailand Industries of Scientific and Technological Research (TISTR)

Previously known as the Applied Scientific Research Corporation of Thailand. TISTR is a non-profit. semiautonomous public R & D institute under the Ministry of Science. Technology and Energy (MOSTE). Its primary responsibility is to make full use of science and technology to hasten the country:s socioeconomic development.

The TISTR plays a vital role in the entire process of R. D. E. and I (Research. Development, Engineering and Industrialization). To fulfill this role. it works together with multidisciplinary groups to tackle problems related to the development of engineering capability, economic analysis and market reasearch. It can also effect the transfer of technology (both hardware and software) to the private sector in areas such as process-improvement methodology, product and process and plant design. consultancy services and identification and solution of problems.

The TISTR's, major activities are in the areas of industry. agriculture. environment, building and related fields: it also provides information. standard testing and calibration services.

It has contributed significantly to rural development through the appropriate application of science and technology.

The TISTR cooperates with both local and foreign research organizations. Among these are the Korea Advanced Institute of Science and Technology (KAIST) and the Council of Scientific and Industrial Research of India.

Among the SMEs that h ve raised productivity with the TISTR's help are those in transparent noodle production, dried or pickled fruits and vegetables processing, cassava starch production, palm oil extraction and latex and rubber processing.

In Thailand, technology transfer is made possible by a network of non-Government organizations, Government agencies, R & D institutes and universities.

The country is also a member of Technonet Asia, a regional network that promotes cooperative technology ventures, technology information exchange, and technology transfer within the Asia-Pacific.

In the Philippines, to address the needs of SMEs, various programs and projects in the Philippines are being implemented by the government in the areas of financing, marketing, technology and training.

1. Financial Assistance

The inherent biases lending to SMEs in the formal

credit market has been recognized and as such government lending programs have been set up to reduce these biases. Essentially, these are undertaken through government relending programs, designed to increased SMEs' access to institutional credit. Under this arrangement, government provides resources (mainly obtained from foreign borrowings) to conduit financial institutions and non-government organizations (mostly on a loan basis) which in turn are expected to relend these to micro, cottage, small and medium industries. The interest rates under these programs are generally market based.

The loan programs are designed to meet the financial requirements of SMEs in the following activities:

a. financing of fixed assets (machinery equipment, factories, site improvement, etc.)
b. financing working capital requirements
c. export finance and packing credit
d. pre-investment
e. technology application

In addition to the loan programs, government is also implementing guarantee programs in response to SME's difficulties in obtaining credit in view of difficulties in meeting collateral requirements of banks as well as their being perceived as a "high risk" sector. However, it has been noted that guarantee programs have not been very effective especially

in making lending institutions reduce their collateral requirements.

2. Marketing Assistance

Marketing programs have been implemented with the objective of developing markets for the products of SMEs in view of their limited size and localized nature. Assistance ranging from providing market information, matching of buyers with producers and providing increased access to the domestic market are in place.

3. Technology Assistance

Production technology of SMEs have been acquired mainly from experience and On-the-job training (i.e., from prior exposure in the family or from previous employment) and as such entrepreneurs have a tendency to stick to their way of doing things. This attitude has brought about certain problems as such as low productivity, poor quality and lack of production standardization.

To improve production technology, the Technology and livelihood Resource Center (TLRC) has implemented programs designed to spread information on the use of appropriate technology particularly by industries for better productivity.

The Department of Science and Technology as lead agency for science and technology development is also

implementing several programs in the area. However, it is noted that these are more of general application and not particularly focused on SMEs.

4. Training Assistance

The need for manpower development to boost the Philippine economy has been recognized by the government. The Medium-Term Philippine Development Plan provides that technical and vocational education shall be directed towards the provision of:

(a) skills required by labor-intensive agriculture and rural-based development;

(b) skills required by current and emerging technologies in industries, among others. Thus, institutions including training centers as well as programs for human resource development in SMEs can be broadly classified into two categories, as follows:

a. entrepreneurship and managerial skills training and

b. technical skills training.

Skills training for the entrepreneur are generally directed towards improvement of management skills in planning, organizing and financial control that would increase his ability in making effective decisions regarding business matters. On the other hand, technical skills training cover such areas to improve

production technology and worker productivity.

One such training program is the Entrepreneurship training programs of the University of the Philippines - Institute of of Small Scale Industries (UP-ISSI). Most UP-ISSI training programs on entrepreneurship development (ED) consist of the following:

i) identification of potential entrepeneurs to increase predetermined recruitment and selection schemes:

ii) training of these potential entrepreneurs to increase their motivation and equip them with skills in management, feasibility study and project preparation as well as to familiarize them with the prevailing business environment; and

iii) post training assistance in the areas of management, financing and technology.

III. NEW AND INNOVATIVE CONCEPTS FOR SMALL-SCALE ENTERPRISE PROMOTION

In recent years, the field of small-scale enterprise promotion has seen the emergence of new and innovative approaches, many of which have been private sector initiated. In fact governments have focused on motivating private sector associations and chambers to pursue the major bulk of the development efforts. The variety of these new concepts can be seen in the experiences of the ASEAN countries.

More and more of the SSE support services traditionally performed by government agencies can be passed on to private sector institutions, including industry and trade chambers, federations and associations. When these institutions mature, they are recommended for taking over these functions because of their greater access to and emphaty with the small business communities their practical hands-on business knowhow and experiences and their lesser vulnerability to direct political influence.

Besides their potential to become efficient service providers, private sector institutions can also play an important role as advocates for the small business sector, that is, for exerting an influence in macro-economic policy-making regulatory aspects and other fields normally outside the control of individual SSEs.

Some likely services can be carried out by these organizations are training, consultancy and promotional services including screening government supplies, drawing up a list of subcontractors and acting as conduit for credit guarantee schemes. Chambers and associations could also engage in bulk purchasing, collective marketing activities (including collective bidding for government contracts) and operating common production and technical service facilities. They may also take on some limited statutory functions, possibly in terms of processing taxation assessment of member-firms, certifying technicians and craftsmen and policing their own ranks in terms of product

quality and standards. It is the responsibility of the private sector to identify and sort out its own problems as well as to recommend solutions so the government may take appropriate measures.

Although the government takes on a secondary role in such context by providing a conducive legal and fiscal framework and as a facilitator of services and provider of funds for these services. there are still certain functions that it should retain in some developing countries. such as providing basic skills training.

For government-private sector complementarity to prosper in developing countries. it is the prevailing view that both sectors should strongly commit themselves to SSEs. There must also be mutual respect and recognition of each other's responsibilities. The government must increasingly recognize the private sector as an equal or senior partner in development. before it can give up part of its traditional functions to the latter. For its part. the private sector must begin revising its adversarial stance towards government. Private businesses must begin to look at government no longer as controlling. restricting and bureaucratic mechanism but as facilitator and a benign partner in SME development.

Private sector organizations wishing to grow as partners in SSE development should be willing to develop their institutional capabilities both as advocates and providers of services. They

shoyld also ve willing to undertake intern l organizational changes. adopt more democratic procedures in electing their leaders and in decision-making. rationalize membership policies and decentralize operations. Private sector organizations are best run and managed as professional service organizations. As such. they should market their services. employ professional managers and staff. mobilize financial support from government and donor agencies and set up systems for capital build-up such as trust funds. Chambers and associations must also grow in oriwntation from a status where they seek to safeguard the interest of a limited number of member-enterprises to a wider development perspective that will encourage new business creation and mobilize new members.

A clear policy and legislative mandate will institutionalize government-private sector compplementarity in SSE development. Such a mandate will define the functions of private sector organizations and allocate unds to support their operations.

Legislation may also address the creation of a strong umbrella organization for SSE promotion. It should be a national body with at least 50% private-sector representation. The organization would function as a one-stop-shop for assistance services. as a conduit for finace and as a monitor of public and private-sector performance in the delivery of services for SSEs.

A pilot approach to building private sector in SSE promotion is exemplified by the ZDH-TA Partnership Program. The Program assists chambers. federations and associations in developing

countries to grow in their promotional and advocacy functions. With ZDH and Technonet Asia as partners the recipient organization is guided not by an unfamiliar donor agency but rather by like-minded institutions possessing practical knowhow in institution building.

The ZDH-Technonet Asia Pratnership Project, now working with 19 private sector institutions in four Aia countries, is one among several cooperation projects under the German Partnership Program. The Project makes use of various tools in institution building, including: conducting seminars on chamber management; setting up and improving documentation facilities; developing income-generating services; setting up consultancy services; providing training for entrepreneurs; publishing brochures, newsletters and directories; and organizing conferences on relevant policy issues.

Under the Project, chambers are expected to take the main responsibility for their own development. The Project takes on a secondary role of supporting some of the activities planned by the chamber and underwriting part of the costs.

The major setbacks experienced by the Project since it began its work in 1990 are: government bias against empowerment of the private sector; hesitation among chambers to take on a stronger role in SSE promotion; and lack of continuity in chamber leadership. More specifically resources to efficiently run the assistance services required.

Notwithstanding the problems encountered, the project has been able to gain much headway in activating recipient chambers and instilling in them the need and motivation to strengthen themselves through better management, attracting more members, providing a wider range of needed services for members and embarking on income generated activities.

Assistance so far provided by the project has enabled a number of recipients to institute various measures for further development and self-reliance. Indirectly, the project has also been able to exert varying degrees of influence on the government to institute administrative and policy reforms in promoting the development of SSEs through greater collaboration with PSIs.

A concrete example of a chamber playing an active role in SSE assistance service is the Enterprise Promotion Centre of S ngapore. Organized by several chambers of commerce and industry associations and started with a grant from the Eeconomic Development Board of Singapore, the Centre acts as the consultancy arm and business information center of chambers and associations and at the same time promotes among members the use of government development assistance programs. It has set up an electronic communications network to facilitate information dissemination and exchange of documents. With its unique status as private sector organization enjoying government support, the Centre has become an effective catalyst of enterprise promotion.

The CEFE or the Competency based Economies through Formation

of Entrepreneurs Program promotes an Entrepreneurship and Enterprise Development model which focuses on how the small entrepreneur interacts with his environment. CEFE projects fall into three basic categories: the process of competency acquisition for the entrepreneur aimed at enterprise formation or expansion; the p ocess of resource mobilization with the emphasis being on credit and investment; and the impact of macro policy in optimising business creation and expansion. A CEFE intervention could be a training program, a credit scheme,a workshop, or consultancy program based on the needs of the target entrepreneur. A CEFE training intervention covers pre-training, training and post-training activities. Training itself covers four modules, mainly: unlocking competencies: matching each person with a project; formulating a business plan: and presenting a business plan to prospective lending institutions. Learning by doing prevails in the CEFE model. As they play business games, share experiences and engage in role play, participants drawn out for themselves the learning points of the various training activities.

The Industrial Incubator Scheme of the Standards and Industrial Research Institute of Malaysia addresses the need of young technology based enterprises for vital technical and administrative services that will enable them to grow. An incubation facility integrates office and factory space, general secretarial services business information system, library facilities, consultancy services and technical facilities

including product design and development, production, quality control and testing services. The scheme allows participating enterprises to pursue developmental work on their products, production processes and management strategies without them having to invest on the necessary facilities and without them having to spend so much on the cost of technical and specialized services. Since its inception, fifteen (15) companies have participated in the incubation program. By 1995, a National Development Industries Park is being envisioned to be set up on a 50-acre site to provide as many as 100 lots for start-up enterprises.

Another area is in promoting linkages between the large and small medium enterprises. In the Philippines, the Board of Investment has begun a program wherein the large firm in the au omobile manufacturing and electronics industries are asked to identify the components they would be willing to source locally. This list with the technical specifications are then provided to the small and medium firms, who are assisted by financing and technology improvement programs to undertake the manufacture of these components. Where necessary a matching is made between the Filipino small and medium firm and the foreign SMI suppliers of the large firm towards the setting up of a joint venture.

IV. TOWARDS SUCCESSFUL SMI PROMOTION

The experiences of the ASEAN countries, especially Singapore, Malaysia and Thailand are rich with insights for

countries that are committed to promote the small and medium industries sector. While there are many lessons covered by the preceding chapters, the following need to be highlighted.

1. Proper Policy Environment. While there can be programs and projects in support of small and medium industries, the more important government assistance would be in creating the facilitative policy environment for SMIs. The policy reforms should be directed to a more market-oriented and open economy and may range from liberalization of the banking system to opening up more fully the trade system, etc. What is necessary is to realise that many of the problems of the small and medium industries can be traced to the government policies in trade, tariffs, banking that discriminate against the SMIs.

2. Coordinating Mechanisim. All the ASEAN countries started from having a host of government and non-government organizations providing assistance and support to SMIs with very little coordination. While it allowed individual initiatives to flourish, it resulted in wastage of resources and left gaps in the support networks of SMIs. A council or authority with private sector membership in addition to the government presence is not only an effective coordinating mechanism but could serve as the focal point and advocate for SMI promotion and development.

3. Private Sector Participation. After decades where the government took upon itself the full brunt of SMI promotion and

development, the ASEAN countries have realized the necessity of involving the private sector. especially the small and medium businessmen themselves. It has been seen that association or chamber of the industry sector are well situated to industrial the real needs of SMIs and to provide responses consistent with there needs. The consequent fact that the services given now have to be paid for also has contributed to the sustainability of assistance programs.

4. Holistic Assistance. The experience of the ASEAN countries has shown that problems of SMIs are not training, financing or marketing alone but rather all these linked to and affecting each other. Thus assistance programs must be viewed from a holistic perspective and an integrated package of assistance is required rather than just one or two specific interventions. It also necessitates having a very good delineation of the particular clientel being targetted.

5. Decentralised Services. As the government of the ASEAN go through a devolution of powers and authority to local units. it has discovered that better services are being provided to the SMIs. N t only are the services now assessible but the ones providing the services are in a better position to understand and respond to the needs of SMIs.

On a [illegible] level, a lot of learning and sharing has been going on [illegible] by government and private sector institutions. T[illegible] ASEAN program with the European Community has allowed the

training of government sector officials and the private sector executives and industry leaders in Workshop for Policy and Progress Support for the Small and Medium Enterprises. The workshops were -- by institutions, based in each ASEAN country following a curriculum approved by a committee composed of the expert institutions from each country and utilizing resource persons from the ASEAN and EC. At times, the national institutions like the University of the Philippines Inst tute of Small Scale Industries (UPISSI), the National Productivity Center of Malaysia and other in the region conduct training programs which draw participants not only from the country but from the region.

In research, with finding from USAID, the research institutions in the region - like UPISSI, the Institute of Southeast Asean Studies in Singapore and the Institute of Strategic and International Studies of Malaysia have conducted joint research on small and medium business improvement in the ASEAN. These researches have been assisted by contuining workshop and seminar among the ASEAN academics in small and medium business development.

It would be useful for the Gulf Cooperation Council member states not only to undertake activities in the national level in promoting small and medium scale industries but also to establish regional activities of cooperation in training and research in small and medium scale industries development.

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