

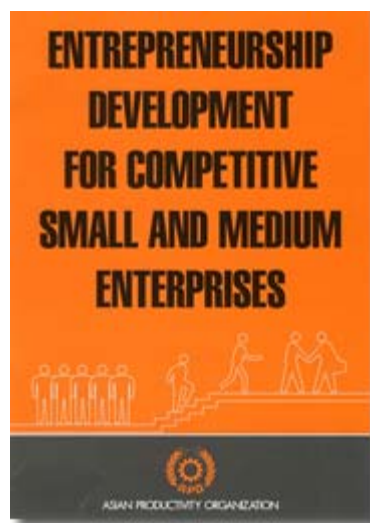
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## **Entrepreneurship Development for Competitive Small and Medium Enterprises**

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**Report of the APO Survey on Entrepreneur  
Development for Competitive SMEs  
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**2007  
ASIAN PRODUCTIVITY ORGANIZATION  
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# CONTENTS

## Foreword

<b>Part I</b>	<b>Integrated Report.....</b>	<i>Ayesha Baig</i>	3
---------------	-------------------------------	--------------------	---

## **Part II**      **National Reports**

Bangladesh .....	<i>Dr. Mohammad Ayub Miah</i>	35
India .....	<i>Dr. Chukka Kondaiah</i>	65
Indonesia .....	<i>Musnidar and Tulus Tambunan</i>	112
Malaysia .....	<i>Dr. Za'Faran Hassan</i>	137
Nepal .....	<i>Baburam Ranabhat</i>	175
Pakistan .....	<i>Ayesha Baig</i>	209
Philippines.....	<i>Jerry T. Clavesillas</i>	253
Vietnam.....	<i>Nguyen Tri Thanh</i>	299

<b>Part III</b>	<b>List of Contributors .....</b>		339
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# FOREWORD

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Small and Medium Enterprises or SMEs feature prominently in the APO member countries. They constitute the largest economic and business entities and assume a major role in employment generation. As such, many member countries place great importance on the development of the competitiveness of SMEs so that they can serve as the engine of growth for national economies.

A high level of competitiveness is attributable to a number of factors. These include appropriate business models and strategies, the ability to penetrate a market, and strong leadership. The SMEs, being small enterprises, however, will have to take into account other additional factors, such as access to capital and technological development. Given this, many of the initiatives to develop competitiveness of the SMEs focus on the areas of financial and capital assistance, business matching and partnership with large corporations, and technological development.

In this study, the Asian Productivity Organization (APO) examines SME competitiveness through entrepreneurship development. Entrepreneurship is regarded as a type of business acumen which may be enhanced through improvements in know-how, skills, and competency. The APO's specific focus on development of entrepreneurship is prompted by an underlying assumption that development of this skill will be a longer-lasting benefit than other forms of assistance such as technology, finance, and partnership arrangements.

The present publication is a compilation of case studies prepared by a team of SME experts, policy-makers, and practitioners from the member countries of Bangladesh, India, Indonesia, Malaysia, Nepal, Pakistan, the Philippines, and Vietnam. The study was initiated with a coordination meeting in Karachi at the end of November 2005. Subsequently, the study was coordinated by Ms. Ayesha Baig from Pakistan, who assumed the role of Chief Expert.

The APO would like to express deep appreciations to all the contributors and the member countries participating in the study, as well as to all other parties who have agreed to open their doors and provide access to the information and data that are necessary for the completion of this study. It is hoped that these case studies and experiences with the development of entrepreneurship in the SMEs in the selected APO member countries will provide practical ideas and concrete examples for the further development and competitiveness of SMEs in the Asia-Pacific region.

Shigeo Takenaka  
Secretary-General

Tokyo  
November, 2007

# **Part I**

## **Integrated Report**

# ENTREPRENEURSHIP DEVELOPMENT FOR COMPETITIVE SMALL AND MEDIUM ENTERPRISES

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In the new millennium, liberalization of trade borders has accelerated the flow of goods and services in the global markets; technological advancement and scientific development have had a multiplier effect on the opportunities and choices available to consumers, thus increasing competition and putting pressure on the performance of the individual firms and businesses within economies. Undoubtedly, this has led to the need to enhance productivity at the firm level, which is the driving force behind rate of return on investment—and which, in turn, determines the aggregate growth rates of an economy. These challenges have sequentially spurred governments to focus on factors influencing national competitiveness.

National competitiveness is based on numerous and diverse factors. There is a great deal of empirical evidence stressing the importance of a sound macroeconomic environment for growth. However, macroeconomic stability alone is not sufficient to increase productivity. Economists today believe that factors like the institutional environment within which economic actors operate, the protection of property rights, the quality of the judicial system, corruption within the system, and the political processes are equally important. Further, factors influencing productivity levels, such as education and training, have emerged as key drivers of competitiveness. Yet these factors work influence different economies in different ways, primarily due to the stage of economic development, and these factors also evolve over time, given the rapid pace of technological development affecting productivity growth. Hence, in the year 2006, the criteria for the Global Competitiveness Index (GCI) were revised to include critical factors that drive productivity and competitiveness: institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation.

Competitiveness finds its ultimate expression in the prosperity that countries can sustain over time. Prosperity is sustainable if it is based on the level of productivity that companies can reach given the conditions they face in an economy. While competitiveness remains focused on macroeconomic, political, legal, and social circumstances that strengthen a successful economy, progress in these areas is necessary but not sufficient. Hence, the Business Competitiveness Index (BCI) has been developed, which ranks countries by their microeconomic competitiveness, identifies competitive strengths and weaknesses in terms of countries' business environment conditions and company operations and strategies, and provides an assessment of the sustainability of countries' current levels of prosperity.<sup>1</sup>

The private sector can contribute to economic growth, job creation, and national income—and hence to national prosperity and competitiveness. Invariably, domestic private sector resources in any economy are much larger than actual or potential external resources. The private sector contributes substantially to the Gross Domestic Product (GDP), and thus unleashing domestic resources—both financial and entrepreneurial—is likely to create a more stable and sustainable pattern of growth. Governments are becoming more sensitive to the need to create a friendly business climate, supportive of the needs of the private sector.

Small and medium enterprises (SMEs), the major component of the private sector, can be engines of economic growth, cornerstones for creativity and innovation, and seedbeds of entrepreneurship. But in many countries SMEs operate in the informal sector, technologically

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<sup>1</sup> "Global Competitiveness Report 2006–07," World Economic Forum, September 26, 2006.

backward, with low levels of human resource skills, weak management systems and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology, poor product quality and standardization, and unfriendly environmental production processes—all of which contribute to widespread low productivity. These SMEs lack access to financing and long-term capital, the bases on which companies are built.

More than 90% of enterprises in the Asian Productivity Organization (APO) member countries are SMEs. They account for about 75% of the Gross Domestic Product, compared to 50% in the rest of the world. They play an important role in economic and social life, and they generate a large number of non-agricultural jobs, exports, sales, and value-added. Yet in most of these countries, SMEs face similar constraints and hence are low-productivity enterprises. Their contribution to national prosperity and competitiveness is evident from the rankings documented in the Global Competitiveness Report 2006–07 (Table 1, with data given only for the APO member countries participating in this survey).

Table 1. GCI and BCI Ranks of Selected Asian Economies

Country	Global Competitiveness Index (GCI) 2006 <i>Ranking</i>	Business Competitiveness Index (BCI) 2006 <i>Ranking</i>
Bangladesh	99	108
India	43	27
Indonesia	50	35
Malaysia	26	20
Nepal	110	111
Pakistan	91	67
Philippines	71	72
Vietnam	77	82

Business competitiveness has been strongly determined by the prevailing business environment in a country, along with other factors, such as the level of innovation, the availability of university/industry research collaborations, the availability of specialized research and training services, the availability of venture capital, and the dynamism and continuous improvements in company sophistication appropriate to the current stage of a country's development, among other factors. To review how "entrepreneurship" can contribute to productivity and competitiveness of organizations in Asian economies, especially of SMEs, APO designed a survey on "Entrepreneurship Development for Competitive SMEs." The goal was to examine and analyze initiatives and strategies focusing on development of entrepreneurship and business acumen of small enterprises in several different countries and to identify commonalities and differences among the experiences and practices in member countries in order to elicit a common framework at the regional level, resulting in increased competitiveness of Asian SMEs.

The survey was conducted during the year 2006 in eight APO member countries: Bangladesh, India, Indonesia, Malaysia, Pakistan, the Philippines, Nepal, and Vietnam. This paper summarizes the findings of this survey.

#### **COMMONALITIES AND DIFFERENCES AMONG SME ENTREPRENEURSHIP DEVELOPMENT INITIATIVES: A COMPARATIVE ANALYSIS AT THE REGIONAL LEVEL**

A strong domestic macro-environment with political stability and policy predictability, transparency, and governance, along with a physical and social infrastructure and an efficient

legal framework and administrative system, are the basic foundations that will enable the private sector to flourish and will foster entrepreneurship in a country. Additionally, a level playing field, access to finance, and knowledge and skills are indispensable pillars for entrepreneurship.

SME sectors form an integral part of all the Asian economies under review in this survey. Various SME development initiatives and programs have been introduced and implemented in each country at different times, with impacts that are either positive or neutral. A number of these initiatives have indirectly impacted entrepreneurship within SMEs, while some have been directly focused on developing an entrepreneurial culture in the economy. The initiatives, whether direct or indirect or implemented by public- or private-sector institutions, were grouped into six categories.

### **Promotion of Entrepreneurial Culture**

Development of SMEs is strongly linked to the presence of a supportive environment. Initiatives ranging from implementing a receptive regulatory environment to establishing access to technology and finance have been at the forefront. Yet despite these efforts, all the Asian countries in this survey focused on promoting “entrepreneurship” specifically and emphasizing its importance as an independent factor in enhancing competitiveness. The government in each country has played an important role in promoting an entrepreneurial culture. In India, Malaysia, and the Philippines, private-sector organizations have also made efforts in this regard. Specific promotional initiatives include:

#### *SME Councils/Departments*

The Asian governments have established councils/agencies specifically geared toward promoting SME development and entrepreneurial culture in their respective countries. The Ministry of Small Scale Industries (MoSSI) in India, the National SME Council, Small and Medium Industries Development Corporation (SMIDEC) and the Malaysia External Trade Development Corporation (MATRADE) in Malaysia, the Small and Medium Enterprise Development Authority (SMEDA) in Pakistan, the Small and Medium Enterprise Development (SMED) Council in the Philippines, the Bangladesh Small and Cottage Industries Corporation (BSCIC) and subsequently the SME Cell in the Ministry of Industries in Bangladesh, the Ministry of Industries and Trade in Indonesia, the Industrial Promotional Board in Nepal, and the SME Promotion Council in Vietnam have placed SME development at the center of their agendas. In addition to these public-sector departments, private-sector institutions in Malaysia and India are also involved in SME development.

#### *“Entrepreneurship”: A Part of the National Action Plan*

Entrepreneurship development within SMEs has been made part of the development Action Plan at the national level by India, Malaysia, Pakistan, and the Philippines. Similar initiatives are being taken by Bangladesh and Nepal. Promotion of entrepreneurship among small-scale industries is widely handled through a combination of public- and public-private sector organizations in different countries. In Bangladesh, India, Malaysia, Pakistan, and the Philippines, the Prime Ministers or Presidents have emphasized in speeches the importance of developing entrepreneurship.

The entrepreneurship movement in India began in the 1960s with the establishment of the National Institute of Small Industry Extension Training (NISIET). NISIET was the first institution to develop an Entrepreneurship Development Program (EDP) model in India. At present, the Ministry of Small Scale Industries (MoSSI) and the Ministry of Agro and Rural Industries (ARI) are the two nucleus institutions promoting small-scale industries in India. Under these ministries, the following organizations are responsible for promotion of small-scale enterprises: the Small Industries Development Organization (SIDO), the National Small Industries Corporation (NSIC), the Khadi and Village Industries Commission (KVIC), the Coir Board, and various

national training institutions. The Ministry of Science and Technology, with its Department of Science and Technology (DST) and its Department of Scientific & Industrial Research (DSIR), is also involved in the promotion of this sector. Several private initiatives by industry associations are also directed toward enterprise promotion. Prominent among them are the Federation of Indian Micro and Small & Medium Enterprises (FISME), the Confederation of Indian Industries (CII), the Associated Chamber of Commerce and Industry (ASSOCHAM), the Federation of Indian Chambers of Commerce and Industry (FICCI), the World Association for Small and Medium Enterprises (WASME), the All India Manufacturers' Organization (AIMO), the Federation of Small Industries of India (FASII), and regional-level industry associations. In the 1990s, entrepreneurship gained momentum in India. Over 700 organizations throughout the country adopted an entrepreneurship strategy to accelerate the start-up of micro, small, and medium enterprises (MSMEs). Presently, under the Ministry of Small Scale Industries (MoSSI), a National Entrepreneurship Development Board (NEDB) devises and recommends policies to promote entrepreneurship and supports surveys and research activities. Grants are provided to reputable organizations engaged in entrepreneurship development for organizing workshops and seminars and conducting research on entrepreneurship development. Academic institutions like NISIET, the National Institute of Entrepreneurship and Small Business Development (NIES-BUD), the Indian Institute of Entrepreneurship (IE), and the Entrepreneurship Development Institute of India (EDII), in addition to regional institutions, have utilized these grants for accelerating entrepreneurship activities. The National Manufacturing Competitiveness Council (NMCC) and National Commission for Enterprises in the Unorganized Sector (NCEUS) have recently been instituted to promote, sustain, and strengthen the competitiveness of MSMEs through various activities.

Similarly, in Malaysia the government established the Small and Medium Industries Development Corporation (SMIDEC) in 1996. SMIDEC was tasked with promoting the development of indigenous SMEs that were efficient and competitive as well as capable of producing high value-added, high-quality products and services for the global market. Several programs have been launched since: the Industrial Linkage Programme (ILP); the Technology Development and Acquisition, Skills Development and Upgrading, Market Development, Infrastructure Development, Financial Support, Productivity and Quality Improvement Certification Scheme, the Global Supplier Programme, the Vendor Development Programme, the HeadStart 500 Programme, and One District One Industry. Entrepreneurship development among rural SMEs has been promoted by the Malaysia External Trade Development Corporation (MATRADE), which has significantly contributed to the government's effort to promote entrepreneurship, innovation, and competitiveness at the national level, along with e-Perolehan and the Malaysian Franchise Association (MFA).

In the Philippines, the entrepreneurial mindset surfaced during the 1970s. Its importance became evident with the appointment of a Presidential Adviser on Entrepreneurship and the establishment of private institutions such as the Small Enterprise Research and Development Foundation (SERDEF), the Philippine Business for Social Progress (PBSP), and Chambers of Commerce such as the Philippine Chamber of Commerce and Industry (PCCI) and the Employers' Confederation of the Philippines (ECOP). SMEs have been positively identified as an important strategy for creating new jobs and hastening the economic recovery and growth of the country. Thus, in support of the government's agenda of tripling the number of loans made available to SMEs and creating six million jobs in six years by giving more opportunities to entrepreneurs, the SMED Council, through the Department of Trade and Industry (DTI), in 2004 launched the SME Development Plan 2004–10. The Plan aims to make the SME sector the key shaper of the country's economic growth by 2010. It is a six-year strategic development plan geared towards building the capabilities of both SMEs and SME support organizations by providing relevant services and assistance to enhance their competitiveness so as to significantly increase the contributions of SMEs to the country's economic growth.

The Industrial Enterprise Act of 1961 was the first government initiative undertaken for SME development in Nepal. The tenth plan (2002–07) outlined the broad objectives, indicators, and outcomes in the industry sector. Entrepreneurship development programs are also based on this plan and are implemented under the Ministry of Industry, Commerce and Supplies (MoICs). Various organizations involved in SME development, both public and private, carry out entrepreneurship promotional activities as and when necessary. The Department of Cottage and Small Industry (DCSI), operating in 27 districts, the Cottage and Small Industry Development Board (CSIDB), operating in 48 districts, the Industrial Enterprise Development Institute (IEDI), the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), the Federation of Nepalese Cottage and Small Industries (FNCSI), and various commodity associations and NGOs in the private sector undertake promotional activities. In 2002, the Industrial Development Prospective Plan—Vision 2020—was introduced, with the goal of promoting entrepreneurship, innovation, and competitiveness at the national level.

SME development became one of the core agenda items of the government of Pakistan in 1999 to create employment opportunities, reduce poverty, and improve overall economic development. Various initiatives were undertaken thereafter to promote SME development. Specific organizations such as the Small and Medium Enterprise Development Authority (SMEDA) and the SME Bank were established or restructured to promote and develop the entrepreneurial culture within SMEs. However, “entrepreneurship” development within SMEs has become more pertinent with the introduction of the government’s Medium Term Development Framework 2005–10 and the subsequent SME Policy. According to the policy statement, “The government is committed to developing the SME sector to achieve higher economic growth and maximize creation of jobs to alleviate poverty. SMEs will be made more competitive by through the provision of a favorable business environment, greater access to formal financing and support in technical upgrades, human resource development, marketing, and innovation. The government will facilitate establishment of new businesses by developing policies that help in realizing the entrepreneurial potential of the people of Pakistan.” The policy includes five recommendations for developing entrepreneurship within the SME sector, ranging from introducing entrepreneurship as a subject in educational institutions to competitions at the national level to setting up business incubators.

#### *Small Business Entrepreneurs Awards and Quality Awards*

Small Business Entrepreneurs and Quality Awards have been successfully introduced in India. The Ministry of Cooperative and Entrepreneurship Development and SMIDEC have introduced Entrepreneurship and Quality Awards in Malaysia. Additionally, Master Pack Sdn. Bhd and Samsung SDI (M) Sdn. Bhd (private-sector organizations in Malaysia) have introduced a Small Business Entrepreneur Award. Quality awards have also been successfully launched in Indonesia.

The Philippines has been successful in launching various awards for SMEs, focusing on entrepreneurship:

1. *Presidential Awards for Outstanding SME Graduates.* The Outstanding SME Graduates are entrepreneurs who have excelled in their respective fields not only through government assistance but also through their own initiatives to improve their competitiveness.
2. *Golden Shell Awards.* These biennial awards are the highest award/recognition given by the Department of Trade and Industry, through the Center for International Trade Expositions and Missions (CITEM), to Filipino companies (exporters) for excellence in exports. Separate awards are given to manufacturing and service exporters on the basis of design, manufacturing/service, and marketing excellence. Awards are also given for

introducing a new product (Rising Star), rural development, and significantly impacting the country's exports.

3. *Philippine Quality Award (PQA)*. The Philippine Quality Award is the highest level of national recognition for exemplary organizational performance. In addition to quality excellence, awards are also given for Mastery in Quality Management, Proficiency in Quality Management, and Commitment to Quality Management.

Likewise in Pakistan, private-sector institutions have been successful in promoting entrepreneurship by launching the following awards:

1. *Shell Tameer's Young Business Start-up Award*. This award recognizes the efforts of young entrepreneurs through business start-up awards on an annual basis.
2. *LUMS' Young Entrepreneur of the Year, Female Entrepreneur of the Year, and Small Business of the Year Awards*. Each year an individual is honored through induction into the "Hall of Fame." These individuals are selected from among those who have started from scratch and achieved outstanding success in business as a result of their entrepreneurial spirit.
3. *President's Quality Award*. This award is given on an annual basis by the National Productivity Organization for SMEs excelling in productivity and quality.
4. *FPCCI's Best Lady Exporter Gold*. This award is conferred on a woman entrepreneur who in the judgment of the Federation of Pakistani Chambers of Commerce & Industry has achieved the best export performance during the year.

In Nepal, no quality or entrepreneurship award has been designed as yet at the national level. However, the Export Promotion Board annually honors the "Exporter of the Year." Similarly, the Women Entrepreneurs Association of Nepal (WEAN) gives awards to women entrepreneurs, while the Cottage and Small Industry Development Board (CSIDB) recognizes a "Successful Entrepreneur" during the national trade fair exhibitions.

#### *Promotion of Technology and Technopreneurs*

The National Science and Technology Entrepreneurship Development Board (NSTEDB) under the Ministry of Science and Technology in India operates the Techno-Entrepreneur Promotion Program (TEPP), which focuses on promoting, supporting, and assisting individual innovators in becoming technology-based entrepreneurs. The National Research Development Corporation (NRDC), the Council of Scientific and Industrial Research (CSIR), the Department of Science and Technology, and the Central Food Technological Research Institute have implemented successful programs for technological innovation in SMEs. In Malaysia, technological innovation has been successfully handled by MATRADE. Promotion of technology and technopreneurs in Pakistan is being undertaken by the National University of Sciences and Technology (NUST), which has been providing an opportunity to potential entrepreneurs from the general public, students, and NUST faculty to incubate their technology-based companies at its Technology Incubation Center (TIC). In addition, the Pakistan Software Export Board (PSEB) promotes technopreneurs by facilitating the establishment of IT businesses in Pakistan.

#### *Promotion of Women Entrepreneurship*

Women entrepreneurship development has been a focus in many Asian countries. Promotion of women entrepreneurship in India is being undertaken by not-for-profit/private-sector organizations such as AWAKE, ALEAP, and CWEI; these institutions focus primarily on counseling, training, handholding, giving guidance on finance, organizing exhibitions, and peer group support. The Consortium of Women Entrepreneurs of India (CWEI) has also started networking with women entrepreneurs in other countries to market the products of India internationally. In Malaysia, women entrepreneurship is promoted by the Ministry of Women and Social Affairs



and the Women's SME Association of Malaysia. Similarly, in the Philippines, in addition to the various microfinance programs, the Women Workers Employment and Entrepreneurship Development (WEED) program of the Department of Labor and Employment (DOLE) aims to strengthen women entrepreneurs by providing a "Training-Cum-Production" scheme which consists of Entrepreneurship Development Training (EDT) and Appropriate Skills Training (AST).

A major entrepreneurial venture of the Bangladesh Small and Cottage Industries Corporation (BSCIC) has been conducted under the Women Entrepreneurship Development Programme (WEDP). Since the early 1980s, WEDP has created more than 40,000 female-headed establishments. BSCIC's program has undoubtedly made a significant contribution to the emergence of small and micro businesses in Bangladesh. Four women's trade bodies are working for women entrepreneurship development.

Indonesia has promoted women entrepreneurship since 1984. The program aims to improve the role of small industry as a mover for economic activity in the region, so that it can increase businesses and working opportunities for the community and also help the number of women entrepreneurs grow in the various regions of the country. The goal of the program is to establish new women entrepreneurs in groups (at least 20 women-group businesses per year) and to create small industrial business units (at least 400 units per year). From 1984 to 2005 the program established 743 groups of women industrial businesses in all regions of the country. These include 226 groups in food, 235 groups in textiles, and 282 groups in small craft industries.

The Women Entrepreneurs Association of Nepal (WEAN), a nonprofit and nongovernmental organization, is the main organization involved in empowering women through enterprise promotion. It offers training, marketing assistance, credit, networking, and other extension services to urban and rural women entrepreneurs. DCSI and CSIDB, the major organizations involved in entrepreneurship development in Nepal, conduct different types of skill development training targeting women entrepreneurs. The Women Development Division implements various capacity-building programs for women in all 75 districts of Nepal. The Women Development Training Centre targets only women in its skill development training. The Micro Enterprise Development Program of the United Nations Development Programme (MEDEP/UNDP) and the Rural Enterprise Assistance Program of the Industrial Enterprise Development Institute (REAP/IEDI) have given priority to women and other disadvantaged groups in their micro-enterprise programs. Women entrepreneurs committees have been established under the FNCCI and FNCSI to promote women entrepreneurship.

Women entrepreneurship development has received much attention in Pakistan over the last five years. SMEDA has established a separate Women Entrepreneurship Development Cell, while an independent Women Chamber of Commerce and Industry (WCCI) has also been formed. In addition, a number of chambers of commerce and industry have women standing committees to promote women entrepreneurship. The Export Promotion Bureau (EPB) has facilitated the creation of WEXNET, an online networking forum for women, where women entrepreneurs interact with each other and can also exhibit their products in exhibitions organized by the EPB. Women in Technology (WIT), a project of the Ministry of Information Technology and Communication, promotes technology-related education, career counseling, entrepreneurship, and empowerment of women entrepreneurs. The Shell Tameer program also supports new women enterprises.

#### *Promotion of Youth Entrepreneurship*

To promote entrepreneurship among students, linkages are spearheaded by the appointed Philippines Presidential Adviser on Entrepreneurship and supported by the PCCI, the Anvil Business Club, and the Chinese-Filipino Business Club. Further, Philippine Emerging Startups Open (PESO), a student organization at the Massachusetts Institute of Technology (MIT), has recently been incorporated in the Philippines through the initiative of a group of educators,

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

industry professionals, and venture capitalists. Seeking startups in IT as well as in non-IT fields, PESO works to stimulate powerful new ideas and identify ideas with potential for successful incubation and commercialization, to promote productive interactions between the academic, industry, and investment sectors, to inspire and empower young people to take the path of entrepreneurship by giving them access to proper resources, role models, and mentors, and to foster innovation, excellence, and professionalism in the entrepreneurship process. In Pakistan, youth entrepreneurship is being promoted by educational institutions like Lahore University of Management Sciences (LUMS), the Institute of Business Administration (IBA), and the Shell Tameer program. A number of business and management schools facilitate internships to enable students to gain practical experience in business management.

### *National Entrepreneurship Profile*

The SMIDEC and National Productivity Council (NPC) in Malaysia have evolved to promote the Malay Entrepreneurship Profile for SMEs, while NISIET has developed a profile for Indian entrepreneurs. The Bangladesh Small and Cottage Industries Corporation (BSCIC) has been working in SME development for the past 35 years and has developed an Entrepreneurship Profile for small and cottage industries resulting in a number of success stories. Nepal has also taken the initiative to develop an Entrepreneurship Profile based on the general characteristics of its entrepreneurs.

### *Regulation and Policies*

A “level playing field” is indispensable for entrepreneurship and SMEs to develop and flourish in any economy. A level playing field can be created with the effective implementation of a fair and predictable system of rules and enforcement mechanisms. A transparent regulatory environment and policy framework ensures that entrepreneurs are facilitated in entering the market, operating a business venture, and exiting from the market. It supports entrepreneurs in gaining access to markets and financing and infrastructure facilities. To support the development of a favorable regulatory environment, the following initiatives have been taken in different Asian countries.

### *Policy/Regulation for SME Development*

The MoSSI, Ministry of Finance, and Ministry of Planning in India have developed the policies and framework for SME development in that country, while the MoST has designed the technological development policy. MoSSI and ARI have also developed policies for increasing SMEs’ access to markets and financial services. Similarly, in Malaysia, the Ministry of Cooperative and Entrepreneurship Development has formulated the regulations for SME development. SMIDEC has devised the SME framework. Technological development within Malaysian SMEs is supported through policies devised by SMIDEC, SIRIM (Standard and Industrial Research Institute of Malaysia), the technology agency MARA, and especially the Malaysian Technology Development Corporation Sdn. Bhd in the private sector, which has introduced the Technology Acquisition Fund. The Ministry of Science and Technology focuses on regulations for introducing ICT in the country. Malaysia has also introduced policies to facilitate SMEs’ access to markets. These policies have increased the cost-competitiveness of locally produced products.

The basic policy of the Philippines for SMEs is outlined in the Magna Carta for Small Enterprises, enacted in 1991 and amended in 1997. The Act declares that it is the policy of the state to promote, support, strengthen, and encourage the growth and development of SMEs in all productive sectors of the economy. The goals under the Magna Carta include creating an enabling favorable business environment, improving access to financing, providing adequate business support, providing training on entrepreneurship and worker skills, providing linkages between SMEs and large firms, and working in partnership with the private sector.

In continuation of the Pakistan government's Poverty Reduction Strategy, the Medium Term Development Framework 2005–10 has emphasized the development of the SMEs. Based on the same strategy, the Small and Medium Enterprise Development Authority (SMEDA), with the collaboration of the private sector, developed a comprehensive SME Policy in 2006 that focuses on five major aspects: business environment, access to finance, human resource development, support for technology upgrades and marketing, and entrepreneurship development.

In 2005, the Ministry of Industries of the government of Bangladesh formulated the comprehensive Industrial Policy 2005, putting special emphasis on developing small and medium enterprises as a thrust sector for balanced and sustainable industrial development and to help deal with the challenges of the free-market economy and globalization. The efforts of the MOI are being supported through the technical assistance of the Asian Development Bank under the SME Sector Development Program. The policy focuses on entrepreneurship development among SMEs. The government also has a Science and Technology Policy to support technological development in the SME sector.

Considering the importance of the SME sector in national economic development, the government of Vietnam adopted Decree 90/2001/ND-CP for SME development on 23 November 2001. This is considered to be the first legal framework for SME development policies, covering SME definition, support programs, support agencies, and support policies—i.e., investment support through financial and credit measures, establishment of a Credit Guarantee Fund, development of industrial zones and clusters, measures for market expansion, export support, training in human resources development, provision of information on production-focused business through the Internet and print publications, and business incubators. Further, the introduction and application of the Enterprise Law (2000) has created a transparent environment for business activities and is considered a milestone of administrative reform, significantly improving the consistency, unity, transparency, and equality of the legal framework for business. This has led to a “level playing field” for different types of enterprises and has increased the development of economic sectors in general and SMEs in particular.

The government of Nepal formulated the Industrial Enterprise Act in 1992. Incentives, facilities, and other concessions are provided based on the nature of business, location, number of employment, and other criteria. Provision is made for additional incentives to those industries, as a national priority. The Foreign Investment and Technology Transfer Act 1992 was adopted to attract foreign investment and technology transfer.

### *Registration/Launching of SMEs*

Registration of SMEs is still a cumbersome procedure in the Philippines. Entrepreneurs can expect to go through 11 steps to launch a business over 48 days on average, at a cost equal to 20.3% of gross national income (GNI) per capita—approximately US\$237.12. They must deposit at least 2.0% of GNI per capita in a bank to obtain a business registration number. Similarly, registration of firms is also arduous in Nepal. Under the Industrial Enterprise Act of Nepal, SMEs must be registered in the Department of Cottage and Small Industry (DCSI) or the Department of Industry based on the size of their capital investment. However, local governments are authorized to collect taxes and register industries established in their areas. Moreover, an Initial Environment Examination (IEE) is required, along with other documents. Advance permission is required if the industry is related to health, pollution, or arms/ammunition. This has created confusion in matters of legal status and regulatory jurisdiction between the central and the local governments; hence, the provisions are seen as burdensome by entrepreneurs.

The Securities and Exchange Commission of Pakistan has issued regulations and procedures for the formation of Single Member companies to promote registration of SMEs. Moreover, the corporate registration offices have been strengthened to facilitate the incorporation of SMEs. An “availability of name” search, sample documents, the fee structure, and the procedure for registration are available on the SEC's website, thus saving time and simplifying

the registration process. However, further strengthening of the system is still necessary, in addition to the promotion of incorporation as an alternative to partnerships and sole proprietorships. Similarly, regional industry departments and the Registrar of Companies in India and SMIDEC in Malaysia have been successful in promoting registration of SMEs. Business establishment regulations in these countries are comparatively simple, which encourages SMEs to register as formal business organizations. Laws regarding registration of SMEs have also been developed in Bangladesh. However, no policies for launching SMEs are available in Nepal, Indonesia, or Vietnam.

#### *Bankruptcy Laws*

Bankruptcy laws to simplify the closing of non-competitive enterprises have been successfully developed in India by the Board of Industrial Finance and Reconstruction (BIFR) with the support of the Federation of the Indian Chambers of Commerce and Industry. Similarly, in Malaysia these laws have been enacted successfully by the Ministry of Finance.

In the Philippines, bankruptcy laws are weaker. It takes 5.7 years to complete the procedure, as estimated by bankruptcy lawyers. Delays result from legal derailment tactics that parties to the bankruptcy may use—in particular, the extension of response periods or appeals. The cost of bankruptcy proceedings is 38% of the estate. Beyond procedural improvements, which have been attempted, the Philippine bankruptcy/insolvency system needs to be rationalized and updated. The current legal framework is a mixture of outdated and inconsistent laws and judicial pronouncements. Similarly, a bankruptcy law exists in Bangladesh, but its effectiveness needs to be reviewed. In Nepal, provisions related to closure, liquidation, and bankruptcy are mentioned in the Industrial Enterprise Act.

In Vietnam, the Bankruptcy Law 2004 has simplified bankruptcy proceedings and regulates different kinds of applicable procedures for debtors in bankruptcy. However, the law has some limitations. For example, business households and individuals are not eligible to declare bankruptcy, and secured creditors are not entitled to file petitions to start bankruptcy proceedings.

The SME policy of Pakistan recommends the strengthening of the regulatory framework for the development of SMEs. Bankruptcy laws are an important component of the regulations, which need to be developed and enforced with a dedicated judicial process specifically for the SMEs. In Pakistan, a draft bankruptcy law to support SMEs as well as individuals and entrepreneurs has been prepared and is expected to be passed shortly.

#### *Labor Laws for SMEs*

The Ministry of Labor has devised policies for protecting the rights of workers in SMEs in India. Similarly, DOLE, through the National Wages and Productivity Commission (NWPC), and the Regional Tripartite Wages and Productivity Boards (RTWPBs) in the Philippines developed certain measures in 2005 which have shown a proactive stance and sensitivity to the needs of workers without sacrificing the competitiveness of business enterprises. Under the SME policy in Pakistan, labor laws are being reviewed to devise measures for the facilitation of SMEs. In Nepal, labor laws apply to businesses that employ more than 10 workers. Various provisions such as minimum salaries, working hours, and formation of unions are included for the protection of workers' rights.

#### *SME Financing Regulations*

Minimum lending guidelines have been formulated for lending to SMEs in Malaysia. The Nepal Rastra Bank (Central Bank) has made some provisions to finance cottage and small industries through different banks. However, these programs and policies, designed to finance micro and small enterprises, have not been adequate to address the needs of small and medium entrepreneurs. The State Bank of Pakistan (Central Bank) has issued independent prudential

regulations for financing SMEs and has set up a separate SME Department tasked with creating a favorable macro-prudential environment for banks to increase the flow of credit to SMEs.

*Incentives (Tax Exemptions, Subsidies, etc.) for SMEs*

Malaysia has adopted the Investment Incentives (Amendment) Act 1980, the Promotion of Investment Act 1986, and a double taxation agreement to provide financial incentives/tax exemptions to SMEs. Double tax deductions are available on expenses incurred for brand advertising, export promotion, export credit insurance, and research and development.

In the Philippines, exemptions are available on value-added taxes for certain export industries and on excise taxes for locally produced products and lowered taxes on spirits made from indigenous materials. Exemptions are available on corporate income taxes (4–8 years), national and local taxes, and duties and taxes on machinery, spare parts, materials, and supplies. Tax credit is available for imports and import substitution of capital equipment and for breeding stock and genetic materials. Incentives are available for investment in priority areas, specified locations, and new technologies.

In Nepal, financial incentives, tax exemptions and other duty concessions are provided based on the nature of a business and its location. Export industries, industries of national priority, establishments in remote areas, and establishments working on pollution control, for example, receive additional facilities and incentives from the government. In Pakistan, the SME Policy outlines the incentives for SMEs:

- No conditions apply for registration of firms.
- Exemption in sales tax for the first five years for small enterprises; 50% exemption for medium enterprises.
- Electricity rates to be charged at 50% of industrial rates for small enterprises for the first 5 years, and at 75% for medium enterprises for the same period.
- Statutory income tax rate to be 0% for the first five years (renewable for another five years) if the exports are equal to or greater than 15% in the first year and grow at 10% per annum subsequently, subject to compliance with EOBI (Employees Old Age Benefits), or if the business is in a high-technology/pioneering sector.

In India, exemption from excise registration is available to SMEs until their turnover reaches INR10 million so as to make them more competitive and to enable them to market their products in competition with large units.

*Productivity Development*

Regulation for productivity development in SMEs has been introduced by the MoSSI in India. In Malaysia, these regulations are developed by the NPC. No specific policy has been formulated for productivity development in Nepal. The Medium Term Development Framework 2005–10 has incorporated special recommendations for productivity enhancement in order to improve the country's competitiveness in global markets. The National Productivity Organization is geared to implement various initiatives accordingly.

The Ordinance on Goods Quality (1999) in Vietnam allows enterprises to publicize product quality standards (based on the standards of Vietnam). However, due to the complicated certifying process, most SMEs fail to follow these regulations. Additionally, information on international and national standards of other countries is not readily available, which makes it difficult for SMEs to access foreign markets. Regulations regarding accounting standards, custom procedures, and taxation are still detrimental to SMEs' growth in the country.

**Administrative Environment/Framework**

The availability of specialized and dedicated institutional resources for SME development is the foundation for creating a level playing field and facilitating access to finance, skills, and

knowledge for SMEs. The institutions may be in the public sector (government, development partners, donors) or the private sector (companies, associations/foundations, civil society), or a combination of both (public–private partnerships). The various institutions, especially in those the public sector mandated to develop the SME sector in the Asian countries included in the survey, are discussed below.

In India, national institutions—NISIET, NIESBUD, EDII, the Indian Institute of Entrepreneurship (IIE)—and regional institutions in the public sector are offering services such as training, research, consultancy, information, and mentoring for promotion of entrepreneurial culture in the country. Similarly, in the private sector, national and regional industry associations represent the views of the SMEs to the central and state governments. The National Productivity Council (NPC) and its state chapters facilitate the implementation of productivity improvement programs for SMEs. Premiere institutions like the Indian Institutes of Management (IIM) and the Indian Institutes of Technology (IIT) undertake programs for developing entrepreneurial mindset and vision and corporate entrepreneurship.

In Malaysia, the Asia Pacific Economic Cooperation (APEC) is a permanent institution mandated to represent the SMEs' views in the regulatory process. The National SME Development Council, SMIDEC, the Ministry of Trade and Industry (MITI), SIRIM Berhad, MARA's Technopreneurs program and Rural Transportation program, NPC, and the German Malaysian Institute support the delivery of services to SMEs. The National Information Technology Agenda (NITA) in Malaysia ensures a coordinated and integrated approach leveraging on ICT in transforming Malaysian society into a value-based knowledge society in line with Vision 2020.

The SMED Council in the Philippines is the main organization which formulates SME promotion policies and provides guidance on implementing SME programs. It is facilitated by the Department of Trade and Industry (DTI), which is responsible for developing and regulating business enterprises, large and small. The Department of Science and Technology (DOST) in the Philippines implements programs targeting SMEs focusing on technical concerns, as well as some loan programs for upgrading equipment. Some of its programs are the Small Enterprise Technology Upgrading (SET-UP), the Technology Business Incubator (TBI) Program, and the Manufacturing Productivity Extension Program. As part of its mandate, the Department of Labor and Employment (DOLE) provides livelihood facilities oriented toward developing entrepreneurship (usually with funding as seed capital for successful graduates of the skills programs).

In Bangladesh, the Bangladesh Small and Cottage Industries Corporation (BSCIC), an institution created in 1957 under an Act of Parliament, has been the only focal point of the delivery of public services for small enterprises. BSCIC focuses on entrepreneurship development by providing pre- and post-investment counseling on a day-to-day basis to small-scale manufacturers and producers, as well as providing credit and some infrastructure facilities (land in industrial estates, etc.). As a result, the number of industrial entrepreneurs rose from 34,219 in 1998–99 to 64,704 in 2002–03. Subsequently, the government created a Small and Medium Enterprise Cell (SME Cell) in the Ministry of Industries (MOI) in 2003 to provide a focal core for implementing policies and interventions that selectively provide for SMEs in Bangladesh. In October 2003, the government instituted an SME Taskforce (participation from the government, the private sector, academia, and the civil society) based in the office of the Prime Minister, with the Principal Secretary in the Chair. An SME Foundation is also being established very soon. Presently, the government and the aid agencies have decided to focus on SMEs as one important ingredient of private-sector development. Consequently, Katalyst (a project funded by a consortium of donors including the DFID, GTZ, and the Swiss Development Corporation, which will spend about US\$25 million over five years) aims to increase the competitiveness of small and medium enterprises in selected areas and sectors in Bangladesh with the goal of developing more effective markets for business services in the economy. Katalyst and the South-Asia Enterprise Development Facility (SEDF) have also contributed through the promotion and

provision of an SME database, SME publications, and SME web-based portals for information and business matching.

During the period 1997–2003, there were 64 institutions in Indonesia involved in SME development supporting activities which can be categorized into six groups with a total of 594 programs. Most of the programs were provided by the government (65%). Others were conducted by NGOs (18%), donor agencies (8%), banking institutions (5%), private companies (2%), and other institutions.

The Small and Medium Enterprise Development Authority (SMEDA) is an apex policy-making body established by the government of Pakistan to provide and facilitate support services to SMEs. It serves as the key resource base for SMEs and focuses its activities on the development of the sector. The SMEDA's activities are coordinated under public–private partnerships with the members of the various Chambers of Commerce and Industry, industry associations, and UNISAME. The programs of NPO–Pakistan are also directed towards enhancing productivity within the SME sector. In addition, the Ministry of Science and Technology and Telecom and the Pakistan Software Export Board support technological enhancement within SMEs. The National University of Sciences and Technology (NUST) has established the first Technology Incubation Center. Educational institutions such as the Institute of Business Administration, Lahore University of Management Sciences (LUMS), have developed programs specifically to support entrepreneurship in the SME sector.

The government of Nepal has formed an Industrial Promotion Board for formulating industrial policies and guidelines. The Federation of Nepal Chamber of Commerce and Industries (FNCCI), an apex body of the private sector, represents the private-sector views on this Board. The National Productivity and Economic Development Centre conducts productivity-related programs independently and in association with APO Japan. There is growing interest in ISO certification. Quality certificates are issued by the Nepal Bureau of Standards and Metrology.

### **Entrepreneurship Training and Education**

Technological innovations and the shift towards knowledge-based economies make human capital investment a prerequisite for sustained economic growth and central to the establishment, growth, and productivity of enterprises. A firm's competitive advantage stems from its entrepreneurial capabilities, management abilities, and technical know-how, and its adaptability to the internal and external business environment. Basic education and continuing investment in on-the-job and management training for developing entrepreneurial skills is therefore important. Initiatives taken in various countries in this regard are described below.

#### *Entrepreneurship Development Institutions/Centers*

NISIET is the pioneer training institution in India to have developed an integrated model for entrepreneurship development. It also pioneered trainers' training programs to develop potential trainers in local areas. NISIET has targeted specific training programs for educated unemployed youth, technical persons, rural youth, women, and artisans. In addition to NISIET, there are four other national enterprise development institutions and 14 other local regional institutions promoting and developing entrepreneurship in the country through a variety of programs, mainly in training and skill development. In addition, the NSTEDB promotes the implementation of Entrepreneurship Awareness Camps in specialized institutions, Entrepreneurship Development Training Programs, Faculty Development Programs, the Open Learning Programme in Entrepreneurship, and Technology-based Entrepreneurship Development Programs. It has created Entrepreneurship Development Cells in academic institutions to foster techno-entrepreneurship. Entrepreneurship has long been a subject in postgraduate courses in the Indian Institutes of Management (IIM), the Indian Institutes of Technology (IIT), and other engineering institutes in India. At the same time, the National Institute of Entrepreneurship and Small Busi-

ness Development (NIESBUD) has accelerated programs for developing model syllabi for various target groups and manuals and tools for spreading the entrepreneurship movement.

Six educational institutions in Malaysia—UiTM, UPM, UTM, UM, UKM, and UMS—offer comprehensive entrepreneurship courses. UiTM, UPM, UTM, and UUM offer internship programs with enterprises for developing entrepreneurial skills. The University Utara Malaysia and the Entrepreneurship Development Institute have a separate entrepreneurship development programs focusing on developing the knowledge and skills of entrepreneurs through training, research, consultancy, information dissemination, and special projects. The Malaysian Institute of Management focuses on management training programs for entrepreneurship development. Entrepreneurship training is also offered by SIRIM Berhad and BMW Malaysia. One of SIRIM's training programs (Quality and Technology) on the Quality Management System—ISO 9001—has been implemented by many businesses. Training provided by BMW Malaysia has assisted many entrepreneurs who are interested in opening a BMW parts distribution center and service center.

Filipino institutions with full curricular and subject offerings for a specialization in entrepreneurship include De La Salle University, Philippine School of Business Administration, Colegio de San Juan de Letran, Philippine Christian University, Technological University of the Philippines, Assumption College, and St. Scholastica's College. In addition, the Center for Students and Co-Curricular Affairs of the Department of Education implements various programs and projects to empower Filipino youth to become entrepreneurs.

The Philippine Center for Entrepreneurship (PCE) was set up as a private sector-funded institution and works to mainstream major entrepreneurship programs and projects of various schools, NGOs, and private corporations. The Center's primary goals are:

1. To popularize and demystify the prerequisites of entrepreneurial success.
2. To enhance the curriculum and teaching skills in entrepreneurship education at all levels.
3. To affiliate with academia in pioneering studies and concept leadership in the entrepreneurship field.
4. To create satellite centers of excellence in entrepreneurship nationwide.
5. To encourage and popularize business plan competitions.

In Nepal, the Industrial Enterprise Development Institute (IEDI), formerly known as GTZ, in its Small Business Promotion Project is the only institute primarily focused on entrepreneurship development. The IEDI offers training, consultancy, and research facilities to the SME sector. The government is presently considering reorganizing IEDI to function as a Centre of Excellence in entrepreneurship development in Nepal. The Department of Cottage and Small Industries (DCSI) and the Cottage and Small Industry Development Board (CSIDB) established under Ministry of Industry also conduct entrepreneurship development training. The NPEDC conducts productivity and quality control-related programs. While the main focus of IEDI is on entrepreneurship and business management, the DCSI/CSIDB are more focused on skill development training.

The LUMS Entrepreneurship & SME Centre (ESMEC) was established approximately 10 years ago in Pakistan in response to the growing demand for courses in the area of entrepreneurship. The ESMEC emphasizes five basic components: education and training programs, field research, business planning competitions, SME Awards, and the LUMS Entrepreneurial Society. Recently, the IBA has also set up, with the assistance of USAID, an independent Centre for Entrepreneurship for the training and guidance of young entrepreneurs. The Centre will also conduct research to identify training needs and document how entrepreneurship can be developed in Pakistan, including opportunities and obstacles, rules and regulations for business, and suggestions for policy/procedural improvements. For more than eight years, Askari College of Entrepreneurs (ACE) has played a major role in introducing entrepreneurship in Pakistan. In addition



to these major independent entrepreneurship centers, a number of universities and business schools offer entrepreneurship as a course in the postgraduate curriculum.

#### *Entrepreneurship Development Courses*

Entrepreneurship development is included in courses offered by Bangladesh Institute of Management (BIM) under the Ministry of Industries. Entrepreneurship is also taught at some of the best public and private universities as part of BBA and MBA courses. In addition, the National Productivity Organization (NPO), also under the MOI, actively seeks to enhance the standards of quality administration in practice in the country. In Nepal, similar initiatives have been taken up by various universities and colleges, especially by Kathmandu University and Tribhuvan University in their BBA and MBA courses.

Since 1993, the Vietnam Cooperative Alliance has organized a series of 82 training courses for cooperatives' managers and staff in almost all provinces and cities and has sponsored various vocational programs. Over the project's 10-year span, 18,000 enterprises have been direct beneficiaries and more than 100,000 enterprises have been indirect beneficiaries; 12,000 enterprise owners have been trained in how to start up and to promote their current business. Additionally, SMELINK focuses on management training of entrepreneurs and universities instructors to develop a cadre of local business plan consultants and technical experts.

Entrepreneurship training and awareness programs are organized jointly by SMEDA and Tameer in the major cities of Pakistan to promote youth entrepreneurship. SMEDA also offers a range of training programs for developing SMEs in the country, for example in productivity, quality, competitiveness, sustainability, and knowledge management of SMEs, to promote an easier and faster path to ISO compliance and WTO requirements. During the year 2005, 158 short-duration training programs were organized by SMEDA in different cities. Productivity and quality training programs are also organized by NPO-Pakistan on a regular basis throughout the country. Some private-sector consulting and training firms also offer entrepreneurship training development programs for the corporate sector.

#### *Skill Development Programs*

Tool Rooms under SIDO, Regional Industrial Technical Institutes (ITIs), and Polytechnics in the public sector, and some NGOs in the private sector, impart technical skills to youth and practicing entrepreneurs in India. In Malaysia, there are various institutions both in the public and private sector undertaking various skill development and human resource development trainings. MARA in Malaysia is specifically involved in the training of technopreneurs. In the Philippines, various institutions offer technical and vocation trainings, such as the Technical Education and Skills Development Authority (TESDA), the DTI-Cottage Industry Technology Center (CITC), the DTI-Philippine Trade Training Center (PTTC), and DOLE. With DOLE's Productivity Awareness Program I.S.T.I.V.-PAP, a total of 1,004 SMEs were provided briefings/orientations on productivity technologies such as 5S, Quality Circles, etc., from 2002 to 2005. In Bangladesh, more than 100 Vocational Training Institutes (VTIs) are operating under the administrative powers of various ministries (Labor, Youth and Sports, Women Affairs, Textiles, Education) and offering relatively short-term re-skill training programs. DCSI and CSIDB are the major organizations involved in skill development training in Nepal. The Women Development Training Centre (WDTC) conducts training courses in various disciplines and aims at mainstreaming gender considerations into national development programs. In Pakistan, a number of skill development centers operate under the TEVTA, offering trainings in specific industrial sectors. The Women Chamber of Commerce and Industry is setting up skill development centers to offer technical trainings to women entrepreneurs. Technical trainings are also handled through training centers established under the CFCs at different locations around the country.

The Start and Improve Your Business (SIYB) program in Vietnam has successfully focused on the development and distribution of small business development materials, training the staffs of partner organizations, and program promotion and market development programs throughout Vietnam. The Small Enterprise Development Programme has successfully disbursed US\$50,000 annually for capacity-building of SMEs through vocational and skill trainings.

#### *Internship Programs*

Some universities/colleges have introduced internship programs in Nepal for developing entrepreneurs. Butwal Technical Institute (BTI) has included the training in entrepreneurship as a major initiative provision (internship) to their vocational graduates. This program has been very successful. Internship programs/attachments with enterprises for developing entrepreneurial skill are also offered by various universities in Malaysia, e.g., UiTM, UPM, UTM, UUM, and UMS. Such attachments are also facilitated by business schools in Pakistan as a mandatory requirement for graduation.

#### **Network and Linkages for SME Development**

Building entrepreneurial networks and associations for peer-to-peer learning has been successful globally in fostering an entrepreneurial culture and the development of the private sector. Networks can create an entrepreneurial climate for coaching, mentoring, and strengthening links between companies. Developing networks and linkages among SMEs and between SMEs, and the public sector, has thus been one of the major initiatives for fostering entrepreneurship in the Asian economies.

#### *Cluster Development*

The cluster development approach was introduced in India by UNIDO in 1997. India has 388 industrial clusters, around 400 handloom clusters, approximately 3,000 handicraft clusters, and 2,800 micro-enterprise clusters that contribute significantly to the national economy and provide employment to more than 20 million people. A similar initiative and approach was adopted by UNIDO in Pakistan. Initially five major clusters based on industrial sectors—i.e., fans, garments (2 locations), cutlery, and gems and jewelry—were targeted. Subsequently, with the assistance of the Chambers of Commerce and Industry, common facility centers have been set up in specific sectors, i.e., computer pattern design, light engineering, and artificial insemination training center. Four additional centers are currently being established. Industry clusters were introduced in the Philippines in 1999. Clustering modes being applied in the country are on the basis of material, labor, product, and technology. In Bangladesh, there are between 30 and 40 industrial clusters. The Vietnamese local government has provided small and medium industrial zones and industrial clusters to promote local traditional handicrafts and facilitation of work premises. In Nepal, however, cluster development is not prevalent. Recently, a technology park has been established for the computer software industry.

#### *Industrial Parks*

Science and Technology Entrepreneurship Parks (STEPs) in India help to create linkages among academic and R&D institutions and to promote innovative enterprises by techno-entrepreneurs. Around 15 STEP s have been established in different parts of the country, which have promoted 788 units, generating an annual turnover of Rs.1300 million. More than 100 new products and technologies have been developed by the STEP s/STEP-promoted entrepreneurs. In addition, more than 11,000 people have been trained through various skill development programs offered by STEP s. Software parks have also been established in Pakistan to promote the high-tech export-oriented software development industry. In addition, an industrial estate for SMEs is being set up near Lahore.

*Business Development Services*

Entrepreneurship and Business Development Centers are being implemented through selected universities/colleges/regional engineering colleges and other institutions/organizations in India. SIDO, NISIET, and EDI also provide some business development services to SMEs. Likewise, the Industrial Enterprise Development Institute (IEDI) in Nepal provides business advisory and consultancy services to SMEs. Some private-sector organizations are also involved in this area. However, these models of business development services have not been successful or marketable. Under the donor-funded Micro Enterprise Development Program (MEDEP), business counseling and training is provided in 10 districts to facilitate micro-enterprises creation.

In an effort to strengthen the market for business development services for SMEs in Vietnam, a German project on “Promotion of SMEs” has undertaken a variety of market research studies, including one on Internet-based services. These studies provide market intelligence to BDS providers so that they have a basis for defining the scope and features of the services they offer. The project also hopes to facilitate the development of a favorable policy framework for the private sector and for a functioning BDS market. The project will undertake several activities to raise awareness of the concept of a BDS market, organize network meetings of BDS providers on a regular basis, and prepare initiatives at the policy level (in cooperation with VCCI and other organizations).

In the Philippines, the DTI has established 85 SME centers nationwide. These centers are staffed by SME counselors who have been trained to assist entrepreneurs in their financing, marketing, technology, human resource development, and advocacy needs. Similarly, the PCCI, in cooperation with relevant government agencies and private organizations, has set up the Philippine Virtual SME Center. This web-based SME center offers business support services in the areas of advising, business registration, financing, marketing, multilateral assistance, technology, training, and education. Also, PCCI, PBSP, the Philippine Exporters Confederation Inc. (PHILEXPORT), the Ayala Foundation, and the Ultima Entrepinoy Forum Center are private-sector institutions providing business support services to SMEs.

Delivery of efficient and cost-effective business development services to SMEs is also emphasized in Pakistan. However, very few private-sector consulting firms have entered this business segment. In turn, over the last few years, SMEDA has developed various business development initiatives for SMEs. These include provision of business guides, pre-feasibility studies, information on regulatory procedures, business matchmaking service, business plan development services, training services, and facilitation in financial services and legal services. Additionally, SMEDA has developed an accounting handbook for SMEs, an SME toolkit, and accounting software for SMEs. SMEDA has set-up a help desk (available virtually also) for business counseling/consultation to individual entrepreneurs. Help desk services, besides being available at regional offices of SMEDA, are also offered through business centers operating in 17 other cities. SMEDA has also spearheaded the launch of the Industrial Information Network (IIN), the first Pakistani B2B and information portal designed specifically to cater to the online trading and information needs of businesses from various industrial sectors in Pakistan. In addition to SMEDA, the Tameer program also provides business support services to SMEs. The Tameer Entrepreneurship Club is a youth-based society that encourages entrepreneurs and small businesses to be successful by promoting the exchange of ideas and experiences. TEC is a state-of-the-art entrepreneurial roundtable that promotes a collaborative environment of exchanging knowledge and experience between developed, aspiring, and learning members.

BSCIC in Bangladesh had been disseminating business support services among its own network of SCI entrepreneurs of potentially viable business and industrial ventures. However, it no longer does that due to funding problems.

### *Linkages Programs*

Under the Industrial Linkage Programme (ILP) of Malaysia, 53 SMEs were linked to large companies and MNCs during 2005. The majority of these SMEs were from the electrical and electronics as well as the machinery and engineering subsectors. In addition, SMIDEC also collaborated with a foreign-based hypermarket chain in Malaysia in identifying and assisting local SMEs in the food processing industry to become global suppliers. Under the Bumiputera Commercial and Industrial Community (BCIC) program, the government continued to promote participation and to upgrade the skills of Bumiputera entrepreneurs. Several programs were implemented that focus on entrepreneurial, managerial, and technical skills development. Under the Vendor Development Programme, 331 new vendors involving 85 anchor companies were created. During 2005, a total of 75 vendor companies were developed and three anchor companies appointed. Under the Franchise Development Programme, a total of eight franchisors and 90 franchisees were developed during that period.

The National Manufacturing Competitiveness Council (NMCC), launched in India in 2004, has identified the need to have a continuing forum for policy dialogue consisting of representatives from government, the industry, and academia to energize and sustain the growth of the manufacturing industry. Specifically, it focuses on the development of food processing, textiles and garments, engineering, consumer goods, pharmaceuticals, capital goods, leather, and IT hardware.

Donors and development organizations such as GTZ are involved in developing market linkages (in certain products) for SME development in Nepal. However, these efforts are still considered to be minimal. PSP/GTZ and SNV/IEDI have also recently introduced value chains networks in selected products, but these networks have not been established at the national and international level. Overall, there is inadequate focus on business incubation and subcontracting.

The Vietnamese Chambers of Commerce and Industry have collaborated with the Swedish SIDA and ILO to launch the project Start and Improve Your Business (SIYB). This project focuses on development and distribution of small business development materials, training of staff, program promotion, and market development throughout Vietnam. Up till now, 99 partners, including government agencies, NGOs, donors, projects, educational institutions, and private organizations, have joined the project.

Some subcontracting programs exist in the garments/apparel and knitwear clusters in Bangladesh. Similarly, in India, initiatives have been taken by the MoSSI and ARI, MoT, and SIDO. However, subcontracting initiatives for SMEs by larger enterprises are apparently lacking in most of the countries.

### **Technology and ICT Development**

The continuing shift towards knowledge-based economies and the accelerated growth in the technological sphere has led to increased pressures on SMEs to upgrade their production technologies and adopt ICT innovations to enhance their competitiveness.

In India, SIDO has been functioning since 1954 as the nodal development agency for small industries, providing a comprehensive range of common facilities, technology support services, marketing assistance, etc. through its network of 30 Small Industries Service Institutes (SISIs), 28 branch SISIs and field testing stations, 4 regional testing centers, 2 small entrepreneur promotion and training institutes and one hand tool design development and training center. SIDO also has a network of tool rooms, processing-cum-product development centers, and technology and training support institutes. Along with SIDO, the National Small Industries Corporation (NSIC) has been facilitating SMEs through schemes and activities such as supply of both indigenous and imported machinery on easy hire-purchase terms as well as sensitizing them on technological upgrades through software technology parks, technology transfer centers, technology business incubators, mentoring and advisory services, etc. In addition to these establishments, DSIR (MoST) endeavors to promote R&D among the industries and support a large

cross-section of SMEs to develop state-of-the-art globally competitive technologies. Moreover, the Technology-based Entrepreneurship Development Programme (TEDP), a six-week structure-based program, has been designed to develop and motivate entrepreneurs in specific products/technologies/processes developed by CSIR labs and other R&D institutions. This is also based on the EDP concept with a more technical focus.

ICT plays a crucial role in enhancing the export competitiveness of Indian SSIs. However, presently ICT applications are implemented by modern SSIs only. The micro sector has yet to adopt computer applications to achieve market competitiveness under globalization. Despite this, more and more SSIs are adopting web-based portals, databases, and information networks into their business operations to sharpen their competitive edge in international markets.

In an effort to improve technological capabilities and use of ICT among SMEs in Malaysia, the government has set up the Industrial Technical Assistance Fund, the Technology Acquisition Fund, and ICT grants, which include e-manufacturing. Matching grants of up to a maximum of RM500,000 per company have been provided for the purchase of hardware and software. During 2005, 169 companies benefited from this opportunity in the amount of MYR8.53 million. Furthermore, crafts production has also been modernized through the application of ICT that includes the use of a rapid prototyping system for mold-making to produce ceramic products and a CAD system for designing jewelry products, *batik* materials, and *songket*. In 2005, 989 craft entrepreneurs benefited from these programs. Malaysia also participated in 13 trade exhibitions involving 84 craft entrepreneurs, with a sales value amounting to MYR43.3 million. MIMOS BERHAD, a leading government-owned research & development (R&D) organization specializing in the areas of information and communication technology (ICT) and microelectronics, is successfully pursuing exploratory and industry-driven R&D through smart partnerships with universities, research institutes, government organizations, and other industry leaders.

In Indonesia, a technical assistance program for SMEs has included the establishment of technical service units (UPT) within the SME clusters of similar industries across provinces. These units provide extension and technical services and training courses. However, the quality and relevance of the training provided is poor. Most of these programs do not appear to have been very effective in upgrading the technological capabilities of the firms.

In Pakistan, the Technology Upgrade and Skill Development Center (TUSDEC) was set up in 2005 to upgrade technology and skills of key and strategic industrial clusters in order to connect Pakistan to the global value chain. TUSDEC specifically focuses on research, upgrading of the common technology needs of an industrial cluster/sector, developing linkages between donors, industry, university, and government, and managing the technology and skill development fund to facilitate SMEs in acquiring, developing, and upgrading technology for specific purposes. In addition to TUSDEC, the Pakistan Software Export Board (PSEB) develops creative synergies between government, industry, and academia. It also provides facilitation to young entrants in establishing an IT business in Pakistan. Women in Technology (WIT) is another project of government of Pakistan, established with the mission of promoting technology-related education, careers, and entrepreneurship and empowering women and enhancing their participation in policy- and decision-making in the field of technology and in business in general. WIT encourages women entrepreneurs, especially in IT-related fields.

Some government agencies in Vietnam are now formulating mechanisms and incentive policies to encourage science and technology research institutes to establish linkages and transfer technology to SMEs.

### *Technology Incubators*

Malaysia has also been successful in setting up a number of technology incubators, e.g., Cyberjaya: The MSC Central Incubator, Teknology Park Malaysia, Johor Incubator Center, Kuala Lumpur–Resource Centre Technology Park, and Serdang–UPM–MTDC Technology Incubation Centre, to promote new entrepreneurs in this field.

The University of the Philippines (UP) and the Ayala Foundation have established a Joint Experimental Facility on Technology Development and Technology Based Entrepreneurship. The target locators included start-up technology companies, research and development service providers, and technology venture capital firms, among others. The UP–Ayala Technology Business Incubator (TBI) has produced many successful start-up businesses. Enterprises within the incubator program benefit from one another. This not only nurtures dot-com and technology hatchlings but also fosters a new spirit of “technopreneurship.”

The National University of Sciences and Technology (NUST) in Pakistan has established the Technology Incubation Centre (TIC) to link academia to industry. TIC aims to help potential entrepreneurs from the general public, students, and NUST faculty to develop their technology-based companies. Currently, 12 SMEs are incubating at TIC. TIC provides consultancy services/training courses for engineers and technicians, emphasizing process and quality control/improvement using methodologies like Six Sigma, Quick Response Manufacturing, etc. TIC has a Technopreneur Development Center through which it offers training courses on technopreneurship. Moreover, TIC regularly offers CAD/CAM training courses. It also has an Intellectual Property Rights Office (IPRO), which provides legal advice, consulting services, and access to patent/equity-related resources to researchers.

#### *E-Business and Portals*

Another major Malaysian initiative has been the introduction of e-business solutions for SMEs. TMNET BERHAD helps facilitate the adoption of broadband capabilities by the manufacturing industry by introducing its e-business solutions to member companies. The project, which comes under the purview of the Multimedia Development Corporation (MDC), is designed to assist non-ICT SMEs in utilizing readily available e-business solutions to gain a competitive advantage. Malaysia has also introduced RosettaNet Standard, an Internet-based common messaging standard for global supply chain management being offered to local SMEs in the electrical and electronic sectors. Out of the MYR5 million allocated for the RosettaNet Standard, eight grants amounting to MYR800,000 have been approved.

Likewise, Qualcomm, Inc., a private-sector organization in the Philippines, has introduced “3G CDMA,” a wireless broadband solution that allows SMEs, especially in the rural areas, to undertake e-business and trade their merchandise. With the Asian Broadband Campaign, the Commission on Information and Communications Technology (CICT) is assisting Qualcomm in establishing market acceptance. The DOST is offering more than 15 technological development assistance programs for SMEs. These include the DOST–Academe Technology-based Enterprise Development (DATBED), Special Technology Financing (STF), Venture Financing (VF), Pilot-Plant Assistance (PPA), the Technology Business Incubator (TBI), Technology Packaging (TP), and Prototype Development and Testing (PDT), among others. Further, under the partnership program of the Philippines Department of Trade and Industry (DTI) and the Commission on Information and Communication Technology (CICT), by accessing ICTBlueprint-subscribe@yahooogroups.com, SMEs can obtain vouchers which entitle them to eight hours of free consultation with 100 selected business advisers.

Private-sector ICT businesses are also growing at a rapid rate in Bangladesh. However, no substantial initiatives for technological innovation or development of ICT for the SME sector have been undertaken by the government in Bangladesh. SME Cell is expected to establish an SME Web portal very soon.

In Pakistan, the Industrial Information Network (IIN) is the first B2B and information portal designed specifically to cater to the online trading and information needs of businesses from various industrial sectors in Pakistan. IIN was launched in 2005. In order to address the major needs of women entrepreneurs, which include information gaps, insufficient marketing channels, and poor networking, the first Web portal for women entrepreneurs, called WIN, has

been set up by the government of Pakistan through SMEDA, the Centre for Research on Poverty Reduction and Income Distribution (CRPRID), and the International Labour Organization (ILO).

A German project in Vietnam has facilitated the launch of the first Internet-based information system/information portal in the country specifically designed to meet the needs of entrepreneurs and business consultants. SMENET ([www.smenet.com.vn](http://www.smenet.com.vn)) provides information on business management, law, export, and finance in both Vietnamese and English. One of the specific features of the SMENET, which has increasingly become a benchmark in the field, even outside of Vietnam, is a legal question-and-answer service.

Technological development within SMEs and facilitation for development of technopreneurs, technology incubators, SME Web portals, demonstration projects, and opportunities for cross-border technological collaborations is lacking in Nepal. The main program has been the Technology and Trade Information Promotion System (TIPS), which aims at bringing women entrepreneurs into the mainstream of global markets by providing knowledge on the Internet, e-commerce, and international trade in the context of globalization. Some associations, like the Handicraft Association of Nepal, are encouraging their members to use Internet facilities for marketing their products.

### **Financial Support**

Access to finance has been categorized as one of the major hindrances to the growth of an efficient SME sector. Governments therefore need to play a key role in creating and building a long-term and sustainable financial market and institutions to support the SME sector.

In India, the Reserve Bank of India has taken steps to improve credit delivery to small enterprises. Banks have been advised to open more SSI branches, provide concessionary finance to SMEs that have good repayment records, etc. These policy initiatives have not been fully implemented by the banks. However, the apex bank SIDBI (Small Industries Development Bank of India) provides direct/indirect financial assistance under a number of different programs: Direct Discounting of Bills, Technology Development and Modernization Fund, Single Window Scheme Through Primary Composite Loan Scheme of Lending Institutions, Scheme for Financing Activities Relating to Marketing of SSI Products, Scheme of Direct Assistance for Development of Industrial Infrastructure for SSI Sector, Export Credit, Venture Capital Scheme, Technology Transfer, and Joint Ventures. NABARD (National Bank for Agriculture and Rural Development) provides short-term finance for various types of production, marketing, and procurement activities to farm and non-farm activities in rural areas. In addition, in 1970 the Gujarat Industrial Infrastructure Corporation (GIIC) organized a program for aspiring individuals who could not secure loan assistance from commercial banks. Under the scheme, loans up to 100% of the project costs were offered on easy terms and conditions based on the competencies of the person and the viability of the project, irrespective of the financial background of the entrepreneur. Over 300 units were established under the scheme, mostly by first-generation entrepreneurs from non-business communities.

Efforts to enhance the SMEs' access to formal credit have been made in Malaysia. The Bank Negara Malaysia established a comprehensive SME Special Unit in May 2003. The role of the SME Special Unit has now been expanded to not only provide information on the various sources of financing available to SMEs, facilitate loan applications, address problems faced by viable SMEs in securing financing, and provide advisory services on other SME financial requirements, but also to facilitate loan restructuring under the Small Debt Resolution Scheme (SDRS). The SME Bank (or Bank Perusahaan Kecil & Sederhana Malaysia Berhad) in Malaysia meets the unique needs of SMEs. As a one-stop financial center responding to the funding and business growth needs of Malaysian SMEs, the SME Bank complements existing products and services offered by commercial banks through comprehensive and integrated financial and business advisory services. Specialized financial products have also been developed by Citibank Berhad.

Venture capital facilities have also been introduced in Malaysia. Malaysian Venture Capital Management (MAVCAP) was incorporated in April 2001 by the government of Malaysia and was allocated MYR500 million for investment in nurturing and growing the technology sector and developing the venture capital market in Malaysia. In addition, Credit Guarantee Corporation Malaysia Bhd provides guarantee cover to commercial banks for loans extended to SME entrepreneurs.

The Magna Carta for Small Enterprises in the Philippines contains a provision on mandatory allocation, which requires commercial banks and other financing institutions to set aside a portion of their loan funds for the exclusive use of small enterprises under a fixed timetable. The Magna Carta also created the Small Business Corporation (formerly Small Business Guarantee and Finance Corporation), whose task is to widen the scope and reach of alternative financing modalities for SMEs. A combination of commercial banks, government-owned banks, and private lending organizations provides short- and long-term financing facilities to SMEs in the Philippines. Specifically, the commercial banks include the Asiatrust Development Bank, the Philippine National Bank (PNB), and the Planters Development Bank (PDB). Additionally, the BMBE Development Fund is available for Technology Transfer, Production and Management Training, and Marketing Assistance; Easy Pondong Pang-Asenso seeks to provide financing to small businessmen to set up, sustain, expand, or improve their business with easier collateral requirements and simpler documentation procedures; Accelerating Change in the Countryside thru Equity Sharing Strategy catalyzes countryside development by promoting livelihood and rural employment; Isang Bayan, Isang Produkto, Isang Milyong Piso covers one product/service cluster identified for a single town.

In Bangladesh, the Central Bank operates a Small Enterprise Fund provided by ADB and DFID. 10% of the fund is reserved for women entrepreneurs. The main emphasis of financing in Bangladesh is on microfinance; however, BASIC Bank (state-owned) and BRAC (private-sector) offer SME banking on a limited scale. In addition, the South-Asia Enterprise Development Facility (SEDF), a project funded by a consortium of donors, including the International Finance Corporation (IFC) and CIDA, is building capacities through training programs, efforts to upgrade project management skills, and enhancing the appraisal and evaluation capacities of financial institutions concerned with SMEs.

The most important government-supported bank credit scheme for small businesses in Indonesia has been the microfinance provided by BRI, but this is for individual businesses only, not for larger enterprises. However, despite the success of this credit scheme, small proprietors' access to finance is still inadequate, for various reasons.

In Nepal, the Central Bank has formulated certain guidelines for finance in the priority sector lending program. Rural Development Banks have been established in all five development regions to support low-income groups. However, there are no customized or specialized financial products or incentives for small enterprises, venture capital funds, or grants to SMEs for technological assistance, market access, productivity improvements, etc. Hence, access to finance is one of the biggest problems for SMEs.

Over the last few years, Pakistan has also made progress towards enhancing financial access for the SME sector. Initially, the Small Business Finance Corporation (SBFC) was restructured and converted into the SME Bank, specifically focusing on providing program-based, sector-specific financial products to SMEs. The experiences of the SME Bank led to the State Bank's decision to set up an independent SME department within its structure and to issue separate prudential regulations for financing to SMEs. The scope of the Credit Information Bureau has been enlarged to incorporate data on SME borrowers, and commercial banks have been asked to set up independent SME departments to facilitate SME clients; however, there are no mandatory SME credit allocation requirements. At present, two organizations, the SME Bank and SME Leasing, are specifically geared toward financing SMEs. In addition, a number of commercial banks—Bank Alfalah, First Women Bank Ltd., Union Bank, etc.—and a number of



leasing companies have specialized financial products for SMEs. Moreover, the regulatory environment is being strengthened to promote venture capital companies. The donor-facilitated Competitive Support Fund (CSF) also provides technical assistance and co-financing facilities for initiatives related to entrepreneurship, business incubators, and private-sector-led initiatives with research institutes and universities that contribute to creating a knowledge-driven economy. CSF offers matchmaking grants, venture capital/equity financing for business incubators, credit guarantees, and technical assistance.

A number of donor-facilitated financing schemes operate in Vietnam. The SME Development Fund (European Union), the SME Finance Project (Japan Bank for International Cooperation), Assistance to Medium-Sized Vietnamese Enterprises (Swedish International Development Agency), and the Rural Finance Project (World Bank) are all administered through local financial institutions. The Mekong Project Development Facility (MPDF), funded by Australia, Finland, Norway, Sweden, Switzerland, the EU, the UK, Japan, and the IFC, has been successful in expanding medium-to-large Vietnamese SMEs, generating jobs and economic growth through 40+ projects. It has trained 600+ entrepreneurs and 1500+ loan officers. MPDF has collaborated with local private banks and local universities throughout Vietnam to provide financial assistance and business support services. The success of the credit guarantee schemes announced by the government has yet to be seen.

### **Advancing Responsible Business Practices: Corporate Social Responsibility**

The importance of mainstreaming the “Triple Bottom Line”—reconciling respect for environment, social equity, and financial profitability within the business sector—has grown tremendously in the recent years. It is increasingly becoming important to address social and environmental values in addition to economic value in order to compete globally in the international market. However, the alignment between social and commercial interests remains largely untapped within the SME sector, thus influencing its competitiveness in the international arena. The pressures of corporate social responsibility (CSR) and social accountability standards are therefore increasing for SMEs and need to be addressed.

In the Philippines, although CSR has primarily been the concern of transnational corporations (TNCs), it increasingly involves Philippine SMEs in their current roles as suppliers and/or markets of international companies and as recipients of support under donor-led programs. In the case of the former, social and environmental standards are increasingly becoming a precondition for doing business with TNCs. This has taken the form of individual supply chain codes of conduct and/or sector-wide certification systems. Moreover, market shifts have extended the impact of environmental and social concerns beyond those companies directly involved in trade with TNCs, through local competition, strengthening mechanisms for ensuring compliance with local laws, targeting investments, or shifts in consumer demand. Overall, there seems to be a general awareness among SMEs of corporate citizenship and its relevance to business operations and of CSR as a business issue in itself. The concepts of social responsibility and business ethics are integrated in some training programs. Forums are also being organized, but efforts for this purpose are not well monitored.

## **A COMMON FRAMEWORK FOR ENTREPRENEURSHIP DEVELOPMENT AT THE REGIONAL LEVEL: STRATEGIES FOR INSTILLING A PRODUCTIVE AND COMPETITIVE MINDSET**

Entrepreneurship is the key to economic performance, playing an important and dynamic role in all economies. Encouraging entrepreneurship is vital in creating jobs, improving competitiveness, boosting exports, fostering economic growth, and reducing poverty. Sustainable prosperity and economic growth is a result of macroeconomic, political, legal, and social circumstances; yet the importance of an entrepreneurial culture within an economy cannot be under-

mined. Facilitating the building of an entrepreneurial society is a priority shared by many governments, and hence fostering entrepreneurial attitudes and values is high on government agendas.

A review of various initiatives taken in the APO member countries has indicated that although government and public-sector organizations play a pivotal role in fostering entrepreneurship, it is more than this one actor that is facilitating the building of an entrepreneurial culture in each country. The Common Framework outlined below therefore involves more than one actor. Where governments are implementing policy and regulatory reforms to create a favorable environment, it is often with the direct support of a multilateral development institution. Likewise, where the private sector is taking a more active position on productivity and sustainable development, it is often linked to the underpinning of the government or a multilateral development partner. In some cases, it can also be an innovation of the civil society that plays a pivotal role. Where governments are implementing regulatory reform, it may be in direct consultation with representatives of the private sector. Hence, individual actions of the organizations in each country identified here need to be seen in the framework of this broader cooperation—which is needed even more to unleash and foster entrepreneurship at the regional level.

Yet there is no ideal solution or set of initiatives, applicable at all times and in all places, for entrepreneurship development. There is no “one size fits all” in entrepreneurial policy, reforms, education, or facilitation. Different countries have different priorities. Policymakers and private organizations that aim to implement policies and strategies for entrepreneurship development need to make decisions about various tradeoffs: political compromises, the profiles of existing and desired entrepreneurs, the business environment, etc. Additionally, it is important to note that it is not one or two specific factors, such as access to finance or entrepreneurial education, which may lead to increased entrepreneurial activity in a country. Rather, a complete package or profile of environmental factors, as well as the competence of entrepreneurs themselves, contributes to development of entrepreneurial culture in a nation. Moreover, these packages tend to be time- and place-specific, as well as being specific to different types (profiles) of entrepreneurs.

This Common Framework, therefore, is a general guide to various initiatives or factors that may contribute to increased entrepreneurial activity and development in a country. It includes broad actions under three areas of interest:

1. Public sector/multilateral development institutions.
2. Public–private sector.
3. Private sector.

Table 2. The Common Framework

Actions targeted at entrepreneurship development			
	Public sector	Public-private sector	Private sector
Public sector drivers • Government • Public sector organizations • Multilateral development agencies/donors	<ul style="list-style-type: none"> <li>• Reform policies, regulations and legal framework for SMEs</li> <li>• Engage the private sector in the policy process</li> </ul>		
(continued on next page)			

	<ul style="list-style-type: none"> <li>• Promote an entrepreneurial society and entrepreneurial culture</li> <li>• Monitor entrepreneur profile, entrepreneur activity, and entrepreneurial business environment</li> </ul>		
Public-private sector drivers <ul style="list-style-type: none"> <li>• Government–local company</li> <li>• Government–academia</li> <li>• Local company–donor</li> <li>• Government–CCI/association</li> </ul>		<ul style="list-style-type: none"> <li>• Entrepreneurship trainings and knowledge development</li> <li>• Strategic public-private partnerships for vital services</li> <li>• Broadening financing options</li> </ul>	
Private sector drivers <ul style="list-style-type: none"> <li>• Local/multinational companies</li> <li>• Academia</li> <li>• Industry associations</li> <li>• Chambers of commerce and industry</li> <li>• Foundations</li> <li>• NGOs/civil society</li> <li>• Financial institutions</li> </ul>			<ul style="list-style-type: none"> <li>• Encouraging entrepreneurship</li> <li>• Developing linkages and strengthening networks to nurture small entrepreneurs</li> <li>• Fostering technological upgrading and new business opportunities</li> <li>• Promoting corporate governance and social responsibility</li> </ul>

### Public Sector Initiatives

The public sector plays an important role in creating an enabling environment for the development of entrepreneurship. Creating an enabling environment involves introducing procedures and reforms that can help in reducing the share of the informal sector in an economy. However, these steps need to have positive effects for SMEs by reducing the costs as well as increasing the benefits of being part of the formal sector. Governments and public-sector organizations should take the following actions:

#### *Reform Policies, Regulations, and Legal Framework for SMEs*

Governments must make a strong and unequivocal policy commitment to sustainable SME development and pursue this by reforming the regulatory environment to eliminate policy constraints on entrepreneurship development and strong economic growth. Policy design and regulations for new start-ups, registration of firms, the tax system, labor laws, financial markets

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

and access to formal sources of finance, bankruptcy laws, and regulation of intellectual property rights should be enacted or simplified so as to attract new and existing entrepreneurs to enter the formal market and benefit from a systemized approach to operating a business. Additionally, within the SME Policy/Framework or as an independent policy, entrepreneurship development needs to be specifically identified. Governments need to have an effective entrepreneurial policy that seeks to create a favorable entrepreneurial business environment (EBE). Governments need reduce and simplify administrative regulations and costs that fall disproportionately on SMEs. Hence, a pragmatic, end-user-friendly system should be in place that focuses on actual improvements in an entrepreneur's dealings with public institutions or regulations.

### *Engage the Private Sector in the Policy Process*

Governments need to ensure that the voice of SMEs is incorporated in the policy-making process and reforms, in order to make them more market-based. Governments therefore need to establish permanent councils/partnerships/collaboration arrangements through chambers of commerce and industry with representatives of SMEs, to serve as platforms where SMEs' views can be discussed and deliberated before finalization of any policy or implementation of changes. However, the effectiveness of this cooperation can only be ensured by governments themselves and their SME partners; often such partnerships become forums for voicing the concerns of a few members only, rather than representing the views of the sector as a whole. The full spectrum of stakeholders must be part of such collaboration arrangements, including SMEs and workers' organizations.

### *Promote an Entrepreneurial Society and Entrepreneurial Culture*

Culture is increasingly acknowledged globally as a factor contributing to the building of an entrepreneurial society and also as an important determinant of career preferences, helping to shape attitudes toward risk-taking and reward. Cultivating an entrepreneurial culture and creativity and fostering entrepreneurial attitudes have become pertinent for governments. Increasingly important is the promotion of various reforms and policies to support entrepreneurship development, so that potential and existing entrepreneurs (including youth and women) become aware of the resources and benefits available. To inculcate entrepreneurial attitudes, it is important that support must come from the highest authorities. Involving the head of state—the President and/or the Prime Minister—in the promotion conveys its significance for the national interest. Governments need to promote their vision for entrepreneurship development, innovation, and competitiveness of enterprises at the national level. Introducing entrepreneurship awards, financial products and schemes, Web-based portals for marketing and information, entrepreneurship training and technological innovations, etc., further promotes entrepreneurial culture. For effectively instilling entrepreneurial culture within the country, central/federal governments should define their roles, responsibilities, and positions in an administrative environment in coordination with the different support organizations (including regional/provincial governments and agencies) to carry out promotional activities. Promotion of entrepreneurship is to be directly linked to appropriate administrative systems in the economy.

### *Monitor Entrepreneur Profile, Entrepreneur Activity, and Entrepreneurial Business Environment*

In order to facilitate greater dynamism in the creation and expansion of businesses and to increase the likelihood of a high degree of entrepreneurial activity, governments need to develop an evaluation mechanism for their programs and policies. Given the complexities of designing policies and programs, and to ensure that scarce resources are efficiently used, it is important that all entrepreneurship development programs be systematically reviewed, assessed, and evaluated. The evaluation dimension must therefore be incorporated at the design stage of the policies and reforms.

### **Initiatives by Multilateral Development Institutions**

Multilateral Development Institutions contribute significantly through expertise and knowledge, as well as through direct funds or technical assistance to governments and private-sector institutions, to entrepreneurship development initiatives. Such institutions are engaged in efforts to support the creation of an enabling environment through advice, policies, and regulatory frameworks. Developing financial markets, providing business development services to small enterprises and special funds, improving corporate governance and corporate social responsibility, and enhancing the focus on sustainability of such initiatives are also their areas of interest.

### **Public–Private Sector Initiatives**

Some of the successful initiatives for developing entrepreneurship in developing economies are those in which public- and private-sector stakeholders make concerted efforts to deliver basic services such as entrepreneurship training and education, access to broader financing options, and market access, as well as entrepreneurship promotion. In each of these critical areas, governments and/or multilateral development partners and private players need to develop viable partnership models that leverage their respective strengths. Additionally, civil society organizations (NGOs) can add valuable skills and insights to such partnerships. Specific initiatives under public–private partnerships include:

#### *Entrepreneurship Training and Knowledge Development*

Globally, tapping latent entrepreneurial potential and nurturing it in early socialization process is gaining momentum. Today, the recognition of entrepreneurship as a discipline is helping to dispel the myth that “entrepreneurs are born.” The introduction of “entrepreneurship” as part of the curriculum in the formal education system merits consideration. This is an investment in the future, which will lead to an enterprising society. APO member countries should be open to larger alliances with business schools, universities, and NGOs, public–private collaboration in professional education and training, and mentoring programs for entrepreneurs. Emphasis should be placed on promoting entrepreneurship among young people as well as on building the leadership skills of existing entrepreneurs. Linkages between academia, industry, and the government are essential in developing modern skills and knowledge and in turn having competitive businesses.

#### *Strategic Public–Private Partnerships for Vital Services*

Much of the infrastructure which underlies the entrepreneurial business environment—e.g., financial markets and services, telecommunications, education and advisory services, incubators, technology research, etc.—is provided by the private sector. Therefore, there is a need to develop innovative models for public–private partnerships of governmental service providers, multinational companies, and local companies. The sustainable delivery of basic services depends on effective collaborations and other forms of public–private cooperation. However, worldwide it has been observed that though the importance of such collaborations cannot be underestimated, they have proven to be difficult. Here, the governments need to take the lead in developing models of private-sector collaboration, keeping in mind the appropriate environment in their own countries. Examples of such models are the development of SME clusters, knowledge and industrial parks/villages, subcontracting arrangements with larger companies and multinationals, supply chain networks and e-marketing portals, etc. Undoubtedly, one of the most compelling ways to foster entrepreneurship is to increase the power of linkages and reduce asymmetries within the networks in the system. The development of such linkages would empower entrepreneurs to build their own businesses.

*Broadening Financing Options*

Access to finance is one of the pillars of entrepreneurship development. Innovative and diverse financial products are needed to transform financial flows into long-term productive investments in each country. Availability of specialized credit products from public and private financial institutions, along with risk capital and venture capital avenues, is required to develop small businesses. However, the development of domestic financial markets to efficiently deliver market-driven products to SMEs also requires the support and leadership of the central banks/regulatory institutions. There is a need for continuous skill-building for regulators and financial institutions. In addition to these facilitations, the government needs to take a lead in introducing special funds/grants schemes for technology development, market development, research and development, etc.

**Private-Sector Initiatives**

Most of the efforts to address the constraints on nurturing entrepreneurship and developing the private sector stem from government, public-sector institutions, and multilateral development partners' initiatives. However, as witnessed by the various programs undertaken by the private sector in APO member countries, it is essential to include them in the development process. Many private-sector organizations, other than the commercial enterprises and traditional development institutions, are addressing the challenges of entrepreneurship development; these include large and medium-size global and local companies, industry associations, foundations and chambers of commerce and industry, academic institutions, NGOs and civil-society organizations, and financial institutions. These are innovative private-sector activities, which fall within the ambit of either purely private-private interactions or public-private partnerships. Specific private-sector interventions are:

*Encouraging Entrepreneurship*

Private-sector institutions are instrumental in promoting entrepreneurship and contributing to development. The vision for an entrepreneurial society should ideally come from the top—from heads of state. Yet private-sector activities such as introducing an entrepreneurship profile, small-entrepreneur awards, business matching services, information databases and benchmarks, entrepreneurship training, e-marketing Web portals, and entrepreneurship development campaigns play a pivotal role in encouraging small entrepreneurs and supporting the activities of governments.

*Develop Linkages and Strengthening Networks to Nurture Small Entrepreneurs*

With the diverse knowledge and expertise, as well as established linkages and networks, private-sector organizations can direct knowledge, resources, and services to match the requirements of small entrepreneurs. Linkages between different types of firms provide an effective channel through which entrepreneurs can gain access to markets, financing, technical and managerial skills and know-how, standards, etc. Such alliances can facilitate multinational companies in integrating with local small and medium enterprises to provide access to technological development and strengthen subcontracting, access to export markets, joint ventures, and value systems.

*Fostering Technological Upgrading and New Business Opportunities*

Recognizing the growing need for information and communication technology and technological upgrading among SMEs, the private sector has created innovative solutions. Essentially, the private sector is contributing in developing technopreneurs, providing technology incubator facilities, introducing use of the Internet and e-business, supporting best-practice networks, conducting demonstration projects, and promoting research and development. Such efforts eventually facilitate the expansion of markets and new business opportunities.

*Promote Corporate Governance and Social Responsibility*

With growing accountability and the development of social and environmental standards in the global market, the competitiveness of nations is being linked to a host of factors. It is therefore becoming increasingly imperative that businesses make a sharp commitment to corporate governance and transparency in order to attain sustainable development over the long term in the future. Large private-sector firms, having international markets and serving as role models in their own economies, need to take a leadership role here, to become responsive to social development needs and to set new standards that demonstrate the value of sustainability. Such activities will positively influence small entrepreneurs regarding their social responsibilities in the economy and will help them grow their businesses.

## **CONCLUSION**

Development of entrepreneurship and of the private sector is the key to enhancing productivity and competitiveness. Recognizing the size and complexity of this challenge, it is imperative that various actors in an economy—government, development partners, and private-sector institutions—formalize partnerships to work together towards common goals.

The three basic pillars of entrepreneurship are the availability of a level playing field, access to financing, and access to skills and knowledge. Since they carry the core responsibility for overall economic development and strengthening of the private sector in a country, governments need to assemble the basic pillars of entrepreneurship: a level playing field and a favorable environment with infrastructural and regulatory support. While governments are the main driver fostering an entrepreneurial society, public–private partnerships are essential for the provision of a broad range of financing facilities, skills, and knowledge. Entrepreneurship and leadership training, together with efficient networks and linkages to support technology and market development for SMEs, have removed traditional myths about entrepreneurs. Today entrepreneurs can be made.

A focused, results-oriented and measurable entrepreneurship development approach is required to encourage an entrepreneurial culture, rather than aiming to achieve this end through a host of other SME development initiatives. Channeling the expertise of such initiatives across borders, sharing knowledge and successful experiences, can lead to the development of regional models, which can be replicated with adaptations to suit the local context—and finally to strengthen entrepreneurial culture in the region.





## **Part II**

# **National Reports**

## DEVELOPMENT STRATEGY AND OVERVIEW OF THE SMES

### A Brief Economic Review

Bangladesh, backed primarily by the growth of the manufacturing, construction, and service sectors, achieved a GDP growth of 6.7% in FY 2005–06, compared with 5.38% growth in 2004–05. Per capita GDP stood at USD480. GDP per capita has increased from 1% during the 1970s to over 3% since the early 1990s; per capita growth has moved to an even higher trajectory of 4% since FY 2003–04. Growth has also been remarkably stable. Bangladesh is among the handful of countries that have sustained positive annual per capita growth since the early 1990s. This performance has been underpinned by rising agricultural and non-farm rural output and a rapid expansion in export of ready-made garments (RMG).

Increased economic growth has helped Bangladesh reduce its poverty rate by about one percentage point per year since 1990. Poverty fell from 60% in 1990 to 50% in 2000. Although the latest poverty data are still being collected, proxy indicators suggest that this good progress in poverty reduction and social development has continued in recent years. Many MDGs are also on track for being met (World Bank 2005).

The rate of national investment rose to 24.43%—the highest ever. The contribution of the private sector to this investment is 18.53 %. The contribution of the private sector to the economy is becoming increasingly prominent. In 2004–05, the growth of credit to the private sector stood at 17.20%. Average inflation was 6.49% in 2004–05. The population growth rate for 2004 was 1.5%. The literacy rate for 2004–05 was 62.66 %.

The industry (manufacturing) sector expanded at a rate of 6.4% per annum from 1972 to 2005. Growth in the manufacturing sector during 1992–96 averaged 8.21%. In 2002–03, the growth rate rose to 6.8%, increasing to 7.1% the following year. The growth rate in manufacturing showed significant gains of 8.43% in 2004–05 and 10.45% in 2005–06. The service sector grew at an average rate of 4.9%, somewhat lower than that of the industry sector. The quantum index of SMEs has grown by 5.4%. The export of ready-made garments (RMG), both woven and knitwear, has grown commendably and now accounts for over 76% of export earnings.

### National Development Strategy

The government has recently approved its Poverty Reduction Strategy Paper (PRSP), titled “Unlocking the Potential: National Strategy for Accelerated Poverty Reduction.”<sup>1</sup> Its primary national-level development goals are employment generation, nutrition, maternal health, high-quality education (at the primary, secondary, and vocational levels), sanitation and safe water, criminal justice, local governance, and monitoring. The PRSP seeks to address these goals through a strategically prioritized policy framework that has pro-poor growth, human development, and governance as its main pillars. It aims to unlock the full potential of the country through a sensible mix of public action, private initiatives, and community mobilization. The priority policy areas identified in the PRSP are macroeconomic stability, identifying and emphasizing critical sectors for pro-poor growth (including rural, agricultural, informal and SMEs, rural electrification, roads, and telecommunications), providing a safety net for the poor

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<sup>1</sup> The PRSP has been fully endorsed by the government, which has managed and financed the process while welcoming interested donors.

and vulnerable, human development of the poor, participation and empowerment of the poor, good governance, improved delivery of basic services, and environmental sustainability.

Implementation of poverty alleviation action programs and strategies is a systematic and continuous effort in Bangladesh. For this purpose, the Poverty Reduction Strategy Paper (PRSP) has clearly identified some core principles and parameters at both the macro and micro levels for reducing the existing poverty level to at least half of the current rate by 2015, as targeted in the Millennium Development Goals (MDGs).

The government has set forth its PRSP implementation targets in the Medium Term Macroeconomic Framework. The budget for FY 2005–06 corresponds to the first year of PRSP implementation and focuses on the operationalization of strategic elements in the PRSP, including good governance, improved service delivery, and broad-based participation. The focus is on key building blocks, including investments in social and physical infrastructure, private-sector development and NGO partnership, streamlined tax instruments and administration, employment generation for farm and non-farm sectors and SMEs, social safety nets, and targeted poverty reduction programs.

### **Overview of SMEs**

There is great interest in small and medium enterprises (SMEs) as a major component of poverty reduction in Bangladesh. In its comprehensive Industrial Policy 2005, the government placed special emphasis on developing small and medium enterprises as a thrust sector for balanced and sustainable industrial development to help deal with the challenges of a free market economy and globalization.

Some data with a national scope that are pertinent to characterizing SMEs in Bangladesh as of 2001–03 are presented in Table 1.<sup>2</sup> There are around 78,440 private-sector establishments of various sizes in Bangladesh that employ some 3.5 million workers.<sup>3</sup> Urban Bangladesh accounts for some 60% of enterprises and 76% of employment in the private sector; rural Bangladesh accounts for the rest. 93.6% of all units in Bangladesh belong in the SME category—i.e., they have between 20 and 99 employees. However, SMEs account for only 44% of total employment in the enterprise sector.

Table 1. Number of Units and Levels of Employment in Small and Medium Enterprises, 2001–03 (thousands)

	Urban			Rural			Total		
	Small	Med.	Large	Small	Med.	Large	Small	Med.	Large
No. of units	39.90	3.17	4.00	29.00	1.29	0.88	68.96	4.46	5.01
% of total no. of units	50.90	4.00	5.10	38.10	1.60	1.11	87.90	5.70	6.40
Employment	740.40	211.50	1,712.60	516.80	85.85	234.70	1,257.20	297.40	1,947.30
% of total employment	21.14	6.00	48.90	14.80	2.40	6.70	35.90	8.50	55.60

<sup>2</sup> Establishments with fewer than 10 employees are excluded from this body of data.

<sup>3</sup> BBS data on enterprises include some units under the subsectoral captions of “public administration and defense,” for instance. Clearly, these units do not belong in the private sector.

The proportion of SMEs that are incorporated as proprietorships is a high 81%, according to data obtained from the Registrar of Joint Stock Companies. Private companies limited by liability account for a very small proportion of the total number of SMEs in Bangladesh.

Table 2 shows the average employment per establishment within each of the small and medium classes for urban and rural Bangladesh in 2001–2003. The following results are worth highlighting. Let it be noted that these are weighted averages. First, the average employment per establishment of small enterprises is between 17 and 20 workers across all industries. We find a similar narrow range of between 65 and 69 employees as the average employment size for medium enterprises.

Table 2. Average Number of Employees per Establishment, 2001–03

	Small	Med.	SME	Large	All
Food and tobacco	18.6	65.1	21.0	470.5	38.9
Textile manufacturing	19.1	66.2	21.9	490.9	56.6
Ready-to-wear apparel	17.8	70.3	22.9	512.7	249.6
Wood, leather and paper, printing	17.0	66.8	19.7	373.9	38.0
Chemicals and plastics	19.1	67.0	22.7	367.2	58.0
Non-metallic mineral products	26.0	70.3	41.5	196.8	83.4
Fabricated goods, electrical, and means of transport	17.0	65.7	20.3	282.5	35.1
Mining and manufacture	24.6	65.5	32.7	227.7	58.9
Various personal services	17.5	66.0	19.9	293.3	28.2
Education/healthcare	18.1	65.5	20.3	292.4	26.7
All industries	18.2	66.7	21.2	388.5	44.6

Source: BBS Census of Enterprises, 2001–03

Table 3 shows the percentage importance (in terms of both number of units and employment levels) of SMEs in enterprises overall. The numbers of SME units far exceeds the numbers of large enterprises: typically more than 90% of all enterprises are in the SME class. However, the percentage share of SMEs in total employment (controlling for the location) is almost always less than the percentage for the number of units. In particular, in Dhaka, Chittagong, and Khulna divisions, one finds SMEs' share in employment is lower than for the economy as a whole.

Table 3. Structure of "Industries" with Respect to Size of Firms, 2001–03

	% of establishments			% of total persons employed		
	Small	Med.	Large	Small	Med.	Large
Food and tobacco	6.7	0.4	.03	2.8	0.5	3.1
Textile manufacturing	14.2	0.9	1.2	6.0	1.3	13.2
Ready-to-wear apparel	1.8	0.2	1.7	0.7	0.3	20.1
Wood, leather and paper, printing	2.9	0.2	0.2	1.1	0.2	1.4
Chemicals and plastics	1.7	0.1	0.2	0.7	0.2	1.7
Non-metallic mineral products	1.6	0.9	0.9	0.9	1.3	4.0
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Fabricated goods, electrical, and means of transport	4.3	0.3	0.3	1.6	0.5	1.7
Mining and manufacture	0.2	..	..	0.1	0.1	0.2
Various personal services	23.6	1.2	0.8	9.3	1.8	5.1
Education/healthcare	31.1	1.5	0.8	12.6	2.2	5.2
All industries	87.9	5.7	6.4	35.9	8.5	55.6

*Note:* These percentages are relative to the total number of establishments and total employment by the private-sector SME sector.

*Source:* SME Cell, Ministry of Industries, Government of Bangladesh, using data from BBS Census of Enterprises, 2001–03

Table 4 shows that the relative importance of SMEs, in terms of the numerical importance of both establishments and employment, in the context of all enterprises, with employment size exceeding 9 workers remains roughly similar across an urban–rural divide. The role of SMEs in production is thus not affected by geography.

Table 4. Proportion of SMEs in Enterprise Population and in Employment by Administrative Divisions, 2001–03

Divisions	Urban (% of SMEs in the number of urban units)	Urban (% of SMEs employment in urban areas )	Rural (% of SMEs in the number of rural units)	Rural (% of SMEs employment in rural areas)
Dhaka	93.8	61.2	95.6	65.3
Chittagong	93.7	54.2	92.4	69.1
Rajshahi	95.3	65.9	97.9	81.3
Khulna	93.8	59.1	95.8	70.5
Sylhet	96.6	68.6	91.9	41.5
Barisal	95.7	69.4	97.8	82.7
All divisions	94.8	63.1	95.2	68.4

*Source:* BBS Census of Enterprises, 2001–03

Table 5 shows the percentage structure of small and medium enterprises, taken separately, across a large number of industries.<sup>4</sup> As in the discussion of Table 3, we again see the quantitative importance of food, beverages, textile manufacturing, and non-metallic mineral products among the manufacturing subsectors that constitute the basis for small and medium enterprises. Once again, the importance of services is highlighted.

Table 5. Industrial Structure of Urban and Rural SMEs, 2001–03

Sectors	Proportion of small enterprises in the total		Proportion of medium enterprises in the total	
	Rural	Urban	Rural	Urban
Mining	0.4	0.2	1.2	1.0
Food and tobacco	16.6	9.3	7.4	9.0
Textiles MFG	58.7	8.4	29.2	17.5
Wearing apparels	0.3	4.6	1.0	3.3
Wood products	0.2	2.6	0.4	1.8
(continued on next page)				

<sup>4</sup> Entries in each column total 100, except for rounding errors.

Tanning, etc.	1.1	0.8	0.1	0.2
Paper and printing	0.1	3.3	0.4	3.4
Chemicals and plastics	0.4	4.2	0.7	4.6
Non-metallic mineral products	6.1	1.1	47.9	3.1
Fabricated products	0.7	3.9	0.6	5.8
Electrical equipment	0.0	0.7	0.2	0.7
Mfg. transport equipment	1.6	0.5	0.9	0.7
Utility services	0.2	5.0	1.9	3.0
Construction	0.1	0.5	0.6	1.8
Trade	2.4	4.9	0.5	4.4
Eateries	1.4	7.1	0.3	5.2
Transport and comm.	1.2	22.0	2.8	7.6
Finance and banking	8.4	16.9	3.8	13.5
Real estate	0.2	3.9	0.3	7.5

Source: BBS Census of Enterprises, 2001–03

With multilateral trade negotiations often leading to improving market access and developing countries also being much more willing to participate in globalization, the governments of rich countries and the international aid agencies have apparently decided to focus on SMEs as one important ingredient in private-sector development. A number of donors are working in Bangladesh in the interest of fostering SMEs. Some, like the German donor agency GTZ, are working not with entrepreneurs but with the chambers and industry associations, building their capacity to deliver needed services. Some, like Katalyst, are putting together a comprehensive base of knowledge and insights on living production clusters, not all of them in manufacturing, namely plastics, agricultural tools, textiles, pond culture, and vegetable-raising.<sup>5</sup> Still others, such as the South-Asia Enterprise Development Facility (SEDF), are building capacity through training programs, efforts to upgrade project management skills, enhancing the appraisal and evaluation capacities of financial institutions concerned with SMEs, etc.<sup>6</sup>

Industrialization links to poverty reduction through increasing the growth rate of the country, providing employment, enhancing workers' productivity, and expanding consumer spending (and thus the confidence level) by sharing lower costs from economies of scale via lower prices. The extent to which industrialization actually proceeds as outlined depends on how the "promoters" allocate resources. In particular, the impact will depend on which product groups and/or spatial clusters are targeted and on how technical assistance resources are allocated to technology know-how, management and secretarial know-how, market-access "networking," etc. Either way, having a measurable impact will often put a premium on "knowing the customer well," the "customer" in this case being the entrepreneurs who have invested money in their enterprise.

Detailed knowledge of the industrial classification of SME establishments, the spatial distribution of those establishments within each industry between "rural" and "urban" locations, and the distribution of these establishments in order of fixed investment size are all relevant.

<sup>5</sup> Katalyst is funded by a consortium of donors including the DFID, GTZ (the German donor agency), and the Swiss Development Corporation. This project will spend about US \$25 million over five years.

<sup>6</sup> SEDF is also consortium-funded; donors are the International Finance Corporation (IFC) and the Canadian CIDA, among others.

This foundation of empirical knowledge is needed in order to set priorities among competing industrial groups, production clusters, resource receptacles, interventions, time frames of varying length, etc.

Based on the availability of SME-related data in the public domain, it is possible to discuss SMEs' industrial structure in two major ways: based on the number of establishments and based on the number of persons employed.<sup>7</sup>

## **Development Strategy**

### *SME Definitions*

Rapid and sustainable growth of SMEs is undoubtedly one vehicle for accelerating national economic growth to the point of having a measurable impact through reduction of poverty and generation of employment. The government has expressed its commitment, in the PRSP and Industrial Policy 2005, to considering SMEs as vehicles for quality of life improvement, economic growth, and poverty alleviation. The government will assume the role of facilitator by removing policy obstacles and neutralizing market failures and will provide necessary promotional support to SMEs.

From the vantage point of industrial assistance policy, classification of establishments based on employment of labor—the abundantly available production factor—may not have a great deal of policy relevance, as the amount of capital that is combined with a given level of employment may widely vary. In September 2004, the government defined size of establishment based on fixed investment.<sup>8</sup> SMEs in Bangladesh are defined for purposes of industrial policy by the Ministry of Industries (MOI). Historically, this dual-mode definition has been in terms of fixed-investment brackets, separate for manufacturing establishments and service establishments.

For manufacturing industries, the Industrial Policy 2005 definitions are as follows:

- An enterprise would be treated as *small* if, using today's market prices, the replacement cost of plant, machinery, building, structures, and other parts/components, fixtures, support utilities, and associated technical services (such as turn-key consultancy) would total up to BDT10 million.
- An enterprise would be treated as *medium* if, using today's market prices, the replacement cost of plant, machinery, building, structures, and other parts/components, fixtures, support utilities, and associated technical services (such as turn-key consultancy) would total up to BDT100 million.
- Land is excluded for both of these definitions above.

For non-manufacturing activities (such as trading or other services), the Task Force definitions are as follows:

- An enterprise would be treated as *small* if it has fewer than 25 workers, in full-time equivalents.
- An enterprise would be treated as *medium* if it has between 25 and 100 employees.

An alternative, albeit informal definition of SMEs used by the Bangladesh Bureau of Statistics takes head-count as its basis. Enterprises with up to 9 employees are treated as "micro"; between 10 and 49, as "small"; between 50 and 99, as "medium," and all the rest, as "large." For statistical purposes, this is the definition used here.

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<sup>7</sup> It is not as yet possible to carry out this structural discussion based on measures of output. It remains the hope of the TA Grant Team to also do so at a future date.

<sup>8</sup> "Head-count" or number of employees would nevertheless be a useful measure of size for statistical purposes.

### *Types of Human Resource and Management Structures*

Production workers can be grouped by skills, and those skills are relative to the industrial or product groupings of which their establishments are part. Table 2 presents a distribution of the SME establishments according to the Bangladesh Small and Cottage Industries Corporation (BSCIC) four-digit classification of all industries in Bangladesh. Naturally enough, industries are differentiated by the skills and specific specializations of the workers at various levels. Therefore, a distribution of establishments according to industrial groups is also informative about the composition of the SMEs.

SMEs have never been explicitly categorized with regard to the underlying management structure of the constituent establishments. However, that is appropriate, since the management structure that makes sense must be viewed relative to the product the unit makes, the technology it uses, and so on. One size or type can not aspire to fit all. Hence, it is fair to say that most SMEs in Bangladesh have a relatively flat, as distinct from hierarchical, management structure. By flat structure, we mean one in which the management functions of strategy, systems, skills, structure, staff, style, and subordinate goals, which we shall call “shared values,” are all concentrated in one management suite, and the suite does not traverse more than one management tier.

### *Level of Education and Skills*

In mature industrial structures, industries are sharply characterized by the extent and character of the median educational levels of their workers. Industries are sometimes also differentiated by the type of education—generalist as opposed to specialized—their typical workers have received. Some products are R&D-intensive, others are capital-intensive. Bangladesh’s SMEs do not evince a great degree of maturity. The average length of education in the ready-to-wear apparel industry, one of the heavyweights of the industrial sector, is not sharply different from that in, say, the plastics industry. Consequently, educational levels and skills levels are not really much of a differentiator.

### *Technology and Installed Machinery*

Perhaps there is room for some discussion of the choice of technology and the type and sourcing of machinery installed in these industries. Bangladesh’s textiles and apparel-export industry has a strong European predisposition. Virtually all the country’s spinning mills have chosen European equipment. Some of the mills are very highly mechanized, employing fewer than 100 workers and thus eligible to be considered medium in size. In the ready-made garments (RMG) industry, the focal point of medium-sized enterprises in the Bangladesh economy, labor intensity is higher. In fact, the ratio of wages and salaries to value added in the RMG industry is one of the highest among all manufacturing industries in Bangladesh.

A look at Table 5 shows that SMEs collectively have as many as 12 product groupings. The most important industrial category is textile manufacturing. The second most significant industrial grouping is food processing. Clearly, the amount and type of machinery are quite different from one industry to another. For instance, in the ready-to-wear garment industry, the dominant type of equipment is sewing machines. Typically, these sewing machines are the Japanese “Juki” or “Brother” brand, standard industrial sewing machines that sew at very high speeds. Other comparatively peripheral equipment includes stitching machines, cutting machines, lining machines, etc. The typical garment mill is not really characterized by “labor-intensive” technology, as the typical capital–labor ratio is understood to be USD3000. The textile weaving industry is slightly more labor-intensive, with a capital–labor ratio of USD2600. Textile spinning is the most capital-intensive, with a capital–labor ratio of more than USD4000. The capital–labor ratio in food processing, at USD2400, is significantly lower than that in either garments or textiles. The tendency increasingly is towards the choice of more and more mechanized technologies in manufacturing industries.



*Access to Finance*

Table 6 gives an idea of the role of small and medium enterprises as destinations for bank credit in 2004 and 2005. Bangladesh's classification of bank advances grouped medium enterprises with the large enterprises, while small enterprises are grouped with cottage-based units. As such, unfortunately, it is not possible to speak of access to finance for SMEs per se. We know, however, separately that small and cottage industries (SCIs) account for more than 99% of all productive establishments in Bangladesh.

Table 6. Percentage Distribution of Advances Made by PCBs, FCBs, and NCBs in 2005 and 2004, by Receiving Sectors (numbers are percentages; last row shows the disbursements in units of ten million BDT [crores])

Name of sector and type of financing	PCBs 2005	PCBs 2004	FCBs 2005	FCBs 2005	NCBs 2005	NCBs 2005
Agriculture	0.8	0.6	0.1	0.1	56.7	10.8
Large and medium industry	14.0	11.4	10.9	11.1	17.9	21.1
SCI	0.7	0.6	0.6	0.6	0.9	1.1
WC for large and medium industry	17.2	14.4	27.2	26.3	7.1	17.9
WC for SCI	0.9	0.7	1.4	1.3	0.4	0.9
Construction	8.7	15.7	0.9	0.8	1.6	6.7
Transportation	1.8	7.8	2.2	1.0	0.2	0.8
Storage	0.2	1.6	0.0	0.0	3.0	1.3
Trade financing	46.6	39.0	24.9	21.2	7.7	30.2
Miscellaneous	9.1	8.2	31.7	37.6	4.6	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total advances	53,029	40,298	7,819.8	6,629	10,637	37,662

Notes: PCB: Private commercial bank. FCB: Foreign commercial bank. NCB: Nationalized commercial bank. SCI: small and cottage industry. WC: working capital.

Out of 3.8 million establishments of all kinds in Bangladesh, only 10,798, or just about 0.3%, fall in either the medium or the large establishment size class based on numbers employed. The percentage is even lower in manufacturing or trade, the two subsectors from which the case studies here are drawn. And yet the very small proportion of medium and large establishments contrasts with the preponderance of large and medium enterprises in total credit disbursements from the banking system. It is safe to assume that of total credit disbursed to large and medium enterprises, an overwhelming share, perhaps 80% or so, goes to large establishments. It quickly becomes clear that among SMEs—for all their numerical superiority—receiving bank credit is the exception and not the rule.

Why is access to finance so difficult for SMEs? Because issuance of bank credit is based on the ownership of collateral: bankers insist on immovable property for collateral. Only about 15-20% of the owners of SMEs own any immovable property at all in which the bankers are interested. This automatically excludes about 80% of SMEs from being recipients of bank loans.

*Access to Markets*

No custom study has been done of the division of the output of SMEs in Bangladesh into domestic and overseas sales. However, a rough idea can be obtained. Of the industries that are clearly export-oriented, those listed in Table 7 stand out.

Table 7. Importance of SMEs in Export Receipts, 2004–05

Subsector(s) producing industrial goods that are exported	Exports during 2004–05 (USD millions)	Exports during 2004–05 produced by SMEs (USD millions)	Proportion of exports accounted for by SMEs	Definition of SME
Woven garments	3,598	450	12.5	Between 10 and 99 workers
Knitwear	2,819	352	12.5	Between 10 and 99 workers
Leather	221	94	42.5	Between 10 and 99 workers
Jute goods	307	12	3-5	Between 10 and 99 workers
Fertilizer and chemical products	197	0	0	Between 10 and 99 workers
Footwear	88	44	50	Between 10 and 99 workers
Ceramic products	29	0	0	Between 10 and 99 workers
Engineering goods	85	20	22-25	Between 10 and 99 workers
Petroleum byproducts	35	0	0	Between 10 and 99 workers
Handicrafts	5	5	100	Between 10 and 99 workers
Others	621	N.A.	N.A.	Between 10 and 99 workers
Total exports	8,652	977	11.3	

*Source:* All estimates are based on trade estimates, not on detailed survey(s)

#### *Use of Information Technology (IT)*

SMEs make very limited use of information technology (IT). Accounting software is used by only 1–2% of SMEs. The use of computers is limited to about 15%, while perhaps 8–10% use the Internet for business purposes.

The role of quality certification is minimal. SMEs have received ISO 9001:2000 certifications only in the software, footwear, apparel, and cycle-manufacturing industries. When export is a driving force, quality-assurance certification becomes an imperative. However, SMEs have a ways to go before this aspect of management of quality can be cited as a role model in any serious discussion.

Some SMEs in Bangladesh have used the 5S model of productivity enhancement, particularly a small number of medium-sized enterprises in the pharmaceutical industry. MICRO, one of the pioneers of electronics goods production with inspirational leadership, has implemented Total Quality Management (TQM) and Just-in-Time (JIT) inventory policies.

#### **Major Problems and Issues Challenging the Competitiveness of SMEs**

According to the Japan Center for Economic Research, which has produced a competitiveness index for 50 countries worldwide every four years since 1980, there are eight determinants of competitiveness: internationalization, enterprise, education, governance, science and technology, infrastructure, finance, and IT.<sup>9</sup>

According to the World Economic Forum, these considerations are pertinent to the business environment affecting the productivity of SMEs: Does the government maintain an arm's-length relationship with respect to the private sector, or does it play favorites? Does the judicial system allow for the reasonable, expeditious, transparent, and low-cost settlement of disputes, or is

<sup>9</sup> Japan Center for Economic Research (JCER)'s Potential Competitiveness Ranking 2005 ([www.jcer.or.jp/eng/pdf/potential2005.pdf](http://www.jcer.or.jp/eng/pdf/potential2005.pdf)).

justice for sale? Is tax revenue channeled back into the economy through productivity-enhancing investments in human capital and infrastructure, or is the money wasted on inefficient projects—or, worse, is it mostly stolen? Is the regulatory environment hampered by unnecessary layers of bureaucracy and red tape, reducing competitiveness and raising the costs of transactions and operations? How efficiently are new technological innovations absorbed? Is attention being paid to constantly upgrading the country's educational system? Does the country engage with the world with openness and self-confidence, or with fear and ambivalence? What is the role of property rights and institutions? The following five appear pertinent to enterprise competitiveness for SMEs: modernization of the technology and management processes in the enterprise, worker educational and training attainment, the scope and quality of the infrastructure, commitment to innovation, product quality, and customer satisfaction, and harnessing information technology (IT) to serve the customer and to decrease marketing and communications costs.

Unfortunately, it is not possible to address authoritatively how well Bangladesh's SMEs compare in this regard, since the country has never carried out nationally representative sample surveys.<sup>10</sup> Successful SMEs of the kind that have been included in our roster of case studies demonstrate that in spite of the overall relative backwardness both in the level of management and technical expertise and in the physical infrastructure, some individual firms respond creatively and effectively, innovating amid leanness of resources, demonstrating in the process a significant amount of creative initiative and an innovative bent of mind. These are the people who can turn on a dime while finding solutions to their own production and technology problems.

#### **DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS BEING IMPLEMENTED BY VARIOUS AGENCIES IN THE COUNTRY**

An exclusive focus on small and medium enterprises (SMEs) is a relatively new concept. For much of the past, Small and Cottage Industries (SCIs) were the operative category for public interventions for industrialization. The focal point of the delivery of public services for that stated purpose was the Bangladesh Small and Cottage Industries Corporation (BSCIC), a parastatal entity created in 1957 through an act of Parliament.

#### **Bangladesh Small and Cottage Industries Corporation (BSCIC)**

The operating divisions of BSCIC, in decreasing order of importance, are promotion and extension (P&E), projects, and marketing, technology, and design. Because roughly 63% of the revenue budget of BSCIC is allocated to the P&E division, this is the flagship division. The main activity of this division is to provide pre- and post-investment counseling for manufacturers and small producers. Pre-investment counseling consists of identifying timely and potentially profitable small-business opportunities, profiling potentially viable projects based on such opportunities, identifying and matching entrepreneurs with such projects, and supporting such establishments through the provisioning of credit and some infrastructural facilities. In the 1980s and 1990s, the supply chain of industrial entrepreneurs through which P&E achieved substantive performance scores was managed and mobilized by the "Development of Rural Industries" (DRI). The DRI was subsequently absorbed into the regular revenue budget, inside the P&E division, whose mandate is one of two major interfaces between BSCIC and entrepreneurship development.

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<sup>10</sup> With financial assistance from the Asian Development Bank (ADB), the SME Cell in the Ministry of Industries (MOI) is now slated to run a set of nationwide surveys to sample representative SMEs. An incisive questionnaire will be administered for this purpose and, it is believed, will generate information about the foregoing correlates of productivity and competitiveness by SMEs in all industrial groups in the country. The survey was expected to begin in 2006.

The number of industrial entrepreneurs increased from 34,219 in 1998–99 to 64,704 in 2002–03. The other major entrepreneurial involvement of BSCIC has been with the Women Entrepreneurship Development Programme (WEDP). While the first was about stimulating entrepreneurship among SCIs in generally, WEDP worked exclusively with women. Over a period of some 20 years, beginning in the early 1980s, WEDP created more than 40,000 female-headed establishments in such sectors as custom rice milling, goat rearing, poultry raising, etc. The project received good evaluations on a reasonably good record of repayment of the credit distributed.

Another important program of BSCIC is the Industrial Estates (IE). Under the IE program, BSCIC develops land and some essential infrastructural support services from a green-field environment and then invites entrepreneur applicants to come and set up shop on the premises. After an initial screening, BSCIC sends a short list of the names of aspiring entrepreneurs to the District Evaluation Committee (DEC), where the final selection of awardees is made. The awardees are then invited by BSCIC to take possession of the industrial plots. BSCIC gives significant up-front subsidies to the awardees.

The entrepreneurial development that BSCIC has brought about is not a Schumpeterian type where a breakthrough idea or a commercially keen insight which has gone unnoticed is somehow spotted by someone. When followed up and implemented in the form of a commercial venture, such a breakthrough becomes a torrent from a trickle. Instead, BSCIC's contributions to entrepreneurship development have been more in the nature of everyday infusions of counseling, credit, some small input of design, and market intelligence to men and women of modest means so that they can start their own businesses. This has undoubtedly made a significant contribution to the emergence of small enterprises in Bangladesh owned by men and women who would otherwise have had no opportunities to open their own businesses.

### **Efforts of the Government to Promote SMEs**

The government of Bangladesh has announced the Industrial Policy 2005, which states: "The SME sector has been given priority as a privileged sector." The PRSP states: "The government will pursue an employment-intensive industrialization with emphasis on SMEs and export-oriented industries." The government is committed to paving the way for industrialization led by the private sector in a business environment that can bring out the best among all SME stakeholders. It is in the evolution of just such a business environment—excellent available infrastructure, well-trained and broad-based human resources, vigorous entrepreneurship bred out of an entrepreneurial culture, performing credit, insurance, venture-capital markets, and markets for complementary expert services—that the Ministry of Industries would like to take advantage of the resources of the Asian Development Bank's financial assistance, which has been made possible through the Bank's SME Sector Development Program.

The government created a Small and Medium Enterprise Cell (SME Cell) in the Ministry of Industries (MOI) in 2003 to provide a focal core for implementing policies and interventions that selectively support SMEs in Bangladesh. Subsequently, the government established an SME Task Force in October 2003 based in the office of the Prime Minister, with the Principal Secretary in the Chair. The SME Task Force included participation from the government, the private sector, academia, and civil society. The Task Force's report was approved by the government early in 2005. Based on the contents of the report of the SME Task Force, the government of Bangladesh issued, for the first time, the Small and Medium Enterprise Policy Strategies 2005, which provided the framework for interventions and policy strategies for the development of SMEs in Bangladesh. One of the highlights of the Policy Strategies is that the government instituted a Small and Medium Enterprise Advisory Panel (SMEAP) as an independent and meritocratic brain trust for the MOI for all developmental, technical, and structural advisories. The SMEAP has participation from the private sector and the civil society and at the moment is prestigiously headed. The Ministry of Industries is very responsive to the SMEAP, and the two

have forged a synergy in the interest of the development of SMEs. An SME Foundation will be established very soon merging SMEAP and SME Cell.

### **Private Sector Activities in the Field of SME Promotion**

In the private sector, the JOBS project, funded by United States Agency for International Development (USAID), Katalyst, and the South Asia Enterprise Development Fund (SEDF) have been important in fostering entrepreneurship. We will concentrate on Katalyst and SEDF for the moment.

#### *Katalyst*

Katalyst is a five-year project funded at USD25 million annually between 2002 and 2007. It is the largest project of its kind funneling embedded services to SMEs. The project has a staff of 45.

The first important strategic decision was to establish a working lien versus the Ministry of Commerce (MoC). The primary locus of responsibility of the MoC is spurring of Bangladesh's exports or deemed exports. The "industrialization" of Bangladesh was not a subject of direct relevance to the MoC.

Katalyst has developed an integrated approach based on the subsector services methodology, which consists of five stages: research analysis, service, market identification and intervention, design, and monitoring and evaluation. Prior to intervention in the markets, their constraints and opportunities need to be understood and analyzed with respect to their possible relevance for business services.

Katalyst's goal is to increase the competitiveness of small and medium enterprises in selected areas and sectors with the purpose of developing more effective markets for business services in the economy. An indicator of Katalyst's growth will be an increase in employment and incomes in the SME sector of the economy.

Katalyst has focused its activities on the development of some SME sectors. The first subsector was aromatic rice. Exports of aromatic rice rose from 100 to 3000 tons over a 15-year period. In 2003, the two next subsectors to engage the attention of Katalyst were agro-tools and pond fisheries. In 2004, furniture, plastics, and vegetables were included in this project. Clearly, Katalyst has worked with a fairly wide range of subsectors, with highly varying densities of SMEs among them.

The following list shows the most important output from Katalyst since 2002 and gives an idea of the evolving focus of the project.

- Market Assessment of the Aromatic Rice Subsector, DFID & IDE Bangladesh, 2002
- Pond Fishery Subsector Service Market Assessments, Bangladesh, IDE & KATALYST 2003
- Assessing Supply of and Demand for Quality Management Services in Bangladesh, Katalyst, 2004
- The Accounting, Financial Advisory, and Taxation Services Market in Bangladesh, Katalyst, 2004
- Design of the Katalyst Project, Bangladesh, June 2004

Crop diversification in agriculture, fisheries, manufacturing, cross-cutting support services, and business process improvements are among the activities undertaken so far by Katalyst.

Katalyst has tasked itself to make a difference, *inter alia*, by making industrial and rural services available primarily for six product areas: agro-tools, furniture, plastics, vegetables, fisheries, and bamboo (see Figure 1). As well, Katalyst maintains a center of expertise and regulations to offer advocacy services to the government in an advisory capacity.

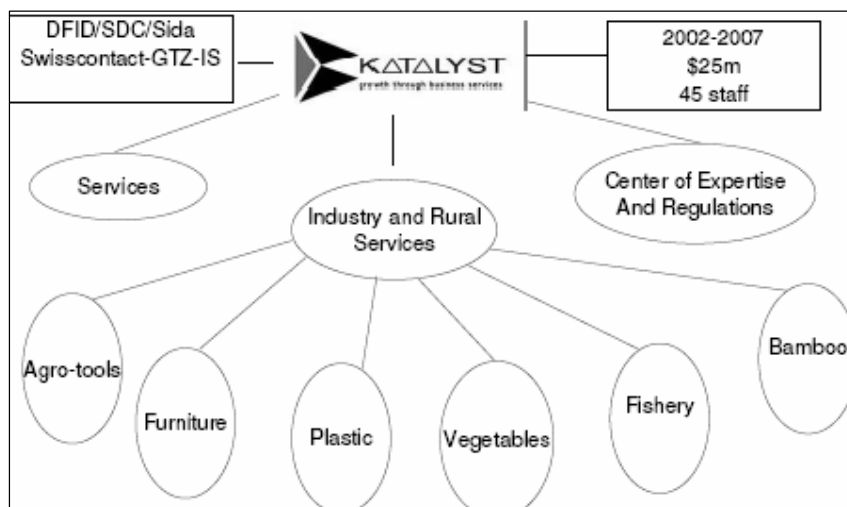


Figure 1. Katalyst Organizational Chart

A typical subsector project consists of donor identification of a subsector, SBS mapping and constraints analysis by a consulting team, selection of service markets and service-market assessments, start of project activity (or not), intervention design, intervention(s), and monitoring and evaluation.

Katalyst has so far initiated project activity in this fashion in vegetable production, plastics, and agro-tools. Detailed monitoring and evaluation of projects will be launched in the near future. According to Katalyst, a mid-term evaluation found broadly positive results.

Of late, Katalyst has partnered with two Bangladeshi companies to develop accounting, financial management, and taxation training packages for small enterprises. Under the agreement, CEC and Skill Plus will develop a package and provide training to SME entrepreneurs in accounting and financial and taxation management. The training package will be promoted under the “More Business” campaign, a joint initiative among Banglalink, Standard Chartered Bank, The Daily Star—three of Bangladesh’s most successful corporate icons—and Katalyst. Katalyst clearly has strategic partnerships with some of the best brands, although the nexus between these brands and the task of spurring productivity and competitiveness of SMEs remains, at the moment, unclear. The project is scheduled to be completed in 2007.

### South Asia Enterprise Development Facility (SEDF)

The South Asia Enterprise Development Facility (SEDF), a newly launched initiative funded by the IFC and other donors, has focused its efforts on greater SME financing from local Bangladeshi banks. In June 2002, SEDF kicked off operations with a conference in Dhaka to which it invited several SME finance experts and officers from highly successful SME lending institutions worldwide, such as Business Partners of South Africa, PlantersBank of the Philippines, and the National Development Bank of Sri Lanka. Local banks have, according to SEDF literature, responded very positively to SEDF’s access to finance programs: Dhaka Bank Limited has already signed an agreement with SEDF to collaborate on training in information technology (IT), marketing, human resource development, and credit management. SEDF is also working with numerous other local financial institutions to make them aware of the profitability potential of Bangladesh’s large SME sector. Since 2002, 13 banks have entered into the status of what SEDF calls partner financial institutions (PFIs).

SEDF undertakes technical assistance programs for PFIs revolving around four strategic pillars: commitment, knowledge, efficiency, and tools.

- *Commitment*: measured through strategic allocation of resources to SME finance. Can be achieved through advocacy, strategic interaction, benchmarking with peer financial institutions.
- *Knowledge*: to be spread at various levels of the institutions. Can be achieved through training, exposure to best practices, institutional development programs.
- *Efficiency*: an imperative for sustainability of the SME finance program. To be measured in reduced time and costs of SME loan processing. Can be achieved through instituting performance-based HR policies, process automation, and procedural streamlining.
- *Tools*: measured through the number of financial products available to SME finance. Can be achieved through introduction of new products such as factoring.

The underlying principle driving all technical assistance programs is sustainability.

*Enhancing commitment to SME finance*: Financial institutions are working with the SEDF on a 50:50 cost-sharing basis.

*Advocacy*: SEDF staff members keep PFIs abreast of the latest developments in SME finance techniques, benchmarks, and trends.

*SME strategy formulation*: SEDF has helped two PFIs in the process of SME strategy formulation by conducting institutional diagnostics and structured strategy workshops. This is in addition to the four PFIs that received assistance from SEDF on SME strategy formulation. The number of PFIs that come to SEDF for SME strategy formulation consultation fell from four in 2003 to two in 2004.

*Spreading knowledge of SME finance*: SEDF organized study tours for PFI senior management to best-practice SME finance institutions in India and Sri Lanka. It also organized a training program on Sales Leadership to enhance selling skills of field-level PFI professionals. SEDF organized five 5-day training programs on the “Fundamentals of Good Management.” One of the training programs was conducted by the Singapore Institute of Management and the remaining four by a local consulting firm. Over 110 PFI professionals attended these programs.

*Improving efficiency in SME finance*: SEDF developed Credit Scoring modules at three PFIs as pilot programs. These modules will enable these PFIs to reduce the time required for screening SME loan applications. SEDF assisted a PFI in its automation through implementation of a core banking software. The first phase of business process re-engineering was completed by SEDF consultants. A comprehensive risk grading framework has been developed for a PFI which will enable the company to better manage its lending risks and adopt risk-based loan pricing policies. The assignment was carried out by the leading Indian credit rating agency, CRISIL.

*IT diagnostics*: SEDF conducted IT diagnostics for five PFIs aimed at identifying gaps in software and hardware infrastructure for catering to the SME client segments.

*Redefining HR policy*: SEDF has helped a PFI to institute a performance-based human resources policy which encompasses recruitment, job description, assessment, incentives, and development of the bank staff. The study was carried out by a local consulting firm. With a view to streamlining processes/procedures and promoting efficiency, SEDF carried out the review of management and quality-control process of a PFI using ISO's proprietary methods. The PFI obtained an ISO 9001 certification audit in 2005.

### **Problems and Challenges for SME Development**

A number of problems and challenges have been identified that still confront the SME sector in its effort to develop.

- Intense competitiveness in the global and domestic marketplace in which the SMEs must compete.
- Steadily increasing quotients of specialized knowledge and codified R&D that have become defining characteristics of products and competitors in globally integrated markets.
- Inequalities in the distribution of wealth, including human capital, that lead to a crowding out of SMEs in general, and small enterprises in particular, from participating in markets for venture capital and credit.
- Deficiency in policy-relevant knowledge and information of a kind that can make a difference in the “pro-poor” focus of a development strategy for SMEs growth.
- Inadequate level and uneven distribution of execution, design, and implementation capacities in the facilitators and providers who can spur competitive growth of their clients in the shortest possible time.
- The inherent difficulties of dealing effectively with government failures, market failures, and enterprises’ own failures in the interest of expeditious development of SMEs.

### Some Recommendations for SME Sector Development

The following steps are recommended to facilitate the growth and development of SMEs:

- A two-stage stratified random sampling of SMEs throughout Bangladesh to begin early in 2006 to benchmark SMEs comprehensively for the first time.
- The crystallization of policy-relevant insights based on this survey, which will hopefully contribute substantively to the formulation of a strategic plan of action.
- A conscious design to embed all policy planks into Bangladesh’s Poverty Reduction Strategy Programme.
- The formation of an SME Foundation within the next 18 months, consisting of the SME Advisory Panel and SME Cell, to become an independent private-sector foundation created expressly by government action and tasked comprehensively with all matters pertaining to the development of SMEs throughout Bangladesh in a thoroughly pro-poor manner.
- A well-orchestrated effort to funnel much-needed debt capital and R&D funds to a large number of innovative and deserving SMEs.
- Upgrading of all relevant capacities in the SME sector.

Table 8 summarizes the public and private initiatives, programs, and policies that affect SMEs in Bangladesh.

Table 8. Summary of Public and Private Initiatives, Programs, and Policies Affecting Small and Medium Enterprises (SMEs) in Bangladesh

Initiatives, programs, policies	Public-sector organizations/ donors	Private-sector organizations	Results (success/failure)
A. Promotion of entrepreneurial culture			
A1. SME promotional councils/bodies	National Task Force on SME Development SME Cell, MOI SME Advisory Panel; BSCIC	BEI SEDF Katalyst	
(continued on next page)			



*Entrepreneurship Development for Competitive Small and Medium Enterprises*

A2. Entrepreneurship development promotional campaigns	SME Cell, MOI BSCIC	DCCI BEI SEDF Katalyst	Many success stories with limitations
A3. Awards for successful SMEs: “Small Business Entrepreneur of the Year”	Ministry of Industries has decided to introduce the SME Award	FBCCI DCCI	
A4. Quality Awards for SMEs	Ministry of Industries has decided to introduce the Quality Award		
A5. President/Prime Minister mentions entrepreneurship in speeches/statements and budget statements	Prime Minister mentioned SMEs twice in speeches: in the inaugural ceremony of the National Women Entrepreneurs Forum and opening of the SME Fair 2006		
A6. Entrepreneurship Development Action Plan at the national level	Very recently an Action Plan has been prepared by the SME Cell and approved by the government		Implementation ongoing
A7. Government’s vision promoting entrepreneurship, innovation, and competitiveness at the national level	SME Policy Strategies have been adopted by the government		Being implemented
A8. Promotion of Entrepreneurship Profile for SMEs	BSCIC has been working for the past 35 years to promote an Entrepreneurship Profile for Small and Cottage Industries		There are many success stories
(continued on next page)			

A9. Promotion of benchmarking and best practice networks	To be done	Model beginning has been made on this score by the efforts of such private-sector actors as Katalyst	Needs evaluation
A10. Promotion of women and youth entrepreneurship	Government has been implementing different projects for women entrepreneurship development	As many as four women's trade bodies are working for women entrepreneurship development	There are many success stories
A11. Promotion of e-business and ICT development	Government has been implementing ICT projects	Private-sector ICT business is growing fast	Growing fast
A12. Promotion of technological innovation for SMEs	Poor efforts	Scattered efforts are ongoing	
A13. Promotion of financial products and schemes for SMEs	ADB provides \$30 million loan for SME lending. One State-owned SME bank operates	Private commercial banks and financial institutions have recently introduced SME banking	
A14. Productivity promotional campaign for SMEs	National Productivity Organization under MOI		
A15. Promotion and availability of SME database, SME publications, SME web-based portals for information and business matching	Bangladesh Bureau of Statistics provides data. SME Web-site launched by SME Cell	Katalyst/SEDF/GTZ/JOBS/MIDAS	
A16. Provision of infrastructural facilities	BSCIC provides infrastructural facilities in Industrial Estates		
<b>B. Regulations and policies</b>			
B1. Laws/regulations/policies for SME development at the national level; availability of an SME Framework	Industrial Policy 2005 and SME Policy Strategies 2005		
B2. Policies/regulations to support technological development	Science and Technology Policy of the government		
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

B3. Policies/regulations for ICT development	Project on ICT/web-portal is being implemented		
B4. Policies/regulations for SMEs' access to markets			
B5. Policies/regulations for SMEs' access to financial facilities	Central Bank operates Small Enterprise Fund for the SMEs		
B6. Policies/regulations for entrepreneurship development (separate policy in addition to SME policy, if any)	Industrial Policy 2005 PRSP		
B7. Bankruptcy laws which smoothes the exit of enterprises that are not sustainable or competitive	Bankruptcy Law exists		
B8. Labor laws and employment regulations affecting SMEs	Yes		
B9. Infrastructure facilities/exemptions provided to SMEs	BSCIC provides		
B10. Specialized prudential regulations for financing to SMEs	Not yet		
B11. Regulations on financial incentives for SMEs (i.e., tax exemptions/benefits, duty concessions for SMEs)	Nothing special		
B12. Policy/regulations for productivity development in SMEs	Not yet		
C. Administrative environment/framework			
C1. Availability of permanent or ad-hoc units/cells mandated to represent SME views in the regulatory process	SME Cell under Ministry of Industries		
C2. Councils/consultative bodies/task forces for SME development and/or to take SMEs' views into consideration while formulating policies and procedures	National Task Force on SME Development		
C3. Experts/advisors/advisory boards/specialized boards set up to develop SMEs (in general or in specific sectors)	SME Advisory Panel		
C4. Availability of productivity improvement programs for the SMEs	Yes		
C5. Availability of entrepreneurship profile/entrepreneurship indicators for the country	Yet to be developed		
(continued on next page)			

C6. Systems/programs to monitor the entrepreneurial profile, entrepreneurial activity, and entrepreneurial business environment (EBE)	Not yet		
C7. Programs/focus on developing entrepreneurial mindsets, corporate vision, and corporate entrepreneurship	Bangladesh Bank: the central bank	Bangladesh Enterprise Institute	
C8. Procedures for development of SMEs	Not yet		
C8a. Registration of firms, formation of a new company, listing requirements	Laws are there		
C8b. Exit of uncompetitive firms	No		
C8c. Compliance and reporting	No		
C8d. Licensing	Different licensing procedures exist for all. No separate procedure for SMEs		
C8e. Accounting standards	Yes		
C8f. IT-driven communication through web portals	No		
C8g. Taxation	Yes		
C8h. Utilities	Yes, but patchy		
C8i. Standardization	SME window in BSTI		
C8j. Quality certificates, ISO certification	BSTI and National Accreditation Board		
<b>D. Entrepreneurship training and education</b>			
D1. Entrepreneurship curriculum at universities and colleges (covering start-up strategies, entrepreneurial behavior, application of marketing and finance to start-ups, entrepreneurial finance such as venture capital and angel investors, intellectual property rights, franchising, corporate entrepreneurship, prototyping, technology transfers, etc.)	Entrepreneurship is taught at some of the best public and private universities as part of BBA and MBA courses		
D2. Internship programs/collaborations with enterprises for developing entrepreneurial skills	Few		
D3. Linkages between SMEs and colleges/universities	Very little		
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

D4. Institute of Entrepreneurship (to separately provide model of the institute and the services it provides, if applicable)	Bangladesh Institute of Management Small and Cottage Industries Training Institute National Productivity Organization	Bangladesh Enterprise Institute	
D5. Entrepreneurship training programs (i.e., technical training; management training; training in corporate social responsibility, entrepreneurship ethics, productivity, and quality consciousness); use of information technology and ICT development; developing internal synergies and alliances with employees; etc.	Entrepreneurship development is included in courses offered by Bangladesh Institute of Management (BIM), which is under the Ministry of Industries. National Productivity Organization (NPO), also in the MOI, actively seeks to enhance the standards of quality-administration in practice in the country		
D6. Other skill development training programs and institutes (directed towards self-employment and entrepreneurship development, etc.)	More than 100 Vocational Training Institutes (VTIs), which are variously under the administrative oversight of several ministries (Labor, Youth and Sports, Women Affairs, Textiles, Education), exist to offer relatively short-term re-skill training programs		
D7. Quality Standardization and Testing Institute	BSTI		
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D8. Other training institutes for human resource development of SMEs			
E. Network and linkages for SME development			
E1. Availability of enterprise clusters	There are between 30 and 40 clusters based on one or another product		
E2. Availability of business development and business support service providers	BSCIC used to perform a great deal of profiling and then disseminating, among its own network, of SCI entrepreneurs, of potentially viable business and industrial ventures. However, it essentially no longer does that, due to funding problems. Similarly, technology universities such as Bangladesh University of Engineering and Technology (BUET) are often approached by (for example) engineering industry owners for support in terms of assessing steel strength, and the needed degree of tempering in metals, for an agreed fee		
E3. Availability of business advisory/ consultancy services for SMEs	No	There are some consulting firms who sell such expert services	
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

E4. Strategic alliances and joint ventures within domestic and/or international markets in SMEs	No	No	
E5. Subcontracting support for SMEs by larger enterprises		Yes, in apparel and knitwear industries	
E6. Availability of business incubators	No	No	
E7. Linkage programs for market access/programs, product development, technological access, etc., for improving domestic and international market access for SMEs	No	No	
E8. Supply chain and value chain networks in the country and internationally	Yes	Yes	
F. Technology and ICT			
F1. Initiative for cross-border technological cooperation (joint R&D, joint commercialization), regional association for technology-led enterprises	No	No	
F2. Technology business incubators	No	No	
F3. Availability of back-up/pilot and demonstration projects which foster innovation and technological development	No	No	
F4. Facilities for developing “technopreneurs”: availability of knowledge centers, research and development centers, testing laboratories, etc.	No	No	
F5. Facilitation of benchmarking exercises and sharing of best practices through Best Practice Networks	Benchmarking facilities exist in desultory manner in Bangladesh University of Engineering and Technology (BUET) and other technology universities		
F6. Availability and facilitation of e-business and e-commerce practices, use of internet and other e-marketing and e-business methodologies	Not yet		
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F7. Availability of web-based SME portals, SME database, information networks	SME Cell (MOI) is going to establish an SME Web portal very soon		
G. Financial support			
G1. Support and role of the Central Bank in providing financial access to SMEs	Central Bank is operating a Small Enterprise Fund		
G2. Availability of specialized financial institutions for SMEs	State-owned BASIC Bank operates SME banking	Private sector BRAC Bank provides SME finance exclusively and some PCBs have opened SME windows	
G3. Specialized financial products and incentives for small enterprises	BASIC Bank and BRAC Bank offer special products but on a limited scale		
G4. Availability of SME Fund, Technopreneurship or Entrepreneurship Fund, etc.	SME Fund in the Central Bank provided by ADB and DFID, of which 10% is reserved for women entrepreneurs	BRAC and BASIC Bank and some other banks	
G5. Availability of venture capital funds or risk financing mechanisms, risk mitigation funds, credit guarantee schemes	Not yet		
G6. Grants for SMEs for technological assistance, market access, productivity improvement, research and development, innovations, product development, e-business, ICT development, supply chain networks, etc.	Not yet		

## CASE STUDIES OF SMES

### Corbel International Limited

Created in the year 1995 as a limited-liability company, Corbel International Limited (CIL) is in the business of aggregating insecticides bought in bulk and then lightly “re-processed” using a proprietary method. It also markets fungicides and weedicides. The company is focused on meeting the requirements of clients in agriculture. Its corporate vision and mission statement



is to be a market leader, ensuring growth opportunities to farmers through high yields and low costs and through contributing to the goal of self-sufficiency in food. The company's corporate mission is to achieve yearly, quarterly, and product-wise targets.

The company sets short-term and long-term goals. The short-term objective concerns achieving annual sales targets, while the long-term objective deals with achieving and maximizing shareholder value over a horizon of approximately 15 years.

The company follows management by objective (MBO) to achieve its vision and mission. Annual budget meetings, as well as planning and feedback meetings, are conducted with respect to short- and long-term objectives.

Mid-level managers and divisional heads work in a group to set objectives and targets. The company firmly believes in individuals being made responsible for assigned/settled results, which the management then considers as the basis for rewards. Management has trained its Human Resources (HR) staff, using follow-up and feedback, to achieve the objectives and organization goals.

The organizational hierarchy of this company is quite flat, in the sense that keeping costs to the barest minimum is a priority, and because a more complex hierarchy would doubtless add to unit costs. With five functional divisions—Finance, Marketing, R&D, HR, and Production—all reporting to the CEO, there is ample coordination at work. The company systematically encourages innovation and creativity. It organizes zonal workshops with a view to fostering innovation among its employees.

CIL has taken the initiative in expanding and diversifying to fulfill market needs, for example, the manufacture and sale of mosquito coils and other products in the category of Fast Moving Consumer Goods (FMCG). Management adopts best-pricing strategies which are competitive and within the buying capability of users. Pricing strategies deeply analyze competitors' prices to determine the best price level.

The company continuously explores new markets in domestic areas. Current markets are agro-chemicals, within which niche segments and new opportunities are continuously being explored. E-marketing is not applicable for this agro-chemical business. CIL shares Internet facilities, gathering and transferring information from local and global sources.

CIL provides best cost, differentiation, and niche strategies based on the nature of the market. Marketing always takes into consideration product, price, placement, and promotion, and marketing plans are revised from time to time per the needs of the market.

"Quality is CIL's commitment." In line with that motto, CIL provides quality products and services and seeks to maintain quality at all costs. CIL ensures quality by practicing Total Quality Management (TQM) in all of the activities of production, sales, marketing, customer service, R&D, HR, etc.

Manufacturing equipment and technology platforms have not as yet reached the stage where replacement is imperative. CIL continually welcomes new technologies for cost-effective production. The company has launched re-training of its employees in line with the requirement of upgrading its equipment stock.

CIL has adopted TQM and KAIZEN (eliminating unnecessary activities) through innovation in all areas including production, sales, HR, and R&D. TQM is sought by achieving close-to-zero defects during production, and KAIZEN is emphasized in CIL's daily activities.

CIL monitors operation and production costs by setting targets and comparing actual with targeted costs. The company reduces costs by adopting economies of scale, utilizing bulk purchasing, maintaining minimum inventories, minimizing reworking and rejects, improving communications, and improving the skills of its sales force.

CIL practices a Business Control System (BCS) in both its accounts (financial analysis) and its marketing (forecasting). All its divisions are familiar with BCS.

Computer software is used in the interest of more timely and cost-effective management of the company's business operations. HR managers are appropriately trained in information sys-

tems. Custom-developed application software has been introduced to the warehouse, in the interest of having an instantaneous enterprise-wide view of mission-critical variables of senior management interest.

CIL compares its business performance against industry competitors: growth in sales, profit, return on investment, and market shares are evaluated. CIL has an HR recruitment policy by which management hires employees from within the company. CIL prefers to promote suitable in-house candidates to fill new vacancies before it advertises.

Every employee has a specific job description approved by the department head. CIL has developed a semester-wise performance appraisal guideline to evaluate employees, and this evaluation is the basis for award of incentives bonuses.

CIL couples staff promotion with performance. Salaries are market-based: packages and incentive proposals are submitted by field managers who compare them with similar companies in the industry; then the department head approves, keeping the remuneration package in line with others in the organization. Salary packages and incentives of the peer group are set in view of the nature of the job. CIL gives two Festival Bonuses and a performance bonus to its employees. Management considers proactive HR policies essential to achievement of high staff productivity. The company offers a semester-wise training program for employees to upgrade their skills, and a specific allocation in the annual budget is devoted to staff training.

The firm focuses on motivational programs in which, for example, the CEO and departmental heads visit the field associates to build rapport and to boost morale of the field forces. CIL attaches great significance to staff job security. Employees are offered opportunities for professional self-advancement through external and internal training and on-the-job training. Promotion is always determined on the basis of merit.

The Department of Agricultural Extension (DAE) has helped CIL by recommending its products to farmers. Government subsidies to farmers have in part helped. The firm has had access to institutional finance. Without such start-up financial intermediation, CIL could not have reached the stage where it is now. CIL has never received grant money from any source.

CIL's repacking unit is located in one of the BSCIC's industrial estates, located some 60 miles from the capital city of Dhaka. This access to BSCIC's fairly well-developed infrastructure has certainly helped.

CIL has benefited from the Internet: it manages its entire supply chain using the Internet. CIL has retained the services of a professional Chartered Accountant (CA) so that its dealings with bankers and accountants are on a solid footing. CIL organizes customer education programs, excursion programs for distributors and retailers, foreign tours, and special rewards for the best marketing performance.

### **Akbar Engineering Works**

Established in 1986, Akbar Engineering Works, a proprietorship in the light-engineering industry, is focused on meeting the requirements of clients for jute and textile mills spare parts. Its vision is to contribute to a greater extent to the growth of the light engineering sector. Its mission is to supply high-quality spare parts to jute and textile mills at competitive prices.

The company's short-term objectives are to obtain more orders to generate cash flow and to maintain impeccable punctuality in order processing and in delivering the product to customers. The long-term objectives are modernization and product diversification and an increased volume of output.

There is no structured action plan for business development. Management normally prepares action plans according to demand-driven orders from customer enterprises. The enterprise has individual responsibility and rewards based on results. Managers should be technically capable of producing output; therefore, the managers organize and manage on-the-job training for human resource development at the shop floor level.

The company follows the principle of management by objective (MBO) to achieve its vision and mission. Annual budget meetings, as well as planning and feedback meetings, are conducted with respect to short- and long-term objectives.

Mid-level managers and divisional heads work in a group to set objectives and targets. The company firmly believes in individuals being made responsible for assigned/settled results, which the management then considers the basis for rewards.

The organizational hierarchy of this company is quite flat, to keep costs to the barest minimum. With five functional divisions—Finance, Marketing, R&D, HR, and Production—all reporting to the CEO, there is ample coordination. The company systematically encourages innovation and creativity and organizes zonal workshops with a view to fostering innovation among its employees.

The enterprise maintains a coordinating and participatory approach among managers, supervisors, and workers. The management has developed and preserved an innovative system for designing and processing output in response to demand from its customer enterprises.

Without taking the initiative to develop new products, diversify into new products, and respond to business opportunities to match market needs or to enter into new markets, it is not possible to survive in this competitive age. The managers determine their firm's pricing policy by collecting information on the market and on their competition, setting the product prices as part of subcontracting.

Akbar maintains a domestic market only. It is too small at the present time to entertain any plans to market overseas through ICT networks. The company stresses the "Four P's" in operations—defined as continuing from the production process to the delivery system.

The company has not yet acquired ISO certification. In any case, its customers do not necessarily put any significant store by ISO certifications, since they purchase primarily custom built spare parts and accessories.

There is no broad-based initiative for changing or updating its equipment and technology, but small units of machinery in the production line have been replaced. The enterprise adopts a change in the technology process by changing or building the capacity of the workforce. The enterprise emphasizes productivity, efficiency, and cost-effective systems in its operation.

The enterprise maintains close supervision in every production process in order to reduce cost through waste management, design re-engineering, and efficient use of supervisors and workers. It also maintains a close and strict measurement system for raw materials.

The management is aware that its recordkeeping systems in the area of accounting, financial analysis, and profit centers are not up-to-date, but the enterprise has regular recordkeeping systems that are processed manually.

The enterprise has not adopted computer software support to manage business operations, but it is looking forward to introducing a computerized system for recordkeeping. It is constantly measuring its performance against its competitors.

Akbar has not maintained a strict recruitment policy but follows a generalized recruitment for hiring. There is an explicit job assignment for each worker/employee. There is no organized performance appraisal system in the firm but one based on yearly revenue and profits; an incentive policy is maintained.

There is no specific promotion policy, but incentives/bonuses are offered based on the overall performance of the firm. The enterprise maintains a market-based salary system. The wage/salary packages and incentives are comparable with other enterprises in the light engineering and metal works industry.

The enterprise has a policy of giving annual bonuses and other financial incentives to its workers. Festival bonuses and incentives are based on basic salaries and wages. Human resource development is considered important for enhancing the productivity of the firm. The enterprise has no separate budget for training and capacity building.

### **Bengal Plastics**

Created in 1980 as a private-limited company, Bengal Plastics's addressable market niche is backward linkage to apparel exports. It makes high-quality plastic accessories for the ready-to-wear apparel industry. Its vision is to become the largest operation of its kind in the country.

There is a lot of competition in this particular product segment. In the short run, the goal is to survive mainly price-based competition, building the company brand on solid product quality, stable prices, and ability to enter into long-term contracts with buyers who buy on bulk, and thus to differentiate the "buying experience" from the competition. The firm's goal in the long run is to overtake competitors and thus consolidate its grip on the domestic industry.

A long-term road map exists, the brainchild of the Chairman of the Board. It has also been translated into annual deliverables, roughly reflective of the long-term objectives. Employees, with a high rate of turnover, are not privy to this process. The firm is very focused in terms of its management objectives and methods.

A number of production processes together hew towards certain common production goals. Teamwork, not individualism, is the hallmark of the technology at work at this firm. Within that framework, there is a well-defined structure of incentives in which rewards and responsibility are rigidly defined and enforced.

This model is primarily the way this firm works. The organizational hierarchy is tiered, with three tiers. The top tier is the Board of Directors, dominated by the founding chairman of the company. The next tier consists of the firm's most senior production managers. The bottom of the pyramid is comprised of the production workers, of whom there were about 95 at the time of the interviews.

The firm strongly believes in innovation, the creation of new ideas. For instance, it has already introduced a kind of lightweight plastic brood-stock for the basic raw material which is sturdier than the predecessor raw material. For example, lighter-weight but sturdier kinds of plastics have been introduced in the manufacture of plastic hangers.

This firm operates in a strictly buyer-driven industry. Often the buyers are global brands such as J.C. Penney, Wal-Mart, and the like, who have set up shop in Bangladesh to take advantage of its cheap female labor. These buyers often buy in bulk at fair-to-steep discounts compared with small buyers. There is a lot of competition in the industry, as the barriers to entry—in the form of skills, proprietary technologies, etc.—are not high. As a result, pricing is very much susceptible to competitive threats.

Currently, the firm is well adjusted in its operations in Bangladesh and Nepal. It sells to buying houses and major international brands that have opened offices in Dhaka. It reached its currently preeminent status by diligent and proactive execution of its business plan and models over many years. Because its distribution channels are not so much "mass-merchandising" as "selective high-end selling," it has not turned to online marketing in a big way. The main point is that this firm is well adjusted in its selling strategy, with a posse of buyers with very little churn. There is no urgent need to innovate in terms of marketing strategies. (Of course, this may change in future.) It has a website.

The marketing strategy of the firm is simple. In this buyer-driven world, it is the customer who defines the requirements. The customer determines the preferred price range. Selling to such a buyer means that one has to meet price and quantity-to-be-delivered targets. Rejects must be the lowest ratio humanly possible. As long as a manufacturer delivers these three fundamentals, the money will flow from the buyer to the seller. The chief marketing strategy is one of gradually accumulating favorable customer referrals and company branding with "references from satisfied customers."

The firm is very conscious of providing quality goods. This is ensured by having strong design, production, and quality control teams at work, and by keeping them well motivated. The heads of these three teams are given unusually close access to the CEO. Because the chairman of the board and his son, also a director of the company, have undergone technical training in plas-

tics technology, the two have a surprisingly in-depth command of the design and quality-control situation at this firm.

The firm has successfully upgraded its stock of equipment and machinery in an effort to diversify its capability range. The new technologies were acquired in an eclectic manner. The chairman has a keen eye for value. Some of the machinery now used in this company was acquired in Thailand and Indonesia in 1998, soon after the peak of the East Asian crisis, when debt-ridden corporations had to raise cash by selling assets at steep discounts. Human resources had to be flexibly retrained after such acquisitions.

The main route to improving productivity is upgrading the technical efficiency of the equipment at work. The firm is big in terms of buying materials, and its CEO has a strong buying record and know-how. Typically, the firm receives discounts on the materials it buys. Large inventories exist, as bulk buying leads to savings in material costs. Keeping a tight lid on the cost of production is more about keeping payroll—the focus of all costs—in check. The company keeps wages tightly under control. Because the firm's efforts to build a pristine brand with a high-quality product have been successful, it does not have the problem of a high churn rate (as is the case with many smaller plastics manufacturers).

The firm has modern business control systems in place, except for systematic forecasting of demand and the like. Geographically distributed applications software is used to update order-entry for the production unit, which is located 50 miles away from the head office (where all sales orders are received). The employees working on the systems have been appropriately trained as users. The firm's management is savvy with regard to the use of ICT in routine business operations. Novel steps taken to implement ICT include creating and harnessing a custom-designed radio link between the corporate headquarters and the factory and designing and creating applications software to automate the most essential aspects of running both the day-to-day and the periodic management of the firm. This is not consciously done. The company has an HR policy, which it strictly follows.

The production workers, security staff, office messengers, etc., are not given written job contracts; job descriptions are more informal. Employees understand what they have to do. Of course, for some important types of white-collar workers, job contracts are offered in writing, and in that case the job descriptions are explicit.

There is no formal system of evaluating the performance of the staff. However, for all its informality, the performance level is reasonably high. There is no formal system for awarding promotions to employees. Salaries are very much market-based. Two festival bonuses and one annual profit bonus are awarded.

Although not egregiously mechanized (in the sense of a very high capital-labor ratio), the production platform in this industry is closer to being machine-paced than labor-paced. Therefore, HR development is not deemed to be a high priority as far as production workers are concerned. However, HR development is viewed as important for design architects in product engineering, marketing, and quality control.

The company organizes regular training programs for some employees to upgrade their skills. The company makes specific allocations in its annual budget for staff training. Internal training is provided to some employees twice a year (in June and December). Staff members in production engineering, marketing, and quality control are given priority in training. Employees are trained by external institutes such as the Bangladesh University of Engineering and Technology (BUET) in Dhaka. Production engineering staff receive priority in such external training.

The firm focuses on motivational programs such as CEO and departmental heads visiting the field associates to build rapport and to boost morale of the field forces. Great significance is attached to staff job security.

Employees are offered opportunities for professional self-advancement through the route of external and internal on-the-job training. Promotion is always determined on the basis of merit. The firm has taken the initiative of opening a subsidiary in Nepal based on a joint venture.

The government has provided a fairly generous package of positive incentives to jump-start the development of downstream industries linked to customer exports. The package includes duty-free imports of needed raw materials, parts, components, a special exchange rate for exporters, a lower-than-commercial interest rate, and access to a given percentage of export receipts at the official rate of exchange to be spent on marketing expenses. This package seems to have been helpful. In particular, the export promotion facilitation has invigorated the firm's development efforts for its own growth. The firm has accessed bank credit. If it were not for the bank credit, the firm would not have been able to fund the first episode of growth that took place about three years after its debut.

The company has access to infrastructure facilities, but it has never received any grant funds or benefited from entrepreneurship development programs or other trainings offered by universities and training institutes. The firm also has not benefited from any technological network, fund, or facilitation.

The company's corporate office is headed by a company secretary who holds an MBA from the Wharton School. Naturally enough, the company has a lot of the "soft skills" of the kind associated with this type of training.

### **Sawkat Engineering Works Ltd.**

Created in 1983 as a proprietorship, initially as a subcontractor in the light engineering industry, Sawkat Engineering began custom-producing parts and smaller components for jute, textile, railway, and agricultural small equipment and spare parts. Its overriding vision is to contribute to the growth of small businesses, particularly in the light engineering sector. Its mission is to supply quality spare parts that meet international standards for customers in the light engineering industry of Bangladesh.

Its short-term objectives are to assist the light engineering sector in alleviating poverty and generating employment and to supply and maintain subcontracting linkages for customer enterprises with the objective of smooth growth in the light engineering sector. Its long-term objectives have been active participation in the growth of the SME sector, modernization and product diversification, and improvement of productivity and practices to ensure the greatest degree of cost competitiveness.

The factory prepares its annual action plan through a process of discussion with all divisions, taking a participatory approach and evaluating in-house performance and failure ratios. The enterprise maintains a certification and reward system. Emphasis is placed on individual responsibility and reward-based results. Customer orders are assigned to particular machines installed in the plant. Therefore, work is procured and measured based on an individual machine and the worker who operates it. Management provides technical training at the shop-floor level. In addition, management regularly sends personnel, including workers, to the National Productivity Organization, SCITI (Small and Cottage Industries Training Institute), and other vocational training institutes for training.

With regard to the organizational structure of the firm, the enterprise does not follow a hierarchical system of management, believing that a participatory approach is always better than leadership by a single individual.

The company believes in innovation and product diversification. However, in Bangladesh's light-engineering industry, "productization" is an expensive firm strategy, as a new product launch needs to be massively supported. There is also the question of issuing warranties, which adds an additional layer of costs. Most small firms therefore concentrate on custom production based on customer orders. However, this firm maintains innovative systems like the KAIZEN system for designing and processing of outputs. Pricing policy is based on output sales and purchases of inputs based on market studies and the positions of competitors.

The company is focused on Bangladeshi enterprises in the industries cited above. It has some 40 clients. ICT-based systems are used for accounting and billing. However, the company

has yet to use the Internet as a mode of selling or advertising or running its business. That stage will come in the future.

The enterprise follows the “Four P’s” strategy in its marketing policy. The company is quite serious about maintaining a high standard of quality in its products. Its motto is: “Quality comes first, and profit may be a logical result.”

The company’s main equipment needs are for lathes, planers, and machine tools. Management is always on the lookout for heavily discounted machines with substantial residual longevity. In this way, the firm has been able to replace several small machines at the end of their economic usefulness with machines of more recent vintage.

The enterprise uses the practices of “Five S’s,” Total Quality Management, and Total Quality Control in its operations. Some management officials have received special training on TQM and Waste Management and use the practices and tools in their factory.

The management has a strong recordkeeping system for monitoring every aspect of costs, both of output and of inputs. The firm is familiar with business control systems such as accounting, recordkeeping, financial analysis, bookkeeping, profit centers, collections, forecasting, etc. Software applications are harnessed in order to help with management of the business, as far as these functions are concerned. The enterprise uses computer systems for recordkeeping, billing, and other business operations. It compares its performance with that of its competitors through market-based information systems.

The enterprise has a recruitment policy which it uses to support high-quality and skilled people in different job elements. There are explicit job assignments for each worker/employee. The Performance Linked Payroll System, a specific promotion policy, and a market-based salary system are used. Festival bonuses and an annual performance bonus are awarded.

Human Resource Development (HRD) is the motto for productivity promotion. The enterprise has no separate training policy. It provides on-the-job training for employees/workers. The enterprise has a well-thought-through employee motivation program. The management stresses a team-building work culture at every level.

Job security is used as compensation for employee performance. The management is careful to show workers on the shop floor that their workplace will accommodate them for career building. HRD, product quality, and environment-friendly systems are the other objectives of this company.

The company debuted during a period when the government of Bangladesh and some of its development partners had launched a program for enterprise development in manufacturing. The focal point of such intervention was the Bangladesh Small and Cottage Industries Corporation (BSCIC). Sawkat Engineering received assistance and promotional guidance from the BSCIC during its formative years. The enterprise has submitted applications to BSCIC (Bangladesh Small and Cottage Industries Corporation) and NASCIB (National Association for Small and Cottage Industries of Bangladesh) and has received permission for formal financing from these financial institutions, but the scope is limited.

The firm has not benefited from any grant funding, but has received Entrepreneurship Development Training from the Small and Cottage Industries Training Institute (SCITI) and the National Productivity Organization (NPO).

The firm has not benefited from any technological network, fund, or facilitation. It has sufficient knowledge-based capability to communicate with banks and financial institutions. There is the potential to work with other sectors—for example providing inputs for manufacturers in jute, textiles, leather, railway, transportation, and agriculture.

## **DEVELOPMENT STRATEGY AND OVERVIEW OF SMALL-SCALE INDUSTRIES (SSIs) IN INDIA**

### **The Indian Economy: Recent Trends**

The Indian economy has been in a resilient mode in terms of growth, inflation, and balance of payments, a combination that offers a large scope for consolidation of growth momentum with continued macro economic stability. The Gross Domestic Product (GDP) of the country grew by 7.5% in 2005–06, compared with 6.3% in the previous year. A GDP at constant prices in excess of 8.0% has been achieved during only five years, two of them in the last three years.

The growth of the agricultural and allied sector for 2005–06 was projected at 2.3%. With good crop prospects, food grain production was expected to reach 209 million tons (MT) in 2005–06, up from 204.6 MT in 2004–05. Some significant dimensions of the dynamic growth in recent years are a new industrial resurgence, an increase in investment, modest inflation in spite of spiraling global crude oil prices, rapid growth in exports and imports, laying of some institutional foundations for faster development of physical infrastructure, and progress in fiscal consolidation.

The industrial sector has also been on a high growth trajectory. The rate of growth in the industrial sector as measured in terms of the Index of Industrial Production (IIP) during April–December 2005–06 was 7.8%. An impressive performance by the manufacturing sector, which grew at 8.9% during this period, contributed significantly to these figures.

The manufacturing and service sectors have become a major driving force for the Indian economy. With both on a strong growth path, India can look forward to a nominal growth rate of 12%. The Macro Economic Indicators<sup>1</sup> are given in Table 1.

Table 1. India's Macro Economic Indicators (as of March 2006)

Population (July 2006 est.)	1,095,351,995
Per capita GDP	USD543
GDP (PPP basis) (2005 est.)	USD3.699 trillion
GDP growth rate in 2004–05	7.5%
Composition of GDP	Services: 51.4% Industry: 28.1% Agriculture: 20.6%
Foreign exchange reserves	USD151,622 million
Food grain production (2005–06)	209.3 million tons
Exports (April–March 2005–06)	USD100,606.92 million
Imports (April–March 2005–06)	USD140,237.65 million

Source: Reserve Bank of India

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<sup>1</sup> CRISIL Research: Annual Monetary and Credit Policy for 2006–07.



### **Economic Indicators for SSIs<sup>2</sup>**

Small-scale industries (SSIs) today constitute a very important segment of the Indian economy, emerging as a dynamic and vibrant sector. The development of this sector came about primarily due to the vision of the late Prime Minister Jawaharlal Nehru, who sought to develop core industry and have a supporting sector in the form of small-scale enterprises. The main features of the SSI sector are:

- It accounts for nearly 35% of the gross value of output in the manufacturing sector and over 34% of the country's total exports.
- It accounts for about 40% of the value added in the manufacturing sector.
- Its contribution to employment is second only to agriculture; this makes it an excellent investment.

### **Industrial Development Strategy**

Though much prominence is given to manufacturing activity because of the connotation of the term "industry," the organized sector includes all the three levels of enterprise: primary (manufacturing), secondary (business/trade), and tertiary (services). The three levels of activity are connected by backward and forward linkages and cannot thrive in isolation.

The five-year plans have the following long-term objectives:

- To increase production and to achieve a high level of national and per capita incomes.
- To achieve full employment.
- To reduce inequalities of income and wealth.
- To create a society based on equality, justice and absence of exploitation.

Thus economic planning is aimed at poverty reduction and social change through democratic socialism, with a focus on a mixed economy.

The second five-year plan prioritized the development of rapid industrialization through public sector participation, highlighting consumer goods development and rationing and control through public distribution and price controls. Emphasis was also placed on generating employment. Though the Industrial Policy Resolutions of 1948 and 1956 focused on large-scale industries, the Industrial Policy Statement of 1977 emphasized the development of the small-scale sector with a three-pronged categorization: cottage and household industries, tiny sector, and small-scale industries.

District Industries Centers (DICs) were set up, and the Khadi & Village Industries Commission was revamped. The industrial policy of 1980 redefined SSIs, enlarging their scope to INR2.5 million, while the 1991 policy shifted 180 degrees towards liberalization, privatization, and globalization. The government also followed a policy of reserving items for exclusive development in the small-scale sector.

### **Growth of Industry: Most Recent Trends<sup>3</sup>**

- The Central Statistical Organization (CSO) released Quick Estimates of the IIP with base 1993–94 for October 2005. The General Index stands at 221.3, which is 8.5% higher than the level in October 2004.
- Industries with accelerated growth in April–October of 2005 are textiles (22%), beverages (17%), basic metals (15%), transport equipment (12.6%), cotton textiles (11.2%), and non-metallic mineral products (8.2%).

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<sup>2</sup> The Micro, Small and Medium Enterprises Act 2006, which defines "medium enterprises," is effective as of 2 October 2006. Hence, throughout this document SMEs are referred to as SSIs.

<sup>3</sup> Federation of Indian Chambers of Commerce and Industry, December 2005.

- Some industries registered slower growth than the industry average. These are machinery and equipment (12%), leather (2%), paper (6.4%), food products (–4.9%), rubber, plastic, petrol, and coal (2.8%), Jute (2.4%), wood (–3.4%), manmade textiles (–1.8%), and metal products (–3.1%).
- Performance of the six core infrastructure industries was lower than in the April–October period of previous year. Cement and finished steel showed a higher growth in April–October 2005 compared to the corresponding period of the previous year, growing at 7.4% and 11.0% respectively.
- Consumer durables production registered a 13.2% increase during April–October 2005, higher than the previous year.
- Capital goods buoyed up, recording a 16.6% growth during April–October 2005. Since September 2005 capital goods have grown more than 20%.
- Intermediate goods, on the other hand, exhibited a sharp decline in growth during April–October 2005 compared to the corresponding period of the previous year.

### Overview of SSIs

Small enterprises are the engine of growth in many economies around the world. Their ability to create jobs, foster entrepreneurship, utilize local skills and resources, and provide depth to the industrial base in the economy make them attractive to policy makers. In India, the performance of the SSI sector has been acknowledged for over five decades. This sector has contributed to the overall growth of the GDP, to employment generation, and to exports. The sector has consistently outperformed large industry on crucial parameters such as production and employment. The status of different parameters of the SSI sector is indicated in Appendices I to VI.

### Promotion of SSIs

Promotion of SSIs has been a conscious policy of the government at both the central and state levels. Support for SSIs in India has been fine-tuned over time and has been proactive—anticipating challenges and threats. In the five decades since independence, it has moved from protection to promotion and, lately, to facilitation and advocacy.

Prior to the Economic Reforms of 1991, the focus of SSI development policies was mainly on protection (reservation of items for exclusive production by SSIs, for example) and concessional incentives (such as tax rebates and subsidies). With liberalization and the opening up of the markets in 1991, this focus shifted to strengthening the competitive edge and capacity-building through facilitation and infrastructure. Major emphasis was placed on quality certification, technology upgrading, and market exposure.

### Thrust Areas

The thrust areas identified for the development of SSI in the Tenth Plan were leather and leather products, textiles and ready-made garments, gems and jewelry, pharmaceuticals, information technology, biotechnology, automobile components, and food processing.

### Current Definitions

The term “SSI sector” has acquired currency following the move towards globalization and liberalization. In the Indian context, the term “medium enterprise” was used only as a matter of course and had no clear definition. The Micro, Small and Medium Enterprises Development (MSMED) Act of 2006, which went into effect 2 October 2006, clearly defines the term “medium enterprise” for the first time. The provisions of the Act are framed to facilitate the promotion and development of micro, small, and medium enterprises and enhance their competitiveness domestically and globally.

According to the MSMED Act of 2006, based on investment limits, the different types of enterprises are defined as shown in Table 2.

Table 2. Definition of Enterprise Types

Type of enterprise	Investment limit (INR million)	
	Manufacturing	Service
Micro	Up to 2.50	Up to 1.00
Small	> 2.5. but < 50.00	> 1.00 but < 20.00
Medium	> 50.00 but <100.00	> 20.00 but < 50.00

#### *Ancillary Industrial Undertakings*

An ancillary industrial undertaking is one that is engaged in the manufacture of parts, components, subassemblies, tooling, or intermediates, or the rendering of services, and undertakes to supply not less than 50% of its production/services to one or more other industrial undertakings; its investment in fixed assets in plant and machinery (whether held on ownership terms or lease or hire-purchase) does not exceed INR10 million.

#### *Women Enterprises*

Women enterprises are SSIs managed by one or more women as a proprietary concern, or in which she/they individually or jointly have a share capital of not less than 51% as partners/shareholders/directors of a private limited company/members of a cooperative society.

#### *Sunrise Enterprises*

In some industry sectors, innovation helps to extend the life cycle as new products replace the old. It therefore becomes necessary to identify sunrise industries within the overall industrial scenario so that an appropriate policy regime can be put in place to enable them to grow and expand. In the Indian context, information technology (IT), biotechnology (BT), pharmaceuticals, and nanotechnologies, along with IT-enabled services, are often cited as sunrise industries. These industries are competitive and in line with fast-changing economic, technological, and global trends. The Ministry of SSI (MoSSI) has encouraged the establishment of more SSIs in these sectors. A number of IT-enabled services have been recognized as SSIs. The investment ceiling for reserved items in the pharmaceutical sector has been enhanced to INR50 million.

However, much more needs to be done. SSI units in software and software-related services often find themselves helpless in the face of predatory pricing by large competitors. A focused industry-specific action plan is therefore needed to promote these industries, which are the potential frontrunners of tomorrow.

#### **Current Performance**

The SSI sector accounts for 90% of industrial enterprises, 40% of total industrial output, 34% of exports, and 7.8% of GDP, with a manufacturing range of 7,500 products. In concrete terms, at the close of FY 2003–04 the sector provided employment to 27.14 million people in 11.40 million units. Its cumulative output is valued at INR1,020 billion on a cumulative fixed investment of INR1,707 billion. The value of exports from the sector is INR397 billion. These performance data are summarized in Table 3.

Table 3. Performance of Small-scale Sector

	No. of units (million)			Production (INR hundred million)		Employment (millions)	Exports (INR million)
	Regd.	Unregd.	Total	(at current prices)	(at constant prices)*		
2002–03	1.468	9.481	10.949 (4.1)	3120 (10.5)	2106 (7.7)	26.0 (4.9)	860 (20.7)
2003–04	1.554	9.841	11.395 (4.1)	3577 (11.6)	2287 (8.6)	27.1 (4.3)	N.A.
2004–05	1.638	10.215	11.853 (4.0)	3990 (11.5)	2457** (7.4)	28.3 (4.2)	N.A.

\*1993–94 prices

\*\*Based on a growth rate of 7.44%, the average growth rate of the previous year

Note: Figures in parentheses indicate percentage growth over the previous year.

Source: Development Commissioner, SSI

### Administrative Environment

Small enterprises not only play a crucial role in providing employment opportunities at lower capital cost than large-scale industries, but they also help in industrializing rural and backward areas, thereby reducing regional imbalances and ensuring more equitable distribution of national income and wealth. SSI units are supplement and are complementary to large and medium-scale units as ancillaries. General administrative support to support this sector is being provided by the MoSSI.

### General Characteristics of Enterprises

#### Structure

The structure of Indian industry took definitive shape in the post-Independence period. Whereas the traditional and heritage sectors were protected under the banners of Khadi and village industries, handlooms, handicrafts, and other traditional industries in the immediate period after Independence, large industries and the public sector were visualized as the vehicles of development and were given wide latitude. However, the importance of small and cottage industries and traditional sectors was soon recognized.

Several intersecting planes show up in the structure of Indian industry. First, there is the primary dichotomy of LSIs (large-scale industries) and SSIs. The former consists of public- and private-sector enterprises, cooperatives, multinationals, and joint ventures. The latter has the further dichotomy of organized and unorganized sectors. There is also the decentralized sector, which includes tiny or micro enterprises, cottage industries, and so on.<sup>4</sup>

#### Legal Status

The second National Commission on Labor recommended passage of a separate legal framework for small enterprises. Accordingly, the Small Enterprises (Employment Relations) Act gave a legal distinction to small enterprises in all matters concerning regulation of workers while keeping intact other dimensions of a commercial and legal nature under existing Acts, and made all other Acts non-applicable to SSIs under certain conditions.

<sup>4</sup> While the documenting of enterprise under unorganized sector is in disarray, the data on enterprise in the organized sector has reasonable clarity and is accessible. The term “enterprise,” unless specifically indicated otherwise, here and elsewhere in general, is used to imply the activities in the organized sector.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *Employment Profile in the SSI Sector*

In the 2003 census, it was found that the SSI sector employed 24,932,763 persons during that period. Woman employees comprised 13.31%, whereas the socially backward classes had a share of 57.45% in total employment in the SSI sector.

### *Management by Owner-Managers*

In most SSIs management of the enterprise is in the hands of one person. Though the organization is registered as a limited company, the Managing Director or the Executive Director is omnipotent but lacks professionalism. As Johan Mayes rightly said, "In a free-market economy the importance of small business as a major job supplier, innovator, and source of growth is widely recognized. Given the importance of small business for an economy, the survival, success, and performance of these firms are an issue of continuous concern."<sup>5</sup> Owners manage most of the enterprises in India.

### *Entry-level Entrepreneurs*

SSIs have their own peculiar ownership concerns. Most of the owners are First-Generation Entrepreneurs (FGEs) who feel and act as if they are owners, managers, and employees. The result is that the enterprise suffers from excessive engagement (both positive and negative) by these entrepreneurs. Most of them suffer from lack of experience, seasoning, and entrepreneurial maturity and vision.

### *Productivity*

It has been estimated that an investment of INR1 million in fixed assets in the small-scale sector produces INR4.62 million worth of goods or services, with an approximate value addition of 10 percentage points. This performance, when compared to growth in the manufacturing and the industry sector as a whole, instills confidence in the resilience of the sector, though its productivity still has a long way to go.

### *Implementation of Quality Standards*

SSIs are entitled to reimbursement of expenditures on Quality Certification, Quality Guidance, and TQM initiatives, subject to certain conditions.

### *Eco-Friendliness*

It is the policy of the government to encourage the manufacture of new products and by-products recovered through the application of pollution control processes. Further, industries desiring to use wastes and effluents in the manufacture of new products are encouraged to do so. Many of the chemicals recovered from pollution control processes and recycling of waste products are reserved for exclusive manufacture in the SSI sector.

SSIs, whether in manufacturing or service, have a long way to go to become eco-friendly industrial entities. Most of them cannot afford pollution control equipment due to the prohibitively high cost. As per the current industrial policy, non-SSI units need to obtain industrial licenses with a 50% export obligation in order to manufacture any of the products reserved for the SSIs. On the other hand, it is felt that if the goods are produced through installation of pollution control processes, the makers should be permitted to export them.

### *Use of IT*

Some SSIs are leaping forward into the field of information technology, but many are not able to use IT due to limited resources. With a view to encouraging IT/software-related projects,

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<sup>5</sup> Johan Mayes, *Learning About Small Business Profitability: The Influence of Management Practices and Owner-Manager Human Capital*.

enhanced credit flow is made available to deserving projects. The Association of Small and Medium Electronics and Information Industries provides consultancy/expertise to banks in assessing IT-related projects.

### *Technology*

Small enterprises are noted for their labor intensity and their ability to work with local resources. In the past, this meant less emphasis on technology. Functional packaging and inadequate finishing have at times led to SSI products being thought of as poor quality. This has a cascading impact on competitiveness. As small enterprises realize the need to compete/link up with large units, they need to reexamine technology options, which could improve their productivity, effectiveness, and competitiveness.

In many sectors in the country common facilities are being established under a cluster approach. Groups of enterprises jointly invest in and use such facilities. The government supports such initiatives through fiscal grants-in-aid. Smaller enterprises are achieving scale economies and investing in large infrastructure projects through such routes.

### **Regulatory Laws**

The vision for the 21st century cannot be realized through a plethora of laws, rules, and regulations governing the SSI sector. There is a need to frame a single unified Act to govern the promotion and development of SSIs in India. SSIs should be free from laws/procedures which cause undue harassment. Inspection should be generally replaced by self-certification. Procedures should be transparent and hassle-free. Similar simplifications are needed in other fields as well. Inspections could be prescribed on receipt of a complaint, in checking samples of products (10% of total units), and for audit purposes. The MSMED Act of 2006 encompasses all these aspects. In addition, it arranges single-window clearances irrespective of whether they are from central, state, or local authorities.

### **Reservation of Manufactured Items**

The government of India has supported the small-scale sector through policy measures since the adoption of a planned economy model. The basic policy support for the SSI sector has its roots in the Industrial Policy Resolution of 1956. Further, the Industrial Policy Statement of 1977 laid emphasis on reservation of items. The reservation of economically viable and technologically feasible products to be exclusively manufactured by SSIs began with a list of 47 items, which was gradually extended to 812 items.

Since quantitative restrictions were lifted in April 2001, affecting the manufacturers of reserved products, the government has endeavored to make the sector WTO-compliant and more competitive during the transition period by way of sensitizing to WTO provisions, keeping import duties at bound rates, maintaining duty differentials on raw materials and finished goods, and providing interest support for technology upgrading and easy access to credit. De-reservation of selected export thrust items has been considered, since the country is losing valuable foreign exchange by production of low-value-added items using traditional or low-grade technology.

The de-reservation of products for exclusive manufacture in the SSI sector will continue in a phased manner because most of the SSI items are making a significant contribution to employment, output, and exports. The position may be reviewed from time to time, taking into account the development and strength of the concerned sector, the market situation, and the implications of agreements between the government of India and the WTO, since with progressively declining tariff barriers production of many items may not be viable for smaller units on competitive terms. They may not have the resources to benefit from scale economy, to upgrade quality, or to meet socio-labor compliance norms in some sectors.

### **Infrastructure Development**

The existing financial provisions for infrastructure development are grossly inadequate. Most of the industrial estates have degenerated into industrial slums as a result of lack of proper upkeep. The Integrated Infrastructure Development (IID) scheme covers all areas of the country, with 50% reservation for backward and rural areas. Industrial estates are being managed by levying charges on the user industries so that these can become self-sustainable in the long run. An Incubation Infrastructure Development Fund on the order of INR100 million has been created to set up incubation centers in the Tenth Five-Year Plan. These centers help skilled young entrepreneurs to start their own ventures, with all the required facilities, including computers, video conferencing, e-commerce, etc., made available in one place.

### **Improving the Linkages and Relationships between SSIs and LSIs**

The present ceiling of equity participation in SSI units has been raised in a phased manner from 24% to 74% for export-oriented items and high-tech items in which collaborations are forthcoming. This has encouraged more foreign collaborations, induction of the latest technologies, modernization, higher foreign direct investment, marketing inputs, etc., in the SSI sector. The mechanism to encourage technology transfer is expected to be provided by the partners through buyer–seller meets organized in India and abroad.

### **Financial Measures**

As discussed elsewhere, with the plethora of financing institutions and schemes available, SSI financing is not a problem. A number of credit schemes have been put in place.

*Priority Lending:* Equal treatment is given to the SSI sector with the agriculture sector under priority sector lending. In order to encourage tiny units to avail themselves of both investment assistance and working finance from a single institution, the existing limit of a composite loan has been increased from Rs.1.0 million to Rs.2.5 million.

There has been a major limitation in this approach in terms of financial institutions sometimes taking the easy/safer way out—supporting the larger among the small-scale units where transaction costs are lower. Smaller units lose out when this is done. Priority sector targets are normally specified in terms of volume of credit disbursed, not number of units assisted.

*Establishing Specialized SSI Bank Branches:* As announced in the Union Budget for 2006, more specialized bank branches have been set up in the areas of SSI concentration. The government is now encouraging proposals to set up SSI branches in every district, with at least one in every important SSI cluster.

*Micro-Credit:* The government, working with the Reserve Bank of India (RBI), has created a favorable environment and an appropriate self-regulatory framework for orderly growth and development of a micro-credit movement.

*National Equity Fund (NEF):* This fund has been developed to help entrepreneurs with respect to security requirements for project loans. The project cost limit under NEF has been raised to INR2.5 million. The government may consider increasing the NEF limit to INR5.0 million, and the soft loan limit may be retained at 25% of project cost subject to a maximum of INR1.0 million per project. The fee to use this facility is chargeable at 5%.

*Direct Lending by SIDBI:* The Small Industry Development Bank of India (SIDBI) enters into a working arrangement with the Lead Bank in each district to meet small enterprises' credit requirements, to expand the reach of specialized programs aimed at strengthening the clients of specialized branches of the banks concerned, and to promote financial intermediaries such as Venture Capital Funds (VCFs), equity funds, marketing consortiums, industrial cooperative banks, incubators, and consultancy services that are operated at the national, state, and district levels by different agencies, including industry associations.

*Credit Guarantee Fund Trust for Small Industries (CGTSI):* The prime objective of CGTSI is to facilitate the flow of collateral-free credit to the SSI sector and to encourage lenders to shift

from collateral-based or security-oriented lending to project-based lending. CGTSI has been trying to achieve this objective by extending guarantees to the commercial banks/institutions, referred to as Member Lending Institutions (MLIs), by sanctioning credit to eligible borrowers based on the viability of the projects, and by seeking guarantee coverage from CGTSI against payment of a one-time guarantee fee and annual service charges. CGTSI guarantees up to 75% of the credit risk subject to a loan of INR2.5 million and a guarantee of INR1.88 million per borrower.

*Sickness-related Issues:* Wherever the unit is not in a position to be rehabilitated, it should be closed down. Thus, there is an urgent need for an exit policy with a focus not only on labor but also on the entrepreneur. Rehabilitation finance is provided to potentially viable but sick SSI units. All rehabilitation proposals are duly registered and monitored at the board level of the FIs and banks. When a unit is categorized as sick, merely making provisions for non-performing assets (NPA) is not enough. Rehabilitation measures must be taken in a specified time period. Revised guidelines for one-time settlements are framed and circulated by the RBI to banks and financial institutions.

### **Fiscal Measures for SSIs**

*Exemption from Excise Registration until Turnover Reaches Exemption Limit:* The present limit on excise exemption of INR5.0 million has been raised to INR10 million so as to make SSI units more competitive and enable them to market their products in competition with large units.

*Special Policy Packages for Underdeveloped States:* In view of the problems faced by industries in underdeveloped regions such as the North Eastern Region, Jammu and Kashmir (J&K), and Himachal Pradesh, liberal policy packages have been revised incorporating both fiscal and financial measures. The government has earmarked 10% of the total plan outlay for the North Eastern states exclusively.

*Credit Guarantee:* The Credit Guarantee Fund Scheme (CGFS) for the SSI sector, launched in August 2000 and operationalized from 1 January 2001, provides guarantee cover up to INR25 million or 75% of the loan. Initially it covered only manufacturing units, but later service units were also included. The rate on this is up to 3% over the prime lending rate (PLR). Service fee is 1%, and the interest is 2.5% per annum. This will be applicable to composite credit. As of July 2004, 16,679 cases were provided with guarantee cover under the scheme, which is implemented by SIDBI.

## **MAJOR PROBLEMS AND CHALLENGES FOR SSI COMPETITIVENESS**

The ongoing program of economic reform is based upon the principles of liberalization, globalization, and privatization. Changes in the international economic scene, including the emergence of the WTO, have brought certain challenges and several new opportunities to the SSI sector. The most important challenge is that of increasing competition, both globally and domestically. At the same time the sector has been facing problems related to institutional credit, infrastructure, technology, marketing, and delayed payment from customers and larger enterprises. In order to enable this sector to maximize its opportunities and function as an engine of growth, it is essential to address these problems effectively and with urgency.

### **Macro Level Challenges**

#### *WTO*

The basic principles of the World Trade Organization (WTO) are non-discrimination between countries, MFN (Most Favored Nation) treatment, free trade, predictability, collaboration, and promoting competition. This implies that if a product is tradable (importable or exportable), its global competitiveness will determine if the product should be made by SSIs in India or elsewhere. Hence, focused initiatives to support product categories and sectors which



show a high comparative advantage and have the scope to realize a sustainable competitive advantage are key.

#### *Intellectual Property Rights (IPRs)*

Intellectual property rights allow the creators of a concept or product to exploit it exclusively for a certain period of time. IPRs include copyrights, industrial designs, patents, trademarks, brand names, etc. The IPR regime has several implications. SSIs in several sectors have been working towards meeting the requirements.

*Enhanced Investment in Indigenous R&D:* Many countries such as India have been following a process-patenting regime which has helped domestic enterprises in many sectors (drugs/pharmaceuticals and electronics, for instance) to develop based upon the R&D and products of developed economies. They did not need to invest very much in R&D themselves. The product patent regime which is now in force, however, implies a necessary change in terms of enhanced investment in R&D. The era of “reverse engineering” is over.

*Protecting Geographical “Brands”:* Under IPRs, scope also exists for protecting and promoting “brand image” and earning “brand equity” from products which are unique to different locations in India. SSIs involved in tea (Darjeeling) and handloom/textile products (Kota, Salem), for instance, have already protected their unique identity under the Geographical Indicators (GI) Act. Awareness of the implications of IPRs is crucial to the survival of SSIs in the context of the WTO.

#### *Quality Standards*

The ISO (International Standards Organization) is responsible for the promotion and development of international standards and related activities, including conformity assessments such as testing, inspection, laboratory accreditation, certification, and quality standards. The ISO 9000 series standards are followed by 45 countries. Its equivalent standard in the Indian context is the Bureau of Indian Standards’ (BIS) 14000 series. In the United States, the series is known as the ANSI/ASQC Q 9000 series. The Small Industries Development Organization (SIDO) provides a program of quality upgrading/environment management for the small-scale sector.

Quality labeling in this context is crucial for SSIs. Product and process standardization requirements are critical, particularly in the case of branded products and exports.

#### *Challenges of Globalization*

The problems for SSIs emanate mainly from their lack of awareness of the significance of IPR and quality standards in the scenario of competition. They have no access to technical information updates and are perpetually short of funds for R&D. Because of this they can face a situation where they might be wiped out by competition from aggressive multinational corporations.

#### **EXIM Policy**

The principal objectives of EXIM Policy are:

- To accelerate the country’s transition to a globally oriented, vibrant economy with a view to deriving maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables, and capital goods required for augmenting production.
- To enhance the technological strength and efficiency of Indian agriculture, industry, and services, thereby improving their competitiveness while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.

To facilitate further growth of SSIs, the implementation of the present Exim Policy must be more effective.

### **Micro Level Challenges (National and Unit Level)**

In most of the developing countries as well as in APO member countries, an overwhelming majority of enterprises (over 90%) are SSIs. All over the globe SSIs face problems of access to domestic and international markets, obsolete technology, unskilled human resources, lack of finance, unavailability of appropriate and timely business information and use of information technology, poor product quality and standardization, environmentally unfriendly production processes, and lack of management systems and entrepreneurial capabilities. The degree of intensity of these problems varies according to the size of the firms, with obviously higher intensity for very small firms.

The changing global scenario of liberalized and borderless markets presents new challenges for SSIs. Economic globalization has enhanced competition worldwide and facilitated implantation of foreign competitors in the domestic markets. Technological evolution has become a real challenge and risk. In this competitive environment, SSIs look to their governments to further level the playing field for their continuous growth. At the same time, however, SSIs need to adapt, revitalize, and reposition themselves in order to seize the opportunities coming to them in the new world order. SSIs need to expand their vision to internationalize their businesses. This requires creativity and innovation—which stem from entrepreneurship.<sup>6</sup>

#### *Conspicuous Absence of Entrepreneurial Mindset*

While central and state governments are working to diagnose and meet the requirements of small entrepreneurs, the mindset of typical Indian youth still focuses on going into “service” after finishing their “education.” Most business schools and academic institutions are working on the prospects of placing students in highly remunerative jobs instead of creating entrepreneurs—a residual trait from the old colonial system. The typical MBA graduate takes pride in getting placed in a multinational corporation or government agency rather than in setting up a small enterprise and “being his own boss.”

#### *Lack of Business Thinking and Ethical Base*

When entrepreneurs set up their own businesses they often lack the acumen to sustain them and the willingness to sacrifice in the present for the sake of the future. They also lack the ethical foundation to resist the temptation to “get rich quick.”

#### *Infrastructural and Other Challenges*

Challenges exist in most locations in the context of physical infrastructure (storage facilities, road, power, water, etc.) and also possible common facilities (testing, effluent treatment, technologically advanced facilities to meet gaps along the supply chain, etc.). The government is now encouraging establishment of these facilities through public–private partnerships.

While government institutions and agencies are working hard in the areas of setting up, financing, standardizing quality, product launching etc., SSI growth still is inhibited by some of the following factors.

*Entry Barriers:* Apart from self-imposed restrictions, setting up new businesses is still difficult because of several types of social inhibitions.

- Women are not being adequately encouraged.
- Entrepreneurship is not being viewed as a career option in “traditionally non-business” communities.

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<sup>6</sup> APO Survey Framework and Questionnaire on Entrepreneurship Development for competitive SMEs.

- It is often a negative push (inability to secure other reasonable means of livelihood) rather than a positive pull that leads to an entrepreneurial career.
- The entrepreneurship idea has yet to spread to tribal and interior villages.

*Difficulties for Existing SSIs:* Those who have set up small-scale enterprises also face problems.

- A dearth of business ethics in terms of largely pursuing unorganized activities affects the scope for realizing adequate institutional finances. This malady is particularly evident among smaller enterprises. Hence, other parameters—improved quality, scope for brand promotion, and growth in the enterprise itself—remain stunted.
- Even in the era of globalization not many SSIs understand that the real competitor is not their neighbor but enterprises in China, Taiwan, Italy, or Indonesia. Hence, cooperative initiatives to build scale economies and bargaining strength vis-à-vis customers and consumers remain below potential. This situation is, however, now being targeted by cluster development initiatives by bodies representing different sectoral ministries.

## **DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS**

### **Promotion of Entrepreneurial Culture**

#### *Entrepreneurship before Independence*

Entrepreneurship in India was traditionally less organized, based on caste and economic systems unique to India. The less organized enterprise activities were in textiles, handicrafts, and woollens that flourished in pre-British India. Manufacturing activity was based on traditional methods, and mercantile communities were involved in marketing and financing. Entrepreneurship in the modern sense in India began with the entry of the East India Company during the 18th century, although British rulers never encouraged local entrepreneurship, being interested only in the export of raw material and the import of finished goods to Britain.<sup>7</sup>

Trading operations were greatly influenced by traditional business communities in India (like Parsees and Banias). During and after World War I, with a demand for several commodities, self-made entrepreneurs started setting up enterprises in spite of the unfavorable climate of British rule.

After Independence (1947), a systematic approach to developing entrepreneurs was adopted through five-year plans and subsequent annual plans of the Union and state governments.

### **Origin of Entrepreneurship**

The National Institute of Small Industry Extension Training (NISIET), now functioning in Hyderabad, India, was set up in the year 1960 on the recommendation of the Working Group on the third five-year plan for small-scale industries. Later, the Ford Foundation supported the institute's activities through a grant. NISIET had a humble beginning with the training of industry-related officials of both Union and state governments, and it has gradually grown into an institution of distinction while modifying its focus to address the emerging needs of the micro, small, and medium enterprise (MSME) sector. NISIET's services and expertise, developed over the course of 46 years, are of benefit not only at the national level; their scope has extended to about 120 countries for promotion and development of MSMEs.

Prior to the 1960s, entrepreneurship in India was a topic of academic and philosophical discussion by economists and other social scientists. Professor David C. McClelland conducted a pioneering study on entrepreneurship, together with NISIET faculty associates, in the early 1960s, disproving the popular belief that “entrepreneurs are born.” A new credo came into

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<sup>7</sup> Sharma K.L., Social Watershed of Entrepreneurial Growth in India.

vogue: that “entrepreneurs are not necessarily born, but can be groomed/developed with systematic training and pro-business interventions.” Since then positive linkages have been established between entrepreneurship and economic development. Any person, irrespective of caste, religion, and region of origin, can learn to be a successful entrepreneur. Based on these trend-setting findings, NISIET has developed the first Entrepreneurship Development Programme (EDP) model, to develop first-generation entrepreneurs.

The SIET<sup>8</sup> integrated model for entrepreneurship development has been tried in several regions of the country. With its successful results, a number of steps were identified and integrated into it, as shown in Appendix VIII. This integrated model indicates that a support mechanism beyond training intervention is necessary to develop entrepreneurs, especially in the developing countries. Promotion of entrepreneurship can be viewed as a cyclic process associated with three types of related activities: stimulatory, supportive, and sustaining. Stimulatory activities are those that stimulate entrepreneurs in any society/community. Supportive activities help entrepreneurs in establishing and running their enterprises, while sustaining activities ensure continued, efficient, and profitable functioning of an enterprise (see Appendix IX).

### **Growth of Entrepreneurship**

During the 1970s various strategies and models were developed and tested for cultivating entrepreneurship in various parts of the country. Many institutions adopted the EDP strategy for creating MSMEs during the 1970s and 1980s. In 1969, Gujarat state established the first Centre of Entrepreneurship Development (CED) in Ahmedabad, which conducted a number of EDPs to attract first-generation entrepreneurs within the state. Later, the Entrepreneurship Development Institute of India (EDI) developed a general EDP model for developing first-generation entrepreneurs nationally.

The following industrial institutions/agencies, set up for promotion of the SSI sector, have begun to organize entrepreneurship development programs:

- Small Industry Service Institutes (SISIs).
- State directorates of industries.
- District Industries Centers (DICs).
- Small Scale Industries Development Corporations (SSIDCs).
- Industrial Infrastructure Corporations (IICs).
- Industrial Development Corporations (IDCs).
- Agro Industries Corporation.
- Khadi and Village Industries Board (KVIB).
- Industrial Technical Consulting Organization (ITCO).

### **Institutional Setup for Entrepreneurship Development**

#### *Promotional Institutions*

*National Institute of Small Industry Extension Training (NISIET)*: Figuratively speaking, NISIET is the mother of entrepreneurship development in India. It was the first Indian institute to provide training to officers dealing with small industries as well as entrepreneurs. The institute pioneered entrepreneurial research in the early 1960s through experiments on achievement motivation, which led to the first entrepreneurship development model. Later, other models and approaches were developed. It heralded the concept of growth centers. Its industrial potential surveys culminated in policy formulation at the central and state levels. At present NISIET is involved with promotion and development of SSIs through a cluster approach.

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<sup>8</sup> In 1962 when NISIET was registered in Hyderabad it was called Small Industry Extension Training (SIET) Institute. It was changed to NISIET in 1984.

*Entrepreneurship Development Institute of India (EDI)*: The success story of CED, Gujarat led to the establishment of an entrepreneurship development institute in Ahmedabad in 1983 with the support of the Industrial Development Bank of India (IDBI), the Industrial Credit and Investment Corporation of India (ICICI), the Industrial Financial Corporation of India (IFCI), and the State Bank of India (SBI). The establishment of EDI has further facilitated the growth of entrepreneurship in the country through its activities of entrepreneurship education, training, and research. EDI programs address entrepreneurs, students, executives, etc., as well as agencies concerned with entrepreneurship development.

*National Institute of Entrepreneurship and Small Business Development (NIESBUD)*: This is another national institute established in 1983 in Delhi by the Ministry of SSI, Government of India, to coordinate and organize entrepreneurship development programs. It is registered as a society under the Government of India Societies Act. Its main goal is to promote, support, and sustain entrepreneurship and small business through training, education, research, consultancy, and other interventions in India and other developing countries. Its main activities include evolving effective training strategies and methodology, standardizing model syllabi for entrepreneurship training, organizing trainers' training programs, and undertaking research in entrepreneurship development. This institute, since its inception, has been concentrating on entrepreneurship promotion in northern India. The emergence of NIESBUD was backed by the SIET pioneering research study.

*Indian Institute of Entrepreneurship (IIE), Guwahati*: IIE began as a branch institute of NISIET, located in Guwahati, to promote entrepreneurship in the northeastern states of India. It became an independent institute in 1994 under the MoSSI and started its operations with the North-East Council (NEC), the Governments of Assam, Arunachal Pradesh, and Nagaland, and SIDBI as the stakeholders. IIE activities include identification of training needs, designing and organizing training programs for entrepreneurs and concerned agencies, evolving effective strategies and methodologies, organizing seminars/workshops, undertaking research in entrepreneurship, and documentation and dissemination of information on self-employment and entrepreneurship. The institution has been undertaking efforts to create an entrepreneurial climate in the northeastern states through its activities.

*State-level CEDs/IEDs*: In addition to the four national institutes, at present there are 14 state-level Centers of Entrepreneurship Development (CEDs)/Institutes of Entrepreneurship Development (IEDs).

- Institute of Entrepreneurship Development (IED), Lucknow (Uttar Pradesh).
- Centre for Entrepreneurship Development of Karnataka (CEDAK), Dharwad (Karnataka).
- Maharashtra Centre for Entrepreneurship Development (MCED), Aurangabad (Maharashtra).
- Centre for Entrepreneurship Development (CEDMAP), Bhopal (Madhya Pradesh).
- Centre for Entrepreneurship Development (CEDMAP), Raipur (Chhattisgarh).
- Institute of Entrepreneurship Development (IED), Bhubaneswar (Orissa).
- The Institute for Enterprise Culture and Entrepreneurship Development (IECED), Cochin (Kerala).
- Himachal Pradesh Centre for Entrepreneurship Development (HPCED), Simla (Himachal Pradesh).
- Centre for Entrepreneurship Development (CED), Madurai (Tamil Nadu).
- Haryana Institute of Public Administration, Gurgaon (Haryana).
- Entrepreneurship and Management Institute (EMI), Jaipur (Rajasthan).
- Centre for Entrepreneurship Development (CED-AP), Hyderabad (Andhra Pradesh).
- Jammu & Kashmir Entrepreneurship Development Institute (J&K EDI), Jammu (Jammu & Kashmir).

- Institute of Entrepreneurship Development (IED), Patna (Bihar).

These institutes were established under the scheme for strengthening the training infrastructure of existing and new entrepreneurship development institutions (EDIs) as envisaged in the policy measures of MoSSI adopted in 1991. During the current financial year the MoSSI has extended financial assistance for the establishment of 25 EDIs in the country.

A few institutions with women as their focus have been established through private initiatives to develop women entrepreneurs in various parts of the country.

*Association of Women Entrepreneurs of Karnataka (AWAKE)*: Established in 1993 in Bangalore, Karnataka, with the mission of empowering women through entrepreneurship development, AWAKE develops, guides, and extends assistance to potential women entrepreneurs in Karnataka through counseling, training, handholding, and peer group support. This is an ISO 9001-2000 not-for-profit, registered society, run by an executive committee elected by the general body every year.

*Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP)*: ALEAP was established in 1993 at Hyderabad, Andhra Pradesh, by several women entrepreneurs with the aim of empowering women to establish small and medium enterprises. Its major activities are identification of projects, guidance for finance, training, organizing exhibitions, and creating industrial infrastructure for developing women entrepreneurs. In 1997, ALEAP set up a centre for entrepreneurship development, with financial support from central and state governments, to promote women entrepreneurs in the state of Andhra Pradesh.

*Consortium of Women Entrepreneurs of India (CWEI)*: A registered society, CWEI works for the economic empowerment of women through entrepreneurship strategy. Its main activities are participating in trade exhibitions, organizing training programs, providing escort services and handholding,<sup>9</sup> and export marketing for the benefit of first-generation women entrepreneurs. In their activities, CWEI widely uses e-governance, e-commerce, and other services. Rural and tribal women with traditional skills have been greatly motivated towards entrepreneurship by CWEI. CWEI has recently started networking with women entrepreneurs of other countries to market the products manufactured by women entrepreneurs in India.

### Support Institutions

*MoSSI and ARI*: The process of liberalization and market reforms has created wide-ranging opportunities for the development of small-scale industries. At the same time, the changing world scenario has thrown up new challenges to the very existence of the sector. The need of the hour is to suitably strengthen the sector so that it can adapt itself to the changed environment and face the challenges boldly and effectively. In order to focus on the issues facing the sector, the government created the Ministry of Small Scale Industries and Agro and Rural Industries (MoSSI & ARI) in October 1999 as the nodal ministry for formulation of policy and coordination of central government assistance relating to promotion and development of small-scale industries in India. In September 2001 it was bifurcated into two separate ministries, the Ministry of Small Scale Industries and Ministry of Agro and Rural Industries.

The MoSSI designs policies, programs, projects, and schemes in consultation with its organizations and various stakeholders and monitors their implementation with a view to assisting the promotion and growth of small-scale industries. The Ministry also performs the function of policy advocacy on behalf of the SSI sector with other ministries/departments of the central government and the state and Union territories. The implementation of policies and various programs/schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, the SIDO; statutory bodies/other organizations like Khadi and

<sup>9</sup> Escort services provide assistance from the stage of identification of a product until the start-up of the unit, including project reports, loans, technical information, etc. The assistance provided after starting-up is called handholding. This includes marketing and counseling on other issues.

Village Industries Commission (KVIC), Coir Board, National Small Industries Corporation (NSIC); and three training institutes: National Institute of Small Industry Extension Training (NISIET), Hyderabad; Indian Institute for Entrepreneurship (IIE), Guwahati; and National Institute of Entrepreneurship and Small Business Development (NIESBUD), New Delhi.

*SIDO*: Many countries have established an SME Development Agency (SMEDA) as the nodal agency to coordinate and oversee all government interventions in respect to the development of this sector. In India, though a separate medium sector has been defined only recently, the Office of the Development Commissioner (Small Scale Industries) [DC (SSI)], also known as SIDO, established in 1954, has been functioning as the nodal development agency for small industries. It provides a comprehensive range of common facilities, technology support services, marketing assistance, and so on, through its network of 30 Small Industries Service Institutes (SISIs), 28 Branch SISIs and Field Testing Stations, four Regional Testing Centers, two Small Entrepreneur Promotion and Training Institutes, and one Hand Tool Design Development and Training Centre. SIDO also has a network of Tool Rooms, Processing-cum-Product Development Centers, and technology and training support institutes which are run as autonomous bodies registered as Societies under the Societies Registration Act, 1860.

SIDO operates a number of schemes for the SSI sector: the Credit Linked Capital Subsidy Scheme (CLCSS) for technology upgrading; the Credit Guarantee Fund Scheme; Quality Upgradation/Environment Management through incentives for ISO 9000/ISO 14001 Certifications; participation in international fairs; purchase and price preference policy; Prime Minister's Rojgar Yogna (PMRY) scheme<sup>10</sup>; the Cluster Development Programme; the Integrated Infrastructure Development scheme; Mini Tool Rooms; Testing Centers; Sub-Contracting Exchanges; the SSI-MDA scheme; assistance to Entrepreneurship Development Institutes; and the scheme of microfinance.

*NSIC*: The National Small Industries Corporation Ltd. was set up in 1955 with a view to promoting, aiding, and fostering the growth of small-scale industries in the country, focusing on commercial aspects of these functions. NSIC continues to implement its various programs and projects throughout the country to assist SSI units. The Corporation has been assisting the sector through schemes and activities such as supply of both indigenous and imported machines on easy hire-purchase terms; composite term loans and credit rating for small-scale industries; procurement, supply, and distribution of indigenous and imported raw materials; marketing of small industries' products; export of small industries' products and developing their export-worthiness; enlisting competent units and facilitating their participation in the government Stores Purchase Programme; training in several technical trades; sensitizing SSI units on technological upgrading through software technology parks and Technology Transfer Centers, mentoring, and advisory service; technology business incubators; setting up small scale industries in other developing countries on a turnkey basis; and other areas of international cooperation.

*National Commission for Enterprises in the Unorganized Sector (NCEUS)*: The National Commission for Enterprises in the Unorganized Sector was established in September 2004. The Commission recommends measures considered necessary to bring about improvement in the productivity of informal sector enterprises; to generate large-scale employment opportunities on a sustainable basis, particularly in rural areas; to enhance the competitiveness of the sector in the prevailing global environment; to link the sector with institutional support in areas such as credit, raw material, infrastructure, technology up-grading, marketing, and formulation of suitable arrangements for skill development.

*Khadi and Village Industries Commission (KVIC)*: Set up in 1957, KVIC assists with the development, promotion, and dispersal of traditional industries in rural and urban areas. Some of its major functions are the planning, promotion, organization, and implementation of programs for the development of Khadi and other village industries in rural areas in coordination with

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<sup>10</sup> This is a national self-employment scheme for educated unemployed youth.

other agencies engaged in rural development wherever necessary; building up reserves of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials as semi-finished goods, and facilities for marketing of KVI products, apart from organizing training for artisans engaged in these industries and encouraging cooperative efforts among them; encouraging and promoting research in production techniques and equipment employed in the Khadi and village industries sector and providing facilities for the study of problems relating to it, including the use of non-conventional energy and electric power with a view to increasing productivity, eliminating drudgery, and otherwise enhancing their competitive capacity, and arranging for dissemination of salient results obtained from such research; and providing financial assistance to institutions as well as individuals for development and operation of Khadi and village industries and guiding them through supply of designs, developing prototypes, and providing other technical information.

*Coir Board:* India accounts for more than two-thirds of world production of coir and coir products. Kerala is the home of the Indian coir industry, particularly white fiber, accounting for 61% of coconut production and over 85% of coir products. Although India has a long coastline dotted with coconut palms, the growth of the coir industry in other coastal states has been insignificant. The Coir Board was set up in 1953 to service the needs of the coir industry. The development programs so far undertaken have aimed at revitalization of coir cooperatives, improvement in quality, and product diversification. Efforts were also made to explore wider export markets for coir and coir products. Judged from the increase in production and employment, progress has been rather slow, and exports in physical terms have remained more or less static.

*Ministry of Food Processing Industries (MoFPI):* Set up in July 1988, the MoFPI is the nodal agency of the government of India for processed foods and is responsible for developing a strong and vibrant food processing sector with emphasis on:

- Stimulating demand for appropriate processed foods.
- Achieving maximum value added and byproduct utilization.
- Creating increased job opportunities, particularly in rural areas.
- Enabling farmers to reap the benefits of modern technologies.
- Creating surpluses for exports.

The Ministry concerns itself with fruits and vegetable processing, food-grain milling, dairy products, processing of poultry and eggs, meat and meat products, fish processing, bread, oil seeds and meals (edible), breakfast foods, biscuits, confectionery (including cocoa processing and chocolate), malt extract, protein isolate, high-protein foods, weaning foods and ready-to-eat food products, beer (including non-alcoholic beer), alcoholic drinks from non-molasses base, aerated waters/soft drinks and other processed foods, specialized packaging for food processing industries, and technical assistance and advice to the food processing industry. The Ministry also interacts with various promotional organizations, for example, the Coffee Board, the Tea Board, the Cashew Nut Board, the Coconut Board, the Rubber Board, the Agricultural and Processed Food Products Export Development Authority (APEDA), the Marine Product Export Development Authority (MPEDA), the National Dairy Development Board, the Spices Board, etc.

*National Manufacturing Competitiveness Council (NMCC):* The National Common Minimum Programme, launched in 2004, identified the need to have a continuing forum consisting of representatives from the government, industry, and academia for policy dialogue to energize and sustain the growth of the manufacturing industry. This is an interdisciplinary and autonomous body at the highest level that serves as a policy forum for credible and coherent policy initiatives. Food processing, textiles and garments, engineering, consumer goods, pharmaceuticals, capital goods, leather, and IT hardware are among the priority items specifically men-



tioned in the Common Minimum Programme. The council will also help in immediate implementation.

Broadly, the role of the council includes identification of manufacturing sectors having the potential for global competitiveness, dealing with problems and constraints in such sectors with respect to structure and size of industry, technology gaps, modernization needs, etc., and evolving sector-specific strategies for enhancing the competitiveness of manufacturing sectors. Its functions would, inter alia, include sectoral and enterprise-level initiatives, innovation and technology development (R&D), entrepreneurship promotion, infrastructure and enabling facilities, trade and fiscal policies, and generation of employment.

*State Level Institutional Support:* State governments execute different promotional and developmental projects/schemes and provide a number of supporting incentives for development and promotion of the small-scale sector in the respective states. These are executed through state Directorates of Industries, which have District Industries Centers (DICs) under them to implement central/state-level schemes. The State Industrial Development Corporation and State Financial Corporations look after the needs of the small-scale sector.

*Public-Private Partnerships (PPP):* Recent government initiatives for the growth of micro, small, and medium enterprises (MSMEs) have been oriented towards PPP. Several private organizations like TANSIA FNF Service Centre, FISME (Federation of Indian Micro, Small and Medium Enterprises), ASSOCHAM, FICII, and CII have been involved in promoting these sectors. Their role will be discussed in detail later.

### **Financial Institutions**

*Reserve Bank of India (RBI):* As a central bank for the country, the bank gives guidelines and directions to all sectors of the economy. The RBI has resorted to “moral suasion” from time to time to improve credit delivery from banks to the small-scale sector.

- Public-sector banks have been advised to operationalize more specialized SSI branches at centers where there is a potential for financing many SSI borrowers.
- Banks have also been advised to accord benefits of lower spread over the PLR to SSI units with a good track record.<sup>11</sup>
- Banks have been advised to delegate enhanced powers to branch managers of specialized SSI branches so that most of the credit proposals are decided at the branch level.
- A single window scheme is being extended to all districts to meet the financial requirements of SSI units.

The feedback received from the SSI units shows that a great deal remains to be done and that the responsible banks have not fully implemented the policy initiatives at the ground level.

To cater to the needs of the SSI sector in the country and to address the issues related to credit flow and other important matters, banks have formulated various special committees in close collaboration with the planning commission. Important among them are the Nayak Committee (1991–92), the S.L. Kapur Committee (1997–98), and the S.P. Gupta Study Group (July 2000). Based on their recommendations, a comprehensive policy package was announced in August 2000 that included:

- Launch of a Credit Guarantee Scheme to cover loans up to INR2.5 million.
- Launch of a Credit Linked Capital Subsidy Scheme to provide subsidies against loans taken for technological upgrading.
- Raising the composite loan limit ceiling to INR2.5 million.

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<sup>11</sup> This is a credit rating scheme encouraging the policy of ranking the SSIs on the basis of their repayment behavior under which bankers can, at their discretion, issue concessions or penalties to entrepreneurs based on their repayment pattern.

- Raising the project cost limit under the National Equity Fund to INR5.00 million.

*Small Industries Development Bank of India (SIDBI):* The Small Industries Development Bank of India (SIDBI) is an apex bank that since 2 April 1990 has provided direct/indirect financial assistance under different schemes to meet the credit needs of the small-scale sector and to coordinate the functions of other institutions in similar activities. SIDBI offers the Direct Discounting of Bills (Components) Scheme, the Technology Development and Modernization Fund (TDMF) Scheme (both direct and indirect assistance), the Single Window Scheme Through Primary Composite Loan Scheme of Lending Institutions, the Scheme for Financing Activities Relating to Marketing of SSI Products, the Scheme of Direct Assistance for Development of Industrial Infrastructure for SSI Sector, the Export Credit Scheme, the Venture Capital Scheme, etc. New initiatives taken by SIDBI to boost the growth of SSIs are two subsidiaries—SIDBI Venture Capital Limited and SIDBI Trustee Company Limited—formed to oversee venture capital, the Technology Bureau for Small Enterprise formed to oversee technology transfer, Match-making Services, Finance Syndication and Facilitation of Joint Ventures, a Marketing Finance and Development Department to set up a Marketing Development Assistance Fund, an International Finance Department, an International Co-operation Division, and a Foundation for Micro Credit.

*Exim Bank of India:* The Exim Bank of India was set up in 1982 by an Act of Parliament for the purpose of financing, facilitating, and promoting India's foreign trade. It is the principal financial institution in the country for coordinating the work of institutions engaged in financing exports and imports. During the year, the government has released INR1,000 million towards subscription to the share capital of Exim Bank.

*IFCI Ltd.:* As per the restructuring package, the government has assumed the liabilities of the IFCI in respect to government-guaranteed SLR bonds and retail borrowing of investors below INR0.1 million. The government will also service the borrowings of IFCI from ADB and KFW.

*NABARD:* The National Bank for Agriculture and Rural Development (NABARD) was established on 12 July 1982 by a parliamentary act, with an initial capital of INR1,000 million. The capital has since been enhanced to INR20,000 million, underwritten by the government of India and RBI. NABARD provides short-term refinance for various types of production/marketing/ procurement activities and sanctions credit limits to SCBs on behalf of each of the eligible DCCBs. It is an apex bank catering to the credit requirements not only of the farm sector but also of the non-farm sector in rural areas.

## **Specific Policy Initiatives for Entrepreneurship Development**

### *Ministry of Small-Scale Industry*

*EDI Schemes:* The central assistance provided under the scheme would only be catalytic and supplementary to the efforts of respective states/other agencies involved in entrepreneurship development. Financial assistance will be provided for creating infrastructure such as buildings, training equipment, and support services on a matching basis from the state governments, restricted to INR1 million in each case. The MoSSI will implement the scheme through state governments/union territories. These institutes are making efforts to organize various kinds of activities to promote entrepreneurial culture in the respective states.

*National Entrepreneurship Development Board (NEDB):* This is the apex body for entrepreneurship development. It devises and recommends government schemes for the promotion of entrepreneurship through self-employment or setting up small-scale industries and small businesses. Grants are provided to reputable organizations engaged in entrepreneurship development for organizing workshops and seminars, conducting research in entrepreneurship development, etc.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

*Entrepreneurship and Business Development Centers (EBDCs):* The EBDC program is being implemented through selected universities/colleges/regional engineering colleges and other institutions and organizations. It is initially in operation for two years with an extension of two more years in deserving cases. After four years the host institution assumes the responsibility of continuing the scheme and arranging the funds for it.

*Scheme of Surveys, Studies, and Policy Research:* Under this program the MoSSI provides funds for organizing surveys and research studies on topical issues in the SSI sector. Training institutes, universities/colleges, NGOs, and other industry associations conduct surveys and studies on various issues of entrepreneurship development and problems of first-generation entrepreneurs that are published for wider dissemination.

*Scheme of International Cooperation:* Technology infusion and/or upgrading of MSMEs, their modernization, and promotion of exports are the principal objectives of assistance under this scheme. It covers activities like participation of entrepreneurs in international exhibitions; buyer–seller meets, deputation of business delegations to other countries for technology upgrading, facilitating joint ventures, improving markets, etc. It also holds international conferences and seminars of topical interest.

*SIDO:* This agency advises, coordinates, and formulates policies and programs for the development and promotion of the small-scale sector. It also maintains liaisons with central ministries and other central/state government agencies/organizations, including financial institutions, operates a number of schemes, prepares guidelines, and disseminates information through publications.

### *Ministry of Agro and Rural Industries (MoARI)*

Under this ministry KVIC and Coir Board implement their respective schemes to develop rural entrepreneurship. The flagship program, PMRY, was launched in 1993 to assist educated unemployed youth in setting up small enterprises, the one scheme that was able to penetrate the rural masses for developing entrepreneurs. It is implemented by state industries departments through District Industries Centers (DICs) and other government organizations.

*Rural Employment Generation Programme (REGP) Scheme:* KVIC launched the REGP in 1995 to generate employment in rural areas under the KVI sector. The scheme is implemented through KVIC with fund assistance from public-sector banks, rural banks, KVI Boards, and other institutions as approved by KVIC. This scheme promotes entrepreneurial culture particularly in rural areas, and entrepreneurial development training is important for the selected entrepreneurs. During 2004–05, 0.53 million entrepreneurs were developed through the scheme. In addition, KVIC also extends fund assistance to public and private institutions for organizing EDPs in the KVI sector. The Coir Board under the MoARI also facilitates EDPs through public and private institutions to develop entrepreneurs in the coir sector. Their programs focus primarily on skill development with entrepreneurship input. Coir units are concentrated in southern and eastern India.

### *Ministry of Science and Technology*

The Department of Science and Technology (DST) under the Ministry of Science and Technology has made significant efforts to tap the talents of the country's science and technology students through entrepreneurship strategy.

*National Science and Technology Entrepreneurship Development Board (NSTEDB):* Established in 1982, NSTEDB helps promote knowledge-based, technology-driven entrepreneurship. The board aims to convert job seekers into “job generators” through science and technology interventions. The main objectives of NSTEDB are to promote an entrepreneurial culture among science and technology individuals, to facilitate and launch promotional services for developing entrepreneurship, and to network with various supporters, including academic

and R&D institutions, in fostering entrepreneurship. With these objectives in mind, NSTEDB offers the following training programs:

*Entrepreneurship Awareness Camps (EACs):* With a view to educating students as well as faculty at S&T institutions, three-day EACs are conducted on academic campuses by specialized institutions. The goal is to create awareness among the students about entrepreneurship as an alternative career option. The EAC helps the student community understand the role of entrepreneurs and the entrepreneurship process, especially in the areas of science and technology. Over 0.1 million students have attended these camps since they were established in 1982.

*Entrepreneurship Development Programmes:* The DST organizes/sponsors EDPs of 6–8 weeks based on the SIET model with the aim of training S&T graduates and diploma holders in the essentials of successfully conceiving, planning, initiating, and launching an enterprise. They are conducted by specialized institutions.

*Faculty Development Programmes (FDPs):* Through FDPs, (S&T) faculty are trained in entrepreneurship development to motivate S&T students towards entrepreneurial careers. State and national-level professional EDIs are involved in organizing these programs.

*The Open Learning Programme in Entrepreneurship (OLPE):* OLPE has been initiated with the help of EDI, Ahmedabad, for S&T individuals to speed up the process of entrepreneurship promotion by training a large number of beneficiaries in a short time. This 11-month distance education program provides potential entrepreneurs in different parts of the country not only with study material, but also with guidance from resource experts during the contact sessions.

*Technology-based Entrepreneurship Development Programme (TEDP):* TEDP is a six-week structure-based program designed to develop and motivate entrepreneurs in specific products/technologies/processes developed by CSIR labs and other R&D institutions. This is also based on the EDP concept, with a more technical focus.

*Institutional Mechanism:* In addition to training programs, NSTEDB has created Entrepreneurship Development Cells (EDCs) to create an entrepreneurial culture in S&T academic institutions, foster techno-entrepreneurship in the country, and encourage enterprise startups for the creation of wealth and employment. The EDCs are established in S&T academic institutions and universities having expertise and infrastructure.

*Science and Technology Entrepreneurship Development (STED):* This project aims to bring about socioeconomic development in the selected area through S&T intervention. The project envisages matching the material and human resources of the district to create enterprises based on S&T processes. The STED project has been launched in 39 districts.

*Science and Technology Entrepreneurship Parks (STEPs):* STEPs help create an atmosphere for innovation and entrepreneurship through interaction between academia and industries in sharing ideas, knowledge, experience, and facilities for the development of new technologies and their rapid transfer to the end user. The main objective of STEPs is to forge linkages between academic and R&D institutions on the one hand and industry on the other. They also promote innovative enterprises by techno-entrepreneurs. The departments have so far catalyzed 15 STEPs in different parts of the country that have promoted 788 units, generating an annual turnover of INR1300 million. More than 100 new products and technologies have been developed by STEPs or STEP-promoted entrepreneurs. In addition, more than 11,000 persons have been trained through various skill development programs conducted by STEPs.

*Technology Business Incubators (TBIs):* As an initiative for technology-led knowledge-driven enterprises, TBIs provide a host of services to new as well as existing entrepreneurs in the region and offer a congenial atmosphere for their survival and growth. New technologies have been identified and S&T entrepreneurs assisted through TBIs.

*Ministry of Heavy Industries and Public Enterprises*

Public sector reforms were initiated in 1991 as part of the process of economic liberalization, confronting public sector enterprises (PSEs) with new challenges. PSEs have adopted restructuring and rationalization strategies to survive and grow in the competitive environment. Rationalization of surplus and redundant manpower was the inevitable result, and PSEs have introduced voluntary retirement schemes (VRS) for their employees. The Counseling, Retraining and Redeployment (CRR) Scheme was introduced by the Department of Public Enterprises under the Ministry of Heavy Industries and Public Enterprises, Government of India, to rehabilitate these rationalized workers through self-enterprise creation. It provides counseling, retraining, and redeployment services for the rationalized employees of PSEs to enable them to adjust to the new environment and create small business enterprises after their separation from the PSEs. This scheme is implemented by nodal agencies to inculcate entrepreneurial culture among surplus manpower. Since its inception in 2001, over 0.1 million employees have benefited.

*Ministry of Food Processing Industries (MoFPI)*

Since liberalization, food processing and agro industries have been accorded high priority. The MoFPI is facilitating EDPs through nodal agencies to attract potential entrepreneurs for the creation of food processing enterprises. The nodal agencies function at the national level, implementing agencies at the field level. Through this project enterprise development inputs are shared by these agencies in a more comprehensive way in order to promote the maximum possible number of enterprises in the food processing sector.

**Prominent Private Initiatives**

*Confederation of Indian Industries (CII)*

A prominent industrial association, CII works to create and sustain an environment for the growth of industry through advisory, training, and consultancy services. It is one of the oldest organizations, founded 110 years ago, with a direct membership of 5,800 organizations from private and public sectors, including SSIs and MNCs from over 95,000 companies in around 325 national and regional associations. With its massive size, CII acts as a facilitator, catalyzing change by working with the government on policy issues, enhancing efficiency and competitiveness, and expanding business opportunities for industry through a range of specialized services. CII's activities are mostly oriented to medium and large industrial enterprises. However, CII also serves the cause of the SSI sector through its participation with both state and central governments in policy issues and in improving the industry through sponsoring business fairs and organizing specialized courses on WTO, TQM, technology, and IPR.

*Federation of Indian Chambers of Commerce and Industry (FICCI)*

FICCI, with its nationwide membership of over 1,500 corporate and over 500 chambers of commerce and business associates, espouses the shared vision of Indian businesses. Its membership is drawn from large, medium, small, and tiny segments of the manufacturing, trade, and service sectors. FICCI provides business solutions to members through research, interactions at the highest political level, and global networking.

*Federation of Association of Small Industries of India (FASII)*

Promoting and development of SSIs, cooperating with industries and other institutions, and undertaking consultancy and research studies are FASII's mission. It also establishes trade centers and test centers for strengthening SSIs in the country, offers services such organization of conferences, economic analysis, and interpretation of policies, and takes members' grievances to the government for consideration.

*Federation of Indian Micro and Small and Medium Enterprises (FISME)*

FISME is a post-liberalization NGO set up to prepare Indian SSIs to the challenges of changing economic realities. Headquartered in New Delhi, FISME networks with more than one million SSIs through state-level SSI associations. FISME believes that use of e-commerce, participation in fairs, and trade delegations are important tools for marketing SSI products in the current millennium. It also believes that the biggest challenge for SSIs is understanding the WTO and its implications. It organizes trade fairs exclusively for SSIs, leads delegations to events in other countries, and provides for the interface of SSIs with visiting foreign trade delegations. It also publishes reports and studies covering the focused areas of SSIs. FISME is on the way to expanding its activities to help the SSI sector to face the challenges of globalization.

*Associated Chamber of Commerce and Industry (ASSOCHAM)*

One of India's premier associations, ASSOCHAM has over 100,000 companies and professionals in India as members. It represents the interests of industry and trade, interfaces with government on policy issues, and sits on national and local bodies to convey industry viewpoints. It also participates in issues relating to public-private partnerships for economic development. ASSOCHAM assists its members in dissemination of information, policy analysis, training and consultancy, industry and government interface, and enhancing international business relations; it contributes primarily to enhancing the Indian economy at the macro level. It participated in the deliberations of the Working Group on Small Scale Industry to develop its tenth plan and in the steering committee on the village industries sector.

*All India Manufacturers' Organization (AIMO)*

Founded by Shri M. Vishweshwaraiah, who worked relentlessly for industrial development, AIMO is located in Chennai; its members are mostly small, medium, and large enterprises in southern and central India. It organizes research, established the Vishweshwaraiah Industrial Award, and promotes an R&D trust.

*World Association for Small and Medium Enterprises (WASME)*

An NGO headquartered in New Delhi, WASME is comprised of members of national government, chambers of commerce and industry, small business authorities and associations, banks and financial institutions, and training and consultancy organizations working in the developing countries. WASME organizes international conventions, information services, and economic research for the development of small and medium enterprises in India and other developing countries.

The industrial associations so far discussed have regional branches in various parts of the country. In addition, there are a number of regional/state-level industry associations working for the development of SSIs through various activities at the regional level. Such regional associations are sometimes linked up with national industry associations. Associations promoting women entrepreneurs have already been discussed.

Industry associations play a very significant role in bridging government and industry to create a conducive climate. However, they have been inadequate in addressing the genuine problems of SSI entrepreneurs. The associations need to learn new ways of collaboration, to network with various organizations in the country and abroad, and to support SSIs in their efforts to be competitive in the present global scenario. With respect to larger small enterprises as well as medium enterprises, the national associations play a critical role in facilitating/providing business advisory/development services—leading delegations abroad, facilitating technology tie-ups, joint ventures, etc.—apart from their critical role in policy advocacy.

## **Technology and Information**

### *Department of Scientific and Industrial Research (DSIR)*

The primary purpose of DSIR, an organ of the Ministry of S&T, is to promote R&D among the industries, support a large cross-section of small and medium industrial units to develop state-of-the-art globally competitive technologies of potential, catalyze faster commercialization of lab-scale R&D, enhance the share of technology-intensive exports, strengthen industrial consultancy and technology management capabilities, and establish a user-friendly information network to facilitate scientific and industrial research. It also provides a link between scientific laboratories and industrial establishments for transfer of technologies through the National Research Development Corporation (NRDC) and facilitates investment in R&D through Central Electronics Limited (CEL).

### *National Research Development Corporation (NRDC)*

NRDC, established in 1953, is one of the oldest organizations functioning under DSIR, with the objective of developing, promoting, and transferring the technologies emanating from various national R&D institutions. Headquartered in New Delhi, NRDC intends through its services to improve the manufacturing base with innovative technologies and acts as an effective catalyst translating innovative research into marketable industrial products. Its ambit of support varies with technologies across sectors. However, certain gaps exist in creating awareness among the potential and existing SSIs about its services. NRDC's repository of indigenously developed technologies includes drugs and pharmaceuticals, biotechnology, metallurgy, electrical and electronic technologies instrumentation, building materials, mechanics, and food processing. It also exports proven technologies to both developed and developing countries.

### *Developing Techno-entrepreneurs*

The technology development and innovation program operates the Techno-Entrepreneur Promotion Program (TEPP) to promote, support, and assist individual innovators in becoming technology-based entrepreneurs. TEPP also assists technopreneurs in networking and forging linkages with other constituents of the innovation chain for commercialization of their developments. It also provides financial support to selected and screened individual innovators to convert original ideas into working models and prototypes.

### *Central Electronics Limited*

CEL holds a unique position among the family of public-sector enterprises in electronics, with emphasis on indigenous technology, inducted both from its in-house developments and from national laboratories, for its production program in diverse high-technology areas of national importance.

### *Council of Scientific and Industrial Research (CSIR)*

CSIR is the autonomous national R&D organization providing scientific industrial research for India's economic growth and human welfare. It has a country-wide network of 40 laboratories and 80 field centers converting fundamental and applied R&D in all areas of science and technology (except atomic research), developing and nurturing S&T human resources for the country through extramural support, and promoting scientific talent through awards, fellowships, etc.

### *Consultancy Development Centre (CDC)*

In emphasizing the need for effective use of consultancy in various departments CDC has made significant strides. Consolidating its position as a center for consultancy promotion, CDC offers a vast range of services to consultants augmenting skills, creating a platform for interaction, disseminating valuable information, enhancing business opportunities, etc.

### *Information and Communication Technology (ICT) and Indian SSIs*

In the current era of globalization, ICT plays a crucial role in enhancing the export competitiveness of Indian SSIs. Today, SSIs in India are grappling with rapid changes in the marketplace, transitioning from a controlled economy to a free-market setup. ICT adoption in Indian SSIs can be evaluated by using a four-stage model:

- 1) Basic ICT infrastructure.
  - Computers in selective roles.
  - Basic level computerization and LAN for office automation, communication/promotion purposes (Internet, e-mail, websites, product catalogs, etc.).
- 2) Functional automation: Computerization in selective functions (financial accounting, payroll, HR, invoicing in sales).
- 3) Business automation: Computerization in core business processes, process automation, and integration.
- 4) Business integration: Computerization of business networks.

The above applications are implemented by modern SSIs. The micro sector has yet to adopt computer applications to achieve market competitiveness under globalization. However, more and more SSIs are adopting the use of web-based portals, databases, and information networks in their business operations to sharpen their competitive edge in international markets. While basic ICT infrastructure and functional automation are being progressively employed by the SSI sector, deployment of business automation and integration are still in a stage of relative infancy.

### **Entrepreneurship Training and Education**

The Kakinada experiment, under the guidance of David C. McClelland, was a ground-breaking effort in the field of entrepreneurship research and training in India in the early 1960s. McClelland postulated (1965) that the need for high achievement (n-ach) was an essential ingredient for the emergence of entrepreneurs and that it could be taught in order to stimulate economic growth. He speculated that external resources (materials, markets, trade, trade routes, etc.) were as important as the entrepreneurial spirit that exploits those resources. He believed that economic activity could be increased through training of potential/prospective entrepreneurs, a belief that was experimentally tested in programs in Kakinada, Hyderabad, and Bombay in India and Barcelona in Spain. McClelland's theory of achievement motivation pioneered and molded entrepreneurship training and education in India and many other developing countries. The theory was put to use to motivate poor, illiterate, disadvantaged, and other non-business communities to empower themselves through creation of enterprises. SIET (now called NISIET) developed an integrated model with appropriate training modules to develop entrepreneurs through pre-training, training, and creating a favorable climate in the area/region. This model was tried in Assam, Jammu and Kashmir, Karnataka, Maharashtra, Nagaland, and Orissa in 1970. NISIET has also pioneered trainers' training programs to develop potential trainers in local areas. Target-specific training programs to motivate educated, unemployed youth, technicians, rural youth, women, and artisans were also systematically developed. Product-specific programs such as engineering, chemical, plastics, and food processing were also designed based on the needs and local resources of the area. Individuals interested in these product lines emerged as successful entrepreneurs through these programs.

### **Spread of the Entrepreneurship Movement**

SIET's Kakinada experiment led to a series of initiatives, models, and strategies for the growth of entrepreneurship training and education in India. Gujarat Industrial Infrastructure Corporation (GIIC) in the state of Gujarat developed the first EDP in 1970. GIIC organized schemes for aspiring individuals who could not secure loan assistance from commercial banks due to restrictive terms and limited resources. Under these schemes, loans of up to 100% of the project



costs were offered with easy terms and conditions based on the competencies of the person and the viability of the project, irrespective of the financial background of the entrepreneur. Over 300 business units were established, mostly by first-generation entrepreneurs from non-business communities. This experience revealed the existence of untapped entrepreneurial potential in non-business communities. Easy finance was the major factor in attracting the new breed of entrepreneurs.

Following the encouraging results at NISIET and GIIC, a number of institutions began to develop entrepreneurs through training and facilitating interventions in many parts of the country. The EDP mainly focused on entrepreneurial stimulation through a training-cum-counseling package that includes motivation, project guidance, managerial orientation and information, preparation of a project plan, and implementation of the project. The duration of the EDP varied from a few days to three months. There was a need for more resource agencies to spread the concept of entrepreneurship throughout the country. The Entrepreneurship Development Institute of India (EDI) at Ahmedabad, Gujarat, was established in 1983 to undertake research, consultancy, and training in entrepreneurship and to assist state-level organizations around the country. The EDI combined NISIET's entrepreneurship model and its own academic resources for active participation in entrepreneurship development activities. EDI's programs are aimed primarily at special target groups, such as rural entrepreneurs and women, and its innovativeness lies in human resource development.

NIESBUD offers accelerated programs for developing model syllabi for various target groups, as well as manuals and tools for spreading the entrepreneurship movement. Like IIE, NIESBUD organizes EDPs and related activities to create an entrepreneurship culture in the northeastern states of India. In the 1990s entrepreneurship development became a national movement. Over 700 organizations throughout India adopted an entrepreneurship strategy to accelerate the start-up of micro, small, and medium enterprises. Some of the major institutions are discussed here.

Thirty *Small Industries Service Institutes (SISIs)* organize EDPs to benefit technical graduates, educated unemployed youth, women, and other rural entrepreneurs at the state level.

The *National Productivity Council (NPC)* is also engaged in organizing EDPs, seeking sponsorship from national and state-level support institutions. Various national and state industry associations are also involved in organizing training programs and supporting the startup of enterprises.

The *Rural Development and Self-Employment Training Institute (RUDSETI)*, with active support from Syndicate Bank and Canara Bank, organizes training programs to develop skills and assist in entrepreneurial activity. Their training modules are focused mainly on rural youth and function in 19 locations around the country. RUDSETI provides technical know-how and familiarizes potential entrepreneurs with the steps required for establishing and managing enterprises.

*District Industries Centres (DICs)*, associated with commissioners of industries at the state level, support the organizing of EDPs at the district level in collaboration with regional resource institutions. In addition to these public efforts, *non-government organizations (NGOs)* are also participating in organizing programs with entrepreneurship concepts. They are mainly participating in organizing Prime Minister Rojgar Yojana's (PMRY) scheme and state-level programs for developing entrepreneurs and supporting them in creating SSIs.

The *National Small Industries Corporation (NSIC)*, with state-level branches, sponsors EDPs through various training institutes. The *Industrial Technical Consultancy Organization (ITCO)*, jointly sponsored by national financial institutions along with state financial institutions and banks, organizes EDPs and creates a conducive climate in the respective states. The 14 *CEDs/IEDs* also strive to promote entrepreneurship through training, research, and consultancy and by providing information in respective regions.

### **Impact of EDPs**

The entrepreneurship development movement was accelerated during the 1990s through the efforts of the above organizations. The success rate of EDPs (number of enterprises set up) varies from 15% to 50%, as claimed by many organizations. However, the success rate is influenced by target group, training organization, and enterprise climate in the selected area, including access to finance, infrastructure, and other facilities provided by local administrations.

The proceedings of seminars/workshops reveal that many entrepreneurship development programs sponsored by certain organizations lack quality and do not create an entrepreneurial culture. A vast country, India needs to develop successful initiatives, models, and strategies and a network of EDP-conducting institutions to foster entrepreneurship at the national level.

### **Entrepreneurship Education**

Entrepreneurship is now introduced as a subject in postgraduate courses at engineering, management, and technical institutions. These courses approach entrepreneurship like other academic subjects, as if it were based on a settled body of knowledge.

Entrepreneurship has long been a subject in postgraduate courses in the Indian Institutes of Management (IIM), Indian Institutes of Technology (IIT), and other engineering institutes in India. Some business management schools have introduced entrepreneurship to impart subject knowledge. Commerce departments of some universities have also introduced entrepreneurship as one of the subjects in their postgraduate courses. Technical institutions like polytechnics and industrial technical institutes (ITIs) are teaching entrepreneurship. Their aim is to create awareness on self-employment avocations among the students. A few institutions arrange interaction with local entrepreneurs and visits to enterprises run by them. This approach has always been encouraged. There are, however, some curriculum-driven programs which provide conventional academic inputs and follow the traditional examination pattern. A recent research study conducted by NISIET reveals that present curricula on entrepreneurship do not evoke interest among students or attract them to opt for the subject. There is no balance between motivation development, enterprise launching, and management with a practical outlook. The courses started by training institutions have a different approach. They do talk about entrepreneurship and cover a wide range of topics in entrepreneurship, but lack a focus on creation of enterprises.

### **SSI Development-Cluster Approach**

The potential of clusters as a vehicle for economic growth is well established in the global policy agenda of both developing and developed countries. Clusters are not mere agglomerations of firms, equipment, and infrastructure; they are also a part of the social fabric in which they exist. A dynamic cluster exhibits a great deal of cooperation—both formal and informal—and not only shares goods and services but acts collectively for the common good. Often, units in a cluster share a common vision and work towards achieving it. The cluster development methodology was championed by UNIDO in 1997. India has 388 industrial clusters, around 400 handloom clusters, approximately 3,000 handicraft clusters, and 2,800 micro enterprise clusters that contribute significantly to the national economy and provide employment to more than 20 million people. Policy-makers across the developed economies have realized the need to focus on micro economic aspects while providing the necessary macro economic policy framework that supports a bottom-up and community-led socioeconomic development.

The National Resource Centre for Cluster Development (NRCD) was established at NISIET with fund assistance from SIDO and has been working on manufacturing, service and traditional clusters since January 2004. Other institutions, such as EDI, IIE, NIESBUD, and a few state ITCOs, have also taken up initiatives for development of clusters located in their areas.

## **Indian Entrepreneurship**

McClelland's theory of achievement motivation as the basis for the Indian entrepreneurship movement has already been discussed. Although the theory of achievement motivation received severe criticism, it has been widely acknowledged that achievement motivation is essential for entrepreneurial success and that it can be imparted through training so as to stimulate economic growth in a region/nation.

While still evolving, the model went so far as to standardize the inputs in entrepreneurship training. Today, EDPs are developed as packaged solutions consisting of helping entrepreneurs to learn business by actually doing it in incubation facilities. Evidently, training and education in entrepreneurship play a vital role in the creation and sustenance of SSIs and thereby in the creation of wealth for the country.

The post-liberalization Indian economy is booming, with 9.3% growth in GDP in the last quarter of 2005–06. The growth rate for the industrial sector is estimated at 10%. Empirical studies on the growth of entrepreneurial activity in India (Global Entrepreneurship Monitor research)<sup>12</sup> support the view of accelerating entrepreneurship in the country. This study shows that the level of entrepreneurial activity increased from 8.9% in 2000 to 11.5% in 2001 and 17.9% in 2002; it almost doubled during this two-year period. The study also states that in 2002 entrepreneurial activity in India stood second among 37 countries studied, next only to Thailand (18.9%). This analysis affirms that awareness creation, counseling, guidance, handholding, and other services have been on the rise in recent years, accelerating entrepreneurial activity.

Table 4 summarizes development initiatives, policies, and programs being undertaken in India for small and medium enterprises.

**Table 4. Summary of Development Initiatives, Policies, and Programs: Indian SMEs**

Initiatives, programs, policies	Public sector organizations/ donors	Private sector organizations	Results (success/failure)
<b>A. Promotion of entrepreneurial culture</b>			
A1. SME promotional councils/bodies	MoSSI & ARI (SIDO, NSIC, KVIC, NCEUS, NMCC, Coir Board, NEDB), MoFPI, Ministry of Science and Technology [MoST (DST, NSTEDB)]		Success
		FICCI, AIMO, ASSOCHAM, WASME, CII, FASII, FISME	Partial success
A2. Entrepreneurship development promotional campaigns	NISIET, EDI, IIE, NIESBUD, DECEIT, regional CEDs		Success
(continued on next page)			

<sup>12</sup> *Global Entrepreneurship Monitor*, India Executive Report 2002.

		TANSTIA-FNF, ASSOCHAM, CII, AIMO, AWAKE, ALEAP	Partial Success
A3. Awards for successful SMEs: “Small Business Entrepreneur of the Year”	MoSSI & ARI, regional industry ministries	AIMO, CII, industry associations	Success
A4. Quality awards for SMEs	MoSSI & ARI, regional industry ministries	TANSTIA-FNF, AIMO, CII, FICCI	Success
A5. President’s mention of entrepreneurship in speeches and budget statements	MoSSI & ARI	CII, FICCI	Success
A6. Entrepreneurship development action plan at the national level	Mo SSI & ARI, Mo ST,		Partial success
A7. Government’s vision promoting entrepreneurship, innovation and competitiveness at the national level	National Manufacturing Competitiveness Council (NMCC) (MoSSI & ARI)		Recently constituted
	DST (MoST)		Success
A8. Promotion of entrepreneurship profile for SMEs	NISIET, EDI, IIE, NIESBUD, Regional CEDs	NGOs	Success
A9. Promotion of benchmarking and best-practices networks	Small Industries Cluster Development Programme (SICDP), (SIDO, MoSSI), NISIET, National Productivity Council (NPC)	National Human Resource Development (NHRD) Network, Indian Quality Council, FICCI	To be evaluated
A10. Promotion of women and youth entrepreneurship	SIDO (MoSSI & ARI), KVIC, NISIET, EDI, IIE, NIESBUD, DST, regional CEDs	ALEAP, CWEI, AWAKE, Bharatiya Yuva Shakti Trust (BYST)	Success
A11. Promotion of e-business and ICT development	Department of IT (Ministry of Communication & IT [MoCIT])	FISME	To be evaluated
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

A12. Promotion of technological innovation for SMEs	National Research Dev. Corp. (NRDC), CSIR, DST, Central Food Technological Research Institute (CFTRI), PHARMAXIL, Indian Institute of Science (IISc)	FICCI, CII, TANSTIA-FNF	Success
A13. Promotion of financial products and schemes for SMEs	SIDBI, NABARD, Nationalized Banks, EXIM Bank, SBI, Regional Rural Banks (RRB), Industrial Finance Corp. of India (IFCI), regional SFCs	Private scheduled banks, international banks	Partial success
A14. Productivity promotional campaign for SMEs	NPC and its state chapters	AIMO	To be evaluated
A15. Promotion of infrastructural facilities	Regional governments, Regional IICs, SIDO		Success
		Integrated Leasing and Finance Ltd.	Recently established
A16. Provision of infra-structure facilities	MoSSI & ARI, regional governments		Success
<b>B. Regulation and policies</b>			
B1. Laws/regulations/ policies at the national level—availability of an SME framework	MoSSI, Ministry of Finance (MoF), Ministry of Planning, RBI, Planning Commission	Industry associations	Success
B2. Policies/regulations to support technological development	MoST		Success
B3. Policies/regulations for ICT development	MoCIT		Recently initiated
(continued on next page)			

B4. Policies/regulations for SMEs access to markets	Ministry of Commerce and Industry (MoCI), MoSSI & ARI, regional industry ministries		Success
B5. Policies/regulations for SMEs access to financial facilities	MoSSI & ARI, MoF, RBI		Success
B6. Policies/regulations for entrepreneurship development	MoSSI & ARI, MoFPI, MoST		Success
B7. Bankruptcy laws which smoothen the exit of enterprises that are not sustainable or competitive	Board of Industrial Finance and Reconstruction (BIFR), Industrial Reconstruction Bank of India (IRBI), RBI	FICCI, industry associations	Success
B8. Labor laws and employment regulations affecting SMEs	Ministry of Labor, MoSSI & ARI		Success
B9. Infrastructure facilities/exemptions provided to SMEs	MoSSI & ARI, MoST, MoFPI, regional industry ministries		Success
B10. Specialized prudential regulations for financing to SMEs		ICICI Bank	To be evaluated
B11. Regulations on financial incentives for SMEs (i.e., tax exemptions/benefits, duty concessions for SMEs)	MoSSI & ARI, MoF, regional industry ministries		Success
B12. Policy/regulation for productivity development in SMEs	MoSSI & ARI, MoST, NPC		Success
C. Administrative environment/framework			
C1. Availability of permanent or ad hoc units/cells mandated to represent SME views in the regulatory process	NISIET, EDI, IIE, NIESBUD, Regional CEDs, Regional advisory bodies	FICCI, AIMO, CII, ASSOCHAM, WASME	Success
C2. Councils/consultative bodies/task force for SME development and/or to take SMES' views into consideration while formulating policies and procedures	NMCC, NCEUS, MSME Board, DST, NEDB, NSTEDB, regional advisory bodies	Specific bodies like FICCI, AIMO, ASSOCHAM, CII, FASII, FISME, WASME, CWEI	Success
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

C3. Experts advisory/advisory boards/specialized boards set up to develop SMEs in general or in specific sectors	MSME Board, NSTEDB, NEDB, Regional advisory bodies		Partial success
C4. Availability of productivity improvement programs for the SMEs	NPC and its state chapters		Success
C5. Availability of entrepreneurship profile/entrepreneurship indicators for the country	Central Statistical Organization (CSO), RBI, State Planning Boards	Industry associations	To be evaluated
C6. Systems/programs to monitor the entrepreneurial activity and entrepreneurial business environment (EBE)	NISIET, EDI, IIE, NIESBUD, Regional CEDs	Industry associations	To be evaluated
C7. Programs/focus on developing entrepreneurial mind-set, corporate vision and corporate entrepreneurship	NISIET, EDI, IIE, NIESBUD, IIMs, IITs	Industry associations	To be evaluated
C8. Procedures for development of SMEs	MoSSI & ARI, MoST, MoFPI, MoCI		Success
C8a. Registration of firms, formation of a new company, listing requirements	DICs (Regional industry depts.), registrar of companies		Success
C8b. Exit of uncompetitive firms	BIFR, IRBI		To be evaluated
C8c. Compliance and reporting	Regional industrial depts. Regional IDCs, registrar of companies		To be evaluated
C8d. Licensing	Regional industrial departments		Success
C8e. Accounting standards	CSO, Planning Commission, regional planning boards, regional statistics departments	Firms of chartered accountants	Success
C8f. IT-driven communication through web portals	Regional IT departments	IT companies	To be evaluated
C8g. Taxation	Central excise, state excise, customs dept., regional depts. of commercial tax, income tax, local tax		Success
(continued on next page)			

C8h. Utilities	Regional IICs, municipalities, depts. of electricity and water supply, telecommunication, regional transport corps.	ILFS and other initiatives	Success
C8i. Standardization	Bureau of Indian Standards, FPO, Hazard Analysis Critical Control Point (HACCP), ISO		Success
C8j. Quality certification, ISO certification	Indian Standards Institute, MoSSI & ARI	Approved lead auditors	Success
D. Entrepreneurship training and education			
D1. Entrepreneurship curriculum at universities and colleges	University curriculum boards/committees	Curriculum depts. of tech. colleges	To be evaluated
D2. Internship programs/attachment with enterprises for developing entrepreneurial skills	College faculty/departments	BYST, CII	Partial success
D3. Linkages between SMEs and colleges/universities	MoHRD, NISIET, university/college departments		To be evaluated
D4. Institutes of entrepreneurship	NISIET, NIESBUD, EDI, IIE, Regional CEDs, IIMs, IITs		Partial success
D5. Entrepreneurship training programs	MoSSI, SIDO, DICs, EDIs, CDEs, MoFPI, DST	RUDSETI, TANSTIA-FNF, NGOs	Moderate success
D6. Other skills development training programs and institutes	SIDO, IITs, Technical Teachers Training Institutes (TTTIs), CITD	NGOs	Success
D7. Quality standardization and testing agency	National and regional testing laboratories	FASII	Success
D8. Other training institutes for human resource development	MoHRD, universities, IIMs, IITs, TTTIs	Management institutes	Success
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

E. Network and linkages for SME development			
E1. Availability of enterprise cluster	MoSSI & ARI, Ministry of Textiles (MoT), SIDO	Knowledge Parks, textile parks	To be evaluated
E2. Availability of business development and business support service providers	SIDO, NISIET, EDI, other cluster implementing agencies	NGOs	To be evaluated
E3. Availability of business advisory/consultancy services	SIDO, NISIET, EDI, Regional ITCOs	AIMO, ASSOCHAM	Partial success
E4. Strategic alliances and joint ventures within domestic and/or international markets in SMEs	SIDO, NISIET, EDI, other cluster implementing agencies	NGOs	To be evaluated
E5. Sub-contracting support for SMEs by larger enterprises	MoSSI & ARI, MoT, SIDO, other cluster implementing agencies		To be evaluated
E6. Availability of business incubators	MoSSI & ARI, DST	CII, ALEAP, industry associations	To be evaluated
E7. Linkage programs for market access/programs, product development, technological access, etc., for improving domestic and international market access for SMEs	SIDO, CSIR, DST, NSIC, KVIC, Coir Board, Export Promotion Councils (EPCs)	NGOs	Partial Success
F. Technology and ICT			
F1. Initiative for cross border technological cooperation	SIDO, NSIC, DST, NISIET	Industry associations	Partial success
F2. Technology business incubators	DST		To be evaluated
F3. Availability of back-up/pilot and demonstration projects which foster innovation and technological development	DST, CSIR, NRDC	IISc., Birla Institute of Tech. & Science (BITS)	To be evaluated
F4. Facilities for developing entrepreneurs, availability of knowledge centers, research and development centers, testing laboratories, etc.	SIDO, DST, CSIR, NRDC		To be evaluated
		Knowledge Parks, textile parks	Recently constituted
F5. Facilitation of bench-marking exercises and sharing of best practices; best practice networks	DST	IT companies	To be evaluated
(continued on next page)			

F6. Availability and facilitation of e-business and e-commerce practices, use of internet and other e-market, e-business methodologies	MoCIT, regional e-Seva networks	CII, FISME	Partial success
F7. Availability of web-based SME portals, SME database information networks	SIDO, NISIET, NIESBUD, EDI, IIE	Schools of Business	To be evaluated
G. Financial support			
G1. Support and role of the central bank in providing financial access to SMEs	RBI		Success
G2. Availability of specialized financial institutions for SMEs	SIDBI, NABARD, regional SFCs, exclusive SSI branches of nationalized banks	Scheduled banks, international banks	Success
G3. Specialized financial products and incentives for small enterprises	SIDBI, NABARD, regional SFCs, nationalized banks, Industrial Credit and Investment Corp. of India		Success
G4. Availability of SME fund, Technopreneurship or Intrapreneurship fund, etc.	MoF, MoSSI & ARI, SIDO		To be evaluated
G5. Availability of venture capital funds or risk financing mechanisms, risk mitigation fund, credit guarantee scheme	SIDO, Export Credit Guarantee Corp. of India (ECGCI), SBI, nationalized banks	Financial institutions	To be evaluated
G6. Grants for SMEs for technological assistance, market access, productivity improvements, research and development, e-business, ICT development, supply chain networks, etc.	MoSSI & ARI, MoST, MoCI, MoFPI, MoCIT		Success

## **CASE STUDIES**

### **Chaitanya Dip Moulding**

#### *From Teaching to Manufacturing*

Mrs. B. Vijayalakshmi, aged 45, is the first-born of six children in a middle-class family without a business background. Her father, who was the inspiration behind starting her venture, is a Regional Employment Officer. Her husband, Mr. B.J. Jawahar, a mechanical engineer and industrialist, supported and encouraged her to start up and run the enterprise. After she was married, she had a number of domestic obligations and liabilities, which she fulfilled with her husband's support.

Mrs. Vijayalakshmi is a graduate in Electronics and Communication Engineering from Kakinada Engineering College, Andhra Pradesh (A.P.). Soon after graduating from the college, she joined a polytechnic college as assistant lecturer. From her childhood she had a strong desire to do something on her own and never liked working under someone in controlled conditions. Thus the dominant entrepreneurial trait of a desire for independence was evident in her behavior even at that early age. Fortunately, she got an opportunity to start an ancillary industry to Andhra Pradesh State Road Transport Corporation. She experienced a dilemma in trying to choose between her job and the enterprise; she subsequently decided to quit the job.

Mrs. Vijayalakshmi started supplying solder sticks to all the depots in Andhra Pradesh as a rate contractor. She was in this business for 16 years. In 1989 there were heavy power cuts during the summer in A.P., and she realized that there was a demand for electronic generators. She decided to develop inverters for the open market, starting a new company named M/s. Anuja Electronics, and began marketing under the brand name Anu Generators. Anu Generators grew in size, and in 1996 the company started manufacturing power-saving electronic ballasts and lighting fixtures with electronic ballasts.

Anticipating a slump in the industrial market and heavy competition from other parts of the country, Mrs. Vijayalakshmi decided to reduce the production of solder sticks and started looking for other products. She looked at soft plastic products, such as insulation sleeves and dust-proof covers, produced with a new process called Dip Moulding Technology, which was not very popular in India and not available domestically. She went to South Korea to obtain it. In 1997 she started another company, named M/s. Chaitanya Dip Moulding Works (CDMW), to manufacture these soft plastic PVC products, which are an import substitute, and supply them to automobile and electrical industries all over India. After crossing many hurdles, the company has now achieved a commanding position in the dip moulding industry in India and has reached a position to cater to multinational companies.

#### *Entrepreneurial Qualities*

Mrs. Vijayalakshmi is inquisitive, creative, and innovative. She enjoys solving problems and does not hesitate to take calculated personal financial risks. Driven by a need for achievement, she prefers an independent career. Basically, she is an introvert and has only a few close friends. She admits that even though she is a consistent goal setter and results-oriented individual, she does not make decisions in haste. Once a decision is made she will follow through on it. Mrs. Vijayalakshmi can totally handle the mental load but experiences some physical constraints. Despite coming from a non-business family, she appears to be totally committed and dedicated and believes in her own ability to reach her goals. She is Vice-President of ALEAP, always ready to help other aspiring women entrepreneurs.

Mrs. Vijayalakshmi strongly believes in giving employees complete freedom—provided they also take responsibility. She is enthusiastic, imaginative, and tenacious, and does not believe in keeping her ideas only to herself. She likes to share her knowledge and experience in the field with other entrepreneurs. All these qualities make her a successful entrepreneur. She

was named Best Woman Entrepreneur of 2000 by CII. When she started her venture, she had absolutely no business knowledge. She started with a small INR0.2 million loan from AP State Finance Corporation plus her personal investment of INR13, 000. In 1977, through NISIET's three-month Entrepreneurial Development Program, she acquired the knowledge and skills necessary for starting up an enterprise. Today, she is confident of her proficiency and can handle all functions of management, from planning to implementation and evaluation.

#### *The Entrepreneur Today*

Mrs. Vijayalakshmi, with 28 years of experience in business, has acquired sufficient knowledge to enter into franchises, joint ventures, technical collaborations, and strategic alliances for business growth. She is well-informed about different government and non-government programs supporting the SSIs and uses her knowledge to guide the new generation of women entrepreneurs.

#### *Marketing Strategy*

CDMW has a full-fledged marketing department. The company keeps in touch with buyer preferences and modifies its products accordingly through continuous R&D efforts. Products are manufactured against advance orders and sold directly to all auto part vendors throughout the country. The primary buyers of the products are Hero Honda, Bajaj, and Maruti—the major automobile makers in India. The annual turnover of the company is about INR50 million. The inherent strengths of the company are a large installed capacity, a spacious shop floor, an in-house tooling facility, experienced and vibrant staff, vision and commitment, and the ISO 9002 Quality System. The company has been certified ISO 9002 as a part of its commitment to producing flawless custom mouldings. The firm uses total quality management, quality circles, and just-in-time techniques for productivity improvement.

#### *HR & Training Policy*

The company values training and exposure. Wherever there is an opportunity the employees are sent to relevant training/seminars/workshops. Employee performance is reviewed monthly and annually. Incentives and rewards are based on a performance appraisal.

#### *Conclusion*

Mrs. Vijayalakshmi has received awards and appreciation from the government for her excellent performance. She attributes her success to her hard work, commitment, and self-confidence, to the cooperation and support of family and friends, and to devoted and committed staff and workers, quality consciousness, technical knowledge, timely diversification of the product, and market assessment. Her advice to upcoming entrepreneurs is that 50% of profits should be reinvested for upgrading the enterprise.

### **ELICO**

#### *First Electronics Enterprise in the State*

ELICO, the first electronics company in the state of Andhra Pradesh, was incorporated in 1960 at Hyderabad as Electronics and Industrial Instruments Co. Pvt. Ltd. The company started with the manufacturing of pH meters for the first time in India and kept on adding several firsts in the areas of spectrophotometry, electrochemistry, flame photometry, water quality analysis, gas analysis. etc. In 1970, the name of the company was changed to ELICO Pvt. Ltd., and in 1995 it was converted into a public limited company.

In 1976, ELICO diversified into manufacturing professional-grade switches and introduced a wide range of toggle and push-button switches for use in the consumer electronics and telecommunication industries. These switches were accorded approval by defense and telecom

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

sector establishments like CACT, LCSO, EXACT, and C-DoT. Some of them conform to MIL-83731, JSS 51201, and other standards and are in the process of receiving IECQ approval.

Mr. Ramesh Datla, the entrepreneur, is in his mid-40s and has a Master of Science degree in Electrical Engineering from Wichita State University (Kansas, USA) as well as a postgraduate degree in Electronic Design Technology from the Centre for Electronics Design Technology (CEDT) of the Indian Institute of Science (IISc), Bangalore, and a Bachelor of Engineering in Electronics from Osmania University, Hyderabad.

### *Background of Entrepreneur*

Soon after completion of the education, Mr. Ramesh was hired as Senior Test Development Engineer by Cirrus Logic Inc., (Milpitas, CA, USA), a semiconductor company, where he was responsible for design evaluation, prototype debugging, and device characterization of advanced graphics and datacomm products used for notebook and desktop PCs. For a brief period he also worked as Research Assistant in CEDT, IISc, and Bangalore. He then joined his father's company as Works Manager and held various positions before becoming its Managing Director. Besides his busy schedule as MD, he personally takes care of the design, development, and manufacture of electronic analytical instruments and software development and services.

### *Entrepreneurial Competencies*

A second-generation entrepreneur, Mr. Ramesh comes from a middle-class family with a business background. He possesses the qualities of a successful entrepreneur: he is inquisitive, creative, innovative, energetic, enthusiastic, imaginative, and also aggressive at the same time. He enjoys solving problems, makes very quick decisions on his own, and does not depend on external influences. Always taking up challenging tasks, and making things happen, he believes in taking moderate risks—whether personal or financial. He believes that failures are a stepping-stone to success. He knows that networking is a must for the success of an enterprise and enjoys moving around. He is presently acting as Chairman of CII-SMEs (A.P.) and also as Member, CII-IPR, R&D, Technology and Innovation; Member, National Instrumentation Development Board (NIDB), Department of Science and Technology (DST) New Delhi; and Governing Body Member, Osmania University College of Engineering, Hyderabad.

### *Business Knowledge*

Having been in the business for the last 25 years, Mr. Ramesh has the confidence and knowledge necessary to enter into a franchise, joint venture, technical collaboration, or strategic alliance. He has a flair for exploring new technologies, markets, and business opportunities, and in recognition of this, he was honored with the “Best New Product brought into Commercial Production for the first time in the state by a Small Scale Industry” award for the year 1996–97 from the Federation of Andhra Pradesh Chamber of Commerce and Industry, Hyderabad.

### *About the Enterprise*

ELICO is an ISO 9001 company dedicated to the manufacture of electronic analytical instruments, professional-grade switches, and software development and services. Since its inception the company has undergone many changes. In 1988 ELICO expanded into software, providing microprocessor-based embedded solutions to its customers. Since 1992 GUI-based instrumentation software has been offered as a bundled solution to its clientele. In 1999 ELICO established a 100% export-oriented software division for software development and services and IT-enabled services (Healthcare BPO) for its U.S.- and Europe-based clients. To keep pace with technology development, the company has established its own R&D wing, which is recognized by DSIR. ELICO has won a number of awards for its R&D efforts in introducing new products such as the “Award for excellence in electronics R&D–1997” from the Department of Electronics, Government of India. The firm is keen to progress in the areas of chromatography,

spectroscopy, electrochemistry, and life sciences. ELICO exports its products to more than 25 countries.

#### *Quality Control*

To be on a par with international quality standards, in 1996 the company obtained ISO 9001 certification for design, development, manufacturing, and servicing of analytical instruments and obtained ISO14001 certification. In 1999 the company received a National Award for Quality in Small Scale Products from the MoSSI, Government of India.

#### *Production and Productivity*

To improve productivity, the company uses Kaizen and 5S. TQM and 6 Sigma activities have also been initiated. A department-based quantification matrix is used to quantify performance levels. In order to control production costs, the company has devised its own methodologies for in-time delivery, inventory management, reduction of re-works and rejects, and improvement in communication and customer satisfaction.

#### *HR and Training Policy*

The organization plans its manpower on the basis of periodic business demands and market trends. Employee performance is rated annually. Salaries, rewards, incentives, and promotions are based on performance. Employees enjoy annual bonuses and medical benefits. The company gives top priority to employee training and development and plans an annual training calendar for all areas. A separate budget allocation is made for training.

#### *Conclusion*

The credit for the company's achievements can be attributed to the entrepreneur, Mr. Ramesh Datla. He possesses all the entrepreneurial qualities, together with managerial excellence, which has resulted in the company's rising to new heights, making profits, and receiving awards year after year. The technical education he acquired in India and the United States has helped him keep pace with the latest developments in electronics. The awards for excellence clearly indicate the importance the company gives to R&D. Mr. Ramesh Datla's dedication, commitment, determination, self-confidence, inquisitiveness, creativeness, interpersonal strengths, concern for his staff, quality consciousness, and ability to keep abreast of trends in the market have all contributed to the success of the enterprise.

### **Cheminnova Remedies Private Limited**

#### *Eco-Friendly*

Mr. M. Seshgiri Rao was the Resident Director of the Hyderabad unit of M/s. American Remedies Ltd., which had its Registered Office in Chennai. After the merger of American Remedies with M/s. Reddy's Laboratories Ltd., the Hyderabad unit was taken over by M/s. Cheminnova Remedies Pvt. Ltd.

Mr. Rao started Cheminnova Remedies in the year 2000. Its initial investment was INR300,000, and the entire project cost was financed by the State Bank of Hyderabad under its scheme for technocrats. It is the largest manufacturer of oral liquids and solid dosage forms of pharmaceuticals. The company has ventured into backward integration and started a Clinical Research Organization (CRO) with state-of-the-art facilities and equipment, offering services such as product development, process development, formulation development, and analytical process development with a technical team of doctorates, production specialists, microbiologists, and regulatory personnel. Mr. Rao, Managing Director of Cheminnova, has been in the field for the past 40 years, and is well recognized in the pharmaceutical industry.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *About the Entrepreneur*

Mr. Rao comes from an orthodox upper-middle-class and non-business family. He has a master's degree in science. Before starting the enterprise he worked for 15 years at Biological Evans, Bio-chemical Enterprise and Nath Laboratories, and American Remedies Ltd., before its merger. A man of inquisitiveness, creativity, innovativeness, aggressiveness, and commitment with a high degree of integrity, he has brought the company to new heights. He was instrumental in the smooth functioning of American Remedies while it was in existence. He is deeply committed to social service and believes that "Service to mankind is service to God." He also has a passion for the art and culture of the land.

### *Entrepreneurial Competencies*

The theory that entrepreneurs could be made was shown to be valid in the case of Mr. Seshagiri Rao. With no business background, today he is the managing director of three companies. Over time he has developed and enjoys the skill of solving the most critical problems. He has a strong belief in what he does and does not seek advice from external sources. He doesn't depend on luck and destiny, and he enjoys taking personal and financial risks. He strongly believes that hard work pays off. In spite of his busy schedule, Mr. Rao makes time for socializing and networking. He is the Deputy District Governor and Zone Chairman of Lions Club International and Chairman of Navya Nataka Samithi, which promotes cultural activities. Mr. Rao considers himself highly motivated, ambitious, energetic, enthusiastic, imaginative, and tenacious.

### *Business Knowledge at Present*

Today, Mr. Rao has thorough business knowledge and can enter into a franchise, joint venture, technical collaboration, or strategic alliance for business growth. Even though the company has a competent person to handle current business, tax laws, regulations, and policies, Mr. Rao has a thorough knowledge of all aspects and can handle them with ease. He was Vice-President of the Indian Pharmaceutical Association and has many more laurels to his credit:

- Best SSI unit award by the Governor of Andhra Pradesh.
- Udyog Ratna award by H.E. the President of India.
- Udyog Shree award by the Finance Minister.
- "Gem of Hyderabad" award by the Chief Minister of Andhra Pradesh.

### *Business Operations and HR Strategies*

The company has developed both long-term and short-term objectives. Its mission is to keep the lifeline vibrant. Mr. Rao strongly believes in teamwork and management by objectives, and all the department heads are involved in setting goals. Each employee is made responsible, and the reward to good performers takes the form of increases.

### *Training*

The company believes in human resource development and organizes induction training for new recruits. A few officers are also sent to other reputable institutions for seminars and training programs.

### *Organization Structure*

The Managing Director heads the company and controls all the affairs. The company has four strong departments: Commercial, Works, Quality, and Accounts. A qualified manager heads each department. The works manager handles production, stores, central exercise, administration and maintenance. Around 200 employees work for the company.

### *Quality Control*

The company is ISO-9001-2000 certified by AQA USA. It is also WHO-GMP certified. Quality aspects of the products are looked after by a manager for quality, assisted by a quality executive and analytical chemists. The firm believes in innovation and creation of new ideas and is in the process of establishing a separate R&D department. It takes prides in the fact that it has developed a multivitamin tablet for NOVARTIS.

### *Marketing*

Cheminnova Remedies Pvt. Ltd. is in the business of contract manufacturing for firms like American Remedies, Dr. Reddy's Laboratories, and Ajanta Pharma Ltd. The pricing is based on location and competitors.

### *Products Manufactured*

The company has two granulation areas for manufacturing products of various batch sizes with separate A.H.U.s and all the other requirements as per GMP. It has the capacity to manufacture 2.5 million tablets/day and also manufactures several liquid products/syrups.

### *Employee Relationship*

Cheminnova treats employees as its valued assets. Their welfare is of paramount importance. It makes efforts to retain talent by maintaining a good management–employee relationship.

### *Environment Concerns*

Equipped with sophisticated state-of-the-art machinery, Cheminnova has joined global efforts for preservation of the environment. No harmful chemicals are released that could damage land, water, or air. Every precaution is taken and diligently executed in pursuit of the larger goal of environment protection. The company has its own effluent treatment plant situated on a 60-acre site where the water is treated and used for agricultural irrigation, setting an example for pharmaceutical units with regard to environmental concerns.

### *Conclusion*

Mr. Seshagiri Rao is the entrepreneur behind the success of this eco-friendly pharmaceutical enterprise. He possesses entrepreneurial qualities that have contributed not only to the growth of the existing companies but also resulted in starting a new company. His technical knowledge and experience as resident director in American Remedies have helped him keep pace with the latest developments in the pharmaceutical industry. The awards he has received at both the state and central level clearly indicate his concern for society and his commitment, determination, self-confidence, inquisitiveness, and creativity. His amiable disposition, concern for employees, quality consciousness, and ability to keep abreast of trends in the market have all contributed to the success of the enterprise.



## APPENDICES

Appendix I	No. of SSI Units from 1994–2003
Appendix II	Production of SSI Units
Appendix III	Employment in the SSI Sector
Appendix IV	Exports in the SSI Sector
Appendix V	SSI Production Growth: Target and Achievement
Appendix VI	Trends in Growth: SSI and the Industrial Sector
Appendix VII	Investment Ceilings for SSIs
Appendix VIII	SIET Integrated Model
Appendix IX	Three Phases of Entrepreneurship Development
Appendix X	General EDP Model
Abbreviations	

Appendix I. No. of SSI Units  
from 1994–2003

Year	No. of units (Million Nos.)
1994–95	2.571
1995–96	2.658
1996–97	2.803
1997–98	2.944
1998–99	3.080
1999–2000	3.212
2000–01	3.311
2001–02	3.439
2002–03 (E)	3.531

(E) – Estimated

Appendix II. Production of SSI  
Units (INR100 million)

Year	Production (INR100 Million) (at current prices)
1994–95	29,889
1995–96	36,266
1996–97	41,186
1997–98	46,264
1998–99	52,065
1999–2000	57,289
2000–01	63,902
2001–02	69,032
2002–03 (E)	76,301
(E) – Estimated	

Appendix III. Employment in the SSI Sector

Year	Employment (Million nos.)
1994-95	14.66 (5.15)
1995-96	15.26 (4.13)
1996-97	16.00 (4.84)
1997-98	16.72 (4.5)
1998-99	17.16 (2.62)
1999-2000	17.85 (4.03)
2000-01	18.56 (4.00)
2001-02	19.22 (3.55)
2002-03 (E)	19.97 ( 3.85)

(E) – Estimated

*Note:* Figures in brackets indicate % increase over the previous year.

Appendix IV. Exports in the SSI Sector (INR100 million)

Year	Exports (INR100 million) (at current prices)
1994-95	290.68 (14.86)
1995-96	364.70 (25.50)
1996-97	392.49 (7.61)
1997-98	444.42 (13.23)
1998-99	489.79 (10.21)
1999-2000	542.00 (10.66)
2000-01	697.97 (28.77)
2001-02	712.44 (2.07)

*Note:* Figures in brackets indicate % increase over the previous year.

Appendix V. SSI Production Growth:  
Target and Achievement (%)

1991–92	3.0	3.10
1992–93	5.0	5.60
1993–94	7.0	7.10
1994–95	9.1	10.10
1995–96	9.1	11.40
1996–97	9.1	11.30
1997–98	*	8.43
1998–99	*	7.70
1999–2000	*	8.16
2000–01 (P)	*	8.23
2001–02 (P)	*	6.08
2002–03 (P)		7.68

\*Target not fixed at constant prices

Appendix VI. Trends in Growth:  
SSI and the Industrial Sector

Year	SSI Sector	Industrial Sector
1991–92	3.10	0.6
1992–93	5.60	2.3
1993–94	7.10	6.0
1994–95	10.10	9.4
1995–96	11.40	12.1
1996–97	11.30	7.1
1997–98	8.43	6.7
1998–99	7.70	4.1
1999–2000	8.16	6.5
2001–01	8.23	5.2
2001–02	6.08	2.7
2002–03	7.68	5.7

(E) – Estimated

Small-scale industries were first defined in 1950. At that time, in addition to a limit on investment in fixed assets, there was also an employment stipulation, which was deleted in 1960. In 1966, the limit on investment in fixed assets was changed to a limit on investment in plant and machinery (original value) only. The definition of “small enterprise” (small-scale industry, initially) has undergone many changes during its journey through the various policy statements on industry/small industry. The chief criterion that defines an establishment as small and as business or industry is investment in plant and machinery. Appendix VII indicates the historical evolution of the definition of small-scale and ancillary units.

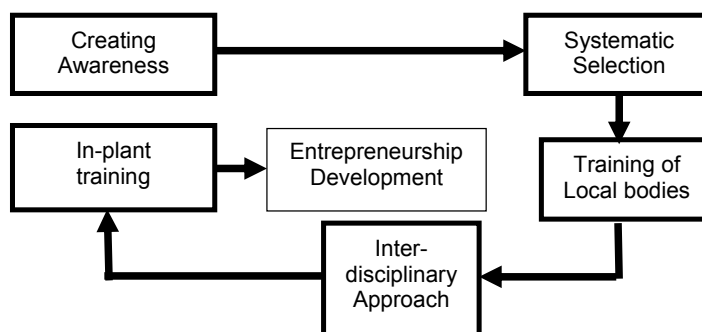
## Appendix VII. Investment Ceilings for SSIs

Year	Small-scale industries	Ancillary industries*
1955	Up to INR0.5 million in fixed assets and employment less than 50/ 100 workers with/without power.	---
1960	Up to INR0.5 million in fixed assets	---
1966	Up to INR0.75 million in plant and machinery	Up to INR1.0 million in plant and machinery
1975	Up to INR1.0 million in plant and machinery	Up to INR1.5 million in plant and machinery
1980	Up to INR2.0 million in plant and machinery	INR2.5 million
1985	Up to INR3.5 million in plant and machinery	INR4.5 million
1991	Up to INR6.0 million in plant and machinery	INR7.5 million
1997	Up to INR30.0 million in plant and machinery	INR30.0 million
1999	Up to INR10.0 million in plant and machinery**	INR10.0 million

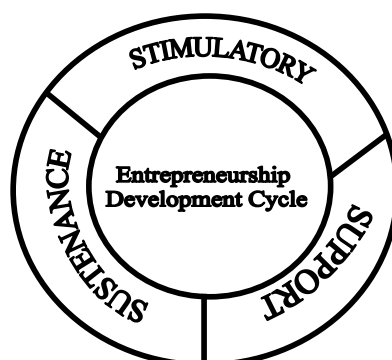
\*For ancillary industries, an additional condition is that the unit must supply or render not less than 50% of its production or services to other (parent) industrial units. In April 1991, a third category of units, viz. Export Oriented Units, was introduced (Reference: Notification No. S.O 232 (E), dated. 2 April 1991).

\*\*The investment ceiling for SSI units manufacturing reserved items in the hosiery and hand tools sectors has been enhanced to Rs. 50 million since October 2002 and for reserved items in the stationary and pharmaceutical sectors since June 2003.

## Appendix VIII. SIET Integrated Model



Appendix IX. Three Phases of Entrepreneurship Development



Appendix X. General EDP Model

Focus	Need	Input
Entrepreneur	Reinforcement of entrepreneurial behavior	Entrepreneurial motivation training (EMT) laboratory
Enterprise startup	Decision-making process, venture startup needs	Enterprise guidance, information, project planning, technical inputs
Enterprise management	Successful operation of enterprise	Managerial inputs, enhancing competitiveness

Abbreviations

ALEAP	Association of Lady Entrepreneurs of Andhra Pradesh
ARI	Agro and Rural Industries
BIS	Bureau of Indian Standards
CED	Centre for Entrepreneurship Development
CII	Confederation of Indian Industries
CSIR	Council of Scientific and Industrial Research
CSO	Central Statistical Organization
DIC	District Industries Centre
DSIR	Department of Scientific & Industrial Research
DST	Department of Science & Technology
EDC	Entrepreneurship Development Cell
EDI	Entrepreneurship Development Institute(s)
EDP	Entrepreneurship Development Program
FGE	First Generation Entrepreneur
GEM	Global Entrepreneurship Monitor
GI	Geographical Indicators
ICT	Information and Communication Technology
IDCs	Industrial Development Corporations
IIP	Index of Industrial Promotion
IPR	Intellectual Property Rights
ISO	International Standards Organization

IT	Information Technology
ITCO	Industrial Technical Consultancy Organization
KVIB	Khadi and Village Industries Board
KVIC	Khadi and Village Industries Commission
MFN	Most Favored Nation
MoFPI	Ministry of Food Processing Industries
MSME	Micro, Small and Medium Enterprise
MSSBE	Medium Scale Service and Business Enterprises
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organization
NISIET	National Institute of Small Industry Extension Training
NRCD	National Resource Centre for Cluster Development
NSIC	National Small Industries Corporation
NSTEDB	National Science and Technology Entrepreneurship Development Board
PMRY	Prime Minister's Rojgar Yagna
RBI	Reserve Bank of India
SBI	State Bank of India
SFC	State Financial Corporation
SIDBI	Small Industries Development Bank of India
SIDO	Small Industries Development Organization
SISI	Small Industries Service Institute(s)
SSI	Small Scale Industries

*Musnidar*  
*Ministry of Industry*  
*and*  
*Tulus Tambunan\**

## DEVELOPMENT STRATEGY AND OVERVIEW OF SMEs

The classical paradigm postulates that development of an economy depends on two primary factors: labor and capital (which includes advanced technology). After the emergence in Asia of the so-called newly industrialized countries (NICs) such as Taiwan (Chinese Taipei), Hong Kong (now HK–China), and South Korea in the 1960s and 1970s and the widening of the gap in development between developed/industrialized nations, such as the United States, Canada, Japan, and the countries of the European Union (EU), and the less developed countries (LDCs), including Indonesia, a new paradigm emerged in the 1980s that described the nature of economic development and the factors determining it. In addition to the two classical production factors of labor and capital, this new paradigm contains a third crucial factor: entrepreneurship. Development of entrepreneurship and human skills improvement have become crucial in enabling a country to become a world leader in economic status, trade, military power, technology, etc., and in order for sustainable economic and social development to take place.

The question then becomes: what is entrepreneurship? Timmons, for instance, defines entrepreneurship as “creating and building something of value from practically nothing. That is, entrepreneurship is the process of creating or seizing an opportunity and pursuing it regardless of the resources currently controlled. Entrepreneurship involves the definition, creation, and distribution of value and benefits to individuals, groups ... Entrepreneurship is very rarely a get-rich-quick proposition; rather, it is one of building long-term value and durable cash flow streams.” More relevant to the topic of this publication, Timmons also states: “Fundamentally, entrepreneurship is a human creative act. It involves finding personal energy by initiating and building an enterprise or organization, rather than by just watching, analyzing, or describing one” (1990: 5).

Thus, since entrepreneurship involves “finding personal energy by initiating and building an enterprise,” it can be argued or hypothesized that one important factor behind the differing economic performances in different countries is the difference in current conditions or levels of development of entrepreneurship among the countries. Since the Industrial Revolution, those countries known as “developed” or “industrialized”—the United States, Japan, and the countries of the EU—have been the primary source of invention and innovation in the world, reflecting a well-developed culture of entrepreneurship.

Entrepreneurship development is an important issue for economic development in Indonesia today. Lack of entrepreneurship is frequently cited as the main cause of the country’s relatively low rate of economic development compared with other Asian countries: Malaysia, Thailand, China, the Republic of Korea, and Singapore. Thus training in entrepreneurship has assumed increasing importance in government-supported programs for development of small and medium enterprises (SMEs) in Indonesia.

### **Indonesian Economic Development: A Brief Review**

In 1966, at the beginning of the New Order (NO) government led by the former President Soeharto, the average Indonesian earned only roughly USD50 a year, about 60% of adult Indonesians could not read or write, and close to 65% of the country’s population lived in absolute

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\* This report was written by Ms. Musnidar with Mr. Tulus Tambunan.

poverty. Facing this condition, beginning in 1969 the NO government launched five-year economic development plans, and it adopted several crucial economic policies in the 1970s and 1980s, including liberalization in investment, capital accounts, banking, and external trade.

During that era, industry and agriculture were the top-priority sectors. To support development of national industry, the government adopted two consecutive strategies: first, in the 1970s and early 1980s, an import-substitution strategy focusing initially on labor-intensive industries such as textiles and garments, footwear, wood products, and food and beverages, and subsequently on assembly industries such as automobile production, and then a gradual shift to export promotion by reducing some import tariffs and export restrictions and focusing on labor-intensive industries. The government adopted modernization or intensification of agriculture, known as the “green revolution,” as the main strategy. The main aims of this strategy were to boost agricultural productivity, and thus to achieve rice self-sufficiency, and to increase real per-capita income in rural areas, thus reducing rural and hence national poverty.

These strategies generated a rapid and sustained economic growth of 7% on average annually during the 1980s, continuing until just before the Asian financial crisis in 1997–98. This growth led not only to an increase in real per capita income but also to a substantial decrease in the incidence of poverty (the number of people living under current official poverty line as a percentage of the total population). GDP per capita in Indonesia in 1970 was slightly less than USD300; by mid-1997, just before the crisis, it had increased to just above USD1,000.

Before the crisis, sustained high economic growth coupled with declining rates of poverty led to Indonesia being considered one of the high-performing East Asian economies that created the “East Asian economic miracle.” Even among this group of economies—which included Hong Kong, Japan, Malaysia, the Republic of Korea, Taiwan, Thailand, and Singapore—the Indonesian economy emerged as particularly impressive for its small current-account deficit and its low level of short-term debt. It also stood out among the oil-producing countries for its strong development in the agricultural and manufacturing sectors. During the 1980s and 1990s, the country became a leading player in a wide variety of industries, from palm oil to apparel to electronics (USAID & SENADA, 2006).

From mid-1997 to the end of 1998, with the advent of the Asian economic crisis, the Indonesian economy came to an abrupt halt. The rupiah depreciated by more than 500% in mid-1998. Many companies, especially large-scale enterprises and conglomerates that depended heavily on imported materials and components and on foreign loans, were forced to stop production. The Indonesian economy grew at the rate of –13% in 1998, and per capita GDP dropped to less than USD900. In 1999 the economy began to recover, and in recent years Indonesia has achieved a healthy state of macroeconomic stability, although in 2005 the growth rate was about 5.5%, lower than the expected 6.5%. In 2004 per capita GDP was above USD1,000, and it continues to increase. The reduction in government fuel subsidies in October 2005, a logical consequence of the rapid increase in the price of oil in the world market (to more than USD50 per barrel), led to a fuel price increase of more than 100%, causing a huge spike in the inflation rate. As a result of the termination of fuel subsidies, the growth rate in 2006 is expected to be less than 6%.

The Indonesian economy has undergone a massive structural transformation since the first years of the NO era, from an economy in which the agricultural sector played a dominant role to one in which that sector’s contribution is much less important. In 1970, gross value added from agriculture contributed about 45% to the formation of GDP; during the 1990s agriculture’s GDP contribution was only around 20%, and it declined to about 15% in 2005. The contribution of industry to GDP, on the other hand, increased from less than 20% in the 1970s to almost 30% in 2005. Industry also became a major contributor to output growth per year. In 2004 and 2005, output grew at 6.4% or 4.6%, respectively, compared to 2.1% and 2.5% in agriculture for the same years. Other sectors that had relatively high growth rates in 2005 were transport and communication (13%), trade (8.6%), construction (7.3%), and finance (7.1%).



During the NO era the government stressed the development of SMEs, especially in manufacturing, because SMEs can play an important role as the backbone for the development of national industry, especially in the form of support for large enterprises (LEs) through subcontracting and other production linkages. Within the manufacturing industry, SMEs in food and beverages, footwear, textiles and garments, wood and wood products, leather and leather products, handicrafts, metal products, and electronics received significant government support, since SMEs play a strong role specializing in these industries.

### **National Development Strategy**

During the New Order era, the country's national development strategy was reflected in the implementation of five-year development planning (Repelita). In that period, industry and agriculture were high-priority sectors. The government adopted two consecutive strategies to support development of national industry: first an import-substitution-based industrial development strategy, focusing first on labor-intensive industries such as textiles and garments, footwear, wood products, and food and beverages and later on automotive assembly enterprises, followed by a gradual shift to export promotion by reducing some import tariffs and export restrictions and by focusing on labor-intensive industries. Modernization or intensification of agriculture, known as the "green revolution" was adopted as the main strategy, marked by the introduction of better—often called "modern"—agricultural inputs (e.g., fabricated fertilizers and improved seeds), new technologies, including modern irrigation systems, modern marketing, and mechanized production processes, along with massive public investment in rural areas. This strategy aimed to boost agricultural productivity, and thus achieve rice self-sufficiency, and to increase real per capita income in rural areas, thus reducing rural and hence national poverty, in addition to supporting the development of domestic industry, in particular agricultural commodities processing.

After the economic crisis of 1997–98, faced with significant unemployment and foreign debt problems due to a lack of foreign currency reserves, the government adopted a strategy that emphasized labor-intensive industries and those industries which could potentially manufacture competitive export goods in which Indonesia has comparative advantages. As a result of this shift from a pre-crisis "broad-base" to a "specialization-base" strategy, several industries have been selected as being key: textiles and garments, food and beverages, furniture and other wood products, footwear and other leather products, and electronics and a clustering approach/Michael Porter framework has been adopted as a national strategy to support their development. Additional important elements of this new strategy are the development of supporting industries that produce or supply components and spare parts for final goods manufacturing and support of subcontracting between SMEs and LEs, including foreign direct investment (FDI)-based companies.

### **Overview of SMEs in Indonesia**

SMEs can be defined differently depending on the agency that provides the definition. This report will use data from the State Ministry of Cooperative and Small and Medium Enterprises (Menegkop & UKM), the Department of Industry (MoI), and the Central Statistical Agency (BPS) as the only relevant definitions. Menegkop & UKM approved the Law on Small Enterprises Number 9 of 1995, which defines a small enterprise (SE) as a business unit with total initial assets of up to IDR200 million (about USD20,000 at current exchange rates), not including land and buildings, or with an annual value of sales of a maximum of IDR1 billion (USD100,000) and a medium enterprise (ME) as a business unit with an annual value of sales of more than IDR1 billion but less than IDR50 billion. The law does not explicitly define micro enterprises (MIEs). However, since MIEs are the smallest enterprises, Menegkop & UKM data on SEs include MIEs. BPS, which regularly conducts surveys of SMEs, uses the number of workers as the basis for determining the size of an enterprise. In its definition, MIEs, SEs, and

MEs are business units with, respectively, 1–4, 5–19, and 20–99 workers; large enterprises (LEs) are units with 100 or more workers. MoI also defines an enterprise by size in its sector based on numbers of workers, using the BPS ranges for its definitions.

SMEs have historically been the main player in domestic economic activities, especially as a large provider of employment opportunities—and hence a primary or secondary source of income—for many households. For low-income or poor farm households in rural areas, SEs—i.e., units of fewer than 20 workers—in non-farm activities are especially important. These enterprises have also been an important engine in the development of local economies and communities.

SMEs account for more than 90% of all firms outside the agricultural sector and thus are the biggest source of employment, providing a livelihood for over 90% of the country's workforce, especially women and young people. The majority of SMEs, especially MIEs, are scattered widely throughout the rural parts of the country and play an important role as a starting point for development of villagers' entrepreneurial talents, especially for women. MIEs are dominated by self-employment enterprises without hired/wage-paid workers and are the most traditional enterprises, generally with low levels of productivity, producing poor-quality products and serving small, localized markets. There is little or no technological dynamism in this group. The majority of these enterprises barely survive. Some of them may be economically viable over the long term, but a large number are not. Especially with import liberalization, changing technology, and the growing demand for higher-quality, modern products, many MIEs face closure or very difficult upgrading. However, the existence or growth of this type of enterprise can be seen as an early phase of entrepreneurship development.

According to official data from the Ministry of Cooperative and Small and Medium Enterprises (Menekop & UKM), SEs accounted for more than 39.7 million units in 1997, constituting about 99.8% of the total number of enterprises that year, and in 2004 that number increased to more than 40 million units (Table 1). Generally speaking, this table may indicate that new entrepreneurs are born every year in Indonesia. Unfortunately, there are no data which show whether transformation or size upgrading has happened within SMEs—i.e., whether MIEs become SEs, SEs become MEs, and MEs are transformed into LEs. Transformation of firms by size may give a better picture of long-term entrepreneurship development.

Table 1. Total Units of Enterprises by Size Category: 1997-2004

Size Category	1997	1998	1999	2000	2001	2003	2004
Σ SEs	39,704,661	36,761,689	37,804,536	38,985,072	40,137,773	42,475,756	43,158,468
Σ MEs	60,449	51,889	51,798	55,061	57,743	59,580	63,361
Σ LEs	2,097	1,831	1,832	1,946	2,095	2,169	2,248
Total	39,767,207	36,815,409	37,858,166	39,042,079	40,197,611	42,537,505	43,224,077

Source: Menekop & UKM

SMEs are especially important in creating employment, as they employ more people than LEs. These enterprises are expected to play a leading role in unemployment reduction and/or employment creation through either output growth/production expansion in existing units or the establishment of new businesses. SMEs account for about 99.5% of the total number of employees.

In terms of GDP, on average, during the period 2000–03, SMEs contributed more than 96% of total output in the trade and hotel/restaurant sectors and almost 95% in agriculture. In terms of total GDP, SMEs performed better than their larger counterparts, accounting for more than 50% of total GDP during that period. SMEs' output contribution to the annual growth rate of total GDP was higher than that of LEs. On average, the GDP growth share of SMEs was above 2%,

whereas that of LEs was under 2%. Within SMEs, SEs appeared to be more important than MEs, as their GDP growth share was higher than that of the latter (Table 2).

Table 2. Contribution to GDP Growth by Size of Enterprise (%)

Size category	2000	2001	2002	2003
SE	2.02	1.42	1.52	1.68
ME	0.82	0.58	0.62	0.69
LE	2.08	1.46	1.55	1.73

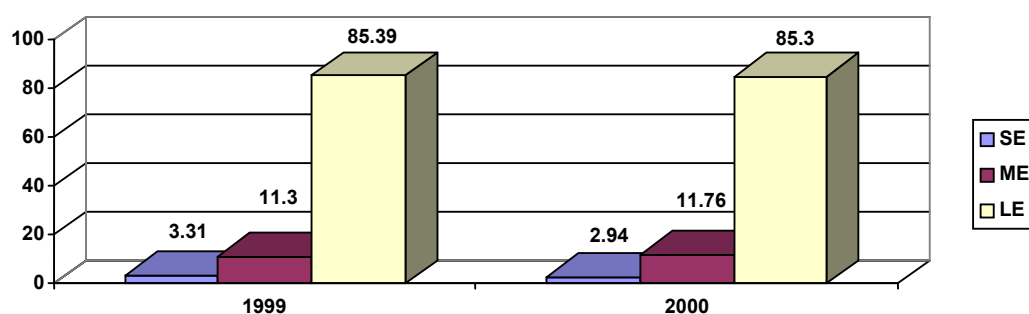
Source: BPS

There has been much discussion about the role of SMEs in export development and growth. As in many other developing countries, in Indonesia, LEs have historically been the dominant force not only in domestic sectors but also in export activities, with SMEs, especially the small ones, engaged in exporting in only a very limited way, mainly indirectly through production linkages with LEs or marketing linkages with trading houses or independent exporters. Concern has arisen about the export propensity of SMEs, as the government increasingly views export activity as a key source of domestic income growth and employment creation, coupled with a trend toward the growing importance of SMEs in poverty alleviation and improvement in income distribution. It is generally believed that the income- and job-creating potential of SMEs cannot be fully exploited unless these enterprises are also involved in exporting.

Although on average the annual export contribution of SMEs to Indonesia's total non-oil and gas exports is relatively small compared to that of their larger counterparts, SMIs seem to have shared in the manufactured export boom in the 1980s and 1990s. Hill (1997) shows that the share of manufacturing SMEs in Indonesia's total non-oil and gas exports increased from about 10.0% in 1983 (or about USD137 million) to around 17% in 1987 and declined to a little more than 13.0% (or USD2.1 billion) in 1992.

As with LEs, exports of SMEs in manufacturing are concentrated in a limited number of products and for a limited number of markets. This limited number of products is related to their traditional advantages in the production of such items as garments and other textile products, leather products including footwear, and products from wood. Using data from BPS, Berry et al. (2001) show that 18% of all exports came from SMIs (equivalent to approximately IDR47 trillion in that year), and SMIs' exports were concentrated in textiles, garments, and footwear, which together shared 27.0%, wood products at 22.0%, and basic machinery at about 16.0%. Using data from Menekop & UKM, both Hill (1997) and Van Dierman (2000) found that these products dominate SMIs' exports. They argued that from the point of view of technology and adaptability, export growth of SMIs has been achieved substantially by finding niche markets and adapting costs and quality to market demand. Berry et al. (2001) argued that this growth no doubt reflects a rapidly increasing share of SMIs' output that has been exported indirectly through subcontracting arrangements, mainly with commercial intermediaries.

Official data show that the role of SMEs in the country's export development was small. SEs contributed only about 3.31% and 2.94% in 1999 and 2000, respectively, as compared to 11.3% and 11.76 for MEs and 85.39% and 85.3% for LEs (Figure 1).



Source: Menekop & UKM

Figure 1. Exports of SEs, MEs, and LEs as a Percentage of Total Exports

### Characteristics of Indonesian SMEs

#### Education Level

Table 3 presents the education level of entrepreneurs in non-farm MIEs and SEs by gender and reveals that overall, the level of education of entrepreneurs in these enterprises is low and that male entrepreneurs are better educated than females. Fewer than 1% of total female entrepreneurs have university diplomas, as compared to 6.5% of their male counterparts. This is consistent with the education structure of the working population.

Table 3. Education of Entrepreneurs in Non-Farm MIEs and SEs by Gender, 2003 (%)

Level of education	Female	Male
Did not complete primary school	27.88	14.27
Completed primary school	40.82	39.49
Completed high school first degree (SMP)	18.62	25.87
Completed high school second degree (SMA)	11.77	18.37
Higher education	0.91	6.5

Source: BPS (SUSI 2003)

#### Technology

BPS data on output, numbers of enterprises, and numbers of workers employed in manufacturing indicate that labor productivity increases with the size of a plant. Table 4 shows that the average ratio of value added to labor in MIEs and SEs combined is lower than that in MEs and LEs combined. Labor productivity in MIEs and SEs is so low that although the total number of establishments and their workers is much larger than those in MEs and LEs, their share in total manufacturing output (or gross value added) is much smaller.

Table 4. Labor Productivity (Q1) and Manufacturing Total Output Contribution (Q2) by Size of Enterprises, 1999–2003

Size group	1999		2000		2001		2002		2003	
	Q1	Q2 (%)	Q1	Q2 (%)	Q1	Q2 (%)	Q1	Q2 (%)	Q1	Q2 (%)
MEs										
+ LEs	115.28	90.52	143.99	91.65	167.70	91.50	166.31	89.94	196.26	90.68
MIEs										
+ SEs	8.35	9.48	9.11	8.35	10.98	8.50	12.36	10.06	13.55	9.32

Source: BPS

This is not solely an problem in Indonesia; the labor productivity gap between SMEs and LEs is one of the largest observed in the LDCs.<sup>†</sup> It also does not come as a surprise, given the fact that SMEs, especially MIEs, in Indonesia (as in other LDCs) are traditional enterprises using manual modes of production (i.e., a low degree of mechanization). They also lack the inputs necessary to increase productivity, such as skilled workers, new machines and modern tools, and the know-how to improve methods of production. Without these, it is difficult for these enterprises to achieve increasing returns to scale in their production process.<sup>‡</sup> By contrast, LEs are usually mechanized and computerized, their production processes are better managed and organized, and they employ highly skilled workers. In the food and beverage industry, for instance, micro enterprises are very simple food and beverages processing units that produce mostly for local markets, as compared to big companies like Unilever and Indofood.

#### *Access to Capital*

Based on the findings of the Rural Investment Climate Survey (RICS) conducted in six districts (*Kabupaten*) by the Indonesia office of the World Bank in 2006 (World Bank, 2006), Table 5 presents a number of types of financial institutions that provide credit to non-farm SMEs. They borrow both from formal sources, like banks and non-bank financial institutions, and from informal sources, such as friends or family members, informal moneylenders, advance payments from customers, and credit from suppliers of raw materials.

Table 5. Types of Financial Institutions for Non-farm SMEs in Indonesia

Source	Types
Informal loans/capital	Friends or family Moneylenders Pawn shops
Business-linked credit	Suppliers of raw materials, components, or other inputs Buyers
(continued on next page)	

<sup>†</sup> See, e.g., Liedholm and Mead (1999) and Berry and Mazumdar (1991).

<sup>‡</sup> In the literature on modern economic growth models, advanced technology embodied in new/modern machines and the skills of workers are the two important determinant factors of productivity that are most often mentioned. In the literature on SMEs in LDCs, lack of technology and skills plus other factors, such as traditional ways of organizing business, poor management, and inappropriate methods of production, are often said to be the main factors behind the low levels of productivity in these enterprises. See, e.g., Rice and Abdullah (2000), Sandee and van Hulsen (2000), Sandee et al. (2002), Sato (2000), Smyth (1990), Liedholm and Mead (1999), and Berry and Mazumdar (1991).

Non-bank microfinance	Cooperatives Microfinance institutions Government Donor programs (e.g., USAID, ADB, Ausaid, EU)
Microfinance-oriented bank	Microfinance arms of commercial banks (conventional) BPR ( <i>Bank Perkreditan Rakyat</i> ) or People's Credit Bank (conventional) Commercial banks
SME finance	Provincial Venture Capital companies (conventional and on <i>syariah</i> principles) Formal non-bank financial institutions (vehicle/equipment finance, leasing and factoring) True Venture Capital

Source: World Bank (2006)

BPS data (SUSI 2003) show that of 2.45 million non-farm MIEs and SEs that sought and obtained financing, the four main sources for loans (respondents were allowed to indicate more than one source) were individuals other than family members (33%), banks (24%), family members or friends (20%), and other sources (28%). Table 6 shows that among non-farm enterprises surveyed, the relative importance of these different sources of credit varies significantly across different business sectors. Overall, informal sources of finance play a more significant role than formal sources, but banks remain the most common formal source. Furthermore, banks are the most significant single source of finance in the wholesale, retail, restaurant, and accommodation services sectors, as well as in the financial institutions, real estate, leasing business, and services sectors.

Table 6. Sources of Credit for Non-farm MIEs and SEs by Sector (%)

Sector	Bank	Coop- erative	Non- bank fin. institu- tions	Venture capital	Individual	Family	Other
Smallholder min- ing and quarrying, non-PLN electric- ity, construction	18	0	2	1	28	31	30
Manufacturing industry	17	5	4	0	44	15	32
Trade, restaurants and accommore- dation services	34	9	8	1	29	24	20
Transportation and comm.	6	1	2	1	36	12	45
Financial inst., real estate, leasing and services	32	6	5	2	20	30	24
Total	24	6	6	1	33	20	28

Source: BPS (SUSI 2003)

The capital structure of SEs and MIEs in manufacturing is presented in Table 7. The data indicate that a majority of enterprises used their own capital, while the number that borrowed from external sources (including banks) was very small. Disaggregated data show further that the structures are different in SEs and MIEs, although the two are more or less the same in that their capital needs were met mostly by the owners' own money. This capital structure by sub-category indicates a positive correlation between the size or the nature of an enterprise and the total amount of borrowed money as a percentage of total capital needed: the larger the size or the more modern the enterprise, the higher the financial ratio. As can be seen, the percentage of SEs using their own capital was much smaller than the percentage of MIEs doing so. The percentage of SEs using partly external capital is larger than that of MIEs.

Table 7. Capital Structure in SEs and MIEs, 2003 (%)

Capital structure	SEs	MIEs
Own capital	68.10	82.62
Own capital and loan	30.83	16.04
100% loan	0.98	1.09
Other	0.09	0.25
Total	100.00	100.00

Source: BPS

The large amount of financing for business activities derived from informal sources such as loans from individuals and family members suggests that many SEs and MIEs face substantial constraints in their access to credit. How many firms of this size category are credit-constrained? Based on BPS survey results presented in SUSI 2003 regarding their perceptions of the main problems that they face, more than half of the 15.8 million SEs and MIEs currently face business problems of some sort, with a larger proportion of those located in rural areas making this claim (54.6%) than those in urban areas (41.7%). Of those that said they were facing problems, the most commonly identified major problems were marketing (with 39% of respondents mentioning this) and financing (37%). The proportion of respondents claiming to face credit constraints was higher among enterprises involved in trade, financial services, and manufacturing than in mining and transportation (Figure 2). Among manufacturing enterprises, credit problems are mentioned more often by SEs (25%) than by MIEs (19%). Overall, including firms that did not register any problems, a little less than one-fifth of MIEs and SEs mention credit as a problem.

### Major Problems

In the LDCs, SMEs face obstacles that are sometimes similar to those experienced by LEs. However, SMEs, and especially MIEs, are much more vulnerable to these problems. Many of these problems are also related in nature or complexity to the size of the enterprise or activity. Smaller enterprises face more complex problems that may differ from region to region and between one industry group and another. Although they vary even between individual enterprises in the same size category and within a branch of activity, certain problems common to all SMEs are linked to infrastructure, institutional, and economic issues. Infrastructure issues include poor and/or expensive infrastructure (transport, storage facilities, water, electricity, and telecommunications), lack of working premises, and poorly developed physical markets. The institutional issues include lack of access to formal training and, as a result, lack of basic economic skills and managerial expertise, with a lack of formal schooling that sometimes even results in illiteracy, limited access to property rights, limited access to formal finance and banking institutions, and excessive government regulations in areas such as business startup,



Source: BPS (SUSI 2003)

Figure 2. Credit Problems Faced by MIEs and SEs in Indonesia, 2003

in particular as regards cumbersome, time-consuming, and costly procedures for business registration, lack of information on prices and viability of products, and fewer market opportunities due to non-compliance with international standards. Economic issues include excessive registration and transaction costs of starting or operating businesses, limited access to technology, lack of opportunities for bulk purchase of inputs, lack of working capital, with credit having to be obtained from informal sources such as friends or relatives or non-banking financial agencies with unfavorable terms, and insufficient funds to allow for further investments (UN, 2001).

These obstacles are more or less interlinked and create vicious circles of bad performance, business stagnation, or low competitiveness of SMEs in the less developed countries as compared to their counterparts in developed/industrialized countries. For instance, the primary reasons for lack of funds or skills is that the SMEs, especially MIEs, cannot access resource institutions such as banks and other financial institutions, training and education institutions, marketing and consultancy firms, etc. In fact, all these obstacles create an overall context that in itself constitutes a barrier to further development or business improvement for these enterprises (Tambunan, 2006).

The recent (2003) survey on SEs and MIEs from the Central Bureau of Statistics (BPS) shows typical problems these enterprises face (Table 8). For a majority of respondents these are lack of capital and marketing difficulties. In Indonesia, although there are various government-sponsored SME credit schemes, the majority of small enterprises, especially SEs and MIEs located in rural/backward areas, have never received any credit from banks or other financial institutions. They depend greatly on their own savings, money from relatives, and credit from informal lenders for financing their daily business operations. In marketing, SMEs in general do not have the resources to explore their own markets, instead depending heavily on their trading partners to market their products, either within the framework of local production networks and subcontracting relationships or through orders from customers.



Table 8. Typical Problems Faced by SEs and MIEs in Manufacturing Industry, 2003

	SEs		MIEs		Total SEs/MIEs	
	No.	%	No.	%	No.	%
No problems	46,485	19.48	627,650	25.21	674,135	24.71
Problems:	192,097	80.52	1,862,468	74.79	2,054,565	75.29
Raw materials	20,362	10.60	400,915	21.53	421,277	20.50
Marketing	77,175	40.18	552,231	29.65	629,406	30.63
Capital	71,001	39.96	643,628	34.56	714,629	34.78
Transportation/distribution	5,027	2.62	49,918	2.68	54,945	2.67
Energy	40,605	2.4	50,815	2.73	55,420	2.7
Labor costs	2,335	1.22	14,315	0.77	16,650	0.81
Other	11,592	6.04	150,646	8.09	162,238	7.90
Total	238,582	100.00	2,490,118	100.00	2,728,700	100.00

Source: BPS (SUSI 2003)

### DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS

Virtually all known types of government intervention to support SME development have been tried at one time or another: various forms of subsidized credit; human resource development training—production techniques, general management, management quality systems ISO-9000, and entrepreneurship; provision of total quality control and technical assistance Internet facilities, advisory extension workers, and subsidized inputs; marketing and promotion facilitation; setting up of Cooperatives of Small-Scale Industries (KOPINKRA) in clusters; establishment of special small-scale industrial estates (LIK); partnership programs; Small Business Consultancy Clinics (KKB); establishment of the Export Support Board of Indonesia (DPE); establishment of common service facilities (UPT) in clusters; and implementation of an incubator system for promoting the development of new entrepreneurs. Several government departments, i.e., the Ministry of Industry and Trade and the Ministry of Cooperative and SME, have taken the lead in SME development policies. These, like other ministries, have regional offices for delivery of services.

During the period 1997–2003, totally there were 64 institutions involved in SMEs development supporting activities, which can be categorized into six groups with a total of 594 programs (Table 9). Most of them were provided by the government (65%). Other programs were conducted by NGOs (18%), donor agencies (8%), banking institutions (5%), private companies (2%), and other institutions.

Table 9. Institutions/Assistance Programs to Strengthen SMEs, 1997–2003

Institutions		Assistance programs		
		Total	Still continuing	
			Total	%
Government institutions	13	388	127	32.7
Banking institutions	7	31	25	80.7
Private companies	10	12	12	100.0
Donor agencies	8	46	15	32.6
NGOs	20	109	79	72.5
Other	6	8	8	100.0
Total	64	594	266	44.8

Source: SMERU (2004)

The type of support provided by these institutions varied from capital assistance, training, and facilitation—e.g., for promotion activities and business meetings between producers and potential customers, information about potential market/buyers and suppliers, facilities for quality control and workshops—to guidelines about the production process, management, and standardization (Table 10). The number of activities within each program also varied but generally ranged from one to three. Thus, of the 594 assistance programs, there were 1,044 types of activities. In total, the most common types of activities were the provision of training (22.9%), capital assistance/credit (17.3%), facilitation (16.1%), and the dissemination/introduction of new technology (15.2%). Government institutions were—and still are—the most common institutions for the introduction or dissemination of new technologies. Training programs, including training for entrepreneurship, were—and still are—most commonly organized by NGOs, private companies, and government institutions, whereas other institutions primarily provided capital assistance; private companies and NGOs were also very active in providing training. Facilitation was provided principally by NGOs and government institutions (35.7%). For non-government institutions, capital assistance was the most important type of assistance.

Table 10. Assistance Programs to Strengthen SEs Classified by Type of Activity and Sponsoring Institution

Type of activity	A*	B	C	D	E	F	Total
Capital assistance	5.3	52.9	25.0	21.0	29.6	28.6	17.3
Training	21.1	13.7	22.2	19.0	29.0	21.4	22.9
Facilitation	11.3	9.8	19.4	7.6	28.7	0.0	16.1
Provision of information	1.9	7.8	2.8	3.8	1.6	21.4	2.6
Facilities	16.2	2.0	5.6	8.6	1.0	0.0	9.7
Promotion	3.0	3.9	13.9	6.7	1.0	7.1	3.3
Dissemination/introduction of new technology	27.9	0.0	0.0	6.7	1.3	0.0	15.2
Guidelines	4.3	0.0	0.0	0.0	0.7	0.0	2.4
Other	9.0	9.8	11.1	26.7	7.2	21.4	10.5
Total	531.0	51.0	36.0	105.0	307.0	14.0	1044.0

\*See Table 9 for type of institution

Source: SMERU (2004)

### Capital Assistance

Although there has been improvement in the last 30 years, banks and non-bank financial institutions, especially those that could finance SMEs, are still relatively underdeveloped. This condition constrains the supply of capital, particularly the fast-growing SMEs. Insufficient competition in the SME financing sector means that the available financial institutions are not vigorously scanning the entire SME market and are not motivated to create innovative financial products that would adequately serve that market. Moreover, “entrepreneurial finance,” often involving non-collateralized forms of lending, is inadequate, which particularly constrains the supply of capital to fast-growing SMEs that could act as an important “engine of growth” for the economy (PPTA and The Asia Foundation, 2005).

Probably the most important government-supported bank credit scheme for small businesses so far has been the microfinance provided by BRI, but this is for MIEs only, not for larger enterprises. However, despite the success of this credit scheme, MIEs’ access to finance is still inadequate since more MIEs need bank credit than the amount of credit made available annually, because of the complexity of administrative procedures, especially with respect to collateral requirements that not all credit-seeking MIEs can meet, and due to the fact that many MIEs are

scattered in rural areas where there are no BRI units (see the section of this report on access to capital).

More recent data from the RICS (World Bank, 2006) suggest that in the six Kabupatens surveyed, rural enterprises' lack of access to formal credit was a very significant problem. More than half of the enterprises sampled reported that they faced financial obstacles in continuing to operate or expand. Nearly a quarter of the firms listed financial obstacles as the primary impediment. SEs and MIEs were much more likely than MEs and LEs (8%–12% versus just 2%) to report obstacles in borrowing from formal financial institutions as their main constraint.

The above indicates respondents' perceptions of credit problems. However, some borrowers may perceive themselves to be "credit-constrained" because a lender will not lend to them, whereas in fact the refusal to lend is based on a realistic analysis of a borrower's business prospects. Conversely, some respondents do not perceive themselves as credit-constrained simply because they do not wish to borrow, even though they might find it difficult to borrow if they wanted to. Others may genuinely not be credit-constrained because they can borrow from informal sources—friends and family members—even though they might not be able to obtain funding from formal financial institutions (World Bank, 2006).

Theoretically, defining a credit constraint is straightforward: a credit constraint exists if a firm is not able to access credit on terms reflecting the cost and risk of providing these funds for purposes which will generate sufficient revenues to successfully repay the loan. Unfortunately, it is extremely difficult to determine in practice whether a loan would have been repaid had it been offered.

One survey which approaches this is the MASS Survey conducted in 2002 (cited in World Bank, 2006). Using this survey, it is possible to go beyond perception-based measures of credit constraint. In addition to asking about credit constraints, it also included an assessment by independent BRI credit officers of whether the interviewee was a viable borrower, i.e., whether or not the credit officer would have approved a loan if one had been sought. The survey concluded that approximately two-thirds of households would qualify for credit from a commercial microfinance institution (an institution with requirements similar to those of BRI units), although many non-borrowing households were unaware that they met the requirements for a micro-scale loan. Just over a fifth of qualified households (21.6% of total households) were actually borrowing. Moreover, 41% of qualifying non-borrowers (19% of total households) indicated that they would like to borrow, while 53% of non-qualifying households (17% of total households) said they would like to do so. So while for LEs the main systemic hindrances to lending tend to be related to failures in the legal system, for SMEs (especially MIEs) that wish to borrow, much of the systemic problem is caused by more tractable policy issues.

Surveys conducted by DAI and REDI in East Java (2004), ADB TA 3417-INO in the cities of Medan and Semarang (2001), and ADB TA 3829-INO in four districts/cities in the provinces of Central Java and South Sulawesi (2003) (cited in World Bank, 2006) confirm that collateral issues are still an important constraint for non-farm enterprises in obtaining credit from commercial banks. Furthermore, the RIC Survey (World Bank, 2006) shows that, of those enterprises listing collateral as a problem, about half reported inadequate assets for the size of loan desired. For all rural non-farm enterprises, 10%–20% may have inadequate collateral to meet current banking standards.

Some of the issues related to collateral problems in the allocation of credit from commercial banks to non-farm enterprises, especially SEs and MIEs, are that non-farm enterprises do not have the types of assets required to apply for loans from commercial banks, that non-farm enterprises do have the types of assets required by commercial banks, but to use these assets as collateral entails additional effort and therefore additional cost, and that non-farm enterprises must provide collateral with a value higher than that of the loan received.

Based on the results of the CESS and IFC PENSA study (2005), Table 11 shows the business requirements and types of collateral required to obtain credit from the Micro Banking

Units of commercial banks and BPRs. Commercial banks' requirement that collateral be provided in the form of fixed assets, such as land or building certificates, is mandated by Bank of Indonesia regulations. Until the end of 2004, commercial banks could not accept movable assets as deductions in determining loan loss reserves when allocating credit to MIEs, SEs, and MEs. As a result, many of these enterprises could not apply for credit because they could not provide the types of collateral required.

Table 11. Business Requirements and Types of Collateral

Item	Mandiri Micro Banking	Danamon Savings and Loan	BRI unit
Business requirement	Have own business for at least two years (proven with SIUP or TDP)	Have own business	Have own business for one year
Type of collateral	Collateral in the form of land certificate, house, car or motorcycle, or time deposit for loan of over RP10 million (US\$1,053)	Collateral in the form of land and building certificate, motorcycle, or car, for loan of over RP10 million (US\$1,053)	Collateral in the form of house and land ownership certificate, provisional ownership deed ( <i>girik</i> ) or sale deed, certificate, certificate that collateral is not in dispute, most recent PBB receipt

Source: CES and IFC PENSA (2005)

### Subcontracting Promotion

During the Soeharto era, the government imposed a system of protection and local content rules in a number of industries, including machinery, electronics, and the automotive industry, as part of its import substitution policy. These local content rules stand as a clear lesson in how government interference does not facilitate the use of subcontracting as a means for achieving the domestic diffusion of technology or knowledge. This policy was aimed at encouraging industrialization and a pattern of industrial development that followed the Japanese industrial pyramid model, where SEs at the base support MEs, which then support LEs at the top of the pyramid (TAF, 2000).

However, industrial development in Indonesia did not follow the same pattern as in Japan. On the contrary, the local content policy resulted in a vertically integrated production system within LEs. The program was generally not successful in assisting SEs and MEs in becoming viable and efficient supplier firms, primarily because during the import-substitution period, the large assembler firms were not efficient because they were not able to take advantage of economies of scale in the relatively small, fragmented domestic market and it was therefore equally difficult for the smaller firms to become efficient suppliers. The only local suppliers that emerged as viable and efficient firms were the large, export-oriented first-tier component makers engaged in joint ventures with large foreign—mostly Japanese—component makers. SEs and MEs which emerged as suppliers were second-tier or third-tier parts makers, supplying parts and subcomponents to the first-tier component makers (Aswicahyono et al., 2005). These programs were discontinued in 1993. To date production linkages in terms of subcontracting between LEs and SMEs in the manufacturing industry are still weak. The Asia Foundation (TAF, 2000) argues that the lack of success of the deletion programs in fostering strong linkages between LEs

and SMEs was due to the government's excessive interference aimed at replacing the market mechanism.

The economic rationale behind the local content policy was to create a captive market for domestic products in order to increase the economic scale of production and thereby increase efficiency, but government interference went too far. The government decided which products were to have priority and introduced fiscal incentives in line with the type of priority recipient products. Determination of priorities does not always appear to have been based on economic considerations, such as SMEs' capacity for investment and absorption of technology.

Similarly, Thee (1990b, 1997) argues that such production linkages did not develop smoothly during the New Order era because of market distortions and the lack of skills and low technological capabilities of local firms, especially SMEs. SRI International (1992) found that such linkages between LEs and SME clusters are weak and that only a small number of clusters (all located in Java) established subcontracting relationships with LEs. The general impression from other studies is also that subcontracting between LEs and SMEs is weak, mainly because the latter cannot meet the required standard of quality due to lack of technology and skills.<sup>§</sup>

At the request of the government, in 1994–96 the Foreign Investment Advisory Service (FIAS) conducted a study on the feasibility of promoting backward linkages between export-oriented foreign-invested firms in the electronics and electrical goods industries and Indonesian supplier firms. The study concluded that there was a need for backward linkages, both to strengthen domestic supporting industries and to improve the climate for foreign investment. However, the study also identified a number of policy and procedural impediments, as well as weaknesses in the programs designed to enhance capabilities, including SMEs' lack of finance and technological capabilities to grow into viable and efficient supplier firms (FIAS, 1996).

Although the mandatory deletion programs during the New Order era were largely unsuccessful in developing viable domestic supplier firms, successful private-led subcontracting networks did form in some industries, with the evidence showing that these arrangements did successfully facilitate technological capacity building. One example is ASTRA Otoparts, part of the ASTRA International business group, Indonesia's largest integrated automotive company. Through ASTRA Otoparts, ASTRA International was able to develop several SMEs into efficient and viable suppliers. As a result of the rigorous training which ASTRA provided to local suppliers with potential, over time these suppliers were able to produce a wide range of parts and components for cars and motorcycles that meet the strict quality standards set by ASTRA and also its strict delivery schedules.

Sato (1998) researched the transfer of Japanese management technology—that is, “all the knowledge to manage production and supply activities in various aspects,” primarily quality control (QC) and total quality control (TQC)—from Japanese MNCs to Indonesian firms. The ASTRA group was chosen as a case study in the research, and in the course of its long-term development there has been some concrete evidence of transfer of Japanese management technology. According to this study, QC and TQC activities in the ASTRA group have progressed through these stages: the Japanese partners initiated transplantation in new body-pressing joint venture companies—PT Honda Federal and PT Toyota Mobilindo—and then in the respective locally owned assemblers—PT Federal Motor and PT Multi Astra; diffusion of QC occurred across company boundaries, and QC spread to automobile-related, non-joint-venture companies within the group, including PT Gaya Motor, the assembler of Daihatsu, Peugeot, and Renault automobiles; when QC began to be adapted to the management of non-production sections, the Japanese partners introduced TQC; and TQC spread from a few advanced companies to other affiliated SMEs.

Another important policy aimed at promoting subcontracting or other forms of business linkages has been the so-called “Foster Parent” (FP) scheme introduced nationwide in February

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<sup>§</sup> See for example Harianto (1993), Kitabata (1988), Sato (2000), Supratikno (2001), and JICA (2000).

1992. In this scheme, all state-owned enterprises and big private companies (LEs) are required to form business linkages and at the same time to assist SMEs in raising capital and in training and technical assistance, marketing, procurement of raw material, and many other aspects. For example, with respect to marketing, the parent companies provide promotion facilities such as trade exhibitions and study tours for the supported enterprises or act as trading houses. As can be seen in Table 12, the number of SE and MIE entrepreneurs in non-agricultural sectors who had business linkages with LEs through this scheme, though it increased, was very small. One interesting fact evident in this table is that most of those who were involved in this FP program made use of facilities that give them direct benefits or that deal directly with their current problems: assistance with their current working capital, procurement of (cheap) raw materials to guarantee the continuation of their production, and marketing assistance which gives them a market guarantee.

Table 12. Percentages of SEs and MIEs Participating/Not Participating in the FP Program in Manufacturing Industry by Type of Assistance, 2000 and 2003

	Not having (% of total)		Having (% of total)		Type of assistance (% of total firms having the scheme)*									
					Capital/ Loan		Procurement of raw materials		Marketing		Technical assistance/ training		Other	
	2000	2003	2000	2003	2000	2003	2000	2003	2000	2003	2000	2003	2000	2003
Total SEs/ MIEs	95.5	87.9	4.5	12.1	40.5	21.5	54.8	47.3	53.5	52.9	4.4	3.1	0.6	2.4
MIEs	95.5	88.9	4.5	11.1	42.2	22.02	29.4	48.7	53.2	50.8	5.1	2.7	0.0	2.6
SEs	95.5	77.7	4.5	22.3	40.2	18.9	59.8	39.9	53.6	63.2	4.3	5.5	0.7	1.03

\*One firm may have received several types of assistance

Source: BPS (SUSI, 2000, 2003)

For government, the success of a program is usually measured by the number of participants; the outcome is not measured. A more realistic measure of success of a program would be to measure the net benefit not only to the supported SMEs, but also to society as a whole. While programs may give significant benefits to SMEs, they also accrue costs. Program benefits must thus be measured against the costs they incur. Net benefit of existing or previous SME development programs is not presented here due to lack of data. However, it is obvious from a range of studies that only few of the above-mentioned SME development programs have been successful.\*\* The FP scheme discussed above is an example. Whether the scheme was successful or not, it should be examined not only from its input side—i.e., the coverage—but also from its output side—i.e., the growth or development level of the involved SMEs. From the input side, the scheme was not successful. As has been mentioned, the majority of MIEs and SEs were not involved in this scheme. This coverage problem is the case not only for FP, but also for many other government programs.

### Technical Assistance and Training Programs

A more comprehensive technical assistance program for SMEs has been the development of technical service units (UPT) located in SME clusters of similar industries across provinces. These units provide extension and technical services and training courses. Government technical officers who have received special training staff the units. Van Diermen (2004) concludes that

\*\* For discussion, explicit or implicit, of government programs to support SMEs, see, e.g., Sandee and van Hulsen (2000), Tambunan (1998 a,b,c.; 2000), Tambunan and Keddie (1998), Klapwijk (1997), Sandee (1994, 1995), Sandee et al. (1994, 2000, 2002), van Dierman (2004), and Sato (2000).

the UPT extension service program has done poorly. It has failed to deliver efficient services, to target appropriate recipients, and to address the important criteria of providing a net benefit to society and/or effectively addressing equity or fairness objectives. There were also other problems with its implementation. Types of services are highly supply-oriented rather than demand-driven. Also, these units were originally supplied with modern technological machines and equipment, but over the years, especially after the economic crisis of 1997–98, budget constraints have prevented replacement of existing equipment. Today, much of the machinery and equipment is outdated. Services have been delivered indiscriminately to clusters. The staff of the UPT did not have the appropriate training to respond to entrepreneurs' needs. The UPT being part of the government meant that in most cases there was not great enough flexibility in the system for responding to the changing needs of SMEs.

While the government is the largest supplier of training programs, the evidence suggests that the quality and relevance of the training provided is poor. Most of these programs do not appear to have been very effective in upgrading the technological capabilities of the firms trained. For example, Sandee (1994) notes that training materials and other information do not always match the needs of the producers: "In practice, direct assistance frequently concerns brief training sessions of one or two days for a selected group of producers. Such sessions are characterized by a great deal of theory and little attention paid to how to improve the actual running of the business of particular activities" (152).

### **Women Entrepreneurship Development**

The Ministry of Industry has conducted programs since 1984 to empower groups of women in the small industry sector aimed at improving the role of small industry as a mover of economic activity so that it can increase business and working opportunities for the community and also create groups of women entrepreneurs. The program aims to develop new women entrepreneurs and create at least 20 groups of woman-run businesses per year, to create small industrial business units (at least 400 unit per year), and to absorb 600–900 women employees per year in each region. There are several approaches.

#### *Development of Human Resources*

- Building self-awareness of women's potential in home economic activity.
- Development of knowledge-based businesses.
- Development of entrepreneurial motivations and attitudes.
- Improving production skills.
- Improving business management capability.

#### *Marketing Approach*

- Development marketing targets
- Development of design and variety of products
- Development of business
- Development financial of business characteristics
- Development of production

In the implementation of the program, a number of activities are taking place in stages:

- Selecting a target group area in a region
- Preparing a facilitator in that region
- Selecting a women motivator
- Training the women motivator
- Facilitating and creating groups of women entrepreneurs
- Training to provide technical skills

- Providing equipment and materials as initial assets to women's business groups
- Trial marketing through participating in exhibitions
- Monitoring and evaluation

A key person is selected to serve as the motivator for women business groups formed in a region. All these activities are conducted over the course of one year. The program is still ongoing. This program is a collaboration between the Directorate General of Small and Medium Industry of the Ministry of Industry and the State Ministry for Women Empowerment. Between 1984 and 2005 the program resulted in the formation of 743 groups of women industrial businesses in all regions of the country, including 226 groups in food small industries, 235 groups in textile small industries, and 282 groups in craft small industries.

For this study, a survey was conducted of existing programs being initiated and implemented as well as those planned by government agencies and private institutions. The survey was designed to identify which of these current programs have been successful. Ideally, this question should be asked of both the implementing agencies as well as the beneficiaries (SMEs). However, because of the large number of existing programs are huge and the lack of time to do focus group discussions or in-depth interviews with SME entrepreneurs/owners who are (were) involved in such programs, the survey was given only to key persons in three relevant government institutions: the Department of Trade, the Department of Industry, and the State Ministry of Cooperatives and SMEs. As shown in Table 13, the respondents were asked to evaluate the success of the program by choosing among the following terms: "success," "not yet," "fair," and "not enough." These are the personal opinions of the key persons interviewed, based on a number of considerations such as total number of enterprises covered, which included those connected with large enterprises (LEs) through subcontracting arrangements, and number of implementing agencies, such as specialized financial institutions or venture capital firms for SMEs.

Table 13. Government and Private Sector Initiatives, Programs, and Policies and Their Results

Initiatives, programs, policies	Public sector	Private sector	Results
A. Promotion of entrepreneurial culture			
A1. SME promotional councils/bodies	√	√	Success
A2. Entrepreneurship development promotional campaigns	√		Fair
A3. Awards for Successful SMEs—"Small Business Entrepreneur of the Year"			Not yet
A4. Quality Awards for SMEs	√		Success
A5. President mentions entrepreneurship in statements and budget	√		Fair
A6. Entrepreneurship Development Action Plan at the national level	√		Fair
A7. Government's vision promoting entrepreneurship, innovation and competitiveness at the national level	√		Fair
A8. Promotion of Entrepreneurship Profile for SMEs	√	√	Fair
A9. Promotion of benchmarking and best practice networks			
A10. Promotion of Women Entrepreneur	√	√	Success
A11. Promotion of e-business and ICT development	√	√	Not enough
A12. Promotion of technological innovation for SMEs			Not yet
A13. Promotion of financial products and schemes for SMEs	√		Fair
A14. Productivity promotional campaign for SMEs	√		Fair
(continued on next page)			



*Entrepreneurship Development for Competitive Small and Medium Enterprises*

A15. Promotion and availability of SME database, SME publications, SME web-based portals for information and business matching	√	√	Fair
A16. Provision of infrastructural facilities, e.g. industrial parks, export promotion zones	√		Fair
<b>B. Regulation and Policies</b>			
B1. Laws/regulations/policies for SME development at the national level—Availability of SME Framework	√		Fair
B2. Policies/regulations to support technological development	√		Fair
B3. Policies/regulations for ICT development	√		Not enough
B4. Policies/regulations for SME's access to markets	√		Fair
B5. Policies/regulations for SMEs' access to financial facilities	√		Fair
B6. Policies/regulations for entrepreneurship development	√		Fair
B7. Bankruptcy laws which ease the exit of enterprises that are not sustainable or competitive			Not yet
B8. Labor laws and employment regulations affecting SMEs	√		Fair
B9. Infrastructure facilities/exemptions provided to SMEs	√		Fair
B10. Specialized prudential regulations for financing to SMEs	√		Fair
B11. Regulations on financial incentives for SMEs, i.e. tax exemptions/benefits, duty concessions for SMEs	√		Fair
B12. Policy/regulation for productivity development in SMEs	√		Fair
B13. Policies and regulations for intellectual property rights	√		Fair
<b>C. Administrative environment/framework</b>			
C1. Availability of permanent or ad-hoc units/cells mandated to represent SME views in the regulatory process		√	Fair
C2. Councils/Consultative bodies/Task Force for SME development and/or to take SMEs' views into consideration while formulating policies and procedures		√	Fair
C3. Experts advisory/advisory board/specialized boards set up to develop SMEs (in general or in specific sectors)		√	Fair
C4. Availability of productivity improvement programs for the SMEs	√		Not enough
C5. Availability of Entrepreneurship Profile/Entrepreneurship Indicators for the country			Not yet
C6. Systems/programs to monitor the entrepreneurial profile, entrepreneurial activity and entrepreneurial business environment (EBE)	√		Not enough
C7. Programs/focus on developing entrepreneurial mindset, corporate vision, and corporate entrepreneurship	√	√	Fair
C8. Procedures for development of SMEs			
C8a. Registration of firms, formation of a new company, listing requirements	√		Fair
C8b. Exit of uncompetitive firms			Not yet
C8c. Compliance and reporting	√		Fair
C8d. Licensing	√		Fair
C8e. Accounting standards	√		Not enough
C8f. IT driven communication through web portals	√		Not enough
(continued on next page)			

C8g. Taxation	√		Not enough
C8h. Utilities	√		Not enough
C8i. Standardization	√		Not enough
C8j. Quality certificates, ISO certification	√		Not enough
C8k. Insurance coverage schemes	√		Not enough
D. Entrepreneurship Training and Education			
D1. Entrepreneurship curriculum at universities and colleges (covering start-up strategies, entrepreneurial behavior, application of marketing and finance to start-up, entrepreneurial finance such as venture capital and angel investors, intellectual property rights, franchising, corporate entrepreneurship/intrapreneur, prototyping, technology transfers, etc.)	√		Not enough
D2. Internship programs/attachment with enterprises for developing entrepreneurial skills	√		Not enough
D3. Linkages between SMEs and colleges/universities	√		Not enough
D4. Institute of entrepreneurship			Not yet
D5. Entrepreneurship training programs, i.e., technical training, management training; trainings on corporate social responsibilities, entrepreneurship ethics, productivity and quality consciousness, use of information technology, ICT development, developing internal synergies and alliances with employees, etc.	√		Not enough
D6. Other skill development training programs and institutes directed towards self-employment and entrepreneurship development, etc.	√	√	Fair
D7. Quality standardization and testing institute	√	√	Fair
D8. Other training institutes for human resource development of SMEs	√	√	Fair
E. Network and linkages for SME development			
E1. Availability of enterprise cluster	√		Proceed
E2. Availability of business development and business support service providers	√		Not enough
E3. Availability of business advisory/consultancy services for SMEs	√	√	Fair
E4. Strategic alliances and joint ventures within domestic and/or international markets in SMEs		√	Fair
E5. Sub-contracting support for SMEs by larger enterprises	√		Success
E6. Availability of business incubators			
E7. Linkage programs for market access /programs, product development, technological access, etc for improving domestic and international market access for SMEs	√	√	Fair
E8. Supply chain and value chain networks in the country and internationally		√	Not enough
F. Technology and ICT			
F1. Initiative for cross-border technological cooperation (joint R&D, joint commercialization), regional association for technology-led enterprises		√	Not enough
F2. Technology business incubators		√	Not enough
(continued on next page)			

F3. Availability of back-up/pilot and demonstration projects which foster innovation and technological development	√	√	Not enough
F4. Facilities for developing technopreneurs—availability of knowledge centers, research and development centers, and testing laboratories, etc.	√	√	Fair
F5. Facilitation of benchmarking exercises and sharing of best practices—Best Practice Networks			
F6. Availability and facilitation of e-business and e-commerce practices, use of internet and other e-market, e-business methodologies		√	Proceed
F7. Availability of web-based SME portals, SME database, information networks	√		Not enough
<b>G. Financial support</b>			
G1. Support and role of the Central Bank in providing financial access to SMEs	√		Not enough
G2. Availability of specialized financial institutions for SMEs			Not yet
G3. Specialized financial products and incentives for small enterprises			Not yet
G4. Availability of SME Fund, Technopreneurship or Intrapreneurship Fund, etc.			Not yet
G5. Availability of venture capital funds or risk financing mechanisms, risk mitigation fund, credit guarantee schemes		√	Not enough
G6. Grants for SMEs for technological assistance, market access, productivity improvements, research and development, innovations, product development, e-business, ICT development, supply chain networks, etc.			Not yet

## **A SUCCESSFUL SME ENTREPRENEUR—CASE STUDY**

### **Komar Batik**

#### *Background and Personal Characteristics of Entrepreneur*

Komar Batik is one of the leading craft batik companies in Indonesia, founded in 1998 with 10 employees; it now has 99. Its initial sales were USD20 million per annum; it has now achieved annual sales of USD3 billion.

The entrepreneur is 45 years old, with a university diploma in textile design. He comes from a family that had its own business. This background played a very crucial role in making him into an entrepreneur. From his childhood, he learned business practices from helping his parents. Some personal characteristics of the successful entrepreneur can be seen in his personality: he is creative, innovative, and aggressive; he enjoys solving problems, making things happen, taking personal and financial risks, and making quick decisions; he is a consistent goal-setter and results-oriented individual. He is also strongly motivated by his freedom to conduct the business, his creativity, and his capacity to innovate. He believes that “creation and innovation” are very important in order to improve a company.

#### *Company Vision*

The company vision is one of contributing to the prosperity of employees passing through the workplace environment, promoting healthy and clean residences, and giving fair compensation.

The objectives are:

- Improving competitiveness and quality, leading to increased access to global markets.
- Enriching motif designs to add value to traditional motifs.
- Innovating in the areas of cloth, texture design, weaving, and natural fiber combinations.
- Improving the quality of human resources by educating workers.
- Extending the network of suppliers through industrial estate crafting, batik transfer of design information, and production process development.
- Sharing information about various batik processes with the batik workers in a given area.

#### *Company Mission*

The company's mission is to preserve and expand the batik tradition as part of the effort to improve the economic situation of Trusmi Plered Cirebon West Java, in particular, and to develop an industrial base for the crafting of Indonesian batik in general.

#### *Areas for Improvement*

When the company was started in 1998, some areas required improvement.

- Marketing and opportunities to promote the product were limited. The entrepreneur tried to get government support for participation in exhibitions and other events.
- Technology for coloring was limited. To respond to the tastes of consumers of batik, the company needed to have skills and technology for coloring, especially natural coloring.
- There were limited funds for operational expansion, particularly for increasing production.
- There were no facilities to create new designs. New and innovative designs were required, so computerized design techniques had to be acquired.

#### *Business Experience/Knowledge at the Beginning*

At the start of the business, the entrepreneur had experience in production. He used his own money or borrowed from relatives to finance his business. He worked hard to achieve his targets. He knew what his goals were from the very beginning, but he had no fixed business plan.

#### *Entrepreneurship Development Programs*

The entrepreneur made a number of efforts to improve his business.

- Participation in various exhibitions, both domestic and foreign, organized through the government (Ministry of Industry and Ministry of Trade). International exhibitions included the ASEAN Trade Fair, the International Batik Fair Malaysia, and the Tokyo Gift Fair.
- Training in natural coloring.
- Communication with financial institutions in order to understand and master the procedures for borrowing money and meeting administrative requirements.
- Emphasis on quality: the company received awards for the best craft design in ASEAN and Indonesia.

#### *Business Performance at Present*

As a result of his initiatives and support from the government, the company has become one of the most successful SMEs in Indonesia. Currently, the company has 99 employees, and its sales were USD3 billion in 2005. The products are exported mainly to Japan (25% of exports). The designs are unique and use natural colors. The company uses Autocad and Coreldraw to design the products.

## CONCLUDING REMARKS

Recently, entrepreneurship development has become an important issue for economic development in Indonesia. This study has endeavored to present the current state of entrepreneurship development in Indonesia by examining the current status of SMEs, to examine the effectiveness of SME development programs, and to identify the main characteristics of successful SME entrepreneurs. This effort has revealed a number of interesting facts. First, SMEs are of overwhelming importance, as they account for more than 90% of all firms outside the agricultural sector and thus are the biggest source of employment. Second, the average level of education of entrepreneurs, particularly in MIEs and SEs, is low, and women entrepreneurs are much less educated than their male counterparts. Third, the main constraints faced by SME entrepreneurs, especially in MIEs and SEs, are lack of working capital and limited marketing opportunities. Fourth, there are very few success stories of government-supported SME development programs. The principal problems with such programs are their small scale and the lack of coordination among executing institutions within the government as well as between government and non-government executing agencies. Implementation of these programs is not always supported by micro- and macroeconomic policies. Finally, the case study shows that some MIEs or SEs in Indonesia may have successfully transformed themselves into larger enterprises, and that the personality characteristics of successful entrepreneurs, such as the founder of Komar Batik, have played an important role in the success of these companies.

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## **ENTREPRENEUR DEVELOPMENT FOR COMPETITIVE SMEs: DEVELOPMENT STRATEGY**

### **Economic Performance**

Malaysia's 2004 economic growth rate of 5.3% was supported by a favorable performance in both the domestic and external sectors. Productivity increased 3.0%, from MYR25,495 to MYR26,255. There was high capacity utilization in the domestic sector as industries increased production to respond to demand from both the domestic and the export markets. Utilities (4.9%), transport (4.0%), finance (3.9%), and manufacturing (3.8%) were among the economic sectors that recorded high productivity growth, with productivity levels of MYR31,681 in manufacturing, transport MYR41,601, trade MYR23,098, agriculture MYR14,193, and construction MYR9,875.

### *International Productivity Comparison*

Internationally, Malaysia's productivity growth of 3.0% compared favorably with selected countries of the Organization for Economic Cooperation and Development (OECD) as well as with selected Asian countries. Malaysia's productivity growth exceeded that of the Republic of Korea (2.6%), Japan (1.9%), the USA (1.8%), Ireland (1.0%), the UK (0.9%), and Finland (0.1%). Among Asian economies, China registered a growth of 7.1%, while India, Thailand, and Taiwan recorded growth rates of 6.6%, 3.0%, and 2.7%, respectively. Malaysia's productivity level, at US\$11,300, was higher than those of emerging economies such as China, India, and Thailand.

### *Total Factor Productivity*

The economy registered Total Factor Productivity (TFP) growth of 1.6% for the period 1996–2005. Education and training (30.6%), demand intensity (29.6%), capital structure (17.4%), economic restructuring (12.2%), and technical progress (10.2%) all contributed to this growth. Economic competitiveness can be further improved through TFP initiatives. At the industry level, industries must rationalize cost and integrate work processes, utilize higher-level technology, intensify R&D activities, and improve management systems. Human capital development, with an emphasis on strengthening human resource capabilities and nurturing creativity and innovativeness, as well as bridging the gap between industry needs and skills availability, remains crucial for TFP enhancement.

### **Sectoral Productivity Performance**

The manufacturing sector's performance improved in 2005, with a productivity growth rate of 3.8% to MYR30,533, attributed to a favorable external environment and sustained domestic demand. Industries that registered productivity growth higher than the manufacturing average were iron and steel, chemicals and chemical products, and petroleum products. Both domestic and export-oriented industries registered a high capacity utilization rate (82.5%). To sustain its competitiveness in the global market, the manufacturing sector needs to continuously invest in human capital development and upgrade its technological capacities and capabilities towards more efficient production processes. Productivity in the finance sector grew by 3.9% to MYR60,544, while the trade sector posted productivity growth of 2.7% to MYR23,098. The sectors benefited from low interest and ample liquidity in the market, while improvement in the



overall business environment and better customer confidence provided further impetus to growth. The transport sector registered productivity growth of 4.0% to MYR41,601 attributed to a general improvement in business conditions. The introduction of value-added services by port operators and the arrival of major shipping lines had a positive impact on the sector's productivity.

The agriculture sector recorded productivity growth of 2.6% to MYR14,193, attributed to good agricultural practices such as the use of better clones and systematic application of fertilizers that produce higher yield. Ongoing adoption of labor-saving technologies like mechanized fertilizer application and investment in technologies like precision farming, which involves the use of both a geographical information system and a global positioning system to match crops' suitability with soil conditions, enhanced productivity. Biotechnology must be used in both the livestock and crop sub-sectors to produce better breeds and higher-quality agricultural products.

### **Small and Medium-Scale Industries (SMIs)**

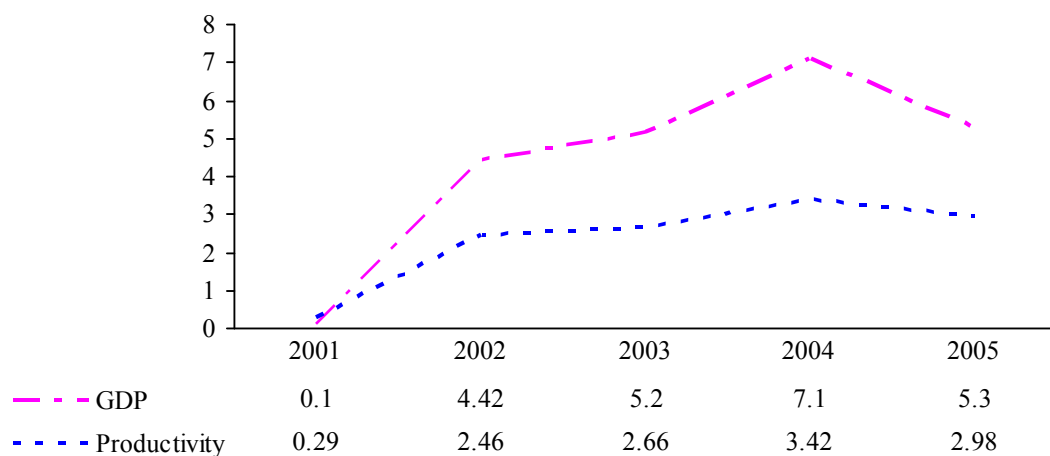
The added value per employee in SMIs grew by 6.5% to MYR42,000. Ongoing improvements in plant management, skills training and upgrading, investment in new machinery, and utilization of information and communication technology (ICT) impacted positively on the productivity performance of the sector. Industries recording above-average productivity growth were chemicals and chemical products, office and computing machinery products, food products and beverages, and petroleum products. Numerous programs focusing on enhancing capacity and capabilities of SMIs were developed to address internal and external challenges. Among the productivity and quality (P&Q) initiatives available to ensure that SMIs become more competitive and resilient are those encouraging the adoption of new technologies and utilization of ICT, enhancing human capital capabilities, and implementing P&Q management systems.

### **Productivity and Economic Growth**

In 2005, in a challenging global economic environment marked by increasing oil prices and slower growth globally, Malaysian's economy grew by 5.3%, fueled by an increase in domestic consumption and expanding exports. All economic sectors showed growth, with the exception of construction. The output of both the manufacturing and agriculture sectors grew by 4.8%, while the aggregated services sector grew by 5.8%. With this favorable performance in the main economic sectors, the economy registered productivity growth of 3.0% in 2004, from MYR25,495 to MYR26,255 (Figure 1). Economic sectors showing relatively high productivity growth were utilities (4.9%), transport (4.0%), finance (3.9%), and manufacturing (3.8%) (Figure 2). In terms of productivity level, the manufacturing sector's productivity stood at MYR31,681, with transport at MYR41,601, trade at MYR23,098, agriculture at MYR14,193, and construction at MYR9,875 (Figure 3). Thus Malaysia's economy can compete on international markets, while its citizens earn a standard of living that is both rising and sustainable over the long run.

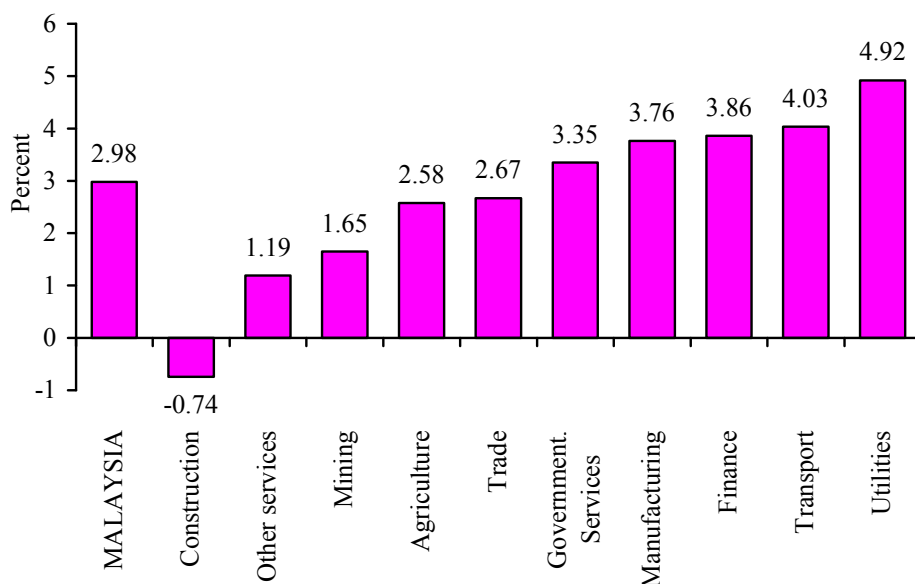
### **Competitiveness**

Competitiveness is the degree to which a nation can, under free trade and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term (OECD). The World Competitiveness Center's International Institute for Management Development (IMD) in Lausanne has analyzed how nations create and maintain an environment that sustains the competitiveness of enterprises. In its *World Competitiveness Yearbook* for 2005, Malaysia was ranked fifth out of 24 economies with a per capita income of less than USD10,000. Among the 30 economies with populations of more than 20 million, Malaysia was ranked tenth. According to the IMD model, the national environment of a country is influenced by the interaction of four competitiveness factors.



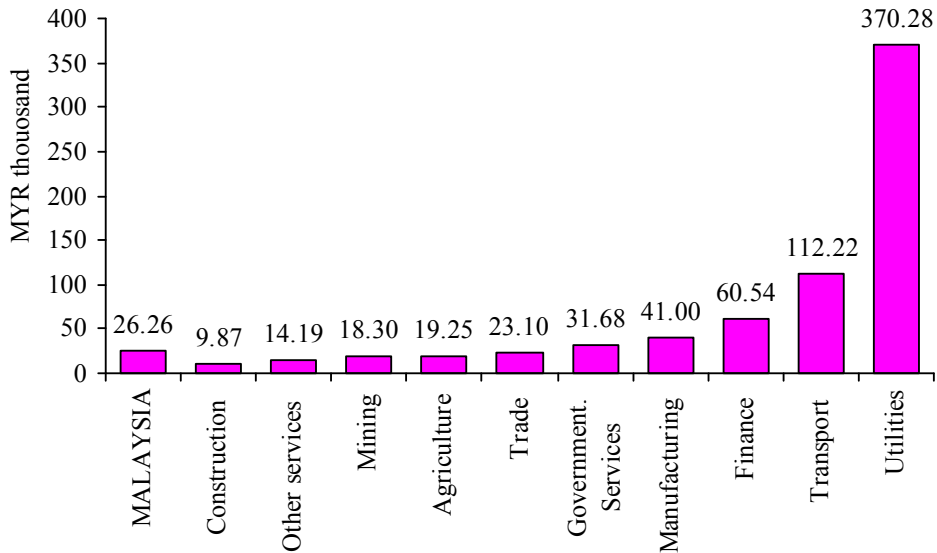
Source: Economic Report, Ministry of Finance, Malaysia; Bank Negara Report, Malaysia; Economic Planning Unit, Malaysia

Figure 1. GDP and Productivity Growth 2001–05



Source: Economic Report, Ministry of Finance, Malaysia; Bank Negara Report, Malaysia; Economic Planning Unit, Malaysia

Figure 2. Productivity Growth of the Economic Sectors 2005



Source: Economic Report, Ministry of Finance, Malaysia; Bank Negara Report, Malaysia; Economic Planning Unit, Malaysia

Figure 3. Productivity Level of the Economic Sectors 2005

- *Economic performance* captures the macroeconomic evaluation of the domestic economy and encompasses domestic economy, international trade, international investment, employment, and prices.
- *Government efficiency* assesses the extent to which government policies are conducive to competitiveness and includes public finance, fiscal policy, institutional framework, business legislation, and societal framework.
- *Business efficiency* examines the extent to which enterprises are performing in an innovative, profitable and responsible manner; it is measured through productivity and efficiency, labor market, finance, and management practices, as well as attitudes and values.
- *Infrastructure* looks at the extent to which basic technological scientific and human resources meet the needs of business; it includes basic infrastructure, technological infrastructure, scientific infrastructure, health, environment, and education. Among the 24 economies with a per capita income of less than USD10,000, Malaysia was ranked third in economic performance, seventh in government efficiency, fifth in business efficiency, and second in infrastructure. Among economies with populations of more than 20 million, Malaysia was ranked fourth in economic performance, eighth in government efficiency, eighth in business efficiency, and eleventh in infrastructure.

### Challenges

- Enhancing competitiveness through higher productivity growth.

- Enhancing the efficiency and effectiveness of the government delivery system.
- Sustaining the growth of export trade in addition to increasing domestic private investment.
- Enhancing value creation through innovation and R&D.
- Enhancing human capital in the knowledge-based economy.

## **Outlook**

The economy is expected to achieve a productivity growth of more than 3.3% in 2006 as both the public and private sectors strive to sustain competitiveness. This growth will be led by the private sector while the public sector will continue to assume the supporting role in enhancing productivity. Domestic demand is expected remain constant, while external trade is expected to expand with an upturn in the demand for electrical components and electronics. The expected economic growth of Malaysia's main trading partners, particularly the U.S., Japan, and China, will provide further impetus to economic growth.

## **SMIs in the Manufacturing Sector**

Small and medium-scale industries (SMIs) are important in enhancing the dynamism and competitiveness of the manufacturing sector. They form an integral part of the value chain in the overall production network, utilizing local components and indigenous technology in the production of value-added parts and components. Over time, SMIs have forged important linkages with multinational companies (MNCs) and large corporations.

## **OVERVIEW OF SMALL AND MEDIUM ENTERPRISES (SMEs)**

Small and medium enterprises (SMEs) play a very important role in a nation's economy in both developed and developing countries. SMEs also constitute a high proportion of a nation's business activities and in recent years have generated more employment opportunities than large corporations. Many countries rely on the SMEs to assist in national development. There is a very clear expectation that SMEs in Malaysia will assume a critical role in the country's industrialization program through strengthening both forward and backward industrial linkages. The government has also set forth policies and programs to further develop and integrate domestic SMEs as the critical and strategic link in developing and strengthening cluster formation and in increasing domestic value added. SMEs will assume these roles by complementing the activities of large-scale industries through integration into the mainstream of industrial development, providing critical parts and components, and expanding their market internationally. As SMEs grow, their progress will strengthen and widen the industrial base and enhance export-led growth. The wellbeing of any nation is highly dependent on the health of its SMEs.

Malaysia has transformed from a commodity-based producing nation to a manufacturer of industrial products, geared towards exports. With a good track record of economic growth, the country is well positioned to fulfil its vision of becoming a fully industrialized nation by the year 2020. Following a period of rapid expansion in the last eight years, the economy is projected to expand at a more sustainable pace. The main impetus to growth continues to come from the manufacturing sector, which is expected to record double-digit growth. In the external trade scene, export of manufactured goods continues to be the largest contributor to total exports; competitive pricing and improved marketing strategies have enabled Malaysian manufactured goods to penetrate non-traditional markets like Africa and Oceania.

Small and medium enterprises (SMEs) assume a critical role in the country's industrialization program by strengthening both forward and backward industrial linkages. The government's Second Industrial Master Plan (IMP2) provides the basis for attaining a broad-based, resilient, internationally competitive industrial sector and sets forth policies and programs to further develop and integrate domestic SMEs as the critical and strategic link in developing and

strengthening cluster formation and increasing domestic value added. SMEs will complement the activities of large-scale industries through integration into the mainstream of industrial development by providing critical parts and components as well as expanding their markets internationally. As the SMEs grow, their progress will strengthen and broaden the industrial base and enhance export-led growth.

### **Productivity Performance of Small and Medium-Scale Industries (SMIs)**

In 2005, SMIs constituted more than 90% of total manufacturing establishments, contributing a 29.6% share of total manufacturing output, a 25.9% share of total manufacturing added value, and a 31.1% share of total manufacturing employment. Most SMIs were engaged in manufacture of food products and beverages (32.8%), chemicals and chemical products (14.1%), rubber and plastic products (10.4%), fabricated metal products (6.9%), basic metals (5.8%), non-metallic mineral products (4.2%), and furniture (4.2%). Together these industries accounted for more than 70% of SMIs' total output and 29% of total manufacturing output.

SMIs in the manufacturing sector are defined as enterprises whose full-time employees do not exceed 150 in number or whose annual sales do not exceed MYR25 million. These are further categorized into medium-sized companies, small enterprises, and micro-enterprises.

- Medium-sized companies—companies with annual sales of between MYR10 million and MYR25 million or employing between 51 and 150 workers.
- Small enterprises—companies with annual sales of between MYR250,000 and MYR10 million or employing between 5 and 50 workers.
- Micro-enterprises—companies with annual sales not exceeding MYR250,000 or with not more than 5 full-time employees.

### *Capital Intensity*

Capital intensity indicates the amount of fixed assets allocated to each worker. Capital intensity grew at 2.4% in 2005, from MYR35,940 to MYR36,810. This indicated that SMIs had invested in fixed assets in order to improve performance, particularly in infrastructure, new machineries, and technology. Industries that registered above-average growth were electrical machineries, office and computing machinery products, non-metallic mineral products, chemicals and chemical products, and food products and beverages.

### *Capital Productivity*

Capital productivity reflects how efficiently the fixed assets of an enterprise were utilized to generate more added value. In 2005, capital productivity increased by 4.0%. For every MYR1.00 of fixed assets spent, SMIs produced MYR1.14 of added value. The increase in domestic demand contributed to high capacity utilization among SMIs. The industries that registered above-average growth in capital productivity were petroleum products, basic metals, furniture, textiles, and chemicals and chemical products.

### *Process Efficiency*

Process efficiency measures how efficiently an enterprise utilized its own resources—labor, plant, machinery, and capital—to generate added value and manage bought-in materials and services effectively. Process efficiency grew by 4.6% in 2005. For every 1 unit input spent, SMIs generated 1.16 units of added value. To sustain growth, SMIs need to intensify ongoing improvement initiatives such as skills training and upgrading, quality improvement programs, and investment in new machinery and technology. The industries with above-average process efficiency were office and computing machinery products, chemicals and chemical products, food products and beverages, textiles, and rubber products.

### *Labor Cost Competitiveness*

SMIs registered a growth of 4.9% in added value per unit of labor cost in 2005. For every MYR1.00 spent on labor cost, the industries were able to create added value of MYR2.32. The chemicals and chemical products, food products and beverages, petroleum products, and office and computing machinery products industries generated added value per unit of labor cost higher than the average of MYR2.32.

Labor cost per employee increased by 1.6% to MYR18,130 in 2005, from MYR17,840 in 2004. Among the industries that recorded above-average growth in labor cost per employee were electrical machineries, rubber products, basic metal, fabricated metal products, and office and computing machinery products. To remain competitive SMIs must ensure that growth in labor cost per employee is commensurate with higher value-added growth.

Unit labor cost declined by 4.5%, from 0.0913 in 2004 to 0.0873 in 2005. This indicated that the labor cost to produce one Ringgit of product or service is 8.73 cent, a reduction from 9.13 cent in 2004. This indicates that labor cost competitiveness was enhanced through productivity and quality initiatives. The industries that registered a below-average unit labor cost lower were basic metals, chemical and chemical products, petroleum products, and food products and beverages.

### **Problems**

#### *Internal—Micro/Firm Levels*

*Low level of technology.* SMEs generally use traditional methods of processing due to financial constraints; they cannot afford sophisticated machinery, and they lack technical information.

*Research and development (R&D).* No research activity is undertaken at the factory level. Most R&D is undertaken by research institutions such as MARDI or MARA and some universities.

*Quality.* The quality of SME products is inconsistent due to a lack of facilities or insufficient awareness of the need for quality control or as a result of poor manufacturing practices.

*Packaging and branding.* Some entrepreneurs produce goods packed in low-quality packaging material with an unattractive packaging design.

*Level of educational background.* Entrepreneurs with an elementary school education tend to be less receptive to new technologies compared to their counterparts who have a college education, making it difficult to transfer new technology and improve productivity.

*Management.* Most SMEs are managed by their owners, who do not know proper management techniques, including bookkeeping, maintaining records, and use of software. They are not innovative or motivated. They tend to be complacent and satisfied with what they have achieved.

*Lack of user-friendly systems.* ISO 14001 does not offer guidance on ensuring compliance with regulatory and legal compliance requirements. The requirements that the accreditation authorities put on the certification bodies may mean that interpretations made by the certification bodies are more restrictive than expected by the companies. On the other hand, ISO 14001 is a flexible standard without too many restrictive limitations, again leaving room for interpretation. To keep prices for consultation low, consultants often try to develop systems matrices, but it is not always easy for small companies to use and maintain systems implemented in this way. Because of lack of user-friendliness, SMEs think that it will be impossible for them to use the standards.

#### *Internal—Concern for Environmental Conservation and Management*

- SMEs' interest in environmental management was not present or had only been recently developed.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

- Less than 10% of the companies had documented policies concerning environmental matters.
- Less than 20% of the companies had written measures concerning environmental matters.
- About 30% had so far decided that they would not apply for certification, and less than 50% of companies were still undecided about whether they wanted to obtain certification.
- The majority of SMEs have either no employees or very few employees able to understand the requirements of ISO 14001.
- Companies often lack sufficient knowledge of regulatory and legal requirements.
- SMEs cannot economically cope with the task of implementing an environmental management system (EMS), especially if they use complicated processes which have significant environmental impacts.
- SMEs have difficulty understanding the importance that audit methods may have for them and the advantages of using this tool.
- It can be difficult to define any economic benefits if the certificate has no clear market value or if the EMS does not clearly help them to ensure compliance with legal requirements.
- Top management may assign EMS implementation to others.
- EMS is believed to have no positive environmental effect.
- ISO 14001 is believed to be nothing but a money-making machine for consultants.

### *External*

*Insufficient supply of good-quality raw materials.* It is hard to find or obtain good-quality raw materials; they are often of low or average quality and do not correspond to the product's standard. Good-quality raw materials can sometimes be obtained overseas, but they are expensive and the company may not be able to pay for them.

*Competitive markets.* Many SMEs are processing much the same types of products, such as foods and handicrafts, which require a low initial capital investment and a low level of technology. Because of the number of firms involved, they face stiff competition in terms of their market share. However, some enterprises are able to expand their enterprises because they are innovative and have an aggressive market strategy.

*Regulations.* Some products have very strict regulations (e.g., in the food industry, chili sauce, tomato sauce, and soy sauce might contain high levels of preservatives, contrary to food regulations).

*Lack of industrial sites.* Many SMEs operate as backyard industries located near the owner's residence. Better premises with a proper drainage and sewage system are required, but many industrial sites are too expensive.

*Lack of finance.* This is a common problem facing entrepreneurs. Financial institutions have more confidence in big industries, while small-scale industries have little collateral and often have difficulty preparing a project paper or a business plan to show their viability. It is very difficult for SMEs originating from developing countries to get mid- and long-term financing from banks. In these countries SMEs are frequently regarded as risky enterprises, for many reasons:

- SMEs have an unstable cash flow and inadequate capital structure.
- It is very difficult to measure performance as SMEs sometimes do not provide adequate data and more often than not do not use up-to-date accounting methods. Their financial records are far from reliable and accurate.
- Since most commercial banks have fixed credit costs, they cannot decrease costs per credit if the total number of credits decreases.

- Physical inadequacy in access to SMEs and communication is another limiting factor for banks. Technical and marketing problems affect a majority of these firms. SMEs suffer from inadequate management structure and production technology.
- Marketing is a very important issue, as SMEs need the help of experienced marketing specialists and the support of specialized institutions if they wish to compete successfully in domestic and foreign markets.

Efforts to raise standards of service delivery must fundamentally address the basic issues and problems that confront consumers and SMEs:

- Accessibility of services.
- Timeliness of services provided.
- Competence of service providers.
- Complexities of having to deal with multiple agencies or institutions, as well as the cost of services.

Hence, the focus should be on simplifying the service delivery chain, achieving a more customer-driven approach to service, and taking advantage of technological advances to offer a variety of more convenient and efficient ways for SMEs to conduct business. A strong customer-oriented service culture needs to be developed in all SME organizations.

## **DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS CURRENTLY BEING IMPLEMENTED**

### **Development of SMEs**

The Seventh Malaysia Plan accorded an important role to SMEs in supporting national industrialization efforts through forging linkages across the manufacturing sector. Of an estimated 20,200 manufacturing establishments operating in 1996, more than 90% were small and medium-sized enterprises. Despite their number, SMEs contributed only 27.0% to total manufacturing output and 26.2% to total value added in the sector. SMEs employed 868,000 workers, or 38.9%, of the total number of workers in the manufacturing sector. Most SMEs were concentrated in the food and food products, furniture and fixtures, chemicals and chemical products, and metal products sub-sectors.

To support the development of SMEs, the government established the Small and Medium Industries Development Corporation (SMIDEC) in 1996 to provide effective leadership in planning and overall coordination. In particular, SMIDEC was tasked with promoting the development of indigenous SMEs that were efficient and competitive as well as capable of producing high value-added, high-quality products and services for the global market. A study on the Small and Medium Industry Development Plan (SMIDP) 2001–05 was undertaken in 1999 with a view to charting future directions of SMEs. Specifically, the SMIDP study analyzed the strengths and weaknesses of SMEs in terms of their capacity, capability, and competitiveness in providing essential support to the country's industrialization agenda and made recommendations on strategies and measures for the full integration of the SME sector into mainstream manufacturing activities.

In an effort to further strengthen SMEs, several programs were implemented during the plan period that covered a wide spectrum of needs, including the Industrial Linkage Program (ILP), technology development and acquisition, skills development and upgrading, market development, infrastructure development, and financial support. The ILP, aimed at enhancing linkages and integration between SMEs and large companies, provided a captive market for SMEs through the supply of parts and components on a long-term basis. Since the introduction of this program in 1997, a total of 128 SMEs have benefited, with a turnover of MYR111.6 million. As a majority of SMEs did not have the technological capability to improve production



efficiency and product quality, the government provided matching grants of up to MYR250,000 to undertake product and process improvements. A total of 237 SMEs benefited from this program during the plan period. SMEs were also encouraged to acquire state-of-the-art technologies and processes under the Technology Acquisition Fund (TAF), which provided grants of up to 70% of the cost of purchasing high-tech equipment and funds for technology licensing. Out of MYR75.1 million in grants approved under TAF, MYR64 million or 85.2% were extended to SMEs.

In addition to these programs, SMEs were offered various financial packages, such as the Industrial Technical Assistance Fund (ITAF), the Y2K Grant, the Financial Package for Small- and Medium-scale Industries (PAKSI), the Modernization and Automation Scheme, and the Quality Enhancement Scheme. Other available funds included the Fund for SMEs, established in 1998 to assist existing in expansion, diversification, and export as well as in utilizing existing capacity, and the Rehabilitation Fund for Small- and Medium-scale Industries to assist SMEs that had non-performing loans and temporary cash flow problems due to the economic slowdown with viable projects.

To upgrade knowledge and enhance technical and managerial skills, the Skills Upgrading Program was introduced in 1997; this program financed 50% of training fees. In addition, SMEs that contributed to the Human Resource Development Fund (HRDF) were eligible to claim an additional 45% of training fees from the Fund. The scope of the Skills Upgrading Program was expanded with implementation of the Global Supplier Program, which involved a strategic partnership among SMEs, multinational corporations, and training institutions and was aimed at strengthening the capability of SMEs as global suppliers.

To assist SMEs in penetrating export markets, two schemes—the Business Planning and Development Scheme and the Market Development Scheme—were implemented. In addition, export incentives were also extended to SMEs, such as export credit refinancing, double deduction for promotion of exports, and export credit insurance. Since e-commerce was increasingly becoming a way of doing business, several electronic malls or portals were created as a means of encouraging SMEs to conduct trade electronically. One such portal was MyBiz, which had attracted the participation of 376 SMEs by the end of 2000. During the plan period, the government also provided support to Bumiputera (Malaysians of Malay or other indigenous origin) SMEs with the objective of developing a viable and resilient Bumiputera Commercial and Industrial Community (BCIC). There was an increased participation of Bumiputera SMEs in the Vendor Development Program, which involved the participation of 256 vendors, 82 anchor companies, and 18 financial institutions. To upgrade the capabilities of Bumiputera SMEs in managing their businesses, emphasis was placed on the provision of entrepreneurial skills. Towards this end, various types of entrepreneurial training programs were provided, benefiting 58,888 Bumiputera entrepreneurs.

#### *Developing Resilient SMEs*

The adverse impact of the recent recession on SMEs and the globalization of the world economy underscore the need for SMEs to become more resilient and competitive. Towards this end, the government will continue to provide support in strengthening the SMEs as a means of encouraging domestic investment. The Small and Medium Industry Development Plan (SMIDP) will chart the future development of SMEs to provide the critical linkage in the development of a broad-based, globally competitive industrial sector. It will enhance the transformation of SMEs from being labor-intensive to being based on capital, knowledge, and technology, including the ability to innovate, design, and develop new products and processes. The SMIDP provides the development focus for each of the industrial clusters and an action plan to make operational the strategies and targets set. In ensuring that the action plans will be effectively implemented, SMIDEC will be strengthened to serve as a single point of contact or a one-stop agency for SMEs.

The implementation of the SMIDP will require the concerted efforts of the SMEs themselves, with the government providing the facilitative environment. In this respect, the government will continue to provide financial assistance, infrastructure facilities, and support services and will undertake a review of these facilities with a view to consolidating and streamlining them. The government will continue to provide industrial sites at affordable prices. During the plan period, the government will provide MYR131.9 million as soft loans to state economic development corporations to develop SME industrial parks. Emphasis will also be given to developing the entrepreneurial skills of SMEs so as to build up their capabilities and competitiveness. More aggressive promotional efforts will be undertaken to encourage SMEs to participate in training programs in view of the low take-up rate of the training fund during the seventh plan period. In the effort to create greater access to markets for SMEs, the widespread adoption of e-commerce applications will be promoted.

During the ninth plan period, the government will continue to promote and upgrade Bumiputera SMEs. Existing programs, such as the Vendor Development Program, will be expanded. Integrated assistance packages, which may include financial support, training components, and other support services, will be designed to meet the varied and specific needs of Bumiputera SMEs. More focused efforts will be undertaken to enhance competitiveness in rural industries, particularly the handicraft and food products industries. New investments by the private sector will be required to modernize SMEs and improve the quality and design of products. The government will provide support by giving feedback on market information, training, R&D on products, and infrastructure assistance. Large companies will be encouraged to supply simple machine tools to the SMEs to undertake contract manufacturing of small parts and components, thereby augmenting incomes in the rural areas. For the handicraft industry, existing craft centers will be used as a platform to strengthen the development of the industry through concomitant efforts centered on product innovation, promotion, and marketing. In addition, selected villages will be identified as craft centers for the mass production of handicrafts for the local market as well as for export.

### *Allocation*

Development allocation to support industrial development will be utilized to enhance the competitiveness of industries and complement the efforts of the private sector. Development thrusts will focus on technology development, expanding industrial infrastructure, and skills upgrading. In addition, programs will be implemented to strengthen SMEs. SMEs represent an important component in the economy. They not only provide a vital link in the business supply chain and complement multinational corporations but also have the potential to grow and evolve into global players. The sheer number of SMEs—about 613,700 encompassing the full spectrum of sectors and services—underscores their role and their potential in the economy. The government continues to support the development of SMEs through facilitating access to adequate and cost-effective financing. Over the years, incentives and assistance have been provided, including access to financing, attractive interest rates, and advisory services such as technical, marketing, and promotion. In order to coordinate and oversee the development of SMEs, the National SME Development Council was established in May 2004 with the objective of developing a framework for the coordinated and comprehensive strengthening of SMEs.

During the first six months of 2004, investments by SMEs have shown an upward trend. Loan disbursements to SMEs from the banking sector grew strongly, by 20.5%. As the five special SMEs funds under Bank Negara Malaysia (BNM), out of the total allocation of MYR6.9 billion, a sum of MYR6.3 billion had been approved to 17,000 borrowers. Collaborative efforts between the government and private sector, contributed to the higher uptake of special funds. In addition, SMEs also have access to the recently established Fund for the Development and Promotion of Malaysian Brands, with an initial allocation of MYR200 million, designed to assist

SMEs in developing world-class brands or local products. Government initiatives to promote local branding have resulted in the creation of a number of Malaysian global brands.

The government has also assisted SMEs facing financial difficulties in their operations. A Small Debt Resolution Committee (SDRC) was set up in November 2003 to facilitate the restructuring of non-performing loans (NPLs) of SMEs with viable businesses as well as to assist in their financing requirements. Through this avenue SMEs are able to strengthen their financial positions. As of June 2004, SRDC had received 129 applications from enterprises with NPLs totaling MYR113.7 million, of which applications from 50 companies worth MYR40.6 million have been resolved. Development Financial Institutions (DFIs) have always been an integral part of SME development. Apart from extending loans at lower interest rates, DFIs also provide advisory services, training, information, and assistance for SME start-ups, assistance in commercialization of R&D efforts, and support in IT infrastructure, systems, and processes. In a recent development, DFIs will also provide assistance to SMEs in tapping the capital market by providing guarantees to issue commercial paper. DFIs will also seek strategic partnerships with commercial banks to co-finance SMEs.

The food and beverages industry is one of the key drivers of SME performance. In developing SMEs to become global suppliers for resource based products, the Small and Medium Industries Development Corporation (SMIDEC), through the Industrial linkage Program, has collaborated with foreign-based hypermarket chains operating in Malaysia to enable SMEs to supply their products to these hypermarkets as well their outlets worldwide. As of June 2004, these hypermarkets have appointed 22 SMEs as suppliers, six of which supply household products such as cooking oil, processed food, and detergents for hypermarket in-house brands. SMEs therefore have the potential to become global suppliers to these outlets worldwide. Continuing the efforts to help SMEs penetrate the global market, SMIDEC is implementing the Headstart 500 Program with the aim of developing 500 SMEs with high growth potential to become global suppliers. As at July 2004, 66 companies with total sales of MYR303 million have been selected to participate under this program.

Small businesses and micro enterprises play an important role in generating economic activity. Essentially, not only will the development of small businesses address the issue of poverty, but their continued success will further enhance their role and contribution to the economy. Bank Pertanian Malaysia (BPM) and Bank Simpanan Nasional (BSN) were appointed to manage the micro-credit scheme for small business enterprises. Through the end of July 2004, BPM had approved 17388 loan applications amounting to MYR200.5 million, of which the bulk was for trading activities, followed by marketing and livestock projects. BSN manages a fund totalling MYR800 million, and through the end of July 2004 had approved about 85,000 applications worth MYR708.9 million for businesses dealing in import and export, wholesale and retail trade, restaurants and hotels, and finance and insurance services, as well as the property sector. Apart from credit financing, small retail businesses ventures are also supported by special funds under the Project for Bumiputera Entrepreneurs in the Retail Sector (PROSPER). This scheme provides an integrated package of assistance covering equity financing, loan facilities, and advisory services.

### **Productivity and Quality Initiatives in SMEs**

With the rapid development of Malaysia's economy, SMEs need to enhance competitiveness through operational and cost efficiencies and to respond swiftly to the new challenges that are emerging in the business environment, both domestically and globally. There are a number of pertinent productivity and quality initiatives to enhance their competitiveness and productivity.

#### *Adopting New Technologies and Utilizing Information and Communication Technology (ICT)*

Emerging technologies and advances in ICT have contributed to productivity growth and economic competitiveness. With the advent of new and emerging technologies, SMEs need to

develop their capacity to adopt and adapt ICT that is appropriate to their business activities. Areas of concern in the utilization of ICT are in business administration and staff support functions and in core manufacturing, e.g., applications related to new materials processing, reconfigurable manufacturing systems in production processes, product and process designs, production planning, inventory management, engineering, maintenance, and manufacturing-related services sectors such as warehousing and logistics, as well as business transactions in e-commerce and sales and marketing. Through investment in ICT and the latest technology, SMEs will be able to improve operational flow, for example, increase the cycle time and production rate, speed up the delivery time, reduce material waste, improve inventory control, monitor market changes closely, enhance internal and external communication, exercise better management control, and improve quality.

#### *Enhancing Human Capital Capabilities*

SMEs need to continuously develop the skills and knowledge of their workers to correspond to industry requirements. Acquiring the latest knowledge and information and increasing the technical and management know-how of workers is crucial for development. A willingness and readiness to invest in human capital capabilities through skills upgrading and technology in automation and advanced machinery will provide a competitive edge in areas such as product and design development, process creativity and innovation, and management information systems. Operating in a knowledge-based economy and inculcating a culture of training will guarantee an environment conducive to continuous, lifelong learning and lead to long-term competitiveness and productivity.

#### *Implementation of Productivity and Quality (P&Q) Management Systems*

To compete in the global market, SMEs need to be proactive in the implementation of productivity and quality (P&Q) management systems such as Total Quality Management, Innovative Creative Circles, 5S, ISO 9000/14000, benchmarking, and productivity measurement. Implementation of P&Q initiatives will enable SMEs, as suppliers to larger and multinational corporations, to meet the specified requirements of manufacturing standards in terms of quality, cost, and service and product delivery.

#### **Future Direction of SMEs as Charted by the National SME Council**

As part of their efforts to nurture the development of small- and medium enterprises (SMEs) in view of their strong growth potential, Bank Negara Malaysia (The Central Bank of Malaysia) initiated the establishment of the National SME Development Council in 2004, chaired by the Prime Minister. The Council represents the highest policy-making body; it will chart the future direction and strategies for SME development in Malaysia. Bank Negara Malaysia is the Secretariat of the Council. During that year, the Council standardized the definition of SMEs across all sectors of the economy and took initiatives to improve information on SMEs as first steps towards more effective policy formulation and implementation. The Council also initiated programs to strengthen the enabling infrastructure for SMEs in areas of access to financing, training, and human resources development, management, and marketing. Significantly, the Council approved the establishment of the SME Development Bank to complement the banking institutions in providing financial and non-financial services to SMEs.

SMEs continued to receive strong financial support from the banking sector in 2004. New loans approved increased during the year by 21.9%, to MYR31.6 billion, and were channeled to more than 92,000 SME accounts. Similarly, loan disbursement to SMEs also expanded strongly, by 15.3%, to MYR100.4 billion. By the end of 2004, outstanding loans to SMEs had expanded by 7.7% and accounted for 40.3% of total outstanding loans to businesses (1998: 27%). In reinforcing financial assistance to SMEs, Bank Negara Malaysia further increased the allocation of

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

funds to the Fund for Small and Medium Industries 2 and the New Entrepreneurs Fund 2, enlarging the five special funds managed by Bank Negara Malaysia to MYR8.9 billion.

### *Strategic Focus and Coordination of Development across All Sectors*

The Council will provide the strategic framework for more focused and coordinated inter-agency efforts on SME development to oversee the efficient coordination and to ensure effective policy implementation and outreach. The formation of the Council represents the government's commitment to the development of SMEs at the highest level. SMEs have the potential to provide support to the development of existing and new industries in the services, agriculture and agro-based, manufacturing, and ICT sectors. A viable and dynamic SME sector is essential to promote domestic-led growth and thus strengthen the resilience of the economy in a more competitive and challenging economic environment.

### *Terms of Reference*

- Formulate broad policies and strategies to facilitate the overall development of SMEs across all sectors.
- Increase the focus of the roles and responsibilities of government ministries and agencies responsible for SME development.
- Enhance inter-ministry and agency cooperation and coordination to ensure effective implementation of development policies and action plans.
- Encourage and strengthen the private sector in supporting the overall development of SMEs.

### *Council Members*

The ministries and agencies represented in this Council are based on their role and contribution to SME and entrepreneurial development.

- The Prime Minister (Chairman).
- Minister of International Trade and Industry.
- Minister of Domestic Trade and Consumer Affairs.
- Minister of Entrepreneurial and Cooperative Development.
- Minister of Agriculture and Agro-Based Industries.
- Minister of Human Resource.
- Minister of Finance 2.
- Minister of Energy, Water and Communications.
- Minister of Plantation Industries and Commodities.
- Minister of Science, Technology and Innovations.
- Minister of Tourism.
- Minister of Rural and Regional Development.
- Minister of Education.
- Minister of Higher Education.
- Minister of Housing and Local Government.
- Minister in The Prime Minister's Department.
- Governor of Bank Negara Malaysia.
- Director-General of the Economic Planning Unit.
- Chief Executive Officer of the Multimedia Development Corporation.

### *Establishment of a National Database*

The Council determined that the Department of Statistics will establish and maintain a comprehensive national SME database to provide policymakers and industries with relevant and timely information necessary to monitor developments in the SME sector, including their operational conditions, financial status, and development requirements. The Council also determined that a baseline census of all enterprises and businesses would be conducted nationwide to assess the current status of SMEs and their requirements and to identify important issues relating to their performance and development. Information compiled from the census would also facilitate the formulation of policies to promote SMEs as an important driver of growth and the formulation of strategies for the forthcoming ninth Malaysia Plan.

### *New Trade Financing Products*

As part of the efforts to enhance access to financing, the National SME Council agreed on the introduction of the Multi Currency Trade Finance Facility and Indirect Exporter Financing Scheme, to be available under both conventional and Islamic financing. These products, to be launched in the third quarter of 2005, are aimed at encouraging SMEs to export their goods and services to non-traditional markets, especially to member countries of the Organization of Islamic Conference. SMEs can obtain both pre- and post-shipment financing for these products at attractive financing costs with no collateral requirement, while credit risks will be shared between the banking institutions and the Malaysian Export Credit Insurance Berhad.

### *Online Training Portal*

The Council endorsed the roll-out of the Human Resource Development Portal (HRD Portal), a web-based training portal developed by Pembangunan Sumber Manusia Berhad to enable employers and training providers to interact online as one training community ([www.hrdportal.com.my](http://www.hrdportal.com.my)). It will assist employers in searching, identifying, and registering for training programs online and at the same time allow training providers to offer training programs and activities online. By providing access to a central repository of training information, the HRD Portal will facilitate and encourage employers, particularly SMEs, to retrain and upgrade the skills of their employees in order to enhance productivity and competitiveness.

### *Framework for Development Planning*

The Council approved the adoption of a new policy formulation and evaluation framework to enhance the effectiveness of all government programs that support SMEs. The framework involves the identification of broad strategic priorities and targets for development, as well as the establishment of comprehensive key performance indicators to evaluate effectiveness of SME development programs by all ministries and agencies involved in order to provide a national blueprint for the development of competitive and resilient SMEs.

### *Access to Financing*

Bank lending to SMEs continued to increase strongly, by 10.4%, to MYR89.3 billion at the end of April 2005. In the first four months of 2005, the banking institutions approved MYR11.1 billion of loans to about 27,000 SME accounts (2004: MYR31.6 billion to 92,000 SME accounts). This was complemented by financing extended by the development financial institutions, where their SME loans increased by 7.7% to MYR3.9 billion at the end of 2004. In addition, 72 funds have been established by the government for SMEs, with total allocations of MYR10.3 billion, while Bank Negara Malaysia has five special funds for SMEs with a total allocation of MYR8.9 billion.

*Potential of the Maintenance of Motorized Vehicles Industry*

The Council was briefed by the Ministry of Domestic Trade and Consumer Affairs on the performance of the maintenance of motorized vehicle industry in 2004 and the potential for development of SMEs within the industry. At the end of 2004, the number of vehicles registered with the Road Transport Department was 13.45 million, with about 450,000 new vehicles registered in 2004. There are currently about 20,000 workshops in the country. The growing number of vehicles on the road and the high demand for vehicle maintenance services, as well as comparatively low barriers to entry, present an opportunity for greater participation by SMEs in the industry. The Council agreed on the importance of further training and skills upgrading of existing workshop operators for their services to remain competitive, given the technological advancements taking place in the automotive industry.

*The SME Bank*

The SME Bank—Bank Perusahaan Kecil & Sederhana Malaysia Berhad—started its new function as a development financial institution on 3 October 2005 to nurture and meet the unique needs of Small and Medium-Scale Industries (SMIs). As a financial center responding to the funding and business growth needs of Malaysian SMIs, the Bank complements existing products and services offered by commercial banks through comprehensive and integrated financial and business advisory services oriented towards the growth of a more robust entrepreneurial community. Its objectives:

- To develop and fulfill the requirements and needs of Small and Medium-Scale Industries (SMIs).
- To create the added value of products and services of other commercial banks.
- To strengthen the capabilities of consultation to financial development institutions.
- To introduce new innovative and creative products which are aimed at increasing the number of establishments and quality of small and medium industries in Malaysia.

The Bank provides two main services.

*Business Advisory Support*

- *Business assessments.* Auditing and tracking the competitiveness of the small business through quantitative financial and qualitative market analysis of product, market and customer potential of the business.
- *Business matching.* Matching of small businesses SMI product/service capabilities with medium-sized SMIs, government-linked companies (GLCs), national and international chambers of commerce, and other “buyers” of products and services.
- *Business dialogue/conferences.* Organization of meetings and seminars with successful SMI customers, strategic partners, ministries, agencies, and other financial institutions supporting SMI development.
- *Research and knowledge management.* Links to government research and development units, universities, research institutes, professionals, consultants, and subject matter experts.

*Financial Assistance*

- *Financing for micro business.* Financial products for micro business are offered in both conventional and Islamic financial products and services that include working capital, term loans, hire purchase and leasing, and advisory services.
- *Financing for small business.* Financial products and services catering to small businesses in any sector include working capital, revolving working capital, term loans/leasing/ industrial/hire purchase for asset acquisition, bank guarantees, and share financing/loan stock financing.

- *Financial for medium-sized industries.* Medium-sized businesses can benefit from financial assistance that will cater to their expansion needs in the production or marketing of products and services, locally and internationally.

With the establishment of the SME Bank, the varied financial needs of the SMIs will be addressed to boost the productivity and competitiveness of the industries as well as continuously facilitate the establishment of new businesses and the upgrading of existing ones.

#### *Profile and Development Programs*

The Ministry of International Trade and Industry (MITI) and its agencies, the Malaysian Industrial Development Authority (MIDA) and the Small and Medium Industries Development Corporation (SMIDEC), have been tasked to look into the development of SMEs in the services sector. To expand the coverage of the support programs in the services sector, SMIDEC has been given an allocation of MYR14.4 million. The four sectors that have been targeted are distributive trade (wholesale and services), logistics, professional services, and manufacturing-related services.

#### *Enhanced Access to Financing*

In an effort to enhance access to financing, Bank Negara Malaysia established a comprehensive SME Special Unit in May 2003 whose role has now been expanded to not only provide information on the various sources of financing available to SMEs, facilitate loan applications, address problems faced by viable SMEs in securing financing, and provide advisory services on other SME financial requirements, but also facilitate loan restructuring under the Small Debt Resolution Scheme (SDRS). The SME Special Unit represents an integrated reference center for all issues relating to access to financing, including undertaking the responsibility of administering the SDRS. Bank Negara Malaysia has set up a customer service center as a reference point to facilitate a rapid and efficient response for the public in general and SMEs in particular on financial matters.

#### *Definitions of SMEs in Various Sectors for Targeted Development*

Definitions of SMEs, covering the manufacturing, manufacturing-related services, primary agriculture, agro-based, and services sectors and reflecting the status of active establishments operating in the country, were discussed and agreed upon. This will facilitate identification of SMEs in the various sectors and sub-sectors and enable more effective targeting with respect to the design of future development policies and support programs and the provision of technical and financial assistance.

An enterprise is considered an SME in each of the respective sectors based on the annual sales turnover (Table 1) or number of full-time employees (Table 2).

Table 1. Enterprises Considered in Terms of Annual Sales Turnover

	Manufacturing (including agro-based) and manufacturing-related services	Primary agriculture	Services sector (including ICT)
Micro	Less than MYR 250,000	Less than MYR 200,000	Less than MYR 200,000
Small	Between MYR 250,000 and less than MYR 10 million	Between MYR 200,000 and less than MYR 1 million	Between MYR 200,000 and less than MYR 1 million
Medium	Between MYR 10 million and MYR 25 million	Between MYR 1 million and MYR 5 million	Between MYR 1 million and MYR 5 million



Table 2. Enterprises Considered in Terms of Number of Full-Time Employees

	Manufacturing (including agro-based) and manufacturing-related services	Primary agriculture	Services sector (including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 and 50 employees	Between 5 and 19 employees	Between 5 and 19 employees
Medium	Between 51 and 150 employees	Between 20 and 50 employees	Between 20 and 50 employees

#### *New Initiatives to Improve Access to Financing*

The Council agreed to the introduction of an interest subsidy and securitization of SME loans to encourage further lending by financial institutions. The interest subsidy provided by the government will enable viable SMEs with a higher risk profile to obtain financing at a lower cost. The ability of financial institutions to securitize SME loans in their portfolio will further increase their capacity to lend to SMEs.

#### *Coordinated Training and Human Resource Development*

The Human Resource Development Berhad (HRDB), an agency under the Ministry of Human Resources, has been appointed as the coordinating authority to oversee and coordinate overall training and human resource development for SMEs. The role of HRDB will therefore be expanded to include identification of training needs across all sectors of the economy, coordination, monitoring and evaluation of training and development programs conducted by Ministries and Agencies, and development of a formal training accreditation system.

#### *Enhanced Management and Publication of Information*

The role of the Secretariat function, which is currently held by the Bank Negara Malaysia, has been expanded to oversee and coordinate the monitoring, evaluation, and publication of SME statistics and reports. In addition to meeting the information requirements of SME policy-makers, the Secretariat will also be responsible for developing key performance indicators (KPIs) to monitor and evaluate the progress of SME development, and it will oversee the management of the National SME Database being set-up by the Department of Statistics. The Secretariat will also publish annual reports on SME development for the benefit of policymakers and the SMEs, thus improving the availability of SME information in the market.

#### *Strengthening the Marketing and Promotion of Products and Services*

Coordinated efforts to strengthen the marketing and promotion of products and services would focus on four main areas.

- Supplying industrial parts and components to MNCs and large companies.
- Supplying consumer products to major retail outlets.
- Using intermediaries as a channel to enable SMEs to penetrate the export market.
- Enhancing the marketing of services provided by SMEs.

### **STRATEGIES FOR EFFECTIVE SME DEVELOPMENT**

To achieve the objective of developing more resilient and competitive SMEs, a broad range of assistance programs was implemented during the review period. In order to enable SMEs to

penetrate the export markets, the Small and Medium Industries Development Corporation (SMIDEC) provided assistance to SMEs to certify their products and processes to fulfill the requirements of importing countries. SMIDEC provided a matching grant of up to MYR250,000 per company under the Productivity and Quality Improvement and Certification Scheme (ITAF 3) for SMEs to improve their productivity and quality. A sum of MYR29.7 million was provided to 966 SMEs during the review period. To fulfill the demand for skilled workers in the new business environment, the Skill Upgrading Program was implemented to provide training to employees of SMEs through 16 skill development centers. A grant equivalent to 80% of the cost of training was extended. A total of MYR5.7 million was spent to train 8,004 employees during the review period.

As only 20% of SMEs were able to penetrate the export market, the Industrial Linkage Program (ILP) was implemented to help SMEs to be reliable suppliers of parts, components, and services to lead companies. The ILP consisted of fiscal incentives, business matching, and supporting programs such as technology development, skills upgrading, market development, and provision of industrial sites. During the review period, 163 SMEs registered with SMIDEC, of which 53 were linked to large companies and MNCs. The majority of these were from the electrical and electronics as well as the machinery and engineering sub-sectors. In addition, SMIDEC also collaborated with a foreign-based hypermarket chain in Malaysia in identifying and developing local SMEs in the food processing industry to become global suppliers. At the end of June 2003, 11 SMEs had been selected to supply products under their own brand names as well as that of the hypermarket, with sales amounting to MYR800,000.

The scope of the ILP was expanded to include the Global Supplier Program (GSP), through which capabilities were developed to enable SMEs to become competitive suppliers of parts and components to MNCs and their worldwide operations. Through the GSP, SMEs were provided training in critical skills and linked to large companies and MNCs. The training program that was implemented in collaboration with a local training institute was attended by 1,426 employees from 361 SMEs. To facilitate the GSP, SMEs were encouraged to utilize the RosettaNet Standard. Out of the MYR5 million allocated for the RosettaNet Standard, eight grants amounting to MYR800,000 were approved during the review period. In November 2002, an alternative implementation option for the SMEs was introduced to enable easier implementation of the RosettaNet Standard. Under this option scheme, SMEs could subscribe to services offered by applications service providers registered with RosettaNet (M) Berhad. The scheme provided 70% funding of the approved project cost, subject to a maximum of MYR30,000 per company.

To encourage SMEs to improve further their technological capabilities and ICT competencies as well as upgrade engineering design capabilities, the government provided incentives for product and process improvement through the Industrial Technical Assistance Fund (ITAF 2), the Technology Acquisition Fund, and ICT grants, which included e-Manufacturing. A matching grant of up to a maximum of MYR500,000 per company was provided for the purchase of hardware and the accompanying software. During the review period, 169 companies benefited from the scheme, amounting to MYR8.53 million. To facilitate the acquisition of strategic and relevant technologies as well as to commercialize indigenous technology developed by local universities and research institutions, assistance was also provided through the Technology Acquisition Fund and the Commercialization Research and Development Fund.

To assist SMEs to diversify their markets, especially through exports, the government provided matching grants of up to MYR40,000 per company for business planning and development and up to a maximum of MYR60,000 for market development. Recognizing the importance of branding, a new fund in the amount of MYR100 million was established for the development and promotion of Malaysian brand names for Malaysian companies during the review period. The fund covers the cost of development, registration of trademarks and patents, and promotional expenses. SMIDEC, in cooperation with the Malaysian Industrial Development Finance, implemented the Soft Loan Scheme for SMEs in the manufacturing sector, providing

loans for project financing, machinery, factory mortgage, working capital, leasing and industrial hire purchase facilities, and equity participation. During the review period, the scheme received a positive response; 68 projects were approved, accounting for 73.3% of the total plan allocation of MYR100 million. To facilitate SMEs' access to financing, the Bank Negara Malaysia also established an SME Unit during the review period. The funds were disbursed through commercial banks and development financial institutions.

During the review period, SMIDEC also embarked on three new programs in line with the Small and Medium Industry Development Plan. These programs were the Head-start 500 Program, which aimed at providing SMEs with financial and technical know-how to accelerate their transformation from domestic-oriented operators to global manufacturers, the SME Information and Advisory Centre, which provided virtual business matching and collective purchasing of services and content for SMEs, and the SME Expert Advisory Program, where retired professionals from various technical and management fields assisted SMEs that required their professional services.

In line with the objective of creating a Bumiputera Commercial and Industrial Community (BCIC), the government continued to promote participation and upgrade skills of Bumiputera entrepreneurs. Several programs were implemented focusing on entrepreneurial, managerial, and technical skills development. Since its inception, the Vendor Development Program has continued to expand and has succeeded in creating 331 vendors involving 85 anchor companies. During the review period, a total of 75 vendor companies were developed and three anchor companies appointed. Under the Franchise Development Program, a total of eight franchisors and 90 franchisees were developed during the review period. Consultancy services under the Small and Medium Industries Promotion Program were extended for technology transfer or upgrade, while financing of fixed assets was provided through Bank Pembangunan dan Infrastruktur Malaysia Berhad. Other financial assistance included the Tabung Ekonomi Kumpulan Usaha Niaga, the Skim Jaminan Usahawan Kecil, and the Technopreneur Fund. The government also intensified efforts to assist Bumiputera entrepreneurs to acquire proper premises for business and manufacturing operations under the Business Premises Program, the SMI Industrial Parks Program, and the Nursery Factory Scheme. During the review period, a total of 1,826 units of business premises and factories were provided under these programs.

Efforts were also intensified to assist Bumiputera entrepreneurs in rural industries to market their products both in domestic and overseas markets. To ensure the competitiveness and sustainability of local crafts supply in the global market, collaborative efforts were forged with external experts in the area of product development and marketing to penetrate the international market, particularly Japan and the U.S. Crafts production was modernized through the application of ICT that included the use of rapid prototyping system for mould making to produce ceramic products and a CAD system for the designing of jewelry products, *batik* materials and *songket*. During the review period, 989 craft entrepreneurs benefited from these programs. In terms of overseas market promotion, Malaysia participated in 13 trade exhibitions involving 84 craft entrepreneurs with a sales value amounting to MYR43.3 million. In addition, the government introduced the "one district, one industry" program, whereby 16 districts were involved in the production of rubber leaves-based products, woodcarvings, and indigenous tribal crafts and ceramic products. Three districts, one each in Perak, Sarawak and Sabah, were selected to participate in pilot projects involving the plaiting of *mengkuang*, *bemban*, and lygodium, respectively.

### **Efforts to Further Enhance Performance**

As the need to rely on domestic demand and domestic-oriented industries for the nation's economic growth increases, the government will continue to provide support to strengthen SMEs and enhance existing programs. During the remaining plan period, greater efforts will be made to improve the institutional support system, facilitate accessibility to financing, upgrade techno-

logical skills, enhance market access, promote the greater usage of ICT, and increase awareness of product branding as well as the protection of intellectual property rights.

To ensure effective and coordinated implementation of all SME development programs as well as optimal utilization of government resources, SMIDEC will coordinate the various activities and support programs conducted by agencies involved in the development of SMEs. This will involve addressing gaps and duplications in the current framework to improve efficiency, coordinating entrepreneurial training, consultancy and advisory services, market promotion, financing, and an SME database. As a pool of highly trained and skilled workers is an important contributory factor to success, training of SME workers will be intensified. To enhance resilience, management and business skills training will also be provided to entrepreneurs and personnel dealing with SMEs from both the public and private sectors. The establishment of an institute for small business management and technology will be explored. To meet the increase in demand for access to financing while at the same time reducing the overall credit risk associated with lending, a credit insurance system will be established.

To complement government efforts, SMEs are encouraged to further improve their competitiveness. They will need to acquire and develop better knowledge of market demand, improve product design and quality, innovate in the use of materials, technology, and processes, reduce cost, and increase productivity. SMEs will also need to differentiate their products through branding, to create long-term brand loyalty, and to undertake aggressive marketing. The government will continue to promote and upgrade Bumiputera SMEs through the BCIC program. Efforts will be intensified to assist Bumiputera entrepreneurs to improve their skills in business management, ICT, R&D, product development, and marketing, as well as to establish strategic alliances with non-Bumiputera entrepreneurs. To upgrade their marketing capability and capacity, an entrepreneur gallery will be set up to display products produced by Bumiputera entrepreneurs. In addition, a trading house will be established to enable these entrepreneurs to gather their products at one central place and market them directly to wholesalers and retailers. It will also provide a proper venue for Bumiputera entrepreneurs to undertake marketing activities in an integrated and coordinated manner, including labeling, packaging, and branding. In addition, a study will also be conducted to review the performance of the existing BCIC program and identify new strategies and approaches with a view to further improving its effectiveness.

To enable SMEs in rural industries to penetrate world markets, the government will intensify efforts to enhance their competitiveness through various programs such as entrepreneurial development, product design and packaging improvement, marketing assistance, and subsidies for machinery. In this regard, the Malaysia External Trade Development Corporation (MATRADE) will be corporatized. Measures to further enhance the effectiveness of MATRADE's export promotion efforts will include road shows to the Middle East and Africa, as well as the hiring of expertise from the private sector. In addition, the private sector will also be encouraged to establish trading houses to facilitate the promotion and export of Malaysian products. The concept of "one district, one industry" will be strengthened to cover a wider area of participation. Efforts will be geared towards enhancing the use of technology in rural industry production processes, acquiring quality accreditation, and upgrading market promotion by establishing links with corporate and international clients.

### **Nurturing ICT-based SMEs**

Efforts to develop a critical mass of Malaysian ICT and multimedia SMEs showed positive results by attracting about 2,000 firms at the end of August 2003. The MSC Central Incubator, a new model of technology incubator, was expanded via the National Incubator Network program. Nine incubators nationwide were awarded MSC-status. Through a joint mentoring and nurturing program with several foreign companies, projects were initiated to facilitate local ICT and multimedia SMEs to enrich their business concepts and plans by assisting start-up companies in the areas of communications, multimedia, and intelligence systems. Under the program, more

than 800 business plans were reviewed and developed up to August 2003. The Market Access Initiative under the World-Class Program facilitated partnership between local and foreign companies to expand their businesses in the global market. Several projects—the Icon of Industry Mentoring Program, the International Business Series, the Skills Enhancement Program, and the Technopreneur Skills Development and Leadership Institute—were initiated. Some of these initiatives were done in collaboration with local institutions of higher learning and corporations to identify and nurture talent.

During the review period, nine incubation centers were established to nurture and assist start-up companies involved in ICT. These facilities were located in the MSC Central Incubator, the Kulim High Technology Park (KHTP), BT Multimedia, Makmal.Com, USAINS Holdings Sdn. Bhd. (USAINS), UTM/ Biro Inovasi & Perundingan, BioEnterprise Asia, YTL E-Solutions Berhad, and N2N Venture Solutions Sdn. Bhd. A total of 58 companies participated in these nine centers and were linked to each other under the National Incubator Network program. The MSC Central Incubator supported the highest number of companies (17), followed by USAINS (10) and KHTP (5).

Development initiatives are summarized in Table 3.

Table 3. Summary of Development Initiatives

Initiatives, Programs, Policies	Public Sector Organizations/ Donors	Private Sector Organizations
<b>A. Promotion of Entrepreneurial Culture</b>		
A1. SME promotional councils/bodies	Malaysia External Trade Development Corporation (MATRADE), National SME Council, SME Bank	Kawan Food Manufacturing Sdn. Bhd., Hicom-Honda Mfg (M) Sdn. Bhd.
A2. Entrepreneurship development promotional campaigns	Malaysia External Trade Development Corporation (MATRADE)	
A3. Awards for Successful SMEs— “Small Business Entrepreneur of the Year”	SMIDEC, MARA, Ministry of Cooperative and Entrepreneurship Development	Master Pack Sdn. Bhd., Samsung SDI (M) Sdn. Bhd.
A4. Quality Awards for SMEs	SMIDEC, NPC	Malaysian Franchise Association (MFA); Federation of Malaysian Manufacturers (FMM)
A5. President/Prime Minister’s mentions entrepreneurship in speeches/statements and budget statements	Malaysian Agricultural Research and Development Institute (MARDI), Malaysian 5-Year Plan, Malaysian Palm Oil Board (MPOB)	
A6. Entrepreneurship Development Action Plan at the national level	National SME Council (SME Development Blueprint)	Hicom-Honda Mfg (M) Sdn. Bhd.
A7. Government’s vision promoting entrepreneurship, innovation, and competitive-	Malaysia External Trade Development Corporation (MATRADE), e-Perolehan (e-tender system), Ministry of Finance	Malaysian Franchise Association (MFA)
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ness at the national level		
A8. Promotion of Entrepreneurship Profile for SMEs	NPC, SMIDEC	Eastern Alliance Trading Co. (E.M.) Sdn. Bhd.
A9. Promotion of benchmarking and best practice networks	NPC	MIDA
A10. Promotion of women and youth entrepreneurship	Ministry of Woman and Social Affairs, Ministry of Youth and Sports	Women SME Association of Malaysia
A11. Promotion of e-business and ICT development	e-Perolehan; Ministry of Finance, MSC	Wisegate Sdn. Bhd. SME Association
A12. Promotion of technological innovation for SMEs	Malaysia External Trade Development Corporation (MATRADE)	OIC Trade
A13. Promotion of financial products and schemes for SMEs	Central Bank, SME Bank	OIC Trade, commercial banks, Development and Infrastructure Bank
A14. Productivity promotional campaign for SMEs	NPC	OE Consulting
A15. Promotion and availability of SME database, SME publications, SME web-based portals for information and business matching	e-Perolehan, Ministry of Finance, Ministry of Cooperative and Entrepreneurship Development, Ministry of Woman and Social Affairs, Ministry of Youth and Sports	OIC Trade, Wisegate Sdn. Bhd., Women SME Association of Malaysia
A16. Provision of infrastructural facilities, e.g., industrial parks, export promotion zones, etc.	Majlis Amanah Rakyat (MARA), MIDA, Bank Pembangunan Dan Infrastruktur Malaysia Berhad, MATRADE, Ministry of Rural Development	SME Association
<b>B. Regulations and Policies</b>		
B1. Laws/regulations/policies for SME development at the national level— availability of an SME framework	MIDA, Ministry of Cooperative and Entrepreneurship Development  Local company incorporation Manufacturing license application No restriction on foreign equity ownership Free movement of funds for foreign investment in Malaysia Company tax rate of 28% Individual tax rate from 0%-28%	Small and Medium Industries Development Corporation (SMIDEC): Industrial Technical Assistance Fund 1 (ITAF1) (business planning, technology and market development scheme) Eligibility criteria— Incorporated under the Companies Act 1965, manufacturing companies
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	No minimum wage law Investment guarantee agreements	or companies providing manufacturing-related services with an annual sales turnover not exceeding MYR25 million and full-time employees not exceeding 150 persons, at least 60% of equity held by Malaysians
B2. Policies /regulations to support technological development	MIDA; SMIDEC, SIRIM; MARA  Government programs for technology development, commercialization of research results, development of technology-based companies, introduction of strategic technologies to the country	Malaysian Technology Development Corporation Sdn Bhd (MTDC) Technology Acquisition Fund Eligibility criteria—small and medium sized companies established under Companies Act 1965 and at least 60% of the equity held by Malaysians; large companies' equity ownership not more than 25% in the applicant company. Bank Pembangunan Malaysia Berhad: High Technology Fund Objective: To support the development of high technology industry. Maximum financing rate 5% per annum, maximum tenure 8 years, maximum financing 75% of total project cost with gearing ratio less than 3:1
B3. Policies/regulations for ICT development	Ministry for Science and Technology MSC, Information Acquisition Fund (IAF), information dissemination and promoting awareness	
B4. Policies/regulations for SMEs' access to markets	MIDA; NPC; Ministry of Cooperative and Entrepreneurship Development Factory Auditing Scheme Promotion of exports for SMEs Impact on the markets for the products and services of SMEs • Volume of effective demand for the product or service.	
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	<ul style="list-style-type: none"> <li>• Access to domestic market (local, regional or national).</li> <li>• Access to export market.</li> <li>• Ease of entry to subcontracting and ancillary relationships.</li> <li>• Cost competitiveness with locally produced products.</li> <li>• Cost competitiveness with imported products.</li> <li>• Competitiveness in quality.</li> </ul>	
B5. Policies/regulations for SMEs' access to financial facilities	Bank Negara (Central Bank) Minimum lending guidelines for SMEs, government-funded financing facilities, credit guarantee for SMEs borrowers, equity financing and venture capital	
B6. Policies/regulations for entrepreneurship development (separate policy in addition to the SME Policy, if any)	Ministry of Cooperative and Entrepreneurship Development	
B7. Bankruptcy laws which ease the exit of enterprises that are not sustainable or competitive	Ministry of Finance, SME Bank	
B8. Labor laws and employment regulations affecting SMEs	Ministry of Human Resources, liberal expatriate employment policy  Minimum conditions of employment under the Employment Act 1955. Compulsory contributions—Employees Provident Fund, Employment Injury Insurance Scheme and Invalidity Pension Scheme, Human Resources Development Fund	
B9. Infrastructure facilities/exemptions provided to SMEs	MARA; MIDA Comprehensive system of vocational and industrial training, financial assistance for training of workers, well-developed financial and banking sector providing credit to industry, export credit refinancing, export credit insurance, active and efficient stock exchange for raising capital, fully developed industrial parks for industry, high-tech parks, free zones for export industries, Multimedia Super Corridor (MSC),	
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	ample electricity and water supply at reasonable costs, high-quality telecommunications network and services, well-equipped seaports and airports connected to the world	
B10. Specialized prudential regulations for financing to SMEs	Minimum lending guidelines for SMEs, government-funded financing facilities, credit guarantee for SMEs borrowers, equity financing and venture capital	
B11. Regulations on financial incentives for SMEs, i.e., tax exemptions/benefits, duty concessions for SMEs	Double taxation agreements, The Investment Incentives (Amendment) Act 1980, Promotion on Investment Act 1986, pioneer status, investment tax allowance, reinvestment allowance, double reduction of expenses incurred on own brand advertising, export promoting, export credit insurance premium, research and development	
B12. Policy/regulation for productivity development in SMEs	NPC, skill upgrading program	
B13. Policies and regulations for intellectual property rights	Protection of intellectual property rights	
C. Administrative Environment/Framework		
C1. Availability of permanent or ad-hoc units/cells mandated to represent SME views in the regulatory process	Asia Pacific Economic Corporation (APEC)	
C2. Councils/consultative bodies/task force for SME development and/or to take SMEs' views into consideration while formulating policies and procedures	The National SME Development Council, Department of Statistics Malaysia, Bank Negara Malaysia (BNM)	
C3. Experts advisory/advisory board/specialized boards set up to develop SMEs (in general or in specific sectors)	Ministry of Trade and Industry (MITI), SMIDEC, Pembangunan Sumber Manusia Berhad (PSMB), SME Bank, Laman Informasi Nasihat dan Khidmat (BNM LINK), ERF Sdn Bhd (ERF), Credit Guarantee Corporation Malaysia Berhad (CGC), MARA: Apprenticeship Training Scheme, MARA: Technical Entrepreneurs Programme (Techno-	
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	preneurs), MARA: Rural Transportation Programme, SIRIM Berhad, National SMEs and Development Council (NSDE), Johor Steel Development Centre (PUSPATRI)	
C4. Availability of productivity improvement programs for SMEs	German Malaysian Institute, Sarawak Skills and Development Centre (PPKS), Terengganu Advance Technical Institute (TATI), Malaysian France Institute (MFI), Kedah Industrial Development Centre, National Productivity Corporation, SIRIM—functions related to standards testing, registration for quality control, R&D, technical extension and consulting, Majlis Amanah Rakyat (MARA)—provides entrepreneurial training programs, Multimedia Development Corporation (MDC)	
C5. Availability of entrepreneurship profile/ entrepreneurship indicators for the country	Federation of Malaysian Manufacturers (FMM)—provides profile on Malaysian small-medium enterprises	
C6. Systems/programs to monitor the entrepreneurial profile, entrepreneurial activity and entrepreneurial business environment (EBE)	National Information Technology Agenda (NITA)—ensures a coordinated and integrated approach leveraging on ICT in transforming the Malaysian society into a values-based knowledge society in line with Vision 2020	
C7. Programs/focus on developing entrepreneurial mind-set, corporate vision, and corporate entrepreneurship	Malaysian Entrepreneurial Development Centre (MEDEC)	HSBC Bank Malaysia Berhad—promotes IT, entrepreneurship mindset and skills development amongst the young, actively supported introduction of the annual HSBC Young IT Entrepreneur Award Competition, which attracted over 300 teams
C8. Procedures for Development		
C8a. Registration of firms, formation of a new company, listing requirements	SMIDEC	
C8b. Exit of uncompetitive firms	Registrar of Companies (ROC), Malaysia	Zealliance Sdn. Bhd.
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

C8c. Compliance and reporting	Secretariat (Bank Negara Malaysia), Malaysian Technology Development Corporation Sdn Bhd (MTDC)	
C8d. Licensing	Malaysia Ministry of Housing and local government	
C8e. Accounting standards	Malaysian Accounting Standard Board (MASB)	
C8f. IT-driven communication through web portals	SMIDEC, SME Info, Department of Statistics, Malaysia Banking Info	
C8g. Taxation	Royal Malaysian Customs, Inland Revenue Board Malaysia	
C8h. Utilities	Bank Negara Malaysia: SME Bank, Bank Pertanian Malaysia, Malaysian Industrial Development Finance Berhad, ERF Sdn. Bhd., commercial banks, finance companies	
C8i. Standardization	Department of Standards Malaysia (DSM), Standard and Industrial Research Institute of Malaysia (SIRIM)	
C8j. Quality certificates, ISO certification	National Productivity Corporation (NPC), Department of Standards Malaysia (DSM), SIRIM Berhad, Jabatan Kemajuan Islam Malaysia (JAKIM)	
C8k. Insurance coverage schemes	Credit Guarantee Corporation Malaysia Berhad (CGC)	
<b>D. Entrepreneurship Training and Education</b>		
D1. Entrepreneurship curriculum at universities and colleges (covering start-up strategies, entrepreneurial behavior, application of marketing and finance to start-up, entrepreneurial finance such as venture capital and angel investors, intellectual property rights, franchising, corporate entrepreneurship/intrapreneur, prototyping, technology transfers, etc.)	UiTM UPM UTM UM UKM UMS	
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D2. Internship programs/attachment with enterprises for developing entrepreneurial skills	UiTM UPM UTM UUM UMS	
D3. Linkages between SMEs and colleges/universities	UiTM UPM UTM UUM	
D4. Institute of Entrepreneurship (separately discuss model of the institute and services provided, if applicable)	UUM, Entrepreneurship Development Institute (EDI)—develops knowledge and skills entrepreneurs through training, research, consultancy, information dissemination, special projects	Malaysian Institute of Management—focuses on management training program: project management, management development, corporate training and advisory services (in-house program)
D5. Entrepreneurship training programs, i.e., technical training, management training, training on corporate social responsibilities, entrepreneurship ethics, productivity, and quality consciousness, use of information technology, ICT development, developing internal synergies and alliances with employees, etc.	SIRIM SIRIM Training Service (STS) • Public training program • In-house training program • Consultancy services SIRIM's Quality and Technology training course, on the quality management system ISO 9001, has been implemented by many businesses.	BMW Malaysia—internship program • After-sales department • Finance and administration department • Marketing department • Sales department • Group Data Center (GDC) • Parts Distribution Center (PDC) Training provided by BMW Malaysia has developed many entrepreneurs who are interested in opening its parts distribution center and service center.
D6. Other skill development training programs and institutes (directed towards self-employment and entrepreneurship development, etc.)	Sarawak Skills Development Centre, Johor Skills Development Centre, Penang Skills Development Centre, Pahang Skills Development Centre, SIRIM Berhad, Malaysia Institute for Nuclear Technology Research (MINT), National Productivity Corporation (NPC), National Institute of Occupational Safety and Health (NIOSH)	German-Malaysia Institute (GMI), Malaysia France Institute (MFI), Technology Park Malaysia, Kumpulan IKRAM Sdn. Bhd., Institute of Global Managements, Bureau of Innovation and Consultancy, Terengganu Advanced Technical Institute (TATI)
D7. Quality Standardization and Testing Institute	Bank Industri dan Teknologi Malaysia Berhad, Bank Negara Malaysia, Bank Pembangunan & Infrastruktur Malaysia Berhad, Employees Provident Fund (EPF), Institut Aminuddin Baki, Institut Latihan Kehakiman dan Perundangan (ILKAP), Kuala Lumpur City Hall, Petaling Jaya Municipal Council	Ansell Malaysia Sdn. Bhd., Canon Marketing (M) Sdn. Bhd., Cellular Communication Network (M) Sdn. Bhd., Gerbang Perdana Sdn. Bhd., HP Sales Malaysia Sdn. Bhd., IIUM Holdings Sdn. Bhd., Malaysia Airlines, Mobikom
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		Sdn. Bhd., Nestle Products Sdn. Bhd., Secretaries' Society Malaysia, The People's Insurance Co. (M) Bhd.
D8. Other training institutes for human resource development of SMEs	<p>MARA</p> <ul style="list-style-type: none"> <li>• Technical Entrepreneurs Programs (TECHNOPRENEURS)</li> <li>• Furniture Industry Technology Centre (FITEC)</li> <li>• Apprenticeship Training Program</li> <li>• Entrepreneur training</li> </ul> <p>Permodalan Usahawan National Berhad (PUNB), Small and Medium Industries Development Centre (SMIDEC), Ministry of Entrepreneur and Cooperative Development (MECD), Ministry of Agriculture and Agro Based Industries (MOA)</p>	Pembangunan Sumber Manusia Berhad (PSMB), Multimedia Development Corporation (MDC)
<b>F. Technology and ICT</b>		
F1. Initiative for cross border technological cooperation (joint R&D, joint commercialization), regional association for technology-led enterprises	Small & Medium Industries Development Corporation (SMIDEC)—provides the E-Manufacturing Grant for Small and Medium Enterprises (SMEs) to assist SMEs to use information and communications technology (ICT) to improve their competitiveness, efficiency and productivity	<p>MIMOS BERHAD is a leading government-owned research and development (R&amp;D) organization specializing in the areas of information and communication technology (ICT) and microelectronics. It pursues exploratory and industry-driven R&amp;D through smart partnerships with universities, research institutes, government organizations, and other industry leaders. Its main funding for research comes from government developmental grants, collaborators and contract research fees.</p> <p>The Partnership for Equitable Growth (PEG) is a non-profit organization that will act as a catalyst for private sector involvement in Economic and Technical Cooperation (ECOTECH) initiatives.</p>
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<p>F2. Technology business incubators</p>	<p>Cyberjaya—The MSC Central Incubator, Teknology Park Malaysia, Johor Incubator Center Kuala Lumpur—Resource Centre Technology Park Serdang—UPM-MTDC Technology Incubation Centre, UTM-MTDC Bangi—Malaysian Bio Diagnostic Research, UUM-MTDC-Advanced Electronic Shah Alam—Small and Medium Industries Development Department</p> <p>A business incubator is an organization that helps entrepreneurs to develop their ideas in a framework that has been established to help them. It takes them systematically from inception through to launch and beyond. It can assist a new business at start-up and in its early growth to help turn it into a successful new enterprise. It provides them with a comprehensive and integrated range of services.</p>	<p>Kulim—Hi-tech Industrial Park Cyberjaya—BT Multi-media Kuala Lumpur—OptixLab Kuala Lumpur—YTL e-Solutions Skudai—Bureau of Innovation and Consultancy Penang—Usians Holding</p> <p>Incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services. An incubation program's main goal is to produce successful graduates, businesses that are financially viable and freestanding when they leave the incubator, usually in two to three years.</p>
<p>F3. Availability of back-up/pilot and demonstration projects which foster innovation and technological development</p>	<p>The Malaysian Technology Development Corporation Sdn. Bhd. (MTDC) functions as a venture capital (VC) company which seeks to invest in companies with potential to develop strategic technology. It provides services to individuals, entrepreneurs and companies in the areas of technology financing, government grants, technology incubators and consultancy. Areas of emphasis include the life sciences and biotechnology, advanced materials, photonic, renewable energy, precision engineering, advanced electronics, services, etc.</p>	<p>The International Network for Small and Medium Sized Enterprises (INSME)—its mission is to stimulate transnational cooperation and public and private partnership in the field of innovation and technology transfer to SMEs. The "INSME Pilot Project" is an initiative aimed at the ideation, experimentation, and assessment of innovative practices, of a sectoral and/or factorial nature, in countries which participate in the INSME Process.</p>
<p>F4. Facilities for developing technopreneurs—availability of knowledge centers, research and develop-</p>	<p>MCA ICT Resource Centre (MIRC), Malaysian Science And Technology Information Center (MASTIC)</p>	<p>SIRIM Berhad—as the national organization of standardization and quality, and as the prime mover in industrial research and development, acts as a catalyst in bringing about national economic dynamism</p>
<p>(continued on next page)</p>		

ment centers, and testing laboratories, etc.  No success yet.		through excellence in technology and international acceptance of Malaysian products and services. Its mission is to enhance its customers' competitiveness through technology and quality and fulfill the needs of the shareholders.
F5. Facilitation of benchmarking exercises and sharing of best practices—Best Practice Networks	Malaysian Communication and Multimedia Commission—the regulator for the converging communications and multimedia industry. Technological developments have brought about major changes in communications, trade and industry, entertainment and recreation, giving rise to the convergence of the telecommunications, broadcasting, and IT industries. Advances in information and communication technology, particularly with the advent of the Internet, have also brought about new challenges in the regulatory regime.	MIMOS BERHAD is a leading government-owned research and development (R&D) organization specializing in the areas of information and communication technology (ICT) and Microelectronics. It pursues exploratory and industry-driven R&D through smart partnerships with universities, research institutes, government organizations and other industry leaders. Its main sources of funding for research comes from government developmental grants, collaborators and contract research fees.
F6. Availability and facilitation of e-business and e-commerce practices, use of internet and other e-market, e-business methodologies	MATRADE—functions as a focal point for Malaysian exporters and foreign importers to source for trade-related information. By providing market research information and relevant advice, MATRADE assists Malaysian exporters to better position their products and services in the highly competitive global markets.	<ul style="list-style-type: none"> <li>• TMNET BERHAD—helps facilitate broadband adoption by the manufacturing industry by introducing its e-business solution to member companies. The project, which comes under the purview of the Multimedia Development Corporation (MDC), is a program designed to assist non-ICT SMEs to utilize readily available e-business solutions to gain competitive advantage.</li> <li>• Computerworld Malaysia staff Computerworld (Malaysia)—IBM Malaysia anticipates that the financial services, public</li> </ul>
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		and SME sectors will leverage technology to further propel their growth and development, also providing all components, tools, and information needed for successful implementation.
F7. Availability of web-based SME portals, SME database, information networks	The National Small and Medium Enterprise (SME) Development Council—the Council decided that the Department of Statistics will establish and maintain a comprehensive National SME database that will provide policymakers and industries with relevant and timely information to monitor developments in the SME sector, including their operational conditions, financial status, and development requirements. The Council also decided that a baseline census of all enterprises and businesses would be conducted nationwide to assist the Council in assessing the current status of SMEs and their requirements and identify important issues relating to their performance and development. Information compiled from the census would also facilitate the formulation of policies to promote SMEs as an important driver of growth and in the formulation of strategies for the forthcoming ninth Malaysia Plan.	Malaysian Small Business Centre—running a small business can require your input on everything from finances and marketing to human resources and customer service. You might even act as head of sales, operations manager and IT specialist—all on the same day.
<b>G. Financial Support</b>		
G1. Support and role of the Central Bank in providing financial access to SMEs	Bank Negara Malaysia—in the efforts to enhance SMEs' access to financing, Bank Negara Malaysia established a comprehensive SME Special Unit in May 2003. The role of the SME Special Unit has now been expanded to not only provide information on the various sources of financing available to SMEs, facilitate loan applications, address problems faced by viable SMEs in securing financing, and provide advisory services on other SME financial requirements, but also to facilitate loan restructuring under the	Export-Import Bank of Malaysia Berhad (Exim Bank)—a leading development bank owned by the Ministry of Finance (Incorporated). Provides medium to long term credit to promote the export of Malaysian goods and services with emphasis on exports to non-traditional markets. Strengthening Small and Medium Enterprises—it will be strengthened and its scope expanded to play an
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	<p>Small Debt Resolution Scheme (SDRS). The SME Special Unit represents an integrated reference center for all issues relating to access to financing for the SMEs, including undertaking the responsibility of administering the SDRS.</p> <p>Bank Negara Malaysia is setting up a customer service center as a reference point to facilitate a rapid and efficient response for the public in general and SMEs in particular on financial matters.</p>	<p>important role in assisting and encouraging local entrepreneurs, especially Bumiputera entrepreneurs, to venture abroad. The facilities provided include trade financing, overseas projects financing, and credit insurance guarantees.</p>
G2. Availability of specialized Financial Institutions for SMEs	<ul style="list-style-type: none"> <li>• Bank Negara Malaysia has established the “Development Finance and Enterprise Department.” The unit aims to assist viable SMEs in obtaining financing. While the banking system is the main provider of funds to SMEs, other alternative sources of financing include the development financial institutions and the various special funds established by the government. SMEs have the potential to provide support to the development of existing and new industries in the services, agriculture and agro-based, manufacturing, and ICT sectors.</li> <li>• Bank Kerjasama Rakyat Malaysia (BKRM)</li> <li>• Perbadanan Nasional Berhad (PNS)</li> </ul>	<ul style="list-style-type: none"> <li>• The SME Bank (Bank Perusahaan Kecil &amp; Sederhana Malaysia Berhad)—a development financial institution to nurture and meet the unique needs of small and medium enterprises (SMEs). As a one-stop financial center responding to the funding and business growth needs of Malaysian SMEs, the Bank complements existing products and services offered by commercial banks through comprehensive and integrated financial and business advisory services.</li> <li>• Citibank Berhad—Citibank has designed mortgage loan products specifically to help Small and Medium-Scale Industry (SMI) owners manage their finances better and get ahead of the curve. Called Citibank Shop-Factory Loan and Citibank Business Power, these innovative commercial property loans give shop owners and entrepreneurs loan facilities that meet their needs: lower interest rates, payment flexibility and great savings.</li> </ul>
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<p>G3. Availability of SME Fund, Technology Fund, Entrepreneurship or Entrepreneurship Fund, etc.</p>	<ul style="list-style-type: none"> <li>• Ministry of Entrepreneur and Co-operative Development</li> <li>• MSC Technopreneur Development Flagship</li> <li>• Enterprises Rehabilitation Fund (ERF) is assisting Bumiputera, especially those involved in SMEs that need an injection of soft loans or seed capital to assist them out of their difficulties</li> </ul>	<p>Malaysian Technology Development Corporation</p>
<p>G4. Availability of venture capital funds or risk financing mechanisms, risk mitigation fund, credit guarantee schemes</p>	<ul style="list-style-type: none"> <li>• Malaysian Venture Capital Association (MVCA)</li> <li>• Credit Guarantee Corporation Malaysia Bhd.—provides guaranteed cover to commercial banks for loans extended to entrepreneurs</li> <li>• Development of Finance Institutions (DFIs)—provides credit facilities for entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>• DTA Ventures Management Sdn. Bhd.</li> <li>• Malaysian Venture Capital Management (MAVCAP)—incorporated on 19 April 2001 by the government of Malaysia and was allocated MYR500 million by the Minister of Finance Inc. for investment in, nurturing and growing the technology sector and the investing and growing of venture capital market in Malaysia</li> </ul>
<p>G5. Grants for SMEs for technological assistance, market access, productivity improvements, research and development, innovations, product development, e-business, ICT development, supply chain networks, etc.</p>	<p>Ministry of Science, Technology and Innovation (MOSTI)—promotes establishment of a good environment that is competitive for the development in science and technology which can encourage knowledge and quality of life through ICT development. The mission of this organization is to be competitive in terms of science and technology to ensure that Malaysian residents are competent worldwide and committed to environmental management in the future.</p>	<p>Malaysia Debt Ventures Berhad (MDV)—an innovative financier and development facilitator for the information and communications technology (ICT) and high-growth sectors. This is in line with the Malaysian Capital Market Master plan and the Financial Sector Master plan, which outlined the development of alternative sources of financing for knowledge-intensive and technology-intensive start-up enterprises, where only ideas (intangible collateral) are principal assets. Its fund is the first-ever innovative project financing program focusing on the ICT and high-growth sectors in Asia.</p>

**CASE STUDIES OF SUCCESSFUL SMEs  
(COMPANIES THAT HAVE WON EITHER THE NPC QUALITY OR  
THE SMIDEC ENTERPRISE 50 AWARD)**

**Asia Pacific Microsphere**

The company was formed on the 23 November 1990. It competes in the chemical industry sector. Amongst its main products is Phenoset Microsphere. The firm is structured hierarchically, and operations are coordinated via regular meetings. The owner comes from a business family background. He is decisive and follows through on decisions that have been made. He exhibits the characteristics of an effective entrepreneur. He is energetic and multi-talented, with a high degree of commitment to his business.

*Strengths*

- Developed organizational vision and mission to ensure future growth.
- Strong emphasis on human resource management and empowerment of workers.
- High investment in R&D, new imported technology, and product development.
- Practices zero complaints, benchmarking, and focuses on customer satisfaction.
- Has its own website, incorporating e-telemarketing into operations.
- Proactive in exploring market development, both locally and internationally.
- Has acquired the ISO certification.
- Regular quarterly on-the-job training for staff.

*Weakness*

- Lack of an appropriate policy on R&D and new product development.
- Lack of emphasis on proper human resource management system.
- Lack of staff motivational and external training program.
- Performance appraisal is conducted only for top management.

**Kart Food Industries**

The company was set up in 1986. It manufactures and market frozen food products. Although the owner of this company does not come from a business family background, he has been involved in business since his younger days. He sees himself as creative and innovative, loves traveling and problem solving and enjoys being a personal and financial risk taker. With a high sense of internal locus control, he never gives up easily when faced with any hurdles or challenges. He is open to new ideas or suggestions for improvement. He possesses high morale and ethical standards and believes that with the right attitude goals can be achieved. He is ambitious and has the ability to inspire and motivate others. The entrepreneur acquired specific experience, personal funds, and management skills at the start-up stage of the business. He is well qualified and knowledgeable about the requirements of the business trade and is familiar with the strategic, marketing, and financial aspects of the business operations.

*Strengths*

- A strong sense of strategic goals and long-term vision and direction.
- Strong emphasis on empowerment of workers.
- High investment in R&D, new imported technology, and product development.
- Practices zero complaints, benchmarking, and focuses on customer satisfaction.
- A flat structure, incorporating e-business and ICT in its operations.
- Proactive in market development, both locally and internationally.
- Strong distribution system.

- Has acquired the ISO 9001:2000 quality management systems and complies with the ISO9000 series as well as OSHA standards.
- Minimizes and controls costs, reduces waste, and practices just-in-time delivery.
- Participates in Food Fairs in Dubai and Hong Kong as well as network linkage with firms in Germany and the United Kingdom.
- Staff incentives and bonuses are based on firm's performance and worker productivity.

*Weakness*

- Lack of emphasis on promotion policy.
- There is no reward policy linked to performance appraisal.

**PowerMech Energy**

Powermech Energy was set up in 1988. It manufactures and markets engineering equipment, with the main product being generator sets (GENSET). The proprietor comes from a business-oriented family and has been involved in business since his youth. He is a very inquisitive and creative individual, very determined and highly motivated. The owner is also a risk taker who has a high need for achievement. He is ambitious, active, and very systematic in how he conducts himself. The company has a multi-level organizational structure and coordination is achieved via the accounts department of the firm.

*Strengths*

- Has a corporate vision and mission statement, as well as short and long-term objectives.
- Continuously explores new markets and exports product to India, Russia, and Vietnam.
- Practices product diversification and branding, the latest product being SCANPaC.
- Possesses its own website and incorporates e-marketing and e-business in to its operations.
- Obtained approval for conformance to electrical and environmental standards based on JBE, JAS, and the Fire Department.
- Focuses on strong and competent technical sales and after-sales support services.
- Benefits from economies of scale.

*Weakness*

- Lack of focus on productivity improvement techniques.
- Does not emphasize benchmarking.
- Lack of focus on employee motivational programs, staff morale, and employee retention.

**B&Z Plastic Industry**

This company, formed in 1992 by a women entrepreneur, manufactures and markets plastic-based building materials. She is uniquely a very aggressive innovator and likes to strategize her actions prior to implementing decisions. She believes in hard work and perseverance. She admits to being brought up in a business-minded family and possesses many traits of an enterprising entrepreneur. She also has the required qualification and experience related to the present business entity. Self-sufficient and committed, she is determined to make the business a success. The firm has a flat decentralized structure.

*Strengths*

- Dynamic, visionary leadership.
- Ability to inspire and motivate other individuals towards goal achievements.
- Emphasis on human resource management system.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

- Provides incentives for motivation, such as Best Employee award.
- Implements quality and productivity systems in its operations.
- Focuses on product as well as market development strategies.
- Obtained support grant and participated in SME-related development programs and initiatives.

### *Weakness*

- Has not obtained ISO quality certification.

### **Sipro Plastic Industries**

The formation of this organization dates back to 9 May 1992. The owner and CEO of this firm is a dynamic female who had a keen interest in business at a young age. She possesses the major personal characteristics of successful entrepreneurs, yet humbly admits to not possessing any of the required skills nor the qualification at the initial stage of the company formation. The firm's main products are plastic components for automotives, electronics, and telecommunication industries. Generally, the firm is flatly structured, and each department is under the control of a supervisor.

### *Strengths*

- Invests in R&D and new technologies.
- Adopts competitive pricing policies.
- Explores new markets locally and internationally.
- Develops its own website and incorporates e-marketing and ICT usage in its business operations.
- Achieved the ISO 9001:2000 certification in July 2002 and the ISO/TS 16949:2002 certification in December 2004.
- Implements KAIZEN, 5S and TQM in its business operations.
- Focuses on cost controls, minimizing rejects and wastage.
- Installed effective cost control strategies and systems.
- Implemented effective human resource management, training, motivation, promotion, and reward systems.
- Obtained support grant and participated in SME-related development programs and initiatives.

## **ENTREPRENEURSHIP DEVELOPMENT FOR COMPETITIVE SMEs: DEVELOPMENT STRATEGY AND OVERVIEW**

### **Background**

Nepal, a landlocked country situated in between China in the north and India in all other directions, has been ranked as one of the least developed countries in the world, with a per-capita income of USD260. Geographically, Nepal is divided into three ecological zones: the mountain region (4,900 meters and above), the hilly region (600–4,900 meters), and the Terai region, within an elevation of 300 meters above sea level. These three regions cover 15%, 68%, and 17% of the land, respectively. Out of the total population of 23 million (CBS 2001), 42.76% (10 years and older) are economically active. The Nepalese economy is primarily based on agriculture, in which more than 77% of the population is employed. Although the majority of people are involved in the agricultural sector, its contribution to national GDP has decreased from 48% in 1990–91 to 38.3% in 2000–01. As in other countries, micro, cottage, and small industries play an important role in the national economy. However, in Nepal the contribution of manufacturing industries to the national GDP is less than 10% since for many years employment in this sector has been slightly more than 2% of the total workforce. Neither the agricultural nor the industrial sector is capable of absorbing the growing labor force—more than 300,000 per annum. As a result, unemployment and poverty are prevalent, forcing Nepalese young people to look overseas for employment. Empirical evidence in many countries has shown that the development of industrial enterprises can directly contribute to job creation, the use of local resources, and import substitution, thus increasing the gross national product. Therefore, to accelerate the pace of industrial development, the government of Nepal has given high priority to the promotion of SMEs.

The Department of Cottage and Small Industry (DCSI), which is responsible for registration of cottage and small industries, had registered 172,621 enterprises as of 15 July 2005. It is estimated that these industries have generated employment for more than 1.6 million people. Similarly, the Department of Industries (DOI), which registers foreign investment projects and medium and large industries, had registered 3,291 industries, including 1,062 foreign investment industries, as of 8 April 2006. Of the total industries, it is estimated that SMEs together account for 97% of total establishments, a 90% share in the export trade, 85% of employment generation in the industrial sector, and a more than 90% contribution to the national GDP. Although many industries are registered with DCSI and DOI, due to the lack of reliable information, the actual number of businesses that are in operation is not known. Various sources from the SME sector have estimated that of the total number of registered industries, about 30% are in operation. Apart from this, based on the information collected from the population census of 2001, the Central Bureau of Statistics (CBS) estimates that 840,000 people are involved in income-generating informal sector activities.

In Nepal, the main industrial information collected is on size of investment and numbers employed. A survey conducted by CBS in 2001–02 found that the number of manufacturing industries employing more than 10 persons was only 3,213. Of these, 86% are started up with an investment of less than NPR10 million. In terms of job creation, cottage and small industries create one job per investment of NPR10,000, while in large industries one job is created per investment of NPR300,000. Thus only 3.8%, or 122 businesses, were established with an invest-

ment of more than NPR50 million. The investment amount, number of jobs generated, and the value added are shown in Table 1.

Table 1. Investment Amounts, Jobs Generated, and Value Added

	No. of units			No. of jobs generated			Value added (NPR10 million)		
	1991– 92	1999– 97	2001– 02	1991–92	1999– 97	2001– 02	1991– 92	1999– 97	2001– 02
Less than NPR10 million	4,083	3,203	2,775	176,072	122,323	101,110	785	735	682
NPR10 million to NPR50 million	136	282	316	18,633	39,903	38,452	214	655	812
Greater than NPR50 million	52	72	122	18,948	25,090	42,381	366	797	1,766
Total	4,271	3,557	3,213	213,653	187,316	181,943	1,365	2,187	3,260

Source: Census of Manufacturing Establishments 1991–92, 1996–97 and 2001–02

The table shows that more than 50% of industries employ 10–19 persons. Only 5.4% of firms employ more than 200 persons. These figures confirm that Nepalese industry is dominated by the SME sector.

As shown in Table 2, although there was an increase in the average number of jobs, there was a continuous decrease in the number of establishments and employers from 1991–92 to 2001–02.

Table 2. Manufacturing Industries and Employment

	1991–92	1996–97	2001–02
No. of units established	4,271	3,557	3,213
No. of employers	213,653	187,316	181,943
Average employment per unit	50	52.7	56.6

Source: Census of Manufacturing Industries CBS

## Industrial Policies and Facilities

Industrial enterprise development has existed in Nepal since ancient times. Planned development took place only after the advent of democracy in 1951; the first development plan was initiated in 1956. The Industrial Enterprises Act 1961 was the first document that specified the definition of and incentives to be provided to SMEs. However, after the dissolution of the parliamentary democracy by the Panchayat system in 1960, the focus shifted from private-sector investment to state-controlled investment in large-scale public sector enterprise and projects. Industrial Enterprises Acts were passed in 1974, 1981, 1987, and 1992, and subsequently revisions were made.

The Tenth Plan (2002–07), the goal of which is to reduce poverty, projects an overall GDP growth rate of 6.2% per annum at a factor cost with a substantial improvement of 7.5% in non-agricultural sector growth, including manufacturing, trade, tourism, transport, construction, and financial services. The primary objective of the Tenth Plan in the industrial sector is to accelerate the pace of industrialization through increased participation by the private sector and to stimulate additional employment in the rural and urban sectors. The government has focused on creating an investment-friendly environment, simplifying entry and exit procedures for businesses and enhancing the competitive environment. A number of activities are being carried out—foreign investment policy reforms, tariff rationalization, technological improvement, entrepreneurship

development, etc. From these initiatives, it is expected that the planned growth rate will be achieved and that an additional 250,000 jobs will have been created by the end of the Plan period.

The current Industrial Enterprises Act of 1992, amended in 1997, has classified industrial enterprises into large, medium, small, and cottage scale.

- Cottage industries (CIs)—specified traditional industries utilizing specific skills or local raw materials and resources, using less than 5 KW of electric power with fixed assets (excluding land and building) up to NPR200,000.
- Small industries (SIs)—investment of up to NPR30 million in fixed assets.
- Medium industries (MIs)—industries with fixed assets between NPR30 million and NPR100 million.
- Large industries (LIs)—investment of more than NPR100 million in fixed assets.

### **Classification of Industries**

These industries are classified based on their nature and the types of products they produce.

#### *Manufacturing*

Industries which produce goods by utilizing or processing raw materials, semi-processed materials, byproducts or waste products, or any other goods.

#### *Energy-based*

Industries generating energy from water resources, wind, solar, coal, natural oil, gas, bio-gas, or any other sources.

#### *Agro and Forest-based*

Industries based primarily on agriculture or forest products, such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, horticulture and herb processing, vegetable seed farming, mushroom, vegetable farming or vegetable processing, tissue culture, greenhouse, bee-keeping, honey production, rubber farming, floriculture and production, and forestry-related businesses such as lease-hold forests, agro-forestry, etc.

#### *Mineral*

Industries established to excavate minerals or the processing thereof.

#### *Tourism*

Tourist lodgings, motels, hotels, restaurants, resorts, travel agencies, skiing, gliding, water rafting, cable car complexes, pony-trekking, trekking, hot air ballooning, para-sailing, golfing, polo, horse-riding, etc.

#### *Services*

Workshops, printing presses, consultancy services, ginning and baling, cinematography, construction business, public transportation business, photography, hospitals, nursing homes, educational and training institutions, laboratories, air services, cold storage, etc.

### **Investment Facilities and Incentives**

In order to address the constraints and pave the way for development of industrial enterprises, various incentives and support services have been provided under the Industrial Enterprises Act.



- No prior permission or license is required for setting up industries except for those which may have an adverse effect on the environment, security, or public health.
- No income tax shall be imposed on dividends earned from investments made in any industry.
- No income tax shall be levied on profits earned through export.
- Cottage industries are exempt from sales tax, excise duty, and income tax.
- Some specified industries of national importance are granted additional facilities, including those located in disadvantaged and remote areas.
- Export-oriented, labor-intensive, and national priority industries are granted an additional rebate on income tax.
- For industries set up with the objective of controlling pollution or which may have a minimum effect on the environment, a reduction of up to 50% of taxable income will be granted.
- Industrial units providing direct employment to 600 or more Nepali citizens year-round are granted an additional income tax rebate of 10% for that year.
- No tax, duty, or fee shall be levied on the machinery, tools, equipment, or raw materials used by an export promotion industry.
- Industrial units utilizing locally available raw materials, chemicals, and packing materials, etc., on which excise duty or sales tax or both are already imposed will be reimbursed.

The Industrial Enterprise Act of 1992 contains specific provisions related to registration, operation, and exit. Various rules and regulations must be complied with by entrepreneurs during registration and operation of their enterprises. Similarly, the Act states that if the industry closes, the entrepreneur must notify the appropriate department within seven days. Failure to abide by this rule will result in a penalty.

In order to mitigate problems, formulate appropriate policies, and promote industries, various provisions have been made to promote industrial enterprises.

*Industrial Promotion Board.* To provide cooperation in formulating and implementing industrial policies, to maintain coordination between the policy and implementation levels, and to give direction to the appropriate authorities in making available incentives and facilities and issuing permissions to health-, environment-, and security-related industries, a high-level Industrial Promotion Board has been constituted under the chairmanship of the Minister or State Minister for Industries. The Secretaries of the Ministries of Finance, Industry, and Tourism, the Governor of Nepal Rastra Bank, the Directors General of DCSI and DOI, a representative of FNCCI, and two other persons nominated by the government are the members of the Board.

*One-window service.* The government of Nepal introduced one-window service in 1992 with the goal of efficiently providing the services required during the registration process and the operation of industries. A window committee headed by the Director General of the Department of Industry was established with the representation of the Directors General of the Department of Custom, Excise Duty, Tax, and Commerce, DCSI, the Chief Controller of Nepal Rastra Bank, and a representative of FNCCI. Its main function is to make available the facilities listed in the Industrial Enterprise Act and to provide infrastructure support services, e.g., electricity, water, telecommunications, land, roads, etc.

*Duty drawback.* With the goal of encouraging exports, the government has provided for a duty drawback and Value Added Tax (VAT) refund system. Under this scheme, an exporter who exports more than 80% of production is eligible for a refund of the duty paid on imported raw materials. The exporter is eligible to claim this if the goods produced from imported raw materials are exported within six months after import and if application is made within three months after the goods have been exported. The duty is refunded within 60 days of application.

*Special economic zone (SEZ).* The SEZ, previously known as an export processing zone (EPZ), is considered to be one of the most effective mechanisms in stimulating foreign export.

The SEZ acts as a facilitator between domestic infrastructural support and foreign investment, technology, and market. Industries located in the SEZ are required to export more than 80% of their products. Since investment in the SEZ is oriented towards the export market, investors receive tax exemptions, VAT, excise duty, import-export, banking facilities, workers, etc., depending upon the nature of their business. Nepal plans to establish SEZs in Bhairahawa, Birgunj, Panchkhal (Kavre), and Debigat (Nuwakot), and construction has begun in Bhairahawa (Rupendehi). It is expected that this SEZ will be operative with a year.

*Industrial estates.* With the objective of providing infrastructure support to industrial enterprises in Nepal, the government has established 11 industrial estates, primarily in urban areas such as Kathmandu, Pokhara, Biratnagar, Birgunj, and Nepalgunj. Of 504 industries located in these estates, 75 have shut down, and 41 new ones are in the process of being established. A total of 14,122 persons are employed in these industrial estates. Balaju and Hetaunda Industrial estates employ more than 50% of the total workers in these estates.

*Rehabilitation of ailing industries.* In 2005, the government formed the “Ailing Industry Rehabilitation Committee” under the coordination of the National Planning Commission with representatives of the Ministry of Industry, the Ministry of Finance, FNCCI, Nepal Rastra Bank, and the tourism business sector. The primary function of the committee is to identify ailing industries, ascertain the cause, explore possible solutions, and implement/facilitate a rehabilitation program. Upon the recommendation of the committee, ailing industries can receive loans from commercial banks at an interest rate of 7.5%. Nepal Rastra Bank earmarked NPR2 billion for this purpose for FY 2005–06. In addition, government provides as a 1% custom duty on the import of machinery and equipment, rescheduling of loan repayments, concessions on outstanding revenue due, etc. From 16 July 2004 to February 2005, NPR329 million in financing had been provided to such industries, of which 85% went to the hotel and tourism sector and 15% to other enterprises.

*Foreign direct investment (FDI).* To attract foreign investment in the industrial sector, the government passed the Foreign Direct Investment and Technology Transfer Act in 1992, which allows foreign investment in all industrial sectors except those related to cottage industries, arms and ammunitions, real estate, tobacco, retail business, the trekking business, and some others. It provides for various incentives and facilities, e.g., establishing a corporate tax on profit not to exceed 20%, allowing 100% foreign ownership, and providing a business visas to family members or other authorized persons. In 2004–05, 78 industries were registered with the Department of Industries with a total investment of NPR4,324 million. India is the major source of FDI, with about a 40% share, followed by the U.S. and China. FDI is found primarily in the manufacturing and service sectors.

*South Asian Free Trade Agreement (SAFTA).* The member countries of the South Asian Association of Regional Cooperation (SAARC)—Bangladesh, India, Pakistan, Bhutan, Maldives, Sri Lanka, and Nepal—have entered into an agreement to implement SAFTA effective 1 January 2006. SAFTA (previously known as SAPTA) has the goal of raising the standard of living in SAARC through the expansion and promotion of industrial trade between the SAARC countries through duty-free tariff concessions, removal of tariff barriers, safeguard measures for antidumping/countervailing, and quota restrictions. SAFTA also recognizes the needs and unique situation of the least developed countries and provides for differential treatment: Nepal, Bangladesh, Bhutan, and Maldives will maintain a custom duty of from 0% to 5% for the next several years, while in Sri Lanka, Pakistan, and India it will be maintained for seven years. Similarly, Nepal became a member of BIMSTEC, another region of economic cooperation, in February 2004. Its other members are Bangladesh, India, Myanmar, Sri Lanka, Thailand, and Bhutan.

*World Trade Organization.* The World Trade Organization (WTO), formerly known as the General Agreement on Tariffs and Trade (GATT), was established in January 1995 under the Uruguay Convention. As per its principles, member countries must liberalize their international trade and commit to opening their trade and services to competition. Nepal applied for GATT

membership in 1989, and after completing all the formalities became a member of WTO on 23 April 2004. Membership has brought challenges as well as opportunities. The major challenges faced by Nepali entrepreneurs are competing with foreign products, complying with various rules and regulations related to the environment, meeting quality standards, and reducing preferential incentives. But WTO membership will increase access to international markets, provide access to dispute settlement procedures, provide financial and technical assistance for capacity-building, contribute to increasing competitiveness, and assist in identifying and promoting business in the comparative advantage sectors.

### **Trade Policy**

Trade plays an important role in economic development. Before 1960, Nepal's foreign trade was largely confined to India. Between 1956 and 1964, Nepal's trade with other countries was less than 3%. Beginning in 1960, efforts were made to diversify, and currently Nepal trades with more than 72 countries. Prior to the liberalization measures adopted in the mid-1980s, the objectives of trade policy were export promotion, import control, and trade diversification (Maskey 1999). Most import items required licensing and authorization for foreign exchange. A Structural Adjustment Program (SAP) was introduced in 1986 to achieve sustained economic growth by correcting weaknesses in the economy. The trade sector was one of the key areas for structural reform. Liberalizing export procedures, simplifying export taxation, increasing facilities and incentives, and encouraging investment were some of the measures undertaken under this program. In 1992, the government introduced a new trade policy with the goal of increasing the contribution of the trade sector in the national economy, diversifying trade, reducing trade imbalances, and expanding employment-oriented trade. Various reforms were undertaken: abolishing (with a few exceptions) the system of import licenses, introducing the Foreign Investment and Technology Act, providing duty drawback facilities, allowing tax exemptions on machinery, tools, equipment, and raw materials used in export, and simplifying foreign exchange. Similarly, the existing import license and control systems were simplified and quantitative restrictions were gradually replaced to encourage free competition. In spite of these efforts and reforms, Nepal's trade deficit is increasing. In 2003–04, total exports were 28.4% and imports were 71.2%, resulting in a trade deficit of more than NPR82 billion.

A limited number of items produced for export and dependence on a limited number of trading partners are considered to be major reasons for this deficit. Carpets and garments are the major export items. Export figures for 2004–05 show the trade share of wool carpets and ready-made garments to be 33.7% and 35.6%, respectively, followed by a similar item, wool and Pashmina goods, at 8%. Other sectors contributed less than 3%. Of a total trade volume of NPR208,179.3 million in 2004–05, India's share was 61.3%. Germany, the U.S., and the United Kingdom are other major trading partners.

### **Banking and Monetary Policy**

Availability of credit is a major feature of SME development. After the restoration of democracy in 1990, the government of Nepal introduced liberal economic policies. Financial institutions are allowed to fix their interest rate within the guidelines prescribed by the Nepal Rastra Bank (NRB). The basic thrust of the monetary policy is to control excessive liquidity, support output growth through credit expansion, encourage market-led interest rates, and monitor inflation through indirect measures. In order to reach as many beneficiaries as possible, the NRB has adopted a policy of extending banking services through cooperatives and NGOs as financial intermediary organizations and introduced a priority sector lending scheme to support SMEs under which commercial banks are required to invest 12% of their total loan portfolio in the priority sector that includes cottage and small industries. Similarly, a cottage and small industry fund was established under the Department of Cottage and Small Industry and the Cottage and Small Industry Development Board to motivate and support trainees in enterprise

creation. Since the loan amount is limited under this scheme, another fund for micro cottage and small industry was established to support entrepreneurs. Nepal Industrial Development Corporation, established to finance medium and large enterprises, faces a number of problems in the present competitive financial market. In the financial sector, with a total paid-up capital of NPR16 billion, 40 development banks, 17 commercial banks, 63 financial companies, and many NGOs which have received permission to work as financial intermediaries have been established. As seen in Table 3, in FY 2003–04, NPR137,080.9 million was disbursed by commercial banks. The production and wholesaling/retailing sectors were the major ones, with 34% and 23%, respectively.

Table 3. Loan Disbursements by Commercial Banks

Sector	Fiscal year (NPR10 million)		
	2002–03	2003–04	2004–05*
Agriculture	3,734.5	4,901.9	4,415.5
Mines	399.4	336.6	5,203.0
Production	42,910.5	47,181.5	53,744.2
Construction	2,729.2	4,986.7	8,723.0
Metal, productions, machinery, and electrical tools and fittings	1,430.1	1,450.7	1,797.5
Transportation, equipment production, and fittings	1,359.8	2,776.7	3,156.3
Communication and public services	6,523.4	7,963.6	8,997.2
Wholesalers and retailers	27,555.3	31,728.9	34,412.7
Finance, insurance, and fixes assets	4,250.3	4,857.0	6,391.0
Service industries	12,212.5	14,216.9	14,984.8
Consumable	3,364.6	4,400.0	3,588.0
Local government	1.5	2.3	0.1
Other	14,283.5	12,371.5	18,592.6
Total	120,754.6	137,080.9	164,005.9

\*Provisional.

Source: Economic Survey 2005–06

### Problems and Constraints

It is generally accepted throughout the world that cottage, small, and medium enterprises are an integral part of a national economy. Recognizing their importance, many countries are committed to create an environment conducive to industrial development by formulating favorable policies and making provisions for financial and non-financial business support services, among other things. However, despite such support programs, SMEs in Nepal face different challenges related to policy/legal frameworks, finance, technology, management, business support services, socio-cultural factors, etc. FNCCI, an umbrella organization of the Nepalese business sector, and the World Bank conducted a survey on “Business Environment and Manufacturing Performance in Nepal” in 1999. The survey included 233 firms covering five development regions and identified some of the major problems and constraints faced by SMEs.

### Policy and Legal Issues

*Registration of industries.* As set forth in the Industrial Enterprise Act, industries are to be registered with DCSI or DOI based on the size of the investment. But under the Local Governance Act, local governments are authorized to collect taxes and register industries established in their areas. This has created confusion regarding the legal status of businesses and the regulatory jurisdiction between the central and the local governments.

*Initial environment examination.* The Environment Protection Act 1997 and its rules of 1998 make some provision for the protection of the environment. However, requiring an initial environment examination of all industries, whether or not their products and processes are related to the environment, has created an unnecessary burden.

*Classification of industries.* The Industrial Enterprise Act provides for the categories of cottage, small, medium, and large industries. Micro enterprises, which have been instrumental in alleviating poverty through income and job generation, have not yet been defined. This has hindered micro enterprises in rural areas by keeping them from having access to incentives and facilities they might qualify for.

The 1999 World Bank/FNCCI survey identified various challenges in doing business in Nepal, which are ranked as shown in Table 4.

Table 4. Challenges to Doing Business in Nepal

Rank	Challenge	%
1	Government (lack of clarity, inconsistency in policy, delays, corruption, tax/VAT, customs, labor regulations, etc.)	36%
2	Demand (demand of market, competition)	22%
3	Finance (access to finance, collateral, interest rate)	14%
4	Infrastructure (electricity, road/transportation, water)	9%
5	Labor (shortage of skilled workers, turnover, unions/strikes)	7%
6	Business support (training, technology, marketing support, information)	7%
7	Shortage of inputs (raw materials, unavailability of ports)	4%
8	Trade policy of foreign governments/quotas	1%
	Total	100%

Source: "Business Environment and Manufacturing Performance in Nepal," FNCCI/World Bank, 1999

The survey results show that government-related problems rank at the top. Red tape and delays in work, corruption and malpractice by government employees, ineffective one-window and duty drawback policies, complexity of rules and regulations, frequent changes and inconsistency in government policy, inadequate incentives and facilities, impractical administration of the tax/VAT system, unreasonable valuation of goods, and others are the major problems described under this group. Despite the requirement that VAT refunds and duty drawbacks must be paid within 60 days, many exporters have gone years without receiving payment.

### **Finance/Credit**

Finance or access to credit is indispensable in the creation and operation of any enterprise. Entrepreneurs need financial support for purchasing machinery, equipment, and raw materials, for working capital, technology upgrades, modernization and diversification, and for other overhead expenses. But despite the number of banks and financial institutions participating, the gap between demand and supply is widening. Some of the difficulties described in the study were inability to obtain financial credit due to high collateral requirements, the need to provide personal guarantees, the lack of a trade credit system, high interest rates, and a focus on short-term credit, further compounded by delays in receiving the VAT refunds and duty drawbacks.

### **Infrastructure**

Nepal, a small country located between India and China, is landlocked. Most of the country's land is mountainous and hilly. The nearest port, in India, is 660 miles away. This has increased pre-shipment transport costs by about 7%–8%, or more than twice that of Bangladesh

and Vietnam. The FNCCI/World Bank study lists electricity, water, roads, security, telecommunications, and postal services as being affected by this infrastructural deficiency. Of these, poor availability and quality of electrical service is ranked as the biggest problem by 56% of the respondents. Poor roads and transportation are ranked second.

### **Business Support Services**

Business support services are crucial in enhancing entrepreneurs' capacity. Empirical studies show that more than two-third of industries that have failed did so because of management inefficiency. Thus various organizations are offering a wide range of support services to assist in developing entrepreneurial and managerial competencies. Business management, accounting and finance, skill development training, and trade fair exhibiting are the major services offered, but survey results show that many firms do not consider this service to be a priority. Consequently, less than one-quarter of the firms reported that they had used these services. When questioned as to what business support services they would find useful, entrepreneurs say they would prefer information on foreign markets (79%), assistance in finding new technologies (77%), and advice on productivity improvement (76%) and on quality control and testing (69%). The gap between the demand for and the local availability of those services locally is the primary reason for low utilization of business support services.

### **Labor Act**

The Labor Act provides for the right to form trade unions, protects against job discrimination, establishes minimum wages, and assures job security. It requires firms to make all employees permanent after they have worked 240 days, and once this has occurred, they cannot be fired without the permission of the Labor Department. The mandatory payment of 10% of profits as a bonus and other mandated incentives and facilities has been described by employers as an unnecessary burden. They find that trade unions have negatively affected industries in the timely delivery of goods by their frequent strikes. Employers feel that these provisions in the Labor Act and other similar regulations restrict them in managing their own property independently. The lack of a separate Labor Act for export industries is seen as a major problem by exporters. Entrepreneurs involved in the export business also find the many mandated holidays and festivals to be disruptive.

### **Technology Transfer and Development**

Modern technology development plays an immense role in reducing the need for inputs such as raw materials and energy, in improving the quality of products, and in enhancing competitiveness. The Technology Transfer Act of 1992 thus emphasized technology transfer and development. Almost 1,062 companies registered with DOI have received licenses for foreign investment and technology transfer. The Royal Nepal Academy for Science and Technology (RONAST), the Research Centre for Applied Science and Technology (RECAST), the Ministry of Science and Technology, and the Nepal Bureau of Standards and Metrology are the major organizations involved in technology promotion and development. Other universities, colleges, and technical institutes are also involved in technology-related research and development. However, there are a number of challenges: lack of trained manpower, inadequate infrastructure, inconsistency of government policy, limited sources of technical information, and lack of cooperation and coordination between research institutes and SMEs.

### **Inadequate Focus on Comparatively Advantageous Products**

Due to economic liberalization and trade globalization, the world market has become more open and competitive. As a member of WTO, SAPTA, and BIMISTEC, Nepal must abide by the rules and regulations provisioned under membership in these organizations. In light of this new

situation, Nepal must focus on comparatively advantageous products. Hydropower, tourism, and selected products in the agricultural sector are considered its most promising products.

*Hydropower.* Nepal has huge potential for hydropower generation. It is the second largest hydropower-rich country in the world, with a potential of 84,000 MW. More than 50% of this potential, or 44,000MW, could be economically viable, but thus far Nepal has generated only 1.2% of that, or 528 MW. Considering the potential for selling power to India, particularly in the northern part, and the given the growing domestic market, there is tremendous opportunity in hydropower generation.

*Tourism.* As a small Himalayan country, Nepal has good prospects for tourism. It is home to Mount Everest. Eight of the 10 peaks in the world that are higher than 8,000 meters are in Nepal. It is primarily steppe, ranging in some locations from 100 meters to 8,848 meters above sea level within an area of 50 KM. The country's cultural and biological diversity is another attraction. There are nearly 70 spoken languages with more than 60 ethnic castes. Lumbini, the birthplace of Buddha, is located in the western part of Nepal. Wide diversity in flora and fauna and the attraction of wildlife and the Himalayas offer obvious advantages for tourism.

*Agricultural and forest products.* Nepal's economy is primarily based in its agricultural sector, but its agriculture is still dependent on traditional products—paddy, maize, and wheat. Due to its diverse topography, it has different climatic zones and biodiversity with great potential for other products. The eastern part of Nepal (Ilam, Jhapa, Panchthar, Dhankuta) has good prospects for tea, cardamom, ginger, and livestock farming. The western part, particularly Gulmi and Palpa, is excellent for coffee cultivation. Suitable climatic conditions for cultivating various medicinal plants, herbs, fruits, and vegetables can be found in the far western region.

## **DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS**

In order to facilitate enterprise creation and promotion, various types of support programs, such as entrepreneurship development, business management, markets and marketing, skill development, credit, and others are being implemented by different organizations.

### **Government Organizations**

#### *Department of Cottage and Small Industries (DCSI)*

The DCSI, established in 1936 and formerly known as the Department of Cottage and Village Industry, operates under the Ministry of Industries, Commerce, and Supplies (MOICS) in 27 districts, primarily in urban the Terai settings. DCSI has two main functions: regulatory and promotional. Under its regulatory function, it registers, renews, and extends facilities to cottage and small industries and make recommendations for obtaining support services as outlined in the government rules and regulations. Under its promotional activities, it conducts training programs, in particular on entrepreneurship development (EDP) and skills development. It has established the Cottage and Small Industry Training Centre, the Leather Goods Promotion Project, the Readymade Garment Training Centre, the Handmade Paper Project, the Ceramic Promotion Project, the Population Education Project, the Handicraft Development Centre, and others. Here DCSI provides skills training, particularly tailoring, hosiery, carpentry, batik, embroidery, leather goods, handmade paper, ceramics, population education, and environment. In addition, the district offices provide credit to trainees after successful completion of the training if they wish to establish their own business. The district offices also conduct joint training programs on a cost-sharing basis with other organizations such as non-government organizations (NGOs), District Development Committees (DDCs), and Village Development Committees (VDCs).

*Cottage and Small Industry Development Board (CSIDB)*

The Cottage and Small Industry Development Board was established in June 1993 under the Development Board Act as a successor to the Cottage and Village Industry Development Board. The CSIDB covers 48 districts, mainly in the hills and mountain areas of the country, which are not covered by DCSI. The main target groups of CSIDB are similar to those of DCSI: existing and potential entrepreneurs, rural poor, unemployed youth, women, Dalits, and backward and disadvantaged people. Like the DCSI, CSIDB performs two types of functions: regulatory and promotional. Under its regulatory activities, it registers and renews cottage and small industries and makes recommendations for providing incentives and facilities as per the Act. Under its promotional activities, different types of business training—entrepreneurship development, skill development training, business management, and others—are provided. In addition, it organizes trade fairs and exhibits, industrial visits, workshops and seminars, and similar activities. A loan facility is provided to its trainees for business start-ups. Similar to DCSI, it also implements joint programs with local-level NGOs, VDCs, and other groups.

*Industrial Enterprise Development Institute (IEDI)*

The Industrial Enterprise Development Institute (IEDI) was established under a special act in 1996 as a successor to the Small Business Promotion Project (SBPP), which had been supported by the former German Agency for Technical Co-operation (GTZ). The main objectives of IEDI are to assist in human resource development of the organizations and institutions involved in industry/enterprise development, to provide high-quality services for industry/enterprise development, to develop technical, entrepreneurial, and management related know-how and skills, to carry out need-based industry- and entrepreneurship-related action research and feasibility studies, and to establish and develop organizations that support and promote industrial growth. IEDI's major target groups include potential and existing entrepreneurs, NGOs/INGOs, and organizations that are involved in income generation and entrepreneurship development. The main services are new business creation, business planning and feasibility studies, micro enterprise creation (MEC), business awareness, production management and productivity improvement, marketing management, salesmanship, financial management, bookkeeping, business expansion/growth, micro enterprise development, technical and business information dissemination and consultancy, training of trainers on enterprise development, business consultancy, training skill improvement, and training management.

*Trade Promotion Centre (TPC)*

The Trade Promotion Centre was established by the government in 1971 with the primary objective of promoting Nepal's export trade by providing support services and facilitating the promotion of trade and export trade. To do this it undertakes various promotional activities, such as assisting Nepalese exporters in product development, organizing and participating in trade fairs, arranging buyer-seller meetings, disseminating trade information, and offering integrated market development programs for specific products in specific markets. With a view to expanding exports and assisting exporters in boosting their export trade, Export Product Display and Sales Units (EPDSU) have been established at Thamel Kathmandu, a major tourist area. As a national export promotion organization, the TPC engages in various export promotion activities to accelerate export growth: research work and study programs on export promotion and import substitution; collection, compilation, and distribution of information on products, trade, and markets; coordination and advising of the private sector in the area of export promotion; and assisting the government in matters relating to formulation of the national trade policy and other export promotion rules and regulations.



*Women Development Training Centre (WDTC)*

The Women Development Training Centre (WDTC) was established in 1956 with the support of the Ford Foundation to introduce and promote women's participation in development activities. Its main objective is to plan, organize, implement, and evaluate training activities, including research, workshops and seminars related to women development, and other activities for mainstreaming gender considerations into national development programs. It organizes skill development trainings to enable women to become self-employed and self-reliant, facilitates the transfer of technology for human resource development at the community level, undertakes research activities to accelerate capacity building and program planning, provides training consultancy for client organizations, and creates documentation and databases for development education and communication using a multimedia approach to outreach in both urban and rural areas. Services offered include consultancy on capacity building, training follow-up, and research studies on community development, women development, gender issues, income generation, population education, skills development training, nutrition and food preservation, child development and parental education, local governance, and leadership and management training.

*National Productivity and Economic Development Centre (NPEDC)*

The NPEDC, established in 1994, is a successor to the former Economic Service Centre established in 1988. With the formation of the National Productivity Council (NPC) under the chairmanship of the Minister for Industry, the NPEDC has been designated as the Secretariat of the Council. Its main objectives are to participate in the national development process by increasing the pace of industrialization and productivity improvement in the country. Major programs and services offered are associated with productivity promotion and improvement, research and consultancy service, technology and environment management, quality management, and other topics. The Centre has also been designated as the National Productivity Organization of Nepal and has been working as Nepal's liaison office to the Asian Productivity Organization.

**Bilateral Projects**

*Micro Enterprise Development Program (MEDEP/UNDP)*

The Micro Enterprise Development Program (MEDEP), implemented in 1998, is a joint project of the Ministry of Industry, Commerce, and Supplies and the UNDP. Its main goals and objectives are reduction of poverty in low-income families in disadvantaged and backward communities through sustainable micro-enterprise development, capacity building of service delivery mechanisms, development of new and existing micro-entrepreneurs from poor families, advice on government policies, and guidelines on micro-enterprise development. Its target group is low-income families, unemployed youths, under-employed men and women, self-employed proprietors, and micro-enterprise owners. It has also offered marketing assistance and support services, exposure visits, trade fair participation, and social mobilization and market promotion activities in 20 districts in its first and second phase.

*Rural Enterprise Assistance Program (REAP)*

The Rural Enterprise Assistance Program, begun in August 2003, is supported by ICCO (a Netherlands-based NGO) and SNV/Nepal supported and carried out by the Industrial Enterprise Development Institute (IEDI). It covers seven districts, four in the Karnali zone and three in the Mechi zone. Its main goal is to reduce poverty in these districts in the hills and mountains of Nepal through the development of micro and small enterprises targeting low-income families and disadvantaged groups. It is implemented through local organizations, chambers, and NGOs, under the coordination of IEDI. To implement the programs at district level, a district coordination committee headed by a chair is formed, in which concerned stakeholders participate as members. Through the provision of various support programs, such as entrepreneurship training,

business information, counseling, skill development training, trade fair participation, and others, the program envisions that within the project period it will reach 2,000 families through the development partners.

#### *Elam–Helvetas*

Helvetas, the Swiss Association for International Cooperation, has been working in Nepal since 1956. In 1992 it introduced mobile vocational training in rural, semi-urban, and urban areas through SKILL (Skills and Know How Imparted at the Local Level). With a view to launching an income generation/micro enterprise project, a study was carried out in 2001 in the Birgunj area and the east–west highway corridor. Based on this study, Birgunj was selected to implement the Elam program, which means “work” or “occupation.” Its main objective is to reduce poverty in its working area through the promotion of profitable businesses. Three groups have been identified: people who are already in business and want to expand their business, people who are employed or unemployed who want to start a business, and poorer people, usually women, who need to reduce their vulnerability and enhance their ability to move beyond the status of mere survival. Elam provides three separate programs to these three target groups: Growth Enterprise Development (GED), Start Your Own Business (SYOB), and the Self Help Group (SHG) program. Other programs, such as marketing, business plan preparation, book-keeping, product development, productivity improvement, and consultancy, are also provided. At present Elam/Helvetas is being implemented in Birgunj and Dhangadhi.

#### *Trade and Technology Information Promotion System (TIPS)*

Devnet Association is an international organization providing business information and management assistance services to enhance the competitiveness of micro, small, and medium-size enterprises (SMEs) worldwide. The objectives of TIPS Nepal are to bring women entrepreneurs into the mainstream of the global market by providing information on Internet/e-commerce and international trade, exploiting new business opportunities, providing women entrepreneurs with one-stop support service in information and communication technologies, building up networking among women entrepreneurs by providing a forum for WINNER members, and building capacity for women by providing counseling services on an individual basis. There are two main international programs: the Trade and Technology Information Promotion System (TIPS) and Women into the New Network for Entrepreneurial Reinforcement (WINNER). Services provided include training on Internet/e-commerce for women entrepreneurs, training on international trade, free access to email/Internet, web page designing and development, free electronic market space (EMS), virtual business meetings on the web, and counseling. TIPS has conducted numerous programs and trade fairs in the areas of entrepreneurship development and international e-commerce and has served many women entrepreneurs.

### **Private Sector Organizations**

#### *Federation of Nepal Chamber of Commerce & Industries (FNCCI)*

The FNCCI, established in 1965, is a private-sector umbrella organization for chambers, commodity associations, and public and private-sector enterprises. Its main role is to protect the interests of the business community and promote industrial enterprise. As an umbrella organization, its membership encompasses 85 districts and municipality-level chambers, 144 commodity associations, 423 leading public and private-sector undertakings, and 9 bi-national chambers, among others. The FNCCI represents more than 55 government and non-government agencies, boards, and committees, mainly in the industrial sector. It also has members from international organizations such as WASME, SAARC, and others. To strengthen the competencies of its members, it conducts programs in business management, trade fairs, exhibitions, quality control, business information, interaction programs, etc.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *Federation of Nepal Cottage and Small Industries (FNCSI)*

The Federation of Nepal Cottage and Small Industries, established in 1990, is a non-governmental, non-profit organization dealing primarily with micro-enterprises and cottage and small industries. Its objectives are to serve its members by uniting them into an organizational network, promoting cottage and small industries, and protecting the interests of cottage and small industries through advocacy and lobbying. FNCSI has brought together about 25,000 members in 70 districts. To render services to women entrepreneurs, it has established women subcommittees at the central level and has a membership of more than 5,000 women entrepreneurs. It provides services in the areas of business management training/workshops, interaction programs, industrial exhibits and observation visits, counseling services, sales promotion and marketing, business information dissemination, and institutional development.

### *Handicraft Association of Nepal (HAN)*

The Handicraft Association of Nepal was established in 1971 to enhance and promote the handicraft trade and industry in Nepal. It is a service-oriented non-profit organization of the private sector business and artisan community. Its objectives are to work towards steady growth in handicrafts trade and industry, to enhance the quality of handicraft goods and productivity, to provide pragmatic suggestions and advice to the government and its related agencies in formulating policy and programs for the betterment of the handicrafts trade and industry, and to encourage artisans to adopt handicraft production as their profession and thereby preserve and popularize Nepali culture. Major target groups of HAN are handicrafts producers, handicrafts importer and exporters, wholesalers, and retailers. Primary services available include its delegated and its promotional functions. Delegated functions are certification of export invoices for handicraft products and certification of handicraft products made from the parts of domestic and other animals. Promotional services include organizing training and workshops, organizing and participating in handicraft-related trade fairs and exhibitions, exploring the market for handicrafts, disseminating information, and similar activities.

### *Fair Trade Group Nepal (FTG)*

The Fair Trade Group of Nepal was created in 1996 with the goal of providing ongoing support to its members by creating fair trade-focused and sustainable craft-based enterprises that benefit low-income women and poor communities. FTG members believe in the fair trade code of practice developed by the International Federation of Alternative Trade (IFAT), which has 10 member organizations working with low-income and marginalized producers. Its objectives are to provide an organizational structure and mode of operation for member organizations to co-operate and coordinate in marketing products locally and abroad, to encourage the practice of fair trade by member organizations, to establish a common code of practice to protect handicrafts from unfair practices of buyers and suppliers, and to cooperate in accessing international markets and sharing resources among member organizations. Major target groups are NGOs implementing crafts, focusing on income-generation projects working primarily with low-income and marginalized producers, particularly low-income women craft producers. Services include market promotion and facilitation, lobbying, advocacy and networking, research and development, monitoring and evaluation, free computer services, organized trade fairs, marketing management, and business training.

### *Women Entrepreneurs Association of Nepal (WEAN)*

The non-profit and non-governmental Women Entrepreneurs Association of Nepal (WEAN) is considered one of the most effective institutions for empowering women through enterprise promotion. Its objectives are to increase economic opportunities and create awareness among women entrepreneurs, enhance business skills of potential and existing women entrepreneurs, develop and upgrade skills of women entrepreneurs, and advocate for their role in the

new millennium. Target groups are potential and existing women entrepreneurs and low-income women. WEAN offers training, marketing assistance, credit, networking, and other extension services to urban and rural women entrepreneurs. Marketing assistance is provided by WEAN directly to its members as well as through the WEAN cooperative, a sister organization. WEAN also conducts micro credit and saving management training, for micro-credit groups only. In addition, WEAN has organized and participated in various workshops, seminars, talk programs, trade fairs, and exhibitions.

Tables 5 and 6 present an overview of support programs and organizations.

Table 5. Support Organizations and Their Services

Name of Organization	Goal/Objective	Target groups/beneficiaries	Major services/programs	Coverage	Service delivery mechanism
A. Government Organization					
Department of Cottage & Small Industry (DCSI)	To promote cottage and small industry in Nepal	Potential entrepreneurs	Skill development training; entrepreneurship development training; registration, renewal or regulatory activities; credit	27 districts, mostly urban and Terai area	Direct through district-level offices
Cottage & Small Industry Development Board (CSIDB)	To provide support services for cottage and small industry for promotion and expansion	Potential and existing entrepreneurs	Skill development training; entrepreneurship development training; feasibility studies; trade fairs, exhibitions; regulatory activities (registration, renew); credit	48 districts, mostly hilly and mountain areas	Direct through district-level offices
Industrial Enterprise Development Institute (IEDI)	To promote industrial enterprises in the country	Potential entrepreneurs; existing entrepreneurs; organizations involved with SMEs	New business creation; business management; research; training of trainers course on enterprise creation and promotion	6 districts; provide services as needed/per demand	Direct through branch/head office
Trade Promotion Centre (TPC)	To promote and develop export trade of the country	Existing and potential exporters	Product and market promotion; trade information technology; organization and participation in trade fairs; export documentation	Mostly in Kathmandu Valley	Direct in central level; through chambers and com-
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

			and procedures; counseling and training		modity associations at the district level
Women Development Training Centre (WDTC)	To plan, organize, implement and evaluate the various training activities, including research, workshops, seminars on women development and other activities aimed at mainstreaming gender considerations into national development programs	Women members of local development; members of institutions and organizations	Training in various subjects; skill development; consultancy; population education; follow up of training; parental education; research studies; child development; community development; income generation; women development; gender issues	Mostly in Kathmandu valley	Direct through training center
<b>B. Donor-Supported Projects</b>					
Micro Enterprise Development Program (MEDEP)	To develop sustainable market enterprises for low-income families as a mean to reduce poverty; poverty reduction of low-income families and capacity-building of service delivery organizations	Low-income families; unemployed youths and under-employed men and women; self-employed proprietors and micro-enterprise owners	Micro-enterprise creation and development; start and improve your business; skill development training; business counseling; micro credit lending; appropriate technology dissemination; marketing support; social mobilization; exposure visits; trade fair participation	Nawalparasi; Nuwakot; Parbat; Baitadi; Dadel-dhura; Dang; Pyuthan; Dhanusha; Sunsari; Tehrathum	Direct through district-level offices
Rural Enterprise Assistance Program (REAP)	To increase benefits to groups and individuals from micro and small enterprises; to	Micro and small entrepreneurs; service deliv	Business awareness; micro enterprise creation; business information dissemination; counseling; skill training; workshops, semi	Dolpa; Humla; Jumla; Mugu; Ilam; Panchthar; Taplejung	Provides services through local NGOs and private sec-
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	enhance the capacity of district-level institutions from government, private sector and civil society; to stimulate and plan micro and small enterprise development	ery organizations	nars, networking; technical support		tor organizations
Technology and Trade Information Promotion System (TIPS)	To bring the women entrepreneurs into the mainstream of global markets by providing knowledge on internet, e-commerce and international trade in the context of globalization	Women entrepreneurs	Entrepreneurship development; business management; international trade; e-commerce; websites; trade fair	Mostly in Kathmandu valley	Direct and through chambers' associations
Elam-Helvetas/ Nepal	Aims at contributing towards poverty alleviation in the municipality through the promotion of existing and new enterprises and the provision of savings and credit group services	Micro entrepreneurs; petty producers; technical graduates; unemployed youth; unemployed and under-employed women of poor communities	Business creation and development trainings; business counseling; information dissemination; technical support; exposure visits	Birgunj (Parsa district)	Through its own office
C. Private Sector Organizations					
Federation of Chambers of Commerce	Acts as a catalyst for business and industrial development	Entrepreneurs in trade, industry	Information; advisory and consultancy service; training; workshops/seminars	69 districts (86 chambers)	Direct as well as through projects
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

& Industry (FNCCI)	opment; protects the rights and interests of business/ industrial communities, provides various support services				being implemented under FNCCI such as SMEDP, industrial forum, Tips and others
Federation of Cottage & Small Industry (FNCSI)	Promotion of cottage and small industries through various support services	SME entrepreneurs (except trade)	Training; trade fairs/ exhibits; information; workshops/seminars	68 districts (women subcommittees in 41 districts)	Direct as well as hiring outside consultants as needed
Handicraft Association of Nepal (HAN)	To promote handicraft products of Nepal	Artisans, traders/exporter entrepreneurs (handicrafts)	Trade fair/exhibits; training; market information; workshops/seminars	KTM valley; 5 districts (outside valley)	Direct; hires resource persons from outside
Women Entrepreneurs Association of Nepal (WEAN)	Assist Nepalese women to set up new enterprises and grow their established enterprises	Potential and existing women entrepreneurs	Enterprise creation; skill development training; business management; saving and credit; marketing support (through WEAN cooperative)	Katmandu; 3 districts outside KTM valley	Direct, hires consultants/trainers as needed
Fair Trade Group (FTG)	To provide support to FTG Nepal members, partners in their efforts; to create fair trade focused and sustainable craft-based enterprises	NGOs implementing craft-focused income generation projects that should work with low-income and marginalized producers	Business development services; market promotion and facilitation; lobbying, advocacy and networking; partnership projects; research and development; website designing; organizing trade fairs	Services provides to its partners in Pokhara, Janakpur and Kathmandu	Direct through secretariat

Table 6. Summary of Development Initiatives

Initiatives, Programs, Policies	Organizations Involved in SMEs	Remarks
<b>A. Promotion of Entrepreneurial Culture</b>		
A1. SME promotional councils/bodies	An Industrial Promotion Board is formed under the chairmanship of Industry Minister to formulate industrial policies and make necessary arrangements. This board is one of the highest bodies formed representing the public and private sector for industrial development in Nepal.	Difficult to judge success and failure. It functions as a forum where concerned stakeholders can discuss and settle issues.
A2. Entrepreneurship development promotional campaigns	Various organizations, public or private, involved in SME development carry out promotional activities as and when necessary. DCSI, CSIDB, IEDI formed under MoI and FNCCI, FNCSI and other commodity organizations in the private sector carry out promotional activities.	Normally, promotional activities are carried out during the implementation stage of a program.
A3. Awards for Successful SMEs—"Small Business Entrepreneur of the Year"	There is no provision to award "Entrepreneur of the Year" from the government side, but Export Promotion Board awards "Exporter of the Year" annually. Similarly, some private sector organizations, like WEAN awards women entrepreneurs. Similarly, CSIDB awards "Successful Entrepreneur" during the national trade fair exhibit.	Award system is perceived as an effective tool to encourage entrepreneurs.
A4. Quality Awards for SMEs	No provision for Quality Awards in SMEs	
A5. President/Prime Minister mentions entrepreneurship in speeches/statements and budget statements	The finance minister mentions SME development, programs and policies during annual budget speech.	Changes in tax system announced in budget speech sometimes create confusion.
A6. Entrepreneurship Development Action Plan at the national level	The tenth plan (2002–07) mentions the broad objectives, indicators, and outcome in the industry sector. Based on this framework, annual programs are designed, including entrepreneurship development and business management, implemented under the Ministry of Industry Commerce and Supplies (MoICs)	Such a guideline or framework has been found to be effective in formulating programs and activities.
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

A7. Government's vision promoting entrepreneurship, innovation, and competitiveness at the national level	In 2002, the Industrial Development Prospective Plan, Vision 2020 is prepared.	Vision 2020 has not received much attention from affected stakeholders.
A8. Promotion of Entrepreneurship Profile for SMEs	There is promotion of an entrepreneurship profile based on the characteristics of entrepreneurs.	
A9. Promotion of benchmarking and best practice networks	To date, no one has taken the initiative in sharing experiences on best practices. The Rural Enterprise Assistance Program/IEDI plans to organize such a workshop in the near future.	
A10. Promotion of Women and Youth entrepreneurship	Promotion of women entrepreneurs has received a substantial level of attention from donor agencies; women-related NGOs/associations, such as WEAN, DCSI, CSIDB, and MEDEP/UNDP, are focusing on women entrepreneurship. There is less focus on youth entrepreneurship. The Youth Entrepreneurs Association was recently formed under FNCCI.	Promotion of women entrepreneurs is basically focused on micro and income-generating activities.
A11. Promotion of e-business and ICT development	E-business is a new concept in Nepal receiving attention from established entrepreneurs. TIPS is promoting e-business for women entrepreneurs.	
A12. Promotion of technological innovation for SMEs	The Foreign Direct Investment and the Technology Transfer Act were passed in 1992. Various organizations like RONAST, RECAST, and MOST are involved in technology promotion.	Less focus is given to promoting technological innovation in SMEs.
A13. Promotion of financial products and schemes for SMEs	Feasibility studies and scheme preparation services are offered by public and private sector organizations like IEDI, NPEDC, and others.	
A14. Productivity promotional campaign for SMEs	The National Productivity and Economic Development Centre (NPEDC) conducts productivity-related programs such as productivity improvement, quality control, and so on.	Productivity-related programs are not conducted as a campaign.
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A15. Promotion and availability of SME data-base, SME publications, SME web-based portals for information and business matching	Department of Industry, Department of Cottage and Small Industry publish industry-related data. The Ministry of Industry, the Ministry of Finance, FNCCI and other institutions also publish SME-related books/reports.	
A16. Provision of infrastructural facilities	11 industrial estates have been established to provide infrastructural facilities to SMEs. Similarly, a one-window committee has been formed to make the necessary arrangements/support for SMEs.	Infrastructure facilities are weak in Nepal. Shortages of electricity and transportation problems are the major ones.
<b>B. Regulation and Policies</b>		
B1. Laws/regulations/policies for SME development at the national level—availability of an SME framework	The government passed the Industrial Enterprise Act in 1992 providing incentives, facilities, and other support services.	There is no specific framework for SME development.
B2. Policies/regulations to support technological development	The Technology Transfer Act 1992 emphasized in technology transfer and development.	Nepal is weak in technology transfer and development.
B3. Policies/regulations for ICT development	This is one of the prioritized areas of government. Recently, a technology park has been established for ICT development.	
B4. Policies/regulations for SMEs' access to markets	There is no specific policy for marketing. The Trade Promotion Centre provides import/export-related information.	
B5. Policies/regulations for SMEs' access to financial facilities	The Nepal Rastra Bank (Central Bank) has made some provision to finance cottage and small industries through various banks. However, these programs and policies designed to finance micro and small enterprise has not been able to address the need of entrepreneurs.	It is perceived that access to credit is limited and inadequate for SMEs.
B6. Policies/regulations for entrepreneurship development (separate policy in addition to the SME policy, if any)	No separate policy exists for entrepreneurship development. But organizations like IEDI and DCSI/CSIDB conduct entrepreneurship development programs regularly.	
B7. Bankruptcy laws which ease the exit of enterprises that are not sustainable or competitive	Provisions related to exit, liquidation, and bankruptcy are mentioned in the Act.	
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

B8. Labor laws and employment regulations affecting SMEs	Provision made in labor law such as the right to form unions, minimum wages, incentives/facilities, job security are seen as problems by employers. Provision made to give additional incentives that employ more than 600 Nepali workers is seen as bias towards large industries.	An initiative has been started to update/revise the labor law.
B9. Infrastructure facilities/exemptions provided to SMEs	Industrial estates established in 11 locations provide infrastructure facilities (land, factory shed) in selected urban areas on a concessional basis.	
B10. Specialized Prudential Regulations for financing to SMEs	Priority sector lending program, CSI fund established under DCSI/CSIDB and Micro and Cottage Industry Development Fund focuses on micro and small industry.	The provision made for financing SMEs has been found to be ineffective.
B11. Regulations on Financial Incentives for SMEs, i.e., tax exemptions/benefits, duty concessions for SMEs	Financial incentives, tax exemptions, and other duty concession are provided based on the nature of business and location. Export industry, industries of national priority, establishment in remote area, pollution control etc. means additional facilities and incentives.	
B12. Policy/regulation for productivity development in SMEs	No specific policy has been formulated for productivity development.	
<b>C. Administrative Environment/Framework</b>		
C1. Availability of permanent or ad-hoc units/cells mandated to represent SMEs' views in the regulatory process	There is no permanent body to represent SMEs' views in the regulatory process. During the budget preparation or policy formulation stage, ideas/views of private sector are collected through workshops/seminars, interaction, and other methods.	FNCCI, an apex body of the private sector, represents the private sector views.
C2. Councils/consultative bodies/task forces for SME development and/or to take SMEs' views into consideration when formulating policies and procedures	During the process of policy formulation, it is the practice to get views of private sector organization involved in SMEs.	FNCCI, Nepal Chamber of Commerce are normally consulted in this process.
C3. Experts advisory/advisory board/specialized boards set up to develop SMEs (in general or in specific sectors)	There is no specialized board formed for SMEs. The Industrial Promotion Board is the main body that formulates and recommends policies and programs for the development of industrial enterprise in Nepal.	
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C4. Availability of productivity improvement programs for SMEs	The National Productivity and Economic Development Centre conducts productivity-related programs independently and in association with APO Japan.	Very few programs are conducted for productivity improvement.
C5. Availability of entrepreneurship profile/entrepreneurship indicators for the country	Various writers/practitioners have written Nepalese entrepreneurs' profile, but there are no general or unanimous views.	
C6. Systems/programs to monitor the entrepreneurial profile, entrepreneurial activity and entrepreneurial business environment (EBE)	There is no system for monitoring the entrepreneurial profile or entrepreneurial activities. A study on "The Business Environment and Manufacturing Performance in Nepal" was conducted by FNCCI and the World Bank in 1999.	This study report basically represents only the views of the private sector.
C7. Programs/focus on developing entrepreneurial mindset, corporate vision and corporate entrepreneurship	Programs conducted by different policy and private sector organizations include an entrepreneurial competency development module that helps to develop an entrepreneurial mindset and qualities. There are no programs in corporate entrepreneurship.	Concept of corporate entrepreneurship has not yet introduced in Nepal.
C8. Procedures for development of SMEs	All the industries need to be registered in appropriate departments before commencing operation. Cottage industries can be registered within six months of operation.	
C8a. Registration of firms, formation of a new company, listing requirements	Any industries need to register in DCSI or DOI based on the size of investment. Initial Environment Examinations (IEE) are required along with other documents. Advance permission is required if the industry is related to health, pollution, arms/ammunition, etc. An Environment Impact Assessment (EIA) needs to be conducted if the industries are related to environment.	Provision made for IEE in all industries is seen as a burden by entrepreneurs.
C8b. Exit of uncompetitive firms	Entrepreneurs are free to close their firms but must comply with certain rules while closing down their enterprises.	
C8c. Compliance and reporting	All industries must submit their progress report to the appropriate department and renew their registration annually. Tax clearance should be made annually.	
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

C8d. Licensing	Licensing is required only in certain industries such as tobacco, beer/alcohol, arms/ammunition, security, health, etc.	
C8e. Accounting standards	All the industries need to submit their annual financial statement to the tax office for the purpose of tax clearance. The tax clearance system is based on the Value Added Tax (VAT).	
C8f. IT driven communication through web portals	IT, e-commerce, websites are receiving attention in Nepalese SMEs in recent days.	
C8g. Taxation	Taxation system is based on the nature and size of enterprises. Additional incentives are awarded if industries are established in remote areas, employ more than 600 Nepali workers, undertake pollution control measures, or belong to the category of national priority industries.	
C8h. Utilities	Utilities and other facilities provided under the recommendation of one-window committee.	
C8i. Standardization	Food, health, medicine-related industries must comply with certain rules and standardization.	
C8j. Quality certificates, ISO certification	Quality certificates are issued by the Nepal Bureau of Standards and Metrology.	There is growing interest in ISO certification.
<b>D. Entrepreneurship Training and Education</b>		
D1. Entrepreneurship curriculum at universities and colleges (covering start-up strategies, entrepreneurial behavior, application of marketing and finance to start-up, entrepreneurial finance such as venture capital and angel investors, intellectual property rights, franchising, corporate entrepreneurship/entrepreneur, prototyping, technology transfers, etc.)	In the past few years, a curriculum on entrepreneurship has been introduced at the bachelor's and master's degree level at some universities such as Kathmandu University and Tribhuvan University. Various subjects as mentioned are included these courses. Provision of intellectual property right is made in the Technology Transfer Act 1992.	The concept of corporate entrepreneurship has yet to be introduced in Nepal.
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D2. Internship programs/attachment with enterprises for developing entrepreneurial skills	Some university/colleges have introduced internship program. Butwal Technical Institute (BTI) has made a similar provision (internship) available to vocational graduates.	The internship program introduced by BTI has been found to be effective.
D3. Linkages between SMEs and colleges/universities	Although universities/colleges have introduced entrepreneurship courses in their curriculum, there are no planned/established linkages between SMEs and colleges/universities.	
D4. Institute of Entrepreneurship	The Industrial Enterprise Development Institute (IEDI) is the only institute primarily focused on entrepreneurship development. Training, consultancy, and research are major services offered by this institute.	There is a need to reorganize IEDI to work as an Entrepreneurship Development Institute.
D5. Entrepreneurship Training programs, i.e., technical and management training; training on corporate social responsibilities, entrepreneurship ethics, productivity, and quality consciousness, use of information technology, ICT development, developing internal synergies and alliances with employees, etc.	DCSI/CSIDB and IEDI, established under the Ministry of Industry, conduct entrepreneurship development training. NPEDC conducts productivity and quality control-related programs. IEDI's main focus is on entrepreneurship and business management, while DCSI/CSIDB are more focused in skills development training.	
D6. Other skills development training programs and institutes (directed towards self-employment and entrepreneurship development, etc.)	The Council of Technical Education and Vocational Training (CTEVT), the Labor Department, and NGOs also conduct skills development training to their target groups for creating self-employment.	There is a lack of cooperation and coordination between the technical and entrepreneurship development institutes.
D7. Quality Standardization and Testing Institute	CTEVT is authorized to certify and standardize the quality of technical education and skills training.	
D8. Other training institutes for human resource development of SMEs	IEDI in entrepreneurship development, CTEVT in vocational education, DCSI/CSIDB in short-term skills training are major organizations established by the government. There are many private sector organizations that are involved in skill development training, particularly in the areas of computer, hosiery, tailoring, etc.	
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

E. Network and Linkages for SME Development		
E1. Availability of enterprise cluster	Enterprise cluster model is not developed. A technology park recently has been established for computer software.	
E2. Availability of business development and business support service providers	As mentioned above, different organizations are involved in providing BDS. In terms of model, similar types of programs are conducted by many organizations. The reason is that IEDI, being a pioneer organization in entrepreneurship development, has trained many people in its training of trainers course on EDP.	Few private sector organizations are involved in providing BDS.
E3. Availability of business advisory/consultancy services for SMEs	IEDI provides business advisory and consultancy services to SMEs. Some private sector organizations are also involved, but this service has not been found to be very marketable.	
E4. Strategic alliances and joint ventures within domestic and/or international markets in SMEs	Under foreign direct investment, there is provision for joint ventures. Similarly, many companies are established on a partnership basis.	
E5. Sub-contracting support for SMEs by larger enterprises	The subcontracting system is not very visible in Nepal.	
E6. Availability of business incubators	Business incubation is a new concept in Nepal. DCSI is in process of establishing business incubators.	There is inadequate focus on incubation.
E7. Linkage programs for market access/programs, product development, technological access, etc. for improving domestic and international market access for SMEs	Some donor-supported organizations, such as the Private Sector Promotion Project/GTZ and the Trade Promotion Centre, are involved in creating market linkages in selected products.	Little effort is made to improve the domestic and international market for SMEs.
E8. Supply chain and value chain networks in the country and internationally	Subsector and value chain are new concepts in Nepal. PSP/GTZ and SNV/IEDI have introduced this approach recently in selected products. But such a network is not established at the national and international levels.	
F. Technology and ICT		
F1. Initiative for cross border technological cooperation (joint R&D, joint commercialization),	There is no cross-border technical cooperation and joint effort in R&D.	
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regional association for technology-led enterprises		
F2. Technology business incubators	DCSI aims to establish technology-based business incubation. The government of Nepal has allocated some funds for this purpose.	
F3. Availability of back-up/pilot and demonstration projects which foster innovation and technological development	This is lacking in Nepal.	The need for a demonstration project is felt, but this is not available in Nepal.
F4. Facilities for developing technoentrepreneurs—availability of knowledge centers, research and development centers, testing laboratories, etc.	Some facilities/incentives are given for developing technoentrepreneurs, but the number of such entrepreneurs is negligible.	
F5. Facilitation of benchmarking exercises and sharing of best practices—Best Practice Networks	Sharing of best practice is very important, but this is not in practice in the context of Nepal. REAP/IEDI is planning to hold a workshop in the near future.	Best practice network is felt to be essential, particularly in micro-enterprise sector.
F6. Availability and facilitation of e-business and e-commerce practices, use of internet and other e-market, e-business methodologies	Established industries, medium and large industries, and export business are more involved in e-business and e-commerce.	
F7. Availability of web-based SME portals, SME database, information networks	No SME database system has been established yet. Since the government has realized the importance of databases and an information network, some initiation will be undertaken in coming days.	
<b>G. Financial Support</b>		
G1. Support and role of the Central Bank in providing financial access to SMEs	The Central Bank has formulated certain guidelines to finance in the priority sector lending program. Rural Development Banks have been established in all five development regions to support low-income groups. Micro-credit is provided through cooperatives, NGOs (certified by central bank), financial intermediaries, and others.	Despite various provisions, finance is perceived to be the main problem for SMEs.
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G2. Availability of specialized financial institutions for SMEs	Nepal Industrial Development Corporation (NIDC) was established by the government in 1962 under the Ministry of Industry. Since many joint venture banks and financial institutions are providing industrial loans more efficiently on a competitive basis, NIDC's role has become less effective over the years. The Agriculture Development bank provides credit to agro-based enterprises.	The Cottage & Small Industry Development Bank has been established but has faced various problems from the beginning.
G3. Specialized financial products and incentives for small enterprises	There are no customized or specialized financial products/incentives for small enterprises.	
G4. Availability of SME fund, technopreneurship or entrepreneurship fund, etc.	A micro, cottage and small industry development fund has been established under DCSI to support micro and small enterprises. Provision is made to finance SMEs under a priority sector lending scheme.	
G5. Availability of venture capital funds or risk financing mechanisms, risk mitigation funds, credit guarantee schemes	Such funds are not available for risk mitigation.	SMEs have felt the need for joint venture, risk mitigation, and credit guarantee funds.
G6. Grants for SMEs for technological assistance, market access, productivity improvements, research and development, innovations, product development, e-business, ICT development, supply chain networks, etc.	Although such grants play an enormous role in building the competitiveness of small enterprises, these grants/incentives are not available in Nepal.	There is no provision for grants for research and technological assistance to SMEs.

## CASE STUDIES

Selecting enterprises for case studies was a difficult task, since no specific criteria were provided. They were selected based on the following factors:

- A mix of trade, service, and manufacturing enterprises.
- Male and female entrepreneurs are represented.
- Enterprises were set up with a varied level of investment (micro-level to medium size).
- Businesses employ from just a few to large numbers of workers.
- The enterprises have different legal status: private form, private company, and partnership business.
- Domestic and export market businesses are included.

### **Nepali Paper Product Pvt. Ltd.**

Nepali Paper Product Pvt. Ltd. was established in 1991 at Sitapaila, near Showyambhunath, a well-known Buddhist Stupa in Kathmandu, with an initial investment of NPR400,000. It is one of the successful handmade paper industries in Nepal, a small business specializing in paper that produces various types of paper products. Mr. Bishnu Shrestha, the proprietor and manager, specializes in ink and paper from United Kingdom. He is an enthusiastic personality who has great trust in his team members and tries his best to satisfy them in every possible way, including career advancement. The industry collects Lokta, the raw material for the paper industry, from Lokta plants growing in the hilly forests at 6,000–9,000 feet above sea level. The quality of the paper begins with the collection of the raw material. Therefore, farmers are also provided training in the protection and collection of the plants that have not yet been cultivated and grow wild in the hills. It is an ISO-certified firm, which must maintain certain mandates, rules, and levels of standards. New product development is focused on, along with the production orders placed by buyers.

#### *Goal of the Company*

The company has not set any defined goal, but as an industrialist Mr. Shrestha's concern is to become establish as a recognized business in the international market and to expand worldwide. Mr. Shresthas' present focus is on European and U.S. markets. The overall aim of the company is:

- To be a recognized exporter in the international market.
- To contribute to the national economy by providing employment.
- To earn a profit.

The company has developed an action plan for achieving its objectives.

#### *Quality Control*

As an ISO-certified enterprise, the use of RDT (resource dependence theory) and quality circles is mandatory. Therefore, to maintain quality standards, the company has formed a Quality Circle team with the support of consultants. For a paper manufacturer, a huge amount of raw material must be stored in advance due to the seasonal nature of the raw material supply. The JIT (just-in-time) system is given high importance for maintaining a regular supply. There is an awareness creation program for women, who make up 70% of the workers, and workers are trained in KAIZEN, TQM (total quality management), etc., using outside trainers and professionals. In addition, company personnel receive training in business management, salesmanship, TQM tools, and techniques for analyzing and competitors. They are even provided with health awareness training. Training on Cleaner Production has greatly benefited farmers in maintaining the quality of Lokta. The company supplies its products to European countries and the United States. A Quality Circle Team is formed with the Managing Director and other key staff to determine annual sales targets and plan activities accordingly. Management by Objective is practiced. The company compares its export performance in terms of its sales growth and market expansion and at the same time the interest and proposals of customers in Europe and the U.S.

#### *Problems Faced and Initiatives Taken to Solve Them*

*Waste minimization.* The company was dependent upon farmers for its regular supply of raw materials. The materials they supplied had a great deal of waste; usable raw materials were reduced, which made the raw materials more expensive, with a direct effect on the price of the product. Workers also produced large amounts of waste materials and cut pieces of paper. The company and its consulting team organized Cleaner Production (CP) training for the farmers and workers with the goal of minimizing waste production and maximizing the use of resources.

Recycling of waste paper and the most efficient use of Lokta were also taught. This training has been of great benefit. Now raw materials are purchased in bulk, and the inventory level is also well managed.

*Product development.* Nepali handmade papers and crafts represent the culture of Nepal. Customers buy these products as souvenirs, and the products are limited in style and variety. Nepali paper products are a stereotype in this regard. Modernizing the concept and developing new products to appeal to Western tastes was deemed important. A production unit was established to innovate ideas and product designs. New product development is coordinated with orders placed by buyers. The company has created a Quality Circle team and also has the support of consultants for RDT. A computer software system manages its business operation.

*Business expansion.* As stated above, the company has primarily focused on overseas markets in Europe and the U.S. Expansion of business to other overseas markets is crucial. To maintain consistency in the shapes, sizes, and colors of the product, the consulting team held regular consultations with the industry. Selling products and expanding the paper craft business depends significantly on maintaining high artistic and aesthetic values, as is demonstrated in consumers' preferences. The company is highly concerned with quality and on-time delivery. Every order is considered equally important, and a task force is organized and assigned the responsibility for the job. An environment of competition among groups is also created. The best performers are rewarded, and this also creates an environment that encourages increased productivity. The company appoints agents for market promotion in the international market on a commission basis. The appointment of a France-based marketing agent has proven a good strategy for the promotion of the products in Western countries.

At present the company, with its focus on overseas markets, is doing a good business. In 2005, its total sales were more than NPR75 million. The company feels that the market players, consulting firms, and staff team members have a large role in the progress and growth of the business. It has allocated an annual budget for training, staff development, and outside consultants. Refresher training for staff and employees is held at least once a year.

### **Om Catering Service**

Om Catering, a woman-owned catering company, is one of the most successful service businesses in Nepal. It is located at Baneshwor, ward no. 9 of Kathmandu Metropolitan City. Ms. Kabita Mahat, Managing Director, started the company in 1988 with an initial investment of only NPR10,000. It presently employs six people permanently and accommodates 60 additional staff on a contract basis. The company offers its services to individuals for birth-to-death rituals and functions in a sustainable manner. Institutional and referral clients also benefit from its services: wedding packages, birthday parties, school college picnics, and catering at events, functions, and office receptions.

Before starting the business, Ms. Mahat was a housewife who was trained in new business creation by the Industrial Enterprise Development Institute, a pioneer institution in the field of entrepreneurship and business development in Nepal. In the training Ms. Mahat became acquainted with various real-life situations using numerous tools and techniques. The experience and confidence-building exercises motivated her to start a business immediately after completing the program. The project identification module, the field study for data collection, and finally the preparation of a business plan corresponding to her own strengths encouraged her to go into the catering business.

#### *Aim of the Company*

Just like other businesses, Om Catering aims at maximizing its profit. In addition, it has goal of establishing the company as one of the leading service providers in the catering business in the capital city by providing services to the middle and upper classes. Its annual plan has been designed around the festive ceremonial calendar of Nepal, with an additional plan for service to

be provided to spontaneous customers. As the proprietor, Ms. Mahat is the team leader. Team members are encouraged to market the services the company provides. They have autonomy in developing marketing strategies and promoting business within their departments. Their jobs also provide them with the opportunity to obtain food in addition to their salaries and tips.

### *Problems Faced and Initiatives Taken to Solve Them*

*Decreasing demand for catering services.* In spite of the steady demand for catering services and the trust of the customers, business and income were falling off. Ms. Mahat was very worried and had meetings with the IEDI consultants. A team consisting of the proprietor and one of the staff members of IEDI was formed to explore the causes. The team collected information and did a thorough investigation. Ultimately, the case was plain and simple. As a result of the demand for Om Catering services, cooks and waiters had started marketing for business in the name of Om Catering without informing the proprietor. They failed to satisfy customers due to poor service and improper management, which harmed the reputation and business of the company. Ms. Mahat learned of the situation and realized that marketing carried out by too many employees was hampering her business. She was advised to either do marketing by herself or have it done only by the most reliable staff members.

*Competition with self-created competitors.* Ms. Mahat had invested time and money and effort to train new recruits. When they had acquired on-the-job training and became knowledgeable in the business, they left and went into business for themselves. Om Catering had created its own competitors. Service diversification, supply of new services, and joint collaboration with other companies were instituted to meet the demand. On some occasions services are also purchased from hotels and specialized firms according to customers' requirements.

The firm does not compare its performance to that of its competitors but with its own performance in past years. They are aware of sales growth and profit but do not exactly know how much they have grown. They do not know how to do competitor analysis. Since trained and qualified staff members often start their own new catering service companies, staff retention is often difficult. Staff members who do not perform well are fired, but some key staff members are retained, and they have become the firm's strength.

*Product development.* Due to political unrest and the security problems that Nepal has faced in the past few years, parties, feasts, and festivals have been celebrated more and more in secured hotels and restaurants, and picnics and outdoor catering have been less in demand. Emergency periods, curfews, and strikes have had a negative impact on the marketing of such services. Ms. Mahat was facing a number of problems in sustaining her business. In addition, her husband, a public employee, retired from his job. During a follow-up meeting, it was determined that the business methods utilized thus far were no longer productive in a saturated market. It was decided to develop a new menu based on types of clients. Packages suitable for various new functions, such as Shivaratri Mela (a national religious festival of worship of Lord Shiva), catering services in offices, colleges, and picnic spots, and others were introduced, which had a positive impact on the growth of the business.

### *Resolution of Problems*

As mentioned above, IEDI consultants were involved in analyzing the situation as a team, along with the Mahats. They came to the conclusion that there was not enough of a market for a catering business given the existing situation. They decided to start an additional business, and they came up with a new proposal: to keep cows to supply milk to nearby residential areas and teashops. Ms. Mahat had some savings and also got a bank loan. IEDI collected and provided information, booklets, and extensive details on such business. The Mahats now have 15 cows, which produce about 450 liters of milk every day. There are four employees to take care of the cows and distribute milk to the customers on a rotation basis. There is also a home delivery service, providing direct contact with the customers, which has helped the proprietor to get feed-

back and also to promote her catering service. Second, home delivery makes it easier to estimate the future production level of ghee and other dairy products to be sold. Third, it has created pockets of permanent customers. The Mahats are now planning to produce ghee and sweets with the unsold extra milk. Both the businesses, catering service and dairy, are run side by side, and the couple is very happy with their performance.

### **New Baneshwor Department Store**

The New Baneshwor Department Store, established in August 2003, is a private company registered with the Company Registrar Office, Kathmandu. It sells consumer goods at the local and national levels. Established with an initial investment of NPR30 million, it is located at New Baneshwor ward no. 10, in the center of Kathmandu Metropolitan City. It is a joint venture of seven young university graduates in the field of business management. Mr. Basanta Malla, Chief Executive Officer, and Pradeep Acharya, Director, are in close contact with IEDI. Mr. Acharya had previously owned a carpet company and had participated in various management training programs. Mr. Acharya, who possesses a dynamic personality, is responsible for the day-to-day operations of the store.

As a joint venture, the annual sales target is fixed at a meeting of senior staff members or the management team. The concept of MBO (management by objectives) is used. Holding daily meetings from 10:30–11:30 a.m. and analyzing the daily sales record has assisted in communication and performance evaluation. Every individual is held responsible for the increase in sales. Every year on the company's anniversary day, the best employee is rewarded on the basis of his or her supervisor's evaluation. Job performance is also measured and evaluated on the basis of discipline, attendance and morale, and job accomplishments. The board of directors formulates the business plan and policies, and a chief executive officer has been appointed to head the organization. Other staff—manager, accountant, administrative officer, sweeper, etc.—are appointed.

### *Aims of the Store*

- To become established as a business leader over the long run (overall aim of the company).
- To make available better-quality products and services under one roof inside and outside of the country and to run the store in a sustainable way.
- To earn a profit.
- To contribute to the socio-economic benefit of the country by providing employment.
- To contribute a percentage of profit to the welfare of orphans affected by conflict.

### *Problems Faced and Initiatives Taken to Solve Them*

*Competition.* For a number of years the country has seen problems in all areas of business. Social and economic life is adversely affected by ongoing political unrest. All industries, including tourism, are in bad shape and closing down. However, consumer goods are needed daily, and department stores cater to people's needs. Numerous schemes are being developed to attract customers. The mushrooming of "99 shops," buy-one-get-one-free schemes, and offerings of motorbikes and even cars as raffle prizes are flooding the market. In this situation, a responsible, committed company which was established with a significant investment and aims not only to generate profit but also to help orphans affected by conflict will naturally be struggling to maintain its existence in the hurricane of tiny stores. This has resulted in decreased sales.

*Sales strategy formulation.* Recognizing that competition was stiff, the company initiated a regular market survey that has helped it to determine prices in a competitive manner, equal to or lower than those of its competitors. The staff were serious in checking the expiration dates of products; damaged items were removed, and product displays were redone. The sales regulations

of the government's National Food Laboratory were strictly followed. This focus on quality and competitive pricing helped to maintain sales levels. In addition, the company focused on selling products made by reputable companies, since these companies not only supplied products but also trained salespersons to sell their items, free of charge. Also, due to the assurance of a regular supply of goods, the company has introduced a one-week inventory system to lessen the burden of working capital.

*Expansion of the business.* The expansion of business is an important factor in generating profit and crossing the breakeven point (BEP). Expansion requires additional investment. Provision of one week of inventory was not always sufficient. Apart from this, cash purchases also were given better margins than credit. Therefore, the company realized the need for more financial support besides bank loans and identifying a niche market for their business.

After some deliberation, the company and the consulting team agreed to take the initiative to develop a new business, and the store started an e-business, a step into the future for expanding into the major cities of Nepal. E-business has been fruitful for the company by significantly increasing sales. At present, with the peace process and its aftermath, political stability offers a ray of hope for small companies to be able to expand the chain of business in the country.

### Profile of Enterprises

As stated above, the three enterprises selected for the case study are diverse in nature. A brief profile of these industries is presented in Table 7.

Table 7. Profile of the Industries Presented in the Case Studies

Business	Owner	Estab.	Legal status	Initial investment	No. of employees (personnel)	Market	Annual turnover (2005)
Om Catering Service, Kathmandu	Mrs. Kabita Mahat (Managing Director)	1988	Private firm	NPR 10,000.00	6 permanent, others on a contract basis as required	Kathmandu (domestic)	NPR1.5 million
Baneshwor Department Store, Kathmandu	Mr. Basanta Malla (CEO)	2003	Private limited company (partnership)	NPR30 million	54	Kathmandu (domestic)	NPR100 million
Nepali Paper Industry, Kathmandu	Mr. Bishnu Shrestha (Managing Director)	1991	Private company (sole proprietor)	NPR 400,000	365 (70% female)	Europe, U.S. (export)	NPR70.6 million

The author expresses sincere thanks to Mr. Sushil K. Sharma, Manager of IEDI, for collecting information for case studies.

As can be seen, the case studies selected are different in terms of investment, employment, date of establishment, target market, and other factors. One common feature is that all of them

### *Entrepreneurship Development for Competitive Small and Medium Enterprises*

are in a competitive business. Two of the enterprises (not the Nepali Paper Industry) serve the domestic market. In terms of employment, Om Catering Service employs only six persons, while the Nepali Paper Industry employs 365 persons, of which 70% are female, with 90% illiterate.

#### *Training and Human Resource Development*

In recent years, entrepreneurship development programs have played a crucial role in enterprise creation and development. Recognizing the contribution such programs make to national economic development, various organizations are providing different types of support services to their target groups/beneficiaries. But very little study has been done to determine how these services have contributed to enhancing the entrepreneurial competitiveness that made them a success.

The case studies presented above show that some sort of training or business exposure played a pivotal role in establishing these enterprises. Ms. Kabita Mahat, proprietor of Om Catering Service, established her business after attending a new business creation training conducted by IEDI. Mr. Pradeep Acharya, Director of the Baneshwor Department Store, had operated a carpet business in the past and had attended various business management programs. Mr. Bishnu Shrestha, Manager of the Nepali Paper Industry, has specialized in ink and paper products from the UK. Although the owners/executives have attended training programs, there is often no concerted effect seen to train their human resource personnel. Ms. Mahat is very skeptical of training her staff, since her experience is that once they are trained and competent, they leave and establish their own enterprises. In the case of the Baneshwor Department Store, the company hires trained and qualified staff. Although some budgetary provision is made for training, this is normally only used to train the partners/executive members. However, in the case of Nepali Paper Products, appropriate attention is paid to training in human resources. Various training programs related to quality control, business management, and marketing are organized annually. In addition, Mr. Shrestha himself participates in various national and international training programs and workshops organized by different institutions. Despite some differences in training their human resources, the common factor in all three industries is that when they face problems, they turn to business consultants to solve their problems. This shows the need for and importance of business development services in building entrepreneurial competitiveness and solving problems.

## **ENTREPRENEURSHIP DEVELOPMENT FOR COMPETITIVE SMES— DEVELOPMENT STRATEGY AND OVERVIEW**

Pakistan has a population of 157 million and an average growth rate of 2% per annum. Women comprise 49% of the total population and men 51%. According to an Economic Survey done in 2005–06, 103.40 million people (66%) live in rural areas, while 53.37 million (33%) live in urban areas. The total labor force is estimated at 47.67 million, of which 32.37 million (61%) are in rural areas and 15.30 million (39%) in urban areas. Agriculture is the mainstay of the economy, with 43.5% of the employed labor force. The other main employers are community, social, and personal service (15.1%), trade (14.8%), and manufacturing (13.73%).

### **Brief Economic Review**

Pakistan's economy delivered yet another year of solid economic growth in 2005–06 in the midst of an extraordinary surge in oil prices and the devastating earthquake of 8 October 2005. With economic growth at 6.6% in 2005–06, Pakistan's economy has grown at an average rate of almost 7.0% per annum during the last four years (2002–03 and 2005–06) and over 7.5% in the last three years (2003–04 and 2005–06), thus positioning itself as one of the fastest-growing economies of the Asian region. The growth momentum that Pakistan has sustained for the last four years is underpinned by substantial growth in industry, agriculture, and services and the emergence of a new investment cycle. The prerequisites for sustained economic growth appear to have gained a firm footing.

Major achievements over the last few years:

- Strong economic recovery—growth recovered from 1.8% in 2000–01 to 8.6% in 2004–05 and 6.6% in 2005–06.
- Sharp reduction in poverty, which declined from 34.46% in 2000–01 to 23.9% in 2004–05, a reduction of 10.6%.
- Reduction in unemployment from 8.3% in 2001–02 to 6.2% in the second quarter of 2005–06.
- Reduction in fiscal deficit, a decline from an average 7.0% of GDP in the 1990s to around 3.0% in recent years.
- Tax collection more than doubled in the last 7 years.
- High double-digit growth in exports and imports—exports grew at an average rate of around 15% during the last four years.
- Sharp reduction in the country's debt burden. Public debt has declined substantially from more than 100% of GDP in 1999 to 56% of GDP in 2005–06, and external debt and liabilities declined from 52% of GDP in 2000 to 28.9% of GDP in 2006.
- Continued momentum with regard to remittances—they averaged USD4.2 billion during the last four years against less than USD1 billion during the 1990s.
- Stability in the exchange rate.
- Foreign investment recovered from an average of USD400 million in the 1990s to over USD3.5 billion in 2005–06.
- Privatization program moving forward.
- Pakistan finished with the IMF Program in December 2004.



- Re-entry of Pakistan into the international capital market: On 23 March 2006, Pakistan successfully issued USD500 million new 10-year Eurobonds and USD300 million new 30-year bonds in the international debt capital markets, managed by JP Morgan, Citi-Group, and Deutsche Bank. This transaction, which represented the first international 144A bond issued by Pakistan since 1999, raised significant interest among United States Qualified Institutional Buyers (QIBs) and international institutional investors.
- Real per capita GDP grew by 4.7% and per capita income in current dollar terms was up by 14.2%, reaching USD847.
- Credit to the private sector rose to PKR<sup>1</sup>1,100 billion in less than three years (2003–04 through June 2006); their cumulative borrowing in the previous 18 years (1984–2003) had been PKR921 billion.
- The record public sector development program (PSDP) remained on track despite significant spending on earthquake-related activities.

### **National Development Strategy/Economic Plan**

After the relatively difficult phase for Pakistan's economy during the 1990s and with growing poverty, the government of Pakistan initiated far-reaching structural reforms under the Poverty Reduction Strategy Policy 2001–04 (PRSP). The strategy focused on addressing the major challenges of reducing poverty, improving governance and administration, improving the fiscal and balance of payments positions, restoring investor confidence, achieving higher growth on a sustainable basis, and improving social indicators.

During the last five years, not only has economic and financial stability been achieved, but the country is on the threshold of a sustained higher growth. What is required now to cross this threshold is a long-term vision, operationalized through a series of medium-term frameworks. For the economy as a whole, VISION 2030 envisages a “developed, industrialized, just, and prosperous Pakistan through rapid and sustainable development in a resource-constrained economy by deploying knowledge inputs.” Human Development targets have been fixed in line with the Millennium Development Goals (MDGs) 2015.

During 2005–10, the period of the first Medium Term Development Framework (MTDF), the following objectives have been defined:

- Establish a just and sustainable economic system for reducing poverty and achieving Millennium Development Goals.
- Move in an organized and disciplined manner towards an efficient, balanced, internationally competitive, environmentally friendly, and technologically driven knowledge economy for rapid and sustainable growth to become an industrialized nation in 25 years.
- Evolve a mature, tolerant, democratic society which is developed economically, culturally, and ethically and imbued with the Islamic values of moderation and enlightenment, at peace with itself and with the rest of the world.
- Build a strong and prosperous Pakistan having a fully integrated economy with a sense of common and shared destiny.
- Protect the right to development of every citizen, particularly children, youth, women, and minorities.
- Ensure equitable development of regions.
- Minimize waste in the economy.

In the era of globalization, the MTDF 2005–10 incorporates a paradigm shift towards enhancing the competitiveness of the national economy through higher investment but also, more importantly, through knowledge inputs to maximize total factor productivity. An Integrated Plan

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<sup>1</sup> PKR: Pakistani Rupee.

for “Pakistan Incorporated” with a focus on the tripartite elements of growth—development of infrastructure, human resources, and technology—has been brought together within the broad parameters of a macroeconomic framework. It aims at incentivizing and developing local strengths to increase the competitive advantage in various sectors of the economy.

The MTFD provides a framework for translating VISION 2030 into action during 2005–10 by consolidating macroeconomic stability and rationalizing the public–private mix in the development process. By strengthening the enabling role of the government through policy direction and an appropriate regulatory environment, it envisions enhancing the role of the private sector in various activities, including infrastructure and provision of services. An enhanced role of the private sector in the economy will allow the public sector to focus on basic services such as education, health, balanced regional development, and poverty reduction.

The strategic thrust of the framework:

- Maximizing benefits to the economy through the use of inherent potentials and strategic advantages, such as inherent skills and a large work force; abundant natural resources, including water, land, oil, gas, and mineral resources; large domestic market demand; competitive manpower; and geographical location.
- Facilitating the development of human capital and the private sector as the engines of economic growth.
- Providing a conducive environment through provision of appropriate infrastructure—intellectual (vision, policy direction, and policy instruments, design engineering capabilities, and databases), physical, technological, financial, legal, and regulatory.
- Strengthening public institutions.
- Making use of opportunities created by globalization.

## OVERVIEW OF SMEs

Small and medium enterprises (SMEs) account for 30% of GDP. The Economic Survey 2005–06 documents that there are 3.2 million business enterprises in the country, and SMEs constitute over 99% of these. SME’s share in industrial employment is estimated at 78%, in value addition at approximately 28%, and in manufacturing exports earnings at 25%.

Owing to its underutilized potential for generating employment, increasing incomes, and reducing poverty, and having learned from the experiences of developed nations like the U.S., Japan, and Germany and developing countries like Thailand and Malaysia, the government accords high priority to the development of micro, small, and medium enterprises. A dynamic and vibrant SME sector has played a key role in the successful economic growth of many countries. Thus if this sector is encouraged and provided with the right opportunities, it can contribute even more than it already does.

### Definition

Despite the fact that SMEs have been at the center of economic policy and development programs for more than five years, Pakistan did not have a standard definition. Various agencies—the government, provincial labor departments, the State Bank of Pakistan and other banks, and other agencies—use their own definitions. Recently, the government, in consensus with various public- and private-sector agencies, has agreed on a single definition, which has been included in the SME Policy 2006. Accordingly, SMEs may be classified as organizations fulfilling the criteria either as “a” and “b” or “a” and “c,” as shown in Table 1.

Table 1. Definitions of SMEs

Size <sup>1</sup>	Sector	Employment <sup>2</sup>	Total assets (excluding land and building) PKR MM	Annual sales PKR MM
		(a)	(b)	(c)
Small	Manufacturing	≤50	Up to 30.0	≤100.0
	Service	≤50	Up to 20.0	≤100.0
	Trade	≤20	Up to 20.0	≤100.0
Medium	Manufacturing	51–250	30.0–100.0	100.0–300.0
	Service	51–250	20.0–50.0	100.0–300.0
	Trade	21–50	20.0–50.0	100.0–300.0

<sup>1</sup>To be eligible, an enterprise must fall into the respective size category as measured by “Employment.” Enterprises which fall under small enterprises in the “Employment” criterion and under medium enterprises by any other criteria will be classified as eligible medium enterprises. Enterprises which fall under medium enterprises by “Employment” criterion and under small enterprises by any other criteria will be classified as eligible medium enterprises.

<sup>2</sup>The number of persons employed includes the owner and his or her family members if they are working in the enterprise.

Further, it has been decided that the federal government, in line with the economic development of Pakistan may, from time to time, modify the eligibility criteria as it sees fit. All providers of services receiving funding from the government may define more narrow scopes for specific targeting purposes, but may not extend or broaden the eligibility beyond the parameters defined above.

### Characteristics

SMEs constitute the bulk of Pakistan’s business landscape. The province of Punjab<sup>2</sup> is home to 1.9 million or more than 65% of the businesses in Pakistan. This is also true at the subsector level, such as agriculture, mining, manufacturing, construction, etc., except for the electricity, gas, and water sectors. Punjab is followed by Sindh (18%), NWFP (14%), and Balochistan (2%). Sector composition and employment status of SMEs are shown in Tables 2 and 3.

Table 2. Sector Composition of SMEs

Sector	Composition
Trade and hotels	53%
Manufacturing	20%
Services	22%
Other	5%
Total	100%

<sup>2</sup> Pakistan has four major provinces: Punjab, Sindh, Balochistan, and NWFP.

Table 3. Employment Distribution of SMEs

Sector	Employment distribution	
	Fewer than 5	Fewer than 10
Trade and hotels	98%	99%
Manufacturing	87%	98%
Services		

A similar pattern of employment distribution can be traced among other sectors, except for mining, where SMEs tend to employ more people. In the mining sector on average 56% of firms employ between 6 and 50 persons. On the whole, the percentage of large firms is very small.

The SME sector in Pakistan is primarily a less formally organized sector; more than 96% of businesses are owned and managed by an individual as a sole proprietary concern. While 2% are partnerships, there are hardly any corporate entities in the SME sector (especially among the small businesses). Most SMEs in the manufacturing sector were established after 1990 and are between 10 and 15 years old.

The professionally qualified workforce is meager. In manufacturing concerns, the number of professionally qualified individuals does not exceed 5 per SME. Semiskilled (trained on the job) and unskilled staff members comprise the majority of the workforce of SMEs. Most of the employees work on a contractual basis. Generally, there are no human resource policies on recruitment, training, or performance measurement.

SMEs in the manufacturing sector rely on locally manufactured machinery; imported equipment comes mainly from China and Japan. Installed technology is between 11 and 14 years old. Most SMEs are aware of new technologies and where they can be acquired; however, due to various constraints, these investments have not been made.

SMEs are constrained by financial and other resources; their capital base remains lean, and nearly 100% of all reported that business investment (excluding land and building) remains less than PKR1 million. Sales data for businesses segregated by firm size is not available; however, according to the most recent economic census report, 84% of enterprises have sales below PKR0.5 million and 93% report sales below PKR1 million.

These characteristics suggest that most businesses are in a low-growth trap, dealing in traditional products and unable to climb up the technology ladder. They are often vulnerable to various shocks and disappear from the scene. This view is lent credence by the fact that 19% of SMEs are less than 5 years old and only 4% are able to survive beyond 25 years. The encouraging sign, however, is their mushroom-like growth, which makes it imperative that there should be a mechanism through which they could get support in terms of resources such as capital, finance, trained human resources, or services like advice on technology upgrading, marketing, or quality management. There is tremendous room for further growth, rebalancing, and productivity enhancement.

### Major Problems and Issues Challenging Competitiveness

The national competitiveness report published by the World Economic Forum in December 2004 placed Pakistan's competitiveness in the bottom 15% of countries surveyed. The "Growth Competitiveness Index," which covered 104 countries in 2004, ranked Pakistan at 91. In 2003, Pakistan ranked 73. However, the more recently published Global Competitiveness Report 2005 ranks Pakistan at 87.

The low level of productivity of firms in Pakistan at the regional level as compared to other countries is considered a major reason for the low competitiveness of the country. Pakistan's economy, based primarily on SMEs, failed to respond to economic liberalization during the 1990s. Consequently, the common man was affected as the employment growth rate declined across the economy, real pay decreased, and benefit packages were reduced due to squeezed margins. Over time, this inability to be competitive increased the level of poverty and resulted in a vicious downward economic cycle.

An analysis of the situation indicates that several issues affect the competitiveness of the SME sector. Some are institutional (micro-level), as represented by absence of a focused and supportive policy or framework or access to appropriate credit; others are endemic to the manufacturing sector as a whole, caused by difficulties in the transformation from a low-technology, low-skill environment, personalized and inefficient management, and management systems and organization structures out of tune with knowledge based economies of the 21st century. There is also an absence of institutional arrangements for change management, i.e., transmitting new skills (technical and non-technical) and monitoring their long-term assimilation and internal sustainability. Moreover, there is little knowledge of productivity and quality enhancement, standardization and innovation, environment-friendly practices, and appropriate use of child labor. Major issues identified under the MTDF:

- Low levels of technical skills and information at the level of product, process, management, or marketing, all of which can affect quality and competitiveness.
- Issues of verifiable quality and standards, or GMP (good manufacturing practices), which impinge upon market acceptability.
- Complex and unfriendly labor, tax, and industry legislation and implementation procedures, which can encourage official abuse, push up the cost of starting or running an enterprise, and discourage the SMEs from joining the formal economy.
- Enforcement of Intellectual Property Rights (IPR) and judicial mechanisms to resolve disputes quickly and transparently.
- Low access/low availability of financial resources, high transaction costs.
- Lack of industry/sector newsletters that can disseminate market trends and demands quickly and reliably.
- Inadequate comprehension and slow pace of information on WTO requirements for sanitary/phyto-sanitary compliance.
- Higher commercial power tariffs for small SMEs as compared with other industries.
- Absence of reliable and timely data/surveys on assets, turnovers, employee numbers, and employee skills.

In addition, a vision for change and future prosperity is still lacking. There is an obvious mindset barrier among the management and human resources. In most cases, SMEs want to maintain the status quo (often employees do not want to work more each day even if overtime is available) or blame government policies and support structures, i.e., support in accessing export markets, and taxation systems for hindering growth. In a very few cases, SMEs realize that in real terms they themselves lack entrepreneurship, and that this lack underlies many concerns.

It is strongly felt that entrepreneurship development (through enhanced technical skills and organizational capacity) and a commercial vision are necessary for the future growth of the sector. Earlier attempts in this direction were not very successful, partly due to a limited conceptualization of technology and its role in development and a lack of practical experience in project implementation and delivery mechanisms. Despite the fact that the government is finalizing an SME policy based on a unified effort, it is important to put in place a micro-level framework to benefit from macro-level policies. The micro-level framework must focus on developing the vision and future road map for individual SMEs.

## **DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS**

The importance of developing SMEs was felt in the late 1990s. In late 1998, Pakistan was on the verge of a major balance of payment crises. Subsequent to the nuclear tests in 1998, sanctions were imposed on Pakistan, which led to a major drop in foreign exchange reserves, import restrictions, substantial external debt arrears, etc. Although some efforts were made to rebuild the economy, resource mobilization and governance improvements remained weak. Implementation of power and banking sector reforms slowed, and a dispute over International Power Projects (IPPs) further undermined the investment climate in Pakistan. Tension between the government and the military increased, which led to a military takeover in October 1999. The new government adopted SME development as one of its core strategies to create employment opportunities, reduce poverty, and stimulate overall economic development. Recognizing the role of the SMEs in the economic revival of Pakistan, the new government introduced measures to strengthen the SME sector.

- Empowered a federal-level agency, the Small and Medium Enterprise Development Agency (SMEDA), to launch aggressive SME support programs in the areas of creating a conducive and enabling regulatory environment, developing industrial clusters, and providing business development services to SMEs in all areas of business management.
- Restructured and converted the Small Business Finance Corporation into the SME Bank, especially geared to offer financial products customized for SMEs.
- Established the Pakistan Export Finance Guarantee Agency (PEFG) as a private sector, public limited company to function as an export credit guarantee agency with the goal of providing guarantees for SMEs and emerging exporters as a collateral substitute for pre-shipment and post-shipment finance.
- Repositioned of the National Productivity Organization with the goal of inculcating productivity consciousness and improving labor productivity.
- Promoted venture capital businesses with an incentive of seven years' income tax holiday for venture capital funds.
- Established a deregulation commission to review existing labor, industry, and taxation laws and regulations.
- Focused on empowering technical training centers to develop human resource skills for workers in the SME sector.
- Set up the Pakistan National Accreditation Center (PNAC) to emphasize quality and standardization of products being manufactured in the country, especially by the SME sector.
- Strengthened the Export Promotion Bureau (EPB) to focus improvement in exports, where SMEs contribute significantly.

In addition, recognizing that a major constraint for SMEs is access to financing from the formal financial sector, the State Bank of Pakistan (SBP) took measures to create an enabling regulatory environment by introducing Prudential Regulations for SMEs. Other initiatives were:

- Setting up an independent SME department tasked with creating a conducive macro-prudential environment for banks to increase the flow of credit to SMEs, to promote a strategic focus on SMEs on the part of the banks, and to help banks adopt best practices in the development of their SME business lines.
- Enlarging the scope of the Credit Information Bureau to incorporate all borrowers of financial institutions with no limit on loan sizes.
- Providing the commercial banking license to the SME Bank.
- Asking the commercial banks to establish dedicated departments for handling SME financing requirements. Many commercial banks have already set up in-house SME lending groups/divisions, although in a tentative way.

Despite these measures, the SME sector has not developed as projected because these efforts were segregated and programs were not consolidated to achieve well-targeted results. In 2004 the government recognized that a common vision must be developed to function as the engine of growth. This resulted in the Medium Term Development Framework 2005–10, along with several initiatives and specific policies.

### **Medium Term Development Framework 2005–10**

The measures to be adopted during MTDF 2005–10 are geared towards reforming and strengthening the institutional structures so that SMEs can have access to technology, business skills, and credit more readily. A number of these initiatives have already been incorporated into SME policy and other projects. The major features of the plan are as follows:

#### *Technology Upgrade and Enhancement of Skills*

*Training.* The adoption of new technologies, processes, and products is linked to the human capacities and skills of the SMEs; interventions are focused on incremental, regular, and continuous upgrading of competitiveness through providing workers and their shop floor managers with focused, short-duration training modules through appropriate Common Facility Centers (CFCs) in the key industrial clusters. Training will include adoption of modern tools, including ICT (Information and Communication Technology) and international CAD/CAM standards and protocols, modern accounting and ERP techniques, etc.

*Quality standards.* Creating awareness about quality standards and their incorporation into SME culture, including improved interaction with agencies such as the Pakistan Standard and Quality Control Authority (PSQCA), etc.

*Rural enterprises.* Building on inherent skills for cottage and handicraft industries by adapting the One Village One Product (OVOP) program successfully pioneered by Japan and now being adopted in Thailand (as OTOP) to help promote products utilizing traditional wisdom and skills unique to each rural community;

*Improve market access and product information in the global context.* In order to improve market access and product information, an Industrial Information Network (IIN) will be set up between SMEs and the wider supply chain and an SME Network Group (SMENG) between the small and medium enterprises themselves. Free industry-specific newsletters operated by SMEDA in collaboration with trade associations and similar bodies and the use of Urdu and regional languages are possible vehicles of dissemination.

*Export orientation.* Managers and owners need to be aware of the negative aspects of globalization as regards demand recognition and even demand creation. WTO stipulations on Sanitary and Phyto-Sanitary (SPS) compliance are likely to be another serious issue if not addressed through active awareness programs.

#### *Restructuring and Strengthening of Legal, Taxation, and Institutional Framework*

*Legal and regulatory framework.* Prudential regulations as well as entities and instruments will be improved to provide friendly lending policies. These reforms are expected to cover issues of financial information, collaterals, and risk mitigation, credit guarantee agencies, credit insurance, and credit information bureaus along the lines recommended by SBP and the working group on SMEs.

*Intellectual Property (IP) rights.* IP laws will be suitably revised where necessary to bring them into conformance with international standards and provide adequate protection and relief to both local and foreign enterprises, especially in emerging areas.

*Improving labor laws.* It is planned to combine less intrusive inspections with incentives related to reduced costs of credit, technical inputs, and tariffs if owners voluntarily comply with EOABI (Employees Old Age Benefit Insurance) and ESSi (Employees Social Security Institution) requirements over a timeline of two to three years.

*Bankruptcy laws.* SMEs need appropriate bankruptcy laws and judicial infrastructure to protect them. The system needs to be fast, efficient, and transparent; it will need to be combined with reformed property laws.

#### *Access to Financial Resources and Services*

*Share of formal credit.* The share of total bank financing for SMEs will be increased substantially, with improved weighting for skill levels, technology and export potential, and linkages with the prime contractor, in addition to the usual evaluations based solely on physical assets and turnover. Evaluators will be trained in modern technical and financial skills to deal with applicants engaged in manufacturing or ICT-related design and electronic services.

*Venture capital/business start-ups.* A portion of the total credit available for SMEs will be dedicated as venture capital for new start-ups, specifically those engaged in export-oriented contract manufacturing and designing or electronic services.

*Taxation policies.* Taxation and business registration laws and procedures vary from province to province and even within a province. They can also be oppressive and cumbersome in terms of paperwork, with at least 20 different levies or fees each at the federal, provincial, and local council levels, deterring most SMEs from seeking formal access to credit (as much as 59% of new investments and 68% of working capital is raised by SMEs through retained earnings or informal credits). Incentives are being offered to encourage upgrades.

#### *Delivery Mechanism for Business Development and Upgrading*

A key issue is the identification and development of an institutional delivery mechanism. Common Facility Centers (CFCs) can take on the important role of conduit, since it may cost only once or very little to allow another producer to use a new technology or to make it generally available to others in the same sub-sector. This assumes that such centers or service providers are neutral and that no conflict of interest is involved. Based on initial experiences, CFCs will appoint industry-neutral managers and operators to manage the CFCs as change agents, combined with tax and training incentives as proposed.

Development of training programs will be undertaken by an organization(s) in the public or private sector with technical skills and managerial experience. On-the-job training modules on SME premises, or on the premises of the industrial partner, will be most effective. Continuous mentoring will also be required. The government recognizes that direct government intervention is not an effective approach and that a market-based mechanism and private ownership will ultimately need to replace these change agents. To expand the delivery mechanism, 100 CFCs will be set up during MTDF 2005–10, through initiation of seven new Cluster Development Programs in each province.

#### *Investment*

Private investment in the SME sector is planned to increase from the present level of PKR31.13 billion in the year 2004–05 to PKR53.88 billion in 2005–10, with an annual average growth rate of 7.8%. Total public sector investment is planned to be PKR6,018 million, which will focus on a specific set of programs for improving technical and management capacity, competitiveness, common facility centers, and credit availability. It is anticipated that these programs will qualitatively raise the ability of SMEs to become more efficient and competitive and will result in job generation and poverty reduction.

#### **SME Policy 2006**

Implementing change required the formulation of a Policy for SME development and assigning specific responsibilities for its implementation. The Ministry of Industries, Production, and Special Initiatives, through SMEDA, set out to accomplish the task of developing Pakistan's first SME policy. The First SME Policy 2006 was formulated over the course of more than a



year as a collective effort of stakeholders from the private and public sector. It is in its final stages of approval by Parliament.

Its objective is to provide a short and a medium-to-long-term policy framework with an implementation mechanism for achieving higher economic growth based on SME-led private sector development. It focuses on developing an across-the-board recognition of SMEs as a sector requiring separate policy and regulatory initiatives. It also defines how SMEs can qualify for support, proposes counterbalancing measures to eliminate the disadvantages of size, and eliminates unnecessary regulatory burdens that affect cost competitiveness. As an implementation goal, the policy concentrates on instituting SME support mechanisms both in the public and the private sectors, improving support delivery mechanisms, and establishing policy evaluation and review systems. It reiterates the government's commitment to the development of the SME sector as it is expressed in the policy statement:

The government of Pakistan is committed to developing the SME sector to achieve higher economic growth and maximize job creation to alleviate poverty. SMEs will be made more competitive by providing a supportive business environment and greater access to formal financing and through provision of support for technical upgrading, human resource development, marketing, and innovation. The government will facilitate establishment of new businesses by developing policies that help in realizing the entrepreneurial potential of the people of Pakistan. The SME policy suggests concurrent and specific policy measures in:

- The business environment.
- Access to finance.
- Human resource development.
- Support for technology upgrading and marketing efforts.

A single SME definition has been proposed, to be applicable to all institutions nationwide, that will encourage uniformity in designing support systems and incentives and also in the monitoring progress.

#### *Business Environment*

Passage of an SME Act is recommended. In addition to addressing other issues related to SMEs, such an Act will provide for identification of fiscal, registration, labor, and inspection laws that may not apply to small and/or medium enterprises and simplification of those that must be complied with. The recommendations also suggest simplification of the procedure for certification of a business entity as an SME and adoption of a concessionary, simplified tax policy for small enterprises. It calls for the establishment of SME desks at federal, provincial, banking, and tax ombudsman offices for handling and addressing SME grievances, provision of a minimum quota for SMEs for allocation of land in the industrial estates and Export Processing Zones (EPZs), and establishment of an SME Promotion Council and SME-specific trade associations to provide SMEs with a lobbying platform.

In addition to these measures, a supportive business environment should also include programs for capacity-building and strengthening of existing CCIs and trade associations, with special focus on the WTO and its impact on local industry and on improving and enforcing intellectual property rights for SMEs. It is expected that implementation of these recommendations will result in simplifying the compliance process. This is expected to trigger fast-paced creation and growth of enterprises, resulting in economic development and job creation.

#### *Access to Finance*

The recommendations for improving financial access for SMEs include improvement in the regulatory framework (prudential regulations, Credit Information Bureau, procedures for venture capital companies, bankruptcy laws), provision of specialized credit lines (program lending schemes, Islamic modes of financing, etc.) and risk-sharing schemes for financial institutions

(FIs). These reforms are expected to create an environment in which banks will aggressively pursue the opportunities offered by the SME financing market in Pakistan. Improvement in the regulatory and fiscal environment and provision of matching contributions will result in establishment of new venture capital companies. Both these measures will improve accessibility to formal sources of financing for start-ups and existing SMEs, removing a major barrier to their growth and development.

#### *Human Resource Development:*

In view of the national performance on the United Nations Human Development Index and its consequences for SMEs, it is recommended that strong incentives be provided for investment in HRD to enable SMEs to innovate and add value to their services. Need assessment surveys should be carried out to identify major needs in HRD, technology upgrading, and marketing. Initiatives should be undertaken to develop entrepreneurship. Institutes of Small and Medium Enterprise & Entrepreneurship Development (INSMED) should be established in select business schools.

The capacities of selected sector-specific technical training centers need to be improved and upgraded, through curriculum redesign, provision of equipment, teacher training, SME liaisons, etc. Technical training centers should be established, and modern technical training facilities should be used by business development service providers. SME representatives should be inducted onto the boards of technical training institutes.

#### *Technology Upgrading*

To promote and implement technology upgrading, SME-specific research projects supporting R&D and university-industry liaison programs should be introduced by the respective government ministries, e.g., the Ministry of Science & Technology (MoST), the Higher Education Commission (HEC), etc. Technology Innovation Centers (TICs) that offer common facilities, technology upgrading, R&D, and design-related services should be established, and pilot technology upgrading projects for major SME clusters on a cost-sharing basis should be launched.

#### *Marketing*

Devising new marketing strategies is important for SME development. Therefore, establishment of SME sector-specific export marketing companies is recommended. The government has been asked to provide matching grants for conducting international marketing research, developing marketing strategies, developing marketing materials, packaging, branding, participating in and conducting trade fairs, and undertaking promotional and marketing activities. Matching grants should also be given for developing world-class trade and product directories for major SME clusters (e.g., a Members Directory for the Pakistan Association of Automotive Parts & Accessories Manufacturers). The EPB should allocate an SME quota in all trade delegations. Information on local markets should be compiled and disseminated and domestic product exhibits organized.

Annual SME awards (similar to the Annual FPPCI Export Trophy Awards) recognizing outstanding performance in domestic and international markets, technology innovation, HRD practices, etc., should be introduced.

Special incentives are also proposed for investing in new small or medium-sized businesses in emerging sectors, e.g., reduced taxes (registrations fees, sales tax, electricity tariffs, statutory income tax, withholding tax) and subsidized training for enterprises which sign up for upgrading of business products, processes, and quality accreditation through a Business Improvement Program (BIP) and are confirmed by an approved agency; these SMEs will need to invest from their own sources and to join the Industry Links Program (ILP) offered through various CFCs.

*Entrepreneurship Development*

Pakistan is a “society of employees.” The education and social system does not encourage entrepreneurship as a preferred career option among the youth. Entrepreneurship is usually undertaken by those belonging to existing business families. There are thus only a small number of new enterprises created, in only the most traditional sectors, resulting in business overcrowding.

However, there is no shortage of entrepreneurial capability. If this entrepreneurial potential can be harnessed, a larger segment of the educated population will take an interest in establishing their own businesses and implementing their own ideas. As a result, there will be a rapid increase in enterprise creation, thus adding jobs to the economy and improving income distribution. However, in order to make this happen, the government needs to provide level playing fields, information, awareness, and support in establishing enterprises.

Past government programs to encourage entrepreneurship—the Self Employment Scheme, the Youth Investment Promotion Society, and the Yellow Cab Scheme—were limited and not comprehensively designed and had little success in promoting entrepreneurship among educated Pakistani youth. Government intervention is required to actively promote entrepreneurship through changes in education curricula, by creating awareness among youth, and by providing effective support to those who wish to establish new enterprises. Policy recommendations are:

- Revision of primary and higher education curricula for promoting entrepreneurship among educated youth.
- Inclusion of “Entrepreneurship” courses in all professional-degree-awarding higher education, technical, and vocational training institutions.
- Entrepreneurship competitions at the university level, to culminate in annual entrepreneurship competitions at the national level to select the best business plans/models and provide grants for project implementation.
- Establishment of technology and business incubators in selected universities.
- Identification of investment opportunities offered by backward and forward linkages of successful services/products.

Pakistan’s SME Development Vision, as spelled out in the SME Policy, is, “SME-led economic growth resulting in poverty reduction, creation of jobs and unleashing the entrepreneurial potential of the people of Pakistan.”

The SME Policy covers measures for promotion of “Entrepreneurship Culture” and support for growth of existing enterprises. It recognizes the different approaches required for supporting small enterprises as opposed to medium enterprises. Thus, wherever required, separate policy measures are proposed for small and for medium enterprise growth. Additionally, women and other marginalized groups will be given a special focus within the SME Policy.

**Small and Medium Enterprise Authority (SMEDA)**

The Small and Medium Enterprise Authority (SMEDA) is an apex policy-making body established by the government in October 1998 to provide support services to SMEs. It serves as the key resource base for SMEs and focuses its activities on the development of the sector.

Since its establishment, SMEDA’s activities have focused on understanding and developing a supportive policy environment; providing business development services, resource bases, and information material; creating international linkages for global marketing; offering human resource development programs; and facilitating technological development and cluster development.

SMEDA has found that a four-step approach—with each step building on the previous one—is required to improve productivity and competitiveness.

*Cost competitiveness* must be addressed through a supportive regulatory environment. Rationalizing the regulatory burden, providing adequate infrastructure and business support ser-

vices, enabling SME to access to capital and short- to long-term funding, linking SMEs to large firms, and allowing knowledge about market opportunities to reach SMEs can result in a significant reduction in the cost of doing business.

*Quality competitiveness* must be targeted. SMEs typically suffer from weak entrepreneurial skills as well as deficiencies in accounting, production management, technical know-how, and business planning. As SMEs grow, they increasingly need connectivity to export markets and capacities that meet contemporary quality standards. SMEs' inadequate capital base and low turnover pose a service challenge to the government and to service providers. These programs should support SMEs through resource provision in terms of short- to long-term funding as well as provision of services. High-quality training in human resource development and infrastructural support through common facility centers to which all SMEs have access are also important in this regard.

*Technology competitiveness* would lead to ultimately achieving *business competitiveness*. The foundation must be constructed by investing in science and technology and related research and development initiatives at the level of both higher education and industry. There is no shortcut for achieving this, and it will require continuous support from government and industry for an initial period of at least ten years to yield results.

Sustainable SME development nonetheless requires concerted efforts among all the concerned parties, including financial institutions, consulting and training firms, and business associations. Government's role in the process should be limited to providing the enabling environment for private-sector development, correcting potential market failures, and creating a level playing field that will allow SMEs to compete in free markets. Emerging international experience shows that government is not the appropriate vehicle to implement and coordinate efforts, and that public-private partnerships are a critical element in the success of these efforts.

At the same time, Business Development Services (BDS) are needed to improve the internal capacities of SMEs. Here the government's efforts are directed towards creating a supportive business environment, facilitating SMEs' access to markets, enhancing information flow, promoting an entrepreneurial culture, facilitating development of services for new enterprise creation, education, and technology development. If and where required, investment in public goods that will improve competitiveness are carried out, including infrastructure, e.g., common facility centers. SMEDA is currently reviewing regulations that result in a higher cost of doing business and proposing remedies.

SMEDA currently focuses on four priority areas reflecting its entire spectrum of delivery of activities and services, which can be broadly classified as policy-related interventions, business support services-related activities with a priority to develop a market for their provision in the private sector, sector and cluster development programs, and enterprise development initiatives. Specific interventions and facilitation for entrepreneurship development:

#### *Youth Entrepreneurship Development Program—Shell Tameer*

The Shell Tameer program aims to develop young entrepreneurs (ages 18–32) through awareness creation and provision of training on business development and new business start-ups. It offers consultancy to improve business focus and productivity. SMEDA specifically facilitates by conducting training programs and seminars to attract students.

#### *Women Entrepreneurship Development*

SMEDA and the Women Chamber of Commerce and Industry (WCCI) have established an institutional partnership to promote women entrepreneurs. They organized the "Life Style Exhibition" in 2004 and 2005 in major cities, which exhibited a wide variety of products ranging from fashion garments, home textiles, and beauty products to IT service providers and provided an opportunity for women entrepreneurs to showcase their products while encouraging new entrepreneurs.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *Entrepreneurship Development for OIC Member Countries*

SMEDA, in collaboration with the Islamic Chambers of Commerce (ICCI) and the Islamic Development Bank (IDB), organized a Training of Trainers (TOT) program on entrepreneurship development for OIC member countries. The objective of the program was to encourage entrepreneurship to improve competitiveness, boost exports, and foster economic growth.

### *Entrepreneurship Development Centers*

In mid-2005, SMEDA also initiated the concept of an Enterprise Development Center (EDC) to be set up in NWFP within the Institute of Management Studies. Its primary focus was to act as a resource for regional SME support institutions, identifying problems as well as opportunities for SMEs in the NWFP region through research and consultation, resulting in economic development in the province and awareness of and knowledge about entrepreneurship among those people who have the motivation, drive, and potential to organize, set up, and manage a business of their own. Additionally, it focused on organizing different capacity-building programs, including arranging promotional events. The idea was that the Center would be the primary link between the institution and the commercial world. The EDC aimed at increasing the percentage of graduates becoming entrepreneurs upon graduation to 15% and help SMEDA to increase the proportion of independent business owners in the NWFP population from the current 3% to 10–12% by 2009. The salient activities of the EDC include:

*Entrepreneurship development programs.* These programs will organize and conduct a series of need-based entrepreneurial development programs; introduce elective modules in undergraduate and postgraduate programs and short courses and workshops for staff and students; and conduct open programs for novice as well as existing entrepreneurs.

*Diploma in entrepreneurship.* A stand-alone 14-week or 1-semester program on entrepreneurship within the institute will constitute the curriculum for a diploma.

*Entrepreneurship society.* The aim of the society will be to identify unconventional, creative, innovative ideas—developing an innovative product or service, seeking out a creative way to sell an existing product or service, or finding new uses for existing products and services. The EDC will identify promising students and investors and will provide a secretariat. The society will organize promotional events (exhibitions, conferences, trade fairs for different products, etc.) and functions (business and social), seminar series, alumni functions, and business plan competitions.

*Resource section.* The resource section will provide e-library services, publications (e.g., case studies), networking services, counseling, training, and technical assistance in all aspects of small business management and e-business activities (e.g., creating e-groups to discuss entrepreneurial issues and an e-magazine on entrepreneurship).

*Research section.* This will consist of a primary research and analysis unit, a commercial technology development and transfer unit, and a new products incubator (with shared services, including secretarial, and built-up factory premises for new entrepreneurs for setting up manufacturing concerns);

*Miscellaneous functions.* Other functions to be undertaken by the EDC might include an awareness campaign.

This concept of an Entrepreneurship Development Center is being revisited and revamped under the SME policy by SMEDA.

### *Business Guides*

Thirteen business guides—including “Copyright Registration Procedures,” “Custom Clearance Procedures for Export and Import,” “Export to Afghanistan,” “Export Process Flow: Procedure and Documentation,” “Import Regulations in the EU and USA,” “How to Obtain Finance from First Women Bank and the SME Bank,” “Obtaining Finance under the Export Finance Scheme,” “Company Registration Process,” and “Legal Guide for the Gemstone and Jewelry

Sector”—have been prepared by SMEDA for entrepreneurs who intend to start up new businesses.

#### *Pre-Feasibility Studies*

SMEDA has prepared 125 pre-feasibility studies, available on the website, based on secondary information and industry/sector practices that contain detailed information on the technology, infrastructure, raw materials, marketing, management, and financing required to start a business. They cover the agriculture, ceramic, chemical, construction, dairy, education, electronic, entertainment, fisheries, food, furniture, gems and jewelry, information technology, leather, light engineering, livestock, marble and granite, minerals, paper, petroleum, pharmaceutical, plastic, textiles, services, and trading sectors.

#### *Regulatory Procedures*

In order to facilitate new and existing entrepreneurs, SMEDA provides a guide to all regulatory procedures on its website. These include intellectual property rights (patent and trademark registration procedures), export and import, obtaining finance, obtaining utilities (electricity, gas and telephone connections), business registration, labor laws, and taxation procedures (for companies and individuals, sales tax procedures, getting a national tax number, professional tax guide).

#### *Business Matchmaking Service*

SMEDA provides a unique service that promotes business-to-business relationships, taking on the role of a matchmaker by providing a platform for SMEs to come together and explore different areas of cooperation using SMEDA’s databases and website. SMEs can promote their businesses, look for joint ventures, buy existing businesses, form equity partnerships, and seek out agents or distributors.

Afghanistan is becoming an important export destination for SMEs, through formal and informal channels; estimated export volume to that country is over USD0.5 billion. SMEDA offers a matchmaking facility to facilitate business-to-business linkages to take advantage of this market.

#### *Business Plan Development Services*

Business plan development services are one of the key services provided to enable existing as well as potential entrepreneurs to make well-researched and well-informed investment decisions. SMEDA’s business plan provides information and recommendations on key business areas, including market size and growth projections, most suitable management structure, technology and machinery selection, and comprehensive financial analysis, with projections and strategic business options. A business plan is exclusive, customized for individual entrepreneurs at a subsidized cost.

#### *Training Services*

Human Resource Development (HRD) is one of the leading functions of SMEDA. Its programs aim to facilitate SMEs in HR capacity-building, helping entrepreneurs, managers, supervisors, and operational staff to improve their level of skills, competence, and awareness in technical, marketing, financial, policy, regulatory, legal, commercial, and other areas through the provision of direct and indirect training services at affordable prices. Training programs organized by SMEDA are effective tools for improving major performance indicators—productivity, quality, competitiveness, sustainability, and knowledge management—for an easier and faster path to compliance with ISO and WTO requirements. In 2005, 158 short-duration training programs were organized. SMEDA has also conducted an SME Industrial Survey to identify educational programs and has developed over 100 training service providers across Pakistan.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *Financial Services*

SMEDA provides financial consulting and advisory services. More specifically it provides financial feasibility projections based on industry evaluation and competitive analysis to SMEs and potential entrepreneurs. In addition, SMEDA assists SMEs in the preparation of bankable documents to access financial services from the formal financial sector. It provides assistance via financial analysis of individual enterprises to assess financial problems and negotiate with banks, for a nominal fee. SMEDA also helps in some cases to arrange financing from banks. SMEDA also acts as a coordinator for government schemes that involve financial institutions. Comprehensive financial products and services being offered by some of the financial institutions have been compiled and are disseminated through SMEDA's web portal.

### *Accounting Handbook for SMEs*

A hands-on "Accounting Handbook for SMEs" has been developed which serves as a basic guide, containing information on accounting concepts and working knowledge for businesses. It discusses a typical business cycle and has been translated into local languages.

### *Accounting Software for SMEs*

In order to assist SMEs in managing their accounting systems, SMEDA has uploaded accounting software to its website that is available to SMEs free of cost. Almost 500 SMEs have downloaded this software since September 2004.

### *The Industrial Information Network (IIN)*

The Industrial Information Network (IIN) is the first Pakistani B2B and information portal designed specifically to cater to the online trading and information needs of businesses from various industrial sectors. Launched in June 2005, it is a joint venture of the Ministry of Information Technology & Telecom (MoITT) and the Ministry of Industries, Production, and Special Initiatives (MOIP & SI), with SMEDA as the executing agency and UNIDO as the technical consultant.

Access to other businesses will enable Pakistani businesses, especially SMEs, to find and explore international markets and new technologies and information for work flow enhancement. Connecting businesses with trade facilitation bodies and government opens new doors to knowledge, resource, and information sharing and provides a better understanding of industrial needs, and it ultimately assists in formulating effective policies.

In addition, providing international outreach and updated business information is one of the major objectives of IIN, the first Pakistani business portal to provide a unique trade floor where business from Pakistan and around the world can post inquiries as well as offers to find buyers and suppliers. IIN also offers a platform for maintaining eShops where organizations can develop and maintain product catalogues that can be instantly presented to interested buyers. A trade event calendar provides information and contact details of worldwide fairs, exhibits, conferences, and trainings. An online business directory has been integrated with the IIN portal that provides contact information on manufacturers, exporters, importers, indenters, services, and traders. IIN offers comprehensive sector-specific information as well as information on financing, government rules and regulations, business start-up procedures, business management tips, WTO, etc. IIN has detailed information on the textile and leather sector. It is designed to be an online one-stop shop for industry and SMEs for all their information and eCommerce needs.

### *Legal Services*

The Legal Service Cell assists SMEs, through its help desks, in resolving legal issues, e.g., company registration, import/export documentation, compliance with labor laws, income tax, sales tax, etc. The Cell has provided legal advice to over 200 SMEs. It also provides legal opinion services to SMEs in the event of legal proceedings or legal notices against them. The

Legal Cell is also working on developing a network of legal service providers comprised of individual legal practitioners and law firms to provide affordable legal services to SMEs. Three such networks have already been created.

#### *Help Desk*

Help desk services, in addition to being available in regional offices, are also offered through business centers operating in 17 other cities. Their basic objective is to provide business counseling/consultation to individual entrepreneurs. SMEDA's website provides a virtual help desk for SMEs. Entrepreneurs who have a specific query can obtain a free response within two working days by posting it through the virtual help desk. In 2005, 9,532 entrepreneurs were assisted through the help desk.

#### *SME Toolkit*

In line with the International Finance Corporation's concept, SMEDA has prepared an SME Toolkit that offers free business management information and training on accounting and finance, business planning, human resources (HR), marketing and sales, operations, and information technology (IT). It offers a wide range of how-to articles, business forms, free business software, online training, self-assessment exercises, quizzes, and resources to help entrepreneurs, business owners, and managers in emerging markets and developing countries start, finance, formalize, and grow their businesses.

#### *SMEDA's Publications*

For the assistance of SMEs and young entrepreneurs, SMEDA has produced several publications, e.g., "Trade Secrets," "Secrets of eCommerce," "How to Approach a Bank," etc.

#### *Cluster Development Programs*

SMEDA has always been fully cognizant of the significance of cluster development and has undertaken several initiatives in this regard, including technology upgrading, establishment of Common Facility Centers (CFCs), access to formal finance for SME clusters, marketing support, improving HR skills, and awareness of international certification and regulations. It has established the following CFCs in collaboration with chambers of commerce and industry and industry/trade associations:

*Computer pattern designing in Sialkot.* This CFC has facilitated 300 SMEs in getting patterns developed. 122 participants have been trained and 28 are in training. 95 jobs were generated.

*Light engineering sector in Gujranwala.* The center has provided testing services to 206 SMEs; 130 students have completed Autocad training;

*Artificial insemination training center in Burj Attari.* More than 1,100 technicians have been trained and 900 self-employment jobs generated under this program.

Currently being established are an auto parts design and inspection center (Lahore), and electrical fittings industry support center (Sargodha), a wooden furniture support center (Chiniot), and a composite material-based CFC (Sialkot).

SMEDA has also successfully launched financing schemes in Punjab: power loom upgrading in Faisalabad (PKR226 million to 150 entrepreneurs), support services for agri-credit in SSAC (PKR77.45 million to 252 farmers), and a lending scheme for cutlery manufacturers in Wazirabad (PKR0.5 million to 10 SMEs).

#### **The Securities and Exchange Commission of Pakistan**

In an effort to bring the SMEs into the formal market and facilitate access to formal credit and markets and transparency, the Securities and Exchange Commission of Pakistan (SEC) introduced the Single Member Companies Rules in 2003 to encourage SMEs to register as com-



panies as well as simplifying the procedure to register private limited companies. Further, the SEC has comprehensively updated its website to assist entrepreneurs who are setting up small businesses in understanding the procedures for registering a company and the subsequent requirements. Company name availability can be checked online and sample registration documents obtained. However, company registration offices (CROs) need to be further revamped administratively, and staffs need to be trained to appropriately handle SMEs. Although procedures for incorporating SMEs have been considerably simplified over the years, the benefits of registering as a company have not been effectively promoted to convince SMEs to choose this legal status over sole proprietorships and partnerships.

### **Intellectual Property Rights**

Pakistan is a signatory to the Trade Related Intellectual Property Rights (TRIPS) agreement under WTO and hence obligated to update its intellectual property laws and to provide for a comprehensive mechanism for protection and enforcement of intellectual property rights in Pakistan. Accordingly, existing legislation on intellectual property, i.e., trademarks, copyrights, patents, and designs, was updated or new laws passed in 2000–01. Pakistan now has a Patents Ordinance—2000, a Registered Designs Ordinance—2000, a Registered Layout-Designs of Integrated Circuits Ordinance—2000, a Trade Marks Ordinance—2001, and an updated Copyrights Ordinance, 1962 [Amended through Copyrights Ordinance (Amendment) 2000].

In order to streamline the functioning of intellectual property rights and to develop effective enforcement mechanisms, the government established the Intellectual Property Rights Organization in April 2005, with plans to launch a comprehensive awareness campaign to inform the general public on basic intellectual property issues. The PRO has also organized some workshops.

### **Technology Upgrading and Skill Development Company (TUSDEC)**

Technology upgrading and skill development are the two major factors affecting competitiveness of SMEs. The Ministry of Industries, Production, and Special Initiatives (Government of Pakistan) set up the Technology Upgrading and Skill Development Center (TUSDEC) in 2005; the Center is managed by a public- and private-sector board, with the goal of upgrading the technology and skills of key, strategic industrial clusters and connecting Pakistan to the global value chain. Its primary activities include:

*Conducting research.* Research on technologies in use in Pakistan with global benchmarking to upgrade important industrial sectors, develop technology databases, acquire technology, and identify shortcomings in installed technology.

*Upgrading common technology needs of industrial clusters/sectors.* Establish common facility centers, CAD/CAM centers, skill development centers, support and maintenance centers, incubation centers, technology upgrading centers, and testing and accreditation facilities.

*Developing linkages with donors, industry, universities, and government.* Establish international linkages with technology donors, universities, government, and non-government agencies.

*Funding.* Manage a technology upgrading and skill development fund, and provide funding on soft terms to SMEs to acquire/develop/upgrade technology for specific purposes.

TUSDEC has carried out initial studies and plans projects at various locations in the country:

- Tool, dies and molding centers.
- CAD/CAM centers (8 centers at major locations).
- Cement research and development institute.
- Skill development centers in the four earthquake-affected areas, offering training in 16 different micro-enterprise activities.

- Common Facility Centers (CFC) for the ceramic industry, and facilitation for the surgical, marble and granite, and gems and jewelry sectors.

### **The President's ROZGAR Scheme**

In September 2006, the President of Pakistan launched a ROZGAR scheme to promote self-employment of educated persons, including women, with the assistance of the National Bank of Pakistan (the largest government-owned financial institution) in providing financial facilities to start a small business. It is expected to provide direct and indirect jobs to approximately 5.4 million Pakistanis. The National Bank of Pakistan (NBP) has developed a full range of financial products under the brand name of "NBP KAROBAR." Initially, the following products are offered:

*NBP Karobar Utility Store (under USC franchise).* Designed in collaboration with the Utility Stores Corporation of Pakistan (USC)<sup>3</sup> to provide financing in the average amount of PKR100,000 for a maximum of five years, with a grace period of three months. This is available to all eligible citizens of Pakistan for setting up a small-scale retail outlet or mobile utility store. The USC will grant a franchise to qualifying Pakistani citizens. Financing options available:

- NBP Karobar utility store (shop). Financing facility available to set up a small-scale retail outlet (utility store in a shop) for purchase of furniture and fixtures. This is also applicable on payment of a security deposit or advance rent under franchise from the USC. However, stocks will be purchased by the customer.
- NBP Karobar mobile utility store. Financing facility available to purchase a 2/3-wheeler, 4-stroke petrol/CNG/LPG vehicle (auto scooter/motorcycle rickshaw) with attached loader body under franchise from the USC to carry utility goods for retail sale, ideally in areas where accessibility to conventional utility stores is difficult.

*NBP Karobar mobile general store (without USC franchise).* This financing program has been designed on a pattern similar to the mobile utility store, with the difference that the borrower will have the liberty of procuring stock/supplies/grocery items from the open market. Under this product an average loan amount of PKR100,000 will be given for a maximum period of five years with a grace period of three months.

*NBP Karobar transport.* The NBP Karobar transport is designed to finance 2/3-wheeler, 4-stroke petrol/CNG/LPG vehicle (auto scooter/motorcycle rickshaw) to provide less expensive, environmentally friendly transport. Under this program, an average loan amount of PKR100,000 will be provided for a maximum period of five years with a grace period of three months.

*NBP Karobar PCO.* This product is designed to finance setting up a public call office (PCO/telephone service). NBP will provide financing for the purchase of a mobile/wireless telephone set with connection and credit balance. The average amount of financing will be PKR5,000 for a maximum period of two years with a grace period of three months.

*NBP Karobar telecenter.* This product is specially designed to finance setting up a telecenter. Financing will be provided for the purchase of a mobile/wireless telephone set with connection, a computer, printer, and fax machine/photocopier, etc. to establish a telecenter in a rented shop or in owned premises. The average amount of financing will be PKR50,000 for a maximum period of two years with a grace period of three months.

The financing will be offered to eligible young, literate citizens of Pakistan who are 18 to 40 years of age and have at minimum a matriculation<sup>4</sup> (except for females in the PCO/telecenter program). Eligible borrowers will be required to make a down payment of 15%. The borrower will be required to have mandatory asset and life/disability insurance. The 15% down payment

<sup>3</sup> Utility Store Corporation is a chain of government-owned, low-cost supermarkets (food and general retail outlets).

<sup>4</sup> 10 years of school education.

will also include the first year's asset insurance premium. However, the cost of life/disability insurance will be borne by the government. The interest/markup rate for the first year will be 12%; for the subsequent years, it will be 1 year KIBOR<sup>5</sup> + 2%. Fifty percent of this rate will be paid by the customer, i.e., 6%, and the balance of 6% will be borne by the government. In addition, the first 10% of losses under the scheme will also be absorbed by the government.

### **The Shell Tameer Program**

Tameer is an initiative taken by the Shell Foundation in Pakistan to develop entrepreneurial skills among the youth. It aims at people between 18 and 32 years of age and provides services such as free information, advice, and support to help them consider starting a business as a desirable and viable career option. Tameer, a stand-alone project having no link to Shell Pakistan, is a member of the LiveWIRE Global Network. "Livewire" (the conceptual name of "Tameer"), launched in the UK in 1982 and supporting over a quarter of a million potential entrepreneurs, is flourishing in 14 other countries worldwide.

Shell Tameer's slogan is "Building on Young Business Ideas." It focuses on developing an individual's entrepreneurial skills to plan, launch, and manage new business enterprises. Key activities are:

*Awareness services.* Awareness materials and campaigns, material to encourage youth enterprise, market research training guides, and business plan training guides.

*Training programs.* "Bright ideas" workshops: brainstorming activities, quizzes and exercises, entrepreneurial awareness seminars with renowned guest speakers to sensitize university students in business and technical institutes, and a platform for interaction between technical and business apprentices.

*Counseling services* (with operational partners, e.g. SMEDA, etc.). Business plan development, technical advice, assistance in raising finances, financial advice, marketing advice, and information services, e.g., database, library, pre-feasibility studies, etc. Young people also have the opportunity to link with a LiveWIRE volunteer advisor to obtain additional advice and training. Advisors are volunteers with direct small business experience or are from banks or accountancy firms. Others can be Shell employees or previous LiveWIRE participants.

*Young business start-up award.* Recognizing the efforts of young entrepreneurs through business start-up awards. Presents awards to top businesses in a ceremony, and prepares case studies and success stories on the award winners to show them as role models to promote the idea of enterprise.

### *Tameer Entrepreneurship Club (TEC)*

TEC is a youth-based club that encourages entrepreneurs and small businesses to become successful by promoting the exchange of ideas and experiences. TEC is expected to be a state-of-the-art entrepreneurial roundtable promoting a collaborative environment that includes exchange of knowledge and experiences between developed, aspiring, and learning members. Membership of TEC is divided into three categories: apprentices, imminents, and mentors

*Apprentices.* Apprentices are students who are interested in acquiring entrepreneurial skills and relevant guidance to build their future. The aim is to guide students through the steps of entrepreneurship: idea generation, market research, business planning, financing, staffing, and implementation and marketing. Mentors and imminents help to accomplish this goal, encouraging students to take the message of the entrepreneurship into the community through the Training of Trainers.

*Imminents.* Imminents are potential entrepreneurs who are gathering experience and expertise through employment services. TEC provides them with a platform to receive counseling from mentors and interact with the fresh ideas of apprentices. Because they are in the

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<sup>5</sup> Karachi Interbank borrowing rate.

industry, imminents' participation in TEC workshops, speaker sessions, and seminars provides industry-specific guidance and opportunities.

*Mentors.* Mentors are established entrepreneurs (role models) and professionals/gurus (Shell internal network, other private sector organizations). They are successful professionals with varied business backgrounds, e.g., accountants, attorneys, management consultants, financial planners, and employees from media/advertising agencies and other public/private/non-profit organizations. Mentoring services involves case studies, informative speaker sessions, exclusive training workshops, and experience-sharing. Apprentices and imminents needing support and advice are encouraged to avail themselves of this opportunity. Successful mentoring relationships require mentor–mentee meetings of at least one hour per month.

In addition, an idea fair for business plan competition and exhibit is being organized for students, where students' business plans, developed according to predetermined criteria, will be exhibited to provide them with a platform to match their ideas with funding organizations and with mentoring opportunities with professional gurus and experts.

The operational partners of Tameer:

- SMEDA. A memorandum of understanding (MoU) was signed with SMEDA on 14 January 2003. SMEDA contributes by providing its infrastructure for the purpose of awareness campaigns, an inquiry service, and training of individuals all over Pakistan. SMEDA staff are oriented and trained to interface with people seeking information on the program who either personally visit SMEDA's offices or who call the help line. Material such as leaflets and brochures are provided at SMEDA's headquarters and in regional offices all over the country.
- Institute of Business Administration (IBA). A memorandum of understanding (MoU) was signed with the IBA on 15 January 2003. IBA conducts training sessions for small business management and entrepreneurship courses for aspiring entrepreneurs. IBA, in consultation with Shell Tameer, localizes and develops written material on the program. It has made an entrepreneur program part of the MBA and BBA final-year curriculum. It uses the model title "Train the Trainer," provided by Shell Tameer, when conducting a workshop. Students are awarded certificates of participation by Shell Tameer.
- Rotaract. Rotaract offers an inquiry service and a training platform for training sessions for selected individuals. It also provides its infrastructure and human resource support for the purpose of awareness campaigns, training individuals all over Pakistan. It participates in the ongoing awareness campaign.
- SME Bank Limited and the Shell Tameer program began collaborating in 2004 to strengthen their relationship for promoting potential young entrepreneurs.

## **Entrepreneurship Development at Universities**

### *Institute of Business Administration (IBA)*

The Institute of Business Administration is setting up an independent Center for Entrepreneurship for the training and guidance of young men and women who plan to set up their own businesses with financial and technical support from the U.S. government (through USAID) under its Broader Middle East and North Africa Initiatives (BMENA). The policy-making board of the Center has representatives from academia, business, and government. It will work with local and business institutions to develop modern business education and help to promote small and medium-sized enterprises. Its goal is to promote entrepreneurial training and skills development to enable young men and women to launch business initiatives that will generate employment opportunities. In addition to providing hands-on knowledge about setting up businesses and preparing business plans, the Center will also conduct research to identify training needs, document how entrepreneurship is developed through opportunities and obstacles, document rules and regulations, and make suggestions for policy/procedure improvements.

### *Entrepreneurship Development for Competitive Small and Medium Enterprises*

The Center will prepare training materials in all areas of business, including labor regulations, dealing with banks, income tax, sales tax, labor laws, and documentation, and publish them in Urdu and other regional languages as well. The Center also intends to provide short-term training to professionals and entrepreneurs in establishing and managing enterprises.

#### *Lahore University of Management Sciences (LUMS)—ESMEC*

At LUMS, there has been a great deal of interest and demand from both external and internal sources to begin offering courses in the area of entrepreneurship in its full-time programs as well as through executive development education. In response, the LUMS Entrepreneurship & SME Center (ESMEC) was established approximately 10 years ago. Its main components:

*Education and training programs.* Training programs based on actual case studies are one of many ways in which the center helps in development of entrepreneurship and SMEs throughout the country. These programs also provide networking opportunities.

*Field research.* Regular research is undertaken in the SME sector.

*Business planning competitions.* The goal of a contest is to encourage entrepreneurs in the creation, start-up, and early-growth stages of high-growth businesses. Participants have the chance to win prizes and services that will help them launch their businesses. A countrywide contest offers an opportunity to compete for cash and in-kind prizes. It also provides a chance to receive constructive feedback on business plans and to help participants to move from “virtual business” to reality. The contests tap into the entrepreneurial spirit of students, workers, companies, and other institutions. The two competitions held have been the business planning competition in conjunction with PSEB (2005) and the annual business planning competition (2006);

*SME awards.* The awards include Young Entrepreneur of the Year, Female Entrepreneur of the Year, and Small Business of the Year, which are judged on various criteria. Each year an individual is honored through induction into the “Hall of Fame.” These individuals are selected from among those who started from scratch and have achieved outstanding success in business as a result of their entrepreneurial spirit.

*LUMS Entrepreneurial Society.* The LUMS Entrepreneurial Society (LES) is a non-profit organization dedicated to promoting entrepreneurship and leadership in LUMS. It seeks to act as an outlet for members of the LUMS community to express their entrepreneurial energy and provide a platform for enhancing their leadership skills. LES is a resource for business connections, creative ideas, real-world knowledge, and networking experience. Students interested in starting their own business or developing their leadership skills benefit substantially from the activities of LES. It works to build an entrepreneurial support network; foster leadership and practical business skills; maintain a forum to facilitate discussion and implementation of creative business ideas and new business ventures; encourage the dissemination of information concerning entrepreneurial news, events, and opportunities; and provide potential entrepreneurs within LES with resources to assist their endeavors.

#### *National University of Sciences and Technology (NUST)—Technology Incubation Centre (TIC)*

NUST has established the Technology Incubation Centre (TIC) to link academia to industry. TIC aims to help potential entrepreneurs from the general public, students, and NUST faculty to incubate their technology-based companies. It provides support to NUST colleges/institutes/centers and the industry for commercializing and patenting their research and development work and for new product development. Presently, 12 SMEs are incubating at TIC. It provides consultancy services/training courses for engineers and technicians in process and quality control/improvement using methodologies like Six Sigma, Quick Response Manufacturing, etc. TIC has a Technopreneur Development Center through which it offers training courses on technopreneurship. Moreover, TIC regularly offers CAD/CAM training courses in collaboration with SPEL, Pakistan.

TIC has established an Intellectual Property Rights Office (IPRO), which provides legal advice, consulting services, and access to patent/equity-related resources to researchers and scholars. Major areas of IPRO services include facilitating the commercial interests of and due rewards to innovators/researchers; offering intellectual property protection of innovators/researchers by filing of patents, copyrights, trademarks, designs rights etc.; collaborating with international organizations such as WIPO to facilitate the filing of patents at the international level; and creating a knowledge base to share information at the national level in order to facilitate jumpstarting technological innovations.

TIC also liaises with industries directly or through the Federation of Pakistan Chamber of Commerce and Industry (FPCCI), Industrial Associations, and local chambers to review their technological requirements and match them with NUST research. It acts as the coordinating body for the “Model Industry Linking Academia Program (MILAP)” of NUST.

#### *Other Universities and Business Schools*

There are almost 120 universities/higher educational institutions in the country recognized by the Higher Education Commission of Pakistan. A number of business schools have introduced “Entrepreneurship” as a subject or topic in their business and management studies curriculum. Entrepreneurship centers are being planned at several universities as well in the near future.

#### **The Pakistan Software Export Board (PSEB)**

The Pakistan Software Export Board is the entity within government charged with the task of accelerating growth in the Information Technology (IT) and IT-enabled services industry. PSEB develops creative synergies between government, industry, and academia by providing timely and relevant policy input and supporting the IT industry in order to sustain momentum in this vital sector of the national economy. With every global IT company in the world having a presence in Pakistan, and with revenues growing by 30–40% every year, the IT industry is probably the most exciting and dynamic sector in the country today. Employing around 75,000 professionals, with major ongoing IT projects within the government and the private sector with a value of hundreds of millions of US dollars and world-class software products and services companies, it bears testimony to the vibrancy of the IT and IT-enabled (ITeS) services sector.

A number of young educated individuals are interested in establishing their own IT businesses, and the PSEB provides facilitation for these technopreneurs. The information is aimed at young and new entrants on the IT business scene who want to gather as much information as possible before setting up their business. This information is not intended for large corporations. It ranges from setting up a legal entity to feasibility studies, licenses and registrations, office space in technology parks, and tax awareness. Other specific services offered:

- Free samples of feasibility studies and business plans for software businesses, such as an online print shop or an Internet-ISP start-up.
- Training in human resource management.
- Information on policies concerning importing software into Pakistan.
- Quality certification programs, i.e., ISO 9001; 2000, Capability Maturity Model Integration (CMMI), and Customer Operations Performance Center (COPC).
- Networking opportunities to allow the business and entrepreneurial community to participate in national and international events, road shows, and investment seminars at leading industry events in Europe, North America, and the Middle East, at subsidized rates.

#### **Askari College of Entrepreneurs (ACE)**

ACE started as a training and incubation center established by the Army Welfare Trust to promote entrepreneurship. ACE was established with the goal of providing retiring army per-

sonnel with entrepreneurial skills and providing incubation services with full secretarial support to enable them to establish their own small businesses when they retire. The center runs three-week entrepreneurship programs. The program is now also open to general public and has now been formally transformed into a college for entrepreneurs.

### **National Productivity Organization–Pakistan (NPO)**

#### *Training*

The NPO endeavors to enhance the productivity of organizations, especially SMEs in the domestic, industrial, and services sectors, by restructuring and revitalizing enterprises and by upgrading human resource skills. Training programs are regularly held all over the country to create productivity and quality awareness and provide productivity tools in order to enhance competitiveness in the global arena. Some programs offered:

- General awareness, productivity, and quality training programs on Kaizen, 5-S, SS, QCC, industrial engineering, etc.
- Training on productivity motivation and profit-sharing.
- Customized training for enterprise development on understanding and implementation of productivity and quality improvement tools, based on productivity audit.
- Training on wheels (on-the-job training) services or on technical and productivity issues.
- Corporate on-site training on Lean Production System, Six Sigma, TQM, Innovation Management, Organizational Excellence, QMS ISO–9000, EMS ISO–14000, SA 8000, HACCP, New Technologies, and P&Q taught by national and international experts.
- Productivity Specialist Certificate programs.

#### *Best Practice Networks*

The NPO has launched the first Best Practice Network (BPN) for the implementation of benchmarking and capacity-building in the public and private sectors. The BPNs focus on generating and transferring knowledge on best practices to provide organizations, especially SMEs, with a key competitive advantage in the knowledge-based economy, enabling them to benchmark themselves against the best standards to achieve business excellence. Initially the cutlery sector of Wazirabad (one of the major export-oriented SME clusters) formally approached NPO to participate in this learning-by-sharing exercise. There are about 300 units in this region employing 10,000 skilled and unskilled workers. The proposed benchmarking study in this sector is expected to help improve productivity and quality and enhance export earnings. The local best-practice networks will be augmented by linking to the APO's BPN. This will also provide an international platform to clients of NPO–Pakistan for inter-country best-practice benchmarking to help identify global best practices on how to do benchmarking and to gain useful knowledge in how to apply best practices to achieve performance.

#### *Centers for Quality & Productivity Research*

The NPO has setup Centers for Quality & Productivity Research, a tripartite relationship between government, industry, and academia. Through these centers, the NPO is promoting the use of the research facilities available in academia to conduct R&D on subjects that are in demand by SMEs. The first center was set up at Gomal University, D.I. Khan, followed by the University of Central Punjab, the University of Management Technology, Lahore College for Women University, the Imperial College of Business Studies, and NED Engineering and Technology University Karachi.

### **Initiatives for Women Entrepreneurship**

#### *Women's Chambers of Commerce and Industry (WCCI)*

The Women's Chamber of Commerce & Industry has been established to promote and develop women entrepreneurship in Pakistan. Its mission is to establish an organization whereby women entrepreneurs from all tiers of society can find a forum to voice their concerns, seek assistance and research, and facilitate further development. WCCI intends to promote women entrepreneurship by stressing the importance of entrepreneurship as a means of empowerment. Its main services:

- To provide a forum for local women entrepreneurs where they can discuss, debate, identify, and resolve issues pertinent to promoting their business interest.
- To highlight solutions to the problems faced by women entrepreneurs, first in establishing and then in expanding their business interests.
- To create a network linking women entrepreneurs all over Pakistan so that they can solve their problems by mutual interaction and assistance.
- To award and recognize outstanding performance by women entrepreneurs.
- To invite delegations of women entrepreneurs from abroad to interact with and impart training to local entrepreneurs, resulting in mutually beneficial relationships.
- To equip women entrepreneurs with required skills.
- To organize seminars, workshops, and conferences for the purpose of raising awareness in the general public and disseminating information on various issues.
- To instill in members the need for research and to help them in developing such modalities.
- To provide official and residential facilities for visiting members from other chapters.
- To create networks with other like-minded organizations.

In addition, the following initiatives are being undertaken or planned in the near future:

- A Gem Institute is being planned to equip women with skills and later employment in a decisively women-friendly environment.
- For those women who are already working but underpaid, such as tailors, carpet weavers, and other craftswomen, WCCI plans to equip them with marketing expertise, quality control, and value addition and to help promote their products in trade fairs, delegations, and exhibits, both locally and internationally.
- For existing women entrepreneurs such as fashion designers, pottery makers, herbal medicinal product manufacturers, producers of home furnishings, and even pharmaceutical manufacturers, WCCI plans to provide them with a forum where their problems can be discussed and solutions envisaged.
- A buying house will be established to purchase clothes from local designers and sell them abroad, thus facilitating export. WCCI intends to gather cottage manufacturers to meet the volume requirements of buyers; additionally, it intends to focus on standardizing local productions to ensure that international quality standards are met. WCCI aims to provide women entrepreneurs the means of entry into the international arena, where they can compete with manufacturers from all over the world.

### **Lahore Chamber of Commerce and Industry (LCCI)**

The Lahore Chamber of Commerce and Industry<sup>6</sup> has undertaken a special initiative to support women entrepreneurs. The Chamber has established a separate standing committee where

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<sup>6</sup> The Lahore Chamber of Commerce and Industry is one of the largest and most active CCIs in the country, located in the provincial capital of Punjab.



women entrepreneurs can have an opportunity to meet and discuss matters of relevance. The department functions as the secretariat for these activities and coordinates with relevant governmental agencies and departments to facilitate business activities. The main objective of this standing committee is to develop and encourage women entrepreneurs. Among other activities, the LCCI:

- Resolves problems women face in operating their business, e.g., getting bank loans or developing contacts with various government departments. It educates the women entrepreneurs about the techniques and strategies of national and international marketing. Moreover, the committee formulates proposals for the national budget aimed at increasing the involvement of women entrepreneurs in national economic activities.
- Organizes business orientation programs, workshops, and lectures for the guidance of existing and new women entrepreneurs and to enhance quality consciousness. It also holds business awareness seminars, e.g., “How to Start a New Business,” “How to Export Products to Other Countries,” etc.
- Organizes local exhibits of products manufactured by women entrepreneurs that serve as a source of encouragement and also provides a platform for the introduction and promotion of their products.
- Coordinates and facilitates trade delegations of women entrepreneurs (LCCI members) visiting abroad.

#### **Federation of Pakistan Chambers of Commerce and Industry (FPCCI)**

The FPCCI offers a range of services for developing businesses. A standing committee for women entrepreneurs has been established. To encourage women-owned businesses, a *Best Lady Exporter Gold Medal* has been instituted, conferred on a woman who in the judgment of the FPCCI has demonstrated the best export performance during the year. The standing committee offers businesswomen a forum to voice their concerns and work collectively to devise strategies to enhance their businesses. It also offers women the opportunity to exchange personal experiences and network with each other.

#### *Export Promotion Bureau (EPB)—WEXNET*

In order to achieve the twin objectives of women entrepreneurship development and export enhancement, the Export Promotion Bureau (EPB) has taken various initiatives in the last ten years. A Commonwealth integrated marketing program for women was implemented in 1994, with surveys carried out in 1995 and a directory published in 1997. Other activities:

- In 2000, a women entrepreneurs’ exhibit was held in Lahore.
- In 2001, EPB created WEXNET, a network for women exporters.
- Two exhibits were organized in Karachi in 2001 and 2002, and a delegation of women exporters to the U.S. was sponsored in March 2001.

WEXNET is a formalized structure which provides women with the opportunity to exhibit their products annually under the aegis of EPB. It also provides opportunities for women entrepreneurs to network with each other, to learn from each others’ experiences, and to form collaborations and partnerships for mutual benefit. EPB facilitates in evaluation and selection of products and provides need-based training to further develop and adapt products for the international market. It registers women exporters and ensures maximum participation of women entrepreneurs at international exhibits, seminars, and other related events. EPB is also working on developing a focus group that will aim to have liaisons and network with all relevant departments, NGOs, and institutions working for the development of women entrepreneurs. Consultation is provided free of cost.

### **SMEDA's Women Entrepreneurship Development Cell**

All services that are provided to SMEs are also provided to women entrepreneurs through SMEDA's Women Entrepreneurship Development Cell. These include:

- Troubleshooting.
- Project appraisal.
- In-house consultancy.
- Technology development.
- Export markets.
- Counseling.
- Training.
- Marketing assistance.
- International linkages.
- Facilitation of loans.
- Information dissemination.
- Project development.
- Assistance technology and new project research.
- Exhibits and fairs.
- Regulatory compliance.

In addition to these services, SMEDA engages in other activities for women entrepreneurs:

- A Memorandum of Understanding (MoU) has been signed between First Women Bank Limited (FWBL) and SMEDA to enable SMEDA to provide business development services to women entrepreneurs, with FWBL providing financial services.
- A formal understanding has been developed with Punjab Small Industries Corporation (PSIC) to extend financial services to women entrepreneurs.
- Training programs are regularly conducted for Sanatzars (small industrialists) of the Ministry of Social Welfare, etc. These include special programs for skilled managers.
- Training of trainers is also a regular feature of SMEDA's Women Entrepreneurship Development Cell.
- SMEDA works closely with EPB on "WEXNET" and other exhibits by sponsoring women to participate.
- SMEDA's help desk directly assists walk-in women entrepreneurs and extends assistance in business development services.
- SMEDA conducted a study of 150 women entrepreneurs in Pakistan, in collaboration with the ILO, and published "Women Entrepreneurs in Pakistan: A Study to Understand and Improve Their Bargaining Power."

### **Women in Technology (WIT)**

Women in Technology (WIT) is a project of the Ministry of Information Technology and Communication, and a task force of the Technology Mobilization Unit (TReMU); it was established with the goal of promoting technology-related education, careers, entrepreneurship, and empowering women and enhancing their participation in policy- and decision-making in the field of technology and in business in general. Its objective is to provide a documented vision/mission and direction for diffusion and acceptance of technology and science among Pakistani women and Muslim women around the world by identifying key areas and activities to develop the appropriate strategies to implement, manage, and communicate the programs required to achieve this objective. WIT is involved in ensuring that an interactive website is developed and maintained to network with other global organizations and ministries working in the field of

technology and science and women empowerment. It also organizes regular national and international seminars, workshops, and functions that highlight the importance and value of women in general and in the field of technology and science with respect to business and education. WIT promotes the creation of awareness to encourage women entrepreneurs, especially in IT-related fields.

- Computer training programs focus on a postgraduate degree in IT, office automation, technical training, and training of women teachers and on setting up IT facilities for the development of basic computer skills in women government colleges.
- Entrepreneurial development programs provides hope and support to struggling women entrepreneurs by providing professional networking opportunities for women in remote areas.
- Women's resource center—WIT is in the process of collaborating with Pakistan Tobacco Company in their initiative to increase IT education in Pakistan. A resource center is being planned that will provide professional training in computer skills, English language, cooking, knitting, and embroidery.

### **Women Entrepreneurs Information Network—WIN**

The major supply-side constraints to the development of women entrepreneurs have been identified as information gaps, marketing channels, and poor networking. The first-ever web portal, WIN, has been set up by the government through SMEDA, the Center for Research on Poverty Reduction and Income Distribution (CRPRID), and the International Labour Organization (ILO). WIN's objective is to bridge the information gap and serve as an information repository for women entrepreneurship development. Though policies, regulations, and laws tend to be generic, special affirmative action policies and measures and support programs of governmental and non-governmental organizations are highlighted through WIN. In addition, WIN aims to provide networking opportunities among women entrepreneurs, women entrepreneur organizations, and government agencies engaged in business promotion services. It also focuses on raising awareness of all stakeholder institutions about its existence so that these institutions can refer inquiries to WIN. It offers these services:

- Consolidated information from government and non-governmental agencies engaged in the provision of financial and non-financial business development services, chambers of commerce and industry, business associations, women-focused business networking groups, and national and international networking forums.
- Online information on policy and regulatory and legal environments.
- Feasibility studies for starting women-focused micro, small, and medium businesses.
- Information on export opportunities.
- Access to networking opportunities between organizations working for women entrepreneurship development between organizations with similar businesses in Pakistan and other countries.
- Access to networking with international organizations that work for the promotion of women-focused business.
- Information on training, basic documents, and development opportunities.

### **The First Women Bank Limited (FWBL)**

The First Women Bank is a government-owned financial institution providing consumer finance and business finance facilities to women. It also provides non-financial services through its three business centers. Its activities include:

- Developing new women entrepreneurs.

- Linking the center with the bank's branch network countrywide.
- Providing information and business advice relating to business planning and management.
- Finance.
- Sales and marketing.
- Export quality standards.
- Exhibits of products at Chambers of Commerce, Export Promotion Bureaus, and other locations at concessionary rates.
- Lectures/seminars on business, management, and export.
- Short- and long-term technical courses.
- Exhibit and display of products.
- Advisory services and counseling.

### **SME Bank—Women Entrepreneurs Program**

To facilitate women entrepreneurs, SME Bank Ltd. has developed a financial product for women entrepreneurs to facilitate them in their business and product-line expansion, roll-outs, and franchising. Loans are available on a debt-equity ratio of 50:50 for a period of one to three years against two personal guarantees and hypothecation of assets. Preference is given to women businesses, such as personal care and grooming (salons, parlors, beauty clinics), fitness (gyms, swimming pools, aerobic centers), eateries (restaurants, fast food, bakeries, ice cream parlors), vocational institutes (stitching, cooking, painting, designing, arts and crafts), clothing (cloth shops, boutiques, embroidery work), educational and teaching institutes, etc. In addition to focusing on women entrepreneurs, SME Bank also offers financial facilities under its program lending schemes as well as customized lending to SMEs under the SME Prudential Regulations.

### **Incubation Center for Women Entrepreneurs**

The government has recently approved a fund of PKR25 million to SMEDA for setting up an incubation center for women entrepreneurs at Lahore. The center will provide office space to 25 women entrepreneurs, with a training room as well as a display center. The project will be funded by the government for a period of four years.

### **Pakistan Enterprise Competitiveness Support Fund (CSF)**

The Pakistan Enterprise Competitiveness Support Fund (CSF) has been set up with support from USAID to contribute to Pakistan's goal of a more competitive economy by providing input into policy decisions, working to improve regulatory and administrative frameworks, and enhancing public-private partnerships within the country. The CSF also provides technical assistance and co-financing for initiatives related to entrepreneurship, business incubators, and private-sector-led initiatives with research institutes and universities that contribute to creating a knowledge-driven economy. CSF activities help all producers along the value chain who contribute to ultimate product quality. By obtaining better value and better prices for quality products and improving cooperation throughout the economy, the CSF will contribute to poverty alleviation by providing more income for producers and better employment prospects for employees. Its financing instruments are matchmaking grants, venture capital/equity financing for business incubators, credit guarantees, and technical assistance. Dairy Pakistan, a public-private venture in the dairy sector, has already been incorporated and resourced, while a similar set up for the gem and jewelry sector will soon be spun off.

### **Business Support Fund (BSF)**

Business development services (BDS) are a key instrument in enhancing competitiveness. They are demand-driven, encompassing business planning, production management, product design, quality standards and control, productivity studies, marketing, information systems, and

training. Currently, Pakistan lacks a BDS market for SMEs, with constraints on both the supply and the demand side. On the supply side, BDS providers target the larger, better-established enterprises, while on the demand side, SMEs lack access to a wide range of competitively-priced services targeted to their business needs. ADB-funded BSF will provide financial assistance for business plan development, marketing, training, research and development, and technology acquisition and upgrading.

### **Pakistan Initiative for Strategic Development and Competitiveness (PISDAC)**

Strengthening of public-private partnerships is key to enhancing competitiveness. USAID has initiated a project jointly with SMEDA, with the objectives of supporting self-selected Pakistani industries in developing strategies for upgraded production and instituting a self-sustaining process by which such industries organize themselves to increase their productivity. In particular, the project will work to help industries organize, plan, and implement actions to increase their competitiveness. At the conclusion of the project:

- The selected industries will have developed better strategies for upgrading industrial production.
- Leaders of industry will be able to identify sources of private and public funds to implement these strategies.
- Public-private dialogues on competitiveness and the role of the public sector will be more effective.
- Industries, independently and in concert, will be able to identify specific reforms that could improve the ability of small and medium enterprises to expand and/or increase profitability.
- Training providers, including universities, will be more capable of meeting the changing needs of the labor market.

The first phase of the project, in which the dairy and gems and jewelry sectors defined their strategies for improvement, was completed successfully in 2004, and has been followed by the initiation of the second, larger phase of the project, as shown in Table 4.

Table 4. Summary of Development Initiatives

Initiatives, Programs, Policies	Public Sector Organizations/ Donors	Private Sector Organizations	Results (Success/Failure)
<b>A. Promotion of Entrepreneurial Culture</b>			
A1. SME promotional councils/bodies	Ministry of Industries, Production and Special Initiatives SMEDA	Nil	
A2. Entrepreneurship development promotional campaigns	SMEDA	Nil	
A3. Awards for Successful SMEs—"Small Business Entrepreneur of the Year"		Shell Tameer LUMS	
A4. Quality Awards for SMEs	NPO—President's Quality Award		Launched in 2005
(continued on next page)			

A5. President/Prime Minister mentions entrepreneurship in speeches and budget statements	Rozgar Scheme by NBP		Launched in 2006
A6. Entrepreneurship Development Action Plan at the national level	SME Policy (SMEDA), MDTF 2005-10		Policy is finalized – implementation is partially underway
A7. Government's vision promoting entrepreneurship, innovation and competitiveness at the national level	SME Policy (SMEDA) MDTF 2005-10		MDTF recommendations have been incorporated in the SME Policy
A8. Promotion of Entrepreneurship Profile for SMEs	Nil	Nil	
A9. Promotion of benchmarking and best-practice networks	NPO		Initiative is too new to judge success or failure
A10. Promotion of Women and Youth entrepreneurship	SME Policy, SMEDA, WIN, WEXNET	SHELL Tameer WCCI, LCCI	Same as above
A11. Promotion of e-business and ICT development	WIN, WEXNET		Same as above
A12. Promotion of technological innovation for SMEs	PSEB, NUST		Same as above
A13. Promotion of financial products and schemes for SMEs	SME Bank, NBP, FWBL	Bank Alfalah Union Bank	More aggressive promotion is required
A14. Productivity promotional campaign for SMEs	NPO		Considerable awareness has been created
A15. Promotion and availability of SME database, SME publications, SME web-based portals for information and business matching	SMEDA, WIN, INN	LUMS	
A16. Provision of infrastructural facilities, e.g., industrial parks, export promotion zones, etc.	Software parks by government		
<b>B. Regulation and Policies</b>			
B1. Laws/regulations/policies for SME development at the national level—availability of SME framework	MDTF-2005-10, SME Policy		Recently finalized, implementation of initiatives to commence
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

B2. Policies/regulations to support technological development	SME Policy		Same as above
B3. Policies/regulations for ICT development	SME Policy		Same as above
B4. Policies/regulations for SME's access to markets	SME Policy		Same as above
B5. Policies/regulations for SMEs' access to financial facilities	SME Policy, State Bank of Pakistan		
B6. Policies/regulations for entrepreneurship development (separate policy in addition to the SME Policy, if any)	SME Policy		
B7. Bankruptcy laws which ease the exit of enterprises that are not sustainable or competitive	SME Policy		Yet to be finalized for SMEs
B8. Labor laws and employment regulations affecting SMEs	SME Policy		
B9. Infrastructure facilities/exemptions provided to SMEs	SME Policy		Same as above
B10. Specialized Prudential Regulations for financing to SMEs	SME Prudential Regulation—SBP		Regulations are being implemented
B11. Regulations on financial incentives for SMEs, i.e., tax exemptions/benefits, duty concessions for SMEs	SME Policy		Same as above
B12. Policy/regulation for productivity development in SMEs	MDTF 2005-10		
B13. Policies and regulations for intellectual property rights	IPO-Pakistan		Initial stages of implementation
C. Administrative environment/framework			
C1. Availability of permanent or ad hoc units/cells mandated to represent SME views in the regulatory process	SMEDA	FPCCI, CCIs, Industry Associations, UNISAME	
(continued on next page)			

C2. Councils/consultative bodies/task force for SME development and/or to take SMEs' views into consideration while formulating policies and procedures	SMEDA	Industry Associations Chambers of Commerce and Industry	Task Force was formed by SMEDA for finalizing of SME Policy. Input has been valuable
C3. Experts advisory/advisory board/specialized boards set up to develop SMEs (in general or in specific sectors)	SMEDA		
C4. Availability of productivity improvement programs for the SMEs	NPO, NUST, SMEDA		Programs have been successful in creating awareness; trainings, consultancy
C5. Availability of Entrepreneurship Profile/Entrepreneurship Indicators for the country	NIL	NIL	
C6. Systems/programs to monitor the entrepreneurial profile, entrepreneurial activity, and entrepreneurial business environment (EBE)	NIL	NIL	
C7. Programs/focus on developing entrepreneurial mindsets, corporate vision and corporate entrepreneurship	SMEDA, IBA	LUMS	
C8. Procedures for Development of SMEs			
C8a. Registration of firms, formation of a new company, listing requirements	SECP		Single member company registration is also available
C8b. Exit of uncompetitive firms	Bankruptcy laws to be promulgated		
C8c. Compliance and reporting	SECP if registered as a company		
C8d. Licensing	Required in some businesses only		
C8e. Accounting standards	International Accounting Standards		Applicable only if registered with SECP
C8f. IT-driven communication through web portals	INN		
C8g. Taxation	Central Board of Revenue		
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

C8h. Utilities	WAPDA, PTCL, SNGC, SSGC		
C8i. Standardization	Pakistan Standards and Quality Control Authority		
C8j. Quality certificates, ISO certification	Pakistan Standards and Quality Control Authority	Moody, DNV Consulting Firms	
C8k. Insurance coverage schemes			
<b>D. Entrepreneurship Training and Education</b>			
D1. Entrepreneurship curriculum at universities and colleges (covering start-up strategies, entrepreneurial behavior, application of marketing and finance to start-up, entrepreneurial finance such as venture capital and angel investors, intellectual property rights, franchising, corporate entrepreneurship/intrapreneur, prototyping, technology transfers, etc.)	IBA and some universities	LUMS	Focusing on entrepreneurship
D2. Internship programs/ attachment with enterprises for developing entrepreneurial skills	Some universities	LUMS	
D3. Linkages between SMEs and colleges/universities	NUST	LUMS	
D4. Institute of Entrepreneurship	IBA	LUMS	New concepts are being developed with donor assistance
D5. Entrepreneurship Training programs, i.e., technical trainings, management trainings; trainings on corporate social responsibilities, entrepreneurship ethics, productivity and quality consciousness, use of information technology, ICT development, developing internal synergies and	PSEB, SMEDA, NUST, NPO	LUMS	
(continued on next page)			

alliances with their employees, etc.			
D6. Other skill development training programs and institutes (directed towards self-employment and entrepreneurship development, etc.)	TUSDEC Skill Development Center under TEVTA	NGOs	
D7. Quality Standardization and Testing Institute	Pakistan Standards and Quality Control Authority, PNAC, PCSIR		
D8. Other training institutes for human resource development of SMEs	NPO, SMEDA, NUST, IBA	LUMS	
E. Network and Linkages for SME Development			
E1. Availability of enterprise cluster	SMEDA	UNIDO	
E2. Availability of business development and business support service providers	SMEDA	Very few private consulting firms	
E3. Availability of business advisory/consultancy services for SMEs	SMEDA	Very few private consulting firms	
E4. Strategic alliances and joint ventures within domestic and/or international markets in SMEs	SMEDA		
E5. Sub-contracting support for SMEs by larger enterprises	NIL		
E6. Availability of business incubators	ACE, TIC (NUST)		
E7. Linkage programs for market access/programs, product development, technological access, etc. for improving domestic and international market access for SMEs	NUST, SMEDA, EPB		
E8. Supply chain and value chain networks in the country and internationally	Nil	Nil	
F. Technology and ICT			
F1. Initiative for cross-border technological cooperation (joint R&D, joint	Nil		
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

commercialization), regional association for technology-led enterprises			
F2. Technology business incubators	NUST		
F3. Availability of back-up/pilot and demonstration projects which foster innovation and technological development	SMEDA's projects for clusters (CFC)		
F4. Facilities for developing technopreneurs—availability of knowledge centers, research and development centers, and testing laboratories, etc.	NUST		
F5. Facilitation of benchmarking exercises and sharing of best practices—Best Practice Networks	NPO		Benchmarking in cotton spinning sector. More are currently underway
F6. Availability and facilitation of e-business and e-commerce practices, use of internet and other e-market, e-business methodologies	INN, WIN, WIT		Results are yet to be evaluated
F7. Availability of web-based SME portals, SME database, information networks	SMEDA, INN, WIN		Results are yet to be evaluated
<b>G. Financial Support</b>			
G1. Support and role of the Central Bank in providing financial access to SMEs	Prudential Regulation SME Dept		
G2. Availability of specialized financial institutions for SMEs	SME Bank SME Leasing		
G3. Specialized financial products and incentives for small enterprises	SME Bank	Union Bank Bank Alfalah Some leasing companies	Some programs have been successful, while some have to be promoted to be effective
G4. Availability of SME Fund, Technopreneurship or Intrapreneurship Fund, etc.	Competitive Support Fund Business Development Fund		
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G5. Availability of Venture Capital Funds or risk financing mechanisms, risk mitigation fund, credit guarantee schemes	SECP—Regulations for Venture Capital Companies, PEGF		
G6. Grants for SMEs for technological assistance, market access, productivity improvements, research and development, innovations, product development, e-business, ICT development, supply chain networks, etc.	Competitive Support Fund		

## CASE STUDIES

### **Biafo Industries Ltd.**

Biafo Industries, a medium-sized concern manufacturing commercial explosives and blasting accessories used in hydro projects, mining, oil and gas exploration, road construction, quarries, etc. was established by a group of private-sector professionals in Hattar Industrial Estate in NWFP. Biafo was the second such organization set up in Pakistan; its only competitor being a large-size organization that has worked in the market for the last 40 years. The company commenced operations in 1993.

### *Major Challenges*

Since its commencement the company has faced major marketing challenges. Due to the monopoly by a single organization, Biafo had to market a different type of explosives that was environment- and human-friendly, but it was new to the conventional dynamite technology. However, the greater challenge was political instability, which led to a lack of development in the 1990s, resulting in losses for the company, which experienced serious sustainability problems. Nine plant managers left in 10 years, and most of the employees left the organization for better opportunities.

Mr. Mumtaz uddin, the present plant manager, is one of the two original staff members who have survived in the organization since its inception. After earning an MBA, Mr. Mumtaz worked in different areas of the company before becoming plant manager in 2003. However, to implement his philosophy reflecting his strong entrepreneurial skills and his desire to turn the company around, he took on a commitment of “full authority and no interference” from his management. The management welcomed the opportunity.

### *Vision and Participatory Management Culture*

Mr. Mumtaz believed in the industry and in the people within the organization. He issued a vision statement: “We want to change set minds,” and embarked on implementing a participatory management culture at the factory premises. He was convinced that there was a need to implement a productivity and quality improvement program and communicated that to the employees. This began with the slogan “Biafo Family.” He then introduced an “open system” policy: all barriers between management and workers were eliminated, and every staff member could walk into the plant manager’s office with a suggestion. The plant manager himself interacted with the workers on the plant floor, sometimes doing the work himself with the workers. This improved two-way communication.

A philosophy of national growth was emphasized. Each staff member was motivated to believe in individual contributions to national prosperity—with hard work, the company would grow and ultimately the nation would prosper. Hence, the workers were provided with a challenging environment where they themselves became responsible to work hard and contribute to the economy.

A usual day at Biafo starts with a daily prayer and a 5- to 10-minute meeting of all staff members. A new motivational message is given every day. The plant manager is a strong believer that positive energy thrives on action, an energized team can take on the impossible and enjoy it, an edge is necessary to make tough decisions, and to get the job done, it must be carried out in spite of resistance, chaos, or unexpected obstacles. Passion, caring for everyone, and a heartfelt, deep, authentic excitement about the work can make a difference.

#### *Productivity Improvement Program*

The plant manager identified as weaknesses low productivity (from both equipment and workers) and low morale and motivation. These actions were subsequently implemented:

- Senior management was assigned to “Management by Wandering Around” with the slogan “We Sit Where We are Needed,” in order to get first-hand information about problems on the factory floor.
- A suggestion system was introduced for idea generation and improvement.
- Safety Week and Big Clean up Day programs were initiated, with the participation of senior management.
- An international color-coding/marketing scheme was introduced and carried out by middle management and workers at the shop level.
- Safety, Quality, and Productivity Improvement Teams were instituted to implement TQM and Kaizen philosophy at the plant. The main idea behind team development was to create an environment of idea generation through brainstorming sessions at the floor level to improve safety, quality, and productivity.

To further improve human resources at the factory, the following initiatives were taken:

- The recruitment procedure was refined and improved.
- Orientation programs were begun.
- Internal and external training programs with a focus on multi-tasking were initiated.
- The appraisal system was improved.
- Recognition was used to empower employees and allocate responsibility.
- Rewards (best worker trophy, bonus, best shop, best 5S team trophy, best idea generation, best safety team, etc.) were introduced. Non-monetary rewards such as letters of appreciation were also initiated.
- The motivation level was boosted by focusing on intrinsic and extrinsic rewards. Family get-togethers were organized; notice boards were installed on the shop floor to recognize high-performing workers.

Baifo carried out numerous successful in-house research and development activities to keep its manufacturing costs low without compromising on quality and timely delivery of products to market. Modifications, alterations, substitutions, and additions were made to the equipment to improve its productivity. These activities have led to savings in various processes, with overall enhanced productivity for the organization. A brief list of initiatives taken and the results thereof is given in Table 5.

Table 5. Productivity Improvement Plan and Results at Biafo Industries Ltd.

Plant/ Process	Activities Undertaken	Results
Tovex Plant	<ul style="list-style-type: none"> <li>• Brainstorming session for a participatory approach to generate ideas to tackle problems.</li> <li>• Technological changes, e.g., nozzles welded and diameter increased, buckets arranged for sleeves.</li> <li>• Distance reduced for feed and clipping.</li> <li>• Movement of workers minimized.</li> <li>• Quality improvement attitude.</li> </ul>	<ul style="list-style-type: none"> <li>• Production increased by 100% per day .</li> <li>• Rework came to zero.</li> <li>• Process wastages reduced from 15 kg to 9 kg per day.</li> <li>• Redesigning of packing by using bags instead of cartons saved PKR1.4 million per annum.</li> </ul>
Big Dia Meter	<ul style="list-style-type: none"> <li>• Mind-shaping session for ideas generation and participatory management.</li> <li>• Group/team activities with task oriented approach applied.</li> <li>• Early start-up of the KP machine and feeding in mixture.</li> <li>• Additional 5 workers in production line.</li> </ul>	<ul style="list-style-type: none"> <li>• Production increased by 114% per day.</li> <li>• Use of different material during start-up, trouble-shooting enabled saving of 48 kgs per month, i.e., PKR0.2 million per annum.</li> </ul>
Seismic Hard 1 Kg Shell	<ul style="list-style-type: none"> <li>• 50 plastic crates costing PKR0.008 million were added based on recommendation of the staff.</li> <li>• One technician was given two daily wagers for five extra hours of work to improve input at mixer. Each labor's cost was PKR365 per day.</li> </ul>	<ul style="list-style-type: none"> <li>• Productivity improved by 40%</li> <li>• Saving of PKR 0.160 million per day</li> </ul>
Anfo Shop and R&D Work	<ul style="list-style-type: none"> <li>• Weighing scale platform was placed beneath the discharge nozzle.</li> <li>• Machine designed to alter used bags and insert HDPE bags.</li> <li>• Manpower was trained to perform critical jobs.</li> </ul>	<ul style="list-style-type: none"> <li>• Production increased by 100% for Bio Prill (normal) and 69% for Bio Prill Special.</li> <li>• R&amp;D enabled to produce Bio Prill Special to minimize cost per customer demand, resulting in savings.</li> <li>• Available resources were utilized for fabrication thus saving PRK0.312 million.</li> <li>• Four workers were put out of assembly line thus resulting in savings of PKR21,120 per annum.</li> </ul>
Accessories Plant	<ul style="list-style-type: none"> <li>• Six different types of bottlenecks were identified.</li> <li>• Plant Manager studied the working environment, attitude, skill of each worker, motivation level, responsibilities and assignments in the shop, set-up time, change</li> </ul>	<ul style="list-style-type: none"> <li>▪ Bottlenecks were removed with participatory management resulting in enhancement of productivity by 63%.</li> </ul>
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	over time, start up time, time cycle and slack time at various workstations. • Competitor was benchmarked to create challenging environment.	
Electric/ Seismic Detonator Shop	• De-blocking activities.	• Production increased by 100%.
PETN Manufacturing Shop	• Increased batch size of PETN from 65 kg to 90 kg through indigenous R&D efforts.	• Productivity increased by 38%. • Saving of PKR1.8 million per annum .

Some of the results over the last three years:

- With the participation of workers at all levels, the plant manager was able to make in-house changes to the equipment and improve efficiencies of various production cycles in 16 plants.
- Productivity increased between 20% and 100%.
- Benchmarks are available to measure performance.
- Teamwork is prevalent, and there are no barriers between management and staff.
- Salaries have increased by 35%.
- The attitude and morale of the work force have improved. Employees are more responsible and results-oriented and participate in the growth of the company.
- Staff members interact with each other socially; families meet on a regular basis.
- Regular training and skill development are emphasized.
- The company has become a role model for NPO–Pakistan.

The organization is now looking towards implementing TQM and acquiring Occupational Health & Safety (OHSAS) 18001 certification. At Biafo the mission is, “To develop productivity-conscious people and teams without compromising on safety and quality.”

### **Silver Lake Foods Limited**

Silver Lake Foods is a medium-sized organization manufacturing a variety of confectionery products, e.g., biscuits, toffee, bubble gum, chocolates, candies, etc., under the brand name KIM. Established in 1995 as an SME, the organization was the brainchild of Mr. Qadir Mehmood, a food scientist. Chocolate and candies were introduced into the product line in 1998, while instant drinks under the brand name of U-Sip were introduced in 2002. The company operates a factory in Hattar Industrial Estate, located about 50 kms from the main capital, Islamabad. It complies with the quality standards ISO 14000, ISO 9001/200, and HACCP food safety requirements. It currently exports its products to 25 countries, primarily in the West, e.g., the U.S., UK, Australia, Canada, Sri Lanka, and Afghanistan.

### *Major Challenges*

2002 posed major challenges to the operations. A number of biscuit factories in Hattar failed and closed down. A major reason for this was the end of the sales tax exemption period, which increased the cost of production by 15%. However, the financial crunch increased substantially when a sugar crisis occurred and the price of sugar increased more than 300% from PKR10 to PKR38 per kg. At Silver Lake, 8–9 tons of this basic raw material was used daily, which led to a massive increase in the cost of production. A major challenge for the company

thus became reducing its cost of operation, enhancing sales volume, and improving overall productivity.

### *Productivity Improvement Plan*

In July 2005, at a time when contemporaries were closing down, Mr. Mehmood embarked upon a productivity improvement plan to reduce the organization's cost of production. With the assistance of his Quality Assurance Manager, Mr. Ishtiaq Hussain Kiani, quality parameters were set with a two-fold target: waste reduction and productivity enhancement. The targets were translated department-wise, machine-wise, process-wise, shift-wise, and variety-wise. A productivity implementation plan was put in place.

In the first couple of months, the results were not very encouraging. Mr. Mehmood, who is also President of the Hattar Industrial Estate Association, was introduced to the National Productivity Organization, Pakistan, and sought its assistance for the improvement of its program. NPO–Pakistan conducted an initial productivity audit of the company and analyzed its major problems. Subsequently, a productivity improvement plan was developed and fine-tuned. Productivity measurement criteria were put in place. Weaknesses were:

- A high percentage of waste in every product line, including raw materials and packing material.
- Manpower motivation and participation—staff and workers were not interacting to understand problems in process flows. Supervisors were not interacting with top management to take immediate remedial measures in manufacturing. Staff participation was minimal.
- The concept of quality assurance was focused only on product quality.

Subsequently, the concept of Quality Control Circles (QCC) was introduced. Employees were motivated to become more involved in identifying techniques to reduce waste (especially of products and wrappers) and improve efficiency. In addition, a suggestion scheme was introduced at all levels. Employees were asked to give their suggestions and observations on a machine-wise, process-wise, etc., basis. Subsequently, information and suggestions received from each department were discussed in a weekly meeting of departmental supervisors with the CEO. The decisions taken were properly noted, implemented, and followed up via an action plan. Process reengineering was implemented: bottlenecks in the process line, from cooking to packing, were identified. In some cases, molds were replaced, while in other areas the number of workers was rationalized and skills were improved.

Emphasis was placed on introducing Total Quality Management at the factory. The Quality Assurance Manager participated in a TQM course and learned the importance of becoming a facilitator rather than a controller. From that point on extensive training on “Becoming a Facilitator” was imparted to an in-house team of 16 members with the assistance of the NPO–Pakistan. Trainers were trained in quality control tools and their implementation; the organization thus transformed its Quality Assurance Team into facilitators to assist in collection of data, implementation of QCCs, interaction among the employees, etc. NPO–Pakistan also helped by sending the CEO to an APO course in Japan; this interaction with members of other APO member countries further facilitated knowledge sharing and improvement of the productivity and quality program. The CEO also participated in the six-week “Productivity Specialist” course being implemented by NPO–Pakistan.

### *Initiatives in Marketing and Promotion*

The sales team was revamped and strategies were formulated to expand into international markets. The organization put up booths at international exhibits in Germany to penetrate other markets. When the post-Taliban Afghanistan market opened up, Silver Lake immediately entered it.



*Initiatives in Research & Development*

Research on new products is carried out on regular basis. Two new products were added to the product line to meet increasing competition and growing market demand.

*Initiatives in Technology Upgrading*

The factory has 100% locally manufactured machinery. However, changing market needs have necessitated technological adjustments. The technology manager has been instrumental in indigenous upgrading of the plant and machinery, and almost 60–70% of what is currently installed has been fabricated in-house. Technology upgrading has been one-of-a-kind in Pakistan, and the Manager has recently been selected by the government for the President's Excellence Award.

*Initiatives in Human Resource Development*

Silver Lake does not have a specialized human resource function. However, through its quality assurance program, the organization has instituted a system of awards and incentive for the workers. Cash prizes are awarded for achieving targets. Best performance certificates are given on annual basis. To enhance motivation and interaction among the staff, frequent *samosa* and cake parties are organized. A training policy has been defined, and regular training programs are offered for all levels of employees.

*Results*

With its productivity improvement plan, Silver Lake was able to prevent the business from failing. In one year, the major achievements were:

- Not only did it absorb the price hike of 300% in its major raw material and the decreasing trend in the sale price; the company achieved a savings of PKR2–3 million per month.
- In its biscuit product line, waste were reduced to 0%, while in the candy product line it was reduced to less than 1%.
- The human resource atmosphere has become participative and workers are involved in the operations of the company. Regular training has improved skills and attitudes. Supervisors are more responsible in putting across the suggestions of their subordinates and implementing solutions for improving productivity of machines and labor. Workers realize the importance of their role.
- The Quality Assurance department facilitates implementation of the productivity improvement plan and assists in coordination of efficiency-related activities rather than controlling them. Revised quality parameters have been put in place; for example, for biscuits, the quality parameters measure biscuit breaking, taste, texture, moisture/shape, weight, etc.
- As a company that has transformed its operations in one year, the company has become a role model company for NPO–Pakistan. It is now intending to provide training services in QCC to 100 companies. The general manager of Silver Lake has also been nominated to be on the Central Steering Committee on QCC being set up by NPO–Pakistan.

The organization is now envisaging implementing just-in-time methodology to control inventory levels. However, it feels that due to poor communication networks in the country as well as infrastructure problems, this will be difficult. Moreover, government restrictions on a major raw material (i.e., restriction of flour purchases from one province to be sent to another due to the flour crisis in the country) further constrain inventory purchases. In the future, Silver Lake intends to introduce new brands and enter new markets.

### **Olive Handmade Cosmetics**

Olive is a brand of natural handmade skin care products launched in March 2005. The entrepreneur, Ms. Wajeeha Khan, graduated with an MBA from the Lahore University of Management Sciences, Pakistan, in 1999. Later, she worked for two years as a consultant with Andersen Business Consulting in Singapore, after which she joined Reckitt Benckiser, Pakistan as a brand manager. She then joined Procter & Gamble for a brief period, again in brand management. However, once Ms. Khan got more involved with her family and became the mother of a small child, she realized that she could not hold down a full-time job.

#### *The Concept*

Ms. Khan had learned the basics of the art of soap making while in Singapore. Initially, the business started off as a hobby for a year. She would work from her kitchen, testing various fragrances and colors of soaps made from natural ingredients. With the encouragement of her husband, a businessman, Ms. Kahn completed a technical training course in this field in North America and then decided to venture into her own enterprise.

#### *Market Assessment*

With her technical knowledge of making soap and her experience of evaluating businesses as a consultant and managing consumer brands as a brand manager, Ms. Khan launched her natural handmade products business with her range of natural handmade soaps. As a woman living in a cosmopolitan city, she was well aware of the demand for beauty products. Her initial market research was conducted among cousins, friends, and family acquaintances—the target market.

Ms. Khan became convinced of the viability of launching this product in Pakistan. With no local competitors, she had a competitive advantage in the uniqueness of the product. She sought to provide an alternative to expensive international brands (e.g., Body Shop) by providing quality and variety locally. After four months of concentrated effort, and with a small initial investment, she developed her product range and in March 2005 launched her business.

Today, Olive is a small firm employing a total of five direct employees. It is registered as a partnership. Ms. Khan's husband's business provides support in housing the setup in its factory premises and provides administrative support for accounting, distribution, etc.

#### *Major Challenges and Initiatives*

A major challenge has been time management. With a small child, managing a business was difficult. According to Ms. Khan, when one is starting a business, one often feels that it would be easy to take time off. However, with other responsibilities, things quickly become hectic and difficult to manage. The need to delegate responsibility and run the business in a serious manner was quickly recognized. She moved it from her kitchen to a separate premise within her husband's factory and then hired three women employees.

Hiring additional labor posed another major challenge. The women were uneducated, and it was important to guide them in the manufacturing process. In addition to training them, Ms. Khan developed a system for controlling production. She set up a system of maintaining pre-measured inputs and trained the women to use it. With the system in place, the women are now able to work independently on the production line.

Effective marketing of the products was increasingly important. Ms. Khan initially launched her business with an exhibit at her residence. She wrote articles in magazines and papers to introduce her products. The exhibit and the magazine write-ups were immediate publicity for her business, followed by photographs and coverage in other magazines. Her profile was printed, which provided an additional boost.

Ms. Kahn thus found it relatively easy to enter the market. However, being a woman entrepreneur also had its problems. Some stores were not initially willing to display her products.

Finally, she negotiated with two stores in Karachi in posh shopping centers. The shop owners knew her personally, which made it easier for her to approach them. Today, she has two part-time employees who help her in marketing, taking care of store checks, customer feedback, deliveries, and distribution.

### *Product Range*

The current product range has nine types of soaps for different skin types and five creams, including body scrubs. Olive is in the process of developing shower gels and gift baskets. Continuous research and development is necessary, and Ms. Kahn stays personally involved, always on the lookout for “what kinds of things girls like.” She believes that products should be priced to be affordable and yet convey top quality. She has priced her products lower than the international competitors but higher than the local brands. At present, Olive has no real local competitors.

### *Results*

In less than two years, Olive has:

- Expanded its product range from soaps to creams, shower gels, and baskets.
- Achieved distribution in 17 stores in 3 cities.
- Increased its sales five-fold.
- Achieved break-even and turned a profit.
- Launched a website.
- Won the second of Shell Tameer’s “Young Business Start-up” awards.

In the future Ms. Kahn wants to see Olive have a complete range of body care products that will include face washes, face creams, body creams etc. She plans to grow slowly and steadily, based on ongoing research. She also intends to acquire ISO Certification and expand her interaction with other entrepreneurs to increase her retail market. “The idea is to rediscover the old *totkas* (traditions) that mothers and grandmothers have used for years and the realization that they actually work”—Wajeeda Khan.

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## ENTREPRENEUR DEVELOPMENT FOR COMPETITIVE SMES— DEVELOPMENT STRATEGY AND OVERVIEW

### Macroeconomic Review

The Philippines has sustained its macroeconomic growth performance amidst adverse internal and external factors such as rising commodity prices and the oil crisis. Since 2001, Gross National Product (GNP)/Gross Domestic Product (GDP) has continued to increase, registering 6% growth in 2004, the strongest since the economy's last peak growth of 5.8% in 1996, and exceeding the Medium-Term Philippine Development Plan target of 4.9–5.8%.<sup>1</sup>

The economy regained the growth momentum that had been derailed during the third quarter of 2005 as the seasonally adjusted estimates of the GDP and the GNP increased to 2.7% and 3.0%, respectively, during the fourth quarter of 2005. All major sectors contributed positively to the growth of the economy despite persistent increases in oil and consumer prices and the political turmoil that continued to trouble business and government. GDP growth benefited from the accelerated performance of services, the strong growth of industry, and the recovery of agriculture. Services accelerated to 6.7% from 5.9%, while industry posted a lower growth of 6.5% compared last year's record of 7.2%. Agriculture, fishery, and forestry posted the lowest growth among the three major sectors, at 4.0%, but up from 1.2%.<sup>2</sup>

Services, with a share of 46.8% of total GDP, contributed the most to GDP growth, with 3.11 percentage points. Leading the sector's growth were trade, finance and transport, communication, and storage. Industry accounted for 32.6% of GDP and contributed 2.1 percentage points to total GDP growth, its highest during the four quarters of the year. However, except for mining and quarrying, all sub-sectors declined from the record growths posted during the fourth quarter of the previous year. Agriculture, fishery, and forestry, which accounted for 20.6% of total GDP, contributed 0.84 percentage point to total GDP growth. Top contributors to growth were fishery, rice, other crops, bananas, and livestock. However, corn and forestry pulled down growth during the quarter.<sup>3</sup>

Foreign Direct Investments (FDI) from January to August 2005 reached USD929 million, or a growth of 70.5% from the USD545 million registered the previous year. Foreign Portfolio Investments surged to USD2.1 billion for the first 11 months of 2005, more than four times the USD486.8 million registered in 2004.<sup>4</sup>

Despite weakness in the international market, export earnings from January to September 2005 reached USD29.96 billion, or 3.4% higher than that registered in the same period the previous year.<sup>5</sup>

The combined effects of the government's cost-cutting programs, improved tax collection efforts, and higher revenues from sin taxes<sup>6</sup> and the Expanded Value Added Tax (EVAT)

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<sup>1</sup> Republic of the Philippines, "The 2005 Accomplishments of the Arroyo Administration," p. 7, [www.gov.ph/2005YearEnd/2005YearendReportMainText.doc](http://www.gov.ph/2005YearEnd/2005YearendReportMainText.doc) (accessed 9 January 2006).

<sup>2</sup> National Statistical Coordination Board, "GDP Accelerates to 6.1%," press release (30 January 2006), <[www.nscb.gov.ph/sna/2005/4thQ2005qpr4.asp](http://www.nscb.gov.ph/sna/2005/4thQ2005qpr4.asp)> (accessed 2 February 2006).

<sup>3</sup> NSCB, press release.

<sup>4</sup> Alexander Dacanay, "Philippine Economic Update 2005," *The SGV Review* (September 2005), pp. 13–21, [www.ey.com/global/download.nsf/Philippines/SGV\\_Review\\_September\\_2005/\\$file/sgvreview\\_sept2005.pdf](http://www.ey.com/global/download.nsf/Philippines/SGV_Review_September_2005/$file/sgvreview_sept2005.pdf) (accessed 4 January 2006).

<sup>5</sup> Dacanay, pp. 13–21.

brought down the fiscal deficit in 2005 to PHP146.5 billion, substantially lower than projected at PHP180 billion.

It is also noteworthy that inflation was kept at single-digit levels in spite of record high oil prices and sustained economic growth. From 8.4% at the beginning of 2005, headline inflation fell to 6.6% by year's end, due mainly to declining food prices and the easing of oil prices from record levels, as well as the appreciation of the peso against the U.S. dollar.

The country's external position also strengthened in the past year. The overall balance of payments position for 2005 stood at a surplus of USD2.4 billion, a turnaround from the previous year's large deficit. This was made possible by remittances from overseas Filipino workers, which in 2005 reached nearly USD11 billion, the highest on record; higher investment inflows also contributed to this surplus.

### **National Development Strategy and Economic Plan<sup>7</sup>**

President Gloria Macapagal-Arroyo reiterated in her 2005 State of the Nation Address (SONA) that the government would not waiver in its commitment to pursue sustained economic reforms and fiscal discipline whatever the political cost in order to achieve macroeconomic stability and put the fiscal house in order. Significant accomplishments were made during the first phase of her administration's economic reform package. The challenge that remains is to build on these reform measures and consistently align policy initiatives with the goals of strengthening the country's fiscal health and enhancing investor confidence in the economy.

Under the first phase of reforms, the government instituted administrative measures and enacted revenue-generating tax measures to improve revenue collections. Three monthly budget surpluses have been recorded so far, with revenue collections increasing by 15% in the first 11 months of 2005 over that of the same period in 2004. The budget deficit is well within target.

Under the second phase of reforms, the government will continue to adopt measures to effectively implement the tax reforms and tax administration initiatives to further raise tax awareness, optimize revenues, and increase the key tax ratios. It will continue to focus on measures that address sustaining macro-economic stability, restructuring and reforming the financial sector, restructuring and reforming the power sector, and increasing infrastructure, investments, exports, and employment.

### **Development**

The Philippine Constitution was adopted in 1935, accompanied by a commitment to economic success. Nearly 10 years after that, and up until 1965, rapid industrialization took place. The Industrial Guarantee and Loan Fund fueled growing industries. Research and development institutes were established, the Investment Incentives Act was enacted, and the Foreign Trade Zone Authority was created. In the late 1960s, a strategy on export-oriented industries was developed. Enactment of the Export Incentives Act followed in 1970.

Through the Cottage Industries Act, passed in the 1960s, small industries were recognized. The University of the Philippines then launched a special project on small-scale industries training. The 1970s gave way to the growth of small and medium industries (SMIs), which were emphasized in the Philippine Development Plan. SMIs relieved the economy from inflation and pressure on energy-intensive industries.

In 1974, the Department of Industry was established. At the same time, Small Business Assistance Centers were set up. Formation of the Commission on Small and Medium Industries and enactment of the Investment Promotion Act occurred in 1975 and 1979, respectively.

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<sup>6</sup> Tax on products considered vices, such as liquor or cigarettes.

<sup>7</sup> Republic of the Philippines, "The 2005 Accomplishments of the Arroyo Administration," p.1, [www.gov.ph/2005YearEnd/2005YearendReportMainText.doc](http://www.gov.ph/2005YearEnd/2005YearendReportMainText.doc) (accessed 9 January 2006).

During the administration of President Corazon Aquino (1986–92), democratic reforms and changes in economic programs were undertaken. Efforts included integration and simplification in trade and industry services, development focused on SMEs and countryside development, micro enterprise development, and enactment of the Magna Carta for Small Enterprises, the Local Government Code, and the Cooperative Code.

The administration of President Fidel Ramos (1992–98) initiated a two-track investment strategy consisting of foreign direct investment and integrated development assistance for small enterprises. Presidential Proclamation No. 256 was issued during his term, declaring the third week of July to be Small Enterprise Development Week. Highlights of his administration's efforts are the enactment of the Export Development Act, the amendment of the Magna Carta for Small Enterprises, and the establishment of SME Centers. SME development was guided by the principles of viability, sustainability, and private sector initiative.

During his term of office, President Joseph Estrada (1998–2001) focused on the development of rural industries and village enterprises. The SME development strategy underscored sound partnerships between government and the private sector. His administration worked towards the complementary relationships among the Export Development Council, the Industry Development Council, and the Small and Medium Enterprise Development Council. Strategic imperatives included narrowing the focus on identified priority sectors, promoting mutually beneficial linkages among small and large firms, strengthening technology and R&D initiatives, bolstering HRD, and improving access to financing. The Administration also instituted the Export Development Plan, which placed emphasis on industries clustering and global competitiveness, efficiency, innovation, and entrepreneurship.

With the current administration under President Gloria Macapagal-Arroyo, the Medium Term Philippine Development Plan (MTPDP) strategy is a priority, stressing enterprise development anchored on the capacity for global competitiveness. The comprehensive approach to SME development involves training, market development, product development/technology intervention, advocacy for an enabling environment, and financing.

### **Definition**

A small and medium enterprise (SME)<sup>8</sup> is defined as any business activity or enterprise engaged in industry, agribusiness, and/or services, whether single proprietorship, cooperative, partnership, or corporation, whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant, and equipment are situated, must have value falling under the following categories:

By asset size<sup>9</sup>:

- Micro—up to PHP3,000,000.
- Small—PHP3,000,001 to PHP15,000,000.
- Medium—PHP15,000,001 to PHP100,000,000.

Alternatively, SMEs may be classified according to employment size:

- Micro: 1–9 employees.
- Small: 10–99 employees.
- Medium: 100–199 employees.

As of 2003, the National Statistics Office (NSO) had recorded 810,362 business enterprises operating in the Philippines. Micro, small, and medium enterprises account for 99.6% of the total, while large enterprises make up the remaining 0.4% (Figure 1). In the same year, SMEs

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<sup>8</sup> The Republic Act 6977 (as amended by R.A. 8289), otherwise known as the Magna Carta for Small Enterprises, states that “in a generic sense, small enterprises shall include micro enterprises.”

<sup>9</sup> Small and Medium Enterprise Development (SMED) Council Resolution No. 01 Series of 2003.

employed 3.9 million individuals representing 68% of the total labor force. About 37.7% or 2,152,105 jobs were generated by micro enterprises, 23.1% or 1,321,436 by small enterprises, and 7.1% or 403,828 by medium enterprises. Large enterprises accounted for the remaining 32% or 1.8 million of the total labor force (Figure 2).

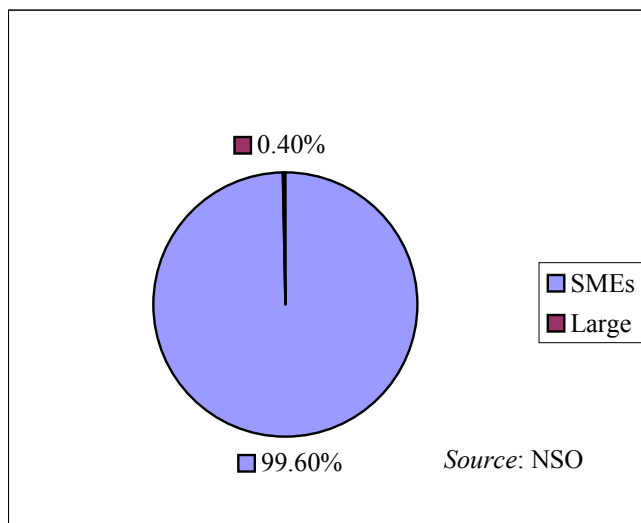


Figure 1. Enterprise Share by Number of Establishments

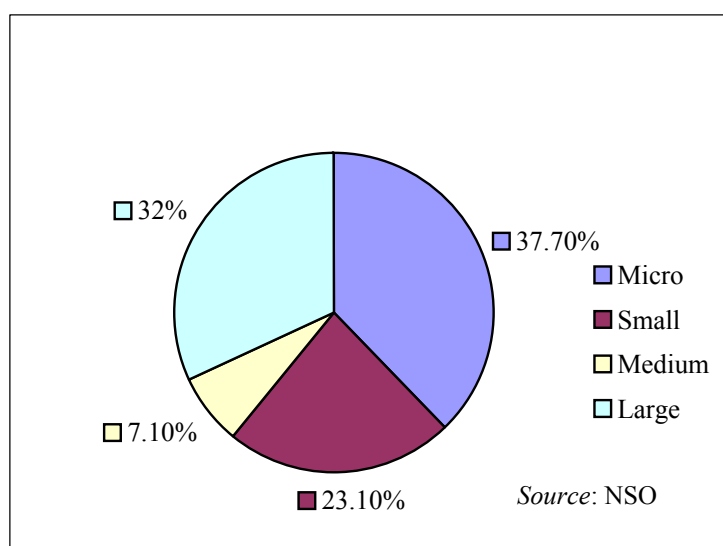


Figure 2. Employment Generation by Size of Establishment

SMEs contribute around 30% of total sales and value-added in the manufacturing industry (NSO, 1994). Some 60% of all exporters are SMEs that indirectly contribute to the country's exports through subcontracting arrangements, linkages with large firms, or as suppliers to ex-

porting companies. The sector's direct exports contribute about 25% to total exports, which represents 5% of the total output of the manufacturing sector.

The majority (54%) of the 810,362 SMEs in operation in 2003 were in the wholesale and retail trade industry, followed by manufacturing establishments, contributing 15% to the total count. Other industries were hotels and restaurants, 11%; other community, social, and personal services activities, 5.0%; real estate, rental, and business activities, 4.7%; health and social work, 3.5%; financial intermediation, 3%; and transport, storage, and communications, 1.7%.

### **General Characteristics**

SMEs play a major role in economic development through their contribution in rural industrialization, rural development and decentralization of industries, creation of employment opportunities and more equitable income distribution, use of indigenous resources, earning of foreign exchange resources, creation of backward and forward linkages with existing industries, and entrepreneurial development. Philippine SMEs consist of enterprises that can be classified as belonging to both the "formal" and "informal" sectors (the "informal sector" refers to those enterprises that have not been formally registered with the appropriate government agencies). These are equipped with basic information, skills and management training, and assistance in product design and development. Many employees are not highly educated and thus need appropriately designed information that can be easily understood.

Due to limited resources, SMEs place greater emphasis on recouping investments. They tend to give less priority to undertaking environmental management or pollution mitigation measures because they regard such activities as costly. The government, however, has been working to persuade SMEs in particular to adopt cleaner production technologies and processes and to develop and implement an effective environmental management system.

### **Key Issues and Challenges**

Compared to other Asian economies, Philippine SMEs are generally below-average performers. Issues that relate to their inferior competitiveness include fierce competition in export markets and an influx of cheaper priced competition,<sup>10</sup> limited domestic markets, a need for imported parts/materials, limited industrial linkages, a lack of basic operational management knowledge/expertise, barriers to forming businesses (lack of support in funding and R&D), and limited economic activities at the local level.

The majority of limitations faced are based in productivity performance and structural weaknesses of services and the business environment, which include outmoded or less productive operational assets/methods, insufficient use of technology, limited room for efficient operational levels, insufficient management skill and professional know-how, insufficient or inaccessible funding sources, underutilized or inadequate professional services, insufficient incentives and inability to meet regulatory procedures, and insufficient access to information.

Limitations relating to funding sources involve limited access to sources to capitalize the enterprise and low fixed assets and profitability. Institutional debt financing is used by only a small segment (less than 10%), mainly out of fear of loan exposure, inability to qualify because of lack of collateral, and lack of knowledge about credit sources and processes. The inaccessibility of external funding militates against achieving an efficient production capacity level, resulting in low or marginal profitability. This also explains the prevailing use of low-technology manufacturing that restricts growth. Credit facilities are not easily available and carry burdensome terms. In addition, most formal credit facilities have limited reach.

There is also inadequate knowledge about market opportunities, or they are inaccessible. Most SMEs sell locally, to end consumers. Marketing outside the local markets is usually

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<sup>10</sup> The stark reduction in tariffs has generated an influx of foreign goods. The Philippines now faces tough competition, particularly from China, which can sell its products at a much lower price.



limited to trade fairs. Very few sell to major, permanent outlets like supermarkets, department stores, and market services because of their inability to meet volume requirements and the unfavorable terms exacted by these buyers (e.g., 90–120 days credit).<sup>11</sup> Individuals and households, mostly from the poor and middle classes, are the main clients for SME products; only a few cater to volume buyers or can reach interregional, national, and foreign markets. Some marketing problems are linked to other weak points, including scarcity of funding and low technology levels and unavailable market information and services, especially as concerns packaging, distribution, and shipping.

## **DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS**

### **Regulations and Policies—Institutional Framework<sup>12</sup>**

#### *Policy and Promotional Structure at the National Level*

- **Small and Medium Enterprise Development (SMED) Council**  
The SMED Council, a multi-agency group of eight persons who represent concerned government agencies and four private sector representatives, formulates SME promotion policies and provides guidance on implementing SME programs. Ex officio members are the National Economic Development Authority (NEDA) Director-General; the Department Secretaries of Trade and Industry, Labor and Employment, Science and Technology, Agriculture, Environment, and Natural Resources; the Chair of the Small Business Guarantee and Finance Corporation; and the Chair of the BSP Monetary Board. Private sector members represent Luzon, Visayas, Mindanao, and the private banking sector. The Department of Trade and Industry (DTI) Secretary chairs the Council. DTI's Bureau of Small and Medium Enterprise Development (BSMED) serves as the Secretariat.
- **Department of Trade and Industry (DTI) and the SME Development Group**  
DTI is responsible for developing and regulating business enterprises, large and small. Its five operating groups are Industry and Investments, International Trade, Consumer Welfare and Trade Regulation, Regional Operations (supervising field offices in 16 regions and 79 provinces), and the SME Development.  
The SME Group coordinates SME services at DTI. It includes the BSMED (lead on initiating/coordinating specific SME policies, programs and projects), the Small Business Guarantee and Finance Corporation (financing services), the Philippine Trade Training Center (development/implementation of SME training and learning activities), the Product Development and Design Center of the Philippines (product development initiatives and design programs), and the Cottage Industry Technology Center (technologies). The core group developed the 2002 National Development Agenda to respond to the immediate needs of SMEs and advocate for a unified lending facility through the SME Unified Lending Opportunities for National Growth (SULONG) Program.  
Other DTI agencies that directly support SMEs are the Bureau of Product Standards, the Bureau of Trade Regulation and Consumer Protection, the Bureau of Export Trade

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<sup>11</sup> This is an increasingly important issue, as enormous pressure is put on a business's cash flow while waiting for payment. Deferred payment (e.g., 90–120 days credit) creates a cash shortage; SMEs use their own funds or borrow from informal sources, since they have difficulty borrowing from financial institutions. Some can borrow the amount equivalent to a purchase order from banks by presenting a letter of credit in the case of export business or a purchase order in the case of sales to a large corporation, but this only serves to cover immediate fund requirements, and the loan is not available for capacity expansion. As a result, even if an enterprise successfully promotes its product and has prospects for sales, it cannot take advantage of the situation due to the shortage of investment capital.

<sup>12</sup> Department of Trade and Industry, pp. 19–25.

Promotion, the Board of Investments, the Center for International Trade Expositions and Missions, and the Philippine International Trading Corporation.

*Promotion at the Local Level*

DTI regional and provincial offices provide extensive presence and reach, even as DTI coverage reaches the municipal/city level through satellite units of the provincial offices in selected areas. While DTI is widely represented in the country, there are relatively few field staff members. Staff turnover has reduced the number of trained and experienced personnel available to service the more complex needs of SMEs in attaining competitiveness. There are concerns that the attention to SMEs has declined due to DTI's many other activities. This calls for refocusing some SME programs on the countryside. Currently, each province has an average of 15 to 20 personnel, of which a third are assigned to SME development. Thus, even under ideal circumstances, a typical DTI provincial office can handle only 500 to 1,000 of the 10,000–40,000 existing enterprises per year. In view of the varied assigned thrusts of field offices, providing business services may often take a lesser priority. These many activities put considerable pressure on field operations. DTI has recognized this difficulty and has shifted efforts to local trade associations, NGOs, and local government units that directly serve SMEs. This approach has succeeded.

*SME Partner Government Organizations with National and Local Structures*

- Department of Science and Technology (DOST)  
DOST implements programs that target SMEs in addition to those organizations operating for general national technology policies. These relatively numerous DOST SME-supported programs focus primarily on technical concerns, even as they include some loan programs for upgrading equipment. They include Small Enterprise Technology Upgrading (SETUP), which provides information and direct assistance in improving productivity in selected industries through a holistic approach to improving the production setup, Technology Business Incubators (TBIs), common service facilities for major SME industries where DOST rents/sells equipment/utilities until the new firms are able to establish their own, and the Manufacturing Productivity Extension Program, which provides technical experts so that selected manufacturing enterprises can improve operations and productivity. DOST has regional offices and science and technology coordinators to promote its services and provide other relevant services in cooperation with other agencies, such as DTI and the Department of Agriculture. DOST agencies charge subsidized fees for some services, like laboratory testing, that are remitted to the national government. However, some agencies are authorized to retain part of these fees for specific uses.
- Department of Labor and Employment (DOLE)  
DOLE is responsible for general functions of policymaking, regulation, and development concerning labor and employment, clustered as worker protection and welfare, employment and manpower development, labor relations, and regional operations. As part of its mandate, DOLE provides livelihood facilities oriented toward developing entrepreneurship, usually with funding as seed capital for successful graduates of its skills programs. A special agency—the Technical Education and Skills Development Authority (TESDA), which has high-level authority from public and private institutions—serves the need for skills development, providing regional, provincial, and municipal support for skills development activities and targeting out-of-school youth, unemployed and underemployed persons, and SMEs. The National Wages and Productivity Commission (NWPC) operates under the auspices of DOLE and provides programs on productivity directed toward SMEs and their employees.

- Department of Agriculture (DA)

DA is responsible for the promotion of agricultural development by providing the policy framework, public investments, and support services needed for agriculture sector enterprises. In line with R.A. No. 8435, its programs are anchored on a market-driven approach, adopting the supply chain of agricultural and fisheries commodities. DA takes a holistic view of agribusiness enterprise development, considering the global arena of the borderless economy. It identifies gaps for possible intervention through commodity road maps for selected competitive agricultural and fisheries commodities. The Agribusiness and Marketing Assistance Service, in collaboration with all DA bureaus, regional field units, and attached agencies, together with the agribusiness industry stakeholders, cooperates and participates in local/international agri-aqua fairs, food shows, trade and investment missions, and congresses. DA also provides technical assistance by supplying training and marketing information to agribusiness entrepreneurs through access to the DA website. The Department complements activities of other government agencies and private entities in implementing agribusiness activities.

- Department of Environment and Natural Resources (DENR)

DENR is responsible for environment protection and development services that cover policy formulation, regulations and developmental services to communities, protected areas, and organized activities. Two main programs relate to SME development: the environmental clearance and regulatory compliance program through Environmental Clearance Certificates, and livelihood and environment demonstration on key commodity development focusing on market-enterprise “movers” and suitable production areas with competitive attributes. A showcase project involves contract growing and the tilapia fillet project.<sup>13</sup>

Organic products and priority products promotion have been introduced through nursery and seedling production pilot projects of the Community Livelihood Assistance Program (CLASP) as demonstration projects for agrarian reform communities. They include essential oil production (Ilagan, Isabela); medicinal crop growing (Peñablanca, Cagayan); a community composting project (Quezon City); agro-forestry, goat raising, and charcoal briquette production (Sarangani, Cavite); agro-forestry (Magallanes, Cavite); integration of agro-forestry and mango growing (Oriental Mindoro); coastal reforestation (beach forest) establishment and blue crab harvesting (Iloilo); bamboo plantation (La Union); seaweed harvesting, bee farming, mango farming, and eco-tourism (Bohol); agro-forestry and cut flower production (Claveria, Misamis Oriental); and giant clam ocean nursery (Guinisilban, Camiguin).

- Department of the Interior and Local Government (DILG) and Local Government Units (LGUs)

LGUs are directed by the Local Government Code to promote livelihood projects and local enterprises to spur development in their areas. The Local Development Council formulates local development plans for each LGU, including socio-economic infrastructure and investment programs. DILG provides support to improve the capability of delivering basic services and to help LGUs take on new functions. An important role is delegated to the LGUs in enterprise development. At present, LGUs provide some funding support for

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<sup>13</sup> Fish fillet aquaculture has a great market potential for tilapia (also known as St. Peter’s fish) growers. It is a value-added product and has potential as a dollar-earning industry in the international market. The tilapia fillet project is a priority agenda in Region X (Northern Mindanao). Targets include establishing a tilapia fillet processing plant in Cagayan de Oro City and Misamis Oriental, developing 360 hectares of fishponds for tilapia fillet production within two years, and exporting USD4.8 million worth of tilapia fillet per annum at USD4 per kilo.

livelihood projects and enhancement of the SME Center program. LGUs also play a significant part in the implementation of the Barangay Micro Business Enterprises (BMBEs) Law. However, most LGUs concentrate on infrastructure projects, thereby resulting to a minimal contribution to enterprise growth. LGUs promote SMEs indirectly by providing a supportive business environment through incentives and policies that favor SMEs. Some LGUs have initiated entrepreneurship and skills training and market support/linkages. So far, only a few LGUs (Bulacan, Bohol, Davao City, and Marikina City) showcase support to SMEs. Despite possible enhanced support for SME development, most LGUs still do not have the required attitude, resources, and expertise.

### *Special Government Agencies*

- **University of the Philippines–Institute for Small Scale Industries (UP–ISSI)**  
UP–ISSI provides support through training, research, and information services on its own or through joint programs with government agencies or private groups. Training on entrepreneurship, enterprise management, and extension-oriented training for development workers are its main activities, especially conducted with its affiliate, the Small Enterprise Research and Development Foundation.
- **Technology and Livelihood Resource Center (TLRC)**  
TLRC conducts livelihood and skills training courses on practical crafts, hobbies, and livelihood opportunities. The courses have been judged useful by its clients and are financially sustainable from the fees collected (cost plus overhead). The positive results of the approach and the programs may be extensively applied in the regions.
- **Development Academy of the Philippines (DAP)**  
Through its Productivity Development Center and other related units, DAP provides training and management programs to improve the performance of SMEs. TLRC and DAP are specialized agencies under the Office of the President of the Philippines.

### **The Policy Environment and Regulatory Framework**

#### *Republic Act 6977 as Amended by RA 8289: Magna Carta for Small Enterprises*

The basic policy in SME promotion is outlined in the Magna Carta for Small Enterprises, enacted in 1991 and amended in 1997. It declares that it is the policy of the state to promote, support, strengthen, and encourage the growth and development of SMEs in all productive sectors of the economy. To this end, the state is expected to undertake activities to spur the growth and development of SMEs throughout the country and thereby attain countrywide industrialization. These activities include creating an enabling and supportive business environment, improving access to financing, providing adequate business support, providing training on entrepreneurship and worker skills, providing linkages between SMEs and large firms, and working in partnership with the private sector. Major provisions:

- *Creation of the Small and Medium Enterprise Development (SMED) Council.* The Council is the primary agency responsible for the promotion, growth, and development of SMEs in the country by facilitating and closely coordinating national efforts toward this end.
- *Creation of the Small Business Guarantee and Finance Corporation (SB Corp.).* The SB Corp. provides, promotes, develops, and widens, in scope and service reach, various alternative modes of financing for SMEs.
- *Mandatory allocation of credit resources to small enterprises.* For the period of 10 years from the date of the effectiveness of the Act, all lending institutions as defined under Bangko Sentral ng Pilipinas (BSP) rules, whether public or private, shall set aside at least

6% and at least 2% respectively of their total loan portfolio, based on their balance sheet as of the end of the previous quarter, and make it available for SMEs.

- *10% share of SMEs in government procurement.* SMEs should have a 10% share of the total procurement value of goods and services supplied to the government.

*R.A. 9178: Barangay Micro Business Enterprises (BMBEs) Act of 2002*

RA 9178, or the BMBEs Act of 2002, encourages the formation and growth of BMBEs (or micro enterprises) by granting them the incentives and benefits of exemption from income tax on income arising from the operations of the enterprise, exemption from the coverage of the minimum wage law (BMBE employees will, however, still receive the usual social security and health care benefits), priority access to a special window set up specifically for the financing requirements of BMBEs, technology transfer, production and management training, and marketing assistance programs for BMBE beneficiaries.

**Other Incentives for Enterprises**

Special incentives have been made available by legislation to promote business activities:

- Exemption from corporate income taxes (4–8 years), national and local taxes, duties and taxes on machinery, spare parts, materials and supplies; tax credit for imports and import substitution of capital equipment and for breeding stock and genetic materials (R.A. 7916 and R.A. 7227, Special Economic Zones Act and Clark and Subic Special Economic and Freeport Zone).
- Exemption from value-added tax for certain exporting industries and from excise taxes on locally produced products, and lowered taxes on spirits made from indigenous materials (R.A. 8424, Tax Reform Act).
- Incentives under preferred areas of investment in the Investment Priorities Plan {IPP} (Executive Order 226, Omnibus Investment Code).
- Incentives for specified locations such as the Registered Economic Zones (R.A. 7916), Less Developed Areas, (R.A. 7844) and those granted by Local Government Units under the Local Government Code.
- Incentives for investors for tax and duty exemptions, loan assistance, and technical support for start-up and improved SME technologies (R.A. 7459, Investors and Invention Incentives Act).

SMEs, however, are effectively unable to enjoy capital-related incentives because of funding constraints. Incentives like tax holidays and tax deductions are not relevant to micro and small enterprises due to their low earnings and capital investments. For similar reasons, export incentives are not accessible to smaller enterprises. SMEs find the procedures for incentives too complex, if not impossible, to fulfil. The documentation requirements (like feasibility studies they are expected to develop) are far beyond their technical competence. To be fair, however, many SMEs have grossly inadequate recordkeeping and accounting systems that are vital to documentation needs.

**Labor Laws and Employment Regulations Affecting SMEs**

One of the incentives granted to a registered BMBE is exemption from the coverage of the Minimum Wage Law as provided under Section 8 of the BMBEs Act of 2002. In order to ensure uniformity in the interpretation and implementation of this provision, the Department of Labor and Employment (DOLE) through a Department Order, has issued appropriate guidelines. DOLE, through the National Wages and Productivity Commission (NWPC) and the Regional Tripartite Wages and Productivity Boards (RTWPBs), in 2005 showed a proactive stance and

sensitivity to the needs of workers without sacrificing the competitiveness of business enterprises.

In regard to wages, the Regional Boards issued 17 wage orders, 10 of which were *motu proprio* adjustments while the remaining 7 were based on petitions for wage increase filed by labor groups. In addition, the NWPC initiated meetings with concerned government agencies to propose non-wage measures to help workers cope with the implementation of the E-VAT, which took effect on 1 November 2005. The proposed measures include exemption from withholding tax for minimum wage earners to increase disposable income of workers in both public and private sectors, access by workers to low-cost basic goods and commodities, and provision of transportation assistance and benefits to workers.

In regard to productivity, the NWPC, in partnership with the Employers Confederation of the Philippines (ECOP), spearheaded the Big Enterprise, Small Enterprise project, which demonstrates effective partnership between the government and the private sector. Under the program, top business enterprises team up to help increase the nation's competitiveness by building up the productive capacities of their SME suppliers.

The Commission also conducted 10 Learning Sessions, which benefited more than 650 participants, the majority of whom were human resource managers, accountants, and lawyers. Their goal was to impart knowledge and understanding of the interpretation and implementation of wage orders issued by the RTWPBs as well as appreciation of the importance of productivity in boosting the success potential of any organization.

#### **General Registration Requirements<sup>14</sup>**

Setting up a business in the Philippines requires:

- Registration of corporations and partnerships—Securities and Exchange Commission (SEC).
- Registration of business name/single proprietorship—Bureau of Trade Regulations and Consumer Protection (BTRCP).
- Registration for availing incentives under Executive Order 226—Board of Investments (BOI).
- Registration of export firms (for those locating in any of the country's export processing zones and availing of incentives)—Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority, Clark Development Corporation.
- Registration of foreign investments for purposes of capital repatriation and profit remittances—Bangko Sentral ng Pilipinas (BSP).
- Securing a Tax Identification Number (TIN)—Bureau of Internal Revenue (BIR).
- Securing location clearance/business permit for firms locating in the Metro Manila—Metro Manila Development Authority (MMDA) area.
- Securing building permit and license to do business—city halls/municipal offices in the localities where the business will be set up.
- Securing an employer's SSS number—Social Security System (SSS).
- Securing membership in the government health care benefits system—Philippine Health Insurance Corporation.
- Securing electric services connection—Manila Electric Co. (MERALCO) for businesses in the MERALCO franchise area; local electric utility firms for companies located outside the MERALCO franchise area.

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<sup>14</sup> Department of Trade and Industry, "Business Requirements," [www.dti.gov.ph/contentment/9/60/111/380.jsp#1](http://www.dti.gov.ph/contentment/9/60/111/380.jsp#1) (accessed 20 January 2006).

- Securing water services—Maynilad Water Works and/or Manila Water Company for firms located in Metro Manila and Local Water Utilities Administration (LWUA) for firms located outside Metro Manila.

Entrepreneurs can expect to go through 11 steps to launch a business; the process takes over 48 days on average, at a cost equal to 20.3% of gross national income (GNI) per capita. They must deposit at least 2.0% of GNI per capita in a bank to obtain a business registration number. The procedures required to register a business in the Philippines are shown in Table 1.<sup>15</sup>

Table 1. Procedures Required to Register a Business

Nature of procedure (2005)	Procedure #	Duration (days)	Cost (USD)
Obtain proof of funds	1	1	0.00
Register incorporation with the SEC	2	3	32.50
Barangay clearance	3	2	14.92
Mayor's permit	4	11	133.74
Buy books of account	5	1	4.66
Register for VAT and get tax ID	6	15	9.33
Payment of Documentary Stamp Taxes	7	1	0.00
Obtain the authority to print invoices	8	1	0.00
Print receipts/invoices	9	1	41.97
Register receipts/invoices	10	1	0.00
File for social security and Medicare	11	11	0.00
Total		48	237.12

The web-enabled Business Name (BN) Registration is one of the principal front-line services of the DTI. Its goal is to maintain the nationwide registry of business names. Correspondingly, the Board of Investment's (BOI) frontline unit, the One-Stop Action Center (OSAC), assists investors in doing business in the Philippines under one roof. It houses representatives from different government agencies who answer investors' inquiries and process the investors' business registrations.

### **Bankruptcy Laws**

A study conducted by the World Bank revealed that it takes 5.7 years to complete a bankruptcy procedure, as estimated by bankruptcy lawyers. Delays due to legal derailment tactics that parties to the bankruptcy may use—in particular, the extension of response periods or appeals—are considered an important reason. The cost of the bankruptcy proceedings is 38% of the estate. This includes court costs as well as fees of insolvency practitioners, independent assessors, lawyers, accountants, and the like. Bribes are not included. The recovery rate is 4.1%; this measures the efficiency of foreclosure or bankruptcy procedures by estimating how many cents on the dollar claimants—creditors, tax authorities, and employees—recover from an insolvent firm. The calculation takes into account whether the business remains an ongoing concern during the proceedings, as well as court, attorney, and other related costs and the discounted value due to the time spent closing down.

The Securities Regulation Code (R.A. 8799, July 2000) transferred jurisdiction over debt-payment suspension and corporate rehabilitation cases filed after June 2000 from the Securities and Exchange Commission (SEC) to regional trial courts (RTCs) designated by the Supreme

<sup>15</sup> The World Bank Group, "Starting a Business—Philippines," [www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=153](http://www.doingbusiness.org/ExploreTopics/StartingBusiness/Details.aspx?economyid=153) (accessed 11 January 2006).

Court as commercial courts. The government plans to institute training programs and workshops to improve the courts' ability to handle cases involving the Securities Regulation Code. While a significant step forward, recent reforms have focused mainly on the procedural aspects of adjudicating debt relief and corporate rehabilitation cases. These efforts are embodied in the SEC's Rules of Procedure on Corporate Recovery and subsequently in the RTCs' Interim Rules on Corporate Rehabilitation. To expedite resolution, the rules provide for specific periods and deadlines for compliance with procedural requirements (including court approval/disapproval of a rehabilitation plan).

Beyond procedural improvements, the Philippine bankruptcy/insolvency system needs to be rationalized and updated. The current legal framework is a mixture of outdated and sometimes inconsistent laws and judicial pronouncements. These include the Insolvency Law (Act 1956, 1909) for insolvency and debt payment suspension cases, P.D. 902-A (1976, as amended) for corporate rehabilitation, provisions of the Civil Code and Corporation Code, and various Supreme Court rulings.

### **SME Development Programs and Strategies**

#### *Entrepreneurial Development Efforts*

The broad policies and laws that seek to promote SME development have given rise to specific programs and services that are implemented by various government agencies. Complementing government efforts is the work being done by private sector institutions, including non-government organizations and international aid agencies. These programs and services address the concerns of entrepreneurs in the areas of marketing, financing, product development/technology intervention, and human resource development. More than ever, the government and NGOs operate programs and policies to promote women and youth entrepreneurship.

The policy and program support environment for entrepreneurship has been very dynamic in the last few years. A good many innovations have been introduced in the formulation of policies and programs, not only by the government but also by the private sector. The entrepreneurial mindset surfaced in the '70s and was eventually integrated in the country's SME programs, then popularly known as SME Development Programs. This became evident with the appointment of a Presidential Adviser on Entrepreneurship and the establishment of private institutions such as the Small Enterprise Research and Development Foundation (SERDEF), Philippine Business for Social Progress (PBSP), and Chambers of Commerce like the Philippine Chamber of Commerce and Industry (PCCI) and the Employers' Confederation of the Philippines (ECOP). Entrepreneurship was identified as a major activity of the SMED Council as embodied in the SME National Development Plan. Also, the Entrepreneurship Educators' Association of the Philippines (ENEDA) continues its active participation in entrepreneurship programs nationwide. Similarly, various schools and the Philippine Emerging Start-ups Open (PESO) program spearhead the conduct of business plan preparation contests among students in their efforts to cultivate the entrepreneurial spirit in the academy.

### **Nurturing Globally Competitive SMEs**

The creation and proliferation of young, small, dynamic enterprises has been positively identified as an important strategy for creating new jobs and hastening the economic recovery and growth of the country. For that reason, the number one item in the 10-point agenda of the government is the creation of six million jobs in six years via more opportunities given to entrepreneurs, tripling of the amount of loans available to SMEs, and the development of one to two million hectares of land for agribusiness.

In support of this agenda, the Department of Trade and Industry (DTI), together with the other members of the SMED Council, launched in July 2004 the SME Development Plan 2004–10, with the goal of creating globally competitive SMEs in the new industrial economic environment. These would acquire distinctive competencies ranging from harnessing efficient technol-



ogies to establishing strategic relationships with partners, market forces, suppliers, and even competitor producers. The breeding of dynamic SMEs is envisioned as the force that will propel the nation into the world-class business sphere. These priority SMEs will also showcase the country as a nation of dynamic people and rich resources as well as the boundless possibilities available to create and offer products and services on seamless global markets. In quantitative terms, this means keeping Philippine SMEs on a par with the performance level of their ASEAN and Asian counterparts in terms of value added, employment, number of establishments, production, and export volume.

To address the challenges in developing a sustainable and competitive SME sector, the Plan adopted a three-pronged strategic approach, which focused on providing support to individual enterprises, identifying growth or priority industries, and evolving an operational and regulatory environment more conducive for SMEs to set up, operate, and succeed. This three-pronged approach includes eight strategies that incorporate the implementation of 48 highly related activities.

On the enterprise level, two strategies have been identified. The first aims to provide SMEs with access to comprehensive and focused support for enhancing their managerial and technological capabilities, tapping business opportunities, and becoming competitive in local and international markets. The second is geared towards providing support for identifying business opportunities through the development of business ideas that promote the expansion and diversification of the country's industrial structure.

On the sector level, two strategies have likewise been identified. These involve strengthening support to growth industries that are active in international markets in order to sustain and enhance their competitiveness and improve their access to domestic markets as well. The government and concerned parties are also exploring the provision of support for the development of industrial linkages between SMEs and leading Philippine companies to strengthen the country's industrial structure.

Under the broad goal of creating an enabling environment, four strategies have been identified for SMEs to achieve sustainable growth in a global scenario where competition is becoming fiercer because of fast-changing conditions. More specifically, these involve the development of financing support programs and the strengthening of institutions that provide direct and appropriate financial services to SMEs. It likewise entails streamlining not only systems that provide support programs and incentives for SMEs but implementing, as well, SME policies and regulations. Not to be overlooked are efforts to strengthen and build the capabilities of institutions that formulate and implement programs for SME development.

To be able to manage the deliverables resulting from implementation of these strategies, the Working Group merged 48 activities or "must-do's" identified in the Plan and came up with 12 major activities.

- *SME information support.* This activity involves the establishment of an improved flow of information to SMEs to better compete in the marketplace. More market-related information, financing, and technology information will be made available in SME centers nationwide.
- *SME counseling and upgrading of SME centers.* This involves the provision of intensified professional consulting services to SMEs in the areas of productivity improvement, technology upgrading, market information, product and market development, financing, and entrepreneurial development. These services can be accessed at SME centers or desks at the DTI provincial offices as well as in some LGUs and local chambers.
- *Facilitating partnerships/linkages for competitiveness.* This involves the establishment of market links through matching services. The SME centers will play a vital role in this linking process by providing organizational support, facilities, and a database from which information can be culled.

- *Enhanced support for trade fairs and access to market services.* This is the provision of a more organized menu of market services, like trade fairs, which are affordable to SMEs through greater participation and partnerships with private organizations, LGUs, and other key sectors.
- *Product development and design services.* Agencies of the DTI will develop more comprehensive, market-oriented programs on product development and production technology, emphasizing product quality and standards assurance.
- *Industry productivity and quality.* DOST, the National Wages and Productivity Commission of DOLE, and other government and private sector groups (such as the Employers Confederation of the Philippines and the Philippine Chamber of Commerce and Industry, to name a few) will more proactively implement programs in relation to the promotion and transfer of best practices on productivity improvement, distribution and cost reduction in processing and shipping, mechanization of major processes, quality management, development of standards, and testing and certification.
- *Information technology appreciation and application.* This involves not only offering IT application courses but also providing training on topics such as web page development, computer software development, market research, and e-commerce.
- *Entrepreneurship training.* Entrepreneurs must be agents of change. SME owners and managers, which may include inventors, will be encouraged to train for business strategy/formulation and planning. Agencies like the UP-ISSI, the Commission on Higher Education, the Philippine Business for Social Progress, the Technology and Livelihood Resource Center, and the Philippine Trade Training Center will be involved in the development and promotion of these entrepreneurship education and training programs.
- *SME financing support programs.* Private and government financing institutions like the SB Corp. of DTI, Landbank, and the Development Bank of the Philippines are some of the agencies involved in the development of SME financing support programs that provide direct and appropriate financial services to SMEs.
- *Streamlining of business registration requirements.* Government agencies like DTI, SEC, BIR, the League of Cities and Municipalities, and DILG, with the cooperation of the private sector and donor agencies like GTZ, are working closely to streamline and simplify registration requirements to encourage the setting up and smooth operation of SMEs.
- *Advocacy of SME-related laws.* The SMED Council, which is composed of government agencies and private sector representatives, will ensure the full implementation of SME policies and regulations that foster the sector's further development and make meaningful contributions to national development. Specifically, these are the Magna Carta for SMEs and the Barangay Micro Business Enterprises Act of 2002.
- *SME institutions restructuring.* An SMED Group within DTI was created for the improvement of systems that provide support programs and services to SMEs.

### **DTI Programs and Services for SMEs in Support of the SMED Plan**

To address the concerns of SMEs in the areas of marketing, financing, product development, technology, and human resource development, the DTI has come up with new and/or improved programs.

#### *Entrepreneurship Development Program*

The DTI holds various forums to advocate entrepreneurship and promote various types of businesses and best practices catering to would-be and existing entrepreneurs. Also, efforts are undertaken in producing/updating/distributing relevant SME-related information materials. Between January and December of 2005, close to 57,000 hard and soft copies of relevant SME publications and brochures were distributed nationwide.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *Financing*

*SME Unified Lending Opportunities for National Growth (SULONG Program).* Participating GFIs apply simplified and standardized lending procedures and guidelines—e.g., loan purpose, fee structures, interest rates, application forms, financial ratios, and other lending parameters—for evaluating loan applications.

### *SME Centers/Business Counselors*

SME Centers are envisioned to be the focal points for SMEs seeking assistance or information on government and private sector programs and services. Business counselors have been trained by DTI to staff these Centers and assist existing entrepreneurs with their finance, marketing, technology, product development, and human resource development needs. There is at least one DTI business counselor per SME Center per province. There are 25 selected SME Centers nationwide that have been equipped and given priority assistance and support under the National SME Development Agenda. These priority SME Centers operate through close cooperation between the DTI, LGUs, local chambers of commerce, and provincial SMED councils.

### *Product Promotion*

Product promotion includes sectoral, regional, and national and international trade fairs where SMEs find new markets and business opportunities, meet potential business partners, and explore possibilities for technology transfer.

### *Product Development and Technology Intervention*

The DTI's Product Development and Design Center of the Philippines (PDDCP) services the design needs of entrepreneurial groups and associations from every level of industry.

### *Philippine Business Registry (PBR)*

In line with the SMED Plan, which calls for a simplified registration, licensing, and reporting system through a “one-stop” shop for the development of the SME sector, a project that will help the government design and implement the Philippine Business Registry (PBR) is currently in progress.

### *One Town, One Product–Philippines (OTOP)*

OTOP–Philippines offers a comprehensive assistance package through a convergence of services from local government units (LGUs), national government agencies (NGAs), and the private sector. This includes business counseling, skills and entrepreneurial training, product design and development, appropriate technologies, and marketing.

## **ENTREPRENEURIAL CULTURE**

### **SME Sector Organizations: Private Sector Services**

SME private sector entities consist of chambers of commerce, professional organizations, sector organizations, firms (large firms), associations of micro, small, and medium enterprises, and cooperatives. Some private-sector organizations provide business services to their members and others. The more prominent activities are policy advocacy and information services to members. Two major private sector groups are active in SME promotion.

- The Philippine Chamber of Commerce and Industry (PCCI) has the most extensive number of chapters and affiliates and is the most diverse in its membership, which ranges (including affiliated associations and cooperatives) from large to small. Its thrust includes support for policy formulation, trade promotion, international relations, productivity improvement, and labor–industry relations.

- A related organization is the Employers Confederation of the Philippines (ECOP), which focuses on development of industrial relations and advocacy of improvement in employer-worker relations.
- More specialized-interest members are organizations like the Philippine Exporters Confederation, Inc., or PHILEXPORT in export development. It has a network of affiliates in regional areas.

### **SME Non-Government Service Organizations**

Some NGOs (e.g., Philippine Business for Social Progress) extend support and assistance to rural area micro enterprises. These NGOs mainly provide technical training and financing. Most NGOs are concerned with poverty alleviation, providing livelihoods in depressed communities, and raising the incomes of micro enterprises. These NGOs provide services to communities, enterprises, and cooperatives, usually in the form of financing. Other services are marketing and entrepreneurship advisory programs, usually free of charge or offered at low subsidized rates (funding from institutional grants and government programs). However, NGOs themselves have limited training and have no resources to expand their present work.

### **Private Sector Enterprise Promotion**

In line with the government's efforts to partner with the private sector in synergizing major programs in the country (among which is entrepreneurship), a presidential consultant on entrepreneurship was appointed. Accordingly, the Philippine Center for Entrepreneurship (PCE) was set up as a private sector-funded institution that works to mainstream major entrepreneurship programs and projects of various schools, NGOs, and private corporations. The Center's primary goals are to popularize and demystify the prerequisites of entrepreneurial success, enhance the curriculum and teaching skills in entrepreneurship education in all levels, affiliate with academia for pioneering studies and thought leadership in the entrepreneurship field, create satellite centers of excellence in entrepreneurship nationwide, and encourage and popularize business plan competitions. Programs include entrepreneurship education, business plan competitions, entrepreneurship information and communications, awards and recognition, partnership and international networking, and thoughtful leadership and policy advocacy.

### **Entrepreneurship Promotional Campaigns**

Promotional campaigns are being organized by various organizations and some television networks through television shows that highlight successful entrepreneurs, interviews with innovators, especially during the annual Science & Technology Week in July and Inventors' Week in November, and publications like *Entrepreneur Magazine*, *Entrepreneur*, etc. These campaigns have resulted in raised awareness on entrepreneurship among citizens, increased the number of entrepreneurs, and enhanced interest in entrepreneurship courses among students.

### **Entrepreneurship Development Programs**

#### *SME Information Support Programs*

The publication of SME-related information materials, the establishment of a Business Matching Center and an International Trade Resource Center, promotion of indigenous raw materials, and press releases and press briefings, among other approaches, has resulted in enhanced awareness of SMEs and informed the general public about business opportunities and government programs of assistance for small business enterprises.

#### *Productivity Awareness Program (PAP)*

The Department of Labor and Employment (DOLE) continued to bring its productivity advocacy to the workplace through the ISTIV-PAP, a key human resource strategy for quality

and productivity improvement that aims to enhance business performance. It is rooted in the five ideal attributes of a productive individual: I stands for industrious, S for systematic, T for time-conscious, I for innovative, and V for strong value for work. These attributes are found, in one form or another, in many quality and productivity (Q&P) improvement programs. ISTIV, however, is more than a program or a technique. It is a management concept that recognizes the value of human resources in bringing about the changes needed to improve the quality of goods and services and the productivity of business enterprises. Where Q&P programs and techniques focus on ways of doing things, ISTIV focuses on people and thereby results in enhanced skills and attitudes of workers, increased production volume without additional cost, increased sales/revenues, reduced waste, additional benefits/incentives to workers, more stable labor relations due to labor-management cooperation and transparency; and on-time delivery of goods and services.

*Promotion of Rural Employment Through the Self-Employment and Entrepreneurship Development (PRESEED) Program*

Six rural and women workers associations in Region 2 (Cagayan Valley) received a total of PHP372,000 in livelihood funds under the DOLE's PRESEED program. The recipients will use the financial assistance in various entrepreneurial projects such as mushroom cultivation and processing, bioorganic fertilizer production, cassava cake manufacturing, peanut processing, fish processing, and native cake-making.

**Women and Youth Entrepreneurship Promotion**

The government and NGOs operate programs and policies to promote women and youth entrepreneurship.

*Republic Act 788—An Act providing assistance to women engaging in micro and cottage business enterprises, and for other purposes.* Its goal is to provide all possible assistance to Filipino women in their pursuit of owning, operating, and managing small business enterprises.

*GSIS Family Bank Microfinance Lending Program.* One of its objectives is to empower women through their involvement in economic activities and their participation in the decision-making process.

*Microfinance Sector Strengthening Project (MSSP).* MSSP strengthens the capacities of microfinance institutions (MFIs) and practitioners to provide greater access to microfinance services to the poor, especially women, consistent with the high priority given to this sector by the government.

*Balikatan sa Kaunlaran (Partnership for Progress).* This is a program of the Philippine Microenterprise Development Foundation (PMDF) that aims to provide opportunities for poor Filipino families, particularly women, to achieve self-reliance through self-help, training, mentoring, and provision of sustainable financial services, including collateral-free loans.

*The Women Workers Employment and Entrepreneurship Development (WEED) Program.* WEED is an affirmative action program to improve the plight of Filipino women, specifically those in the informal sector. WEED seeks to strengthen the role of women as partners in economic development by supporting them in the areas of entrepreneurship and income-generating concerns, primarily utilizing the "Training-Cum-Production Scheme" which consists of Entrepreneurship Development Training (EDT) and Appropriate Skills Training (AST).

*Youth Entrepreneurship Financing Facility Program (YEFFP).* The YEFFP aims to provide credit to young graduates of the skills/entrepreneurship training programs of the Technical Education and Skills Development Authority (TESDA) and the National Youth Commission (NYC) who want to establish income-generating enterprises through the use of partner institutions as conduits for lending.

*Philippine Youth Business Foundation (PYBF).* On July 2001, a joint mission to Manila was held and attended by the ILO, Youth Business International (YBI), and a division of Prince

of Wales IBLF, International Organization of Employers and Rotary International. This led to the establishment of the PYBF, which aims to bridge the unemployment gap by assisting disadvantaged young people between the ages of 18 and 30 to become self-sustaining entrepreneurs. With the support of the ILO Manila Office and with the technical expertise of its partner YBI, a pilot youth initiative was implemented in the Philippines under the YBI/Prince's Trust model for youth entrepreneurship. Since its establishment in 2003, PYBF has assisted 17 young entrepreneurs, 9 of whom, or 53%, were young women. In addition to these 17 young people who became self-employed, 15 additional jobs were created by businesses, for a total of 32 jobs created by the pilot.

### **Awards for Promotion of Entrepreneurship Excellence**

#### *Presidential Awards for Outstanding SME Graduates*

In 1993, then-President Fidel Ramos signed Proclamation No. 256, which declared every third week of July as "Small Enterprise Development Week" to inculcate an ongoing awareness of the primacy of SMEs in nation-building and empowerment of people. During this event, presidential awards for Outstanding SME Graduates, in cash or in-kind, are given to 100% Filipino-owned companies (awards are given after one year). The Outstanding SME Graduates are entrepreneurs who have excelled in their respective fields not only with government assistance but also because of their own initiatives in improving their competitiveness, thus enabling them to graduate to the next level of enterprise classification. The "SB Corporation Bank Partners" prize is also awarded, recognizing banks for their valuable support and contribution to the government's SME development efforts.

The Presidential Awards are given to Outstanding Micro, Small, and Medium Enterprises in the service and manufacturing sectors. Enterprises are eligible for nomination if they are 100% Filipino-owned, are duly registered with appropriate national government agencies, have no record of any criminal or administrative offense, have a strategic business/corporate plan which includes a vision, a mission, and objectives, have been in operation for at least three years at the time of nomination, and have not previously received a Golden Shell Award. The Awards Committee, chaired by an SMED Council member, recommends to the SMED Council the awards criteria and terms of reference. Generally, the criteria include market development, production and technology, financial management, and human resource development.

#### *Golden Shell Awards*

The biennial Golden Shell Awards are the highest award/recognition given by the DTI, through the Center for International Trade Expositions and Missions (CITEM), to Filipino companies (exporters) for excellence in exports. Overall efficiency in exports, particularly the company's quality management, manufacturing, research and development, product quality, marketing, and financial viability, are the major considerations in choosing the winners.

#### *Major Awards*

For export manufacturers:

- *Design excellence.* For success in strategically launching new designs or innovation on existing products in the export market and for success in strategically launching products in the export market using innovative packaging.
- *Manufacturing excellence.* For outstanding achievement in the manufacture/production of export products through improved manufacturing processes or application of Total Quality Management (TQM).
- *Marketing excellence.* For successfully penetrating new export markets or expanding existing markets and for success in launching a brand or trademark on the world market.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

- *Presidential Award*. The highest award for excellence in exports, where the criteria applied for design, marketing, and manufacturing are all considered. The recipient is selected from among the nominees vying for excellence awards.

For service exporters:

- *Design excellence*. For success in developing new application or innovations (e.g., package applications, wireless and mobile applications, and/or business solutions).
- *Marketing excellence*. For outstanding contributions to the development of the Philippines as an e-hub of Asia (for IT and IT-enabled services).
- *Service excellence*. For outstanding achievement in the management of projects through the application of TQM or the effective utilization of skills and technology.
- *Presidential Award*. The highest award for excellence in exports, where the criteria applied for design, marketing, and manufacturing are considered. The recipient is selected from among the nominees vying for excellence awards.

### *Special Citations*

- *Rising Star*. For launching/introducing a relatively new product or service in the export market. Nominated companies must meet any of these criteria: introduce an original design/manufactured product in the export market; introduce a local product/service in the international market; have a product/service that has undergone improvement/new packaging or has used an innovative process or a new technology; use of an indigenous material in a product for the first time.
- *Export development citation*. Award given to a Filipino, local, or international organization/institution that has made a significant impact (through its project/program) in the development of the Philippine export industry in general or a specific export industry sector.
- *Countryside development*. For a significant contribution in the expansion of job generation to the regions and assistance to regional subcontractors. This citation is given to an outstanding nominee from among those vying for design, manufacturing, and marketing excellence.

### *Philippine Quality Award (PQA)*

The Philippine Quality Award is the highest level of national recognition for exemplary organizational performance. It is equivalent to the very prestigious Malcolm Baldrige National Quality Award (MBNQA) in the U.S. and other national quality awards worldwide. Established through Executive Order No. 448, issued by former President Ramos on 3 October 1997, the award is given to organizations in the private and public sectors that excel in quality, productivity, and business performance. It was institutionalized by passage of the Republic Act No. 9013 on 28 February 2001, also known as the Philippine Quality Award Act. The PQA provides an internationally comparable framework and criteria for assessing organizational performance. It is a template for competitiveness based on the principles of TQM. Its objectives:

- To promote standards in organizational performance comparable to those of leading businesses abroad, pursuant to the country's effort to be globally competitive.
- To establish a national system for assessing quality and productivity performance, thus providing local organizations, regardless of size, sector, or maturity, with criteria and guidelines for self-assessment to guide productivity improvement efforts.
- To recognize organizations in both the private and the public sector that excel in quality management and overall organizational performance, thus providing Philippine industries with benchmarks and models to emulate.

Recognizing that the internal conditions and resources of SMEs are quite different from those of larger firms, the Center for Industrial Competitiveness of the DTI, with the help of the Philippine Quality Award Foundation, the Philippine Quality & Productivity Movement, and the Philippine Society for Quality, developed a PQA template specifically formulated for SMEs. The Philippine Chamber of Commerce & Industry took the lead in the advocacy and implementation of the template in cooperation with various organizations. The PQA is to be conferred annually on qualified organizations in the private and public sectors. Organizations that have demonstrated management excellence by the purposefulness with which they continue to improve and build upon outstanding results and excellent systems, thereby achieving the highest level of performance excellence, will receive the Philippine Quality Award for Performance Excellence. To encourage participation, three recognition categories were established to recognize organizations that applied but could not yet fully meet the requirements:

- *Recognition for Mastery in Quality Management.* The organization should have demonstrated, through its practices and achievements, superior results clearly linked to robust management systems. It should exhibit practices that other organizations can learn from and should serve as a role model for other organizations in the Philippines.
- *Recognition for Proficiency in Quality Management.* The organization should have demonstrated, through implementation of quality and productivity management principles, significant progress in building sound and notable processes. It should have a documented and solid approach to system-level quality and productivity management and be implementing quality and productivity improvement plans and procedures.
- *Recognition for Commitment to Quality Management.* The organization should have demonstrated its serious commitment to improvement in order to achieve quality excellence. It should have planted the seeds of quality and productivity and be working towards reaping long-term benefits of these efforts.

The criteria for performance excellence provide organizations with an integrated, results-oriented framework for implementing and assessing processes in managing operations. These are the bases for the feedback given to award applicants after examination by PQA assessors. The criteria categories are leadership, strategic planning, customer and market focus, measurement, analysis, knowledge management, human resource focus, process management, and business results.

## **Entrepreneurship Training and Education**

### *Fostering Entrepreneurship in the Academy*

The concept of entrepreneurship is integrated both in the curriculum of elementary and high school students. In particular, the educational system offers academic programs based on entrepreneurship principles and practices at the basic education level, provides materials and entrepreneurship training for teachers, offers entrepreneurship as an elective and/or major subject, and offers a B.S. degree in entrepreneurship at the tertiary level of higher education institutions (HEIs), as mandated by the Commission on Higher Education (CHED), Memorandum Order No. 17.

Given the advantages of a business program that offers a major in entrepreneurship, the government encourages colleges and universities to formulate entrepreneurship programs, citing the possibilities of maximizing the potential of entrepreneurial education. Some schools have designed degree programs for students who have a strong entrepreneurial inclination and excellent leadership skills. Institutions with full curricular and subject offerings for a specialization in entrepreneurship include De La Salle University, Philippine School of Business Administration, Colegio de San Juan de Letran, Philippine Christian University, Technological University of the Philippines, Assumption College, and St. Scholastica's College.



## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

For students specializing in entrepreneurship, corporate-based courses are discussed but not as extensively as in a business administration degree, which presupposes that a company is already established. Entrepreneurship programs instead choose to focus on subjects that will aid students in acquiring the resources that they will manage later on. Business entry is fundamentally different from business management. Thus, courses and programs in entrepreneurship education focus on early life-cycle development challenges, particularly those related to start-up, such as opportunity recognition, market entry, protecting intellectual property, the legal requirements of new businesses, and severe resource constraints.

In recent years, there has been increased interest in entrepreneurship programs or related business courses. The number of enrollees in entrepreneurship undergraduate degree programs increased from 7,166 in 2001 to 9,466 students in 2003. The National Capital Region accounted for the majority, representing nearly 20% of the total number of enrollees.

### **Entrepreneurship Programs for Youth**

The Center for Students and Co-Curricular Affairs of the Department of Education implements various programs and projects to empower Filipino youth to become enterprising. In the future, more young people will take on the challenge of entrepreneurship and become responsible employers. These youth are seen as invaluable partners for socio-economic development. They have enthusiasm, creativity, energy, innovative ideas, commitment, and a willingness to embrace change.

#### *Youth Entrepreneurship and Cooperativism in Schools (YECS)*

YECS is an official co-curricular program that serves to support, enhance, and enrich the work education and skills training program in the curriculum, particularly the “Teknolohiya, Edukasyon, and Pantahanan at Pangkabuhayan” (TEPP). It aims to establish a shift from the employment creation culture by nurturing an entrepreneurial and cooperative environment and the students’ skills and competencies. It is being implemented in partnership with the Department of Trade and Industry (DTI) and the Cooperative Development Authority (CDA) and was entered in the employment summit as one of the Department of Education’s commitments.

#### *Student Technologists and Entrepreneurs of the Philippines (STEP)*

STEP is a co-curricular organization to enhance life-long skills and support the learning competencies of the work-education and skills training program of the TEPP component of the MAKABAYAN subject.

### **Public and Private Sector Initiatives**

Funds are allocated by the Department of Education (DepEd) and the CHED, which supports the initiative through its corporatization program. Under the combined programs, called the Small Enterprise Technology Upgrading Program, and the DOST–Academe Technology-Based Enterprise Development (SETUP–DATBED) Program, DOST, through its National Capital Regional Office, provides funds, facilities, and technologies to qualified schools and NGOs that offer tertiary science and technology courses, enterprise development programs, and youth projects. In a similar manner, the Philippine Center for Entrepreneurship is focused on improving the way entrepreneurship is taught in schools. It seeks to foster a culture of enterprise and provide a marketplace for innovation and best practices in order to develop competitive Filipino entrepreneurs. The center focuses on popularizing business plan competitions to promote creativity and draw out the entrepreneurial spirit of students. When business plan competitions become popular with students and faculty everywhere, it will motivate them to calibrate their educational programs toward generating more entrepreneurs and promote this career track as a strong alternative to employment.

### **Industry–Academia Entrepreneurial Linkages**

To further promote entrepreneurship among students, linkages are spearheaded by the appointed Presidential Adviser on Entrepreneurship and supported by the PCCI, the Anvil Business Club, and Chinese-Filipino Business Club. Some practicing businessmen even serve as faculty members of schools and universities, offering entrepreneurship and business courses and thus themselves serving as linkages.

#### *Philippine Emerging Start-ups Open (PESO)*

PESO, a student organization at the Massachusetts Institute of Technology (MIT), was recently incorporated in the Philippines on the initiative of a group of educators, industry professionals, and venture capitalists. It seeks start-ups in the IT as well as non-IT fields to stimulate powerful new ideas and identify ideas with potential for successful incubation and commercialization; to promote productive interactions between the academic, industry, and investment sectors; to inspire and empower young people to take the path of entrepreneurship by giving them access to proper resources, role models, and mentors; and to foster innovation, excellence, and professionalism in the entrepreneurship process. PESO has made the rounds of the Philippines' major universities (the University of the Philippines, Ateneo de Manila University, De La Salle University, and the University of Asia and the Pacific), sponsoring talks by experienced speakers to teach students and faculty about business plan preparation, venture capital, and other related topics. These talks have offered hundreds of students and faculty the chance to learn the foundations of technology entrepreneurship for free.

#### *Asian Institute of Management (AIM)'s Asian Center for Entrepreneurship*

The Master in Entrepreneurship (ME) program, introduced in 1999, is an original AIM design that focuses on making enterprises more productive, professional, and profitable. By effecting mastery of the self, the situation, and the enterprise, the ME gives rise to transformation not only of the business entity but also of the entrepreneur.

### **Training Programs for Entrepreneurship Development**

There are various institutions in the country that offer training and entrepreneurship development programs to provide existing and potential entrepreneurs with the necessary skills and knowledge to become competitive players in the local or global market. These training institutions continuously strengthen their capabilities and enhance their networking activities within the country. Vocational training programs are mostly directed towards entrepreneurship development and self-employment.

Most of the institutions implementing entrepreneurship development programs are university-based extension units. Among these is the University of the Philippines Institute for Small-Scale Industries, the St. Louis University Extension Institute for Small-Scale Industries, and the extension units of the University of Santo Tomas, Holy Angel University in Angeles City, and Notre Dame University in Cotabato. The University of the Philippines Open University (UP OU) also offers informal courses in entrepreneurship through distance learning.

#### *University of the Philippines-Institute for Small-Scale Industries (UP-ISSI)*

UP-ISSI serves the capability-building needs of the SME sector and the SME development community. It offers a wide range of courses designed for owners, managers, supervisors, and staff of SMEs as well as for officers and staffs of government and non-government organizations providing managerial, technical, financial, and policy support to promote the development and growth of the sector.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *Technical Education and Skills Development Authority (TESDA)*

TESDA manages and supervises technical education and skills development in the Philippines. It was created to mobilize the full participation of industrial, labor, technical, and vocational institutions, the LGUs, and civil society for skilled manpower development programs.

### *DTI–Cottage Industry Technology Center (CITC)*

The DTI–CITC provides production-related and skills development training programs, technical assistance, facility servicing, and consultation services for the country’s furniture, gifts and housewares, fine jewelry, and leather footwear industries.

### *DTI–Philippine Trade Training Center (PTTC)*

The PTTC designs and implements training programs on export marketing and management, entrepreneurial management, quality management and productivity, and trade exhibition management and participation.

### *Department of Labor and Employment (DOLE)*

DOLE has put together the ISTIV–Productivity Awareness Program (PAP). ISTIV–PAP is a values-driven human resources strategy for quality and productivity (Q&P) improvement. During 2002–05, a total of 1,004 SMEs were provided briefing/orientation on other productivity technologies, such as 5S, Quality Circles, etc.

### **SMEs on Corporate Social Responsibility (CSR)**

In the global scenario, CSR has become an increasingly important component in running an enterprise, as the past 20 years have seen a radical transformation in the relationship between business and society. Key drivers of this change in the Philippines have been the globalization of trade, the increased size and influence of companies, the repositioning of government, and the rise in the importance of strategic stakeholder relationships, knowledge, and brand reputations.

Although CSR has primarily been the concern of trans-national corporations (TNCs), it is increasingly of importance to SMEs in their current roles as suppliers to and/or markets for international companies and as recipients of support under donor-led programs. In the case of the former, social and environmental standards are increasingly becoming a precondition for doing business with TNCs. This has taken the form of individual supply chain codes of conduct and/or sector-wide certification systems. Moreover, market shifts have extended the impact of environmental and social concerns beyond those companies directly involved in trade with TNCs through local competition, strengthening mechanisms for ensuring compliance with local laws, targeting investments, or shifts in consumer demand. Overall, there seems to be a general awareness among SMEs of corporate citizenship and its relevance to business operations and of CSR as a business issue in itself. The concepts of social responsibility and business ethics are integrated in some training programs. Forums are also being organized, but efforts for this purpose are seldom monitored.

### **Network and Linkages for SME Development**

#### *Enterprise Clustering Among SMEs*

Industry clustering was introduced to SMEs in 1999 through the Philippine Export Development Plan (PEDP), which mandates clustering as the main strategy for SME development. In the early part of 2000, the DTI identified two industry sectors for industry clustering and development: the furniture and the food processing industries. Today, industry clusters in other sectors like gifts and housewares have emerged. Many modes of clustering are now being applied: material-based (e.g., wood, steel, agro, aqua), labor-based (e.g., low, intermediate, high), product-based (e.g., automotive, consumer electronics), technology-based (e.g., biotechnology, information technology). There can be a combination of two or more modes, and they may not

be limited to a town or city, province, region, the Philippines or other countries in Asia or the world. Enterprise clusters promote new business formation, enhance productivity and innovation, produce synergies in terms of cost competitiveness, market development, product complementation, and research and development, and increase access to institutions and public goods.

### **Business Development Service Providers**

#### *Philippine Chamber of Commerce and Industry (PCCI)*

The PCCI, in cooperation with relevant government agencies and private organizations, has developed the Philippine Virtual SME Center, envisioned as a repository and dissemination facility of relevant and updated information for micro, small, and medium entrepreneurs and interested parties. The web-based SME Center contains business support services in the areas of advisory, business registration, financing, marketing, multilateral assistance, technology, training, and education.

#### *Canadian Executive Service Organization (CESO)*

The Canadian International Development Agency (CIDA)'s Business Advisory Project (BAP2) is being implemented by the CESO to provide 225 Canadian business advisors to assist Filipino SMEs either individually or in clusters of similar companies in a sector. It established a local business advisory service for SMEs called CVED (Corporate Volunteers for Enterprise Development), which runs from September 2003 to July 2008.

From April to December 2004, 28 expert advisers from Canada undertook 74 assignments. They assisted 61 individuals involved in SME development, 41 individual SMEs, and 11 sector organizations. CESO-BAP is shifting its focus more to industry clusters, which means one expert adviser can be matched with an average of 6.25 individual SMEs and is therefore more efficient. As for CVED, two business advisory assignments have been completed. CVED is a new organization and is still in the early stages of development.

### **Business Support Through SME Centers**

One of the vital mechanisms behind the implementation of SME policies and development plans are the SME Centers. These centers are "one-stop shops" that provide information, advisory, and consulting services in the areas of productivity improvement, technology upgrading, market information, product and market development, trade promotion, financing, and entrepreneurial development. SME Centers operate in close coordination with the DTI, local government units (LGUs), local chambers of commerce and provincial SME Development Councils (SMEDCs), and the private sector. These centers are staffed by SME or business counselors who have been trained to assist entrepreneurs with their financing, marketing, technology, human resource development, and advocacy needs. To date, DTI directly operates 25 priority SME Centers throughout the country.

### **Forging Linkages Through Alliances**

Economic grouping is a strategy of SMEs forming alliances to improve their individual and combined operating efficiency and effectiveness. Through such linkages, the firms benefit from joint activities such as those involving delivery, administrative facilities, bulk purchasing, advertising, promotions, and distribution. Tie-ups are promoted by various government agencies and NGOs through programs such as the Industry Link, PCCI, and the Employers' Confederation of the Philippines (ECOP)'s Big Enterprise–Small Enterprise, among others.

### **Linking Markets Through Subcontracting**

The government provides policy direction and facilitates the establishment of market linkages between contractors (manufacturers/exporters) and subcontractors. Services may be used by SMEs that have the capability to produce the required part or semi-finished product and

can mobilize additional workers to perform subcontracting jobs. Through such efforts, successful subcontracting relationships are fostered. Labor subcontracting is more predominant than the kind of subcontracting arrangement practiced in Japan, Taiwan, etc., but Japanese firms have accredited local suppliers.

**Value Chain Linkage: Recognizing Its Significance**

There are still many problems faced by SMEs that prevent them from pursuing a smooth and quick path to effective and efficient management of their supply chain. Cooperation in networks and along supply chains is a successful approach to promoting enterprise competitiveness, enabling SMEs to overcome many of the limitations of size, improve efficiency and quality, cut costs, absorb training and new technologies, and improve market access. Moreover, when groups of SMEs divide up activities at various stages of production, opportunities for small business start-ups arise, along with the demand for new services.

**Programs for Enhancing Market Competitiveness**

*Export Assistance Network (EXPONET)*

A program of DTI's Bureau of Export Trade Promotion (BETP) that makes possible the networking of government and private trade promotion offices, including trade associations, foreign embassies, and other entities engaged in exports.

*Tradeline Philippines*

The BETP's online database that contains, among other things, Philippine export and import statistics, world demand, import statistics of the target market, and trade updates.

*Business Matching Center*

SME exporters and foreign buyers are linked through this program. Also, direct referrals to visiting foreign investors and businessmen/importers are facilitated. This service is provided by DTI's BETP and the Foreign Trade Service Corps (FTSC)

*Trade Fairs*

DTI's Center for International Trade Expositions and Missions (CITEM) organizes trade fairs, such as the International Food Exhibition, Manila F.A.M.E. International, Bio-Search, and Industry Search, which help exporters develop their core competencies in marketing, promotion, and capability-building.

*Catalog Online Program*

CITEM offers an Internet-based promotional program through its Catalog Online Program. The program is a virtual showroom that aims to forge links between exporters and buyers worldwide.

*Selling Missions*

CITEM also conducts selling missions, incoming trade missions, and other export promotion projects (e.g., in-store promotions, food festivals, specialized exhibitions, and special product displays abroad).

*Merchandising Services*

As the government's international trading arm, the Philippine International Trading Corporation (PITC) undertakes both import and export of new or non-traditional products. The firm supplies foreign buyers with a wide range of Philippine products that meet international quality standards. It also offers manufacturers ready access to international and domestic marketing channels.

*Agribusiness and Marketing Assistance Service (AMAS)*

The Department of Agriculture's AMAS promotes Philippine agri-fishery products in the international and domestic markets through participation in local (regional and national) and international trade fairs and exhibits, as well as selling missions.

*Market Encounter Goes to Manila (MEGMA) Foundation, Inc.'s Programs*

MEGMA Foundation, Inc., is a non-stock, non-profit organization registered with the Securities and Exchange Commission (SEC). It is composed of 17 member-associations and representatives of agencies from both the government and the private sector. The MEGMA Foundation was established primarily to assist in the full development of the domestic market as a primary market for micro, small, and medium enterprises (MSMEs). It enables MSME producers to test their products in the domestic market and strengthen their ability to move into export markets by providing assistance in organizing buyers' fairs and market encounters.

**Technology and ICT**

*Towards ICT Development*

The Philippines has continued its transformation into a knowledge-based economy with significant policy and regulatory developments. The Commission on Information and Communications Technology was established in January 2004, and an Optical Media Law that adds teeth to the effort to combat digital piracy came into force in February 2004. In addition, the National Telecommunications Commission (NTC), the regulatory body for the telecommunications and broadcast industries, has issued rules for WiFi, VoIP, and cellular phone number portability and has been involved in the administration of the ".ph" domain name.

At the SME level, firms are more concerned with non-ICT related issues such as high production costs and sourcing of raw materials than with taking advantage of the benefits of ICT investments. But with an ICT infrastructure already in place, an increasing number of local ICT graduates, the presence of e-commerce, the promotion of e-government, increasing foreign and local ICT investments, and an e-commerce law, there is great potential to further develop ICT opportunities, especially for SMEs.

IT usage patterns show a progression, starting with the use of the Internet for communication (primarily e-mail), research, and information search, and proceeding to the development of websites and then to the use of e-commerce. A majority of firms that are Internet users use it to communicate with suppliers and customers, only as a channel for maintaining business relationships. Once firms develop a certain level of confidence on the benefits of e-mail in the conduct of business transactions and the potential of creating sales from its use, they usually consider the option of developing their own websites.

The government hopes to enable SMEs to become more IT-knowledgeable through DTI's partnership with the Commission on Information and Communication Technology (CICT). SMEs are encouraged to join the CICT mailing list, [ICTBlueprint-subscribe@yahoogroups.com](mailto:ICTBlueprint-subscribe@yahoogroups.com), and to obtain vouchers that will entitle them to approximately eight hours of free consultation with any of 100 selected business advisers. Also, the Philippine Trade Training Center conducts e-commerce training seminars such as "Webpage Development," "E-tailing: Internet Business Gateway for Entrepreneurs," MS Word, MS Excel, MS PowerPoint, and MS Access for entrepreneurs. These courses are held at the PTTC's e-business facility, which has 12 top-of-the-line networked computers for participants to use.

Qualcomm has introduced "3G CDMA," a wireless broadband solutions provider especially suited to farmers, fishermen, and traders in the rural areas (SMEs) as their means of connecting and trading their merchandise. With the Asian Broadband Campaign, the CICT is assisting Qualcomm in establishing market acceptance.

### **Technological Development Support**

The DOST is offering over 15 technological development assistance programs, including DOST–Academe Technology-based Enterprise Development (DATBED), Special Technology Financing (STF), Venture Financing (VF), Pilot-Plant Assistance (PPA), Technology Business Incubator (TBI), Technology Packaging (TP), and Prototype Development and Testing (PDT), among others.

#### *Furniture and Handicraft Industries S&T Support Program (FHISTSP)*

This program undertakes activities intended for handicraft industry sectors in the world market. In 2004, the DOST–Forest Products Research and Development Institute (FPRDI) rendered assistance to nine enterprises on technology installations and provided 32 consultancy and advisory services to furniture/handicrafts firms in various regions relative to processing/utilization, technology transfer, and market linkage.

### **Business Incubation: A Smart Start for Start-ups**

In June 2000, the University of the Philippines (UP) signed a Memorandum of Agreement (MOA) with the Ayala Foundation establishing a Joint Experimental Facility on Technology Development and Technology Based Entrepreneurship. The target locators included start-up technology companies, research and development service providers, and technology venture capital firms, among others. In 2003, through the joint effort of the Technology Management Center and the UP Office of the Vice President for Development, the Ayala Foundation received a grant from the World Bank to upgrade the facility's Internet connection. Ayala has since spent about PHP4 million to refurbish the building and make it attractive to locators. Currently, the technology park is home to 10 technology hatchlings, two or three of which are about to take off.

While it often takes a number of years for start-ups to get their trade running, there have been recent success stories. Fluxion, a recent graduate of the UP–Ayala Technology Business Incubator (TBI), for example, has become a key platform developer and solutions provider for mobile technology companies in the Philippines. Set up by a “*barkada*” of young techno-preneurs, the company designed many of the innovative applications that have become standard features in almost all mobile phones. Fluxion's well-known innovations include a program that allows subscribers with low-memory phone units to store up to 500 messages on their mobile service providers' servers. Another popular product allows users to monitor traffic by tapping into the surveillance cameras set up along major thoroughfares. These unique products have attracted companies providing value-added services to mobile phone networks in Europe and Asia. Fluxion was purchased by a major player in the wireless applications industry and spun off from the TBI.

But there are also failures. When this happens, the TBI management tries its best to resuscitate the company or at least salvage the projects. The incubator works in such a way that, for instance, a hardware and electronics start-up can easily take advantage of the cutting-edge machine and prototype facilities offered by a next-door locator. This machine and prototype facility provider, in turn, runs on one of the automation systems being developed by another locator specializing in software development. The locators, in other words, serve as each other's support component.

### **Cultivating the Spirit of Technopreneurship**

The UP–Ayala TBI, or techno-park, located on the UP Diliman campus, exists to nurture not only dot-com and technology hatchlings, but also a new spirit of “techno-preneurship.” Like most business incubators, the UP–Ayala facility offers a full line of business development services and office space that a number of small businesses or locators share to cut overhead expenses. But unlike its counterparts in Eastwood and Makati, the facility offers pint-sized start-ups a very important incentive: proximity to key local universities (Ateneo and UP). Because it

is located in UP, people can easily share their ideas with other technology entrepreneurs and venture capitalists. The TBI is also close to UP research laboratories, which the locators can tap to develop their prototypes or to validate their research results.

Locators can enjoy a high-speed fiber-optic telecommunication backbone and international gateway facility. They can also count on a clean and uninterruptible power supply, as well as a computerized security and maintenance system, in addition to basic structures and facilities such as water, fire-fighting equipment, sewage and drainage systems, paved roads, centralized sewage treatment, and water recycling facilities.

## Financial Support

### *Incentives and Specialized Financial Products for SMEs*

The Magna Carta for Small Enterprises contains a provision on mandatory allocation that requires commercial banks and other financing institutions to set aside a portion of their loan funds for the exclusive use of small enterprises under a fixed timetable. The Magna Carta also created the Small Business Guarantee Finance Corporation (SBGFC), whose task is to widen the scope and reach of alternative financing modalities for SMEs. This includes, but is not limited to, direct and indirect project lending, venture capital, financial leasing, secondary mortgages, and rediscounting of loan papers to small businesses.

In support of the National SME Development Plan, government financial institutions (GFIs) have collaborated to design the SME Unified Lending Opportunities for National Growth (SULONG), a uniform lending program tailored fit to meet the funding needs of SMEs. Under SULONG, the participating GFIs apply simplified and standardized lending procedures and guidelines, e.g., loan purpose, fee structures, interest rates, application forms, financial ratios, and other lending parameters, for evaluating the loan applications of SMEs. Two types of loans are available under the program: short-term loans payable in one year and long-term loans that are payable in up to five years. Table 2 lists financial institutions that provide programs and services to SMEs.

Table 2. Financial Institutions That Provide Programs and Services to SMEs

	Commercial Banks	Microfinance Institutions	Venture Capital	Other
Micro	Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP)	Opportunity Microfinance Bank (OMB), Philippine Enterprise Development Foundation (PEDF)		Government Financial Institutions (GFIs)—GSIS Family Bank, National Livelihood Support Fund (NLSF), People's Credit and Finance Corporation (PCFC), Small Business Corporation [SB Corp. (formerly SBGFC)]
Small and medium	Asiatrust Development Bank, DBP, LBP, Philippine National Bank (PNB), Planters Development Bank (PDB)			GFIs—Department of Science and Technology (DOST), Government Service Insurance System (GSIS), NLSF, Philippine Export-Import Credit Agency (PHILEXIM), Quedan
(continued on next page)				



				<p>Corporation (QUED ANCOR), SB Corp., Social Security System (SSS)</p> <p>Private lending companies— Tulay sa Pag-unlad, Philippine Business for Social Progress (PBSP), Foundation for a Sustainable Society, Inc. (FSSI)</p>
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Programs offered by these institutions are the Small Business Loan [SBL], the revolving credit line, the Credit Line for Micro, Small, and Medium Enterprises [CLMSME], term loans, Contract To Sell [CTS] purchase facilities, the Urban and Rural Poor Program, Self-Reliant Farmers/Fisherfolk [SRF], Non Self-Reliant Team (SRT) programs, and the Quedancor 20–20–20 program for palm oil. The financial sector and microfinance institutions offer venture capital funds, revolving credits, and non-traditional guarantees. Microfinance loans extended by rural banks and cooperative rural banks have been made eligible for rediscounting with the Bangko Sentral ng Pilipinas (BSP).

### **Special Funds for SMEs**

#### *BMBE Development Fund*

Included in the Barangay Micro Business Enterprises (BMBEs) Act of 2002 is a provision on “Technology Transfer, Production and Management Training, and Marketing Assistance.” In line with this, a BMBE development fund has been set up with an endowment of PHP300 million from the Philippine Amusement and Gaming Corporation (PAGCOR), administered by the SMED Council.

#### *Easy Pondong Pang-Asenso (EPPA)*

EPPA was established by the Land Bank of the Philippines (LBP) to provide financing to small businessmen to set up, sustain, expand, or improve their businesses with easier collateral requirements and simpler documentation procedures.

#### *Special Financing Assistance to Small and Medium Exporters (SFA–SMEx)*

LBP’s SFA–SMEx aims to provide adequate funds for the financing requirements of small and medium exporters endorsed by PhilExport and the Foreign Buyers Association of the Philippines (FOBAP).

#### *Accelerating Change in the Countryside thru Equity Sharing Strategy (ACCESS)*

ACCESS was set up by LBP to catalyze countryside development by promoting livelihood and rural employment and priming up local agri-related and off-farm economic projects to raise productivity and income in priority areas of the country.

#### *Isang Bayan, Isang Produkto, Isang Milyong Piso (1M1)*

The National Livelihood Support Fund (NLSF) established the 1M1 to stimulate local economic activity by providing financing of PHP1 million to cover one product/service cluster identified for one town. The Local Government Unit (LGU) will borrow directly from NLSF to engage in a business enterprise.

## Building Blocks of Entrepreneurship Development

### *A Favorable Environment for SMEs*

Entrepreneurship is a way of life. Being entrepreneurial means being able to identify, start, and maintain a viable and profitable business, particularly a small enterprise. A number of factors help motivate, encourage, and influence entrepreneurs to set up and grow their businesses:<sup>16</sup>

*Macro-environmental factors: political, economic, and social.* Political factors have a bearing on entrepreneurial activity because history has shown that the political environment, which includes the rule of law and governance issues, directly or indirectly affects growth in the number of enterprises established or set up. In particular, empirical evidence suggests that a good political climate generates greater investor confidence, leading to the establishment of enterprises and an increase in investments. Conversely, political instability negatively affects the growth of many businesses. Economic factors, as reflected in growth trends in GNP or GDP, such as inflation rates, foreign exchange rates, financial markets, fiscal policies, trade policies, and economic laws and regulations, also have a bearing on entrepreneurial activity. Social factors—the demographic, income, education, and skills profile of the population—influence entrepreneurial activity. Moreover, since enterprises rely on productive labor to sustain their operations, enterprise development is greatly affected by the specific policies and programs undertaken by government and the private sector to address the needs of laborers. Accordingly, these policies and programs influence the nature, structure, and direction of the country's employment and productivity status.

*Cost of doing business.* The cost of doing business in a given area or economic zone affects an enterprise's ability and capacity to grow and develop. It includes logistics and transport costs, the cost of utilities (power, water, sewage, and sanitation), and the cost of credit, taxes, incentives, and informal business costs (e.g., bribes). Logistics and transport costs are dependent on existing physical infrastructure in the area of business, such as roads, bridges, airports and seaports, telecommunications facilities, power generation and transmission, etc. As such, the cost of doing business also takes into consideration key aspects involved in producing products, such as the availability and affordability of real estate, utilities, and support services. Furthermore, the presence of informal or formal sources of credit (e.g., rural banks, cooperatives, micro-finance companies, loan sharks, etc) is also a significant determinant for the level of entrepreneurial activity in a particular area. Tax policies and incentives provided may also be considered influencing or motivating factors for entrepreneurs. Informal business costs, such as bribes, may also be a factor, especially since graft and corruption are prevalent.

### *Cost of Producing Products and Delivering Services*

The cost of producing products and delivering services is a critical factor that affects the viability of a business enterprise. These costs include the cost of raw materials, the cost of semi-processed or processed materials, the cost of servicing customers, labor costs, and overhead expenses such as rent, utilities, etc.

### *Market Opportunities*

Market opportunities are an essential factor in enterprise activity because businesses cater to particular customer needs or demands. The needs and expectations of the market explain why and how enterprises choose to develop certain products and offer particular services.

### *Industry Cluster*

Inherent conditions within an industry cluster encourage the growth of enterprises, notwithstanding the high level of competition. In fact, competition *per se* could be an important element

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<sup>16</sup> Eduardo Morato, Jr., "Policies and Strategies for Promoting Entrepreneurship and Enterprise Development" (January 2005), pp. 46.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

in explaining the growth of businesses co-located in specific industry clusters. Because of specific conditions, these competitive industries are able to innovate and thus compete better in terms of manufacturing and delivering products and services.

### *Ancillary and Related Industries*

Ancillary and support industries sustain the operations of enterprises and interact with enterprises in a given industry cluster as contractors, subcontractors, and providers of inputs or deliverers of outputs. They help complete the industry cluster value chain, since they are involved in raw materials sourcing, semi-processing of materials, and actual manufacturing, marketing, and eventual distribution to local and export markets. The presence of ancillary and support industries also provides entrepreneurs with access to parts, accessories, and related services to complement their businesses, as well as technology resources, transportation, and maintenance services to sustain their operations.

### *Entrepreneurs*

There are many factors that can motivate an entrepreneur to start or grow a business. In most cases, the reasons originate in the entrepreneur's personal circumstances and behavior, or possibly in his or her education.

*The Filipino Entrepreneur.* The Filipino entrepreneur has a clear vision for the long term and of how the business will grow. Success in business is the end goal. Simply put, the Filipino entrepreneur is highly motivated, and that leads to perseverance in all aspects of the venture. Businesses will naturally experience cycles, and the driven entrepreneur is always ready to weather the challenges. The Filipino entrepreneur usually has a persevering character to keep focused on what lies beyond the challenges.

Initiative is an attribute of the competitive Filipino entrepreneur, who wants to be the first and be the leader in the chosen field of enterprise. There is no fear of introducing something new, even at the risk of the business. Risks are viewed as opportunities.

The Filipino entrepreneur is adaptable. With the fast-changing business environment and stiff global competition, strengths are used against competitors. The competitive advantage lies in lower prices but also reasonable product quality. Innovative and creative means of promoting the business's world-class product/service in the marketplace are continually explored. One lever is through the maintenance of ongoing access to the available store of global information and knowledge, including market standards, marketing opportunities, and innovative technologies. Another is embodied in large gains in collective efficiency and flexibility through participation in clusters of firms or in networks of inter-linkages—backward with suppliers, laterally with other producers and providers, and forward with users and consumers. Yet leverage also relates to the firm's own capabilities for ongoing learning and improvements in efficiency and flexibility. Moreover, the Filipino entrepreneur tends to prioritize business over everything else, easily be measured by the time spent in the business. Despite that, the interests of the business are still reconciled with those of the family, which can be attributed to the Filipinos' strong family orientation. A summary of these initiatives is given in Table 3.

Table 3. Entrepreneur Initiatives

Initiatives, Programs, Policies	Public Sector Organizations/Donors	Private Sector Organizations	Results (Success/Failure)
A. Promotion of Entrepreneurial Culture			
A1. SME promotional councils/bodies (A-11)	Small and Medium Enterprise Development Council (SMEDC)	Philippine Small & Medium Business Development Foundation, Inc. (PHILSMED)	Success
A2. Entrepreneurship development promotional campaigns (A-3)	Department of Trade and Industry-Bureau of Small and Medium Enterprise Development (DTI-BSMED), University of the Philippines-Institute for Small Scale Industries (UP-ISSI)	Philippine Center for Entrepreneurship (PCE), Philippine Business for Social Progress (PBSP), PHILSMED, Philippine Chamber of Commerce and Industry (PCCI), Employers Confederation of the Philippines (ECOP), Small Enterprise Research and Development Foundation (SERDEF)	Success
A3. Awards for Successful SMEs—"Small Business Entrepreneur of the Year" (A-4)	DTI-Center for International Trade Expositions and Missions (CITEM), SMEDC		Success
A4. Quality Awards for SMEs (A-4)	DTI-Center for Industrial Competitiveness (CIC), Center for Quality and Competitiveness-Development Academy of the Philippines (CQC-DAP)	Philippine Society for Quality, Philippine Quality and Productivity Movement, PCCI	Success
A5. President mentions entrepreneurship in speeches/statements and budget statements (A-5)	Government agencies/donors involved in SME development		
A6. Entrepreneurship Development Action Plan at the national level (A-6)	SME Development Group, SMEDC, Japan International Cooperation Agency (JICA)		Success
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

A7. Government's vision promoting entrepreneurship, innovation and competitiveness at the national level (A-14)	SME Development Group (SMEDG)	PHILSMED, SERDEF	Success
A8. Promotion of Entrepreneurship Profile for SMEs	UP-ISSI	PCE	Success
A9. Promotion of benchmarking and best practices networks (A-7)	DTI-CIC, CQC-DAP	PCCI	Success
A10. Promotion of women and youth entrepreneurship (A-8)	DTI, DOST, UP-ISSI, DAP, Cooperative Development Authority (CDA), Department of Education (DepEd), Government Service Insurance System (GSIS), Technical Education and Skills Development Authority (TESDA), National Youth Commission (NYC), Commission on Higher Education (CHED), National Commission on the Role of Filipino Women (NCRFW)	Women's Business Council Philippines, Philippine Micro-enterprise Development Foundation (PMDF), Philippine Youth Business Foundation (PYBF), National Council of Women of the Philippines (NCWP)	Success
A11. Promotion of e-business and ICT development (A-9)	DTI-Philippine Trade Training Center (PTTC), Commission on Information and Communication Technology (CICT)	Qualcomm Inc., PHILSMED	Success
A12. Promotion of technological innovation for SMEs (A-10)	Department of Science and Technology (DOST), APEC Center for Technology Exchange and Training for Small and Medium Enterprises (ACTET SME), Technology and Livelihood Resource Center (TLRC)		Success
A13. Promotion of financial products and schemes for SMEs	Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), National Livelihood Support Fund (NLSF),	(A-38)	Success
(continued on next page)			

	Philippine Export–Import Credit Agency (PHILEXIM), Quedan and Rural Credit Guarantee Corporation (QUEDANCOR), Small Business Guarantee and Finance Corporation (SBGFC), Social Security System (SSS), Livelihood Corporation (LIVECOR)		
A14. Productivity promotional campaign for SMEs (A–2)	Department of Labor and Employment (DOLE), DTI–Cottage Industry Technology Center (CITC), DTI–PTTC	Philippine Exporters Confederation, Inc. (PHILEXPORT)	Success
A15. Promotion and availability of SME database, SME publications, SME web-based portals for information and business matching	DTI–Bureau of Domestic Trade (BDT), DTI–Bureau of Export Trade and Promotion (BETP), DTI–BSMED, DBP, UP–ISSI	PCCI, PBSP, PHILEXPORT, SERDEF	For evaluation
A16. Provision of infrastructural facilities	Department of the Interior and Local Government (DILG), University of the Philippines (UP)	Ayala Foundation, Philippine Economic Zone Authority (PEZA)	Data insufficient
<b>B. Regulation and Policies</b>			
B1. Laws/regulations/policies for SME development at the national level—availability of an SME Framework (A–11)	Securities and Exchange Commission (SEC), Department of Finance–Bureau of Internal Revenue (DoF–BIR), Bangko Sentral ng Pilipinas (BSP), DTI, DILG, DOLE	PCCI, PEZA	For evaluation
B2. Policies/regulations to support technological development	DOST		Success
B3. Policies/regulations for ICT development	CICT		Success
B4. Policies/regulations for SMEs’ access to markets	DTI		Success
B5. Policies/regulations for SMEs’ access to financial facilities	BSP		Success
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

B6. Policies/regulations for entrepreneurship development (A–1)		PCE	Success
B7. Bankruptcy laws which ease the exit of enterprises that are not sustainable or competitive (A–12)	SEC, Regional Trial Courts (RTCs)		For evaluation
B8. Labor laws and employment regulations affecting SMEs (A–13)	DOLE		Success
B9. Infrastructure facilities/exemptions provided to SMEs	DILG, DoF		For evaluation
B10. Specialized prudential regulations for financing to SMEs	BSP		For evaluation
B11. Regulations on financial incentives for SMEs (i.e., tax exemptions/benefits, duty concessions for SMEs)	DoF–BIR		For evaluation
B12. Policy/regulation for productivity development in SMEs	DOLE		For evaluation
<b>C. Administrative Environment/Framework</b>			
C1. Availability of permanent or ad hoc units/cells mandated to represent SME views in the regulatory process (A–14)	SMEDG	PCCI	Success
C2. Councils/consultative bodies/task force for SME development and/or to take SMEs' views into consideration while formulating policies and procedures	SMEDG	PCCI	Success
C3. Experts advisory/advisory board/specialized boards set up to develop SMEs (in general or in specific sectors)	SMEDC		Success
C4. Availability of productivity improvement programs for the SMEs	DOLE		Success
C5. Availability of Entrepreneurship Profile/Entrepreneurship Indicators for the country	UP–ISSI	PCE	Data insufficient
C6. Systems/programs to monitor the entrepreneurial profile, entrepreneurial activity and entrepreneurial business environment (EBE)	SMEDG, UP–ISSI	PCE	Data insufficient
C7. Programs/focus on developing entrepreneurial mindsets, corporate vision and corporate entrepreneurship (A–16)	SMEDG, UP–ISSI, DepEd, CHED	PCCI, PBSP, SERDEF, ECOP, Entrepreneurship Educators' Association of the Philippines (ENEDA), PCE, Ayala Foundation, Asian Institute of Management	Success
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		(AIM), Massachusetts Institute of Technology (MIT) Tech Club of the Philippines	
C8. Procedures for development of SMEs:			
C8a. Registration of firms, formation of a new company, listing requirements (A-17)	DTI, SEC, DILG	PCCI	For evaluation
C8b. Exit of uncompetitive firms	SEC, RTCs		Data insufficient
C8c. Compliance and reporting	DTI, DILG, DoF-BIR, DOLE, DOST, SSS, BSP, Department of Environment and Natural Resources (DENR), Department of Agriculture (DA)		Data insufficient
C8d. Licensing	DTI, DILG, DOLE, DoF-BIR, SSS, DENR, DA, Professional Regulation Commission (PRC)		Data insufficient
C8e. Accounting standards	Accounting Standards Council, SEC		Data insufficient
C8f. IT-driven communication through web portals	DTI, SEC, UP-ISSI	PCCI	Data insufficient
C8g. Taxation	BIR		Data insufficient
C8h. Utilities	Local Water Utilities Administration (LWUA)	Manila Electric Company (MERALCO), Manila Water Company, Inc. (MWCI), Maynilad Water Services, Inc.	Data insufficient
C8i. Standardization	DTI-Bureau of Product Standards (DTI-BPS)		Data insufficient
C8j. Quality certificates, ISO certification	DTI-BPS, DA, DOST	AJA Registrars Inc., Certification International Philippines, Inc. (CIPi), SGS Philippines, Inc., TUV Philippines, Inc.	Data insufficient
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*Entrepreneurship Development for Competitive Small and Medium Enterprises*

<b>D. Entrepreneurship Training and Education</b>			
D1. Entrepreneurship curriculum at universities and colleges (A–19)	DepEd, CHED	PCE	Success
D2. Internship programs/attachment with enterprises for developing entrepreneurial skills (A–20)	DepEd, CHED, DOST	AIM, PCE	Success
D3. Linkages between SMEs and colleges/universities (A–21)	State universities and colleges (SUCs)	PCCI, Anvil Business Club, Chinese-Filipino Business Club, MIT Tech Club of the Philippines, AIM	Success
D4. Institute of Entrepreneurship	UP–ISSI	PCE	Success
D5. Entrepreneurship training programs (A–23)	UP–ISSI, TESDA, DTI, DOLE, DOST, DA, DepEd, TLRC	Ultima Entrepinoy Forum Center, Business Academy, Philippine Livelihood Marketing Corporation (PHILMACO), PCE, etc.	Success
D6. Other skills development training programs and institutes	(A–23)		Success
D7. Quality standardization and testing agency	DTI–BPS		For evaluation
D8. Other training institutes for human resource development of SMEs	(A–23)		Data insufficient
<b>E. Network and Linkages for SME Development</b>			
E1. Availability of Enterprise Cluster (A–28)	DTI	PEZA	For evaluation
E2. Availability of business development and business support service providers (A–29)	DTI, UP–ISSI, Canadian Executive Service Organization (CESO), Canadian International Development Agency (CIDA), JICA	PCCI, PBSP, PHILEXPORT, Ayala Foundation, Ultima Entrepinoy Forum Center, local chambers of commerce	Success
E3. Availability of business advisory/consultancy services for SMEs (A–30)	DTI, DILG (thru LGUs)	PHILEXPORT, PCCI, PBSP, local chambers of commerce	Success
E4. Strategic alliances and joint ventures within domestic and/or international markets in SMEs (A–31)	DTI	PCCI, ECOP, PHILEXPORT, local chambers of commerce	Data insufficient
E5. Subcontracting support for SMEs by larger enterprises (A–32)	DTI	PHILEXPORT	For evaluation
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E6. Availability of business incubators (A-33)	UP, DOST	Ayala Foundation, PEZA	Data insufficient
E7. Linkage programs for market access/programs, product development, technological access, etc. for improving domestic and international market access for SMEs (A-34)	DTI, Philippine International Trading Corporation (PITC), DA	Market Encounter Goes to Manila Foundation, Inc.'s (MEGMA)	Success
E8. Supply chain and value chain networks in the country and internationally (A-35)	DTI		In-sufficient
F. Technology and ICT			
F1. Initiative for cross-border technological cooperation	DOST		For evaluation
F2. Technology business incubators	(A-37)		Success
F3. Availability of back-up/pilot and demonstration projects which foster innovation and technological development (A-36)	DOST		Success
F4. Facilities for developing technopreneurs—availability of knowledge centers, research and development centers, testing laboratories, etc. (A-37)	UP, DOST	Ayala Foundation	Success
F5. Facilitation of benchmarking exercises and sharing of best practices —Best Practice Networks	DTI-CIC, ACTETSME		Success
F6. Availability and facilitation of e-business and e-commerce practices, use of internet and other e-market, e-business methodologies	CICT, DTI, DBP	Qualcomm, Inc., PCCI, Planters Development Bank	In-sufficient
F7. Availability of web-based SME portals, SME database, information networks	DTI, SEC, UP-ISSI	PCCI	In-sufficient
G. Financial Support			
G1. Support and role of the Central Bank in providing financial access to SMEs	BSP		For evaluation
G2. Availability of specialized financial institutions for SMEs	A-38		Existing institutions need to be strengthened
G3. Specialized financial products and incentives for small enterprises	A-38		Success
G4. Availability of SME Fund, Technopreneurship or Intrapreneurship Fund, etc. (A-39)	Philippine Amusement and Gaming Corporation (PAGCOR), LBP, National Livelihood		Sufficient
(continued on next page)			

	Support Fund (NLSF), SB Corp. (formerly SBGFC), DOST		
G5. Availability of venture capital funds or risk financing mechanisms, risk mitigation fund, credit guarantee schemes	A-40		In-sufficient
G6. Grants for SMEs for technological assistance, market access, productivity improvements, research and development, innovations, product development, e-business, ICT development, supply chain networks, etc.	DOST, DA, DTI, DOLE	PCCI, local chambers of commerce	In-sufficient

## CASE STUDIES

### **Productivity and Competitiveness Enhancement: The Road to Success**

Total Quality Management is promoted among SMEs as an excellent tool for organizational change, growth, and improvement. Entrepreneurs are also encouraged to carry out environmental management systems (EMS) and other modes of productivity and quality improvement programs (e.g., ISTIV-PAP). The government believes that the transfer of best practices, with SMEs shall comparing themselves to high-level performance and “good or best practices,” is a very powerful approach to operations improvement. Programs in this regard involve identifying best practices and making them available for replication. A number of SMEs are particularly keen to take part in programs involving productivity applications. The following case studies show the success of some SMEs that have taken advantage of and implemented one of the many government-initiated training programs, the ISTIV-PAP.

#### **Anjo Farms, Incorporated<sup>17</sup>**

Formerly known as Integrated Prawn Farms, Inc., Anjo Farms specializes in processing boneless milkfish both for export and for domestic consumption. Anjo Farms’ product lines include plain, marinated, smoked, belly, and fillet milkfish. It has a total workforce of 69. The company operates in Barangay Sabangan in San Fabian, Pangasinan, and caters to clients in the U.S., Canada, Japan, Hong Kong, and Macau, as well as local establishments such as Red Ribbon, Max’s, Chowking, and Andok’s.

#### *The ISTIV Productivity Improvement Project*

The National Wages and Productivity Commission and the Regional Tripartite Wages and Productivity Board, a government agency under the Department of Labor and Employment, introduced ISTIV technology to Anjo Farms in August 2001. The agency sent an ISTIV team to study the company’s operations and recommend suggestions to improve its productivity. When the ISTIV Program was explained to Mr. Jose Enrique Q. Tanjanco, the General Manager, he immediately liked the program for its fresh and non-technical approach to improving productivity. The five ideal attributes promoted by ISTIV—industrious, systematic, time-conscious, innovative, and strong value for work—are qualities that any employer would like his workers to

<sup>17</sup> National Wages and Productivity Commission, “Big Lessons from Small Companies” (September 2004), pp. 1–7.

have. Moreover, the ISTIV program focuses not only on productivity tools and techniques but also on instilling in workers the culture of a positive work attitude.

The ISTIV Consultancy Project in Anjo Farms was carried out in four phases between August and December 2001. The first phase involved an in-depth productivity needs assessment through a series of plant visits, interviews, and observations. The ISTIV team clarified management goals, measured productivity, identified immediate improvement targets, observed existing process standards, and analyzed internal and external factors affecting company performance. The second phase involved the preparation of a Productivity Improvement Action Plan that proposed solutions, suggested priority interventions and improvement targets, and clarified the roles of the consulting team and Anjo Farms. The third phase consisted of a series of training sessions on 5S and ISTIV held with company managers, supervisors, and workers. The fourth phase was the actual implementation of the improvement project and monitoring and evaluation its impact between October and December 2001.

### *Areas for Improvement*

Anjo Farms and the ISTIV consulting team agreed to work on three identified weaknesses.

- *Weak management control system.* As a result of poor planning and control of all process activities, the company experienced frequent raw materials shortages, which adversely affected its operations. Anjo Farms also experienced delayed reporting, which affected decision-making. The company lacked knowledge in relevant industrial engineering techniques that affected its production processes, leading to higher operating costs. Irregular preventive maintenance led to frequent machine breakdowns. Disruption in operations for a food company leads to high losses due to product spoilage.
- *Moderate compliance with the Hazard Analysis and Critical Control Points (HACCP) plan.* Food factory requirements, such as insect screens, proper sanitation, and hygiene, were not strictly observed. Compliance with HACCP and Good Manufacturing Practices (GMP) is critical to a food company.
- *Manpower problems.* The company's line supervisors or team leaders lacked supervisory skills, and workers did not possess the ISTIV attributes, as shown by their lack of concern and self-discipline and their low productivity.

### *Results*

The ISTIV Project utilized a combination of science, logic, and common sense. Almost 90% of the interventions implemented were management- and production-related. After three months of implementing the ISTIV Program, substantial transformations had been realized.

- *Improved management control system.* The project showed the importance of planning and the adoption of process standards and appropriate work controls. The company created an Enhanced Management Feedback and Consultation Mechanism (EMFC) that provided the backbone for regular dialogues, consultations, and interactions from the top to bottom of the organization. It permitted the participation of workers in planning, problem-solving, and decision-making. Regular meetings and dialogues from top to bottom of the organization became part of the regular activity, which contributed to a smooth communication flow, promoted teamwork and harmonious labor-management relations, and facilitated the process of decision-making. It also fostered strong camaraderie, cooperation, high morale, and teamwork among the employees. Using the EMFC as a starting point, the company further improved its administration system. The ISTIV Team suggested the use of appropriate work control forms to help the company improve its mechanism of generating information and data needed in planning, such as sales forecasts, production volumes, yield recovery, HACCP compliance, raw materials requirements,

preventive maintenance, and quality and cost control. As a result of this new management control system, Anjo Farms improved its production planning and significantly increased production volume.

- *Enhanced skills and attitudes of workers.* The series of training programs greatly improved the skills and attitude of workers. The two-day supervisory skills training course for supervisors and team leaders gave them greater confidence in managing their work and their subordinates, equipping them with skills in instructing, giving help, doing follow-ups, problem-solving, and giving positive and negative feedback. The orientation for workers resulted in a better understanding of their role and importance in the company.
- *Improved plant facilities and equipment.* Enhancements: acquisition of additional blast freezers, cold storage, vacuum sealers, insectors, and computers, the installation of screens and other devices and additional water pumps, construction of lockers, a canteen, staff house, and water treatment pond, and the concreting of sidewalks and pavements.

These improvements greatly facilitated the company's HACCP and HALAL certifications. At present, Anjo Farms is the only milkfish processing plant in Northern Luzon accredited by the Bureau of Fisheries and Aquatic Resources (BFAR) and the Office of Muslim Affairs.

Improvements in management control, better facilities, and improved workers' attitude yielded:

- Increased boneless milkfish production, from 2,000 to as many as 4,000 pieces per day, without adding any new production lines and with only a minimal increase in the number of workers.
- Increased machine utilization, from 75% to 100%; workers' productive time improvement from 58% to 80%; fewer raw materials shortages; reduced power consumption, from 0.06 to 0.03 kilowatt-hour per piece; and increased milkfish recovery rate, from 80% to 95%.
- Improved work environment. The company constructed a canteen that is run and managed by the workers themselves. The company provided its workers with individual lockers to store their personal belongings. It also constructed a staff house where workers can stay and rest when they are on two shifts. Moreover, regular meetings have greatly improved their capacity to discuss issues and be involved in decision-making.

Two years after its implementation, the company continues to sustain the ISTIV program. Production increased to 6,000 pieces per day. De-boning time has also improved. Before the program's adoption, the average worker could finish de-boning a milkfish in 1 minute and 40 seconds. Afterwards, the process could be done in 1 minute and 28 seconds. Anjo's workers take pride in the fact that they are among the best milkfish de-boners in the country.

Although sales in 2002 were greatly affected by the September 11, 2001 terror attacks in the U.S., Anjo Farms still increased its profits by about PHP1.3 million. The company has expanded its export market from the U.S. and Japan to include Australia, Canada, and Sweden.

#### *Labor Administration Outcomes*

As a result of improved sales and operations, the company was able to increase its workers' wages, not because it was mandated or forced to do so, but because it was the right thing to do, and the company could afford it. Anjo Farms forged a partnership with its workers to jointly implement measures to reduce waste, increase productivity, and improve the company's capacity to create wealth. The company's average monthly wage of PHP4,800 in 2002 increased to PHP7,200 in 2003. This has greatly improved workers' purchasing power, enabling them to send their children and relatives to school, be eligible for housing loans, and buy home appliances. Workers' wages contribute about PHP260,000 per month to the company's *barangay's* economy. Also, most of the workers now have mobile phones.

### *Outstanding SME in Quality and Productivity*

As a result of these improvements, the company has garnered numerous awards, for example the 2002 Excellence in Export Golden Shell Award, the Most Outstanding SME in the Aquaculture Industry award, and the 2003 Gawad Kapatid Award on Quality and Productivity. Mr. Tanjanco believes that productivity is a never-ending task. He is reminded of a popular Chinese proverb: “If you give a man a fish, he will not be hungry for a day. But if you teach a man how to fish, he will never be hungry again.” He is proud to say that ISTIV taught them the way to quality and productivity. As they say at Anjo Farms, “There is always room for improvement in any completed task.”

### **Ayala Seafoods Corporation<sup>18</sup>**

Ayala Seafoods Corporation (ASC) is a Filipino-owned food manufacturing corporation primarily engaged in the manufacture of canned fish products. It is located at Calle Segundo, Ayala, Zamboanga City. The company presently employs 650 workers. ASC’s products are distributed in both local and international markets under the MEGA brand name. Currently, the cannery plant is operating an advanced Quality Control Program using the Quality Management Program (QMP) plan; its Hazard Analysis and Critical Control Point (HACCP) has been accredited by the Bureau of Fisheries and Aquatic Resources (BFAR) since September 2002.

The corporate goal is to operate the cannery plant on a sound financial basis of profitable growth, increasing value for its stockholders and creating career opportunities and financial rewards for its employees, whose creativity and commitment to winning through teamwork are key to the company’s competitiveness. Its vision is to become the leading fish canning company in the Philippines, able to provide a diversified and comprehensive range of quality and innovative products and services that are responsive to the financial needs of its customers. The corporate mission:

- To achieve customer satisfaction through prompt and responsive services, innovative, high-quality products, and efficient organizational structure and administrative procedures.
- To provide its employees with an environment that includes training, career development, compensation programs, and workplace facilities necessary for job satisfaction.
- To maximize productivity of human and capital resources for the benefit of its customers, investors, and employees and to be the standard for efficiency, distinction, and integrity in the industry.
- To support a positive, productive environment for the people who work on marketing, finance, production, quality assurance, and administration of the brands and to ensure that each trademark will remain the most outstanding brand in its category.

ASC started in 1998 as a joint venture with Zamboanga Universal Canning Corporation and Mega Fishing Corporation. In December 2000, Mega Fishing Corporation took over Ayala Seafoods Corporation, thereby becoming the sole stockholder of the company.

### *Areas for Improvement*

In May 2003, the ISTIV Team of RB-10 conducted a business diagnosis of the company prior to training and found two major concerns:

- Low production due to lack of knowledge on productivity tools and techniques.
- Work activities that were tedious and tiring due to poor job delegation.

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<sup>18</sup> National Wages and Productivity Commission, pp. 8–11.

*The ISTIV Improvement Project*

- The ISTIV training courses (for the owner, supervisors, managers, and workers) were conducted in June and July 2003. An ISTIV committee was organized after the training to be responsible for the implementation of the company's ISTIV-PIP.
- ASC's ISTIV-PIP is focused on increasing production with minimum waste and production cost. Its project objectives were to create a strong corporate culture with a spirit of high productivity and to foster a pleasant work environment where people are willing to come to work.
- The company gives rewards to the most productive filler on a weekly basis. It also encourages workers to submit suggestions on how to improve productivity. The company even greets and recognizes workers on their birthdays.

*The Result*

After just one year of implementation of the project, the company:

- Increased production from 3,500 cases per day to 5,200 and above.
- Developed and implemented a Standard Operating Procedure.
- Increased production per employee from 5.4 cases to 8 cases per day.
- Decreased the cost per case,
- Improved the work environment.
- Decreased the number of grievances between workers and supervisors.

Other tangible ISTIV improvements:

- Personal down time (e.g., following up of loans, etc.) was done during break time.
- Files, documents, raw materials, and spare parts were organized, which made work easier.
- There were fewer worker absences.
- Employees were encouraged to submit suggestions and other creative ways to improve work.
- Continuous education and training were offered to employees.
- Rewards were given to deserving employees (e.g., perfect attendance, best filler, etc.).

The company believes that it has yet to develop and build the culture of "value for work" (e.g., reduction of reworks/rejects/customer complaints). However, with the ISTIV Committee and the improved system in place, it is hopeful that the goal will be achieved.

**Wellmade Motors and Development Corporation<sup>19</sup>**

Wellmade Motors and Development Corporation is engaged in the machining and reconditioning of metal components, on-site machining, and hot or cold fusion welding. The company is located at Tanchan Industrial Complex, Tipolo, Mandaue City. Wellmade Motors, with a capitalization of PHP2 million and total market share of 35%, is owned by Mr. Philip N. Tan, who is also its President and Chief Executive Officer.

The company has a workforce of 56 employees: three managers, four supervisors, six section chiefs, and 43 regular rank-and-file employees. Its top three customers are Supercat (Universal Aboitiz), Metalphil, Inc., and Villa Shipping Corp. Some of its suppliers are MIRA of Switzerland (machine tools manufacturer), Kwik-way of the U.S., and BERCO of Italy.

*Punctuality Tracking System*

Immediately after the ISTIV training was held on 19 and 25–27 November and 13 December 1998, management realized that its employees' personal down time and continuing tardiness

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<sup>19</sup> National Wages and Productivity Commission, pp. 75–78.

had resulted in huge losses for the company. Mr. Tan computed the lost annual earnings of each employee due to tardiness. He also computed the company's lost business. He and his workers jointly developed a Punctuality Tracking System that enabled computation of the tardiness of each employee on a weekly, monthly, and annual basis. A Quality and Productivity Committee, consisting of a leader and two members, was formed to oversee the project implementation. The project started on 4 January 1999. The accumulated tardiness of each employee is deducted from an allowance for tardiness equivalent to 15 minutes per week for each employee. The total minimum allowance for tardiness for the year was 400 minutes. At the end of the year, tardiness incurred in excess of the minimum allowance is assessed a penalty of PHP2.50 per minute, which is then deposited by the systems analyst to the Employees Welfare Fund, managed by the Welfare Fund Treasurer.

Meanwhile, the department head investigates employees who incurred tardiness for two consecutive weeks. The HRD Administrator encodes the monthly accumulated tardiness of each employee with the year-to-date running balance in order to compare current performance with the previous year's balance. All tardiness from January to December of the previous year is totaled for each employee during the first week of January of the succeeding year. All accumulated tardiness is then translated into production and revenue losses incurred for the year and posted in the Bulletin Board. Year-end penalties are collected from employees who exceeded the 400 minutes' allowance for tardiness. Conversely, rewards are distributed to employees who did not incur any tardiness for the year. Total tardiness of the company's 56 workers dropped from 24,205 minutes in 1999 to 2,954 minutes in 2000 and to a negligible number in 2001. This enabled the company to expedite early completion of its commitment to customers, reduce overtime by 50%, and increase sales revenue by 14%.

#### *Building a "Culture of Honesty"*

The company decided to get rid of the Bundy clock. Employees now fill up a daily time record based on honesty. The workers were able to develop an attitude that they do not need a machine to keep track of their attendance. They come and stay on time because it is their responsibility. This culture of honesty and responsibility is carried over to dealings with customers and fellow employees.

The company opened a branch in Cebu City in early 2003. It was also recognized by the DTI as the Best of the Outstanding Consumer Welfare Company. It takes pride in being the first Filipino machine shop with an ISO-9001 certification. Mr. Tan credits the company's ISTIV program in gaining this certification.

#### *ISTIV Values as Training Criteria*

For the year 2003, Wellmade introduced the competency-based salary structure, where machinists are rated at different levels depending on their skills and performance. Each level has a corresponding salary range in which ISTIV Values and Productivity Formation is one of the requirements under the Internal/External Training criteria.

#### *Productivity Improvement Program Results*

- 14% increase in sales.
- Reduction in annual production losses. The cost of unproductive labor man-hours dropped from PHP14,119.58 in 1999 to PHP2,215.50 in 2000, representing an 84.3% improvement in labor productivity. The cost of unproductive idled machinery decreased from PHP36,307.50 in 1999 to PHP4,923.33 in 2000, representing an 86% improvement in machine productivity. Profit lost on unproductive man-hours went from PHP28,239.17 in 1999 to 3,790.97 in 2000, representing an 86.6% improvement in profit.



*Entrepreneurship Development for Competitive Small and Medium Enterprises*

- Weekly penalties collected were contributed to the Employee Welfare Fund, used to finance company activities such as quarterly birthday parties, annual picnics, and even additional death benefits to employees' immediate family. The company provided matching funds equal to 50% of the total cost.
- Employees became more results-oriented in developing various ongoing improvement projects in their respective departments.
- A shifting schedule of leaves of absence addressed the problem of unforeseen simultaneous leaves of absence, thereby enabling on-time delivery of services and reducing overtime by 15%, which is a cost savings for the company.
- The competency-based salary scheme helped the employees rise to a higher level in terms of skills and knowledge, thus providing them with a higher salary.

## ENTREPRENEUR DEVELOPMENT FOR COMPETITIVE SMES— OVERVIEW AND DEVELOPMENT STRATEGY

### **Vietnam at a Glance**

Geographically situated in Southeast Asia, Vietnam borders with China, Laos, and Cambodia. A member of ASEAN, Vietnam has become one of the most vibrant emerging dynamic economies in the region. The country has made encouraging progress in economic growth and poverty reduction in the last decade. The GDP has doubled, while poverty has been halved, to approximately 18%. The business community has played an important role in this progress.

In a broad sense, the private enterprise community in Vietnam now consists of around 180,000 enterprises officially registered under the Enterprise Law, 16,899 cooperatives, 300,000 cooperative groups, about 2.4 million registered household businesses in the service and industry sector, more than 10 million household businesses engaged in agriculture production, and 13,000 agriculture farms (and also more than 3,000 foreign-invested enterprises). The private enterprise community keeps expanding at an incredible rate, both in terms of number of firms and in terms of registered capital. Since the Law became effective (1 January 2000), more than 106,134 enterprises have been registered, with a total investment capital of VND320 trillion. In the first eight months of 2004 alone, 23,392 enterprises were established, with a total investment capital of VND41,528 billion, an increase of 36.3% in the number of enterprises and 29.6% in terms of registered capital as compared with 2003. Approximately 1.6 to 2 million new jobs have been created by these newly registered SMEs. Despite this encouraging progress, the incidence of enterprise remains low, at one enterprise per 1,000 population (2004), and most of these businesses are small in size, in terms of labor and capital—some are very, very small (Tables 1 and 2 and Figure 1).

Table 1. Key Macro-economic Indicators, 2005

Indicator	Value
GDP at market prices	VND698.3 trillion
GDP	USD44.4 billion
GDP growth	8.4%
Consumer price inflation (average)	7.8%
Population	83.12 million
Growth rate	1.33%
Export of goods	USD32,230 million
Import of goods	USD36,880 million
Inflation	8.4%

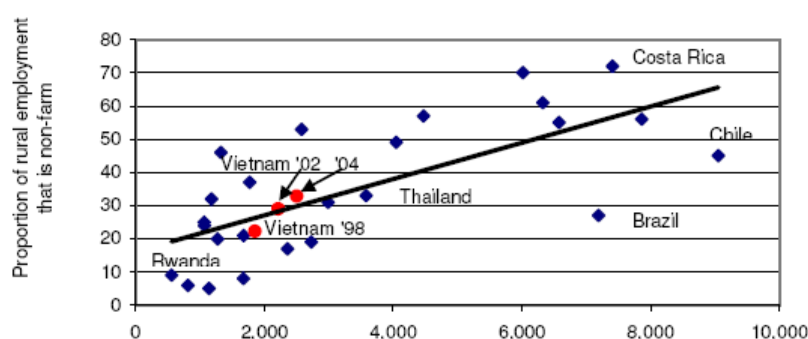


Figure 1. GDP Per Capita in PPP USD

Table 2. Enterprises in Vietnam—A Snapshot

Type of enterprise	Number
Registered under the Enterprise Law	150,000
Household business registered under Decree No.109 (previously Decree 02)	2,400,000
Co-ops registered under Cooperative Law	16,899
Registered under the State-owned Enterprise Law	5,200
Farm households	10,000,000
Registered under the Foreign Investment Law	3,000

### Development Strategy

The overall goals of the Ministry of Planning and Investment's 2001–10 Ten-year Strategy for Vietnam are to bring Vietnam out of underdevelopment, improve material, cultural, and spiritual life, and lay the foundations for transforming into a modern, industrialized country by 2020. Human resources, scientific and technological capacities, infrastructures, and economic, defense, and security potentials are to be enhanced; the institutions of a socialist-oriented market economy to be established; and the status of the country in the international arena is to be heightened. Specific goals:

- To ensure that by 2010, GDP will have at least doubled from the 2000 level. To increase the efficiency and competitiveness of products, enterprises, and the economy. To better meet essential consumption demands and a considerable part of production and export demands. To ensure macro-economic stability, a sound international payment balance, and growing foreign exchange reserves. To keep budget deficits, inflation, and foreign debts within safe limits to positively affect economic growth. Domestic savings are to amount to over 30% of GDP. Exports are to increase at a rate more than double that of GDP growth. Agriculture is to account for 16–17% of GDP, industry 40–41%, and services 42–43%. Agricultural labor is to decrease to around 50% of the workforce.
- To substantially increase the Human Development Index (HDI). The population growth rate is projected to drop to 1.1–1.2% by 2010. To eliminate the category of hungry households and quickly reduce the number of poor households. To solve the employment issue in both urban and rural areas (to reduce the urban unemployment rate to below 5% and increase utilized work time in rural areas to about 80–85%). To raise the trained labor ratio to around 40%. To ensure schooling to all school-age children; to achieve universal

junior secondary education nationwide. To provide medical treatment to patients; to reduce child (under-five) malnutrition to around 20%; to increase the average life expectancy to 71 years. To raise noticeably the quality of life, in material, cultural, and spiritual terms, in a safe and healthy social environment. To protect and enrich the natural environment.

- Indigenous scientific and technological capacities are to be used to ensure applicability of modern technologies, to approach world standards, and to develop the country's own information, biological, new materials, and automation technologies.
- Infrastructures are expected to meet the demands of socio-economic development as well as those of national defense and security, and to work a step in advance. The communications system is to be smooth and safe all the year round and partially modernized. The rural communications network is to be expanded and upgraded. The crucial dike systems are to be fortified and water conservancy systems developed and solidified. Electricity, telephone, and other basic postal and telecommunication services, dispensaries, solidly-built schools, and cultural and sports facilities are to be available to most communes to provide the physical conditions for primary and secondary schoolchildren to be educated in full-day schools. Sufficient hospital beds are to be provided.
- The leading role of the state economic sector is to be enhanced, governing key domains of the economy. State enterprises are to be renewed and developed, ensuring production and business efficiency. The collective economic sector, the individual and small-owner economic sector, the private capitalist economic sector, the state capitalist economic sector, and the foreign investment economic sector are all to develop vigorously and durably. The institutions of a socialist-oriented market economy are to be established and to operate smoothly and efficiently.

### Definition of SMEs

Small and medium-sized enterprises (SMEs) are defined as independent businesses and production establishments that have registered under the current legislation and have registered capital of less than VND10 billion and/or an annual average number of fewer than 300 permanent employees.<sup>1</sup> This definition does not distinguish between legal forms when it classifies a business establishment as a small or medium-sized “enterprise.” In other words, a business establishment is considered an “enterprise” or as manifesting “entrepreneurial activity” whether it is registered at the district level as a household business or at the provincial level under the Cooperatives Enterprise Law and the State Owned Enterprise Law. All such business entities are considered an “enterprise.” This is in line with international definitions of SMEs.

SMEs as defined in the official definition are not a uniform group of enterprises. They are quite different based on the number of employees they engage in their operations and their financial, technological, and management capabilities. In this report, the following size groupings based on number of employees/persons engaged will be used in some statistics that describe the situation of SMEs in Vietnam:

Micro enterprises:	< 10 persons
Small enterprises:	10–49 persons
Medium sized enterprises:	50–299 persons
Large enterprises:	> 300 persons

### Achievements in Development

In reality, during the past years, the exceptional development of SMEs in terms of both quantity and quality has contributed significantly to economic growth targets, to the national

<sup>1</sup> Article 3, Decree 90/2001/ND-CP, dated 23 November 2001, on supporting the development of SMEs.

budget, to employment generation, and to individual income increases and has helped mobilize different sources of domestic investment capital for socio-economic development. SMEs have been in the process of becoming the driving force behind business activities in Vietnam. The Establishments Census conducted by the General Statistics Office showed that there were over 2.7 million business establishments engaging over 8.3 million people in 2002. As can be seen in Table 3, SMEs, employing fewer than 300 persons, made up over 99.9% of all business establishments and engaged over 77% of all non-agricultural workers in 2002. Large enterprises, having over 300 employees, constituted less than 0.1% of business establishments and created jobs for 22.7% of the non-agricultural labor force.

Table 3. Establishments and Employment

Indicator	SME				LSE	Total
	Micro	Small	Medium	Subtotal		
Number of business establishments (1,000)	2,660	46.7	11	2,718	2.5	2,720
Percentage of all establishments (%)	97.8	1.7	0.4	99.9	0.09	100
Employment (1,000)	4,375	887	1,221	6,483	1,909	8,392
Percentage of persons engaged (%)	52.1	10.5	14.5	77.3	22.7	100
Persons engaged per establishment	1.6	19	112	2.4	773	3

Source: GSO Establishments Census, 2002, classified as per tentative size groupings

The average sizes of micro, small, medium, and large-sized enterprises that characterize the enterprise landscape in Vietnam show similarities with international examples. While the average SME in Vietnam was small and employed fewer than three persons per establishment, a “small” business in Vietnam employed about 19 persons; the average in Europe was 20. A “medium-sized” business in Vietnam employed about 112 persons, versus 95 in Europe. Micro-scale businesses in Vietnam were smaller than those in Europe and had fewer than two persons engaged per establishment. A greater dissimilarity could be observed in the case of large-scale enterprises, which in Vietnam had an average of about 773 employees per establishment and in Europe 1,020.

Since the Enterprise Law went into effect on 1 January 2000, the number of newly registered enterprises has increased dramatically. From 2002 to the end of 2004, there were about 121,000 newly registered enterprises, most of which were SMEs. To date, the number of non-state enterprises has increased to 170,000, plus over 2.6 million economic households and about 18,000 co-operatives (Table 4).

Table 4. New Business Registrations 2000–04

Year	Total	State-owned enterprises	One-member limited liability companies	Private enterprises
2000	14,457	16	0	14,441
2001	19,800	27	0	19,773
2002	21,535	12	59	21,464
2003	27,771	20	98	27,653
2004	37,230	6	125	37,099
Total	120,793	81	282	120,430

Source: Business Information Center (Ministry of Planning and Investment), 2004

In recent years, the number of newly registered enterprises has increased even faster (21,535 in 2002, a 9% increase compared to the same period of the previous year, and a 29% growth in 2003 and 40% in 2004); the average annual number of newly registered enterprises increased four times compared to that in the nine years before 2000. The number of newly registered enterprises from 2000 to 2004 is 3.5 times the total of the nine previous years. In 2001, there was one newly registered enterprise per 964 people. However, it is estimated that in 2005 there was one per 500 people.

The amount of capital mobilized through new business establishment and business scope enlargement has increased significantly, distributed throughout the country. From 1991 to 1999, the total registered capital was only VND25,742 trillion (equivalent to USD2,340 billion at the time). However, from 2000 to 2004, the total registered capital had dramatically increased to VND213,039 trillion (USD14,203 billion), increasing the total investment capital of the non-state sector to VND229,383,903 billion (USD15,292 billion). The total newly registered capital from 2000 to 2004 is 7.9 times that of the nine previous years (1991–99). The investment ratio of private enterprises (which were mostly SMEs) in total social investment increased from 20% in 2000 to 23% in 2001, 25% in 2002, and over 27% in 2003. The investment capital of domestic private enterprises has exceeded foreign direct investment capital. Unlike foreign direct investment (FDI), which was mainly focused on lucrative locations in some provinces and cities, SME investment occurred in all areas, provinces, and cities under different conditions (Table 5).

Table 5. Location of Enterprises and SMEs by Number Employed, 2002

Size class	Total	Red River delta	North-east	North-west	North central coast	South central coast	Central high lands	South-east	Mekong River delta	Un-known
Proportion of total	100%	29%	9%	1%	13%	8%	4%	18%	18%	0%
SMEs in region		99.9%	99.9%	100.0%	100.0%	99.9%	99.9%	99.8%	100.0%	77.1%
Employs <5	2,611,238	746,318	233,806	38,690	333,271	218,087	108,083	447,898	485,063	22
Employs 6–9	49,201	13,386	3,176	390	3,457	3,823	1,262	14,692	8,983	32
Micro enterprise		97.7%	97.9%	97.6%	98.4%	97.9%	98.2%	96.2%	98.5%	
Employs 10–49	46,680	14,065	3,972	751	4,458	3,567	1,492	11,779	6,432	164
% Small Enterprise		1.81%	1.64%	1.88%	1.30%	1.57%	1.34%	2.63%	1.28%	
Employs 50–299	10,889	3,056	992	186	954	944	353	3,431	770	203
Medium size enterprise		0.39%	0.41%	0.46%	0.28%	0.42%	0.32%	0.72%	0.15%	
Employs >300	2,471	626	194	19	93	205	114	954	141	125
Large scale enterprise		0.08%	0.08%	0.05%	0.03%	0.09%	0.10%	0.20%	0.03%	
Total	2,720,479	777,451	242,140	40,036	342,233	226,626	111,304	478,754	501,389	546

Source: GSO Establishments Census, 2002

The average amount of registered investment capital per enterprise has been increasing. From 1991 to 1999, it was nearly VND0.57 billion; it was VND0.96 billion in 2000, VND1.3 billion in 2001, VND1.8 billion in 2002, and VND2.12 billion during the first seven months of 2003. The lowest registered capital was about VND5 million, and the highest was VND200 billion (over USD13 million), which shows the continuous increase in terms of the size of enterprises. Table 6 shows capital invested by SMEs in 2002 with several financial indicators broken down by size: micro (<5 and 6–9 employees), small (10–49), medium (50–299), and large (>300) size categories.

Table 6. Capital Invested by SMEs, 2001

Performance criteria—capital invested	Total	<5	6–9	10–49	50–299	>300
Total capital (million VND)	1,249,191,072	14,741,808	22,770,917	149,520,710	518,098,547	544,059,090
Capital per establishment* (million VND)	459	6	463	3,203	47,580	220,178
Capital per person engaged* (million VND)	149	4	65	169	424	285
Total fixed assets (million VND)	328,122,227	5,273,034	4,906,853	42,958,185	166,538,466	108,445,689
Fixed assets per establishment*	120.61	2	100	920	15,294	43,887
Fixed assets per person engaged*	39	1	14	48	136	57
Total new investment in 2001 (million VND)	92,698,894	2,065,203	3,197,707	14,390,596	47,406,966	25,638,422

\*Simple average per establishment and per person engaged (in million VND)

Source: GSO Establishments Census, 2002

During the preceding years, with rapid development in terms of both quantity and quality, SMEs have made a considerable contribution to national output produced as well as to the central and local state budget income. The Establishments Census showed that enterprises in the “small” and “medium” size categories had significant amounts of turnover per establishment and per person employed in 2002 (Table 7).

Table 7. Turnover Produced by SMEs, 2002

Performance criteria—turnover	Total	<5	6–9	10–49	50–299	>300
Total turn-over (million VND)	1,252,080,851	199,145,779	73,513,328	253,032,828	466,119,801	260,269,115
Turnover per establishment*	460	76	1,494	5,421	42,806	105,329
Turnover per person engaged*	149	49	211	285	382	136

\*Simple average per establishment and per person engaged in million VND

Source: GSO Establishments Census, 2002

Average labor productivity, as measured by turnover per person, was about twice as high in small enterprises, about three times as high in medium-sized enterprises, and about 1.5 times as high among micro enterprises that engaged 6–9 persons as labor productivity in large-scale enterprises.

The contribution of SMEs to the national budget has also tended to increase in recent years, from about 6.4% in 2001 to over 7.4% in 2002 (that of FDI enterprises and SOEs was 5.2% and 21.6% in 2001 and 6% and 23.4% in 2002, respectively). Tax revenues contributed by non-state industrial, commercial, and service enterprises in 2002 reached 103.6% of the planned targets and increased 13% in comparison with 2001. In 2003, income from private enterprises accounted for 15% of the total budgetary income, a 29.5% increase in comparison with the same period in the previous year. It was expected that in 2004, income from the private sector would be about VND13,100 billion, which would account for 7.8% of budget income. In 2002, average taxes and fees paid per person engaged in a small enterprise were about VND10 million, and about VND42 million in a medium-sized enterprise. In contrast, large-scale enterprises paid about VND12 million per person (Table 8).

Table 8. Taxes and Fees Paid by SMEs

Performance criteria—turnover	Total	<5	6–9	10–49	50–299	>300
Total taxes and fees paid (million VND)	84,616,756	632,045	1,098,560	8,788,645	51,760,935	22,336,571
Taxes and fees paid per establishment*	31	0.2	22	188	4,754	9,039
Taxes and fees paid per person engaged*	10	0.2	3	10	42	12

\*Simple average per establishment and per person engaged in million VND

Source: GSO Establishments Census, 2002

Apart from direct contributions, enterprises and business associations have also actively taken part in financing cultural buildings, schools, rural roads, houses of gratitude, and other social welfare activities in local areas. Some enterprises have built houses of gratitude for families that served the country during wartime and families in especially difficult conditions, constructed cultural houses or schools, and provided scholarships for poor students, etc.

SMEs have created a significant number of jobs and generated incomes for laborers. Every year, about 1.4–1.5 million people attain working age and enter the labor market. The number of rural laborers who desire to move to non-agricultural occupations is not insignificant. This annual demand for millions of additional jobs exerts great social pressure on the central and local governments. Creating more jobs not only helps in dealing with social problems but also enhances socio-economic development. It is estimated that SMEs have created about 49% of non-agricultural jobs in rural areas, about 25–26% of the national labor force. The GSO reports that the enterprise sector, excluding household enterprises, attracts approximately 450,000 employees annually, with an average income of nearly VND1.05 million per month. Moreover, the household sector, with the addition of 120,000–150,000 units every year to its population, attracts nearly 400,000 more employees, with an average income of VND350,000–500,000/month. Such a high potential to create jobs contributes significantly to reducing unemployment as well as to social stability.

In the import–export field, encouraged by the expansion of international trade and promoting policies and regulations that enable all economic sectors to participate in import–export activities, it is assumed that SMEs have been dynamically investing in profitable fields, contributing to increased export turnover, and foreign currency earnings, mainly through indirect exports, especially in the case of enterprises specialized in handicrafts and fine arts, processed



fish products, and agricultural products. However, available data on SMEs that take part in international trade either directly or indirectly are at best sketchy. A recent survey of 1,400 non-state manufacturing SMEs having fewer than 100 employees indicated that only about 3% of the firms participated in export, despite the fact that Vietnam had the highest export growth in the world in the 1990s and even exceeded China's performance in the 1980s. The majority of SMEs that had fewer than 100 employees were producing only for the domestic market. On the other hand, according to the same survey, 5 out of 22 manufacturing firms that had grown to having more than 100 employees were involved in direct exports (over 20%). An attempt to estimate the proportion of SMEs having direct and/or indirect export activities concluded that about 17% of SMEs could have been involved in exports. The findings also showed that firms in large urban centers (Hanoi and Ho Chi Minh City) that had more than 100 employees and had been established as limited liability or shareholding companies were more likely to be involved in exports. Firms involved in exports produce primarily food products, non-metallic goods, garments, furniture, and other miscellaneous items such as handicrafts and fine art items. Deeper insight into and study of the characteristics and needs of SMEs that export is necessary so that targeted policies can be designed and implemented to tap into the export potential of the SME sector.

By 31 October 2004, SMEs engaged in export and import accounted for 80.6% and 84.2%, respectively, out of the total number of enterprises participating in import-export activities. In particular the private sector reached the top rank in fishery product exports, with USD740 million, accounting for 39% of the total export turnover of the sector, and in cashew nut export with USD141 million, or 42% of the total export turnover of the sector. If the current development trend continues, the SME sector will become an active source of foreign currency for Vietnam in the future. However, most SMEs in these fields currently export through large enterprises. The number of SMEs that engage in direct export is very small, mainly in handicrafts and fine arts.

SME have helped restore, maintain, and develop traditional handicraft villages that create products of increasingly high quality, technique, and art and that are able to compete in regional and international markets. They have also developed goods and services for small markets that are of little interest to large-scale enterprises. They are important for export and job creation.

SMEs have been taking part in establishing linkages with other SMEs and with large-scale enterprises. Linkages between SMEs and large-scale enterprises, including transnational corporations, were established and developed during the past period in raw materials supply, sub-contracting, and in setting up supporting industry networks, especially in the creation of product distribution satellite networks. These are two-way, binding relationships. The large-scale enterprises provide the market, finance, technology, technical standards, and management experience for SMEs. SMEs, in turn, set up the supporting industries and nationwide consumer goods networks for the large-scale enterprises. One bright example (among others that include seafood, garments, and motorbike production) is the Unilever Group, with its current network of about 500 SMEs. The relationship is vital for both sides. The Unilever Group, thanks to SMEs it is collaborating with, was able to domesticate its inputs and contribute to the Vietnamization of its products and has gradually dominated the Vietnamese market. In return, thanks to technical assistance, technology, and partial contributions of capital from Unilever Group, these SMEs have grown and developed.

SMEs have been active and dynamic in almost all sectors; however, SMEs were most active in distributing goods to consumers through the wholesale and retail trade, as shown in Table 9. Leading SME subsectors after that, in number of establishments, are manufacturing, hotels and restaurants, and transport, storage, and communications.

Table 9 . Sector Distribution of Business Establishments

Business activity	No. of establishments	% of total establishments	Rank by establishment	No. of persons engaged	% of total persons engaged	Rank by employment
Agriculture and forestry	2,701	0.1	11	209,111	2.5	7
Fishery	2,766	0.1	11	40,665	0.5	12
Mining and quarrying	38,641	1.4	7	230,732	2.7	6
Manufacturing	717,840	26.4	2	3,577,279	42.6	1
Electricity, gas, and water supply	3,200	0.1	11	83,792	1.0	10
Construction	26,963	1.0	8	584,548	7.0	4
Wholesale and retail trade	1,205,281	44.3	1	1,969,675	23.5	2
Hotels and restaurants	371,013	13.6	3	710,891	8.5	3
Transport, storage, and communications	191,573	7.0	4	541,442	6.5	5
Financial intermediation	3,826	0.1	11	80,966	1.0	10
Scientific activities and technology	45	0.0	12	1,039	0.0	15
Real estate, rental, and business services	47,998	1.8	6	152,496	1.8	8
Public administration	117	0.0	12	1,049	0.0	15
Education and training	3,353	0.1	11	9,951	0.1	14
Health and social work	13,706	0.5	10	22,019	0.3	13
Recreation, culture, and sporting activities	22,102	0.8	9	48,713	0.6	11
Activities of party and membership organizations	4	0.0	12	35	0.0	15
Community, social work, and personal service	69,350	2.5	5	128,083	1.5	9

Source: GSO Establishments Census, 2002

The picture is somewhat different with respect to job creation by SMEs: the leading sector is manufacturing, followed by wholesale and retail trade, hotels and restaurants, construction and transport, and storage and communication.

Despite being limited in terms of scope, the proliferation of SMEs has created a wide business network, even in the rural areas. They are the major force, with a very important role in the distribution channels for agricultural products and the supply channels for raw materials and industrial consumer goods for farmers. With an advantage in available capital and dynamism, private commerce (mostly SMEs) controlled most of the retail activities not only in urban but also in rural markets (the proportion was approximately 80% in 2003, which was higher than 2001's 78%). The average growth rate of retail goods and services turnover of private commerce has been 18–20% per year, consistently higher than the average growth rate of the whole economy (12% per year). Most SMEs are able to quickly respond to various consumer demands of different social strata, of agricultural production and small-scale/craft industries; they energize the markets and have considerable influence on production and improvement of living standards.

In term of applying ICT for competitiveness, a survey conducted by International Data Group and Vietnam Chamber of Commerce and Industry in 2005 (Figure 2) reveals that SMEs in Vietnam invest too much in hardware in comparison with investment in software and IT services. Nearly half of the SMEs in Vietnam have fewer than 10 PCs per establishment. Only 30.2% of them have from 10 to 24 PCs. Enterprises having more than 50 PCs account for only around 9%.

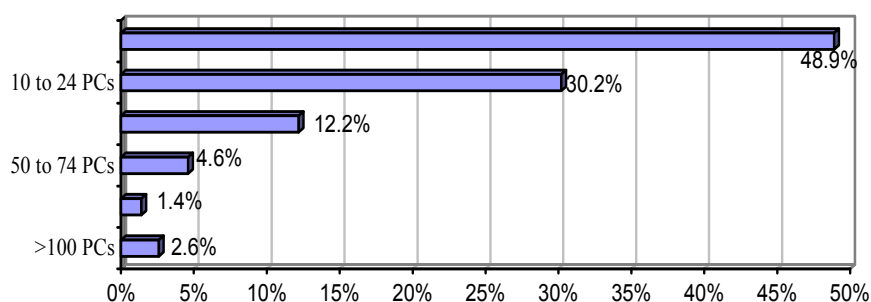


Figure 2. Number of PCs used in SMEs

Grouping by company size (number of employees), Figure 3 shows that the ratios of PC users/computerization remain limited.

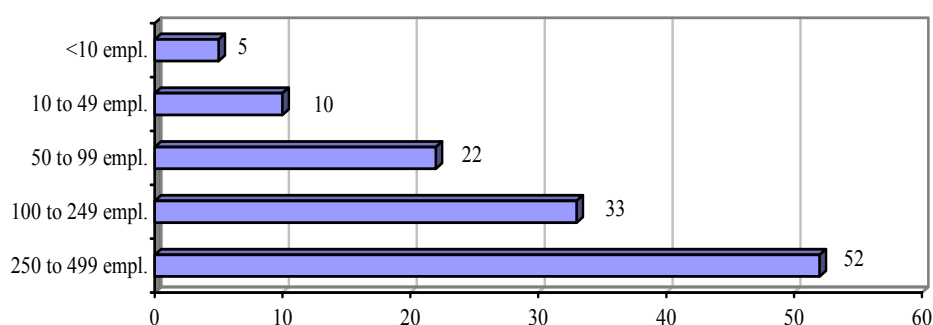


Figure 3. Average Number of PCs per Enterprise by Size (Number of Employees)

In term of Internet connectivity, most SMEs in Vietnam (91%) have an Internet connection. However, the number of enterprises that maintain their own websites is small, only 28.9%. Up to 97.3% SMEs reported not using e-commerce at all.

The most important finding of the survey is that an imbalance exists in investment for ICT among SMEs. Almost 60% of budgets are allocated for hardware, while software accounted for only 11% and training represented only 5% (see Figure 4).

In conclusion, SMEs in general were dynamic and adjusted quickly to market changes, helped maintain and develop traditional products, created jobs and income, contributed to poverty reduction, and stabilized the society. SMEs developed appropriately and helped to build larger-scale production.

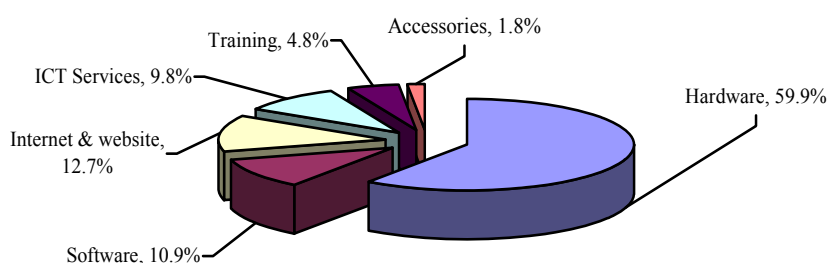


Figure 4. ICT Investment Proportion of SMEs, 2004

### Weaknesses and Shortcomings

Despite some of the achievements that occurred as a result of the supportive policies of the state and government, SMEs remained weak in some aspects. For example, SMEs have not been clearly defined. As mentioned above, SMEs are defined in Article 3 of Decree 90/2001/ND-CP as businesses with a registered capital of less than VND10 billion (about USD650,000) and/or fewer than 300 employees. Those that meet those criteria are business households, domestic enterprises, including the state-owned sector, and the private and collective economic sectors.

The strong point of the existing SME definition lies in its simplicity, but it also has some limitations. The registered capital (charter capital) is only a preliminary basis for determining legal responsibilities between enterprises and their investors and a third party. The scale of an enterprise is determined by the amount of investment capital (including fixed assets and working capital). Moreover, during its operation an enterprise's capital, especially working capital, regularly fluctuates subject to the demands of production and business. Therefore, registered capital (charter capital) does not reflect the real scale of an enterprise. Furthermore, the capital criterion does not make a distinction between sectors, whereas the amount of investment capital varies greatly according to sector. For instance, the trading sector does not need large amounts of fixed assets, but manufacturing does. This is one reason why SMEs engaged in trade make up a large proportion of SMEs.

Statistics show that the employee criterion used to define SMEs is too broad and not divided into subcategories. If this criterion alone is used to draft policies, then they may not be effective or feasible, because it would be hard to target the appropriate policies to suitable groups of SMEs. The classification of SME should be more detailed according to size, such as micro enterprises, small enterprises, and medium-sized enterprises, and then more suitable and targeted support measures can be applied to each of these categories.

There are currently three government agencies that perform state management functions in relation to enterprise statistics. Those agencies that are responsible for setting up and operating an enterprise database include the Agency for SME Development of the Ministry of Planning and Investment (planning), the General Tax Authority (taxation), and the General Statistics Office (statistics). But even within these three agencies the concept of "enterprise" used is not entirely identical. Each uses different methods and concepts to collect and process data to perform the duties and functions of state management on enterprises they monitor. The Ministry of Planning and Investment collects statistics based on the number of registered enterprises, the General Tax Authority collects enterprise statistics based on tax registration status (the tax code), and the General Statistics Office collects statistics based on the number of operating establishments/enterprises. Thus, data on enterprises in general and SMEs in particular remain scattered and inefficient. However, SMEs now account for 99% of the total number of enterprises (as per the enterprise concept used in this document), and about 96% of them are private enterprises. The following analysis, therefore, will be based on the assumption that the domestic private sector consists primarily of SMEs.

- Most SMEs do not realize the great impact of globalization and the international and regional integration process on the domestic economy and on the commercial and manufacturing activities of enterprises, including those producing goods for export and for domestic consumers. In reality, the integration process requires the economies in general and enterprises in particular to be deeply aware of its level of influence and to continuously strive to improve competitiveness.
- Most SMEs are small in scale, with limited capital and a small number of employees. They operate dispersedly and do not have the skills to compete effectively in increasingly liberal markets.
- Most SMEs lack information on input markets, including those for capital, labor, raw materials, and technologies, and on government policies and regulations. This results in the failure to seize business opportunities. In addition, SMEs do not display a good level of knowledge and awareness on conforming to laws, rules, and regulations. This prevents SME from developing effective investment projects.
- There is a limitation in SMEs' market access. The quantity of products manufactured is small, mainly for domestic use, even for very small local areas. The export market has been enlarged, but there remain many limitations, including the predominance of short-term, seasonal, and unstable contracts.
- Most SMEs have weaknesses in equipment and technological capacity, high levels of material and fuel consumption, and large numbers of unskilled workers. As a result, the goods and services provided by SMEs are often of poor quality and uncompetitive, facing difficulties in domestic and export markets and at the same time causing damage to the environment and the ecosystem. Investment in technology innovation is at a low level compared to the development demand. While there is no concrete evidence, there seem to be hardly any research and development (R&D) activities in the SME sectors.
- Unreasonable protective policies, an unequal business environment between economic sectors, the subsidizing and privileging of some enterprises, and instability in legal regulations lead many enterprises to try to obtain privileges from policies to gain short-term benefits rather than building long-term business strategies.
- There are many constraints in relation to linkages between business and production units along sector lines and within regional economic agglomerations. There is lack of sufficient cooperation between large-scale enterprises and SMEs, leading to limitations in business quality and efficiency and competitiveness of both SMEs and large-scale enterprises and an inability to make use of economies of scale for both of these sectors.
- Internal management of SMEs is often underdeveloped, unprofessional, and weak, based primarily on the limited personal experience of the owner(s). There is usually not a clear legal distinction between the rights and duties of owners, employers, and employees. Most enterprises lack strategies and long-term business plans and try to operate with untrained professional staffs.
- Financial management in SMEs lacks transparency. The reported data do not reflect the real financial conditions of enterprises and are not reliable. Some enterprises are confused by tax registration, tax enumeration, taxpaying, and other financial duties. Some financial representations are dishonest or late. Underreporting of financial results and perceptions of non-transparency prevent a large number of SMEs from getting loans from banks, especially unsecured loans available through policy-lending instruments.

### **Reasons for the Weaknesses in Development**

#### *Awareness*

Although the Vietnamese Communist Party and the government have confirmed a consistent policy of multi-sector economy development, its implementation by state management

agencies among enterprises in different economic sectors is not consistent or fair. In many areas, SMEs, primarily in the private sector, are still discriminated against in transactional relationships that involve access to premises for production and business, investment-grade loans, and access to market information.

#### *Policies and Institutions*

The legal system and business environment are being developed and improved to meet the demands of the new conditions and tendencies as well as the new context of integrating into the regional and international economy. In this transitional period, policies and regulations are unstable and change frequently; legal documents overlap and are sometimes unclear enough and ineffective, which causes difficulties for SMEs in becoming familiar with, applying for, and implementing them. The sluggishness of the administrative reform process causes difficulties for enterprises in maintaining contact with state management agencies.

#### *Enterprise Support*

SME development is a new task for state management agencies and governments at all levels. SMEs are likely to encounter difficulties and are hampered by inexperience in implementing party and government guidelines and policies. For example, there is no consistency in policy implementation from the central to the local levels: the central government issues policies, but local authorities may apply them in different ways.

### **DEVELOPMENT INITIATIVES, POLICIES, AND PROGRAMS**

#### **Institutions and Policies Affecting SME Development**

Achievements in SME development during the past few years are the results of the more enabling legal framework for enterprise development in general, and for SMEs in particular, which has been established and is gradually being improved, creating positive changes in enterprise development. These legal documents have created the legal framework for operation of different types of enterprises, including SMEs, and created favorable conditions in which enterprises can develop.

The introduction and application of the Enterprise Law (2000) has created a transparent environment for business activities and has been considered a milestone of administrative reform, significantly improving the consistency, unity, transparency, and equality of the legal framework for business in Vietnam. By simplifying enterprise establishment procedures and issuing clear and simple implementing documents, the implementation of the Enterprise Law has created a level and non-discriminating playing field for different types of enterprises, changed the state management methodology from “*ex ante* inspection” to “*ex post* inspection” and the business registration process from “considering and issuing” to serving, supporting, and instructing. The reality of the past years shows that the policy system of encouraging investment, especially the issuance of the Enterprise Law, has contributed significantly to growth and speeded up development of the economic sectors in general and SMEs in particular.

After Commercial Arbitration Ordinance and Decree No. 25/2003/ND-CP dated 15 January 2004 came into force, the Ministry of Justice promulgated forms for Licenses of Arbitration Center Establishment and Certification of the Activities of Arbitration Centers. Essentially, Commercial Arbitration Ordinance 2003 and its implementing documents created a legal basis for commercial arbitration activities, in line with international arbitration practices; but these measures also have some limitations: the legal value (perceptions of the business community on the value of arbitration) of these documents is still low and the jurisdiction of commercial arbitrators is unclear. The Ordinance stipulates that arbitrators have the authority to settle disputes arising in commercial activities, but the concept of “commercial activities” is not clearly defined. Non-explicit regulations have led to differing interpretations and applications.

For instance, the provisions for abolishing the arbitrators' decisions may be interpreted in different ways, the mechanism for arbitration center establishment is perceived to be too strict, and access to arbitration centers is limited due to the small number of centers in operation.

As regards regulations on notary public activities, their legal standing is not sufficiently well defined (it is only available at the level of a government decree) to resolve several important questions, such as whether notarized transactions and contracts can be submitted as evidence to a court and what legal value such notarized papers have in court. When a court does not recognize the evidence value of notarized transactions and contracts, the procedures and orders through which the court nullifies such documents have not been stipulated. For notarized transactions and contracts, if disputes occur in the process of performing them, it is not clear whether they would be sent to court or to law-enforcement offices. In summary, the utility of having documents notarized is not well defined in the legislation.

Regulations on secured transactions (mortgage, collaterals) have been issued, but problems remain. Secured transaction registration has been stipulated in many legal documents: the Civil Code, Decree 08/2000/ND-CP on secured transaction registration, Decree 17/CP providing guidance on the implementation of the Economic Contract Ordinance, the Vietnam Maritime Code and its Implementing Decree, the Civil Aviation Code and its Implementing Decree, the Land Law of 2003, and Decree No. 181/2004/ND-CP providing guidance on the implementation of the Land Law, and others. There are contradictory regulations in terms of registration orders and procedures and in the forms for information provision and registration. This is one of the fundamental difficulties in constructing a national database system for secured transactions, since the criteria for information provision and registration must be standardized in secured transaction registration offices.

The current general regulations on signing and implementing contracts are stipulated primarily in the 1995 Civil Code, the 1997 Commercial Law, and the 1989 Economic Contract Ordinance. This situation has led to contradictions and overlapping (in terms of contract forms, responsibilities arising from breach of contracts, etc.) and has caused difficulties in their application. The Civil Code is the principal code used for general regulation. It uses the concept of civil contracts, which has led to the perception that civil contracts and economic contracts are two different kinds and under the regulation of two different legal documents, namely the Civil Code and the Economic Contract Ordinance. The Commercial Law also has provisions on contracts in commercial activities, but the role of commercial activities in the contract system is not well defined. There has been a great deal of controversy about the relationship between commercial, civil, and economic contracts, so that the courts and concerned parties are unable to specify which legal documents should be used when signing and implementing a contract or in settling disputes.

The 2004 Competition Law has created a legal basis for regulating competition in the market to assure equal and healthy competition in the activities of enterprises in different economic sectors and in different kinds of enterprises. However, so far no guidelines have been implemented.

The 2004 Bankruptcy Law has solved some problems and limitations of the 1993 Enterprise Bankruptcy Law, such as simplifying the concept of bankruptcy conditions to facilitate bankruptcy proceedings, enlarging the scope of the entities entitled to submit requests for initiating bankruptcy procedures, and regulating many different kinds of applicable procedures for debtors in bankruptcy. However, it has some limitations which call for further refinement: business households and individuals are not eligible to declare bankruptcy; secured creditors are not entitled to file petitions to initiate bankruptcy proceedings; the state has intervened excessively in bankruptcy-resolving procedures; there are no regulations concerning a mechanism to enable debtors to recover when they are in financial difficulties unless bankruptcy proceedings are underway; and the regulations on the responsibility to continue settling debts indefinitely, even after selling all existing operating and personal assets, are considered too strict.

Some regulations on accounting, especially those for SMEs, are too complicated and have burdened small enterprises. Requirements for the accounting system and financial reports are very similar to those required of large-scale enterprises and not appropriate for the actual level and capacity of small businesses. Moreover, the complex regulations on accounting and the charting of accounts change regularly. SMEs cannot keep up with these changes, and this leads to violations in accounting procedures. Some tax regulations are complicated and contradictory, the implementing documents are unclear, and there are not enough effective tax incentives suitable for SMEs.

Despite ongoing study and adjustments with the goal of eliminating discrimination between domestic and foreign investments, current tax policies are not as stable and transparent as they should be and are therefore regularly modified or systematically supplemented according to results obtained during implementation. Complications in the tax system are a concern and a cause of difficulty for SMEs, especially with respect to management processes and procedures for tax payment.

With regard to policies on export and import taxes, as a result of improved regulations, removal of barriers, and strengthening of supportive methods, especially financial instruments, the number of enterprises registering exports has increased dramatically. However, current export policies still have many obstacles: the conditions allowing enterprises to operate in import–export are still difficult and the tariff system and import–export procedures are still complicated and open to discretion, so most SMEs export through large-scale enterprises. According to the statistics of the General Customs Authority, by June 2004, there were 8,600 enterprises actually taking part in goods export, equivalent to 27% of enterprises registering for import–export codes with the customs offices; of these, 6,200 enterprises were limited companies, joint stock companies, and private enterprises, but they only accounted for about 25% of the total export turnover (21% in 2001). Import tax policies in the past years have continued to maintain high protectionism for domestic production and discouraged modern technology imports and investment in research and development of new products, which has limited the motivation for improving the competitive capacities of enterprises and exported goods. The import tax rate tariff table is not detailed enough, so that in many cases customs officers are confused in applying goods codes, and different import tax rates may be applied to the same kinds of products, causing difficulties and great expense for enterprises.

Strengthening the customs procedure is one important duty of administrative reform in the financing sector. Despite some achievements in past years, customs procedure reform still has some shortcomings: customs files are still in the generally designed form for all types of goods, and there have not been specific regulations for each type of goods, e.g., simpler forms could be designed for processed goods and duty-free import–export goods. The norms (up to 27) listed in the customs declaration for import–export goods are too numerous. The customs and tax offices currently share and apply one tax code for enterprises, but the tax code issuing periods are long (15–20 days to obtain a tax code). This is an issue of administrative procedure.

The Ordinance on Goods Quality (1999) allows enterprises to publicize product quality standards (based on industry standards, Vietnamese standards, and foreign or international standards); if an enterprise does not apply these standards, it may set up its own system as long as it is in conformity with the compulsory standards of Vietnam. In order to inform the public of the quality of their products, enterprises are either to obtain a certificate for standardized products or to self-certify standards for their goods and then advise on the self-certified standards. Due to the complicated certifying process, most SMEs fail to follow these regulations. Information on international and national standards of other countries has not been updated on a regular basis, and SMEs have little access to these standards, which prevents their goods from reaching foreign markets.

Recognizing the importance of the SME sector in national economic development, the government on 23 November 2001 promulgated Decree 90/2001/ND-CP on SME development.



This is considered to be the first legal framework for SME development policies, covering definitions, support programs, support agencies, and support policies that include investment support through financial and credit measures, establishment of guarantee guidelines for SMEs in case these enterprises do not have collateral or a mortgage, guidance for localities on facilitating access to production premises and encouraging the development of industrial zones and clusters, measures to encourage market expansion and improve competitiveness, export support through national trade promotion programs; government support for training human resources, provision of information on production business through the Internet and publications, and establishment of “business incubators.” The Decree also defines the SME support system from the central to the local level, including the SME Promotion Council, the Agency for SME Development (Ministry of Planning and Investment), Technical Assistance Centers for SME in Hanoi, Danang, and Ho Chi Minh City, provincial People’s Committees, business associations, SME support organizations under the auspices of agencies, political/social/professional organizations, etc.

### **Institutional SME Support Infrastructure**

#### *SME Promotion Council*

The SME Promotion Council is responsible for giving advice to the Prime Minister on issues relating to policies for encouraging SME development. Decision No. 12/2003/DQ–TT dated 17 March 2003 stipulates the mandates and tasks of the SME Promotion Council. Specifically, the Council ensures that strategy orientation and the SME Development Plan are in line with the national orientation and socio-economic development plan; proposes amendments and supplementation to current SME development mechanisms and policies; proposes solutions, measures, and SME support programs to improve and enhance competitiveness; and participates in other SME-related projects as assigned by the Prime Minister.

The Council consists of leaders of line Ministries, business association leaders, and scientists. The Minister of Planning and Investment chairs the Council, and the Director General of the Agency for Small and Medium Enterprise Development (ASMED) is the permanent secretary. If necessary, and depending on the agenda of each meeting, the Council’s Chair can extend invitations to representatives of other organizations and business associations and to experts in relevant fields; once invited, these representatives have full mandates and responsibilities identical to those of the Council’s full members.

#### *Ministry of Planning and Investment*

Decree 90/2001/ND–CP and Decree 61/2003/ND–CP (dated 6 March 2003) stipulate the mandates and tasks of the Ministry of Planning and Investment, and mandate the MPI to:

- Perform the state management function on enterprise development.
- Be the host agency and/or coordinate with relevant ministries and agencies.
- Submit development policies and management mechanism for SMEs in economic sectors to the Prime Minister.
- Be the permanent body for the SME Promotion Council.

In implementing its mandates and tasks, the Ministry of Planning and Investment drafted and submitted to the Prime Minister the Comprehensive Export Promotion Support Program for SMEs and the Comprehensive Support Program on Human Resource Training for SMEs (the latter is underway) and is drafting the SME Development Plan 2006–10. It prepared the plan for the expansion of the National Business Information Network (NBIN) and coordinated and collaborated in issuing a series of legal documents relating to improving the investment environment.

*Agency for SME Development*

Decree 90/2001/ND-CP and Decree 61/2003/ND-CP (dated 6 March 2003) stipulated the mandates and tasks of the Agency for SME Development (Ministry of Planning and Investment) as being responsible for assisting Minister of Planning and Investment in performing the state management function in SME promotion.

*Ministry of Finance*

The Ministry of Finance (MOF) has worked to develop a sustainable basis for finalizing and promulgating many enterprise support mechanisms and policies, which in turn facilitate SME growth, specifically the amendment and supplementation of tax and fee laws in a manner that assures equality in tax liability among different business lines, different products, different social strata, and different types of enterprises. Tax regulations have been simplified and are easier to comply with and monitor, as well as being in line with international practice. Taxpayers are encouraged to take responsibility for their tax declarations. Tax reduction contributes to cost reduction and more incentives for development investment and higher product competitiveness. Accounting and auditing regimes for enterprises have been finalized in line with international practice. Sixteen of 35 accounting standards and 21 of 35 auditing standards have been issued: non-discriminatory financial support measures, including tax and fee incentives; elimination of tax debt and other payables; settlement of outstanding debt, export bonus, etc.; and some SME-specific support measures, such as the establishment and operational guidelines for the Credit Guarantee Fund, a financial management mechanism for the Comprehensive Support Program on Human Resource Training for SMEs. All of these efforts of the MOF contribute significantly to the simplification of business procedures in Vietnam.

*Vietnam State Bank*

Implementing SME support targets under the Communist Party and government regulations, the banking sector has achieved substantial progress and improvement in terms of perceptions, awareness, and actions in credit policy reform aiming at enabling economic actors (SMEs in particular) to access the banking credit necessary for business development; in an effort to enhance competitiveness in both the domestic and the international market, the banks have undertaken some specific measures: boosting capital mobilization to meet the demand for credit financing of enterprises and other economic sectors by diversifying channels of capital mobilization, particularly medium- and long-term capital; expanding lending in response to a mounting demand for capital in the national economy; renewing credit policies so as to allow credit institutions to assume self-control and accountability; and reforming the secured lending mechanism so as to expand non-security lending and lending with collateral as a future acquired asset.

*Provincial People's Committees*

Decree 90/2001/ND-CP stipulates the mandates and tasks of Provincial People's Committees (PPCs). Provincial People's Committees promote local SMEs through orientation for SME promotion; draft or participate in the drafting of implementation guidelines and MPI regulations on local SME promotion for the government and the Prime Minister; promote the consolidation and development of SME support programs; coordinate, guide, and supervise the implementation of support programs after they have been approved; help small enterprises to locate production premises, acquire funds, and take advantage of incentives under policies for developing industrial zones and sub-zones for SMEs; facilitate SMEs' access to market information and goods prices; assist SMEs in market expansion and marketing of potential products; and provide essential information through conventional sources and the Internet.

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

### *Line Agencies*

A number of agencies function as facilitators and direct participants in support programs, providing partially or fully state-funded services. They include the Ministry of Trade; the Trade Promotion Agency; the Ministry of Industry; the Directorate for Local Industries; the Ministry of Science and Technology; the Technical Assistance Centers for SMEs in Hanoi, Danang, and Ho Chi Minh City; the Development Assistant Fund; and various vocational schools, technical centers, universities and colleges, and research institutes.

### *Business and Social–Economic Membership Organizations*

Membership organizations also play an important role; they include, for example, the Vietnam Chamber of Commerce and Industry (VCCI), the Vietnam Cooperative Alliance, business associations, and the Vietnam Women Union.

## **Government-funded SME Support Programs**

### *Human Resource Training Support Program*

This program was approved by the Prime Minister's Decision No. 143/2004/QĐ-TTg with a total support budget from 2004 to 2008 of VND119.4 billion. MPI has issued Guidelines for Program Implementation. MOF has issued circular to instruct management in use of the budget. It is now in the implementation phase, with activities involving compilation of frame syllabi and consolidation of demand for training programs.

### *Export Promotion Programs*

Document 783/CP-KTTH dated 8 June 2004 assigned the Ministry of Trade to be the focal point for carrying out export promotion for SMEs based on the annual National Focal Trade Promotion Program approved by the Prime Minister.

### *Information Support*

To facilitate access to information, ministries (especially the Ministries of Trade, Planning and Investment, MOF, etc.), other government agencies, and several legal consultancy firms provide information delivery services to enterprises; these include compiling leaflets, brochures, and CDs; direct information delivery to enterprises upon request; and websites. Other information-related activities include establishing libraries of trade promotion information (the Trade Promotion Center is part of the Ministry of Trade) and providing market information, technology information, and legal documents, either free of charge or for a small user fee.

### *Business Links*

The relationship between scientific and technology research institutions and SMEs is a spontaneous, market-driven mechanism. Given the fledging state of the technology market and SMEs' low technological renovation capability, this relationship is still at low levels and is limited to technical consulting. The state's policy is to encourage enterprises in general and SMEs in particular to have close linkages with research institutes. As a rule, when both parties have such low capacity, the state plays a very important role in research grants, technology transfer support, and intermediation.

### *Credit Guarantee Fund*

Implementing Decree 90/2001/ND-CP, the Ministry of Finance drafted and submitted to the Prime Minister Decision No 193/2001/QĐ-TTg dated 20 December 2001 on guidelines for the establishment, organization, and operation of Credit Guarantee Funds. The Ministry of Finance and the State Bank distributed circulars providing guidance.

*Work Premises*

Local governments in some localities (such as Hanoi, Nam Dinh, Ho Chi Minh City, etc.) have provided strong support to SMEs via the development of small and medium industrial zones and industrial clusters to promote local traditional handicrafts and facilitation of work premises for sustainable development and exploitation of locally available potentials, strengths, and resources to increase incentives for local socio-economic development.

*Cooperative Management Training Support Program Implemented by the Vietnam Cooperative Alliance*

Since 1993, VCA has organized 82 series of training course for managers and staff of cooperatives in almost all provinces and cities and has also offered vocational programs. In addition, VCA partnered with GTZ in the 10-year SME Development Project (1994–2004) with a total budget of EUR8,012 million. Over the course of the project, 18,000 enterprises have been direct beneficiaries and more than 100,000 enterprises have been indirect beneficiaries. 12,000 enterprise owners have been given training in how to start up and promote their own business. The project has also facilitated enterprise owners' access to information about international markets, legal issues, and management tools; supported the launching of websites; launched and developed several web pages for export support; and provided specialized information about standards and quality, legislation information, and policies.

*DAF Credit Guarantee (Based on the DAF's Report)*

Between 2000 and 2005, state credit policies experienced significant changes. Decree No. 106/2004/ND-CP dated 1 April 2004 on state development investment credit stipulates that "investors of all economic sectors when borrowing investment credit or guaranteeing investment credit can use the future acquired assets to secure the loans or meet the guarantee obligation." However, results of such credit guarantees are still limited (so far only 5 SMEs have taken advantage of this kind of guarantee, with a guaranteed capital totaling VND29 billion).

*Preferential Loans from the National Fund for Employment*

Decree No. 39/2003/ND-CP dated 18 April 2003, which provides details and guidance on the implementation of a number of articles on jobs in the Labor Code, states that the National Fund for Employment is to be used for the purpose of "granting loans to small projects to create jobs for several groups of people; to enterprises to prevent laborers from losing jobs and to hire unemployed laborers; strengthening and developing the system of job-seeking service organizations and supporting the development of the labor market."

*Industrial Promotion*

In order to promote industrial development in rural areas, Decree No. 134/2004/ND-CP dated 6 September 2004 has the goal of guidance in starting up enterprises; training to improve management ability; organizing courses for training, transferring, and developing professional skills; distributing information on industry promotion, aiding rural industrial bodies in participating in fairs and exhibits; sharing experience in industry promotion; assisting with costs for trips surveying industry promotion; building models that display technology; and supporting technology transfer.

*Encouraging Science–Technology Development*

Some ministries and agencies are now formulating mechanisms and incentive policies to encourage science and technology research institutes to establish linkages and technology transfer in the application of scientific and technology achievements in production and business activities.

*Legal Consultant Development*

Decree No. 65/2003/ND-CP and Circular No. 04/2003/TT-BTP aim to create a comprehensive legal basis for the practice of legal consulting by social organizations and socio-profession organizations. Current statistics shows that in all provinces 23 officially registered centers for legal consulting are in operation as a result of the Decree. However, there are still obstacles to its implementation.

**International Technical Assistance Projects/Initiatives**

*Mekong Project Development Facility (MPDF)*

Donors to this project include Australia, Finland, Norway, Sweden, Switzerland, the EU, the UK, Japan, and IFC. MPDF has collaborated with local private banks and local universities throughout Vietnam to provide assistance for private local SMEs needing loans of more than USD100,000 and to provide business support services, especially management training and bank loan officer training. The project's value was USD25 million over the period 1997–2002. It resulted in the expansion of medium-to-large SMEs, generating jobs and economic growth, with more than 40 projects facilitated and 600 entrepreneurs and 1,500 loan officers trained.

*UNIDO–MPI Assistance to Industrial SMEs in Vietnam (SMELINK)*

Germany and Japan are two donors to this project to provide assistance to a number of Vietnamese partners: CESTI, HCMCUT, HCU, HUT, VCCI, UAIC–HCMC, VTC–Binh Thanh, and TTC–Viet Duc. The project focuses on training entrepreneurs and university instructors in management in order to develop a cadre of local business plan consultants and technical experts as well as to provide technical and business information via partners throughout Vietnam. Between 1996 and 2000, the project contributed USD2.7 million toward the development of a supportive environment for SMEs. There were 1,060 people trained, 40 consultants, 20 plans written, 26 technical consultancies, and 795 companies receiving information services.

*Rural Finance Project*

The World Bank has awarded funding for this project to the State Bank of Vietnam (also participating in the preparation were the Vietnam Women's Union, the Vietnam NGO credit forum, joint liability groups, and private sector financial institutions). Its primary activities are to establish rural development revolving credit funds for agriculture and other rural activities and funds administered by participating financial institutions and to deliver technical assistance to the State Bank of Vietnam (SBV) for project management and supervision. The project's value from 1996 to 2000 was USD122 million; its goal was to strengthen the rural finance system through financing targeted to agriculture and small and medium enterprises in rural areas. 215,000 projects had been approved (USD145 million) as of November 1999, less than 10% lent to SMEs, and technical assistance given to SBV for projects such as capacity building.

*Assistance to Medium-sized Vietnamese Enterprises*

The Swedish International Development Agency (SIDA) established this project in 1995. USD1 million has been allocated to the East Asian Commercial Bank to make loans to privately owned or majority private manufacturers with 25–200 employees in the three major localities of Hanoi, Ho Chi Minh City, and Can Tho. The objective of the project is to promote development of SMEs through medium-term credit for rehabilitation and expansion purposes. So far, 18 loans have been approved totaling \$USD1,122,123.

*SME Finance Project*

The donor of this project is the Japanese Bank for International Cooperation (JBIC), which collaborates with local commercial banks, including BIDV, Income Bank, ICB, ACB, and EACB, to provide credit to SMEs through a two-step loan process—first to banks, then to SMEs

in Hanoi, Ho Chi Minh City, Hai Phong, and Danang. From 1999 to 2004, USD40 million was allocated to assist SMEs, which totaled 80%, with 20% allocated to equity SOEs.

#### *Promotion of Small and Medium Enterprises*

This German-donated project has two types of partners: the Vietnamese Co-operative Alliance (VCA) is a “political” partner, and the “operational” partners are the Business Promotion and Service Centre (BPSC), the Vietnam Chamber of Commerce and Industry (VCCI), and the Directorate for Standards and Quality (STAMEQ). It was started in October 1994 with DM11.5 million. Its overall goal is to strengthen the competitiveness of SMEs and the Vietnamese private sector in general by promoting business development services in the fields of management training and consulting, Internet-based information services, software and other IT services, quality control, environmental management, and social and labor standards. The primary target beneficiaries are growth-oriented private small and medium-sized enterprises with the potential to become domestically and internationally competitive and to create sustainable employment. Based in Hanoi, it is expanding its scope of activities to other economic growth areas, in particular Ho Chi Minh City. At the same time, various services offered by its partner organizations are also being offered in provinces throughout the country.

In an effort to most efficiently strengthen the market for business development services for small and medium enterprises, the project has undertaken a number of market research studies. A study on Internet-based services has been completed, a study on market business development services in six major provinces is underway, and a study of the availability of domestic software products is nearing completion. These serve to guide the project’s promotional approach while providing market intelligence for BDS providers so that they have a basis for defining the scope and features of services they offer. At the same time, the project aims to facilitate the development of a supportive policy framework for the private sector and for a functioning BDS market. It undertakes activities to raise awareness of the concept of a BDS market, organizes network meetings of BDS providers on a regular basis, and prepares initiatives at the policy level (in cooperation with VCCI and other organizations).

Immediately after the introduction of the Internet in Vietnam, the project began to support the first Internet-based information system in the country specifically designed to meet the needs of entrepreneurs and business consultants. SMENET ([www.smenet.com.vn](http://www.smenet.com.vn)) provides information on business management, law, export, and finance in Vietnamese and English. One of the specific features of SMENET, which has increasingly become a benchmark in the field, even outside of Vietnam, is a legal question-and-answer service. Currently, SMENET receives about 60 hits a day. Based on the results of a market research study conducted in 2001, SMENET is now being revised to serve as an information portal to guide users through the Internet. SMENET is being transferred to the Business Information Centre of the Vietnamese Chamber of Commerce and Industry, which will run it under its own auspices starting in 2002.

#### *Start and Improve Your Business (SIYB)*

Swedish SIDA, with technical assistance from the ILO, collaborated with the VCCI to launch this project to focus on development and distribution of small business development materials, training staff of partner organizations, and program promotion and market development throughout Vietnam. For 1998–2001, USD1,710,000 was allocated to disseminate information about micro and small enterprise development to strengthen the Vietnamese small business sector. So far, 99 partners, including government agencies, NGOs, donors, projects, educational institutions, and private organizations, have joined the project.

#### *SME Development Fund (SMEDF)*

A number of local banks, including ICB, VBARD, ACB, and BIDV, MB, have received USD25 million for financing and USD1.2 million for administration from the European Union

## *Entrepreneurship Development for Competitive Small and Medium Enterprises*

to provide credit and technical assistance to SMEs (non-trading businesses with registered capital between USD50,000 and USD300,000 employing between 10 and 500 workers) in all economic sectors.

### *Small Business Development and TA to Craft Villages in Vietnam*

The Mary Knoll Foundation (U.S. Catholic Church) in collaboration with the Ministry of Labor, Invalids, and Social Affairs (MOLISA) and through the Ha Tay provincial labor department, has offered introductions to handicraft villages with five free week-long small business management training courses (production management, accounting, marketing, etc.) and support for participation in local trade shows, along with some overseas marketing through catalogs and websites. The project has a value of USD170,000 over four years.

### *Women's Economic Development Project*

Oxfam-Quebec and Canadian CIDA launched this project in 1999 with several Vietnamese partners, including provincial authorities, the Women's Union of Vietnam, and local communities in Hoa Binh, Hanoi, Hai Duong, Quang Ninh, and Nghe An, to promote local handicrafts through design and marketing assistance and to support micro enterprises through training and credit and to strengthen the initiatives and capacities of women owners of micro enterprises (1–20 employees). With USD887,900 over four years, 19 new enterprises were established, 130 loan applications were accepted, 300 women were trained, and several business clubs were formed.

### *Small Enterprise Development Program*

Since 1996, USD50,000 has been awarded annually by the Center for Development Cooperation Services/Free University of Amsterdam to the University of Hue Faculty of Economics for different activities such as capacity-building for the Faculty, income generation through SME baseline surveys, and training programs and microfinance with credit and savings programs. A Center for Promotion of Micro & Small Scale Enterprises has been established to train SMEs, conduct research, and provide training and information (Table 10).

Table 10. Summary of Initiatives

Initiatives, Programs, Policies	Public Sector Organizations/Donors	Private Sector Organizations	Results (Success/Failure)
A. Promotion of Entrepreneurial Culture			
A1. Information support	Facilitate search for and access to information on enterprises and government agencies. Some legal consultancy firms have organized various information delivery activities, such as compiling leaflets, brochures, and CDs, direct information delivery to enterprises upon request, websites. Other information-related activities for SME promotion include establishing libraries of		Success  These sources of information are either free of charge or require user fees.
(continued on next page)			

	trade promotion information (the Trade Promotion Center run by the Ministry of Trade), market information, technology information, and legal documents		
A2. Industrial promotion	Decree 134/2004/ND-CP dated 09/6/2004 with guidance on starting an enterprise, training to improve management ability, organizing courses on training, transferring, and developing professional skills, launching information on industry promotion, aiding rural industrial bodies in participating in fairs and exhibits, sharing experiences on industry promotion, aiding in costs for trips to survey industry promotion, building technology-displaying models, supporting technology transfer		Ongoing To be evaluated
A3. Encouraging science-technology development	Some ministries and agencies are now formulating mechanisms and incentive policies to encourage Science and Technology research institutes to establish linkages and technology transfer to SMEs in the application of scientific and technology achievements in production and business activities		Ongoing To be evaluated
A4. Promotion of small and medium enterprises	Vietnamese Co-operative Alliance (VCA), Business Promotion and Service Centre (BPSC), Vietnam Chamber of Commerce and Industry (VCCI), and Directorate for Standards and Quality (STAMEQ)	This is a German-donated project	Success
(continued on next page)			



*Entrepreneurship Development for Competitive Small and Medium Enterprises*

A5. Small Business development and TA to craft villages in Vietnam	Ministry of Labor, Invalids, and Social Affairs (MOLISA) and through Ha Tay provincial labor department	Mary Knoll Foundation (U.S. Catholic Church) gave introductions to handicraft villages with 5 free week-long small business management training courses (production management, accounting, marketing, etc.) and support for participation in local trade shows, some overseas marketing through catalogues and websites	Success
A6. Women's Economic Development Project	Women's Union of Vietnam and local communities in Hoa Binh, Hanoi, Hai Duong, Quang Ninh, and Nghe An	Oxfam-Quebec and Canadian CIDA promote local handicrafts through design and marketing assistance and support micro enterprises through training and credit to strengthen initiatives and capacities of women owners of micro enterprises (1–20 employees)	Success
<b>B. Regulation and Policies</b>			
B1. Legal consultant development	Decree No. 65/2003/ND-CP and Circular No. 04/2003/TT-BTP create a relatively comprehensive legal basis for the business practice of legal consulting by social organizations and socio-profession organizations		23 registered centers on legal consulting are run under the effect of the Decree. However, there are still obstacles when implementing.
<b>C. Administrative Environment/Framework</b>			
C1. Work premises	Local governments in some localities (such as Hanoi, Nam Dinh, Ho Chi Minh City, etc.) have provided strong support to SME via development of small and medium industrial zones and industrial clusters to promote local		Success
(continued on next page)			

	traditional handicrafts and facilitation of work premises for SMEs' sustainable development and exploitation of locally available potentials, strengths, and resources to create motivation for local socio-economic development		
D. Entrepreneurship Training and Education			
D1. Human resource training support program	Prime Minister's Decision No 143/2004/QĐ-TTg with total budget support from 2004 to 2008 of VND119.4 billion. MPI has issued the Guidelines of Program Implementation, MOF has issued a circular to instruct in management and use of the budget, and it is now in the phase of implementation with activities involving compilation of frame syllabi and consolidation of training demand		Ongoing. To be evaluated
D2. Cooperative management training support program implemented by the Vietnam Cooperative Alliance	Since 1993, VCA has organized 82 series of training courses for managers and staff of cooperatives in almost all provinces and cities and have held vocational programs. Over the project tenure of 10 years, 18,000 enterprises have been direct beneficiaries and more than 100, 000 enterprises have been indirect beneficiaries, 12,000 enterprise owners have been given training in how to start up and to promote their own business.	VCA is also GTZ's partner in the 10-year SME Development Project (1994–2004) with a total budget of EUR8,012 million	Success
(continued on next page)			

*Entrepreneurship Development for Competitive Small and Medium Enterprises*

D3. UNIDO–MPI Assistance to industrial SMEs in Vietnam (SMELINK)	CESTI, HCMCUT, HCU, HUT, VCCI, UAIC–HCMC, VTC–Binh Thanh, TTC–Viet Duc	Germany and Japan are two donors of this project to provide assistance in management training of entrepreneurs and university instructors to develop a cadre of local business plan consultants and technical experts as well as to provide technical and business information to SMEs via partners throughout Vietnam	\$2.7 million for the development of a supportive environment for SMEs; 1,060 people trained and 40 consultants, 20 plans written, 26 technical consultancies, and 795 companies received information services
D4. Start and Improve Your Business (SIYB)	VCCI	The Swedish SIDA, with technical assistance from the ILO, launched this project to focus on the development and distribution of small business development materials, training staff of partner organizations, program promotion and market development throughout Vietnam	Success
D5. Small Enterprise Development Program	University of Hue/Faculty of Economics	USD50,000 given annually by the Center for Development Cooperation Services/Free University of Amsterdam to activities such as capacity-building for the faculty, income generation through SME baseline surveys and training programs and micro-finance with credit and savings programs	Success
E. Network and Linkages for SME Development			
E1. Export promotion programs	Document 783/CP–KTTH dated 8 June 2004 assigned the Ministry of Trade to be the focal point to perform export promotion for SMEs based on		Success
(continued on next page)			

	the annual National Focal Trade Promotion Program approved by the Prime Minister		
E2. Business links	The relationship and cooperation between scientific and technology research institutions and SMEs is a spontaneous and market-driven mechanism. With a fledging technology market and the low technological renovation capability of SMEs, this relationship is still at low levels and is limited to technical consulting. The state policy is to encourage enterprises in general and SMEs in particular to have close linkages with research institutes. As a rule, when both sides have such a low capacity, the state plays a very important role in research grants, technology transfer support, and intermediation.		Ongoing. To be evaluated
<b>F. Technology and ICT</b>			
F1. Application of ICT for SMEs	VCCI		Ongoing. To be evaluated
<b>G. Financial Support</b>			
G1. Credit Guarantee Fund	Implementing Decree 90/2001/ND-CP, Ministry of Finance drafted and submitted to Prime Minister for promulgation of Decision No. 193/2001/QD-TTg dated 20 December 2001 on the guideline for establishment, organization, and operation of Credit Guarantee Funds for SMEs. The Ministry of Finance and the State Bank have developed circulars providing guidance.		Ongoing. To be evaluated
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G2. DAF Credit Guarantee	Decree No 106/2004/ND-CP dated 1 April 2004 on the state development investment credit stipulates that “investors of all economic sectors, when borrowing investment credit or guaranteeing investment credit, can use future acquired assets to secure the loans or meet the guarantee obligation.” However, use of this credit guarantee is still very limited (so far only 5 SMEs have used this kind of guarantee with guaranteed capital totaling VND29 billion)		Ongoing. To be evaluated
G3. Preferential loans from the National Fund for Employment	Decree No. 39/2003/ND-CP dated 8 April 2003 providing details and guidance on the implementation of several articles in the Labor Code on jobs says that the National Fund for Jobs is to be used for the purpose of “granting loans to small projects to create jobs for several groups of people; to enterprises to prevent workers from losing jobs and to hire unemployed workers; strengthening and developing the system of job-seeking service organizations and supporting the development of the labor market.”		
G4. Mekong Project Development Facility (MPDF)	Donors of this project include Australia, Finland, Norway, Sweden, Switzerland, EU, UK, Japan, and IFC.	MPDF has collaborated with local private banks and local universities throughout Vietnam to provide assistance for private local SMEs needing loans of more than USD100,000 and to	Outcomes of the project are the expansion of medium-to-large Vietnamese SMEs, generating jobs and economic growth with 40+ projects facilitated by MPDF and 600+
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		provide business support services, especially management training and bank loan officer training. The project was valued at USD25 million for 1997–2002	entrepreneurs and 1,500+ loan officers trained.
G5. Rural Finance Project	State Bank of Vietnam, Vietnam Women's Union, the Vietnam NGO credit forum	The World Bank funds this project	USD122 million from 1996–2000 to strengthen the rural finance system through finance targeted at agriculture and small and medium enterprises in rural areas. 215,000 projects have been approved (USD145 million)
G6. Assistance to Medium-sized Vietnamese enterprises	East Asian Commercial Bank. The objective of the project is to promote development of SMEs through medium-term credit for rehabilitation and expansion purposes	The Swedish International Development Agency (SIDA) began this project in 1995. USD1 million has been allocated to privately-owned or majority private manufacturers with 25–200 employees in the three major localities Hanoi, Ho Chi Minh City, and Can Tho.	So far, 18 loans have been approved totaling USD1,122,123
SME Finance Project	BIDV, Income Bank, ICB, ACB, and EACB	The donor of this project is the Japanese Bank for International Cooperation (JBIC). It provides credit to SMEs through a two-step loan process: first to banks, then to SMEs in Hanoi, Ho Chi Minh City, Hai Phong, and Danang.	USD40 million has been allocated to assist the target population of 80% SMEs and 20% equity SOEs
SME Development Fund (SMEDF)	A number of local banks, including ICB, VBARD, ACB, BIDV, MB, receive USD25 million for financing and USD1.2 million for administration	The European Union is to provide credit and technical assistance to SMEs	Success

## CASE STUDIES

### **HASA Fine-Arts Production Company<sup>2</sup>**

Mr. Tong Ba Thao, 30, is a businessman who makes a good living producing fine-arts goods made from freely available materials such as water hyacinths, banana trees, etc. He is now the director of the HASA Company located in Ho Chi Minh City (HCMC). For 10 years, his company has produced and exported a number of products and created stable jobs for thousands of employees. 2004 revenue was estimated at USD1.5 million.

Mr. Thao's success has its foundation in his experiences working at Chi Lang Company and in his close relationships with his customers. During his period of employment at Chi Lang, he was able to learn about customers' tastes and demands. In addition, his creativity helped him substantially in producing many different samples, which caught the customers' eyes. In addition, he always delivered his goods on time, thus gaining customers' trust.

Born in 1974 in Tien Lu village, Chuong My District, Ha Tay Province, Mr. Thao graduated from high school in 1991. At that time, his family struggled with a number of difficulties. He was the second son of two boys and four girls. His parents were farmers and could not afford to pay for their children's tuition. He and along with his brother and sisters tried to help their parents by doing animal husbandry and planting for money.

From early childhood, he had hoped to get an education in order to get a better job than working on a farm. In 1991, Mr. Thao decided to go to HCMC to get a job and save money for his education. For three years (1991–93) he worked as a mason's assistant, with a salary of VND200,000 per month, and sold bindweed in his free time, with an income of VND3,000 per day. He also bought soybeans to produce soy milk in the early hours of the morning, from 2 or 3 a.m. to 5 or 6 a.m. Much of his income was used to pay for English lessons at language centers. In 1994, he returned to his home village and observed that many of the households wove baskets using dried water hyacinths to supply shops in the city. He paid VND350,000 for some of these baskets and brought them to HCMC in order to sell them to the Ba Nhat Cooperative, HATEXCO Saigon Company. His profit from this transaction was VND35,000.

He then applied for a job as a waiter at the HCMC National Economics University, with a salary of VND500,000 per month. He also won a contract to keep bikes and motorbikes at the university and was able to save a bit. In early 1996, he obtained a certificate of English. In early 1997, he registered to study at night at the Foreign Trade Faculty. At the same time, using his English-speaking ability, he applied for a job at the Chi Lang Company, a specialist company owned by a German citizen exporting Vietnamese fine-arts products to German companies. His salary was VND800,000 per month. His assignment was to translate English documents into Vietnamese and monitor some stages of the production line. He found that products from the workshops were generally simple and repetitive, so he tried to design some samples himself. With his experience in monitoring the production line and a little artistic talent, his samples—decorative tree pots, desks and chairs, paper baskets, and napkin boxes—were quite beautiful. He sent them to his family in Ha Tay, asking households in the village to produce some fine arts using dried water hyacinth, and these products were introduced to the Chi Lang Company. The owner of the company saw them and asked him to organize a tour to Ha Tay with a view to setting up a cooperative relationship.

Mr. Thao decided at this time to open his own workshop in the village. At the end of 1997, he borrowed VND50 million (at an interest rate of 1.2% per month) from his relatives and friends. He invested in the construction of a drying oven with an area of 1,000 square meters on his family's land. He partnered with his brother, Tong Viet Ba, asking him to be the executive

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<sup>2</sup> "Entrepreneur, overcoming poverty through enterprise," ADB 2005.

manager. He hired 50 employees at salaries of VND13,000 per day. In addition to dried water hyacinth and banana trees, he also used bamboo and rattan as raw materials. He produced a series of samples for the initial production phase and displayed them at his workshop. After seeing the products, Chi Lang's owner immediately signed a contract worth VND10 million with him. His first transaction was completed on time, and he delivered high-quality products, which greatly impressed Chi Lang's owner.

From 1997 to 2000, he consistently received orders for goods from Chi Lang. His products were made from dried water hyacinth, banana trees, bamboo, and rattan and included decorative tree pots, desks and chairs, paper baskets, napkin boxes, etc. Mr. Thao designed samples according to customer demands and his brother bought materials, monitored the production line, and delivered the products. At this time, he still worked for Chi Lang and was sent to participate in an exhibit in Frankfurt, Germany. Using this opportunity, he introduced his own workshop to some customers and was able to establish relationships with some new potential customers from Germany and other European countries. Since Mr. Thao worked at one place but his workshop was located somewhere else, he had problems doing business. In 2001, he decided to open another workshop in HCMC. He borrowed 1,500 square meters in Thu Duc District and invested VND100 million of his own money to build the workshop, plus VND300 million to buy machines, construct the assembly line, and hire 80 employees at salaries of VND1 million to VND2 million each per month. Besides his regular customer from Chi Lang, he had a new customer in the MAICO Company. He not only sold his products to this company but was also its sales manager. In addition to the familiar materials—dried water hyacinth and banana tree—he used some new ones, including *nipa* and parts of old furniture, which became valuable products in his hands and were exported to many countries, bringing increased income to many men and women. In 2001, he exported four containers of goods to Europe. By 2002, his exports had increased to 10 containers.

In March 2003, he quit his job at Chi Lang and established his own company, HASA, which combines his own province's name (Ha Tay) and the place where he became a success (Sai Gon). The head office is located at his house in HCMC. He had seven employees, with monthly salaries of VND1 million to VND3.5 million each. He produced 20 containers of goods in 2003, which were primarily exported to Germany (40%), with the remainder to Switzerland, Denmark, Sweden, and South Africa. In August 2004, HASA brought its products to the Frankfurt Exhibition for the first time. He spent USD25,000 to introduce his own company as well as his products to international customers. He signed a 10-container contract with a Danish entrepreneur who immediately after the exhibit flew to Vietnam to view the workshop and the company's head office, depositing 50% of the contract value (USD100,000) and committing to long-term cooperation. Foreign customers were comfortable discussing business affairs with him because he could express his ideas clearly in English and he understood all aspects of the business. He was able to share a common point of view with his customers and answered their concerns thoroughly. In addition, foreign customers were attracted to the fact that HASA always has unique products that are in stock. Mr. Thao's designs change every six months, and products from these designs were produced on a large scale using a modern assembly line.

From September to December 2004, he signed several contracts with a value equal to 25 containers of goods. He created jobs for 2,000 employees (they completed 70% of the production stage working at home; the remaining 30% was completed at the workshop by employees who signed labor contracts with HASA). Revenue in 2004 was about USD1.5 million. Mr. Thao understands the benefits of attending exhibits, so he again decided to show at the Frankfurt Exhibition.

In November 2004, he had to refuse a lucrative contract worth USD600,000 with a Korean entrepreneur because his existing infrastructure could not take on several large contracts at the same time. He intends to buy an area of 5,000 square meters in Bien Hoa to establish a new workshop and to hire 200–300 new employees. HASA now has a representative office with



seven office workers in District 2, HCMC, and three workshops of 3,000 square meters each in Ha Tay, Hanoi, and the Thu Duc District of HCMC, creating jobs for 300 full-time workers and 2,000 people working at home. His products are only for export, and he intends to introduce his goods to the United States market in the near future.

*Success Factors and Lessons Learned*

One of HASA's biggest success factors is that their products are always of the best quality. The designs change every six months, making the products unique and varied, and they are delivered to customers on time. A second success factor was Mr. Thao's good fortune in gaining experience in business management and making contacts with customers during his time working at the Chi Ling Company. Those experiences played an important role in HASA's development. A third success factor was Mr. Thao's ability to speak English so he could communicate with foreign customers. Finally, his knowledge of business and the working practices of the production line built customer trust and made foreign companies feel comfortable about signing contracts with HASA. Thao knew how to develop his business to become stable. He always made use of his advantages, such as his artistic talent, English-speaking ability, and cheap materials and labor. He was able to create a variety of products of the highest quality at the lowest price, always retaining customers' interest. He always delivered his goods on time, and this created very good customer relations.

**Thu Dung Electrical Engineering Trade and Service Company<sup>3</sup>**

Specializing in trading electrical equipment ranging from civil products to high-voltage and low-voltage equipment, this enterprise also provides electrical engineering services to civil and industrial structures. Begun in 1983 as a small shop selling electrical bulbs, the Thu Dung Company has become a large enterprise trading in electrical equipment and engineering in the central region. The development philosophy of the company is to keep investing in order to expand its business, to diversify its products and its customer base, and to expand into new business areas.

Thu Dung is noteworthy in the field of trading and service because it has experienced growth for the last 22 consecutive years in spite of the significant transformation of the Vietnamese economic system from a centralized to a market-oriented one. The Thu Dung strategy of adapting to changes in the business environment and maintaining non-stop growth can therefore be a valuable lesson for other enterprises.

Born into a poor and family with many children, Ms. Dung had to go to work at 12. Her first job was as a ticket saleswoman for a long-distance bus service that belonged to her uncle. It required starting at 4 o'clock a.m. During this period, she sold tickets in the morning, did housework in the afternoon, and attended classes in the evening, with only four hours of sleep each day.

After liberation in 1975, she worked for a joint stock company owned by her sister that manufactured footwear. The overwhelming workload and low pay forced her in 1977 to quit working for that company and move into pharmaceutical trading at the local market. Pharmaceutical trading was an opportunity to gain a great deal of profit, but it was illegal because at that time the government did not allow private pharmaceutical trading.

In 1983, after six years in this job, aware of its instability, Ms. Dung began to look for a new business opportunity. The idea for the new business originated from the fact that, when the incandescent bulbs in her house and those of her neighbors were blown out, it was very difficult to buy replacement bulbs. In addition, the price of the bulbs was very high as there were very few outlets selling that kind of bulb. She therefore decided to open a retail shop at her house to sell this type of bulb. In the early years, she did not hire a salesperson but took on that role herself. Realizing it was a waste of space and time to be just an electrical bulb retailer, she decided

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<sup>3</sup> "Entrepreneur, overcoming poverty through enterprise," ADB 2005.

to combine the bulb-selling business with selling fruit juice and ice cream (the total area of her house is 200 square meters). The money she used to open the bulb retail shop and to sell fruit juice and ice cream was the equivalent of, at that time, USD100, her savings from her time working in pharmaceutical trading. Contact with her customers led her to the discovery that a high demand existed for electrical home appliances, while at the same time the supply was increasing because Vietnamese workers in the former Soviet Union began to send these appliances home. She therefore decided to expand her business to other electrical appliances, including electrical wires, voltage stabilizers, sockets, etc. Her customers were householders in Danang city.

The results of this expansion were very good. Under the centralized system, goods were distributed through a state-owned trading system on a ticket basis; private trade was discouraged, and this caused a scarcity of goods, particularly electrical appliances, in the free market. Ms. Dung's annual average revenue in this period was approximately USD10,000, and annual average profit reached USD3,000. A large share of the profit was used to expand the business, buying reserve goods as stock and increasing her product categories. Her development during this period allowed her to achieve her goal of owning a stable, legal business.

After 1992, the supply of home electrical appliances from the former Soviet Union dried up because of the collapse of the Soviet and East European economies. At the same time, fierce competition arose in the retailing of electrical home appliances. Ms. Dung therefore decided to concentrate on larger customers and industrial clients with demands for specialized equipment and high- and low-voltage facilities. However, relying solely on this source, she would not have been able to fill large orders and orders for specialized equipment, so she sought new sources.

In order to qualify as an agent for domestic and foreign electrical equipment producers and at the same time to fill large orders, Mrs. Dung established the Thu Dung Company in 1994. The capital to establish the company was VND300 million, her savings from the period 1983–93. During this period, the company operated as the agent for a number of foreign and domestic electrical equipment manufacturers. Accurately foreseeing that there would be an increasing demand in electrical equipment for the construction and maintenance of the North–South 500KV electrical system and the development of the electrical grid that serviced residential as well as industrial areas, the company introduced industrial electricity equipment and high- and low-voltage facilities into its business. Clients of the company in this period were enterprises and households in Danang and other provinces of Central Vietnam. To run an increasingly expanding business, the company had 30 employees, including manual workers and technical staff. Simultaneously, the company bought a 600-square-meter area of land in order to open a showroom. The owner's house was used for storage.

From 1994 to 1997, the annual revenue of the company increased to VND7 billion. Revenue growth was constantly maintained because Thu Dung continued to introduce new products and expand its market. Ms. Dung not only focused on Danang, as in the past, but also penetrated other central provinces. The annual average profit for this period was VND1.5 billion. In general, revenue and profit met demands. Most of the profit was reinvested.

From 1998, with the goal of increasing revenue and profit and concentrating on large clients, the Thu Dung Company opened a new field of business: tendering for the supply of electrical installations and construction services for civil and industrial construction work. Clients for this service were organizations and households that had a demand for a packaged service, from supplying electrical equipment to installing and constructing the equipment. To open this service, the company bought another 200-square-meter area of land to establish a transaction office at 71 Dien Bien Phu, Danang. The company employed 20 permanent workers at this site and cooperated with other installation and construction companies to mobilize an extra 50 workers when necessary in cases where Thu Dung won bids. Revenue reached VND29 billion in 2004, 20% of which was from the installation and construction service (a profit of VND5.8 billion). The development of the company in this period met expectations. Most of the profit was

used to expand the business and invest in new businesses. In the future, Ms. Dung will invest in a large-scale cow-breeding farm.

*Success Factors and Lessons Learned*

- Passion and whole heart for the work.
- Will and consistency in the chosen field.
- Good business virtue and integrity.
- Capital accumulation for reinvestment.

The lesson from the study of this case for other enterprises is that capital accumulation for further investment, client contact, and multiplication of products are all very important for business growth and success. As a result of these strategies, Thu Dung has been able to cope with increasingly fierce competition in an expanding economic system and a changing trade regime.

**Dong Son Technology Co., Ltd.**

Founded in early 2003, Dong Son Technology Company (DOSCO) is a professional firm dealing in projection technology and integration systems. With a philosophy of “Creativity and Efficiency,” it has become a reliable name for a number of large clients. It supplies high-quality products of well-known brands and is committed to delivering superior services to its customers. Among its clients are international organizations, government agencies, research institutes, universities, and colleges all over the country. Its business areas include supplying integration system solutions such as multimedia presentation systems, sound-lighting systems for congresses and seminars; LAN/WAN, security networks, and communication systems, as well as supplying equipment supporting these systems and equipment for integrated system solutions.

*Business Performance*

DOSCO’s turnover and market share rates have reached a significant level. In 2003, turnover rose over 100%, and it increased by 308% in 2004. In the first six months of 2005, DOSCO turnover improved by nearly 237% (Figure 5).

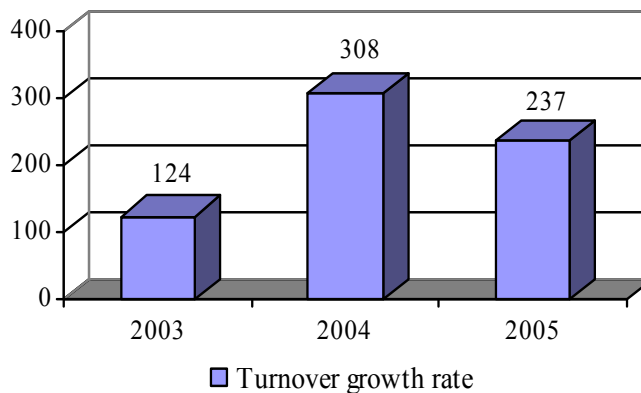


Figure 5. DOSCO Turnover, 2003–05

*Human Resource Development*

With clear awareness of the importance of human capital, the company has invested in staff training and development. A number of training programs, from basic to advanced levels, have been organized. Together with on-the-job training, management encourages staff members to enrich themselves through knowledge sharing and attending training courses. The company also

focuses on improvement of staff attitude and spirit at work, with customer-oriented commitment (Figure 6).

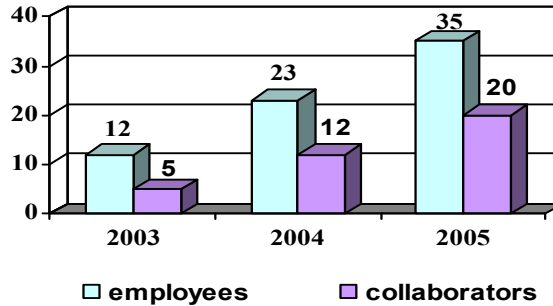


Figure 6. Number of Staff, 2003–05

With the target of customer satisfaction, the organizational structure is designed to have flexibility and a spirit of teamwork in which each individual can make a creative contribution to the company's success. The role of the individual is always encouraged along with teamwork and company success.

The equipment supplied by Dong Son and used in integrated solution implementation is imported from well-known suppliers under strict quality control policies in order to ensure reliability with customers. Its relationship with suppliers is as a sole distribution agent in Vietnam, as a sales agent, and as a partner in tender project implementation. In particular, Dong Son has signed long-term agreements with many reputable and experienced partners in international project implementation as well as in equipment supply. This cooperation contributes to Dong Son's synthesis of experience, standards, and capacity for international project implementation together with national experience and enables it to exploit its strengths.

#### *Quality Management System*

DOSCO's quality-control system was set up in accordance with ISO 9001:2000 and includes policies and quality objectives issued by the Board of Management that are in force in each department. Systems of procedures, work instructions, and quality records enable DOSCO to manage projects professionally as well as to make ongoing progress and bring into play its collective power in project implementation.

#### *Quality Policy*

Since its foundation, Dong Son Technology Co. Ltd. has continuously endeavored to become a leading company in high-quality office equipment and relate technical services, with a commitment to meeting and exceeding customer requirements by providing quality equipment and services and state-of-the-art technology and by focusing on human resource development, employees' skill improvement, and continuous improvement of quality management systems.

#### *Success Factors*

- Commitment to quality products and services.
- Development of human capital.
- Customer-oriented culture.

**Thien Kim Steel Production and Commercial Company<sup>4</sup>**

After she started it up in 1991 as a one-person operation for collecting and selling scrap steel to steel production units, the owner, Ms. Nguyen Thi Nu, realized that Vietnamese companies could not meet the great demand for steel products, especially construction steel, in Danang in particular and in the central region in general. Her competition strategy was to satisfy the demands of small customers, who could not afford to buy a whole truckload of steel from the Thai Nguyen Steel Company (which only accepted orders for a whole truck to transport steel from Thai Nguyen to Danang). To compete with other small steel units, the Thien Kim Company began investigating opportunities to launch new products.

The success of the Thien Kim Company is a typical case of the development of a private company within the government's import substitution strategy. The Thien Kim Company survived and developed during the transformation of Vietnam from a centralized to a market economy more integrated into the world economy. It is useful to consider the Thien Kim Steel because it is a good illustration of how an enterprise adapted to significant changes in Vietnam's economic system.

Prior to 1990, Ms. Nu ran a coffee shop out of her home. The income was enough for family expenses but it required the participation of all family members, and the work often finished late at night. Ms. Nu decided to change her work. She bought scrap steel and sold it to steel rolling units inside and outside Danang city. Her capital at that time was VND10 million, her profit from the coffee shop business. While trading scrap steel, Ms. Nu realized that there was a substantial potential demand for steel products which was not matched by the capacity of domestic steel companies to meet these demands, especially for construction steel in the central region in general and in Danang in particular. At the same time, buying the steel was more and more difficult because of the emergence of new traders. So Ms. Nu decided to set up a rolled steel company. Before establishing the company, drawing on her contacts from scrap steel trading, Ms. Nu went to Ho Chi Minh City to learn the technology of hot steel rolling. From the experience of other units in Danang, she knew that the profit and competitiveness of cold steel rolling are low. After returning from Ho Chi Minh City, Ms. Nu bought a hot steel-rolling machine, and she established the Thien Kim Company in 1991. In the beginning, the company was licensed as a steel-rolling unit with a capacity of about 20 tons per month.

Because she did not have much experience in hot steel rolling, she bought the machine from an enterprise in Danang city. Although the machine was more expensive in Danang than one from Ho Chi Minh City, she was able to obtain a service warranty and technological training for her workers from the enterprise in Danang. In the beginning, the company was located in Ms. Nu's house, about 100 meters square. Ten local unskilled workers were employed, trained by Ms. Nu and the machine supplier. The first customers were six nail producers and 15 window-welding producers. The raw material for steel production was scrap steel she bought from other traders. The average turnover in the period 1991–94 was VND600 million per year, with a profit of VND40 million per year. The reasons for relatively low profit were lack of manufacturing experience and the burden of bank interest. The profit from production was used to pay for her family's expenses and retained for reinvestment.

The hot steel-rolling activities at home had some harmful effects on the environment and on her neighbors. In 1995, the company had to move to another location rented from a state-owned company with an area of about 400 square meters. At that time, a friend who had invested in the company withdrew his capital. In addition, by 1995, Thien Kim products were experiencing fierce competition. Because competitors had reduced their prices, Thien Kim's traditional customers turned to the competitors. Ms. Nu then pledged both her house and the Thien Kim Company as collateral for a bank loan to repay her friend and change the technology. She bought another hot steel-rolling machine and a rough steel-cutting machine. The new

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<sup>4</sup> "Entrepreneur, overcoming poverty through enterprise," ADB 2005.

product was solid square steel, for which there were very few competitors in Danang or neighboring provinces.

Thien Kim's strategy for this product was to meet small retail demands and to compete with the same product offered by the Thai Nguyen Steel Company. Because the distance from Thai Nguyen to Danang is more than 800 km, Thai Nguyen supplied product only for medium and large orders, so the Thien Kim Company concentrated on meeting the retail demands of small customers in Danang and neighboring provinces. In 1996, seeing the demand for electronic clips/clamps for the 500 KV electricity line running from the north to the south of Vietnam, Ms. Nu decided to produce electricity clips/clamps as a new product. The company employed 20 workers at that time, who were originally unskilled but had been trained by the owner. At that time, 80% of the company's raw material was scrap steel, but in order to continue as a dynamic and innovative enterprise, the Thien Kim Company bought rough steel as raw material. This took up about 20% of the company's whole raw material. The capacity of the company increased to 50 tons per month (an increase of 2.5 times), the turnover increased four times (VND2.4 billion per year on average), and the profit increased six times (VND240 million per year on average) compared to the turnover and profit in the period 1991–94. The Thien Kim Company had gained a great deal of manufacturing experience and had adapted in order to manufacture products requiring higher technology to produce, thus returning higher margins of profit.

A significant increase in income has been experienced by residents of Danang and neighboring provinces since 1996. This resulted in an increasing demand for rebuilding houses and associated products. The steel market had a great potential for growth, but the capacity of domestic steel companies could not meet demands. Identifying the opportunity to expand their business, in 1999 the Thien Kim Company rented 1,300 square meters in Thanh Khe 6 Industrial Park in Danang. At the same time, the company borrowed VND400 million more from the bank to buy 1,200 square meters of land use rights from an unprofitable company in the same industrial park, built premises, and bought more machines. Its capacity increased to 2,400 tons per year in 1999 and 4,800 tons per year in 2000.

In addition, the Thien Kim Company concentrated on improving new products and increasing the quality of their products. Besides solid square steel billets for construction, the Thien Kim Company produced round, lined, and V-letter-like steel billets. The strategy of the Thien Kim Company in this period was to improve the quality of its products to compete with the same products of other companies in Danang and neighboring provinces.

Since the year 2000, the company has produced high-quality steel products for state-owned companies with large projects. Nowadays, beside the central region market, the Thien Kim Company has expanded its customer network to Ho Chi Minh City. Currently, 50% of the company's raw material is rough steel. The increasing percentage of rough steel has helped Thien Kim be more independent in its production and has increased the quality of its products. However, the company has had some difficulties because the price of rough steel fluctuates depending on the international market. The number of workers has increased to 35. Besides the workers who were trained by the owner, Thien Kim Company has recruited more skilled workers from vocational education schools and engineers from universities.

#### *Success Factors and Lessons Learned*

- Continuous investment and upgrading of technology to produce new products and increase the quality of products.
- Quickly catching up with market demands and making bold investment decisions.
- Exertions of the owner.
- Good treatment of workers.

Lessons to be learned from Thien Kim Company:

- To succeed in the steel-rolling field requires a certain level of secure funds. At the same time, it requires a continuous reinvestment of capital and profit in order to expand production and upgrade their technology. Some steel-rolling enterprises in Danang went bankrupt because they did not focus on saving capital in order to expand production and upgrade technology.
- The development of the Thien Kim Company is based on the strategy of import replacement in Vietnam in the 1990s. However, when Vietnam joins the World Trade Organization (WTO) and adopts a more open economic system, the Thien Kim Company will be faced with stiff competition. It has already prepared for this by entering the new field of steel trading.

# **Part III**

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