

IMPLEMENTATION PROCEDURES FOR THE DEMONSTRATION PROJECT ON DIGITAL KAIZEN FOR SMEs IN THE MANUFACTURING SECTOR UNDER A SPECIAL CASH GRANT BY THE MINISTRY OF FOREIGN AFFAIRS, GOVERNMENT OF JAPAN

I. Background

1. APO Demonstration Program (DMP) Overview

The APO DMP aims to develop model companies/organizations that showcase good practices of productivity improvement with the support of resource persons and NPOs and the commitment of the target companies/organizations. Through capacity building on practical productivity knowledge and dissemination of the results, the program demonstrates good practices for other companies/organizations to embark on similar improvements.

An APO Demonstration Company is defined as a model company/organization established through APO Demonstration Company projects to showcase good practices of productivity improvement for other companies/organizations in the implementing country and other APO members to embark on similar improvements.

DMP projects may be implemented in several stages to ensure the proper functioning of the model companies/organizations to disseminate their experiences and success across APO members.

2. APO DMP on Digital Kaizen for SMEs: Supported by a Special Cash Grant from the Government of Japan

Digital technology adoption among manufacturing SMEs in many APO member economies remains significantly below industry averages, primarily due to high costs and a scarcity of skilled personnel. Recognizing this gap, the APO, with financial assistance from the Government of Japan through a special cash grant, initiated the Demonstration Project on Digital Kaizen for SMEs in the Manufacturing Sector. This initiative builds upon previous collaborative efforts, such as workshops conducted by the Japan Productivity Center (JPC) and the *Digital Kaizen Guidebook* developed by the APO Center of Excellence on Smart Manufacturing. The project aims to establish model SMEs that effectively demonstrate digital kaizen applications, providing practical examples for other enterprises in the APO region to learn from and replicate.

II. Scope

Establish demonstration companies for applications of digital kaizen in the manufacturing sector within one selected APO member economy, serving as exemplary cases for effective digital transformation and productivity enhancement.

III. Duration

The project duration is from 1 August 2025 to 31 March 2026.

IV. Implementation Arrangements and Steps

The APO Secretariat will engage the implementing agency (IA) through a public tendering process. The IA will have the technical competencies to prepare, implement, and complete this project in cooperation with the APO Secretariat. The IA will deploy resource persons with digital technology and kaizen methodology skills to the selected demonstration companies. The project will unfold in the following key stages.

Stage 1. Planning

- a. Invite proposals from APO member economies to participate in the project.
- b. The APO Secretariat, representative from the Ministry of Foreign Affairs of Japan, representative of the IA, and technical expert will review the proposals and select one APO member economy as the project venue based on its digital readiness and infrastructure.
- c. Engage with the NPO of the selected APO member economy to identify SMEs to participate as demonstration companies in the project based on need, feasibility, and potential for future scalability.
- d. Dispatch digital kaizen resource persons through the IA for initial diagnostics and to develop a mutually agreed upon improvement plan.
- e. Through consultation with the IA and NPO, a project implementation plan (PIP) will be developed and issued by the Secretariat as the main reference for the project.

Stage 2. Implementation (up to six months)

- a. Implement the project plan by a team consisting of the IA leading the effort, supported by the NPO and APO Secretariat. The team is expected to utilize the *Digital Kaizen Guidebook* published by the APO in August 2024. The NPO is responsible for arranging logistics and engagement with demonstration company(ies).
- a. The designated IA analyzes the challenges and opportunities related to digital kaizen implementation through a diagnostic survey of the demonstration company(ies).
- b. The IA proposes a project plan including scheduled activities to be conducted and obtains a consensus on a mutually agreeable plan with the NPO and demonstration company(ies).
- c. The IA implements the project plan, including capacity building, modification of existing practices, development of new processes, and applications of tools and techniques of digital kaizen.
- d. The IA, NPO, and APO Secretariat communicate to review the diagnosis and progress and recommend ways to resolve issues (if any).

Stage 3. Evaluation

- a. Collaborate with the NPO and IA to assess project outcomes and gather feedback from demonstration companies to gauge effectiveness and refine strategies, if necessary.

Stage 4. Dissemination

- a. The IA takes the lead in planning, preparing, and conducting dissemination activities, ensuring multiplier effects of the project among APO members.
- b. Conduct a hybrid seminar through the IA and NPO to share project results, insights, and strategies to sustain and expand the project to a wider audience, including the resource persons involved, executives of demonstration companies, and relevant stakeholders from other APO member economies.
- c. Feature the demonstration project as a case study for the Multicountry Training Course on Digital Kaizen for SMEs in 2025 and 2026.
- d. Develop a short video, with the support of the NPO of the selected APO member economy, under the APO Productivity Talk Program to showcase project implementation from start to finish. The video will be shared through social network systems.

Stage 5. Completion (one month after Stage 4)

- a. The IA prepares the final project outputs and submits them to the APO Secretariat in consultation with the NPO and demonstration company(ies).
- b. The IA submits the final project report to the APO Secretariat for submission to the Ministry of Foreign Affairs, Japan.
- c. The APO Secretariat will issue a certificate of completion to the demonstration company(ies).

V. Requirements for Demonstration Company(ies)

To ensure effective engagement, up to two demonstration companies within the manufacturing sector will be selected for participation in this project. Eligible companies must satisfy all of the following criteria:

- a. Sector: Operate specifically within the manufacturing sector with a preference for SMEs meeting the following criteria.
- b. Number of Employees: Companies should have at least 20 employees to ensure adequate operational complexity and scalability for applying productivity tools and methodologies. The maximum number of employees should not exceed 250–300, aligning with standard SME definitions.
- c. Operational Scale: Companies must have multiple functional areas (e.g., production, quality control, administration) to demonstrate comprehensive productivity improvements.
- d. Digital Readiness: Companies must already have basic ICT infrastructure such as computers, smartphones, and internet connectivity. Management must demonstrate a strong commitment to digital transformation.
- e. Growth Potential: Preference will be given to companies that have sufficient resources and demonstrate potential to influence and support other organizations upon project implementation.
- f. Demonstrate strong leadership support and allocate adequate resources (time, human resources, and facilities) to fully engage in project activities.
- g. Provide initial productivity-related data for setting benchmarks and measuring improvements.
- h. Agree to share project outcomes, host site visits, and showcase results to stakeholders.
- i. Exhibit clear potential for productivity improvement and alignment with the project's goals of establishing benchmarks and promoting adoption across industries.
- j. Adhere to legal, regulatory, and ethical business practices.

V. Roles and Responsibilities

NPO in the Selected Hosting Member Economy:

- a. Identify the most appropriate company(ies) as a venue for demonstration projects.
- b. Assign a team(s) to be fully involved in the project and trained as local subject-matter experts.
- c. Coordinate the overall schedule for implementation of the project.
- d. Arrange all logistic requirements relating to the project (e.g., local transportation, meeting room, interpretation, etc.) for the IA.
- e. Guide and assist the demonstration company(ies) in planning, coordinating, implementing, monitoring, and documenting project activities in consultation with the IA and APO Secretariat and monitor the process of implementation, particularly the key performance areas.
- f. Coordinate and supervise the preparation of dissemination materials, such as a practical manual and multimedia record.
- g. Cooperate with the IA, demonstration company(ies), and APO Secretariat in conducting a hybrid seminar.

Demonstration Company(ies)

- a. Assign a team and coordinator to work on the project.
- b. Accept and facilitate the training and consultancy services conducted by the resource person(s).
- c. Provide all necessary inputs and information required for the project and extend all necessary local support to the IA, NPO, and APO Secretariat.
- d. Implement suggestions and recommendations of the IA based on feasibility and document the results and outcomes of the improvement plans.
- e. Collaborate with the NPO in preparing dissemination materials.
- f. Present the project activities and results during a hybrid dissemination seminar for the benefit of other companies.
- g. Collaborate with the NPO and IA in preparing a final report for submission to the APO Secretariat.
- h. Announce, publicize, and prominently display the APO's and Government of Japan's presence and involvement in the demonstration company(ies) throughout the duration of the project.
- i. Showcase digital kaizen applications for other companies in the implementing country and other APO members to benchmark and replicate.
- j. Provide information required by the IA for a publication documenting the productivity journey of the demonstration company(ies).

Implementing Agency (IA)

- a. Perform consultancy, training, and other duties in the areas of digital kaizen specified in the PIP.
- b. Monitor and evaluate the performance and progress of the activities of the demonstration company(ies).
- c. Develop a case study to be presented in the Multicountry Training Course on Digital Kaizen for SMEs and to be published as reference materials.
- d. Assist the NPO in developing dissemination materials and organizing a dissemination event(s).
- e. Assist demonstration company(ies) in acting as role models.
- f. Within one month after implementation of Stage 4, submit the final project outputs, including a final report to the APO Secretariat documenting the entire process of the project, analyzing the results and impact as well as contributions to productivity improvement, and suggesting recommendations for replication in the member utilizing domestic talent, networks, and resources. The final report will be submitted to the Ministry of Foreign Affairs, Japan.

APO Secretariat

- a. Select and assign an IA, in consultation with MOFA, including the technical expert(s) on digital kaizen and assign it to implement the project in the selected member economy.
- b. Coordinate communication among the IA, NPO, and demonstration company(ies) to ensure smooth implementation of the project.
- c. Monitor the progress of project implementation in consultation with the IA, NPO, and demonstration company(ies).
- d. Collaborate with the IA, NPO, and demonstration company(ies) in planning and organizing follow-up activities such as developing dissemination materials and organizing a hybrid seminar for local and international participants.

VI. Final Project Outputs

The demonstration project on digital kaizen will be completed with the submission of the following:

- a. A final report prepared by the IA in consultation with the demonstration company(ies) and NPO.
- b. A case study on the application of digital kaizen in the manufacturing sector to be developed by the IA and published as reference materials.
- c. A multimedia record such as a video of the experiences of the demonstration company(ies), prepared jointly by the NPO and demonstration company(ies).

VII. Financial Arrangements

The following outlines the financial arrangements to be borne by the APO, NPO, and demonstration company(ies) for the implementation of this project.

To be met by the APO

- a. Expenses for the assignment of international resource persons selected by the IA.
- b. If necessary, financial support for acquiring equipment in implementing the improvement plan agreed upon by the resource person(s), NPO, and APO Secretariat will be provided at a maximum of 10% of the total cost or USD3,000.00 per company, whichever is lower, for up to two companies. The Secretariat will examine the appropriateness of the proposed equipment for acquisition under the financial support of the APO prior to disbursement.
- c. Expenses to develop the multimedia recording to showcase project implementation from beginning to end.

To be met by the NPO

- a. Expenses for logistic arrangements, including local transportation costs of resource persons and expenses for interpretation, if any.

To be met by Demonstration Company(ies)

- a. Costs associated with the purchase, installation, operation, and maintenance of equipment, if any.
- b. All other expenses that are not covered by the APO or NPO.

Expense reimbursement and project postponement/cancellation

- a. The IA is requested to provide a project financial report together with all necessary original copies of proof of payment/expense and other supporting documents to the APO Secretariat at one time, no later than six weeks after the dissemination event(s) is conducted. The proof of payment, such as bills, payment records, and receipts, should be issued by third parties and written in clear English or with an English translation if not originally in English. An overall list of expenses categorized based on purpose for the production of dissemination materials or holding a dissemination event(s) should also be provided to the APO Secretariat.
- b. The final payment will be made based on the actual expenditure after the IA submits all necessary documents. Internal evidence by the NPO is not accepted as proof of payment, and the expenses claimed by it will not be reimbursed.
- c. The demonstration company(ies) is required to cooperate fully in providing necessary documentation and reports for expense reimbursement and must cover costs incurred due to its actions if project postponement or cancellation occurs due to its inability to fulfill commitments.
- d. In case of a cancellation after the issuance of the Service Agreement to the IA, all costs associated with the cancellation should be met by the party responsible.