

assistance such as R&D tax concessions. Currently there are 11 programs targeted at SMEs:

- (1) the *Pooled Development Funds* program establishes private sector investment companies to raise equity capital from investors to invest in SMEs;
- (2) the *Small Business Advisory Services* program provides competitive grants to enhance access to information and advice on issues related to the growth and sustainability of SMEs – it was a response to the global financial crisis;
- (3) the *Innovation Investment Fund* program invests in private sector venture capital funds that assist small companies to commercialise R&D outcomes;
- (4) the *Commercial Ready* program offers competitive, merit-based project grants to commercialise R&D that leads to innovation and productivity growth;
- (5) the *Renewable Energy Equity Fund* program provides venture capital to assist small companies to commercialise R&D in renewable energy technologies;
- (6) the *Re-Tooling for Climate Change* program offers grants of between A\$10,000 and A\$500,000 to manufacturing SMEs for investing in initiatives that improve their production processes, reduce energy use and cut carbon emissions;
- (7) the *Building Entrepreneurship in Small Business* program is for capacity building initiatives such as training, mentoring and succession planning;
- (8) the *Intermediary Access* program assists SMEs to engage with R&D organisations and other entities to develop research project on new commercial opportunities;
- (9) the *Small Business Online* program assist small businesses to improve their web facilities and engage in e-business;
- (10) the *Small Business Support Line* program is a referral service to help cope with the global recession by providing counselling and advice on business issues; and
- (11) the *Textile, Clothing and Footwear Small Business (TCFSB)* program provides merit- based grants to improve the enterprise culture of small TCF businesses.

The TCFSB program is an example of targeted assistance to facilitate structural changes in an industry. It is part of a larger assistance package of A\$747 million for the TCF industry. It will run for 10 years and provide A\$2.5 million of grants each year through competitive selection rounds. Eligibility is restricted to TCF small businesses with less than 20 employees.

The aim of the program is to improve the ‘entrepreneurial behaviour’ of TCF small businesses (AusIndustry 2008). It funds projects that enhance the decision-making

and production processes of a business. A maximum grant of A\$50,000 is available regardless of the project cost or the cash contribution by the applicant. Eligibility conditions focus the assistance on domestic output. For example, a business that only imports TCF products or only undertakes retail activities is not eligible. Applications that meet the eligibility criteria are assessed against a merit criteria and compete against the other applications in the round.

The Department of Agriculture Forestry and Fisheries (DAFF) has a limited involvement in the development of rural based SMEs. Some industry adjustment programs have included measures to encourage jobs growth or business investment in regions where the industry is located. Recent examples include structural adjustment programs for the dairy, sugar and pig meat industries: (1) in general these programs were time limited and involved grants for projects with employment, innovation and investment benefits; and (2) eligibility conditions exclude farmers but businesses of any size can apply.

DAFF has 3 programs that assist rural businesses. The A\$35 million *Regional Food Producers Innovation and Productivity* program enhances food and seafood business competitiveness through innovation and technology improvements (DAFF 2009b). It has a 4 year lifespan and offers grants of between A\$50,000 and A\$2 million on a matching fund basis for projects on: (1) the design and adoption of new technologies, production or processing techniques; (2) the adoption of production or processing technologies developed overseas; and (3) the redesign of existing production and processing processes.

The *Promoting Australian Produce* program assists food organisations to more effectively promote and market their produce in domestic and export markets. It is a 3 year program offering grants of between A\$50,000 and A\$750,000 on a matching fund basis for projects that develop marketing strategies and enhance marketing and promotion capabilities (DAFF 2009c).

A related program – *Promoting Australian Produce: Major Events* – supports major national events that bring together food industry businesses to exchange information on production, manufacturing, marketing and distribution across the supply chain. Grants are available on a discretionary basis for a limited pool of funds (DAFF 2009d).

SME ACCESS TO MARKETS

Access to markets is a key factor for the development of SMEs. Extensive market access does not guarantee the expansion or the survival of an SME – enterprise competitiveness and profitability are the essential ingredients. But opportunities for SMEs to extend their market penetration offers the potential for sales growth and increased employment.

Market access constraints for SMEs in particular locations or more generally is a focus of policy actions in most economies. The constraints will vary with the

circumstances of each SME but there are often some common issues. An investigation of the constraints on market access has to first consider the existing market reach of SMEs. Conceptually market access could be viewed as: (1) the regional area surrounding the SME; (2) some wider combination of provincial, state or district areas; (3) the entire national market; or (4) overseas markets.

Extending the market penetration of SMEs could involve moving from a local or regional focus to a Provincial or National trading environment. Infrastructure, market information and regulatory requirements are some of the issues that may warrant government action. The capacity for SMEs to participate in the world market through export sales or imports can raise additional issues.

There is a widespread belief that SMEs find it more difficult to participate in overseas markets in comparison to large scale enterprises. However, many of the barriers to international trade are common to enterprises of all sizes. From an export perspective there is a role for government to facilitate trade by addressing issues such as: (1) market access barriers (eg tariffs, tariff-quotas, NTBs); and (2) differences in standards, regulations and product approval requirements.

The added difficulties for SMEs arise in their human, technical and financial capacity to establish a viable export trade (WB 2005). For many SMEs these transaction costs are too high and there is reluctance to enter overseas markets. The financial risks associated with exports are perceived to be higher than dealing with domestic customers. For a business with limited turn-over and a low capital base this is often a significant deterrent.

A number of other technical and financial issues can be impediments to gaining access to export markets. Many of these barriers are commercial constraints that relate to the size of the enterprise. Government programs to encourage SME participation in world trade often involve subsidies to partially offset the cost of some of these issues. But the justification for excludes large enterprises from this sort of assistance is debateable.

Some common barriers to SME participation in world trade

1. Lack of management and marketing skills
2. Insufficient knowledge of business environment in target markets - laws, taxation, corruption
3. Lack of knowledge on trading conditions in target markets - consumer preferences, competition
3. Differences in standards and regulations on product/service requirements
4. Financial risk of product rejection, non-payment for goods supplied

AUSTRALIAN EXPERIENCES WITH SME ACCESS TO FOREIGN MARKETS

Australian experiences with SME participation in world trade are worth considering. Official statistics indicate around 90% of Australian exporters are SMEs (ATC 2007a). But the number of SMEs involved in exporting is only 15%. In recent years participation rates have been relatively stable at around 12-16%.

Survey results show Australian SME exporters are likely to be a medium sized enterprise, located in a metropolitan area and have an aggressive expansion strategy in comparison to other SMEs. In general exporting SMEs are more profitable, more productive and pay higher wages than their non-exporting counterparts (ATC 2007b).

Despite the pay-offs there is still a low 'intention to export' amongst SMEs. The major impediment cited by SMEs is their inability to attract well trained, experienced export managers. It suggests that government funded training programs have a role to play in facilitating SME participation in world markets.

While there are constraints on the capabilities of SME to expand into export sales there is a recognition that overseas sales are important for future growth and viability. Increased competition from foreign enterprises in the domestic market is encouraging SMEs to consider export opportunities. The difficulty is converting this into active participation.

SMEs participating in overseas markets are increasingly looking to extend their involvement from export sales to a more active engagement (ATC 2007c). Recent survey results show that 70% of the SME exporters are conducting their business through some form of foreign direct investment or a partnership arrangement. In some cases this has been necessary to gain access to the market or to establish an effective sales presence. In other cases it is due to financial and tax incentives or other strategic objectives.

The agency that supports overseas trade by SMEs is the Australian Trade Commission (ATC). It operates a network of offices in more than 60 economies. Their activities focus on SMEs but large enterprises also use their services. The ATC has 18 offices in Australia to provide information, advice and practical support to companies that wish to access overseas markets.

General information is provided free of charge but there is a charge for specific tailored advice. These services help SMEs to identify trading partners, understand foreign regulations and business practices, gather market intelligence and organise in-country visits to meet potential buyers. Austrade also manages an assistance program called the Export Market Development Grants (EMDG) scheme.

The EMDG provides cash rebates to Australian based SMEs that promote their output in foreign markets. Businesses are reimbursed for up to 50% of their marketing expenses over a A\$15,000 threshold (ATC 2009). Claimable expenses include overseas marketing visits, promotional brochures and providing free samples to potential buyers. State governments also provide financial assistance, often on a dollar-for-dollar basis.

The EMDG is designed to encourage Australian SMEs to develop export markets. Eligibility is open to individuals, companies, associations, co-operatives and statutory corporation. However, eligibility is limited to businesses with an annual income of less than A\$50 million. It is targeted assistance with a definition based on the value of sales rather than employment.

The primary impediment for SMEs is the high level of financial risk associated with exports. The ATC helps businesses develop a risk management plan. The aim is to develop strategies to cope with issues such as foreign exchange exposures, political risks, shipping disruptions, difficulties with customs clearances, quarantine requirements and standards regulations.

Financial services for SME exporters are provided by the commercial banking sector. Insurance is a key issue because of the higher risk of payment default. The commercial banking sector is often unwilling to manage this issue without charging a substantial premium. The Export Finance and Insurance Corporation (EFIC) was established to address this market failure (EFIC 2009). It provides credit insurance to SMEs and large scale enterprises on a commercial basis.

THE TURNOVER IN SMES

An issue often raised about the development of SMEs is the failure rate. There is a perception that SMEs have a high failure rate and only survive for a short time. If this perception is accurate it raises questions about the provision of assistance. It also has implications for the sustainability of employment and perceptions of the risk in SME investment.

In reality the loss of an SME is part of the business turnover that is a natural phenomenon in all market based economies. New SMEs are continually emerging to replace business that are 'lost' to the economy. In Australia thousands of SMEs go out

of business each year. They are replaced by thousands of new SMEs that start up each year (Bickerdyke et al 2000).

The rise and fall of new business enterprises is a desirable outcome for the economy. It enables resources (ie land, labour, capital) to shift into more productive uses that earn a higher return which is the basis of wealth creation. It also a catalyst for innovation and productivity gains through the emergence of more efficient production processes. The loss of SMEs is not a cause for concern unless the exit rate is exceptionally high.

It is important to recognise that business losses are not necessarily failures in the classical sense of insolvency from costs exceeding income. A more appropriate term is business exits. In general there are two types of business exits: (1) changes in ownership when businesses are sold, merged or taken over – they may change operationally but will re-emerge under a new name or in a new form; and (2) business cessations which are those that go bankrupt – business failures – and those that close for other non-financial reasons;

Australia's experiences with business exits are a useful illustration of developments in market based economies. The most recent study of business exits show on average 7.5% of businesses exit each year (Bickerdyke et al 2000). This equates to an economy wide loss of 55,000 to 65,000 businesses and most of these will be SMEs. It suggests that in the case of Australia, concerns about rate of SME failures may be an over-reaction.

In reality most Australian businesses survive for a considerable period of time. Two- thirds of businesses are still operating after 5 years and almost half are remain operating after 10 years. The perception that most exits are failures is not supported by the data: (1) changes in ownership accounted for about 20% of exits; (2) business cessations accounted for the remaining 80% of exits; (3) each year only 2.5% of businesses 'fail' for financial reasons; and (4) direct job losses from business cessations account for 9-10% of total job losses.

Most of the cessations are solvent businesses closing for other reasons. Furthermore these losses are more than offset by new business start-ups and the growth of existing businesses. In recent times the entry of new businesses has been more than 60% above the exit rate. A number of factors can influence the prospects a business will exit. Location, the industry sector, access to markets, competition and management ability. Evidence in Australia and overseas also indicates that the age and size of business are relevant factors. New businesses are more likely to exit than older businesses and small businesses are more likely to exit than larger ones.

There is a role for government in correcting perceptions about the failure rate for SMEs. Collecting statistics and funding studies on the rate of SME exits and the reasons for the exits is important. Incorrect perceptions can lead to exaggerated concerns about the risk of starting or investing in an SME. The potential for job creation will be curtailed if there is less willingness to take a risk and become involved in an SME.

SME exits are a natural outcome of the dynamic behaviour in market based economies and have some positive effects. Productivity is enhanced as less efficient and

unprofitable SMEs are replaced by more efficient, profitable businesses. The exits contribute to the adjustment process of structural change by allowing resources to be used in other ways.

Governments also have a role to play in facilitating SME exits. This may seem counter-intuitive to the wider policy goal of encouraging SME growth. Supporting unprofitable or poorly performing SME is not conducive to economic development. Regulations to minimise the time and cost of completing a business exit allows the departing resources to rapidly shift into more productive uses.

Effective insolvency policies and regulations are an important issue for all market based economies. They set the ground rules for SME investors, owners and operators. Rules are required to facilitate a rapid resolution in the reorganisation or sale of SMEs. Insolvency regulations are also required for an orderly exit of failed SMEs: (1) they provide signals for appropriate attitudes to risk by investors and managers; (2) they ensure debts and borrowings guaranteed by assets are honoured; and (3) they contribute to improved efficiency and resource allocation by encouraging the closure of non-viable businesses and the survival of efficient ones.

CONCLUDING REMARKS

The role of the SME is to generate job opportunities and income growth, the avenue for labour to make the transition from subsistence agriculture to non-farming occupations. In wide perspective SMEs are described as the engine of economic growth as they are the biggest source of job creation, income growth and innovation across the economy.

Governments have a policy measures to encourage the development of SMEs. The effectiveness of these measures depends on correctly identifying the growth impediments and assessing the role for government interventions. The support to expanding SME sector will increase competition which is the key to efficiency gains, innovation, adoption of new technology and productivity growth.

The issues of development of SMEs in Australia are skill shortages and skill level of employees. This highlights one of the barriers to SME development in all economies.

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PRODUCTION CAPACITY DEVELOPMENT OF SMES THROUGH INFRASTRUCTURE DEVELOPMENT, R&D AND HRD: THE INDONESIAN PERSPECTIVE

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INTRODUCTION

Background

The financial and economic crisis started 1997 has made SMEs gained significant recognition due to its capacity in providing employment opportunities for the displaced workers from collapse of many big enterprises. The Government and many other national and international institutions look at important role of SMEs in job creation/providing employment opportunities. Government institutions and the donor institutions national and international, are willing to provide assistant to promote enlarging its capacities to reduce unemployment, role in poverty alleviation, income generating capabilities, as media of the distribution of income. Type of assistant varies from providing funding support, training opportunities, technical assistance, transfer technology, product design, utilization of information communication technology and other types of assistance, relates to promote improvement of SMEs performances.

As regards to SMEs, especially in developing countries, small enterprises include in it is micro enterprises. A micro enterprise which by definition is the business entity employing 1-4 employee (Indonesia), international institution such as donor agencies adopt definition that the maximum employee of micro enterprise is 10 personnel. Within the group of micro enterprises, majority of them are belong to non formal entity (non legalized enterprise). Micro enterprise in many cases is called as self employment or as home business since the business is done by only one person (the owner) or any activity is done at home.

Although micro enterprises role to accommodate the negative impact of the crisis is recognized in providing employment opportunities, income generating activities, poverty alleviation etc, but the product quality out put of micro enterprises in average is low, the added value is relatively low and the average level of productivity is lower compared to the medium as well as big enterprises. Why is this happened? This is due to the common weaknesses within most of the micro enterprises, namely : limited capability of human resources (refer to average level of education and skill), limited capital/limited access to financial sources, poor hygienic of work place, less access to better technology, low product quality, limited skill in business and financial management. Therefore micro enterprises get difficulty to enlarge its market except within local market. The following is describing the ideas how to develop strong and competitive Small Enterprises.

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PROBLEMS OF SMES AND POVERTY (IN RURAL AREAS)

Prior to elaborate how to make SMEs stronger, competitive and improve its production capacity it is wise we look to its obstacle and constraint. Within small enterprises, bulk of them belong to group of micro enterprises (approximately around 90%), majority of them are exist in rural areas.

Problems in relation to SMEs and poverty in rural areas are too many and complicated, however by classification and simplification, the problems can be presented in simple way. In this context the problems is presented briefly as the following:

The *internal* common problems within most of SMEs relates to production and distribution factors, those are supply of raw materials/supporting materials, condition of work place, lack of skill workers/low level of production technologies, limited capital, product marketing and business management.

Materials and Supporting Materials

SMEs, especially small enterprises has little capability in planning and managing supply of raw materials/supporting materials so that SMEs is facing difficulties in responding price and supply instability. Agricultural sector as dominant business unit in rural areas get difficulty to obtain and responding price fluctuation of seeding. Although government have given support and subsidy to buy fertilizer as an example, but in reality/practically the subsidy has gone away due to shortage of supply of fertilizer. This condition push the price of fertilizer up, it creates inefficiency (high cost economy) in production cost on farmers' side and it gives effect to reduce competitiveness of the agricultural commodity.

Workforce

Limited skill, education and experiences of the workforce, influence the quality and productivity mainly in agriculture and small industry sectors as majority business entity in rural areas. It is almost no program in systematic planning and sustainable to improve the capability and skill of the worker in agriculture and small industry in rural areas issued and continually implemented by the government and private institutions. At present only very few extension workers available in rural areas as compared to period before crisis (in case of Indonesia).

Technology

SMEs in average is regarded weak in practicing better technology and unaware of the importance of S&T utilization in their business affairs. Here, technology includes hard and soft technology. The role of technology is strategically important for SMEs,

especially to improve productivity, increase production capacity and quality of the product as well as better access to market information. S&T institutions such as research and development (R&D) institute and university mostly located in the cities and it is not integrated in network of the small enterprise affairs and it is not clear on the mechanism how to transfer product of R&D to small enterprises in rural areas. R&D institution and SMEs have different orientation, R&D institute oriented knowledge product while SMEs oriented on profit, to match both organization, need special arrangement. Further more, almost none intermediary organization/institution to take care of technology transfer into rural areas. There is a big gap exist between S&T establishment and small enterprises development efforts. Therefore this condition is partly effecting to less utilization of S&T products achieved by R&D institutions for the benefit of small enterprises (in rural areas). This situation bring the small enterprises lack behind on the benefit of using better technology to improve performance of their business, it contribute to trap most of them in poverty condition due to inefficient and less competitiveness in doing their business.

Capital

In average small enterprises in rural areas have limited fund in running their business and limited access to get funding support. Although government has already provided credit scheme for small enterprises, the requirement to get the fund through the bank (as prudential bank) is difficult to be fulfilled by small enterprises. It is especially in providing collateral and submission of credit proposal containing plan of utilization of credit fund and feasibility study. Recently government (Indonesia) launch credit scheme without collateral (PNPM – National Program for Community Empowerment) for small enterprises, it is yet to be observed on the acceptance of this facilitation by small enterprises. In addition facilitation of credit scheme that give low interest rate is given by the government through state enterprises which it provide 1 – 5 percent of its profit to support the development of small enterprises and cooperatives (Wiranta, 2003).

Marketing

Marketing capabilities of small enterprises in general is limited to specific consumers that need the product. Small enterprises mostly have no capability to do marketing dynamically and by planning to gain market share which is intended. It is as well, small enterprises are lack of capability to process market information into production planning. Within agriculture sector relate to food products, this sector is the main sources of poverty. Problems of marketing are quite dominant as the cause of relatively low income received by the farmers in these sectors. Agricultural product of this sector is inelastic in character due to easily rotten product and during the harvest period, the price of these commodity tend to drop significantly. Another problem is the distribution support and marketing infrastructure of agricultural products. This infrastructure in rural areas is quite minimal, it gives effect to farmers income, farmers become dependent to/under local mediator control since this broker is then controlling the market of the commodities. Pricing policies on agricultural products especially on

paddy grain/rice is not profitable to the farmers, this keep small farmers (including landless farmers) trap in poverty circle.

Management

Managerial capability of small farmers is also generally weak. Small farmers in agriculture run its business in relatively simple way; neglecting planning, data recording, do not make arrangement to meet the target and optimal achievement which is intended. Any action is done according to existing capability/capacity without systematic efforts to improve the out put. External problems of small enterprises include market behavior, change of consumer taste, infrastructure, partnerships, government policies, influence of globalization etc. Small enterprises could not escape from this external problems, it will contribute to the drawback of the small enterprises/small farmers. The above weaknesses of small enterprises/small farmers in rural areas (which is mainly are from agriculture sectors), contribute significantly to poverty condition of communities in rural areas since majority of them belong to this sector.

Comment to government policies on the poverty reduction that so far had been implemented are: the policies had been implemented as a crash program, mostly *charity* in character, minimal content of technology, non productive oriented, temporary, the program was not oriented to sustainability and lack of formation of local institutions to keep sustainability.

INFRASTRUCTURE DEVELOPMENT TO ENHANCE PRODUCTION CAPACITY OF SMES

Law and Regulation (as soft infrastructure)

Law and regulation should emphasize on promoting capacity development of small enterprises and to prevent the small enterprises to compete head to head with medium and large enterprises. Instead, this law and regulation have to drive partnership of both small and medium/large enterprises in the spirit of mutual benefit. This is expected can be materialized through regulation to adopt method of cluster formation of specific sector of commodity and standardization of commodity products. The medium/large enterprises have function to assist small enterprises to produce items as required by the standard. Government is required to provide the necessary facilities and funding to upgrade man power capability through building up professional vocational training and technical high schools, on specific skill. It is also needed to enhance facilities through provision of loan to by more update equipment/machineries to enable SMEs produce product as required by the standard. Organization such as BDS should be able to give services in management of the cluster. All interaction among the players should be based on business, not charity.

Business and Technology Incubator (including Technology Park)

Establishment of this kind of incubator is indeed needed in order to accelerate

the transfer of knowledge/technology and transformation of technology as well as to improve/enhance the degree of innovation. To achieve that intended results, the incubator would be best to be attached to S&T establishment such as universities or R&D&E institutions. In many countries the development of incubators under universities/R&D&E institutes supervision is quite common. It is on going and it has many benefits for the parties involve. In Indonesia a few universities have build up business or technology incubators such as Bogor Institute of Agriculture (IPB), UNS – Surakarta and in some other university and R&D&E institution such as BPPT (business/technology incubator) and LIPI (technology incubator) but it is still on limited scale of their operation.

Partnership of SMEs, Universities and R&D&E Institutions

Science and technology institutions through its capability and long experiences of doing research and engineering activities is believed to have many research/engineering results that probably can be of beneficial to enhance the production capacity of SMEs, in many sectors of products. It is as well to utilize its technology/knowledge on high tech to increase the productivity or competitiveness of SMEs products. Currently many countries is practicing to support their SMEs with high tech achievement in biotechnology, nano technology to enhance product quality and increase productivity in order to improve competitiveness in market and bringing more growth to economy to the economy.

Through this partnership program, the S&T establishment will get benefit through their scientists and engineers, they will be more familiar with real problems exist within SMEs and how to match research/engineering goals to produce better economic value (to introduce technology/business innovation).

The detail mechanism of partnership should be put in the formal contract agreement to guarantee that both parties comply with its duties and responsibilities/obligation. To get funding support to finance the activities of the program both personnel from S&T institute and SMEs involve in formulating the proposal. This is to ensure that SMEs indeed need the content of the activity for their benefit and fully understand its duties and responsibilities. The content of the proposal emphasizing on introducing technology to increase capacity and productivity of SMEs, better quality of the product out put, business feasibility and formation of local institution, and technical assistant by S&T establishment. Funding support of this program is possible coming from the government sources or from private sector and donor agencies. Sustainability and increase of SMEs asset is part of criteria of success of the activity of the partnership program. More elaborate scheme see annex.

Information Communication Technology (ICT)

New trend on doing business utilizing ICT, outsourcing and networking strategy is adopted by medium, large enterprises and multinational companies (MNCs) require SMEs to undertake proactive measures to ensure sustainability of their business (Techacharm, 2005). Now is in 2009, the technology is much more establish, easier to

use, and price of hardware is getting cheaper. However, as majority of small enterprises in developing countries are micro enterprises with so many obstacles and constraints, this infrastructure could not yet be beneficial to majority of small enterprises, but to some, it can enhance their marketing capacity and doing their business. It is a big challenge to government of individual country to respond to empower small enterprises to get familiar to utilize the opportunity to promote competitiveness and maintain their sustainability. It is necessary to have clear and comprehensive plan on this matter (government role). There are several actions to be taken to overcome the constraint on using ICT for e-business especially on the adequacy of ICT infrastructure and facilities, training program for the prospective small enterprises that have willingness to modernize their business, legal and regulation to ensure the security of e-transaction, to create effective and efficient delivery and distribution system, availability of necessary basic equipment that is affordable to SMEs (avoiding heavy burden to SMEs) to take benefit of using ICT for their business.

Public Policies

As regards to SMEs' problems to enhance its capacity/productivity, there are several stages of public policies to be taken (Ikhsan, 2005). First, group of public policies are to widely open the business prospect, to eliminate discrimination, and to push formalization of SMEs. Second, group of public policies at enterprises level is directed to strengthen the specialization and to establish partnership between small enterprises and big enterprises. Third, group of public policies whose objectives are to empower selective group of SMEs in order to minimize possibility of distortion as regard to resource allocation.

The above public policies contain two important aspects. The first is the improvement of investment climate and second is to eliminate discrimination to SMEs due to market mechanism. The investment climate consists of three elements: (1) policies that influence cost (e.g. tax, red tape, corruption, etc.), (2) conditions that influence risk, such as macroeconomic stability, consistency and predictability of policies, property right, contract enforcement, and the right to transfer profits, (3) obstacles on competition namely regulation to join in and out of the business, financial market and infrastructure is well functioning and existence of effective law on competition.

Policies at enterprises level relate to partnership of small enterprises and big enterprises. In some cases production process of some components is more efficient if it is done by SMEs than it is done by big enterprises. As regard pushing partnership between SMEs and big enterprises, it should follow a win-win solution. These are: (1) the partnership is to facilitate but not to replace transaction between enterprises, (2) to reduce risk of transaction cost, (3) to build the capability and capacity of SMEs' side, (4) it is not a social program but it is as economic needs of both parties involve in partnership.

Physical Infrastructures

Physical infrastructures such as network of good and reliable land/sea/air transportation will have great effect on building up production capacity of SMEs. It is as well on the existence of reliable and sufficient electricity and energy/water supply, good and reliable information communication technology system. Without these reliable infrastructures, enhancement of production capacity would not have any meaning to business affairs of SMEs as well as big enterprises. Competitiveness to attract investors also depends heavily on this readiness of these infrastructures. In these matters the government/public authority role is dominant due to its high investment characteristic as well as services function to communities of public authority. Example of this, is the attractiveness to the investors to invest in Java compare to other island. It is due to availability of better infrastructures relatively to what is available in other islands. It is indirectly will also attract more skilled/educated people to choose to work in Java.

PRODUCTION CAPACITY DEVELOPMENT OF SMES

Human Resource Development

What is really needed in human resources development to improve production capacity of SMEs? As regards human resources of SMEs especially small enterprises we indicate several weaknesses. First, average level of education and skill of players in small enterprises is limited, except thin layer of players in small enterprises has good qualification in education and skill and ready to enter the business competition (they mostly exist in cities). This small layer of players is able to promote their own capability/capacity and innovation. Less intervention needed by this group of players. So, what about the rest of small enterprises players as regard to promote their production capacity (this layer is about 90% of total enterprises, according to many survey in developing countries).

Grameen Bank scheme, as an example, introduce means to enhance production capacity of micro enterprises, such as provision of simple productive equipment to replace manual process, on loan based and guarantee market of the products. During loan period agent of the bank give training on operation and maintenance of the equipment. When the loan has been paid back, then the recipient will own better production means to improve their income (the recipient of the loan mostly are women). Another example, some countries create *training centers to cater community development*. These centers transfer knowledge, skill training for the communities (at community training centers). This community training centers in most country is managed by the government. Alumni of these training centers when later he/she enter small enterprise or business they already have basic skill/knowledge to work. If this training centers able to accommodate large number of peoples, this facilitation will bring SMEs to get better opportunity to choose better quality of manpower and to improve its production capacity.

Another means to be considered is the establishment of sufficient numbers of vocational *training that* has qualified instructors and sufficient equipment and other educational infrastructures. Each vocational training has its specialization on subject

matters as regard of location where it is. This is related to specific needs of skill and technology that most required in the location and its surrounding areas. If the location is surrounded by industrial areas, vocational training should focus on providing skilled manpower as needed by existing industries. However it is possible that skilled manpower provided through vocational training will create its own business (as small enterprises) or to work in existing small industry to supply things as requested by large industries. Other opportunity for these skilled manpower is to get job in small enterprises outside the areas. On this importance of vocational training in providing skilled manpower, public sector as well as private sector has to work together to build enough professional vocational training.

Extension workers to assist promoting production capacity of SMEs could be another opportunity, this extension workers usually is provided by the government. If the extension workers are skilled workers they can contribute to enhance production capacity through direct training at enterprise level to the employees of SMEs. Problem will arise when it need fund to enhance production capacity. Therefore existence of services from micro financing organization in the area is really needed to help SMEs that need of quick funding support. When cluster modalities is adopt and implemented well, upgrading of human resources of SMEs would be easier to be materialized in more efficient way since they are in relatively close one to the other. In this case, training method and technology transfer method can be applied. For this purpose, the role of Business Development Services (BDS), Instructors from vocational training, extension workers and technical person from micro financing organization is needed. They are expected to be able to contribute to upgrade capability/capacity of employees of SMEs which will then improve productivity of the employees and it will be influencing better production capacity of SMEs.

To make it to be realized, at initial state the government should be the main sponsor. As regard to technology transfer, there are two approaches of technology transfer: one is “technology push” that has the meaning transferring research results to industrial application, second is “market pull” that has the meaning to respond the request from the industrial sectors for problem solving capacities (Fiedler, 2001). In case of technology transfer to SMEs, due to initial condition of SMEs (micro enterprises) mention above, it is mostly the second approach is commonly happened, why? It is very long and costly way bringing research result to marketable product and from the product to economic success that means profit (Fiedler, 2001). For SMEs, option of first approach is probably unaffordable due to limited capital and risk capacity. Most of the existing transfer technology between SMEs and S&T establishment is more on engineering products to enhance production capacity than transferring research results.

Research and Development (R&D)

As business entity, orientation of SMEs is clear, making profit. SMEs with obstacles and constraint mention above need ready and reliable technology/machineries and other means to help them to get benefit of their business. Meanwhile S&T establishment as generating knowledge/technology have their own way of doing work. The two establishment has to be bridged in order to have fruitful cooperation. In case of

research to enhance production capacity of SMEs, our experiences of working on empowerment of SMEs, there are several research agenda/road map that should be formulated. Research agenda/road map such as technology of food and feed processing, packaging of food products, handling of agricultural products to reduce losses during transportation, techno economic feasibility, alternative funding system of SMEs, design product to meet consumers need, improve marketing capability of SMEs, needs on technology transfer to SMEs and alternative mechanism of technology transfer, etc. This research agenda (based on demand driven) is necessary for S&T establishment to run research activity that will give benefit to SMEs. The type of research should be more on applicative research than basic research. This research agenda would be able to bridge SMEs and S&T establishment to have fruitful cooperation. If this research agenda can be executed, the result is expected able to enhance production capacity of SMEs.

CONCLUSION AND REMARKS

SMEs in Indonesia have an important role in job location. Government institution and national and international donor institutions provide assistantship to promote SMEs's capacities to reduce unemployment, role in poverty alleviation, income generation and distribution.

The internal problems of SMEs are relate to production and distribution factors, such as raw material supply, condition of work places, lack of skill workers, low level of production technologies, limited capital, product marketing and business management.

To enhance the capacity of SMEs the government should emphasized on infrastructure development, human resource development as well as research activities to develop SMEs.

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ANNEX

IMPLEMENTATION OF TECHNOLOGY TO THE REGION (IPTEKDA)

Introduction

At the time of economic crisis started 1998 SMEs (including micro economic enterprises, as majority) played important role to accommodate the displaced workers because of the collapse of many big companies. As regard to SMEs, internally they have chronic problems related to competitiveness (on average is low), very limited capital, backward in utilizing production technology, lack of creativity and innovation initiatives to compete in higher level business is relatively weak, less access to information. Therefore, there are many problems to be solved.

Public policies as well as program of public institutions and research and development and engineering (R&D&E) institutions have to touch the fundamental problems as regards to SMEs especially to improve performance of SMEs. It is to avoid those policies formulation will bring SMEs always depending on government aids or subsidy. For that purpose, any public policies on empowerment of SMEs have to consider the fundamental problems of SMEs since SMEs is group of enterprises which are the biggest proportion≈(99%) of the total enterprises in Indonesia. The number of people working in SMEs is larger than the people working for big companies and play significant role in national economy. Therefore it is worth to give attention and to support the development of SMEs. Indonesian institute of sciences (LIPI) as public institution feel responsible to take part and contribute in efforts aiming to empower and promote the competitiveness of SMEs through the program “Implementation of Technology to the Region” (Iptekda). This program is part of one of institute responsibilities to society. As national institute LIPI provide wide range of services to communities.

Iptekda program was formulated in an innovative scheme. Its objectives was to empower/to enhance productivity and production capacity of SMEs through implementation of better technology (soft and hard) and to give facilitation as start up capital which have to be kept sustainable. The sustainability was meant that by the end of the program, its multiplier effect will be beneficial to society and to enable empowering other SMEs in that region. Another aspect of Iptekda scheme is to consider the existing local potential commodities, as the raw material supply sources for SMEs. As regards implementation to the region, Iptekda program consider taking benefit of the local expertise to join program activities by inviting local universities (public and private)/other higher education and R&D&E institute. Through the strategic cooperation program involving LIPI and university/higher education and local R&D&E institution in the region, it is expected give optimal implementation and cost efficient activities due to closeness of activities to local S&T establishment.

To this extent, activities of Iptekda program are able to empower more than 60% of SMEs involve in the program to become productive and profitable enterprises and as provider of employment opportunity in the region. Furthermore, as regards

Iptekda activities is based on science and technology, the program is also able to become one of accelerator of innovative activity in the region. This program is also able to be linked with goals set by Millennium Development Goals (MDGs) on poverty eradication.

Currently most activities dealing with SMEs which is done by individual institution within the economy are in the form of “ program” based, since no clear indication in law, regulation and policies to place development SMEs to be the backbone for Indonesia economic future.

Vision of the program

Integrating science and technological capability, human resources, and capital to support enhancing SMEs competitiveness.

Mission of the program

In order to reach what is mentioned in the vision, the mission set the activities as follow:

- To acquire technology and capability from R&D&E institutes, higher educations to promote SMEs capacity.
- To bridge the cooperation SMEs and S&T establishment in the spirit of mutual benefit.
- To push strengthening the SMEs which have productive activities.
- To provide fund (as revolving fund) to buy needed machineries to enhance production capacity as needed by SMEs.
- To establish institution at the region which task is to manage fund and sustainability of the activity in the region.
- To give priorities to the activity that use as much as possible local commodities/ available at domestic market.
- To select SMEs which have future business prospect, provide technical assistance/ training/input of technology.

Development objectives

The objective of operating Iptekda program is the following:

- To utilize S&T research capability to upgrade technology/economy of SMEs and creation of new job opportunity.
- To strengthen SMEs competitiveness through introduction of technology, skill training in technology, assistance in management, provision of limited capital input.
- To make SMEs more dynamics to follow the technological development for the benefit and sustainability of their business.
- To bridge interaction of R&D&E institution/university/other S&T establishment with business/industry establishment.

Targets of the program

- Existence of SMEs with better economic scale, more update in technology and management.
- Realization of better quality of human resources/products and business/ industry sustainability, new job opportunities.
- Intensive interaction of SMEs and S&T establishment.
- Existence of proven alternative SMEs empowerment model.

Criterion of activities

The activities of Iptekda program have to follow on condition that:

- Activity should be connected with production or services.
- Business have prospect to grow and able to compete in the market.
- Improve added value of main product/specific product of the region.
- Expertise of main executor should have connection with subject of the activity and the activity should be within institutional competencies which responsible of the activity.
- Activity which have connection with production: a) Implementation of S&T to enhance productivity/product quality have to get agreement of SMEs, b) Implementation of production process technology/ improvement of product quality/ efficient use of energy/maturing product, should go through incubator.

Measure of successful activity

Valuation of success of the activity is based on:

Planning

- Technology/training is needed by respective business (written statement).
- Availability of personnel to run the activity and a guarantee of raw materials supply.
- Market information is accurate so that product out put of the activity can fill in the market opportunity.
- Technology input is already well tested/reliable and the training module is well prepared.
- It shows good technical/economic feasibility.

Execution

- The respective business is sustainable. Technology/training it is used in routine production activity, asset of business unit increase, better quality product, larger market share, wages of the labor increase.
- There is increase of the employee at business unit and the execution is as planned in planning state.

- Intermediary organization functioning as intended of Iptekda scheme.

Post financing by Iptekda program

- Business unit is sustainable, to get profit, any increase of employee.
- Business unit is able to fulfill its responsibility as written in contract agreement to intermediary organization.

General policies

- To create local legal institution to manage revolving fund program. Area coordinator and field coordinator include as part of personnel of the institution.
- Technology introduced to SMEs should be reliable and produce sellable product.
- To give priority to SMEs that produce income generating activity.
- To take benefit and develop specific local commodity.
- To cooperate with local government in implementing the activity.

Expected out put

The expected out put of the program : stronger and more competitive SMEs and sustainable in their business. SMEs can pay back the facilitation they received from the program (equipment, machineries). The local intermediary institution will manage the fund for further empowerment activity.

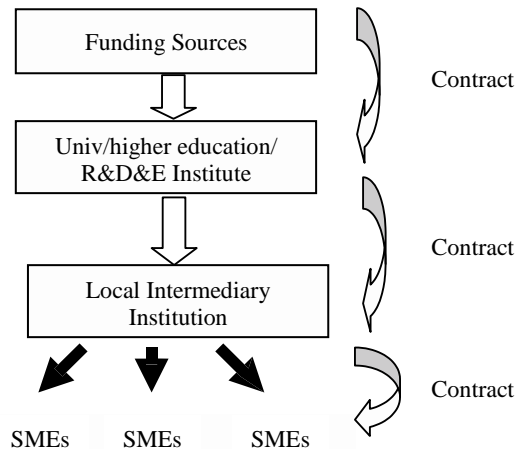


Figure 1 : Mechanism used in Iptekda program (in brief)

Role of S&T establishment is to formulate proposal (together with SMEs) and to give technical assistant to local intermediary institution to implement the activity. In a longer term, activity will be managed by local institution with supervision by field coordinator.

Fund for SMEs is mainly to purchase machineries and other equipment to promote production capacity, only small amount to buy materials for production.

Table 1. Activity of Iptekda Program, 1998 – 2004

Year	Iptekda	Number of program	Number of Activity	Number of SMEs	Island
1998	I	12	50	730	Java, Kalimantan, Sulawesi, Nusa Tenggara, Sumatra
1999	II	58	68	950	Java, Sumatra, Nusa Tenggara, Papua, Sulawesi
2000	III	47	54	750	Java, Sumatra, Kalimantan, Sulawesi, Papua, Nusa
2001	IV	46	51	710	Sumatra, Java, Kalimantan, Sulawesi, Nusa Tenggara,
2002	V	52	60	840	Sumatra, Java, Sulawesi, Nusa Tenggara,
2003	VI	53	56	770	Sumatra, Java, Bali, Nusa Tenggara,
2004	VII	49	51	450	Sumatra, Java, Sulawesi, Nusa Tenggara,

Economic sector of Iptekda program activities

Agriculture (including fishery, cattle farming); Food processing industry; feed processing industry; Handicraft (batik, furniture, cukli, bamboo, mirror).

Program Evaluation

The survey was done to evaluate implementation of Iptekda program 1998 – 2004. During the period 1998 – 2004 Iptekda program was able to provide 3.542 job opportunities in the location of the activities. As regards to survival rate of the Iptekda program activities the number shows 67.7%, 31% of activities its asset is even growing (P2E, 2005).

Data from the same survey show that Invest ICOR of activity in West Nusa Tenggara has the highest value, 15.1 and the lowest value is the activity in South East Sulawesi, 3.1. Industries in West Nusa Tenggara are pottery industries, pearl industries and handicraft industries (cukli). Iptekda program in West Nusa Tenggara provided: production equipment, product design, computer and introducing internet for international marketing. It was a successful effort. The SMEs was able to sell the products at better prices. For example before Iptekda intervention they sell their item Rp 5.000/unit, after the intervention they can sell it Rp 90.000 (equivalent US \$ 10) abroad (export). Input of technology can create more benefit.

THE ROLE OF SMALL ENTERPRISES IN AFRICA: LESSONS FROM FOUR NATIONAL SURVEYS

Lisa Daniels¹

ABSTRACT

Using nationally representative data from surveys conducted in Botswana, Kenya, Malawi, and Zimbabwe, this paper examines the contribution of small enterprises to household and national income in Africa and the financial and legal constraints faced by these enterprises. The data from the four countries were collected using the same survey methods, sampling techniques, and questionnaire formats, which allows for an accurate comparison of the microenterprise sector across countries. Furthermore, the large sample size, ranging from 1,200 to 11,000 enterprises in the four countries, and the in-depth questionnaire helps to examine microenterprise issues in greater detail. Regarding their contribution to income, microenterprises help to alleviate poverty despite very low income levels. Over 55 percent of all enterprises contribute half or more of household income. They also contribute to national income based on the large size of the sector. In terms of financial constraints, the data show that less than one-quarter of proprietors perceive the lack of operating or investment funds as one of their two major constraints. Furthermore, this lack of funds may not necessarily reflect a need for credit. Many proprietors report that they do not need credit and are unlikely to apply for credit. Similarly, very few proprietors see the legal environment as a constraint. Less than one percent of proprietors in all four countries cite the legal environment as one of their two most important constraints. While a minority of enterprises may register following the relaxation of government regulations, most enterprises will continue to operate informally.

Key words : *small enterprises, microfinance, legal environment, income, Africa*

INTRODUCTION

Micro and small enterprises (MSEs) are widespread in all developing countries. Within Africa, studies show that MSE sector employs 22 percent of the adult population on average compared to only 15 percent in the formal sector [Daniels 1994; Daniels and Fisseha, 1992; Daniels and Ngwira, 1993; Fisseha, 1991; Fisseha and McPherson, 1991].² Because of the size of the sector and its potential to alleviate poverty and contribute to national income, there is a large body of literature related to.

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² For the purpose of these studies, An MSE is defined as a business activity that employs 50 or fewer workers and markets at least 50 percent of its output. The adult population is defined as 15 years or older. The five countries include Zimbabwe, Botswana, Malawi, Lesotho, and Swaziland. The formal sector is defined as income-earning activities that are registered with the government and counted in national statistics.

countries, this paper examines the validity of this argument. In particular, do proprietors find that the legal environment is one of their primary constraints? Are they inhibited by zoning, licensing, registration, labor, and tax laws?

As mentioned earlier, proprietors were asked to identify their major problems in running their business in the four countries covered by this paper. The results indicate that government-related problems were not perceived by proprietors to be one of the two most pressing current problems nor one of the two major constraints when they started their businesses. Less than one percent of proprietors reported problems related to business taxes, business licenses, government harassment, registration, zoning, or foreign exchange constraints.

In addition to the open-ended questions related to perceived problems, proprietors were asked specifically about government-related problems in Botswana, Malawi, and Zimbabwe. In Botswana, eight percent of proprietors reported licensing as a problem, four percent cited zoning, and one percent reported tax regulations. Less than one percent reported registration and government harassment. When asked more specifically about problems related to licensing, eight percent reported that they spent too much time waiting in line, three percent reported the cost and time to travel for a license was a problem and three percent said the process was unclear.

In Malawi, 81 percent of proprietors indicated that they did not face any of the government-related problems when asked about them specifically. Among the problems addressed, ten percent reported taxes, seven percent reported licensing as constraints and less than two percent reported registration or zoning as problems.

In Zimbabwe, many more questions were asked about the legal and regulatory environment because a structural adjustment program had been initiated two years prior to the survey. The first set of questions was related to zoning regulations, which are one of the most frequently cited impediments to MSE activity in Zimbabwe. Based on the three government acts, each town develops its own planning schemes that define operational areas for businesses and other types of activities. In Harare, for example, there are five major zones proposed by a master plan: commercial, residential, public buildings, industrial, and agricultural zones and 31 sub-classifications of "use zones." New businesses are required to go the Town Planning Office to determine if they are in the right zone before opening. If they are in the correct zone, they must write a letter requesting permission to operate. If the business is not in the correct zone, they must submit an application, advertise, advise neighbors, and acquire special consent. Under the structural adjustment program there were plans to relax rules for street vending and small businesses, however, no official legislation was passed. Rather than changing legislation, rules are typically not enforced thereby allowing street vendors and other businesses to operate without harassment. Although the lack of enforcement eliminates harassment, fears of policy reversal must inhibit investment to some degree.

Results from the survey indicate that the majority of MSEs believed that they were not affected by zoning laws, despite the fact that 85 percent of all businesses were located at the home or roadside, possibly making them subject to zoning laws. Furthermore, two-thirds of proprietors did not even know that zoning laws existed. Table 10 shows the response from proprietors regarding zoning laws.

Table 10. Effects of Zoning Laws on MSEs in Zimbabwe, 1992-1995

Are SMEs affected by Zoning Regulations	Percent of Proprietors (%)		
	Urban	Rural	Total
Reasons why SME is not affected:			
Not aware that there were zoning laws	52.5	66.0	62.2
Operating in a legal zone	23.1	24.6	24.2
Operating in an illegal zone but no harassment	6.6	1.3	2.8
Total	82.2	91.9	89.2
Reasons why SME is affected:			
Can't sell goods in desired location	15.0	7.5	9.6
Can't advertise because of illegal location	1.1	*	0.3
Pay high rents in legal zone	0.5	0.3	0.3
Can't register	0.3	*	0.1
Total	16.9	7.8	10.3

0.5% gave other miscellaneous responses.

* less than one percent.

Licensing is also cited as a constraint for MSEs in Zimbabwe. Results from the survey indicate that 87 percent of all MSEs do not have any type of licence. When asked why they didn't have a license, 58 percent said that they were not required to have a license. Eighteen percent of firms without licenses said they don't know where to go or how to get one, and 21 percent said that they can't afford a license.

Registration was also addressed by the Zimbabwe survey. Two studies on the cost of business compliance in the small-scale metal working and garment and textile sectors found varying reactions to registration within the business community. Harbin [1993] found that most formal sector firms thought that the costs and time to register were reasonable. Hess [1993], on the other hand, found the perception that registration was "too difficult, too costly and time consuming," taking from two to eight months and ranging from Z\$200 to Z\$1,700.

Results from the Zimbabwe survey indicate that only 6.7 percent of firms in the MSE sector are registered. This is not surprising given the size and location of MSEs in Zimbabwe. Ninety-five percent all MSEs have four or fewer workers and 91 percent operate from the home, roadside, or they are mobile. Furthermore, the Companies Act does not specify which types of businesses are required to register. According to an official from the Deeds and Companies Registry Office, it is "intuitive."

When asking proprietors why they have not registered their enterprises, close to two-thirds reported that they are not required to register their businesses. Proprietors also reported they didn't know how to register (34%), there were no benefits to registration (9%), it was too expensive to register (4%), there is no enforcement of registration (2%), taxes are too high (1%) and bookkeeping would be required (1%).

Labor market regulations are also cited as impediments to micro and small enterprises in many countries. Prior to 1990 in Zimbabwe, employers were required to

seek permission from the Minister of Labour for approval to dismiss employees. Additionally, wages were determined by direct government intervention. Following several Statutory Instruments in 1995, direct intervention in wage setting was replaced by collective bargaining. Additionally, companies could also fire employees for economic reasons, but they had to inform the Ministry of Public Service, Labor and Social Welfare for record-keeping purposes only. Although the level of employment did increase somewhat following these laws, 97 percent of proprietors indicated that they are not affected by labor laws because they do not want to hire more workers. Of the two percent of proprietors that indicated that they are affected by labor laws, 96 percent reported minimum wages laws as a barrier to hiring more employees, 25 percent reported difficult employee dismissal procedures, and 15 percent are inhibited by worker compensation requirements. Surprisingly, over three-quarters of the firms affected by labor laws were microenterprises with one to four workers. Considering registered versus unregistered MSEs, 19 percent of registered firms indicated that they are inhibited by labor laws compared to only one percent of unregistered firms.

Taxes are also cited as a constraint in the MSE literature. Gërkhani [2004], in his summary of tax evasion by different types of enterprises, writes that proprietors who work only in the informal sector “are seen as stealers from the welfare state” by tax authorities. [p.290]. In Zimbabwe, 95 percent of proprietors report that they do not pay taxes. Forty-one percent report that they are not subject to taxes. Profit estimates from the survey show that close to three quarters of microenterprises earned less than Z\$4,801 a year, which was the minimum individual taxable income during the year of the survey. Only two percent of MSEs reported that they do pay taxes and only 0.6 percent reported that they have not registered because of high taxes.

In summary, less than one percent of proprietors in all four countries cite the legal environment as one of their two most important constraints either now or when they started their enterprises. When asked more specifically about the various types of government regulation, again, very few proprietors identify regulations as a constraint. In particular, less than ten percent of proprietors report licensing, zoning, taxes, registration, or labor laws as constraints in the countries where these issues were addressed. Most striking is the fact that 97 percent of proprietors in Zimbabwe say that they have no intention of hiring more workers.

DO MSEs MAKE A SIGNIFICANT CONTRIBUTION TO HOUSEHOLD AND NATIONAL INCOME?

As described in the introduction, microenterprises are often seen as a means of survival or a last resort for the poor. Some go so far as to say that they are of little interest in terms of development. It is hard to deny their contribution to income and poverty alleviation when examining the size of the sector alone. In the four countries reviewed in this paper, 17 to 30 percent of the population aged 15 to 64 is employed in the microenterprise sector.

Using data from the four countries, this paper examines how much microenterprises contribute to household and national income. In addition, are microenterprises simply a means of survival or can they raise households above the poverty line or above earnings in the formal sector? From a national perspective, how much do they contribute to the economy?

Contribution to Household Income

Table 11 shows the proportion of household income that is provided by the microenterprise. As illustrated, 28 to 42 percent of enterprises provide 100 percent of the household income. Over 55 percent of enterprises in all four countries provide half or more of household income. Although this is a significant contribution, are the earnings enough to support a household?

Table 11. Percent of household income contributed by microenterprise in Botswana, Kenya, Malawi and Zimbabwe, 1992-1995 (%)

Percentage of household income	Botswana	Kenya	Malawi	Zimbabwe
100 percent	28	24	42	35
50 to 100 percent	15	17	17	12
50 percent	13	20	8	18
Less than 50 percent	44	39	30	33

In Kenya, where data were also collected on net profits of enterprises, microenterprise earnings can be compared to the absolute poverty line developed by the World Bank [1995].⁸ In urban areas, 18 percent of MSEs that provide all of the household income generate earnings above the poverty line. Within this group 42 percent make at least two times the poverty line and 23% make at least three times the poverty line. On average, MSEs in this category make 6.8 times the amount of the poverty line. Although the earnings are high in this group, a full 72 percent of urban MSEs that provide 100 percent of household income generate earnings below the poverty line.

In rural areas, none of the MSEs that provide all of the household income generate earnings above the poverty line. Combined, these results indicate that a large majority of MSEs that provide all of the household income do not generate sufficient earnings to meet the absolute poverty line.

⁸ For a complete explanation of how profits were measured, see Daniels, 1999. The absolute poverty line is defined as "the minimum level of expenditure deemed necessary to satisfy a person's food requirement plus the consumption of a few non-food necessities (World Bank, 1995, P. 8). Taking the 1992 poverty line figures provided in the study and adjusting for inflation and household size in urban and rural areas, the absolute poverty line in 1995 for urban and rural households was K Sh 6,415 and K Sh 4,531 respectively.

It is also possible to compare earnings within the MSE sector with minimum wages in the formal sector and average earnings in the formal sector in Kenya. Roughly 30 percent of MSEs make above the monthly minimum wage based on their actual hours worked. Among those that make above the minimum wage, 62 percent make two times the minimum wage while 38 percent make three times the minimum wage. Among the top ten percent of wage-earning MSEs, on average MSEs make 18 times the minimum wage based on their actual hours worked.

Comparing earnings based on actual hours worked to the average earnings in the formal sector, ten percent of MSEs make above the average earnings. Among the MSEs that make above average earnings, 61 percent make two times the average earnings while 35 percent make at least three times the average earnings. Among the top ten percent of wage-earning MSEs, on average MSEs make 4.6 times the average wage in the formal sector.

Clearly with one third of MSEs earning above the minimum wage and ten percent earning above average earnings in the formal sector, not all enterprises are survival mechanisms. Table 12 shows proprietors' responses when asked why they started their businesses. About one quarter said they had no other option whereas slightly over one third thought that the business provided better income or they preferred to work for themselves. Another one-third reported that they are supplementing other income.

Table 12. Reasons why proprietors started their enterprise in Kenya, 1992-1995

Description	Response (%)
To supplement household income	31
No other options available	26
Offers higher income than alternatives	23
Prefer to work for myself	14
Other	6
Total	100

Contribution to National Income

Among the four studies used for this paper, the contribution to national income was estimated only in Kenya. According to that study, MSEs contribute 12 to 14 percent to Gross Domestic Product (GDP).⁹

Table 13 shows the MSE contribution to employment and GDP by size of the enterprise among enterprises with one to ten workers. Close to 90 percent of all MSEs have only one to two workers (including the proprietor). Given the large number of MSEs in this category, the largest contribution to both employment and GDP comes

⁹ The range of contribution is given because it is not clear how many microenterprises are included in official statistics. If all MSE activities were included in official statistics, then the MSE sector contributed 13.7 percent towards GDP at the time of the study. If no MSE activities are included in the official statistics, then the MSE sector contributed 12 percent.

from these enterprises. Roughly three-quarters of all workers in the MSE sector are employed in MSEs with one to two workers and they represent about three-quarters of the MSE contribution to GDP. Although only 12 percent of all MSEs have three to ten workers, combined they represent about one-quarter of the total MSE contribution to GDP.

Table 13. MSE contribution to employment and national income by size of the MSE in Kenya, 1992-1995

Size of MSEs (Number of workers)	Percent of all MSEs	Percent of all MSE workers employed	Percent contributed to GDP of total MSE Contribution	Avg. Contribution to GDP per enterprise (Kenyan Pounds) ¹⁰
1 worker	57	35	43	2,319
2 workers	31	38	33	3,207
3-5 workers	11	23	18	5,015
6-10 workers	1	4	6	18,335
Total	100	100	100	3,068

The net profit earned by enterprises can also be used to examine contributions by new enterprises versus enterprises that expanded in terms of employment. According to the survey results, the average income earned among new enterprises in 1994 and 1995 was K Sh 18, 980. Among enterprises that had expanded during that same time period, the average earnings were K Sh 45,479 [Daniels, *et al.*, 1995]. This suggests that enterprises that expand contribute much more to household and national income.

In summary, the majority of microenterprises appear to be survival mechanisms. Over half of all enterprises in Kenya earn below the minimum wage and 26 percent started their business due to no better options. Despite the low earnings, they clearly are an important source of poverty alleviation, particularly since over 55 percent contribute half or more of household income. For a minority of enterprises, earnings are well above minimum and average earnings in the formal sector. Finally, at the national level, MSEs contribute a substantial portion to national income. This is particularly true for the smallest MSEs with only one to two workers given their sheer numbers.

CONCLUSION

Using data from Botswana, Kenya, Malawi, and Zimbabwe, this paper examined three themes that emerge in the literature related to microfinance, the legal environment, and the contribution of microenterprises to household and national income. Regarding

¹⁰ The exchange rate in 1995 at the time of the survey was KSh 51.43 to one U.S. dollar

microfinance, very few proprietors perceive credit as a major constraint. While a small minority of enterprises may be able to expand with the help of credit, the majority of enterprises are unlikely to apply for credit.

In terms of the legal environment, again, very few proprietors see this as a serious constraint. While a minority of enterprises may register or become part of the formal sector with the relaxation of government regulations, the majority of enterprises would continue to operate in the informal sector.

Regarding the contribution to household and national income, the majority of microenterprises appear to be survival mechanisms. Despite very low earnings, microenterprises clearly help to alleviate poverty given their large contributions to household income. They also contribute to national income based on the large size of the sector.

Overall, these results suggest that the microenterprise sector is heterogeneous. While credit and relaxation of government regulations may be the appropriate assistance policies for some microenterprises, they will not address the needs of the entire sector. Furthermore, the majority of microenterprises cannot be expected to enter the formal sector with these types of support. Assistance policies must be based on groups within the MSE sector. While it is important to help those enterprises with the ability to expand, it is also important to assist those enterprises that are providing the minimal level of support for a household to survive. Again, these two groups will require different types of assistance. Recent trends in assistance programs that examine value chains for specific subsectors within the microenterprise sector are an important step in the right direction.

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Appendix 1: Studies of the SME sector using the GEMINI Method

Country	Year	Coverage	Enterprises Enumerated	Original Reports
Bangladesh	1980	12 Subdivisions	57,184	Ahmed, S., E. Chuta, and M. Rahman. 1978. "Rural Industries in Bangladesh: Research and Policy Implication." <i>Journal of Management</i> . University of Dacca (April) 25-37.
Bangladesh	2003	National	10,096	Daniels, L. 2003. "National private-sector survey of enterprises in Bangladesh, 2003. Australia: International Consulting Group
Botswana	1992	National	1,243	Daniels, L. & Fisseha, Y. 1992. "Micro- and Small-Scale Enterprises in Botswana: Results of a Nationwide Survey." GEMINI Technical Report No. 46. Bethesda, MD: Development Alternatives, Incorporated.
Egypt	1982	2 Governorates	35,818	Davies, S., J. Seale, D. Mead, M. Badr, N.E. Sheikh, A. R. Saidi. 1984. "Small Enterprises in Egypt: A Study of Two Governorates." Michigan State University International Development Papers No. 16. East Lansing, Michigan State University
Honduras	1980	3 Regions	2,120	Stallmann, J. I., and J.W. Pease. 1983. "Rural Manufacturing in Three Regions of Honduras." East Lansing: Michigan State University, Mimeo.
Jamaica	1980	National	9,500	Fisseha, Y. and O. Davies. 1981. "The Small-Scale Manufacturing Enterprises in Jamaica: Socioeconomic Characteristics and Constraints." M.S.U. Rural Development Series, Working Paper No. 16. East Lansing, Michigan State University.
Kenya	1993	Kibera	5,353	Parker, J. with T.R. Torres. "Micro and Small-scale enterprises in Kenya: Results of the 1993 National Baseline Survey." GEMINI Technical Report No. 75. March. Development Alternatives Inc.
Kenya	1995	National	2,259	Daniels, L. Mead, D. & Musinga, M. (1995). "Employment and Income in Micro and Small Enterprises in Kenya: Results of a 1995 Survey." GEMINI Technical Report No. 92. Bethesda, MD: Development Alternatives, Incorporated.
Laos	1996	National	2,799	Minot, N. 1996. "Small and Medium Enterprises in the Lao PDR: The Results of a National Survey." Vientiane, Lao PDR: Lao-German Small Enterprises Development.
Lesotho	1991	National	7,267	Fisseha, Y. 1991. "Small Scale Enterprises in Lesotho: Summary of a Country-Wide Survey. GEMINI Technical Report No. 14. Bethesda, MD: Development Alternatives, Incorporated.

Country	Year	Coverage	Enterprises Enumerated	Original Reports
Malawi	1992	National	10,792	Daniels, L. & Ngwira, A. (1993) "Results of a Nationwide Survey on Micro, Small, and Medium Enterprises in Malawi." GEMINI Technical Report No. 53. Bethesda, MD: Development Alternatives, Incorporated.
Malawi	2000	National	6,000	Ebony Consulting Iternational and National Statistical Office. 2000. "Malawi national GEMINI MSE Baseline Survey."
Niger	1996	National	*	McPherson, M.A., and C. Liedholm. 1996. "Determinants of small and microenterprise registration: results from surveys in Niger and Swaziland." <i>World Development</i> Vol 24, Issue 3, pp 481-487.
Sierra Leone	1975	National	9,195	Chuta, E. , C. Liedholm, O. Roberts, and J. Tommy. "Employment Growth and Change in Sierra Leone Small-Scale Industry: 1974-1980." African Rural Economy Program Working Paper No. 37. East Lansing, Michigan State University.
South Africa	1991	2 Townships	5,253	Liedholm, C. and M.A. McPherson. 1991. "Small-scale enterprises in Mamelodi and Kwazakhele townships, South Africa: Survey Findings." GEMINI Technical Report No. 16.
Swaziland	1991	National	2,759	Fisseha, Y., McPherson, M.A. (1991). "A Countrywide Study of Small-Scale Enterprises in Swaziland." GEMINI Technical Report No. 24. Bethesda, MD: Development Alternatives, Incorporated.
Thailand	1980	4 Provinces	5,545	World Bank. 1983. Thailand: Rural Growth and Employment. World Bank, Wasington, D.C.
Zambia	1986	Rural & Semi-Urban	**	Milimo, J., And Y. Fisseha. 1986. "Rural Small Scale Enterprises in Zambia: Results of a 1985 Country-Wide Survey." M.S.U. International Working Paper No.28. East Lansing: Michigan State University
Zimbabwe	1991	National	5,575	McPherson. M. A. 1991. "Micro and Small-Scale Enterprises in Zimbabwe: Results of Country-Wide Survey." GEMINI Technical Report No. 25.
Zimbabwe	1993	National	5,356	Daniels, L. 1994. "Changes in the Small-Scale Enterprise Sector from 1991 to 993: Results of a Second Nationwide Survey in Zimbabwe. GEMINI Technical Report No. 71. Bethesda, MD: Development Alternatives, Incorporated.
Zimbabwe	1998	National	7,369	McPherson, M.A. 1998. "Zimbabwe: A third nationwide survey of micro and small enterprises. Final Report. Bethesda, MD: US Agency for International Development."

*The original report for Niger could not be found. The report listed is an article generated from the data and did not specify the sample size.

**The sample size was not given in the original report.

THE GROWTH OF SMES THROUGH NEW AGRICULTURAL OPPORTUNITY : CASE OF THE DEVELOPMENT OF BIO-ENERGY SMES IN THAILAND

Decharut Sukkumnoed¹

INTRODUCTION

Although Thailand is one of top exporters in the world agricultural market, the growth rate of agricultural sector in the last three decades has been comparatively low compared to the national economic growth. The struggles for introducing higher value added export products has been raised as the main strategy for boosting economic growth in Thai agricultural sector. With the nation-wide policy to promote One Tambol One Product since 2002, moving towards higher-end markets has been succeed in developing thousands of new SMEs all over the economy, both in the forms community-based and private enterprises. All these enterprises can certainly be one of the main engines for agricultural growth and poverty alleviation in Thailand.

Concurrently, Thailand has faced energy crisis, started from 2004 and peaked in 2008, leading to higher import burden for the economy. In 2008, Thailand's import burden for energy was reached 1 trillion THB and equal to 20% of national import value (Decharut Sukkumnoed, 2008). On one hand, this leads to the higher cost in almost all sectors within the economy, including agricultural sector. On the other hand, the energy price surge has brought the good opportunity for bio-energy development in the economy.

The public concern over the effects of global climate change also leads to the stronger support for bio-energy as one of the highest potential renewable energy development in Thailand. Moreover, the race of the carbon-credit, through Clean Development Mechanism under the Kyoto protocol, make the bio-energy projects much more attractive for investment. As a result, within the last five years, the number of SMEs in bio-energy businesses has mushroomed in the economy.

The rapid growth in bio-energy projects represents strong opportunity for bio-energy SMEs to be another strategic direction for boosting economic growth in agricultural sector. This paper will examine the policy frameworks and implementations for bio- energy SMEs development projects in this economy.

The paper will firstly present the potential of bio-energy development in Thailand. The second part will be the analysis of bio-energy potential in Thailand. Third, the paper will introduce the development of bio-energy in Thailand, before presenting government's mater plan for renewable energy and policy mechanism in the forth section. Then, in the fifth section, the opportunity of bio-energy SMEs and the successful cases will be analyzed. Later, the key success factor of bio-energy SMEs will be shown. Last, the conclusion and policy recommendations will be made for supporting the development of bio-energy SMEs.

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POTENTIAL OF BIO-ENERGY DEVELOPMENT IN THAILAND

For Thailand, main fuels of bio-energy are agricultural products, by-products, and wastes, or so-called biomass resources. Several domestic biomass resources, such as bagasse, rice husk are known as the alternative energy sources for heat and power in the economy. The agricultural waste, such as pig manures or other organic wastes can also turn to be energy through bio-chemical process or anaerobic digestion process. The utilization of molasses and palm oil to produce bio-fuels, namely bio-ethanol and bio-diesel, has also been expanded very fast during the four years.

In general, the process in turning biomass into energy can be divided in four main forms, as described below (summarized from Science and Technology Research Institute of Thailand, 2008):

- **Combustion:** the biomass can be burn, i.e. pass through the combustion process, and transform into energy in form of heat and power, or in form of other fuels, such as charcoal and fuel gases. The combustion process can be both direct combustion (with normal oxygen condition in the chemical reaction), and gasification or carbonization (with limited oxygen in the chemical reaction). The energy outputs of direct combustion are heat and power. The energy output of gasification is fuel-gases, which can be used and fuel for heat and power and the outputs for carbonization process is charcoal.
- **Anaerobic Digestion:** Anaerobic digestion is a bio-chemical or fermentation process without oxygen using anaerobic micro-organisms. The output of the digestion process is biogas, which composed of methane. All organic wastes, without strong chemical contamination, can be turned to be biogas, and later transform into both heat and power.
- **Ethanol Fermentation:** Like anaerobic digestion, ethanol fermentation is a bio-chemical or fermentation process; but using yeast to transform sugar or starch into ethanol, which can be used as bio-fuel in blending with gasoline. The main raw materials for ethanol fermentation in Thailand are molasses and cassava.
- **Trans-esterification :** Trans-esterification is a chemical reaction which transform vegetable oil into glycerol and methyl-ester. Methyl-ester, or so-called bio-diesel, can be used for blending with diesel or, in come cases, used directly in diesel engine. The main raw materials for bio-diesel in Thailand are palm oil and used vegetable oil.

Potential of Biomass Resources

Thailand has abundant biomass resources. Rice, sugar, palm oil, and wood-related industries constitute the main potential biomass energy resources. According to the Department of Alternative Energy Development and Efficiency (DEDE), an

estimated 64.5 million tons of agricultural and wood residuals are produced each year in Thailand (Table 1). Presently, most of these residues are disposed of through open burning and dumping, except for bagasse, rice husk, fiber and shell of palm oil, and shell of coconut. The remaining biomass resources, which can be used for energy purposes, is about 42 million tons, which equals 605 PJ or 2.5 times higher than the present biomass used for energy purposes. Later, DEDE also estimated the unused potential of all agricultural residuals, as shown in Table 2, and found that the overall resource potential of biomass is equal to 721,935.9 TJ or 9,630 MW in terms of electric power.

Table 1. Assessment of the Biomass Energy Potential of Agricultural Residuals in Thailand, 2000

Products and Production (Million Tons)		Residuals	Quantity (Thousand Tons)	Utilization Rate (%)		Quantity (Thousand Tons)		Energy (PJ)	
				Used	Unused	used	Unused	used	Unused
Sugarcane	53.5	Bagasse	15,567	79.3	20.7	12,344	3,222	177.76	46.40
		Leaf & Top	16,155	0.0	98.6	0	15,929	0.00	277.01
Rice	24.2	Rice husk	5,560	50.7	49.3	2,819	2,741	40.23	39.11
		Upper Straw	10,805	0.0	68.4	0	7,391	0.00	75.67
Palm oil	3.26	Empty Bunch	1,394	3.0	58.4	42	814	0.75	14.54
		Fiber	479	85.8	13.4	411	64	7.24	1.13
		Shell	160	58.8	3.7	94	6	1.76	0.11
		Leaf Stem	8,479	0.0	100.0	0	8,479	0.00	83.35
Coconut	1.40	Stamen Bunch	759	0.0	100.0	0	759	0.00	12.39
		Fiber	507	28.9	59.5	146	595	2.37	4.89
		Shell	224	41.3	37.8	93	85	1.69	1.52
		Bunch	69	14.4	84.3	10	58	0.15	0.89
		Leaf	315	15.9	80.9	50	255	0.80	4.08
Cassava	19.1	Stem	1,678	0.0	40.7	0	683	0.00	12.58
Maize	4.29	Corn cob	1,170	19.3	67.0	226	784	4.08	14.14
Groundnut	0.14	Shell	45	0.0	100.0	0	45	0.00	0.56
Cotton	0.03	Stem	116	0.0	100.0	0	116	0.00	1.69
Soybean	0.32	Shell	849	0.7	76.0	6	646	0.12	12.55
Sorghum	0.14	Leaf, Stem	178	11.8	64.8	21	115	0.40	2.22
TOTAL RESIDUALS			64,509			16,262	42,494	237.31	604.82

Source: DEDE, 2003, *Alternative Energy Situation*. www.dede.go.th

However, not all resource potentials are be commercially viable, especially with the regard to the difficulties in collecting agricultural residuals, such as leaf and top of sugar cane or rice straw, and their financial returns. Peter du Pont analyzes the commercial conditions of biomass resource utilization in Thailand and estimates that,

within 2011, 2,463 MW of biomass resource will be commercial available. He also discounts this commercial potential by technological factor (25% lower) and institutional factor (50% lower) and concludes that 897 MW of new installed biomass power should be practically achievable during 2005-2011.

The Ministry of Energy expects the power generation potential of Biomass resources to be as high as 4,400 MW of power and 7,400 kTOE of heat and sets up a clear target to stimulate biomass power generation up to 2,800 MW by 2011 and then later expand to 3,700 MW by 2022.

Table 2. Assessment of Unused Biomass Energy Potential of Agricultural Residuals in Thailand, 2001/2002

Raw Material	Production (million ton)	Residuals	Quantity (million ton)	Calorific Value	Energy (TJ)	Power (MW)
Sugarcane	60.013	Bagasse	3.616	14.40	52,056.04	764.21
		Leaf & Top	17.087	17.39	310,762.62	4,105.92
Rice	26.514	Rice husk	3.006	14.27	42,901.65	566.83
		Upper Straw	8.106	10.24	83,011.61	1,096.78
Palm Oil	4.089	Empty Bunch	1.002	17.86	18,253.88	241.18
		Fiber	0.081	17.62	1,419.21	18.75
		Shell	0.007	18.46	136.85	1.81
		Leaf Stem	10.648	9.83	104,667.44	1,382.91
		Stamen Bunch	0.953	16.33	15,558.20	205.56
Cassava	16.868	Stem	0.604	18.42	11,128.34	147.03
Maize	4.466	Corn cob	0.816	18.04	14,736.44	194.71
Groundnut	0.129	Shell	0.042	12.66	527.50	6.97
Cotton	0.036	Stem	0.116	14.49	1,685.94	22.27
Soybean	0.292	Shell	0.591	19.44	11,488.51	151.79
Sorghum	0.145	Leaf, Stem	0.118	19.23	2,262.18	45.14
Wood	10.268	Wood residual	2.670	14.98	39,991.81	528.39
Total Residuals					721,935.91	9,630.18

Source: DEDE, 2003, *Alternative Energy Situation*. www.dede.go.th

Potential of Biogas Resources

Apart from solid biomass residues, wastewater containing organic matters from livestock farms, landfill site, and agro-industries has increasingly been used for energy production. The biogas systems can be locally produced and installed by several techniques such as UASB and Fixed Film Technology. The production of biogas can alleviate not only the energy costs by substituting the on-site use of fuel oil, LPG, or electricity, but also the local water pollution problems (Amartayakul and Greacen, 2002).

DEDE estimates that the biogas production potential of three main sources,

animal farm, landfill, and agro-industrials, equals 2,179 Mm³/year (Table 3). If it is assumed that 1 m³ of biogas can produce 1.2 kWh of electricity with 8 operation hours a day, the potential power generation would be around 900 MW. However, there are two important notes to keep in mind. First, in various cases, biogas energy is better used or should be used in other forms of energy, such as LPG on-site consumption. Second, if better biogas technology and waste management would be explored, instead of landfill biogas, the biogas potential would probably be much higher.

Table 3. Assessment of the Biogas Energy Potential of Waste in Thailand, 2000

Waste	Quantity	Biogas Production (mill. M ³ / year)	Energy (PJ)
1. Animal waste (dry manure thousand ton/year)	2,886.55	559.54	11.75
1.1 Cattle	1,015.10	238.91	5.01
1.2 Buffalo	441.63	96.95	2.04
1.3 Swine	879.95	134.67	2.83
1.4 Chicken	512.87	81.57	1.71
1.5 Others1	37.00	7.43	0.16
2. Domestic Landfill Waste (Thousand ton/year)	11,842.24	1,184.00	23.09
2.1 Greater Bangkok	2,832.58	283.26	5.52
2.2 Other Municipalities	3,656.30	365.63	7.13
2.3 Outside Municipal area	5,353.36	535.34	10.44
3. Agro-industrial Waste water (thousand m ³ / year)	205,942.30	435.33	10.45
3.1 Tapioca Starch Industry	55,005.09	166.27	3.99
3.2 Sugar Industry	76,203.54	89.37	2.15
3.3 Palm Oil Industry	3,256.00	67.72	1.63
3.4 Seafood Canning	17,385.37	47.30	1.14
3.5 Others2	54,092.30	64.67	1.55
4. Total Biogas Potential		2,178.87	45.29

Source: DEDE, 2003a, *Alternative Energy Situation*. www.dede.go.th

Note: 1. Others include Duck and Elephant

2. Others include frozen seafood Industry, slaughterhouses, pineapple canning industry, carbonated soft drink industry, beer and liquor industry, and milk industry.

Another source of resource potential estimation is presented by David Donnelly, the general manager of Clean Energy Development Co, Ltd., (Clean THAI), a firm which develops and finances biogas system fuels by waste products from cassava-processing industries and pig farms. With the existing SPP's electricity purchasing price, the commercial potential of biogas exceeds 1,200 MW. It consists of 300 MW from cassava waste water, 900 MW from cassava wet cake (or a fibrous waste

byproduct of tapioca production), 50 MW from pig farms, and 15 MW from palm oil factories.

Peter du Pont uses this estimation as commercially viable power by counting only the 365 MW biogas productions from cassava waste water, pig farms and palm oil factories, which have already been implemented in actual cases in Thailand. He also estimates that, from this commercial potential, 245 MW of biogas power plants should be practically achievable in 2011.

Potentials of Bio-ethanol

As mentioned earlier, raw materials for bio-ethanol in Thailand presently are molasses and cassava. Nowadays, almost 1.5 million tons of molasses, the by-product of sugar processing, is used to produce one million liters/day of ethanol. The rest of 250,000 liters of ethanol is now produced from cassava.

However, the supply of molasses is quite limited. In 2008, the total amount of molasses was 3.2 million tons. In other words, half of molasses' supply is now used for producing bio-ethanol. Therefore, the further expansion of bio-ethanol production, therefore, requires new raw material, namely sugarcane juice. Otherwise, the potential for bio-ethanol will be soon limited, as already seen the seasonal shortage in some periods.

Thailand is one of the top exporters in the world sugar market. From 7 million tons of sugar (or equal to 70 million tons of sugarcane), 5 million tons are export to the world market. The domestic consumption of sugar is only 2 million tons. The problem of relying on export market is the world price fluctuation, leading to lower returns for sugarcane farmers. Therefore, the shifting of sugarcane juice from producing raw sugar export to bio-ethanol for domestic consumption is highly possible, especially if the price of bio-ethanol was more attractive and stable.

Concurrently, there is also a huge potential to produce more ethanol from cassava. Now Thailand has exported around 20 million tons of cassava products, which more than half of this export (or around 10.5 million tons) is still in forms of cassava pellets for animal feeds. Only 7.7 million tons has been used for domestic consumption and only around 0.5 million liters has been used for ethanol production. Therefore, we can shift part of cassava from animal feed export to bio-ethanol for domestic consumption, if the price conditions were favorable.

With all these raw material potentials, around 8.2 million liters/day from sugarcane juice, plus 0.4 million liters/day from molasses can be expected. Moreover, 1.2 million liters/day of ethanol from cassava is also highly possible. Therefore, almost 10 million liters of ethanol can be produced, which equal to 50% of gasoline consumption in Thailand, without any area expansion required (Winai arrchkongharn et al, 2009).

Potentials of Bio-diesel

The potential of bio-diesel in Thailand, is quite limited compared to bio-ethanol. In 2008, Thailand produced 1.7 million tons of palm oil, which 1.0 million tons is used for domestic consumptions, 0.4 million ton for export, and 0.3 million ton for bio-diesel production. The consumption of bio-diesel in Thailand has been jumped from 0.2 million liters/day in 2007 to 1.5 million liters/day in 2008, leading to shortage of raw material for the beginning of 2008. Therefore, it is not possible to expand the bio-diesel production without area expansion and yield improvement of oil palm (Winai arrchkongharn et al, 2009). Thai government has set the plan to increase oil palm plantation from 3 million rais to 5.5 million rais aiming to produce bio-diesel up to 4.5 million liters/day (equal to 10% of diesel consumption in Thailand) in 2022 (Ministry of Energy, 2009).

The production of bio-diesel from used vegetable oil is also another possibility. Although the overall potential of used vegetable is around 700,000 liters/years, which is still quite small compared to bio-diesel from palm oil, it is useful mechanism to divert the used vegetable oil from unsafe cooking (due to the increasing risks of cancer) to bio-diesel production. It is also opportunity for community SMEs .

History of Bio-energy Development in Thailand

The starting point for bio-energy in Thailand is the introduction of “firm and non-firm Small Power Producers (SPP)” pricing scheme in 1992. This is the first time that Thai electricity market was opened to private producers for the first time. In fact, the SPP scheme is rather a general scheme, since this pricing scheme is used for both renewable and non-renewable power producers. It does not categorize the power producers according to types of technology and fuels, but on the basis of their guaranteed generation availability. Unsurprisingly, with the seasonal characteristics of their biomass resources, most of the current and foreseeable bio-energy power producers were non-firm SPPs.

In 2002, the Thai government decided to use the Energy Conservation Fund (Encon Fund) for providing the first 5-year subsidy to renewable SPPs on the basis of a single-round bidding program. Renewable SPPs candidates had to submit a bid for the required amount of subsidy and the lowest bids were accepted up to either the specific amount of sold capacity or the limited subsidy budget. There are several biomass power producers who won the bid and get the subsidy right now.

At the same time, the Thai government also set up another scheme for very small power producers (VSPP) with less than 1 MW capacity sold to the grid. Due to their smaller size, they have great difficulties in applying for firm or non-firm SPPs. The VSPP pricing scheme is similar to the net metering system in the USA, where the excess capacity generated by renewable producers will spin back the existing customer’s electricity meter and the customer can save it for future use. The establishment of VSPPs is one of the most important steps for development of bio-energy SMEs in Thailand, because it ensures that VSPPs can access to the grid. Later, in 2007, Thai government expands the VSPP from 1 MW to 10 MW.

Table 4 presents the current situation of bio-energy power producers in Thailand.

In 2008, there are 91 bio-energy power producers selling power to the grid, of which 60 producers is VSPPs or so-called bio-energy SMEs. In total, the installed capacity of bio-energy in Thailand has reached 1,574 MW. Around one-third of total bio-energy installed capacity is VSPPs' installed capacity. Moreover, there are more than 200 bio-energy power producers who already get the approval to sold to the grid. Most of these coming bio-energy power producers are VSPPs or bio-energy SMEs and bio-energy SMEs will share almost half of total bio- energy installed capacity soon.

Table 4. Status of Bio-energy Power Producers in Thailand, 2008

Producers	Already Sold to the Grid		Approved for Grid Access	
	No.	MW	No.	MW
SPP	31	1,046.2	41	1,298.7
VSPP	60	528.2	182	1,232.0
Total	91	1,574.4	223	2,530.7

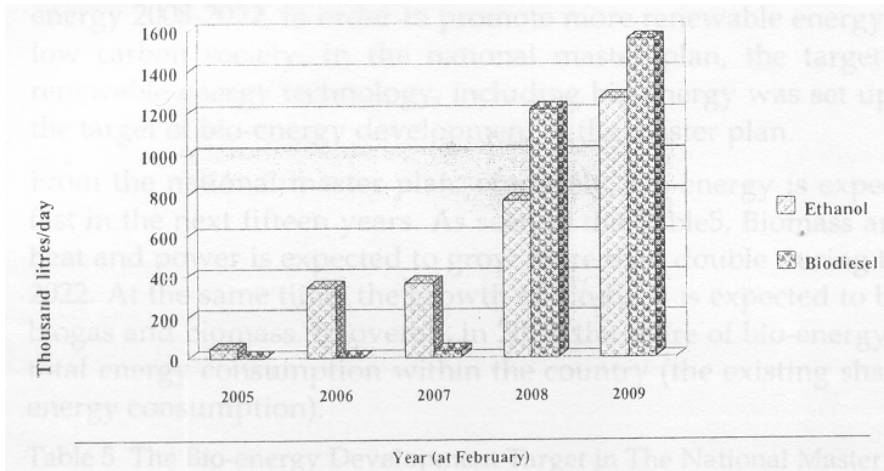
Source: Office of Energy Policy and Planning, 2009.

For bio-diesel, the introduction of bio-diesel starts in 1999 as small experimental projects in several community of Thailand. However, the nation-wide campaign for bio-diesel retail did not occur until 2005. In the beginning of 2008, Thai government announces the policy of B2 requirement standard, i.e. requires 2% of bio-diesel blending in all diesel products sold in the retail market. This leads to the big expansion of bio-diesel utilization, as later shown in Figure 1.

For bio-ethanol, the production and marketing of bio-ethanol in Thailand starts in 2003 as a governmental pilot project. In 2005, bio-ethanol was ready to serve for nation-wide market in form of gasohol E10 (blending 10% of bio-ethanol with gasoline). Thai government reduced the excise tax for bio-ethanol and gasohol in order to lower gasohol compared to gasoline. The price gap between gasohol and gasoline was widen in 2007, leading to steadily increase in bio-ethanol consumption in the later years, as shown in Figure 1.

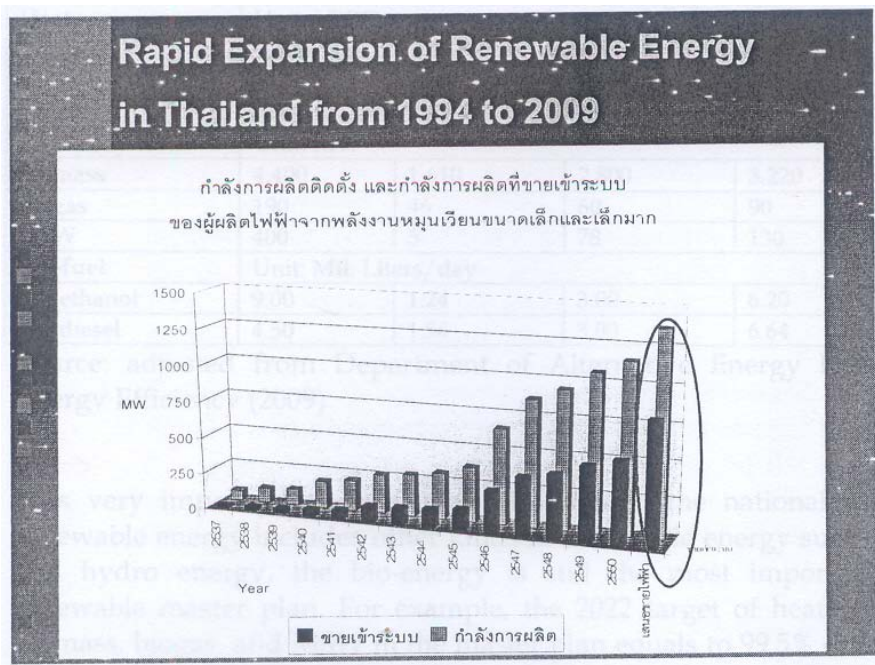
With all the governmental policy supports, the development of bio-energy in Thailand during the last five years is very impressive. Figure 1 shows that the rapid increasing of bio-diesel and bio-ethanol uses. Now the consumption of bio- diesel and bio-ethanol are now both over one million liters/day. The expansion of bio-energy also finds in biomass power plants in Thai power sector, as seen in Figure 2. Presently, the installed capacity of biomass is now above 1,500 MW or almost 5% of total installed capacity in the economy.

The Rising Demand for Bio-fuel in Thailand 2005-2009



Source: Department of Energy Business

Figure 1. The Rising Demand for Bio-fuel in Thailand, 2005-2009



Source: Calculated from Office of Energy Policy and Planning (2009)

Figure 2. The Rapid Expansion of Bio-energy Power Producers in Thailand, 1994 - 2009

THE MASTER PLAN FOR RENEWABLE ENERGY 2022

In 2009, Thai Ministry of Energy launched long-term master plan for renewable energy 2008-2022, in order to promote more renewable energy development and low carbon society. In the national master plan, the target in 2022 for each renewable energy technology, including bio-energy was set up. Table 5 presents the target of bio-energy development in the master plan.

From the national master plan, obviously, bio-energy is expected to grow very fast in the next fifteen years. As seen in the Table5, Biomass and biogas both for heat and power is expected to grow more than double during the period of 2008-2022. At the same time, the growth of bio-fuels is expected to be even faster than biogas and biomass. In overall, in 2022, the share of bio-energy will reach 14% of total energy consumption within the economy (the existing share of 6.4% of total energy consumption).

Table 5. The Bio-energy Development Target in The National Master Plan for Renewable Energy in Thailand, 2008-2022

Bio-energy Items	Potential	Existing 2008	Target		
			2011	2016	2022
Heat	Unit: kTOE				
Biomass	7,400	2,781	3,600	5,000	6,700
Biogas	600	224	470	540	600
MSW	n.a.	1	15	24	35
Electricity	Unit: MW				
Biomass	4,400	1,610	2,800	3,220	3,700
Biogas	190	46	60	90	120
MSW	400	5	78	130	160
Bio-fuel	Unit: Mil. Liters/day				
Bio-ethanol	9.00	1.24	3.00	6.20	9.00
Bio-diesel	4.50	1.56	3.00	6.64	4.50

Source: adjusted from Department of Alternative Energy Development and Energy Efficiency (2009).

It is very important to note that, although in the national master plan for renewable energy includes other kinds of renewable energy such as wind, solar, and hydro energy, the bio-energy is still the most important part of this renewable master plan. For example, the 2022 target of heat production from biomass, biogas, and MSW in the master plan equals to 99.5% of total renewable target in terms of heat.

For the power sector, the 2022 target of biomass, biogas and MSW equals to 89.9% of total renewable target in the master plan. In terms of fuel, bio-fuel also shares more than 95% of total renewable target. In other words, the bio-energy is the most important sources of renewable energy in Thailand.

Thai government believes that the benefits of the national master plan for renewable energy can be seen in various forms; such as.

- **Reduce national import burden** for fuels and energy by 460,000 million THB/year in 2022
- **Increase the private investment for bio-energy and renewable energy** by 382,240 million THB/year
- **Create new jobs** around 40,000 jobs in 2022, which mainly concentrated in the agricultural and rural sectors
- **Save public investment burden** for fossil fuel power plants by 3,800 MW or equal to 100,000 million THB
- **Reduce carbon emission**, which may convert to around 14,000 million THB of carbon credit value per year.

To achieve the targets, Thai government also provides several incentives through different policy mechanisms. The main policy mechanisms for promoting bio-energy are described as followed (Ministry of Energy, 2009):

- **Very Small Power Producer Policy**; which allow very small power producers (with lower than 10 MW capacity sold to grid) from renewable energy, including bio-energy, can easily access into the grid, i.e., entering into the reliable market.
- **The Price Adder Mechanism**; which provides an additional pricing incentive for renewable energy producers to produce and supply electricity to the grid. The adder are varied by energy technologies; such as 0.3 THB/kWh for biomass and 2.3 THB/kWh for electricity from community wastes.
- **Government Obligation for Renewable Standard**; which determine the share of bio-energy mixing in the conventional fuel consumption. For example, in 2008, Thai government started the requirement of B2 or mixing bio-diesel 2% in all diesel products sold in the economy. In 2022, Thai government aims to announce B10, or bio-diesel 10% for all bio-diesel consumption.
- **Tax Reduction**; which used to lower the price of gasohol (gasoline + bio-ethanol) compared to normal gasoline price, leading to an increasing of gasohol (thus bio-ethanol) demand.
- **Tax Exemption** for imported machinery and equipments for renewable energy development.
- **Investment Subsidy**; which used in promoting some certain projects, such as biogas, biomass gasification, and community waste projects. The investment subsidy will pass through energy conservation fund taxed from petrol consumption. The governmental sharing in an overall investment

varies by types of project (for example 45% sharing in cases of biogas).

- **Government and Local Government Support Project;** which pass through several governmental agencies to support small development projects; especially community-based bio-energy development projects.

THE OPPORTUNITY FOR SMEs AND SUCCESSFUL CASES

This increasing trend of bio-energy development in Thailand certainly provides an important opportunity for SMEs development in Thai energy sector. However, it is very important to note that some types of bio-development energy are not suitable for SMEs. For example, ethanol-processing plants require huge investment and, therefore, economy of scale. Presently, small ethanol-processing plant still faces the lack in appropriate technology in dehydrating to purify bio- ethanol. Very small power plant, such as 10 MW biomass power plants, still requires more than 400 million THB of investment. Obviously, there are some barriers to entry for bio-energy SMEs, especially investment burden and appropriate technology.

Fortunately, there are still a plenty of rooms for bio-energy SMEs, because several bio-energy technologies do not require economy of scale.

Biogas SMEs

The applications of biogas for SMEs can be in various forms; including for manures from livestock production, municipal solid waste, and organic wastes from agro-industry. All these applications can be done at small scale levels. Presently, there are around 50 bio-gas SMEs who sell electricity to grid. Some community-based biogas SMEs also succeed in promoting the use of biogas as an effective way to manage organic wastes. As shown in Figure 3, *Bo-hawe* community-based SMEs in *Lampang* province develop different types of small biogas reactors for turning organic wastes into biogas. The *Bo-hawe* municipality found this initiative is very useful and provide strong supports for the extension of biogas, leading to larger market opportunity for this biogas SMEs.



Figure 3. Biogas Innovation in *Bo-hawe* community-based SMEs, Thailand

Recently, Thai researchers and local SMEs in *Pattalung* province succeeded in turning wastewater from rubber sheet production, which normally cause local environmental problems due to its bad smell, into biogas, as seen in Figure 4. Certainly, this innovation can lead to new huge opportunity for bio-energy SMEs, especially for the Southern part of Thailand. The benefits of biogas applications can be both in forms of household consumption in cooking stove, power generation and power sold to the grid, and fertilizer. Moreover, several biogas SMEs in Thailand also succeeded in selling of biogas technology. The renewable energy master plan (2008-2022) with strong policy supports will provide larger opportunity for biogas SMEs, especially for municipal wastes.



Figure 4. Biogas Innovation from Rubber Sheet Wastewater in *Pattalung* Province, Thailand

Innovation in Charcoal Production SMEs

During the last four decades, the utilization rate of charcoal in Thailand has been dropped continuously due to the penetration of LPG cooking stove. However, after the energy price surge in the last five years and the expansion of Thai hot soup restaurants, the use of charcoal become more popular again. The innovations in charcoal production also play a key role in boosting charcoal production in the economy. The energy efficiency in charcoal production improve from around 10-20% to nearly 30%. Different types of efficient charcoal stoves allow charcoal makers to use small wood sticks as raw material. Therefore, it helps biomass SMEs much easier access to raw material. The introduction of wood vinegar uses for organic farming also brings a new market to biomass SMEs. In various cases, the revenue from wood vinegar selling is even higher than the revenues from charcoal.



Figure 5. The Introduction of Efficient Charcoal Stove in *Loei* Province, Thailand

Recently, Thai researcher, with the close collaboration of SMEs in mushroom production in *Nakorn Nayok* province, succeeded in applying charcoal production for steam production by using excess heat from the charcoal stove, shown in Figure 6. Instead of buying fuels from outside, through this process, the biomass SMEs can sell their charcoal, wood vinegar, and can get the steam for their mushroom production. This innovation can lead to the application of charcoal cooking stove for mushroom production and spa business.



Figure 6. The Biomass Innovation for SMEs in mushroom production in *Nakorn Nayok* province, Thailand

Biomass Gasifier SMEs

Apart from charcoal production, the dry biomass resources can be used in forms of gasification, or the combustion in low oxygen condition, which produced fuel gases and can be used for both heat and power. Although gasification technology is quite new and complicated, the applications of this technology are growing rapidly. Now, the biomass gasification can be used for 50-200 kW power generation, which enough for the whole village. Thai government has a clear plan to support more biomass gasification for power generation and for post-harvest drying of farm products, providing more opportunity for bio-energy SMEs.

Biomass gasification can also produce in forms of gasifier cooking stove. Recently, Thai researcher with community-based SMEs in *Petchaboon* province succeeded in producing gasifier cooking stove from rice husk, shown in Figure 7. The gasifier cooking stove is much more convenient than conventional biomass cooking stove and reduce the household expenditure for LPG sharply (around 2,000 THB/household/year). After this gasifier cooking stove introduction, community-based SMEs in some provinces also succeed in applying and expanding biomass gasifier cooking stove production into business scale. With the fact that Thailand has to import a huge amount of LPG, the opportunity for biomass gasifier cooking stove is certainly open.



Figure 7. The Development of Gasifier Cooking Stove in *Petchaboon* province, Thailand

Bio-diesel SMEs

Bio-diesel SMEs were among the first bio-energy in Thailand, since 1999. However, the oil price fluctuation and the lack of clear and appropriate bio-diesel standard create difficulties for small bio-diesel business. Fortunately, the recent government supports, such as bio-diesel standard and bio-diesel requirement can alleviate some problems, leading to more opportunity for bio-diesel development. At the same time, the continuous technology development in the recent years can improve the quality of bio-diesel from SMEs and more consumers' acceptance. The remaining difficulty is the maintaining of raw material procurement at reasonable cost, due to the competitive uses of used vegetable oil. Therefore, if raw material procurement can be secured, the success of bio-diesel SMEs can be more ensured. As seen in Figure 8, bio-diesel SMEs in *Songkhla* province can maintain the raw material procurement through community supports and, thus, succeed in maintaining bio-diesel business.



Figure 8. Bio-diesel SMEs in Songkhla Province, Thailand

KEY SUCCESS FACTORS

Obviously, the success of bio-energy SMEs in Thailand depends on various factors different levels. From the top view, **clear policy direction**, especially the National Master Plan for Renewable Energy, is very essential for establishing of necessary policy mechanisms and also for call for supports from related government and private agencies.

From the clear policy direction, the establishment of **effective policy mechanisms** has to be worked out and, later, appropriately implemented. In Thailand, pricing incentives, such as tax reduction or adders, is quite an effective mean to boost bio-energy development through higher and more stable returns.

Moreover, very small power producers or VSPP scheme and renewable requirements for bio-energy is also important policy measures for allowing bio-energy to access into energy markets. Since energy markets are normally monopoly or oligopoly markets, **access to energy market** is very essential for bio-energy development, especially for power and petrol market. The growth of organic farming and climate change concern also leads to the creation of new markets for bio-energy, such as wood vinegar from charcoal production.

Apart from the essential policy directions and mechanism, the supply-side factors are also important. As seen from various cases in Thailand, **the development and introduction of appropriate technologies for SMEs** is very crucial. The development of biogas and biomass techniques in these recent years has brought new opportunity and market. Therefore, it is very important to facilitate further development of bio-energy technologies and the exchange of knowledge and information.

Together with appropriate technologies, successful SMEs require **essential human resources**, especially the technical and engineering skills for each bio-energy implementation. Therefore, the development of human resources for bio-energy is highly recommended.

In addition, for bio-energy SMEs, **the logistics of raw materials** is very crucial. Although bio-energy's raw materials are plenty, the procurement of materials is not an easy job. Several bio-diesel SMEs cannot maintain their business, because they do not succeed in finding adequate amount of raw materials. Thus, bio-energy SMEs must pay serious attention in raw material management through the contract with suppliers and supports of farmers and communities.

The **attractive investment schemes** are also very important for the success of bio-energy SMEs, because all bio-energy SMEs' projects normally require an additional investment. With the limited financial resources, bio-energy SMEs require the short pay-back period, for example not longer than 5 years. Fortunately, from the recent experiences, the pay-back periods of investment in bio-energy SMEs' projects, as described in previous section, are normally less than 3 years, as shown in Table 6. Therefore, the bio-energy SMEs are quite attractive investment. The important points is to secure the source of fund for additional investment. Apart from government investment subsidy and supports, the support from commercial banks and other financial mechanism can be useful for SMEs development.

Table 6. Investment Returns from Some Selected Bio-energy SMEs projects, Thailand

Bio-energy	Investment Cost (THB)	Annual Return (THB/year)	Pay-back period (year)
Biogas			
From rubber sheet wastewater	15,000	3,600	3.0
From organic waste	5,000	2,000	2.5
Charcoal stove with wood vinegar	10,000	10,000	1.0
Charcoal stove with steam-making	15,000	7,200	2.2
Rice husk biomass gasifier	4,000	2,000	2.0

Source: Decharut Sukkumnoed, 2009.

Last but not least, **the community support** is also very helpful in development of bio-energy SMEs. In some cases, for example bio-diesel or biogas SMEs, community supports can lead to more secure raw material procurement, such as used oil and organic wastes. Community supports can also be useful for market expansions through the acceptance of bio-energy products and by products, for example, biogas or wood vinegar. In some cases, the community supports can even lead to the co-investment both in forms of collective investment by community members and investment supports from local administrative organizations.

CONCLUSION AND RECOMMENDATIONS

The oil price surge and climate change brings a new opportunity for bio-energy development. SMEs also take this opportunity by learning in new technologies and

operating new businesses. With strong government policy direction and mechanisms, the opportunity for bio-energy SMEs has been expanded and more ensured. The growth of bio-energy SMEs do not only bring economic opportunity for rural communities, but also solve several environmental problems, including managing organic wastes and reducing greenhouse gas emission. All these factors lead to an impressive growth of bio-energy SMEs in these recent years.

To maintain the momentum of bio-energy SMEs, Thai government needs to **provide more supports further appropriate technology development and learning process for human resource improvement**, which are the two key factors for recent growth. At the same time, Thai government and private sectors can **help bio-energy SMEs in finding new investment opportunities**, which is still one of main limitations for bio-energy SMEs development within the economy. Moreover, concern over raw materials' logistic constraints must be addressed systematically. **The concept of holistic supply chain management for bio-energy** should be introduced and implemented at both national and local levels. Last, **community supports must be strengthened through several active participation means** to ensure that bio-energy development will yield the positive results for community, including poverty alleviation, in both short-term and long-term.

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ENHANCING THE ROLE OF WOMEN IN SMALL AND MEDIUM ENTERPRISES TO ERADICATE POVERTY AND HUNGER IN INDONESIA

Sri Danti Anwar¹

INTRODUCTION

Indonesia lies between Asia and Australia and is bounded by the South China Sea and the Pacific Ocean in the north and east as well as the Indian Ocean in the south and west. Indonesia consists of more than 17 thousand islands, multi-ethnic communities, 33 provinces, population of around 230 million in which women comprise almost half of the total of the population. Each province consists of districts and municipalities. The net lower administrative units are sub-district and village. In 2009 there were around 499 districts consisted of 72 thousand villages. With the implementation of Regional Autonomy Law Number 32/2004, there will be more provinces, districts and sub-districts in the future.

The global financial crisis started in 2008 and the resulting economic crisis has an extensive and severe impact on all countries of the world. Compared to the Asian economic crisis in 1997, this financial crisis broke out more violently and spread more quickly. No country, including Asia and the Pacific countries, especially those developing countries which are still in the process of improving their macroeconomic policies, can effectively control and stay immune to the cross-border spillover effects of the financial crisis. Women, on one hand, are the earliest and largest victims and are the most vulnerable group in the financial crisis. On the other hand, women have proven to be the buffer and backbone of the family during the 1997 crisis and to date through their creative, innovative, activities in small and medium enterprises that will help their families' welfare in particular and communities in general.

The past crisis has given important and fruitful lessons learnt to the government of Indonesia as well as the Indonesian people to reform and to make significant changes in the political, economic and social systems. With regard to the economic systems, the present government under President Susilo Bambang Yudhoyono has important changes. Some of the measures that have been taken to stabilize our economy through the government's macro and micro economic policies among others are:

- (1) Revising fiscal policy and providing stimulus packages for among other sectors of agriculture, *small and medium enterprises* and *cooperatives*, infrastructure, transportation, labor force and social affairs;

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- (2) Revising fiscal policy and providing stimulus packages for among other sectors of agriculture, *small and medium enterprises* and *cooperatives*, infrastructure, transportation, labor force and social affairs;
- (3) Mobilizing revenues by further strengthening tax administration, especially aiming at the rich and the richest;
- (4) Revising monetary policy (reduction of the rate of the Central Bank in order to cut down the interest rates of banking institutions in the economy);
- (5) Promoting negotiation with government of receiving countries of Indonesian workers;
- (6) Revising investment policy, providing incentive to manufacture industry, reducing fuel price and promoting direct assistance, promoting tripartite cooperation amongst government, labor force and private sectors as well as retraining of retrenched workers; and
- (7) Providing poverty alleviation programs which can be categorized into three clusters: (a) social safety nets and social protection programs for meeting the basic needs of the poor namely; rice for the poor program; community health insurance program; scholarship for poor students/boys and girls; cash transfer direct to the poor (including women headed households); and funding support for pregnant women and children aged 7 – 18 to continue their education under Prosperous Family program; (b) Community empowerment programs are carried out through National Community Empowerment programs where each village targeted at the program can designate their own programs in accordance to their needs, for example for village business development, development of agricultural agribusiness, increase the welfare of families living in the coastal areas as well as for business development services; and (c) programs to strengthen micro and small enterprises.

GENDER ISSUES IN SMALL AND MEDIUM ENTERPRISES

The government has given a wider access to the participation of the people in developing the economy through the creation of micro, small and medium sized enterprises to create employment and alleviate poverty. The year 2008 has been marked by the President as the year of Creative Indonesia among others through the development of micro, small and medium sized enterprises. Women noted to have played key role in maintaining the family's welfare through their involvement in micro, small and medium-sized enterprises. They are a backbone of their families in time of crisis and economic hardship where a lot of men have been laid off. Small, Medium and Enterprises (SMEs) contribute 52.67 percent to the total GDP of Indonesia and absorb 94.42 percent of the entire labor force, hence SMEs has an important role as the foundation of national economy and job creation at the local level, reducing poverty and improving the welfare of the people. Given the important role of SMEs in supporting

economic growth, APEC has established Small and Medium Enterprises Working Group (SMEWG) providing the foundation for other APEC fora to incorporate SME considerations into their mandates and activities.

In Indonesia, the total number of SMEs is around 51.26 million units or 99.66 percent of the overall business which consists of micro enterprises covering 50.70 million units (98.58%), small enterprises around 520.22 thousand units (1.01%) and medium enterprises around 39.66 thousand units (0.08%). According to the data from the National Statistics Agency (NSA), from 2 million units of micro-sized enterprises, 40.79 percent of which was managed by women, whilst men was 59.21 percent (NSA, 2008). Similarly, from the total number of employees in the small-sized enterprises and home industries which is 5.3 million workers, women consist of 44.45 percent of the workers. Data from Indonesian Women Business Association or *IWAPI* in 2006 illustrated that from 16 thousand members, around 85 percent of them concentrated in small -sized enterprises, 12 percent in medium-sized enterprises and only 3 percent in large scale enterprise. There are around 3500 women cooperatives which was 30 percent of the total number of cooperatives in Indonesia.

The small, medium-sized enterprises contribute to creating the employment opportunities of the people. There was around 1.98 percent of growth rate annually extracted from small-sized enterprises, whilst from the medium-sized enterprise it contributes 2.26 percent to the annual growth rate. Furthermore, the small and medium-sized enterprises have been accounted also for the increased of the national added value in billion rupiahs. During the past three years (2005-2008), the small and medium-sized enterprises have contributed around 55,56 percent or around Rp.2.6 billion (US \$ around 2600 million) of the gross domestic income and in the national economic growth (3.16% in 2008), in non-export revenue (19.16% in 2008) and in the growth of gross domestic product (2.84%).

Nonetheless, women still face discrimination, structural and cultural barriers in developing small and medium-sized enterprises. Some of gender issues constraining the development of women's productivity in this area among others are: (a) the business tends to be micro and some small in terms of labor, capital and income; (b) most of the women are not owners but mostly workers in these enterprises with low skills and education which give adverse impact to their income and welfare; (c) carry double or multiple burden being responsible at home and work at the same time resulting in long hours of work of women; (d) lack of access to property such as land, house etc that is needed for collateral, lack of capital and economic resources, lack of access to banking institutions, technology, production development, including product variations, packaging, business control and management, marketing. However, women are also renown as being on time in loans repayment, diligent, hard workers, persistent, patient, and persevere in developing their business so that the business will more develop and sustain in the long run.

This situation and condition of women is attributed to the persistent gender gaps in all areas of development. In **education** for example, although the percentage is reduced each year, illiteracy rate of women within the age group of 15 – 44 years is doubled to that of the men. The number of women in **decision making positions** at the

executive level is still below 11 percent, similarly at the legislative level their participation is still below 20 percent, despite of the affirmative action stipulated in Law Number 10 /2008 on General Election allocating 30 percent of women to become members of the parliament.

Gender inequality will hinder economic growth and development, exacerbate the condition of women and their family, increased poverty and impact on their quality of life in particular and the quality of Indonesia's human resources in general. The 2009 UNDP report illustrated that the ranking of Indonesia in the Human development Index has dropped from 107 out of 177 countries in 2008 to ranked 111 out of 182 countries. Indonesia's rank was below Singapore (ranked 23), Malaysia (ranked 66). Thailand (ranked 82), Philippines (ranked 105). HDI is an indicator to identify the influence of economic policy on the quality of life of human measured in areas of education, health and economy. One of the influential factors that placed Indonesia in that position was the factor of migration, among others the lack of protection of the government to migrant workers both domestic and abroad.

In order to improve the Human Development Index, women, being half of the total population of Indonesia should be empowered and be given equal access, benefit, participation and decision making in particular in areas of education, health and **economy** i.e. small and medium enterprises. Their empowerment in small and medium-sized enterprises should be realized in order to improve the quality of life of women, of the family and society as well as to achieve sustainable development. The efforts to enhance women's role in small and medium-sized enterprises will eventually increase their self-confidence, help to improve women's access to resources, education and training and alleviate poverty.

POLICIES AND PROGRAMS

Women Empowerment and Gender Equality Policy and Strategy

The Government of Indonesia's policy is to ensure that all the people, men and women, should benefit equally from development, equal access to resources, control and participation in development as to increase their quality of life in all aspects. Men's rights and women's rights should be promoted, protected and fulfilled as guaranteed and stipulated in the national Constitution and other regulations concerning the protection and promotion of human rights and develop a economy which is democratic, transparent and just society. The strategy to achieve this is through the implementation of Presidential Instruction number 9 of 2000 on Gender Mainstreaming in National Development. The Presidential Instruction has instructed all ministers, heads of non-portfolio government agencies, Chief of Police, Chief of the Armed Forces, Supreme Court, Governors and Regents all over Indonesia to integrate gender perspectives in its respective policies, programs and activities from the planning to monitoring stage.

The National Development Programs (2000-2004), Mid-Term National Development Plan (2004 – 2009), Government Working Plan has integrated the gender

mainstreaming as one of the strategies which should be operated and mainstreamed in all government agency's policies, programs and activities. The integration of gender perspective in the national development plan has been carried out in development sectors and the number of the sector has increased from 12 in 2007 to 18 in 2008 and 2009 namely in sectors of justice, labor, education, agriculture, cooperatives and small-medium sized enterprises, social welfare, family planning, health and environment, public works, forestry and marine and coastal areas, energy and natural resources, and transportation and information and communication. The implementation of gender mainstreaming requires pre-condition from the need of commitment from decision makers, gender responsive policies, gender sensitive planners, programs and human resources, availability of institutional mechanism which can carry out gender mainstreaming strategy, tool to conduct gender analysis to the full participation of community.

Gender mainstreaming in Indonesia is concretized through planning and budgeting with gender perspective. To date, the Ministry of Finance has issued a ministerial decree on the implementation of gender responsive budget in government agencies' programs and budget starting in 2010 and as the Ministry of Finance has chosen seven line ministries namely Ministry of National Education, Ministry of Health, Ministry of Agriculture, Ministry of Public Works, Ministry of National Development Planning, Ministry of Finance and Ministry of Women Empowerment as pilots to implement gender responsive budget next year. This will be continued to other government agencies until 2014. At the sub-national level, The Minister of Home Affairs has passed Ministerial Decree Number 15 of 2008 on Manual for the Implementation of Gender Mainstreaming in the Regions. Each governor, regents and mayors should have budget and programs to close gender disparities between men and women in all areas of development incorporated in their respective provincial action plans. Each government agency should appoint a gender focal point and working groups to carry out the gender mainstreaming strategy starting from the planning, budgeting, implementing, monitoring and evaluation of their respective policies, programs and activities.

Apart from gender mainstreaming policy, the Government of Indonesia has an affirmative action policy in order to realize de facto gender equality through policy on increasing the women's quality of life in particular in education, health, economy, socio-culture and politics. In line with the enhancement of the role of women in small and medium-sized enterprises, the State Ministry for Women Empowerment has formulated policies on the Increase of the Productivity of Women in Economy or *PPEP*. The policy aims to synergize all the existing potentials, the governments, non-governmental organizations, universities, banking institutions and society at large to endeavor and to increase the productivity of women in the economy. Through the synergy, it is expected all the problems raised would be solved and taken care of accordingly. The **policies** taken to increase the productivity of women in the economy are as follows :

The Increase of the Productivity of Women as Actors of People Economy Empowerment Program Sector

The approach used in the policy is the creation of Productive Women Group. The above policy is carried out through the following measures:

- (1) Ensuring that the economic empowerment of women policy is integrated in the regional development plan and implementations;
- (2) Creating conducive environment for women to play active role in economic development through gender sensitivity orientation and trainings;
- (3) Increasing the capacity of women as human capital and resources, change of mindset of the people to be more gender sensitive, work ethics etc through education and trainings etc
- (4) Empowering women in economic activity (business management, access to information, market, technology, access to resources and capital) etc;
- (5) Empowering women in utilizing and accessing resources.

Women Productivity Increase through SMEs Development by NGOs and Community

The measures taken are:

- (1) Developing economic empowerment of the people's information system in order to facilitate the development of the economic empowerment of women;
- (2) Developing an integrated coordination and collaboration system at the national level, between government and non-government agencies;
- (3) Developing integrated monitoring and evaluation system; and
- (4) Developing incentive or reward programs for those who have succeeded in increasing the productivity of women in the economy.

The Development Model to Increase Women's Economic Productivity through Partnership with Government agencies, Private sectors and the Community

The measures taken are as follows:

- (1) Increasing the access to all components and society layers to develop models to improve the women productivity in various areas such as agriculture, coastal, forestry, industry, urban, tourist, rural areas and conflict areas;
- (2) Ensuring that the model developed aims at technical assistance model and micro finance institution model;
- (3) Ensuring that the model developed would additional value and generate higher income, competitiveness and independency of the women.

The Development of Prima Village Model or Model of Advanced and Independent Women (Model Desa Prima)

Networking on the Increase of the quality of women's life has been established in 33 provinces and in the community was undertaken through the establishment of village model for the increase of the economic productivity of women in the villages or Desa Prima. The model is created to involve the whole participation of whole village community members to increase the quality of life of the women as well as to combat poverty. The approach used was to involve the better off-families to support the poor families, in particular to reduce the burden of the poor family in having to spend their income on health and education. The development of the Desa Prima is solely the responsibility of the community itself. To date These models have been replicated and implemented in 32 provinces, 108 districts, 127 sub-districts, 141 villages.

Whilst the **strategies** used are: (1) strengthening, facilitate and bridge related sectors, NGOs, community organizations and universities in empowering women in the economy at national and sub-national level; (2) increasing the knowledge, attitude and independency in managing the implementation of women empowerment in socio-economy; (3) increasing and expand partnership and networking.

To assist the women's economic group financially, the State Ministry for Women Empowerment has several concrete steps that have been taken among others are the signing of Memorandum of Understanding between the State Minister for Women Empowerment with several important institutions to assist the access of women in economic resources and trainings i.e. with the Governor of the Central Bank of Indonesia with Chairperson of Indonesian Business Women Association, with Director Mandiri Foundation and Chairperson of Indonesia Cooperatives Council to assist women entrepreneurs in developing products, financing and marketing.

In order to mainstream gender in small-medium enterprises and cooperatives, the Ministry of Cooperative, Small and Medium Enterprises has carried out the following policies and programs: Development of Small and Medium sized Enterprises Policy.

In the 2005 – 2009 Mid-Term National Development Plan, the State Ministry for Development of Cooperatives, Small and Medium sized Enterprises has formulated its policy which is to increase the quality of the institution and cooperatives activities, agriculture cooperatives revitalization and the development of the small and medium-sized enterprises focusing on the increase of the productivity, additional values and competitive advantage; and increased coordination and synergy amongst actors.

There are five priority program areas formulated to implement the above policy, namely programs to: (1) create conducive environment for development of cooperatives, micro, small and medium sized enterprises; (2) develop supporting system; (3) develop entrepreneurship and competitive advantage; (4) develop micro sized enterprises and; (5) increase the quality of cooperatives institutions

Whilst the main objectives are: (1) to create conducive environment for development of 70 thousand cooperatives units and 6 million new cooperatives; (2) to create conducive environment to cooperatives development at all levels of

administration; (3) to increase the productivity, competitiveness and independency of the cooperatives, small and medium sized enterprises at the national and regional/international levels; (4) to create synergy and participation of the community and private sectors in empowering the cooperatives, small and medium-sized enterprises; and (5) to provide quality, fast, accurate, transparent and accountable public services.

Some concrete actions taken in 2008-2009 were: (a) credit provision and seed capital to almost 2000 units of small, medium and cooperatives in 2008; (b) business services to 3 500 units of small and medium enterprises/trainings of Business Development Services; (c) Financial support to 125 units of cooperatives to avail production facilities; (d) Training of motivators, management of small and medium enterprises to 1000 units of cooperatives; (e) Technical assistance of micro finance institutions for 2000 cooperatives; and (f) Assist and develop production centers in remote areas.

Other supporting facilities provided especially in rural development are to develop the local economy are: (a) Institutional strengthening of Village Finance Institutions, Saving and Loans activities; (b) Institutional strengthening of Village Credit Agencies, Sub-District Enterprises Agencies; (c) Institutional strengthening of village economy through Independent Local Institutions; (d) Program on Agriculture and Agribusiness Development; (e) Coastal Community Empowerment program; and (f) Cash transfer for small medium enterprises and fish culture and product.

MEASURES TAKEN

In order to solve problems related to structural and cultural barriers, which women face in SMEs development as illustrated above, the related government agencies and women organizations as well as private agencies have undertaken the following activities:

1. Collected national data on small and medium-sized enterprises sectors managed by women;
2. Reviewed labor and social legislation to determine whether such legislation have met the needs of women involve in small and medium-sized enterprises; gender equality and social protection;
3. Increased access of women entrepreneurs to capital markets, credit and loan guarantees through joint agreements or MoUs with related institutions;
4. Increased access of women entrepreneurs to obtain advice in finance, credit and debt management, market research and marketing assistance through the Business Development Services and *KKMB* or Finance Consultant Banking Partner;
5. Carried out assistance in product designs, development, presentation and packaging services through networking with Indonesian Business Women Association, Ministry of Industry and Ministry of Trade;

6. Incorporated gender sensitization programs for related parties in particular government and banking policies;
7. Implemented capacity building through education and training.

RESULTS

Based on the above policies and programs and measures taken, the results achieved are as follows :

Gender mainstreaming institutions:

1. With regard to the institution on women empowerment and gender equality, there were already 33 women's agency at the provincial levels and 230 units of women empowerment at the district levels;
2. There were 29 Gender Mainstreaming Working Groups and 61 sectors at the national level;
3. There were 39 Gender Focal Points at the national; and
4. There were 159 Working Groups and 304 Gender Focal Points at 440 districts/cities.

Women's role in SMEs:

1. Conducive environment to develop women's role in SMES such as conducive administration bureaucracy for licensing etc. has been reformed; and expansion of and SMEs fund in particular for credit schemes and networking amongst micro financing institutions, banks and non-banking institutions has been strengthened;
2. Increased knowledge and skills as well as capacities of women entrepreneurs in managing the SMEs, producing, packaging, marketing and negotiating/ lobbies;
3. Provision of technical assistance by related government agencies and private companies to women in SMEs;
4. Increased number of women entrepreneurs who owned the enterprises;
5. Increased awareness of the women business association and cooperatives in voicing their rights;
6. Increased access of women entrepreneurs to credit schemes and bank loans, technology, education and training, national and regional/international exhibition, domestic and international marketing;
7. More integrated and coordinated policies and programs of related agencies in increasing the role of women in the economy;
8. Increased number of women economic groups developed in several provinces in Indonesia to promote family welfare, empower and self-empower the women as

well as to create employment and combat poverty (*Model Desa Prima* or Prima Village Model);

9. Mapping of the women's role in SMES, facilitate members, NGOs, the government to network, coordinate and provide technical assistance and finance;
10. With the tax reform, everyone is entitled to have a tax number. The tax number is needed to acquire licensing, bank loan etc.

BEST PRACTICES IN PROMOTING WOMEN'S ROLE IN ECONOMY

The implementation of Law Number 32/2004 on Regional Autonomy has given both opportunities and challenges to the regional government to enhance their economic, social and political development. The development of small and medium-sized enterprises have been flourished and involved the community at large, in particular of the women. The women are shrewd and tough entrepreneurs, prudent with capital yet warm and familiar with their employees. Some of the best practices in enhancing the role of women in economy and small and medium enterprises are as follows :

Example of Success stories in managing small and medium sized enterprises by women entrepreneurs:

- (1) *AMBUN SURI* EMBROIDERY IN BUKIT TINGGI WEST SUMATERA (Small-sized enterprise)

Ambun Suri embroidery business is an example of a small sized enterprise. This was founded in 1975 by a woman entrepreneur named Mrs. Anismar. At first she could only afford to hire 2 – 3 helpers to do the job, but now the employees have grown to 38 persons. Mrs. Anismar is one of prominent cooperatives figure in West Sumatera. She admitted that one of the constraints in managing the business was capital and access to banking. Many small sized entrepreneurs have this problem since most of the members of the cooperatives were not able to provide collateral for the bank guarantee. As member of cooperatives, Mrs. Anismar could obtain the capital or credit from the bank and her collateral was the managers of the cooperatives. The successes of the business amongst others were maintenance of product quality and the commitment to fulfill order. Other success factor was the love and passion for her job. To expand the networking, she was also active in organizations concerned with small and was medium sized enterprises and cooperatives and was active in mentoring other women entrepreneurs.

- (2) L & D Surya LAMP CV (medium-sized enterprise)

Starting from hobby and attractiveness to handicraft, Mrs. Lise Diana started her business with her own savings in 1997. Assisted by 15 employees, they produce artistic lamps and lampions, which 60 percent of the raw material was imported. At

first, the business was only for local use, but now it was already spread out all over Indonesia and even exported abroad since 2003. The successes factors among others its uniqueness, product quality, highly artistic, and affordable. At present with the help from her 30 employees, she can produce 3000 products every month. To increase the skills and knowledge of her employees, she regularly trained them. To promote the product, Mrs.Diana often joins exhibition both national and international levels. The key to her success apart from above was also perseverance, pious, hard work, promotion and marketing as well as skills development for her employees to be able to work more innovatively and creatively.

Examples of programs to empower women in the economy

- (1) Program to Increase the Role of Women towards the Creation of Healthy and Prosperous Family:

The program was firstly initiated in 1979 by the State Ministry for Women Empowerment with the main focus to family who have not yet met their basic needs whilst utilizing the local potentials and resources. Women were the motor of the program and the approach used was multi-agencies and sectors.

- (2) Program to Empower Women in the Development of the Local Economy

The program was initiated in 2000 by the State Ministry for Women Empowerment. The program aims to offer choices to the local community in enhancing the role of women in economy by utilizing the local potentials and resources. Through this program, groups of women in economy have been developed and expanded, the seed capitals have been used productively and the income and welfare of the family have increased.

- (3) Other best practices carried out by related agencies, NGOs and community. By government agencies among others: *UPPKS* or Efforts to Increase the Income of the Family (initiated by Family Planning Coordinating Board) which provides credit facilities to poor households through Family Savings or *Takesra*, *Kukesra*, *Kredit Penerapan Teknologi Tepat Guna dalam Rangka Pengentasan Kemiskinan*.

Initiated by Ministry of Social Affairs – A Program for Family Social Welfare through the Creation of Joint Activities or *KUBE* and Economic Productive Activities or *UEP* through provision of tools/equipments and seed capital to poor families has been implemented.

Initiated by Ministry for Marine and Fishery, there was a Program for Empowerment of the Economy of the Coastal Community, in particular of women's, through education, health, economy and environment management.

Initiated by Family Empowerment for Welfare or *PKK*, a movement consisted of men and women at the grass root level to increase the quality and status of the family and women through provision of nutritious food to babies and under five, health examination to pregnant mothers, assistance to poor families for education and income generating activities has been carried out. Accordingly, *PKK* has

developed Program to Increase the Income of the Family or *UP2K*. This is an effort to increase the income of the family through the creation of small and medium sized enterprises focusing on the daily needs of the community. The funding was supported by government agency, donor agency, cooperatives, banking institutions and non-banking institutions.

The approach used by the PKK to monitor the community was through the *Dasa Wisma* approach; where a group of 10-20 families was monitored and managed.

(4) Indonesian Business Women Association or *IWAPI*

The association of women entrepreneurs have several concrete programs to enhance the capacity of women in small and medium- sized enterprises. Some of the programs and activities were:

Trade and Industry Programs: (i) Training on Brand and Business Management for members; (ii) Trade Exhibition to widen the market; (iii).

International Cooperation Programs: International trade exhibition: (i) Attending international meetings in several countries on small and medium-sized enterprises (i.e WLN-APEC meetings in Korea, SMEs ASUAN Conference in Kuala Lumpur); (ii) Collaboration with European Commission, IWAPI as exporter to EU countries; (iii) Joint exhibition with Malaysia (NAWEM) on SMEs products of both countries; and (iv) Capacity buildings for members in cooperation with international agencies such as IFC, the Asia Foundation, PEP Project, USAID, SIDA and EU

Education, Research and Development Programs: (i) Trainings on SMEs for public (private agencies, banks, government agencies etc.); (ii) Life Skills training for the poor; (iii) Dissemination of Information on research findings on Women Entrepreneurs in Development; (iv) Leadership trainings; (v) Trainings on Marketing and Business Management; (vi) Mentoring; and (vii) Workshop with banking; and (viii) Technical assistant for leather craft, woodcraft and ceramic.

PROPOSED REGIONAL COOPERATION TO ENHANCE PARTNERSHIP

The proposed regional cooperation to enhance partnership in economic empowerment of women were as the following:

- (1) Create Data Base on women's role in SMES (how many women managed, owned and work in SMEs, the scale of the business, government policies to empower women in SMEs etc.)
- (2) Exchange of training materials, training methodologies and reference materials on promoting women's role in SMES
- (3) Compile of research findings and other quantitative and qualitative data, disaggregated by gender and age, on small and medium-sized enterprises and their development;

- (4) Conduct systematic research in a variety of contexts and countries into key success factors for promoting small and medium-sized enterprises which are both efficient and capable of creating jobs providing good working conditions and adequate social protection.

CONCLUDING REMARKS

The economic empowerment of women will give impact to the improvement family's welfare and economic status. This also will eventually improve the quality of their life and their bargaining position in society towards the achievement of gender equality. Coordination, cooperation and synergy of all actors in the area of small and medium-sized enterprises is the key to the enhancement of the role of women in this area. The key successes of the effort was continuing to increase of the skills, knowledge, work ethics supported by the availability of their access to capital, technology, information and market. However, the more important was the creation of a more gender sensitive society and responsive government and banking policies. Gender mainstreaming strategy to be used not only for government development plan but also for NGOs and private sectors in order to obtain a more just and equal participation of women, in this case women in the economy towards the achievement of gender equality.

SMES IN CHILE: ITS ROLE ON POOR POWER EMPOWERMENT

Loren Vásquez¹

INTRODUCTION

Chile has seen outstanding growth and stability during the past two decades. Today's challenge is to continue the forward movement so that Chile can reach greater levels of technological sophistication and development to contribute to the economy's consolidation of its ICT, mining, aquaculture, forestry, and food industries.

Chile has a strong natural resource-based export economy (Central Bank of Chile, 2009): UD\$ 183 billions GDP (2008); 16,8 millions population; US\$ 64,6 billion exports : 53% copper, 18,2% food Industry, 6,6% wood, pulp and paper.

SMEs DEVELOPMENT POLICY

In Chile, the Ministry of Economic Affairs (MINECON), have the responsibility to design, monitoring and evaluate the implementation of public policies to promote micro, small and medium enterprises (SMEs) competitiveness and the entrepreneurship.

The SMEs development policy includes the support of a institutional network with several public institutions, like: (a) CORFO, the Chilean Development Agency; (b) SERCOTEC, to support micro and small enterprises competitiveness and to strengthening their management capacities; (c) INDAP, a service of the Ministry of Agriculture to support small farmers and their organizations; (d) SENCE, the national Service for Training and Employment, to contribute to the increase national productivity by promoting occupational training for entrepreneurs and their workers, in a continuous way.

Innovation and entrepreneur policies are a central task to government actions, with a special focus on small business and on regions, for decentralization purposes. Human resources qualification, technology application and its dissemination, support to entrepreneurship are critical to SMEs development. A favorable business environment is an important factor. A change in legislation, norms and regulations has facilitated the small business start-up, its development and closing, when the economic viability it is not possible. Recently the Government proposes to the Congress a new legislation with special norms to regulate small business, based on recognizing their special nature and to equalize conditions for its performance considering competitiveness and market access. Administrative simplification for formalization and its performance help them a lot.

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Other areas to take care are the SMEs improvement of factors such as: (a) Creation of an innovation and entrepreneur culture; (b) Stimulate science and technology; (c) Access to international networks of information and business opportunities; (d) Facilitate market access (case of fiscal procurement); (e) Support the access to financial services (credit access; seed capital).

Coordination and public-private dialogue at national, regional and local levels are fundamental for the SMEs policies and strategies success. Better and timely information on SMEs quantification and characteristics are key to a successful design and execution of public policies, programs and projects. Adoption of an intensive use of ICT such as digital literacy education and E-Commerce.

Defense of competition trough policies to stimulate market efficiency and to support the Office of the National Economic Prosecutor. It includes consumer protection using public information, education and protecting their rights and market transparency.

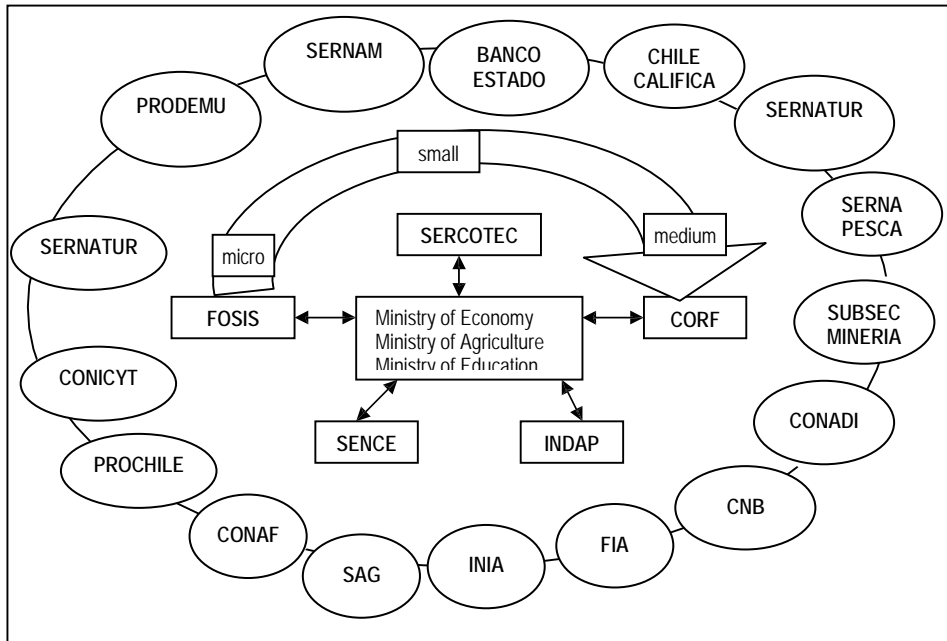


Figure 1. Economic Promotion Network in Chile

Stimulate associability, supporting SMEs associative projects, clusters participation, supplier development, among other programs. In all of this matters SME public supporting network are working to generate policies, strategies and programs to improve the present situations, getting in each of them relevant advances with the active participation of small enterprises private organizations.

SMEs IN CHILE

SMEs are defined according to the number of employees: micro(less than 10 employees), small (10-49 employees) and medium (50-199 employees).

The world of SMEs account for 99% of the total number of enterprises in Chile. In geographical term 48% is concentrated in the Metropolitan Region of Santiago, followed by the region of Concepcion 12% and Valparaíso with 9%.

The following sectors concentrate a high proportion of SMEs: small retail, manufactured, services, food industry.

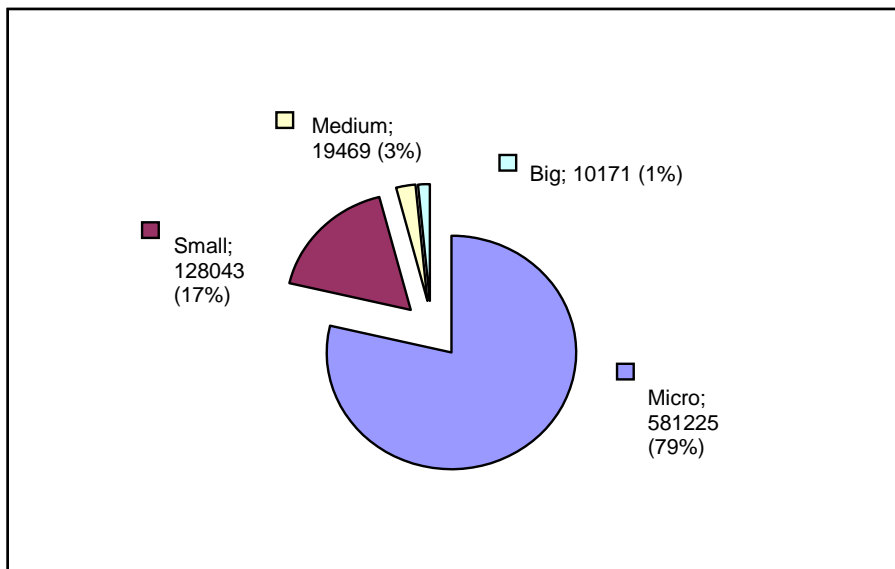


Figure 2. Number and Percentage of Firm by Size in Chile, 2007 (SME Division, Minecon, 2009)

SMEs represent a highest percentage of businesses in Chile and offer a considerable amount of jobs (about 50%). Nonetheless, these businesses do not generate an equivalent share of profits. SMEs contribute with 14% to Gross Domestic Product.

Small and medium enterprises in Chile generates much employment and is therefore key to income and the economic well-being of many Chileans, and play an important role on poverty alleviation. The other area of importance of the SME in Chile, is that it becomes the starting point for many new entrepreneurs, with all the impact that this means for the development of the economy.

GOVERNMENT INSTITUTION IN RELATION TO SME

a. CORFO

The Chilean Economic Development Agency, CORFO, established in 1939, is the state organization in charge of promoting economic development. Throughout its fruitful history, CORFO has played a leading role in the economy's economic development. Its pioneering spirit is alive and today it supports entrepreneurs, businesspeople and innovators needing access to new technology and to technical and financial assistance in order to succeed in world markets. According to presidential terms and according to the current Government, the CORFO management program has two priorities i.e. Small and medium-sized businesses; and Innovation.

CORFO has four business areas (Divisions) with the following description:

1. Innovation, including R&D, entrepreneurship and technological transference.

CORFO, through Innova Chile, is the principal public agency in charge of promoting the innovation in all types of companies, both consolidated as new (Enterprise). It also has important lines of support addressed to research centers.

2. Investment, including promotion of foreign investments

The Executive Board of Investment and Development of CORFO, aims to help and locate investment projects in Chile: private, national and foreign, in sectors of high potential and impact. There are at least from sector of priority i.e.: (a) Productive Clusters in associated with natural resources; (b) Global Services (Off shoring); (c) Non conventional renewable energies; (d) Sectors and prioritized regional productive chains

3. Productive Development,

Including quality, productivity, and cluster development. In this field of action, CORFO also helps small companies to strengthen the management of entrepreneurs through the development of skills and capabilities, and co-financing of the investment, allowing them access to new business opportunities.

In turn, CORFO supports the coordination and joint projects linked to the business development, aimed at improving the competitiveness of a territory or geographic area determined by their main economic activities or more projection. According to its mission, CORFO promotes the integration of production chains of suppliers to improve and stabilize the commercial links with its clients; and also supports the preparation and development of associative projects, so that the participating companies can share projects information about markets, acquire the size needed to take advantage of the scale of the economies, to achieve greater flexibility and adaptability and access to critical competitive resources in global markets.

4. Financial Assistance or Financial Intermediation Division

Our division develops and runs programs to facilitate the access of companies to funding for productive activities by means of innovative initiatives that help working out financial market flaws, increase competitiveness, and create the conditions for business development and growth. CORFO operates through banks and other non-bank

financial institutions providing resources and security for the funding of productive activities by private companies and individuals.

CORFO delivered their resources by means of various instruments, grouped into two main categories: credits and subsidies.

- **Credits.** The financial system private banking and non banking, delivered 66% companies and 34% students pre and post grade, and served 99% of SMEs.
- **Subsidies.** Approximately 67% companies directly and the rest in groups of beneficiaries benefited by this kind of government policy support. Companies that benefited: are 97 % SMEs.

b. SERCOTEC

SERCOTEC offers a wide range of services to the development needs, financing and use of Information Technology (ICT), both micro and small entrepreneurs, with the goal of increasing its competitiveness and to facilitate their access to markets.

As actors in public and private sector of each territory, CHILEMPRENDE seeks to facilitate and promote the development of business for micro and small enterprises in the predefined territories in all regions of the economy. CHILEMPRENDE includes three key aspirations of a democratic society: more opportunities, more jobs, and more participation. In each territory CHILEMPRENDE offers advice for public and private enterprises which are grouped to business activities and the main public actors in the region: Eight ministries and the following public services: SERCOTEC, CORFO, FOSIS, SENCE, and INDAP.

c. PROCHILE

PROCHILE is an agency that manages the promotion of exports and belongs to the Ministry of Foreign Affairs of Chile. PROCHILE develops trade policy projects of the economy. The work of PROCHILE is based on four fundamental concepts: support to small and medium-sized enterprises in its process of internationalization; advancing of the opportunities that generate the trade agreements the economy; the public-private association and the positioning of the image of Chile in other markets.

PROCHILE has a network of offices in all the regions of Chile and in major markets worldwide. PROCHILE has developed a series of services available to the exporter in three specific areas: orientation, actions on the trade promotion and information technologies.

PROCHILE gives for SMEs: (a) Access to information relating to markets, regulations and technical norms; (b) Training in matters related to foreign trade; (c) Accessibility to global networks.

d. PYMEXPORTA

The PYMEXPORTA program is a new development tool for exporting SMEs (Pymex) that offers co-funding for consultancies, designed to overcome barriers, improve marketing channels and align exportable supply in the markets of high standards with free trade agreement. Pymexporta is an initiative jointly developed by PROCHILE and the Chamber of Commerce of Santiago, who have signed with the Inter-American Bank of Development. Pymexporta is a technical support cooperation for small and medium export enterprises. PYMEX is in the process of inserting free trade agreements which the Government of Chile has signed into the global market.

The Pymexporta program delivers co-financed assistance by up to 80 % to PYMEX, for the recruitment of specialists, both national and international, who can advise them and enable them to overcome the obstacles identified in three lines of program assistance. The respective program are: assistance to overcome custom duties and non-tariff barriers, improvement of export offers, and development of appropriate logistics channels, distribution and marketing.

e. SENCE

The national Service for Training and Employment, to contribute to the increase national productivity by promoting occupational training for entrepreneurs and their workers, in a continuous way. The following are its main programmes.

(i) SME- FONCAP Programme: Subsidy to the SMES and Independent Workers

FONCAP is a fund that is made up of public resources and is administered by SENCE. It is part of a national development policy. Its objective is to increase the quality and coverage of training programmes so as to contribute to the increase in productivity and competitiveness of enterprises and the economy's economy in general. FONCAP's target population is made up of low-income social sector which have difficulties to access the labour market. They are given training scholarships and other grants to improve their labour competencies and facilitate their access to a job or a productive activity.

(ii) Direct training subsidy for micro and small enterprises (SMEs)

This modality allows to finance training actions earmarked to workers, administrators or managers of small productive units.

(iii) Tax rebate for enterprises

A tax rebate is granted by the State to enterprises who provide their workers with training, both internal and external, through Technical Training Organisations (OTECs) or through Intermediate Technical Organisations for Training (OTICs).

This tax rebate is mainly concerned with allowing enterprises that are classified by the SII as first-class tax-payers of the Income Tax Law to benefit from the tax discount or reduction or recovering the Investment in Training at the time of presenting their yearly income tax statement at the SII. The top Tax Rebate granted by

the state to enterprises that adopt this modality is 1 per cent of their Annual Taxable Remuneration Payrolls. Micro, small and medium-sized enterprises whose 1 per cent of taxable remunerations are under 13 UTMs (Monthly Tax Units) can discount the investments in training up to such sum every year.

(iv) Pro-employment Programme

It is a subsidy granted by the Chilean Government to enterprises that hire new employees. The purpose is to create new jobs. This Programme has been running yearly since 2001 in order to face unemployment during the months were it usually reaches its highest levels. Since its beginning, 211,598 people have been hired, many of which have continued to work in the same companies where they were first hired according to this system. Pro-employment finances 40 per cent of a minimum salary during four months, so as to pay unemployed people who are hired by enterprises during the period in which the system operates. In addition, it pays 50 thousand pesos CLP (about USD \$100) to train each of them.

f. INDAP

The Government Agency for Agricultural Development, INDAP, is the main service by which the state of Chile supports small-scale farming. It was founded on November 27, 1962. As a decentralized service of Ministry of Agriculture, it has legal entity, assets of its own and the ability to assume and exercise rights and obligations. The main objective of INDAP is to promote and strengthen the development of small-scale farming. It is present in all Regions of Chile through its 16 Regional Direction Offices, 113 Area Offices, Local Offices and 10 Traveling Offices. In 2009, were create 6 new Areas Offices.

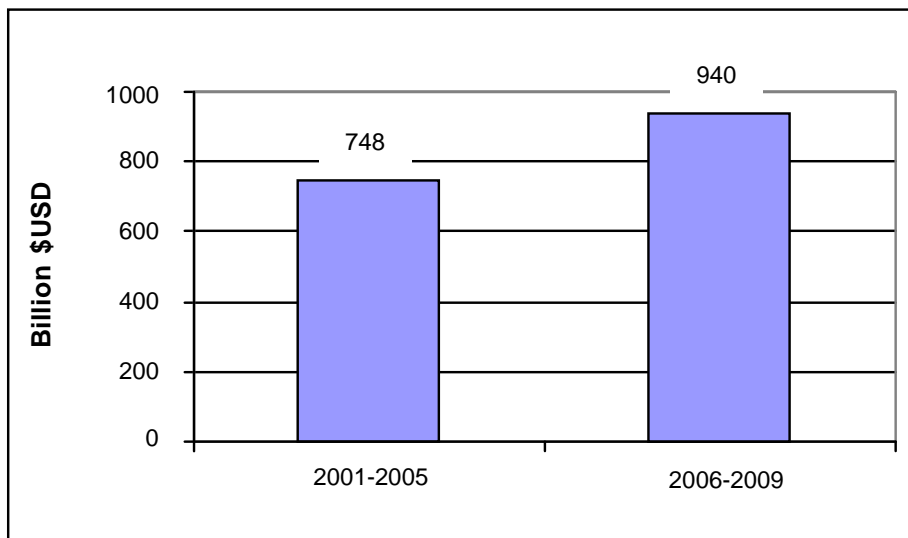


Figure 3. Budget INDAP allocated for SMEs Agricultural Development in Chile, 2001-2009

Mission

To give support through furtherance and create adequate conditions and abilities for a maintainable productive development of family subsistence farming and its organizations.

INDAP and Productive Furtherance.

INDAP is a technical institution oriented towards productive furtherance, that is, a set of actions of support for small-scales farmers and their productive environment in order to transform family subsistence farming into more efficient, competitive and self- sufficient productive units.

Family subsistence farming is predominant beneficiaries of INDAP. By definition subsistence farming is small-scale farmers who work a land no bigger than 12 hectares of basic irrigation, have assets under 3.500 unit of account (UF) (about \$USD 150.000), obtain their income mostly from agricultural exploitation and work the land directly, regardless of their land possession system.

Productive characteristics of family subsistence farming are: (i) It monopolizes about 44% the agricultural land; (ii) It contributes whit about 30% of the sector production's total value and 40-45% of yearly crops, vegetables, vineyards and cattle, plus 29% of fruit plantations; (iii) SMEs have the exploitation of 76% beehive, 50% berries, 54% horticulture, 55% livestock; and (iv) It mixes optimizing and subsistence objectives.

It economic characteristics are : (i) It contributes with approximately 25-30% of the rural sector's gross domestic product, that is about 1,2 % of the national gross domestic product; (ii) it creates more than 600.000 jobs, both directly and indirectly; (iii) It contributes remarkably to the agro alimentary production at national level; and (iv) About 200 associative enterprises are directly or indirectly connected to international markets.

Social-Economic and Demographic Characteristics of the said family subsistence, i.e. it consists approximately of 1,2 million persons and 278.000 forest and agricultural exploitations. It represents about an 95% of the total units forest and agricultural exploitations.

INDAPs Development Programs

- (i) **Productive Furtherance Financing:** Financial Assistance System; It is a service that administers the credit financing system by which INDAP support productive project. It for allowing clients to gain access to investment capital provides by INDAP or other financial institutions. This program increases the number of financing sources for their projects. This following are their action program.

- **Direct Credit Program.** It is a regular credit system provided directly by INDAP, which consists in short and long term loans and link credits that allow small- scale producers to gain access to State Bonuses. Link credit for irrigation and forestation are an example of this program.
 - **Indirect Credit Program.** It encourages private financial institutions to fulfill the rural sector's economic needs that remain out of INDAP's reach.
 - **Financial Articulation.** It is expected that somewhere along the development of their projects the beneficiaries are able to turn to different financing sources. This might allow INDAP to broaden its ability to support those who still remain left out of these possibilities. It involves the following methods: (i) Financial Articulations Bond: a financial mediator receives it for giving a loan to a potential INDAP client. It covers most of the financial institution's rural credit analysis and evaluation cost; (ii) Delegated Administration Fund: bidding amongst bank and other institutions to administer and give loans to rural producers.
- (ii) **Investment and Innovation Development Program (PDI).** To develop productive enterprises. It is an instrument by which INDAP encourages rural producers and their economic and productive organizations to finance their investment requirements. This program find to allow the producers to improve their response to requirements of local and foreign buyers and markets, increase their productive capital and their permanence and growth. The opportunities given are as follow: (a) To be able to make investments within rural, industrial/agricultural livestock and irrigation environments; (b) To incorporate new items (productive diversification); (c) Modernization and technological innovation; (d) To invest on infrastructure, productive equipment, animals; (e) To invest on the quality of product, added values and environmental sustainability; and (f) To invest on technified irrigation work to make the most out of water as a resource, among others.
- (iii) **Degraded Land Recovery System.** It is an incentive delivered by the state thought INDAP and the Livestock and Agricultural Service (SAG) to finance between the 50% and 80% of the net cost related to the carrying out of the works required to put on or more of the following programs into action, i.e.: phosphate fertilization, chalky soil amendment, establishment or regeneration of meadows, soil conservation, and soil recovery. During the period of 2003-2008 about 692.867 hectares agricultural soil have been recovered, with 191.496 farmers beneficiated.
- (iv) **Technical Assistance Service (SAT).**

Technology transfer mechanisms that INDAP provides through outsourcing with private entities. It is an instrument that target towards technical assistance, through private delivery, to producers in the technical and economical management of the productive hubs and basic economic and financial management of farms. The respective public support is dedicated to contribute to an improvement in the competitiveness of productive activities and the income that they generate. The Technical Assistance Service includes production, post-production and agro- processing, management,

livestock, quality control, rural tourism, and environmental management. In 2008 it adjusted to size and type of assisted farm groups (40 to 70 producers) and to subsidy level implementing longer- term project commitments renewed (to 3 years).

The participation of the beneficiaries, during the period of 2004-2008 increased substantially from 15,547 to 20,191 client is, with budget allocated increased from 3,295 to 5,915 M. CLP.

(v) Local Development Program (PRODESAL)

The Service for Local Development of Poor Rural Communities (PRODESAL) was created for client with small means of support. It works preferentially on the basis of alliances with municipalities and seeks to expand the capacity for forestry and agriculture by improving the degraded environment, increasing local management capacities and association between users. This work methodology meant that the assistance would be concentrated fundamentally on associative projects focused on servicing producers that were organized for economic purposes.

The instrument gives opportunities to clients to improve the production and productivity of forest and agricultural exploitations and complementary activities, to gain access to support for environmental improvement and development of associability and local management. In addition, it encourages the access to those instruments of work provided by INDAP and other public and private institutions that strengthen those actions related to productive and environmental development within the program.

CONCLUDING REMARKS

In Chile the proportion of firm belonging to MSEs more than 95% of total firms. The MSEs contribute substantially on employment and income generation. The complexity of MSEs development in Chile indicated by a large number of institution involve, being not less than six government institutions. Coordination and consolidation among institution play an important role on SMEs development. The respective institution give substantial policy support on the production, product development, marketing and trade through technical, managerial, and institutional support on MSEs development.

AGRICULTURAL INDUSTRIALIZATION, TOWNSHIP AND VILLAGE ENTERPRISES DEVELOPMENT AND POVERTY ALLEVIATION IN RURAL CHINA

Zuo Ting, Li Chanjuan¹

INTRODUCTION

Owing to the three decades of reform and opening-up policies being executed, China's economy has been growing at about 9.5 percent annually, the rapid growth has been brought a successful poverty alleviation and a significant improvement of rural development. However, there are still 148 million rural people led a life below the poverty line made by the Chinese government in 1985 (per capital net income below 785 Yuan) (Liu Jian *et al.*, 2009). We still face a challenge on the national poverty alleviation career.

Lv and Sun (2005) analyzed the factors affecting the divergence in provincial economic growth using the provincial cross-section data from 1985 to 2002, and found that SMEs significantly affected provincial economic growth though the foundation of assisting a comparative and effective markets. Also Lv and Cai(2005) found that the small and medium enterprises (SMEs), especially the small enterprises, are the key sources of the disparity in industrial growth among the whole economy, and on average they contributed more than 40 percent of total disparities in gross industrial output value (Minq uan Liu and Jiantun Yu, 2008). Overall, these evidences shows that regional poverty in China is coherent with the prosperity of the local SMEs, the regional differences of the development of SMEs in China determines the regional economic development levels.

National strength has always played a leading role in the process of poverty alleviation in China. In recent years, under the state-led industrialization poverty alleviation relief, the government efforts on the development of township and village enterprises (TVEs) played a significant role in actively promoting industrialized operation of agriculture, which is also an evidence that Chinese government admitted that the development of TVEs could directly improve farmers' income and rural economy.

The rest of this paper can be divided into four sections: Section two is mainly devoted to analyze on the role of TVEs in poverty eradication. The third part focus on the experiences in the state-led poverty alleviation projects from the nation's perspective, and also focus on examining the roles of TVEs in promoting the household income under the national policies supporting; In the fourth part, we will look at some of the major enterprises' role in the process of poverty alleviation; In the last, we will focus on defining problems existing in this process.

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DEVELOPMENT OF TVEs: EXTENSIVE IMPACTS ON POOR

Since 1980s, China's TVEs have been into its prosperity time. The rapid development of TVEs accelerated the urbanization process in rural areas, and also has a positive role on rural development and farmers' income, mainly in the following three aspects: Firstly, based on the agricultural sector, it is difficult to achieve the goal of increasing farmers' incomes, so the farmers must transfer to non-agricultural industries for employment salaries. However, China's hukou system and welfare system restrict the rural labor force off-site transferring, while TVEs can be better achieved the goals in the existing systems. Secondly, TVEs can better absorb the rural surplus labor from traditional agriculture areas, and facilitate the emergence of the services industry for the industrial production, which could benefit the economic development of the entire county. At present, approximately 90% of TVEs are SMEs, because it has a low industry access, and can provide more employment opportunities at the same level of capital. From this perspective, the TVEs will benefit household incomes improving and rural economy prospering. Thirdly, most of TVEs were rooted in the economy side, its business covering all the ranges of agriculture, so they can bridge the farmers to the markets, providing simple or deep processing to improve the added-value of agricultural product, which is another channel for farmers incomes increasing.

Figure 1 shows that, from 1986 to 2006, the number of TVEs in China is increasing, albeit not significant, from 15.15 million in 1986 to 23.14 million in 2006, with an increase of only 52.7% . However, the total output value of TVEs is greatly increased, from 371.7 billion Yuan in 1986 to 24.9808 trillion Yuan in 2006, with an increase of 66.207 times. Meanwhile, the employment in TVEs also increased significantly, from 79.37 million people in 1986 to 146.8 million in 2006, with an increase of 84.96% (Anonim, ____). These data shows that the development of TVEs and its economics strength were markedly increased, which have been brought more farmers' employment opportunities and more prosperous rural economics.

In 2006, the added value of China's TVEs is 5.7955 trillion Yuan, accounting for 1 / 4 of the total economy added values; Currently there are 480 million of China's rural labor force in total, while the TVEs have moved more than 140 million farmers from the agriculture sector, accounting for 30%; Farmers' per capita wage annually received from the TVEs has been over 1,200 Yuan and accounting for 1 / 3 of the total farmers incomes (Zhang Bujiang, 2007). The proportions points out the TVEs contributed more to farmers income increasing. In 2006, the eastern, central and western TVEs account for the proportions of added value respectively were 66.6, 27.5, 5.9. The revenue from the TVEs exceeded one trillion Yuan in the following 6 provinces: Zhejiang, Shandong, Jiangsu, Guangdong, Hebei and Liaoning provinces. From the added value proportions of the TVEs in three regions, we can see that the degree of TVEs' development has a positive correlation with the regional economic development level, also this is another evidence to prove that the TVEs played an effective roles in the promotion of rural economic and regional development.

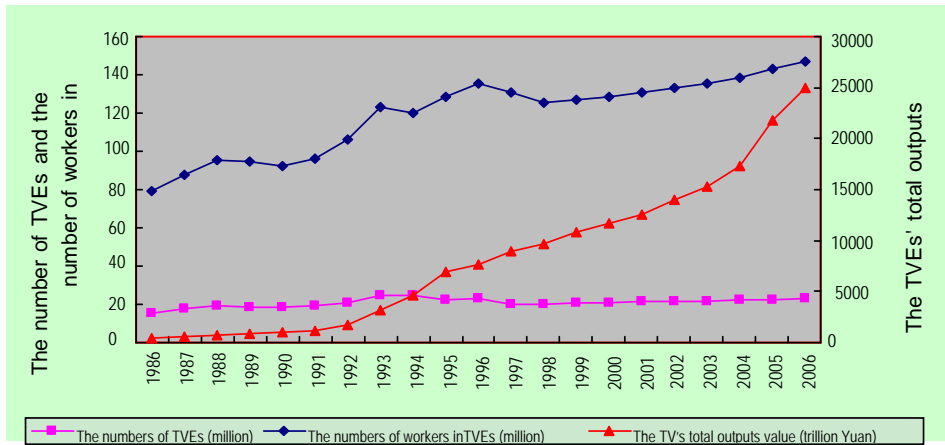


Figure1: The relative data of TVEs in China, 1986-2006
(Anonymous, ____)

PRO-POOR AGRICULTURAL INDUSTRIALIZATION : SPECIFIC INSTRUMENT FOR POOR

Pro-Poor Agricultural Industrialization Project (PPAIP)

The content of PPAIP includes: the identification and cultivation of leading industries; the setting up of production bases; providing preferential policies and funds to support leading enterprises; exploring the operational mechanism, and achieving a win-win situation for farmers and enterprises.

PPIAP aims to improve farmers' income, increase the enterprises profits and government taxes. Supporting leading enterprises are most important part of this policy, including national and provincial levels. The central government launched the credit funds for leading enterprises, which is also the most important supporting policies in industrialization poverty alleviation policy.

In 2005, under the standards from State Council's "Notice on declaration of the national poverty alleviation leading enterprises" (2003), 260 state-level poverty alleviation leading enterprises were selected. Besides the subsidized loans support, the central government also require local governments to provide a good external environment for the development of leading enterprises. According to statistics, between the year of 2003 to 2007, the central government invested 14.11 billion Yuan in agriculture industrialization, and constructed efficient agricultural planting base of 312.01 mu, supported about 5,758 agriculture industrialization projects, and also

cultivated a large number of good driving ability, cost-effective agricultural industrialization leading enterprises, annually directly brought 2 200 million farmers benefited from the implementation of this project with an income increase of more than 510 Yuan. By 2010, there will be more than 1,000 leading enterprises included in the industrialization poverty alleviation project, and will achieve the object of “each county has a 1-2 leading enterprises in the 592 poor counties” (Liu Fuhe, 2006). The leading enterprises was selected from private enterprises, mainly from the small and medium enterprises, especially those who have the ability to bring local farmers into the agriculture industrialization process, those who made the poverty-stricken areas as its raw material-base, and those who cooperated with poor farmers, and those who absorbed more labor and provided more employment opportunities for poverty alleviation work (Anonymous, 2003).

The pro-poor agricultural industrialization poverty policy in provincial level included credit for leading enterprise, tax incentives, financial funds, land-use policy, and social aid policy. According to the questionnaire survey conducted in 11 provinces, which did by Rural Development Institute under the Chinese Academy of Social Sciences, the results showed that: in 2004, the total amounts of financial funds invested in these industrialization poverty alleviation project reached to 17 billion, of which credit funds accounted for 61.7%, the finance poverty alleviation and social relief funds respectively accounted for 18.7% and 12.5%, tax incentives and financial interest subsidies accounted for 3.7% and 3.4% respectively. The survey also found that different provinces use different support policies, as Gansu, Guangxi, Hubei, Hebei, Hunan, Shandong, Jiangxi and Xinjiang, these eight provinces and autonomous regions mainly use the policy of credit funds, Heilongjiang, mainly on the tax preferential policy, while Liaoning, mainly use financial funds and social relief funds, and Shanxi mainly use financial funds (Li Zhou and Cao Jianhua, ___).

The financial interest subsidies for leading enterprises mainly distributed though China Agriculture Bank system. For instance, at the end of 2005, the Jiangxi Agriculture Bank provided 2.31 billion Yuan in total, of which 1.5 billion of them spent on the industrialization poverty alleviation, accounting for 65%. In addition, there are 5.5 billion of other credit, supporting 71 leading enterprises above the provincial level, accounting for 65% of the total number of province's leading enterprises. And Hubei Province put about 70% of the credit funds on the industrialization poverty alleviation projects, totally over 8 billion anti-poverty loans. In 2002, the Agricultural Bank of Yunnan Province supported 590 poverty alleviation projects, totally 1.526 billion Yuan, of which there were 347 planting and breeding projects, accounting for 58.81%, and the total loans were 608 million, accounting for 39.81% (Li Zhou and Cao Jianhua, ___).

Table 1. Financial Support under Pro-poor Agricultural Industrialization Projects in Different Provinces in China, 2004 (million Yuan)

Description	Gansu	Shandong	Jiangxi	Heilongjiang	Hebei	Guangxi	Shanxi	Xinjiang	Hunan	Hubei	Liaoning
Total	30.6	263	307	3.6	56.25	147.46	25	64.43	204.3	188	405.9
Tax reduced			15	3.6				16.72	22	6	
Credit loan	30	200	230		50	138.8		30	170	168	30
Financial interest subsidies	0.6	10	7			4.16	4	17.71	5.1	6	2.4
Finance poverty alleviation fund			42	30	6.25	4.5	21		7.2	8	197.5
Social relief funds		11	25								176

Data resource: Li Zhou, Cao Jianhua, The mid-term evaluation report of the rural industrialization anti-poverty policy in China (2001-2010)

Other provincial anti-poverty policies aimed at leading enterprises be concluded in Table 2. Through financial and policy support, the central and provincial government attempt to enhance the economic strength of leading enterprises, promote regional industrialization process and local economic development through leading enterprises' the radiation function and driving effect, improve the income of the local poor farmers, so as to adjust and upgrade the region's industrial structure, and finally achieve regional scale production and intensive management.

Table 2. The Preferential Policies for the Leading Enterprises in China, 2001-2010

Credit funds	Social aid policy	Tax incentives	Land-use policy	Credit Guarantee Policy	Other policies
- Financial funds reward system (technical innovation and brand cultivation) - Combination of funds and project	- Sector helping system (Poverty Alleviation Office, ABC and other agencies)	- 3-year exemption from income tax - Agriculture, Forestry - One-stop service tax	- Priority demand for land - Preferential price for land use	- Guarantee Corporation	- The convenience of administrative examination - Marketing assistance - Investment

Information resource: Li Zhou, Cao Jianhua, The mid-term evaluation report of the rural industrialization anti-poverty policy in China (2001-2010)

Benefit Coupling Mechanism

The "bottleneck" for sustainable of the industrialization poverty alleviation policy is how the leading enterprises and farmers together into benefit-risk-sharing community. The patterns of benefit coupling mechanism including: contract farming model, professional farmers-driving mode, cooperative mode and the new mode of pooling of land, all these patterns are designed to help the poor farmers and the leading enterprises form a relatively stable relationship in purchasing and selling, and become a community of interests. Among all these models contract farming is the most popular one, with the exception of Gansu, Shandong and Jiangxi Province, the proportion of contract farming in other provinces account for more than 50%. Shandong are dominant

by professional farmers-driving mode, and cooperatives mode is conducting quite well in Gansu, while Jiangxi is famous for the modes of contract farming and cooperative organizations. In addition, Gansu, Jiangxi and Shandong, the mode of pooling of land occupy the proportion between 3% -10 % (Table 3).

Table 3. The Benefit Coupling Mechanism of Farmers and Industrialization Poverty Alleviation Stakeholders in China (unit:%)

Description	Gansu	Shandong	Jiangxi	Heilongjiang	Hebei	Guangxi	Shanxi	Xinjiang	Hunan	Hubei	Liaoning
Contract farming	35	30	40	70	80	100	100	90	70	60	55
Professional farming-driving	25	50	40	10	13			10	17	30	45
Cooperative-driving	65	15	10	20	7				13		
Pooling of land	10	3	10								
Others		2									

Data resource: Li Zhou, Cao Jianhua, The mid-term evaluation report of the rural industrialization anti-poverty policy in China (2001-2010)

From the view of benefit coupling mechanism, every mode have their advantages and disadvantages. But the leading enterprises played an important role in all patterns. Until 2008, China has identified 650 state-level poverty alleviation leading enterprises. According to the investigation and analysis by Li Zhou et al (2006), the industrialization leading enterprises help the poor farmers increased their employment and improved their revenues. Among them, the survey data shows that the average household of each leading enterprises radiated is 3423, range from 1161 to 6198; among the benefit farmers the poor ones accounted for 45%, fluctuating in the range of 9.3% - 70%; and the average radiated radius of leading enterprises is 4300 kilometers, the band is 250 to 10,000 kilometers (Table 4). So it can be concluded that leading enterprises, to a certain extent, can help poor farmers out of poverty.

Table 4. The Number of Households and Farmers in Poverty that under Radiation of the Leading Enterprises in China

Description	Shandong	Jiangxi	Heilongjiang	Shanxi	Hubei	Average
Farmers under radiation	3416	6198	1161	3009	3333	3423.4
Poor farmers under the radiation	2391	578	625	1879	1111	1316.8
The proportion of poor farmers (%)	70.0	9.3	53.8	62.4	33.3	45.76
Radius of maximum radiation (kilometers)	10000	1000	10000		500	4300
Per household income (Yuan)	3970.9	5.0	69.2		2000	1209
Income of poor farmers (Yuan)	3403.6	21.4	45.0		2000	1094

Data resource: Li Zhou, Cao Jianhua, The Assessment Report of the industrialization anti-poverty policy, chapter in the book of: The way achievements and challenges of development-oriented poverty alleviation in a new stage, 2006

The Effects of Pro-Poor Agricultural Industrialization Projects

The leading enterprises are the key stakeholders in poverty alleviation project; government financial anti-poverty funds tilt to leading enterprises to alleviate the shortage of funds pressure of the enterprises, and to some certain extent promoted the development of enterprises. From report of Li Zhou and Cai (2006), the survey results (Table 5) show that, from the fixed assets, added value and profits, taxes and other indicators, leading enterprises as a whole is profitable, and the poor farmers can benefit from providing more employment of the rural labors, and from accessing to the markets for poor farmers to enhance their incomes. For absence of further statistics, we can not make a comparative analysis according to these indicators on the policy influence.

Table 5. The Key Economic Indicators of the Poverty Alleviation Leading Enterprises in China (million Yuan, per people)

Description	Gansu	Shandong	Jiangxi	Heilongjiang	Hebei	Guangxi	Shanxi	Xinjiang	Hunan	Hubei	Liaoning
Fixed assets	650	2450	20	31000	181.48	387.18	183.78	366.01	183.8	1254	476.83
Labors	2600	24500	15000	2800	7734	65600	11000	3098	8000	12000	9400
Added value	265.6	457.29	280	9040	135.59	176.27	76.823	255	248	116.68	265.6
Income	15.6	1467	100	2240	46.85	50.37	16.86	40	120	65.8	15.6
Profits	150	254.79	100	4500	62.74	125.9	55.677	123	60	38.44	150
Tax	100	55.80	80	2300	26		6.086	92	68	12.44	100

Data resource: Li Zhou, Cao Jianhua, The mid-term evaluation report of the rural industrialization anti-poverty policy in China (2001-2010)

Under supporting policy, the provincial governments provide funds, markets, technology, management and other methods of incentives to serve a good business environment for enterprises. At the same time, a good investment environment will attract the enterprises in well-developed areas to poor areas for investment. With the help of government poverty alleviation policies and the strong support of various types of anti-poverty funds, the poverty-stricken regions have fostered a number of well developed leading enterprises. As Yunnan Province, state-owned mengxing farms, agricultural processing plants in Zhanyi County, the leading enterprises can accelerate the pace of agricultural development and poverty alleviation in poor areas.

The governments also provide technical training, free seedlings and marketing as supplemented services for farmers and TVEs, in order to reduce the risk. In addition, the government also provides the access for the poor farmers links with markets, including the supporting leading enterprises, the construction of wholesale markets and together with the brokers from the rural cooperative organizations, built an market networks which facilitate the timely transactions for poor farmers.

In addition to promoting the development of pillar industries and supporting the leading enterprises, the industrialization poverty alleviation policy also included the poor households involved in the pillar industries. Therefore, the credit loans for poor households are an important part of policy. The survey made by Li Zhou (2006) showed that, some poor farmers got the credit funds, despite the number is relatively small. (Table 6.)

Table 6. The Credit for Poor Households in 11 Provinces, China, 2004

Description	Gansu	Shandong	Jiangxi	Heilongjiang	Hebei	Guangxi	Shanxi	Xinjiang	Hunan	Average
1. Number of farmers who got he credit (1000 hh)	150	120	18	60	87.2	-	-	132	14	83
2. Number of poor farmers who got the credit (1000 hh)	80	84	9	21	53.7	-	10	26.4	5	36
3. Proportion of poor farmers of the credit client (parent)	52.0	69.2	50.9	70.0	66.2	0.1	66.7	33.3	70.0	53.2
4. Proportion of numbers of poor farmers who got the credit (percent)	53.3	70.0	50.0	35.0	61.6	-	20.0	35.7	70.0	49.5
5. The amount of credit for each farmers (Yuan/hh)	1666.7	-	3055.6	233.3	-	1098.6	-	-	90.9	1024.2
6. The amount of credit for each poor farmers (Yuan/hh)	1625.0	-	3111.1	466.7	-	1180.6	-	1.8	303.0	1227.6

Data resource: Li Zhou, Cao Jianhua, The mid-term evaluation report of the rural industrialization anti-poverty policy in China (2001-2010)

ENTERPRISES' PAIRING-OFF SUPPORT TO POOR AREA: COMPLEMENTARY AIDS

With the growing power of Chinese enterprises, relatively large-sized entrepreneurs and business groups has been formed. In addition to promote the development of their own business, they also have some social responsibilities. The most important one is caring about the poor. Since the reform and opening policy being executed, the rural areas and farmers made great contributions to the development for enterprises development by providing ample but cheap labor resources. Therefore, when the enterprises have the abilities to reward society, they are encouraged to participate in poverty alleviation to achieve its social responsibility.

At present, China's poverty alleviation and development program include the following types of enterprises: state-owned enterprises, foreign-funded enterprises and private enterprises. Among them, the natures of state-owned enterprises are similar with government authorities, so they need to contribute and sacrifice some of their profits to help the poverty-stricken counties. For example, Petro-China contributed 7.2 billion during 2003 – 2006, and invested 1 billion Yuan on the infrastructure construction in Tibet; The China-Grid invested heavily in primary and secondary schools since 2003, so far the number of Hope Primary School they donated are more than 500, which make more than 100,000 students benefited.

Foreign-funded enterprises have gradually become an important force in poverty alleviation, they can choose to donate directly to the poverty-stricken areas or submit the funds to the civil society organizations. For example, Coca-Cola Company, since 1993, has been donated more than 50 million Yuan to China's anti-poverty charity.

Private companies can participate in poverty alleviation project though the

platform of Glorious-work. According to statistics, until 2007, private entrepreneurs set up a total of 16244 projects, collect 133.776 billion Yuan, and create job opportunities for 4.9289 million people, finally help 7.8761 million people out of poverty (Liu Jian *et al.*, 2009).

At local (county) level in poverty stricken area, middle sized enterprises are also encouraged to provided pairing-off support to poor village communities. They provided varies kinds of development support.

CONCLUSIONS AND SUGGESTIONS

Conclusions

1. In the process of poverty alleviation, the actions are characteristic by the cooperation of central and local governments, the combination of policies and funds. The major problems faced by leading enterprises - funds shortage- are partly solved by the government, while the central and provincial government has given a policy support for the development of TVEs. In addition, the state-led industrialization poverty alleviation also solves the low quality of rural labor force and the weak marketing ability of the TVEs by farmers training and marketing assistant. And some local governments aimed to provide a multifaceted, comprehensive support for the leading enterprises to benefit local economic development.
2. The policies and support being carried out with an expectation that using the market as a medium to improve the local farmers' income and realize rural economic development. In other words, with the leading function of TVEs in the local economy, the policy wants the local poor farmers revenue increased and poverty alleviation goals achieved. Without intervening in the production and operation of TVEs, government only need to optimize the external environment to support their development.
3. Besides the state financial funds and subsidy, the authorities also encourage other market entities to participate in the poverty reduction, which highlighted the social responsibility of large and medium enterprises. So the state-owned enterprises, foreign-funded enterprises and private enterprises may donate for the poor people through civil charity or directly invest in the poor areas. These social forces have been mobilized as a whole to make the poverty alleviation career running more smoothly.
4. The coexistence of the multiple benefits coupling mechanism and the mechanism innovation in benefits coupling, are the most important factors in protecting the interests and achieving a win-win situation among the enterprises and farmers. The emergence of land shares reflects that various factors of production in rural areas are in the re-allocation process, which will optimize the resource assignment. Multi-channels, multi-linkage approaches will ensure that the effectiveness of the industrialization poverty alleviation policies.

Suggestions

1. At present, the policy support for leading enterprises still can not meet their development needs, we should magnified its support strength and scope, especially in some poor areas, the strength of leading enterprises is weak, which need for further support .
2. Industrialization poverty alleviation policies can not clear up all the constraints in the development of TVEs, a good outside environment for TVEs' development is only a necessary condition but not sufficient ones. The development of need TVEs' own efforts and learn from their experience accumulated, so the elements of entrepreneurs need to attach great importance in the TVEs' development strategy.
3. The current anti-poverty policies emphasis on the financial funds supporting for poverty-stricken areas for SMEs and poor households, but the poor targeting mechanism has been always an important issue. Although there exists some data showing that the income of peasants increased, but the rate of increase and the cost-benefits of this policy need further studied. How to realize the industrialization of poverty alleviation policies more precise target the poor, how to expand the benefit degree of the poor from the policies implementation, and how to accomplish an effective poverty alleviation project. This kind issue deserves to be further explored.
4. For the pro-poor agricultural industrialization policies/projects, the monitoring mechanism have not been institutionalized, and also the monitoring indicators has not been clear, with the weak evaluation capacity, we can't guarantee the policy implementation effectiveness and funds usage efficiency. Therefore, we should pay more attention to the establishment of monitoring and evaluation mechanism in the industrialization poverty alleviation policies, to ensure that poverty reduction objects has reached and anti-poverty funds usage are efficient with timely and appropriate evaluation mechanisms, which not just aim at the consequence but also at the implementing process.

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THE ROLE OF SMES ON POOR EMPOWERMENT IN CHINESE TAIPEI: THE SUCCESS STORY OF STRUCTURAL TRANSFORMATION

Tsai-feng Hsiao¹

INTRODUCTION

During the past six decades, Chinese Taipei has registered a high level of economic growth. Between 1952 and 2008, the real growth rate of Gross Domestic Product averaged 7.6 percent. Per capita Gross Domestic Product also increased at an average annual rate of 5.8 percent.

In 1952 the economy had just recovered from the destruction of World War II confronting the problems of rampant inflation, serious unemployment, a huge fiscal deficit, insufficient capital for investment, and an extreme shortage of foreign exchange. The implementation of a series of Four-year Economic Development Plan began in 1952. Over the next two decades, the economy changed from a predominantly agricultural economy to an industrialized economy. The agricultural sector accounted for 36 percent of the net domestic product, 56 percent of the total employment, and 92 percent of the total export in 1952. By 1972, the same sector generated for only 14 percent of gross domestic product, 33 percent of total employment. This declining trend of agriculture and corresponding increasing importance of industry continued. In 2007, the agricultural sector generated for only 1.5 percent of gross domestic product, 1.5 percent of the total exports, and 5.3 percent of the total employment.

Small and medium enterprises have been playing an important role in the process of industrialization and the economic transformation, contributing to employment generation, poverty alleviation and economic growth. In 1961, 99 percent of manufacturing firms were SMEs, defined as a company hiring less than 100 persons, which contributed to 61 percent of total manufacturing employment. In 2008, SME accounted for the whole 1,263,846 enterprises, contributing to 77 percent of total employment, 29 percent of total sales, and 17 percent of total exports, according to the registered business statistics by the Ministry of Economic Affairs. This means SME offer great job opportunity.

This present paper is to survey the development of SMEs in the economic transformation in the past decades and its role on poor empowerment particularly in the early stages of economic development, and in recent rural community industry development.

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SMEs IN THE ECONOMIC TRANSFORMATION

The development of Chinese Taipei 's SMEs is closely related to the economic, social and educational policies adopted by the government in the past. The "Land to the Tiller" program and the Economic Construction Plan, the implementation of which began in 1953, the beginning of compulsory education in 1968, and the Ten Major Construction Projects plan, which began to be implemented in 1973, along with other measures adopted in the areas of economic development, manpower resources, social stability and public construction, have all provided SME with an excellent environment in which to grow and develop.

In the 1950s, the government policies geared toward import-substitution based on labor-intensive light industries, for which it had a comparative advantage. For the most part, the production technology used was relatively simple. With the measures adopted by the government including the 'Land to the Tiller' program, the Medium-term Economic Construction Plan, the privatization of state enterprises, the Statute for the Encouragement of Investment, tax incentives, and the Small Private Enterprise Loan Fund, etc. The development of SMEs speeded up, enterprises with ten or fewer employees came to account for over 90 percent of all enterprises in Chinese Taipei. Most of these enterprises were producing for the domestic market. Food processing and non-durable consumer goods industries, including textiles, apparel, wheat flour, wood and leather products, were main contributors to the manufacturing.

In the 1960s, the government policy shifted toward market orientation, giving more incentives for the exports as the small domestic market of consumer products gradually became saturated which had been developed during the 1950s as a result of import-substitution policies. With the implementation of the Regulations Governing the Establishment of Export Processing Zones, private enterprises began to display increasing vitality. Initially, most export-oriented firms were in the food and textiles industries. Later on, it was enterprises in the electromechanical, electrical appliance and plastics industries that had the highest production value and export growth. Large enterprises played a key role in export expansion, and their growth stimulated the growth of SMEs producing components for them. The SMEs were flexible enough to take the advantage of changing circumstances rapidly and provided employment, helping to solve the surplus labor problem.

In the 1970s, the overall growth rate for labor-intensive light industries rose to new heights, the economy as a whole continued to grow, and trade surplus began to develop. The government then launched its Ten Major Construction Projects and Twelve Major Construction Projects in order to promote the development of Capital-intensive basic industries such as iron and steel, petrochemicals, textiles, machinery manufacturing, and auto manufacturing, etc. In early 1970s, a great number of SMEs suffered from the recession and inflation bought up by the oil crisis. The SME Credit Guarantee Fund of Chinese Taipei was established to provide credit guarantees to the SMEs which are short of collateral for loans. The SMEs weathered two oil crises occurred during the 1970s and registered significant growth of

production and employment generation. The sub-contracting system which grew up amongst SMEs acted as stabilizing mechanism for the economy as a whole, and helped to soften the impact of business.

In the 1980s, as wages rose and the NT dollar appreciated against the US dollar, workers were hard to find, and real estate prices rose dramatically, making it difficult to find land for industrial use. At the same time, people in Chinese Taipei were becoming more aware of the environment. The government thus started to promote the development of strategic industries that were characterized by a high level of technology, high value added and low energy consumption. The Science-based Industrial Park was established to facilitate the hi-tech industries. Enterprises were encouraged to increase their R&D activities, improve productivity and quality, and enhance their international competitiveness. Enterprises began to transform and upgrade themselves, and to invest overseas in particular the SMEs in labor-intensive industries. While the importance of SMEs continued to increase, a structural transformation toward technology-intensive industries was taking place.

Industries producing labor-intensive products with low added value gradually lost its competitive advantage due to the trend of global trade liberalization since the early 1990s. The government was working hard to improve the investment environment. Being aware of the importance of the SMEs the government began to pay more attention to the survival and development of SMEs, thus promulgated the Statute for Small and Medium Enterprise Development, along with the Statute for Upgrading industries and the Six-year National Development Plan. In 1997, the SMEs Protection Clause was incorporated into the Constitution. Public construction was stepped up, and tax incentives were used to stimulate R&D, manpower training, the automation of production and pollution prevention. SMEs gradually upgraded or transformed themselves so that they became more knowledge-intensive, technology-intensive and innovation-intensive. Following the outbreak of the Asian financial crisis in the late 1990s, Chinese Taipei's SME stood up to the impact of the crisis. From the 2000s, the application of the internet, e-commerce and IT, has provided SMEs with a new operating model and has enhanced the speed and efficiency of business operations. SMEs continue to play a critical role in the economy. Through the interaction of a well-developed network of business associations and government agencies, and through strategic clustering, they have formed tightly meshed alliances with large enterprises

POLICY LEADING TO ECONOMIC TRANSFORMATION WITH SMEs

Factor Affecting Economic Transformation

There are many factors that have contributed to the success in the industrialization and economic transformation with SMEs over the past decades. Following are considered as major driving forces among others.

1. Infrastructure

In the initial stage of economic development, large investments in electric power, transportation and communications were made to improve and expand the existing infrastructure. The expansion continued to meet the needs of economic development. Electric power is the prime mover for industrial growth, while adequate transportation and communications help reduce freight cost, enlarge the markets for agricultural and industrial products and facilitate the dissemination of new know-how and skills. In the meantime, education, vocational training, public health were also promoted to improve the quality of labor. In general, the labor force was largely literate and easily trainable.

2. Economic development policy

The government made clear at the very beginning its policy to ‘develop industry through agriculture and expand agriculture through industry,’ agricultural – led growth, and proceeded with a well coordinated program with due emphasis on both agriculture and industry, realizing that the agricultural sector is not only a source of food but also a source for investment capital and raw materials required by the industrial sector.

In agricultural development, government efforts have not been confined to improving production techniques and facilities, but have also been directed toward the improvement of institutions. A series of land reform measures was enforced to provide incentives for increasing farm production. Farmers’ associations were re-organized and strengthened to serve as a bridge between the government and the farmer and to provide a wide spectrum of extension, marketing and credit services in the interest of farmer. This combination of incentives, investment in physical facilities, institutional improvement and technical and financial assistance has contributed greatly to the rapid growth of agricultural production in the 1950s and 1960s. This contribution to the expansion of labor-intensive light industries which have a comparative advantage at the time.

The increasing demand for farm labor generated by the export-oriented industrial development policy in the 1960s absorbed a significant amount of surplus labor which was released by the farm sector. The quickly expanding industrial sector exerted pressure on the agricultural factor and product markets was accelerated, which in turn contributed to a stronger agricultural foundation. Without such macroeconomic forces, the demand for labor would be weak and the absorptive capacity of the surplus workers would be low.

The development policy of export expansion of labor-intensive products is also believed critical for the economic transformation. Export expansion helps enlarge markets is particularly important to the economy as domestic markets are extremely small due to low levels of national income in the early stages of economic development (Table 1). The growth of many of our industries has been made possible because of the development of overseas markets. In 1966, the cotton textiles industry exported 66 percent of its output; the glass industry, 47 percent; and the plastics industry, 44 percent. In the heavily export oriented industries such as sugar,

canned products and plywood, the ratios were higher than 90 percent. With increase production and markets, the economy can gradually step into a higher level of technology and more capital-intensive industries.

Table 1. Composition of Export in Chinese Taipei, 1952-2007

Year	Value (US \$ million)				Percentage Distribution (%)			
	Agricultural Products	Processed Agricultural Products	Industrial Products	Total	Agricultural Products	Processed Agricultural Products	Industrial Products	Total
1952	25.7	81.3	9.5	116.5	(22.1)	(69.8)	(8.1)	(100.0)
1956	21.9	76.3	20.1	118.3	(18.5)	(64.5)	(17.0)	(100.0)
1960	19.7	91.3	53.0	164.0	(12.0)	(55.7)	(32.3)	(100.0)
1964	65.0	184.1	183.9	433.0	(15.0)	(42.5)	(42.5)	(100.0)
1968	87.8	161.7	539.7	789.2	(11.1)	(20.5)	(68.4)	(100.0)
1972	203.6	295.5	2,489.0	2,988.1	(6.8)	(9.9)	(83.3)	(100.0)
1980	712.2	1,108.7	17,989.7	19,810.6	(3.6)	(5.6)	(90.8)	(100.0)
1988	836.7	2,482.0	57,266.7	60,585.4	(1.4)	(4.1)	(94.5)	(100.0)
1990	431.4	2,578.7	64,204.2	67,214.4	(0.7)	(3.8)	(95.5)	(100.0)
2000	371.9	1,766.8	149,811.2	151,949.8	(0.2)	(1.2)	(98.6)	(100.0)
2007	411.2	1,869.5	244,396.8	246,677.3	(0.2)	(0.8)	(99.0)	(100.0)

Source : Statistical Data Book, Council for Economic Planning and Development, Executive Yuan

3. Government assistance to SMEs

SMEs face more obstacles than large enterprises and are not well equipped to overcome them, the greatest challenges that SMEs face are obtaining financing and meeting regulatory mandates. Collateral requirements and credit ratings are key elements of access to finance. To improve access to finance for SMEs, the SME Credit Guarantee Fund was established in 1974 as a non-profit organization with an object to provide credit guarantees to those SMEs that are in normal operation but are short collateral for external financing. The SME Development Statute promulgated in 1991 provided further assistance. The statute has been drawn up to help SMEs to improve their operational environment, promote mutual assistance and collaboration, and provide advisory assistance. Based on the Statute, a SMEs Development Fund was set up to fund assistance programs supervised by the Small and Medium Administration under the Ministry of Economic Affairs, including start-up assistance and incubation, management, marketing, quality upgrading, finance assistance, information management, mutual assistance and collaboration, regulations assistance, and innovation assistance. The SME service centres were established to provide consultancy services to SMEs. Since it was established, the SME Credit Guarantee Fund has helped 278 thousand enterprises receive NT\$66trillion loans. Among these SMEs, 254 enterprises have become large enterprises. In recent years, the fund helped about 140 thousand SMEs a year.

Employment Generation and Income Improvement

Along with rapid structural change, the economy performed well and contributed to provide job opportunities and improve income for people over the past decades (Table 2). The contribution from the SMEs is rather important, particularly in the 1950s and 1960s; the SMEs by virtue of their labor-intensive nature and flexibility were able to make use of the comparative advantages, helping to absorb the surplus labor in rural areas. The employed population in non-agricultural sectors increased from 1.28 million persons in 1952 to 7.22 million persons in 2000, and to 9.87 million persons in 2008. The average annual growth rate was 3.8 percent in 1950s, the annual growth rate increase to 5.3 percent in 1960s, 6.2 percent in 1970s, showing an annual growth rate of 3.8 percent in 1950s, 5.3 percent in 1960s, 6.2 percent in 1970s, and lowered since 1980s.

Table 2. Gross Domestic Product by Kind of Activity in Chinese Taipei, 1952-2007 (%)

Year	Agri-culture	Industry				Services				
		Manu-facturing	Construc-tion	Electricity, Gas and Water	Subtotal	Commerce	Transport, Storage and Commu-nication	Government Services	Finance, Insurance & Business Services	Subtotal
1952	36.0	10.8	4.4	0.6	18.0	18.7	3.9	10.9	9.0	46.0
1956	31.6	14.5	4.9	0.8	22.4	17.0	4.0	12.7	9.8	46.0
1960	32.9	16.8	4.5	1.3	24.9	14.3	4.1	12.6	9.0	42.2
1964	28.3	20.9	4.4	1.8	28.9	15.1	4.4	12.4	9.1	42.8
1968	22.1	24.0	5.1	1.7	32.5	15.1	5.7	13.5	9.4	45.4
1972	14.2	32.3	4.6	2.1	40.3	14.9	6.1	12.6	9.6	45.5
1980	9.2	34.0	7.3	2.3	44.7	14.6	6.2	11.6	11.6	46.1
1988	6.1	38.1	4.9	2.6	46.2	15.7	5.5	11.3	11.2	47.7
1990	4.0	31.2	4.2	2.6	38.4	12.1	5.9	11.0	15.1	57.6
2000	2.0	23.8	3.0	1.9	29.1	16.3	6.3	10.9	18.6	68.9
2007	1.4	23.8	2.2	1.2	27.5	18.6	5.9	10.2	18.2	71.0

Source : Statistical Data Book, Council for Economic Planning and Development, Executive Yuan

Income rose for both farm and non-farm families. But the rise was marked by an increase in income equality as income increased the most for those in the lowest brackets, and the least for those in the highest brackets. In 1953 the Gini coefficient was about 0.56, while this dropped to 0.32 in 1964 and 0.29 in 1972. The redistribution of income was partly because of the land reform program. SMEs also contributed to equitable income distribution. The rapidly expanding of SMEs in labor-intensive manufacturing industries, which were able to absorb large numbers of surplus rural labor and provide them with wage income, also contributed to improving income equity. The government's policy of promoting labor-intensive, rather than low capital-intensive industries was evidenced crucial for improved income equity. This sort of development allowed the benefits of growth to be spread more evenly throughout the population, especially to the lower-income brackets. In the 1970s, the labor force was more rapidly absorbed into the industries that were more labor-intensive and less capital-intensive.

Table 3. Employment by Industries in Chinese Taipei, 1952-2007 (%)

Year	Agri-culture	Industry					Services			
		Mining	Manu-facturing	Construc-tion	Utilities	Subtotal	Commer-ce	Transpor-tation	Other Services	Subtotal
1952	56.1	1.9	12.4	2.4	0.2	16.9	10.6	3.4	13.0	27.0
1956	53.2	2.0	13.2	2.8	0.3	18.3	10.0	4.1	14.4	28.5
1960	50.2	2.3	14.8	3.1	0.3	20.5	10.0	4.4	14.9	29.3
1964	49.5	2.2	15.4	3.3	0.4	21.3	9.6	4.6	15.0	29.2
1968	40.8	2.0	18.6	4.4	0.4	25.4	13.0	4.8	10.0	33.8
1972	33.0	1.2	24.6	5.6	0.4	31.8	14.0	5.2	16.0	35.2
1980	19.5	0.9	32.6	8.5	0.4	42.4	16.0	5.9	16.2	38.1
1988	13.7	0.3	34.5	7.3	0.4	42.6	19.0	5.3	19.4	43.7
1990	12.8	0.2	32.0	8.1	0.4	40.8	19.6	5.3	21.4	46.3
2000	7.8	0.1	28.0	8.8	0.4	37.2	22.8	5.1	27.1	55.0
2007	5.3	0.1	27.6	8.2	0.9	36.8	23.9	6.0	28.0	57.9

Source : Statistical Data Book, Council for Economic Planning and Development, Executive Yuan

Many SMEs were located in rural areas or within commute distance to the rural people, this made the rural families be able to supplement their incomes with non-employment. Non-agricultural income in farm-family income was 34.1 percent in 1966 and 53.7 percent in 1979. More importantly, the lower income farm family relied much heavily on the non-agricultural income to which SMEs have made significant contribution.

RURAL COMMUNITY INDUSTRY DEVELOPMENT

The strong growth of non-farm sectors drew farm labor away from agriculture and drove up farm wages and agricultural production costs resulting in decreasing competitiveness of agricultural production. While some farms are doing good business, some are not making profit from farming and leaving their farmland idle. More than half of townships experienced losing population in last decade. To revitalize the rural economy is of critical concern in these areas. According to the experience learned in recent years, it is found that the development of local cultural products or unique products fitted together with agro-tourism is an effective way to help SMEs grow generating job opportunities for local people and attract people back to hometown.

The Seshui community situated in Yu-chih township, central part of the island, is one of the successful cases. The community was devastated by the 921 Earthquake a decade ago. The reconstruction process united the residents together to discuss how to rebuild their community and in what form. With the assistances from different institutions together, including the consultant service in brand development and packing design provided by a company commissioned by the SMEs, the community restored itself with prosperous development of black tea, ceramic crafts, tourism, organic farm produce. It evidenced that traditional industries could explore new market through innovation in brand development and packing design and integration with

other industries of the community or neighbor communities. It also evidenced that community's participation and the community's organization are critical to success. The council of agriculture is implementing a program of 'LOHA' to promote such a pattern of rural community development to provide a comfortable and happy life as the name of the program means.

CONCLUDING REMARKS

SMEs give substantial contribution on the economic transformation in Chinese Taipei. There are at least three government policy factors contributed to economic transformation with SMEs, i.e.: (a) infrastructure development such as electric power, transportation, and communication for the benefit of both agricultural and industrial product market; (b) economic development policy with the main strategy "to develop industry through agriculture and expand agriculture through industry"; and (c) government assistant to SMEs with regard to obtaining financing and meeting regulatory mandates.

INDONESIA'S MICRO-SMALL MEDIUM ENTERPRISES: THE CURRENT STATUS AND ITS PROSPECT

Muhammad Maulana¹, Rita Nur Suhaeti² and Wahida²

INTRODUCTION

Indonesia is one of the most populous countries following People's Republic of China and India. Unfortunately, its quality of human resource still does not keep up with the huge number of the population. Consequently, other countries take advantage of the condition and make Indonesia as their potential market, since some international trade agreements such as WTO, AFTA and CAFTA, have been ratified. In this global era, the world's economy is in hands of several multi-national companies (MNCs). However, as the opposite of MNCs, the MSMEs grow remarkably in Indonesia, and getting to be the backbone of Indonesian economy.

Since 2006, micro business unit was added to SME. Empirically Indonesia's Micro-Small and Medium Enterprises (MSMEs) has proven very good performance as a savior of Indonesia's economy during the economic crises. Besides, the MSMEs contributed significantly to the national Gross Domestic Product (GDP). There was a hefty increase from Rp 815.14 millions in 2003 to Rp1,257.76 millions (Rachmad, 2009). The MSMEs could be the prime mover of domestic economic growth. The second advantage of the MSMEs was that the continuous increasing export value, because the exported goods have uniqueness of Indonesia's culture. Besides, its flexible characteristics let almost every social layer takes a part in the lowest and MSMEs, including the springy characteristics of the MSMEs, which let all involved agents of lower class and medium class take a part in it. Most MSMEs are concentrated in Java and Bali (69%) and in rural areas (74%). As the major contributor to Indonesian Economy, MSMEs put in more than 99 percent of business unit, absorb more than 97 percent of employment, contribute more than 55 percent of GDP and add almost 53 percent of investment.

World Bank (2006) reported that 99 percent of enterprises in developing countries using less than 50 person of labors were MSMEs. This was very suitable and realistic for poor people in running business, because of the unique characteristics of the MSME. The World Bank's data were in line to data of the Indonesia's National Agency for Statistics, which showed that 99.75 percent of total number of enterprises was MSME, while the remaining figure (0.19%) was big scale enterprise. Of the MSME, micro enterprise dominated the share (83.27%) or in total of 18,933,000 enterprise units and 15.81 percent of the total was small scale enterprises. This was the reason why

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MSMEs in Indonesia was very important and it needed robust and unmistakable policy. The other important fact on the MSMEs was that it could absorb Indonesia's labor force up to more than 80 percent.

One of the most serious problems in developing MSMEs is capital availability. Most of the MSME owners faced difficulties in accessing capital mostly from formal financial sources like government as well as private banks. In most cases, often the MSME owners were trapped by rent seekers offering very high monthly rate of interests, which could be more than 30 percent. In addition, usually bank demands for collaterals and offers complicated administrative procedures, which are quite hard for the agents of MSMEs to accomplish. Those problems made the agents of MSMEs be away from formal banking accessibility, only around 10 percent of them is bankable. The other hampering problem is that small company pays higher local charges. For example, one small company has to pay the labour cost around Rp 15.000/employee, while large company only pays for Rp 6.000/employee. It's hard to believe that the owners MSME can compete with the larger companies.

MSME's CURRENT STATUS

According to PricewaterhouseCoopers (Patung, 2007), Indonesian economy will be the 6th in 2050, and the Indonesian banking system is at par with the French and Italian banks. In addition, Indonesia belongs to a group called 'E7' which comprised of Indonesia, PR China, India, Brazil, Russia, Mexico and Turkey, the big guns of the developing world. By 2050, the 'E7' economies will have outstripped the current 'G7' (US, Japan, Germany, UK, France, Italy and Canada) "by between 25 percent when comparing GDP using market exchange rates to around 75 percent when using purchasing power parity (PPP) exchange rates". Indonesia, along with Mexico, is also predicted to have eclipsed both Germany and the UK by 2050 even at market exchange rates terms. In per capita terms GDP, currently at \$3,702 according to PPP, is thought likely to grow to \$23,686 by 2050, the second lowest of all the countries measured, just above India, and some way behind China, the third lowest. Year on year GDP growth from 2005-2050 is given at 7.3 percent in US\$ terms, 4.8 percent in rupiah terms, and 4.2 percent at per capita PPP terms. Whichever way it is measured these growth rates would see Indonesia just behind India, and just ahead of China, in ranking terms.

Wilson and Stupnytska in Lawson *et al.* (2007) stated that Indonesia will place at 7th in 2050 and will belong to The N-11 countries along with Bangladesh, Egypt, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Viet Nam. In addition, Morgan Stanley: "Adding Indonesia in to the BRIC story" (Ghosh, 2009).

According to CLSA, a leading independent brokerage and investment group in Asia, as a marginal supplier of resources to Chindia, Indonesia has seen strong per-capita growth in recent years and has attractive demographics. With elections now past, an investment cycle will gather pace, further driving growth. We term this group *Chindonesia*. Chindia plus one Indonesia should be included to the Chindia. World

economy is unlikely to return soon to the go-go growth of the past few years. This makes the investment case for Chindia more relevant than ever as focus shifts to emerging markets. It is time for Indonesia to take center stage. The Chindia will soon change as “Chindonesia”, due to the additional characteristics of low-cost supplier of resources, young and growing population, Indonesia has sidestepped the global financial crisis but must invest more in the provision of basic goods and services to its own people.

Tanjung (2009) said that although the number of business continuously grows up to more than 50 million units with the large business only 0.01 percent, while the remaining belongs to MSMEs. It just describes Pareto Theory, it does like pyramid, although its number is very small, but the business is large, dominant and ruling economy. The idea of revitalizing the people economy is identical with developing the MSMEs, who own huge market potential and giving welfare to the whole community members. Table 1. presents number of business, revenue and asset of the business agents in Indonesia, while the growth of MSMEs is described in Figure 1. From the table it is clearly shown that almost 98.8 percentage of business agents in Indonesia categorized as micro, with the assets less than USD 5,000 and revenue smaller than USD 30,000. Small business are quite small only 1 percent from the total business agents population, and only few from them categorized as medium and large scales. During 1999-2008, number of MSMEs has increased almost 26.03 percents from 37,911,723 unit to 51,257, 537 units. MSME also create a working opportunities for more than 97 percents employee in business sectors and contributed 55.6 percent to total GDP and create more than 52.9 investments.

Table 1. Number of business, revenue and asset of the business agents in Indonesia, 2009

No.	Business Scale	Unit	Percentage	Revenue	Assets
1.	Micro	51,257,537	98.8	< USD 30K	< USD 5K
2.	Small	520,000	1.01	USD 30-250K	USD 5-50K
3.	Medium	39,660	0.08	USD 250K-5M	USD 50K-1M
4.	Large	4,370	0.01	>USD 5M	>USD 1M

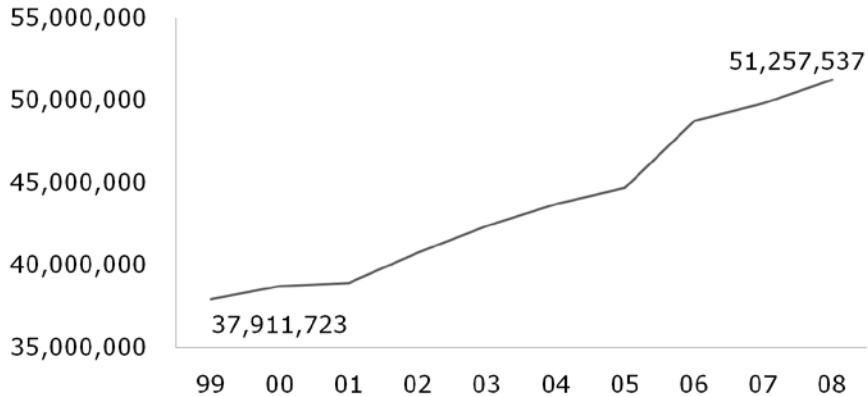


Figure 1. The Growth of MSME (Unit) in Indonesia, 2009

A phenomenon related to MSMEs is that 23 percent of Indonesians have “other income”. It means that many Indonesians run business, mostly MSMEs, as other sources of income beside their main jobs. As an illustration, in Figure 2 showed that almost one third of people in Bandung, West Java, has side jobs and it presented the highest figure for ones who have “other income”. Makassar, in South Sulawesi, representing Off Java and Eastern Indonesia has almost 27 percent of population having “other income”. Figure for Jakarta, the capital city of Indonesia also showed the same figure as Makassar’s. In Jakarta, migrant people do run business of MSMEs more than the indigenous people of Jakarta itself. Those cities in figure 2 categorized as large cities and capital of the province as well. The economic climate much more favourable to create side business in the cities compare with people in the rural areas. Most the economic driven in big cities in Indonesia come from manufacturing, and it relates strongly with the figure shown below.

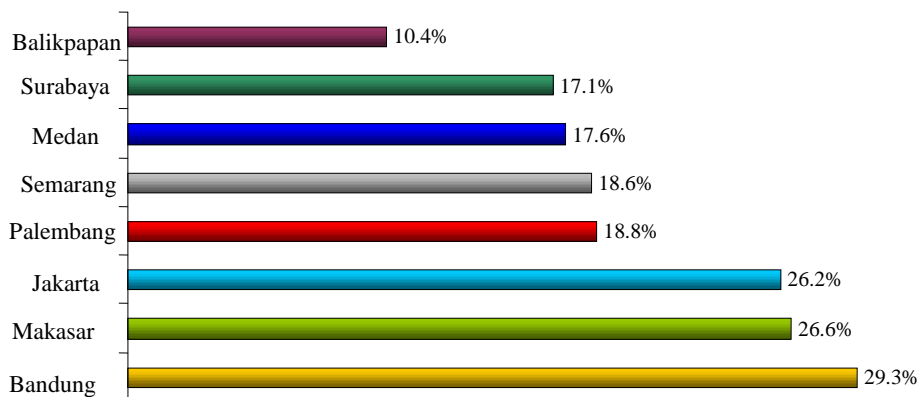


Figure 2. Percentage of Population, Who have “other income” in Selected Cities of Indonesia, 2009

The Power of Indonesian Middle Class – and Its Growing Consumption

Domestic private consumption to GDP is 60 percent. The income per capita increased more than three times during the period of 2000 to 2008 (Figure 3.), now it reached almost \$2,271 (2008). In 2008, 23 million people earned 7,000/year and another 23 million earned \$3,500, based on this data, Indonesian middle class bigger than the population of Malaysia. Almost 30% of Indonesian population equal with 69 million people, earned around \$4,180, bigger than the entire population of Thailand.

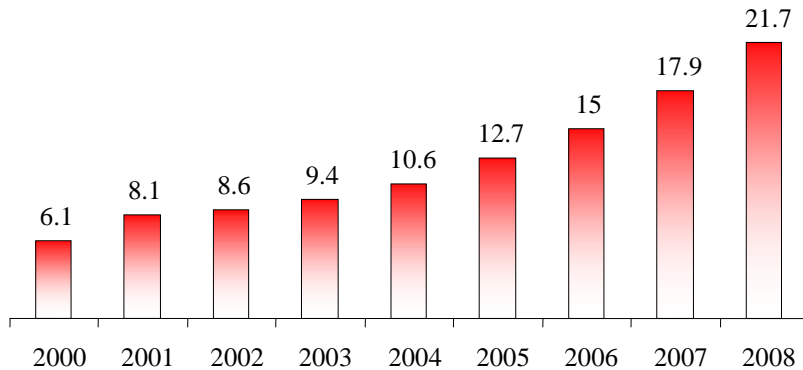


Figure 3. Indonesia Income Per Capita in Indonesia, 2000-2008

Agriculture Vs Manufacturing

The contribution of MSMEs' to Indonesian National GDP is relatively higher compare with agriculture sector. However the trend of MSMEs' contribution to GDP tends to decrease moderately, which is agriculture sector shows the positive growth during 2004 – 2009 agriculture contribution increase more than 3 percents. Manufacture still leads the contribution to GDP with the trend more stabil with small fluctuation in between.

Agriculture sector is the most dynamic labor absorption, with slightly decreasing growth. Manufacture sector shows more stability compare with MSMEs' with the employment growth tend to increase with relative small percentages per year.

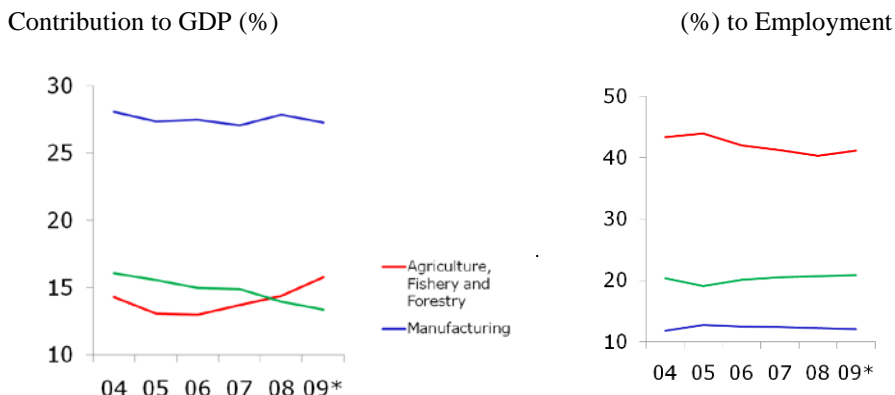


Figure 4. Comparison of MSMEs' contribution to GDP and to Employment in Indonesia, 2004-2009

Characteristic of Indonesian MSME were determined by several factors such as the self employed business (ownership vs management), unbankable, and informal. Java and Bali are the most concentrated area of MSME in Indonesia and almost 74 percents of the activity was found in rural areas. With this characteristics, MSME in Indonesia recently has to struggle with the second economic crisis who already hit most of major importing countries (US and EU), they have to improve the business in order to accommodate and adapt any economy shock, various business strategy become a very important factors, each entrepreneur might translate this as a necessity or opportunity to continue running the business.

Roadmap of MSME

There was a policy separation between micro and SME. Policy for micro business was carrying out empowerment and access to microcredit, while developing the SME was by holding their capacity building. Nevertheless, the government has already arranged a Micro Roadmap 2010-2014:

- 2010: Preparation – Building consensus;
- 2011: Building – Apex microfinance;
- 2012: Modernization – System and Infrastructure;
- 2013: Deepening – Microcredit to Microfinance; and
- 2014: Expansion and Repeat cycle (2014-2019).

In addition, the government has also set the SME Roadmap 2010-2014:

- 2010: Clean, clear and legitimate
- 2011: Structurally and politically correct

- 2012: SME for national development
- 2013: Dominant multi-sectors players
- 2014: Breeding national brands

CONCLUDING REMARKS

Running an MSME needs a very high level of entrepreneurship because of many unfavorable conditions, such as less support of capital availability. The government is to continuously encourage the MSME's development, because MSME is a major contributor to the people's economy. Agriculture, as the biggest absorber of employment, is to increase its percentage contribution to GDP. MSMEs is believe to make stronger domestic economy, which was supported by growing middle class.

The following are the Micro Thesis 2010-2014: (1) Micro businesses, which make up over 98.9% of all Indonesian business players have the least of technical support and funding; (2) The involvement of micro businesses in Indonesia's economic development has been marginalized from producers, to suppliers, to vendors, and now buyers or even brokers with declining value creation; (3) The government's current policy encourage growth of big industry and multinationals more than it supports majority of the economic players; and (4) "Give a man a fish, you have fed him for a day. Teach a man to fish, and you have fed him for a lifetime".

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THE ROLE OF SME'S ON POOR POWER EMPOWERMENT IN AMANAH IKHTIAR MALAYSIA

Ruslan Mohamad¹

INTRODUCTION

Background

The Malaysian government has given commitment to develop SMEs as one of the strategies to develop the nation. A dynamic and viable SMEs is vital for the economic growth. Hence, Amanah Ikhtiar Malaysia (AIM) is also responsible to assist SMEs to expand the projects through continuous financing. The economic activities implemented are to generate income and therefore to move themselves out of poverty. At the moment, there is no comprehensive study done in regards of the role of SMEs on poor empowerment. Hence, this paper will only discuss on the role of AIM in developing SMEs among the borrowers.

Amanah Ikhtiar Malaysia (AIM) was established in 1987 as a registered private trust (under the trustess incorporation act 1952-revised 1981). It is governed by a board of Trustees that comprising of Senior Government Officer and individuals on personal capacities. Ikhtiar Financing Scheme represents a tool through which capital is disbursed to the poor, currently known as microfinance. AIM has reversed the smart conventional banking with disbursement of small loans to finance income generating activities without any collateral, guarantor and any legal action againts defaulters.

After two decades of operation, AIM has provided services to more than 200,000 families in Malaysia mostly in rural areas. This was undertaken through specialized delivery system designed exclusively for the poor and the marginalized group based on human potential development, closely monitored and decentralized supervision, participatory management, embedding positive values and culture among members, high discipline of credit compliance, professionally trained staff and strong support from the government. Based on AIM's Impact Studies, access to micro-credit, continuous utilization of it and the ability to get substantially bigger amount of loan were responsible for significant number of formerly very poor and poor household to move out of poverty.

Objectives

- (1) To reduce poverty among the poor and poorest household in Malaysia by providing micro-credit financing to finance economic activities that can generate and improve income.

¹ Amanah Ikhtiar Malaysia Malaysia

- (2) To provide continuous financing facilities to Ikhtiar's entrepreneurs (SMEs).
- (3) To provide continuous guidance and training to the poor and poorest household and Ikhtiar's entrepreneurs (SMEs).

AMANAH IKHTIAR MALAYSIA

Procedure to Participate in the Ikhtiar Financing Scheme

Basic qualifications to participate in the Ikhtiar Financing Scheme is household income must be below the Government's Current Poverty Line (RM 750). The procedure to join AIM are:

- (i) Applicant, upon confirmation that she qualifies to join AIM, must set up a group comprising 5 person of the same gender who are without close family relationship, in mutual trust of each other and responsible.
- (ii) All members, as a group must undergo Basic Financing Training, which is a short-term compulsory course for 5 days, 1 ½ hours per day. The course objective is to provide understanding on AIM's rules and procedures.
- (iii) After passing the Group Recognition Test (a brief test carried out at the end of 5 day course), all members of the group must join the Centre Meeting (federation of 2 to 10 groups). Members of the Centre also known as Sahabat will have a meeting every week. The Centre Meeting is carried out in public areas such as community hall. All AIM transaction such as application, disbursement of capital financing, repayment and savings collection are carried out at this meeting.

Obligation of Aim Members

- (i) Attend Center Meeting every week
- (ii) Repay loan in accordance with the agreed period
- (iii) Save in compulsory saving in accordance with the agreed amount
- (iv) Assist other members within the group and centre when they are in difficulties.

Ikhtiar Financing Condition

- (i) No collateral and guarantor required
- (ii) No legal action taken to recover debt
- (iii) Protect under Khairat Fund, forgoes all debt upon death
- (iv) Through close supervision and human capital development, members will be trained and guided so that they will be responsible, disciplined, confident and competitive entrepreneurs (SMEs).

Type of Capital Financing

AIM offers four types of financing scheme to suit the need of its members (SMEs):

Table 1. Type of Capital Financing in AIM, Malaysia, 2009

Financing	Amount (RM)	Explanation
I-Rezeki (Economic Loan Scheme)	2,000 – 19,900	Fist Financing for new members (RM2000). Financing for members who has succeed in Micro Enterprises.
I-Wawasan (Entrepreneur Loan Scheme)	20,000 – 50,000	Financing for members who succeed in achieving Small and Medium Enterprises
I-Bistari (Educational Scheme)	1,000 – 5,000	Educational purpose
I-Sejahtera (Multi-purpose Loan Scheme)	1,000 – 10,000	For multiple uses

Achievement

As of August 2009, AIM has cumulatively disbursed nearly RM 3.4 billion of microcredit loan to assist SMEs in expanding their business ventures. AIM has registered 230,779 members or SMEs who have received continuous financing from AIM.

Table 2. Loan Disbursement and Number of Recipient from AIM, Malaysia, 2009

Description	TOTAL
Cumulative Loan Disbursement	RM 3,433,486
No. of Members/SMEs	230,779
No. of Groups	54,400
No. of Centres	6,369
No. of Branches	86
No. of Regions	8
No. of Staff	1450

The success of the business results in the increase of income which contribute to the community economic development and provide job opportunities for the local people.

SME IN AMANAH IKHTIAR MALAYSIA

The Definition of SME Used by Aim

Based on the official definition adopted by the National Council for the SMEs Development, SMEs is divided into three major sectors: (1) Micro; (2) Small, and (3) Medium Enterprises.

Table 3. Definition of SME Used by AIM, Malaysia, 2009

Categories Enterprises/ Type of Enterprises	Micro		Small		Medium	
	Number of Workers	Annual Sales (RM)	Number of Workers	Annual Sales (RM)	Number of Workers	Annual Sales (RM)
Basic Agricultural	Less Than 5	Less Than RM200,000	5-19	M200,000 – RM 1 Billion	20-50	M 1 Billion – RM 5 Billion
Factory / Goods	Less Than 5	Less Than RM250,000	5-50	M250,000 – RM10 Billion	51-150	M 10 Billion – RM 25 Billion
Services	Less Than 5	Less Than RM200,000	5-19	M200,000 – RM 1 Billion	20-50	M 1 Billion – RM 5 Billion

Ssource: The National Council for SME Development, Malaysia

SMEs Category in AIM

Based on the definition, there was a simple study conducted in 2008 which involved 711 borrowers as samples. The result showed that 75.8% of the entrepreneurs (SME) are in the micro enterprise category. The remaining 24.2% are categorized as small enterprise and yet there is no entrepreneur has achieved the category of medium enterprise.

Based on this simple study, the majority of AIM's entrepreneurs (SMEs) are in micro-enterprise category. The reasons for this are because of the followings: (i) The projects started as side income activities; (ii) The projects which operate in rural areas have low potentials of developing; (iii) The projects use small financing; (iv) These micro entrepreneurs have low level of education and little knowledge of entrepreneurship; (v) The projects use traditional-type or low application of technology; and (vi) The poor project management and limited marketing

Table 4. Category of SMEs according to AIM Regions, Malaysia, 2009

No.	AIM's Regions	Categories Of SME						
		Sample of SME	Micro Number	%	Small Number	%	Medium Number	%
1	Perak	120	93	77.5	27	22.5	0	0
2	Kedah	124	77	62.1	47	37.9	0	0.0
3	Kelantan	132	97	73.5	35	26.5	0	0.0
4	Terengganu	86	54	62.8	32	37.2	0	0.0
5	Southern	82	69	84.1	13	15.9	0	0.0
6	Sabah 1	17	17	100.0	0	0.0	0	0.0
7	Sabah 2	74	64	86.5	10	13.5	0	0.0
8	Sarawak	76	68	89.5	8	10.5	0	0.0
Total		711	539	75.8	172	24.2	0	0.0

In this regards, the role of AIM is to transform the micro entrepreneurs (SMEs) to small and medium enterprises and through this manner, the objective of alleviating poverty will be successful.

The Distribution of the Economic Activities for AIM's Entrepreneurs (SMEs)

The entrepreneurs in AIM mainly involved in the sector of agriculture, small businesses, fisheries, animal husbandry, manufacturing and services. Business sector comprises more than 50% of the projects chosen. The following chart describes the distribution of the activities:

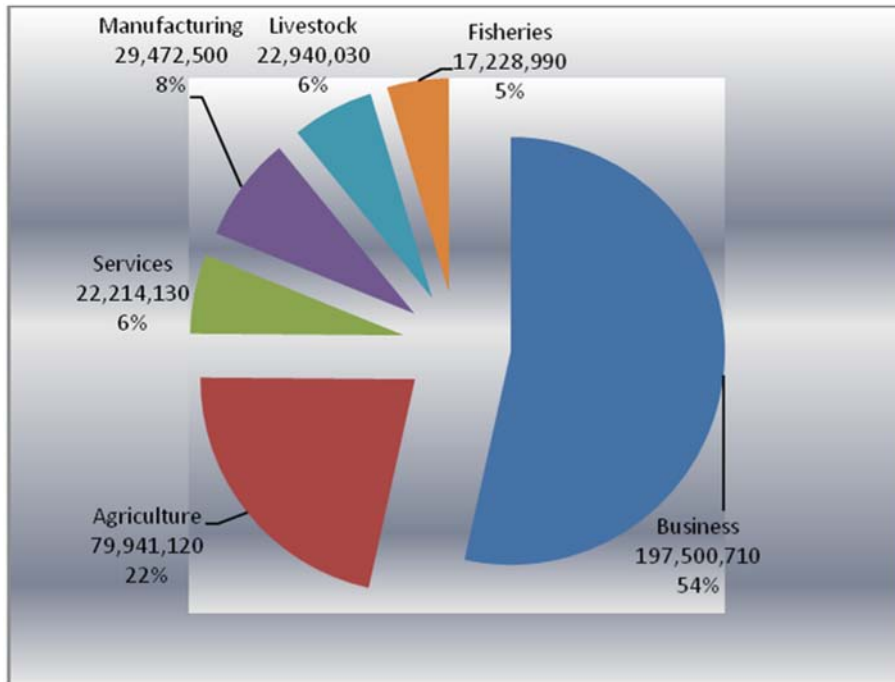


Figure 1. Distribution of SMEs Activities In Amanah Ikhtiar Malaysia, 2008

Number of Workers

AIM conducted a simple study on 1012 of AIM entrepreneurs (SMEs) in 2007 and found the followings result: (i) Each entrepreneur hire 3.3 worker on average; (ii) Average daily wages paid is RM20; and (iii) The highest number of workers hired is 45.

The number of SME and workers at AIM is presented on Table 5.

Table 5. Number of SME and Workers of AIM, Malaysia, 2007

No. of Workers	No. of SME	%
1-4	807	79.7
5-19	200	19.7
20-50	5	0.6
Total	1012	100

Value of Productive Assets

From the study, we found a significant increase in ownership of asset especially among the active borrowers (SMEs). The result shows the increase in asset ownership for the active borrowers is 349% as compared to the other respondent groups under this study (Table 6). Average period of membership for the respondents in this study is 6.3 years. Whereas, average loan size is RM2,417. This shows the success of AIM in developing entrepreneur (SMEs) to expand the business and to achieve the objective of poverty alleviation.

Table 6. Value of Productive Asset of AIM, Malaysia, 2009

Respondent	Before joining AIM (RM)	After joining AIM (RM)	%
Active Borrowers (SMEs)	9,903	44,514	349
Non-Borrowing Members (SGTP)	8,900	14,770	67
PAR (Portfolio At Risk)	9,890	18,177	83

Note: USD 1 = RM 3.4

Comparisons of Monthly Income Earned Before and After Joining AIM

The Impact Study conducted by AIM in 2007 shows the increment of income for all respondents under the study. The average monthly income has increased from RM324 to RM1948 or 502% or five times as compared to the income before joining AIM. In comparison, the non-borrowing members show the income increment for only 1.5 times as compared to the previous income. The increment is the lowest as compared to the other groups under this study

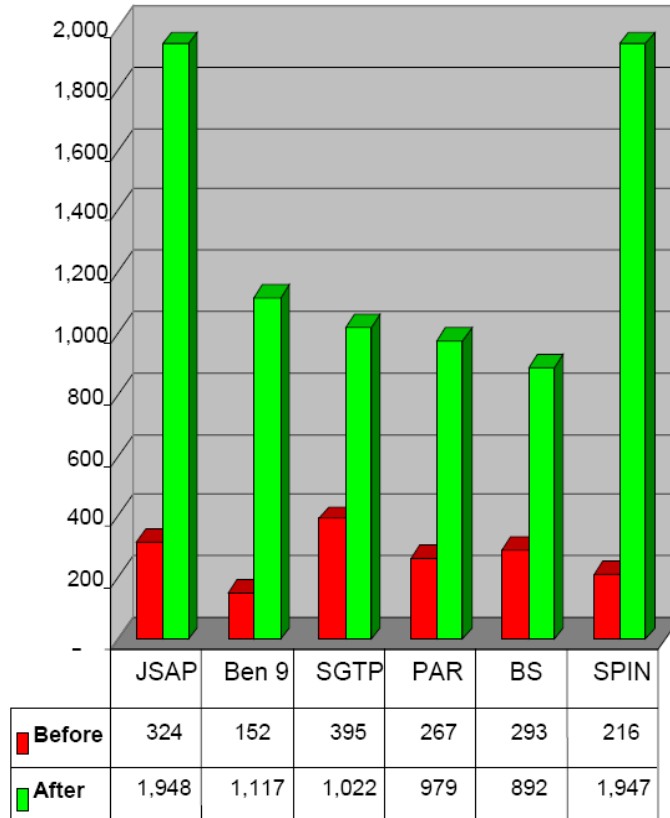


Figure 2. Monthly Income Earned Before and After Joining AIM, Malaysia, 2007

Entrepreneurship Development Programs

There have been various actions and strategies implemented to assist the SMEs in AIM. Such strategies are listed below:

- (i) Continuous disbursement of loan to increase sales and to strengthen business finance.
- (ii) The plan to increase the maximum amount of loan to RM100,00 especially for SMEs.
- (iii) Providing entrepreneurship training to all borrowers categorized under SMEs.
- (iv) Creating business networking among SMEs.

CONCLUSION

Amanah Ikhtiar Malaysia (AIM) is microfinance with disbursement of small, loans to finance income generating activities without collateral and guarantee. AIM plays vital role in assisting the Malaysian Government for the alleviation of poverty and also to provide the foundation for creating SMEs.

SME DEVELOPMENT IN MALAYSIA: ROLE AND FUNCTIONS OF SME CORPORATION MALAYSIA

Nur Suhada Ahad¹

INTRODUCTION

A productive and dynamic SME sector has long been recognized by the Government of Malaysia as an integral component towards achieving sustainable economic development. In this regard, SMEs contribute towards economic development through job creation and income generation. Thus, the importance of SME is consistently outlined in successive Malaysian Plans and Industrial Master Plans. In addition, the National SME Development Council (NSDC) has also developed a framework for the coordinated and comprehensive development of SMEs by the Government.

Specific policies and strategies to promote the development of the SME sector have been translated into initiatives aimed at building capacity and capability, putting in place enabling infrastructure and providing the all important access to financing for SMEs, to ensure integrated development across all sectors.

This paper will discuss briefly on the integrated approach undertaken by the Malaysian Government through NSDC which led to the establishment of SME Corporation Malaysia (SME Corp.). It will also highlight the role and functions of SME Corp. as the central coordinating agency, including its implementation role.

MALAYSIAN ECONOMY AT A GLANCE

Malaysia covers an area of about 330,252 square kilometers, consisting of states in Peninsular Malaysia; Sabah and Sarawak in the island of Borneo. Malaysia lies entirely in the equatorial zone and the average daily temperature throughout Malaysia varies from 21°C to 32°C. Malaysia is multi-ethnic economy. The principal ethnic groups are Malay, Chinese and Indian. Other significant groups are the indigenous people of Sabah and Sarawak. Malaysia practices a system of Parliamentary democracy with constitutional monarchy. It has three branches of government, namely the Executive, the Legislature and the Judiciary.

Malaysia is an economy on the move, from an economy dependent on agriculture and primary commodities, Malaysia has today become an export-driven economy spurred on by high technology, knowledge-based and capital-intensive industries. Supported by a market-oriented economy and pro-business Government policies, Malaysia offers investors a dynamic and vibrant business environment with

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the ideal prerequisites for growth and profits. Malaysia's key strengths include well-developed infrastructure and productive workforce. A politically stable economy with a well- developed legal system, Malaysia also provides attractive incentives for investors. Key statistic of Malaysia is as below :

Table 1. Malaysia Key of Statistic, 2009

1. Area (square km)	330,252
2. Capital City	Kuala Lumpur
3. Population (million)	28.31
4. Labour Force (million)	11.45
5. Employment (million)	11.03
6. Unemployment Rate (%)	4.5
7. Inflation (%)	1.6 - 2.0
8. Merchandise Exports (RM billion)	48.9
9. Merchandise Imports (RM billion)	41.1
10. Exchange rate (RM/US\$)	3.47

OVERVIEW OF SMEs IN MALAYSIA

Definition of SMEs

Malaysia adopted a common definition of SMEs to facilitate identification of SMEs in the various sectors and subsectors. This has facilitated the Government to formulate effective development policies, support programmes as well as provision of technical and financial assistance. An enterprise is considered an SME in each of the respective sectors based on the Annual Sales Turnover or Number of Full-Time Employees as shown in the table below:

Table 2. SME's Sales Turnover of Sector in Malaysia, 2009

Sector	Micro-enterprise	Small enterprise	Medium enterprise
Manufacturing, Manufacturing-Related Services and Agro-based industries	Sales turnover of less than RM250,000 OR full time employees less than 5	Sales turnover between RM250,000 and less than RM10 million OR full time employees between 5 and 50	Sales turnover between RM10 million and RM25 million OR full time employees between 51 and 150
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000 OR full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19	Sales turnover between RM1 million and RM5 million OR full time employees between 20 and 50

Profile and Contribution on Malaysia's Economic of SMEs

Profile of SMEs in Malaysia is as below :

1. Establishments in the services, manufacturing and agriculture sectors (overall and SMEs):

- TOTAL establishments	-	552,804
- TOTAL SMEs (including Micro)	-	548,267 (99.2%)
- TOTAL Micro-enterprises	-	435,324 (78.7%)

2. Distribution of SMEs by sector:

TOTAL	-	548,267
- Services	-	474,706 (86.6%)
- Manufacturing	-	39,373 (7.2%)
- Agriculture	-	34,188 (6.2%)

3. Distribution of SMEs in services by sub-sector (major sub-sectors):

- Wholesale/retail & restaurants	-	330,717 (69.7%)
- Transport & communication	-	30,766 (6.5%)
- Financial intermediaries	-	19,590 (4.1%)

4. Distribution of SMEs in manufacturing by sub-sector (major sub-sectors):

- Textiles & apparel	-	9,212 (23.4%)
- Metal & non-metallic mineral products	-	6,898 (17.5%)
- Food & beverages	-	5,945 (15.1%)

Source: Census of Establishments and Enterprises, 2005, Department of Statistics

5. Contribution of SMEs on economic:

		<u>2005</u>
<u>2010</u>		
- Gross Domestic Product (GDP)	-	32% 37%
- Employment	-	56% 57%
- Total export	-	19% 21%)

Source: National SME Development Blueprint 2007, Secretariat, National SME Development Council

NATIONAL SME DEVELOPMENT COUNCIL (NSDC)

Background of NSDC

The establishment of the NSDC is a clear indication of the government's systematic approach in building up a strong SME sector. The NSDC was established in June 2004, with Bank Negara Malaysia appointed as its Secretariat. Chaired by the Prime Minister, with representation from Ministers and Heads of 19 key Ministries and Agencies involved in SME development, the NSDC serves as the highest policy-making body to set the strategic direction for the Government policies on SME development so as to ensure coordination and effectiveness of Government programmes. The NSDC convenes bi-annually to deliberate on strategies and new policies to support SME development across all sectors, as well as to monitor and evaluate the progress and effectiveness of SME policies and programmes in promoting the growth and development of SMEs.

Specifically, the scope of work of the NSDC include:

- (1) The formulation of broad policies and strategies to facilitate the overall development of SMEs across all sectors;
- (2) Review of the roles and responsibilities of Government Ministries and Agencies responsible for SME Development;
- (3) Enhancing collaboration, coordination to ensure effective implementation of SME development policies and action plans; and
- (4) Encouraging and strengthening the role of the private sector in supporting the overall development of SMEs.

In order to increase SMEs' contributions to the economy, the main thrust of SME development efforts are aimed at: (1) Strengthening the infrastructure for SME development; (2) Building the capacity of domestic SMEs; and (3) Enhancing access to financing by SMEs.

Formation of SME Central Coordinating Agency

The NSDC agreed to establish the SME Central Coordinating Agency, a single dedicated Government agency to spearhead the development of SME across all sectors of the economy. The Small Medium Industry Development Corporation (SMIDEC) will be transformed to become the SME Central Coordinating Agency. The establishment of the Agency reflects the Government's strong commitment in promoting the development of entrepreneurship and SMEs in Malaysia. This is a key initiative aimed at accelerating the development of the SME sector by providing greater focus in formulating strategies and implementation of programmes for SMEs. The Agency will collaborate with the relevant Ministries and Agencies to ensure that comprehensive policies are in place, as well as coordinate and synchronise implementation of SME programmes across all sectors and Agencies. The Agency will provide a one-stop

information and advisory services to SMEs. This single point of contact and reference will make it much easier for SMEs to obtain comprehensive and up-to-date information on all programmes and provided by the Government assistance, as well as advisory services. This will significantly enhance the delivery of Government programmes and advisory services to SMEs. In addition, the Agency will monitor the performance of SMEs, towards developing appropriate policy response.

The SME Central Coordinating Agency will be placed with the Ministry of International Trade and Industry, but will report to the National SME Development Council. Necessary financial and non-financial resources will be provided by the Government to ensure that the Agency can perform its roles effectively. The NSDC believes that the establishment of the Agency will accelerate the development of the SME sector through better coordination and effective implementation of SME programmes. The Agency will have a key role in achieving the target set by the NSDC to increase SME contribution to the economy from 32% in 2005 to 37% of gross domestic product by 2010.

Handing Over of NSDC's Secretariat Function to Smidec

On 24 July 2008, Bank Negara Malaysia announced the official handover of the NSDC's Secretariat function to SMIDEC. With expanded functions, SMIDEC will be transformed into the SME Central Coordinating Agency and will be known as SME Corporation Malaysia (SME Corp). SME Corp will continue the role of the Secretariat in undertaking the overall coordination of SME policy formulation and assessment of the performance of SME development programmes across all sectors. SME Corp will also serve as the central point of information, reference and advisory services for SMEs. The establishment of a dedicated SME Agency represents a major structural enhancement to the SME development agenda towards the development of competitive and resilient SMEs.

SME CORPORATION MALAYSIA

Organisation Background

On 2 May 1996, a specialised agency was established to spur the development of small and medium enterprises (SMEs) by providing infrastructure facilities, financial assistance, advisory services, market access and other support programmes. Known as the Small and Medium Industries Development Corporation (SMIDEC), its aim was to develop capable and resilient Malaysian SMEs to be competitive in the global market. The establishment of the National SME Development Council (NSDC) in 2004 presented yet another chapter in SME development in Malaysia. As the highest policy-making body, its role was to formulate strategies for SME development across all economic sectors, coordinate the tasks of related Ministries and Agencies, encourage partnership with the private sector, as well as ensure effective implementation of the overall SME development programmes in this economy. Initiatives under NSDC

included enhanced access to financing, financial restructuring and advisory services, information, training and marketing coordination, and a comprehensive SME database to monitor the progress of SMEs across all economic sectors.

In 2007, the NSDC decided to appoint a single dedicated agency to formulate overall policies and strategies for SMEs and to coordinate programmes across all related Ministries and Agencies. SMIDEC was tasked to assume the role and the official transformation into SME Corporation Malaysia (SME Corp. Malaysia) commenced on 2 October 2009. SME Corp. Malaysia is now the central point of reference for information and advisory services for all SMEs in Malaysia.

Vision and Mission of SME Corp.

Vision

The focal point for the development of progressive SMEs to enhance wealth creation and social well-being of the nation

Mission

To coordinate and facilitate the growth and development of dynamic, innovative and resilient SMEs through the provision of effective business services.

Roles and Functions of SME Corp.

Roles and functions of SME corp. are:

1. Coordination of policies and programmes
 - Formulate broad SME policies across all sectors
 - Coordinate, monitor and evaluate effective implementation of policies and programmes across relevant Ministries and Agencies
2. Centre on advisory and information
 - Provide business advisory through the “SME Business Centre”
 - Disseminate information on Government funds and incentives on SMEs
 - Channel for feedback on SME issues
 - Liaison for domestic and international communities on SME matters
3. Management of Data, dissemination of information AND Research on SMEs
 - Manage National SME Database
 - Undertake research on SMEs
 - Publish SME-related reports and statistics
 - Undertake outreach programmes

4. Business support
 - Nurture and develop competitive SMEs through specific capacity building programmes and financial assistance
 - Enhance competitiveness of SMEs using the SME Competitiveness Rating for Enhancement (SCORE) diagnostic tool
 - Provide infrastructure support for SMEs
 - Facilitate linkages with large companies and MNCs
5. Secretariat to the National SME Development Council(NSDC)
 - Propose policies and ensure decisions of NSDC are effectively implemented
 - Provide administrative support for NSDC

Development Programmes

In addition to the Secretariat role, SME Corp. Malaysia will continue to provide assistance to SMEs. Programmes made available by SME Corp. to SMEs are: (1) Financial assistance programme; (2) Capacity building programmes; and (3) Advisory service. It is important to build capacity and capabilities during this challenging time. This will give an edge to SMEs when the economic climate improves. SME Corp. Malaysia's capacity development programmes are focusing on providing linkages with large and MNC, skill enhancement, entrepreneurship, technology innovation and advisory services.

SME Competitive Rating for Enhancement (SCORE)

One tool that SME Corp. Malaysia uses is the SCORE programme, developed in-house. A methodology to measure, rate and track the performance and capabilities of SMEs, based on through on-site visits and interviews.

SCORE benefits SMEs as it is diagnostic tool in providing an integrated, hand-holding assistance to them. Benefits include : (1) able to facilitate linkages of potential suppliers (SMEs) with the multinational corporations (MNCs) Large Companies; (2) list of companies which have achieved 4 and 5-Star are sent to MATRADE to be groomed for the export market, and later for participation in international trade missions and exhibitions; and (3) those in the 3-Stars category and below will be given integrated, hand-holding assistance to facilitate their growth in business.

Performance of these companies will be tracked for three years to ensure that business improvement processes are undertaken in accordance to respective company action plan.

WAY FORWARD

Moving Malaysian SMEs towards Higher Value-Added Economic Activities

In order to spur development of knowledge-based SMEs (K-SMEs) and to accelerate SMEs towards higher value-added industries, the National SME Development Council (NSDC) has agreed that K-SMEs are defined as:

- (1) SMEs with more than 20% of its staff being knowledge workers (where they possess at least tertiary/professional education). This includes consultancy firms.
- (2) SMEs that directly use ICT and technology in business processes or for product improvements.
- (3) SMEs that adopt innovation and R&D in business processes or for product improvements.
- (4) SMEs that provide systematic training and learning of technical skills to their employees.

K-Sectors will include Biotechnology, Nanotechnology, Photonics, ICT, Renewable Energy, Aerospace and Advanced Materials. The Multimedia Development Corporation and Biotech Corporation under the Ministry of Science, Technology and Innovation will be responsible for nurturing and monitoring the performance of K-SMEs. It was decided that comprehensive policies and incentives, that include fiscal incentives, access to capital and financing, facilitating quicker intellectual property and patent registration, as well as priority access to government procurement for innovative Malaysian SMEs would be implemented to further this agenda. Technology funds are also made available to enable K-SMEs to improve their research capabilities.

Potential Growth Areas for Development of SMEs

Several knowledge-intensive industries and selected services have been identified as having potential for the development of SMEs. These areas have the competitive advantage for future growth.

In the manufacturing sector, potential areas for the participation and growth of SMEs are as in Table 3.

Table 3. Potential Area of Manufacturing Sector in Malaysia, 2009

No.	Industry	Potential Areas
1.	Resource-based	<ul style="list-style-type: none"> – herbal and traditional medicines – cosmetics – palm-oil based products – wood based products – food and beverages, including convenient food for the halal market
2.	Machinery and engineering	<ul style="list-style-type: none"> – precision machining and tooling – process and product engineering – automation and system automation
3.	Electrical and electronics	<ul style="list-style-type: none"> – components for semi-conductors and radio frequency identification devices (RFID) – precision stamping – D&D of integrated circuits (ICs) – high end printed circuit board assemblies – substrates of printed circuit boards
4.	Medical Devices	<ul style="list-style-type: none"> – medical diagnostic devices and kits – medical and surgical disposable devices and equipment
5.	Manufacturing-related services	<ul style="list-style-type: none"> – software development and software systems integration – mould design and texturing – prototyping services – burn-in or testing of integrated circuits – failure analysis or repair centres for integrated circuits, printed circuit boards and printed circuit board assemblies – calibration and maintenance services – surface mounting, using advance and composite materials
6.	Metal products	<ul style="list-style-type: none"> – galvanised iron

In the services sector, potential areas for the participation and growth of SMEs are as in Table 4.

Table 4. Potential Areas of SMEs in Malaysia, 2009

No.	Industry	Potential Areas
1.	Distributive trade	<ul style="list-style-type: none">- retail- wholesale- restaurants- motor vehicle distribution- motor vehicle trade and repair service- franchising
2.	Transport services and logistics	<ul style="list-style-type: none">- forwarding- packaging- haulage- warehousing- storing- bulk breaking- integrated logistics supply chain
3.	Tourism services	<ul style="list-style-type: none">- hotels- transportation- eco-tourism- agro-tourism- health-tourism- edu-tourism
4.	Professional management Services	<ul style="list-style-type: none">- human resource management- market research- management consultancy- advertising- legal- accounting, book-keeping, auditing and tax consultancy- architectural- engineering- R&D- environmental and energy
5.	Education and training	<ul style="list-style-type: none">- courses on new technologies / methods / processes / technical standards- entrepreneurship- professional accredited courses
6.	Construction and related services	<ul style="list-style-type: none">- Adoption of clustering approach to bid for overseas projects by combining complementary skills and expertise, especially in civil engineering- Residential and non-residential construction- Infrastructure
7.	ICT	<ul style="list-style-type: none">- Customized software development- Consultancy in e-commerce- Consultancy in security

OUTLOOK FOR 2010

The Budget announced by the Prime Minister Malaysia recently comprised various measures for SMEs to encourage private investment. The measures included financing schemes, tax incentives, skill enhancement programmes and infrastructure development which will be implemented by the various Ministries and agencies. The measures are also aimed towards developing new areas of growth particularly in the agriculture and services sectors. In addition, SME Corporation Malaysia has been allocated a total of RM350 million for financing and capacity building programmes. The key measures for SME development are as follow:

1. Agriculture Sector

- i. Modernize the aquaculture industry and implement entrepreneurship training scheme for aquaculture breeders which is expected to benefit 1,150 participants.
- ii. Develop food farming industry such as fruits, vegetables, organic farming.
- iii. Develop basic infrastructure for livestock farms and establish supply chains for production of beef and mutton.
- iv. Implement incubation programmes for agro entrepreneurs under the MOA, Ministry of Youth and Sports, UPM, Agrobank and Regional Economic Corridors.
- v. Establish a consortium between FELCRA, FELDA and RISDA with a paid-up capital of RM300 million to implement various high impact projects in downstream and upstream industries.
- vi. Provide RM2 billion subsidies, incentives and assistance to safeguard farmers and fishermen
- vii. Provide RM1.09 billion incentives and subsidies for paddy farmers including price subsidies (RM400 million) and fertilizer subsidy (RM300 million) and other incentives (RM390 million)

2. Services Sector

- i. Establish RM200 million Creative Industry Fund to finance films, animation and local content development under Bank Simpanan Nasional.
- ii. Upgrade infrastructure in tourism centres nationwide to encourage eco-tourism and homestay facilities.

3. All Sectors

- i. Financing
 - Provide soft loans amounting to RM1.5 billion for companies that supply and utilise green technology under the National Green Technology Centre with effect from 1 Jan 2010 that would benefit 140 companies.

- Provide additional allocation of RM200 million under the TEKUN Scheme (including RM20 million for Indian SMEs).
- Establish a micro insurance and takaful coverage for small businesses with a minimum premium of RM20 per month for coverage ranging from RM10,000 to RM20,000.
- Approval for micro financing schemes by financial institutions will be improved to an average of 6 days and disbursement of funds to an average of 4 days.
- Expand Ar-Rahnu Scheme currently offered by Bank Rakyat to Bank Muamalat and Bank Islam.
- Provide RM200 million of soft loans under SME Corporation Malaysia.

ii. Infrastructure

- Provide RM57 million to SME Bank among others to establish business premises for SMEs.
- Provide RM30 million fund to establish 300 units of Kedai Desa nationwide under UDA.
- Provide SMEs with tax deduction on expenses incurred in the registration of patents and trademarks in the economy.
- Corporatise Halal Industry Development Corporation (HDC) as an Agency under MITI to implement an action plan for development of Halal Industry
- Upgrade air cargo facilities for export of perishable agriculture products by MASKargo.
- Extend implementation of MyCoID, which is a single reference number of a company, to more Government Agencies with effect from early 2010.

iii. Capacity Building

- Allocate RM548 million for skills upgrading under MARA and state skills development centres for industrial training programmes (technical, hospitality, culinary & furniture)
- Provide skills training (including entrepreneurship programme for more than 3,000 women) and micro credit facilities (Skim Pembangunan Kesejahteraan Rakyat).
- Allocate RM100 million for capacity enhancement and RM50 million for branding and promotion under SME Corporation Malaysia.

CONCLUDING REMARKS

SMEs has been recognized by the Government of Malaysia as an integral component toward achieving sustainable economic development. Government approach in building up SME sectors was by establishing the National SME Development Council (NSDC).

The NSDC decided to appoint a single dedicated agency to formulate overall policies and strategies SMEs and to coordinate programmes across all related Ministries and Agencies.

COMMUNITY ENTERPRISE : PEOPLE EMPOWERMENT, THAILAND LESSON LEARN

Jiranuth Charnnarongkul¹

INTRODUCTION

Thailand is located in Indochina Peninsula with a total area of about 514,000 sq km. Her territorial boundaries connect with Malaysia in the south, Kampuchea in northeast to east, Laos in the northeast, and Myanmar (Burma) in the northwest to west.

Geographically, the economy may be divided into four regions. In the central, northern, northeastern and southern regions, altitude modifies the temperature considerably. It cool enough in the northern region to produce temperate fruits, vegetables, and some kind of flowers cool and dry in northeast region, and modestly humid in the central region. These three regions have three seasons: rainy during late April. In the southern region, there is not cool season and the climate is wet, but is tropical and monsoonal, influenced by the southwest monsoon except for the south. Average annual rainfall and temperature vary, ranging from 998-4,603 mm. for precipitation and 24.4-29.3 °C (76-85 °F) for temperature.

Bureaucratically, Thailand is divided into 76 provinces, each headed by a governor. There are 998 districts and districts branches 8,860 sub-districts, and nearly 67,941 villages in the 76 provinces. The population in 2009 was 63,396,000 people, of this amount, 64 percent reside in the rural areas. Approximately 90 percent of the rural people, or almost 5.2 million families, earn their income through subsistence farming, particularly rice cultivation and field crop production.

In Thailand, 51 % of population are engaged in agriculture. Most of them grow single crops such as rice, cassava, sugar cane etc. The proportion of income per capita of those engaged in agriculture to other sectors is 1 : 13 Several development programs have failed because there were no realistic assessment of limited resources base of small -farming system. The survival social economic pattern of the householders was not taken into full account. Our basic assumption is that small-scale farmers in Thailand will be responsive to development effects if the technology fits their need aspiration and environments.

From the above information, basic problems of the poor farmers in community can identify in to 4 major problems: (1) The production is not sufficient for living; (2) Incapable of debt management; (3) Uncarefully utilization of resources; (4) Too much relying on resources from outside.

¹ Director of Community Enterprise Promotion and Network Management Division, Department of Agricultural Extension, THAILAND

Many communities try to solve their problem by formulate the small enterprise group under concept of “Community enterprise” that can run their business for income generation and make “self-reliance system” in community economy.

COMMUNITY ENTERPRISES IN THAILAND

Community enterprise have been organized in many communities both in rural and urban area since more than 15 years ago. Previous economic development policies caused economic change, resulted in poverty of rural communities. Many communities solved their problems by getting to know themselves, analyzing their problems and starting community enterprise.

The two important problems of local entrepreneurs are: (1) No legal status for local entrepreneurs, and (2) Provision of supports does not respond to local needs

The Government solve those problem by the promulgation of Community Enterprise Promotion Act B.E. 2548 (2005) which has come into force on January 19,2005.

Objectives of the Community Enterprise Promotion Act B.E. 2548 (2005) are: (1) To promote Knowledge and local wisdom, income generation, and mutual assistance, (2) To develop management capacity, and (3) To develop operational procedures of the community enterprise which can enhance the community’s self-reliance and strengthen its economy.

Essences of the Act, namely: (1) Register local entrepreneurs certify their status as the community enterprise, (2) Establish the Community Enterprise Promotion Board, (3) Set up the promotion/support measures, (4) Be under the Prime Minister’s supervision, and (5) Authorize the Department of Agricultural Extension to act as the Secretariat Office of the Community Enterprise Promotion Board, and the Provincial Agricultural Extension Office as the Secretariat Office of the Provincial Community Enterprise Promotion Board.

Definition of “Community Enterprise” and “network”

The community enterprise is activity related to production, services and other business undertaken by local community who shares common ways of life and form together to run their business for income generation and self-reliance in the family, within and across the communities.

The community enterprise network is a group of local people joining together to carry out activities for the benefits of the community enterprise, in network.

The benefits from being the Community Enterprise are: (1) The groups are certified by law, (2) The assessment of groups’ potential is conducted to know their strength and actual needs, thereby enhancing suitable development plan in line with

their readiness, and (3) The groups have the rights to gain supports to develop their activities based on their needs and in line with the Committee's criteria.

Sustainable activity of Community Enterprise were: (1) Focus on activities which stem from the resources and local wisdom in the community, (2) Produce primary products sufficient for the community's consumption, (3) Place an emphasis on the concept of "cost reduction, increased Income, and debt management", (4) Be relevant to the community plan, and (5) Aim at self-reliance, benefits, and happiness in the community.

How to get support form the Act?

Interested local entrepreneur group can apply for registration at the Department of Agricultural Extension.

Registration System

The requirement to be registered are: (1) Form a group consisting of at least seven (7) persons who are not in the same Family, (2) The groups intend to engage in one activity or more, and (3) The groups cooperate in drawing up community enterprise plan or identify activities which are in line with the community plan.

Required documents for registration

For non-juristic group are: (1) A letter of authorization signed by no less than a half of total group members or a copy of the group's meeting resolution concerning the authorization of person to apply for registration, (2) A copy of the authorized person's identification card, (3) A name list and address of the group members together with the copy of their identification cards, and (4) A copy of the community enterprise network's regulations (for the registration of community enterprise network only).

For juristic group are: (1) A copy of document stated the business' objectives, (2) A copy of the name list of the Board, and (3) A copy of the resolution of the Board's meeting or that of the General.

Meeting concerning the registration application are: (1) A name list and address of the members, and (2) A copy of the community enterprise network's regulations (for the registration of community enterprise network only)

Information to be filled out in the registration form are: (1) Name of community enterprise or community or community enterprise network to be registered, (2) Address, (3) Name and address of the authorized person, (4) Number of the members, and (5) Business/activities to be operated.

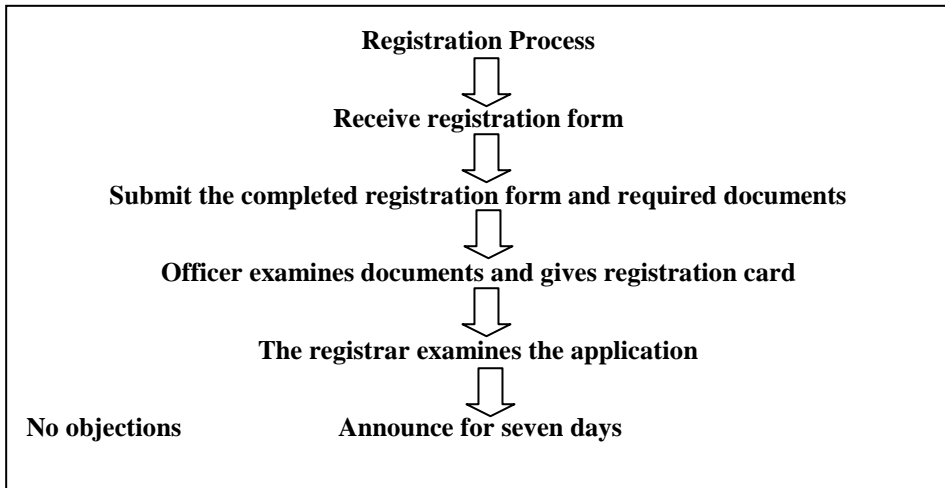


Figure 1. Issue the Registration Certificate together with the document of business operation

All information are input in “Real time system <http://smce.doe.go.th>”

Registrar

Head of District Agricultural Extension office in every 998 districts

Community Enterprise Promotion Board

There are two level boards, namely: (1) Central Community Enterprise Promotion Board contain with 28 committee members which are half representatives from government organizations and half from non-government, In the part of non-government, there are 10 community enterprise representatives and 3 experts from deferent area. The chairman of the committee is Prime Minister or appointed Vice Prime Minister. Secretariat is Director General of Department of Agricultural Extension; (2) Provincial Community Enterprise Promotion Board in 76 Provincials. Contain with 20 committee members which are also half from government organization representatives and half from non-government. In this level, there are 6 members from community enterprise representatives and 3 experts from different area. Chairman of the committee is Provincial Governor or appointed Vice Provincial Governor. Secretariat is head of Provincial Agricultural Extension Office.

The Department of Agricultural Extension and Provincial Agricultural Extension Office are authorized secretariat office of the Central and Provincial Community Enterprise Promotion Boards.

Community Enterprise Development Strategies

Community Enterprise Promotion Board formulate strategies for community enterprise development, namely: (1) Promote learning, research and development of communities, (2) Promote community enterprise management and administration for self-reliance, and (3) Promote and support community enterprise and community network.

Community Enterprise Promotion Process

Promotion Process for develop community enterprise use concept of “learning process” that start from getting to know themselves, to know their problem, resource, need, potential and learn more from outside and make their plans by the decision of members group under their potential (Figure 2).

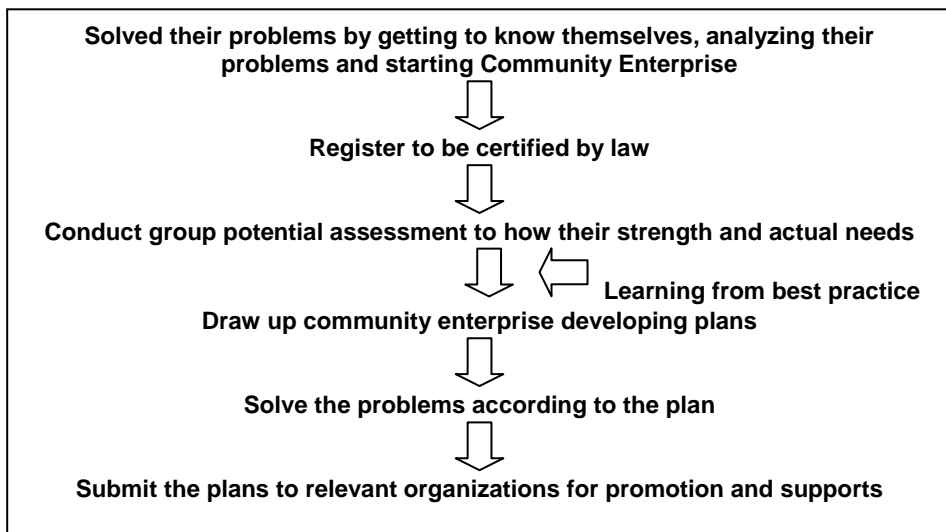


Figure 2. Community Enterprises Promotion Process

How to Conduct Group Potential Assessment

The community enterprise have to conduct groups potential assessment by their own way as they like. The Department of Agricultural Extension create potential assessment system to help community enterprise to evaluate themselves by use theory of Total Quality Management (TQM) to evaluate process and outcome in 6 basic requirements in process, namely: (1) Vision and learning system of the leader and group members, (2) Implementation plan, (3) Market management, (4) Knowledge and information management, (5) Member management, and (6) Product and service management.

Best Practice

In the Learning Process, community enterprise need to learn more from other enterprise group to study their practice, the concept of the best practice the problem solving and get idea for formulate their own plan under their potential.

The department of Agricultural Extension and other related organization support by select the best practice group in the economy for community enterprise learning system.

Criteria for select best practices group are: (1) Learning process, (2) Group Saving system, (3) Diversity of enterprise under concerning of wisdom and resource, (4) Social Welfare under commitment of members.

Key Success Factor

Community enterprise can make decision to develop their development plan in line with their readiness by concerning with their potential.

Current Community Enterprise Development Situation

Most of community group need to register to be certified by law. Current number of registered community enterprise is 64,531. Type of activity registered are 2 main activities.

Product : Crops, livestock, food processing, garment and textile, production factors, handicrafts, fisheries, herbal products, artificial flower, beverage, souvenir, wood craft/furniture, metal craft, Jewelry, pottery, leather, machinery, and miscellaneous.

Services : Community savings, community stores, health services, agro-tourism, machinery fixing, and miscellaneous.

The highest number of activity registered is crops production. The number of registered community enterprise show in table and graph (Appendix).

Table 1. Number of registered community enterprise and community enterprise network categorized by types of product in Thailand

Types of product	No of C.E.s registered	No of C.E.s networks registered
1. Crops	13,703	65
2. Livestocks	10,647	24
3. Food processing	8,619	42
4. Garments and textiles	7,382	29
5. Production factors	4,424	22
6. Handicrafts	2,439	7
7. Fisheries	2,104	5
8. Herbal products	1,519	6
9. Artificial flower	1,342	4
10. Beverage	1,323	7
11. Souvenir	999	5
12. Wood craft/furniture	946	3
13. Metal craft	192	1
14. Jewelry	185	2
15. Pottery	153	-
16. Leather	87	-
17. Machinery	57	-
18. miscellaneous	4,867	18
Total	61,288	240

Table 2. Number of registered community enterprise and community enterprise network categorized by types of activities in Thailand

Types of activities	No of C.E.s registered	No of C.E.s networks registered
1. Community savings	2,854	13
2. Community stores	1,347	9
3. Health services	361	1
4. Agro-tourism	229	2
5. Machinery fixing	46	-
6. Miscellaneous	2,146	22
Total	6,983	47

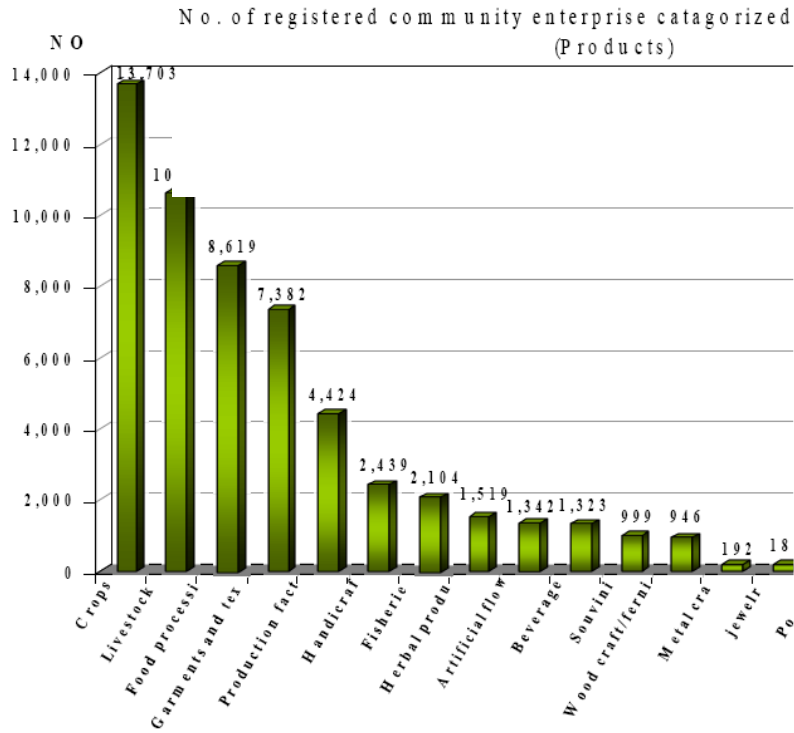


Figure 1. Number of registered community enterprise catagorized by products in Thailand

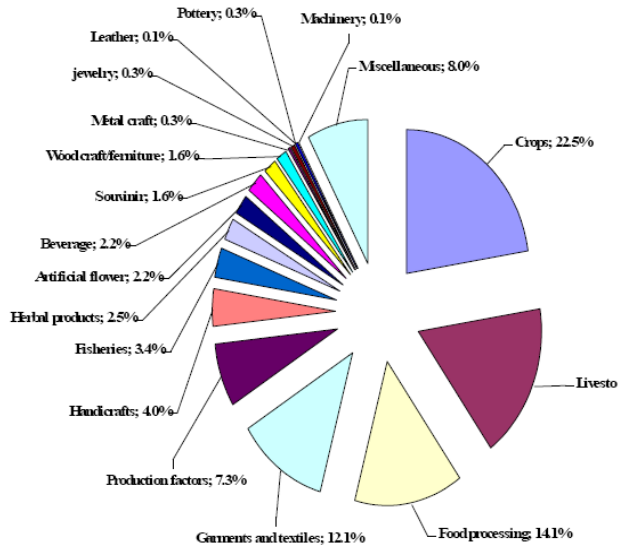


Figure 2. Number of registered community enterprise categorized by types of activities in Thailand

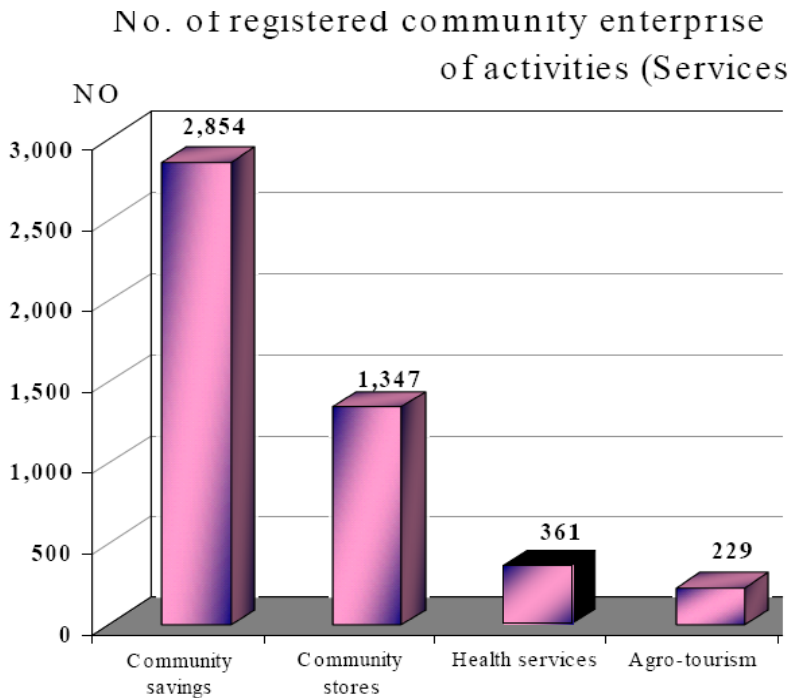


Figure 3. Number of registered community enterprise of activities (services) in Thailand

No. of registered community enterprise catagorized by types of activities

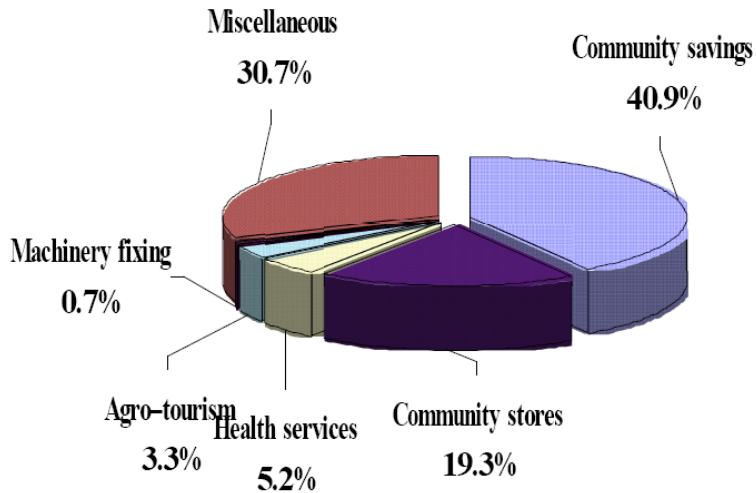


Figure 4. Number of registered community enterprise catagorized by type of activities in Thailand

Provision of Supports

There were 4 item Provider for community enterprise development plan.

- | | |
|----------------------|------|
| 1. Knowledge | 36 % |
| 2. Material | 13 % |
| 3. Marketing Support | 5 % |
| 4. Fund | 46 % |

Supporting Unit

- | | |
|--------------------------------|------|
| 1. Government Service | 57 % |
| 2. Educational Institute | 19 % |
| 3. Public Organization | 2 % |
| 4. Community Network | 2 % |
| 5. Bank / Finance | 17 % |
| 6. Foundation & King's Project | 2 % |
| 7. Private Sector | 1 % |

CONCLUDING AND REMARKS

Community enterprises in Thailand have been organized and try to solve their problems by formulate the small enterprise group under concept “community enterprise” that can run their business for income generation and make “self-reliance system” in community economy, community enterprise can make decision to develop their development plan with their readiness by concerning with their potential.

The community enterprise have to conduct groups potential assessment by their own way as they like. The Department of Agricultural Extension create potential assessment system to help community enterprise to evaluate themselves by use theory of Total Quality Management (TQM) to evaluate process and outcome in 6 basic requirements in process, namely: (1) Vision and learning system of the leader and group members, (2) Implementation plan, (3) Market management, (4) Knowledge and information management, (5) Member management, and (6) Product and service management.

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THE ROLE OF SMES ON POOR POWER EMPOWERMENT IN THAILAND: THE SUCCESS OF COOPERATIVE DEVELOPMENT

Chamlong Yimsuan¹

INTRODUCTION

Thailand in Brief

Thailand is part of the Southeast Asia mainland. The Lao People's Democratic Republic lies to the North, the Kingdom of Cambodia to the East, the Union of Myanmar to the North and West and Malaysia to the South. Two seas, the Andaman and the Gulf of Thailand, bracket the economy to the West and the East respectively.

Thailand covers an area of approximately 514,000 sq. km: 99.6% of it land and 0.4% marine territory. Bangkok is the capital of Thailand..

The population of Thailand was estimated at 65,068,149 in July 2007. Approximately 25 percent are under the age of 15. This core population includes the central Thai (36% of the population), Thai- Lao (32%), northern Thai (8%), and southern Thai (8%). Age Structure: 0-14 years: 22% (male 7,284,068/female 6,958,632) 15-64 years: 70% (male 22,331,312/female 22,880,588) 65 years and over: 8% (male 2,355,190/female 2,821,805) (2006 est.) The population growth rate is 0.68% (2007 est.).

Life Expectancy at Birth total population: 72.55 years male: 70.24 years female: 74.98 years (2007 est.). Median Age: 30.5, Birth Rate: 16.04/1,000 Population, and Death Rate 6.94/1,000 Population.

Thailand categorized as a tropical, with an average low temperature of 23.5°C and a high of 32.8°C. Three seasons: monsoon from July to October, cool from November until February and hot from March until June.

Thai is the national and official language, though business people usually understand English and some Chinese dialects, Thai is the mother tongue of the Thai people, the economy's dominant ethnic group. Thai belong to the Thai-Kadai language family, one of the five main language families in Southeast Asia.

It is a tonal language. It is generally agreed that the Thai alphabet was created from earlier regional scripts in 1283 by King Ramkhamhaeng the Great of the Sukhothai Kingdom.

¹ Cooperative Promotion Department, Thailand

All major religions are represented. Buddhism is practiced by the majority of the population, followed by Islam, Sikhism, Hinduism and Christianity.

Government

Thailand has been a constitutional monarchy since 1932, An elected governor administers the Bangkok Metropolitan Administration. Appointed governors administer the other 76 provinces, divided into districts (amphoe), sub-districts (tambon) and villages.

Gross Domestic Product (GDP): 273,400 million US Dollar, GDP per capita: 4,081 US dollar, and Currency: Baht (THB). Average Interbank Exchange Rate = 33.59 Baht/US Dollar. Foreign Exchange Rates as of October 19, 2009 (Source: Bank of Thailand).

OVERVIEW OF SMALL AND MEDIUM ENTERPRISES IN THAILAND

Structure of Thai SMEs have 4 types as follow: (1) Large-sized enterprises (LE); (2) Medium-sized enterprises (ME); (3) Small-sized enterprises (SE); and (4) Micro Enterprises. Small and medium sized enterprises by type of business in Thailand was shown in Table 1.

Table 1. Small and Medium Sized Enterprises in Thailand by Type of Business, 2006

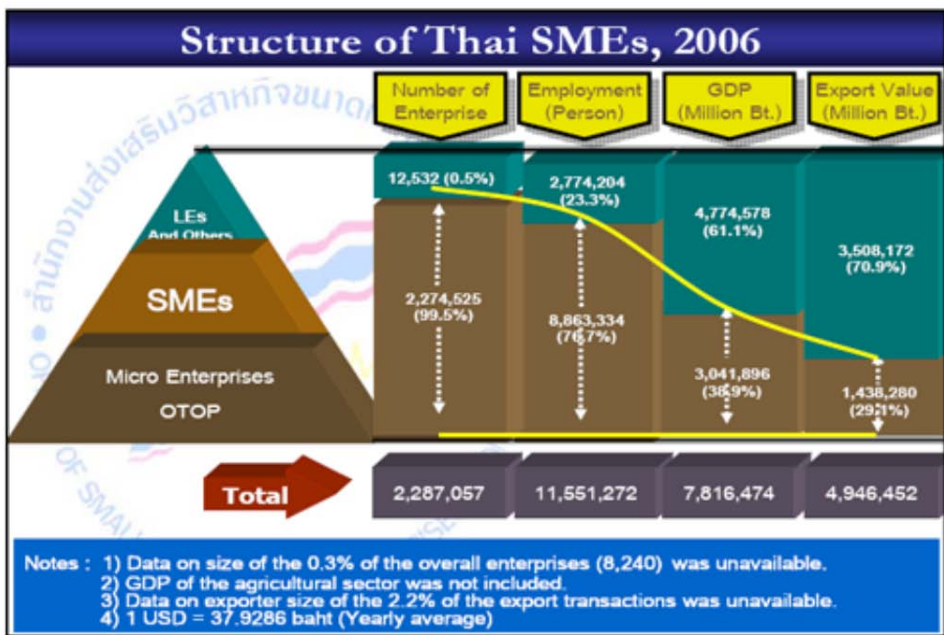
Small-sized enterprises			Medium-sized enterprises		
Type of business	Employment	Fixed Assets (million baht)	Type of business	Employment	Fixed Assets (million baht)
Production	≤ 50	≤ 50	Production	50 - 200	50 -200
Wholesaler	≤ 25	≤ 50	Wholesaler	26 - 50	50 -100
Retailer	≤ 15	≤ 30	Retailer	16 - 30	30 -60
Service	≤ 50	≤ 50	Service	51 - 200	50 -200

In 2006, the total number of all types of enterprises was 2,287,057 which included 4,292 large-sized enterprises (LE), or 0.2%; 9,791 medium-sized enterprises (ME), or 0.4%; 2,254,734 small-sized enterprises (SE), or 99.0%; and 8,240 unidentified enterprises, or 0.4%.

Thailand's SME had the largest number in trade and repairs, totaling 908,846 or 40.0% of the overall number, followed by services with 675,622 or 29.7% and production with 672,351 or 29.6%.

In 2006, the employment of all enterprises was 11,551,272. The number can be classified by enterprise size as follows: 2,687,938 positions in large-sized enterprises (LE), or 23.3% of the overall employment, followed by 1,338,398 in medium-sized enterprises (ME) or 11.6%. and 7,524,936 in small-sized enterprises (SE), or 65.1%. Accordingly, the job creation by the SMEs was 8,863,334, or 76.7% of all positions. This figure compared to SMEs job offered between 2004-2006, shows an increase in 2006 of 3.9% compared to 2005s due mostly to the increase in the SE, which grew by 6.3%.

SMEs employment classified by sector in 2006 was concentrated most in the production sector for 3,496,202 positions, or 39.4%. The service sector was the second largest group of employers at 2,923,338 positions, or 33.0%. Third was trade and repairs, employing 2,443,414, or 27.6% (Figure 1).



Source: White Paper on SMEs, Thailand, 2006

Figure 1. Structure of SMEs in Thailand, 2006

Role of Small and Medium Enterprises in Gross Domestic Product

Thai economy grew by 5.0% in 2006, a 0.5% rise when compared to the 4.5% growth in 2005. Gross domestic product (GDP) for 2006 reached 7,816,474.0 million baht, an increase of 728,814.4 million baht compared to 2005. GDP classified by sector showed that in 2006, the agriculture sector accounted for 836,077.0 million baht, or 10.7% of the overall GDP, higher than the 2005 GDP which stood at 10.2%. GDP in non-agriculture sector was calculated at 6,980,397.0 million baht, or 89.3% of

the overall GDP.

The contribution to GDP by the small and medium enterprises (SMEs) was 3,041,895.9 million baht in 2006, or 38.9% of the overall GDP. The amount was a mild decrease compared to 2005, but it still represented a growth rate of 4.8%. When classifying this GDP for small enterprises (SE) and medium enterprises (ME), GDP by SE stood at 2,043,460.3 million baht, or 26.2% of the overall GDP, a 4.5% expansion from 2005. At the same time, GDP by ME reached 998,435.6 million baht, or 12.800. a 5.300 expansion (Table 2)

.Table 2. The Role of SMEs in Thailand's GDP, 2002-2006

	2002	2003	2004	2005	2006
Gross Domestic Product at Current Price (million baht)					
Overall	5,450,643.0	5,917,368.0	6,489,847.0	7,087,660.0	7,816,474.0
Agriculture	514,257.0	615,854.0	669,498.0	721,682.0	836,077.0
Non-agriculture	4,936,386.0	5,301,514.0	5,820,349.0	6,365,978.0	6,980,397.0
- Large Enterprises	2,443,128.7	2,686,401.2	2,944,125.8	3,249,458.5	3,589,655.1
- SMEs	2,248,474.3	2,352,840.8	2,580,336.2	2,790,413.5	3,041,895.9
• Small Enterprises	1,545,663.1	1,601,426.2	1,748,200.7	1,881,273.2	2,043,460.3
• Medium Enterprises	702,811.2	751,414.6	832,135.5	909,140.2	998,435.6
- Other Enterprises	244,783.0	262,272.0	295,887.0	326,106.0	348,846.0
Proportion (Presented in Percentages)					
Overall	100.0	100.0	100.0	100.0	100.0
Agriculture	9.4	10.4	10.3	10.2	10.7
Non-agriculture	90.6	89.6	89.7	89.8	89.3
- Large Enterprises	44.8	45.4	45.4	45.8	45.9
- SMEs	41.3	39.8	39.8	39.4	38.9
• Small Enterprises	28.4	27.2	27.1	26.8	26.2
• Medium Enterprises	12.9	12.7	12.9	12.9	12.8
- Other Enterprises	4.5	4.4	4.5	4.5	4.5
GDP Growth Rate at Constant Price (Percentage)					
Overall	5.3	7.1	6.3	4.5	5.0
Agriculture	0.7	12.7	(2.4)	(3.2)	4.8
Non-agriculture	5.9	6.5	7.3	5.3	5.0
- Large Enterprises	7.4	8.5	7.4	5.7	5.4
- SMEs	4.1	4.6	7.6	4.8	4.8
• Small Enterprises	3.6	3.9	6.8	4.6	4.5
• Medium Enterprises	5.2	6.2	9.1	5.2	5.3
- Other Enterprises	6.5	3.0	3.0	6.1	3.7

Source : Office of SMEs Promotion

COOPERATIVES IN THAILAND

The problem to world economy such as recessions and financial crisis also impact to Thai economy without anyway to avoid. All business faced the recession problems from the beginning of 2008. The political unstable was another factor added

to impact our economy. For cooperatives, this was the base of both economic and social in the size of 13,543 cooperative institutions (cooperatives, farmers' groups and Federation Cooperatives) and more than 10 million members, was also received impact from those factors.

Farmers group is consisted of a group of agricultural workers joined together and registered to the cooperative register under Cooperative Law to work together and help each other to fund agricultural activities with the occupation. This type of group has the aims to raise the overall quality of agriculture by providing loan to members for investment in order to make a better living. Farmers group is classified by using member occupations. At present, there are a total number of 4,157 farmers groups in Thailand.

Cooperative is a juristic person formed by a group of people who have some similarity; they may work in the same place, have the same career, or live in the same neighbor. Cooperative may have a different way of management but it has the same objective to promote the socioeconomic interest of the members by means of self-help and mutual assistance in accordance with the cooperative Act B.E. 1999. The cooperative is classified into 7 categories as follow: (1) Agricultural Cooperative; (2) Fisheries Cooperative; (3) Land Settlement Cooperative; (4) Consumer Cooperative; (5) Service Cooperative; (6) Thrift and Credit Cooperative; and (7) Credit Union Cooperative.

The first 3 types of cooperatives are in the cooperative in agricultural sectors while the rest is not in agricultural sectors. At the present, we have 6,186 cooperatives in Thailand.

Federation Cooperative is formed by a group of cooperatives operated in the same categories, which are agricultural, fishery, land settlement, consumer, service, thrift and credit, and credit union. Federation cooperative is a juristic person established by the registration under the Cooperative Act B.E. 1999 and has objective to facilitate members in cooperating the business by networking. Today we have 93 federation cooperatives in Thailand (Figure 2).

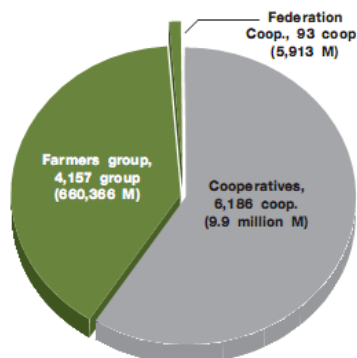


Figure 2. Cooperative and Farmers Group Institutions in Thailand

In 2008 the financial condition of cooperative and Farmers' groups was in the good trend, which can observe from the information. There are 10,436 cooperatives institutions with 10.58 million members, or 16.72% of the total population in Thailand. We found that cooperatives and farmers' groups member increased from year 2007 by 0.02%, which showed the producing and buying power of cooperatives institutions was enough to stimulate Thai economy (Table 3).

Table 3. The Cooperative and Farmer's Groups in Thailand, 2007-2008

Description	2008		2007		Difference (%)
	Unit	%	Unit	%	
No. of cooperatives					
Cooperatives	6,186	59.28	6,662	57.57	-7.15
Farmer Groups	4,157	39.83	4,811	41.57	-13.59
Federation Cooperatives	93	0.89	99	0.86	-6.06
Total	10,436	100.00	11,572	100.00	-9.82
No. of members (million people/cooperative)					
Cooperatives (people)	9,915,060	93.70	9,810,307	92.74	1.07
Farmer Groups (people)	660,366	6.24	761,904	7.20	-13.33
Federation Cooperatives (people)	5,913	0.06	6,550	0.06	-9.73
Total	10,581,339	100.00	10,578,761	100.00	0.02

Cooperative Capital and Investment

Capital

In 2008, the cooperatives were still in the good trend with capital in the amount of 1 billion Baht increased from 2007 by 12.48%, which a little bit higher than last year increasing rate. The capital comprise of 51.45% of cooperative capital, 31.42% of members, deposit and 17.13% come from external loan, 31.42% of members' deposit and 17.13% come from external loan (Table 4 and Figure 3).

We found that most of cooperatives capital came from members and the biggest creditor for external loan was federation cooperatives. **When compared between cooperative capital and external loan, we found that cooperative capital is more than external around 3 times. This reflected the stability of cooperatives' financial condition and sufficient of capital to risk.** Members also had trust and faith to the cooperatives by continuing to invest in cooperatives' stock every year, which was the strongest of cooperatives business.

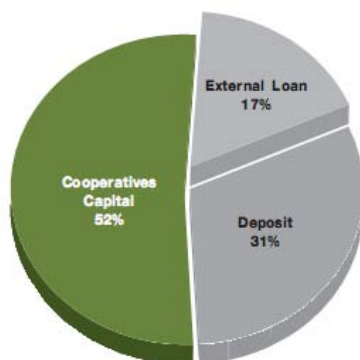


Figure 3. Cooperative Capital in Thailand, 2008

Tabel 4. Cooperative Capital by Sources in Thailand, 2007-2008

Source of capital	2008		2007		Difference (%)
	Unit	%	Unit	%	
Cooperatives Capital	518,052	51.45	470,613	52.57	10.08
Deposit	316,427	31.42	255,117	28.50	24.03
External Loan and others	172,486	17.13	169,484	18.93	1.77
Total	1,006,965	100.00	895,214	100.00	12.48

Investment

In 2008, the cooperatives were still in the good trend with investment value of 1 billion Baht increased from 2007 by 12.48%. We found that loan business was the highest investment, which accounted for 79.07% of total investment increased around 9.58% when compared to year 2007, followed by stock and debt investment, which accounted for 11.13% increased from last year 37.96% (Table 5 and Figure 4).

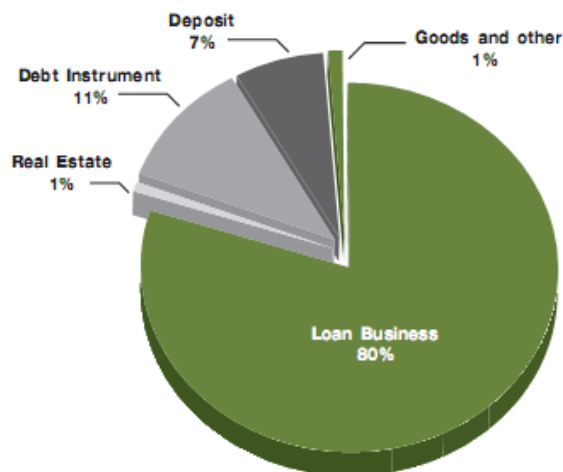


Figure 4. Investment Proportion in Thailand, 2008

Table 5. Cooperative Investment in Thailand, 2007-2008

Investment	2008		2007		Difference (%)
	Unit	%	Unit	%	
Loan	796,173	79.07	726,553	81.18	9.58
Land, Property & Equipment	13,687	1.36	14,456	1.62	-5.34
Financial Security	112,035	11.13	81,209	9.07	37.96
Deposit to bank or cooperative	73,084	7.26	55,522	6.20	31.63
Inventory and other	11,986	1.19	17,471	1.95	-31.39
Total	1,008,965	100.00	895,214	100.00	12.48

Cooperative Businesses

In 2008, the cooperatives were still in the good trend with the data from 6 categories of cooperatives business offered to the member. The total value of all businesses was 1.1 billion baht a year or average 92,000 million Baht a month increased from 2007 by 10.16%. We found that members still interested into 2 major businesses, which were 1) loan business was the highest accounted for 62.77% of total business value the total loan valued at 690,000 million Baht or average 58,000 million Baht a month; and 2) Deposit business followed in the second place, which accounted for 26.12% of total business value. The total deposit valued at 290,000 million Baht or average 24,000 million Baht a month. Both businesses increased from last year by 10.59% and 11.80% respectively (Table 6). This information meant that cooperatives and farmers' groups were still the hope of theirs members and receives the members' trust and faith since members were both debtors and creditors. The consistency of deposit and capital investment and the applied for loan from members make cooperatives and farmers' groups had enough capital to create satisfaction to their members, which resulted in a good liquidity and created wealth and revenue to their members.

Table 6. Cooperative Business in Thailand, 2007-2008

Cooperative Businesses	2008		2007		Difference (%)
	Unit	%	Unit	%	
Deposit	289,245	26.12	258,724	25.74	11.80
Loan	695,039	62.77	628,492	62.53	10.59
Trade (Selling business)	51,118	4.62	46,954	4.67	8.87
Product-collecting (buying)	52,691	4.76	53,304	5.30	-1.15
Processing	18,084	1.63	16,686	1.66	8.38
Service	1,087	0.10	963	0.10	12.88
Total	1,107,264	100.00	1,005,123	100.00	10.16

For **business result**, the cooperatives were still in the good trend with profit, which increased from last year 14.79%. Most of the profit came from loan business, which invested most of their capital with 79.07% of total capital. The details were as the following (Figure 5).

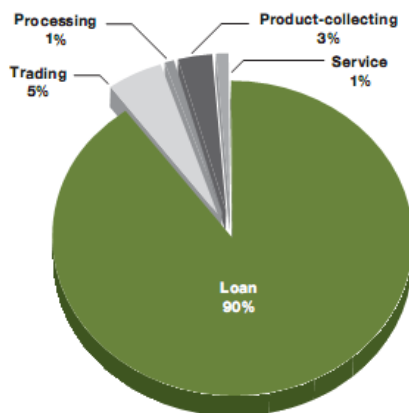


Figure 5. Operating Result of Cooperative in Thailand, 2008

Operation Result

In 2008, the cooperatives were still in the good trend especially when considered that profit was more than loss around 3.4 times, increased from 2007 by 14.79%. The number of profitable cooperative decreased a little bit by 0.70%, while the loss cooperative also decreased by 25.58%. Total revenues were averaged at 17,766 Baht per member, increased from 2007 by 6.87%. Total expenses were averaged at 14,419 Baht per member, also increased by 5.19%. However, expenses to revenue ratio was quite high at 81.16% reduced by 1.29% when compare year 2007. Although this still showed a good condition, cooperatives and farmers' groups must be very careful and control spending to be efficient and balance (Table 7).

Table 7. Performance of Cooperative's Profit in Thailand, 2007-2008

Description	2008		2007		Difference (%)
	Unit	%	Unit	%	
Total Revenue (million)	187,879	100.00	175,749	100.00	6.90
Total Expenses (million)	152,482	81.16	144,912	82.45	5.22
Profit (million)	35,397	18.84	30,837	17.55	14.79
Profit (no. of cooperatives)	7,822	77.51	7,877	72.09	-0.70
loss (no. of cooperatives)	2,269	22.49	3,049	27.91	-25.58
Total (no. of cooperatives)	10,091	100.00	10,926	100.00	-7.64
Proportion ratio					
Expenses ratio (%)	81.16		82.45		-1.29
Profit Margin (%)	18.84		17.55		1.29
Average Revenue (per member)	17,766		16,624		6.87
Average Expenses (per member)	14,419		13,707		5.19

IMPORTANT ECONOMIC AND ENERGY AGRICULTURAL PRODUCTS

During the past 2-3 year agricultural price continued to increase due to the increasing in world demand. Therefore created substantial income for producers especially for agricultural products that could transform into energy had a bright future. There are important economic and energy agricultural products as the following.

Cooperative have 2 outstanding economic agricultural products, which are 1) Para Rubber with 30,894 million Baht a year or 2,575 million a month; and 2) Paddy with 7,664 million Baht a year or 639 million a month. Those 2 (two) products are important to create income to cooperative members. The details are as the following.

Para rubber: Value of 30,894 million Baht a year

The year 2008, Para rubber decreased 10.53% in selling the product though 437 cooperatives in 35 provinces. The value of collecting and selling Para rubber was mostly occurred in the southern part of Thailand at 77.40% of all products sold especially in Sonkhra province. The operation for last 3 years (2006-2009) was in an increasing trend from 20,944 million Baht in 2006 to 34,535 million Baht in 2007, but decreased to 30,894 million Baht in 2008. In 2009, we expect to continue increasing.

Paddy: Value of 7,664 million Baht a year

The year 2008, paddy had a growth rate of 4.61% in selling the product though 601 cooperatives in 54 provinces. The value of collecting and selling paddy was mostly occurred in the northeastern region at 52.13% especially in Roied province. The operation for last 3 years (2006-2008) was in a decreasing trend from 9,368 million Baht in 2006 to 7,326 million Baht in 2007 but increasing to 7,664 million Baht in 2008. But in 2009, we still believe to increase.

Energy Agricultural Products

Cooperatives have 4 outstanding energy agricultural products, which are 1) Palm with 2,449 million Baht a year or 204 million a month 2) Maize with 3,165 million Baht a year or 264 million a month 3) Sugar Cane with 336 million Baht a year or 28 million Baht a month and 4) Cassava with 608 million Baht a year or 51 million Baht a month. The details are as the following.

Palm: of 2,449 million Baht a year

The year 2008, palm had a growth rate of 25.12% selling the product though 34 cooperatives in 10 provinces. The value of collecting and selling palm was mostly occurred in the southern part of Thailand at 95.82% especially in Krabi province. The operation for last 3 years (2006-2008) was in an increasing trend from 1,079 million Baht in 2006 to 2,449 million Baht in 2008. In 2009, we expect to increase.

Maize: Value of 3,165 million Baht a year

The year 2008, maize had a growth rate of 42.94% selling the product through 34 cooperatives in 27 provinces. The value of collecting and selling maize was mostly occurred in the northern part of Thailand at 60.95% especially in Phisanulok province. The operation for last 3 years (2006-2008) was in an increasing trend from 1,694 million Baht in 2006 to 3,165 million Baht in 2008. In 2009, we expect to increase.

Sugar cane: Value of 336 million Baht a year

The year 2008, sugar cane had a growth rate of 1.52% selling the product through 28 cooperatives in 18 provinces. The value of collecting and selling sugar cane was mostly occurred in the northeastern part of Thailand at 69.70% especially in Khronkaen province. The operation for last 3 years (2006-2008) was in an increasing trend from 122 million Baht in 2006 to 336 million Baht in 2008. In 2009, we expect to increase.

Cassava: Value of 608 million Baht a year

The year 2008, cassava had a growth rate of 1.2% selling the product through 71 cooperatives in 24 provinces. The value of collecting and selling cassava was mostly occurred in the northeastern part of Thailand at 78.70% especially in Nakornrajasema province. The operation for last 3 years (2006-2008) was in an increasing trend from 183 million Baht in 2006 to 608 million Baht in 2008. In 2009, we expect to increase.

Problems

However, we found there were a lot of cooperatives that did not hire accounting staff, which impacted to the management efficiency and lack of information for management and marketing, decision-making, objective settings and planning. Cooperative with less than standard level should correct and improve internal control system before the problem became non-solvable, which will to the future operation.*

***Financial Condition of Cooperative Institutions and Farmers Group in Thailand 2008: The Cooperative Auditing Department, March 2009**

The problems about marketing of Agricultural Cooperatives in Thailand are as follow: (1) Commodity price in the economy is fixed by world market which is fluctuating and not stable. Due to out of control of natural products, farmers are at risk if their products go bad and change the condition quickly; (2) The agricultural products are high competitive under the agreements made through FTA, APEC or WTO. Even though under those agreements, the flow of products into other countries is increasing, there are more competitions at the same time; (3) The returns gained from the industrial sector are higher than the agricultural one. So, the new generation is likely to enter the industrial sector instead. This results in the high cost of production in agricultural sector; (4) Due to long-term application of fertilizers, the conditions of soils and water do not facilitate the effective outputs. Moreover, the high production technology and quality seeds are not supported sufficiently. So, the price

of agricultural products is falling down, and the products cannot compete with the competitors from other countries; and (5) There are numerous middle men involves in trading. Therefore, farmers earn less in spite of high price of products.

Policy Framework for Promoting of Agricultural Cooperative Business

The Thai government through Cooperative Promotion Department (CPD) under the Ministry of Agricultural and Cooperatives directly responsible for promoting and developing cooperatives to be self-reliant organization especially in agricultural sectors has continuously invested a large amount of resources, through various programs, for agricultural cooperative development. The Department has put emphasize on the following commitments: (1) Increasing production by improving productivity and promoting agricultural production according to market needs on the condition that production must not destroy natural resources and environment; (2) Improving marketing system of cooperatives in order to increase efficiency for competition in the market by simultaneously sustaining cooperative's way as well as promoting price mechanism and the business networking among cooperatives; (3) Development of cooperative management system by emphasizing on integration of activities of the cooperatives in order to respond the needs of members and increase their income; (4) Promoting women and youth groups in cooperatives of uplift their quality of lives; (5) Training of cooperative personnel at all levels starting from cooperative member, committee and management staff; and (6) Provision of loan fund for cooperative business: Cooperative Development Fund (CDF)

In 2008, the cooperative movement in Thailand launched and put its second master plan "Cooperative Development Plan 2007-2011" into action. The action plan embodied the main five strategies addressed in the second master plan, consisting of 25 plans with 139 corresponding projects (15,917.88 million baht). Among the five strategies, which is a milestone for cooperative development, the 4th one emphasizes on the equitable development of cooperative business networking in term of supply chain to achieve cooperative member and social welfare. The objectives are: (1) To impartially conduct the production and trade system; (2) To extend business opportunities within and outside cooperative movement; and (3) To develop the pattern of production and commerce under concept of Sufficiency Economy Philosophy in order to increase values and create the sustainability in cooperative businesses.

Case Study

Thailand is one of the world's biggest rice producers but the Thai farmers still face about many problems such as the fluctuation of price, floods, pests, increasing of cost (fertilizer pesticide and seed) and bad weather. Cooperative Promotion Department (CPD) launched a project of standard rice production at Thung Kula Rong Hai in 2006, the most famous of Hom mali rice in Thailand, is in 19 agricultural cooperatives in Thung Kula Rong Hai area. There are 13 cooperatives in Surin, Roi-Et, Maha Sarakham and Yasothon and 6 cooperatives Kasetvisai Agricultural Cooperative Ltd., Suwannaphummi Agricultural Cooperative Ltd., Ponsai Agricultural

Cooperative Ltd., Mahachanachai Agricultural Cooperative Ltd. and Agricultural Marketing Srisaket Cooperative Ltd. Have rice mills. The processes of this project improve the quality of rice from the cooperative members, the capacity of paddy collection and production and marketing.

For improve the quality of rice, the cooperatives promote their members to use the quality seed for planting and make the quality of rice by GAP (Good Agriculture Practice).

For improve the capacity of paddy collection and production, the activities are: To promote the 6 cooperatives to collect paddy from their members; To improve the 6 cooperatives get GMP and ISO certificates; To train and seminar about rice mill management, marketing management, business plan, network for cluster and making rice market strategic.

The activities of marketing are: (1) To create band “TK Thung Kula”; (2) To improve the packaging; (3) To provide the promotion and advertising; (4) To create the cluster for 6 cooperatives and other cooperatives in Thung Kula Rong Hai area.

Figure 6 shows the project outcome of the cooperative in Thailand in 2008.

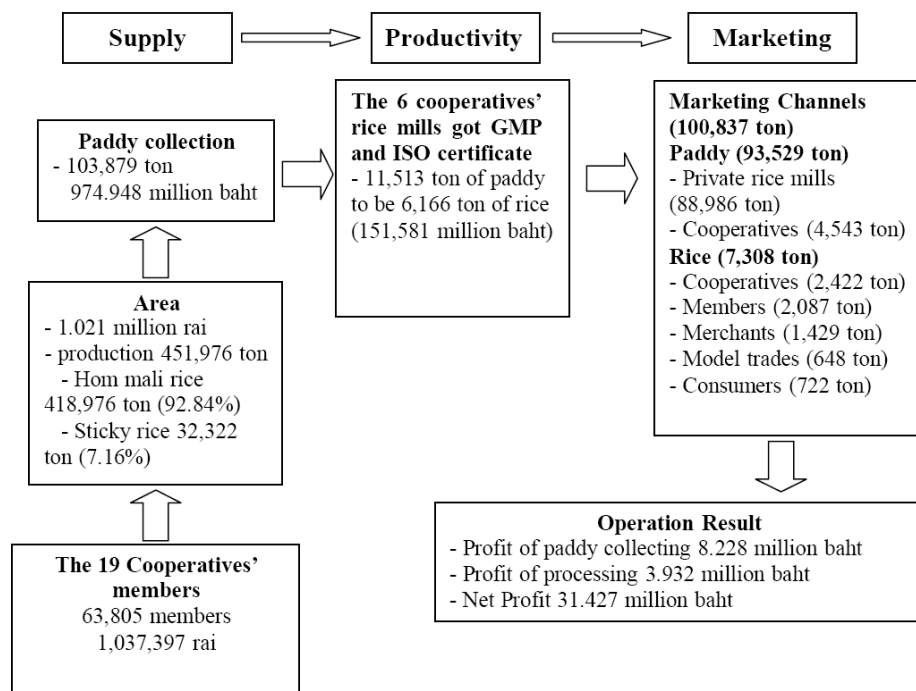


Figure 6. The Project Outcome (2008)

CONCLUDING AND REMARKS

Small and medium enterprises in Thailand have a significant role in the Thailand economy. In 2006 the SMEs contribution on the Thailand's GDP was around 39 percent to overall GDP. Even though, the number of SMEs was slightly decreased during 2005-2006, but it still represented in growth rate of 4.8%.

In the case of cooperative and farmer's groups condition in Thailand shows that the financial condition in 2008 was still in the good trend. Regarding to the capital and investment, cooperative in Thailand was stable condition and sufficient of capital to risk. The good trend conditions of cooperatives in Thailand during 2007-2008 are also shows in the business result and operations results.

To promote of agricultural cooperative business, in 2008 the cooperative movement in Thailand launched and put its second master plan "Cooperative Development Plan 2007-2011" into action. The activity plan embodied the five strategies, among of those, which is a milestone for cooperative development the 4th one impaired on the equitable development of cooperative business networking in term of supply chapter to achieve cooperative member and social welfare.

REVISITING THE SMES IN THE PHILIPPINES: CHALLENGES AND ISSUES

Edna D. Samar

INTRODUCTION

Small and medium enterprises (SMEs) have gained increasing recognition in national and international discussions. In the Philippines, its importance paved the way for the passage to two major laws that govern the promotion of SMEs: Republic Act (RA) 6977, or the Magna Carta for Small Enterprises, as amended by RA 8289, and RA 9178, better known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002.

RA 6977 mandates the government to help SMEs by creating a conducive 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 strengthening government-private sector partnership in SME development. RA 9178, on the other hand, encourages the formation and growth of BMBEs, or those with assets size of less than PHP 3 million, by granting them fiscal and non-fiscal incentives and other benefits.

The crucial role in the growth of the Philippine economy is discussed by Leano (2006). Accordingly, the Philippine government has embarked upon a comprehensive and integrated strategy for the sustainable growth and development of SMEs in the economy. The Philippine strategy encompasses all critical factors-technology, product development, finance, training, and marketing, among others (Figure 1).

Admittedly from the Bureau of Small and Medium Enterprise Development of the Department of Trade and Industry, the Philippine government has consistently extended support to SMEs by creating an enabling environment for them to realize their full potential in the blueprint for national development.

The importance of micro enterprises in the Philippine economy cannot be understated. The role of micro enterprises vis-a-vis the SMEs is discussed in this paper to constitute the MSMEs. This paper presents the MSMEs in the Philippines in the light of the most recent available data. Also, the paper presents the challenges and issues faced by them on account of emerging environmental issues.

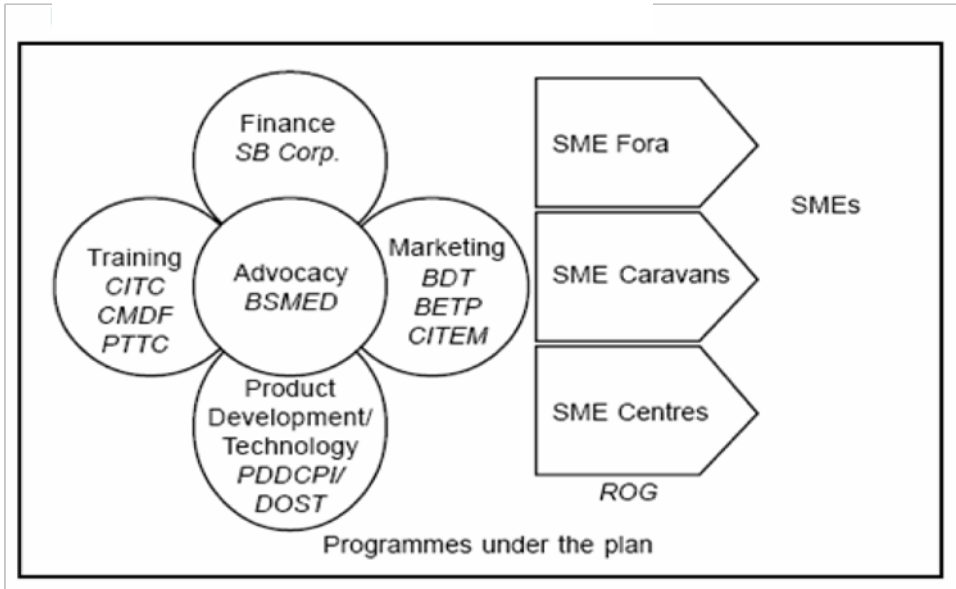


Figure 1. SME Agenda: An Integrated Approach in The Philippines (Leano, 2006)

THE PHILIPPINE MSMEs

Micro, Small and Medium Enterprises Defined

Philippine businesses are categorized by asset size and by number of employees. The micro, small, and medium enterprises (MSMEs) refers to any business activity/enterprise engaged in industry, agri-business/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: (a) By asset size: Micro: Up to PhP3,000,000 (about US\$60,000); Small: PhP3,000,001 - PhP15,000,000; Medium: PhP15,000,001 - PhP100,000,000; Large: above PhP100,000,000 (>US\$2,000,000); (b) By number of employees: Micro: 1 - 9 employees; Small: 10 - 99 employees; Medium: 100 - 199 employees; Large: More than 200 employees.

Role of MSMEs

The important economic role of MSMEs is well recognized in the economy as embodied in the following documents: (a) Medium Term Philippine Development Plan (MTPDP) 2004-2010; and (b) SME Development Plan 2004-2010.

In the MTPDP, it is the policy of the state to promote entrepreneurship and SME development. Specifically, the SME Development Plan presents the integrated efforts to strengthen and stimulate the SME sector so it can contribute significantly to the economy's development. The Plan aims to make the SME sector a key factor in the economy's economic growth by 2010.

On the other hand, the Philippine Business Agenda 21(BA 21): Business Strategies for Sustainable Development directs the businesses towards the important role of SMES towards environmental sustainability. The BA 21 is the blue print for the private sector participation in managing the environment referred as PRIME in this document where 73 industry associations participated in the shaping of BA 21.

The above documents point to the major role of MSMEs in the economy's economic development through their contributions in the following areas: (a) rural industrialization; (b) rural development and decentralization of industries (c) creation of employment opportunities; (d) use of indigenous resources; (e) earning of foreign exchange (forex) resources; (f) creation of backward and forward linkages with existing industries; and (g) entrepreneurial development.

MSMEs are vital in dispersing new industries to the countryside and providing gainful employment. With the abundance of labor in the Philippines, much is to gain from entrepreneurial activities particularly those that are labor-intensive. Thus, the MSMEs generate jobs in the locality of operation that extends to the immediate environs, as the case may be. Thus, MSMEs bring about a more balanced economic growth and equity in income distribution.

MSMEs contribute in setting new design trends, developing contemporary products, and bringing them to the marketplace ahead of the competition. They become channels for innovation to develop indigenous or appropriate technology, which may be developed into pioneering technological breakthroughs. The MSMEs are agents for effective increase of the value added in final goods that are processed and marketed by large manufacturing firms.

MSMEs promote maximization in the use of scarce capital resources and are able to partner with large firms by supplying locally available raw materials in unprocessed or semi-processed forms. Also, MSMEs can act as the seedbed for the development of entrepreneurial skills and innovation. They contribute in the provision of services to the community. Collectively, they can make an important contribution to regional development programs.

Economic Contributions

From the 2006 census, the Philippines has a 783,066 establishments spread across the archipelago. Figure 2 provides the percentage distribution of establishments by size of establishments. Notably, the micro enterprises made up 92 percent with SME consisting of about 8 percent while the large enterprises, 0.3 percent only. Although very small in terms of asset size and employment, the micro-enterprises are too numerous to ignore.

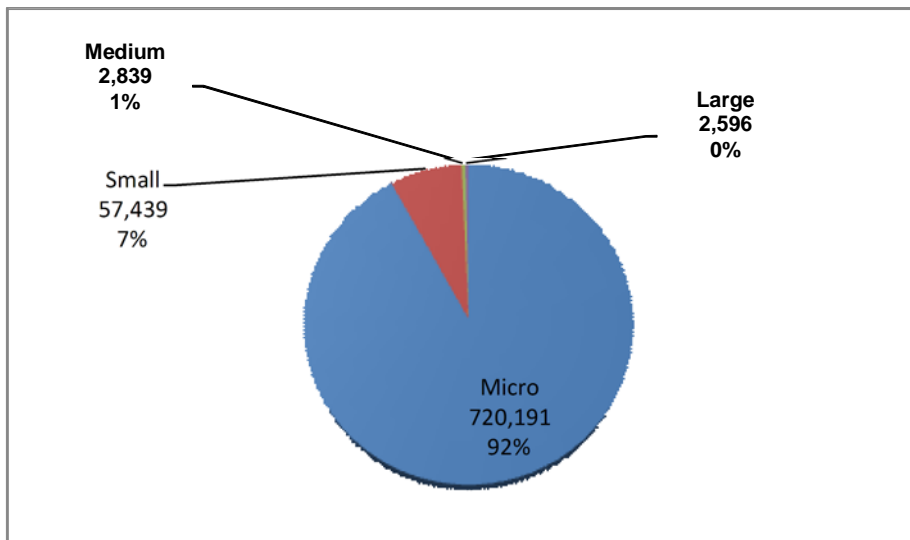


Figure 2. Distribution of Establishment by Size of Firm, Philippines, 2006

The employment generation from all enterprises reached 4,984,883. Of which, MSMEs generated a total of 3,327,855 jobs representing 67 percent of the total employment generation (Figure 3). Among them, the micro enterprises had employed 33 percent comparable to the employment generation of large

industries. In particular the SME had an employment share of 34 percent.

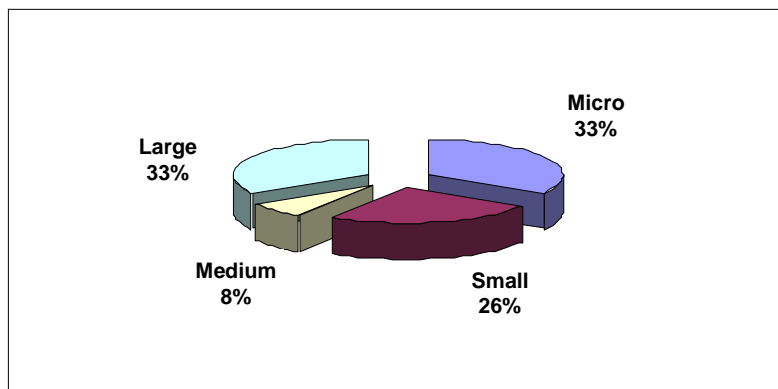


Figure 3. Employment Share by Size of Establishments, Philippines, 2006

Together with the huge number of micro enterprises throughout the nation, the small and medium businesses also produced a third of the economic output and

accounted for a fourth of all export revenues in 2006 so that the MSME sector is referred as the backbone of the economy (Gulle, 2009).

Sectoral Employment

The distribution of establishments by size of firm and by industry classification is provided in Table 1. On the other hand, the sectoral contribution of MSMEs to employment generation is shown in Figure 4. The following are the Philippine Standard Industry Classification (PSIC) by sector: A – Agriculture, hunting and forestry; B – Fishery; C – Mining and quarrying; D – Manufacturing; E – Electricity, gas and water; F – Construction; G – Wholesale and retail trade; H – Hotels and restaurants; I – Transport, storage and communications; J – Financial intermediation; K – Real estate, renting and business activities; M – Education; N – Health and social work; O - Other commodity, social and personal service activities

Table 1. Distribution of Establishments by Firm Size and by Industry, Philippines, 2006

PSIC	Size of Establishment				Total	MSME	%
	Micro	Small	Medium	Large			
A	2,631	1,322	125	121	4,199	4,078	0.5
B	890	499	30	28	1,447	1,419	0.2
C	217	82	5	15	319	304	0.0
D	105,083	10,274	1,004	985	117,346	116,361	14.9
E	558	630	106	104	1,399	1,294	0.2
F	1,352	979	84	73	2,488	2,415	0.3
G	373,721	17,110	384	233	391,448	391,215	50.1
H	90,121	7,677	128	49	97,975	97,926	12.5
I	7,035	2,133	123	114	9,405	9,291	1.2
J	18,679	4,434	90	109	23,312	23,203	3.0
K	40,936	3,985	372	429	45,722	45,293	5.8
M	6,699	4,712	240	206	11,857	11,651	1.5
N	29,996	1,266	98	83	31,443	31,360	4.0
O	42,272	2,336	50	47	44,705	44,658	5.7
Total	720,191	57,439	2,839	2,596	783,065	780,469	100.0

Source of basic data: NSO

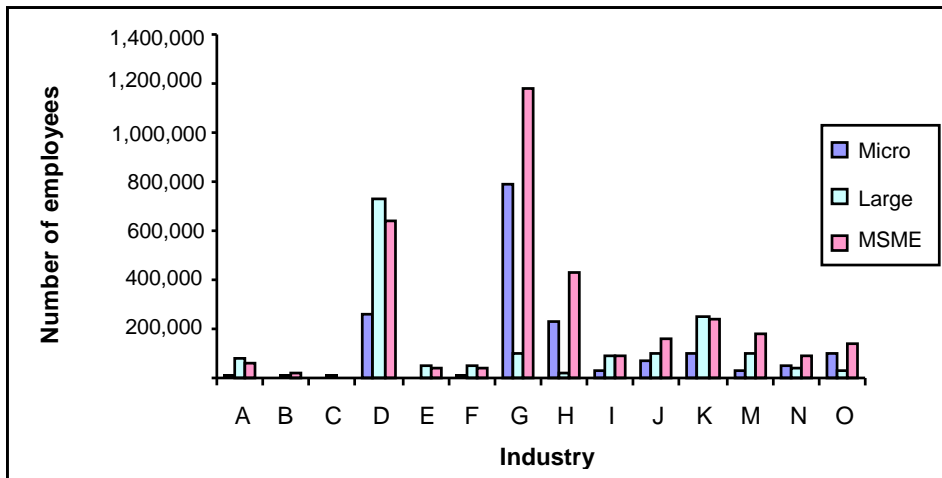


Figure 4. Employment by Size of Firm and by Sector, Philippines, 2006

By industry sector, MSMEs that generated the most number of jobs are the wholesale and retail trade (G- 1,181,525) followed by MSMEs in manufacturing (D- 644,927), hotels and restaurants (H- 427,153), real estate, renting and business activities (K-242,122) and education (M-180,265). The substantial contribution to employment by the micro enterprises is noted in the wholesale and retailing sector and in the hotel and restaurant businesses. On the other hand, a substantial contribution by the large enterprises is noted in the manufacturing sector, real estate, renting and business activities and in the agriculture, hunting and forestry.

The average employment generation by sector of the MSME, relative to the large enterprises and to all industries is shown in Table 2. Because of the numerous numbers of micro enterprises, their collective contribution to employment almost equals the large enterprises.

Tabel 2. Average Employment Generation by Sector of MSME, Philippines, 2006

PSIC	Size of Establishment		
	ALL	MSME	Large
A	34	15	691
B	21	12	498
C	47	12	755
D	12	6	739
E	60	28	452
F	38	18	707
G	3	3	438
H	5	4	441
I	20	10	809
J	11	7	895
K	11	5	586
M	23	15	437
N	4	3	486
O	4	3	563
Total	6	4	638

Source of basic data: NSO

Rural Industrialization

Across the archipelago, the distribution of establishments is depicted in Figure 5. By island group, 68 percent of the MSMEs are located in Luzon, 14 percent in Visayas and 18 percent in Mindanao. Regardless of the size of the establishment, micro, small, medium and large enterprises are concentrated in the metropolitan areas and the adjoining environs. In Figure 5, MSMEs representing 25 percent were located in the National Capital Region. Adjoining the NCR is the Calabarzon (Region IV-A) and Central Luzon (Region III) with 15 and 11 percent of the MSMEs, respectively. The remaining MSMEs representing 18 percent are spatially distributed in the rest of Luzon Island (northern side and southern part). SMEs located in the Visayas regions (Western, Central and Eastern) constituted 15 percent and Mindanao with its vast natural resources had 18 percent.

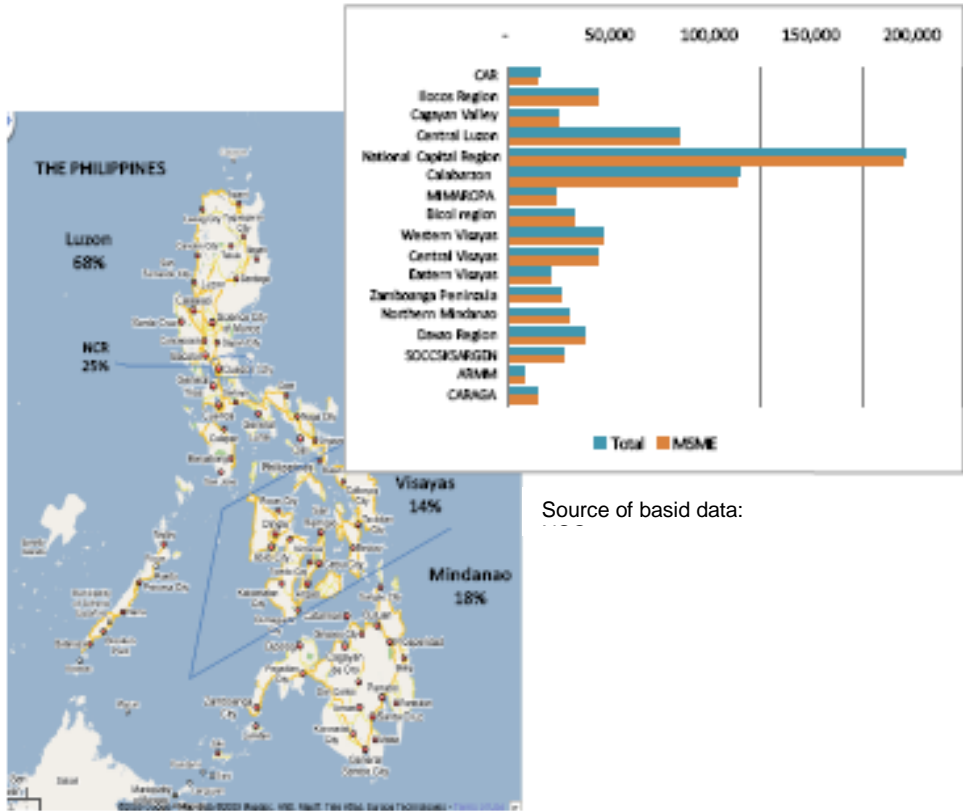


Figure 5. Geographical Distribution of MSMEs by Region and Island Group, Philippines, 2006

Value Adding Contribution

The sector that contributes most to value adding activities is the manufacturing sector. This sector which constitutes 15 percent of MSMEs provides about 19 percent of the MSME employment generation. The top five (5) sub-industries in the manufacturing sector in terms of MSME establishments in 2006 are: (1) manufacture of food products and beverages with 55,007 establishments; (2) manufacture of wearing apparel with 15,623; (3) manufacture of fabricated metal products except machinery and equipment with 12,986; (4) manufacture and repair of furniture with 7,188; and (5) manufacture of other non-metallic mineral products with 5,143. These sub-industries accounted for 82% of the total number of MSMEs in the manufacturing sector.

THE INSTITUTIONAL ENVIRONMENT TO MSMEs DEVELOPMENT

The Philippine administration has given utmost policy attention to MSME development and hopes that through new and better development initiatives, Philippine economy can move forward despite the threats of an unfavorable global environment.

The comprehensive and integrated strategy for the sustainable growth and development of SMEs in the economy is reflected in the consolidated groupings of the various government institutions that provide support to MSMEs in terms of five thematic areas: technology/ production, marketing, training, regulation/ incentives and institutional development, as contained in the 2009 edition of Programs and Services for MSMEs as published by the Bureau of Micro, Small and Medium Enterprise Development. The number of agencies by type of assistance is enumerated below (Figure 6).

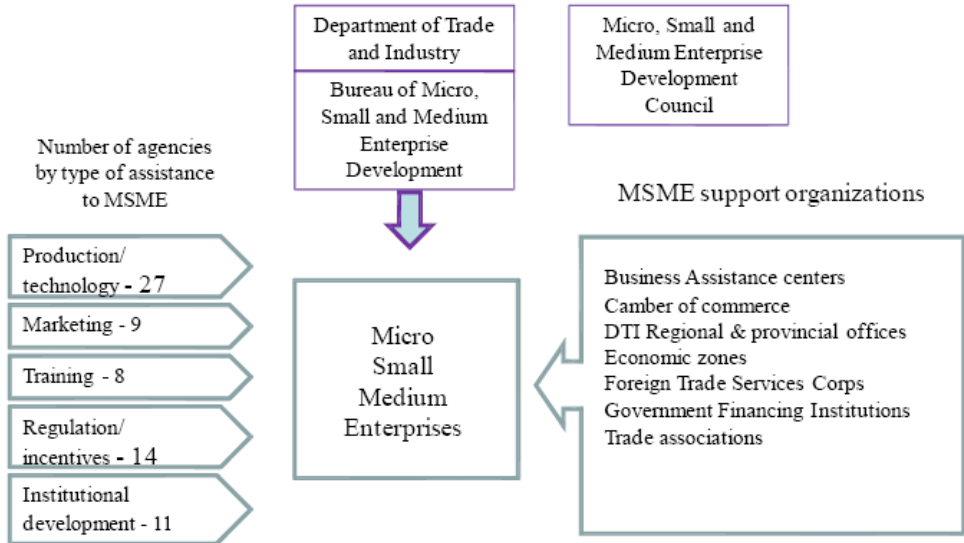


Figure 6. Institutional Support to MSME Development in the Philippines

The DTI is the key agency of the Philippine Government charged with creating a business friendly environment conducive to the growth of enterprises and supportive of fair and robust trade in goods and services, both within and outside the Philippines. The Regional Operations and Development Group of DTI is the implementing arm that foster countrywide development through various programs and services in the areas of business development and consumer welfare. It operates in 16 regions and 79 provinces nationwide which serves as DTI front liners in providing assistance to investors, exporters, micro, small and medium-scale entrepreneurs (MSME) businessmen in general and consumers.

Attached to the DTI is the Micro, Small and Medium Enterprise Development (MSMED) Council, an inter-agency body established in 1991. It is responsible to promotion, growth and development of MSMEs in the economy by facilitating and closely coordinating national efforts in MSME development. The Bureau of Micro, Small and Medium Enterprise Development (BMSMED) of the DTI serve as Council Secretariat. Among others, it recommends all policy matters affecting MSMEs, and formulates a six-year MSMED plan in consultation with the private sector to be integrated into the Medium Term Philippine Development Plan.

PROGRAMS AND SERVICES FOR MSMEs

The MSMEs programs are: business development and the one town one product (OTOP) program. On Business Development Program, the services include:

- a. Business Information – provides accessible, relevant and timely MSME information (e.g. cost of doing business, industry profiles, market profiles, MSME profiles, supplier profiles/directories, number of business name registration/ repair shop accreditation/ business license issued).

Tradeline Philippines – It is an online database service that provides product search listing thousands of manufactured exported Philippine products complete with product specifications and is a business search allowing users to contact Philippine exporters, suppliers and local/foreign buyer details and the products/services they manufacture / provide and export

Exponet - The Bureau of Export and Trade Promotion's (BETP) Export Assistance Network (EXPONET) helps exporters and prospective exporters' access information and resolve specific problems related to exporting. It provides information on export seminar schedules, export organizing, export procedures and documentation, import facilities for exporters, buyer linkages, export financing and incentives, product raw material sourcing and other statistical information. The agency also assists exporters in export-related problems/trade complaints.

- b. MSME Development and Promotion – strengthens support to MSME through operation of SME Centers and support to MSMED Council; conducts information technology-related seminars for MSMEs.
- c. Business Name Registration – reduces processing time of business name registration. For NCR, the processing time is 24 hours. For other areas, processing time for online application is 3 days and 5 days for those provinces not online.

The One town One product (OTOP) programme enhances and stimulates domestic demand through SME development on a countrywide basis. The program aims to promote entrepreneurship and create jobs. The OTOP-Philippines encourages the economy's MSME to produce and market distinct products or services using indigenous raw materials and manpower.

Financing programs for MSMEs - To increase the Filipino entrepreneur's awareness on sources of funding available from government and private sectors institutions for his business and encourage him to access these facilities, the BMSMD came out with a handbook on Financing Programs for MSMEs. The implementation of micro-financing and SME lending programs by various institutions is recognized as an essential tool in stimulating entrepreneurial activities.

CHALLENGES AND ISSUES ON PHILIPPINE MSMEs

MSME Statistics

Lagua (undated) provided a critical evaluation of the deficiencies in the present system of MSME statistics, as follows:

Timeliness

Statistics on the census of establishments (done every 5 years) and the annual survey of establishments are usually released 15-24 months after the year. This makes the data more or less an imprecise tool for analysis and decision-making. In the same manner, **BSP** collects information on the loans lent to MSMEs (in compliance with the Magna Carta for Small and Medium Enterprise) every quarter. The data gathered is usually released only after 3 months.

Cross compatibility with other countries for cross economy comparisons

The major classification used by most countries to define SMEs is through assets and employment size. However, the size ranges of their classification differ, since developed countries have large industries than the less developed ones. Hence, what might be considered as "small" by developed countries will already fall into the "medium" or "large" category for developing countries like the Philippines. Thus, cross compatibility with other countries for cross economy comparison, is sometimes inappropriate or could not be used as basis for a policy recommendation.

Inadequateness

The scope and coverage of SME statistics are limited to (a) the number of establishments; (b) employment contribution; and (c) regional distribution. More important data which will help policy makers and businesses to react quickly in a competitive environment are usually not available.

Coverage

The Philippines has a large section of small business constituting the so-called underground or informal economy. This refers to the small scale units in the national economy, which produce and distribute goods and services without the benefit of official sanction or control. They don't register, don't keep books and don't pay taxes. They operate beyond the reach of the law. They have little or no access to organized markets, credit institutions, educational or training centers or public services. Although efforts are being made by the government to bring the

underground economy to the surface, the nature of this sector makes it very difficult to gather and process statistics on them.

Financial Risks for Startup Business

In the United States, two out of 10 startups succeed over five year period (Santos, 2009). With the global financial slowdown, banks and financial institutions are becoming extremely careful to give loans to businesses with little or no track record, insufficient collateral or a murky long-term plan. The government makes sure that banks make funds available to small business owners even without collateral (Santos, 2009). Nonetheless, the reality is that the world can be very indifferent to startup ventures so that preference goes for short term and quick processing offered by private intermediaries even at relatively higher interests. The challenge is for the government-owned Small Business Corporation to steer away from being a collateral-based lending agent. It encourages risk-based lending in the economy through the use of risk assessment tools developed by the Asian Development Bank.

Environmental Compliance of Business Operations

While the BA 21 provides the guide for MSME to adopt appropriate waste disposal and a lot of environmental measures, compliance remains an issue. Improper waste disposal have caused pollution of water ways and has clogged many small water bodies. The Philippines is one of the countries known for having degraded water bodies particularly in Luzon, example of which is the Meycauyan River that releases foul odor.

The plastics and packaging industries have the social responsibilities towards creative solutions of promoting environment friendly/organics/degradable products and transforming solid waste into useful products. Creative solutions towards social enterprises remain a challenge to minimize wastes and to utilize indigenous materials. Building of more sustainable, cost-efficient and catastrophic-resistant structures is a challenge to the architectural and construction enterprises (Francisco, 2009). A serial social entrepreneur helps save environment one structure at a time.

Technopreneurship

More than services, animation biz puts premium on content and clever marketing spells difference for web-based load service to reach a wider market (Cartalaba, 2009; Santos, 2009; and Medina, 2009). On line advertising while in the infancy stage is increasingly becoming popular. Most advertisers still invest most of their money in traditional media but with more Filipinos going online, the advertising picture is about to change. The use of ICT in selling and advertising is a challenge to existing and new entrepreneurs.

Business/Trade Partnerships

The BSMED had compiled a directory of trade associations in the Philippines. A 141 trade associations were identified grouped as follows: (a) Agricultural products – 10; (b) Automotive parts and accessories – 6; (c) Chemical and chemical products – 3; (d) Construction – 4; (e) Fashion accessories – 9; (f) Franchise – 2; (g) Fresh and processed food – 25; (h) Furniture and furnishings – 9; (i) Garments, textiles and similar products – 5; (j) Gifts, toys and housewares – 9; (k) Hotel and restaurants – 2; (l) IT, electronics and electrical products – 13; (m) Metal products – 9; (n) Non-metal – 2; (o) Packaging – 1; (p) Paper products – 2; (q) Petroleum – 2; (r) Pharmaceuticals – 2; (s) Resource based – 3; (t) Retail – 5; (u) Services – 18; (v) Others – 12.

Partnership or forming into trade associations has a number of advantages for the member MSME. Resources sharing would bring about cost efficiency for the business. Also, competition can be minimized. Micro enterprises would benefit more from joining trade associations.

MSMEs Vulnerability to Changing Climate and Other Natural Hazards

The Philippine experiences of recent typhoons Ondoy and Peping that struck the economy brought about heavy downpour that resulted to flooding in Metro Manila, Central and Northern Luzon. These have not spared many MSMEs. The extent of total damages is yet unofficial on account of extensive damages to lives and properties including businesses. Certainly many micro enterprises would need rehabilitation. Business insurance plays a vital role in cushioning negative impacts of changing climate and natural hazards.

Risks and vulnerability mapping for MSMEs might be difficult to undertake considering the wide coverage of businesses. Nonetheless, grouping them according to resources requirement, market orientation, target group are among the possibilities.

Changing climate due to sea level rise would affect water-based industries and those located along the coast. Similarly, agri-based businesses are likely to be affected by typhoon, drought, land degradation and flooding. Resource-based industries like mining, pottery, jewelry making are sensitive to earthquake.

Changing Lifestyle

With the changing environment come changing fashion and preferences for green products; fast and convenient services; retail rather than wholesale packages; and intelligent solutions. The traditional businesses need transformation from conventional processes to ICT-driven and technology-based processed where competitiveness beyond border is now the challenge. Rural-based enterprises needs to shape up to changing human patterns.

CONCLUSION

The MSMEs have become the backbone of Philippine economy contributing to employment and generating output for the economy. Threats of an unfavorable global environment create an atmosphere of high risk and doubt in a borderless economy with high competition as inevitable. With overall fiscal condition looming because of global financial breakdown, the challenges and issues are numerous for the MSMEs. Development programs have been laid out but resources are not readily available because of competing demands for government support. Stakeholders should bind themselves together to minimize adverse impacts of changing climate and natural hazards, among others. MSME statistics would be vital to plan out, allocate resources, and provide capability building, among others. Creative solutions and technopreneurship are some of the challenges of the time.

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TOWARDS WOMEN EMPOWERMENT IN AGRICULTURAL BASED SMES: THE CASE OF THE PHILIPPINES

Nerlita M. Manalili¹

INTRODUCTION

Enterprises are central to the Philippine's economic development with poverty as the major driver of entrepreneurial activity. The economy's 783,065 enterprises account for 67 percent of its employment and 30 percent of its volume of sales. Of the said total, 99.3 percent are micro small medium enterprises (MSMEs) and only 0.7percent are large enterprises.

Being an agricultural economy just like most of its neighbors, a large number of the Philippine MSMEs are agri-based, as such the economy have much to gain in developing agricultural MSMEs. They are the core of the countries agricultural development and absorb the agricultural sector products, in the process stimulating production and value adding which in turn generate livelihood and household income.

In the same fight, given that around 51 percent the countries entrepreneurs are women, there is a reason for enterprise initiatives to focus on women in particular. Thus, the paper's focus on empowering women in agricultural based SMEs.

As an approach the paper will provide a backdrop of the countries agricultural sector and the conditions in which SMEs are in operation. The role of women in the agricultural sector will be underscored, as well as the anticipated gains if investments along this line will be undertaken. Wherever possible, comparison with the regional indicators will be provided to situate how far the economy efforts and gains are compared with the rest of its neighbors.

The aforementioned discussion will then zero in on revisiting the national SME programs and initiatives, and address the questions of: how effective and appropriate the programs are, what progresses have been made so far and what more needs be done. Adopting a value chain perspective in assessing the appropriateness of SME development initiatives is a key feature of the paper together with its attempt to identify where the opportunities and the gaps are as far as enhanced role of women in agricultural value chains are.

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UNDERSTANDING THE PHILIPPINE'S ECONOMIC GROWTH AND COMPETITIVENESS

"Slow Economic Growth combined with high population growth (2.3% per annum) kept per capita income low" is how best to characterize the Philippine's state of economic development. For a economy to have been ranked 50th in business competitiveness out of 104 countries and 61st in technology index, almost the same ranking as India & China, ahead of Indonesia and Viet Nam and which underlines the relative sophistication of the private sector in the Philippines, the slow economic growth is a bit surprising.

What pulls the economy's rating is the poor performance of the public institutions rated 99th out of 104 countries as well as the quality of the microeconomic business environment in which companies operate, rating only 77th, which is significantly less than its neighbors.

The Philippine Agricultural Sector at a Glance

Crops comprised the greatest share of agricultural production accounting for 47 percent followed by fishery (28%) and livestock (15%) sectors, respectively based on figures for the first half of 2007. Rice and coconuts are the two largest sub-sectors with the Philippine coconuts accounting for nearly half of the world's supply. Bananas, pineapples and mangoes are the major crop fruit exports, while tuna, shrimps/prawns, carrageen and seaweeds top the list of fishery and aquaculture sub-sector. As of 2006, almost 36 percent of the labor force, roughly almost 12 million people, is employed in the agriculture industry which includes the hunting and forestry sectors.

Contribution to GDP

The importance of agriculture as a key economic sector in terms of contribution to gross domestic product (GDP) has been waning in comparison with the manufacturing and service sectors, the past two decades. From an average contribution of 22 percent in the 90's it is down to a 14 percent level, while the manufacturing sector has more or less maintained a 30 percent level and the service sector enjoying a boost to 53 percent level (from a 45% } for the same period (Box 1).

While the future for agriculture may look bleak given the declining GDP contribution, this is not entirely so as a greater share of the growing manufacturing sector is accounted for by agriculture based industries (Manalili, 2007). About 40 percent of total output of the Philippine manufacturing sector is accounted for by the food manufacturing (food and beverage) with a gross added value of US\$ 2.0 billion increasing by about 8-10 percent annually (USDA, 2006). In GDP terms, the food processing industry sector's contribution is about 20 percent per annum. Add this to the 14 percent share of agriculture, in effect agribusiness has a 34 percent share of the economy's GDP.

Issues and Prospects of the Agricultural Sector

Analysts attributed the low productivity performance of agriculture to reliance on sector growth through expanded output (land and inputs) unaccompanied by required improvements on structures and technologies for lack of investments from both the public and private ends. Though a major contributor to the national income, the agricultural sector's share of investment is relatively low, which explains its relative low performance. Its share of the total government budget is a minimal 3.6 percent. What could one expect from a measly budget but a low infrastructural investment? The economy's irrigation facilities are wanting, covering only 29 percent of the total 4.66 million hectare irrigable area (David, 2003). In terms of road system the paved portion in the Philippines is only 21 percent compared to those of Indonesia's and Malaysia's 46 and 76 percent, respectively.

Public research and development (R&D) expenditure was only 0.4 percent of gross value added in agriculture, which is far below the 1 percent average in developing countries/and 2-3 percent in developed countries (AusAid, 2007). In terms of loans, an average of 2.7 percent of available loans (average of 17 million Php) went to agriculture for a three year period (2003-2005). The problem of low infrastructural development was further compounded by high input costs as basic agricultural inputs particularly fertilizers were imported.

An encouraging note, however, augured well for the Philippine agriculture sector, (from the joint ADB World Bank study) were its resource endowments, presence of large pool of entrepreneurial and managerial talents, strategic location, regional markets, labor productivity (though low was still at par with neighboring countries). The private sector was likewise identified as a major driver of economic growth as it accounts for 80 percent of total investment in agriculture. Large the figure maybe, the fact still remains that more private investment (public as well) is needed given the sorry state the agribusiness sector is in (Manalili 2007).

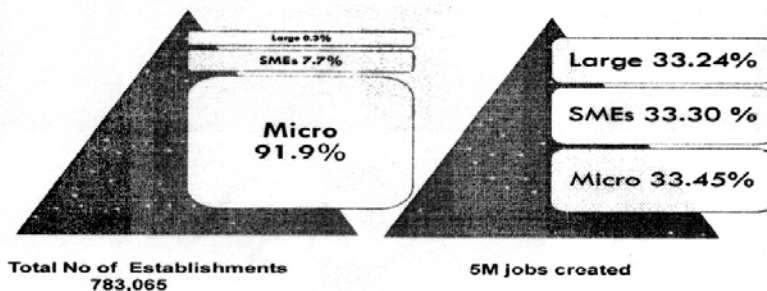
WHY FOCUS ON SMEs IN THE AGRIBUSINESS SECTOR?

Enterprises in the Philippines are classified according to asset or employment size. In general, SMEs are enterprises with an asset size range of three million to 100 million pesos and an employment size range of 10 to 199 employees (Box 1). Small in number (as percentage of total MSMEs), but high in impact, is what best describes SMEs in the Philippines. While they only account for 7 percent of the 780,469 MSMEs, the importance of SMEs cannot be ignored as they contribute about 33 percent of the 5 M jobs generated in 2006 almost as much as those generated by the micro enterprises and large enterprises (Box 2).

Box 1. Philippine Enterprise Classification by Asset and Employment Size

Classification	Asset size Million (M) Pesos	Employment size
Micro	< or = 3M	1- 9
Small	3M + 1 to 15 M	10 - 99
Medium	15M +1 to 100M	100 – 199
Large	>100M	> 199

Box 2. Philippine Establishments by Type & Employment Generation (2006)



Specifically, SMEs according to the economy's Department of Trade and Industry (DTI) can be credited the following:

- (1) Contribute to rural industrialization, rural decentralization of industries, employment generation and more equitable income distribution
- (2) Vital in dispersing new industries to the countryside Stimulating gainful employment (a labor intensive economy has much to gain from entrepreneurial activities)
- (3) SMEs are quick in assimilating new design trends, developing contemporary products and bringing them to the marketplace, ahead of competition
- (4) Able to effectively increase local content or the value added in the final goods that are processed and marketed by large manufacturing firms
- (5) Skillful in maximizing the use of scarce resources and are able to partner with large firms (supply of raw materials, both processed and unprocessed), and

- (6) Serves as the seedbed for the development of entrepreneurial skills and innovation

Add to this, the potential of SMEs, to help micro enterprises bridge their way into becoming full pledge SMEs given the formers ability to provide supply arrangement or various forms of alliances that could help enhance businesses and consequent viability of enterprises.

Agribusiness Enterprises at the Forefront

Agribusiness remains to be the major driver of agricultural development sector, absorbing agricultural surpluses and meeting the needs of both the urban and rural populations through its value added activities. It has likewise been viewed as the vital link between agriculture and industries and as such is similarly seen as the vehicle for agro-industrial development and consequently economic growth (Manalili, 2003).

Comprising the agribusiness sector are those enterprises engaged in agriculture production sector as well as most part of the wholesale-retail sector and the manufacturing sector particularly those that are agri-based. The food and beverage sector accounts for almost 50 percent of the manufacturing or about 50,000 establishments in the economy as of 2006.

A key feature of the economy's industry sector (largely agribased), local companies like San Miguel Corporation, RFM Corporation, Universal Robina Corporation and a few others, dominate the market or compete equally with foreign players unlike many other countries in the region where multinationals dominate food sales (USDA 2006). Given the supply and contract farming alliances with SMEs of these domestic large food conglomerates and the volume of business they handle in both domestic and foreign markets, there is much to be gained if capacities of SMEs in the economy are strengthened.

WHY INVEST IN WOMEN AND WHY WOMEN IN AGRIBASED SMEs?

Recent statistics have shown that there are more women in the labor force than men and also more women are engaged in household production Box 3. This is particularly so in the Asian Region where as high as 80 out of every 100 labor force are women and where 65 percent engaged in household food-production are also women.

Other than number or share in labor and productive activity, there are two other major reasons to invest in women if a truly responsive broad based development is to be pursued. One is out of contribution potentials and the other out of development needs. There are a lot of global and economy evidences that supports this premise.

Contribution Potentials and Development Needs

Investments in the education and health of women have high social rates of return because of their work and family roles. While in general, investing in people improves lives and enhances the productive capacity of the family, investing in women, in particular provides multiplier effect as they take primary responsibilities within families for the education and health of their members. Women are important productive agents in the economy as well.

Box 3. Women in Labor Force and in Household Food Production

Region	If of Active Women per 100 Active Men in Labor Force (2006)	Women in Household Food Production (%)
World	67	
East Asia	80	
Southeast Asia & the Pacific	75-80	65%
South Asia	42	
Latin America	69	45%
Middle East & North Africa	37	70-80%

Statistical (and anecdotal) evidences suggest that poverty is becoming feminized with women accounting for an increasing proportion of the world's poor and the working poor. Inequalities in labor markets as well as in access to resources are major factors why "women find it harder than men to escape poverty, thus the need to focus on empowering women. Below are the usual disadvantages that confront women: (1) Lower mobility; and (2) Less access to: (a) capacity development opportunities training and formal schooling, if ever accessed, they are not tailored fit to needs; (b) market information and; (c) productive resources.

Global and Economy Level Evidences

At the global level, recent studies have shown that investing in women provide gains in almost all fronts (efficiency, food security and family welfare, political) better than men (Box 4). Given the same resources and education as men, women could increase output and income by 10-20 percent, and when the ones to control income and make decisions, they are more focused on family welfare than their male counterparts.

Box 4. Gains for the Family as a Result of Investing in Women (multi Study findings)

- | | |
|--------------------|---|
| • Efficiency Gains | Providing women producers with same inputs and education as men could increase their output and incomes 10-20% in Africa (WB 2005). |
| • Food Security | Resources and incomes controlled by women more likely to be used to improve & Family welfare family well being (food consumption, reduce malnutrition). |
| • Political | Women decision making more focused on over all household stability (food, education and health) than on patches of day to day decisions (production, etc.). |

Despite the major roles women play in developing economies and their potential to contribute, the difficulty of accessing resources and basic services denies many of them the opportunity to make such contributions. This is true in almost any women development endeavor and more specifically in agriculture and in enterprise ventures.

Further, other selected studies have provided evidences as well on the situations women are in and the challenges confronting them with respect to their potential participation in enterprise activities and they are as follows:

- (1) Women participate in entrepreneurship at about half the rate of men (in 38 countries), mostly in informal economic sector where contributions are overlooked;
- (2) Oftentimes in traditional less lucrative sectors (food related handicrafts) for lack of access to resources and enterprise skills;
- (3) The processes they go through in entrepreneurial environment differ than those of men in general;
- (4) Many women entrepreneurs see their ventures not as businesses or enterprise but “simply as supplementary income activities”; and
- (5) Sixty percent of donor funding are geared towards empowering women mostly on education and enrollment. Fewer funds dedicated to empowerments related to labor markets and decision making

In brief, there are more women entrepreneurs in the globe, however, lack of access to resources and limited skills oftentimes confine them to less lucrative enterprise ventures. Even enterprise entry procedures are oftentimes more rigorous than those experienced by men entrepreneurs. The situation is aggravated by women's usual lack of enterprise orientation as they look at their ventures simply as supplementary income activities, and as such they themselves delimiting performance potentials of their enterprises.

While a lot of development donors have long recognized the need to empower women, their focus have been more on education and associated indicators and not so much yet on labor markets and decision making related empowerments. What about as far as economy level evidences are concerned? Are observations the same? In general, women hold significant leadership positions in national and local government, universities, business corporations and family business enterprises in the Philippines, which cannot be said of their counterparts in most of Asian countries. Also around 51 percent of entrepreneurs in Philippines are female.

Recent national statistics support the claim that Filipino women out performs men in terms of education and income generation. There are more women graduates than men in almost all field of disciplines, except in engineering, law as well as trade and crafts. Also women headed households are found to have generated better income in both rural and urban areas . In terms of spending, women headed households spends less than men headed households at least at the rural areas (but not in the urban areas). This is possibly another area for research.

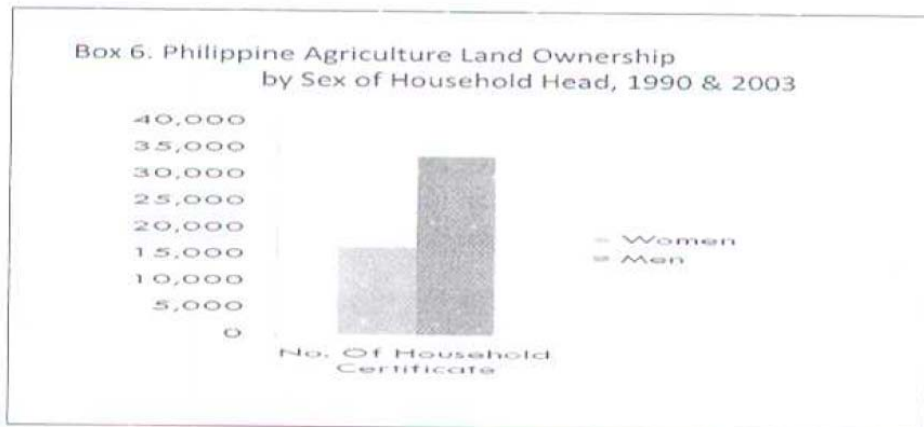
Box 5. Household (HH) Income & Expenditure by HH Head Sex

	Women	Men
Average Urban Household Annual Income by Sex of HH Head	PHP 212,164	PHP 203,717
Average Rural Household Annual Income by Sex of HH Head	PHP 86,703	PHP 85,144
Average Urban Household Annual Expenditures by Sex of HH Head	PHP 165,603	PHP 165,022
Average Rural Household Annual Expenditures by Sex of HH	PHP 71,350	PHP 73,228
		NSO, 2000

For a economy where population growth rate is high, investing in women will help enhance economic productivity as well as address impacts of high population growth. Statistics have shown that in the Philippines, women who did not attend school at all bear an average of 5.3 children, about twice the total fertility rate (TFR) of those with college education with 2.7 children, on the average. The wealth index also showed that women in the poorest households bear more children at an average of 5.9 children per woman compared to an average of 2.0 children per woman in the wealthiest households. Thus based on need, it will the economy's good if women in general and those in the poorest households be focused on as far as education is concerned.

Further insights into the Filipino women's involvement in agriculture suggests that their participation in the clerical employment sector rose 75 percent between 1972 and 1982. While this may sound good employment wise per se, it should also be taken, however, as a warning signal that women may be over-represented in some sectors, for reasons that opportunities for advancement may have been delimited, either by the structure of the industry (lack of opportunities) or by human capital factors (limited training). In effect, Filipino women, though with potentials may go unrecognized and their skills underused.

Access to resources is also an issue in the economy as far as women are concerned. Oftentimes credit facilities are more men friendly as men are not usually required to provide consent of their spouses when applying for credit, but the same cannot be said for women. Statistics also reveal that in terms of land ownership (a critical agricultural resource) fewer Filipino women owns land, almost half of men who owns one.



Women potentials abound in the economy not only in terms of number but also in terms of ability to respond to challenges, given the appropriate enabling environment. There are indications in the economy, that the growth in information processing and administrative functions in corporate agriculture have led increasing participation of women in agribusiness. These suggest that women has potential in the Philippine agribusiness sector, however, much needs be done in how these roles can be expanded and sustained to the benefit of the women sector in particular and the economy in general. If these potentials are to be maximized, there is a need to assess along what areas can women enhance their potentials and consequent contribution to economic development. For instance, a recent study on the agricultural sector revealed that while some attention may have been given to women's work on family farms, little research has been conducted on women who are employed on larger-than family enterprises, even though larger farms account for an increasing share of all agricultural production .

REVISITING THE PHILIPPINE NATIONAL SME AGENDA

The idea behind revisiting the economy SME agenda is to assess how responsive they have been to the needs of the SME sector in the economy, in general and the need to empower women in particular. Earlier discussions along this line have underscored access to resources (which are basically assets), limited skills and constricting policies and environment as major issues confronting women in development. A deeper look into the relationship of these factors and their applications to real situation will provide framework in assessing responsiveness of initiatives within the national SME agenda and within the challenges posed to the agriculture sector and its subsector, the agribusiness.

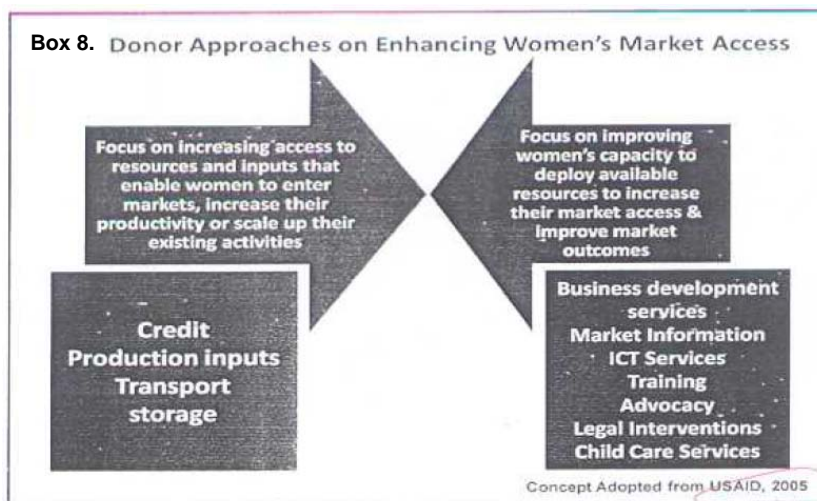
A glance at the Philippine agricultural sector and its competitiveness have shown that while the economy is not far behind its neighbors in the region as far as technical innovation and private sector performance is concerned, much still is needed particularly in institutional governance and coordination. This coordination issue applies very much to the agricultural sector as its the products pass through a series of value adding activities to finally find its market and consequent end users/consumers and which comprise a chain. At the forefront of this value adding activities or value chains are SMEs that needs to be coordinated if sustainability of the chains are to be pursued in the same manner that SMEs need to be integrated in sustainable chains, if their continued viability is desired. This then calls for the need to look at empowering women in agribusiness within the context of agricultural value chains.

Skills and Assets Enhancement Framework

Skills and assets are major determinants of an individual's performance or output from a productive endeavor and are comprised of entitlements and capacity components (Box 7). Entitlements refer to resources available at ones disposal while capacities refer to the ability to deploy available resources. While to a greater extent these are dependent to the task itself and on the individual's motivation to undertake the task, it is likewise affected by organizational context (the institution the individual is part of) and the environment where he/she or his/her organization operates. Thus, skills and assets have to be taken in situational context, those of the individual, the organization and the environment (community, national, regional and global).



This very concept was used by a USAID program in assessing effectiveness of their approaches on enhancing women's market access complete with examples. The author translated the concept into a diagrammatic framework (Box 8) where in examples of each where included, The said framework will be the one used in terms of how responsive the Philippines SME agenda in enhancing SMEs development in the economy and women's empowerment as special focus.

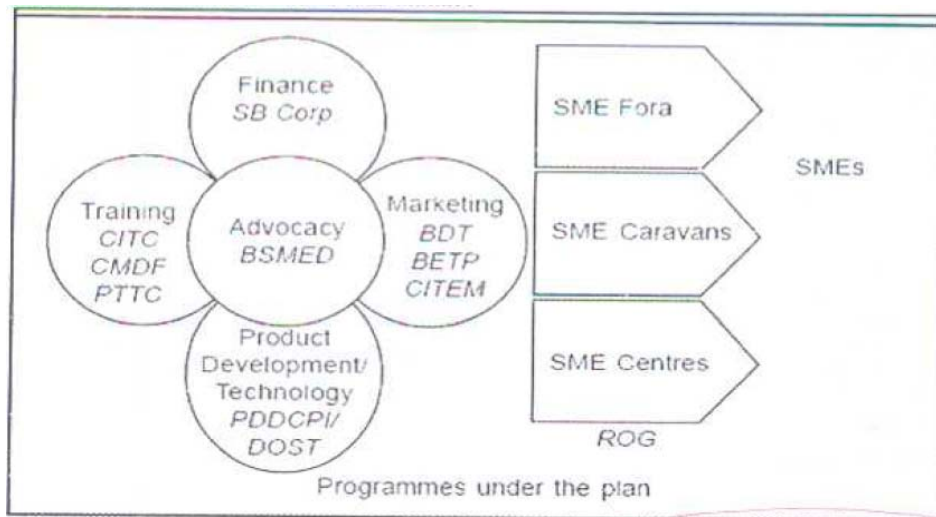


The Philippines National SME Agenda

The task of SME promotion, growth, and development in the economy is vested on the Small and Medium Enterprise Development (SMED) Council composed of the Director General of the National Economic and Development Authority (NEDA), the Secretaries of Agriculture; Labor and Employment; Science and Technology; and Tourism and chaired by the Secretary of the Department of Trade and Industry (DTI). The Chairpersons of the Monetary Board and the Small Business Guarantee and Finance Corporation, three representatives from the private sector, and a representative from the private banking sector, further comprise SMED.

As chair of the SME Development Council and given its commitment to SME development, Department of Trade and Industry (DTI) created an SME Development Group composed of DTI-attached agencies and bureaus mandated to support SMEs. The SME Development Group is tasked to implement, coordinate, and monitor the various efforts that go into SME development and in the process came up with an approach to SME development. The integrated approach has for its components: Finance, Training/Human/Resource Development, Marketing, Product Development and Technology Intervention, and Advocacy for an Enabling Environment (Box 9).

Box 9. The Philippine National of SME Agenda



Philippine Dept of Trade & Industry

Given the foregoing skill and asset framework and national SME agenda, the next thing to look into is what have been accomplished so far and whether such accomplishments fit into the assessment framework.

Financing

A number of lending support initiatives that ranged from encouraging banks to provide SME loans, providing guarantee schemes to mitigate risks and address collateral deficiencies of would be borrowers were undertaken (Box 10). Designing lending programs that simplified and standardized procedures were also part of the government's initiative.

Entrepreneurial and Technical

Skills enhancement in terms of entrepreneurial and technical needs were also focused on benefiting from thousands of targeted beneficiaries that range from farmers, fisher folks and, entrepreneurs (Box 11). About 7Million jobs generated were reported by the current administration or an average of at least a million jobs a year.

What has been done and accomplished

The Philippines have taken legal and other measures to remove discriminatory practices and to promote women participation in public life and have had positive effects on women educational and occupational opportunities. Still, however, few women are found in the top level positions in agricultural institutions be they in the public, civic or private institutions. A number of legislative, credit and technical support initiatives by the government as early as 5 decades ago together with outcomes of the last few years' initiatives are as follows:

Legislative

The signing into law of the Magna Carta for Small Enterprises in 1991 was a landmark legislation for the coordination of government effort and private sector participation in the implementation of SME policies and programs. This Act led to a series of complementary initiatives such as: (1) the creation of the Small and Medium Enterprise Development Council; (2) the creations of the Small Business Guarantee and Finance Corporation; and (3) the 8 percent mandatory allocation of bank's loans to SMEs.

Further focus on assisting women entrepreneurs was provided for with the passing of the Act Providing Assistance to Women (RA 7882) in recognition of the special role of women in development and in support of women entrepreneurs who are engaged in manufacturing, processing, service and trading businesses. More specific policy supports are discussed below by type of assistance covered (financial, technical, etc)

How Have the Philippine's SME initiatives fared given The Skills Asset Enhancement Framework

The afore cited activities and accomplishments of the economy's SME initiatives, when plotted using the skills and asset and donor approaches on enhancing

women's market access framework of USAID (Box 12), shows that current programs (orange arrow) were more or less balanced with focus at least on both capacities (training) and entitlements (credit). Women focus, however was only specifically cited on credit interventions but not on capacity counterpart.

The figure further shows that a lot of areas still need to be focused on if truly a skill and asset empowerment for entrepreneurs, women in particular, are to be desired in the economy. Provision of business development services (BDS), market information and ICT services on the capacity side need to be looked into. While in fairness there are patches of initiatives along these areas, gains have not been assessed/reported or not yet made a great impact. On the entitlements side, access to production inputs and storage facilities (value adding components), among others are waiting to be addressed. These leads us to the earlier cited concern on the need to look at enterprise development and entrepreneurial enhancement within the context of value chains.

Box 10. The Philippine Government's Policy and Program Support to Enhance SME lending

1. The passage by Congress of the Private Development Banks' Act in 1958,	Government equity assistance, subsidies & incentives to development banks created primarily to provide development financing to SMEs, particularly in the countryside.
2. Long-term lending programs using funds provided by multilateral and bilateral financing agencies and administered by government financial institutions and the Central Bank.	The Industrial Guarantee and Loan Fund or IGLF from the World Bank was the first program created for SMEs in the early 1970s. The Rural Credit Program and the Cottage, Small and Medium Industry Fund followed. Since then, other SME-directed lending programs have been put up by donor agencies (Asian Development Bank, KFW & DEG of Germany, Japan's Exim Bank, the United States Agency for International Development and the Canada International Development Agency.
3. Establishment of guarantee institutions	Government Fund for Small and Medium Enterprises, Quedan Guarantee Fund Board and the Philippine Export-Import Credit Agency, to mitigate SME credit risks and collateral deficiencies.
4. An SME Unified Lending Opportunities for National Growth (SULONG) program	Government financial institutions collaborated to design a lending program that simplified and standardized lending procedures and guidelines for SME loan proposal evaluation (initial fund of US\$36 million).
5. Adoption by the Philippine Central Bank of Policy initiatives to further ease and broaden credit to SMEs.	Among these are - The reduction of the risk weight applicable to qualified SMEs loans from 100% to 75%, which deal with SMEs and small borrowers; and The lower rediscounting rates from SME loans.

Box 11. Outcome of Nationwide Strategy (2007, 2009)

To encourage and Assist Farmers, Fisher Folks and Entrepreneur

	2007		2009	
	Activities	Beneficiaries	Activities	Beneficiaries
Loan		65B – 128 B pesos for Micro SME	Microfinance (165M pesos)	7 million entrepreneurs
Skills, enterprise training, other capability building interventions livelihood / opportunities access entrepreneurship development		91,203 informal & other specific sector workers	Economic Resiliency Plan	1,000 individuals
Assistance in technology upgrading of (SET UP) Tech transfer/programs & policy interventions		10,420 SMEs	Appropriate policy Intervention	Reduced costs to business and consumers Low inflation rates (1.5%)/interest rates
Set up Info-Technology Services/ Techno Pinoy Centers for farmers and fishermen		63 farmers (bring total to 204 Centers)	Allotted 1 billion pesos help fisher folks	To-shift to fish farming
Addressed the job skills miss match by holding consultation workshops with industry partners		KEGS – 9 Key employment generators in MTPDP		Generates on the average 1 million jobs a year

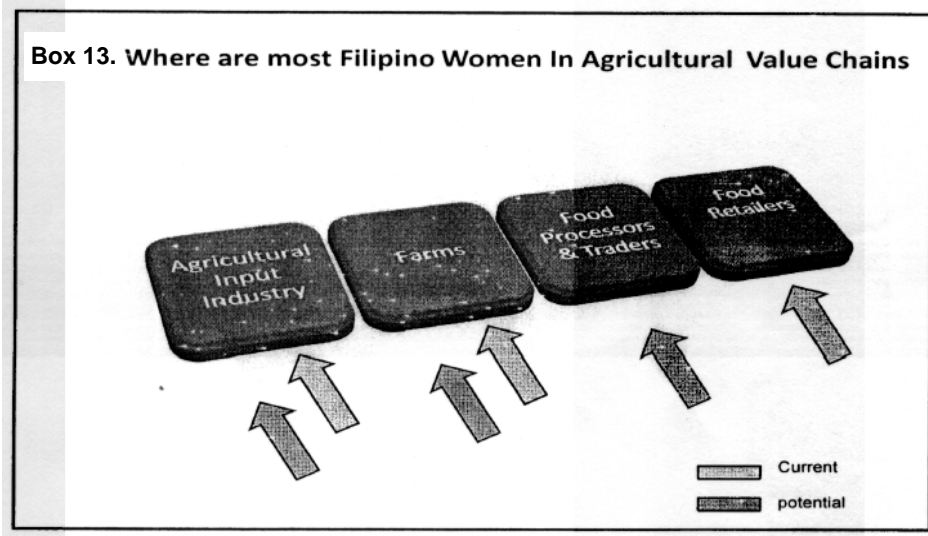
State of Nation Address 2007 & 2009



AGRICULTURAL VALUE CHAINS AND WOMEN'S PLACE IN IT

Numerous issues and concerns have already been cited as far as the integration of women entrepreneurs in agricultural markets and value chains are concerned. However, unless viewed within the context of value chain framework, it will take time to focus and provide role enhancement solutions.

As far as enterprise involvements are concerned, it has been reported that there is high women concentration on the food retailer sub sector and a number in the input and farm or production sub sectors (Box 13). Still, however, there are a lot of untapped opportunities for women in the agricultural value chain.



Recent development trends have shown that there are lots of opportunities for women in the agricultural value chain. These are either in the input, production, marketing or processing aspects (Box 14). At the agricultural input side, we are seeing women doing composting or preparation of agricultural inputs that are mostly waste materials of their own farm. In the farm production side women can handle scheduling and production planning as well as handling delicate fruits, where feminine touch is required, such as harvesting/picking and wrapping / packaging.

Box 14. Potential Roles Of Women in Agricultural Chains

Production

- Farm scheduling and production planning
- Handling delicate fruits, feminine touch
 - Harvesting / picking
 - wrapping/packaging
- Others

Value Adding

- Marketing related
 - Storage
 - Sorting
 - Cleaning
 - Selling
- Processing
 - Hobby growing into enterprise (preserves, etc.)
 - Product development

On the value adding side, the usual women household chores if nurtured can turn into lucrative home based enterprises such as storage provision, sorting, cleaning and selling produce as well as food preservation turn into food processing endeavor.

Given these varying chain opportunities, what is important here is that any women empowered initiative, should be based on a well thought of scheme, one that is a result of a thorough process of a systematic identification and selection (science based) and one that affords women an informed decision (knowledge of choices and process of evaluation) and arrived at in a participatory and a multi stakeholder process whenever possible. An example of this participatory agricultural chain assessment (PACA) approach has been developed by the author) and has proven to be an effective tool in identifying chain opportunities for stakeholders while at the same time enhancing sustainability of agricultural chains.

CONCLUSION

The paper, in summary, underscores the following points:

- (1) SMEs are lifeblood and core economic component of the Philippine economy. While confronted with problems, still the SME sector has a lot of potentials waiting to be tapped and needing support (infrastructure, enabling environment & good governance) to enhance the sector's competitiveness. SMEs' potentials can be enhanced if taken within the context of agricultural value chains, where problem identification is done by level of participation in the chain and measures specifically focused as well;
- (2) Corollary suggestion is to come up with an agricultural enterprise classification to reflect true status and concerns of agricultural SMEs. Development programs that assist small businesses, farmers and other commercial ventures should recognize the unique contributions of women. Women are strong economic force in the Philippines, in general and agricultural SMEs in particular;
- (3) While much has been done in enhancing women capacities in agricultural SMEs, most have been focused on enhancing capacities, however, more is needed on enhancing their entitlements and further contribution to SMEs. Empowerment initiative should focus as well on affording SMEs (women entrepreneurs as well) enhanced decisions, those that are informed based and participatory in nature;
- (4) Women's role and positions in the agricultural chain should be well studied and identified so that SME support may be better focused towards strengthening their positions in the chain. Women empowerment should not leave out men and should consider women and men as partners

In general, while a number of initiatives in support of empowering entrepreneurs, women In particular, have been undertaken in the economy, a lot of reassessment and focusing still is needed to ensure that it is not only the capacities of women entrepreneur that is focused on but as well as her resource entitlement and the

quality of environment where she operates. This is to ensure that enterprise potentials are maximized and desired results delivered at the least possible cost, one where capacity enhancement efforts are complemented by resource access and judicious utilization of resources in an environment where enterprise growth and development are nurtured.

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THE ROLE OF SMES ON POOR POWER EMPOWERMENT IN VIET NAM: THE PROMOTION OF GROWTH WITH EQUITY

Le Thi Phi Van¹

INTRODUCTION

Enterprises play a specially important role in the development of an economy. It is a key sector that creates jobs and GDP, increases export, and state budget, contributes significantly to socio economic development of the economy and poverty reduction. The sector has contributed to diversification of ownership and promotion of production, mobilization and upholding internal and external resources on national socio-economic development. If in 1995 enterprise sector created only 103.7 thousand of billion VND, accounted for 45,3% total GDP (the remaining sector consisting of administrative enterprises, individual household enterprises accounted for 54,7%). In 2001 the sector created 255,7 thousand of billion VND, accounted for 53,2% of total GDP, 2,5 times as high as that in 1995 of which state own enterprises accounted for 30,6% of total GDP, private sector accounted for 8,8%, Foreign Direct Investment (FDI) sector accounted for 13,8%. Currently the sector contribute 70-80% GDP of which the private sector contributed half of the economy GDP.

It is obvious that in the enterprise sector, private sector is the driving force of industrial development in the economy. It has a crucial role in economic and industrial development and in particular in achieving the Millennium Development Goals. In this context, a critically important role is played by micro, small and medium enterprises, which, on average, make up over 90% of enterprises in the world and account for 50-60% of employment in particular in developing countries, whose major challenge is to combine the SMEs' employment potential with increasing productivity.²

In Viet Nam the concept SME refers to autonomous business entities that have registered its business according to the current laws, have registered capital of no more than 10 billion dong or average annual number of employees of no more than 300. According to this concept over 90% of the enterprises in Viet Nam are SMEs. Since the current statistical system does not distinguish SMEs from enterprises there are no systematic data available on SMEs. This paper therefore uses the data on enterprises in general and refers to the SMEs wherever possible. This paper does not cover the micro enterprises which currently total 3.5 million.

In Viet Nam SMEs generate a significant share of employment and income opportunities. However, their development potential often remains untapped, as firms operate in isolation, are locked into uncompetitive production patterns and unable to approach dynamic business partners that could bring in new expertise and know how. With high population growth rate in rural areas agriculture can not absorb newly entered

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² www.unido.org/index.php?..

into labor force. Although FDI sector has developed quickly however it based mainly on capital intensive technology and used only 700,000 laborers in 2002 which is half of annual increase in labor force in Viet Nam. State own enterprises are also capital intensive and concentrate in heavy industry. The whole sector used only 2.3 million laborers in 2002 as compared to about 40 million laborers in Viet Nam. Private sector is the sector with highest rate of job creation.³

CURRENT STATUS OF SMEs IN VIET NAM

After the issuance and amendment of the laws on business registration, laws on state own enterprises, laws on foreign direct investment, cooperative laws and especially the enterprise laws the enterprise sector has developed quickly. The business environment has been improved; the business activities have become more ebullient; the role of enterprise has been recognized; number of enterprises has increased sky-rocketry.

The number of active enterprises as of 31 December 2007 is 155,771, an increase of 268.4% as compared to that of 2000. Between 2000 and 2007 the average number of enterprises increased by 20% annually. In 2006 alone, number of registered enterprises was equal the number of enterprises established during one decade (1990 - 1999) before the issuance of the enterprise laws.

Table 1. Number of enterprises by size of laborers in Viet Nam, 2000-2007

Size of laborers	2000	2004	2005	2006	2007
<10 laborers	21,069	44,436	57,820	74,814	85,897
10-200 laborers	17,704	42,251	49,890	51,049	63,921
201-300	1,124	1,535	1,626	1,737	1,962
>300	2,391	3,536	3,614	3,732	3,991
Total	42,288	91,756	112,950	131,332	155,771

Source: GSO, 2009

For the first ten years of the renovation process the state own enterprises (SOEs) accounted for a major percentage of growth in the industry. The limited investment of the private sector in this period was due to the government bias against private sector. Over a long period of time these enterprises were not given an equal opportunity with the SOEs. They were allowed to operate but were not encouraged. Recently the private sector has been recognized and given more opportunities for development. This has made the sector grown with the fastest rate (23% per year). The increase in number of enterprises is mainly due to the increase in the number of private

³ Ari Kokko & Fredrik Sjöholm, 2004. Internationalization of SMEs in Viet Nam

enterprises and FDI sector (18% per year) and the reduction in the number of SOEs (7% per year). Table 2 shows the gradual decrease in the number of SOEs which is contrary to the trend of the number of private enterprises. In 2007 there were 3,494 SOEs accounted for 2.2% of the total number of enterprises. The corresponding figures for 2000 are 5,759 SOEs and 13.6% respectively. The reduction of SOEs over the past decade is a result of the process of equalization. FDI enterprises accounts for 3.2% of the total number of enterprises. This is the most dynamic sector with even and most advanced technology. This sector develops quickly and stably. It takes a leading role in the process of integration and contributes to economic growth and state budget contribution. Of the private sector almost 99% are SMEs. The corresponding figures for SOEs and FDI enterprises are 67% and 78% respectively.

Table 2. Number of enterprises by type of ownership in Viet Nam, 2000-2007

Type of ownership	2000	2004	2005	2006	2007
SOEs	5,759	4,597	4,086	3,720	3,494
- Of which SMEs	4,194	2,959	2,675	2,457	2,340
Private sector	35,004	84,003	105,167	123,392	147,316
- Of which SMEs	34,490	82,840	103,792	121,875	145,586
FDI	1,525	3,156	3,697	4,220	4,961
- Of which SMEs	1,213	2,423	2,869	3,261	3,854
Total	42,288	91,756	112,950	131,332	155,771

Source: GSO, 2009

Based on the size of capital 84.7% of Viet Namese enterprises are SMEs of which 98.4% are private enterprises. SOEs that are SMEs account for only 0.5% of the total SMEs operating in Viet Nam in 2007. Of the total number of SOEs 18.3% are SMEs. The corresponding figures for private sector and FDI are 88.1% and 29.7% respectively (Table 3). It can be seen that majority of the private enterprises are of small size according to both criteria of labor and capital. In fact number of laborers is often used to refer to the size of an enterprise when studying SMHs. The reason that it is not easy to know the actual capital of enterprises while it is easier to obtain the data on number of laborers of the enterprises.

Table 3. Number of enterprises by size of capital in Viet Nam, 2007

Type of ownership	< VND 10 billion	< VND 10- <50 billion	< VND 50 <200 billion	< VND 200- <500 billion	>500 VND billion
Total	131,888	16,353	5,286	1,355	889
SOE	641	1,085	992	438	338
Non-state	129,775	13,536	3,146	566	293
FDI	1,472	1,732	1,148	351	258

Source: GSO, 2009

Enterprises concentrate in trade, industry, construction, transport and communication activities. Trade is the sector that has the highest number of enterprises accounted for 39.5% of the total number of enterprises, followed by industry with 22.8%, construction with 13.5%. Agriculture attracts only 1.6% of the total number of enterprises (Table 4).

Table 4. Number of enterprises by kind of economic activities in Viet Nam, 2000-2007

Economic activities	2000	2004	2005	2006	2007
Agriculture	3,378	2,369	2,429	2,399	2,447
Industry	10,938	23,192	27,701	30,786	35,553
Manufacturing	10,399	20,531	24,017	26,863	31,057
Construction	3,999	12,315	15,252	17,783	21,029
Trade, repair of motor & goods	17,547	36,090	44,656	52,505	61,525
Hotel, restaurant	1,919	3,957	4,730	5,116	6,062
Transport, communication	1,796	5,351	6,754	7,695	9,858
Finance, credit	935	1,129	1,139	1,741	1,494
Other services	1,776	7,353	10,289	13,293	17,803
Total	42,288	91,756	112,950	131,318	155,771

Source: GSO, 2009

Enterprises concentrate mainly in major economic regions such as the South East with 36.6%, followed by the Red River Delta with 27%, the Mekong River Delta with 11.3%. The rest of the economy attracts 25.1% of the total number of enterprises (Table 5). The development of enterprises tends to focus in big cities such as HCMC, Ha Noi. In the remote mountainous and poor areas one can hardly see enterprises operating there.

Table 5. Spatial distribution of enterprises in Viet Nam, 2000 – 2007

Regions	Number of enterprises				
	2000	2004	2005	2006	2007
RRD	8,884	25,178	30,510	35,967	42,052
Ha Noi City	4,691	15,068	18,214	21,739	24,823
North East	2,078	6,196	7,292	7,895	9,026
North West	382	1,044	1,338	1,454	1,782
North Central Coast	2,254	5,373	7,212	8,466	10,485
South Central Coast	4,513	7,285	9,011	10,878	12,991
Central Highland	1,827	2,880	3,564	4,039	4,597
South East	12,329	30,843	39,601	47,130	57,022
HCMC	8,624	23,727	31,292	36,855	45,069
MRD	9,837	12,757	14,258	15,325	17,652
Unknown	184	200	164	164	164
Economy	42,288	91,756	112,950	131,318	155,771

Source: GSO, 2009

Though being small, over the past decade the business capital of Viet Namese enterprises has grown with a significant rate. Table 6 shows that the total business capital of all the enterprises as of 31 December 2007 were 4.157,902 billion dong equivalent to USD 259.9 billion⁴, an average increase of 22.6% per year from 2000 to 2007. In 2007 pre tax profit reached 222,521 billion dong, an increase of 33.4% as compared to the end of 2006 or an annual increase of 28.5% between 2000 and 2007. The return on capital is low ranging from 4.35% to 4.93% between 2005 and 2007 of which the FDI has the highest rate. SOEs though have received several privileges from the government such as access to land, capital, skilled labor, monopoly in import and export, etc., however its efficiency and effectiveness is still too low as compared to that of the FDI.

Table 6. Some indicators of enterprise in Viet Nam, 2000-2007

Indicators	2000	2004	2005	2006	2007
Average capital	998,423	1,966,512	2,430,727	3,035,416	4,157,902
Average capital/enterprise	26	24	23.7	25.8	31.2
Fixed assets & long term investment	411,713	744,573	952,437	1,429,782	1,881,957
of which agriculture	19,689	30,659	33,842	35,713	38,374
Current asset & short term investment	na	Na	1,719,214	1,951,834	2,981,393
Gross profit	41,148	104,922	116,209	166,807	222,521
of which agriculture	367	2,792	3,428	5,030	5,879
Tax & fee paid	60,736	Na	161,611	191,888	220,298
of which agriculture	762	Na	1,760	1,947	2;007
Return on capital (%)	3.7	4.9	4.35	4.93	4.57
Of which SOEs		3.2	3.2	3.5	
Of which private sector		1.6	1.5	2.0	
Of which FDI		13.0	11.3	13.2	
Return on turnover (%)	na	6.2	5.23	6.08	6.24

Source: GSO, 2009

ROLE OF SMEs IN POVERTY REDUCTION

The role of SMEs in the national economy has been strengthened making decisive effect to the fast and stable growth as well as international integration of the national economy. Development of SMEs affects the transformation of the economic

⁴ The exchange rate as of December 31, 2007 was US\$ 1 = VND 16,000

structure of the economy. The development of enterprises has created new technical factors ensuring the implementation of objectives of the national industrialization and modernization.

SMEs in Viet Nam plays an important role in economic and financial stabilization of the economy. It has created jobs, increased income and improved quality of live of the laborers. Recently the fast increase in number of enterprises has created jobs with higher income for its laborers. Total employees working in the enterprises as of 31/12/2007 were 7,382,160 people which was twice as many as those in 2000, an increase of 11,1%/year since 2000 of which SMEs have created more than 50% of the total laborers working in the enterprises.

The private sector is small in size with low and out of date technology. On average one enterprise has 27 laborers, capital of 8 billion VND and 89 million VND of fixed asset per laborer. However the sector has an important role in creating new jobs with higher income as compared to agriculture. The private sector alone has created jobs for over 50% of labor force (3.9 million people) working in the enterprise sector. Almost half of million new jobs each year arc created with an average income of about 2.3 million VND per month in 2007 making great contribution to solving unemployment problem for young labor force and healthier social life during the past decade. The development of SMEs's job creation is as Table 7.

Table 7. Job creation by type of ownership in Viet Nam, 2000-2007 (person)

Regions	Number of employee				
	2000	2004	2005	2006	2007
Total	3,536,998	5,770,671	6,237,396	6,722,224	7,382,160
SOE	2,088,531	2,250,372	2,037,660	1,906,994	1,763,117
Non-state	1,040,902	2,475,448	2,979,120	3,369,856	3,933,182
FDI	407,565	1,044,851	1,220,616	1,445,374	1,685,861

Source: GSO, 2009

Each year number of laborers in SOEs also falls from 130,000 to 200,000 people. In 2007 the number of laborers in this sector accounted for 23.9% of the total laborers working in the enterprises. Between 2000 and 2007 the number of SOEs has decreased gradually (Table 8) however it is the sector with the highest number of employees per enterprise. On average each SOE absorbs more than 500 laborers which is 18.7 times as many as that of the private sector, followed by FDI with 340 laborers per enterprise. With continuous increase in capital, value of fixed assets, turnover, profit and contribution to state budget SOEs still play an important role in regulating market, economic growth rate, increasing state budget and maintains social stability. Foreign invested enterprises mobilized 1.68 million people, accounted for 22.8%, an average increase of 22.5%/year.

Table 8. Average number of laborers per enterprise in Viet Nam, 2000-2007 (person)

Regions	Number of employee				
	2000	2004	2005	2006	2007
Total	84	63	55	51	47
SOE	363	490	499	513	505
Non-state	30	29	28	27	27
FDI	276	331	330	343	340

Source: GSO, 2009

Industry is a sector that uses the highest number of employees with more than four million people accounted for 55.4% of the total employees in enterprise sector, followed by construction with over 1 million people (Table 9). Of the industry manufacturing sub-sector uses the largest number of employees with 3.8 million laborers accounted for 51% of the total laborers of enterprises. Number of laborers in this sector is more than double that of 2000. Trade sector has absorbed 808,667 people, accounting for 10,9%.

Table 9. Job creation by type of economic activities in Viet Nam, 2000-2007 (person)

Type of economic activities	2000	2004	2005	2006	2007
Total	3,536,998	5,770,671	6,237,396	6,722,224	7,382,160
Agriculture	267,254	256,111	259,082	256,362	253,333
Industry	1,822,741	3,161,788	3,384,485	3,711,041	4,090,679
<i>Manufacturing</i>	<i>1,597,431</i>	<i>2,893,080</i>	<i>3,099,386</i>	<i>3,401,627</i>	<i>3,773,533</i>
Construction	529,351	939,186	1,005,981	996,720	1,079,267
Trade, motor repair	368,897	575,567	657,408	735,115	808,667
Hotel, restaurants	61,086	97,441	111,040	117,843	141,104
Transport, storage, communication	327,911	426,750	431,061	455,358	481,515
Finance, credit	64,089	99,580	113,724	122,407	148,466
Others	95,669	214,248	274,615	320,320	379,129

Source: GSO, 2009

Overall, enterprises operating in industry have played an important role in dealing with unemployment, capital accumulation, and contribution to increasing GDP and ensure stable income for state budget.

Laborers working in the enterprises have higher income than those engaging in self-employed and "household economy. These are the main source of state budget and GDP growth rate. High and growing income of laborers in the enterprises has contributed to the improvement of living standard of the society and the process of transformation of labor structure from farm to non-farm

Table 10. Income of employees in enterprises in Viet Nam by region (thousand VND/person/month), 2000-2007

Regions	2004	2005	2006	2007
Economy	1,476	1,712	1,969	2,342
RRD	1,347	1,554	1,772	2,231
Ha Noi city	1,603	1,884	2,145	2,844
North East	1,439	1,754	2,001	2,348
North West	1,038	1,124	1,415	
North Central Coast	1,012	1,175	1,288	1,574
South Central Coast	1,148	1,269	1,403	
Central Highland	1,054	1,288	1,573	1,872
South East	1,710	1,904	2,181	1,737
HCMC	1,797	2,012	2,302	2,661
MRD	1,142	1,314	1,422	1,673

Source: GSO, 2009

SMEs play an important role in the high and stable growth of the economy for the past year. In 2007 net turnover of enterprises totaled VND 3,459.8 trillion, or 4.3 times as high as that of 2000 (Table 11). Industry is the sector that has the highest gross revenue accounted for 40.2% of the total revenue of the enterprises, followed by trade sector accounted for 39.3%. Agriculture accounted for only less than one percent of the total net turnover of enterprises. The fast growth of the enterprises over the past years has speeded up the share of the sector in GDP which was 45,31% in 1995, 53,13% in 2001 and 56% in 2003⁵.

Table 11. Net turnover of enterprises by type of economic activities in Viet Nam. 2000-2007 (VND billion)

Enterprise	2000	2004	2005	2006	2007
1 Agriculture	10,389	17,225	20,586	26,148	30,184
2 Industry	315,135	734,825	897,932	1,098,545	1,390,921
3 Manufacturing-	246,290	600,550	725,445	892,312	1,161,997
4 Construction	46,547	107,267	127,300	147,934	200,790
5 Trade, motor & goods repair	344,559	639,340	812,176	1,030,395	1,358,019
6 Hotel, restaurant	6,713	13,224	16,727	18,888	25,595
7 Transport, communication	41,638	93,475	122,628	154,735	204,233
8 Finance, credit	32,405	82,682	117,548	155,854	176,480
9 Others	12,399	32,301	42,887	51,842	73,582
Total	809,786	1,720,339	2,157,785	2,684,341	3,459,803

Source: GSO, 2009

⁵ The World Bank. 2003. Report & analysis of SMEs in Viet Nam.

The higher benefit the growth of enterprise brings about is that it produces more goods and services with better quality that replace imported goods contributing to improvement of domestic consumption and increase in exports. This is also a factor that has contributed to the stabilization and development of the economy for the past years.

Development of SMHs has contributed to the transformation of economic structure in the national economy and in each sector. Before 2000, enterprises concentrated mainly in industry with SOEs playing a dominant role. Individuals and household economy which accounted for 85-95% of the total production are operating mainly in agriculture, forestry and fishery, trade. By now, SMEs are operating in all sectors.

The fast growth of SMEs in all the sectors and economic regions has created an opportunity to shift labor from farming activities with low productivity to non farm activities with high productivity and higher income.

Development of enterprises has contributed to better solving social problems. Beside meeting the growing demand of the people on goods and services enterprises have contributed to the state budget and this in turn will be invested in public infrastructure such as health, education, poverty reduction. In 2002 the contribution to the state budget of enterprises was 4.3 times as high as that of 1994 and 1.8 times as high as that in 2000 of which state own enterprises accounted for 52,6%, private sector accounted for 10,8% and FDI accounted for 36,6%⁵. The tax and fee paid to the state budget of the enterprises operating in industrial sector accounts for 53,9%; The corresponding figures for the trade enterprises and the remaining sectors account for 25,9% and 20,4% respectively.

POLICIES ON PROMOTION OF SMES

Being recognized the importance of SMEs in development of the national economy for the past ten years the government has several policies and measures to promote development of SMEs. The promulgation of enterprise laws in 2000 has removed several barriers for enterprises to enter formal market. The process of administration policy reform over the past decade have abolished several administrative procedures and business licenses. On November 29, 2005, the National Assembly approved new Enterprise and new Investment Laws. Thank to this the legal system and business environment has improved gradually. SMEs have gained more benefits and equal opportunities with other sectors. The bias against private sector has reduced. The access to capital, technology, land, labor and market information has been improved significantly. Time required to start a business has shortened from 50 days in 2005 to 43 days in 2007 and 38 days in 2008.

Besides the laws many decrees, decisions, circulars, etc. have been issued by different ministries and government agencies as follows:

1. Decree No. 90/2001/ND-CP dated November 23, 2001 of the government on promotion of SMEs;

2. Decision No. 193/2001/QD-TTg dated December 20, 2001 of the Prime Minister on issuance of regulation on establishment, organization and operation of Guarantee Loan Fund for SMEs;
3. Circular No. 86/2002/TT-BTC dated September 27, 2002 of the Ministry of Finance on guiding government support of marketing promotion for export in order to improve competitiveness of Viet Nameese goods;
4. Decision No. 12/2003/QD-TTG dated January 17, 2003 of the Prime Minister on establishment of Council of SME Promotion;
5. Decision No. 290/2003/QD-BKH dated May 12, 2003 of the Minister of Planning & Investment on establishment of Centers of technical assistance for SMEs in Ha Noi, Da Nang and HCMC;
6. Instruction No. 27/2003/CT/TTg dated December 11, 2003 of the Prime Minister on continuing strengthening implementation of enterprise laws, promotion of SMEs development;
7. Decision No. 115/2004/QD-TTG dated June 25, 2004 of the Prime Minister on amendment and supplementation of the regulations on establishment, organization and operation of Guarantee Loan Fund for SMEs issued in conjunction of the Decision No. 193/2001/QD-TTG. As a results of the Decision, 9 guarantee funds have been established in Viet Nam, including Ha Noi, HCMC, Yen Bai, Tra Vinh, Dong Thap Vinh Phuc, Binh Thuan, Bac Ninh, Ha Giang but only three are operating;
8. Guidance of the Ministry of Planning & Investment on implementation of the Program on Human Resource Development dated November 24, 2004;
9. Decision No. 143/2004/QD-TTg dated August 10. 2004 of the Prime Minister on approval of the program to support the training of human resource for enterprises. By the end of 2007 more than 2.500 training courses for more than 90,000 participants had been conducted with a total budget of about VND 51 billion of which 24.5 billion comming from national budget and 26.5 billion comming from provincial budget;
10. Decision of the Prime Minister dated November 3, 2005 on regulations of implementation of national program on marketing promotion 2006-2010;
11. Decision No. 236/2006/QD-TTg dated October 23, 2006 of the Prime Minister on approval of the SME Development Plan 2006-2010. This plan plays an important role in the program on SME development.
12. Decree No. 88/2006/ND-CP dated August 28. 2006 of the Government on guiding business registration; Decree No. 139/2007/ND-CP on guiding some articles in 1995 Enterprise Laws.

Ministry of Science & Technology has a "program to support SMEs improve productivity and quality". In addition, other activities have been being implemented

such as promotion of establishment of technology market, helping enterprises access to new technology; studying policies to promote development of scientific and technological enterprises, etc.

Since mid 1990s non-farm extension activities have been implemented in several provinces. By 2004, this activity has made a big progress by implementation of the Decree No. 134/2004/ND-CP dated June 09, 2004 of the government on promotion of rural industry from central to local level. This has created incentives for provinces, organizations and individuals to invest in rural industry. Between 2005 and 2007 total budget for industrial extension in rural areas reached VND 1,002.5 billion. This activity has contributed to development of rural industry. Several industrial enterprises have been established in rural areas. On August 20, 2007 Prime Minister had promulgated Decision No. 136/2007/QĐ-TTg on approval of the national program on industrial extension by 2012.

In an effort to help SMEs access to information in February 2007, Department of SME Development (Ministry of Planning & Investment) had built and put into operation a web site to provide information on organizations and policies to promote development of SMEs, regulations and useful advices for SMEs and individuals who want to establish enterprises. Center for Informatics of the Department of Standard Quality Measurement, Ministry of Science & Technology has also a web site to provide Viet Nameese SMEs information on some major markets in America, Asia and Africa; legal information related to industrial property right and technology transfer; data on technology and equipments produced domestically and overseas. Ministry of Agriculture & Rural Development also has a web site to provide information on prices of agricultural products in Viet Nam and in the world market.

In order to develop SMEs and at the same time strengthen the state management over SMEs operation the government has issued Decree No. 56/2009/ND-CP dated 30/6/2009 on promotion of SMEs. This is a national SME-target program developed based on socio-economic development direction, sector and area development and mainstreamed in annual and five year development plans with the focus on female headed SMEs or female labor intensive SMEs.

The support program is implemented in the following fields: financial support, production sites, technology improvement, development of human resource, capacity building and marketing promotion. Besides, the government has a policy to support SMEs with information and business advice provision and promote the establishment of SMEs nursery. On the other side the government has requested Ministry of Planning & Investment to establish Center on promotion of SMEs in order to provide advisory service and implement the program. At the same time the government has requested the sectors, localities to incorporate specific support plans including solutions and budget for implementation into the annual and five year plans. In localities DPIs are to collaborate with other line agencies and sectors to develop the program and plan of SME development to submit provincial people's committees for approval.

Several donors such as WB, IMF, ADB, IFC, UNDP, EU, AusAid, CIDA, DANIDA, AFD, Finland, GTZ, KfW, Italia. JICA, JBIC, SNV, NORAD, SIDA, SDC, SECO, DFID and USAID, MPDF and international NGOs such as Oxfam

Quebec/GB/Hongkong, Belgium, etc have programs and projects to support development of SMEs, especially private sector in Viet Nam by putting efforts to build a favorable business environment, improve access to credit, access to business development services.

CONSTRAINTS TO THE DEVELOPMENT OF SMEs

Despite of the government, donors and SMEs efforts and the improvement in term of growth, structural transformation and economic efficiency constraints remain. Current legal framework, business environment has not met the requirements of the fast growing of SMEs and this is one of the constraints for the development of enterprises.

SMEs' Access to Main Inputs of Production such as Land, Loans, Skilled Labor and Market Information is Limited

Majority of SMEs that have been established recently find it very difficult to access the land for production expansion. Due to population growth land availability is limited and the rental is too high for SMEs. The SMEs' access to land is constrained due to complicate procedures. Enterprise in Viet Nam needs on average 230 days and 7 procedures to obtain land use certificate⁶. Results of the industrial enterprise survey in 1999 shows that on average, one industrial enterprise uses 0.5 ha of land however land is unevenly distributed among different type of enterprises, e.g. on average one SOE uses 1.61 ha of land. The corresponding figures for FDI and private enterprise are 0:55 ha and 0.17 ha respectively.

In order for an enterprise to access the bank's loans it needs to have some key conditions. They are: i) collateral; ii) sound business plan; iii) good banking reputation; and social relation. SMEs in Viet Nam are of small size and have limited assets to use as collateral. In addition, the banks accept only land and houses as collateral. Other properties such as machines, equipments, materials, buildings on rented land, etc. are often not accepted. Several SMEs find it difficult to make business plans as required and this leads to additional cost. Short term of the loans is also one of the constraints to SMEs' access to loans.

Labor in Viet Nam is abundant, however skilled labor is limited. According to the Economic-administrative enterprise census in 2007 the structure of laborers in enterprises are as follows: i) laborers with qualification from college and higher account for 15.8% of the total laborers working in enterprises; ii) laborers with vocational secondary education account for 10.2%; iii) laborers with long term occupational training (1-3 years) account for 7.7%; and iv) laborers with no qualification account for 66.3%. The corresponding figures for 2002 are 12.8%; 29.2%; 7.4% and 50.6% respectively. The higher percentage of laborers with no qualification and the reduction in the share of laborers with vocational training and long term occupational training shows that there is much to do to improve quality of the labor force in Viet Nam.

⁶ ASMED, 2008. Annual report on Viet Namese SMEs

Lack of marketing information, limited access to legal documents is another constraint to the development and improvement of competitiveness of SMEs in Viet Nam.

The Development of Enterprises is Spontaneous. There is Lack of a Clear Directed Plan

The enterprises mainly concentrate in the sectors that have high profit and low risk; need less capital such as trade, hotels and restaurants, beverages, garments and leathers, wood processing and consumer goods. On the contrary, the sectors such as processing of agricultural products for export, production of chemicals, production of materials to replace imports and some sectors with high technology content such as production of machinery equipments, electronics, precise equipments, etc that need more investment to improve capacity but attracts less investment. The number of enterprises in this sector is low and of small size with low technology.

The Number of SMEs is High However Its Size is Small and Its Technology is Backward.

On average, one enterprise has 47 employees and 31 billion dong of capital equivalent to US\$ 1.95. Of the total enterprises operating in 2007, 55% have less than 10 employees. Based on capital size the number of enterprises with less than VND 10 billion (US\$625,000) accounts for 84.7% of the total number of enterprises; enterprises with capital of between VND 10 and 50 billion account for 10.5%; enterprises with capital of more than VND 500 billion account for only 0.6%.

Of the three sectors SOEs have the highest scale. On average each SOE employs 505 people (Table 8) and has a capital oi: VND 560 billion. Followed by FDIs with 340 employees and VND 152.9 billion (Table 12). Both sectors have observed an onward trend in size in term o(number of laborers employed and capital used. On average one private enterprise employs 27 people and has a capital of VND 9.8 billion.

Table 12. Average capital size of enterprise in Viet Nam, 2000-2007 (V'ND billion)

Regions	2000	2004	2005	2006	2007
Total	23.61	21.43	21.52	23.12	26.69
SOE	116.38	245.56	326.46	425.25	560.06
Non-state	2.81	5.03	5.77	6.93	9.79
FDI	150.72	131.43	132.41	143.27	152.94

Source: GSO, 2009

Due to the fact that the enterprises in Viet Nam are mainly of small size with low level of capital, its ability to equip with modern technology is very limited.

Majority of SMEs use technology that is 3-4 generations backward as compared to the average level in the world. Several SMEs are using old equipments liquidated by SOEs. This leads to low level of flow efficiency and competitiveness.

CONCLUSION AND REMARKS

Measures to develop SMEs in Viet Nam have been suggested, namely: (1) support SMEs to invest in renovation of technology, improve quality of products; (2) continue to improve the legal framework including building an equal business environment for all the enterprises, e.g. equal opportunity to access credit, land, labor, technology and market information; transparency; (3) develop labor market and have a suitable policy for land market; (4) have a suitable policy on unemployment insurance in order to create favorable conditions for the process of restructuring SMEs; (5) develop financial market and have a policy to support SMEs, especially the newly established ones; (6) create favorable conditions for SMEs to run their business and encourage private sector to directly involve in ex art; (7) expand export insurance; (8) further strengthen the role of associations, CEO clubs in development of SMEs; and (9) strengthen training on international business for SME managers.