

**The Follow-up study  
on  
Mining, Energy and Industrial Development  
Study Project  
( Development of Factory Evaluation System for  
Small and Medium Enterprises in Thailand)**

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March 2001

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**JAPAN INTERNATIONAL COOPERATION AGENCY  
MINING AND INDUSTRIAL DEVELOPMENT STUDY DEPARTMENT**

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## ABBREVIATION LIST

ATSME: Association of Thai SME  
BAAC: Bank of Agriculture and Agricultural Cooperative  
BDS: Business Development Service  
BOI: Board of Investment  
BSID: Bureau of Supporting Industry Development, DIP, MOI  
CF: Consultancy Fund  
CCC: Chiang Mai Chamber of Commerce  
DEP: Department of Export Promotion, Ministry of Commerce  
DIP: Department of Industrial Promotion, Ministry of Industry  
DTEC: Department of Technical and Economic Cooperation  
FTI: The Federation of Thai Industries  
FTPI: Foundation of Thailand Productivity Institute  
IPC: Industrial Promotion Center , DIP, MOI  
IPC 1: Industrial Promotion Center Regional 1  
IRP: Industrial Restructuring Plan  
IRP Project No. 13: No. 13 Project of Industrial Restructuring Plan  
ISMED: Institute for Small and Medium Enterprises  
JICA: Japan International Cooperation Agency  
JODC: Japan Overseas Development Corporation  
KIAAsia: Keanan Institute Asia  
MDICP: Management Development Industrial Competitiveness Program  
MOAC: Ministry of Agriculture and Cooperative  
MOC: Ministry of Commerce  
MOF: Ministry of Finance  
MOI: Ministry of Industry  
MOLSW: Ministry of Labor and Social Welfare  
MOSTE: Ministry of Science, Technology, and Environment  
NNSPSME: Northern Network of Service Providers for Small and Medium Enterprises  
NOHMEX: Northern Handicraft Manufacturers and Exporters Association  
PIO: Provincial Industrial Promotion Office, DIP, MOI  
RISE-AT: Regional Information Center for South- East Asia on Appropriate Technology  
SIFC: Small Industry Finance Corporation  
SSIPP: Small Scale Industry Promotion Program  
TAI: Thai Automotive Institute  
TCC: The Thai Chamber of Commerce  
TGI: Thai-German Institute  
THTI: Thailand Textile Institute  
TPA: Technology Promotion Association (Thailand-Japan)



## FOREWORD

This Paper presents the findings of the study on the present situation of business development services (hereinafter referred to as BDS) in Thailand and introduces concrete cases indulging Japanese Cooperations. The exact contents of BDS are currently being discussed by the Committee of Donor Agencies for Small Enterprise Development which consists of representatives of 20 ODA agencies/organizations of 16 countries, i.e. Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, the UK and the US.

The first Annual Meeting of the Donor Committee on BDS was held in Budapest in 1995. The growing debate on BDS at that time reflected the awareness among donors that stimulation of the business activities of small enterprises (mainly featuring micro enterprises) will contribute to the reduction of poverty, the increase of employment and income and economic development in developing countries. Based on such awareness, the establishment of the BDS Working Group was agreed at the first Annual Meeting. The Annual Meeting has been regularly held since that time and each donor reports its experiences in this field at the meeting. Moreover, the Preliminary Guidelines were announced in January, 1998.<sup>1</sup>

This Paper does not describe BDS in detail as such description can be found on the ILO Home Page. However, a brief description of BDS is still necessary to facilitate the reader's understanding of this Paper.

The type of BDS debated by the Donor Committee are high quality business services to meet the needs of small enterprises in line with the principles of a market economy. In fact, it may be correct to say that the provision of such services is the idea direction for BDS. The services to be provided in this context include training services, consultancy and advisory services, information services regarding markets and other subjects, technology development and transfer services and business linkage promotion services. There are many players in BDS, ranging from government, donors, BDS facilitators<sup>2</sup> (hereinafter simply referred to as facilitators), BDS providers<sup>3</sup> (hereinafter referred to as service providers or simply providers)

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<sup>1</sup> Refer to the following web site for detailed information on BDS.  
<http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>

<sup>2</sup> BDS facilitators: Represent those public organs, NGOs, or project offices of the donor that are funded by the government or donor and develop their activities for the objective of promoting local BDSs. The BDS facilitator not only supports BDS providers in establishing their own activities, building capacities, or collecting information of the customers addressed by the pertinent BDS but also undertakes evaluation of the activities of BDS providers and arrangement of environments for BDS markets.

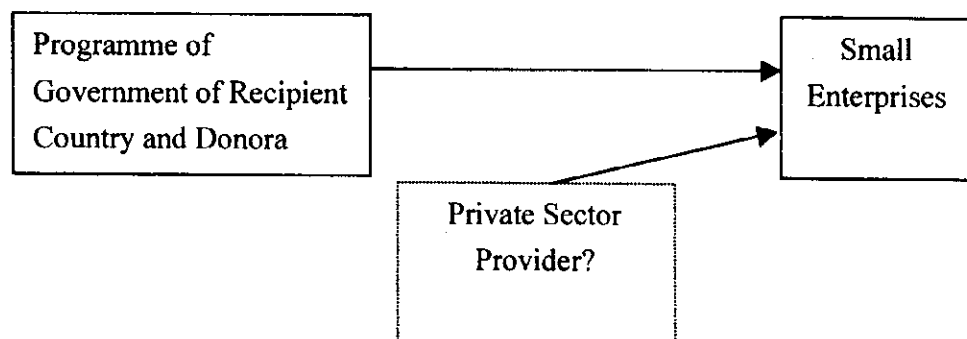
<sup>3</sup> BDS providers: Represent those enterprises, organs, individuals who provide medium- and small-sized enterprises with BDSs directory. A BDS provider may take any form of entity, such as a private profit-making organization, non-profit-making organization, NGO, government organ, or trade association.

and small enterprises, all of which play their respective roles.

## 1. Old Approach to BDS

The old cooperation approach of donors is the provision of assistance for programmes formulated by organizations of recipient country. This approach is often restricted by the capability and scope of authority of such organizations. As a recipient government directly provides services, there is little effort to either organize service providers or to consider the prospect of the financial independence of such providers which is essential for the sustainable provision of services. As a result, donors which have employed this approach based on their own experience are aware of problems relating to sustainable assistance for small enterprises and to the autonomous development of providers to become self-supporting entities.

**Fig. 1 Old Approach to BDS**

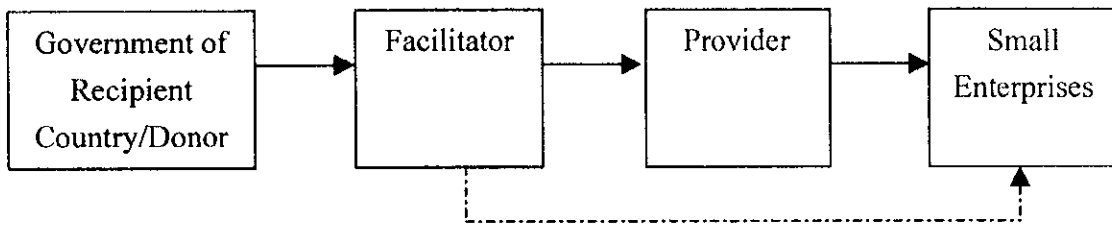


Source: A figure derived from *Business Development Services for Small Enterprises: Guidelines for Donor Intervention 2000 Edition*, November 2000, Committee of Donor Agencies for Small Enterprise Development is presented here in a simplified form.

## 2. New Approach to BDS

The new BDS approach currently being debated by the Donor Committee aims at improving the problems associated with the conventional approach and assisting the training and activities of providers jointly by donors and government of recipient country via facilitators based on the principles of a market economy. The main characteristic of this approach is that services for small enterprises are mainly provided by providers (or, in some cases, directly by facilitators).

**Fig. 2 New Approach to BDS**



Source: A figure derived from Business Development Services for Small Enterprises: Guidelines for Donor Intervention 2000 Edition, November 2000, Committee of Donor Agencies for Small Enterprise Development is presented here in a simplified form.

As already stated at the beginning, this Paper presents the findings of the study on the present situation of BDS in Thailand and introduces concrete cases. In view of the purpose of the Paper, the discussions in the Paper are conducted in the following manner.

Chapter 1 outlines the present situation of BDS in the manufacturing and non-finance sectors in Thailand regardless of BDS being based on the old approach or the new approach and also introduces the trends and present situation of the approach adopted by the Government of Thailand.

Chapter 2 outlines the background, basic design, contents and characteristics of the factory evaluation system under the Project for Development of Factory Evaluation System which is one of the action plans of the Industrial Restructuring Plan announced by the Government of Thailand to overcome the adverse impacts of the Asian economic crisis in 1997 and also presents an overview of pending tasks and the present response to such tasks.

Chapter 3 deals with the performance and impacts, etc. of the first phase of this project.

Finally, Chapter 4 attempts to examine “best practice” which is one theme for the development of BDS.

# CHAPTER 1 CURRENT SITUATION AND TRENDS OF BUSINESS DEVELOPMENT SERVICES IN THAILAND

## 1.1 Outline of Study on BDS in Thailand and Study Findings

BDS providers in Thailand are diverse, government itself ranging from semi-governmental bodies established pursuant to the special law to private organizations with or without special corporation status and purely commercial bodies. As a result, there is a complicated matrix of programmes and services, i.e. those of the Government of Thailand, those of the Government of Thailand and foreign aid organizations based on inter-governmental cooperation and those of NGOs at home and abroad, etc. provided by these bodies. Since the Asian economic crisis in 1997 in particular, many SME support programmes have been introduced by the Government of Thailand, increasing the quantity of the available services.<sup>1</sup>

Two field surveys, i.e. a study on BDS in Thailand by a local consultant and a BDS interview survey by the Study Team, were conducted for the Study and the findings of these field surveys are compiled in Table 1-1 and Table 1-2.

Table 1-1 shows the contents of the eight primary categories of BDS, i.e. (i) information, (ii) guidance and advice, (iii) seminars and training, (iv) research, (v) technology related, (vi) technology development, (vii) testing and (viii) financing, based on the findings of the survey by the local consultant.

Meanwhile, Table 1-2 shows the findings of the interview survey conducted by the Study Team with leading BDS providers for the promotion of SMEs following the Asian economic crisis in 1997.

Since the Asian economic crisis, the central issue for the promotion of SMEs in the manufacturing sector has been improvement of the technological strength to foster international competitiveness and a number of consultation projects on this issue have been introduced by many government offices.

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<sup>1</sup> The subject BDS providers of the Study are government offices, bodies established by the government, semi-governmental organizations established pursuant to the special law (called "institutes" in this Paper unless otherwise stated) and private organizations with or without special corporation status, providing services in the manufacturing and non-finance sectors. Accordingly, those BDS providers operating on a purely commercial basis are excluded.





Item	Name of organisation in charge	Type of service	Information Service							Guidance and Advice			Seminar and Training				Research			Technology			Technology Development			Testing			Financing										
			Business	Marketing	Banking/Financing	Expert Advisor	Technology	Statistics	Policy Analysis	Industries	Business management	Quality system / productivity improvement	Skill & technique	Finance / Marketing	Business management	Production management	Quality System	Productivity improvement	Skill & technique	Technology application	Research service	Joint research	R&D	Technology transfer	Buy-Sell Technology	Technological assessment	Index / Statistics	Product design development	Machine development	Production process development	Testing & analysis	Product cert/label	Testing / Inspection Certificate	Loan (with interest)	(W/O interest)	Financing for technology	Taxation		
* University affairs																																							
1	Public Higher Education (Ministry of University Affairs 24)		●	●	●	■	■	●		●	●	■	●	●	●	●	■	■	●	■	■	●	●		■	●	●	●	■	●	●								
2	Private Higher Education (Ministry of University Affairs 33)									●	●	●	●	●	●	●	●	●	●	●	●	●	●																
3	Public Higher Education (Ministry of Education 82) (Rajabhat Institutes and Ratchamongkol Technology Institute)		●							●	●	●		●	●	●	●	●	●	●	●	●	●			●	●		●										
* Private Organization																																							
1	The Federation of Thai Industries		■	●	●	●	●			■		●	●	●	●	●	●						●																
2	Thai Chamber of Commerce		■	●	●	●	●	●	■		●	●	●	●	●	●	●	●																					
3	Technology Promotion Association (Thai - Japan)					●	■			■	●	●		■	■	■	■	■	●											●						■			
4	The Engineering Institute of Thailand					●	■		●	●	■	■	●		■	■	■	■	■	●			●	●															
5	Thai Environment Institute					■	●								■	■		●	■	●			●	●															
6	Business Management Association of Thailand																																						
7	Foundation of Education Managing of Thailand																																						
* Overseas Assistant																																							
1	Tradeport Center Romania																																						
2	American Chamber of Commerce																																						
3	CESO Organization (Canadian Executive Service Organization)																																						
4	KIASIA		●	●	●	●	●	●	●				●	●	●	●	●	●	●																				
5	Strategic International Assistance Matchmaking:SIAM																																						

\*Note  
● Provide one or more service  
■ Provide all types of service

**Table 1-2 Leading BDS Providers for Promotion of SMEs**

	Type of Service Provided											
	financing	Introduction for loan	Marketing	Investment Consultation	Information Supply	Research	Seminar	Technical Guidance	Training	Publications	Membership System	Others
<b>1. Government</b>												
Department of Industrial Promotion (DIP)		○	△	△	△		△	△	△	○		
Department of Export Promotion, Ministry of Commerce			○	○	○		△		△	○		
<b>2. Institutes</b>												
Thailand Textile Institute (THTI)			○	○	○	△	△	△	△	△		
Institute for Small and Medium Enterprises (ISMED)					○		◎					○
Thailand Automotive Institute (TAI)					△	○	○	△	△	△		△
Thai-German Institute (TGI)					△	△	◎	◎	◎	△		
Foundation for Thailand Productivity Institute (FTPI)					○	△	△	◎	△	○		
<b>3. Private Non-Profit Organizations</b>												
Federation of Thai Industries (FTI)		○	○	○	○		○		△	△	◎	○
The Chamber of Commerce (TCC)		○	○	○	○		○	△	△	○	◎	○
<b>4. NGOs</b>												
Technology Promotion Institute (TPA)					◎		◎	◎	◎	◎	◎	◎
Keanan Institute Asia (KIASia)			○	○	○	○	○		○	○		

Note: Institutes and corporations established pursuant to the special law and currently operated with a subsidy by the Government of Thailand. The staff members are not civil servants.

Legend: ◎ - service provided for a fee; ○ - service provided free of charge; △ - a charge is imposed for part of the service. Publications include PR magazines. Textbooks are partly payable. Membership here means that a subscription fee is payable for fixed membership.



Vigorous activities are in progress with the No. 13 Project of the Industrial Restructuring Plan (IRP No. 13), the Consultancy Fund (CF) and the Management Development Industrial Competitiveness Programme (MDICP), all of which are under the jurisdiction of the Department of Industrial Promotion (DIP) of the Ministry of Industry (MOI) shown in Category 1) of Table 1-2. The IRP No. 13 is, in principle, implemented free of charge for 400 – 500 companies a year using the IRP budget while the CF is provided for some 100 companies a year with a 50% subsidy by the government, focusing on “kaizen” (improvement). Meanwhile, the MDICP is implemented at some 20 companies a year with a 30 – 40% subsidy by the government, providing a consultation service for mainly exporting companies.

Category 2) of Table 1-2 lists the institutes and semi-governmental organizations which have been established since 1994 with relative independence from the MOI.<sup>2</sup> The Foundation of Thailand Productivity Institute (FTPI) provides wide-ranging services for productivity improvement of manufacturing sector. While services with a strong public service character are provided free of charge, a fee is imposed for services for individual companies. The Thai-Germany Institute (TGI) mainly provides technical training services jointly by the Government of Thailand and the Government of Germany for which a fee is imposed. The Thailand Textile Institute (THTI) and the Thai Automotive Institute (TAI) provide services which are aimed at specific industries, i.e. textile industry and automotive industry respectively. The Institute for Small and Medium Enterprises (ISMED) conducts wide-ranging promotion activities and fee-paying seminars using links involving 10 domestic universities, including Thammasat University.

Category 3) of Table 1-2 lists the services provided by non-profit foundations. The Federation of Thai Industries (FTI) and the Thai Chamber of Commerce are non-profit private sector organizations mainly established by private companies in the manufacturing sector and in the commerce and service sectors respectively. Even though their services are not exclusively aimed at SMEs, they provide information services and seminars, etc. for member companies.

Category 4) of Table 1-2 lists the services provided by NGOs. The Technology Promotion Association (Thailand-Japan) (TPA) which manages the factory Evaluation System project described later provides fee-paying services, ranging from technical

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<sup>2</sup> Since 1994, the MOI has made some of its internal bodies independent institutes mainly dealing with a sub-sector each. This move was largely influenced by recommendations put forward by a series of JICA development studies, i.e. the Study on Industrial Sector Development (M/P Type, 1988 – 90), The Industrial Study Development supporting Industry (M/P Type, 1993 – 94) and the Follow-Up Study for the latter (M/P Type, 1999).

training to the calibration of measuring instruments and ISO system certification (joint work with the JQA of Japan). The Keanan Institute Asia (KIASia), jointly established by a US foundation, the USAID and the Department of Technical and Economic Cooperation (DTEC) in Thailand, is a NGO which implements each project by securing a donor (mainly from the US) for the said project. Since the Asian economic crisis, it has been very active as the local organization responsible for the implementation of USAID programmes.

All of the organizations listed in Table 1-2 receive assistance from one or more overseas aid organizations, including the USAID, the GTZ, a Dutch organization and Japan's JICA and JODC. As these aid organizations adopt various aid approaches, there is a mixture of old and new approaches to the BDS described in the Foreword of this Paper.

The USAID has intensified its assistance for the fee-paying services provided by such non-profit foundations as the TCC and the FTI and such NGOs as the KIASia, particularly since the Asian economic crisis. The main services are the dispatch of experts to Thai companies and matchmaking between US and Thai companies (including the Business Advisory Centre of the MOC/TCC/KIASia, the Thai Voluntary Consultation Service of the KIASia and the Business Matchmaking by the US Chamber of Commerce/TCC/FTI).<sup>3</sup>

Germany provides assistance for the implementation of programmes formulated by counterparts through the dispatch of technical experts and private sector volunteers and collaboration between private sector organizations while also being directly involved in the business operation of the TGI which it jointly established with the MOI and the FTI. The programmes assisted by Germany include the DIP/Small-Scale Industry Promotion Programme (SSIPP), the Northern Network of Service Providers for Small and Medium Enterprises (NNSPSME) and the DIP/BSID/Special Programme for SMEs, all of which are MOI programmes.

Holland dispatches private sector volunteers via the TCC to Thai companies albeit on a small-scale.<sup>4</sup>

---

<sup>3</sup> The activities of the USAID have become very active since 1999 under the Asian Economy Restoration Programme. In the case of the Business Advisory Centre Programme of the Thai MOC (implemented by the KIASia), the MBA courses of several US universities have been used to provide a company evaluation service for 80 companies. In regard to the matchmaking of companies in the US and Thailand, a joint project with the US Chamber of Commerce, the FTI and the TCC has so far attracted the participation of 700 – 800 companies. Apart from the USAID, the US Department of Commerce held the AmTrade International Bank and Compass Bank Seminar in Bangkok on 15<sup>th</sup> February, 2001, providing a new preferential treatment programme for those local companies which have purchased manufacturing equipment made in the US with the assistance of the AmTrade International Bank and the Compass Bank. The funding scale announced was US\$ 10 million.

<sup>4</sup> Holland has been actively providing assistance for the growth of small companies and dispatches experts to local companies free of charge via the TCC.

The BDS listed in Table 1-1 and Table 1-2 can be classified into the following categories.

- 1) Services provided by the Government of Thailand
- 2) Services entrusted by the Government of Thailand to semi-governmental organizations
- 3) Services provided by either the Government of Thailand with foreign assistance or bodies jointly established by the Government of Thailand and foreign aid organizations
- 4) Services provided independently by local institutes, non-profit foundations and NGOs
- 5) Services provided by local institutes, non-profit foundations and NGOs with the assistance of foreign aid organizations
- 6) Services provided by bodies jointly established by local non-profit foundations or NGOs and foreign aid organizations

Even restricting the study scope to BDS under Categories 1) through 3) involving the Government of Thailand, three approaches are used in parallel, i.e. (i) the own approach of the Government of Thailand, (ii) the old approach to BDS as well as (iii) the new approach by foreign aid organizations.

## **1.2 Current Situation and Trends of BDS Approaches in Thailand**

As described earlier, there are different types of BDS providers in Thailand which are the subject of this Study. These include government itself semi-governmental bodies established pursuant to the special law and those established by private organizations with or without special corporation status. With such a diversity of providers in mind, the recent trends of BDS approaches in Thailand are introduced next, citing the principal thinking of the central government and the latest cases of BDS activities in local areas.

### **1.2.1 BDS Approach by Central Government**

In this section, the basic stance of the Government of Thailand regarding the BDS approach for SMEs and debates on the link between the promotion of SMEs and BDS are explained followed by the introduction of the latest moves.

According to the MOI officials interviewed, the BDS approach for SMEs and the roles of the public sector are as follows.

- BDS for SMEs cannot be expected to be profitable right from the beginning. In the case of new services in particular, the private sector cannot be expected to initiate such services.
- Based on the above understanding, the government establishes new services as government services.
- As the next step, the government verifies the social recognition, reliability and usefulness vis-à-vis the private sector of the new services.
- In parallel with the process of verification, the government begins to develop systems and laws relating to the new services.
- In the meantime, these government services are implemented in the form of (1) independent government services, (2) services entrusted to institutes, non-profit foundations or private sector organizations or (3) services for which foreign assistance is obtained.
- After undergoing the above stages, these services are handed over to privatised institutions or the private sector.

This BDS approach adopted by the Government of Thailand has also been adopted for the Factory Evaluation Service to be discussed in Chapter 2 onwards.

On 27<sup>th</sup> April, 2000, the DIP held a meeting to introduce the services provided by various bodies for SMEs and to discuss the possibility of future collaboration and invited representatives of such government ministries as the MOSTE, the MOC and the MOF, private sector organizations and NGOs to participate.<sup>5</sup>

The discussions at this meeting are summarised below to indicate the intended direction for SME promotion and the BDS approach of the Government of Thailand.

To start with, the following three problems were pointed out as pending issues for BDS for SMEs.

- Even if a consultation for a SME is planned, it is difficult to establish the real business situation of the SME in question, the understanding of which is a precondition for effective consultation.

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<sup>5</sup> The services introduced and their implementation bodies are the MOI (factory evaluation system, No. 13 Project and ISMED), the MOSTE (ITAP) and the MOF (Finance Advisory Centre) and the MOC (BAC and TVCS by the KIAAsia).

- Consequently, it is quite difficult to determine which expert should be dispatched and the scope of guidance.
- At the same time, the consultation effects cannot be properly measured.

The participants shared the following understanding.

- Consultation and Factory Evaluation Services are essential to solve the problems faced by SMEs.
- Collaboration between organizations and bodies providing these services is of critical importance.
- The networking of these organizations and bodies is also important.

Based on the above common understanding, it was concluded that the following issues should be examined.

- The services provided by various bodies have their own targets, such as market development and professional as well as technical consultations, etc. to improve the business capability of SMEs and to solve the problems faced by SMEs. Which is preferable: the implementation of these services as self-conclusive services or the creation of an integrated system incorporating all services?
- Various departments of the MOI plan to come together at the stage of project formulation for the purpose of clarifying the scope of work and responsibility for each department. Based on this single organization, factory evaluation and consultation services will be provided for SMEs. If the number of SMEs wanting to receive these services is large, they can be grouped to receive these services jointly.
- The understanding of SMEs will be sought in regard to the introduction of fee-paying consultation services although the fee level will be set as low as possible.
- How to establish a system to manage the various services provided by many bodies?
- Technical guidance is likely to be successful if factory evaluation and/or consultation on business management is conducted in advance.

A large number of BDS are available in Thailand even if the scope is limited to those provided by the government, partly because of the rush to introduce such services by many ministries and their departments as post-Asian economic crisis emergency measures. The efforts to achieve a consensus among the meeting's participants were

aimed at organizing BDS providers in order to avoid the duplication of government-affiliated programmes and at the efficient as well as effective implementation of BDS as part of future SME promotion measures.

On 19<sup>th</sup> and 20<sup>th</sup> February, 2001, the existing government-affiliated service providers were interviewed by the General Director or Deputy General Director of the DIP. These interviews aimed at clarifying the activities and problems of government-affiliated service providers during the First Phase of the Industrial Restructuring Plan (IRP)<sup>6</sup>, to examine either the continual implementation or the withdrawal of government-led programmes in the Second and Third Phases of the IRP and also to obtain basic information for the preparation of action plans by the SME Promotion Office following the establishment of the SME Promotion Office at the DIP and the inauguration of the new cabinet.

Along with the BDS approach of the central government described above, unique BDS activities have commenced or are beginning to commence in recent years within the framework of a local area or specific organization. Typical case of these BDS activities are introduced next.

### **1.2.2 Case of BDS Networking in Local Area**

While debates are in progress on the desirable management system for and networking of BDS within the central government as described in 1.2.1, there are moves to create a BDS network in local areas. An case of such a move in the Northern Region centering on Chiang-Mai is explained here.

On 19<sup>th</sup> August, 1999, the Industrial Promotion Centre Regional 1 (IPC 1)<sup>7</sup> of the DIP held the "Workshop on Creation of Network of Service Providers for SMEs". This Workshop was initiated as part of the SSIPP (GTZ-assisted project) under the jurisdiction of the section of the DIP responsible for Small and Cottage industries. The planned members of the network were the IPC1, the Provincial Industrial Promotion Office (PIO) and local offices of the Board of Investment (BOI), the FTI, the Chiang-Mai Chamber of Commerce (CCC), the Department of Export Promotion (DEP) of the MOC, the Bank of Agriculture and Agricultural Cooperatives (BAAC), the Small Industry Finance Corporation (SIFC), the Regional Information Centre for South-East Asia on Appropriate Technology (RISE-AT), the Northern Handicraft Manufacturers and Exporters Association (NOHMEX), the Association of Thai SMEs (ATSME), the

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<sup>6</sup> To be discussed in Chapter 2.

<sup>7</sup> The area of jurisdiction covers three provinces, i.e. Chiang-Mai, Lamphun and Lampang.

YMCA and the ISMED and efforts were made to coordinate the time-tables for the activities of the participants. During the second Workshop held on 27<sup>th</sup> and 28<sup>th</sup> May, 2000, four working groups, i.e. (i) Training Working Group, (ii) Information and Communication Working Group, (iii) Marketing and Trade Promotion Working Group and (iv) Organizational and Management Development Working Group, were established within the NNSPSME which had been established in November, 1999 and the desirable action plans for the coming years were discussed. At present, information exchanges between members are in progress in view of the commencement of concrete activities and new members are being added.<sup>8</sup>

The GTZ provided assistance for the launch of the Workshop, playing the role of a facilitator for network creation. Each member of the NNSPSME is responsible for the formulation of concrete joint projects, funding and the creation of links with the activities of the central government. Unfortunately, however, the inherent weakness of the members to perform these responsibilities have begun to surface. Leading members of the NNSPSME point out that there is a likelihood that the NNSPSME will naturally dissolve in the near future unless there is fresh impetus.<sup>9</sup>

### **1.2.3 Case of Networking Involving Central and Regional Bodies of Certain Organization**

Activities to create networks involving the central and regional bodies of certain organizations are in progress. One case is the TCC mainly organized by SMEs in the commerce and service sectors. The TCC has been entrusted by the Government of Thailand to conduct a study for the formulation of the "SME Promotion Master Plan (Commerce and Service Sectors)". This study must obtain information held by local bodies and information on the needs of local industries to formulate action plans which reflect such information and needs.

It is also necessary for the information held by the central body to be accessible by local bodies when necessary. This necessity has led to an initiative to create a network involving both central and local chamber of commerce. To assist the functional expansion of the Chamber of Commerce (efforts to create an information centre), the JODC has dispatched experts to Thailand since the second half of 2000 and has commenced a study on the formulation of a master plan to strengthen the functions of

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<sup>8</sup> The SMEPFAC/MOF, the ITAP/NSTDA and Chang-Mai University, etc. have become new members, bringing the number of members to 18 as the ISMED has withdrawn.

<sup>9</sup> Based on interviews at the CCC and the Northern Regional Centre of the FTI.

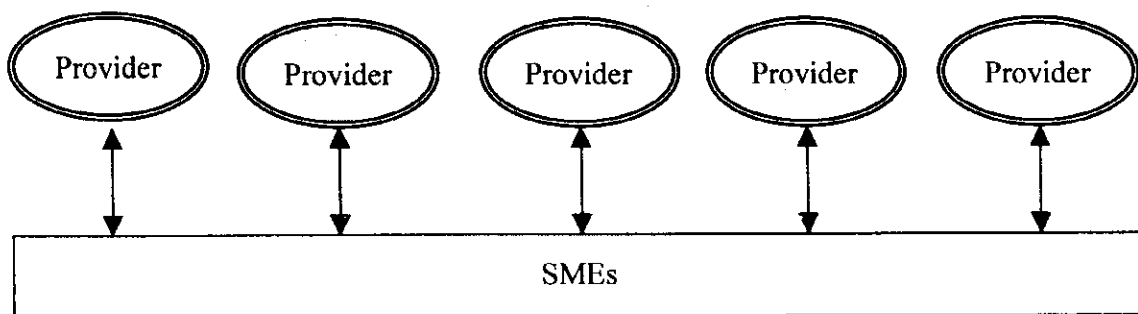
local chamber of commerce.<sup>10</sup>

### 1.3 Summary of Chapter 1

In this chapter, the current situation of BDS in Thailand is explained together with the characteristics and recent trends of the BDS approach of the Government of Thailand. There are many BDS in Thailand and the number has increased since the start of the IPR after the Asian economic crisis. Some BDS receive assistance from foreign aid organizations. The approach adopted by foreign aid organizations to assist BDS in Thailand is a mixture of “the old approach to BDS” whereby direct assistance is provided for the programmes of the Government of Thailand and “the new approach to BDS” whereby assistance is jointly provided with the Government of Thailand to foster providers.

As shown in Fig. 1-1 below, BDS providers are based in Bangkok and their activities mainly focus on Bangkok.

**Fig. 1-1 Conventional BDS: providers established by the central government based in Bangkok directly cover SMEs throughout Thailand**



In the face of the current situation of BDS, the Government of Thailand is paying increasing attention to (i) the coordination of BDS to avoid duplications of BDS, (ii) the efficient and effective implementation of SME promotion measures and BDS and (iii) facilitation of the collaboration between and networking of BDS providers for the efficient and effective implementation of BDS.

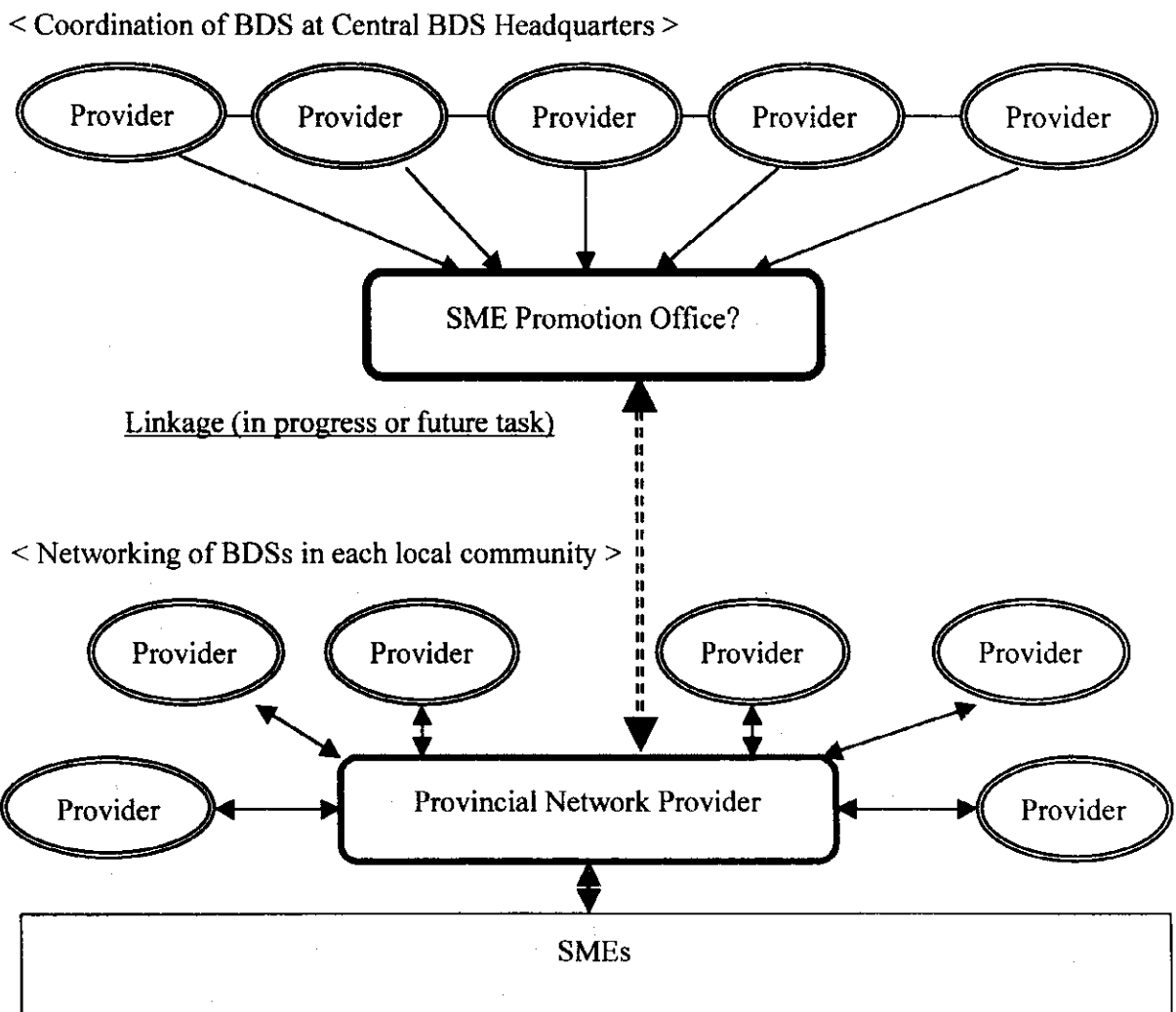
<sup>10</sup> This study is investigating the possibility of strengthening the functions of local chamber of commerce in seven areas, i.e. Chiang-Mai, Nakhon Ratchasima, Khon Kaen, Nakhon Pathom, Songkhla, Rayong and Chon Buri, and the dispatch of JODC experts to several areas after the completion of the study is planned.



In parallel with such moves by the central government, the provincial networking of BDS is in progress in provinces with local offices of national organizations playing a central role.

The facilitation of the coordination of BDS and linkage between BDS providers aimed at by the Government of Thailand includes linkage between local BDS networks and the corresponding networks at the central government level.

**Fig. 1-2 Future BDS: coordination of BDS at the Central BDS Headquarters and linkage between the Headquarters and provincial BDS networks (in progress)**



## **CHAPTER 2 FACTORY EVALUATION SYSTEM FOR SMEs IN THAILAND**

Since 1995, Thailand has been receiving seminar-based business improvement training for business owners and travelling guidance as well as individual guidance for specific industries and individual enterprises with the cooperation of Japan. The business vulnerability of SMEs was clearly illustrated by the Asian economic crisis in 1997. Against this background, the MOI decided that the much more active training and the utilisation of Thai experts will be essential to solve the problems of business management faced by local SMEs.

The factory evaluation system has been introduced with the policy intention described below. However, even if the system is fully funded by the government to start with using the IRP budget, it is hoped that it will eventually become a service for SMEs provided by the SME Promotion Office which has been established pursuant to the SME Promotion Act.

### **2.1 Background of Development of Factory Evaluation System**

#### **(1) SME Promotion Policies**

Following the economic crisis in 1997, the Government of Thailand announced the SME Promotion Policies (hereinafter referred to as SME Policies) as a cabinet decision for uniform SME policies for the first time in its history based on the series of work, etc. listed below.

- 1) Introduction of the Industrial Restructuring Plan (IRP) in January, 1998 (cabinet decision)
- 2) Introduction of the Industrial Restructuring Strategy in March, 1998 (cabinet decision)
- 3) Industrial Restructuring Action Plan in June, 1998 (cabinet decision)

Parallel to these cabinet decisions, the DIP of the MOI announced the Outline of Policy Measures for SME Promotion, consisting of the following three themes and featuring the manufacturing sector, in April, 1998.

- 1) Improvement of the business management techniques and promotion of the business management efficiency of SMEs
- 2) Encouragement of dispersion to local areas and strengthening of the business management base in local areas

3) Strengthening of the functions of the DIP

The development of the factory evaluation system to be discussed in this chapter is one of some 400 action plans clearly indicated in the above IRP for which a cabinet decision was made in January, 1998.

**(2) SME Promotion Act and SME Promotion Administration**

The legislation process of the SME Promotion Act in Thailand commenced at the same time as the introduction of the above-mentioned SME Policies to give the latter legal authority. The SME Promotion Act was promulgated in February, 2000 and stipulates that the Board of the SME Promotion Committee under the direct control of the Prime Minister's Office is responsible for policy decisions while the SME Promotion Office established under the SME Promotion Committee is responsible for implementing various projects to promote SMEs. As the members of the SME Promotion Office are representatives of various ministries and agencies, including the Ministry of Industry, Ministry of Commerce, Ministry of Agriculture and Cooperatives, Ministry of Labour and Social Welfare, Ministry of Science, Technology and the Environment and Ministry of Finance, its activities target SMEs in all industrial sectors.

The training of officially registered evaluators (tentative name) through the development of the factory evaluation system which is discussed in this chapter is planned as a policy tool of the SME Promotion Office.

**2.2 Purposes of Development of Factory Evaluation System**

Work Plan 1 of the IRP announced in January, 1998 features the improvement of productivity and production processes for enhanced cost and delivery competitiveness. The development of a factory evaluation system consisting of the following activities was announced as Project No. 1 under this Work Plan 1.

Project No. 1 Development of Factory Evaluation System

< Activities >

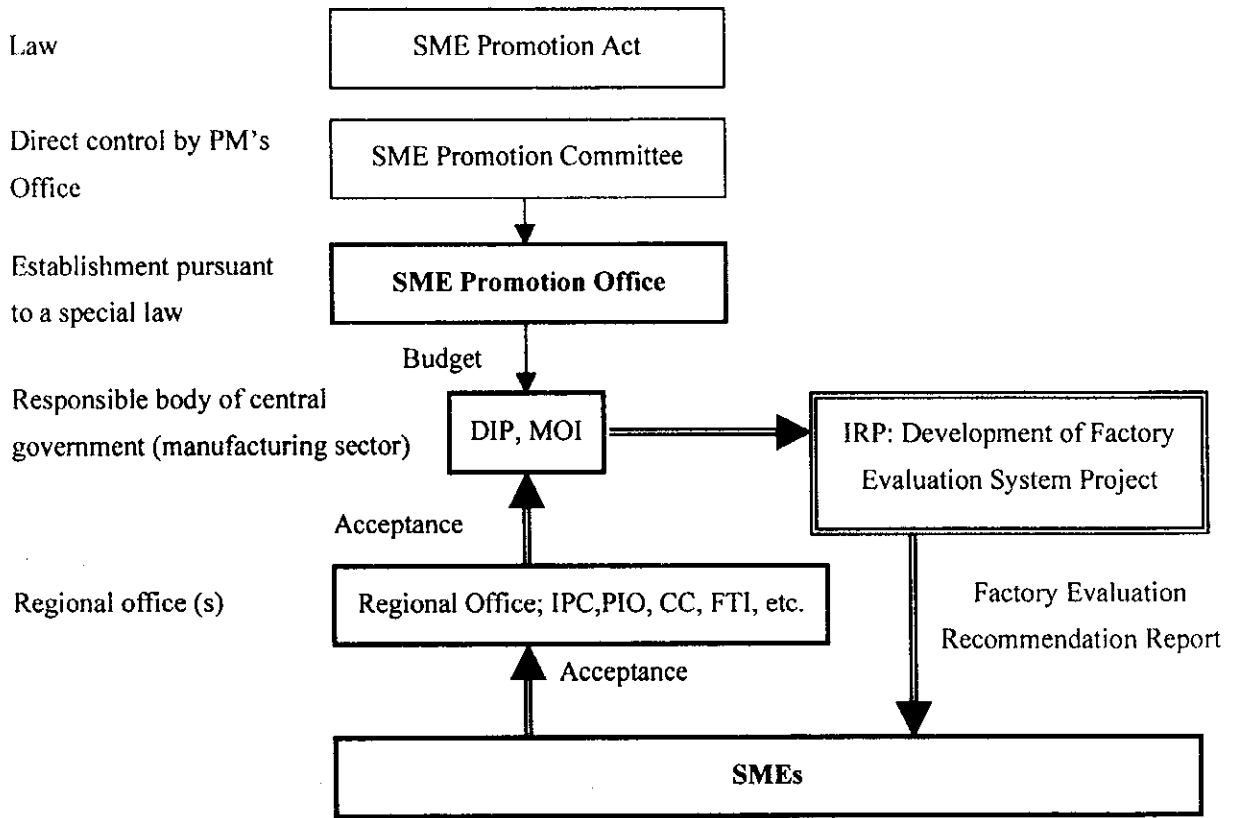
- Training of Thai evaluators
- Survey of factories

- Development of indicators and benchmarks
- Implementation of factory evaluation
- Establishment of pre-credit factory evaluation system acceptable to financial institutions

### **2.3 Factory Evaluation System in Framework for SME Promotion**

The factory evaluation system was introduced prior to the enactment of the SME Promotion Act. This law determines the framework within which the factory evaluation service should primarily be provided. The status of the factory evaluation system within the framework for SME promotion by the Government of Thailand (manufacturing sector) is illustrated in Fig. 2-1. When a SME wants to receive the factory evaluation service under the SME Policies, it firstly makes an application for the service at the regional office responsible for the area. This office accepts and examines the application form and then submits a plan for the implementation of factory evaluation to the DIP. The DIP examines this plan and dispatches an evaluator. In cooperation with the local office, the evaluator conducts the factory evaluation and compiles a report for its submission to both the DIP and the SME concerned. This factory evaluation service is conducted with the budget of the SME Promotion Office.

**Fig. 2-1 Status of Factory Evaluation System in Framework for SME Promotion by Government of Thailand (Manufacturing Sector)**



Note : **⇒** indicates the procedural flow of factory evaluation.

## 2.4 Project Design of Factory Evaluation System Project

The basic design of the factory evaluation system project was conducted by the Japan International Cooperation Agency (JICA)<sup>1</sup> and the contents of the basic design are outlined below.

### 2.4.1 Preconditions

The development of the factory evaluation system project will be funded by the IRP budget of the Government of Thailand. The period of implementation led by the government is five years in line with the period of the IRP. The project budget is

<sup>1</sup> JICA development study entitled "Follow-Up Study on Supporting Industries Development in the Kingdom of Thailand (March, 1999 – August, 1999)

divided into the following five envisaged activities under the Project. The responsible body for implementation is the Bureau of Supporting Industry Development (BSID).

- Development of factory evaluation system
- Training of Thai evaluators
- Registration of those completing the evaluator training course
- Implementation of factory evaluation service
- Development of business indicators and benchmarks for SMEs in Thailand

#### **2.4.2 Outcome**

The target outcome of the five year Work Plan No. 1 under the IRP is improvement of the productivity and production processes to achieve cost and delivery competitiveness.

#### **2.4.3 Project Goal**

The project goal is the successful development of the factory evaluation system.

#### **2.4.4 Expected Outputs**

The following outputs are expected during the five year period of the IRP.

- Development of a sustainable factory evaluation system, including a sustainable evaluator training system
- Creation of a certain number of evaluators to work for the factory evaluation system
- Evaluation of a certain number of SMEs under the factory evaluation system
- Pursuit of possible linkage between the implementation of factory evaluation and fund raising by (loans for) SMEs for the first two years as an urgent measure for SMEs.

#### **2.4.5 Activities**

During the five year period of the IRP, the government is expected to conduct the following activities.

- Development of a factory evaluation system
- Implementation of an evaluator training programme
- Organization of evaluators who have completed the training programme by means of registration
- Implementation of factory evaluation service

#### **2.4.6 Inputs**

The BSID will be responsible for the implementation of the project and the project will be implemented with the IRP budget of the Government of Thailand. The evaluator training programme and the factory evaluation service will be conducted by the Technology Promotion Association (Thai-Japan) (TPA) based on a consignment contract between the BSID and the TPA. Meanwhile, business management indicators for SMEs in Thailand will be developed by the Foundation of Thailand Productivity Institute (FTPI) which will conduct a survey on and analysis of 2,000 SMEs based on the relevant contract with the BSID.

#### **2.4.7 Preconditions for Concrete Inputs in Phase 1 of the Project**

Based on the basic design for the Development of the Factory Evaluation System Project given in 2.4.1, the Government of Thailand decided and met the following preconditions for the concrete inputs regarding the implementation of Phase 1 of the Project.

- The entire cost of implementing Phase 1 was met by the IRP budget of the government. The total cost was approximately 43 million bahts, covering the development of the factory evaluation system, the evaluator training programme and the factory evaluation service.
- For the evaluator training programme, the training of 320 evaluators was approved for budgetary appropriation. Attendance at a training course under the programme was free. A daily allowance was provided for the participants in

Phase 1 to meet the social demand to assist the unemployed who had lost their job because of the economic crisis.

- For the factory evaluation service, the evaluation of 160 SMEs was approved for budgetary appropriation. This service was provided free of charge for the subject SMEs.
- For the training of evaluators and the factory evaluation service, the Government of Thailand employed four Japanese experts using its own funds.

#### **2.4.8 Japanese Cooperation for Phase 1 of the Project**

Japan provided the following cooperation for the development and introduction of the factory evaluation system in Thailand.

- A JICA development study team provided assistance for the basic design for the development and introduction of the factory evaluation system.
- The JICA dispatched experts to assist the Government of Thailand to create the factory evaluation system.
- The Japan Overseas Development Corporation (JODC) dispatched experts to assist the implementation of the evaluator training programme and factory evaluation.

#### **2.5 Factory Evaluation System for SMEs in Thailand**

Factory evaluation means the comprehensive diagnosis (evaluation) of a SME by analysing the management of the said enterprise using management/control techniques relating to production, quality, materials, procurement, finance, marketing and labour (personnel), etc. A SME owner is expected to improve the management based on the recommendations (a report) given to him after the completion of evaluation. In some cases, a technical service in specific field may be required thereafter. The report may be used as reference material for the formulation of a business plan which is required for fund raising.

The factory evaluation service and the existing BDS in Thailand have such common features as a service to improve the business management of SMEs and a service provided by the government. However, the factory evaluation service cannot solve all of the problems of SMEs by itself. In fact, this service differs from the existing BDS



in that it can provide appropriate guidance and recommendations (based on elaborated technical consultation in specialist fields) to clarify the state of business and to improve the business management and that it can quantify the effects of consultation as mentioned in 1.2.1. The Government of Thailand appreciates these special features of the factory evaluation service and aims at achieving multiplication effects based on improved efficiency through its linkage with the existing BDS.

The implementation of the Development of the Factory Evaluation System Project has been in progress since June, 1999 as part of the IRP for the purposes of establishing a factory evaluation service system and training Thai evaluators capable of providing such a service.

This service is currently targeting SMEs in the manufacturing sector. The direct implementation of the Project by the government is planned to continue for five years from 1999 with 100% government funding (the project budget for the first phase is approximately B 43 million).

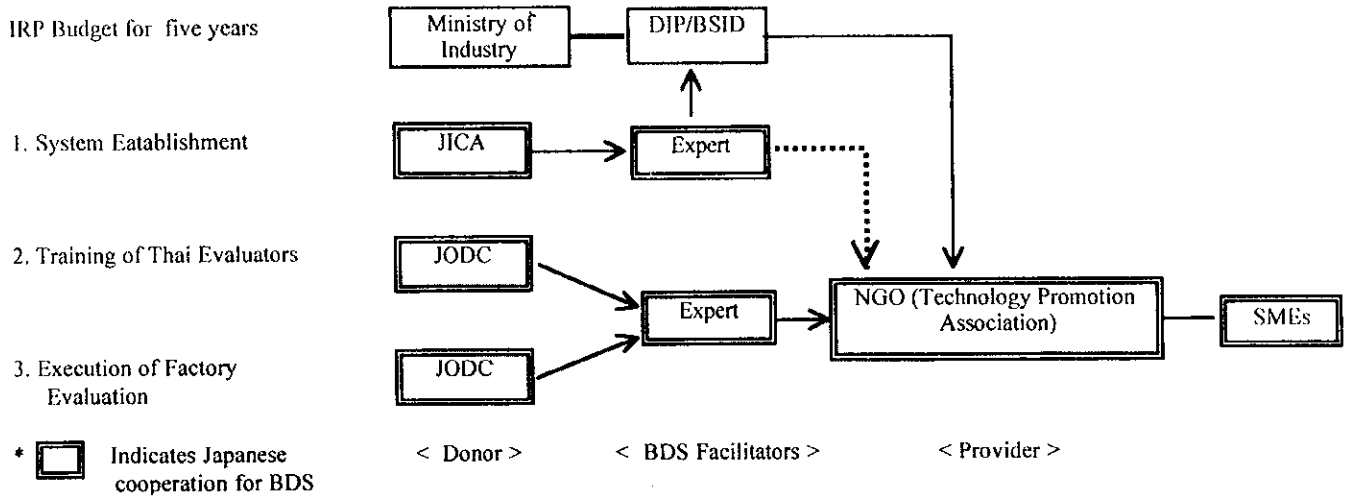
### **2.5.1 Actors and Their Roles**

Fig. 2-2 shows the relationship of the three activities under the Project (2.4.5), i.e. (i) development of a factory evaluation system, (ii) establishment of an evaluator training programme and (iii) implementation of the factory evaluation service described in 2.4 and the inputs (2.4.6) as well as Japanese cooperation (2.4.7).

- The DIP/BSID of the MOI acts as the responsible organization for the Project.
- The TPA, a Thai NGO, is consigned by the BSID to act as the responsible body for the implementation of the factory evaluation service and the evaluator training programme.
- Two Japanese organizations (a government agency and a NGO) are participating in the Project as donors. While the JICA dispatches an expert to assist the development of the factory evaluation system, the JODC also dispatches experts to assist the factory evaluation service and the evaluator training programme.

Both the factory evaluation service and evaluator training are provided free of charge as all expenses are paid by the IRP budget.

**Fig. 2-2 Actors and Their Roles**



The BSID, which is the responsible organization for the Project, supervises the development of the factory evaluation system and the operation of the service provider while the TPA runs the Thai evaluator training programme and the factory evaluation service with the cooperation of Japanese experts.

### 2.5.2 Mechanics

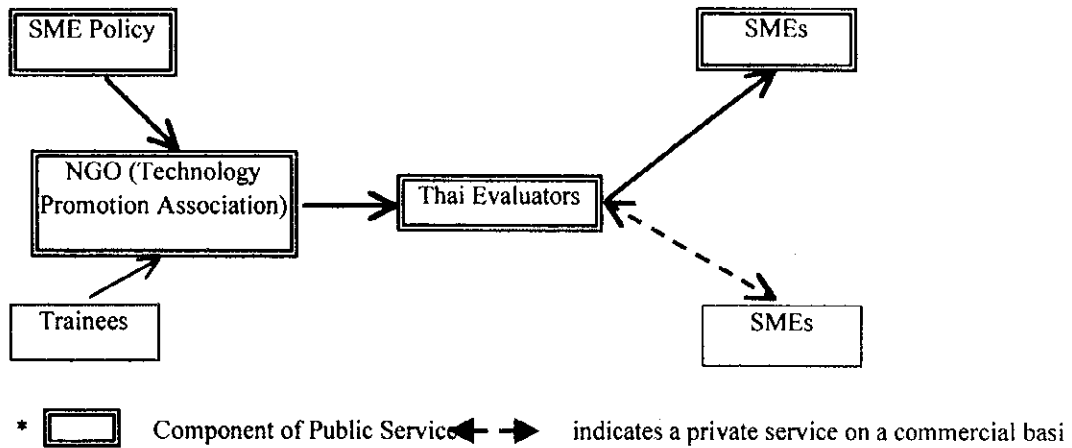
Fig. 2-3 shows different types of factory evaluation services which can be offered by the provider. The provider can offer the following two types of factory evaluation service.

- Public service implemented in accordance with the SME Policies
- Consultation service provided by an evaluator on a commercial basis

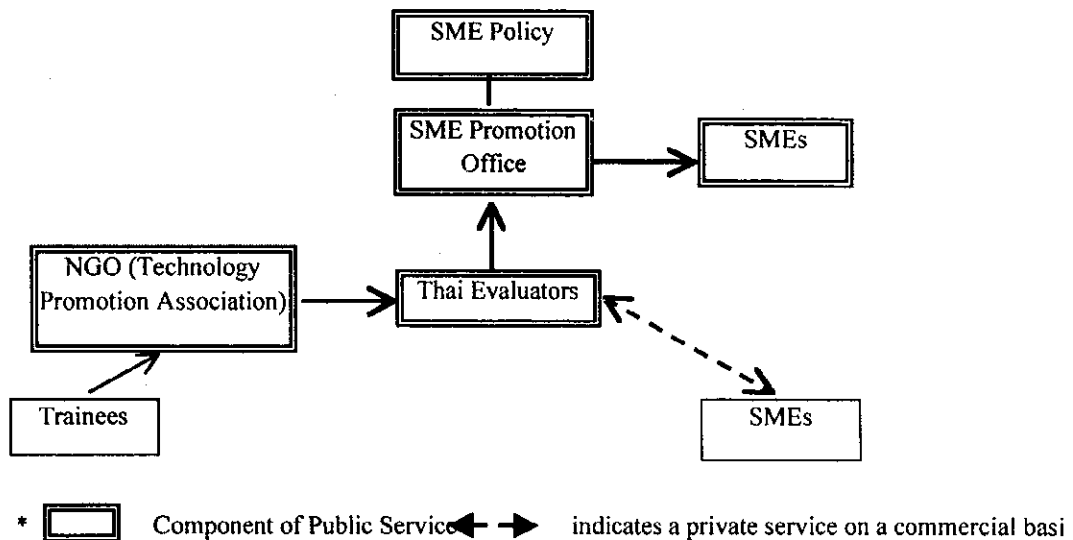
In reality, the factory evaluation service by Thai evaluators will only become feasible when such evaluators have been duly trained (target year: 2002).

The public service shown in Table 2-3 above will eventually be provided for SMEs within the mechanism shown in Fig. 2-4 below in line with the procedural flow of factory evaluation shown in Fig. 2-1. Any evaluator who wishes to be involved in the public service will register with the government which will use such registered evaluators to provide the public service. Evaluators can also offer private services on a commercial basis outside the framework of the public service.

**Fig. 2-3 Factory Evaluation Service**



**Fig. 2-4 Mechanism of Factory Evaluation System and Service**



As the TPA acts as the provider until such time when the system and mechanism for factory evaluation are firmly established, the government assists the capacity building efforts of the TPA during this period. Once the system and mechanism are firmly established, evaluators will be able to act as independent or corporate providers in the private sector. At this time, the evaluator training programme will be opened to the private sector in accordance with the criteria set forth by the government.

The Government of Thailand is providing strong back-up for institutional capacity

building, including financial undertaking for the Project, because of the need to establish a new BDS at the initial stage of the BDS approach of the government concerning the development of the factory evaluation system. The Thai approach is characterised by a two stage approach where the service is transferred to or opened up from the public sector to the private sector only after confirmation of the social credibility of the service after its initial set-up.<sup>2</sup>

### **2.5.3 Key Factors of Institutional Capacity Building**

Evaluators (consultants) comprise the most important factor of this Project as these are the people who actually evaluate SMEs and submit a report incorporating recommendations to both the government and recipient SMEs. Because the factory evaluation service is a completely new BDS in Thailand, the most critical points of the Project have been how to train evaluators which what training programme and criteria with a view to their registration as evaluators and how to implement the factory evaluation service. As Thailand has no previous experience in this field, assistance for the capacity building of the responsible agent is given the highest priority. This capacity building commenced with the preparation of a curriculum for the evaluator training programme, the recruitment of instructors and the development of teaching materials. At the same time, Japanese experts began to provide assistance for the factory evaluation service. In order to implement the evaluator training programme and the factory evaluation service in parallel, the factory evaluation service is accompanied by trainees for practical training. In this manner, SMEs can receive the factory evaluation service while trainees can undergo simulated evaluation activities at SMEs.

### **2.6 Thai Approach and Pending Tasks**

The Development of Factory Evaluation System Project is still in its first stage. This Project is being implemented on the basis of the preconditions that funding is provided by the government and that foreign experts provide the professional know-how

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<sup>2</sup> Sec 1.2.1 for the characteristics of the BDS approach of the Government of Thailand. The evaluator training programme and the factory evaluation service under the Project are financially backed by the Government of Thailand up to Phase 3. Thereafter, the evaluator training programme will be opened to the private sector as a business to be permitted by the government while the public service portion of the factory evaluation service will remain under the control of a specified body as a government service. The Project itself is receiving Japanese assistance. The Project may appear to fall in the category of the new BDS approach involving a foreign aid organization. In fact, it still falls in the category of the conventional approach for BDS cooperation (cooperation for a government project) because the primary objective is cooperation for the implementation of a government project instead of assisting the training of providers and their activities. The new approach for BDS cooperation will possibly begin when the response to the opening of the business of the provider to the private sector requires examination after the end of Phase 3.

required for the implementation of the Project. The pending tasks of the Project with such preconditions and the current stance of the Government of Thailand are described next.

The prospect of a fee-paying factory evaluation service relates to the trends of the approach adopted by the Government of Thailand to the development of SMEs discussed in 1.3. There is a general inclination in Thailand to impose a charge for all services provided by the government, including the factory evaluation service. Here, fee-paying means either full payment by a beneficiary or partial subsidy or grant by the government. The factory evaluation service is conducted as a precondition for the efficient and effective implementation of a SME support programme or service of the government and it is not assumed that this service is provided on its own. SMEs are expected to bear the cost in either of the following two cases.<sup>3</sup>

- In the case where the cost of the factory evaluation service is included in the cost of any consultancy programme by the government on business management or a specific technology. A large part of the income of the factory evaluation service is generated in such a case.
- In the case where the factory evaluation service is used for the preparation of preliminary examination documents or monitoring by a government-affiliated financial institution. In this case, a financial institution or SME bears the cost of the factory evaluation service in one way or another.

Regarding the introduction of a fee for the evaluator training programme, the participation fee for the training programme is fully met by the IRP budget at present. Trainees are only liable to pay the fee when they withdraw from the programme because of personal reasons. Although the penalty for such withdrawal is set at B. 400,000, this figure can be used to determine the fee level.

Participation in the programme has been made free of charge because of the following reasons.

- After the Asian economic crisis, the Government of Thailand was confronted by a need to train excellent personnel capable of assisting the business transformation to produce exportable products, particularly in the manufacturing sector.

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<sup>3</sup> In response to the question on "the maximum affordable level of payment if a fee is to be introduced for the factory evaluation service" made at the interview, all owners of the SMEs interviewed uniformly replied that B. 10,000 would be the upper limit.

- Under the economic recession caused by the Asian economic crisis, many capable people were made redundant due to restructuring in the manufacturing and financial sectors. It was, therefore, necessary for the Government of Thailand to introduce measures to combat unemployment and to re-train these people.

Although the liberalisation of the training business to the private sector is planned in the future, the Government of Thailand has not yet taken any steps to introduce a fee for the evaluator training programme.

Thirdly, there is a need to organize and register evaluators. Under the SME evaluation system in Japan, the establishment of a voluntary organization is allowed with the relevant permit while the status of evaluators is determined to be a qualification subject to registration, i.e. an arbitrary qualification which is only valid when participating in a public service. The fee-paying registration system forms the basis for the organization of evaluators and for the maintenance of the organization. In Thailand, the debate on the registration of evaluators began for the first time at the meeting of deputy directors of the DIP of the MOI held on 19<sup>th</sup> and 20<sup>th</sup> February, 2001.

Finally, there is a question of incentives, here, incentives mean those for SMEs and those for people who want to become an evaluator.

The incentives for SMEs are examined first. What kinds of advantages can SMEs enjoy by receiving the factory evaluation service? The explanation in 2.3 of the motivation of SMEs to apply for (or what advantages they expect by applying for) the factory evaluation service, i.e. the first step of the process shown in Fig. 2-1, is lacking. In Phase 4, many of the SMEs which received the service were recommended by a government organization or a financial institution. Meanwhile, the public invitation of SMEs to apply for the service emphasised the potential advantage of improving the business management but did not actively publicise the more concrete incentives of the provision of an additional technical service after the evaluation and that evaluation would put a SME in an advantageous position for fund raising.

In regard to the incentives for those wanting to become an evaluator, such possible incentives as the concrete advantages enjoyed by an evaluator, the official qualification as an evaluator, the validity of the qualification in what cases, the level of fee for evaluation and the advantage of the qualification when seeking employment, etc. have not yet been clearly shown.

The Project has attracted much social attention as it has been led by the government in the midst of economic confusion following the Asian economic crisis. Phase 1 gave

the highest priority to measures designed to promote SMEs or re-training (as a measure to facilitate the employment of people who had lost their job) and the biggest weakness lay with the lack of detailed examination of concrete incentives.

## **CHAPTER 3 IMPACTS OF INTRODUCTION OF FACTORY EVALUATION SYSTEM**

### **(PHASE 1: JUNE, 1999 – SEPTEMBER, 2000)**

The development of the factory evaluation system commenced in June, 1999 with the BSID of the DIP acting as the responsible organization. In this chapter, the impacts of Phase 1<sup>1</sup> from June, 1999 to September, 2000 are analysed, focusing on (i) implementation of the Evaluator Training Programme and (ii) implementation of factory evaluation service among the various activities relating to the development of the system.

#### **3.1 Implementation and Impacts of Evaluator Training Programme**

For the training of evaluators, two basic courses and one intermediate course were implemented. Some 30 trainees who completed the intermediate course with distinguished results were selected to undergo the advanced course (called Dream Team: DT).

##### **3.1.1 Commencement of Evaluator Training Programme and Characteristics of Participants**

###### **(1) Basic Course**

The purposes of opening the basic course were to facilitate social awareness of the factory evaluation system to be introduced in the near future, to create a certain demand for the system and to promote the awareness of the various departments, etc. involved in the system. Accordingly, the participants in this course mainly consisted of administrators and those working for public research, educational and financial organizations on the supply side. This two month course featured (i) primary knowledge of the framework of the factory evaluation system and SME promotion policies of the Government of Thailand and practical training on simple evaluation at a factory and (ii) the knowledge required for anyone directly involved in the procedural flow of factory evaluation (see Fig. 2-1 in Chapter 2) after completing the course. Classroom teaching was conducted by Thai lecturers while the practical

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<sup>1</sup> The basic and intermediate courses under Phase 1 were closed in December, 1999. Because of the delay of the commencement of Phase 2 until October, 2000 due to the situation of the Government of Thailand, the advanced course (called Dream Team: DT) was opened using the DIP budget of the MOI to continue the training until September, 2000. Phase 1 referred to in this chapter includes the DT up to September, 2000.



training on simple evaluation at a factory was supervised by a Japanese experts.

**(2) Intermediate Course**

The purpose of opening the intermediate course was to train candidate evaluators. This course lasting for approximately six months featured (i) the knowledge required of evaluators, (ii) the abilities required of evaluators to find and solve problems, to formulate a guidance plan and to prepare recommendations and (iii) practical training at a factory with expert guidance. Classroom teaching was conducted by Thai lecturers while the case studies and practical training were supervised by a Japanese experts.

**(3) Dream Team (DT)**

The purpose of opening the DT course was to train evaluators with excellent practical capabilities. This ad hoc course featured practical training and the teaching of applied knowledge for those who had completed the intermediate course with distinguished results. This course was additionally opening in response to a request by the Government of Thailand who wanted to see the early availability of evaluators with practical skills and knowledge. The course was entirely run by Japanese experts.

Suitable participants vis-à-vis the purpose(s) of each course were selected. The backgrounds of the participants given in Table 3-1 show the following characteristics.

**Table 3-1 Background of Participants of Evaluator Training Courses**

Background		Basic*	Intermediate	Dream team
Sex	Male	117	53	16
	Female	92	46	12
Age	20-25	11	32	4
	26-30	43	29	9
	31-35	69	19	2
	36-40	59	14	7
	41 and above	6	5	6
Academic Background				
	Below collage graduate	0	4	1
	Bachelor's degree	125	81	14
	Master's degree	82	14	13
	Doctor's degree	2	0	0
Total No. of Trainees		209	99	28

\* 2 times

- Most were graduates or post-graduates in their thirties, indicating a high academic career with practical experience. As shown in Table 3-2 through Table 3-4, many of the participants of the basic course were staff members of supply-side organizations (such as government organizations responsible for the development of SMEs, educational institutions, financial institutions and NGOs, etc.) while those of the intermediate course included many students aiming at becoming an evaluator and staff members of financial institutions specialising in SME finance.
- Capable persons who had lost their job due to the restructuring of financial institutions and others following the Asian economic crisis actively participated in the Programme with their own will to develop new career prospects.
- A few participants were owners of their own businesses.
- The number of applicants at the start of the Programme was 362 for the two basic course sessions and 261 for the intermediate course. The number of applicants was 1.7 times higher than the number limit for the basic course and 2.6 times higher for the intermediate course.

### **3.1.2 Impacts on Participants of Evaluator Training Programme**

For the this Study, the participants of the Evaluator Training Programme (Phase 1) were interviewed by the Study Team in addition to telephone interviews conducted by a local consultant. The findings of these interviews are compiled in Table 3-2 through Table 3-4. (The response rate was 72.7% for the basic course participants, 98% for the intermediate course participants and 100% for the DT course participants.)<sup>2</sup>

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<sup>2</sup> Entered in each column are organizations that participants belong to.

**Table 3-2 Comparison of Participants Before and After Attending the Programme:  
Basic Course (Total of Two Sessions)**

Background	Before attending the course	After attending the course
The number of response to the questionnaire	209	152 out of 209 (72.7%)
Government agencies	12	12
	Insurance Dept., Pharmaceutical Affairs Bureau, MOF, National Auditing Agency, National Railways, IPC 10, 2, 8, BIED	Insurance Dept., Pharmaceutical Affairs Bureau, MOF, National Auditing Agency, National Railways, IPC 10, 2, 8, BIED
Public organisation	1	1
	Metropolitan waterworks	Metropolitan waterworks
Private organisation	5	5
	TPA	TPA
Academic Institutions	19	19
	Thammasat Univ., Kasetsart Univ., Southeast Asia's Univ., ABAC, Burapha Univ., King Mongkut of Technology Univ. (Thomburi), King Mongkut Technology Institute. (Latkrabang), Chulalongkorn Univ., Srinakharinwirot Univ.	Thammasat Univ., Kasetsart Univ., Southeast Asia's Univ., ABAC, Burapha Univ., King Mongkut of Technology Univ. (Thomburi), King Mongkut Technology Institute. (Latkrabang), Chulalongkorn Univ., Srinakharinwirot Univ.
Financial Institutions	29	29
	SIFC, Nakhonluang BK, Thai Military BK, Krungthai BK, Siam Commercial BK, Srikhon BK, Gvt. Saving BK., Thai Farmer's BK	SIFC, Nakhonluang BK, Thai Military BK, Krungthai BK, Siam Commercial BK, Srikhon BK, Gvt. Saving BK., Thai Farmer's BK
Self-owned business	3	12
Employees	113	69
Students	0	0
Unemployed	27	2
Private Consultant	0	0
Factory evaluation project		3 (D.T.) *1

\*1; Number of trainees moved up to the Dream Team Course (DT)

Table 3-2 teaches us the following.

- Most of the basic course participants returned to their respective organization as either responsible for the new set-up as the supply side of the factory evaluation system or as experts within their company.
- Nine participants who were unemployed at the time of attending the course have subsequently established their own business.
- Three participants jumped to the DT course with the aim of eventually becoming an evaluator.

**Table 3-3 Comparison of Participants Before and After Attending the Programme: Intermediate Course**

Background	Before attending the course	After attending the course
The number of response to the questionnaire	99	97 out of 99 (98%)
Government agencies	2	2
	IPC 10B, IED	IPC 10, BIED
Public organisation	0	0
Private organisation	1	6
	TPA	TPA
Academic Institutions	0	3
		Burapha Univ., Thammasat Univ. King Mongkut Technology Institute (Thonburi)
Financial Institutions	7	5
	SIFC, Krungthai BK	Thai Farmers BK, BKK BK, SIFC, Krungthai BK
Self-owned business	10	10
Employees	15	15
Students	29	22
Unemployed	35	9
Private Consultant	0	0
Factory evaluation project		25(D.T.) *1

\*1; Number of trainees moved up to the Dream Team Course (DT)

Table 3-3 teaches us the following.

- After the course, three participants were awarded a teaching position at a higher educational institution while five participants were recruited by the TPA, the agent responsible for the implementation of the Project, to run Phase 2 of the Programme.
- Those which completed the course with distinguished results, accounting for one-quarter of all participants, moved up to the DT course with the aim of becoming an evaluator. Many of them were unemployed although two had left a financial institution to join the course.
- Many offers of employment were made by financial institutions and consultancy firms to those who had completed the course. Nevertheless, many remained involved in the Project in one way or another and 25 moved up to the DT course while five obtained employment at the TPA to supervise the training of the next groups of participants in Phase 2.

Table 3-4 below teaches us the following.

- Many offers of employment were made by financial institutions and consultancy firms to those who had completed the DT course. Apart from one participant who secured a new job at a financial institution, many opted for the development of their career by establishing either a new business (five participants) or a consultancy business (six participants).
- Eight participants remained with the Project to supervise the training of the next groups of participants while undergoing further practical training themselves. Including those who joined the Project after completing the intermediate course, a total of 13 participants remained with the Project. It is hoped that they will form the core for the self-reliant development of the Project.
- All 28 participants who completed the DT course were awarded the status of candidate evaluator. Awarding of the status of evaluator to these participants is now being considered once they have met the necessary condition of the course of factory evaluation in Phase 2 and thereafter (evaluation of 10 factories/companies in three years).

**Table 3-4 Comparison of Participants Before and After Attending the Programme:  
DT Course**

Background	Before attending the course	After attending the course
The number of response to the questionnaire		28 out of 28 (100%)
Government agencies	1	1
	BIED	BIED
Public organisation	0	0
Private organisation	0	0
Academic Institutions	0	0
Financial Institutions	1	2
	Thai Farmer's BK	Thai Farmer's BK
Self-owned business	4	9
Employees	2	2
Students	0	0
Unemployed	20	0
Private Consultant		6
Factory evaluation project		8 *1

\*1; Number of trainees employed by the Factory evaluation project (DT)

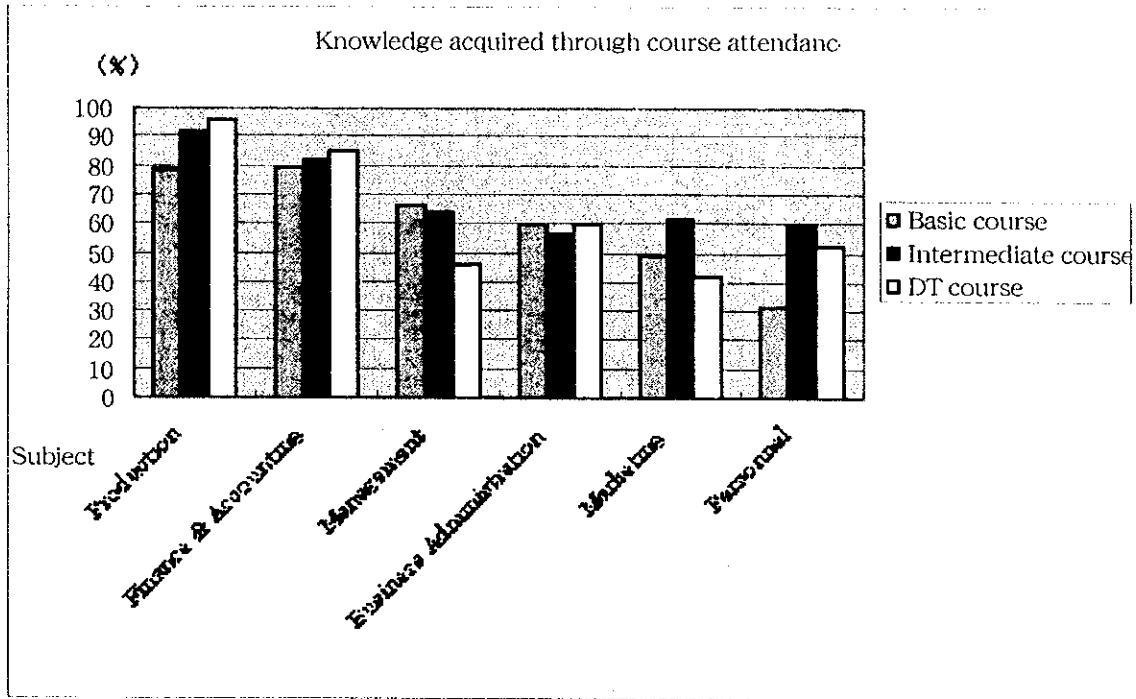
Analysis of the responses to the question “knowledge of which subject was acquired by attending the course?” found the following.

- Basic course: knowledge on finance and accounting was the most frequently mentioned, followed by knowledge on production, management, business administration, marketing and personnel in that order.
- Intermediate course: knowledge on production was the most frequently mentioned, followed by finance and accounting, management, marketing, personnel and business administration in that order.
- DT course: knowledge on production was the most frequently mentioned, followed by finance and accounting, business administration, management and marketing in that order.

In general, production management and finance and accounting management were the

primary subjects for which new knowledge was acquired, indicating that the achievements of these courses were in line with the purpose of the Project, i.e. “improvement of production processes”.

**Table 3-5 Knowledge Acquired Through Course Attendance**



(%)

Subject	Basic course	Intermediate course	DT course
Production	79	92	96
Finance & Accounting	80	82	85
Management	67	64	46
Business Administration	60	57	60
Marketing	50	62	42
Personnel	32	60	53

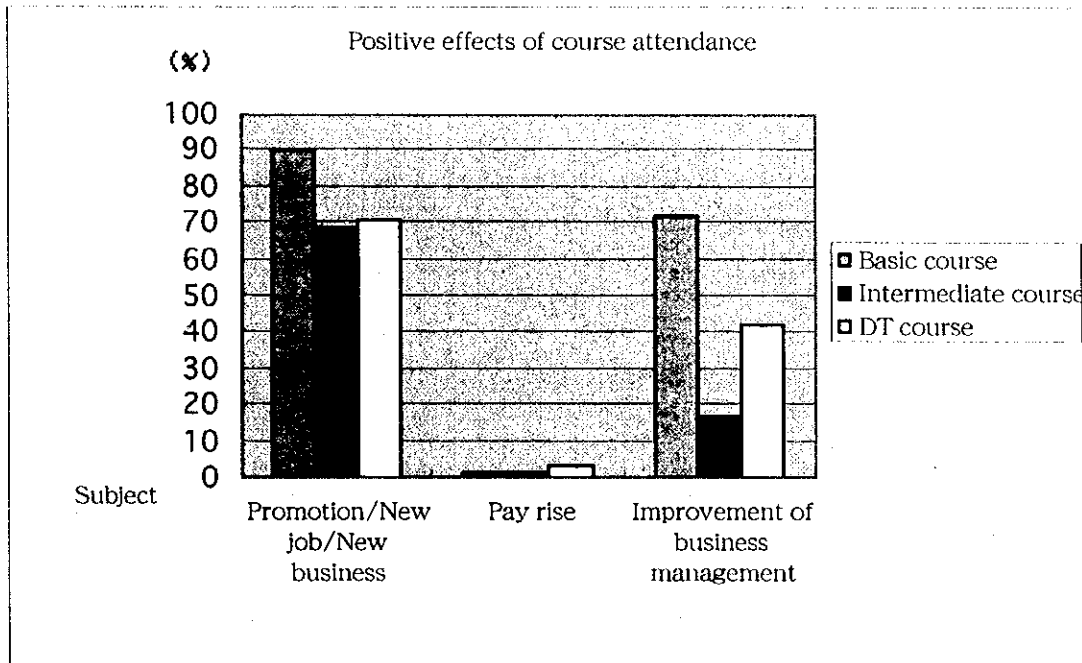
The following responses were made to the question “what were the positive effects of course attendance?” as shown in Table 3-6.

- Promotion/new job/new business was the most common response for the participants of all three courses. The fact that course completion did not lead to a pay rise was also common.



- Some of the participants were in business management while others were employees. Many of the participants of the basic course and the DT course responded that their training will benefit the business management of their companies.

**Table 3-6 Positive Effects of Course Attendance**



(%)

Subject	Basic course	Intermediate course	DT course
Promotion/New Job/New Business	90	69	71
Pay Rise	1	1	3
Improvement of Business Management	72	17	42

The interview survey with the course participants conducted by the Study team in parallel with a similar survey by a local consultant found the following facts.

- Government organizations : Former participants work at the SME consultation desk of departments/local offices of the DIP. A prominent case is the IPC 10 (Surat Thani in Southern Thailand). All four members, including the director, attended the Programme. At present, many former participants are providing

business guidance for local SMEs and it is believed that they will not only assist the extension of the factory evaluation service in local areas but will also prove to be significant contributors to local development in the coming years.

- Financial institutions : At the SIFC and the Thai Farmers' Bank, etc., former participants are in charge of the examination of new loan applications, assistance for the formulation of business plans by borrowing companies, monitoring of the said plans and loan consultations.
- Individual companies : Owners and employees who attended the Programme are now working to improve the business performance of their companies as the owner or manager responsible for in-house evaluation.
- Many former participants have subsequently found new employment based on their experience of the Programme. The new places of employment are wide-ranging, from government organizations to financial institutions, private sector organizations and consultancy firms. Others have established their own company or consultancy firm.
- Some former participants are now working as managers or teaching assistants for the Programme and their presence has positive implications for the sustainability of the Programme under the Project. This is a welcome development towards the planned goal of the training of Thai people by Thai instructors.

According to the interview survey findings, the main impact of the Programme on the participants is said to have been the opportunity for the first time to see the actual production floors of SMEs by attending one or more courses held under the Programme. Even today, some 10% of those who completed a Phase 1 course organize regular study meetings to mutually improve their expertise.

### **3.2 Implementation of Factory Evaluation Service and Impacts on SMEs**

During the Phase 1 period, the factory evaluation service was implemented together with practical evaluation activities by the participants of the Programme under the supervision of experts. The total number of SMEs receiving this service in this period was 219<sup>3</sup>, exceeding the originally planned number of 160.

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<sup>3</sup> To be more precise, the actual number of SMEs receiving the service in the Phase 1 period was 171. However, as the scope of the Study was extended to include the service up to September, 2000, 48 SMEs receiving the service during the DT course are added to increase the total number to 219.

### 3.2.1 Circumstances, Size and Business Type of SMEs Receiving Factory Evaluation Service

During the course of the Study, those SMEs which had received the factory evaluation service were interviewed by a local consultant as well as by the Study Team. The findings of these interviews are outlined below.

#### (1) Circumstances of Receiving Factory Evaluation Service

In the Phase 1 period, the factory evaluation service was provided for SMEs recommended by the DIP (including the IPC 10), MOI-related institutes, government-related financial institutions and the TPA. In addition, the Project was actively publicised to invite voluntary applications for the service by SMEs.

A publicity seminar was held on five occasions with a total of some 1,000 participants and the simulated evaluation at these seminars resulted in applications by more than 100 SMEs. Even though not all of the applicants were provided with the service during the Phase 1 period, those SMEs not receiving the service will be provided with the service in the Phase 2 period and thereafter during which the publicity of the service will also continue.

**Table 3-7 Recommendation of SMEs for Factory Evaluation Service**

	Phase 1	DT	TOTAL
DIP	9	—	9
IPC10	—	8	8
TAI	3	26	29
EEl	27	—	27
FTPI	20	—	20
Financial institution			
Krungthai Bank	16	2	18
SIFC	9	—	9
TPA	65	11	76
PR	22	1	23
Total	171	48	219

(2) **Size and Business Type of SMEs**

Many of the SMEs evaluated have between 51 and 200 employees although the actual size widely varies from small-enterprises to fairly large secondary suppliers of automotive or electronic parts. Table 3-8 shows the classification of the 219 SMEs by business type. Nearly half of the 219 SMEs belong to two business types, i.e. automotive/auto parts and electronics. When reclassified to include such related business types as plastic moulding, glass products and metal products, as many as 70% of the 219 SMEs are related to automobiles.

**Table 3-8 Business Types of SMEs Receiving Factory Evaluation Service**

	Type of Business	Phase I	DT	Total
1	Electronic	40	0	40
2	Food Products	10	0	10
3	Leather Products	2	0	2
4	Rubber Products	0	1	1
5	Automotive/ Auto parts	37	37	74
6	Article of iron or steel	11	0	11
7	Publishing	2	0	2
8	Wood , Furniture	7	3	10
9	Garment / Textile	11	0	11
10	Pharmaceutical/ Chemical products	9	0	9
11	Plastic	16	2	18
12	Ceramics/ Glass products	1	0	1
13	Petrochemistry	0	0	0
	Others	25	5	30
	<b>TOTAL</b>	<b>171</b>	<b>48</b>	<b>219</b>

Note: The classification of business type in the table follows the classification adopted by the MOI.

### 3.2.2 Comparison Between Before (Expectations) and After (Satisfaction) Receiving Factory Evaluation Service

A survey was conducted on the 219 SMEs receiving the factory evaluation service in the Phase 1 period to clarify their motivation, expected purpose of use of the evaluation report, degree of satisfaction after receiving the service, advantages of the service and business management improvements subsequently made. The survey findings are shown in Table 3-9 (number of SMEs responding: 201; response ratio: 91.8%).

**Table 3-9 Comparison Between Before (Expectations) and After (Satisfaction) Receiving Factory Evaluation Service**

(Number and share of multiple choices selected)

	(Mark all that apply)	Before	Before%	After	After%
A.	To grasp the business situation. (In which area are you particularly interested?)	394	91.2%	420	98.6%
B.	To receive some kind of technical service after receiving a diagnosis.	14	3.2%	2	0.5%
C.	To raise funds	24	5.6%	4	0.9%
		432	100.0%	426	100.0%

In Phase 1, many of the 219 SMEs received the factory evaluation service based on recommendations made by a government organization, etc. In regard to Choice A (to understand the business situation), many SMEs expected to achieve this by the factory evaluation service and were satisfied on completion of the evaluation. In contrast, the low level of expectation for Choice B (to receive some kind of technical service after diagnosis) or Choice C (to raise funds) betrayed the government's expectations of the Project expressed in 1999.<sup>4</sup> The level of satisfaction for these two choices was

<sup>4</sup> The Government intended the establishment of an advanced factory evaluation system to provide access to financial institutions as part of the activities planned under the Project described in 2.2. At that time, policy-based lending was conducted by government-related financial institutions to combat the reluctance of commercial banks to provide loans (25 billion bahts for two years). This involved preferential loans by government-related financial institutions for those SMEs of which the business performance was judged to be excellent as a result of the factory evaluation service. However, the impacts through linkage with the fund raising efforts of SMEs were minimal due to various reasons: (i) not many of the 219 SMEs were desperate for some kind of finance, (ii) it was impossible to provide loans for SMEs with virtually no collateral, (iii) financial institutions used the recommendation report prepared after the factory evaluation to provide guidance for the formulation of loan repayment plans to recover loans from borrowers, (iv) financial institutions were adamant in regard to the application of strict loan conditions to avoid the occurrence of many non-performing loans and (v) the declining trend of interest rates after the announcement of policy-based finance resulted in the interest rates of government-related financial institutions exceeding those offered by private commercial banks.

equally low.

The replies to each choice are analysed in more detail next.

Table 3-10 shows the results of the responses to Choice A (to understand the business situation). The level of satisfaction after receiving the factory evaluation service was higher than the level of expectation for such sub-choices as a. (to strengthen the management base), c. (to strengthen sales and marketing development skills) and e. (to increase the efficiency of financial management and accounting). Conversely, the level of satisfaction was lower than the level of expectation for such sub-choices as b. (to improve the production processes and to reduce the manufacturing cost) and c. (to strengthen material control and to reduce the purchasing cost). It can be inferred that the lower level of satisfaction for some sub-choices can be attributed to the fact that the original expectations were for the improvement of specific technologies which was beyond the scope of the factory evaluation service.

**Table 3-10 Comparison Between Before and After Receiving Factory Evaluation Service: Choice A – To Understand the Business Situation**

(Number and share of multiple sub-choices selected)

	(Mark all that apply)	Before	Before%	After	After%
A.	To grasp the business situation. (In which area are you particularly interested?)				
	a. To strengthen management bases	65	16.5%	126	30.0%
	b. To improve the production process & lower manufacturing cost.	123	31.2%	89	21.2%
	c. To strengthen material control & lower purchasing cost	46	11.7%	3	0.7%
	d. To strengthen sales and market development skills.	58	14.7%	79	18.8%
	e. To increase efficiency of Financial management and Accounting	51	12.9%	85	20.2%
	f. Labour management & HRD	51	12.9%	38	9.0%
		394	100%	420	100%

Table 3-11 shows the results of the responses to Choice B (to receive some kind of technical service after diagnosis) Among those SMEs selecting sub-choice a. (in preparation for hiring a consultant at the company's expense) or c. (in preparation for

receiving assistance from a Thai governmental organization), only one company in each sub-choice category has subsequently conducted such preparation. This result should be understood that the owners of these companies are attempting improvement under their own leadership before receiving some kind of technical service rather than understanding it negatively.

**Table 3-11 Comparison Between Before and After Receiving Factory Evaluation Service: Choice B – To Receive Some Kind of Technical Service After Diagnosis”**

(Number and share of multiple sub-choices selected)

	(Mark all that apply)	Before	Before%	After	After%
B.	To receive some kind of technical service after receiving a diagnosis.				
	a. Preparation for hiring a consultant at company's expense.	5	35.7%	1	50.0%
	b. Preparation for receiving a technical support from customer (or parent company) .	1	7.1%	0	0.0%
	c. Preparation for receiving an assistance from the Thai governmental organisation. (Specify the name of scheme.)	7	50.0%	1	50.0%
	d. Preparation for receiving an assistance from the foreign organisation. (Pls. Specify which organisation /e.g. JODC,. KIAAsia)	1	7.1%	0	0.0%
		14	100.0%	2	100%

Table 3-12 shows the results of the responses to Choice C (to raise funds). In Phase 1, 27 SMEs were recommended by financial institutions to receive the factory evaluation service. Only four SMEs out of 24 SMEs expecting to raise funds actually did so. Moreover, the funds raised were limited to such intended use as “to strengthen the capitalisation”, “R & D”, “HRD” and “market expansion”. According to the interview survey conducted by the Study Team with SMEs and financial institutions, many financial institutions recommended the SMEs in question for the purpose of understanding the business situation of prospective companies for loans with a view to using the factory evaluation report to make SMEs prepare a loan repayment plan. Neither the financial institutions nor the SMEs believe that the factory evaluation service alone leads to successfully receiving or loan or raising funds.

**Table 3-12 Comparison Between Before and After Factory Evaluation Service:  
Choice C – To Raise Funds**

(Number and share of multiple sub-choices selected)

	(Mark all that apply)	Before	Before%	After	After%
C.	To raise funds	24	100%	4	100%
	a. Source of funds (Pls specify.)	6	25.0%	0	0.0%
	1) From financial institution	2	0.9%	0	0.0%
	2) Newly established SME stock market	2	8.3%	0	0.0%
	3) Other (Pls. specify)	2	8.3%	0	0.0%
	b. Intended use of the funds	18	75.0%	4	100.0%
	1) To strengthen one's capitalisations	1	4.2%	1	25.0%
	2) Working capital (Labour cost, Purchasing cost etc.)	5	20.8%	0	0.0%
	3) Equipment fund (for building a new plant, buying new equipment, or equipment replacement etc.)	2	8.3%	0	0.0%
	4) Financing subcontractor	0	0.0%	0	0.0%
	5) For R&D	2	8.3%	1	25.0%
	6) HRD	3	12.5%	1	25.0%
	7) Market expansion (including export)	4	16.7%	1	25.0%
	8) Others (Pls. specify)	1	4.2%	0	0.0%

As part of the field survey, the Study Team conducted an interview survey on the following questions with the cooperation of those involved in Phase 2 of the Project which had already started. The total number of SMEs subject to this survey was 31. All of these received the factory evaluation service during both the Phase 1 period and the Phase 2 period.<sup>5</sup>

Table 3-13 shows the results of the responses to the question “What is your satisfaction rating after receiving the factory evaluation service twice?” More than 90% of the SMEs were satisfied although some replied that there is room for improvement of the factory evaluation service.

<sup>5</sup> These 31 SMEs were either a company where the practical training of candidate evaluator was conducted with the consent of the company in question or a company of which the urgent re-evaluation was judged to be necessary for some reason.



**Table 3-13 Question “What is your satisfaction rating after receiving the factory evaluation service twice?”**

1) Satisfaction rating	Good	Fair	Room for improvement
	90.32%	6.45%	3.23%

Table 3-14 shows the results of the responses to the questions “Do you intend to receive the diagnosis again?” and “If yes, how often would you like to receive the diagnosis?” Slightly less than 90% of the SMEs interviewed would like to receive the factory evaluation service again. Many SMEs selected an evaluation interval of either six months or 12 months for repeated evaluation as these SMEs are interested in learning whether or not their improvement efforts in response to the suggestions made by the original factory evaluation service have been effective.

**Table 3-14 Questions “Do you intend to receive the diagnosis again?” and “If yes, how often would you like to receive the diagnosis?”**

2) Are you intending to have a diagnosis again?	"Yes"	"No"	
	87.10%	12.90%	
3) If "Yes", how often do you want?	3 months	6 months	12 months
	7.40%	33.30%	59.30%

Table 3-15 shows the results of the responses to the questions “Would the diagnosis report be useful for you?” and “If yes, for what purpose?” Almost all of the SMEs replied that the report would be useful. Many said that the report would be used to obtain a loan. This result differed from the result of the responses to Choice C described earlier. In the case of SMEs which had received the factory evaluation service during the Phase 1 period on the grounds of recommendation by a government organization or financial organization, the report would mainly be used for the formulation of a loan repayment plan. In contrast, in the case of those SMEs voluntarily wanting to continuously receive the service, they intend to actively use the report for the formulation of a business improvement plan for the company and for loan application, indicating two aspects of the use of the factory evaluation service.

**Table 3-15 Questions “Would the diagnosis report be useful for you?” and “If yes, for what purpose?”**

4) Would the diagnosis report be useful to you?	"Yes" 96.77%	"No" 3.23%		
5) If "Yes", for what purpose?	To get advice 3.23%	To get loan 87.10%	To get loan & advice 3.23%	No answer 6.45%

### **3.3 Further Progress of the Development of Factory Evaluation System Development Project from Phase 2 Onwards**

The following plans already exist for the further progress of the Project from Phase 2 onwards.

#### **(1) Evaluator Registration and Evaluator Certification System**

Together with the introduction of certification systems for consultants in other technical fields, the examination process will commence for the registration and evaluator registration system and the evaluator certification system, both of which are essential to organize those who have completed the evaluator training course(s). The development of a database and a control system for those who have completed the course(s) during the Phase 2 period is also planned.

#### **(2) Commencement of Factory Evaluation Service by Thai Evaluators**

Phase 1, which focused on the training of potential evaluators, did not reach the stage where Thai evaluators could provide the factory evaluation service without assistance. A trial service by Thai evaluators is scheduled to commence in the Phase 2 period.

### **3.4 Linkage Between Factory Evaluation Service and Other BDS (Market Development for Factory Evaluation Service)**

As described in 2.5, the factory evaluation service is a programme to evaluate (diagnose) SMEs in a comprehensive manner by analysing the situation of business management using management/control techniques relating to production, quality, materials and procurement, finance, marketing and labour. A SME owner tries to

improve the business performance of the company based on recommendations (report) of the factory evaluation service. Sometimes, additional technical services are required in individual areas. Linkage with other BDS should, therefore, prove to be the most effective way of solving the wide-ranging problems faced by SMEs. Some attempts were made during the Phase 1 period to clarify the feasibility of such linkage and these are explained next.

#### **3.4.1 Linkage with Government-Sponsored BDS**

The TAI considers the fostering of automotive parts manufacturers to be the main pillar of its business. In reality, travelling guidance was provided for such manufacturers using the cycle of stage, repetition, monitoring and feedback. The factory evaluation service was provided as a preliminary activity leading to this travelling guidance. The standard process was for comprehensive factory evaluation to be firstly conducted for designated parts manufacturers, followed by guidance for individual SMEs by technical experts of the TAI using the evaluation report. With the regular implementation of the factory evaluation service, the effects of the guidance provided by technical experts for individual SMEs can be monitored and the necessity for additional guidance can be determined. Concentrated factory evaluation efforts for a specific type of business will enable the preparation of business management indices for the automotive parts industry as a by-product.

In addition to the TAI, a trial attempt to link the factory evaluation service to the Electric and Electricity Institute (EEI) and the FTPI was made. It is expected that such linkage will be sought for not only programmes under the jurisdiction of the MOI but also for programmes under the jurisdiction of the MOSTE and other ministries.

#### **3.4.2 Linkage with Industrial Associations and NGOs**

The Association of Metal Processing Industries and the Bangkok Japanese Chamber of Commerce and Industry assisted their member companies to receive the factory evaluation service.

While such efforts will undoubtedly continue, new efforts should be made to seek linkage with the Market for Alternative Investment (MAI, a stock exchange for SMEs) and the SME Fund (the operation of which is entrusted to the One Asset Management of the MOI), both of which are new players in the field of direct finance for SMEs.

### 3.5 Conclusions for Chapter 1 Through Chapter 3

The Government of Thailand provides wide-ranging BDS for SMEs. In Chapter 1, the current situation of typical BDS is explained. The number of BDS provided by the government has increased since the Asian economic crisis in 1997. The IRP is the largest BDS scheme of all and the Development of Factory Evaluation System Project constitutes part of the IRP. Following the commencement of Phase 2 of the IRP, the government is presently aiming at the efficient as well as effective implementation of BDS. It also aims at promoting the systematisation and linkage of the existing BDS in this process of materialising wide-ranging BDS. In parallel with such moves at the centre, local offices of central government organizations are playing a crucial role in the creation of local BDS networks. The efficient and effective implementation of BDS aimed at by the central government includes the linkage of BDS at the centre and linkage between the local BDS networks and the centre.

In Phase 1, the Development of Factory Evaluation System Project established its social recognition and credibility within Thai society as the training programme successfully attracted and trained potential evaluators, assisted by strong government back-up and the high expectations of the factory evaluation service on the part of SMEs.

Following the completion of Phase 1, the Project is now heading towards the creation of its own market as a BDS and meeting the needs of such market. In its Phase 2 period and beyond, the Project is required to finely respond to the demands of SMEs in a much wider area in line with the declared direction for BDS by the central government based on the government's approach to BDS and the outcome of Phase 1. To be more precise, the following requirements should be met.

- What is crucial for the future of the public service is to clarify ways of contributing to and linking with the SME promotion measures of the government by identifying the characteristics of business activities and needs of SMEs in Thailand. In other words, it is essential to clarify the types and contents of public services, for example, service for the SMEs which concern certain industry production, industrial estate, and cluster, etc. all of which are used to assist the materialisation of SME promotion measures under specific policy objectives.
- At the same time, further trials to strengthen the linkage with other BDS should be conducted.
- All of the SMEs which have received the factory evaluation service so far are located in and around Bangkok except for five SMEs in Chiang Mai in the north

and six SMEs in Surat Thani in the south, posing such questions as how to extend the factory evaluation service to whole contry in the coming years and how to improve and use the existing channels (IPC and others) for this extension. Moreover, the active involvement of the Project in the planning of linkage between the centre and local areas which is aimed at by the central government will be required.

In Chapter 4, these requirements will be examined in more detail and recommendations for future cooperation by Japan will be made.

## CHAPTER 4 RECOMMENDATIONS FOR BEST PRACTICE

### 4.1 Lessons on Factory Evaluation System

The future direction for the Development of Factory Evaluation System Project and the direction for Japanese cooperation are examined in this chapter, taking the requirements pointed out in 3.5 and the issues faced by and debates within the Government of Thailand into consideration.

#### 4.1.1 Purpose of Utilisation of Factory Evaluation Service

As clearly indicated by the findings of the survey on the impacts on SMEs (Chapter 3), the biggest motivation for SMEs to receive the factory evaluation service is “improvement of the production processes and reduction of the manufacturing cost”. Once the problems of a company are identified by the factory evaluation service, the owner can start to implement appropriate measures to solve the problems or can request the implementation of an additional consultancy service relating to a specific technology, etc.<sup>1</sup>

Most of the SMEs receiving the factory evaluation service were recommended by the MOI, the IPC, various institutions and financial institutions. Given such a background, it cannot be denied that Phase 1 of the this government project was partially assisted by the private sector. When viewing the factory evaluation service as a government tool to implement SME promotion policies, it is apparent that the activities in Phase 1 had a major shortcoming. To be more precise, there was a delay in regard to the analysis of the utilisation of this tool to realise which policy objective(s).

A debate on the use of the factory evaluation service for certain policy objectives has recently commenced in the light of the seven strategies announced by the MOI in November, 1999 for the formulation of action plans to promote SMEs.

These seven strategies are listed below.

- 1) Strengthening of the technological and management capabilities
- 2) Human resources development, including that of owners and manager, for SMEs (fostering of entrepreneurs and assistance for business start-up)

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<sup>1</sup> During the interview survey, the Study Team asked how much a SME would be willing to pay if the factory evaluation service became a fee-paying service. Many owners replied that 10,000 bahts would be the maximum.

- 3) Market development for SMEs
- 4) Establishment and strengthening of the SME finance system
- 5) Development of the business environment (development of industrial estate for SMEs)
- 6) Promotion of small-enterprises and regional SMEs
- 7) Promotion of networking and cluster formation of SMEs

Of the above strategies, 1), 5), 6) and 7) are closely related to the public factory evaluation service. The Government of Thailand has linked these strategies to the factory evaluation service and is about to commence a debate on the feasibility of different types of evaluation by temporarily calling them individual evaluation, industry evaluation, industrial estate evaluation, production related evaluation, cluster evaluation and linkage-network evaluation.

#### **4.1.2 Development of Soft Infrastructure for Effective Utilisation of Factory Evaluation Service**

In Phase 1, the main concern was market creation. Many government organizations and private bodies conducted a publicity campaign by means of seminars, etc. and SMEs with diverse business backgrounds, business sizes and characteristics received the factory evaluation service based on the recommendation of these organizations or bodies or their own application.<sup>2</sup>

Based on the experience in Phase 1, evaluation know-how regarding individual SMEs was accumulated and the process of accumulating evaluation know-how regarding specific industries (automotive industry: SMEs recommended by the TAI; electrical and electronics industries: SMEs recommended by the EEI; SMEs recommended by the Association of Metal Industries) and specific areas (SMEs recommended by the IPC) is in progress. Moreover, know-how on linkage with the technical services of government-related organizations is also being accumulated.

The experience in Phase 1 clearly indicates that the importance of the following points should be fully understood for the future development of the factory evaluation service.

- The networking of public as well as private service providers in each region will

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<sup>2</sup> See 3.8.

be quite useful for the nationwide extension of the factory evaluation service.

- The role of the IPC and others in each region network will be crucial.
- A network linking the centre (DIP Headquarters) and region (IPC, etc.) will be necessary.
- Such networking will boost the promotion of industries in region.

An experiment relating to 1) above has been conducted in Chiang Mai with German assistance.<sup>3</sup>

#### **4.1.3 Responsible Organization for Factory Evaluation Service**

Following the establishment of the SMI Promotion Office, the general Director and the Deputy General Director of the DIP interviewed government-related service providers on 19<sup>th</sup> and 20<sup>th</sup> February, 2001 for the purposes of clarifying the achievements and problems of the government programmes implemented in Phase 1 of the IRP, examining the desirability of the continued implementation of the government programmes in Phase 2 and Phase 3 and obtaining basic information for the action plans to be formulated by the SME Promotion Office.<sup>4</sup>

These interviews highly appraised the possible outcome and social credibility of the factory evaluation service and the factory evaluation service by Thai evaluators is scheduled to commence with the target year of 2002 under the jurisdiction of the SME Promotion Office.

#### **4.2 Direction for Japanese Cooperation for Development of Factory Evaluation System Project**

Prior to discussing the desirable direction for Japanese cooperation, the establishment of a common understanding of the external conditions for the development of the factory evaluation system in Thailand is essential.

- The planned factory evaluation system in Thailand differs from the SME evaluation system in Japan, particularly in regard to the following points.

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<sup>3</sup> Similar German assistance is about to commence for the BSID at the centre. Unfortunately, the network of the ISMED at the centre or in region is not included in the discussion here because it is run by academics.

<sup>4</sup> The ISMED has expressed a strong wish to supervise the introduction of the factory evaluation service. If this becomes a reality, there will be two responsible organizations, i.e. the BSID and the ISMED, for the same project. Planned the ISMED, asks JICA to be donor for its new project.



- Under the Japanese system, SME evaluation is linked to loans.<sup>5</sup> In Thailand, there is no such direct link. The factory evaluation system in Thailand is instead characterised by linkage efforts with other technical services provided by the government.
- There is a different approach to the development of a new system. When the development of a new system or project is planned by the Government of Japan, the system or project is only implemented after the preconditions regarding legislation, system design and implementation organization, etc. have been met. In Thailand, the common practice is for a project to firstly be implemented as a trial to establish the social recognition of the project, followed by efforts to meet the preconditions to ensure smooth project implementation. This is particularly true in the case of a project of which the economic viability is uncertain and such a project is implemented as a trial at the government's risk. The same is true in regard to the development of the factory evaluation system. The Evaluator Training Programme and the Factory Evaluation Service commenced in July, 1999 as IRP projects promoted by the government. Although the promulgation of the SME Promotion Act in February, 2000 provided the legal basis for the establishment of the SME Promotion Office, this office is not yet functioning properly. The development of the system is, therefore, currently at a standstill. The debate on the evaluator certification system and registration has only recently started as there is now a real prospect of Thai evaluators becoming available. Meanwhile, the debate on the purpose of utilisation of the factory evaluation service has not yet started, illustrating the different approach adopted by Thailand compared to Japan.
- As is widely known, the linkage or communication between the centre and region is still weak in Thailand. In the private sector, an experiment involving the TCC is about to commence in regard to the systematic extension of the system introduced by the central government to region.<sup>6</sup>

#### **4.2.1 Targets for Japanese Cooperation from Phase 2 Onwards**

Even though the Development of Factory Evaluation System Project is an IRP project promoted by the Government of Thailand, it would not have reached the present stage

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<sup>5</sup> Although the SME evaluation system in Japan has undergone profound changes due to the revision of the law in April, 2000, the Planned Factory Evaluation System in Thailand (the subject of this report) commenced in June, 1999. Therefore, "the SME evaluation system in Japan" in this Report means the system based on the old law unless otherwise stated.

<sup>6</sup> JODC cooperation project: "Strengthening of TCC Functions".

without the strong support of the JICA and the JODC. As described earlier, the Project has now entered its Phase 2 stage. During the Phase 1 period, the Project made progress as planned from (1) the development of the factory evaluation system, (2) the commencement of the Evaluator Training Programme and (3) the implementation of the factory evaluation service. Further cooperation by the Government of Japan is, however, required for Phase 2 for the purpose of solving the issues of the factory evaluation system described in 4.1. Possible concrete targets for Japanese cooperation are given below.

**1) Development of Factory Evaluation System: Strengthening of Functions of DIP's Regional Offices (IPCs)**

From Phase 2 onwards, the factory evaluation service must be actively provided for regional SMEs. However, the linkage or communication between the centre and regions is still weak as mentioned earlier. Japanese cooperation is required to strengthen the network and functions of IPCs in parallel with the progress of the Phase 2 project so that the new system introduced by the central government can be institutionally and systematically extended to regions.

**2) Strengthening of Functions of Individual IPCs and Networking of Regional BDS**

In addition to the strengthening of the functions of IPCs referred to in 1) above, the networking of BDS in a specific area is important. The establishment of regional BDS networks together with the establishment of linkage between the centre and regions should be regarded as a very important precondition for the regional development in Thailand. There is scope here for Japanese cooperation by means of the dispatch of experts, etc.

**3) Cooperation for Development of Functions of SME Promotion Office Towards Development of Comprehensive Framework for Factory Evaluation System**

This is related to the issue pointed out in 4.1.3. The action plans to be formulated by the SME Promotion Office in the second half of 2001 will essentially constitute guidelines for sub-sector development in Thailand. In view of Japan's close economic relationship with Thailand, it is believed that Japanese cooperation for the development of the functions of the SME Promotion Office will be of critical importance.

### Annex 1 : Schedule for Factory Evaluation System Development Project and Japanese Cooperation (Results so Far)

Item / Schedule	1999									2000									2001				
	Mar. - May	Jun.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1. Planning and Design																							
1) Implementation Plan and Basic Design (JICA Study Team and BSID)	←→																						
2) Planning of Teaching Subjects, etc. (JICA Study Team and BSID)			←→																				
2. Project Implementation																							
1) Development of Factory Evaluation System (JICA Experts and DIP)	Preparation of evaluation/guidance criteria/ evaluation guidelines, guidance measures, registration, ethical rules, training criteria, curriculum criteria, supplementary rules for training and curriculum development, etc.																						
2) Evaluator Training Programme																							
Phase 1																							
Basic and Intermediate Courses (JODC and TPA Experts)			★ Recruitment Basic Course: 209 trainees		←→		Intermediate Course: 99 trainees						★ Selection DT course: 28 trainees		←→								
DT Course (JODC and TPA Experts)																							
Phase 2																							
Day Course																			★ Recruitment		←→		★ Recruitment
Evening Course																							★ Recruitment
3) Factory Evaluation Service																							
Phase 1 (JODC and TPA Experts)			←→ Evaluation of 171 SMEs (mainly by Japanese experts)																				
Phase 2 (JODC and TPA Experts)			←→ Evaluation mainly by Thai candidate evaluators																				
3. Project-Related Development																							
1) SME Promotion Act																							★ Promulgation
2) Implementation System SME Promotion Office																							← Initial set-work in progress
3) Linkage with Other Government Projects			← EEI, FTPI, TPA and Others																				← TAI IRP 13 Project

Annex 2: Curricula for Evaluator Training Programme and Evaluation Items for Factory Evaluation Service

A. Phase 1 curriculum in the corporate diagnostician training programme		B. Diagnosis items in the corporate diagnosis service
1. General subjects	1) General knowledge concerning politics and economics 2) Policies and legislation concerning small and medium enterprises 3) General education required for diagnosis	3. Diagnosis items Business basic management Production control Materials purchasing control Retailing control Personnel affairs management Clerical management
2. Basic subjects	1) Diagnosis system and techniques 2) Diagnosis techniques	
3. Specialist subjects	Business basic management Production control Materials purchasing control Retailing control Personnel affairs management Clerical management Other specialist know-how concerning the mining and manufacturing sector	
4. Special subjects		
5. Practical training	In Phase 1, the practical training part (OJT/corporate diagnosis) of the training program shall be implemented in tandem with the corporate diagnosis service.	

### Annex 3 : Schedule

	Data		Actual Schedule
1	4-Feb	Sun	Tokyo→Bangkok (Horiguchi, Yonezawa)
2	5-Feb	Mon	1) Local Consultant 2) Thai Textile Institute (THTI) Mr. Mana Sethaputra, Director, Thailand Textile Institute 3) TPA Mr. Ryo MURABAYASHI, JICA Expert
3	6-Feb	Tue	1) SIFC Ms. Waramit Krutto, Vice President, Research & Development Dept. Mr. Surapong Nuntawong, Business Counsellor 2) JICA Thailand Office Mr. TAKASHIMA and Mr. NAKAMOTO
4	7-Feb	Wed	1) ISMED Dr. Thanet Norabhoompipat, President Mr. Boonjong Limudomporn, Vice President, Department of Network Ms. Ruchjarin Pornchaiwiseskul, Senior Expert, SME Business Consulting Service Management 2) TPA 3) One Asset Management Ms. Preyapun Piya-Anant, Senior Executive Vice President Mr. Woramit Krutto, Vice President, R & D Department 4) Meeting with JODC Experts 5) Interview; Trainees of Dream Team
5	8-Feb	Thu	1) Interview; JODC Experts
6	9-Feb	Fri	1) KIA Asia Mr. Suvicha Mingkwan, Deputy Project Manager, TVCS 2) FTI Dr. Weerawat Chantanakome, Executive Director Ms. Runothai Singkalvanij, Assistant Executive Director (Industrial E) Ms. Khajee Pattamasood, Chief of SME, Tech. Sec., ID Dept. 3) TPA 4) Project Experts Weekly Meeting
7	10-Feb	Sat	Report Writing
8	11-Feb	Sun	Report Writing
9	12-Feb	Mon	1) Thao Automotive Institute (TAI) Mr. Toyoharu FUJIMOTO, JICA Expert 2) Thai-German Institute (TGI) Mr. Naroung Rattana, Thai Director
10	13-Feb	Tue	Bangkok→Chiang Mai (Horiguchi Feb.13-15) 1) IPC Region 1, DIP Ms. Pranorm Chernbumroong, Regional Representative Ms. Pimpan Areeboonsap, Director, Business Service Centre 2) Factory Visit; BUA Bhat Factory Ltd., Part & Athikorn Muabgsuwan Design Manager 3) FTPI Mr. Sangvom Rutnarak, Deputy Executive Director 4) RP 13 Project, Consulting Fund(CF) & Management Development Industrial Competitiveness Program(MDICP) Ms. Bunchua Wonggasem, BIED Mr. Manop Chivatanasootom, BIED

	Data		Actual Schedule
11	14-Feb	Wed	<p>1) Regional Office of FTI, SIFC, and SICGC</p> <p>2) Factory Visit; Chang Phuak Kitjakarn Chang material Co., Ltd Chiang Mai Hiumiith Co., Ltd Itsariyaphon Ltd., Part.</p> <p>3) The Thai Chamber of Commerce(TTC) Mr. Nattachai Nirundon, Central Co-ordion Dept. Ms. Sang-arun Yulai, Secretary, SMEs &amp; Tourism-Hotel Commerce</p> <p>4) Trade Information Centre, DEP, Ministry of Commerce Mr. Aphirak paepuang, Trade Officer</p>
12	15-Feb	Tue	<p>1) The Chiang Mai Chamber of Commerce Mr. Somchai Sirisujin, Managing Director</p> <p>2) SME &amp; People Finance Advisory Centre, SFAC Mr. Sutheeraphan Sukwutthichai, Representative Chiang Mai→Bangkok (Horiguchi)</p>
13	16-Feb	Fri	<p>1) Meeting with the staffs of JETRO, JASMEC, and JODC Bangkok <b>Office</b> Bangkok→Tokyo (Yonezawa)</p>
14	17-Feb	Sat	Report Writing
15	18-Feb	Sun	Report Writing
16	19-Feb	Mon	1) Meeting with the JODC survey mission
17	20-Feb	Tue	<p>Bangkok→Surat Thani (Horiguchi, Feb. 20-21)</p> <p>1) Industrial Promotion Centre, Regional 10, DIP, MOI Mr. Thaweee Keawmanee, Director</p> <p>2) Interview; Trainees of the project</p> <p>3) Factory visit; PLASMA, Co.,Ltd.</p> <p>Meeting with JICA SV and staffs of IPC 10</p>
18	21-Feb	Wed	<p>1) Factory Visit; NTS PARAWOOD BANSONG PARAWOOD</p> <p>2) Meeting with the members of Association for the Promotion of Thai SM Entrepreneur and Director of IPC 10</p>
19	22-Feb	Thu	<p>Surat Thani→Krabi (Horiguchi, Feb. 22-23)</p> <p>1) Factory Visit; TIMBER ENGINEERING OF KRABI ASHIAN PALM OIL</p> <p>2) Meeting with the members of Association for the Promotion of Thai SM Entrepreneur</p>
20	23-Feb	Fri	<p>1) Factory Visit; KRABI FIBER</p> <p>Surat Thani→Bangkok (Horiguchi)</p> <p>2) Meeting with the staffs of JETRO, JODC, and JODC Experts</p>
21	24-Feb	Sat	Report Writing
22	25-Feb	Sun	Report Writing
23	26-Feb	Mon	<p>1) Meeting with Local Consultant</p> <p>2) JICA Thailand Office</p> <p>3) Department of Industrial Promotion, MOI</p> <p>4) Project Experts Weekly Meeting</p>
24	27-Feb	Tue	Bangkok→Tokyo (Horiguchi )

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