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## Chapter 3

# Effective Approaches on the Promotion of Small and Medium Enterprises (SMEs)

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### 1. Overview of SME Promotion

#### 1-1 Current Situation and Issues in SME Promotion: Importance of SME Promotion

##### SMEs Perform

##### 5 Functions/Roles:

- Significant role in economic activity
- Stabilizing function in society
- Source of economic dynamism
- Provision of outsourcing products and services
- Key players in the regional industry

The promotion of SMEs is regarded as an important issue in many countries, including Japan, because SMEs perform multiple functions for the society and economy of a country.

First, SMEs **represent a large weight of the economic activity of a country**. SMEs in many countries account for an overwhelming number of business establishments and employees and are a major player in economic activity.<sup>1</sup>

Second, the SME labor market **performs a stabilizing function in society**. SMEs provide many people, including unskilled labor, with employment opportunities, thereby distributing income from a macroeconomic perspective.

Third, SMEs are considered as a source of dynamism in market-oriented economic since the rate of entry and exit of small firms is high. Economic development including the upgrading of industrial structure is achieved through a dynamic process of replacing inefficient enterprises with highly efficient enterprises.

Fourth, SMEs provide outsourced products and services. By supplying parts and components required by export-oriented assemblers, for example, SMEs help to increase economic efficiency since assemblers do not need to provide everything.

Fifth, SMEs are **key players in the regional economy**. Small and medium-scale local manufacturing is an indispensable industry offering non-agricultural employment opportunities in such areas.

The significance of cooperation in SME promotion has been summarized above. **Identifying the roles and functions of SMEs allows concrete cooperation plans for project formulation**. In recent years, many requests for JICA's assistance have been received from partner governments for SME

To formulate effective projects, first try to identify the roles and functions of SMEs you are looking at.

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<sup>1</sup> For example, percentages of manufacturing businesses with less than 100 employees: Japan, 97.6% (1995); Taiwan, 97.7% (1991); Singapore, 89.6% (1988); Malaysia, 89.4% (according to industrial statistics in the respective countries).

promotion, but these requests often lack a clear vision of the role of SMEs they are going to support. To formulate an effective assistance program, it is necessary to clearly identify the reasons for SME promotion at an early stage.

### 1-2 Definition of SME Promotion

**Two Approaches:**

- Cooperation on protection of the socially disadvantaged SMEs
- Cooperation with SMEs with growth potential leading to economic development

Although there is no universal definition of SMEs<sup>2</sup>, **there are two conceptually different approaches** to SME promotion. One **approach focuses on the role SMEs play in stabilizing society providing employment and income and thus special supports should be given from the viewpoint of the protection of the socially disadvantaged SMEs with respect to large entities.** The other approach **recognizes that SMEs are key players in economic development through strengthening of industrial structure, and promotes the development of SMEs that exhibit growth potential.** In terms of assistance, the scale and character of the targeted SMEs will depend on which of these approaches is taken.

When SME promotion is intended to strengthen industrial competitiveness through the development of SMEs manufacturing sector, which plays a major role in increasing efficiency of the entire industry, is targeted. On the other-hand, in such cases as promoting SMEs to vitalize communities, create jobs, and generate income contributes to social stability by narrowing the income gap. Assistance targets various kinds of businesses including community-based small and micro enterprises in the manufacturing sector as well as those of the commercial sector. When the development of rural areas through assisting SMEs is targeted, development of the informal sector is important.

### 1-3 International Trends

Although the international donor community led by the World Bank and the IMF emphasize the need to minimize government intervention in the private sector, **donor countries and international organizations regard providing assistance to SMEs as a high priority.** The World Bank, Inter-American Development Bank (IDB), and the United States Agency for International Development (USAID) have established departments that specialize in SME assistance and are committed to strengthening the response to this sector. This may be due to the growing recognition that SMEs play a very important role

Promotion of SME sector is universally high priority, with assistance provided from the perspective of reducing poverty

<sup>2</sup> The World Bank defines SMEs in developing countries as follows: enterprises with 10-50 employees-small, enterprises with 50-300 employees-medium, and smaller than either of these-micro enterprises (for details refer to appendix 2). In other cases, the scale of firms targeted for SME promotion is determined based on criteria defined by the relevant developing country, or based on the scale or type of industries necessary for promotion considering economic and social conditions. Thus, there is no specific target criterion for SME promotion.

in promoting economic development and upgrading the living of the people. However, there is wide discussion on the proper role of the government in SME promotion.<sup>3</sup>

**Although the scale is not clear, donor agencies comparatively place a high priority on supporting SMEs including micro enterprises from a social stability and poverty elimination perspective, rather than with a view of strengthening industrial competition and economic development.** Multilateral development banks put a lot of effort into creating a level playing field<sup>4</sup> and financial sector reform concerning overall business activity.

#### 1-4 Japan's Assistance to SME Promotion

Given Japan's many years of experience in SME promotion, many developing countries expect effective operations from Japan. The following points on assistance plans for SME promotion were raised in "**Japan's Medium-term Policies on Official Development Assistance (ODA)**" report published in 1999:

Japan's Med-term  
Policies on ODA  
in 1999

*Promote development of local industries to secure employment opportunities as assistance for anti-poverty measures and supporting social development.*

*Enhance assistance in infrastructure building, technology transfer, SME promotion, and development of supporting industries, as part of Japan's commitment to support economic structural reform to overcome the Asian Economic Crisis. Under this cooperation, demarcation and coordination with other public funds should be stressed. Assistance should not only focus on responding to the crisis, but be designed to strengthen the national financial system, develop core human resources, and upgrade business management and technical skills.*

Partnership with other related domestic organizations is important.

Apart from JICA, other Japanese institutions also provide assistance for SMEs. The **Japan Bank for International Cooperation (JBIC)** is a financial institution that provides assistance through import/export and investment credit

<sup>3</sup> For example, the World Bank's financial policy (two-step loan) targeting SMEs has not met expectations regarding sustainability and scale of benefits, and has hardly been implemented in recent years. Furthermore, on SME business guidance, discussions are very active among the donor community, with some suggesting the government and donors should provide support in developing a market where a private-based business development service could be supplied, rather than provide services directly.

<sup>4</sup> Business environment allowing free and fair competition.

to the private sector, untied-loans and two-step loans to small firms. The **Japan External Trade Organization (JETRO)** supports the development of supporting industries and assists Japanese enterprises in developing countries by dispatching experts, organizing trade fairs and industrial exchange forums etc. Furthermore, the **Association for Overseas Technical Scholarships (AOTS)**, and the **Japan Overseas Development Corporation (JODC)** accept trainees and dispatches experts to conduct training.

**Partnerships should be promoted among related domestic institutions capitalizing on their strengths for effective cooperation in this sector.** Active information exchange among these institutions will become increasingly important in the future.

## 2. Concept of Assistance for SME Promotion

### SME Promotion

#### Issues:

Business environment  
Internal issues within SMEs

### 2-1 SME Promotion Issues

There are two main issues regarding SME promotion: “**issues on creating a conducive business environment for the growth of SMEs**” and “**internal issues within the SME sector**”.<sup>5</sup> An overview of these issues follows.

#### 2-1-1 Issues on Creating a Conducive Business Environment for the Growth of SMEs

##### (1) Development of Regulatory Framework for Supporting Market Economy

This issue involves the development and implementation of basic business rules, such as business-related legal systems, government regulations, and business practices that enable firms to conduct free and fair business activities to facilitate the entry or withdrawal from markets.

Inadequate development and operation of basic business rules is not an uncommon problem in least developed countries and transitional economies.

##### (2) Relevant Policy Planning and Development of Government-related Institutions on SME Promotion

In many developing countries, there is no fundamental law on SME

<sup>5</sup> In the Development Objectives Chart for SME promotion, the “internal issues within the SME sector” section is divided from a promotion perspective into “SME development that contributes to industrial competitiveness” and “SME development that contributes to revitalizing local communities and creating employment”.

Issues Concerning  
the Business  
Environment:

Development of regulatory framework for supporting market economy  
Relevant policy planning and development of governmental institutions  
Facilitation of supply of funds  
Development and implementation of intellectual infrastructure for industrial activities  
Improvement of trade and investment systems

promotion.<sup>6</sup> Thus, the role and responsibilities including budgeting of central and local governments is unclear, creating difficulties in guaranteeing long-term policies. Furthermore, in some cases, effective planning and implementation of measures for SME promotion cannot be executed due to underdeveloped governmental institutions that support SMEs and a lack of capacity of administrative officers.<sup>7</sup>

### **(3) Facilitation of Fund Supply and the Development of Equity Capital**

One of the greatest challenges that developing enterprises face is obtaining long-term funds. In many developing countries the acquisition of funds and capital is difficult because financial intermediary functions of private banks are insufficient and capital markets are underdeveloped. SMEs are greatly disadvantaged, as the risk of fund lending is difficult to evaluate and the amount available for borrowing is limited. Thus, it is necessary to develop and operate systems that remedy these deficiencies.

### **(4) Development and Implementation of Intellectual Infrastructure for Industrial Activities**

In addition to physical infrastructure (such as facilities for water supply and electricity, roads, and ports), intellectual infrastructure for supporting businesses is also required. Intellectual infrastructure may include systems such as the standardization system, the intellectual property rights protection system, the statistical system, etc. However, in many developing countries, intellectual infrastructure that is closely linked to industrial activities is underdeveloped.

### **(5) Development of Trade and Investment Systems**

Trade and investment systems have an enormous influence on opening up economies to overseas markets and creating alliances with foreign companies.<sup>8</sup> In developing countries, various systems and regulations on trade

<sup>6</sup> For example, within ASEAN, Thailand enacted a basic law in 2001, but Indonesia is still yet to do so.

<sup>7</sup> Some developing countries have a strong sense of distrust against governments due to governance problems. In these cases, special considerations need to be taken into account.

<sup>8</sup> It is necessary to examine the protection of non-competitive SMEs from a social stabilizer perspective due to trade liberalization. Benefits of foreign investment include improved capital foundations, introduction and dissemination of advanced management know-how, and the expansion of exports for export-oriented foreign enterprises. Thus, foreign investment significantly helps SMEs develop. In addition, in terms of protection of SMEs, there is a need to comply with international rules such as those set by the WTO. However, as seen in the operation of safeguard agreements, it is also necessary to monitor the case of dispute settlements and to what extent the protection of SMEs is accepted.

and investment may burden enterprises trying to gain from international trade and investment.

With the execution of WTO (World Trade Organization) agreement obligations, regional economic integration is currently progressing rapidly. These regional circumstances should be taken into account as part of the business environment influencing the growth of SMEs.

Internal issues within SMEs:

- Lack of;
- Management Resources of Individual Enterprises
- Human Resources
- Managerial and Technical Know-how
- Funds
- Market Information
- Formation of Linkages among Enterprises
- Regional Development

## **2-1-2 Internal Issues within SMEs**

### **(1) Lack of Management Resources of Individual Enterprises**

#### **Lack of Human Resources**

There is a striking shortage of industrial human resources, especially technicians, working in developing countries for SMEs. Furthermore, there are few educational institutions and occupational training centers that meet SME demands for human resources, frequently resulting in a mismatch in the labor market. Moreover, few SMEs train their staff from a medium to long-term perspective. This has created a shortage of manpower and is one of the greatest issues for the development of SMEs.

#### **Lack of Managerial and Technical Know-how**

The majority of SME owners in developing countries manage the enterprises themselves, with few possessing the skills to draft medium to long-term business plans. Furthermore, they are unable to develop technical know-how through research and development (R&D) due to a lack of financial resources. The lack of managerial and technical know-how seriously inhibits innovative start-ups and business diversification.

#### **Lack of Funds**

Many SMEs in developing countries face a chronic shortage of funds. Furthermore, it is extremely difficult for SMEs to acquire funding from private financial institutions because they generally lack collateral for loans and the know-how to write business plans. Moreover, the loan amounts are small. As a result, they are unable to obtain funding for medium and long-term investments necessary for growth, and therefore are unable to compete in the market. In addition to the lack of funding, another problem for SMEs is their limited access to financial resources compared to larger companies.

### Lack of Market Information

SMEs in developing countries generally have less ability to gather information and must rely on specific traders to obtain market information. As a result, even though SMEs may have a comparative advantage in terms of raw materials or labor force, they are unable to exploit these advantages by proposing products that meet market needs. In many cases, SMEs may not be able to secure new distribution channels to expand their businesses.

## (2) Formation of Linkages among Enterprises

In many cases, the division of labor and merits of specialization supported by linkages among companies can enhance the competitiveness of SMEs. The most remarkable examples are supporting industries, as best represented by the assembly industry and industrial parks demonstrating economies of scale through the concentration of similar industries. However, this linkage among companies is not well formulated in developing countries, which results in non-utilization of the potential strengths of SMEs.<sup>9</sup>

## (3) Regional Development

This issue is summarized above in (1) Lack of management resources for individual enterprises. In developing countries where decentralization is being undertaken, the promotion of local industries to narrow the disparity between regions is an important issue, as SMEs are often the principal actors in these local industries. To create new employment opportunities outside the agricultural sector for the informal jobless in local and rural areas, the development of SME manufacturing industries that utilize local resources is considered effective. However, local and rural areas in developing countries lack know-how regarding the use of local resources, market information, developing products, sales forces, and human resources.

Fundamental approach is to promote economic development

## 2-2 Basic Concepts of Assistance

JICA cooperation strives to upgrade industrial structure, increase employment opportunities, and revitalize regional economies by fostering the diverse and vigorous growth of SMEs. In this context, JICA does not view SMEs as vulnerable entities and will not take a socio-political position. **In other words, JICA emphasizes the promotion of economic development including the upgrading of industrial structure by providing assistance to SMEs with growth potential.**

<sup>9</sup> For example, the metal processing industry in Ota Ward, Tokyo, Japan.

Development Objectives Chart:  
 Development Objectives  
 Mid-term Objectives  
 Sub-targets of Mid-term Objectives  
 Examples of Activities  
 by clarifying the goals-means relationship

## 2-3 Effective Approaches on SME Promotion

### 2-3-1 Formulation of “Development Objectives Chart”

As stated above in “2-1 SME Promotion Issues”, SME promotion can be roughly divided into two issues: **Development and Operation of the Business Environment** and **Internal Issues within SMEs**. Additionally, the latter is divided into two approaches: **development of SMEs which increase industrial competitiveness and development of SMEs to contributing to revitalizing local communities**. Therefore, these three development objectives are set for SME promotion. Furthermore, each Development Objective was broken down into the following; Mid-term Objectives, Sub-targets of Mid-term Objective, and Examples of Activities by clarifying the goals-means relationship.

**Three Development Objectives**

- <Development Objectives>**
1. Development and operation of business environment conducive to the growth of SMEs
  2. Development of SMEs which increase industrial competitiveness
  3. Development of SMEs contributing to revitalizing local communities and creating employment

Examples of Activities:  
 JICA has considerable experience  
 JICA has certain experience  
 JICA has experience as a component of projects  
 × JICA has little experience

Four Symbols ( ) ( × ) were utilized to describe the extent of experience on each project in the column of **Examples of Activities**. means that JICA has considerable experience, signifies that JICA has certain experience, indicates experience as a component of projects, and × areas signify where JICA has little experience.

With regard to the Sub-targets of the Mid-term Objective, JICA’s main interventions in the promotion of SMEs are listed in the chart titled “JICA’s Schemes”. The symbol represents a project that has the potential to serve as a model for other similar projects.

JICA's Schemes  
 A project which will potentially serve as a model for other similar projects.

A list of JICA’s **“Relevant Projects on the Promotion of SMEs”** is attached in Appendix 1 of “JICA’s Main Operations”. Those projects were classified based on the “Examples of Activities” described in the “Development Objectives Chart” and were put in the column “Case No.” in this chart. Accordingly, the Development Objectives Chart shows the trend of JICA’s relevant projects on SME promotion.



**Figure 1 Promotion of Small and Medium Enterprises  
Development Objectives Chart**

Development Objectives	Mid-term Objectives	
<p><b>1. Development and Operation of a Conducive Business Environment for the Growth of SMEs</b></p> <p>Trends in number of established SMEs (number of businesses established and closed)</p> <p>Trends in number of employees</p> <p>Trends in number of investment cases and amounts</p>	<p><b>1-1 Elimination of System Constraints and Regulations</b></p> <p>Study of results on business-related regulations, enacted rules and regulatory environment</p> <p>Questionnaire of results to SMEs on the business environment</p>	
	<p><b>1-2 Planning and Implementation of SME Promotion Policies</b></p> <p>Availability and content of the basic law on the promotion of SME</p> <p>Trends in number of institutions, agencies, employees and related to budgetary appropriation engaged in small business administration</p> <p>Availability and content of White Paper</p>	
	<p><b>1-3 Facilitation of Fund Supply and Enhancement of Equity Capital</b></p> <p>Trends in number of financing cases and loan amounts</p> <p>Trends in number of domestic investment cases and amount towards SMEs</p> <p>Questionnaire of results on the environment for procuring funds</p> <p>Trends in the number of corporations preparing financial statements</p>	
	<p><b>1-4 Development of Intellectual Infrastructure for Industrial Activities</b></p> <p>Establishment of national specifications and standards (content and numbers)</p> <p>Presence of examination and test institutions and results of performance surveys</p> <p>Availability and reliability of statistics</p>	
	<p><b>1-5 Improvement of Trade and Investment Systems</b></p> <p>Trends in trading amounts of SMEs</p> <p>Trends in cases and amounts of foreign investment in SMEs</p> <p>Questionnaire of results on trade-related regulations</p>	
	<p><b>2. Development of SMEs which Increase Industrial Competitiveness</b></p> <p>Trends in value-added production by SMEs, and its proportion of GDP</p> <p>Trends in value-added productivity and its proportion of GDP</p> <p>Trends in export value of SMEs</p>	<p><b>2-1 Strengthening of SME Management Capacity</b></p> <p>Results of management consulting study on management, technology and human resources</p> <p>Results of study on degree of satisfaction and utilization of services offered to companies</p> <p>Number of institutions establishing the Business Development Services Program and number of participants</p>
		<p><b>2-2 Promotion of Business Innovation and Business Start-ups</b></p> <p>Trends in number of business establishment and in number of companies changing business</p> <p>Trends in number of companies starting innovative businesses</p> <p>Study of results on the degree of satisfaction and utilization of various types of supporting systems</p>
		<p><b>2-3 Development of Supporting Industries</b></p> <p>Trends in number of enterprises, the value-added production and the number of employees in supporting industries</p> <p>Local content rate of export companies and assembly companies</p> <p>Study results on the degree of satisfaction and utilization of various types of supporting systems</p>
		<p><b>2-4 Development of Specific Sub-sectors</b></p> <p>Trends in number of companies in the sub-sectors, the value added production, and the number of employees</p> <p>Trends in export values</p> <p>Study results on the degree of satisfaction and utilization of various types of supporting systems</p>
		<p><b>2-5 Promotion of Wholesale Business and Retail Sales</b></p> <p>Trends in number of wholesalers and retailers sale enterprises and sales amounts</p>
<p><b>3. Development of SMEs Contributing to Revitalizing Local Communities and Creating Employment</b></p> <p>Trends in value-added production and gross production of SMEs in targeted areas (compared to national levels)</p> <p>Trends in number of businesses established, new employees and unemployment in targeted areas (compared to national levels)</p> <p>Trends in per capita income in targeted areas (compared to national levels)</p>	<p><b>3-1 Development of Local Manufacturing Industries (including processing of agricultural products)</b></p> <p>Trends in value-added production and gross production of the manufacturing industry concerned</p> <p>Trends in number of businesses concerned</p>	
	<p><b>3-2 Promotion of Micro and Domestic Industries</b></p> <p>Identification of local products</p> <p>Sale trends</p> <p>Availability and performance of funding institutions</p>	

\*Circled numbers imply major indicators.

## 2-3-2 Outline Explanations of “Development Objectives Chart”

**Development Objective 1:**  
Development and Operation of a Conducive Business Environment for the Growth of SMEs

### **【Development Objective 1: Development and Operation of a Conducive Business Environment for the Growth of SMEs】**

**Mid-term Objective 1-1:**  
Elimination of System Constraints and Regulations

### **Mid-term Objective 1-1: Elimination of System Constraints and Regulations**

In many least developed countries and transitional economies, rules underlying the market economy are not sufficiently developed, or the dynamics of private economic activities (entry or exit of markets, free and fair business activities) are diminished due to an overkill of regulations. Therefore, it is important to remove these inhibiting factors before undertaking cooperation for SME promotion.

### **JICA's Activities**

JICA has little project experience on systems and regulations.

**JICA has little project experience on systems and regulations related to SME promotion.** This is in contrast to the vast experience of the World Bank and the IMF, which promote problem solving of systems and regulations as a top priority of SME promotion. JICA has less experience in this area because: a) partner governments rarely request JICA's services for technical assistance related to systems and regulations, b) Japanese experts mainly focus on specific promotion policies targeting small businesses, and c) the improvement of systems and regulations is often a prerequisite for financial assistance required by the World Bank and the IMF.

The following are important focal issues in project formulation.

**Points of Concern in Project Formulation:**

- Common perceptions with counterparts
- Prioritize fields of assistance and coordinate with other cooperation programs

### **Precise Identification of Problems and Build-up of Common Perceptions**

When formulating a project on systems and regulations it is essential to elicit opinions of the private sector and academic institutions, as well as partner governments through workshops and other means, and take time to build up a common perception of issues to focus on for cooperation. It is also important to prepare financial assistance and a cooperation program to boost the results of technical assistance of other programs.

### Focus Attention on Fields with Competitive Advantage

Japan has few experts in this field. In project formulation, attention should be focused on issues in which JICA has a competitive advantage over other donors as well as availability of experts. One option is to prioritize assistance based on Japan's experience (e.g.: industrial policy and competitive policy). At the same time, it is important to ensure aid coordination in the projects which overlaps with other donors.



### Mid-term Objective 1-2: Planning and Implementation of SME Promotion Policies

As policy-planners and executors, governments need to have sufficient capabilities to administer and design institutional establishments, and implement effective assistance for SMEs. In this sense, **cooperation in planning and implementation of SME promotion policies is a central focus of this field.** Although Japan has extensive knowledge and experience on SME promotion, it is necessary to customize the content of cooperation to the conditions of recipient countries, such as financial conditions and socio-economic systems. Special attention should be given to designing a framework of cooperation and not merely replicating Japan's experiences.

### ***JICA's Activities***

Policy-planning cooperation for SME promotion includes advisory-type cooperation in which Dispatch of Experts make policy recommendations on the issues concerned. Major examples are Dispatch of Experts for providing policy advice on SME policies and finance to Thailand and Indonesia. In both cases, Dispatch of Experts pointed out the importance of the government in promoting SMEs, and recommended the enactment of a fundamental law for SMEs and integration of bodies responsible for SME promotion so that the government could efficiently implement consistent policies. In Thailand, Indonesia, Malaysia, Mexico, South Africa, Venezuela and China, development studies are being conducted on policy recommendations regarding SME promotion. Many of the recommendations target small and medium-scale manufacturing firms with growth potential. Assistance on policy implementation focuses on training (in Japan and overseas) of administrators from central and local governments emphasizing conveyance of Japan's experience in administration. There are few assistance experiences with the objective of

**Figure 2 Development Objective 1**  
**"Development and Operation of a Conducive Business Environment**  
**for the Growth of Small and Medium Enterprises"**

**Mid-term Objective 1-1 Elimination of System Constraints and Regulations**

**Indicators:** Study of results on business-related regulations, enacted rules and regulatory environment, Questionnaire of results to SMEs on the business environment

Sub-targets of Mid-term Objective	Examples of Activities	Case No.*	JICA's Schemes
<b>Development of Economic and Business-related Legal System</b>	Market entry (Corporate law), market transactions (Law of Obligations), withdrawal from the market (Bankruptcy Law), fair competition (Competition Law)	10, 37	Assistance on the legal system (Dispatch of Expert team) • Human resources development on competition policies (Training)
<b>Improvement of the Business Environment for SMEs</b>	× Deregulation, statutory form, improvement of operations × Revision and institutionalization of business practices		

**Mid-term Objective 1-2 Planning and Implementation of SME Promotion Policies**

**Indicators:** Availability and content of the basic law on the promotion of SME, Trends in number of institutions, agencies, employees and related to budgetary appropriation engaged in small business administration, Availability and content of White Paper

Sub-targets of Mid-term Objective	Examples of Activities	Case No.*	JICA's Schemes
<b>Enactment of Basic Laws</b>	Enactment of basic law	3, 13, 16	Assistance on designing a Master Plan for SME promotion (Dispatch of Experts and Development Study)
<b>Capacity Building of the Government Administration and Human Resources</b>	Establishment of a cross-ministerial organization responsible for SME administration	3, 13, 16	• Assistance on designing a Master Plan for SME promotion (Dispatch of Experts and Development Study) • Training in Japan targeting administrative officials engaged in the promotion of SMEs
	Human resource development of related administrative governmental officers × Publishing of "Small and Medium Enterprises White Paper"	7, 10	
<b>Development of Provincial Networks</b>	Establishment of provincial networks for policy implementation Training of local government officials	18, 20, 32	Assistance on establishment of management consulting system for SMEs (Development Study and Dispatch of Experts) • Assistance on a promotion plan for local industries (Development Study) • Training of local government officials responsible for SME promotion (Training in Japan, Local Training, and Development Study)
		34, 35	

**Mid-term Objective 1-3 Facilitation of Fund Supply and Enhancement of Equity Capital**

**Indicators:** Trends in number of financing cases and loan amounts, Trends in number of domestic investment cases and amount towards SMEs, Questionnaire of results on the environment for procuring funds, Trends in the number of corporations preparing financial statements

Sub-targets of Mid-term Objective	Examples of Activities	Case No.*	JICA's Schemes
<b>Development of Corporate Accounting</b>	× Development of accounting systems × Development of human resources (accountants and tax accountants) × Formulation of entry incentives allocation system such as the income tax return system on the blue form		
<b>Development of Fund Supply Systems</b>	× Strengthening of financial intermediaries functions for private financial institutions Improvement of related legal systems such as the mortgage system	3	• Providing advise on problem-solving and improving the existing legal system (Dispatch of Experts and Development Study) • Advise and guidance on drafting legal system (Dispatch of Experts and Consultants) • Advise and guidance from experts and consultants
	Establishment of credit guarantee system	3, 13, 16	
	Establishment of a policy finance institution for SMEs	3, 12, 13, 15, 16	

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Sub-targets of Mid-term Objective	Examples of Activities	Case No.*	JICA's Schemes
<b>Development of a Capital Procurement System</b>	Improvement and development of the capital market for SMEs Promotion of establishment of venture capital	40 6, 28	<ul style="list-style-type: none"> <li>Development of human resources in securities administration (Training)</li> <li>Assistance in development of related legislation and examination manuals (Development Study)</li> </ul>
<b>Revision of related Taxation System</b>	× Development of tax system promoting investment in SMEs		

**Mid-term Objective 1-4 Development of Intellectual Infrastructure for Industrial Activities**

**Indicators:** Establishment of national specifications and standards (content and numbers),  
Presence of examination and test institutions and results of performance surveys, Availability and reliability of statistics

Sub-targets of Mid-term Objective	Examples of Activities	Case No.*	JICA's Schemes
<b>Development of a Standard System</b>	Formulation of a standard certification system  Formulation of a measurement system Improvement of examination and testing capabilities	2  2 5	<ul style="list-style-type: none"> <li>Cooperation on a Master Plan of standardization, measurement and quality inspection (Development Study and Dispatch of Experts)</li> <li>Same as above</li> <li>Capacity building of examination and testing institutions (Project-type Technical Cooperation)</li> </ul>
<b>Development of Systems Protecting Intellectual Property Rights</b>	× Establishment of a relevant legal system Capacity building of executing a system	36	<ul style="list-style-type: none"> <li>Assistance on the digitalization of the intellectual property rights administration (Project-type Technical Cooperation)</li> </ul>
<b>Development of Statistics on Corporations in Various Industries</b>	Development of statistics on SMEs and production	15	<ul style="list-style-type: none"> <li>Assistance on the design, development and management of various statistics</li> </ul>

**Mid-term Objective 1-5 Improvement of Trade and Investment Systems**

**Indicators:** Trends in trading amounts of SMEs, Trends in cases and amounts of foreign investment in SMEs,  
Questionnaire of results on trade-related regulations

Sub-targets of Mid-term Objective	Examples of Activities	Case No.*	JICA's Schemes
<b>Deregulation of Trade Investment</b>	× Capacity building on planning and implementation of trade policies Improvement in execution of the WTO agreement	1 1	<ul style="list-style-type: none"> <li>Capacity building of executing the WTO agreement (Development Study and Dispatch of Experts)</li> </ul>
<b>Cultivation of Foreign Markets</b>	Development of foreign market information service system × Organizing trade fairs Development of human resources in the trading business × Development of ICT infrastructure	12, 16 11	<ul style="list-style-type: none"> <li>Assistance on formulation of export promotion strategies (Development Study and Dispatch of Experts)</li> <li>Establishment and strengthening of organizations responsible for developing human resources in trade business (Project-type Technical Cooperation)</li> </ul>
<b>Promotion of Foreign Markets</b>	Plan on foreign investment policy  Establishment of special economic zones  Training of government officials	17 4 42	<ul style="list-style-type: none"> <li>Advice and guidance on the administration of foreign direct investment (Dispatch of Experts)</li> <li>Feasibility study on the establishment of special economic zones (Development Study)</li> <li>Capacity building of administrators engaged in direct investment (Training)</li> </ul>

\*"Case No." corresponds to the number in the list of relevant projects (see appendix 1.)

<b>Examples of Activities:</b>	JICA has considerable experience JICA has certain experience JICA has experience as a component of projects
×	JICA has little experience
<b>JICA's Schemes:</b>	A project which will potentially serve as a model for other similar projects

developing local networks and very few development studies that have analyzed the role of local governments.

The following are important focal issues in project formulation.

Points of Concern in Project Formulation

- Select suitable counterparts
- Pay careful attention on relation and role of central and local governments

**Selection of Suitable Counterpart Institutions**

In many developing countries, administrative agencies engaged in SME promotion are not integrated. Therefore, the most important issue for project formulation is the selection of counterpart administrative institutions. Counterparts should be chosen from a wide range of candidates. Also, in keeping in contact with high-ranking officials of recipient governments, discussions on the framework of cooperation should take place to clarify issues. Moreover, other donor experiences and information from the private sector are also beneficial.

**Relations between Central and Local Governments**

The promotion of good governance has led to decentralization in many countries. Local governments now play a significant role in introducing central government measures into the workplace. From the beginning of project formulation, the framework of cooperation programs must be discussed, keeping in mind the roles and interrelationship between central and local governments. At the same time, cooperation with local governments and NGOs should be taken into consideration in response to conditions and populations of recipient countries.

**Mid-term  
Objective 1-3:  
Facilitation of  
Fund Supply and  
Enhancement of  
Equity Capital**

**Mid-term Objective 1-3: Facilitation of Fund Supply and Enhancement of Equity Capital**

Facilitation of the acquisition of funds and capital is indispensable for business management, particularly for SMEs. Therefore JICA's assistance focuses on providing financial facilitation for SMEs. **The fundamental approach for assistance in financing is to first gain an accurate understanding of core problems and to review the role of the government.**

***JICA's Activities***

As JICA is not a financial institution, **it assists in the providing financial facilitation that supply funds and capacity building of intermediary financial institutions.** JICA has experience in offering guidance and advice

JICA's Focus of Cooperation: Formulation of systems to supply funds, operational assistance, strengthening financial intermediary institutions.

JICA has only limited experience developing taxation and business accounting systems.

Points of Concern in Project Formulation

- Scope of public intervention and compromises
- Coordination with fund cooperation
- Training approach to revitalize capital markets
- Linkage and consistency with macroeconomic policy

on financial systems (as well as legal systems related to collateral, credit insurance, and the formulation of policy finance institutions for SMEs) and in training human resources to improve screening skills of financial institutions. The development of capital acquisition systems through training programs requires the introduction of Japan's securities market, and provision of advice on regulatory administration know-how by experts. Furthermore, development studies give advice on legal systems that are necessary to establish investment associations as well as design institutional arrangements for venture capital. **Although JICA has little assistance experience on taxation and business accounting systems, these are systems that facilitate the provision of funds, and will be a high priority in future cooperation.**

The following are important focal issues in project formulation.

### Consideration of Justifications and Scope of Official Intervention

Assistance regarding the provision of funds to SMEs generally includes government measure such as the establishment of a credit insurance system and financial policies. Benefits from these government measures are limited without a functional private financial sector. **When discussing the need of government measures in this area, it is necessary to simultaneously study the institutional infrastructure of the accounting systems and strengthen financial functions by focusing on private banks.** In addition, when formulating intellectual assistance on financial systems in developing countries facing difficult financial conditions, it is necessary to take into account the sustainability of the system and sources of capital (without relying on international cooperation, measures should be taken to gather domestic funds).

### Coordination with Fund Cooperation

When providing technical assistance on financial policy, coordination with other financial cooperation institutions such as JBIC is indispensable. As many developing countries lack essential capital, the implementation of systems and development of human resources does not necessarily satisfy the needs of these countries. If financial assistance is not provided in tandem, developing countries can become disheartened, thereby reducing the effectiveness of technical assistance. Thus, coordination with international financial institutions is essential for formulating projects in this field.

### Assistance on Development of Capital Markets

Assistance on the development of **capital markets requires an approach that fosters revitalization of markets** and not simply strives to assist in “establishing a market”. Several steps are required for the development of capital markets. First, the consolidation of legal systems is necessary as the bedrock of firms and accounting systems, leading to the establishment of blue chip stocks and a trustworthy stock exchange. This encourages investors and develops auditing and brokerage firms. Following this, market monitoring functions and disclosure systems will develop. Once various systems related to the capital market are established, and the maturity of investors reaches a certain level, markets for small businesses can be established and developed. In countries where these conditions do not prevail, the creation of a stock market will not contribute to increase SME funds, but conversely increase the burden on the government.

### Coordination and Compliance with other Policies

Coordination with macroeconomic policies, as well as measures to manage resources such as management guidance, information services and diagnosis are indispensable. Despite the fact that Japan has implemented preferential tax policies, it is necessary to study how to combine and implement these policies with other preferential measures.

**Mid-term  
Objective 1-4:  
Development of  
Intellectual  
Infrastructure for  
Industrial  
Activities**

### Mid-term Objective 1-4: Development of Intellectual Infrastructure for Industrial Activities

#### **【Sub-target of Mid-term Objective: Development of a Standard System】**

International transaction rules have become standardized as a result of economic globalization and the liberalization of trade barriers. **The fundamental approach for cooperation is to introduce a standardized industrial system that regulates product development and production activities. The objective is to improve the quality control abilities of SMEs and enable them to profit from international trading activities.**

Until now, **JICA has actively implemented assistance in this sector focused on capacity building of examination and testing institutions and training human resources for standard certification and quality control.**

JICA's assistance focuses on:  
Capacity building of examination and testing institutions,  
Training human resources for standard certification and quality control



Assistance focuses on:  
Capacity building of government institutions which engaged in protecting intellectual property rights and promoting innovative SME businesses

### **【Sub-target of Mid-term Objective: Development of a System Protecting Intellectual Property Rights】**

As globalization and technological development and exchange advance worldwide, the importance of intellectual property rights systems that value the fruits of technical development is increasing. These systems contribute to ensuring return on investment and create development incentives. **JICA's fundamental cooperation approach is to promote the development and establishment of innovative SMEs in niche markets by developing intellectual infrastructure.**

**JICA's assistance in this area concentrates on capacity building of government institutions engaged in protecting intellectual property rights.**

JICA has experience on various statistics that are used for policy planning evaluation and formulating management plans.

### **【Sub-target of Mid-term Objective: Development of Statistics for Various Industries】**

For companies to have a timely understanding of economic and social conditions and to formulate management plans, the development of various statistics is necessary for business activities. Furthermore, to analyze and clearly understand the problems that SMEs face and plan appropriate supportive measures, data on SMEs is indispensable. In many developing countries, various statistics are often unreliable and it is difficult to obtain necessary information related to business activities. Furthermore, the lack of reliable statistics also means it is very difficult to plan and evaluate various types of cooperation policies. **In order to encourage business activities and capacity building of policy planning and evaluation for SMEs, it is necessary to promote the development of statistics as well as information infrastructure.**

**JICA has cooperation experience in developing industrial statistics.** In recent years, JICA provided assistance to Thailand and the Philippines for the development of a current survey of industrial production to effectively grasp economic trends.

The following are important focal issues in project formulation.

Points of Concern in Project Formulation

- Consideration towards fair profits for SMEs
- Coordination with domestic government-related organizations

### **Special Considerations for SMEs**

For enterprises, the certification and maintenance of patents are a fixed capital constraint. Intellectual infrastructure systems can restrict SMEs that lack capital from entering the SME market. Assistance for the development of intellectual infrastructure must be given due consideration beginning at the time of the project formulation, so that SMEs are able to profit fairly from the system.

### Coordination with other Domestic Donor Agencies

In the case of Japan, government-related institutions have knowledge of intellectual infrastructure regarding industries, and in many cases these institutions have a unique strategy regarding international cooperation on intellectual infrastructure. For this reason, at the time of project formulation, it is essential to coordinate with domestic institutions regarding the basic direction of assistance and its structure.

For reference, the main institutions concerned with standardization are: the Ministry of Economy, Trade and Industry (industrial standardization and statistics), Japan Patent Office of Intellectual Property Rights (industrial property), the Ministry of Education, Culture, Sports, Science and Technology (copyrights), the Ministry of Public Management and Home Affairs, Posts and Telecommunications (national income statistics).

**Mid-term  
Objective 1-5:  
Improvement of  
Trade and  
Investment  
Systems**

### Mid-term Objective 1-5: Improvement of Trade and Investment Systems

Although the trade and investment system is important in stimulating free and fair international exchange for enterprises, it is also a tool used to protect national industries. The WTO framework promotes the liberalization of trade and investment. For this reason, developing countries must harmonize the growth of national industries and gradually liberalize their trade. **The fundamental approach in implementing cooperation is to maximize profits and minimize the risks of free trade.**

#### ***JICA's Activities***

Trade and investment systems need to maximize profits and minimize risks in free trade. JICA focuses on offering market information and on the capacity building of traders.

Although the improvement of the trade and investment system is fundamentally an independent issue from SME promotion, both are closely interrelated. In this field, **JICA's cooperation focuses mainly on offering market information and training people engaged in trade.** JICA has implemented comprehensive cooperation on the establishment and operation of trade promotion institutions through Grant Aid and Technical Assistance in Thailand, the Philippines and Indonesia. SMEs, compared to large enterprises, have limited access to overseas market information and suffer from shortages of capable human resources. As a result, developing countries have significant needs for cooperation that contributes to the expansion of exports.

**Although JICA has little experience directly targeting trade systems,**

JICA provides assistance to developing countries to benefit from free trade under the WTO.

The issue is to link direct foreign investment with the upgrading of national industrial structure.

Points of Concern in project formulation

- Consistent basic policies for industrial promotion
- Consistent international trading rules

**it has recently provided assistance (WTO capacity building) to developing countries to benefit from free trade under the WTO framework.** In addition to cooperation which assists access to the export market, measures to reduce trading costs (facilitation of trade) are a potential cooperation area.

Regarding cooperation on investment systems, guidance and advice has focused on the processing and assembly sector to promote direct investment from Japan with only a few ties with SME promotion. As it becomes clear that foreign direct investment in the manufacturing sector has a significant impact on the growth of local firms, **the issue now is to effectively link foreign direct investment with the upgrading of national industrial structure.** To strengthen linkages between foreign investment and local SMEs, promotion of awareness of the importance of foreign direct investment even in the protected SME sectors has begun. In the future, it is probable that assistance in matching the investment system and SMEs will rise as its importance increases.

The following are important focal issues in project formulation:

#### Awareness of Fundamental Commitment

When discussing appropriate trade and investment systems from the perspective of SME promotion, consistency with fundamental policies on industrial promotion must be ensured. It is essential to regulate the scope and speed of liberalization in order to maximize profits and minimize risks from liberalization, as there is now almost no room for excessive import substitution policies under the WTO. **There are different types of trade and investment systems, and their impacts on the industrial sector are significant; therefore, it is necessary to study assistance measures to create a system according to the vision of industrial promotion and the role of SMEs.**

#### Formulation of Projects Complying with International Trade Codes

Consistency of projects with trade and investment systems such as the WTO's international trading rules are important. Coordination with government institutions is necessary since JICA's assistance should be consistent with negotiations in which partner countries are involved.

**Development Objective 2: Development of SMEs which Increase Industrial Competitiveness**

**Development Objective 2: Development of SMEs which Increase Industrial Competitiveness**

Cooperation programs classified in this section aim to actively assist SMEs with growth potential, from the perspective of increasing productivity of the entire economy and developing industries with international competitiveness.

**Mid-term Objective 2-1: Strengthening of SME Management Capacity**

**Mid-term Objective 2-1: Strengthening of SME Management Capacity**

**Strengthening management resources, including human resources, technology, management know-how, market information, capital and infrastructure of enterprises, is the most fundamental issue SMEs face. JICA actively provides assistance in this field.** Internationally, assistance on strengthening the management resources of SMEs is referred to as “Business Development Service” (BDS) while the provider is referred to as the BDS provider. **In most cases, BDS projects of other donors have tendency to target micro and small enterprises rather than medium enterprises.**

The World Bank, UK and Germany argue that the strengthening of management resources should take place within the market economy framework. JICA's traditional approach has been to provide assistance to governmental institutions.

In recent years, active discussions on the BDS have taken place among donors. **The World Bank and a number of bilateral donors (including the United Kingdom and Germany) argue that services for firms should be provided within the market economy framework because of problems of sustainability and the range of services from donor countries.**<sup>10</sup> Although this differs from JICA's traditional approach (providing direct assistance to governments), existence of such discussions should be kept in mind for future assistance while it is important to expand it in this field.

Another approach is to strengthen management resources through enterprises collaboration and organization and the promotion of industrial concentration.

Another approach in addition to **strengthening management resources of individual enterprises is to collectively organize similar or different types of businesses (sometimes with supportive business), or promote industrial concentration of SMEs and maximize the comparative advantage of collectivity as well as external economy of geographical concentration of enterprises.**

***JICA's Activities***

**JICA's assistance has focused on indirectly strengthening the**

<sup>10</sup> The presupposition here is that all the services that are provided to develop SMEs is not a public but a private good. This leads to the argument that governments and donors should support the development of these markets (offering information on providers and subsidizing users through voucher systems).

Conventionally, JICA has indirectly strengthened the management resources of small and medium manufacturing businesses through cooperation to public institutions. JICA also has established a SME management consulting system and a consultants' certification system. JICA has little experience in strengthening the management bases between enterprises and organizations.

**management resources of small and medium manufacturing businesses through providing assistance to public institutions.** This differs greatly from the Association for Overseas Technical Scholarship (AOTS) and the Japan Overseas Development Corporation (JODC), which give direct assistance to specific private firms. In the past, assistance to public institutions focused on occupational training centers, examination and testing institutions, and trade promotion centers, for capacity building of human resources and organizations such as the training of trainers, assisting with information development, and renewing equipment and materials. The expansion of public institutional capacity should have resulted in an improvement of access to management resources by SMEs. However, there are only a few cases in which SMEs were the main target of projects. In recent years, in order to appropriately respond to SMEs' needs, **assistance in training management consultants for SMEs as well as formulating SME management consultant systems has been implemented in Thailand.** Moreover, JICA has **provided assistance by creating a certification system for SME consultants in Mexico** to improve the quality of private-based consulting services for SMEs. The SME management consulting system is a core part of the administration of SME promotion in Japan and has been evolving with time. Experience sharing is also an important part of assistance in strengthening the management base.

**JICA has little experience in strengthening the management base through tie-ups and unionization among SMEs.** Although cooperation on SME promotion (in Indonesia) through the improvement of cluster functions<sup>11</sup> is noteworthy, continuous discussion is required about the possibility of JICA providing assistance in this area within the framework of its aid schemes.

The following are important focal issues in project formulation.

Points of Concern in project formulation:

- Understand the conditions and needs of SMEs
- Research similar activities by other donors and countries
- Respond to BDS

Response to the Conditions and Needs of Recipient Countries

**Compared to large enterprises, SMEs face various types of disadvantages regarding management resources. Each enterprise has disadvantages of its own, and thus they cannot be generalized.** The issues, extent and reasons why such disadvantages occur must be understood. In addition, the careful study of measures for correcting these disadvantages is necessary.

<sup>11</sup> Cluster: condition where the competitive advantage of an industrial area is the core for periphery industries. This indicates the vitalization of a regional industry that is concentrated in a specified area and on a specified industry.)

**Figure 3 Development Objective 2**  
**"Development of Small and Medium Enterprises**  
**which Increase Industrial Competitiveness"**

<b>Mid-term Objective 2-1 Strengthening of SME Management Capacity</b>			
<b>Indicators:</b> Results of management consulting study on management, technology and human resources, Results of study on degree of satisfaction and utilization of services offered to companies, Number of institutions establishing the Business Development Services Program and number of participants			
<b>Sub-targets of Mid-term Objective</b>	<b>Examples of Activities</b>	<b>Case No*</b>	<b>JICA's Schemes</b>
<b>Strengthening of Management Resources</b>	Training of human resources for SMEs (universities, other educational institutions or occupational training schools)	11, 39	• Assistance in strengthening the occupational training school (Project-type Technical Cooperation and Dispatch of Experts)
	Guidance by public institutions on management know-how for enterprises	24, 27	• Establishment and strengthening of business training institutions (Project-type technical Cooperation and Dispatch of Experts)
	Establishment and strengthening of public technical assistance institutions	5, 24	• Strengthening of public examination and testing institutions (Project-type Technical Cooperation and Dispatch of Experts)
	Development of public management consulting system × Private-based Business Development Service (BDS) for SMEs	18, 28, 32	Support for formation of a business consulting system for SMEs (Development Study and Dispatch of Experts)
<b>Revitalization of Exchange, Cooperation, Organization and Accumulation</b>	Establishment and development of business associations	25	Support for formulation of a cluster functions strengthening plan (Development Study)
	Promote partnerships between enterprises (Technical Cooperation and merger) × Establishment of SME industrial complex	28	• Assistance in designing a master plan on SME promotion (Dispatch of Experts and Development Study)

<b>Mid-term Objective 2-2 Promotion of Business Innovation and Business Start-ups</b>			
<b>Indicators:</b> Trends in number of business establishment and in number of companies changing business, Trends in number of companies starting innovative businesses, Study of results on the degree of satisfaction and utilization of various types of supporting systems			
<b>Sub-targets of Mid-term Objective</b>	<b>Examples of Activities</b>	<b>Case No*</b>	<b>JICA's Schemes</b>
<b>Promote Creative Business Activities</b>	Development of relevant legislation (Investment Business Union Laws)	28	Support for formulation of master plan for SME promotion (Dispatch of Experts and Development Study)
	Development of direct financial market	40	• Same as above
	Strengthening cooperation with universities and research institutions × Strengthening incubation functions	8	• Same as above
	Strengthening cluster functions	25	• Support for formulation of a cluster function strengthening plan (Development Study)
<b>Business Innovation and Start-up Promotion</b>	Training on the principles of entrepreneurship	23, 41	• Support for formulation of master plan for SME promotion (Dispatch of Experts and Development Study)
	Promotion of venture capital	6, 28	• Same as above

## Effective Approaches on the Promotion of Small and Medium Enterprises (SMEs)

<b>Mid-term Objective 2-3 Development of Supporting Industries</b>			
<b>Indicators:</b> Trends in number of enterprises, the value-added production and the number of employees in supporting industries, Local content rate of export companies and assembly companies, Study results on the degree of satisfaction and utilization of various types of supporting systems			
Sub-targets of Mid-term Objective	Examples of Activities	Case No*	JICA's Schemes
<b>Planning of Strategic Promotion</b>	Planning of Master Plan	12, 14, 16, 21, 33	• Assistance in creating a promotion plan for the industrial sector (Development Study)
<b>Strengthening of Management Resources</b>	<p>【Refer to Sub-target of Mid-term Objective 2-1 (Strengthening of management resources)】</p> <p>Training of technical experts (for the machine and metal industry)</p> <p>Promote the implementation of management consulting services</p> <p>Promote the implementation of mobile guidance service</p>	<p>5, 19, 24</p> <p>18, 32</p> <p>5, 26, 27, 38</p>	<p>• Assistance in strengthening occupational training schools and technical assistance institutions (Project-type Technical Cooperation and Dispatch of Experts)</p> <p>Establishment of management consulting system for SMEs (Development Study and Dispatch of Experts)</p> <p>• Assistance on establishment and strengthening of institution for mobile guidance services</p>
<b>Promotion of Linkages Between Enterprises</b>	<p>Subcontractor promotion</p> <p>Offering of market information (reverse trade shows, etc)</p> <p>Strengthening of cluster functions</p>	<p>12, 14, 24, 23, 26, 27</p> <p>12, 16</p> <p>25</p>	<p>• Assistance on designing a master plan for SMEs promotion (Dispatch of Experts and Development Study) and strengthening technical assistance institutions (Project-type Technical Cooperation)</p> <p>• Assistance for formulation of an export promotion strategy (Development Study and Dispatch of Experts)</p> <p>• Support for formulation of a cluster functions strengthening plan (Development Study)</p>

<b>Mid-term Objective 2-4 Development of Specific Sub-sectors</b>			
<b>Indicators:</b> Trends in number of companies in the sub-sectors, the value added production, and the number of employees, Trends in export values, Study results on the degree of satisfaction and utilization of various types of supporting systems			
Sub-targets of Mid-term Objective	Examples of Activities	Case No*	JICA's Schemes
<b>Plan for Strategic Development</b>	Planning of Master Plan	3, 6, 22	• Support for formulation of Master Plan for SME promotion
<b>Strengthening of Management Resources</b>	<p>【Refer to Sub-target of Mid-term Objective 2-1 (Strengthening of management resources)】</p> <p>Training technical experts</p> <p>Promote management consulting services</p>	<p>5, 19, 24</p> <p>18, 32</p>	<p>• Cooperation in strengthening occupational training schools and technical assistance institutions</p>
<b>Promotion of Linkages Between Enterprises</b>	Strengthening cluster functions	25	• Support for formulation of a cluster function strengthening plan (Development Study)
<b>Export Promotion</b>	<p>Collect information from overseas markets</p> <p>× Establish export associations</p> <p>Product development and sales promotion</p>	<p>11, 12, 16</p> <p>30</p>	<p>• Establishment and strengthening of export promotion institutions</p> <p>• Design of promotion plan (Development Study and Dispatch of Experts)</p>

<b>Mid-term Objective 2-5 Promotion of Wholesale Business and Retail Sales</b>			
<b>Indicators:</b> Trends in number of wholesale and retail sale enterprises and sales amounts			
Sub-targets of Mid-term Objective	Examples of Activities	Case No*	JICA's Schemes
<b>Promotion of SME Wholesale Business</b>	<p>× Logistics efficiency</p> <p>× IT utilization</p>		
<b>Promotion of SME Retail Sales</b>	<p>× Town management assistance</p> <p>× IT utilization (Product Proposal and Market Development)</p>		

\*"Case No." corresponds to the number in the list of relevant projects (see appendix 1.)

<b>Examples of Activities:</b>	JICA has considerable experience
	JICA has certain experience
	JICA has experience as a component of projects
×	JICA has little experience
<b>JICA's Schemes:</b>	A project which will potentially serve as a model for other similar projects

### Formulation of Projects Based on Reviews of Similar Activities

Many donors carry out various types of assistance in this sector. In addition, developing countries also implement their own unique types of assistance projects and programs. Furthermore, there are many cases where even the private sector offers different services. Therefore, the first point to acknowledge at the time of project formulation in this sector is the identification of similar activities and evaluation of these activities. When examining the possibilities of assistance, it is necessary to objectively evaluate the results of similar activities, and the content and approach of the assistance needed.

### Response to BDS

In cases when a project is formulated based on the BDS approach, which is currently being discussed among donors, the critical point will be to what extent JICA will be able to cooperate with non-public organizations as counterparts. Since **the promotion of BDS requires cooperation under a systematic framework and direct reach to the private sector**, one possible solution for JICA would be to package the Development Study and Grass-roots Project schemes.



### Mid-term Objective 2-2: Promotion of Business Innovation and Business Start-ups

In developing countries and regions in which the industrial sector has achieved a certain degree of development (e.g. ASEAN4<sup>12</sup>, China, Eastern Europe), topics such as assistance for new businesses and business innovation enjoy a high degree of interest. From the perspective of promoting new industrial sectors and increasing industrial competitiveness, it is believed that the need for cooperation in business innovation and start-ups promotion will increase in the future.

### ***JICA's Activities***

Compared to other policies, JICA has little technical assistance experience regarding start-ups and business innovation promotion in developing countries. On the other hand, responding to requests from partner governments, development studies on SME promotion in recent years increasingly includes

<sup>12</sup> Thailand, Indonesia, Malaysia and the Philippines



JICA has little assistance experience on the promotion of SME start-ups and business innovations. However, the need for these activities is high in countries with a certain level of industrialization.

Points of Concern in project formulation:

- Careful decision-making on cooperation scope
- Coordination with educational and research institutions on assistance

policy advice measures for start-ups and business innovation. On pilot projects for development studies, JICA has experience assisting in the enactment of business investment association laws by implementing training seminars for young managers and developing venture capital.

The following are important focal issues in project formulation.

### Careful Decision-making on Scope of Cooperation

Various measures and policies on R&D promotion activities and provisions of incubation facilities in collaboration with educational and research institutions are being implemented for business start-ups and business innovation. However, the effectiveness of these measures and policies takes time to assess. In addition, it is a fact that potential organizations and human resources providing technical assistance in this sector are limited. Taking into account these conditions, it is necessary to carefully plan the possible scope of cooperation when formulating projects. In addition, some developing countries that are at a stage where the fundamental know-how for manufacturing is lacking or where the provisions of risk money cannot be provided, have excessive expectations on SME start-ups and business innovations. Therefore, a careful decision-making on the scope of cooperation should be considered.

### Coordination with Educational and Research Institutions on Cooperation

Collaboration (human resources development and experimental research) between SMEs and universities and other educational institutions is important for business start-ups and business innovation. Since JICA implements different types of assistance to various universities and educational institutions, it is effective from the human resources development perspective to actively consider tying cooperation with the educational sector.

**Mid-term  
Objective 2-3:  
Development of  
Supporting  
Industries**

### Mid-term Objective 2-3: Development of Supporting Industries

**The fundamental cooperation approach for supporting industries is to improve industrial efficiency and foreign investment without taking a direct socio-political position aimed at industrial promotion as a whole. In addition, raising the level of individual enterprises is indispensable for the assistance to supporting industries. It is also important to provide development strategies that take into account trends in international private investment and the division of labor.** JICA has extensive cooperation

It is important when formulating strategies to be familiar with international private investment trends and the international division of labor.

experience in the development of supporting industries. After the late 1980s the importance of capacity building—particularly for local enterprises which supplied foreign assemblers with parts and components—increased rapidly in ASEAN countries where industrialization had advanced driven by foreign investment. Supporting industries are essential in order for developing countries to benefit from international investment and upgrade industrial structures. Also, foreign-affiliated manufacturers' ability to obtain low-costs and good quality parts and components locally is an important element to assure the competitive edge of the companies. In this sense, **this issue is one of JICA's assistance priorities.**

### **JICA's Activities**

Development of supporting industries is an important assistance issue on which JICA has a lot of experience.

Some of JICA's assistance regarding the development of supporting industries includes: **preparation of master plans for the promotion of supporting industries, strengthening of public technical assistance institutions to assist industries in the machine and metal sector, assistance with subcontract enterprises and the strengthening of cluster functions.** Representative examples of master plans are the development studies for the supporting industries in Thailand, Indonesia and Mexico. In addition, as cooperation to public assistance institutions, JICA has implemented Project-type Technical Cooperation with the casting technical center in Indonesia and the supporting industries center in Thailand. Although JICA has little experience strengthening the linkages between enterprises, it has provided training programs for subcontract enterprises coordinated with local technical colleges and Japanese enterprises, as well as a plan to strengthen the cluster functions in Indonesia.

The following are important focal issues in project formulation.

Points of Concern in project formulation:

- Discussions with counterparts on supporting industries promotion
- Coordination with the buyers

### **Verification of the Fundamental Concept of Promotion**

When formulating a project for the promotion of supporting industries, **it is important to identify the group of enterprises to be targeted.** JICA usually expects to promote supporting industries through technical assistance aimed at leveling up the industrial foundation. This may be achieved by incorporating local, small and medium manufacturers into the procurement networks, focusing on foreign assemblers. Therefore, the targeted enterprises are medium-scale firms (potential supporting industries) which have potential for participation on procurement networks within a short-term. On the other

hand, the governments in the developing countries rarely consider it appropriate that these medium firms be targeted for promotion. Since the perception gap between the Japanese side and partner side regarding target firms often appear at the implementation stage, **it is necessary to confirm the significance of promoting supporting industries when formulating a project.**

### Coordination with Buyers

To develop supporting industries, it is indispensable that assemblers (namely the buyers) collaborate with part suppliers or traders at higher levels. As international trade liberalization is accelerated, the buyers' supply of internationally competitive parts is of vital importance to the growth of the supporting industries. Therefore, it is important to consider **the implementation of a training program between the assemblers as the consumer and the parts suppliers** when developing supporting industries and public institutions that give assistance.

**Mid-term  
Objective 2-4:  
Development of  
Specific Sub-  
sectors**

### Mid-term Objective 2-4: Development of Specific Sub-sectors

Although overlapping with the development of supporting industries, it refers to development assistance to a specific type of industry (sub-sector) belonging to SMEs (manufacturing industry).

JICA's assistance has focused on making recommendations of specific promotion policies for the selected promising industry as part of a master plan for the SME promotion by a development study. On the other hand, in the context of industrial and export promotion, JICA has also provided technical assistance with the objective of developing a specific labor-intensive sub-sector such as textiles, carpentry, food processing, and leather. Regarding technical assistance for a specific sub-sector, services focus on the training of skilled workers through occupational training centers and the examination and testing of mobile technical services through technical support centers. In recent years, however, there has been an increase in cooperation for social development aimed at improving the administrative structure for training, the legal system, the tax system and trade and tariff policies.

As part of SME promotion, JICA provides Master Plans with promotion policy advice, training for skilled workers, technical services and system development for specified industries with potential.

The following are important focal issues in project formulation.

### Selection of Sub-sectors

It is necessary to have considerable knowledge on the structure of the division of labor in production on an international scale and on the competitive

Points of Concern in project formulation

- Selection of suitable sub-sectors
- Explanation to the World Bank and the IMF

**Mid-term Objective 2-5: Promotion of wholesale Business and Retail Sales**

Although JICA has little experience cooperating with wholesalers and retailers, it is necessary to study the possibilities of cooperation as they modernize and increase efficiency.

**Development Objective 3: Development of SMEs Contributing to Revitalizing Local Communities and Creating Employment**

The fundamental approach is to create employment opportunities and develop manufacturing industries that lead to exports through the full utilization of the local resources

environment of the industry of the targeted country when targeting a specific sub-sector for development. At the time of the project formulation, the way and the reasons why the sub-sector was selected for should be clearly stated. As the need arises, the research and the study to target a specific sub-sector should be done before the project formulation.

**Mid-term Objective 2-5: Promotion of Wholesale Business and Retail Sales**

JICA has little experience with technical assistance targeting wholesalers and retailers. JICA's technical assistance in this sector is limited because the development of commerce is generally heavily regulated by business customs and distribution systems specific to the targeted state. However, wholesale business and retail sales significantly influence employment. In addition, the distribution system greatly influences the price competitiveness of the manufacturing sector. Therefore, it will be important to examine the possible forms of cooperation regarding the modernization and efficiency of wholesalers and retailers utilizing information and communication technology (IT). In addition, it is necessary to present to the counterpart a cooperation policy that reflects the local conditions broadly dealing with community development, including the development of infrastructure. Grant Assistance for Grass-root Projects through NGOs and local governments should also be carried out.

**[Development Objective 3: Development of SMEs Contributing to Revitalizing Local Communities and Creating Employment]**

The targeted areas and the content of assistance vary with the degree of concentration of industries and local conditions. This development strategy deals with various types of small-scale businesses such as community-based manufacturers or shops. SME promotion aims to strengthen industrial competitiveness. **The fundamental approach is to create employment opportunities and develop a manufacturing industry that can lead to exports through full utilization of local resources.**

In the development of the local manufacturing industry and local retailing industry, JICA in principle focuses on basic issues for SMEs such as the strengthening of management resources and the revitalization of the concentration of industries. **It simultaneously examines promotion measures**

**Figure 4 Development Objective 3  
"Development of Small and Medium Enterprises Contributing  
to Revitalizing Local Communities and Creating Employment"**

<b>Mid-term Objective 3-1 Development of Local Manufacturing Industries (including processing of agricultural products)</b>			
<b>Indicators:</b> Trends in value-added production and gross production of the manufacturing industry concerned, Trends in number of businesses concerned			
<b>Sub-targets of the Mid-term Objective</b>	<b>Examples of Activities</b>	<b>Case No.*</b>	<b>JICA's Schemes</b>
<b>Planning of Promotion Strategy</b>	Planning of Master Plan	20	• Support for formulation of regional industry development plan (Development Study)
<b>Strengthening of Management Resources</b>	Promotion of consulting services for area of production × Research and Development on the utilization of local resources Market development Product development and sales promotion Manufacturing techniques Technical improvement of local workers	18, 32  30, 11, 35  31, 8, 29	• Establishment of SME examination system (Development Study and Dispatch of Experts)
<b>Revitalization of Exchange, Cooperation, Organization and Accumulation</b>	Establishment and promotion of local associations  Strengthening of cluster functions	25  25, 29	Support for formulation of a cluster function strengthening plan (Development Study) • Human resources development for government officials and business entrepreneurs (Training)
<b>Infrastructure Building</b>	Basic infrastructure building × Establishment of local industry complex		• Infrastructure building plans (Development Study and Grant Aid)
<b>Assistance for Market Securing</b>	× Support for establishment of trading houses		

<b>Mid-term Objective 3-2 Promotion of Micro and Domestic Industries</b>			
<b>Indicators:</b> Identification of local products, Sale trends, Availability and performance of funding institutions			
<b>Sub-targets of the Mid-term Objective</b>	<b>Examples of Activities</b>	<b>Case No.*</b>	<b>JICA's Schemes</b>
<b>Planning of Promotion Strategy</b>	Planning of Master Plan Preparation local industry resource map	31 31	Support for plan to promote traditional handicrafts (Development study)
<b>Product Development</b>	"One village, one product" campaign Enhance design ability	30, 31, 34	• Presentation of promotion method (Training)
<b>Promotion of Skilled Workers</b>	× Formation of mobile guidance system × Establishment of a skill training organization		
<b>Securing Routes</b>	Establishment and development of associations Invitations to traders	25	
<b>Preservation of Traditional Handicrafts</b>	Establishment of a relevant legal system	31	• Formation of a cluster function strengthening plan (Development Study)
<b>Supply of Funds</b>	Establishment of micro-finance		• Support for plan to promote traditional handicrafts (Development Study)

\*\*Case No." corresponds to the number in the list of relevant projects (see appendix 1.)

<b>Examples of Activities:</b>	JICA has considerable experience JICA has certain experience JICA has experience as a component of projects
×	JICA has little experience
<b>JICA's Schemes:</b>	A project which will potentially serve as a model for other similar projects

**taking into account regional characteristics.** In this regard, since it is necessary to have activities that are closely related to the region, the mobility and know-how of Japan Overseas Cooperation Volunteers (JOCV) and Overseas Senior Volunteers becomes useful. In addition, the Mid-Term Objective 3-2 “Promotion of Micro and Domestic Industries”, through the creation of non-agricultural employment opportunities, focuses on giving employment opportunities to the informal jobless. In contrast to the promotion of SMEs which targets firms with growth potential, this objective is more concerned with poverty measures in the least developed countries. Moreover, the approach is also closely related to rural development, literacy education and gender.

### ***JICA's Activities***

Although JICA has little experience in this field, its importance is increasing.

**JICA has little experience in this field. In recent years, the importance of assistance focusing on the rectification of disparity gaps, the development of industries utilizing local resources and poverty measures in rural areas has been dramatically increased.**

JICA's assistance in this field can be divided as follows.

First, through Development Studies, JICA gives policy advice on the formulation of development plans for SMEs in a specified area, the promotion of the local handicrafts industry and strengthening of cluster functions in the local production areas. This advisory cooperation often includes a pilot-type project implemented in a model area aiming to justify advice and to facilitate future project implementation. In addition, in many cases the study aims at raising the policy planning ability of local governments.

Second, JICA provides training for the SMEs/support organizations or trainers at the local level through the various aid menus including Project-type Technical Cooperation, Dispatch of Experts, training and volunteers. It also provides guidance and advice on improving management skills in specified production areas. Regarding the former, JICA has experience expanding the trade training center (established at the central level) to the localities and giving training to trainers from local governments and the Chamber of Commerce and Industry. Regarding the latter, examples are: the improvement of designing skills aimed at effective marketing, and the development of skills to introduce impressive products to the market.

Third, for the development of human resources in micro and domestic industries in rural areas, JICA dispatches Japan Overseas Cooperation

Volunteers(JOCV), implements JICA Partnership Programs and Community Empowerment Programs.

The following are important focal issues in project formulation.

Points of Concern in project formulation

- Regional integrated approach taking into account the local conditions
- Coordinate with NGO's and distributors and local educational institutions who have detailed knowledge of local conditions

**Importance of the Integrated Regional Development Approach**

In rural areas, to effectively utilize local resources, SMEs face various obstacles such as a lack of technology, lack of information on the methods of access to the market and a lack of capital for the implementation and maintenance of equipment and materials. Moreover, compared to cities there is an overwhelming deficiency in basic infrastructure such as roads, electricity and water. Infrastructure development cannot be developed in a short period of time. Thus, when examining the problems of SME promotion in local areas **it is essential to take an integrative approach to the development of infrastructure** and SME promotion. In addition, from the perspective of capital accumulation, the increase of agricultural production in rural areas is an important theme. **For SME promotion a regional integrated development approach reflecting local characteristics is most needed.**

**Coordination with NGO's Activities**

Regarding activities in the local areas, it is impossible to ignore the role of NGOs, which have an understanding of the socio-economic system and detailed information of local conditions. It is necessary to coordinate closely with NGOs from the start of project formulation. Especially regarding the development of micro and domestic industries, it is necessary to avoid overlapping where many NGOs are already implementing similar activities. In project formulation it is also important to consider assistance in the establishment of systems where distributors or local educational institutions can be utilized as BDS providers.

As it was discussed in chart 2-2, SME promotion has given emphasis to the “approach that promotes economic development including the upgrading of industrial structure through the assistance of SMEs with growth potential”. Each issue, in addition to JICA’s experience, is indicated in figure 5 in the following page.

In Figure 5, the horizontal axis divides the SMEs approaches discussed in part 1-2, which are “from the perspective of protecting the socially disadvantaged” and from the “promotion of SMEs with potential growth perspective”. The vertical axis, discussed in part 2-1 divides the issues for

SME promotion which are “issues regarding the business environment” and “internal issues within the SMEs”. As it is indicated in figure 5, JICA’s conventional approach to SME promotion is still stated as “the promotion of SMEs with growth potential” as the mainstay of its assistance. However, “from the perception of protecting the socially disadvantaged”, it is necessary to take an approach to rescue the vulnerable, which differs from the approach that aims to promote economic growth. JICA should engage in this field in the future in order to meet the needs of developing countries.

### JICA's Priority

Major issues responding to the objective of the SME promotion are examined  
Asia: strengthening of industrial competitiveness  
Africa: creation of employment  
Transitional economies: development of the private sector.

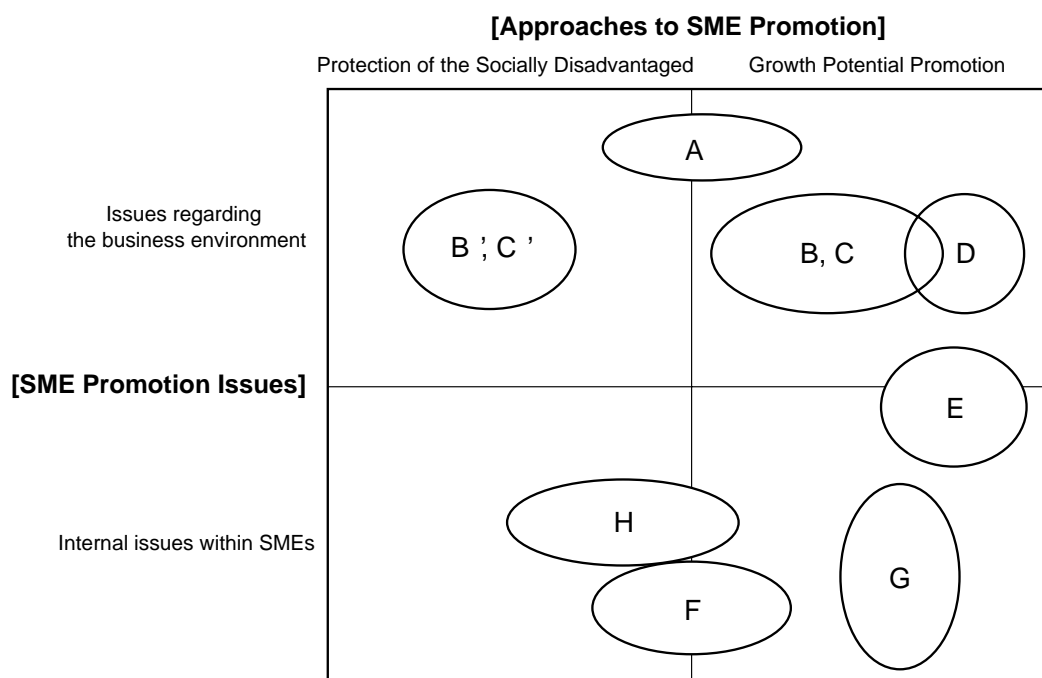
### 2-3-3 JICA's Priority

When giving assistance it is necessary to identify the objectives for SME promotion and carry out assistance that complies with those objectives. From the perspective of the assistance of enterprises with growth potential ability, **SME promotion aims to “increase industrial competitiveness (economic progress)” and “revitalize the local community, creating employment and income (stabilizing society)”**. Depending on which objective countries give priority to, the focus of cooperation also differs.

Previous experiences of cooperation show the following regional tendencies: strengthening of industrial competitiveness in Asia (e.g. promoting supporting industries in Thailand), creation of employment opportunities in Africa (SME promotion in Zimbabwe), and the development of the private sector in the transitional economies (development of the private sector in Armenia).



**Figure 5 Issue and Approaches for SME promotion**



**Issues**

**Development Objective 1**

- A. Elimination of System constraints and Regulations (JICA has little cooperation experience.)
- B. Policy-planning Promotion (In most cases upon project formulation JICA promotes SMEs with growth potential.)
- B'. (From the point of view of protecting the socially disadvantaged) Social policies and poverty measures
- C. Advice on financial-related systems and humandevelopment (Future project formulation on tax and accounting related systems)
- C'. (From the perspective of protecting the socially disadvantaged) credit assistance to micro and domestic Industries
- D. Development of intellectual infrastructure (JICA Is giving assistance In standardization systems,Intellectual property rights system and development ofvarious statistics)
- E. Promotion of trade and Investment (JICA carried out cooperation on human resources development in trade. However, in recent years it has begun providing cooperation on the execution of the WTO agreement)

**Development Objective 2**

- F. Strengthening of the Management bases (Many projects focus on strengthening public institutions by agreements)
- Management reform and promotion of start-ups (In recent years, rise of soft cooperation to governments)
- G. Development of supporting industries and specific sub-sectors (JICA has the most experience in this field. In recent years it has increased soft cooperation to the governments' support systems)

**Development Objective 3**

- H. Revitalization of the local community and increase in employment and income (JICA has little experience. Necessary to engage in the future)
- (From the perspective of protecting the socially disadvantaged)  
Assistance to the informal sector and others

### 3. Toward Future Cooperation

#### 3-1 Points of Concern

The following are JICA's points of concern when implementing cooperation towards SMEs:

Points of Concern
• Clear policy objective (economic development or social stability)
• Identify the economic and social environment regarding the fundamental framework
• Logical explanation of Japan's cooperation approach

#### Clear Policy Objective

At cooperation sites in developing countries, it has been seen that the promotion of SMEs themselves is likely to become an end and discussions about cooperation tend to focus on individual situations without sufficient discussion of background needs for development or the policy purposes. As defined in part 1-2, there are two different perspectives for SME promotion: “increase industrial competitiveness (economic development)” and “revitalize the local community and creating employment and income (social stability)”. First and foremost, the policy purposes and the significance of SME promotion (which is a mean realizing these purposes) should be clearly defined between Japan and the partner country. Otherwise, JICA's cooperation could very possibly be degraded, not accomplishing the original policy purposes.

#### Identification of the Fundamental Framework surrounding Business Activities and Socio-economic Environment

The socio-economic system in developing countries often vastly differs from that in Japan. As such, it is not relevant to consider the issues (including administrative issues) of SME promotion by extension of Japanese cases. That is, developing countries usually do not have the fundamental systems that are a prerequisite for the execution of SME promotion policy in Japan. Without these systems, other systems established by the cooperation would not be able to function effectively. Both duplicating the Japanese experience and adequately examining the measures that best fit the situation of the partner countries and beginning with the establishment of more fundamental systems should be considered for the cooperation.

#### Logical Explanation of Japan's Cooperation Approach

Japan's conventional cooperation for SME promotion mostly focused its approach on the type of public assistance to be carried out to solve the problems that SMEs were facing. Of the problems that SMEs faced, there was a basic acceptance that the government assistance was needed because the market

mechanisms could not solve SMEs problems. Based on this concept JICA set up benchmarks that defined the degree of the establishment of various supporting systems for SMEs in Japan. Measuring the actual degree of its establishment in partner countries, JICA's cooperation examined the methods to fill in the gap of this degree between them. The general methods that JICA took were to propose and implement public assistance or the establishment of other various systems as the framework for cooperation.

In contrast, donors such as the World Bank that typically emphasize market mechanisms take a different approach. There is no great difference between JICA and other donors in strengthening the capacity of SMEs, but the difference is seen in the areas and the degree that the government and the donors are involved. **The assistance approach taken by those donors is based on the concept that the role of the government is to establish systems so the markets can fully function. Their focal point is to develop a business environment friendly to small business. That is, these donors do not approve the concept that active public assistance from the government should be executed to small businesses as has happened in Japan.** In recent years the donors involved in the area of SME promotion have had a lively exchange of opinions and the approaches promoted by the major donors, including the World Bank, are now recognized as the standard for development assistance. In these circumstances, taking approaches different from the standard (in other words, if systems not emphasizing market mechanisms were introduced), would possibly invite a situation in which the understandings between the partner country and other donors would be difficult to establish.

As a result, based on Japan's experience developing effective SME assistance, it is necessary to logically explain the effectiveness of cooperation in an international language to the other donor countries and institutions.

### **3-2 Issues Toward Future Cooperation**

#### **Micro and Domestic Enterprises and Local Industry Promotion**

Japan's cooperation in this field to date has mainly targeted medium-sized enterprises and the promotion of supporting industries with the objective to upgrade industrial structures and competitiveness in developing countries. At the same time, in countries where the economy is underdeveloped, in most cases JICA expects to create employment opportunities. To correct the disparity gap it develops micro and domestic enterprises and local industries before

Future challenges

- Promotion of micro, and domestic industries and local industries
- Research on cooperation results and the improvement of intellectual assistance
- Promotion of the program approach

developing medium-sized enterprises and supporting industries. In recent years among the international donor community there is a tendency to promote SMEs from a view of poverty reduction, which generally makes micro and small enterprises the main beneficiaries.

In contrast, JICA has little cooperation experience in the promotion of micro and small industries and local industries. It is necessary to actively engage in the promotion of micro, small and local industries when conducting cooperation activities in this field in low-income countries.

### **Examination of the Cooperation Approach**

With increasing cooperation needs for SMEs, many donor institutions have engaged in cooperation in this field. In recent years, standard SME cooperation (being similar among donors) has taken a different approach from that of Japanese government, which conventionally provides direct support to counterpart governments based on experiences in Japan.

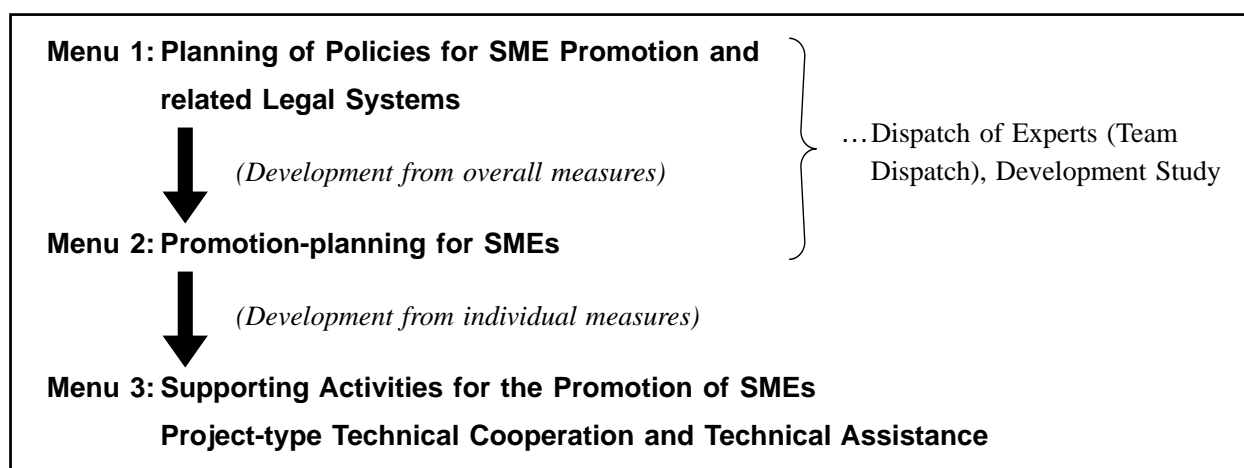
For the implementation of SME promotion in the future, it is necessary to have a logical explanation to gain an understanding of Japan's cooperation approach from the recipient countries as well as other institutions. It is also necessary to pay attention to discussion and collaboration among donor agencies.

**It is necessary to examine cooperation issues and the effectiveness of cooperation activities, to accumulate research and to hold discussions for the improvement of the intellectual cooperation of this field.**

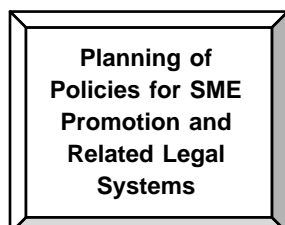
In addition, as there are increasing cooperation needs for SME promotion, various cooperation schemes are actively being developed in Japan. However, most cases are being implemented on an individual basis. **In the future, it is important to carry out coherent and harmonious cooperation from the program approach perspective.**

## Appendix 1. JICA's Main Operations in Small and Medium Enterprises Promotion

The following are the main cooperation menus regarding SME promotion.



The following is an explanation of characteristics and JICA's engagement in each menu. Case numbers correspond to project numbers in the annex, "Relevant Projects on the Promotion of SMEs".



After the late 1990s, an increase in demand for cooperation on developing policies and systems has led to the implementation of many projects over recent years.

### 1. Planning of Policies for SME Promotion and Related Legal Systems (Dispatch of Expert Teams and Consultants)... Case No. 1-10

Japanese experts and development studies provide advice on inclusive policies for the promotion of SMEs and cooperation to improve legal systems. In the late 1990s, an increase in demand from developing countries for cooperation on developing policies and systems led to the implementation of many projects over recent years.

*Cooperation of formulating inclusive policies and overall measures is usually focused on designing a basic law for SMEs and making recommendations on overall policies to promote SMEs.* The combination of experts such as academics and former high-ranking officials together with development studies is applied to implement these types of projects. Experts and consultants provide policy-advice on these types of projects by gathering information, exchanging ideas with relevant people, and organizing workshops/seminars regarding the SMEs of target countries. For example, a former director

of the Ministry of International Trade and Industry and a former professor of Waseda University were dispatched to Thailand and Indonesia as policy advisers. Their work involved planning a basic law and overall measures for SMEs, the core of SME promotion in both countries, which is serving well to guide the direction of later government SME policies. In addition, assistance on the development of the general business environment such as “legal systems” and “the market-oriented economic reforms” is being carried out. This type of cooperation approach is also being applied in Vietnam, Laos and Myanmar.

Policy and institutional assistance effective for countries undertaking social and economic development

Under this type of cooperation, before developing countries implement specific SME promotion policies, broad visions based on academic analysis are usually drawn up or there is assistance on establishing the foundations of the economic system, thereby providing a platform of SME promotion. *This cooperation is very effective as a first-step for countries that are in need of socioeconomic restructuring* such as transitional economies and ASEAN members in the wake of the Asian crisis. In addition, *to covering broad and difficult issues requires the ability to appropriately orchestrate different project participants* such as Japanese scholars/consultants, and scholars and government officials of developing countries, and based on these results, *it is important to examine how these relationships can cement SME promotion activities.*

Promotion-planning for SMEs

## 2. Promotion-planning for SMEs (Development Study, Dispatch of Experts)

In recent years, development studies have increasingly included the implementation of pilot projects.

As in Section 1 above, SME promotion studies sometimes include the design of inclusive overall measures. However, in principle, promotion studies aim to examine and propose specific measures toward issues or problems confronting SMEs, and also to propose specific implementation plans. In addition, in recent years, *development studies have increasingly included the implementation of pilot projects within the framework of studies, especially those with high priority.* This is due to the following two points. First, implementation of a plan to examine if the content (framework) and methods meet the conditions of developing countries and if necessary incorporate appropriate changes rather than simply replicate Japan’s experience. Secondly, due to the difficulty for developing countries to implement plans that have been proposed, capacity building assistance is needed until they are able to plan and operate projects independently. As concrete examples, *most assistance is provided to improve management resources for enterprises such as capacity*

*building of technical and management leaders, implementation of capacity building programs for entrepreneurs, and building of a matching system for trading and exchanging information on business alliances.* In recent years, *some have targeted system-related cooperation such as assistance on the establishment of venture capital systems and institutions.* Although pilot projects may be thought of as cooperation for “assistance-type activities”, which is similar to Project-type Technical Cooperation, they are really only experiment with the goal of “identifying a plan”. Thus, it can be categorized under the “planning-type” cooperation menu because this is not project-type technical cooperation. This type of cooperation can be divided into three areas depending on the project components.

Promotion plan  
for supporting  
industries

Promotion of supporting industries aims to strengthen industrial competitiveness. This is a distinctive character and the strength of Japanese assistance.

**2-1 Promotion Plan for Supporting Industries (Development Study, Dispatch of Experts)...Case No. 11-23**

*Promotion plans for supporting industries are designed to strengthen industrial competitiveness, targeting the implementation of promotion plans in small and medium manufacturing industries, which especially influence industrial competitiveness in developing countries.* In many cases, JICA selects various types of industries, carries out studies on present conditions, identifies problems, examines and plans measures on issues, and proposes realizable methods of executing these measures. This type of conventional cooperation method identifies problems of targeted industries through technical and management training to firms and in most cases measure responding to these problems are proposed to government institutions and firms.

*This method of assistance enables problems at targeted sites to be clearly recognized, and have in mind the formulation of promotion plans to solve these problems. This is a distinctive character and also one of the strengths of Japanese assistance.* On the other hand, *it has been pointed out that this method is heavily inclined to the viewpoints of the firms (micro level) and lacks a macro level view* such as structural problems and the business environment confronting SMEs. Thus examination of suitably balanced cooperation will also be required in the future.

Promotion Plan  
for Local  
Industries

**2-2 Promotion Plan for Local Industries (Development Study, Dispatch of Experts)...Case No. 24-29**

*Plans promoting local industries are aimed to vitalize local communities and create employment by analyzing SMEs from a regional perspective,*

Promotion-plans for local industries to revitalize local communities, and increase employment opportunities

*designing promotion plans targeting small, medium and micro enterprises including the non-manufacturing industries.* This type of cooperation focuses on socio-economic relations of local enterprises in the targeted areas, giving promotion advice to similar industries in the area as well as to groups of SMEs with linkages to those industries. (Cluster: condition where the competitive advantage of an industrial area is the core for periphery industries. This indicates the vitalization of a regional industry that is concentrated in a specified area and on a specified industry).

Although most European and American SME project donors take this approach, JICA has only begun to do so in recent years with limited implementation experience such as a planning for developing local industries in Thailand (1999), and strengthening cluster functions in Indonesia (2001). Therefore, it is important to accumulate the know-how of these approaches and promote appropriate cooperation, since requests for cooperation on developing local communities are expected to increase in the future.

**Individual Plan Measures**

### **2-3 Individual Plan Measures (Development Study, Dispatch of Experts)...Case No. 30-33**

Individual plan measures to focus on specific issues, and require a specific implementation plan

Focusing on specific issues, these types of cooperative plans involve individual measures for SMEs that are usually implemented after receiving recommendations from those in 2-1 and 2-2 above. In Thailand, after receiving the study results of “Policies and finances of SMEs” and “Project on the development of supporting industries”, experts on SME management consulting system were dispatched. In Mexico, after receiving the study recommendations of the “Master plan for supporting industry” on the technological transfer plan of materials (plastic molds, metal mold technology improvement plan), capacity training for SME consulting and certification system plans were implemented.

As discussed, development studies are not merely policy plans. In many cases the role of pilot projects are shifting from policy to execution. *When implementing individual measures, a specific implementation plan is required. In order to do so, JICA designs experimental plans with counterparts as pilot projects and promote their capacity building. Subsequently, JICA reflects these results to the final implementation plan of individual measures and support partner countries in the steady implementation.*



**Supporting  
Activities for  
the Promotion of  
SMEs**

Most assistance is provided on standard and certification systems, spreading technology, and improving management capabilities through capacity building.

**3. Supporting Activities for the Promotion of SMEs (Project-type Technical Cooperation)...Case No. 34-42**

This type of assistance goes a step further from development studies and pilot projects by focusing on planning and experimental implementation. As a model project it also provides assistance to SME promotion activities providing manpower and equipment/facilities in a long-term basis as a model project. *Most of the content of this assistance involves improving management resources such as system-related cooperation including assistance for standard and certification institutions, spreading technology concerning SME promotion, and capacity building.*

Considering future integration of budgets for Project-type Technical Cooperation, Dispatch of Experts, and an increase in the availability of flexible cooperation for “technical assistance projects”, it may be possible to cooperate specifically at a top level covering overall SME promotion, including establishing financial systems and institutions, and management support systems utilizing a wide range of human resources.

## Relevant Projects on the Promotion of Small and Medium Enterprises (SMEs) (Major Cases)

No	Country	Project Name	Period	Type of Schemes	Mid-term Objectives	Characteristics
<b>1. Planning of Policies for SME Promotion and Related Legal Systems (Dispatch of Experts, Development Study)</b>						
1	Thailand, Indonesia, Malaysia, The Philippines	The Capacity Building Program on the Implementation of the WTO Agreements	2001.7-2003.12 (Scheduled)	Development Study	1-5	To enjoy the benefits of a diversified international trading system, governments and private sectors of the developing countries are attempting to improve their operational abilities within the WTO (better understanding of agreements, preparation of domestic laws, improving information systems and dispute-settlement abilities).
2	Vietnam	Study on the Development of Industrial Standardization, Metrology, Testing and Quality Management	1997.2-1998.2	Development Study	1-4	A Master Plan was formulated based on analysis of industrial standardization measurement tests and quality management, as well as development strategies and policy reviews (institutional reform, recommendations on development of technical infrastructure for measurement and inspection, and advice on a specific industrial standardization plan, and measurement tests and quality management).
3	Vietnam	Study on the Promotion of the Small and Medium Scale Industrial Enterprises	1999.3-1999.12	Development Study	1-2, 1-3, 2-2, 2-3, 2-4	Preparation of a comprehensive Master Plan targeting small and medium manufacturing enterprises in transitional economies where basic policies or organizations do not exist for the promotion of SMEs.
4	Laos	The study on Special Economic Zone Development Plan in Border Area (Savannakhet Province)	2000.6-2001.2	Development Study	1-5	Due to construction of the "Second Mekong International Bridge" and the "East-West Corridor", Laos will have a dynamic market domestically and with neighboring countries, leading to expansion of economic relations. Given this situation, a plan was formulated to establish a Special Economic Zone to promote trade and investment, increase employment, and revitalize the regional economy.
5	Mexico	Engineering and Industrial Development Center for Small and Medium Scale Industries at Queretaro State	1998.2-2002.1	Project-type Technical Cooperation	1-4, 2-1, 2-3, 2-4	The counterpart organization (The National Industrial Technical Development Center) has provided appropriate technical guidance for material testing and nondestructive inspections of SMEs in the state of Queretaro and surrounding areas.
6	Venezuela	Study on Promotion of Small and Medium Enterprises	2001.1-2001.12	Development Study	1-2, 1-3, 2-2, 2-3, 2-4	As the industrial structure of Venezuela places a strong emphasis on primary natural resources including oil; recommendations were made mainly on industrial linkages in sub-sector promotion. Also, venture capital was established to provide guidance for a pilot project; contributing to the enhancement of industrial linkage.
7	South Africa	Policies for Promotion of SMEs	2000 (2.11-3.18)	Country-Focused Training	1-2	Japanese historical experiences and policies on SMEs, as well as industrial policy have contributed to building South Africa's policy planning capacity.
8	Hungary	Small and Medium-sized Enterprise Development Through Management Consulting and Training	2000.10-2002.10 (Scheduled)	Dispatch of Experts	2-2, 2-3, 2-4, 3-1	Assigned to the bureau of promotion for small-sized enterprises in the Ministry of Economics, an expert conducted a program to improve policy planning and coordination capacity to revive SMEs.
9	Multiple Countries	Antimonopoly Act and Competition Policy	2001 (8.27-9.30)	Group Training	1-1	Introduction of Japan's antimonopoly act and related legislation contribute to effective use of competition laws in the countries concerned, and are reflected in its enactments and amendments.
10	Multiple Countries	Small and Medium-sized Enterprise Development Policy Seminar	2001 (5.7-6.17)	Group Training	1-1, 1-2	Understanding the historical overview of policies on small and medium manufacturing in Japan, as well as specific effects and problems through seminars, field tours and discussions. These activities help to improve policy-planning capacity for SMEs.
<b>2. Promotion-Planning for Small and Medium Enterprises (Development Study, Dispatch of Experts)</b>						
<b>2-1 Promotion Plan for Supporting Industries</b>						
11	Indonesia	Human Resource Development in Trade Sectors	1997.3-2002.2	Project-type Technical Cooperation	1-5, 2-1, 2-4, 3-1	Assisted public pro-trade organizations develop human resources at SMEs for trading business.
12	Indonesia	12.1 The Study on the Development of Supporting Industry	1996.1-1997.3	Development Study	2-3, 2-4	Provided recommendations on promotion policies and measures for supporting industries.
		12.2 Follow-up Study Phase 1	1998.12-1999.6	Development Study	1-3, 2-3, 2-4	Recommendations of the previous study were re-designed due to the abrupt economic change in Indonesia due to the Asian Crisis. Study covered market trends as well as supporting industries.
		12.3 Follow-up Study Phase 2 (Export Promotion)	1999.7-2000.2	Development Study	1-5, 2-3, 2-4	Aimed to promote export-oriented SMEs. Recommendations made not only for the government, but also for the private sector on practical implementation of technical transfer and strategic promotion.
13	Indonesia	Promotion of SMEs	2000.1-2001.10	Dispatch of Experts	1-2, 1-3	Advised Indonesian Cabinet (officials) on overall SME policy. Although assistance was provided by JICA, it became widely known among other donors.

## Effective Approaches on the Promotion of Small and Medium Enterprises (SMEs)

No	Country	Project Name	Period	Type of Schemes	Mid-term Objectives	Characteristics
14	Thailand	14.1 Study on the Industrial Development, Supporting Industry	1993.9-1995.3	Development Study	2-3, 2-4	Provided recommendations on promotion policies and measures for supporting industries.
		14.2 Follow-up Survey of the above	1999.2-1999.10	Development Study	2-3, 2-4	Recommendations of a previous study were re-designed due to the abrupt economic change in Thailand due to the Asian Crisis. Study covered market trends as well as supporting industries.
15	Thailand	Development of Industrial Statistics	1998.8-2000.6 (Development Study) 2000.1-2002.1 (Dispatch of Experts)	Development Study, Dispatch of Experts	1-4	Planned industrial policy. Conducted survey on dynamic statistics of production for effective management, developed various indexes based on this survey, and provided guidance on statistical surveys.
16	Thailand	Policies and Finances of SMEs	1999.1-1999.6	Dispatch of Experts	1-2, 1-3, 2-3	Developed Basic Law and Promotion Plan for SMEs, as well as provided advice on overall SMEs policies.
17	Thailand	Investment Promotion	1999.4-2002.4	Dispatch of Experts	1-5	Provided policy advice and guidance for the Investment Committee (under Cabinet) to promote Foreign Direct Investment.
18	Thailand	Elaboration of an Evaluation System for SMEs	1999.7-2002.6 (Schedule)	Dispatch of Experts	1-2, 2-1, 2-3, 2-4, 3-1	Based on recommendations and results of Development Plan to promote industrial sector, Dispatch of Experts with Japan Overseas Development Corporation (JODC) and provided guidance on institutional design for counseling of SMEs.
19	Thailand	Tool and Mold Technology Development Project	1999.11-2004.10	Project-type Technical Cooperation	2-1, 2-3, 2-4	The Department of Supporting Industries Development under the Ministry of Industry, an official organization specialized in technical support, conducts technical transfer to offer high quality technical services for the Thai plastic molding industry.
20	Thailand	The Study on the Master Plan for Industries Development in the Provincial Clusters of Nakhon Ratchasima, Surin, and Chaiyapum	1999.11-2000.7	Development Study	1-2, 3-1, 3-3	The Development Plan of regional industry for small-scale household industry.
21	Mexico	Study on Master Plan for the Promotion of the Supporting Industries	1996.1-1997.3	Development Study	2-3	Recommended promotion policies and measures regarding SMEs that included supporting industries without restrictions on specific sub-sectors. First Development Study to use the PCM method.
22	Zimbabwe	The Master Plan Study on the Promotion of Small and Medium Scale Enterprises	1998.3-1998.11	Development Study	1-2, 2-4	Proposed a Master Plan to promote collaboration between the government and private sector. Action plan was created for promotion of the following industries: metal processing, food processing, fiber and fiber manufactured products, furniture.
23	Hungary	Promotion Plan for SMEs	2000.6-2000.11	Development Study	1-2, 2-1, 2-2, 2-3	Study for strengthening the industrial structure. Study areas cover supporting industries, financial assistance, human resources development, and IT. The pilot project implemented within the framework of this study justifies the recommendations made in the study. Moreover, the pilot project transferred technology for business entrepreneurs.
<b>2-2 Promotion Plan for Local Industries</b>						
24	Indonesia	Project on Supporting Industries Development for Casting Technology	1999.4-2004.3 (Scheduled)	Project-type Technical Cooperation	2-1, 2-3, 2-4	Development of human resources at the National Technical Institute aims to improve metal casting techniques of SMEs that constitute supporting industries.
25	Indonesia	The Study on Promotion SME Clusters	2001.10-2004.3 (Scheduled)	Development Study	1-2, 2-1, 2-2, 2-3, 2-4, 3-1, 3-2	Study aims to provide recommendations on policies, as well as transfer practical technology to beneficiary SMEs and management organization of the clusters through a pilot project. Study emphasizes the BDS approach and participatory methods that encourage wide involvement of stakeholders.
26	Malaysia	The Study on Strengthening Supporting Industries through Technology Transfer	2000.1-2001.2	Development Study	2-3	Strengthened supportive capacity of local governments and supportive groups, as well as enhanced the competitive edge of SMEs.
27	Thailand	Thailand Automobile Institute (TAI)	1999.12-2002.12	Dispatch of Experts	1-4, 2-1, 2-3, 2-4	Provided guidance and advice on industrial promotion strategies and examination services for institutes under the umbrella of the Ministry of Industry responsible for promoting production of automobiles and auto-parts.
28	China	Study on small medium Enterprise Development in Model Cities (Shenyang and Hangzhou)	2000.10-2001.12	Development Study	1-2, 1-3, 2-1, 2-2, 2-4	Assistance on the promotion of SMEs in provincial cities. Study make overall recommendations on the promotion of SMEs, and under the pilot project, emphasized capacity building of supporting organizations of SMEs including the private sector, as well as established information networking systems to promote exports and strengthen networking among organizations.
29	Multiple Countries	Enterprise Networking Regional Development	2001.10.23-12.11	Group Training	2-1, 2-2, 3-1	Introduced Japanese experiences of stimulating the regional economy through industrial development at the local level. Training focused on the significance of intercorporate networks.

## Approaches for Systematic Planning of Development Projects

No	Country	Project Name	Period	Type of Schemes	Mid-term Objectives	Characteristics
<b>2-3 Individual Plan Measures</b>						
30	Indonesia	Study on Master Plan on Design Promotion	1998.3-1999.10 (Development Study) 2000.8-2002.8 (Dispatch of Experts)	Development Study Dispatch of Experts	2-4, 3-1, 3-2	Examined current situation and identified problems with policies and institutions regarding the promotion and quality of design. Provided recommendations for further improvement.
31	Vietnam	Artisan Craft Development Plan for Rural Industrialization	2002.2-2004.2 (Scheduled)	Development Study	3-1, 3-2	First development study on the promotion of traditional industries. Research policy will place emphasis on the BDS approach as well as participatory methods.
32	Mexico	Study on Training and Certification System of Consultants for SMEs	2001.2-2001.12	Development Study	1-2, 2-1, 2-3, 2-4, 3-1	Study made recommendations on policies, especially on the introduction of a Certificate System of Consultants for SMEs, which is a promotion tools of SMEs. Through diagnostic checks on SMEs and training consultants through pilot projects, study recommended to establish a Certification System of Consultants for SMEs.
33	South Africa	Study on the Development of SMEs in Kwazulu-Natal State	2001.2-2002.3	Development Study	2-3	Formulated a Master Plan and Action Plan regarding SME policies toward the government. Targeted support industry was the machine industry.
<b>3. Supporting Activities for Promotion of SMEs (Project-type Technical Cooperation)</b>						
34	ASEAN Countries	Seminar on Administration for Rural/ Regional Development	2001 (8.20-10.7)	Group Training	1-2, 3-2	This training aims to foster further understanding of the participants on administrative approaches and various activities in regard to regional development. Training also aimed for participants to apply what they learned to regional promotion in their own countries.
35	Indonesia	Support for Small and Medium Scale Industries in Agribusiness	2001 (7.1-9.30, 1.1-3.31)	Country-focused Training	1-2, 3-1, 3-2	Targeted civil servants in Ministries dealing with the promotion of SMEs and for the management of personnel in the agricultural processed product sector. Discussions mainly focused on necessary action plans to develop SMEs and strengthen the competitive-edge of exports among domestic and local enterprises.
36	The Philippines	Modernization of Industrial Property Administration	1999.5-2003.5 (Scheduled)	Project-type Technical Cooperation	1-4	Aims to introduce an administrative operation system to modernize operational processing at the Industrial Property Administration (IPO). JICA has cooperated in human resource development to establish a database and administrative operation system necessary for efficient clerical work.
37	Vietnam	Legal and Judicial Cooperation	1996-2002	Dispatch of Team of Experts	1-1	Team provided recommendations on the development of various legislation (especially civil and commercial law to be introduced in the market economy) to address economic and social reforms and on human resources development in this area.
38	Brazil	Quality Improvement of Foundry Technology in Small and Medium Scale Industry	1997.3-2002.2	Project-type Technical Cooperation	2-1, 2-3	Provided training in small-scaled metal casting as well as technical assistance to improve technical services for the Marcelino Kohaji metal casting technical center, the only public occupational training organization in Brazil.
39	Jordan	The Project for a Specialized Training Institute in Hashemite, Kingdom of Jordan	1997.10-2002.9 (Scheduled)	Project-type Technical Cooperation	2-1	Aimed to develop instructors' skills at this school and foster qualified technical workers. To achieve this goal, project established a managerial and administrative system (implementing framework and training courses), provided facilities and equipment for training, and implemented adequate training courses.
40	Multiple Countries	Stock Exchange Seminar	2001 (10.11-11.3)	Group Training	1-3, 2-2	Course developed a better understanding of participants on the role, functions and management systems of stock markets and stock exchanges in Japan. Expected to contribute to the development of stock markets in their countries.
41	Multiple Countries	Seminar on Women's Entrepreneurship Development-Training for Program Managers	2001 (9.11-10.14)	Group Training	2-2	Trained program managers consistently responsible for program development, administration and management, to assist on the capacity building of female entrepreneurs which took place in the participants' countries.
42	Multiple Countries	Advocating a Law-Oriented Infrastructure to Promote Foreign Direct Investment	2001 (2.11-3.24)	Group Training	1-5	Provided participants with 1) specialized knowledge necessary for legislative preparation to promote Foreign Direct Investment, 2) knowledge on how to cultivate systems to attract investment, and 3) knowledge necessary to provide guidance to sections in charge of Direct Investment.

\* Figures in the column of "Mid-term Objectives" refers to those in Development Objectives Chart

## Appendix 2. Basic Checklist (Promotion of Small and Medium Enterprises)

The following are the major indicators in understanding the conditions and the degree of SME promotion in countries. As a result of the brief history of cooperation to the SME promotion sector, indicators for this sector have just begun to be developed. Currently the indicators for SME in the industrialized countries are compiled, but those in developing countries are not covered yet. Although the indicators are compiled, the definition of SME varies from country to country; there is not much meaning in simply comparing indicators of some countries. For this reason, the Japanese definition is shown here as a reference. However, the availability of most of the indicators exhibited here may be very limited in developing countries.

The JICA Mining and Industrial Development Study Department intends to conduct a study on indicators of SME in developing countries.

Check Items/Indicators	Case of Japan	Remarks
<b>System and Structure of SME</b>		
Definition of SME	Definition varies by type of industries; manufacturing, retail, services, and wholesale. Definition of manufacturing is; "A company or an individual that has capital funds or amount of investment of less than 300 million yen and less than 300 permanent employees."	For the promotion of SME, it is necessary to previously confirm the definition of SME in the targeted country. In some developing countries, there is no definition of SME or sometimes the definition varies among government agencies. Besides, the definition also varies in each country, which leads to the difficulty in comparing SME statistics between countries. The World Bank "classifies firms with fewer than 10 employees, with total assets and annual gross sales of less than US\$100,000 as "micro enterprises", firms with 10-50 employees, with total assets or annual gross sales of more than US\$100,000 but not over US\$3,000,000 as "small enterprises", and those with 50-300 employees, with total assets or annual gross sale more than US\$3,000,000 but not over than US\$15,000,000 as "medium enterprises". At least 2 conditions should be met for each scale of enterprise."
Small and Medium Enterprise Basic Law	Enacted in 1963	The law will specify the definition and basic policies of SME. However, in most of the developing countries, there is no law related to SME. Therefore, it is necessary to previously confirm whether or not there is a basic law on SME in that country.
Structure of SME promotion	SME Policy will be planned by Small and Medium Enterprise Agency and implemented by Japan Small Business Corporation	In most developing countries, there is still no integration in governmental system to plan and implement SME policies. Overlapping of SME administration in several government agencies could be seen, and it still takes time to plan and implement cross-ministerial policies.
Budget related to SME supporting measures	¥131.6 Billion	Small and Medium-sized Enterprise Agency, "2000 White Paper on Small and Medium Enterprises"
Number of employees engaged to SME supporting measures	Number of People	
<b>(Role of SME in production activities)</b>		
Number of SME (Percentage of SME to total number of enterprises)	6,456,723 enterprises (99.3%)	Small and Medium Enterprise Agency, "2000 White Paper on Small and Medium Enterprises" Of this number, 4,757,730 are small-sized enterprises*, which cover 73.2% of SME
Number of SMEs (Percentage of SMEs to total number of enterprises in manufacturing industry)	593,823 enterprises (88.9%)	Management and Coordination Agency, "1996 Establishment and Enterprise Census"
Value of shipment of SMEs manufacturing (Percentage of SMEs shipment value to total value in manufacturing industry)	1,579 Trillion yen (51.6%)	Ministry of International Trade and Industry, "1998 Industrial Statistics"
Value-added amount by SMEs manufacturing (Percentage of value-added amount of SMEs to total manufacturing industry)	642 Trillion yen (56.7%)	Ministry of International Trade and Industry, "1998 Industrial Statistics"

\* The definition of a small-sized enterprise for manufacturing is 1-19 employees, retail sales and services is 1-4 employees.

## Approaches for Systematic Planning of Development Projects

Check Items/Indicators	Case of Japan	Remarks
Investment in facilities in SMEs manufacturing (Percentage of investment in facilities in SME to total manufacturing industry)	4.904 Trillion yen (36.8%)	Ministry of International Trade and Industry, "1998 Industrial Statistics"
<b>(Role of SME on trade balance)</b>		
SME export value (Percentage of SME export value to total export value)	US\$ (%)	
SME import value (Percentage of SME import value to total import value)	US\$ (%)	
<b>(Competitiveness of SME)</b>		
Value-added production by SME (ratio of SME production to large enterprises fixing the production by large enterprises at 100.)	9,011,000 yen (49.8%)	Ministry of International Trade and Industry, "1998 Industrial Statistics" Value-added per employee
Amount of investment in facilities per employee (ratio of SME to large enterprises fixing investment by large enterprises at 100.)	1,248,000 yen (%)	Ministry of International Trade and Industry, "1998 Industrial Statistics"
<b>(SME Capacity of Labor Absorption)</b>		
Number of employees in SME (Percentage of SME employees to total number of employees)	44,492,576 People (77.6%)	Small and Medium Enterprise Agency, "2000 White Paper on Small and Medium Enterprises"
<b>(SME Linkages)</b>		
Percentage of sales by subcontracting	51.6%	Ratio of sales by subcontracting to total sales amount. There are vertical linkages represented by subcontracting and horizontal linkages represented by division of labor in process. However, the indicators for measuring horizontal linkages in Japan have not being compiled.
<b>(Dynamism of SME)</b>		
Percentage of start-ups	3.7% ('94-'96)	Number of start-ups/number of businesses in previous survey/ business years
Percentage of withdrawals	3.8% ('94-'96)	Start-ups ratio to increase ratio. High start-ups and withdrawals ratio indicates that the industry metabolism is high promoting the smooth conversion of the industrial structure.
Number of bankruptcies (Percentage of SME bankruptcies to total number of bankruptcies)	18,749 cases (98.7%)	Tokyo Shoko Research, Ltd. "1998 Japan's Business Failure"
<b>(Internationalization of SME)</b>		
Number of foreign investment	80 cases	Data sourced by Ministry of International Trade and Industry (1999)
Foreign investment amount	Yen	
<b>(Fund procurement of SME)</b>		
Equity ratio	11.9%	The Ministry of Finance, "1997 Financial Statements Statistics of Corporation by Industry"
Method of fund procurement		Although there is direct financing (issue of stocks and corporate bonds) and indirect financing (indirect loans from financial institutions) for funds procurement, indirect financing is mostly used in developing countries due to the underdevelopment of the market. In reality however, most SMEs in developing countries have access to capital through the utilization of private savings and loans from acquaintances and relatives while bank loans are rarely used because of credit difficulties and complicated loan procedures.
Percentage of amount of loans to SME in domestic banks	70%	Bank of Japan "1997 Economic Statistics Annual"
<b>(Organization of SME)</b>		
Number of cooperative business associations	39,655 cooperatives	Data sourced by Small and Medium Enterprise Agency (1997)
Number of members	person	
<b>(Research and Development of SME)</b>		
Percentage of enterprises conducting research and development	14.6%	Small and Medium Enterprise Agency, "Report on Basic Survey on Commercial and Manufacturing Structure and Activities" (1998)
Average of research and development expenses	37million yen	Small and Medium Enterprise Agency, "Report on Basic Survey on Commercial and Manufacturing Structure and Activities" (1998)
Percentage of research and development expenses in sales figures	2.8%	Small and Medium Enterprise Agency, "Report on Basic Survey on Commercial and Manufacturing Structure and Activities" (1998)
<b>(SME as Principal Actors of Local Economy)</b>		
Number of production areas	544	Ministry of International Trade and Industry, "1997 Industrial Statistics" The production areas referred here are as the same kinds of industries located in the same areas, utilizing management resources in relevant areas, and looking for the markets outside the area. Targets are areas with annual production of more than 500 million Yen. The definition of production areas varies depending on the country.

Effective Approaches on the Promotion of Small and Medium Enterprises (SMEs)

Check Items/Indicators	Case of Japan	Remarks
Number of SME in production areas (Percentage of the number of SME in areas of production to total number of small manufacturing)	66,219 enterprises (18.7%)	Ministry of International Trade and Industry, "1997 Industrial Statistics"
Number of employees in production areas (Percentage of the number of SME employees in production areas to total number of employees of small manufacturing)	667,358 people (9.3%)	Ministry of International Trade and Industry, "1997 Industrial Statistics"
Gross product of production areas (Percentage of SME gross product in production areas to total of small manufacturing)	¥12.8142 Trillion (7.8%)	Ministry of International Trade and Industry, "1997 Industrial Statistics"
Percentage of enterprise affiliated to the unions (associations)	%	

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- Tokyo Shoko Research, Ltd. (1998) *1998 Japan's Business Failure*
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*(SME-related Donor Agencies' Websites)*

<i>International Organizations</i>	<i>ADB Private Sector Group</i>	<i><a href="http://www.adb.org/PrivateSector">http://www.adb.org/PrivateSector</a></i>
	<i>APEC SME Network</i>	<i><a href="http://www.actetsme.org">http://www.actetsme.org</a></i>
	<i>Consultative Group to Assist the Poorest</i>	<i><a href="http://www.cgap.org">http://www.cgap.org</a></i>
	<i>EBRD Head Office</i>	<i><a href="http://www.ebrd.org">http://www.ebrd.org</a></i>
	<i>IDB SME Department</i>	<i><a href="http://www.iadb.org/sds/sme">http://www.iadb.org/sds/sme</a></i>
	<i>ILO (Bureau of Donor Assistance for Small Enterprises)</i>	<i><a href="http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm">http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm</a></i>
	<i>ILO SEED Bureau</i>	<i><a href="http://www.ilo.org/seed">http://www.ilo.org/seed</a></i>
	<i>Institute for SME Finance</i>	<i><a href="http://www.sme-institute.org">http://www.sme-institute.org</a></i>
	<i>OECD SME Bureau</i>	<i><a href="http://www.oecd.org/dsti/sti/industry/smes">http://www.oecd.org/dsti/sti/industry/smes</a></i>
	<i>The World Bank, SME Department</i>	<i><a href="http://www.ifc.org/sme">http://www.ifc.org/sme</a></i>
	<i>UNDP UNCDF Bureau</i>	<i><a href="http://www.uncdf.org">http://www.uncdf.org</a></i>
<i>UNIDO SME Bureau</i>	<i><a href="http://www.unido.org/doc/what.htmls">http://www.unido.org/doc/what.htmls</a></i>	
<i>Bilateral Organizations</i>	<i>AFD (France) Head Office</i>	<i><a href="http://www.afd.fr">http://www.afd.fr</a></i>
	<i>CIDA (Canada) Head Office</i>	<i><a href="http://www.acdi-cida.gc.ca">http://www.acdi-cida.gc.ca</a></i>
	<i>DANIDA (Denmark) Head Office</i>	<i><a href="http://www.um.dk/danida">http://www.um.dk/danida</a></i>
	<i>DFID (United Kingdom) Head Office</i>	<i><a href="http://www.dfid.gov.uk">http://www.dfid.gov.uk</a></i>
	<i>GTZ (Germany) Entrepreneurs Business Training</i>	<i><a href="http://www.gtz.de/cefe">http://www.gtz.de/cefe</a></i>
	<i>SDC (Swiss) Head Office</i>	<i><a href="http://www.intercoop.ch/sed">http://www.intercoop.ch/sed</a></i>
	<i>USAID Micro-enterprise Innovation Project</i>	<i><a href="http://www.mip.org">http://www.mip.org</a></i>
	<i>NGOs • Citizen's Organizations</i>	<i>AfricaDev.Net</i>
	<i>EnterWeb</i>	<i><a href="http://www.enterweb.org">http://www.enterweb.org</a></i>
	<i>Fundes</i>	<i><a href="http://www.fundes.org">http://www.fundes.org</a></i>
	<i>Intercooperation</i>	<i><a href="http://www.intercooperation.ch">http://www.intercooperation.ch</a></i>
	<i>SEEP</i>	<i><a href="http://www.seepnetwork.org">http://www.seepnetwork.org</a></i>
	<i>Swisscontact</i>	<i><a href="http://www.swisscontact.org">http://www.swisscontact.org</a></i>

## Development Objectives Chart on Promotion of Small and Medium Enterprises (1)

Development Objectives	Mid-term Objectives	Sub-targets of Mid-term Objectives	Examples of Activities
<b>1. Development and Operation of a Conducive Business Environment for the Growth of SMEs</b>  Trends in number of established SMEs (number of businesses established and closed) Trends in number of employees Trends in number of investment cases and amounts	<b>1-1 Elimination of System Constraints and Regulations</b>  Study of results on business -related regulations, enacted rules and regulatory environment Questionnaire of results to SMEs on the business environment	<b>Development of Economic and Business-related Legal System</b>  <b>Improvement of the Business Environment for SMEs</b>	Market entry (Corporate law), market transactions (Law of Obligations), withdrawal from the market (Bankruptcy Law), fair competition (Competition Law)  × Deregulation, statutory form, improvement of operations × Revision and institutionalization of business practices
	<b>1-2 Planning and Implementation of SME Promotion Policies</b>  Availability and content of the basic law on the promotion of SME Trends in number of institutions, agencies, employees and related to budgetary appropriation engaged in small business administration Availability and content of White Paper	<b>Enactment of Basic Laws</b>	Enactment of basic law
		<b>Capacity Building of the Government Administration and Human Resources</b>	Establishment of a cross-ministerial organization responsible for SME administration Human resource development of related administrative governmental officers × Publishing of "Small and Medium Enterprises White Paper"
		<b>Development of Provincial Networks</b>	Establishment of provincial networks for policy implementation Training of local government officials
	<b>1-3 Facilitation of Fund Supply and Enhancement of Equity Capital</b>  Trends in number of financing cases and loan amounts Trends in number of domestic investment cases and amount towards SMEs Questionnaire of results on the environment for procuring funds Trends in the number of corporations preparing financial statements	<b>Development of Corporate Accounting</b>	× Development of accounting systems × Development of human resources (accountants and tax accountants) × Formulation of entry incentives allocation system such as the income tax return system on the blue form
		<b>Development of Fund Supply Systems</b>	× Strengthening of financial intermediaries functions for private financial institutions Improvement of related legal systems such as the mortgage system Establishment of credit guarantee system Establishment of a policy finance institution for SMEs
		<b>Development of a Capital Procurement System</b>	Improvement and development of the capital market for SMEs Promotion of establishment of venture capital
		<b>Revision of related Taxation System</b>	× Development of tax system promoting investment in SMEs
	<b>1-4 Development of Intellectual Infrastructure for Industrial Activities</b>  Establishment of national specifications and standards (content and numbers) Presence of examination and test institutions and results of performance surveys Availability and reliability of statistics	<b>Development of a Standard System</b>	Formulation of a standard certification system Formulation of a measurement system Improvement of examination and testing capabilities
		<b>Development of Systems Protecting Intellectual Property Rights</b>	× Establishment of a relevant legal system Capacity building of executing a system
		<b>Development of Statistics on Corporations in Various Industries</b>	Development of statistics on SMEs and production
	<b>1-5 Improvement of Trade and Investment Systems</b>  Trends in trading amounts of SMEs Trends in cases and amounts of foreign investment in SMEs Questionnaire of results on trade-related regulations	<b>Deregulation of Trade Investment</b>	× Capacity building on planning and implementation of trade policies Improvement in execution of the WTO agreement
		<b>Cultivation of Foreign Markets</b>	Development of foreign market information service system × Organizing trade fairs Development of human resources in the trading business × Development of ICT infrastructure
		<b>Promotion of Foreign Markets</b>	Plan on foreign investment policy Establishment of special economic zones Training of government officials

<b>Examples of Activities:</b>	JICA has considerable experience JICA has certain experience JICA has experience as a component of projects × JICA has little experience
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## Development Objectives Chart on Promotion of Small and Medium Enterprises (2)

Development Objectives	Mid-term Objectives	Sub-targets of Mid-term Objectives	Examples of Activities	
<b>2. Development of SMEs which Increase Industrial Competitiveness</b>  Trends in value-added production by SMEs, and its proportion of GDP Trends in value-added productivity and its proportion of GDP Trends in export value of SMEs	<b>2-1 Strengthening of SME Management Capacity</b>  Results of management consulting study on management, technology and human resources Results of study on degree of satisfaction and utilization of services offered to companies Number of institutions establishing the Business Development Services Program and number of participants	<b>Strengthening of Management Resources</b>	Training of human resources for SMEs (universities, other educational institutions or occupational training schools) Guidance by public institutions on management know-how for enterprises Establishment and strengthening of public technical assistance institutions Development of public management consulting system × Private-based Business Development Service (BDS) for SMEs	
		<b>Revitalization of Exchange, Cooperation, Organization and Accumulation</b>	Establishment and development of business associations Promote partnerships between enterprises (Technical Cooperation and merger) × Establishment of SME industrial complex	
		<b>2-2 Promotion of Business Innovation and Business Start-ups</b>  Trends in number of business establishment and in number of companies changing business Trends in number of companies starting innovative businesses Study of results on the degree of satisfaction and utilization of various types of supporting systems	<b>Promote Creative Business Activities</b>	Development of relevant legislation (Investment Business Union Laws) Development of direct financial market Strengthening cooperation with universities and research institutions × Strengthening incubation functions Strengthening cluster functions
			<b>Business Innovation and Start-up Promotion</b>	Training on the principles of entrepreneurship Promotion of venture capital
			<b>Planning of Strategic Promotion</b>	Planning of Master Plan
		<b>2-3 Development of Supporting Industries</b>  Trends in number of enterprises, the value-added production and the number of employees in supporting industries Local content rate of export companies and assembly companies Study results on the degree of satisfaction and utilization of various types of supporting systems	<b>Strengthening of Management Resources</b>	【Refer to Sub-target of Mid-term Objective 2-1 (Strengthening of management resources)】 Training of technical experts (for the machine and metal industry) Promote the implementation of management consulting services Promote the implementation of mobile guidance service
	<b>Promotion of Linkages Between Enterprises</b>		Subcontractor promotion Offering of market information (reverse trade shows, etc) Strengthening of cluster functions	
	<b>Plan for Strategic Development</b>		Planning of Master Plan	
	<b>Strengthening of Management Resources</b>		【Refer to Sub-target of Mid-term Objective 2-1 (Strengthening of management resources)】 Training technical experts Promote management consulting services	
	<b>2-4 Development of Specific Sub-sectors</b>  Trends in number of companies in the sub-sectors, the value added production, and the number of employees Trends in export values Study results on the degree of satisfaction and utilization of various types of supporting systems	<b>Promotion of Linkages Between Enterprises</b>	Strengthening cluster functions	
		<b>Export Promotion</b>	Collect information from overseas markets × Establish export associations Product development and sales promotion	
		<b>2-5 Promotion of Wholesale Business and Retail Sales</b>  Trends in number of wholesale and retail sale enterprises and sales amounts	<b>Promotion of SME Wholesale Business</b>	× Logistics efficiency × IT utilization
			<b>Promotion of SME Retail Sales</b>	× Town management assistance × IT utilization (Product Proposal and Market Development)
	<b>3. Development of SMEs Contributing to Revitalizing Local Communities and Creating Employment</b>  Trends in value-added production and gross production of SMEs in targeted areas (compared to national levels) Trends in number of businesses established, new employees and unemployment in targeted areas (compared to national levels) Trends in per capita income in targeted areas (compared to national levels)	<b>3-1 Development of Local Manufacturing Industries (including processing of agricultural products)</b>  Trends in value-added production and gross production of the manufacturing industry concerned Trends in number of businesses concerned	<b>Planning of Promotion Strategy</b>	Planning of Master Plan
			<b>Strengthening of Management Resources</b>	Promotion of consulting services for area of production × Research and Development on the utilization of local resources Market development Product development and sales promotion Manufacturing techniques Technical improvement of local workers
<b>Revitalization of Exchange, Cooperation, Organization and Accumulation</b>			Establishment and promotion of local associations Strengthening of cluster functions	
<b>Infrastructure Building</b>			Basic infrastructure building × Establishment of local industry complex	
<b>Assistance for Market Securing</b>			× Support for establishment of trading houses	
<b>3-2 Promotion of Micro and Domestic Industries</b>  Identification of local products Sale trends Availability and performance of funding institutions			<b>Planning of Promotion Strategy</b>	Planning of Master Plan Preparation local industry resource map
		<b>Product Development</b>	"One village, one product" campaign Enhance design ability	
		<b>Promotion of Skilled Workers</b>	× Formation of mobile guidance system × Establishment of a skill training organization	
		<b>Securing Routes</b>	Establishment and development of associations Invitations to traders	
		<b>Preservation of Traditional Handicrafts</b>	Establishment of a relevant legal system	
		<b>Supply of Funds</b>	Establishment of micro-finance	