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# **Effective Support Approaches for Small and Medium Enterprises by Development Stages**

## **FINAL REPORT**

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**Japan International Cooperation Agency (JICA)  
Mitsubishi UFJ Research and Consulting Co., Ltd.  
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## PREFACE

Small and medium enterprises (SMEs) represent a significant share in economic activities of a country. A large number of developing countries put SME development as one of their highest priority issues. SME development is an important development agenda for both developing country governments and donor agencies as they share common vision that it contributes to overcoming many of the developmental issues in developing nations by strengthening industrial base, generating employment, developing local economy and accelerating transition to market economy.

Against this backdrop, Japan International Cooperation Agency (JICA) has been spearheading research activities on SME development on a variety of issues. These studies, however, have not provided much knowledge on methodologies to identify priority issues, develop effective programs and determine concrete measures of assistance according to development stages of a given country and particular situation of SMEs there. Without a proven methodology, JICA has had to apply project/program development methodologies on case by case basis to verify priority and effectiveness of requested project/program assistance in each of developing countries.

The Study is intended to provide staff in charge of project identification and development with a guide to prepare effective projects/programs best suited to stages of SME development. The Study builds on accumulated knowledge in SME development of some of the major studies of JICA since 2000.

The Study was commissioned by JICA to Mitsubishi UFJ Research and Consulting Co., Ltd. (MURC) and International Management Group, Inc. (IMG) as an input to consider development assistance policies of JICA. Accordingly, contents of the report do not necessarily reflect views and opinions of JICA.

This English summary report is a translation of Chapter 1 of the full report in Japanese language (The Study). The full report is written in such a way that reading Chapter 1 will suffice for identifying and developing project concepts. Other chapters of the full report are detailed discussion of each of the four issue categories discussed in Chapter 1 and two supplementary chapters (review of donor activities and SME development).

I'd like to thank all who extended generous cooperation to the conduct of the Study.

**Hiroyo Sasaki**, Director General, Economic Development Department, JICA

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## **1 Framework of the Study**

### **1-1 Background**

There is a renewed attention to small and medium enterprises (SMEs) within the context of recent debate of economic development of developing nations. Traditionally, developing country governments and donors alike assisted SMEs as one of the important targets of their support. Such assistance was justified because of the overwhelming weight of SMEs in national economy (see Chapter 7 of the full report), and the understanding that SMEs contribute to important development agendas of developing countries, e.g., employment generation, strengthening of industrial base and local economic development. More recently, SME promotion is seen as an important measure to achieve pro-poor growth within private sector development, increasingly converging SME development and private sector development.

Japan International Cooperation Agency (JICA) has accumulated knowledge on how to tackle different issues of SME development on the basis of a large number of SME development projects and research activities aimed at enhancing quality of support to SME development. The first major effort to systematize such knowledge was a 2000 study on SME development (“Renkei Sokushin Jigyo: Chushokigyo Shinko Bunya Chiteki Sien,” hereinafter the 2000 JICA study). Since then, JICA commissioned several studies in such themes as effective approaches to SME development, support to private sector development in low income and least developed countries, Japanese experience in building institutions of SME finance, and donor approach to capacity building in industrial development. Despite these efforts, formulation of SME development projects is still in need of further integration of knowledge in assessing and prioritizing relevant issues at JICA as well as technical expertise at country representative offices.

Change in geographical focus of development assistance calls for a new methodology for formulating SME development projects. More development resource of Japan flows to least developed countries (LDCs) and low income countries, driven largely by rising attention to Africa among donor communities. Many of these countries have different initial conditions from those of East Asian countries and do not follow the “flying geese” pattern of development commonly observed in East Asia. There is an increasing recognition that these countries demand development scenarios quite different from those applied to East

Asia. This indicates that experience of more advanced ASEAN nations are not necessary applicable to these countries. New approaches are called upon.

There is an increasing demand for project development guide to formulate project justifiable in international development context. It is because development assistance officers without SME development expertise need to do this task before mobilizing experts and consultants. They must explain sector-wise development assistance policy and strategy of Japan at SME/private sector working groups and like at PRSP (poverty reduction strategy paper) process and LCG (local consultative group of donors). Such occasions has increased since launching of the ODA Task Force of the Government of Japan. Harmonization of donor activities also requires justification of Japanese SME intervention. Vietnam, an important country of Japanese ODA, issued the Hanoi Core Statement on Aid Effectiveness, Ownership, Harmonization, Alignment and Results in response to 2005 Paris Declaration on the same issues.

## **1-2 Objective of the Study**

Objective of the study is to provide a guide for formulating programs/projects appropriate for particularity of SME development of given countries through analysis of generic process of SME development in developing countries, methods to assess SME development in developing countries with a set of clear criteria, practice of SME development assistance in developing countries, and effective assistance programs customized to particular situation of SME development in given countries.

## **1-3 Issue Categories and Target Countries**

Four issue categories have been identified to achieve the objective of the study. 21 developing countries have been selected to test development stage. Field trips were conducted in three Indochina countries (Vietnam, Laos and Cambodia) and South Africa to take a close look of thematic development stage and to review good practices of other donors.

Detailed reasons of selecting each of issue categories and target countries are as follows.

### **Issue Categories of SME Development**

Four issue categories have been identified: SME Policy, Institution and Business Environment; Business Development Services (BDS); SME finance; and Technology.

#### SME Policy, Institution and Business Environment:

The 2000 JICA study<sup>1</sup> hinted issues in SME Policy, Institution and Business Environment. It listed legal system and other conditions the World Bank considered necessary to develop and called them “*assistance to development of basic framework for enterprise development*.” Among those, we excluded macroeconomic stability and trade system, issues usually treated beyond SME development assistance, as well as those related to more generic legal system or finance. Another important area the 2000 JICA study also pointed was business environment such as company registration and licensing system. Doing Business, an annual business environment assessment report prepared by the World Bank was instrumental in convincing other donors that improving business environment (e.g., simplifying business startup and registration procedure, liberalizing licensing system and making these processes faster and less costly) is one of the important pillars of SME development assistance. In conclusion, we consider “policy” (whether the government has SME policy and strategy), “institution” (role and competency of government agencies and other organizations including private sector organizations, and “business environment” can be grouped together for this study.

#### Business Development Services (BDS):

BDS has become a standard element of SME development assistance in recent years. The 2000 JICA study cautioned that there was a widening gap between traditional Japanese approach and that of other donors because the latter assumed that business support services contributing to enterprise competitiveness are better provided through market mechanism. Another study of JICA reviewed other donors’ approach to BDS. It is important for this study to review latest BDS knowledge and reexamine traditional Japanese approach to guide formulation of BDS-type of projects.

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<sup>1</sup> The 2000 JICA Study recommended that Japan should accommodate the thinking of international mainstream (i.e., institutional approach with focus on market mechanism), identify in this context strength of supporting schemes and methods in Japan, and justify its logic in such a way understood by other donors. The same study argued for the need to differentiate assistance according to development stage, the main theme of this Study, referring to the grouping of countries by development stage by the World Bank. Furthermore, the 2000 JICA Study made detailed recommendations in four areas (“categories” in this Study) including “assistance in basic framework development that supports SME development,” “assistance in access to financing,” “assistance in access to market,” and “assistance in management and technological know-how.”

### SME Finance:

SME finance is a must issue area when considering SME development assistance. It was also discussed in the 2000 JICA study. This category includes institutional infrastructure related to finance, following the issue coverage of the JICA study on Japanese experience in building institutions of SME finance.

### Technology:

Technology is not always a component of SME development assistance of other donors, but deemed an important issue category because of following reasons. First, the experience of supporting industry development in East Asia and its transferability needs to be analyzed. The same analytical perspective was shared in a JICA study on support to private sector development in low income and least developed countries, but the study did not have focused analysis on technology aspect. Second, the 2000 JICA study proposed an optimal combination of Japanese bottom up approach intending to do problem solving at enterprise level, and market centered approach. Technology is considered a typical issue area of Japanese bottom up approach.

### **Selection of Countries**

21 countries listed in Figure 1 have been selected to gauge development stage of each. Selection criteria included 1) geographic distribution, 2) distribution across income level in terms of Gross National Income (GNI) per capita, and 3) countries with substantial JICA assistance.

Note that some of the selected countries did not have necessary data. The full report in Japanese suggested how to deal with limited data availability. See for example Chapter 3 of the full report.

**Figure 1 Countries Selected**

		America & Caribbean										
Region		East Asia	South-East Asia	Central Asia	South(-West) Asia	Middle East	East Africa	Central & West Africa	Southern Africa	Caribbean	South America	Eastern Europe
# countries	21	1	5	2	1	2	3	1	1	2	1	2
Classification by New DAC List	LDC	Cambodia		Bangladesh		Tanzania						
		Lao PDR		Uganda								
	Other Low Income Countries	China	Vietnam	Armenia		Kenya		Ghana		Nicaragua		Moldova
	Lower Middle Income Countries	Indonesia		Kyrgyz		Tunisia				Bolivia		Ukraine
	Upper Middle Income Countries	Malaysia				Turkey		South Africa		Mexico		

2004 GNP per capita for **LDC and Other Low Income Countries**: 825 US dollars or less.

2004 GNP per capita for **Lower Middle Income Countries**: between 826 and 3,255 US dollars.

2004 GNP per capita for **Upper Middle Income Countries**: between 3,256 and 10,065 US dollars.

Source: Study Team

#### 1-4 Hypotheses on Development Stage and Assistance

This study set four to five levels of development stages at each issue category on an assumption that effective assistance differs by development stage. The study did not presuppose general development stage of a given country because a country may have different development stages across issue categories. Prioritizing assistance takes into account uneven development among issue categories.

The category-wise development stage and prioritization of issues and assistance proposed in this study simply indicate overall logic. There is no judgment by rigid data analysis or dogmatic principles. The fact that particular category is deprioritized does not mean no assistance should be provided in the category. There may be occasions where synergy could be pursued together with high priority issues. Having said that, projects that go against suggested prioritization should be questioned. There may be cases where political reasons or other special situations make it difficult to address prioritized issues. In such cases, special reasons should be clarified before reconsidering priorities.



## **2 Development Stage in Each Issue Category**

In the following, category-wise development stages and their features are presented. Features of an issue category of given country may reflect not just particular development stage, but some of other development stages. Development stage is decided by features most prevalent in the economic development scene of the country.

### **2-1 Development Stages of SME Policy, Institution and Business Environment**

Development stages of SME Policy, Institution and Business Environment can be recognized in relation to development stage of “Actual Status of SMEs.” Figure 2 to 4 present development stages of: (1) Actual Status of SMEs, (2) Business Environment, (3) SME Policy and Institution. Note that not all countries need to move up to stage 4 and 5 of SME Policy and Institution. For example, small countries without conditions for developing full set industrial structure will aim at building SME sector consisting of stand alone, self-sustaining SMEs. In other cases, international inter-industry relationship of a given country will not require promotion of supporting industries or SMEs with export competitiveness as much as existing examples. Therefore, link between assessment of development stage and needs for SME development assistance may be limited to level 3 and lower, while SME development assistance of a country at level 4 or higher may vary.

**Figure 2 Development Stage of “Actual Status of SMEs”**

Dev Stage	Actual Status of SMEs (a) Significance of SME Sector in the economy (b) SMEs' educational and technical level (c) Access to financial sector (d) Linkage between companies
1	(a) Micro-enterprises and the informal sector are dominating the economy. Their productivity is low. (b) Most businesses are small and family-based. With their low educational level, they have difficulties even in book-keeping. They have never received any vocational training, and thus, do not have sufficient knowledge to identify and solve their problems. (c) With the businesses' limited cash flow, major capital investment is not expected, while access to the formal financial sector is practically impossible due to the businesses' informality. (d) There are neither vertical nor horizontal linkages between businesses.
2	(a) Although micro-enterprises and the informal sector are still dominating the economy, quite a few companies have been formalized. (b) Although the nation's educational level is relatively good, employment opportunities are still limited. (c) Although access to the formal financial sector is still limited, the informal financial sector is complementing the formal financial sector to some extent. (d) Some cases of vertical and/or horizontal linkages between businesses are observed.
3	(a) Formal SMEs are playing a certain role in the economy, and constitute a sector. (b) Although SMEs have minimum technical expertise and knowledge to survive in the economy, they lack managerial skills including marketing knowledge and production/quality control skills. (c) Although SMEs do have access to the formal financial sector, many of them cannot fulfill the conditions to borrow money. (d) Although various linkages between companies are observed, their effectiveness is limited.
4	(a) There are a significant number of SMEs that are growing into large companies or are securing a certain segment of the domestic market. (b) Although there are SMEs that have strong technical expertise, their products are not yet competitive in the global market in terms of quality and prices. (c) There are no significant impediments in the access to the financial sector for those SMEs that have sufficient skills and are producing competitive products. (d) A significant number of SMEs have increased their competitiveness by forming clusters and networks.
5	(a) There are a large number of competitive SMEs, and many of them supply their products in international markets. (b) Quite a few SMEs with high-level technical knowledge and expertise are manufacturing products of international standard. (c) Access to the financial sector is not difficult. (d) Many SMEs constitute supporting industries to large-scale companies or are taking part of an international network.

Source: Study Team

**Figure 3 Development Stage of “Business Environment”**

Dev. Stage	Business Environment (a) Registration, licenses and trade (b) Paying Taxes (c) Legal system and its implementation (d) Hiring and Firing
1	<p>(a) Administrative procedures for registering a company, obtaining/renewing licenses, and trading etc. are complicated and their transaction costs are significantly high. Combined with corruption, these hinder formalization of informal businesses.</p> <p>(b) The current taxation system constitutes a major constraint to formalization and growth of businesses. Taxes are shouldered only on a limited number of formal enterprises.</p> <p>(c) Individual property right is not necessarily secured while the judiciary system is not reliable. Fair competition between companies is not introduced while specific companies such as state-owned enterprises are favored. Commercial laws and their implementation are incomplete, which constitutes high risks to businesses.</p> <p>(d) Employers face a lot of difficulties in hiring and firing workers, resulting in widespread informal employment.</p>
2	<p>(a) Although administrative procedures for doing businesses are complicated and costly, they are more or less functioning. Government services are not user-friendly; e.g. there are no local offices for registering businesses. Corruption is still prevailing and thus requires an extra cost to businesses.</p> <p>(b) Although the taxation system is more or less acceptable to SMEs, procedures such as tax reporting are still cumbersome, and thus, their transaction costs are still high.</p> <p>(c) Although individual property right is mostly secured, the judicial system is not necessarily reliable. Although active competition among companies is observed in the market, there are deficiencies in the legal environment such as lack of the anti-monopoly law or bankruptcy law. Therefore, there are still risks associated with the insufficiency of laws.</p> <p>(d) Employers face difficulties in hiring and firing workers, hindering dynamism of SMEs.</p>
3	<p>(a) Administrative procedures for doing businesses are being simplified while there are few incidents of corruption.</p> <p>(b) The taxation system is being improved by the Government's efforts.</p> <p>(c) The judiciary system is reliable, although there is still room for improvement in terms of procedures and costs. Fair competition between companies is guaranteed by laws, although there is still room for improvement in implementing procedures. Risks caused by deficiencies in the judiciary system are practically small.</p> <p>(d) Although restrictions in hiring and firing workers are stronger than developed countries, they are not major constraints to SMEs.</p>
4	<p>(a) Procedures of company registration, licensing and trading are smooth while one-window services have been introduced.</p> <p>(b) The taxation system does not cause constraints in businesses.</p> <p>(c) There are no deficiencies in the judiciary system. Necessary laws have been put in place, and thus, there are practically no unforeseeable risks in legal terms.</p> <p>(d) Restrictions in hiring and firing workers are not a constraint to the development of SMEs.</p>

Source: Study Team

**Figure 4 Development Stage of “SME Policy and Institutional Framework”**

Development Stage	SME Policy and Institutional Framework
	(a) Existence and Implementation of SME Basic Law and other related Laws (b) Existence, Measures and Capacities of Government Organization in charge of SME Policy Planning and Implementation (c) Existence, Measures and Capacities of Public/Private SME Promotion Organizations
1	(a) There are no basic legal foundations for private business operation and no law-enforcement capacity of the government. (b) There is a limited consciousness of the importance of micro and SME promotion, but there is no integrated policy measures nor institutional mechanism. Organizational/institutional capacities of relevant government bodies are yet to be established. Economic and social policies focus on issues of poverty reduction and unemployment, in which promotion of micro and SMEs is limited to purposes of income generation in rural and agricultural societies. (c) There is no SME promotion organizations/agencies both in public and private sectors.
2	(a) Basic legal foundations for private business operation are prepared, but there is much contradiction on institutional framework and is no appropriate implementation capacity of the government. SME Basic Law is not yet prepared. (b) Although a certain level of policy framework and government organizations for micro and SME promotion are prepared, there is still weak organizational/institutional capacities for policy planning/implementation. Promotion of micro and SMEs is implemented in both urban and rural areas through industrial cluster approach targeted by specific policy objectives. (c) Some SME promotion organizations/agencies both in public and private sectors exist and function in a limited areas.
3	(a) Basic legal foundations for private business operation are already developed and implementing capacity of the government is at almost satisfactory level. Considerations and preparations for SME Basic Law are in progress. (b) Clear policy framework and government organizations for micro and SME promotion are developed, which have a definite capacity for policy implementation. Promotion of micro and SMEs is concretely planned and implemented for strengthening competitive advantages of SMEs by developing local industries, import-substituting industries, export-oriented firms and supporting industries, including efforts for upgrading industrial cluster development. (c) Many private SME promotion organizations such as commerce and industry associations and sector-wise industrial associations exist and work. Several public SME promotion agencies does exist, but function in a limited way.
4	(a) There are no fundamental problems on basic legal framework for private business operation, and SME Basic Law does exist. However, there are still some rooms for improvement in smooth/effective enforcement/implementation of laws/measures. (b) Government organizations having high implementation capacities are established, which conduct planning and implementation of much deeper and more detailed SME promotion measures. Particularly, planning and implementation of concrete measures to strengthen global industrial linkages (trade and investment promotion) are tried to develop, in which collaboration with private sector is considered important. (c) Many public/private SME promotion organizations exist, and they have a certain level of effective information/responsibility sharing and collaboration among them, but they have some rooms for improvement in implementing capacities of much advanced SME promotion measures.
5	(a) There are no problems on legal foundation and its enforcement for private business operation and SME activities. (b) Policies and measures to develop highly technologically advanced enterprises and to promote high level of management/technological innovation such as IT utilization in management, environmental protection and energy conservation, and risk management are designed and implemented. (c) Many public and private SME promotion organizations having high implementation capacities effectively work, which well prepare assistance measures on consulting services for business start-ups and management/technological innovation and on financing.

Source: Study Team

## 2-2 Development Stages of BDS

It would help us understand BDS development if we think of desirable situation in advanced nations. A desirable final form of BDS development is that support services are outsourced to specialized firms, allowing SMEs to concentrate resources to core businesses. SME entrepreneurs are usually required to take care of all areas of management due to lack of managerial resources. This bottleneck for growth can be addressed by leaving non-core activities to external professionals.

The situation of developing economies is far from this ideal situation. SMEs often purchase their own electricity generators and water tanks due to insufficient provision of basic utility services. SMEs hire costly accountant or owner-manager him-/her-self spend substantial time on accounting and tax matters in an absence of simplified tax

and accounting system for SMEs. Development stage of BDS presented in the following took into account such a situation of developing countries.

**Figure 5 Development Stages of BDS**

Development Stage	BDS-related Features
1	<p><u>Access to Basic Services</u></p> <ul style="list-style-type: none"> <li>SMEs access to most of basic services is limited, unstable and costly.</li> </ul> <p><u>Market-Based Provision of BDS</u></p> <ul style="list-style-type: none"> <li>Government failure (i.e., ineffective provision of BDS by government both in terms of quality and quantity due to budget constraints, mismatch with demand, inefficiency, and selection of beneficiaries on the basis of political interests and bribes.)</li> <li>Market failure (i.e., BDS market is not starting is development staying at a lower level than optimal demand-supply balance.)</li> <li>BDS provision by chambers and business associations remains low.</li> </ul> <p><u>Policy, Regulations and Recognition of the BDS Market Development Approach</u></p> <ul style="list-style-type: none"> <li>No policy development other than direct service provision and subsidies.</li> <li>No regulations that facilitate BDS market development.</li> <li>Regulations favorable to monopolistic public BDS providers and effectively limiting new formation of chambers of commerce and industries/business associations.</li> <li>Little recognition of the BDS market development approach.</li> </ul>
2	<p><u>Access to Basic Services</u></p> <ul style="list-style-type: none"> <li>Access to most of basic services is problematic despite improvements in selected services.</li> </ul> <p><u>Market-Based Provision of BDS</u></p> <ul style="list-style-type: none"> <li>Private BDS providers in SME market largely depend on donor funding.</li> <li>Chambers of commerce/industry and business associations either provide BDS or facilitate BDS provider development with support of donors.</li> </ul> <p><u>Policy, Regulations and Recognition of the BDS Market Development Approach</u></p> <ul style="list-style-type: none"> <li>BDS providers, chambers and business associations recognize the BDS approach and start planning commercially sustainable service provision.</li> </ul>
3	<p><u>Access to Basic Services</u></p> <ul style="list-style-type: none"> <li>Improved access to nearly half of basic services.</li> </ul> <p><u>Market-Based Provision of BDS</u></p> <ul style="list-style-type: none"> <li>Demand and supply of fee-based BDS expand.</li> <li>Emergence of commercially viable BDS providers graduating from donor support, either private enterprises, chambers, associations or NGOs.</li> </ul> <p><u>Policy, Regulations and Recognition of the BDS Market Development Approach</u></p> <ul style="list-style-type: none"> <li>Policymakers and regulatory agencies share the view of the BDS approach and start reflecting it in policies.</li> </ul>
4	<p><u>Access to Basic Services</u></p> <ul style="list-style-type: none"> <li>Major problems remain in a few areas while access to most of basic service has been improved.</li> </ul> <p><u>Market-Based Provision of BDS</u></p> <ul style="list-style-type: none"> <li>Number of commercially viable BDS providers increase in SME market.</li> <li>Public provision of BDS plays limited, complementary role to private sector BDS.</li> <li>Service provision by chambers and associations reduces in relative terms, leaving more space for individual businesses providing BDS.</li> </ul> <p><u>Policy, Regulations and Recognition of the BDS Market Development Approach</u></p> <ul style="list-style-type: none"> <li>The BDS approach is widely recognized by both public and private stakeholders, leading to increasingly clearly separated roles of each.</li> </ul>
5	<p><u>Access to Basic Services</u></p> <ul style="list-style-type: none"> <li>Basic services are universally and stably available at affordable cost.</li> </ul> <p><u>Market-Based Provision of BDS</u></p> <ul style="list-style-type: none"> <li>Market-based BDS is competitively provided.</li> <li>Public sector basically disengages itself from commercial type of BDS and focuses on R&amp;D or educational/human resources development not provided in the market.</li> <li>Chambers and associations leave BDS to specialized individual providers, focusing instead on information provision and policy dialogue with the government.</li> </ul> <p><u>Policy, Regulations and Recognition of the BDS Market Development Approach</u></p> <ul style="list-style-type: none"> <li>Public and private sector collaborate for developing and implementing BDS promoting</li> </ul>

	<p>policies.</p> <ul style="list-style-type: none"> <li>• Appropriate regulations and quality control by the government or self-regulation by industry associations.</li> <li>• All stakeholders recognize market led by commercial BDS providers natural and desirable for service improvement. Differentiated roles of government and private sector are firmly established.</li> </ul>
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Source: Study team

## 2-3 Development Stages of SME Finance

The first stage (early stage) of development in the SME Finance is put as the current status of the most underdeveloped countries among the 21 countries studied instead of complete underdevelopment of financial institutions. It is because the latter is not a realistic situation even among LDCs. On the other hand, it is easy to assume the final stage where economy and financial market are working most efficiently and effectively under the market principles, thus the stage represents a nearly ideal situation.

The third stage is defined as in-between stage of the first stage and the fifth. The characteristics of the third stage are derived from some similar countries of which characteristics are evidently recognized as commonly intermediate ones between the first and the fifth, and then some specific factors of each country are partially added. As for the second and the fourth stage, the stage of which characteristics are nearer to the first stage compared with the third stage is defined as the second, and the stage of which characteristics are nearer to the fifth stage compared with third stage is defined as the fourth. Major characteristics and indicators by which a stage can even partially be imagined are described as examples at the right column of each category.

Note, however, that actual process of development of financial sector in a country does not always trace the abovementioned stages in sequence; in reality, the process is heavily influenced by international economic environment and idiosyncratic socioeconomic conditions of the country.

**Figure 6 Stage of development of small business finance**

Stage	SME Finance-related Features
1	<p><u>Current status of financial services</u></p> <ul style="list-style-type: none"> <li>• Time constraints and financial burden attributed to registration of incorporation and pledge of collateral are distinctly heavy to entrepreneurs.</li> <li>• Financial institutions (FIs) have quite limited number of branches and many are concentrated into large cities. They are reluctant to spread out their branch networks into rural area.</li> <li>• It is distinctly limited for companies to access to FIs except formal or informal microfinance institutions (MFIs).</li> <li>• Both loans and deposits with FIs are mostly concentrated in big cities or particular area and</li> </ul>

	<p>loans balance compared with deposit in rural area is negligibly small.</p> <ul style="list-style-type: none"> <li>• Governmental FIs monopolize services. Quality of their services is lower and their cost is extremely more expensive than those of private commercial banks (in regular market economies).</li> <li>• Deposit interest rates are kept extremely lower compared with the level of CPI, or there are explicit or implicit guidelines of a supervising authority to keep lower interest rate on loans applied to SMEs.</li> <li>• There are big differences between average interest rate of deposits and that of loans. Loan to deposit ratio is extraordinarily small. Confidence in FIs is very poor.</li> <li>• Deposit reserve requirement ratio imposed on FIs is often kept at unusually high level. Share of deposit balance contained within banking system against M1 remains at unnaturally low level.</li> <li>• Share of loans extended by governmental/public institutions is generally big compared with total loans of financial institutions. NPL ratio remains high.</li> <li>• Credit analysis skills are very poor that whether applicants are able to pledge enough collaterals is the sole standard to grant credit facility.</li> <li>• There is no credit guarantee corporation, or such a small one that number of beneficiary firms is quite small.</li> <li>• Management of credit guarantee corporation is unstable, prone to political intervention and in chronic deficit.</li> </ul> <p><u>Financial requirement</u></p> <ul style="list-style-type: none"> <li>• There are few SMEs which are able to finance in the formal financial market and the amount procured in the market is substantially smaller than that they actually need.</li> <li>• Most FIs are informal and their operation scarcely studied.</li> <li>• Informal FIs in rural area or poor district are small and organizationally fragile.</li> <li>• Regardless of size of companies, few SMEs prepare financial statements.</li> <li>• Accounting audit by accountant is not mandatory, auditing system not well developed and auditability poor.</li> <li>• Most SMEs are cautious to disclosure of information because it could result in arbitrary imposition of various taxes.</li> <li>• Few SMEs prepare business plan.</li> </ul> <p><u>Monitoring and Supervision of FIs</u></p> <ul style="list-style-type: none"> <li>• Financial supervision agency has an office only in capital city, and is solely engaged in inspection of major FIs and has little information about business status of small and medium FIs in rural area.</li> <li>• Financial supervision agency is inexperienced, its manager part-time, and number of staff far below that of authorized positions.</li> <li>• Agency in charge of inspection has poor inspection know-how and expertise, and their policies lack consistency.</li> <li>• There is not consistency in inspection items as well as inspection policies. The assessment of inspection is often forced to be modified because of bribe or pressure from politicians.</li> <li>• Definition of non-performing loans (NPL) is vague or spoiled from the view point of soundness of assets, and periodical report on NPL is not requested by competent authority.</li> <li>• FIs are not statutorily requested to submit their business reports and closing statements. Competent authority lacks experts who are able to analyze reports and statements.</li> <li>• Due to undeveloped relevant laws, roles and supervisory authorization of central bank is unclear and their competence is heavily overlapped with that of other supervising authorities.</li> <li>• Due to vague legal stipulations of bank law about scope of services and duties of FIs, arbitrary judgments of competent authority in banking supervision are often pointed out.</li> <li>• Legislation concerning insolvency or bankruptcy is not generally prepared. If prepared, relevant legal provisions are vague and procedures are so complicated.</li> <li>• It takes long time to dispose collaterals. Judicial decision is not well enforceable; consequently confidence in court is poor.</li> <li>• Accounting standard is not familiar with SMEs because it falls behind the modernization or is an unprocessed imitation of a foreign country's system.</li> <li>• Almost all SMEs do not conduct accounting audit. Accountants are short in number and quality.</li> <li>• No SME is willing to disclose financial and business information, thus banks are forced rely on interview and internal record of SMEs. Many companies keep two accounting books.</li> </ul>
2	<p><u>Current status of financial services</u></p> <ul style="list-style-type: none"> <li>• It is relatively easy to register incorporation. However, it is still quite heavy to pledge collateral for individual companies because of time constraint and financial burden.</li> <li>• Size of banks is becoming bigger and number of their branches is gradually increasing. Their branch networks in rural area are slowly expanding.</li> <li>• Outstanding balance of loans and deposits with financial institutions, both are still concentrated</li> </ul>

	<p>in big cities or particular area. But, loans balance in rural area is slowly increasing, especially in smaller sized one.</p> <ul style="list-style-type: none"> <li>• Governmental financial institutions are gradually losing their monopoly position due to rise of private commercial banks and non-banking institutions. Consequently, services competition has partially begun, but service cost is still relatively expensive.</li> <li>• Competent authority instructs financial institutions to keep deposit interest rates at lower level than that of CPI, or to control interest rate of loans supplied to SMEs at lower level.</li> <li>• There is still relatively big difference between average interest rates of deposits and those of loans. Ratio of loans to deposits is generally small.</li> <li>• Deposit reserve requirement ratio imposed on financial institutions is often kept at high level. Share of deposit balance contained within banking system against M1 remains at generally low level.</li> <li>• In some countries, share of loans supplied to governmental/public institutions is high compared with total loan extended by financial institutions and NPL ratio is left at high level.</li> <li>• Although efforts to improve ability of credit analysis have begun, the level of ability is still low. Therefore, if applicants afford to pledge enough collaterals is one of the main criteria to grant credit facilities to them.</li> <li>• Although credit guarantee corporation has been established, it is small in size and limited number of companies is actually able to access. Further, it is confronting various many management issues.</li> <li>• Management of credit guarantee corporation is unstable, and it tends to be influenced by pressure of politicians.</li> </ul> <p><u>Financial requirement</u></p> <ul style="list-style-type: none"> <li>• Although number of SMEs which finance in the formal financial market is slowly increasing, most of them are still financing in the informal market.</li> <li>• MFIs are becoming big players in the field of corporate finance, however, they are mixed, some are formal institutions and others are informal.</li> <li>• Although formal financial institutions have begun to establish branch networks in rural area, this movement is still limited. Small-scale informal financial institutions are still dominating in rural area or poor district.</li> <li>• Relatively large-sized SMEs prepare financial statements.</li> <li>• Accounting audit by accountant commences and development of auditing system is also begun.</li> <li>• Most SMEs remain cautious about disclosure of information in fear of arbitrary imposition of various taxes.</li> <li>• Few SMEs prepare business plan. Some of SMEs entrust outside consultant with preparing business plan for a special purpose. However, such business plan is scarcely utilized.</li> </ul> <p><u>Monitoring and Supervision of FIs</u></p> <ul style="list-style-type: none"> <li>• Competent authority of FIs is engaged in grasping current business status of FIs in rural area and slowly begins inspection for these financial institutions.</li> <li>• Although number of staff of authority in charge of inspection is increasing, there are few experts, and their policies often lack consistency.</li> <li>• Authority begins to make efforts to maintain consistency of inspection items with their policies and to ensure neutrality of inspection.</li> <li>• Efforts to avoid vagueness of definition of NPL and to fit the definition with international standard are commenced. Although competent authority begins to instruct FIs periodical report, analysis of submitted reports and its useful utilization is a new issue.</li> <li>• Although competent authority begins to statutorily request FIs to submit business report and closing statements, it has limited number of experts who are able to analyze such reports and statements.</li> <li>• Development of relevant laws begins in order to clarify roles and supervising authorities of central bank and to eliminate overlapped competence with that of other supervising authorities.</li> <li>• Establishment of bank laws or amendment commences in order to clarify scope of business of FIs and their duties and to eliminate arbitrary judgment by competent authorities.</li> <li>• Development of legislation concerning insolvency or bankruptcy commences, but operation and effectiveness of such legislation are limited because of constraint of organization and human resources.</li> <li>• It takes still long time to dispose collaterals. Measures to establish confidence in judgment of court and to strengthen enforceability of its judgment begin.</li> <li>• Accounting standard which is actually used in business is still out-of-date. The government takes initiative to promote modernization of accounting standard.</li> <li>• SMEs, mainly medium sized ones, commence implementation of accounting audit; however increment of number of accountant is the first issue to be solved.</li> <li>• Most SMEs disclose only the least financial and business information. Banks still mainly depend on information collected by hearing and internally accumulated data. Many prevailingly keep</li> </ul>
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	<p>two books.</p> <ul style="list-style-type: none"> <li>• The second stage is considered as start up to the third</li> </ul>
3	<p><u>Current status of financial services</u></p> <ul style="list-style-type: none"> <li>• It is easy to register incorporation. Reduction of time constraint and financial burden for pledging collateral is gradually progressing.</li> <li>• Local commercial banks which are expected core financial institutions grown in size and gradually develop their branch networks in rural area. Consequently, more than half of people appreciate financial services of formal financial institutions.</li> <li>• Downsizing of banks (i.e., move to smaller business market) and upgrading of MFIs (i.e., move to SME market) commence. Although transactions of loans as well as deposits with FIs are still concentrated into big cities, increment of loans and deposits is recognized in rural area.</li> <li>• Due to development of private commercial banks and non-bank financial institutions (MBFIs), governmental FIs are gradually losing their shares except that of the special fields. Competition of quality of services becomes stiff. Bipolarization of FIs becomes obvious.</li> <li>• Free competition among financial institutions is gradually thoroughly implemented. Restrictions on interests of loans and deposits are lifted one by one, and interventions of competence authorities which might run counter to free competition decrease.</li> <li>• Difference between average interest rates of deposit and those of loan diminishes. Ratio of loan/deposit is about 0.8 to 0.9, and it is sometimes more than 1.0.</li> <li>• Deposit reserve requirement ratio imposed on financial institutions is generally kept at lower level. The share of deposit balance contained within banking system against M1 is kept at more than 50%.</li> <li>• Share of loans extended to private sector become more than half. NPL ratio shows generally downward trend, though there is variation among countries.</li> <li>• Credit analysis skills improve, and banks partially commence to grant loan facilities based on cash-flow analysis on borrower or those without collateral.</li> <li>• Credit guarantee corporation is being enhanced both in size and functions. Consequently number of micro and small enterprises which appreciate credit guarantee gradually increase.</li> <li>• Owing to the substantial assistance of government to the management of credit guarantee corporation, their managerial stability is enhanced and confusions due to pressure of politicians decrease.</li> </ul> <p><u>Financial requirement</u></p> <ul style="list-style-type: none"> <li>• Although some SMEs still mainly finance in the informal market, majority also finance in the formal financial market.</li> <li>• Majority of MFIs are formal financial institutions and play big roles in the field of finance to micro and small enterprises.</li> <li>• Formal financial institutions are actively establishing branch networks in rural area. Consequently, access of people either in rural area or in poverty area to financial institutions progresses.</li> <li>• Except certain enterprises, majority of businesses are obliged to prepare financial statements and to submit audited statement of accounts. However, reliability of such statements is still an issue.</li> <li>• Statement of accounts is needed to be audited by accountant. Therefore, enhancement of auditing system and training of auditors are important issue.</li> <li>• Some SMEs are still afraid that disclosure of information results in arbitrary imposition of various tax.</li> <li>• Majority of SMEs prepares business plan for certain purposes, receiving support of outside consultant. However, practical use of the plan is a remaining issue.</li> </ul> <p><u>Monitoring and Supervision of FIs</u></p> <ul style="list-style-type: none"> <li>• Competent authority mostly grasps current business status of MFIs and FIs in rural area and begins regular inspections and instructions for these financial institutions.</li> <li>• Number of staff of competent authorities increases, and authorities conduct training of experts. Consequently, inconsistency of their policies decreases.</li> <li>• Clear direction for inspection items together with their policies is established and the neutrality of inspection is generally ensured.</li> <li>• Definition of NPL conforms to international standard. However, assurance of conformity in each financial institution is a new issue. Analysis of periodic reports improves and policies based on analysis are taking root.</li> <li>• Although competent authority implements policies based on analysis of business reports and closing statements submitted by FIs, to assure timeliness, effectiveness and consistency of policies and to train human resources for such assurance are remaining issues.</li> <li>• Development of relevant laws to clarify roles and supervising authority of central bank and to eliminate overlapped competence with that of other supervising authorities is mostly completed.</li> <li>• Establishment and/or amendment of bank law or relevant laws to clarify scope of business of FIs and their duties are mostly completed. However, assuring stable implementation of such legal</li> </ul>

	<p>systems is still an issue to be resolved.</p> <ul style="list-style-type: none"> <li>• Although development of legislation concerning insolvency or bankruptcy is generally conducted, but to enhance relevant organization and human resources remain and to manage effectively the legislation are remaining issues be solved.</li> <li>• Owing to development of infrastructure for FIs, factors from which moral hazards of banks (lenders) and borrowers might derive decrease.</li> <li>• Time needed to dispose collaterals is generally shortened, and confidence in judgment of courts gradually improves. But, to strengthen enforceability of judgment of court is not yet well assured.</li> <li>• Government-led modernization of accounting standard is nearly completed. However, to apply the standard in manner of fitting current status of SMEs, is an issue to be solved</li> <li>• Many SMEs, primarily medium sized SMEs, commence implementation of accounting audit. However, expansion of targeted companies which are obliged to conduct accounting audit and assurance of believability of audited statements are remaining concerns.</li> <li>• Disclosure of SMEs about financial and business information is gradually enhanced and the information is important data for banks to analyze creditworthiness of lending loans. But companies still keep two books.</li> <li>• Credit bureau which collects credit information on corporations develops.</li> </ul>
4	<p><u>Current status of financial services</u></p> <ul style="list-style-type: none"> <li>• It is easy to register incorporation. Reduction of time constraint and financial burden for pledging collateral progresses.</li> <li>• Almost all SMEs open bank account and more or less appreciate banking services.</li> <li>• Local commercial banks which are considered core FIs grow in size and well develop their branch networks in rural area. Consequently, majority of people appreciate financial services of formal financial institutions. Some major local banks are enough strong to compete with foreign banks in domestic financial market.</li> <li>• Downsizing of FIs such as banks and evolution of microfinance institutions develop. Although concentration of loans and deposits with FIs into big cities continues, the increase, along with the economic magnitude, of them in rural area is perceived.</li> <li>• Due to development of non-banks and MFIs which are also expected core financial institutions (small and medium institutions are gradually being consolidated) as well as development of private commercial banks, share of governmental financial institutions decline except that of the special fields.</li> <li>• Free competition among financial institutions is nearly thoroughly implemented. Restrictions on interest of loans and deposits are already lifted and intervention of competent authority which might run counter to free competition seldom happens. Competition in quality of services and development of financial instruments become stiff.</li> <li>• Difference between average interest rates of deposit and those of loan diminishes. Ratio of loan/deposit is about 0.8 to 0.9, and it is sometimes more than 1.0.</li> <li>• Deposit reserve requirement ratio imposed on financial institutions is generally kept at lower level. The share of deposit balance contained within banking system against M1 is kept at more than 60%.</li> <li>• Share of loans extended to private sector become the majority. NPL ratio shows generally downward trend, though there is variation among countries.</li> <li>• Credit analysis skills improve, and granting loan facilities based on cash-flow analysis on borrower or those without collateral gradually advance.</li> <li>• Credit guarantee corporation is nearly enhanced both in size and functions. Consequently, utilization of credit guarantee corporation by micro and small enterprises becomes widespread.</li> <li>• The substantial assistance of government to the management of credit guarantee corporation is nearly completed; their managerial stability and lineup of guarantee schemes are developing.</li> </ul> <p><u>Financial requirement</u></p> <ul style="list-style-type: none"> <li>• Number of SMEs which finance from informal sector is declining, and many are now able to finance majority of their necessary funds in the formal (indirect or direct) financial market.</li> <li>• Majority of MFIs are formal FIs and play big roles in the field of finance to micro and small enterprises.</li> <li>• Formal FIs complete the first round of establishing branch networks in rural area. Consequently, access of people either in rural area or in poverty area to FIs progresses.</li> <li>• Except certain enterprises, majority of them are obliged to prepare financial statements and to submit audited statement of accounts and believability of statements generally progresses.</li> <li>• Statement of accounts is needed to be audited by accountant. Enhancement of auditing system and training of auditors progresses.</li> <li>• Streamlining taxation system progresses, then resistance of corporation to disclosure of management information softens.</li> <li>• Although many SMEs prepare their business plan for certain purposes with assistance of outside</li> </ul>

	<p>consultant, number of SMEs which are able to prepare it by themselves and put it to practical use is gradually increasing.</p> <p><u>Monitoring and Supervision of FIs</u></p> <ul style="list-style-type: none"> <li>• Restrictions by the government slide back to minimum required level, and number of private FIs which are able to conduct self-sustaining management is increasing.</li> <li>• Competent authority grasps current business status of MFIs and FIs in rural area. Their inspections and instructions for these financial institutions are increasingly effective.</li> <li>• Human resources of competent agencies are nearly enhanced both in quality and quantity. Hereafter, establishment of advanced management know-how is a new issue. There are few policies which lack consistency.</li> <li>• Clear direction for inspection items together with their policies is established and the neutrality of inspection is ensured.</li> <li>• Definition of NPL conforms to international standard, and application of the standard to individual financial institutions is nearly completed. Analysis of periodic reports is conducted and policies based on analysis are nearly timely implemented.</li> <li>• Competent authority is able to implement policies based on analysis of business report and closing statements submitted by FIs. Owing to training of human resources, assurance of timeliness, effectiveness and consistency go on line.</li> <li>• Development of relevant laws to clarify roles and supervising authority of central bank and to eliminate overlapped competence with that of other supervising authorities is completed.</li> <li>• Establishment and/or amendment of bank law or relevant laws to clarify scope of business of FIs and their duties are completed. Stable management of such legislation progresses.</li> <li>• Development of legislation concerning insolvency or bankruptcy is completed and enhancement of organization and human resources progresses. Improvement of management and effectiveness of such legal systems are expected.</li> <li>• Owing to development of infrastructure of FIs, there are few factors which might cause moral hazards of banks (lenders) and borrowers.</li> <li>• Time needed to dispose collaterals is generally shortened, and confidence in judgment of courts gradually improves. Enforceability of judgment of court is strengthened.</li> <li>• Government-led modernization of accounting standard is nearly completed. Application of the standard in manner of fitting current status of SMEs is mostly conducted.</li> <li>• SMEs, led by medium sized SMEs, implement accounting audit. Expansion of targeted companies which are obliged to conduct accounting audit and believability of audited statements are nearly assured.</li> <li>• Disclosure of SMEs about financial and business information is gradually enhanced and the information is important data for banks to analyze creditworthiness of lending loans. Their keeping two books are declining.</li> <li>• Disclosure of information and corporate credit information center (credit bureau) gradually develop. Their information is important data for banks to analyze creditworthiness for lending loans.</li> <li>• The fourth stage is considered as the last stage to place in the ranks of advanced countries</li> </ul>
5 (stage of advanced countries)	No particular needs for assistance.

Source: Study team

## 2-4 Development Stages of Technology

Development Stages of Technology correlates with levels of income and industrial development measured by GNI per capita. Five stages can be set as follows.

The First Stage (agro technology and primary products): The first stage of development of technology is when agricultural technologies and manufacturing technologies are being introduced to process primary products into manufactured goods. SMEs are immature, so are public institutes and technology policy and organizations. Assistance will focus on food,

textile and wood products that use local primary produce. Major issue of development is assistance to convert primary products into semi-manufactured products, review of proper technologies, and assistance for industrialization.

The Second Stage (semi-manufactured industry): This stage is processing of primary products. It features import substitution of formerly imported products, but these will not go as far as gaining export competitiveness. SMEs producing peripheral parts consigned by FDI firms or local leading companies, making local procurement partially possible. On the other hand, only FDI firms and local leading companies may be able to deal with core parts.

The Third Stage (development of light industries): In this stage, semi-manufacturing industries move up to exporters of light industry products. Firms are able to do preventive maintenance of equipments. Exporters meet quality standards and delivery date. Some supporting industry SMEs start producing core parts on their own.

The Forth Stage (apparatus industries and fabricating industries (1)): Apparatus industries can improve and remodel equipments. Finished products assemblers can process and assemble module-type parts. They also cut cost by inventory reduction and material management. This way, firms improve export competitiveness against late comer developing economies not only in terms of quality but also in terms of cost.

The Fifth State (fabricating industries (2)): At this stage, firms have technologies for manufacturing formerly imported plant-products and integrated assembling products. They can also shorten delivery time, reduce stock and in-process inventory, and implement profit management through introduction of production management system.

**Figure 7 Development Stages of Technologies**

Development Stage	Technology-related Features
1	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies:</p> <ul style="list-style-type: none"> <li>• Able to operate/handle foreign equipments imported or built with FDI.</li> <li>• Lack of skills and funds for equipment repair and maintenance, often leading to negligence of out-of-order equipments.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>• Able to provide labor for simple manufacturing work.</li> <li>• Low level of manufacturing technologies allow circulation of products within highly limited markets.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>• Depends on imports of most parts and materials.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>• Industry associations are few. SMEs must do their data collection and research and</li> </ul>

	<p>development without support.</p> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>• No public testing/laboratory institution in the area of technologies.</li> <li>• Absence of or inconsistent technology policies.</li> </ul> <p><b>【Institution】</b></p> <ul style="list-style-type: none"> <li>• Few institution such as skills certification, industrial standards, accreditation institutions, professional quality certification.</li> </ul>
2	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>• Able to conduct simple repairs.</li> <li>• Emergence of microenterprises/SMEs producing peripheral parts for equipments of leading firms.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>• Local firms technologies for light industry such as generic food processing technologies.</li> <li>• There are SMEs starting their own food processing businesses or others with similar level of technologies.</li> </ul> <p>Management techniques :</p> <ul style="list-style-type: none"> <li>• Understand the concept of basic production management techniques such as 5-S, management by visualization, standardization.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>• Limited local/intra-regional procurement of parts and materials.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>• Small number of industry associations with limited effectiveness.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>• Public testing/research institutions are established in a limited number of technology areas.</li> <li>• Technology policies are partially prepared and implemented.</li> </ul> <p><b>【Institution】</b></p> <ul style="list-style-type: none"> <li>• Institution is established partially or in a small number of following areas: skills certification, industrial standards, accreditation institutions, professional quality certification.</li> </ul>
3	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>• Able to do preventive maintenance of equipments with a plan, leading to improvement in capacity utilization.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>• Able to produce light industry goods on their own, some of which have export competitiveness.</li> <li>• Have basic technologies for manufacturing internationally competitive goods (i.e., production technologies, techniques and skills)</li> </ul> <p>Management Techniques :</p> <ul style="list-style-type: none"> <li>• There is limited number of firms implementing accreditation and meeting industrial standards.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>• Much of parts and materials can be procured locally/intra-regionally.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>• There are several industry associations servicing their member firms with information collection and R&amp;D.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>• There are branch network of selected public testing/research institutes.</li> <li>• Technology policies are becoming effective to a certain degree.</li> </ul> <p><b>【Institution】</b></p> <ul style="list-style-type: none"> <li>• There are many of such institution as skills certification, industrial standards, accreditation institutions, professional quality certification. However, most of them are not yet functional.</li> </ul>
4	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>• Able to do improvements and alteration of equipments.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>• Able to do full-scale manufacturing of simple fabricated products.</li> <li>• Have design engineers and be able to design custom ordered products.</li> <li>• Support industry SMEs are growing.</li> </ul>

	<p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>Horizontal division of labor is established with related industries within the region. Product quality remains a challenge.</li> </ul> <p>Management Techniques :</p> <ul style="list-style-type: none"> <li>Firms are able to implement cost-cutting measures such as quality control, inventory reduction and procurement management.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>Many industries have their own associations working for information collection and R&amp;D activity industry-wide.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>There is effective cooperation among public testing/research institutes, technology colleges, technical training institutes and private associations.</li> </ul> <p><b>【Institution】</b></p> <ul style="list-style-type: none"> <li>Most of technology-related institutions have been established including skills certification, industrial standards, accreditation institutions, professional quality certification. Some of them are functional.</li> </ul>
5	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>Have learned production technologies of imported machinery and accumulated production technologies for machineries with new improvements.</li> <li>Able to sell/export production equipments.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>Able to develop new products on their own.</li> <li>Have high level technologies for parts manufacturing and be able to design/produce complex fabricated goods.</li> <li>Have technologies for high-mix low-volume production manufacturing, e.g., able to produce machinery tools and reduce setup time.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>There is intra-regional horizontal division of labor among industries with skilled labor. Product quality is high.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>Most of industries have their own associations and societies engaged in information collection and R&amp;D activities involving the whole industry.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>Not only public sector but also private organizations provide technology support services.</li> <li>Consistent technology policies exist and well implemented.</li> </ul> <p><b>【Institution】</b></p> <ul style="list-style-type: none"> <li>All technology-related institutions are developed and fully functional including skills certification, industrial standards, accreditation institutions, professional quality certification.</li> </ul>

Source: Study team

### 3 Checkpoints and Key Questions to Determine Stages of Development in Each Category

This section lists checkpoints and key questions to determine stage of development of each category in a given country. It is important to note that determining stage of development is not a quick task to do and it requires experts to do necessary surveys with reference to the summary tables presented below. Staff in charge of developing project concept and scope of work can use the checkpoints and key questions to draft terms of reference for experts and consultants.

### **3-1 Checkpoints for SME Policy, Institution and Business Environment**

Checkpoints for SME Policy, Institution and Business Environment constitute of macroeconomic environment, actual status of SMEs, business environment, SME policies and institutional framework. Macroeconomic environment is a new addition to the three categories discussed under 1-2 development stages (actual status of SMEs, business environment, SME policies and institutional framework.) No development stage is set for the macroeconomic environment because it is just an exercise to avoid failing to see the forest for the trees and because macroeconomic environment varies at a great degree depending on natural/geographic conditions, society and culture, and relationship with neighboring countries and the world economy.

#### **(1) Evaluation of Macroeconomic Environment**

Firstly, it is necessary to examine the situations of such macroeconomic factors as population, income (poverty) level, economic and social environment, differences between urban and rural areas, fiscal, monetary and currency policies and regulations, relations with global economy, and relations with neighboring countries. It is important to understand both promoting and hindering factors for the industry-wide development including the SME sector from the macroeconomic point of views. Understanding of macroeconomic environment and risks/opportunities for the future and analysis of the development status of SMEs under the country's economic and industrial structure should be the basis of the SME promotion approach (including the definition of targeted SMEs and size of businesses focused for assistance). It is proposed to use various indicators discussed at "2-3 Checkpoints for Macroeconomic Environment and for Actual Status of SMEs" in the full report for consideration and evaluation of these factors.

#### **(2) Actual Status of SME**

Development status of SMEs should be examined in accordance with Figure 10; among others, the structure of the SME sector, including the share of the informal sector in the economy, the management and technological levels of SMEs, access to finance and linkages between enterprises should be examined.

#### **(3) Evaluation of Business Environment (Evaluation of demand side on implementation status of policy and institutional framework)**

After having clear understanding of macroeconomic environment and actual status of SMEs,

it is required to analyze microeconomic issues. “Doing Business” developed by the World Bank and IFC reports how policy and institutional framework for business development are implemented in reality in each country. The report aims at making clear of major issues and obstacles that businesses (enterprises) are facing: the evaluation of the current institutional mechanism on the demand (customer) side. In order to identify the precondition for SME promotion, it is proposed that the status of business environment of the country be confirmed by comparing “Doing Business Indices” with average figures of OECD countries.

(4) Evaluation of SME Policies and Institutional Framework (Evaluation of supply side on implementation status of policy and institutional framework)

It is proposed to evaluate status of the country’s SME policies and institutional framework and their implementation, based on such qualitative data as existence of SME basic law and relevant government organizations, budget size, and existence and activities of SME and industrial promotion organizations. It should be noted that some part of those evaluations could be reflected in several business environment indicators, discussed in (2), that are demand side data of SME policies and institutional framework, and therefore, those indicators would be of some reference for evaluation.

(5) Evaluation of Development Stage

Development stage of policies and institutional mechanism for SME promotion of the country should be established based on information and analysis given by above (1), (2) and (3). Development stages of (1) Actual Status of SMEs, (2) Business Environment, and (3) SME Policies and Institutional Framework are to be categorized as refereed in Figure 9, 10 and 11, respectively. It should be noted that although the countries are basically to move forward from level 1 to level 5, not all countries need to achieve levels 4 and 5 of SME policies and institutional framework, depending on their basic economic and social factors. Small countries that do not fulfill basic conditions to develop full-set industrial structure for themselves should enhance their own sustainable SME structure; not all countries need to promote supporting industries contributing to global industrial linkages or export-oriented competitive SMEs. Consequently, while basic assistance needs for SME promotion correspond to the results of evaluation of development stage to a certain extent, actual necessity for assistance to the country of the development stage of above level 4 could be varied depending on the country’s basic development factors.



**Figure 8 Checkpoints and Quantitative Indicators for Macroeconomic Environment**

Checkup Items	Checkpoints/Key Questions	Sample Quantitative Indicators
Industrial Structure and Trade	Share of the primary, secondary and tertiary sectors in GDP and total employment. Items and value of import/export and their trend, Industries that have comparative advantages. Competition and the division of production between nations and regions.	GDP and employment by sectors, values of production and trade by categories of goods, trade balance
Government's Macro-economic Policy	Targets of macro-economy (public expenditure, exchange rate, inflation, finance etc.) and the policy measures. Major regulations and their impact.	Inflation rates, interest rates, fiscal balance
Policies of Trade, Custom, and Investment	Policies of trade, custom and investment and their impact on the economy	Custom duties, private investment, foreign direct investment
Infrastructure	Coverage of infrastructure that influences SMEs' activities and investment	Coverage of various infrastructures, tariffs

Source: Study team

**Figure 9 Checkpoints and Quantitative Indicators for Actual Status of SMEs**

Areas	Checkpoints	Sample Quantitative Indicators
Definition and Number of SMEs	Definitions of SMEs by law or by organizations. Number of micro, small, medium, and large enterprises and their shares.	Number of enterprises by size
Significance of SMEs in the manufacturing sector	Significance of SMEs in the manufacturing sector measured by various indicators.	Number of manufacturing enterprises by size, their sales, value added and capital investment, and their shares in the sector.
Competitiveness of SMEs	Competitiveness and productivity of SMEs compared to large enterprises.	Sales, value added and capital investment per employees
Creation of Employment by SMEs	Share of workers employed by SMEs in total employment.	Number of employees by size of enterprises
Dynamism of SMEs	SMEs' role in bringing dynamism in the industry?	Number of started and closed businesses
Sub-contracting	Status of subcontracting from large enterprises to SMEs and its potential.	Local procurement rates by large enterprises

Source: Study team

**Figure 10 Checkpoints and Quantitative Indicators for Business Environment**

Checkup Items	Checkpoints/Key Questions	Indicators Used in "Doing Business"
Starting a Business	The difficulties with launching a business formally.	Days, costs and minimum capital necessary to register.
Dealing with Licenses	The steps, time, and costs of complying with licensing and permit requirements for ongoing business operations	Time and costs required in obtaining licenses.
Hiring and Firing	The difficulties that employers face in hiring and firing workers	Degree of difficulty of employing and firing workers and their costs.
Registering Property	The ease or difficulty with which businesses can secure rights to property which can be used as collateral.	Number of procedures for registering property, its time and costs.
Getting Credit	Measures on credit information sharing and the legal rights of borrowers and lenders	Legal rights index, credit information index, and coverage of public registry and private bureau
Protecting Investors	The extent to which investors' rights are protected by laws.	Transparency of transactions, liability for self-dealing, shareholders' ability to sue officers and directors for misconduct
Paying Taxes	Burden of tax payment and time spent for tax reporting.	Number of taxes to pay, hours to spend for tax declaration and total tax payable.

Trading Across Borders	The costs and procedures involved in importing and exporting	Number of documents, signatures and time necessary for import and export
Enforcing Contracts	The ease or difficulty of enforcing commercial contracts	Number of procedures, time and costs in enforcing contracts
Closing a Business	The time and cost required to resolve bankruptcies	Time and cost to resolve a bankruptcy and the recovery rate from an insolvent firm.

Source: Study team

**Figure 11 Checkpoints for SME Policy and Institution**

Checkup Items	Checkpoints/Key Questions
SME Basic Law	Existence of laws prescribing basic policies for SMEs and its contents.
Ministry and/or Departments responsible SME policy	Existence of the ministry or departments responsible for developing SME promotion policies, their activities, and the degree of integrated decision making.
Institutions for SME Promotion	Managerial capacity of institutions for SME promotion and their linkages

Source: Study team

### 3-2 Checkpoints for BDS

BDS category too can set development stages theoretically. However, it is difficult for BDS category to determine whether a given country's development level is higher/lower than others because there is neither cross-country data nor benchmark as comprehensive as those of business environment or financial statistics. Even number of BDS providers, a basic quantitative data of BDS, is unknown in many countries.

Following materials provide proxies to BDS indicators in the absence of the latter. It is recommended that these proxies are used only as a guide with caution and that project preparation study should mobilize BDS specialists to give thorough review of the situation of BDS in a given country.

- (1) Schneider (2002) "Size and measurement of informal economy in 110 countries around the world" and SME indicators table of the World Bank
- (2) "Doing Business" indicators and labor indicators of the Enterprise Survey of the World Bank
- (3) Human Development Indicators (HDI) of UNDP
- (4) Growth Competitiveness Index/Global Competitiveness Index of the World Economic Forum
- (5) Reports of BDS market assessment and of consulting industry
- (6) Reports of value chain analysis and subsector analysis

(7) Reports of national/local competitiveness

It should be avoided to mechanically judge the development stage of BDS of a given county using only these data because there is no internationally comparable indicators and existing data are proxies to development potential of BDS market or country specific qualitative data. Having said the limitations, following table summarizes checkpoints to preliminarily identify development stage of BDS by using above indicators and qualitative data. It is important to verify whether data are available from relevant sources although not all data may be available.

**Figure 12 Checkpoints for BDS and Sources of Information**

Checkup Items	Key Questions	Sources of Information and Sample Indicators
Access to Basic Services	<ul style="list-style-type: none"> <li>How accessible, stable and affordable basic services are?</li> </ul>	UNDP's Human Development Indicators; World Bank's World Development Indicators.
Magnitude of Market-Based BDS	<ul style="list-style-type: none"> <li>What is the size of the market-based BDS including embedded BDS? (E.g., how many they are, what the average size of BDS providers is.)</li> </ul>	BDS provider directories; BDS market assessment reports; reports on local consulting industry; reports of value chain analysis/subsector analysis; BDS project documents.
Commercially Viable BDS Providers	<ul style="list-style-type: none"> <li>What is the size of commercially viable BDS providers in the SME market? (E.g., how many they are, what the average size of BDS providers is.)</li> </ul>	BDS market assessment reports; reports on local consulting industry; reports of value chain analysis/subsector analysis; BDS project documents.
Government policies on BDS	<ul style="list-style-type: none"> <li>Are Government policies on BDS not focusing on direct provision of BDS and subsidies?</li> </ul>	idem
Balance between Public and Private Services	<ul style="list-style-type: none"> <li>Isn't the balance skewed towards publicly provided BDS? (Suspect for crowding-out) ?</li> </ul>	idem
Over-regulation	<ul style="list-style-type: none"> <li>Aren't government regulations creating barriers for BDS market development? (E.g., licensing requirements effectively working as entry barriers to consulting industry and business associations.</li> </ul>	idem
Regulations and self-regulations for BDS Market Development	<ul style="list-style-type: none"> <li>Are there BDS-relevant regulations and/or self regulations by industry groups such as fair competition, auditing, service quality standards, standard accreditation? Are they not market repressive but developed and implemented in such a way to correct market failures?</li> </ul>	idem
Nature of Chambers and Business Associations	<ul style="list-style-type: none"> <li>Are chambers of commerce and industry and business associations independent from Government and representative of private sector interests?</li> </ul>	idem
Role of Chambers and Business Associations on BDS Market Development	<ul style="list-style-type: none"> <li>Are chambers of commerce and industry and business associations not competing private BDS providers but rather supporting their market development?</li> </ul>	idem
Understanding of BDS Approach	<ul style="list-style-type: none"> <li>Do government, chambers of commerce and industry, business associations and BDS providers understand the BDS market development approach well?</li> </ul>	idem

Source: Study team

Regarding sources of information, only the first checkup item may be taken from such statistics as UNDP's HDI and World Development Indicators of the World Bank. All other checkup points requires review and mining of BDS providers directory, reports of BDS market assessment and consulting industry, reports of value chain and subsector analysis, BDS-related project documents. Regulations may be taken from official gazette, but it would be the task of project preparation study.

Problem of the table is that all but the first point are difficult to collect or analyze until project preparation study is launched. What is feasible at the stage of project identification is to review above-mentioned proxies and discuss with donor organizations with local experience of BDS on above checkpoints. This will allow development officers to preliminarily set development stage of BDS and elaborate list of documents, projects and major issues to be studies in scope of work of project preparation study.

### **3-3 Checkpoints for SME Finance**

Check sheet provides a clue how to categorize a developing country at what stage it should be. And it is a tool to openly discuss directions and methodologies to solve their issues and problems which are progressively unveiled during the review of categorization, in consideration of relevance with specific characteristics of each stage.

It is ideal to comprehensively and deeply analyze actual conditions of SMEs finance in a country using a check sheet in order to financially support SMEs. However, it is prioritized here to grasp immediate situations of small business finance, in thinking much of usefulness of the check sheet on sight. Outline of check sheet is composed of four points

**Figure 13 Checkpoints for SME Finance and Sources of Information-overall framework**

Aspects	First breakdown	Second breakdown	Exemplification (detailed)
Financial services	Delivery	Procedures	Corporate registration, pledging collaterals
		Networks	Oligopoly ratio of big banks, loan balance ratio between urban area and rural area
	Deposit	Deposit interest rates	Difference of interest rates between deposit and loan
		Deposit balance	Deposit reserve requirement ratio, cash outside banking system/M1 ratio
	Lending	Loan interest rate	Difference of interest rates between deposit and loan
		Loan balance	L/D ration, loan to private sector/total loan ratio, NPL
		Collaterals	Credit guarantee corporation, loan to collateral ratio,
Demand for finance SMEs	Raising of fund	Formal finance	Number of companies who borrow from formal market/total number of companies ratio, loan to SMEs/GDP,
		Informal finance	Informal micro finance
	Corporate information	Financial information	Keeping book of account, closing statements.
		Business information	Business plan
Monitoring and Supervising financial institutions	Supervision of financial institutions	Audit	Coverage of financial institutions, prudential standard
		Reports	
	Financial infrastructure	Legislation	Bank act, bankruptcy proceedings, procedures of collateral disposition
		Accounting system	Accounting standard, accountants
		Information	Credit information institutions
Specific factors	Social structure, financial economic structure, political motivation		

Source: Study team

**Figure 14 Check points on business status of financial sector and examples of their indicators**

Checkpoint Items	Check points	Examples of Indicators
Operation procedure	On the occasion of borrowing from financial institutions, is registration of incorporation the indispensable condition? Does the registration become heavy temporal and financial burden? On the occasion of borrowing from financial institutions, procedures of pledging collaterals, does it become heavy temporal and financial burden?	List of documents to be prepared for borrowing, regulatory documents for registration, registration fee Days necessary for pledge, registration fee, remuneration for judicial scrivener
Branch networks	Nationwide branch or representative office networks of financial institutions including credit cooperatives, are they well set up?	Total number of banks and their branches (distribution chart)
Service costs	Are financial service costs pushed up due to the oligopoly circumstance situation which is raised by big banks and restrictive to competition?	Share of posits and loans of several leading banks, their ratio of SMEs loans/total loans
Return of funds to home of deposits	Loan outstanding balance of financial institutions, is it extremely concentrated to urban area? Ratio of loan to deposit in rural area, is it extremely low?	Share of bank loans by region (or by urban area), number of local branches of big banks, development of urban area/ rural area ratio of loans and deposits

Deposit interest rates	Is there big difference between average interest rates of deposit and those of loans? Is it growing? Are deposit interest rates curbed highly low compared with the level of CPI?	Development of difference between average interest rates of deposits and those of loans. Development of difference between average interest rates of deposits and growth rate of CPI
Securing funds for lending	Deposit reserve requirement ratio imposed on financial institutions, is it left at extraordinarily high level? Ratio of deposit balance contained within banking system against M1, does it remain extraordinarily low?	Development of deposit reserve requirement ratio  Ratio of deposit balance within banking system against M1
Loan interest rates	Is there big difference between average interest rates of deposit and those of loans? Is it growing? Is there any guideline of the government in order to keep interest rate of loans granted to SMEs at lower level compared with those of normal loans?	Development of difference between average interest rates of deposits and those of loans  Notice from the central bank or competent authorities, special interest rate of loans extended to SMEs and that of normal loans
Loan outstanding balance	Ratio of loan/deposit, is it extremely small? Ratio of loans extended to governmental/public institutions, is it unnaturally big compared with total loans extended by financial institutions? NPL ratio, is it left at high level?	Ration of loans extended to governmental or public institutions against total loans, ratio of NPL/total loan balance, ratio of loan loss allowance
Collaterals	Financial institutions, do they request pledge of collaterals for all loans extended SMEs? Value of pledged collaterals, is it beyond twice of loan contracted amount? Is there any credit guarantee corporation which is soundly managed? Around what percentage of total SMEs do they use credit guarantee corporation?	Percentage of secured loan(of which loan to SMEs) Ratio of evaluation value of collaterals/initial loan amounts (statistics or internal rules of financial institutions) Ratio of secured loans/total loans extended to SMEs, development of ratio of compensated amounts under guarantee /total secured amounts of loans, development of deficit of credit guarantee corporation

Source: Study team

**Figure 15 Check points on financial requirement of SMEs and examples of their indicators**

Checkup Items	Check points	Examples of Indicators
Procurement of funds form formal market	<ul style="list-style-type: none"> <li>What is the percentage of SMEs in terms of number of companies which procure funds in formal financial market?</li> <li>Around at what average of percentage are SMEs able to procure funds in formal market against total funds that they need?</li> </ul>	<ul style="list-style-type: none"> <li>Number of borrowing companies from financial institutions versus number of registered companies, number of small size of borrowings versus number of registered companies, bank lending amount/necessary amount for investment (statistics or internal rules of financial institutions)</li> </ul>

Procurement of funds from informal sector	<ul style="list-style-type: none"> <li>What are main institutions which are involved in informal financing and how many are there?</li> <li>Concerning characteristics of informal financial institutions, what are main differences between institutions in rural or poverty area and those in other area?</li> </ul>	<ul style="list-style-type: none"> <li>(data of the central bank, data of banking association, data of micro-finance association)</li> </ul>
Financial information of companies	<ul style="list-style-type: none"> <li>Down to what size of SMEs are they generally able to compile financial information by themselves?</li> <li>Is it legally requested for SMEs to request an accountant for auditing closing statements?</li> <li>Resistance of corporate managers to disclosing corporate information, is it generally strong or weak?</li> </ul>	<ul style="list-style-type: none"> <li>Data of Ministry of Finance/Tax, Administration Agency, data of accountants' association)</li> <li>(company law, Accountancy law, data of accountants' association)</li> <li>(data of auditors' association, accountants' association, chamber of commerce and industry, date of questionnaire surveys)</li> </ul>
Business information of companies	<p>Who is a real programmer of business plan and for what purpose is it compiled? Is the programmer a private consultant?</p> <p>Monitoring and reviewing management of a company, is it along with on their business plan?</p>	<p>(data of consultants' association, ministry of industry and questionnaire surveys)</p> <p>(Questionnaire surveys)</p>

Source: Study team

**Figure 16 Check points on Monitoring and Supervising financial institutions and examples of their indicators**

Checkup Items	Check points	Examples of Indicators
Monitoring and Supervising financial institutions	<ul style="list-style-type: none"> <li>Down to what category of financial institutions including regional institutions, and how often are supervising agencies inspecting financial institutions?</li> <li>How is the inspection system organized (organization chart and manpower)? What are main items to be inspected?</li> <li>Is the inspection outcome timely fed back to financial institutions? And is it reflected in their management?</li> </ul>	<ul style="list-style-type: none"> <li>Number of local offices of competent authorities, prescribed number and actual number of staff (annual report of the central bank, data of banking association, administration briefers, questionnaire surveys)</li> </ul>
Reports to supervising authorities	<ul style="list-style-type: none"> <li>Do supervising authorities periodically request financial institutions to report about non performance loans or trouble loans?</li> <li>Do supervising authorities periodically request financial institutions to report about their business performance and financial statement?</li> </ul>	<ul style="list-style-type: none"> <li>(annual report of the central bank, data of banking association, questionnaire survey)</li> </ul>
Development of legislation	<ul style="list-style-type: none"> <li>Code and/or government decree which clearly describe roles of central bank and its authorization to monitor and to supervise financial institutions, is it well equipped?</li> <li>The bank law which clearly describes scope of service and obligations of financial institutions, is it well equipped?</li> <li>Is it easy to understand legislation of insolvency and bankruptcy, and its procedure is reasonable?</li> <li>Is it possible to dispose collaterals within reasonable time frame? Is the judge of court enough secured by enforcement power?</li> </ul>	<ul style="list-style-type: none"> <li>central bank law, annual report of central bank, administration briefers)</li> <li>(bank law, ministerial decree, detailed enforcement regulations)</li> <li>days needed for processing (bankruptcy law)</li> <li>days needed for processing (bankruptcy law, code of civil procedure)</li> </ul>

Development of accounting system	<ul style="list-style-type: none"> <li>Accounting standards which can be applied to SMEs without heavy burden, are they provided?</li> <li>Down to what size (or category) of companies, is accounting audit implemented?</li> <li>Is there any policy to increase number of accountants and to improve their quality?</li> </ul>	<ul style="list-style-type: none"> <li>(Company law, accountancy law, accounting standard, data of accountants' association)</li> <li>Number of companies in which accounting audit is conducted (company law)</li> <li>Number of accountants, number of seminars</li> </ul>
Corporate credit information	<ul style="list-style-type: none"> <li>A system under which financial institutions are able to easily obtain credit information of a company, is it well equipped?</li> <li>Rules and system under which companies are obliged to submit financial statement to competent authority and everyone is able to access it</li> </ul>	<ul style="list-style-type: none"> <li>Number of Credit Bureaus/credit-rating agencies, number of companies rated by rating agencies, number of credit-reporting agencies, number of registration offices, company law</li> </ul>

Source: Study team

**Figure 17 Check points on specific factors and examples of their indicators**

Checkup Items	Check points	Examples of Indicators
Social structure Ex. Highly worse ranking of corruption	<ul style="list-style-type: none"> <li>Is it usual manner that borrowers pay kickback money to a credit officer after disbursement of loan?</li> <li>In case of inspection to financial institutions by competent authorities, is there any rumor that giving bribes to inspectors is widespread?</li> </ul>	<ul style="list-style-type: none"> <li>(Data of IFC Doing Business, data of interview surveys)</li> </ul>
Financial and economic structure Ex: High market share of foreign banks	<ul style="list-style-type: none"> <li>Is there any rumor that foreign banks are occupying highly profitable market, and therefore, local banks are not able to capture enough profits to nourish their fundamental vitality?</li> <li>Is there any critique that foreign banks' share is unusually low due to inefficiency and less developed financial system and surroundings?</li> </ul>	<ul style="list-style-type: none"> <li>Market share of foreign banks, stockholding ratio of foreign banks in local banks</li> <li>Share foreign banks (annual report of central bank, data of banking association),</li> </ul>

Note) It is also necessary to confirm inherent and very special factors of each country as well as common characteristics throughout countries with check sheets. Above mentioned are very typical examples.

Source: Study team

### 3-4 Checkpoints for Technologies

One can indirectly induce development stage of technology of a given country from analysis of structure of trade and industry. The structure of trade and industry provides with condition for maintaining a certain technology level (See Chapter 5, 5-2-1, judging development stage of technology by structural analysis of industry and trade in the full report).

This section presents another, more direct method to gauge level of technology from supply side. Checkpoints necessary for examination of technology level should include not only manufacturing technology (production management techniques, proper technologies,



equipment and facilities, procurement of material and parts) but also level of industry organization and public institutes, and potentiality of public policies intended to improve technological level of SME entrepreneurs.

- ( 1 ) Equipment technologies: technological skills to operate and improve introduced/imported equipments
- (2) Proper technologies: technological capability for development, design, and production; processing and assembling skills, product inspection technologies
- (3) Management Techniques: to materialize quality improvement, cost reduction and faster delivery
- (4) Procurement of parts and materials: How much of parts and materials necessary for production can be sourced within the country
- (5) Industry associations: Level of organization of industry-specific chambers and associations
- (6) Public institutes: What public institutions exist, e.g., testing and research institutes, sectoral promotion centers, standard and accreditation institute
- (7) Institutions and promotional schemes: Existence of organizational unit in charge of promoting SME technologies; existence of chartered SME consultants and professional engineers

Quantitative analysis of indicators related to these checkpoints will have to wait for development of statistics because statistics in developing countries often are underdeveloped and have gaps and inconsistencies. Following tables list key questions and sample indicators related to the seven checkpoints.

**Figure 18 Check points by element of technologies and sources of information/sample indicators**

Checkup Items	Key Questions	Sources of Information/Sample Indicators
Equipment Technologies		
Level of Technologies Used in Equipments	<ul style="list-style-type: none"> <li>• How many years before similar equipments were used in Japan?</li> <li>• What is the level of automation?</li> <li>• What is the level of precision and quality?</li> </ul>	<ul style="list-style-type: none"> <li>• Industry data</li> <li>• Annual Report</li> </ul>
Local Availability of Equipments	<ul style="list-style-type: none"> <li>• Do they source equipments from equipment manufacturers in the country or within the same region?</li> </ul>	Local/foreign ratio of source of equipments
Operating and Maintenance Abilities	<ul style="list-style-type: none"> <li>• Frequency of periodic checkup</li> <li>• Value of technical performance measurement (TPM)</li> </ul>	Interview to relevant public institutions
Ability to Alter and Improve Equipments	<ul style="list-style-type: none"> <li>• Do they alter and improve equipments they originally bought?</li> <li>• Do they sell improved equipments?</li> </ul>	

Proper Technologies		
R&D Capacity	<ul style="list-style-type: none"> <li>Do they develop new products by themselves?</li> <li>Are the R&amp;D activities dealing with core technologies or peripheral ones?</li> <li>Do they hold many intellectual properties rights?</li> </ul>	<ul style="list-style-type: none"> <li>R&amp;D/sales ratio</li> <li>Average R&amp;D spending</li> <li># of patents and utility model rights</li> </ul>
Design Capacity	<ul style="list-style-type: none"> <li>Do they have more individually ordered production vis-à-vis standardized production?</li> <li>Do they design in-house?</li> <li>How many engineers they have?</li> </ul>	<ul style="list-style-type: none"> <li>Order/prospective production ratio</li> <li>Drawing provision ratio</li> <li>Average # of design engineers</li> </ul>
Production Technologies	<ul style="list-style-type: none"> <li>Do they manufacture machinery tools by themselves?</li> <li>Are they reducing setup time?</li> <li>Can they produce mold tools by themselves?</li> </ul>	Average time for tooling change
Production Skills	(Varies by industry and process) <ul style="list-style-type: none"> <li># of multi-skilled workers</li> <li>Ratio of factory workers</li> </ul>	<ul style="list-style-type: none"> <li># of participants in the skills Olympics</li> <li># of international level engineers</li> </ul>
Management Techniques		
Basics of Production Management	<ul style="list-style-type: none"> <li>Do they recognize and implement 5-S?</li> <li>Do they implement management by visualization? How far?</li> <li>What the degree of standardization?</li> <li>How is KAIZEN at job site?</li> </ul>	<ul style="list-style-type: none"> <li>Field interview to public institution core model firms.</li> <li># and topics of counseling</li> </ul>
Process Management	<ul style="list-style-type: none"> <li>Is production cycle one month or one week?</li> <li>What is the level of awareness and implementation of small lot production and quick delivery?</li> <li>Do they make production plans in-house? At what frequency?</li> <li>What is the method of production instruction and production achievement control?</li> </ul>	<ul style="list-style-type: none"> <li>Idem</li> <li>Average delivery time</li> <li>Cycle of planning calendar</li> </ul>
Quality Control	<ul style="list-style-type: none"> <li>How is the implementation of small group quality control?</li> <li>Do the have awareness on and organization for controlling quality by way of process management?</li> <li>How is the implementation of statistics-based quality control?</li> <li>Do they have a quality inspection unit?</li> </ul>	<ul style="list-style-type: none"> <li>Idem</li> <li>Percent defective</li> </ul>
Cost Reduction and Management	<ul style="list-style-type: none"> <li>Department-wise implementation of cost reduction activities</li> <li>Do employees recognize well how cost reduction contributes to overall management of the company?</li> </ul> Have they introduced purchase and cost management system? How far?	<ul style="list-style-type: none"> <li>Idem</li> <li>Production cost composition ratio</li> </ul>
Production Management System	<ul style="list-style-type: none"> <li>What is the progress in purchasing and installing personal computers at production site?</li> <li>What level of awareness and knowledge do they have on the use of ICT in production management?</li> <li>Do they have ICT engineers in-house?</li> <li>Are there local ICT service providers?</li> <li>How is the introduction of production management system?</li> </ul>	Idem

Source: Study team

**Figure 19 Check points for procurement of raw and process material and parts with indicators**

Checkup Items	Key Questions	Sample Indicators
Quality of Parts and Material	• Are material and parts major factors leading to defect products?	Percent defective due to problem in material or parts
Local Procurement	<ul style="list-style-type: none"> <li>• Is the region self-sufficient with material?</li> <li>• Is the region self-sufficient with parts?</li> <li>• What is the level of industrial clustering in the region?</li> </ul>	<ul style="list-style-type: none"> <li>• Import ratio of material</li> <li>• # of domestic parts manufacturers</li> <li>• Composition ratio of source of procurement</li> <li>• Self-sufficiency ratio of major parts</li> </ul>
Lapping Technologies in locality	• Location pattern of specific industries in the locality	Ratio of local firms within the value chain of specific industry

Source: Study team

**Figure 20 Check points for technological potential with indicators**

Checkup Items	Key Questions	Sample Indicators
<b>Industry Associations</b>		
Private Sector Organizations	• Are private sector organizations formed?	<ul style="list-style-type: none"> <li>• Enrollment Ratio</li> <li>• # of private sector organizations</li> </ul>
Development of Core Firms	• Are the core firms among local firms?	
Prime Contractor Firms	• Are there prime contractor firms among local firms?	Prime contractor/ subcontractor ratio
# of planned production firms	• Is there planned production (e.g., final demand) among local firms?	Production by order/ production by expectation ratio
Final product manufacturer	• Are there assembling firms among local firms?	Final products/parts production ratio (in the locality)
Local Cluster and Technology Accumulation (degree of division of labor)	<ul style="list-style-type: none"> <li>• What is the degree of social division of labor?</li> <li>• What is the degree of industrial clustering?</li> </ul>	Specialization index of particular industry
<b>Public Institutions</b>		
Activities of Public Testing/Research Institutes	<ul style="list-style-type: none"> <li>• How many research institutes are there?</li> <li>• How relevant their research to technology development of SMEs?</li> </ul>	<ul style="list-style-type: none"> <li># of joint research</li> <li># of requested testing</li> <li># of technical assistance</li> </ul>
Activities of Public Technology Support Center for SMEs	<ul style="list-style-type: none"> <li>• Is there a technology support center?</li> <li>• Do they have a technology counseling window?</li> <li>• What is the degree of information provision and dissemination?</li> <li>• Do they send experts to enterprises?</li> </ul>	<ul style="list-style-type: none"> <li>• # of counseling</li> <li>• Provision of services via the Internet</li> <li>• # of expert dispatch</li> </ul>
Activities of Vocational Training Institutes	<ul style="list-style-type: none"> <li>• Is there a vocational training institute?</li> <li>• Do they have lectures on theories?</li> <li>• Do they have small facilities for practice?</li> </ul>	<ul style="list-style-type: none"> <li>• # of training institutes (public and private)</li> <li>• # of trainees</li> <li>• # of trainees sent by businesses</li> </ul>
Leasing of equipments and R&D facilities	<ul style="list-style-type: none"> <li>• Lease, rental, installment buying of equipments</li> <li>• Lease of R&amp;D facilities</li> </ul>	# of lease or similar arrangement per year
<b>Promotional Measures</b>		
Public Technology Promotion Organization for SMEs	<ul style="list-style-type: none"> <li>• Is there policymaking unit on technology promotion for SMEs?</li> <li>• Do they have concrete measures?</li> </ul>	Country data

Laws and Regulations on Technology Development for SMEs	<ul style="list-style-type: none"> <li>• Are there laws such as SME Promotion Law and Professional Engineer Law?</li> </ul>	Country data
National Budget for Technology Development for SMEs	<ul style="list-style-type: none"> <li>• Is there budget provision for SME's technology development?</li> </ul>	Annual budget of the government
Public Schemes for Technology Development	<ul style="list-style-type: none"> <li>• Certified SME Consultants</li> <li>• Professional Engineers</li> <li>• Industrial standards, accreditation system</li> </ul>	Country data

Source: Study team

## 4 Check sheets and country example

Check sheets are developed to facilitate application of checkpoints discussed in 1-3. These check sheets need to be further elaborated as they are applied in real cases of project development. At present, these may serve to provide rough indication of development stage at the early phase of project identification/formulation.

### 4-1 Check sheet and country example of SME Policy, Institution and Business Environment

Figure 21 presents consolidated check sheet of macroeconomic environment, actual situation of SMEs, business environment, SME policy and institution discussed in 3-1. The example of Ghana using the check sheet is presented as Figure 22. It is recommended that users of this check sheet refer to Chapter 2 of the full report, especially “2-3 Checkpoints for macroeconomic environment and actual situation of SMEs,” “2-4 Checkpoints for business environment,” and “2-5 Checkpoints for SME policy and institution.” A good understanding of each is required because the coverage of this category is wide. It is also encouraged that users check each item in detail through project preparation and appraisal studies to verify/modify judgment of development stage preliminarily set at an early phase. It is the basis to move next step of finding effective approaches.

Please also refer to appendix 1 where sample of 21 countries is compiled using the check sheet. Note, however, that the information compiled is obtained solely through desk research. These pieces of information should be verified by in-country fieldwork.

**Figure 21 Check sheet of SME Policy, Institution and Business Environment**

Country Summary – SME Policy, Institution & Business Environment

Country:

Year

Population: million

GNI per capita: US\$

Share of informal sector in GDP

Structure of Economy

Agriculture %

Industry %

o.w. Manufacturing %

Services %

Specific features in socio-economy

Indicators for SME policy and institution	
Existence of an SME basic law	
Ministry and/or Department responsible for SME promotion	
Budget for SME promotion	
Institutions to promote SMEs or industries	

Qualitative evaluation of SME policy and institutions and the needs of assistance

Development stage of SME's actual status	
Development stage of business environment	
Development stage of SME policy and institutions	

Assistance approach by other donors

Recommendation for the assistance approach by JICA

# of SMEs and the share of SMEs in the industry

Actual Status of SMEs

Indicators of business environment	(Country)	@ OECD
Days necessary for starting business	days	days
Cost for starting a business (% of income per capita)	%	%
Number of licenses requirements		
Cost of obtaining licenses (% of income per capita)	%	%
Number of tax payments for a company per year		
Time for tax payment	hours	hours
Days required for export	days	days
Days required for import	days	days

Qualitative evaluation of business environment and the needs of assistance

**Figure 22 Ghana Example of Using Check sheet for SME Policy, Institution and Business Environment**

Country Summary – SME policy and institutions and Business Environment

Country: Ghana

	Year	
Population	2005	2.07 million
GNI per capita	2005	US\$380
Share of informal sector in GDP	2005	38%
Structure of	2004	38.1%
Economy		
Industry		25.5%
o.w. Manufacturing		8.3%
Services		36.3%

**Specific features in socio-economy**

Ghana is a typical resource-based economy, dependent on agriculture and mining industries. Major exports are cacao and gold. As such, the country is vulnerable to the trend of international trade. The country has achieved a 5% growth rate since the second half of the 1980s, and been regarded as a success of structural adjustment in Sub-Saharan Africa. The poverty rate has decreased from 52% to 40% last ten years.

**Indicators for SME policy and institutions**

Existence of an SME basic law	None
Ministry and/or department responsible for SME promotion	SME Directorate of Ministry of Trade and Industry Ministry of Private Sector Development
Budget for SME promotion	n.a.
Institutions to promote SMEs or industry	Ghana Export Promotion Council Export Round Table National Board for Small Scale Industries (NBSSI) Ghana Investment Promotion Center

**Qualitative evaluation of SME policy and institutions and the needs of assistance**

There is no SME promotion law. Although private sector promotion strategy is described in the "National Medium-Term Private Sector Development Strategy (PSDS) 2004-2008", nothing is mentioned on concrete actions or responsible agencies. For the improvement of business environment, the working group under PSDS Oversight Committee is tasked to give instructions to the consultants employed by the World Bank project

Development stage of SME's actual status	1
Development stage of business environment	1
Development stage of SME policy and institutions	1

**Assistance approach by other donors**

World Bank	Micro, Small and Medium Enterprise Project: technical assistance for the implementation of PSDS – development of trade policy, improvement of company registration, strengthening of standardization/accreditation institute, and capacity building of SME promotion agencies
DFID, Danida	Co-financing to the above World Bank project

**Recommendation for the assistance approach by JICA**

Since PSDS is a governing policy for the private sector promotion, activities of PSDS Oversight Committee must be monitored in the first place. It is recommended that in coordination with the Committee, capacity building (training or technical cooperation) be provided to implementing agencies of PSDS or to other agencies such as those for investment promotion or trade promotion

**Number of SMEs and the share of SMEs in the industry**

The SME sector employs 30% of total workers, while the sector represents only 6% of the GDP.

**Actual Status of SMEs**

While trade has been liberalized, the country has not been able to penetrate into international markets due to SMEs' lack of knowledge on international markets, their low quality products that do not satisfy international standards and their isolation from international networks. In addition, due to inefficient distribution network dominated by large enterprises is hindering SMEs' access to markets.

**Indicators of business environment**

	Ghana	OECD
Days necessary for starting a business	81 days	6.5 days
Cost for starting a business (% of income per capita)	79%	6.80%
Number of licenses requirements	16	14.1
Cost of obtaining licenses (% of income per capita)	1549.70%	75.10%
Number of tax payments for a company per year	35	16.9
Time for tax payment	304 hours	197.2 hours
Days required for export	47 days	12.6 days
Days required for import	55 days	34 days

**Qualitative evaluation of business environment and the needs of assistance**

Although indicators on business environment show improvement, cumbersome and inefficient administrative procedures and discretion of government officials are hindering businesses and increasing cost when starting businesses. Moreover, the government is not exercising regulations properly. These have prevented SMEs from growing into large companies. Trade and custom systems are inefficient and generating corruption.

#### **4-2 Check sheet and country example of BDS**

The BDS check sheet will be mainly of qualitative assessment as presented in Figure 23. Usually, filling the check sheet with precision will not be possible until project preparation study is completed. Prior to that, it would help get ballpark image to partially fill the check sheet with tentative assessment, using the information from available literature and interviews with donor staff engaged in BDS assistance. Quantitative data would also facilitate collection and analysis of qualitative data despite overall lack of data.

Detailed explanation of items in the check sheet can be found in the following sections of Chapter 3 of the full report.

- Summary table of development stage of BDS of a country: See relevant questions in 3-5 Checkpoints to Determine Development Stage of BDS.
- Comparative table of SME indicators of the World Bank: See (1) Schneider (2002) “Size and measurement of informal economy in 110 countries around the world and SME indicators of the World Bank in 3-4 Indicators to Determine Development Stage of BDS.
- Labor indicators of the Enterprise Survey: See (2) World Bank Doing Business Indicators and Labor-related Indicators of the Enterprise Survey.
- Human development indicators related to education and technology: See (3) Human Development Indicators (HDI) of UNDP
- GCI (Growth Competitiveness Index) and BCI (Business Competitive Index) : These are competitiveness indicators of the World Economic Forum. See 3-4 Indicators to Determine Development Stage of BDS, (4) in the full report.

**Figure 23** Check sheet for BDS :(name of country) :**Overall Assessment of Development Stage of BDS:** \_\_\_\_\_ stage

- (Explain)

**Assessment of Development Stage of BDS in (name of country)**

Access to basic services: _____ stage	Market-based provision of BDS: _____ stage	Recognition of policy, regulations and BDS approach: _____ stage

**SME Indicators of the World Bank in (name of country)**

GNI per capita (year)	Private Consumption per capita (year)	Informal Sector as % of GNI (year)	SMEs per 1,000 people	Ease of Doing Business Rankings (at _____)	Time to start a business (days)	Cost (% of income per capita)	Min. capital to start a business (% of GNI per capita)

- (Assessment vis-à-vis other countries)

**Labor Indicators of the Enterprise Survey— (name of country) :**

- Firms offering formal training (%) : \_\_\_\_%
- Permanent skilled workers receiving training (%) : \_\_\_\_%

**Human Development Indicators related to Education and Technologies in (name of country)**

	Adult literacy rate (year)	Youth literacy rate (year)	Children reaching grade 5 (year)	Telephone users (year)	Internet users (year)
	% of age 15 and above	% of age 15-24	% of grade 1 students	per 1,000 people	per 1,000 people
(name of country)					
average LDC					
average low income					
average middle income					

- (Assessment vis-à-vis other countries)

**Growth Competitiveness Index— (name of country)**

(name of country)	Company operation & strategy (BCI)	Quality of business environment (BCI)	Technology index	Public institutions index
Ranking				
Score				

- (Assessment vis-à-vis other countries)



Following is a Cambodian example of the BDS check sheet. See also five country examples including both check sheet and suggested approaches in Chapter 3 of the full report (3-7 Examples of Assessment of BDS Development Stage and Suggested Approaches). It is important to verify information through fieldwork at project preparation and assessment studies because information available through desk research is quite limited even as proxies. For example, Cambodian case lacks SME indicators of the World Bank, and Vietnamese case lacks labor indicators of the Enterprise Survey.

**Figure 24 Check sheet for BDS: Cambodian Example**

**Overall Assessment of Development Stage of BDS: Second Stage**

- Development stage of access to basic services is considered at the third stage, at least in urban area. There are no specific policies or regulations on BDS, which is not harming gradually developing market-based BDS.

**Assessment of Development Stages of BDS in Cambodia**

Access to basic services: <u>Third stage</u>	Market-based provision of BDS: <u>Second stage</u>	Recognition of policy, regulations and BDS approach: <u>First stage</u>
<p>A questionnaire survey of 300 SMEs revealed that:</p> <ul style="list-style-type: none"> <li>• More than 90% of businesses had access to land line or mobile phone</li> <li>• 60% of businesses used transportation services for their products</li> <li>• 35% of businesses used fax and call center services</li> <li>• Less than 2% of businesses used internet services</li> <li>• Electricity cost was high</li> </ul>	<ul style="list-style-type: none"> <li>• Market failure exists: Embedded BDS is provided, but fee-based BDS is not yet much accepted by the market. A questionnaire survey of 300 SMEs found that 0% of them used accounting/book keeping services, and only 1% used technical training. (15% and 11% of businesses used technical training in Sri Lanka and Thailand, respectively.)</li> <li>• A consulting industry study by MPDF (Mekong Project Development Facility) indicated that there is small but growing number of market-based BDS providers. <ul style="list-style-type: none"> <li>➢ For example, 83 consulting firms provided business consulting services such as finance and accounting, marketing and PR, business administration and strategic management, legal, and ICT. No firm offered human resources management and production and process management.</li> <li>➢ Other than business consulting, 53 firms provided such services as inter-firm linkages, real estate, research, training, agriculture, design and construction, and telephone services.</li> <li>➢ On top of these, 240 individual consultants were identified.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Policy and regulations on SMEs are not yet there as an SME Sub-Committee has been established only recently with participation of relevant agencies to develop SME policies.</li> <li>• No information regarding understanding and recognition of BDS approach.</li> </ul>

**SME Indicators of the World Bank in Cambodia: No data available**

**Labor Indicators of the Enterprise Survey— (Cambodia)**

- Firms offering formal training (%) : 22.47% → Low level among 16 countries where data were available among 21 countries covered in this study.
- Permanent skilled workers receiving training (%) : 64.22%

#### Human Development Indicators related to Education and Technologies in Cambodia

	Adult literacy rate (2003)	Youth literacy rate (2003)	Children reaching grade 5 (2001/02)	Telephone users (2003)	Internet users (2003)
	% of age 15 and above	% of age 15-24	% of grade 1 students	per 1,000 people	per 1,000 people
Cambodia	73.6	83.4	61	38	2
average LDC	54.2	64.2		8	16
average low income	60.8	73		32	24
average middle income	89.6	96.8		180	224

- Cambodian environment for BDS promotion is relatively good among LDCs, with literacy rate and number of telephone users higher than not just LDC average but also low income countries' average. The problem lies in flow of information with only two internet users out of 1,000 people, which is substantially lower than LDC average and even lower than Lao PDR.

#### Growth Competitiveness Index

Cambodia	Company operation & strategy (BCI)	Quality of business environment (BCI)	Technology index	Public institutions index
Ranking	103	107	105	114
Score	n.a.	n.a.	2.51	2.90

- Out of 116 countries studied in BCI, Cambodia ranks 103 in sophistication of business management and strategy, and 107 in quality of business environment. This low level may be probably close to those countries not included in BCI study. The fact that there has been a drastic increase in number of registered enterprises after simplification of registration indicates that quality of business environment may be dragging down sophistication of business management and strategy through high entry barrier and lack of competition.
- There may be small number of new technologies accessible to SMEs and limited capacity of the government in implementing SME policies, given the third lowest rank among 20 countries included in GCI of technology index (2.51) and public institutions index (2.90).

#### **4-3 Check sheet and country example of SME Finance**

Findings from analyzing SMEs finance guided by checking points described in above 3-3 can be compiled as mentioned below in check sheet (Figure 25). However, under-mentioned sheet is prepared in which other items than explicitly mentioned checking items can also be described. Assessment of a stage in development of a country's financial sector often depends not only on checking items but also on financial circumstance. Therefore, we believe that qualitative evaluation based on comprehensive analysis of financial conditions is often important, and it is useful for reviewing effective measures to support. Followings are points to remember related to each column.

##### **a. Overview of financial circumstances:**

As above mentioned, every country is not uniform about environment of SMEs finance. Checking items listed in checking sheet does not always cover everything necessary to identify the development stage of a country. In the truck of financial conditions of countries referred at the end of this report, it is advisable to make abridged edition composed of main 6 items based on information and documents which are relatively easily collected. To what points to be mainly paid more attention in an item is illustrated by an example in small font in each item. See Figure 26, this is an example of financial conditions in Cambodia.

##### **b. Assessment by checkpoints:**

Regardless to say, it should come first to study as detailed as possible following items in checking list in case of definition of development stage of a country. If some items overlap with those of above mentioned financial conditions, these checking items can simply be skipped. Details of a checking item are illustrated. Therefore, it is advisable to firstly review current status of detailed ones (by means of literature research, interview survey), then to fulfill the summary in the column of "current status" and finally roughly describe the stage of development in the column of "evaluation" after analyzing similarities with comparison their situation with characteristics already specified in each stage of development (see Figure 6)

##### **c. Assessment by index:**

World Bank group provides various indexes, from the actual business points of view, concerning issues such as easiness of business, procedures of business and finance, which

are compiled in reports such as Doing Business Report, in order to facilitate foreign companies beginning business in a country. International Monetary Fund also publishes detailed monetary and financial statistics (International Financial Statistics). To pick up some indexes provided in these documents is supportive for us to imagine the stage of development of a country, if it seems difficult to confirm the country's stage by means of surveys such as about comprehensive financial conditions, above mentioned, or based on checking points. These indexes are also useful to compare a country with others, which are considered in the same stage of development. However, it should be noted that published indexes are prepared under various preconditions, and that it sometimes takes long time to analyze them. Then, it is also acceptable that these indexes are only referred if enough time can be reserved.

#### d. Overall assessment

Overall assessment about the stage of development can only be implemented after evaluation of system of financial services, monitoring and supervision of financial institutions and maturity about borrowing of SMEs, mainly based on the survey which follows check points, with integration of information collected through comprehensive survey of financial conditions.

#### Examples of Financial Circumstances: Cambodia

##### (1) Overall information on financial system

In mid of 1990s, a period when controls and supervising capability of competence agencies are not inexperienced, setup of joint ventures and of banks in rural areas and opening of foreign banks' branches were actively found. With support of IMF Poverty Reduction Growth Facility, micro finance institutions were put under control of code for financial institutions and, development of non bank institutions were accelerated by the introductions of insurance law in 2000.

Meanwhile, the central bank reviewed banking licenses at the aim of improvement of financial intermediary functions and trustworthiness of banks, and disqualified 16 banks and ordered them dissolution since 2002. There are now 17 commercial banks, and of which 5 biggest banks including Foreign Trade Bank (a state owned bank) account for 70% of whole banking assets. As for other financial institutions, there are 5 insurance companies, bureau

de exchange, 5 authorized micro finance institutions, 36 registered micro finance institutions and around 70 informal local credit facilities.

Based on the reissuing plan of banking licenses, enhancement of banking sector is planned by means of establishment of minimum capital system and rules on liquidity positions. However, there actually happens concentration of loans in short term ones together with higher interest rate and spread. In order to increase loans backed by cash flow analysis, development of legal framework of secured loans and insolvency commences.

## (2) Policies of the government and the Central Bank

It is understood that the government and the central bank firstly think much of development of condition under which banking systems work well. In 2002, supervisions and rules were revised in order to enhance monitoring and supervision of the central bank in accordance with international standard, and to improve circumstance of borrowing of enterprises by means of active on-site inspections at banks such as investigations of all-items and inspections with documents which aim at assuring sound management of commercial banks. In addition, revision of financing licenses and preparation of registration rules aim at improving capacity building of financial institutions in reviewing their legal status, at refinance to local development banks and at providing conditions under which third parties are able to easily invest in financial institutions.

In 2003, New Chart of Accounts (COA) was made. Introduction of COA into tier 2 and tier 3 banks under the continuous monitoring of the central bank is being conducted following the introduction into tier one banks. Implementations of other policies are to advance restructuring of state-run banks such as FTB, to build legal framework for capital markets, to prepare legislation for issuing non-government bonds and to newly establish stock exchange markets by 2007.

## (3) Status of financial institutions

Financial intermediary functions of financial institutions are still inefficient and opening of their branches is restricted. Non-bank financial institutions are not well developed, and financial instruments and services are continued to be limited. Insufficiency of mechanism which is necessary to ascertain legal enforcement of loan contracts, shortage of information about borrowers, high-cost structure of operations and less transparent management of

financial institutions and delay of human resources development are main factors of underdevelopment of financial institutions and are essential issues.

#### (4) Microfinance

Microfinance is considered as one of measures to solve gender issues. Women are in many case responsible for housekeeping and borrowing and are enough trustworthy. Therefore, 70 to 85% of loans programs are for women and they tend to be main borrowers. However, a contradiction that they are scarcely involved in decision making of borrowing is included. In addition, importance of development of deposit schemes for poor women is also pointed out.

Concerning financial sector, big gaps between demand and supply of finance hinder sustainable lending at lower interest rate.

#### (5) Support of donors

International Monetary Fund (IMF) supports the financial sector, and Asian Development Bank supports the sector based on Financial Sector Blueprint, as well.

**Figure 25****Check Sheet for SME Finance**(name of country)

## 1. Overview of financial circumstance

<p>(1) Overall information on financial system Current trend (formal and informal financial market, statistics and index about deposits and loans, share of SMEs)</p> <p>See Figure 26 (however, further simplification is also possible)</p> <p>(2) Policies of the government and the Central Bank Guiding principles and regulations of competent agencies and central bank about SMEs finance, development of legal framework, concrete measures, status of ability of supervision, issues</p> <p>See Figure 26 (however, further simplification is also possible)</p> <p>(3) Status of financial institutions Mainly, policies on SMEs finance and status of management of state-run and/or private commercial banks, their network, standards of credit analysis and their ability, issues</p> <p>See Figure 26 (however, further simplification is also possible)</p>	<p>(4) Microfinance History of microfinance provided by MFIs (of commercial banks, if necessary) and their performance, issues</p> <p>See Figure 26 (however, further simplification is also possible)</p> <p>(5) Status of management of SMEs Means of fund procurement of SMEs, management and their borrowing capacity, capacity of disclosure, issues on fund procurement at formal financial market</p> <p>See Figure 26 (however, further simplification is also possible)</p> <p>(5) Support of donors Lending policies of main donors such as international financial institutions and their major programs, main local counterparts, issues</p> <p>See Figure 26 (however, further simplification is also possible)</p>
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## 2. Assessment by Checkpoints

Stakeholders	Medium items	items	Instance Description of present status	Evaluation
Financial services	Delivery	Procedure	Register of company, registration of pledges: Most companies are informal and engaged in agriculture. Relation of right is generally unclear	1
		Network	Oligopoly ratio of bigger banks, ratio of loan outstanding balance (rural area/urban area): Opening of branches is restrictive. Non-bank institutions as well as clearing system are not well developed.	
	Deposits	Interest rate	Difference of interest rate between deposits and loans: The difference is rather big.	1



		Outstanding balance	Deposit reserve requirement ratio, ratio of money outside banking system: Deposit reserve requirement ratio is big. ratio of money kept in banking system is at lower level from the global point of view.	1
	Loans	Interest rate	Difference of interest rate between loans and deposits: The difference is rather big.	
		Outstanding balance	Loan deposit ratio, percentage of loans extended to private sector, non-performance loan: Loan deposit ratio is small. Short term loans at high-interest rate are prevailing at the market. Medium term loans are short.	
		Collaterals	Credit guarantee institutions, loan-to-collateral value ratio: In the first place, legislation concerning secured loans and bankruptcy are not well developed.	
Fund requirement (of SMEs)	Procurement of funds	Formal finance	Percentage of companies that finance at formal market among total companies, ratio of funded amount in the market/fund needed: Limited number of companies can use the market. Access to the market is difficult and is expensive.	1
		Informal finance	Informal microfinance: Informal microfinance is not well developed. Women who are main players in the dwarf economy face difficulty of borrowing	
	Information on management	Financial information	Accounting book, statement of accounts: Majority are informal companies. Disclosure of financial information is inefficient.	1
		Business information	Business plan: Most companies are not able to prepare their business plan.	
Monitoring and supervision of financial institutions	supervision of financial institutions	Supervision	Banks under supervision, prudential standards: Inspections are implemented at limited number of banks. Micro and small financial institutions are informal ones.	1
		Reports	New Chart of Accounts (COA) finally commenced in all banks.	
	Financial infrastructure	Legislation	Banking law, bankruptcy proceedings, disposition proceedings of collaterals	1
		Accounting system	Accounting standards, accountant: Building new accounting standards in accordance with International Accounting Standards is planed.	
		Information	Credit information bureau: The central bank takes initiative to study establishment of a credit information bureau.	
Specific factors	Community structures, financial and economic structures, political initiatives: Legal frameworks are fragile and corruptions often take place even involving courts.			1

### 3. Assessment by Index

External factors			Factors attributed to financial institutions					Management	Development of financial system		
Size of informal economy	Money outside financial	Lending at high-interest	Difference between deposit	Deposit reserve requirement	Loan deposit ratio	Fund management in foreign	State borrowing	Difficulty of fund procurement	Insufficient development of	Insufficient development of credit	Years needed to collect funds

	systems	rate	interest rate and loan interest rate	ratio		currency		from SMEs management point of view	legislation	information system	
NA	◎	◇	◎	◎	○	○	×	×	○	◎	NA
Other comments											
Financial intermediary function is at lower level. Main issues are to make appropriate legal framework and accounting standards. Economically the country heavily depends on agricultural communities.											

#### 4. Overall assessment

Financial services and systems	
It must be evaluated in reference to external factors among published indexes, factors related financial institutions and actual conditions of financial services described in the check sheet	1
Monitoring and supervision of financial institutions and system	
It must be evaluated in reference to external factors among published indexes, factors related financial institutions and current status about monitoring and supervision of financial institutions described in the check sheet	1
Degree of maturation about SMEs financing	
It must be evaluated in reference to external factors among published indexes, SMEs' management and their fund requirement described in the check sheet	1
Overall evaluation	1

Recommendation for the Japanese government policies to support
It is necessary to firstly establish creditability of monetary system, then to improve fundamental financial intermediary function, because the country heavily depends on rural economy. Although various institutional reforms are attempted, it is still required that from long-term perspectives Japan can engage in basic support to encourage people's consciousness of the market economy, as well as improvement of transparency and capability of the governmental and competent authorities.

**Figure 26: Cambodian example of the check sheet for SME finance**

1. Overview of financial circumstance

<p>(1) Overall information on financial system</p> <p>In mid of 1990s, a period when controls and supervising capability of competence agencies are not inexperienced, setup of joint ventures and of banks in rural areas and opening of foreign banks' branches were actively found. With support of IMF Poverty Reduction Growth Facility, micro finance institutions were put under control of code for financial institutions and, development of non bank institutions were accelerated by the introductions of insurance law in 2000. Meanwhile, the central bank reviewed banking licenses at the aim of improvement of financial intermediary functions and trustworthiness of banks, and disqualified 16 banks and ordered them dissolution since 2002. There are now 17 commercial banks, and of which 5 biggest banks including Foreign Trade Bank (a state owned bank) account for 70% of whole banking assets. As for other financial institutions, there are 5 insurance companies, bureau de exchange, 5 authorized micro finance institutions, 36 registered micro finance institutions and around 70 informal local credit facilities. Based on the reissuing plan of banking licenses, enhancement of banking sector is planed by means of establishment of minimum capital system and rules on liquidity positions. However, there actually happens concentration of loans in short term ones together with higher interest rate and spread. In order to increase loans backed by cash flow analysis, development of legal framework of secured loans and insolvency commences.</p> <p>(2) Policies of the government and the Central Bank</p> <p>It is understood that the government and the central bank firstly think much of development of condition under which banking systems work well. In 2002, supervisions and rules were revised in order to enhance monitoring and supervision of the central bank in accordance with international standard, and to improve circumstance of borrowing of enterprises by means of active on-site inspections at banks such as investigations of all-items and inspections with documents which aim at assuring sound management of commercial banks. In addition, revision of financing licenses and preparation of registration rules aim at improving capacity building of financial institutions in reviewing their legal status, at refinance to local development banks and at providing conditions under which third parties are able to easily invest in financial institutions.</p>	<p>(4) Microfinance</p> <p>Microfinance is considered as one of measures to solve gender issues. Women are in many case responsible for housekeeping and borrowing and are enough trustworthy. Therefore, 70 to 85% of loans programs are for women and they tend to be main borrowers. However, a contradiction that they are scarcely involved in decision making of borrowing is included. In addition, importance of development of deposit schemes for poor women is also pointed out. Concerning financial sector, big gaps between demand and supply of finance hinder sustainable lending at lower interest rate.</p> <p>(5) Status of management of SMEs</p>
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<p>In 2003, New Chart of Accounts (COA) was made. Introduction of COA into tier 2 and tier 3 banks under the continuous monitoring of the central bank is being conducted following the introduction into tier one banks. Implementations of other policies are to advance restructuring of state-run banks such as FTB, to build legal framework for capital markets, to prepare legislation for issuing non-government bonds and to newly establish stock exchange markets by 2007.</p> <p>(3) Status of financial institutions Financial intermediary functions of financial institutions are still inefficient and opening of their branches is restricted. Non-bank financial institutions are not well developed, and financial instruments and services are continued to be limited. Insufficiency of mechanism which is necessary to ascertain legal enforcement of loan contracts, shortage of information about borrowers, high-cost structure of operations and less transparent management of financial institutions and delay of human resources development are main factors of underdevelopment of financial institutions and are essential issues. Mainly, policies on SMEs finance and status of management of state-run and/or private commercial banks, their network, standards of credit analysis and their ability, issues</p>	<p>(6) Support of donors</p> <p>International Monetary Fund (IMF) supports the financial sector, and Asian Development Bank supports the sector based on Financial Sector Blueprint, as well.</p>
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## 2. Assessment by Checkpoints

Stakeholders	Medium items	items	Instance Description of present status	Evaluation
Financial services	Delivery	Procedure	Register of company, registration of pledges: Most companies are informal and engaged in agriculture. Relation of right is generally unclear	1
		Network	Oligopoly ratio of bigger banks, ratio of loan outstanding balance (rural area/urban area): Opening of branches is restrictive. Non-bank institutions as well as clearing system are not well developed.	
	Deposits	Interest rate	Difference of interest rate between deposits and loans: The difference is rather big.	1
		Outstanding balance	Deposit reserve requirement ratio, ratio of money outside banking system: Deposit reserve requirement ratio is big. ratio of money kept in banking system is at lower level from the global point of view.	
	Loans	Interest rate	Difference of interest rate between loans and deposits: The difference is rather big.	1
		Outstanding balance	Loan deposit ratio, percentage of loans extended to private sector, non-performance loan: Loan deposit ratio is small. Short term loans at high-interest rate are prevailing at the market. Medium term loans are short.	
		Collaterals	Credit guarantee institutions, loan-to-collateral value ratio: In the first place, legislation concerning secured loans and bankruptcy are not well developed.	

Fund requirement (of SMEs)	Procurement of funds	Formal finance	Percentage of companies that finance at formal market among total companies, ratio of funded amount in the market/fund needed: Limited number of companies can use the market. Access to the market is difficult and is expensive.	1
		Informal finance	Informal microfinance: Informal microfinance is not well developed. Women who are main players in the dwarf economy face difficulty of borrowing	
	Information on management	Financial information	Accounting book, statement of accounts: Majority are informal companies. Disclosure of financial information is inefficient.	1
		Business information	Business plan: Most companies are not able to prepare their business plan.	
Monitoring and supervision of financial institutions	supervision of financial institutions	Supervision	Banks under supervision, prudential standards: Inspections are implemented at limited number of banks. Micro and small financial institutions are informal ones.	1
		Reports	New Chart of Accounts (COA) finally commenced in all banks.	
	Financial infrastructure	Legislation	Banking law, bankruptcy proceedings, disposition proceedings of collaterals	1
		Accounting system	Accounting standards, accountant: Building new accounting standards in accordance with International Accounting Standards is planned.	
		Information	Credit information bureau: The central bank takes initiative to study establishment of a credit information bureau.	
Specific factors	Community structures, financial and economic structures, political initiatives: Legal frameworks are fragile and corruptions often take place even involving courts.			1

### 3 . Assessment by index

External factors			Factors attributed to financial institutions					Management	Development of financial system		
Size of informal economy	Money outside financial systems	Lending at high-interest rate	Difference between deposit interest rate and loan interest rate	Deposit reserve requirement ratio	Loan deposit ratio	Fund management in foreign currency	State borrowing	Difficulty of fund procurement from SMEs management point of view	Insufficient development of legislation	Insufficient development of credit information system	Years needed to collect funds
NA	◎	◇	◎	◎	○	○	×	×	○	◎	NA
Other comments											

Financial intermediary function is at lower level. Main issues are to make appropriate legal framework and accounting standards. Economically the country heavily depends on agricultural communities.

#### 4. Overall assessment

Financial services and systems	
It must be evaluated in reference to external factors among published indexes, factors related financial institutions and actual conditions of financial services described in the check sheet	1
Monitoring and supervision of financial institutions and system	
It must be evaluated in reference to external factors among published indexes, factors related financial institutions and current status about monitoring and supervision of financial institutions described in the check sheet	1
Degree of maturation about SMEs financing	
It must be evaluated in reference to external factors among published indexes, SMEs' management and their fund requirement described in the check sheet	1
Overall evaluation	1

Recommendation for the Japanese government policies to support
It is necessary to firstly establish creditability of monetary system, then to improve fundamental financial intermediary function, because the country heavily depends on rural economy. Although various institutional reforms are attempted, it is still required that from long-term perspectives Japan can engage in basic support to encourage people's consciousness of the market economy, as well as improvement of transparency and capability of the governmental and competent authorities.

#### **4-4 Check sheet and country example of Technology**

Assessment of the seven technology checkpoints at 3-4 can be presented in a check sheet presented as Figure 27 (country assessment). In general, main focus of assistance is on technical assistance to light industries at the early stage of technological development, and building up of equipment industry and supporting industries for complete product assembly industry. The Cambodian example is that the country is at the first stage of technology development, but has export competitiveness of some industries such as apparel due to FDI. Figure 28 shows Cambodian example of check sheet.

Figure 27

## Check sheet for Technology

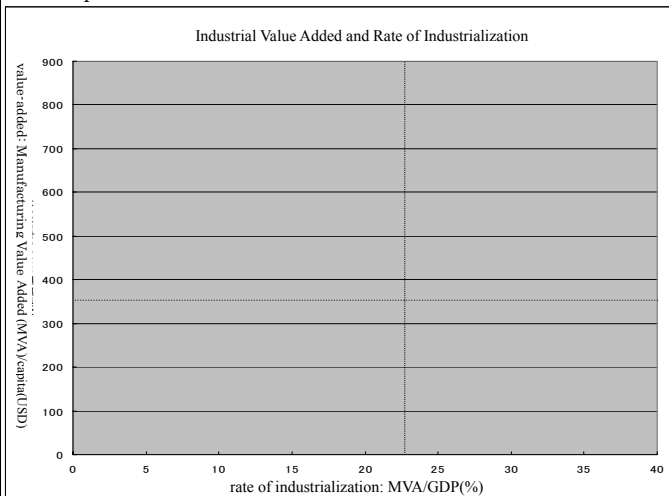
Stage

Country

Industry analysis

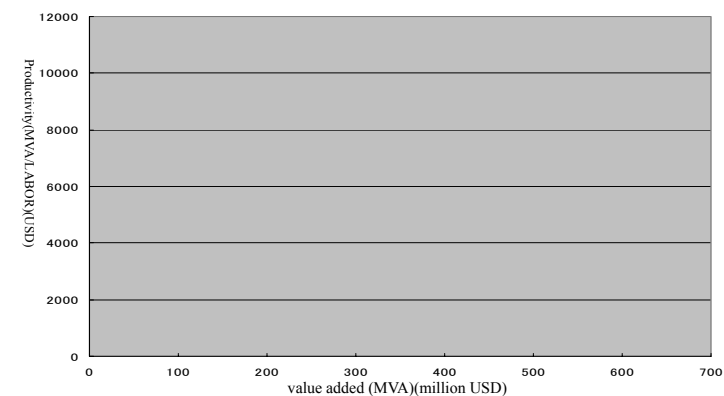
Country analysis

( Graph :Industrial added value)



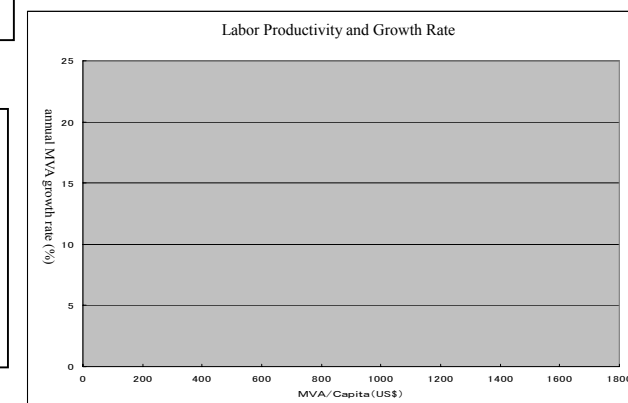
Technology index	Value
Training ratio	
% firms starting renovation	
Use of foreign licensed technologies	
ISO accredited firms	
# application of patent/100 persons	
value of licensed technologies from Japan	
Higher education enrollment ratio	
# internet user/100 persons	
# passenger car/1000 persons	

Cross-Industry Comparison of Value Added and Productivity



Assessment of indexes related to technologies)

graph : MVA/Capita



Technology level analysis

Qualitative analysis as described below, based on related documents

Proper technology	1. Fabrication work 2. Light manufacturing 3. Export oriented production 4. (1)Assembly (1) 5. (2)Assembly(2)
Equipment technology	1. Handling skills 2. Repair technology 3. Preventive management 4. Reformation and renovation 5. Independently manufacturing
Management skills	1. — 2. — 3. Quality control 4. Cost reduction 5. Process control
Procurement of inputs	1. Import of parts 2. Partially home made 3. Largely home made 4. horizontal division of work 5. Well experienced supporting industry
Industry Associations	1. Not existing 2. Marginally existing 3. Somewhat existing 4. Largely existing 5. Joint development
Public institutes	1. Not existing 2. Marginally existing 3. Somewhat existing 4. Largely existing 5. Efficiently effective
Promotional measures	1. Not existing 2. Marginally existing 3. Somewhat existing 4. Partially functioning 5. Effective utilization of function

Direction to be sought

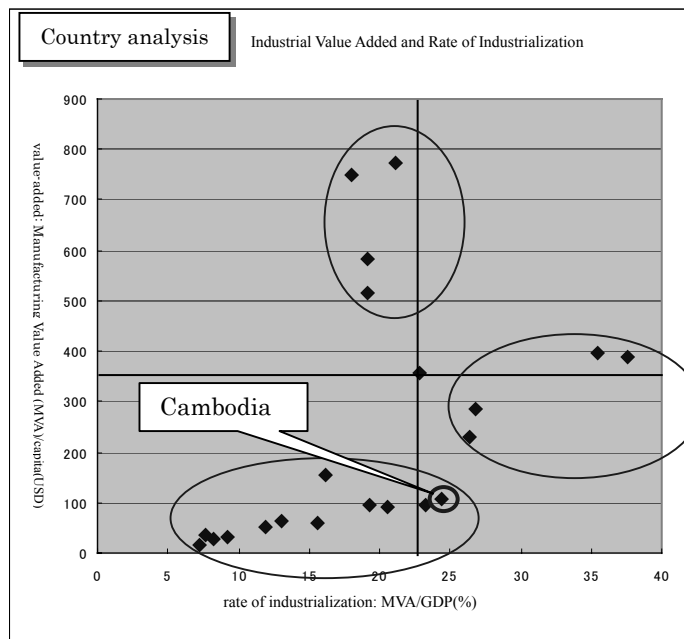
Technology and stage of development

Measures of technical assistance

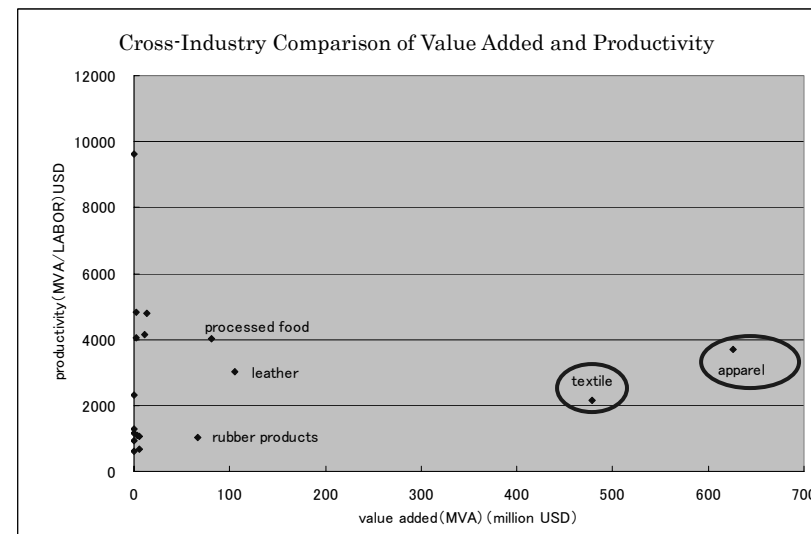


**Figure 28 Check sheet for Technology**

Stage	1-2	Country	Cambodia
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Technology index	Value
Training ratio	22.5
% firms starting renovation	96.2
Use of foreign licensed technologies	13.1
ISO accredited firms	2.8
# application of patent/100 persons	—
value of licensed technologies from Japan	—
Higher education enrollment ratio	3.4
# internet user/100 persons	—
# passenger car/1000 persons	—



<b>Technology level analysis</b>	Qualitative analysis as described below, based on related documents
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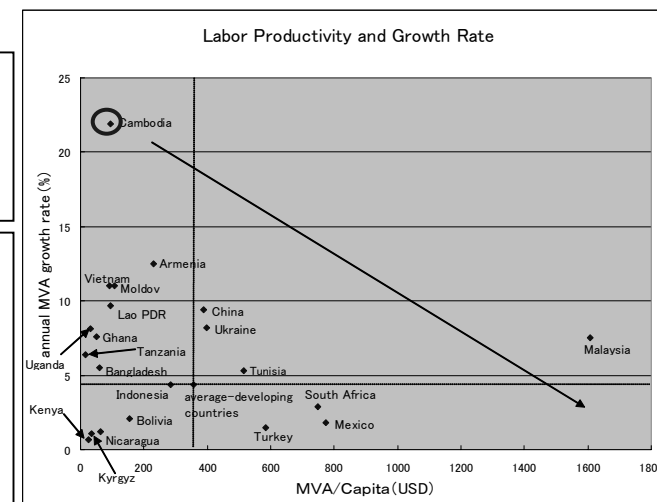
Proper technology	1. Fabrication work 2. Light manufacturing 3. Export oriented production 4. (1)Assembly (1) 5. (2)Assembly (2)
Equipment technology	1. Handling skills 2. Repair technology 3. Preventive management 4. Reformation and renovation 5. Independently manufacturing
Management skills	— 2. — 3. Quality control 4. Cost reduction 5. Process control
Procurement of inputs	1. Import of part 2. Partially home made 3. Largely home made 4. horizontal division of work 5. Well experienced supporting industry
Industry Associations	1. Not existing 2. Marginally existing 3. Somewhat existing 4. Largely existing 5. Joint development
Public institutes	1. Not existing 2. Marginally existing 3. Somewhat existing 4. Largely existing 5. Efficiently effective
Promotional measures	1. Not existing 2. Marginally existing 3. Somewhat existing 4. Partially functioning 5. Effective utilization of function

Assessment of indexes related to technologies : Rate of industrialization is higher among developing countries of which industrial productivities are low. Development of industry sector has just started by means of inviting direct investment into apparel and textile industries. Concerning index about technology, rate of accreditation of ISO as well as ratio of companies which utilize foreign licensed technologies is quite small.

Directions to be sought: It is mostly common recognition that Cambodia should be headed for the development of export-oriented industries. However, in Cambodia, share of apparel and textile products among total export goods is currently 75 to 80% and footwear follows. It can be said that exports structure is very fragile and heavily depends on rootless industry such as foreign owned apparel industry. It is important to enhance competitiveness of local enterprises of light manufacturing industries, which are currently represented mainly by textile, and to provide technical assistance in order to improve quality in export-oriented industries.

Technology and stage of development	Production share of textile, apparel and footwear industries is in total about 11% of GDP owing to getting prioritized right to access Euro-American market. Cambodia can enter now into the stage to promote import substitution and then exportation, if technical assistance is provided for processing foods and wooden products as well as previously mentioned light manufacturing industries. Cambodia is comprehensively assessed being in the first stage.
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Measures of technical assistance	In order to break through the weak points that their exports structure is very fragile and heavily depends on rootless industry such as foreign owned apparel industries which scarcely give industrial linkage effects, it is necessary to promote setting up training centers to transfer technologies to local SMEs which are engaged in textile and apparel industries, to train technical trainers of training centers and to improve skills of handling and repairing weaving machinery.
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## **5 Effective Approaches according to Development Stage of Each Category**

This section presents standard directions of assistance according to development stage of each category. As has been stated earlier, varying situation of countries indicate that a country assessed at the first stage overall may have second stage features in some areas. In such a case, assistance may be given to these areas as far as it contributes to moving the country to next stage and it does not cause conflict with other assistances or excessive de-concentration of resources.

For prioritization among four categories, see country examples under “Examples of Five Year Programs Combining Effective Approaches of Four Categories.”

### **5-1 Effective Approaches in Policy, Institution and Business Environment by Development Stage**

Direction of effective assistance approaches are presented taking into account not only core development assistance needs of the country (demand side), but also assessment of seeds (demand side) such as assistance of other donors, prospects of industry linkages between local SMEs and Japanese firms, and possibility and advantages of Japanese assistance. It is important to assess feasibility of concrete assistance approaches even at early stage of project identification in terms of: 1) priority needs for assistance, 2) effective assistance menu, and 3) effective implementation process. It may not be the best option to address high priority needs directly when no counterpart/implementing agency exist with sufficient capacity and ownership for providing effective support in the project. Alternative approach may be indirect assistance such as dissemination of knowledge and building/strengthening of organizations. (See the full report, Chapter 2, 2-6 for detailed discussion on this.)

Detailed design of project (i.e., project preparation and assessment studies) will short-list prioritized projects through detailed analysis and assessment of long-listed candidate projects. The assessment will be done on the five assessment items (relevance, effectiveness, efficiency, impact and self-sustainability) on the basis of the proposed directions of effective approach.

**Figure 29 Effective approaches in SME Finance by development stage**

Stages	Directions of Effective Assistance Approach
1	<ul style="list-style-type: none"> <li>① Knowledge Exchange, Transfer and Dissemination (Policy Dialogue) on Advantages of Free and Fair Business Environment and Effective SME Policies and Institutional Framework</li> <li>② Basic Training of Government Officers on Design/Implementation of SME Policies and Institutional Framework</li> <li>③ Human Resource Development for Broad Range of People through Development/Strengthening of Basic Education and Vocational Training</li> </ul>
2	<ul style="list-style-type: none"> <li>① Development/Improvement of Institutional Framework for Promoting Free and Fair Business Environment</li> <li>② Knowledge Exchange, Transfer and Dissemination (Policy Dialogue), Technology Assistance, and Human Resources Development for Establishment/Strengthening of SME Promotion Policies and Institutional Framework</li> <li>③ Human Resource Development of Public and Private Sectors for SME Promotion at Central /Local Levels</li> </ul>
3	<ul style="list-style-type: none"> <li>① Knowledge Exchange, Transfer and Dissemination (Policy Dialogue), and Technology Assistance for Development/Implementation of Concrete SME Promotion Measures Targeted for Specific Policy Objectives</li> <li>② Assistance for Design/Implementation of Concrete Policies and Measures for Promotion of Specific SME Issues (Development of Industrial Sector, Sub-Sector, Region, and Value Chain Activities)</li> <li>③ Human Resource Development for Promotion of Specific SME Issues (Development of Industrial Sector, Sub-Sector, Region, and Value Chain Activities)</li> </ul>
4	<ul style="list-style-type: none"> <li>① Assistance for Design/Implementation of Institutional Framework for Strengthening Industrial Linkages with Japanese Firms</li> <li>② Assistance for Design/Implementation of Institutional Framework for Strengthening Competitive Advantages of SMEs, which Contributes to Promoting Trade and Investment in Consideration of WTO and FTA (with Japan)</li> <li>③ Strengthening of Human Resource Development in relation to ① and ② (Major Implementing Bodies should gradually shift to JETRO, JODC and AOTS)</li> </ul>
5	No Basic Assistance Needs

Source: Study team

## 5-2 Effective Approaches in BDS by Development Stage

There are several principles to follow when considering effective approaches by development stage of BDS. (See the full report, Chapter 3, 3-6 for concrete assistance measures related to each principle.)

- When adult literacy rate or average education level of workers is low: It is not impossible to provide BDS under such condition as there are BDS methodologies for illiterate and those without basic education. Nonetheless, literacy and basic education should be

emphasized relative to provision of BDS.

- When access to basic services is limited: BDS provision should take into account the limitation. Efforts should be made to improve access to basic services at the same time.
- When development of business environment is low: Improvement of business environment should be prioritized because bad business environment hamper the development of both core market and support service market including BDS. (See the full report, Chapter 3, 3-22 for discussion of core market and support service market.)
- When there is lack of understanding to the BDS approach: Any support measures may end up transitory donor initiative without critical mass of government and private sector stakeholders who understand and support BDS market development approach. A big challenge lies in changing the mentality of authorities in charge of SME development who face influence peddling pressure. Their circumstances are quite different from those of private sector BDS providers who receive substantial donor support.
- When there is doubt about crowding out, or distortion of market by public institutes/programs providing subsidized BDS: Basic approach is to correct the market distortion and unleash market development potential.
- When BDS provider regulations create entry barriers: Basic approach is to eliminate entry barriers to encourage new entrants and competition. Concrete actions are the same as those in the case of crowding out.
- When there is no evidence of above-mentioned problems and market-based provision of BDS is low: There are many ways to develop BDS market because such was the normal condition assumed in BDS thinking.

Table below summarized effective assistance approaches by development stage of BDS taking into account above principles. The more BDS market develops, the more sophisticated assistance needs becomes, but the coverage will be reduced towards the final stage when assistance will be provided only for vulnerable groups and the poor. Until private sector-led BDS market for SMEs gets on a growth path, there is need for institutional/organizational development for BDS promotion throughout stage one to three of BDS development. On the basis of this, effective approaches would selectively be provided by development stage including: capacity development of model private BDS providers; introduction of BDS customized for particular type of clients; time-bound use of market facilitation tools.

**Figure 30: Effective approaches in BDS by development stage**

Stages	Directions of Effective Assistance Approach
1	<ul style="list-style-type: none"><li>• Prioritize upgrading and expansion of basic services and improvements of business environment before promoting BDS, or consider measures combining all.</li><li>• BDS awareness raising training for policymakers in public and private sectors (existing BDS training seminars could be made part of such awareness raising training.)</li><li>• Develop a BDS roadmap through BDS market assessment including among others regulations and public services limiting BDS market development.</li><li>• Development of BDS strategy that also facilitates core market development.</li><li>• Provision of information on BDS providers and their service menus.</li><li>• Strengthening of policy dialogue and BDS market development capacity of chambers and associations.</li><li>• Introduction of modern management studies into educational and training market. Entrepreneurship development.</li></ul>
2	<ul style="list-style-type: none"><li>• Expansion and deepening of above.</li><li>• Capacity building of model private BDS providers.</li><li>• Introduction of pilot BDS presumably suitable to particular clientele.</li></ul>
3	<ul style="list-style-type: none"><li>• Expansion and deepening of the above with narrower targeting.</li><li>• Time-bound use of market facilitation tools such as matching grants and training vouchers could be considered.</li></ul>
4	<ul style="list-style-type: none"><li>• Application of the above is limited. Efforts will be made for remaining specific issues.</li><li>• Support of developing new BDS products.</li></ul>
5	<ul style="list-style-type: none"><li>• BDS development focusing the poor and other socially vulnerable groups.</li></ul>

Source: Study team

### **5-3 Effective Approaches in SME Finance by Development Stage**

Based on the characteristics of each stage of development, and with efforts to generalize specific circumstance of individual country which is categorized in a stage, following support measures can be recommended. However, it is important that such support measures should have a target to assist a country, which is for example categorized as the first stage country, to at least level up to the second stage country or to make a leap to the third stage. Furthermore, it is always necessary to keep flexibilities such as making measures to appropriately respond to influence caused by some political and economic dimensions, because many of developing countries do not always follow typical developmental process due to some substantial dimensions. Therefore, in such case, it is also possible to partially add necessary measures to assist the country to jump to the third or the forth stage as well as support measures for the country to shift to second stage from the first.

**Figure 31: Effective approaches in SME Finance by development stage**

Stages	Directions of Effective Assistance Approach
1	<ul style="list-style-type: none"> <li>Human resources development (HRD) through model financial institutions (FIs) and transfer of services from policy lending institutions: <ul style="list-style-type: none"> <li>➤ Establish a new, model microfinance institution (MFI) and transfer management know-how.</li> </ul> </li> <li>Removing impeding factors to access to formal financing: <ul style="list-style-type: none"> <li>➤ Review of legal and regulatory framework and strengthen implementation.</li> </ul> </li> <li>Reducing excessive burden to borrowers and borrowers education: <ul style="list-style-type: none"> <li>➤ Build credit enhancement institutions and transfer management know-how to them.</li> <li>➤ Disseminate knowledge of credit enhancement to users.</li> </ul> </li> <li>Building basic structure of financial supervision and HRD for supervision: <ul style="list-style-type: none"> <li>➤ Review the central bank/financial agency law and develop organizational capacity of them.</li> </ul> </li> <li>Building strong and large-enough FIs: <ul style="list-style-type: none"> <li>➤ Equity investment in private commercial banks.</li> <li>➤ Train banks with basic management policies and credit analysis skills.</li> </ul> </li> </ul>
2	<ul style="list-style-type: none"> <li>Building capacity of financial supervision authorities: <ul style="list-style-type: none"> <li>➤ Train on clarification and transparent implementation of prudential regulations.</li> <li>➤ Train on inspection skills.</li> </ul> </li> <li>Transferring know-how about how SMEs are able to access formal financial market without heavy burden: <ul style="list-style-type: none"> <li>➤ Disseminate management know-how of model FIs.</li> <li>➤ Improve transparency of business registration procedure and tax imposition rules.</li> </ul> </li> <li>Improving credit analysis skills of FIs: <ul style="list-style-type: none"> <li>➤ Invest in equities of private commercial banks and improve management and credit analysis know-how.</li> <li>➤ Disseminating credit analysis skills to rural based banks and branches.</li> </ul> </li> <li>Developing full-fledged financial infrastructure: <ul style="list-style-type: none"> <li>➤ Build legal framework for fair assessment of collaterals.</li> <li>➤ Prepare insolvency and/or bankruptcy law.</li> <li>➤ Develop corporate accounting laws and regulations.</li> <li>➤ Review the central bank law.</li> </ul> </li> </ul>
3	<ul style="list-style-type: none"> <li>Supporting autonomy of FIs from political interventions: <ul style="list-style-type: none"> <li>➤ TA on accountability, governance and transparency of FIs.</li> <li>➤ HRD of FIs.</li> </ul> </li> <li>Develop credit analysis skills to accommodate diversity of SMEs: <ul style="list-style-type: none"> <li>➤ Assist in building credit analysis skills on the basis of business forecast and/or cash flow.</li> <li>➤ Support diversification of collaterals and assessment skills thereof.</li> </ul> </li> <li>Strengthening competitiveness of FIs in the international market: <ul style="list-style-type: none"> <li>➤ Equity participation to and management restructuring of small- and medium-sized FIs.</li> <li>➤ Support to business network development of FIs.</li> </ul> </li> <li>Benefiting from information technology and network: <ul style="list-style-type: none"> <li>➤ Help harmonization of accounting standards to the international accounting standards.</li> <li>➤ Strengthen credit information bureau.</li> <li>➤ Promote computerization of FIs.</li> </ul> </li> <li>Restructuring competition-restricting laws and regulations of financial market: <ul style="list-style-type: none"> <li>➤ Stakeholder coordination for legal and regulatory change.</li> <li>➤ Capacity building of competent authorities.</li> </ul> </li> <li>Training trainers for business management of SMEs: <ul style="list-style-type: none"> <li>➤ Train trainers on business and financial planning.</li> </ul> </li> </ul>

4	<ul style="list-style-type: none"> <li>Improving governance, transparency and accountability of private FIs: <ul style="list-style-type: none"> <li>➢ Train management members.</li> <li>➢ Assist in building dynamic organizational culture.</li> <li>➢ Support building credit rating system.</li> </ul> </li> <li>Responding to service diversification and expanding scope of business of FIs: <ul style="list-style-type: none"> <li>➢ Train on supervision and monitoring of FIs with advanced financial services.</li> <li>➢ Assist in elaboration of associated regulations and inspection manuals.</li> </ul> </li> <li>Strengthening organizations of credit guarantee and SME investment: <ul style="list-style-type: none"> <li>➢ Assist in structuring of new types of guarantee and investment for SMEs.</li> <li>➢ Assist in improving financial soundness of organizations of credit guarantee and SME investment.</li> </ul> </li> <li>Improving management skills in SMEs: <ul style="list-style-type: none"> <li>➢ Train SME consultant.</li> <li>➢ Assist in development of credit information infrastructure.</li> </ul> </li> </ul>
5 (Level of advanced countries)	<ul style="list-style-type: none"> <li>No assistance is needed.</li> </ul>

Source: Study team

#### 5-4 Effective Approaches in Technology by Development Stage

The overall development stage of technology could be set with caution because it is determined by each of many aspects of technology (See the full report, Chapter 5, 5-1 for further discussion on this). Direction of effective assistance approaches can be set according to overall development stage of technology. For example, promotion of processing technologies of agricultural and marine products and manufacturing technologies of garment and wood products will become major focus of assistance at early stage of industrial development. At the stage of industrial growth and maturity, focus of assistance moves to technological aspect of supporting industries. Target industry may vary according to development stage. See the full report, Chapter 5, 5-2-3 for assistance measures at each development stage.

**Figure 32: Effective approaches in Technologies by development stage**

Stages	Directions of Effective Assistance Approach
1	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>Technical assistance by public institutions on equipment operating techniques and simple repair techniques.</li> <li>Make use of workers who had overseas work/training experience.</li> <li>Identification and technology development of microenterprises/SMEs</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>Support for building local workforce in light industries, e.g., food, weaving and sewing re., what is manufacturing.</li> <li>Train processing technologies of simple manufacturing industries using local raw material.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>Exploration of local technologies.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>Train technology policies through establishment of organizational body responsible for technology policies.</li> <li>Train the training institutes on simple manual labor.</li> </ul>

	<p><b>【Institution】</b></p> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>• Develop and train on basic technology policies.</li> </ul>
2	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>• Improve capacity utilization ratio by planned technical assistance on preventive maintenance on equipments.</li> <li>• Develop export-oriented SMEs.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>• Train light industry technologies and processing of related parts.</li> <li>• Link enterprises and young workers through apprenticeship.</li> </ul> <p>Management techniques :</p> <ul style="list-style-type: none"> <li>• Technical assistance on organizational movement for quality improvement, quality inspection for statistical quality management, and standardization.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>• Identify local technologies and guide industrialization to improve local procurement of parts and material.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>• Establish industry associations and build awareness on data collection and R&amp;D activities.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>• Establish and train public organization for supporting product development by emerging microenterprises/SMEs.</li> </ul>
3	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>• Build engineers who can alter and improve equipments, there by promoting equipment-related technologies through imports of heavy chemical industry plants.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>• Train vocational training institutes assisting skilled labor for SMEs.</li> <li>• Train design techniques.</li> </ul> <p>Management techniques:</p> <ul style="list-style-type: none"> <li>• Technical assistance on management for cost reduction such as inventory management and subcontract management.</li> <li>• Promote model firm visits and study groups.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>• Technical assistance to willing SMEs to improve local procurement of parts and material.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>• Establish industry associations and train on how to jointly conduct data collection and R&amp;D.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>• Establish high level vocational training institutes to build skilled labor.</li> <li>• Make use of e-learning technologies.</li> </ul> <p><b>【Institution】</b></p> <ul style="list-style-type: none"> <li>• Assist in preparing a human resources development roadmap with such principles as “human resources investment comes before equipment investment” and “life-long learning.”</li> </ul>
4	<p><b>【At Industry Level】</b></p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>• Technical assistance to reduce cost and stabilize quality by design and quality control with objective of produce and sell/export improved equipments.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>• Develop human resources who can design complex integrated assembly products (development of management resources).</li> <li>• Capacity building for product development and patent management.</li> </ul> <p>Management techniques:</p> <ul style="list-style-type: none"> <li>• Technical assistance on introduction and operation of production management system to implement process management for reduction of delivery time and inventories.</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>• Promote supporting industry through development of technology development strategy and facilitating linkages to core manufacturing firms.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>• Develop locally-based technology development system through inter-industry clustering.</li> </ul> <p><b>【Public Sector】</b></p> <ul style="list-style-type: none"> <li>• Develop human resources with the dual-system, balancing theories and practices.</li> </ul>



	<ul style="list-style-type: none"> <li>Promote testing/research, inspection and accreditation.</li> </ul> <p>【Institution】</p> <ul style="list-style-type: none"> <li>Technical assistance on effective management of standards and certifications such as skills certificates, industrial standards, inspection and accreditation organizations, certified professionals (e.g., professional engineers, certified SME consultants)</li> </ul>
5	<p>【At Industry Level】</p> <p>Equipment-related technologies :</p> <ul style="list-style-type: none"> <li>idem.</li> </ul> <p>Proper technologies :</p> <ul style="list-style-type: none"> <li>idem.</li> </ul> <p>Management techniques:</p> <ul style="list-style-type: none"> <li>Technical assistance on production management and QCD (Quality, Cost and Delivery ) .</li> </ul> <p>Procurement of parts and materials :</p> <ul style="list-style-type: none"> <li>idem.</li> </ul> <p>Industry associations :</p> <ul style="list-style-type: none"> <li>idem.</li> </ul> <p>【Public Sector】</p> <ul style="list-style-type: none"> <li>idem.</li> </ul> <p>【Institution】</p> <ul style="list-style-type: none"> <li>idem.</li> </ul>

Source: Study team

## 6 Examples of 5 Year Programs Combining Effective Approaches in Each Issue Category

This section presents examples of 5 year programs that combine effective approaches in each of the four issue categories. Cambodia is an LDC example, Kenya represents low income countries other than LDC, and South Africa exemplifies a case of upper middle income country. As stated in “1-4 Hypotheses on Development Stage and Assistance,” it would be appropriate to: 1) start addressing issues of business environment and accompanying policy/institutions prior to addressing issues of other categories; 2) improvement/development of institutional framework precedes other issues within the same category; and 3) prioritize work in categories in lower rank relative to other categories.

As was emphasized in 1-4, these principles just provide general guidelines. They do not deny any intervention in relatively low priority categories. There may be cases where assisting low priority categories for the sake of synergies with higher priority categories is possible and appropriate. However, projects going against these principles are likely to be exposed to doubts. Should there be cases where political and other reasons make it difficult to work with high priority issues or special reasons demand reconsideration of priorities, careful analysis of these will feed into the overall judgment

In the following, three country examples of five year-plans are presented to demonstrate ways to combine assistances in different categories. These five year-plans are developed without fieldwork in the case of Kenya and with only a few days of fieldwork in the case of Cambodia and South Africa, thus should be seen just as an exercise of applying differentiated approaches by development stage this study proposes.

## 6-1 Effective Approaches for SME Development in Cambodia

Cambodia is one of few LDCs in Asia. Its development stages appear to be at the first stage in policy, institution and business environment as well as in SME finance, at the second stage in BDS, and either first or second stage in technology. Accordingly, assistance may start with improvement of business environment, and institutional framework of SME finance such as strengthening of financial supervision function. BDS and technology come after other two categories, but assistance can still be made. In BDS, it would be good to consider BDS assistances that create synergy with business environment improvement. Examples include value chain analysis, public-private dialogue, and support to chamber development (See the full report, Chapter 3, 3-6 Development Stages and Effective Approaches in BDS). Regarding technology, assistance strategy will be centered around two pillars of agro- and fishery-processing and light industries. Activities will be developed along the seven technological aspects according to development stage of each.

**Figure 33 An example of a five year SME development assistance program in Cambodia**

	Year 1	Year 3	Year 5
	Activities	Activities	Activities
Policy, Institution and Business Environment	<ul style="list-style-type: none"> <li>• <u>Disseminating basic knowledge, information exchange, awareness-raising (policy dialogue):</u> Develop free and fair business environment (BE); understanding of SME policies and institutions)</li> <li>• <u>Basic civil service training:</u> Developing institutional framework suited for local context; strengthening implementation capacity; moral enhancement of officials in charge of business registration, licensing and inspection</li> <li>• <u>Human resource</u></li> </ul>	<ul style="list-style-type: none"> <li>• <u>Building/strengthening institutional framework:</u> Develop free and fair business environment; reforms in business registration, inspection and customs.</li> <li>• <u>Disseminating basic knowledge, information exchange, awareness-raising (policy dialogue), and technology and human development:</u> Clarification and strengthening of SME promotion policies and institutions.</li> <li>• <u>HRD for government and private sector:</u> Central and local level support for implanting SME promotion measures.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Disseminating pragmatic knowledge, information exchange, awareness-raising (policy dialogue), and technical assistance (TA):</u> Development and implementation of SME promotion measures suited for policy objectives</li> <li>• <u>Designing and implementing specific policies and institutions:</u> Implementation of specific measures for industry sector, subsector, locality, or value-chain.</li> <li>• <u>HRD in specific fields:</u> implementation of promotion measures in specific fields.</li> </ul>

	<u>development (HRD):</u> Building/improving basic and vocational education suited to small business needs.		
BDS	<ul style="list-style-type: none"> <li>• Prioritizing improvement of BE and combine it with BDS element that create synergies.</li> <li>• Provide BDS training to policymakers</li> </ul>	<ul style="list-style-type: none"> <li>• Prioritizing improvement of business environment and combine BDS element that create synergies.</li> <li>• Develop support strategy for BDS promotion of chambers and associations, NGOs and private firms in conjunction with BE improvement.</li> <li>• Promote use of PC and internet as source of information or business tools.</li> </ul>	<ul style="list-style-type: none"> <li>• Applying various methods to promote underdeveloped BDS market.</li> </ul>
Finance	<ul style="list-style-type: none"> <li>• <u>Building up public confidence in financial system:</u> promote formalization of micro-finance institutions (MFIs), transfer basic know-how of bank management</li> <li>• <u>Strengthening financial supervision capacity:</u> Review current financial supervision practice including guidance on basic skills of financial administration, training of inspectors and enhancement of their moral.</li> <li>• <u>Improving basic financial intermediation:</u> train financial institutions (FIs) on deposit and lending; restructure legal framework.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Reviewing status of institutional reform:</u> Review progress in implementation of legislation including tax code, and accounting regulations; strengthen enforcement of legislation.</li> <li>• <u>Building/strengthening rural network of FIs:</u> Consolidate and strengthen FIs; raise awareness of local population on savings; develop small deposit insurance system.</li> <li>• <u>Educating SME entrepreneurs:</u> Raise awareness of local SMEs on access to finance; support business planning and book keeping of urban SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Developing credit supplementation and information system:</u> Build/strengthen credit guarantee and credit information system; improve credit assessment ability of FIs.</li> <li>• <u>Expanding financial products for SMEs:</u> Support product development of FIs (e.g., leasing, equity investment and non-collateralized loans).</li> <li>• <u>Educating SME entrepreneurs:</u> Support business planning and book keeping of rural SMEs.</li> <li>• <u>Improving financial strength and governance of FIs:</u> Review consolidation of FIs; Strengthen management system of FIs.</li> </ul>
Tech-nology	<ul style="list-style-type: none"> <li>• <u>Equipment technologies:</u> Improve capacity utilization ratio through TA on preventive maintenance of equipment such as textile machines; Technology development for export-oriented SMEs.</li> <li>• <u>Proper technologies:</u> Train light industry technologies and manufacturing of associated parts; Intermediate those who wish to learn technologies and enterprises through apprenticeship.</li> </ul>		<ul style="list-style-type: none"> <li>• <u>Equipment technologies:</u> Facilitate import of plants of heavy chemical industry; Train engineers who are able to modify and convert equipments.</li> <li>• <u>Proper technologies:</u> Develop vocational training institutes for skilled labor in SMEs; Train on design techniques.</li> </ul>

	<ul style="list-style-type: none"> <li>• <u>Management techniques</u>: Develop organizations for quality improvement of industries such as textile and food processing; TA for quality inspection and standardization to introduce statistical control.</li> <li>• <u>Procurement of parts and materials</u>: Identify indigenous technologies and assist industrialization to improve local procurement of parts and materials.</li> <li>• <u>Industry associations</u>: Build and train industry-specific associations; Instill the importance of information exchange and R&amp;D.</li> <li>• <u>Public institutes</u>: Build and train public institutes that assist product development of emerging SMEs and microenterprises (MEs).</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Management techniques</u>: Train management techniques for cost cutting such as inventory reduction and subcontract management; Support model enterprise visits and study sessions.</li> <li>• <u>Industry associations</u>: Build and train industry-specific associations; Guide collaboration on information exchange and R&amp;D.</li> <li>• <u>Institutions and promotional schemes</u>: Develop a HRD roadmap following the principles “Invest in HR before equipment,” and “learning is life-long.”</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Procurement of parts and materials</u>: TA for willing SMEs to realize intra-regional procurement of parts and materials.</li> <li>• <u>Industry associations</u>: Develop technology development system with support from across industries through formation of multi-industry clusters.</li> <li>• <u>Public institutes</u>: Train skilled labor by building advanced vocational training institutes; Make use of e-learning parallel to classroom training.</li> </ul>
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Source: Study team

## 6-2 Effective Approaches for SME Development in Kenya

Judging from the current status of Kenya, it is the first step in the first year of assistance to begin with creation of a business environment which is free and equal to everyone, citing familiar examples. One of them is to raise awareness of as many as people about important actions from the wide socio economic view point, such as firmly to repay when they borrow money. Improvement of comprehensive business environment including elimination of corruption and crime should also commence. It is quite probable that some technical supports solely provide benefits to limited number of people and expected outcome can not be achieved, if above mentioned process is not well respected. Subsequently, it is important that basic training of human resources including civil servants should thoroughly be implemented for a period of the first year to the third. If exhaustive implementation without

bringing economic merits is expected difficult, it is very essential to draw at least road map in order to promise steady implementation.

Based on experiences of thorough implementation of above mentioned actions and review of the performance, supports such as simplifying registration of incorporation and delivery of licenses, promoting bank finance which is effective for small business and improving credit analysis skills should be commenced. Concerning technology, improvement of capacity utilization rate owing to organized technical training of equipment preservation and maintenance, installation of public organization to develop new products which are appropriate for micro enterprises to produce and training of them are expected to be implemented. Hereafter, after the fifth year, implementing industry promotion policies in particular sectors, and developing financial instruments for SMEs and eliminating factors which might hinder mutual entry into SME finance of small and large financial institutions in the financial sector, which seems to be comparatively advanced among least developed countries, should be appropriate supports. In the technology sector, to develop indigenous technologies should be reasonable assistance.

**Figure 34 An example of a five year SME development assistance program in Kenya**

	Year 1	Year 3	Year 5
	Activities	Activities	Activities
Policy, Institution and Business Environment	<ul style="list-style-type: none"> <li>• <u>Disseminating basic knowledge, information exchange, awareness-raising (policy dialogue):</u> Develop free and fair BE; Share understanding on problems in formalization of informal businesses.</li> <li>• <u>Basic civil service training:</u> Design concrete mid-term vision suited for local context.</li> <li>• <u>HRD:</u> Building/improving basic and vocational education.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Building/strengthening of institutional framework:</u> Develop free and fair BE (e.g., simplification and lowering cost of business registration and licensing.</li> <li>• <u>Disseminating basic knowledge, information exchange, awareness-raising (policy dialogue), and technology and human development:</u> Clarification and strengthening of SME promotion policies and institutions.</li> <li>• <u>HRD for government and private sector:</u> Central and local level support for implanting SME promotion measures</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Disseminating pragmatic knowledge, information exchange, awareness-raising (policy dialogue), and technical assistance (TA):</u> development and implementation of SME promotion measures suited for policy objectives</li> <li>• <u>Designing and implementing specific policies and institutions:</u> implementation of specific measures for industry sector, subsector, locality, or value-chain.</li> <li>• <u>HRD in specific fields:</u> implementation of promotion measures in specific fields.</li> </ul>

BDS	(Prioritize combat against corruption and crime.)	<ul style="list-style-type: none"> <li>Assisting policy development aimed at linking a limited number of growth sectors and SME development.</li> </ul>	<ul style="list-style-type: none"> <li>Supporting to link numerous small businesses to market through business of exporters and corporate social responsibility (CSR).</li> </ul>
Finance	<ul style="list-style-type: none"> <li><u>Privatizing and restructuring FIs</u>: Encourage competitiveness of banking sector by means of privatization or restructuring of state-run banks and consolidation of small banks.</li> <li><u>Consolidating and enhancing FIs</u>: Institutionalize savings and credit cooperatives and put them under supervision of competent authority.</li> <li><u>Developing and enhancing legal framework</u>: Clarify responsibility of borrowers (i.e., strengthen creditor right); Promote free competition principle in banking services.</li> </ul>	<ul style="list-style-type: none"> <li><u>Enhancing functions of monitoring and supervising FIs</u>: Further deregulate financial sector and enhance inspection capability.</li> <li><u>Strengthening credit analysis skills of banks</u>: Train HR for developing financial products and strengthening credit analysis skills; Build credit information system.</li> <li><u>Strengthening management skills of SMEs</u>: Raise awareness of borrowers; Support book keeping and development of business/financial plan.</li> </ul>	<ul style="list-style-type: none"> <li><u>Expand scope of services of FIs</u>: Support upgrading of MFIs and downscaling of commercial banks; Develop stock market for small and new businesses (over-the-counter market).</li> <li><u>Improving credit enhancement system</u>: Strengthen credit guarantee system to reduce lending cost; Computerize credit information system.</li> <li><u>Enhance financial products for SMEs</u>: Develop rural branch network; Develop venture capital, over-the-counter market, and credit lines for SMEs.</li> </ul>
Tech-nology	<ul style="list-style-type: none"> <li><u>Equipment technologies</u>: Technical training (by public institutes) for operations techniques and simple repair skills for equipments; Make use of foreign-trained workers; Identification and technology development of SMEs and MEs.</li> <li><u>Proper technologies</u>: Provide awareness raising and training to workers in light industry (e.g., foods, textile, apparel); Train on processing technologies for agro-processing.</li> <li><u>Procurement of parts and materials</u>: Identify indigenous technologies and assist industrialization.</li> <li><u>Public institutes</u>: Build administrative body in charge of technology policies and assist in policy-making; Train technical training institutes for unskilled labor.</li> <li><u>Institutions and promotional schemes</u>: Assist in elaboration of basic policies on science &amp; technology.</li> </ul>	<ul style="list-style-type: none"> <li><u>Equipment technologies</u>: Improve capacity utilization ratio through TA on preventive maintenance of equipment including planning of such activities; Technology development for export-oriented SMEs.</li> <li><u>Proper technologies</u>: Train on light industry technologies and processing of associated parts.</li> <li><u>Management techniques</u>: Organization-wide efforts for quality enhancement; Quality inspection for statistical control; TA on standardization.</li> <li><u>Procurement of parts and materials</u>: Identify indigenous technologies and assist industrialization to improve local procurement of parts and materials.</li> <li><u>Public institutes</u>: Build and train public institutes that assist product development of emerging SMEs and microenterprises (MEs).</li> </ul>	<ul style="list-style-type: none"> <li><u>Proper technologies</u>: Intermediate those who wish to learn technologies and enterprises through apprenticeship.</li> <li><u>Industry associations</u>: Build and train industry-specific associations; Instill the importance of information exchange and R&amp;D.</li> </ul>

Source: Study team

### **6-3 Effective Approaches for SME Development in South Africa**

Although South Africa is categorized as UMC (Upper-Middle Income Countries) according to OECD Development Assistance Committee (DAC) categorization, economic vitality mainly relies on big business including companies in mining industries which grew up in South Africa throughout apartheid regime and there still exists big difference between majority of SMEs owned by Black who were historically discriminated and such big business. In addition, enterprises in rural area are burdened with bigger handicaps, compared with those in urban area, such as technological capabilities/information volume and management know-how as well as market size. Then, the breakthrough of these difference and handicaps is never avoidable issue for South Africa to smoothly achieve further smooth economic development.

Therefore, the support of steady implementation of Black Economic Empowerment (BEE) policies of which the main target is reduction of poverty, in another word, the support based on specific factors of existence of Black micro enterprises which are marginalized from main stream of the country's economy and of BEE policies as a corrective action against past apartheid policies (one of the affirmative action) is truly needed. It is appropriate to prepare support programs for 5 years based on breakdown of timeframe. In this case, starting point of 5 year plan is at more advanced level in terms of contents of support, because South Africa has more or less established fundamental frameworks such as legislation. However, methodologies and beneficiaries groups as well as expected outcome of the support should be different from those in other countries, because contents of support are more sophisticated among 5 categories. This is especially kept in mind in South Africa, where difference among SMEs is very serious. Therefore, it is important to provide supports with more attention to systems to assure enhancing management of organization and implementation ability as well as accurate selection of targets to which necessary supports are correctly extended.

**Figure 35 An example of a five year SME development assistance program in South Africa**

	Year 1	Year 3	Year 5
	Activities	Activities	Activities
Policy, Institution and Business Environment	<ul style="list-style-type: none"> <li>• <u>Disseminating pragmatic knowledge, information exchange, awareness-raising (policy dialogue), and technical assistance (TA):</u> Assist start-up of SEDA (Small Enterprise Development Authority); development and implementation of SME promotion measures suited for policy objectives.</li> <li>• <u>Designing and implementing specific policies and institutions:</u> Implementation of specific measures for industry sector, subsector, locality, or value-chain, with focus on BEE policies.</li> <li>• <u>HRD in specific fields:</u> Implementation of promotion measures in specific fields.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Making specific policies and institutions more effective:</u> Improve functions of SEDA; Making specific measures effective for industry sector, subsector, locality, or value-chain.</li> <li>• <u>Coordinating among implementing agencies:</u> Implement SME promotion measures with participation of wide range of stakeholders, e.g., large corporations, NPOs and business chambers.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Liking up with Japanese firms:</u> Design and implement institutions that enhance inter-industry relationship with Japanese firms such as automobile and associated companies.</li> <li>• <u>Designing and implementing measures to enhance competitiveness of local firms:</u> Develop SMEs that contribute to promoting broad-range trade and investment in the context of WTO and FTA (with Japan).</li> <li>• <u>HRD:</u> Strengthen HRD related to above activities. (Implementation will move gradually from JICA to JETRO, JODC and AOTS.)</li> </ul>
BDS	<ul style="list-style-type: none"> <li>• Identify bottlenecks in education level of black entrepreneurs, access to basic services, and BDS market development through research.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop problem-solving strategy for black entrepreneurs.</li> <li>• Identify and support brilliant black entrepreneurs and disseminate information as role models.</li> </ul>	<ul style="list-style-type: none"> <li>• Train brilliant black entrepreneurs and replicate problem-solving measures.</li> <li>• Support SMEs to build more productive linkages with large corporations.</li> </ul>
Finance	<ul style="list-style-type: none"> <li>• <u>Developing rural finance:</u> Promote financial services to rural MEs under the BEE policies; Promote expansion of rural branch networks and HRD of FIs.</li> <li>• <u>Expanding scope of business of FIs:</u> Support upgrading of MFIs and downscaling of commercial banks; Promote savings.</li> <li>• <u>Strengthen training for MEs:</u> Identify bottlenecks to access to formal financial services by small businesses; Raise awareness of rural SMEs on banking services.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Organizational development of core institutions for effective implementation of donor assistance:</u> Assist in organizational development of business chambers and SEDA so that they could expand their management consulting services to SMEs who need access to financing.</li> <li>• <u>Enhancing collaboration with stakeholders:</u> Assist SMEs with development of business/financial plans in collaboration of large private corporations, NGOs/NPOs as coordinators.</li> <li>• <u>Improving credit enhancement system:</u> Strengthen management know-how of credit guarantee corporations such as Khula; Strengthen legislations on credit; Improve credit analysis skills of FIs in SME market.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Enhancing financial products for SMEs:</u> Develop long-term credit, venture capital, over-the-counter market, and credit lines for SMEs.</li> <li>• <u>Addressing inter-regional (provincial) disparity in access to financing:</u> Strengthen financial standing of rural FIs; Improve credit analysis skills of loan officers.</li> <li>• <u>Enhancing management skills of SMEs:</u> Assist in development of basic business/financials plans; Promote information disclosure.</li> </ul>



Tech-nology	<ul style="list-style-type: none"> <li>• <u>Proper technologies:</u> Develop vocational training institutes for SMEs to bridge the urban-rural gap; Train on design techniques of food and wood products.</li> <li>• <u>Management techniques:</u> Train management techniques for cost cutting such as inventory reduction and subcontract management; Support model enterprise visits and study sessions.</li> <li>• <u>Procurement of parts and materials:</u> TA for willing SMEs to realize intra-regional procurement of parts and materials; Promote information exchange and linkage between SMEs and large corporations.</li> <li>• <u>Industry associations:</u> Build and train rural-based associations; Guide collaboration on information exchange and R&amp;D.</li> <li>• <u>Public institutes:</u> Train skilled labor by building advanced vocational training institutes; Make use of e-learning for SME training parallel to classroom training.</li> <li>• <u>Institutions and promotional schemes:</u> Develop a HRD roadmap following the principles “Invest in HR before equipment,” and “learning is life-long” within the framework of BEE policies.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Equipment technologies:</u> Facilitate import of plants of heavy chemical industry; Train engineers who are able to modify and convert equipments.</li> <li>• <u>Procurement of parts and materials:</u> Develop a technology promotion strategy to build supporting industries; Promote linkages between SMEs and top corporations.</li> <li>• <u>Industry associations:</u> Develop technology development system with support from across industries through formation of multi-industry clusters.</li> <li>• <u>Institutions and promotional schemes:</u> TA on effective administration of standards and accreditations such as qualification system for specialists, industrial standards, testing and certification, professional engineers and SME consultants.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>Proper technologies:</u> HRD to enable design of complex integrated assembly products; Product development beyond food and wood products; Enable local organizations to deal with patenting; TA on introduction of production process management system for quick delivery and reduced inventory and goods in process.</li> </ul>
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Source: Study team