

Experience in implementing the Index of Public Policies for SMEs in the ASEAN

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During the last decade, the Member States of the Association of Southeast Asian Nations (ASEAN) have been characterized by a favourable economic performance, driven by a growth strategy based on international trade and in particular on export of high-technology goods. The results show that the ASEAN has had an average annual expansion of 7% of GDP during the period 2001-2014, measured in terms of purchasing power parity (PPP), and achieved a 6% share of global GDP in 2014, according to figures from the World Bank (2016).

In the development plans adopted by the ASEAN, small and medium-sized enterprises (SMEs) have been of vital importance. That is why Member States have adopted a series of measures to boost their development, including the implementation of the Index of Public Policies for SMEs, which aims to identify and evaluate those aspects that promote or hinder the performance of SMEs. As a result of the implementation of the Index, the ASEAN developed a strategic plan for 2016-2025, whose main objective is to address the obstacles faced by SMEs in these countries.

In Latin America and the Caribbean, as well as in the ASEAN, SMEs play an important role in the promotion of economies, accounting for around 99% of companies in the region, which in turn generate approximately two thirds of the formal employment (OECD, ECLAC & CAF, 2012).

For Latin America and the Caribbean, the development of SMEs represents a strategy for diversification and productive development, as well as an option to mitigate the effects of the volatility of raw materials prices. In order to take action towards that goal, the Latin American and Caribbean Economic System (SELA) has made efforts to deepen the main aspects influencing the dynamics of SMEs with the study [“Methodological considerations for developing an index of public policies for SMEs in Latin America and the Caribbean \(IPPALC\)”](#), conducted in 2015. In 2016, the regional organization intends to explain in detail the procedural framework for the implementation of an Index of Public Policies in the region through the “Update Study on the Index of Public Policies for SMEs in Latin America and the Caribbean (IPPALC).” This report outlines the “Experience in implementing the Index of Public Policies for SMEs in the Association of Southeast Asian Nations (ASEAN),” which describes the dimensions addressed during its implementation and the results obtained with this experience.



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I. SMEs as an engine of economic growth

At the global level, small and medium-sized enterprises (SMEs) have been an engine of economic development and have contributed to poverty reduction. SMEs generate economic growth, because they have the ability to create new jobs, expand the tax base and encourage innovation (Katua, 2014). In addition, SMEs generate positive economic externalities, since they manage to enhance competition and entrepreneurship, while reaching higher levels of efficiency (Beck and Levin, 2005).

In the European Union (EU), SMEs account for 99% of all companies and have created around 85% of the new jobs in the last five years. Thus, the European Commission considers SMEs a key factor to drive growth, innovation, job creation and social integration in the EU.

As for the Member States of the ASEAN,¹ SMEs play a fundamental role in their economies, with 89% to 99% of all companies created being SMEs. They also contribute 23% to 58% to GDP and 10% to 30% to exports (ERIA, 2014) and are the largest source of employment in all economic sectors, both in urban and rural areas (SAPASD: 2010-2015, 2009).

In the economic literature, some barriers to the development of SMEs are identified. Among them are distortions generated by the public sector and latent market failures, such as excessive regulations, monopoly, asymmetric information, coordination failures, poor contract performance and breach, among other externalities (ERIA, 2015). In addition, SMEs are often more vulnerable than large companies to economic volatility; therefore, beyond providing small and medium-sized enterprises with a solid institutional framework, it is also necessary to create an environment that promotes entrepreneurship (ASEAN, 2009).

SMEs in the ASEAN face a series of structural and financial challenges, requiring improvements in human capital, access to financing, technology, open markets and internationalization for their strengthening.

For this reason, the public sector must work in tandem with the private sector and take on complementary roles to manage the challenges of global, regional and national markets.

With the aim of assessing national and regional efforts in SME-oriented policies, the Organization for Economic Cooperation and Development (OECD) prepared an Index of Public Policies for SMEs (IPPPO), a tool that the countries of the ASEAN have successfully implemented.



¹ The member countries of the ASEAN are: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia.

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II. Strategies for the development of SMEs in the ASEAN

The initiatives for supporting the development of SMEs in the ASEAN began with the establishment, in 1995, of the SME Working Group (SMEWG), which, in addition to formulating development policies and programmes for SMEs, served as an advisory and cooperation body.

Then, the ASEAN Policy Blueprint for SME Development (APBSD) for the period 2004-2014 emerged, and the Strategic Action Plan for ASEAN SME Development (SAPASD) for the period 2010-2015 was developed.

The APBSD was created as a 10-year project to facilitate the emergence of small and medium-sized enterprises, which are characteristically entrepreneurial, innovative, market oriented, competitive, and resilient. This project is based on strategic programmes and policies, focused on five priorities: a) Human resource development and capacity building; b) Access to financing; c) Enhancing SME marketing capabilities; d) Access to technology; and e) Creating conducive environment for the normal development of SMEs.

In 2009, the Finance Ministers of the ASEAN decided to present, at the XIV Summit of the ASEAN, the "SAPASD Plan: 2010-2015" in order to accelerate the implementation of the APBSD, while enhancing the competitiveness and resilience of SMEs through some specific activities that would be carried out in the medium and long terms. It has been devised to engage businesses on issues of access to finance and technology, capacity building to export and innovate and human resources development through regional training programmes (SAPASD: 2010-2015, 2009).

However, both plans had a bias towards regional initiatives, without giving the proper importance to national policies. Thus, the Index of Public Policies for SMEs in the ASEAN (IPPPA) is presented as a more complete version, which includes regional and national dimensions in its measurement.

III. Index of Public Policies for SMEs in the ASEAN (IPPPA): Function, objectives and importance

The Index of Public Policies for SMEs in the ASEAN (IPPPA) derives from the Index of Public Policies for SMEs in the OECD (IPPPO) and is adapted to the specific context of the countries in the Southeast Asian region. Specifically, the OECD's Index was developed in 2006, in a joint effort with the European Bank for Reconstruction and Development, and was successfully implemented in the Western Balkan countries (OECD, 2007). It is used as a tool to monitor and facilitate dialogue, coordination and promotion of best practices.

For its part, the IPPPA was conducted in cooperation among the Economic Research Institute for ASEAN and East Asia (ERIA), the OECD and the ASEAN SME Working Group (SMEWG). This tool provides the possibility to assess decisions, programmes and institutions and be aware of their impact on the development of SMEs in the region, as well as to identify gaps in the design and implementation of public policies.

Similar to the IPPPO, the IPPPA has the following objectives (ERIA, 2014):

a) Structured evaluation

- i. Evaluate progress in SME policy reform; and
- ii. Assess countries' performance with respect to each aspect of the index.

b) Support for improvement

Prioritize national and regional needs for the formulation of public policies to support the establishment of companies.

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c) Regional collaboration and peer review

Encourage more effective peer review through a common evaluation framework.

d) Public and private sector involvement

- i. Offer a simple and transparent communication tool for potential entrepreneurs or investors; and
- ii. Establish a measurement process that encourages public/private consultation.

e) Planning and resource allocation

- i. Facilitate medium-term planning, particularly for dimensions that require multi-year programmes; and
- ii. Provide a tool for resource mobilization and allocation, following the identification of strong points and areas for improvement.

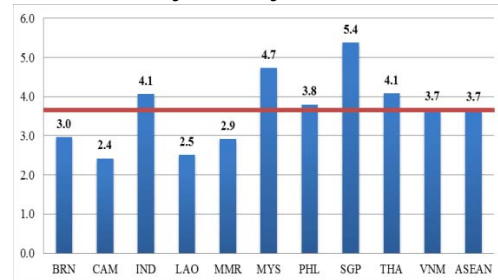
IV. Dimensions and results obtained

The IPPPA consists of 8 dimensions:

1. Institutional and regulatory framework
2. Access to support services
3. Operating environment and simplification of procedures
4. Access to finance
5. Innovation, technology adaptation and technology transfer
6. Internationalization of SMEs
7. Promotion of entrepreneurial education
8. Effective representation of SMEs' interests

The results from the IPPPA suggest uneven levels of performance in the implementation of SME development policies at the national level. The results can be divided into two groups: a) The less developed countries (**LDC**): Cambodia, Laos, Myanmar, and Vietnam, and b) the more advanced members (**ASEAN-6**): Brunei, Philippines, Malaysia, Indonesia, Singapore and Thailand (ERIA, 2014). An exception should be mentioned in the case of Brunei, which has a relatively lower score in comparison with Vietnam.

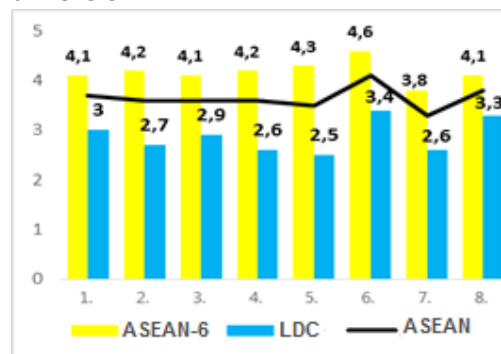
Chart 1- IPPPA by country



Source: ERIA, 2014.

The following Chart shows the status of the groups of countries by dimension. The biggest gaps between LDC and ASEAN 6 are observed in the following dimensions: Innovation, technology adaptation and technology transfer; Access to finance; and Access to support services.

Chart 2- IPPPA by group of countries and dimension



Source: ERIA, 2014.

Legend: 1) Institutional and regulatory framework / 2) Access to support services / 3) Operating environment and simplification of procedures / 4) Access to finance / 5) Innovation, technology adaptation and technology transfer / 6) Internationalization of SMEs / 7) Promotion of entrepreneurial education / 8) Effective representation of SMEs' interests.

The dimension **Innovation, technology adaptation and technology transfer** presents the biggest gap among the groups of countries. This dimension focuses on the evaluation of policies to promote innovation, encourage the use of technologies and promote partnerships with universities for research and development (R&D) activities. Among the reasons for the gap is the poor provision of information on innovation support services, limited access to standard certification services, lack of technology support in universities and little linkages between SMEs and R&D centres.

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Access to finance is vital for SMEs, since they tend to have resource constraints, which limits their ability to deal with the high volatility of markets. Leverage possibilities increase with access to capital. The gap in access to finance is exacerbated by the poor functioning of the cadastre system, stringent collateral requirements, and inadequate protection of creditor rights. Credit risk guarantee schemes and a central bureau for credit information, which are essential to promote collateral-free finance, are not well established and well-functioning. There is also a lack of a legal framework to promote alternative finances.

Human capital is a key factor for SMEs to succeed, with the **Promotion of entrepreneurial education** being of great importance. This dimension exhibits a very low standing at the ASEAN level, because most member countries have not clearly articulated entrepreneurial promotion policies, and their national development plans do not include adequate budget or monitoring tools to assess the status of policies aimed at this sector. Key aspects of entrepreneurship learning programmes are not well introduced in the education system.

An SME is most fragile during its start-up stage. Therefore, it is important that the process of registration does not delay nor hamper the start of its operations.

In the ASEAN, there are variations among countries in policies on **Operating environment and simplification of procedures**. Procedures for business registration and entry into operation are more advanced in the more developed countries (ASEAN-6) than in the less developed nations. Most developed countries offer online registration and access to varieties of financial support for start-ups. However, the gap between them is not huge.

Access to support services is severely hampered for SMEs in the less developed countries due to the lack of action plans for the provision of support services, poor services of business development service centres, lack of legal framework, and underutilization of e-government tools aimed at the simplification of procedures.

The gap in policies to facilitate the **Internationalization of SMEs** is relatively wide between the two groups, because export promotion programmes and provision of advice and information are better structured in the more developed countries (ASEAN-6).

The development of the **Regulatory and institutional framework** is uneven among the member countries, with Indonesia, Malaysia, Singapore and Thailand showing a more developed institutional framework. In these countries, a common definition of SMEs has been adopted and medium-term action plans have been developed for the promotion of SMEs. Moreover, their mechanism for review, monitoring, and evaluation of the plan of action is clearly in place, and programs/measures to facilitate the movement of SMEs from the informal to the formal sector are adopted. The other Member States do not have a legal framework nor the appropriate institutional capacity. In addition, the need for human and financial capital to coordinate and formulate policies prevails.

The gap in the **Effective representation of SMEs' interests** between the ASEAN-6 and the LDCs is the smallest due to the active participation of industrial, business or SME associations in setting up consultation mechanisms with government agencies in policy formulation, in order to represent SMEs' voice and interests domestically and internationally.

V. Conclusions and Strategic Action Plan for SME Development 2016-2025

The development of the IPPPA has allowed for the identification of the main obstacles faced by SMEs in the member countries of the ASEAN. Thus, the priority topics that must be addressed have been determined, namely: Access to finance; Operating environment and simplification of procedures; and Innovation, technology adaptation and technology transfer (ERIA (2014)).

In addition, the results obtained with the IPPPA enabled the Secretariat of the ASEAN to develop the Strategic Action Plan for the development of SMEs in the ASEAN 2016-2025, focusing on the main obstacles faced by SMEs in these countries. This plan is the continuation of the SAPASD 2010-2015.

This Post-2015 Strategic Action Plan was presented at the 27th ASEAN Summit and aims to ensure that the ASEAN creates competitive, resilient and innovative SMEs, which shall be integrated to the ASEAN community and be part of a process of inclusive development in the region.

In summary, the objectives of this long-term plan are as follows: a) Promote productivity, technology and innovation; b) Increase access to finance; c) Enhance market access and internationalization of SMEs; d) Enhance policy and regulatory environment; and e) Promote entrepreneurship and human capital development (SAPASD: 2016-2025, 2015).

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