OECD Studies on SMEs and Entrepreneurship

THAILAND

KEY ISSUES AND POLICIES



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Foreword

Small and medium-sized enterprises (SMEs) and entrepreneurship are fundamental drivers of economic growth and job creation. High rates of productive entrepreneurship and small business development stimulate productivity increases and greater exploitation of available resources in the economy. SMEs and entrepreneurship provide large numbers of people with jobs and incomes. Policy aims to facilitate these positive roles by addressing barriers in the way that markets, governments and institutions operate.

This report presents the results of a review of SME and entrepreneurship issues and policies at national and local levels in Thailand. These studies provide a tool for assessing and improving the design and implementation of SME and entrepreneurship policy in the reviewed countries and for sharing information among countries on their policy experiences. They benchmark SME and entrepreneurship performance, assess the institutional and economic framework conditions that help determine SME and entrepreneurship performance and assess the design and implementation of existing policies and programmes, with an emphasis on offering recommendations for policy improvement. The review studies are based on the use of a diagnostic questionnaire completed by national authorities, study missions and fieldwork and a peer review discussion of the study analysis and conclusions with delegates participating in the OECD Working Party on SMEs and Entrepreneurship (WPSMEE).

This review of Thailand is the first in the series to cover an Asian country. It was undertaken by the OECD at the request of the Thai Ministry of Foreign Affairs (MFA) and the Thai Office of SME Promotion (OSMEP). OSMEP was established in 2001, shortly after the Thai SME Promotion Act became law, in order to develop a national SME policy strategy and participate in and co-ordinate its implementation across government. In this role, OSMEP prepares an SME Master Plan every five years. The first two SME Master Plans were implemented in the periods 2002-06 and 2007-11. This review exercise and report are an input into the preparation of the Third SME Master Plan, to be implemented from 2012-16.

The major challenges that SME and entrepreneurship policy needs to address in these strategies are:

- *Reducing the large developmental gap between SMEs operating in the centre of the country compared to those in the regions.*
- *Preparing for Thailand's joining of the ASEAN Economic Community in 2015.*
- *Increasing the number of knowledge-based and innovation-driven entrepreneurs.*
- *Developing SMEs as an engine for growth along with large enterprises.*
- *Increasing the number of Thai SMEs operating internationally, particularly as part of global supply chains, as regional and global trade opportunities increase.*

This report examines how policy in Thailand can be developed to better meet these challenges. It provides a critical, external assessment of Thailand's SME and entrepreneurship support policies and programmes – their planning focus, implementation, resource allocation, evaluation, etc. – and

how they may be adjusted to better exploit the potential of SMEs and entrepreneurship for economic and social development in Thailand. The report provides a key reference point for statistics, analysis and policy recommendations on SMEs and entrepreneurship in Thailand and a new perspective on future policy directions.

The preparation of the report has been guided by an OECD Steering Group comprising Australia, Canada, Italy and Poland, while Canada and Chile acted as Examining Countries during a Peer Review of the draft report by the WPSMEE. The information within the report is based on responses to a Fact-Finding Questionnaire sent to the Thai authorities in March 2010, information gathered during a Fact-Finding Mission to Bangkok in late July 2010 and discussions with Thai stakeholders during a drafting mission on 21-23 February 2011.

The report has been prepared with the assistance of Dr Chris Hall, Dr Axel Mittelstädt and Dr Thanaphol Virasa, external consultants to the OECD, under the direction of Dr Jonathan Potter, OECD Senior Economist, Miriam Koreen, Deputy Director of the CFE, and Marie-Florence Estimé, former Deputy Director of the CFE. Benjamin Dean, consultant in the OECD CFE, provided research assistance.

The OECD Secretariat would like to express its sincere thanks to the Thai Authorities, in particular to the Thai Ministry of Foreign Affairs (MFA) and the Thai Office of SME Promotion (OSMEP) for their active, intense and fruitful co-operation and support, all of which led to the successful preparation of this book.



Sergio Arzeni

Director, OECD Centre for Entrepreneurship, SMEs and Local Development

Head, OECD Local Economic and Employment Development (LEED) Programme

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Acronyms and Abbreviations

APEC	Asia-Pacific Economic Co-operation
ASEAN	Association of South-East Asian Nations
BOI	Board of Investment
BOT	Bank of Thailand
CLP	Chilean Peso
EU	European Union
EUR	Euro
HR	Human resources
FDI	Foreign direct investment
FTA	Free trade agreement
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
ITA	Industrial Technology Advisor
KPI	Key performance indicator
LE	Large enterprise
M&A	Mergers and acquisitions
MAI	Market for alternative investments
MBO	Management buy-outs
MDG	Millennium Development Goals
NESDB	National Economic and Social Development Board
NPL	Non-performing loan
NSTDA	National Science and Technology Development Agency
OECD	Organisation for Economic Co-operation and Development
OSMEP	Thai Office for SME Promotion
OTOP	One Tambon, one product
PE	Private equity
PPP	Purchasing power parity
R&D	Research and development
SBCGC	Small business credit guarantee corporation
SME	Small and medium enterprise
SOE	State-owned enterprise
TEA	Total entrepreneurship activity
TFP	Total factor productivity
THB	Thai baht
(T)NSO	(Thai) National Statistics Office
TQM	Total quality management
UBI	University business incubator
UNCTAD	United Nations Convention on Trade and Development
USD	United States dollar

VAT	Value-added tax
VC	Venture capital
WEF	World Economic Forum

BASIC STATISTICS ABOUT THAILAND

2009 unless otherwise indicated

LAND AND PEOPLE			
Surface area (sq. km)	513 120	**Distribution of employment** (% total employment, 2007)	
Arable land (% of total area)	29.75	*Agriculture*	41.7
Population (millions)	67.8	*Industry*	21.0
Population growth rate (2005-10)	0.7	*Services*	37.3
Unemployment rate (% labour force)	1.5	**Labour force participation rate** (%)	72.8
GOVERNMENT AND PUBLIC FINANCES			
Parliamentary Democracy and Constitutional Monarchy			
Monarch	King Bhumibol Adulyadej	**Central Government revenues** (% GDP, 2010)	16.9
Prime Minister (as of July 2011)	Yingluck Shinawatra	**Central Government expenditures** (% GDP, 2010)	17.3
House of Representatives	480 members	**Fiscal balance** (% GDP, 2010)	–2.1
Senate	150 members		
ECONOMY			
GDP (THB billion, current prices, 2010)	10 102	**Origin of GDP** (% of GDP)	
GDP (USD billion, current prices, 2010)	318	*Agriculture*	11.6
Real GDP growth rate (%, 2010)	7.8	*Industry*	43.3
GDP per capita (current USD, 2010)	4 991	*Services*	45.1
Gross fixed capital formation (% GDP)	24.4	**Inflation rate** (%, 2010)	3.2
		Real interest rate (%)	3.9
FOREIGN TRADE			
Current account (USD billion)	20.29	**Trade balance** (USD million)	32 691
Current account balance	4.7	*Goods (% of GDP)*	7.4
(% GDP, 2010)		*Services (% of GDP)*	–3.0
Imports (USD, million)	133 769	**Foreign trade** (% of GDP)	126.2
Exports (USD, million)	152 497	**Exchange rate** (THB per USD, average)	34.3

Sources: Asian Development Bank, *Basic Statistics 2011*; Economist Intelligence Unit, *Thailand Country Profile: February 2011*; International Monetary Fund, *World Economic Outlook Database*, April 2010; United Nations, *World Statistics Pocketbook*, United Nations Statistics Division; World Bank, *World Development Indicators 2010*.

Executive Summary

Main findings

Sound macroeconomic policies, growing export opportunities, competitive markets and entrepreneurial dynamism have delivered economic growth and resilience.

Over the past 15 years, Thailand has recovered rapidly from two major crises: the Asian financial crisis of 1997-98 and the global financial and economic crisis of 2007-09. The economy's resilience has been associated with highly competitive goods and services markets, flexible labour markets and a vibrant entrepreneurial culture. In the intervening inter-crisis period, Thailand, a middle-income country, enjoyed robust economic growth, allowing real per capita GDP to reach nearly one-fourth the OECD average in 2008. Thanks to sound macroeconomic policies, integration into international goods and services markets accelerated, spurred by knowledge transfers from abroad. In a setting of rapidly expanding market opportunities, firm creation and economic growth were strong, leading to labour shortages and large-scale labour immigration. Overall, both the rate of unemployment (1.2% in 2010) and inflation (3.4% in 2010) stayed low, while the external position posted persistent surpluses.

Thailand's SME and entrepreneurship activity is largely in line with international norms…

Although precise comparison of Thailand's entrepreneurial dynamism with other countries is complicated by data deficiencies, many of the key features of its small and medium enterprise (SME) and entrepreneurship landscape appear to be fairly typical by international standards. Thailand has a similar enterprise size structure to that typically seen in OECD countries. SMEs make similar structural contributions to employment (78% of employment), GDP (approximately 43% of non-agricultural GDP) and exports (approximately 30% of exports) as in OECD countries. Furthermore, the SME density in Thailand is only slightly less than the typical density in OECD countries (about 4.2 SMEs per 100 population, against about 5.0 SMEs per 100 population in OECD countries)

… and the SME and entrepreneurship sector is very dynamic.

Thailand has one of the highest levels of entrepreneurship in the world as measured by the Global Entrepreneurship Monitor's Early Stage Entrepreneurial Activity rate at about 20%. The SME sector also appears to have been growing, with the number of recorded SMEs increasing more than three-fold to 2.8 million between 1997 and 2008, although much of this apparent increase is likely to result from improved monitoring of SMEs. Furthermore, by global standards, Thailand has high proportions of female entrepreneurs and business owners, who make up just fewer than 50% of start-ups and operating SMEs.

But there are also weaknesses: a high proportion of entrepreneurship undertaken for necessity, strong regional inequalities in entrepreneurship rates, …

The proportion of entrepreneurs who have been motivated by necessity, such as a lack of alternative income opportunities, is high at approximately 30%, pointing to both a lack of alternative job opportunities and deep labour market segmentation. These "necessity" entrepreneurs frequently, but not always, have low productivity, lack growth potential and offer poor income and employment conditions. The distribution of Thailand's SME population is also very unequal across regions. About two-fifths of recorded SMEs are located in the more prosperous Bangkok region and its surrounds, where only one-tenth of the population lives. Those regions seeking to catch up with Bangkok in economic development terms are also those with the weakest existing SME and entrepreneurship activity, which may hold back their future economic development and the development trajectory of the country as a whole.

… and a "missing middle" of medium-sized, growth-oriented SMEs.

Thai enterprise size classes, as defined by the Thai SME Promotion Act, differ somewhat from those commonly used in OECD countries, making it difficult to make detailed comparisons. In particular, gauging the weight of microenterprises is hard without an internationally comparable microclass definition and disaggregated information on the smallest enterprises. Despite these information deficiencies, there is little doubt that Thailand's medium-sized enterprises (employing 51 to 200 employees) account for a distinctly smaller proportion of its SME population than is the case in OECD countries and other non-OECD Asian countries. The relative under-representation of medium-sized firms, or the "missing middle", points to barriers weighing on both the creation of medium-sized firms and on the growth of small firms. Overcoming these barriers is crucial to driving continued economic growth, innovation and internationalisation.

Lack of technological readiness is a major impediment to the creation of new productive firms and SME innovation and growth.

Gaps in technological readiness are an important obstacle to the development of a more productive entrepreneurship, less orientated to responding to necessity, and the stimulation of greater SME innovation and internationalisation. Innovation and productivity increases are currently held back by a lack of technological capacities in SMEs to absorb innovation from external sources and to innovate incrementally, and weaknesses in the surrounding research and innovation system. The latter is illustrated by low levels of R&D investment. Thailand allocated only 0.25% of GDP for this purpose in 2007, significantly less than China and India. A narrow telecommunications infrastructure and limited collaborative links between SME agencies, universities, research institutions and the business community have compounded the weakness of Thailand's innovative capacity. The development of innovative SMEs is equally hindered by educational and training systems, which though endowed with appropriate resources, have failed to produce qualified labour commensurate with market demands.

Further obstacles lie in lack of finance for SMEs and entrepreneurship, underdeveloped infrastructure, institutional failures and underdeveloped infrastructure.

Surveys of the views of entrepreneurs on the quality of the Thai business environment point to several important barriers to entrepreneurship and SME development. Many growth-oriented SMEs and entrepreneurs suffer from lack of access to investment finance offered on adequate terms. During the global financial and economic crisis, commercial banks became more cautious in their lending, although lending from government-owned specialised financial institutions (SFIs) increased substantially, cushioning some of the negative impacts. However, non-performing loan ratios have remained high by international standards, largely reflecting an inefficient credit guarantee scheme, which constrains the ability of the financial system to offer finance to a wide group of SMEs on good terms. Overall, the volume of SFI lending to SMEs (preferential credits) is small relative to both the SME population and amounts spent by other countries. Insufficient supplies of venture capital also act as a drag on the birth and expansion of innovative SMEs.

A complex system of taxes, business rules and accounting standards has imposed disproportionate costs of tax compliance upon expanding SMEs, while household and business surveys point to the presence of corruption as a pervasive problem.

Infrastructure spending has failed to keep up with the needs of the economy, pushing transport and related costs to 20% of GDP, higher than most other countries and double the ratio in the United States. Physical infrastructure suffers from lack of railway transport and storage facilities as well as port congestion and poor roads. This affects export-oriented SMEs as well as large firms.

SME policies are well integrated in national development efforts.

Since 2001, the Office of SME Promotion (OSMEP) has played an important role in SME and entrepreneurship policy co-ordination in Thailand and made an important contribution to national development by acting as a central planning office for SME and entrepreneurship policy and an operational arm for implementing a range of SME and entrepreneurship programmes. OSMEP is responsible for the design of the national Master Plans for SME Promotion and for securing their implementation across government, ensuring that they are in line with the broader objectives of the National Economic and Social Development Plans.

The SME Promotion Master Plans have addressed fundamental competitiveness and social issues for Thailand, focused on supporting both the development of innovative, growth-orientated and international SMEs and supporting productive entrepreneurship for regional and social development. Objectives and measures laid out in the Master Plans for innovative SMEs focus on spurring manufacturing output and include the expansion of the technology base, increasing R&D intensity and building production linkages among industrial groups and between large firms and SMEs. Objectives and measures for helping Thai people in lower income regions and provinces to raise their standard of living through entrepreneurship focus on developing the grassroots economy including by establishing collaborative networks, building co-operatives to support small firms in their attempts to gain access to new markets, and promoting finance and human capital for small scale entrepreneurship.

However, SME and entrepreneurship policy effectiveness and efficiency could be improved by greater coherence across government…

There is a limit to the ability of OSMEP to achieve policy coherence across government ministries and agencies under the current arrangements. Although the need to ensure coherent and prioritised SME and entrepreneurship policies across government was recognised in the SME Promotion Act, which established OSMEP as the co-ordinator of policy, OSMEP lacks the operational clout and authority to achieve this objective fully. In principle, it reports to the Prime Minister, which gives it strong strategic direction and authority. On the other hand, being only a semi-government agency and partly depending administratively upon the Ministry of Industry, it lacks weight in co-ordinating and influencing the actions of other arms of government compared with a full-fledged ministry. In addition, numerous institutes and agencies with SME policy relevance operate under the umbrella of the Ministries of Industry and Commerce, with no calendar for frequent and regular inter-agency consultations and experience-sharing. In this environment, OSMEP has found it difficult to affirm its central role in the formulation, co-ordination, execution and evaluation of SME and entrepreneurship policies.

… and stronger focus on policies that meet the greatest needs and have the highest impacts.

A second set of constraints concerns budgeting, appraisal and evaluation. Unstable budget allocations and the absence of multi-year programme budgeting make it difficult for ministries and agencies to develop long-term projects and to adjust their policies based on learning from experience. Policy formulation also lacks a clear portfolio approach through which the budgeted distribution of actions with respect to strategic priorities, business life cycle stages (pre-nascent, start-up, growth, internationalisation, exit and adjustment) and policy methods (education and training, information and knowledge, finance, market access and development, etc.) can be optimised. A lack of standard project and programme evaluation procedures based on cost-benefit or cost-effectiveness analysis, and limited use of key performance indicators for programmes and projects also erode policy effectiveness, putting many headline targets out of reach.

Recommendations

Policies to foster SME and entrepreneurship activity are a vital ingredient of a country's structural economic policies, helping shape the trajectory of future gains in the standard of living. For Thailand, the need to render its SME and entrepreneurship policies more effective and efficient has grown over time. Having moved firmly into the ranks of the middle-income countries, Thailand's attraction as a low-cost production base has waned. Its wages are no longer low enough to export inexpensive goods (the middle-income-trap). At the same time, Thailand has been facing new, globalisation-induced competitive threats that can only be met by enhanced innovative capacity. Productive entrepreneurship and innovative and internationalising SMEs will be key drivers of future economic growth and must be given due attention in policy reform.

This report offers policy recommendations in three main strategic areas:

I) improving the framework for the formulation and implementation of SME and entrepreneurship policy;

II) building more innovative, growth-oriented and international SMEs; and

III) developing policies which enable productive entrepreneurship for regional and social development.

This report contains a vision for improvement of the policy framework founded on results-based programme management co-ordinated by a central agency, which is able to direct available funding to the actions with the greatest benefits. Appraisal and evaluation are needed for all policies and programmes in order to justify their appropriateness compared with potential alternatives and to identify areas for improvement. This also applies to the suggestions for policy actions and programmes offered below.

Improving the framework for the formulation and implementation of SME and entrepreneurship policy

Recommendation 1: Reaffirm the central co-ordination of policy and programmes

Institutional dispersion, overlapping and policy duplication should be reduced by reinforcing the role of OSMEP as the central body for SME and entrepreneurship policy

formulation and co-ordination, actively supporting the SME Promotion Committee, the top-level co-ordinator. As the body responsible for devising the policy strategy across government, OSMEP should have the tools to ensure that the projects and programmes introduced by other ministries and agencies are in line with that strategy. This implies the establishment of appropriate lines of reporting, accountability and budget control. It will be important for OSMEP to directly undertake and/or to promote and facilitate project and programme evaluations that show costs and benefits and relative cost effectiveness, thus enabling spending to be directed towards the initiatives with the greatest returns to public spending. The SME Promotion Committee to which OSMEP reports should meet more regularly with a high-level chair (at least once every quarter) to take decisions on policy formulation and implementation based on information provided by OSMEP. A new inter-agency consultation framework should also be established for regular contacts and consultations among the principal stakeholders of SME policy.

Recommendation 2: Move to flexible, rolling programme budgeting and strategic planning, and from sector/industry plans to results-based planning

A switch to flexible, rolling programme budgeting should be made provided that moves are also made to increase accountability and evaluation of project and programme portfolios. This would increase certainty for programme officials and recipients so that targeted results are clear and investments in people and resources can be made with more certainty. Waste and inefficiencies would be reduced arising from the need to spend budgets before they disappear even if they cannot be spent effectively in the period. Rolling programme budgeting would, in addition, allow more flexibility in responding to unexpected changes in circumstances.

Recommendation 3: Adopt a portfolio approach to SME and entrepreneurship projects and programmes

A portfolio approach towards SME and entrepreneurship support should be adopted. The portfolio of projects and programmes should be based around an appropriate distribution of support across different strategic priorities, stages of the enterprise life cycle and focus of policy support. Under the life cycle approach, "would-be" entrepreneurs and SMEs are taken, over a number of years, from the pre-nascent stage to start up, expansion and internationalisation, with business support systematically overcoming specific barriers to development at that life cycle stage, such as in exploitation of research results, finance and human capital. All projects and programmes should be required to show where they fit into the portfolio in terms of policy focus of intervention and stage of business development, as well as the relevant strategic agenda items which the project or programme supports.

Recommendation 4: Increase accountability and evaluation of strategy, programme and project results across the portfolio

Improved economic evaluations of all projects and programmes should be required without adding unnecessarily to the compliance burden for SMEs or to the overall budget. Ideally, the economic evaluations could show a cost-benefit or cost effectiveness estimate. To this end, one per cent of programme budget should be allocated for evaluation and the creation of a database on programme impacts. Proper economic evaluations would create accountability by showing that government money spent for SMEs and entrepreneurship is money well spent. Such evidence would increase the credibility of OSMEP with both other Ministries and the tax-paying public.

Recommendation 5: Improve quality and timeliness of management information in a cost-effective manner

Efforts should be made to improve the quality, timeliness, reliability and accessibility of the programme management information available, commensurate with the benefits and costs of doing so. Timely and reliable information is critical to OSMEP's performance in improving SME and entrepreneurship policies and programmes. One key area for improvement is to extend the definition of SMEs to include a microlevel and a non-employing level and to collect, harmonise and report data on this group. OSMEP, the Thailand National Statistical Office and other Ministries could also develop a co-operative approach for the creation of a central database drawing together and seeking to harmonise all available SME and entrepreneurship data where relevant.

Improved SME statistics should be communicated swiftly to all policy stakeholders and the public. In the past, inter-agency rivalries resulted in the withholding of statistical information. Programme evaluation and the subsequent refocusing of policy intervention call for much better SME statistics. The effectiveness of moving to increased accountability for SME and entrepreneurship projects will largely depend on making information about evidence and results readily available.

Innovative, growth-oriented and international SMEs

Recommendation 6: Support SMEs to grow, innovate and compete internationally

Thai SMEs are likely to face increasing structural adjustment pressures resulting from economic, political, environmental and social changes in the Asian region. Cost effective policies and programmes should equip SMEs and entrepreneurs to respond to these challenges and encourage SME growth, innovation and international competitiveness. Existing programmes for this purpose should be made more accessible, for example through a web-based one-stop or first-stop point, and should be easily accessible by mobile devices (telephones, computers). Consideration of whether there are gaps in existing support is also needed and whether existing programmes and project spending could be made more effective and/or efficient through being adapted or better knitted together.

Recommendation 7: Pay closer attention to the international dimension for SMEs

New challenges and opportunities, especially relating to subcontracting, will probably come from China and increasingly from India. It is important that Thailand be prepared to support a level playing field of harmonised regulations in ASEAN and ASEAN+, because it is the non-tariff barriers created by regulations that tend to pose the most problems for SMEs seeking to operate internationally. It is recommended that OSMEP work with Ministry of Foreign Affairs to ensure that SME issues are taken into account in the negotiation of free trade agreements (FTAs).

Recommendation 8: Improve the capacity of financial markets to provide formal finance to SMEs and entrepreneurs and increase the efficiency of government interventions to support access to finance

Credit rating, credit management and information sharing systems should be strengthened to enlarge the supply of formal finance to SMEs. The SME Bank and other Special Financial Institutions (SFIs) should also enlarge and upgrade financial education for entrepreneurs as well as concomitant advisory services. Previous initiatives to establish

Venture Capital Funds were not successful and the reasons for this need to be understood in order to inform future action in this area. In addition, a liaison committee should be set up between government and financial institutions to explore ways to collaborate more effectively on areas of common strategic benefit. For example, new collaboration should be sought on the provision of microfinance through multiple channels including the mobile telephone.

Productive entrepreneurship for regional and social development

Recommendation 9: Support a shift to more productive entrepreneurship

Thailand's unusually high rate of "necessity" entrepreneurs (those who start a business because they lack other realistic options for generating income and wealth) demands stronger action in the pre-nascent domain, creating more favourable conditions for more productive and opportunity-driven entrepreneurship. Cost-effective programmes of advice, mentoring, training and support for productive entrepreneurship should be nurtured.

Recommendation 10: Address regional inequalities in SME and entrepreneurship activity

The entrepreneurship growth potential and barriers in less prosperous provinces should be assessed and the potential for SME and entrepreneurship policy to release untapped opportunities should be identified in order to find cost-effective ways of meeting both national growth and spatial equity objectives through greater entrepreneurship and SME development in areas currently held back by low activity rates. Since the OTOP programme is one of the key measures currently supporting entrepreneurship and SME development in the regions, its strategy, synergies, visibility and reach and efficiency should be reviewed with a view to identifying ways of increasing its impact.

Chapter 1

SME and Entrepreneurship Performance in Thailand

This chapter presents an overview of the structure and characteristics of SME and entrepreneurship activity in Thailand, including data on numbers and sizes of SMEs and their contribution to total employment and GDP. The performance of the SME sector is examined in terms of job creation, productivity, enterprise dynamism, numbers of high-growth firms and the contribution to trade and investment. The numbers and characteristics of entrepreneurs are also examined as well as regional variations of SME activity across Thailand. The chapter concludes with an analysis of the fundamental structural and enterprise-level challenges faced by SMEs and entrepreneurs.

Introduction

To the extent that it is possible to make international comparisons based on the available data, Thai SMEs:

- have a similar size structure to that typically seen in OECD countries, but with slightly more large firms;
- contribute 78% of employment, which is higher than the typical level in OECD countries;
- contribute about 43% of non-agricultural GDP, somewhat lower than the proportion generally seen in OECD countries;
- generate about 30% of exports, similar to the level seen in OECD countries;
- have an SME density which is slightly less than the typical density in OECD countries (*i.e.* about 4.2 SMEs per 100 population, against a level of about 5 SMEs per 100 in OECD countries).[1]

Thailand had about 2.8 million SMEs in 2008, more than triple the number accounted for in 1997-98. Some of this increase is attributable to better measurement and monitoring of SMEs, while some is attributable to growth of SMEs.

Thailand has one of the highest levels of early stage entrepreneurship (pre-nascent and nascent stages)[2] in the world (Virasa *et al.*, 2007) as measured by the Global Entrepreneurship Monitor (GEM) Total Entrepreneurial Activity (TEA) indicator, which measures the proportion of adults (18 to 65 years in Thai figures) engaged in starting up a business in the previous 42 months; Thailand had an average TEA of 20.5% for the period 2002-07.

Thailand has a relatively high level of female participation in early stage and established business entrepreneurship. About 30% of entrepreneurs in Thailand are "necessity" entrepreneurs, that is, they start a business because they do not really have an alternative way of attempting to generate an income. The other 70% of entrepreneurs are pursuing a business opportunity (Virasa *et al.*, 2007, 2006).

The Bangkok area tends to have a disproportionate number of SMEs as well as higher incomes. Furthermore, most of the growth of SMEs tends to be in the Bangkok area, where incomes and income growth are higher. Bangkok has an SME density which is much higher than the rest of Thailand, with the South and North regions having the lowest SME densities. Average monthly incomes are much lower in the North and Northeast regions than in Bangkok, or in the South.

Size and structure of the SME sector

According to statistics obtained from OSMEP, Thailand had about 2.8 million SMEs in 2008, more than three times the number counted in 1997-98. However, much of this increase seems to be attributable to more thorough measurement and monitoring of SMEs by OSMEP rather than a real increase in the number of SMEs.

Definition and measurement of SMEs

The definition of SMEs in Thailand was formally instituted by the SME Promotion Act in 2000. It is shown in Table 1.1.

Table 1.1. **Definition of SMEs according to the Thai SME Promotion Act (2000)**

	Number of employees (persons)		Fixed assets (THB millions)	
	Small	Medium	Small	Medium
Production sector (incl. manufacturing, agriculture, mining)	Not over 50	51-200	Not over 50	> 50-200
Service sector	Not over 50	51-200	Not over 50	> 50-200
Trade sector (wholesale)	Not over 25	26-50	Not over 50	> 50-100
Trade sector (retail)	Not over 15	16-30	Not over 30	> 30-60

Source: Thai SME Promotion Act (2000).

The definition set out by the SME Promotion Act does not include a distinct category for microenterprises and neither are microenterprises counted separately by OSMEP – they are instead included as part of the small enterprise category. As shown in Table 1.1, the smallest size classification used is for the Retail sector, where all enterprises with less than 15 employees are grouped together, but in the Services and Production sectors the smallest size class encompasses all firms with less than 50 employees. Similarly, non-employing enterprises are not treated separately in the data, although on their own they frequently make up over 50% of all enterprises in OECD countries. Disaggregated information is therefore lacking for two categories of firms, which together contain the vast bulk of SMEs.

The measurement of SME activity *per se* is carried out by OSMEP based on a variety of public sources. The sources used include the Thai National Statistical office, the Department of Business Development, the Board of Investment, various provincial and local government offices, the Office of Social Insurance, the Department of Industrial Work, the Industrial Estate Authority and the Customs Department among others.

The Thai National Statistical Office (TNSO) does not provide statistics on SMEs as such, although it does provide some statistics on economic activity by size of enterprise. When TNSO does disaggregate statistics by size of enterprise, several methodological problems are apparent. Firstly, the size classifications used by TNSO do not always follow the definition of SMEs established by the SME Promotion Act. In addition, the TNSO does not count non-employing enterprises. For example, in the Manufacturing Industry statistics, TNSO measures size of enterprise by number of employees using the size categories: 1-15; 16-25; 25-30; 31-50; 51-200; 201 and above. In the National Tourism Survey, size of enterprise is measured by number of rooms in enterprises providing accommodation, with size categories of: less than 60 rooms; 61-149; 150 and more rooms.

There is no central national data collection on SMEs in Thailand, and there is no central registration of all businesses, or of people carrying on a business. There is nonetheless information available from various sources for registered businesses. A business wishing to have a juristic status (for example, an entity with corporate legal status, or an organisation recognised by the State so as to be treated as a legal person) must register with the Department of Business Development. These Juristic entities made up about 600 000 of the 2.8 million SMEs estimated in 2010 and most were sole proprietors. Furthermore, registration is required for a variety of purposes by a variety of other

government authorities. For example, local or provincial authorities may require registration for health and sanitation reasons, registration with the Ministry of Labour may be required for social security or compensation of employees, and so on. Where SMEs register, their activities and contribution to economic output and employment can be monitored by the TNSO and other authorities. However, many enterprises do not register. For example, VAT (value added tax) is not payable until an enterprise has reached a THB 1.8 million turnover per annum; so many smaller SMEs are not subject to VAT.

Furthermore, as in many countries, official statistics tend to understate the importance of microfirms because they miss significant non-registered activity in the "non-observed", informal economy. Although no official estimates are available, many observers believe that there are currently close to 1 million informal SMEs. TNSO officials suggested that many SMEs in agriculture and agriculture-related activity, especially in the areas outside Bangkok or major cities, choose not to register, and are part of the "grey" economy.

The lack of statistical information on microfirms, non-employing firms and informal firms weakens the evidence base for policy development and makes international comparisons difficult. The situation could be improved if the Thai National Statistical Office and OSMEP were to adopt a microenterprise classification in line with internationally agreed upon classifications and provide information separately for employing and non-employing enterprises.

The number and size distribution of SMEs

The estimated total number of SMEs and their size distribution is set out in Table 1.2. This shows a total SME estimate of 2 827 633 in 2008, and that SMEs accounted for 99.7% of all enterprises in 2008. Medium-sized firms (usually employing 50 to 200 people) made up 0.4% of enterprises (Table 1.2). Unfortunately, the size classes defined by the Thai SME Promotion Act (see Table 1.1) make it difficult to distinguish the contribution of the microenterprises.

Table 1.3 compares firm sizes across selected countries. The proportion of medium-sized enterprises appears to be lower in Thailand than might be expected by OECD standards, accounting for only 0.4% of all enterprises in Thailand compared with 2.0% in the United States and 10.2% in Japan, although there are some differences in size definitions.

The growth of SMEs is shown in Table 1.4. Where data are not available, the growth is converted to simple (*i.e.* not compounded) annualised growth. In the period 1997 to 2002 (during which OSMEP was being established) the growth in the number of SMEs was about 21% per annum. As mentioned earlier, much of this apparent growth in the total number of SMEs is more than likely due to the more extensive coverage of the estimation methods used by OSMEP, rather than actual growth in the number of SMEs. Subsequently, the annual growth rate of the number of SMEs dropped back to only 1% to 2% per annum in 2005-6, but then accelerated sharply to 12% per annum in 2008.

Table 1.5 gives a comparison of the distribution by size of SMEs in Thailand with SMEs in Europe. While OSMEP does not provide size breakdowns at a microfirm level (less than 10 employees in Europe), the Thai Office of National Statistics does provide a more detailed breakdown by size of enterprise or establishment for some statistics such as manufacturing. Table 1.5 shows that the size distributions are similar to the European

Table 1.2. **Number of Thai enterprises, 1997-2008**

Number of enterprises and % of total number of enterprises, by size of firm

	1997	2002	2003	2004	2005	2006	2007	2008
All enterprises	803 201	1 645 530	. .	2 209 907	2 249 718	2 287 057	. .	2 836 377
All SME	799 033	1 639 427	. .	2 199 595	2 239 280	2 274 057	. .	2 827 633
%	99.5	99.6	. .	99.5	99.5	99.4	. .	99.7
Small	. .	. .	. .	2 189 968	2 229 353	2 254 734	. .	2 815 560
%			. .	99.1	99.1	98.6	. .	99.3
Medium	. .	. .	. .	9 629	9 927	9 791	. .	12 073
%	. .	. .	. .	0.4	0.4	0.4	. .	0.4
Large	4 168	6 103	. .	4 323	4 444	4 292	. .	4 158
%	0.5	0.4	. .	0.2	0.2	0.2	. .	0.1

Notes: See Section 1 for size classes and estimation methods. Figures for periods after 2008, for 2007, 2003, and 1998 to 2001 are not available.
Source: OSMEP *White Papers*.

Table 1.3. **Number of enterprises in selected countries, various years**

% of total number of enterprises, by size of firm[1]

	Thailand	Turkey	Mexico	Korea[2]	Japan[2]	Germany	United States
	2006	2006	2003	2006	2007	2007	2005
SME	99.4	99.9	99.8	98.9	98.2	99.5	98.9
Micro	n.a.	98.1	96.1	49.4	45.4	83.0	77.4
Small	98.6	1.2	3.1	43.1	42.6	14.1	19.5
Medium	0.4	0.5	0.6	6.4	10.2	2.4	2.0
Large	0.2	0.1	0.2	1.1	1.8	0.5	1.1

1. Size class definitions in Annex 1.A1, Table 1.A1.1;
2. Includes industry only, number of establishments.

Sources: OECD *Studies on SMEs and Entrepreneurship: SMEs, Entrepreneurship and Innovation* based on data from OECD *Structural Business Statistics*. Thailand data from OSMEP *White Papers*.

Table 1.4. **Annualised growth of Thai enterprises, 1997-2008**

By size of firm

	1997-2002	2003	2004	2005	2006	2007	2008
All enterprises	21.0	. .	17.2	1.8	1.7	. .	12.0
All SMEs	21.0	. .	17.1	1.8	1.6	. .	12.2
Small	. .	. .	. .	1.8	1.1	. .	12.4
Medium	. .	. .	. .	3.1	–1.4	. .	11.7
Large	9.3	. .	–14.6	2.8	–3.4	. .	–1.6

Source: OSMEP *White Papers*.

average. Although direct comparison is not possible because of the different size classifications, small and microenterprises make up about 98% of enterprises in Thailand and Europe. Microenterprises (1-9 employees) make up 80.8% of manufacturing enterprises in Europe, relative to about 94% of the smallest size classification (1-15 employees) in Thailand. Neither the European nor the Thai data cover non-employing enterprises, but this is not a major issue in manufacturing.

Figure 1.1 compares the enterprise size distribution in manufacturing between Thailand and selected OECD and European countries. As with Table 1.3, this suggests a relative bias towards microfirms in Thailand.

Table 1.5. **Comparison of size distributions of manufacturing firms in Thailand and Europe, 2007**

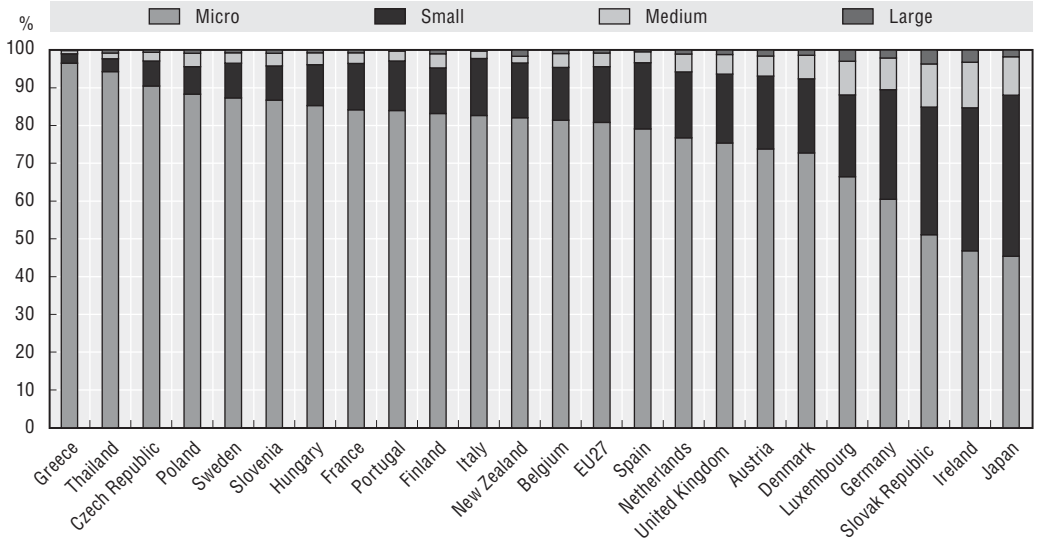
By size of firm

Europe (EU27) (manufacturing)		Thailand (manufacturing)	
Size class	% of enterprises	% of enterprises	Size class
Micro (1-9)	80.8	94.3	Small (1–15)
Small (10-49)	14.8	3.4	Small (16-50)
Small + micro	95.6	97.7	Small (1-50)
Medium (50-249)	3.6	1.5	Medium (51–200)
Large (250 +)	0.8	0.8	Large (200+)

Sources: Europe: Eurostat, *Structural Business Statistics Database*. Thailand: Thai National Statistical Office, Table 1, Number and Percentage of Manufacturing Establishments by Form of Legal Organization and Size of Establishment, Whole Kingdom, 2007.

Figure 1.1. **Comparison of size distributions of enterprises in the manufacturing sector, 2007**

% of total number of enterprises,[1] by size of firm[2]



1. Number of establishments for Japan.
2. Size class definitions in Annex 1.A1, Table 1.A1.2.

Source: OECD *Structural Business Statistics*, Eurostat *Structural Business Statistics* and Thailand National Statistical Office.

SME contribution to employment

Table 1.6 shows that Thai SMEs contributed 76.7% of total employment in 2006. Small enterprises contributed 65.1% of total employment, and medium-sized enterprises about 12%. Large firms contributed 23.3% of employment. Table 1.7 puts this in perspective relative to some OECD countries, and shows that Thailand has one of the highest SME contributions to employment in the selected countries.

The average number of people employed by each SME by size class is shown in Table 1.8. On average, SMEs employ 4 employees. Within this group, small firms employ about 3 people and medium firms employ about 140, whereas large firms employ over 600 people on average.

Table 1.6. **Employment by SMEs, 1997-2006**

By size of firm

	1997	2002	2003	2004	2005	2006
Total	**5 313 370**	**7 234 022**	. .	**11 750 868**	**11 551 272**	**11 551 272**
SME	4 057 595	4 990 217	. .	8 863 607	8 896 164	8 863 334
%	76.4	69.0	. .	75.4	77.0	76.7
Small	. .	. .	. .	7 454 493	7 482 561	7 524 936
%	. .	. .	. .	63.4	64.8	65.1
Medium	. .	. .	. .	1 409 114	1 413 603	1 338 398
%	. .	. .	. .	12.0	12.2	11.6
Large	1 255 775	2 243 805	. .	2 887 261	2 894 932	2 687 938
%	23.6	31.0	. .	24.6	25.1	23.3

Notes: Figures after 2006, from 1997 to 2001, and 2003 are not available.
Source: OSMEP *White Papers*.

Table 1.7. **Total employment in selected countries, various years**

% of total employment, by size of firm[1]

	Thailand	Turkey	Mexico	Korea[2]	Japan[2]	Germany	United States
	2006	2006	2003	2006	2007	2007	2004
SME	76.7	81.3	72.3	71.0	66.0	60.4	57.9
Micro	n.a.	57.4	41.3	12.9	8.4	19.1	11.1
Small	65.1	10.4	14.0	34.9	26.5	21.6	32.8
Medium	11.6	13.5	17.0	23.2	31.1	19.6	14.0
Large	23.3	18.7	27.7	29.0	34.0	39.6	42.1

1. Size class definitions in Annex 1.A1, Table 1.A1.1.
2. Includes industry only.

Source: OECD Studies on SMEs and Entrepreneurship: SMEs, Entrepreneurship and Innovation based on data from OECD *Structural Business Statistics*. Thailand data from OSMEP *White Papers*.

Table 1.8. **Average number of employees in Thailand, 2004-06**

By size of firm

	2004	2005	2006
All SMEs	4.0	4.0	3.9
Small	3.4	3.4	3.3
Medium	146.3	142.4	136.7
Large	667.9	651.4	626.3

Source: OSMEP *White Paper 2006*.

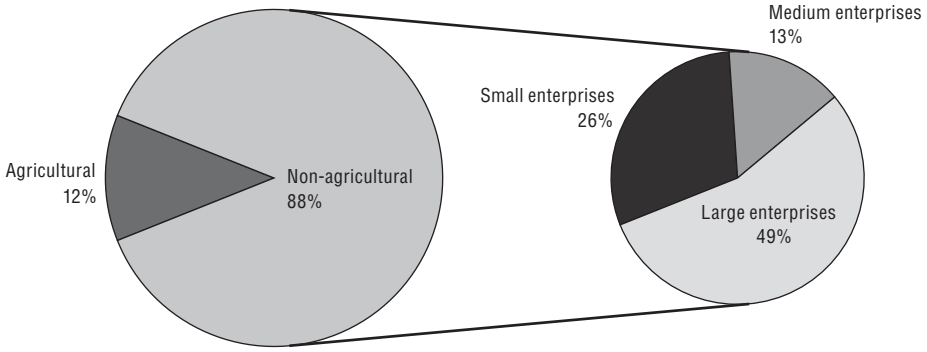
SME contribution to GDP

The Tenth National Economic and Social Development Board (NESDB) Plan 2007-11 (Ch. 4, p. 5) sets a target for Thai SMEs to contribute not less than 40% of GDP during the period of the Plan, up from 39.5% in 2005.[3] Figure 1.2 shows that in 2008 SMEs contributed 39% of total Thai GDP. The OSMEP *White Paper* for 2008 (p. 3, Fig. 2) shows a declining contribution of SMEs to GDP for the period from 2002 to 2008. The SME contribution to non-agricultural GDP was 43.1% in 2008.

Table 1.9 shows that the contribution of SMEs to non-agricultural GDP in total declined slightly from 45.5% in 2002 to 43.1% in 2008. Small enterprises showed a declining contribution to non-agricultural GDP, while medium-sized enterprises showed an almost

constant contribution of 14.2% to 14.3% of non-agricultural GDP. Large firms on the contrary increased their contribution to non-agricultural GDP.

Figure 1.2. **SME contribution to Thai GDP, 2008**



Source: OSMEP *White Paper 2008*.

Table 1.9. **SME contribution to GDP and non agricultural GDP, 2002-09**

As a % of total GDP

	2002	2003	2004	2005	2006	2007	2008	2009
Agricultural	9.4	10.4	10.3	10.3	10.8	10.7	11.6	11.6
Non-agricultural	90.6	89.6	89.7	89.7	89.2	89.3	88.4	88.4
SME	45.5	44.4	44.3	43.8	43.6	43.3	43.1	42.7
Small	31.3	30.2	30.0	29.6	29.3	29.0	28.9	28.8
Medium	14.2	14.2	14.3	14.3	14.3	14.3	14.2	14.0
Large	44.8	45.4	45.4	45.8	45.9	46.3	45.8	45.9
Others	4.5	4.4	4.6	4.6	4.5	4.4	4.4	4.7

Source: OSMEP *White Papers* for 2006 and 2009.

SME density

The number of SMEs per 100 people is a measure of SME density, which in turn is a crude measure of the level of entrepreneurial activity. Table 1.10 shows that the SME density for Thailand has grown from about 2.7 SMEs per 100 people in 2002, to nearly double in 2008, or 4.2 SMEs per 100 people in 2008. However, it is likely that this increase in density is overstated due to improvements in statistical measurement leading to more SMEs being counted, rather than an increase in the actual number of SMEs in the economy. Thailand's overall SME density is slightly less than the average in OECD countries, which is about 5 per 100.

Table 1.10. **SME density Thailand, 2002 and 2008**

	2002	2008
Total SMEs enterprises	1 639 427	2 827 633
Population (million)	60 617	66 680
SME density	2.7	4.2

Source: OSMEP *White Papers* for 2006 and 2008 and National Statistical Office Thailand.

SME sector performance

This section explores the performance of Thai SMEs in terms of job creation, productivity and productivity growth, enterprise dynamism as measured by exit, entry and churn, the relative importance of high-growth SMEs, and Thai SME export and import performance. In general, Thai SMEs appear to have comparable performance to SMEs in other countries. Attempts to measure Thai SME performance in terms of both innovation activity and investment and FDI have been limited by the lack of available statistics, and as noted below, some weaknesses in the reliability of statistics pose problems in assessing performance.

Job creation by size of enterprise

Table 1.11 shows estimates of the role of SMEs in job creation in Thailand. Based on OSMEP figures, SMEs have provided more than 80% of all jobs created since 2002, and since 2005 have provided almost all (98%) of the jobs created, with most of the job creation coming from small enterprises rather than medium-sized enterprises. According to OSMEP figures, in 2005-06, small enterprises were the *only* source of jobs created. It is not clear what the explanation is for the apparent sharp drop in employment in 2006; this is not reflected in the National Labour Force statistics which show consistent increases in employment throughout the period (see note to the table).

Table 1.11. **Jobs created, by size class**

Number of jobs

	1997-2002	2002-04	2004-05	2005-06	2006-09
Total jobs created	320 109	2 258 423	40 228	–239 824	284 775
By SMEs	155 437	1 936 695	32 557	–32 830	279 340
By small firms	. .	. .	28 068	42 375	245 894
By medium firms	. .	. .	4 489	–75 205	33 445
By large firms	164 672	321 728	7 671	–206 994	5 435
% created by SME	*48.6*	*85.8*	*80.9*	*100*	*98.1*

Note: It should be noted that some of the OSMEP data provided is difficult to reconcile; there appear to be some problems in consistency of the data across different periods. For example, some of the OSMEP data for 2007, provided in 2009, shows a dramatic drop in employment from previous years, which is clearly not consistent with data previously provided. Table 1.11 has been compiled by not including some data which is clearly not consistent.
Sources: OSMEP *White Papers* 2002, 2005, 2007 and 2009.

Productivity and productivity growth

Table 1.12 shows the contribution by SMEs to GDP compared with large firms; GDP per employee is more than four times higher in large firms compared with small ones, and still nearly twice as high as in medium-sized enterprises. There is therefore a large productivity gap between SMEs and large firms.

Table 1.13 shows the available data for growth of GDP per employee by size class in Thailand for those years for which there are reliable data. The data suggest that productivity growth is higher in large enterprises than in small ones, which is consistent with data from OECD countries. It also suggests that productivity growth dropped dramatically during the 2007-09 global financial slow-down, but still remained positive, even for small firms.

Table 1.12. **Thailand GDP per enterprise and per employee, 2004-08**

In THB millions

	2004	2005	2006	2007	2008
GDP per small enterprise	0.80	0.84	0.91	. .	0.82
GDP per employee	0.23	0.25	0.27	. .	. .
GDP per medium enterprise	86.42	91.08	101.97	. .	95.33
GDP per employee medium	0.59	0.64	0.75	. .	. .
GDP per large enterprise	681.04	731.20	836.36	. .	1 013.85
GDP per employee large	1.02	1.12	1.34	. .	. .
Multiple GDP per employee large to small	4.3	4.5	4.9	. .	. .
Multiple GDP per employee large to medium	1.7	1.8	1.8	. .	. .

Source: OSMEP *White Papers* for 2006 and 2008.

Table 1.13. **Productivity growth by size class**

Annualised growth in GDP per employee as a % per annum

	2004	2005	2006	2007	2008	2009
All enterprises	. .	11.10	10.28	. .	. .	2.59
All SMEs	. .	7.75	9.42	. .	. .	0.87
Small	. .	7.21	8.01	. .	. .	0.83
Medium	. .	8.31	16.63	. .	. .	1.36
Large	. .	10.08	18.98	. .	. .	4.99

Note: Annual growth for 2009 is based on changes from 2006. Data for 2007 are unreliable, and data for 2008 and prior to 2004 are not available.
Source: OSMEP *White Papers*.

Enterprise entry, exit and survival

Entry and exit figures give an approximation of the dynamism or churn of the SME population. Table 1.14 shows the figures provided by OSMEP for enterprise "establishments" (births, or entries) and "dissolutions" (exits, or deaths) and the total SME population.[4] Given that Thailand has one of the highest levels of entrepreneurship in the world as measured by the GEM TEA it might be expected that Thai SMEs would exhibit a high level of dynamism and churn. However, entry and exit rates are actually quite low; gross births relative to the total SME population of about 2.3 million in 2006 were about 2.05%. A TEA of 20% indicates that 20% of the adult population are involved in a new enterprise of less than 42 months' activity. Mapping the 42-month TEA figures into an approximate annual figure

Table 1.14. **Births and deaths of SMEs**

	2005	2006	2007	2008	2009	2010
Births	. .	46 881	40 723	42 746	41 220	38 324
Deaths	. .	19 890	21 636	27 206	63 007	9 219
Net births	. .	26 991	19 087	15 540	–21 787	29 105
Total SMEs	2 249 718	2 287 057	2 375 368	2 836 377	2 900 759	. .
Gross births (as % SMEs)	. .	2.05	1.71	1.51	1.42	. .
Net births (as % of SMEs)	. .	1.18	0.80	0.55	–0.75	. .
SME growth (per annum as %)	. .	1.66	3.86	19.41	2.27	. .

Note: These figures may not be reliable. OSMEP explains that the sudden rise in deaths in 2009 was because the Department of Business Development cleared inactive enterprises off its database. It is not clear how frequently this is done or how it is managed.
Source: OSMEP 2009 *White Paper* (Thai version translated).

by dividing by 3.5 (*i.e.* 42 months is 3.5 years), the estimated gross birth rate should be around 2.5% of total SMEs in 2006, so the reported figure from official data may understate the real churn rate.

Table 1.15 shows the survival rates for enterprises in Thailand and selected OECD countries from 2002 to 2007. The Thai survival rates are notably higher than other countries, especially in the first two years. It is estimated that over 90% of SMEs in Thailand survive two or three years. However since estimates were based on juristic (*i.e.* registered) SMEs which represent a relatively small proportion of the enterprise population relative to the comparator countries, they may underestimate the real churn rate, given that informed enterprises may be more likely to fail or close if the entrepreneurs find other employment.

High-growth firms

High-growth firms usually contribute disproportionately to the growth of jobs and value added (OECD, 2002). High-growth SMEs are defined by the OECD as those employing more than ten people and showing three consecutive years of growth of turnover (or employment on some measures) in excess of 20% per annum. Based on a sample of 159 479 Thai enterprises in 2005-07, 8 157 (or 5.1%) were found to meet this definition of high growth; 5% of the SMEs were high growth and 8.2% of the large enterprises were high growth. Similarly in 2002-04 the sample was 149 602, with 10 379 or 6.9% being considered high growth; 6.8% of the SMEs and 11.6% of the large enterprises were high growth. Table 1.16 shows that the proportion of high-growth firms in Thailand is similar, but slightly lower than in OECD countries, and is generally higher in manufacturing than in services in most countries.

More recent figures are not available, nor are figures on the relative contributions of high-growth firms to jobs and value added.

SME contribution to international trade and investment

The contribution of SMEs to Thai exports was approximately 30% (Table 1.17). Small enterprises contribute more to exports, and to imports, than medium-sized enterprises. There is no clear explanation for this, but it may be because of the "missing middle" effect (a relative lack of medium-sized growth-oriented firms in Thailand). There is a discontinuity in the series after 2002, and therefore previous figures are not comparable.

Entrepreneurship

Thailand has one of the highest levels of entrepreneurship in the world, as measured by the Global Entrepreneurship Monitor Total Entrepreneurial Activity indicator (GEM TEA), which measures the proportion of adults (18 to 65 years in Thai figures) engaged in starting up a business in the previous 42 months. The data assembled by GEM show Thailand enjoying the highest rate of early-stage entrepreneurial activity (TEA) among 42 countries in 2007. Table 1.18 gives a rage of entrepreneurship rates for selected countries.

Both the TEA and the activity of established business owners and managers increased strongly in the 2004-07 period, far exceeding levels observed in China, India, Japan and the United States. Quit rates, *i.e.* entrepreneurs discontinuing their business, decreased in the 2002/2007 period, falling to levels which are low by international comparison.

Table 1.15. **Survival rate of enterprises that started business (year 2002-07)**

	Survival rate.	Year of start up of business					
		2002	2003	2004	2005	2006	2007
Thailand	1-year survival rate	97.2	96.6	96.5	96.4	96.7	96.8
	2-year survival rate	92.5	90.9	91.6	91.9	92	92.8
	3-year survival rate	87.7	85.5	87.4	87.6	88.1	. .
	4-year survival rate	83.6	81.7	83.5	84.1	. .	. .
	5-year survival rate	80.2	78.2	80.4	. .	. .	. .
Canada	1-year survival rate	87.1	85.5	86.4	85.2	84.7	. .
	2-year survival rate	74.5	73	73.3	70.2	. .	. .
	3-year survival rate	65.4	62.9	61.7	. .	. .	. .
	4-year survival rate	57.6	53.3	. .	. .	. .	. .
	5-year survival rate	50.5	. .	. .	. .	. .	. .
Czech Republic	1-year survival rate	79.5	80.9	77.4	78.1	. .	. .
	2-year survival rate	65.9	65	61.1	. .	. .	. .
	3-year survival rate	55.4	54	. .	. .	. .	. .
	4-year survival rate	47.2	. .	. .	. .	. .	. .
	5-year survival rate	. .	. .	. .	. .	. .	. .
Hungary	1-year survival rate	81.6	82.5	80.6	77.5	. .	. .
	2-year survival rate	68.7	70.4	66.2	. .	. .	. .
	3-year survival rate	59.3	61.6	. .	. .	. .	. .
	4-year survival rate	52.4	. .	. .	. .	. .	. .
	5-year survival rate	. .	. .	. .	. .	. .	. .
Italy	1-year survival rate	90.2	86.9	87.2	87	. .	. .
	2-year survival rate	77.5	74.9	75.4	. .	. .	. .
	3-year survival rate	68	65.9	. .	. .	. .	. .
	4-year survival rate	61.2	. .	. .	. .	. .	. .
	5-year survival rate	. .	. .	. .	. .	. .	. .
Spain	1-year survival rate	83.4	86	83	84.6	. .	. .
	2-year survival rate	73.8	75.6	71.9	. .	. .	. .
	3-year survival rate	66	65.2	. .	. .	. .	. .
	4-year survival rate	58.1	. .	. .	. .	. .	. .
	5-year survival rate	. .	. .	. .	. .	. .	. .
Sweden	1-year survival rate	97.1	96.9	96.8	96.9	. .	. .
	2-year survival rate	87.2	87.8	85.8	. .	. .	. .
	3-year survival rate	78.3	78.4	. .	. .	. .	. .
	4-year survival rate	70.7	. .	. .	. .	. .	. .
	5-year survival rate	. .	. .	. .	. .	. .	. .
United Kingdom	1-year survival rate	96.5	96.5	96	96.4	. .	. .
	2-year survival rate	82.5	82	81.2	. .	. .	. .
	3-year survival rate	66.1	64.4	. .	. .	. .	. .
	4-year survival rate	52.6	. .	. .	. .	. .	. .
	5-year survival rate	. .	. .	. .	. .	. .	. .
United States	1-year survival rate	. .	. .	. .	. .	. .	. .
	2-year survival rate	78.3	77.1	78.1	80	. .	. .
	3-year survival rate	. .	. .	. .	. .	. .	. .
	4-year survival rate	. .	. .	. .	. .	. .	. .
	5-year survival rate	51.7	51.51	53.44	. .	. .	. .

Source: OSMEP.

Table 1.16. **Proportion of high-growth firms (turnover definition) by country and sector, 2002-05**

	Number high-growth			% high-growth		
	Industry	Service	Total	Industry	Service	Total
Thailand	2 547	7 832	10 379	8.9	6.5	6.9
Canada	3 890	5 860	9 750	10.9	6.2	7.5
Czech Republic	2 262	2 083	4 345	11.5	9.1	10.2
Denmark	642	1 066	1 708	8.2	9.2	8.8
Hungary	1 648	1 679	3 327	11.8	9.4	10.5
Italy	6 298	4 274	10 572	6.4	6.2	6.3

Source: OSMEP.

Table 1.17. **SME export and import in Thailand, 2004-08**

	2004	2005	2006	2007	2008	2009
Total export	3 874 823	4 438 691	4 937 372	5 241 962	5 853 628	5 199 912
Total import	3 801 171	4 754 024	4 942 992	4 870 186	5 944 007	4 605 331
SME export	1 171 072	1 291 858	1 456 083	1 575 971	1 691 145	1 589 200
% SMEs of total	30.2	29.1	29.5	30.1	28.9	30.56
% small	. .	. .	17.30	17.46	16.45	18.02
% medium	. .	. .	12.15	12.60	12.44	12.54
SME import	1 251 449	1 601 275	1 738 491	1 452 735	1 771 502	1 377 740
% SME import of total	32.9	33.7	35.2	29.8	29.8	29.92
% small	. .	. .	24.40	18.36	18.24	18.58
% medium	. .	. .	10.72	11.47	11.56	11.34

Table 1.18. **Activity rates at different stages of entrepreneurial development, 2007**

% of adult population between 18-64 years

	Nascent entrepreneurs	Baby business owners	Total early-stage entrepreneurial activity	Established business owners/managers
Thailand	9.4	18.6	26.9	21.4
China	6.9	10.0	16.4	8.4
India	6.0	2.6	8.5	5.5
Japan	2.2	2.2	4.4	8.7
USA	6.5	3.4	9.6	5.0

Source: GEM 2007 Global Dataset.

Thailand participated in the GEM Survey for four years, the latest being 2007. Due to funding constraints the survey has not been undertaken in subsequent years. Some of the relevant, available GEM figures are summarised in Table 1.19.

Table 1.19 shows that the mean TEA is 20.5 for the years surveyed (2002, 2005, 2006 and 2007). This indicates that 20.5% of Thai adults were active in starting a new business of less than 42 months of age. The Thai TEA of 26.9 was one of the highest recorded levels of early-stage entrepreneurship in the world in 2007. For example, although the Thai TEA is similar to that of the Philippines or Indonesia, it is about 30% higher than that of China, about double that of the United States, India or Malaysia, and about four times that of Singapore, Hong Kong or Japan.

Table 1.19. **Thai entrepreneurship levels (total entrepreneurship activity)**

TEAs for Thailand unless otherwise stated

	2002	2005	2006	2007	Mean (all years)
TEA	19.0	20.70	15.20	26.90	20.45
TEA male	. .	22.20	16.25	27.78	22.08
TEA female	. .	19.30	14.18	26.95	20.14
Established male	. .	. .	17.57	23.22	20.40
Established female	. .	. .	17.27	19.47	18.37
Necessity	. .	4.98	5.32	7.80	6.03
Opportunity	. .	13.90	9.88	17.90	13.89
% opportunity	. .	73.60	65.00	69.60	69.42
Nascent	. .	9.70	4.10	9.40	. .
New	. .	13.10	11.50	18.60	. .

Note: Thai TEA figures are based on adults aged 18 to 65, which is slightly different to TEAs in other GEM studies, in which adults are usually classed as aged 15 to 65.
Source: GEM Thailand reports 2002-07.

Thailand also stands out by its high and rising rate of female entrepreneurial activity, making for a relatively small gender gap. Table 1.19 also shows that Thailand has a roughly equal proportion of female to male entrepreneurs, both at early stage and also in established businesses; male entrepreneur levels only slightly exceed female levels. Social and cultural mores have long encouraged women to participate in the workforce. The female entrepreneurship rate is also unusual by world standards; in most economies the proportion of male entrepreneurs exceeds the proportion of female entrepreneurs. This gender ratio varies a lot by stage of development, age of entrepreneur, and prevailing attitudes to entrepreneurship, but by comparison, GEM (2008, p. 26) suggests that male entrepreneurs exceed female entrepreneurs at early stage by about two-to-one in the age bracket most common to entrepreneurs (25-34) in "innovation economies", or developed economies.

Necessity entrepreneurs and unemployment

Table 1.19 also illustrates that Thailand has a relatively high level of "necessity entrepreneurship". The GEM survey distinguishes entrepreneurs who start a business as a result of an opportunity ("opportunity entrepreneurs"; those who seek to exploit a perceived business opportunity to generate income or wealth or gain independence in their life), from those who start it from necessity ("necessity entrepreneurs"; those who start a business because they lack other realistic options for generating income and wealth).

Thailand has a relatively high level of necessity entrepreneurship; although a large majority (70%) of early stage entrepreneurs are opportunity driven, a significant minority of about 30% are necessity driven. By comparison, the GEM (2008, p. 28) gives an average for the period 2001-08 of less than 4% for necessity driven TEA for "efficiency driven" economies such as Thailand and less than 2% for "innovation driven" economies. Gender does not have much effect, but other factors do. This necessity entrepreneurship in Thailand is particularly prevalent amongst those with only limited education; both males and females with only some secondary education are about twice as likely to pursue entrepreneurship because of necessity than because of opportunity (GEM Thailand, 2002, Table 9). Necessity driven entrepreneurship is also more prevalent among older entrepreneurs, aged above about 35 (GEM Thailand, 2002, Figure 11). Thus, about 30% of the

people starting businesses in Thailand are not really equipped to be entrepreneurs, and do not really want to be entrepreneurs, but they do not have a better choice.

This high level of necessity entrepreneurship reflects a lack of job opportunities, even though the official unemployment rates are quite low in Thailand. For example, the Thai National Statistical Office (NSO) Labour Force Survey for Quarter 2, 2006 shows an unemployment rate of only 1.6% of those seeking work for the whole of Thailand, and about 2% for the Bangkok area.[5] This represents about 600 000 unemployed people in a workforce of 36.4 million people. Contrast this with the GEM estimate for 2006 of about 2.6 million who say they started a business in the last 42 months because of necessity or in alternative to unemployment. This suggests that entrepreneurship in Thailand is fulfilling a social function and providing some sort of a welfare cushion, but the high numbers concerned suggest a great need to promote more productive economic activity for those who would otherwise be unemployed. The major problem is that necessity entrepreneurs are less likely to have the necessary education to survive and succeed as entrepreneurs, and therefore necessity entrepreneurship does not deal with the fundamental or structural causes of unemployment itself.

Perceptions of entrepreneurship

Thais have quite positive perceptions of entrepreneurs with 87.5% of the 2007 sample saying that entrepreneurship is a desirable career choice, and 83.3% saying successful entrepreneurs have a high level of status. However, just over 50% say that fear of failure would prevent them from starting a business.

Innovation

Based on the 2007 GEM Thailand survey, a majority (about 56%) of respondents offer the same product as other existing businesses, a majority (54%) do not offer customers a novel or new product, and 45% do not make any use of new technology (Table 1.20). This is not very surprising, because the vast bulk of entrepreneurs are replicating existing goods or services. This is true in most economies, even in the United States. The challenge is that Thai SMEs face a very turbulent and dynamic business environment in the Asian region. Innovation is one way to survive and continually adapt in such an environment. Encouragingly, Thai entrepreneurs rank highly when it comes to adopting the "very latest" technology; 24% compared to only 9% in China, 9% in Japan, or 13% in the United States. However, this technology has to come from somewhere, and in Thailand's case, that may often mean from outside Thailand, and probably through foreign direct investment (FDI) channels.

Table 1.20. **Novelty of products and services and entrepreneurs' technology use, 2007**

	Product new to customers, %			Business offering same product, %			Use of technology, %		
	To all	To some	To none	Many	Few	None	Very latest[1]	New (1-5 yrs)	Not new
Thailand	6.8	39.3	53.9	55.6	34.8	9.6	23.8	31.7	44.5
India	5.6	23.6	70.8	61.4	38.7	0.0	13.4	25.7	60.9
China	13.8	59.2	26.9	82.1	12.8	5.1	8.6	22.7	69.7
Japan	11.9	36.0	52.0	66.1	32.4	1.5	8.7	31.9	59.5
USA	14.5	34.8	50.7	38.7	44.0	17.3	12.9	24.3	62.9

1. Very latest technology is that only available since 2006.
Source: GEM Thailand 2007.

Regional and local variations

There are important regional aspects to SME and entrepreneurship activity in Thailand. Thailand has 76 Provinces, which are divided by TNSO into 5 main regions: Bangkok; the surrounding Central region; North; Northeast; and South Regions. The most recent census data available are from 2000, although 2010 census data will soon be available. The 2000 census data show that the highest growth in population was in the area around Bangkok, in the North West (Tak, from a very low base) and in parts of the South. The highest population density in 2000 was in Greater Bangkok and the Central Region surrounding Bangkok, in the Northeast, and in some of the Southern provinces, especially Phuket, Nakhon Si Thammarat, Songkhla, Phatthalung, Pattani, and Narathiwat. Overall the data showed that the population was growing in regions with the highest population densities, which is likely both to reflect and contribute to differences in regional economic performance.

Regional population and income disparities

There is significant regional inequality in income in Thailand. Table 1.21 shows that average household income in 2007 in Bangkok was 1.89 times the average for the Whole Kingdom, while income in the South was 1.06 times the whole country average of THB 18 296 per month. Incomes in the North and Northeast are the lowest, and represent approximately 0.7 times of the Thai Whole Kingdom monthly average.

Table 1.21. **Household income (monthly) by region and type of income, 2007**
In THB (where not indicated)

	Whole Kingdom	Greater Bangkok	Central	North	Northeast	South
Total current income	18 296	34 514	18 647	13 219	12 622	19 394
Multiple of whole Kingdom income		*1.89*	*1.02*	*0.72*	*0.69*	*1.06*
Money income	15 584	30 473	16 032	11 017	10 086	16 971
From work	13 366	26 919	14 315	9 045	7 796	15 445
Wages and salaries	7 445	18 326	8 301	4 067	3 872	6 635
Net profit from business	3 894	8 279	3 685	2 645	2 349	4 485
Net profit from farming	2 028	313	2 329	2 332	1 574	4 324
Wages and salaries (%)	56	68	58	45	50	43
Business profits (%)	29	31	26	29	30	29
Farming profits (%)	15	1	16	26	20	28

Source: TNSO 2007 Household Survey, Table 1.

Bangkok generates much more of its income from wages and salaries (68%) than the poorer Northern, North-eastern and Southern regions (about 43% to 50%). These poorer regions depend more heavily on profits from farming, which are predominantly from agricultural SMEs. In Bangkok the profits from business make up a larger absolute source of income than the other regions, but in relative percentage terms, business profits contribute about 30% of monthly income in all regions. Incomes from farming profits are probably less reliable, and tend to be more volatile with seasonal and other uncontrollable factors.

Like many economies, Thailand experiences income inequality. In Thailand, the top two deciles of income recipients receive some 50% of the income. This concentration of income in the upper deciles is higher in Bangkok than in the poorer regions (Table 1.22).

Table 1.22. **Income distribution in Thailand, 2007**

% by income decile, and region

Decile	Whole Kingdom	Greater Bangkok	Central	North	Northeast	South
1 (lowest)	2.2	3.3	2.9	2.6	2.8	2.4
2	3.5	4.7	4.7	4.0	4.1	4.1
3	4.3	5.5	5.6	4.9	5.0	5.0
4	5.3	5.7	6.8	5.9	5.7	6.0
5	6.4	6.4	8.0	6.5	6.6	7.2
6	7.8	7.0	8.8	7.5	7.8	8.5
7	9.6	8.5	10.0	8.9	8.7	10.1
8	11.7	11.0	11.7	11.3	11.2	11.9
9	15.5	14.5	13.8	15.4	15.1	16.3
10 (highest)	33.7	33.4	27.7	33.0	33.0	28.5

Source: TNSO 2007 Household Survey, Table 5.

Regional distribution of SMEs

These regional differences also show up in an unequal distribution and growth of SME activity across the regions of Thailand. In 2006, approximately 40% of all Thai SMEs were located in the Bangkok region and its surrounds, but only 10% of Thailand's population was located in the Bangkok region. The north-eastern area has another 32% of Thailand's SMEs, and the remainder are in the North and South. There appears to have been an increase in the proportion of SMEs in Bangkok, although some of this increase may be attributed to statistical artefacts in the way the estimates are developed; as can be seen in the discrepancy figure, this discrepancy is 15% of the total in 2006 figures.

Table 1.23. **Regional distribution of SMEs, 2002 and 2006**

Number of SMEs	2002	%	2006	%
Bangkok	347 827	22.3	692 922	35.8
Central (excluding Bangkok)	201 481	12.9	95 920	4.9
Central and Bangkok	549 308	*35.15*	788 842	*40.71*
North	278 101	17.8	329 129	17.0
North-eastern	511 245	32.7	620 469	32.0
South	224 120	14.3	199 394	10.3
Sum of regional SMEs	1 562 774		1 937 834	
Total SMEs	1 639 427		2 274 525	
Discrepancy[1]	*76 653*	*4.7*	*336 691*	*14.8*

1. The discrepancy figure is to reconcile the total of estimates of the number of SMEs in each region with the estimate of the total number of SMEs in the Whole Kingdom. All estimates are by OSMEP.

Source: OSMEP *White Papers* 2002 and 2006. More recent data on SMEs at Regional levels are not available.

The average SME density (*i.e.* the number or SMEs per 100 people) is a crude proxy measure of the level of entrepreneurial activity. It appears to vary substantially between the different regions in Thailand; it is highest in Bangkok, and lowest in the South and in the North and Northeast. Table 1.24 shows the SME density in 2006 was 10.1 SMEs per 100 people in the Bangkok area, relative to only 2.2 per 100 people in the Southern Region, and only 2.7 SMEs per 100 people in the North and North-eastern Regions. Furthermore, Table 1.25 indicates that growth in SME numbers has been more rapid in Bangkok than other regions, and much faster than the increase in population in Bangkok.

Table 1.24. **SME densities by main regions, 2002 and 2006**

SME density per 100 people	2002	2006
Bangkok	5.5	10.1
Central (excl. BKK)	1.4	0.6
North	2.4	2.7
North-eastern	2.5	2.7
South	2.8	2.2
Whole economy	2.7	4.2

Source: Calculated from OSMEP *White Papers* for 2002, 2006, and TNSO Population Census 2000 and Surveys Income Survey 2007.

Table 1.25. **Growth in SMEs and population by region, 2002-07**

Annual simple growth as a %

	SMEs	People
Bangkok	24.8	0.9
Central (excl. BKK)	–13.1	1.3
North	4.6	0.7
North-eastern	5.3	1.0
South	–2.8	1.6
Whole economy	6.0	1.1

Source: Calculated from OSMEP *White Papers* for 2002, 2006, and TNSO Population Census 2000 and Surveys Income Survey 2007.

The rather high apparent SME density in Bangkok in 2006 (10.1 per 100), relative to the OECD average (about 5.0 per 100), and relative to the level in Bangkok in 2002 (5.5 per 100) may be partly attributable to statistical artefacts due to a classification effect rather than a physical migration of SMEs. As can be seen in the Table 1.24, the SME density for the Central region excluding Bangkok was only 1.4 in 2002, lower than the national average of 2.7 per 100 in 2002, and it fell even further in 2006 to only 0.6 per 100. This seems to be a result of a high rate of growth in the numbers of SMEs in Bangkok, partly matched by a sharp *contraction* in the number of SMEs in the Central region other than Bangkok (Table 1.25). Thus there may be a short-distance relocation effect in play or problems in the recording of statistics across these neighbouring regions. In addition, some of the apparently low SME density in the regions other than Bangkok may also be partly due to a statistical artefact. The figures used to estimate the number of SMEs are based on OSMEP data, while the population data are based on TNSO surveys. The OSMEP data may underestimate the actual number of SMEs in the non-municipal regions where there is a higher proportion of SMEs oriented to farming activity, because OSMEP has more difficulty collecting data on small farming operations. For example, many farming businesses are informal, do not register their business, and so are harder to count.

Unfortunately, the GEM surveys are not able to throw much light on the question of whether there really are differences in entrepreneurial activity and attitudes by region, because they have not been funded or designed to do this in Thailand and so the sample frames are too small to be reliable at a regional level.

However, the available data suggest that it is important to be able to develop ways to encourage entrepreneurial activity in regions where there is social and economic disadvantage both to help them generate income and opportunities and to match entrepreneurship rates in the rest of the country. For example, the Southern region is

shown in these tables to have the lowest SME density, but has actually seen a decline in SME numbers during 2002-07 whilst having population growth which is higher than the national average. Greater entrepreneurship activity should be part of the solution to the economic problems in this region.

Conclusion

Notwithstanding lack of consistent and high quality data, the examination of SME and entrepreneurship performance in Thailand suggests that there are three main structural challenges for policy to address, as set out below.

i) A lack of SMEs with the potential to grow and compete internationally, including with international competitors entering Thai markets

Thailand appears to display a "missing middle" (UNCTAD, 2001), that is, there appears to be a shortage of medium-sized firms with the capability to grow. Thailand has only 0.4% medium sized firms relative to about 10% in Japan, 6% in Korea and 3% in Germany. UNCTAD (2001) argues that "Thailand has belatedly begun to address the issue of the structural weakness of the 'missing middle', which resulted in a shortage of middle-sized growth-oriented SMEs functioning as leading subcontractors and venture firms in their own right, in the hopes of developing highly integrated industries such as in the Republic of Korea". Fujita (2007, p. 10) makes the point that SME multinationals (MNCs) and transnationals (TNCs) tend to be relatively large in comparison to SMEs in general. Unlike Germany and Japan which have a number of smaller TNCs with a global recognition in niche production, Thailand has very few. Singapore has specifically developed portfolios of SME policies designed to encourage the development of TNCs from SMEs.

There are always difficulties in making international comparisons involving size classes. However, the available data suggest that Thai SMEs make up about 30% of exports, and that just over half of Thai SME exports are from small enterprises. The problem that this highlights stems from evidence that smaller enterprises seem to be at a disadvantage when it comes to competing internationally, which in part reflects higher proportional administrative and information costs for small firms as compared with large ones when trading across countries. Structurally this poses a major challenge for Thailand because it is located in a region where there is increasing competition from China and India. Thailand is also moving into a broader ASEAN market as part of its policy strategy and agenda, and this has led to a number of Free Trade Area (FTA) negotiations (OSMEP White Paper 2008 Chapter 7). These FTA negotiations do not address SMEs as such, but Thailand is likely to be handicapped if its SMEs are of small size; *i.e.* if there is an endemic "missing middle" in Thai SMEs.

From a policy perspective the structural challenge is how to address the "missing middle", and increase the number and proportion of medium sized, internationally competitive SMEs. The importance of ASEAN integration and of international competitiveness of SMEs is clearly recognised as part of the policy agenda in Thailand, but, as discussed in Chapters 3 and 4, the budget commitment to this area may not be in line with its importance.

ii) An unusually high proportion of entrepreneurs who start up "necessity" businesses

The GEM surveys suggest that about 30% of early stage entrepreneurs are "necessity", rather than opportunity entrepreneurs. This means that many Thais do not really have a choice in starting a business; there is not really a social security system to provide benefits for the unemployed, so many Thais opt to run a small enterprise. This is one of the highest levels of necessity entrepreneurship in the world; the average level across other GEM global participants is around 4% in developing economies and about 2% in more developed economies. Some of these entrepreneurs are moving out of seasonal work, or may be displaced by climatic events (floods, droughts) from their normal work, and so they move into entrepreneurship. A large proportion can be expected to start non-employing enterprises; the only person they create a job for is the entrepreneur.

Necessity entrepreneurship has a useful function in Thai economy and society. The enterprises they create can improve consumption opportunities and provide a useful buffer against unemployment, giving Thailand a comparatively low level of unemployment. However from a policy perspective, the structural challenge is that many of these entrepreneurs lack the knowledge or capability to survive, let alone to build their enterprise into anything more substantial, while the use of human resources is less productive than could otherwise be the case.

Designing and delivering appropriate policy responses in this area is held back by a lack of data on microbusinesses in Thailand, because neither OSMEP nor the Thai National Statistical Office account for or monitor non-employing SMEs. In other economies it is common for non-employing microentreprises to account for about half of all enterprises. The proportion may actually be higher than this in Thailand because of the high level of necessity entrepreneurs. To address the challenge of shifting micro and non-employing businesses to more productive entrepreneurship is difficult if it is not being monitored accurately. It is also difficult because it is not clear who has policy responsibility for addressing it. Like many SME policy issues it is a cross-cutting issue, which reaches across the policy implementation domains of education; labour; social security; SMEs; agriculture; etc. The issue is addressed again in Chapters 3 and 4.

iii) Regional inequalities in SME densities, entrepreneurial opportunities and activity

There are much higher SME densities in Bangkok relative to the North, Northeast and South regions, while incomes are higher and household debts lower in Bangkok relative to the regions. As measured by SME density, the level of entrepreneurial activity in the regions is only about one half of the Bangkok level. There is an important policy challenge to address these inequalities and ensure that they do not become self reinforcing and self perpetuating.

Notes

1. Two key issues arise when attempting to compare and benchmark Thailand's SME data to OECD data. The first concerns the reliability of data collected and differences in the definition of SMEs, size classes and industry classifications across Thai authorities. The second concerns differences in definitions, size classes and industry classifications between Thailand and other countries as well as the lack of recent, comparable figures across all OECD countries. The latter means that exact OECD averages cannot be calculated to act as a benchmark. In an attempt to overcome these substantial issues, a basket of OECD comparator countries has been selected based: *a)* on their relevance to the experience of Thailand and *b)* the relative comparability of the figures.

2. See Chapter 3, Box 3.3 for an explanation of pre-nascent and nascent stages.
3. A target that focuses on non-agricultural enterprises would be more useful for SME and entrepreneurship policy given the influence of volatility in agricultural prices and production on the agricultural component of GDP and that OSMEP does not manage non-agricultural SMEs.
4. There is an apparent inconsistency, in that the estimated growth of the total SME population cannot be accounted for by the net births (*i.e.* births – deaths), which only explains part of the total population growth. For example, in 2008 births exceeded deaths (net births) by 15 540, or 0.55% of the total population, but the population grew by 19.4% that year, and 3.86% the year before. Also puzzling is that in 2009 the total population of SMEs grew at 2.27% pa, while the number of exits exceeded the number of births by 0.75%, or some 21 787 enterprises.
5. As the most recent figures for the GEM Entrepreneurship survey only continue up to 2007, the comparison made here is against 2006 unemployment figures. Even in 2009, toward the end of the disruptions caused by the global financial crisis, the official NSO unemployment rate was just over 2% of the labour force for all of Thailand.

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ANNEX 1.A1

Size Class Tables

Table 1.A1.1. **Firm size classes for Tables 1.3 and 1.7**

	Thailand[1]	Turkey	Mexico	Korea	Japan	Germany	Canada	United States
SME	1-200	1-249	0-250	5-199	4-249	1-249	0-499	1-499
Micro	n.a.	1-19	0-10	5-9	4-9	1-9	0-9	1-9
Small	1-50	20-49	11-50	10-49	10-49	10-49	10-49	10-99
Medium	50-200	50-249	51-250	50-199	50-249	50-249	50-499	10-499
Large	200+	250+	251+	200+	250+	250+	500+	500+

1. Size classes differ depending on sector. For a detailed analysis of size classes in Thailand, see Table 1.1.

Table 1.A1.2. **Firm size classes for Figure 1.1**

	Micro	Small	Medium	Large
Austria	1-9	10-49	50-249	250+
Belgium	1-9	10-49	50-249	250+
Czech Republic	1-9	10-49	50-249	250+
Denmark	1-9	10-49	50-249	250+
EU27	1-9	10-49	50-249	250+
Finland	1-9	10-49	50-249	250+
France	1-9	10-49	50-249	250+
Germany	1-9	10-49	50-249	250+
Greece	1-9	10-49	50-249	250+
Hungary	1-9	10-49	50-249	250+
Ireland	3-9	10-49	50-249	250+
Italy	1-9	10-49	50-249	250+
Japan	4-9	10-49	50-249	250+
Luxembourg	1-9	10-49	50-249	250+
Netherlands	1-9	10-49	50-249	250+
New Zealand	1-9	10-49	50-99	100+
Poland	1-9	10-49	50-249	250+
Portugal	1-9	10-49	50-249	250+
Slovak Republic	1-9	10-49	50-249	250+
Spain	1-9	10-49	50-249	250+
Sweden	1-9	10-49	50-249	250+
United Kingdom	1-9	10-49	50-249	250+

Chapter 2

SME and Entrepreneurship Framework Conditions and Business Environment in Thailand

This chapter presents the institutional framework conditions and business environment factors influencing SME and entrepreneurship development in Thailand. It starts with an overview of the influence of macroeconomic trends and fiscal, monetary and structural policies. It then examines the range of opportunities for improving the climate in which Thailand's businesses operate, including human development, tax and social security, product market conditions, sources of financing, labour market conditions and the rule of law and transparency. The chapter concludes with a discussion of barriers to growth as perceived by SMEs and entrepreneurs and an assessment of the innovative capacity of Thai SMEs and entrepreneurs.

Macroeconomic overview: economic trends and prospects

Introduction

The global and financial economic crisis of 2007-09 resulted in a moderate output loss in Thailand's economy, with real GDP falling by 2.3% in 2009, the first decline since 1998. The recession, though, was mild compared to the output slump in 1997-98, when plunging export volumes and gross fixed investment lowered real GDP by as much as 12%. To counter the cyclical downturn, the government swiftly introduced a two-stage fiscal stimulus programme in early 2009, worth 2.5% of GDP (USD 4.2 billion). Recent data confirm a quick rebound from the 2009 recession (V-shaped recovery), with real GDP growth leaping to an estimated 8% in 2010. Less buoyant output gains are forecast for 2011 (4.5%). The main risks to a sustained economic recovery include renewed political instability, which has been shown to weigh heavily on business confidence.

Entrepreneurship and firm creation have long been recognised as vital forces driving innovation and economic growth. The extent to which they flourish largely depends upon the quality of SME and entrepreneurship framework conditions and the business environment. This chapter outlines the range of opportunities for improving the overall climate in which Thailand's businesses operate. Before highlighting these areas the chapter presents an overview of macroeconomic trends over the past few years.

Thailand's openness to competitive forces is wide and rising, leading to strong international market integration. On the external capital side Thailand's investment regime, among the most liberal in the region, contributed to rising flows of inward and outward Foreign Direct Investment (FDI). Foreign participation is allowed in a wide range of activities, including brokerage services, wholesale and retail trade, construction, non-silk-textiles, garments, footwear, hotels, beverage production, automotives, electronics, computer parts and components and auction businesses. Inward foreign investment is subject to different permissions, ranging from commercial and tax registrations to licenses to operate a factory. In terms of incentives, the Board of Investment (BOI) imposes no foreign equity restrictions in the manufacturing sector. Overall, the near-unrestricted play of competitive forces has added to Thailand's competitive strength.

Economic developments during the inter-crisis period

In the inter-crisis period, Thailand enjoyed robust economic growth, based on buoyant goods exports and induced gross fixed investment. Averaging an annual 5.5% in 2000-08, real GDP growth progressively lowered unemployment, the unemployment rate falling to 1.4% in 2008 (Table 2.1). Concurrently, nominal wage moderation and currency appreciation kept a lid on consumer prices, which increased by 2.75%, on average, in 2000-08. Looking at the synchronous movements of output, unemployment and inflation suggests that Thailand's potential output, consistent with stable inflation, has probably expanded by 4.5-5% per year.

The vigorous expansion of output between the two crises owed much to significant shifts of production towards high value-added activities in export-oriented manufacturing sectors (mainly automobiles and electronics). In the process, manufacturing output strongly enlarged its share in aggregate output, rising from 34% in 1998 to 40% in 2008. At the same time, the internationalisation of SMEs gathered pace, their export share rising to 31% of total exports in 2008. Large outflows of labour from low-productivity sectors (mainly agriculture) strengthened the foundations for vibrant productivity and output growth. Agricultural employment decreased sharply as a consequence, its share in total employment shrinking from 44% in 2000 to 39% in 2008. In numerical terms, the greater part of this fall was matched by increased service employment (Table 2.2).

Table 2.1. **Selected indicators: An international comparison**

2008 or as indicated

Indicator	Thailand	EU 27	OECD
GDP (USD billions, current prices)	272	18 394	40 632
Per capita GDP (USD at PPP)	7 703	30 513	32 752
Growth in real GDP, 2000-08 (% p.a.)	5.5	2.1	2.2
GDP deflator, 2000-08 (% p.a.)	3.2	3.1	2.4
Consumer prices, 2009 (2005 = 100)	112.0	109.5	109.3
Household saving rate (% of disposable income)	0.8	5.2	. .
Gross fixed asset formation (% of GDP)	27.4	21.1	20.9
General government balance (% of GDP)	–0.4	–2.3	–3.2
Gross general government debt (% of GDP)	28	61.5	78.7
External debt (% of GDP)	27	. .	. .
Current account (USD billions)	1.633	197	602
Current account (% of GDP)	0.6	1.1	1.4
Unemployment rate (% of labour force)	1.4	7.0	5.9
Employment rate (% of working age population)	. .	65.9	66.7
Participation rate in labour (% of working age population)	72.6		73.5
Total employment (millions)	**37**	**222**	**541**
of which, agriculture (% of total)		39	. .
of which, industry (% of total)		16	. .
of which, services (% of total)		37	. .
Growth in labour productivity, 2000-08 (% p.a.)	2.7	1.3	. .

Source: Factbook 2010, ADB/ Key Indicators for Asia and the Pacific (2009); IMF/ World Economic Outlook Database.

Prior to the Asian financial crisis of 1997, Thailand's economic growth was largely driven by factor enhancement in the form of employment gains and capital accumulation. Subsequently, export-oriented policies and the opening up of the industrial sector to FDI allowed high-tech and capital intensive production modes to spread, reducing the reliance on primary, resource-based ways of production. As a result, total factor productivity (TFP) growth contributed increasingly to the steady expansion of the economy, signalling the transition from a factor-driven to an efficiency-driven economy. Public investment in human capital reinforced TFP enhancement (Table 2.3).

Far outpacing population growth, the output expansion strongly raised the level of real GDP per capita (at USD PPP), the cumulative gain being equal to 62% between 2000 and 2008 (Table 2.4). Considering the difference in starting conditions, *i.e.* the initial level of real per capita GDP in 2000 and the associated catch-up potential, Thailand's overall rise in the standard of living compares favourably with that of other Asian countries (*e.g.* India and

Table 2.2. **Selected indicators, 1997, 2000 and 2008**

	1997	2000	2008
Population (millions)	61.0	61.3	67.4
GDP at 1998 prices (billions, local currency)	3 072	3 008	4 361
GDP per capita at PPP (USD at PPP)	4 667	4 688	7 703
Agricultural employment (% of total employment)	45	44	39
Industrial employment (% of total employment)	14	15	16
Service employment (% of total employment)	31	34	38
Exports of goods and services (% of GDP)	48	67	76
Imports of goods and services (% of GDP)	46	58	73
Outward foreign direct investment (% of GDP)	1	1	3
Inward foreign direct investment (% of GDP)	8	7	11
Employment (millions)	33.2	33.0	37.0
Unemployment (% of labour force)	1	2.4	1.4
Gross fixed asset formation	1 599	1 081	2 485
Gross fixed asset formation (% of GDP)	34	22	27
Public sector investment (% of GDP)	. .	. .	6.9
General government	. .	. .	4.3
Public enterprises	. .	. .	2.6

Source: Asian Development Bank, *Key Indicators for Asia and the Pacific* (2009); World Bank, *World Development Indicators* (2009).

Table 2.3. **Real GDP, production factors and total factor productivity change, various years**

Average annual percentage change

	1982-96	1997-98	1999-2007
Real GDP	8.00	–5.90	5.00
Production factors			
Labour	0.77	0.48	0.70
Land	0.02	0.00	0.02
Capital	6.65	2.43	1.38
TFP	0.55	–7.89	2.86

Source: NESOB.

the Philippines). On the other hand, the real income advancement has been dwarfed by both China's and Korea's accomplishments. China, a low-income country, achieved an exceptional overall gain in real GDP per capita of 176% in the 2000-08 period, while Korea, a high-income country, raised its standard of living by as much as 69% during the same period, the best performance in the OECD area. Overall, Thailand's real GDP per capita in 2008 was equal to 24% of the OECD average, lagging far behind levels observed in some of the OECD's least advanced economies (Mexico and Turkey).

Sustained gains in the standard of living during the inter-crisis period owed much to increased trade openness (the sum of exports and imports of goods and services in per cent of GDP), surging from 94% in 1997 to 149% in 2008. In a setting of rapidly growing integration into foreign goods and service markets, the trade balance recorded large, regular surpluses, averaging an annual 8.25% of GDP in 2000-08. Outweighing the structural deficit on the service balance, the structural trade surplus kept the balance of current transactions repeatedly in surplus. Thanks to the overall strength of the external position and liberal trade and financial policies, capital inflows, notably foreign direct investment, increased. Overall, until the onset of the world financial and economic crisis,

Table 2.4. **Real GDP per capita at USD PPP**

Current international dollars at PPP

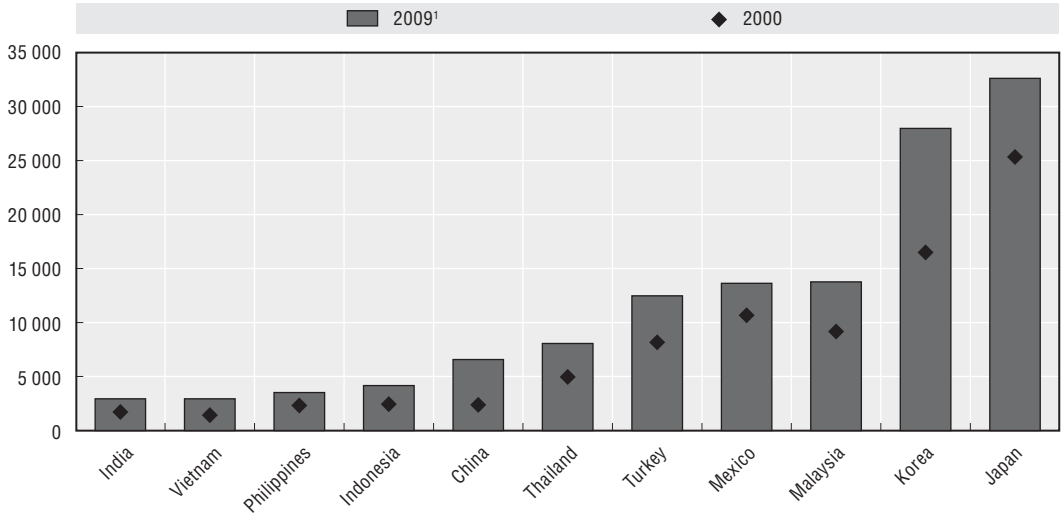
	2000	2009[1]	Cumulative percentage rise (2000-08)
Thailand	4 962	8 060	62
Indonesia	2 441	4 157	70
Malaysia	9 169	13 769	54
Philippines	2 320	3 521	52
China	2 377	6 567	176
India	1 718	2 941	58
Vietnam	1 423	2 942	107
Japan	25 334	32 608	29
Korea	16 495	27 978	69
Mexico	10 673	13 628	28
Turkey	8 169	12 476	53

1. Estimate.

Source: International Monetary Fund, *World Economic Outlook Database*, April 2010.

Figure 2.1. **Change in real GDP per capita in selected nations, 2000-09**

Current international dollars at PPP



1. Estimate.

Source: International Monetary Fund, *World Economic Outlook Database*, April 2010.

Thailand enjoyed, for several years, a set of enviable, macroeconomic conditions marked by low unemployment, low inflation and a strong current account position. No OECD country displayed such near-equilibrium conditions in the 2000-08 period (OECD, 2010).

Medium-term economic prospects

Under the government's updated medium-term scenario (2009), real GDP is projected to rise by 4.25%-5% a year in the 2010-14 period, progressively reducing economic slack. The expected return to a normal growth pattern is based upon a renewed buoyancy of exports, related gross fixed investment and the fiscal stimulus. The projections imply a continued widening of trade openness, as a further strengthening of regional trade links tend to raise GDP shares of exports and imports from high levels. Under this scenario, gross fixed investment (excluding stocks) could rise above 30% of GDP by 2014, with private and

public investment respectively accounting for 23% and 7.5% of GDP. In 2008, gross fixed investment by state-owned enterprises (SOEs) totalled 2.5% of GDP.

Along with low projected inflation and low unemployment, the updated medium-term scenario embodies a favourable macroeconomic environment conducive to creating firms and jobs. Overall, the scenario excludes significant recession-induced effects on potential output growth, reflecting labour market flexibility as well as increased public investment under the second stage of the 2009 fiscal stimulus programme (see below). Looking further ahead though, potential output growth could suffer from global warming (reduced agricultural efficiency) and the ageing of the population (reduced labour productivity). At this juncture, though, the main risk to strong, sustained growth derives from political instability.

The realisation of Thailand's economic potential over the medium-run depends, to no small extent, upon maintaining political stability following the elections held in July 2011. In April 2009, a surge in political tensions depressed external market sentiment, leading rating agencies to downgrade Thailand's sovereign local currency debt. In the first half of 2010, the return of political turmoil dampened once again business confidence, with adverse effects upon the pace of the economic revival.[1]

Economic policies

Fiscal policy

The favourable macroeconomic outcomes in the inter-crisis period were largely rooted in sound economic policies. Prudent fiscal and monetary policies have kept fiscal deficits, inflation and public and external debts under control. Constitutional restrictions limit government's borrowing under normal circumstances to 20% of total expenditure in any one year. Reflecting structural and cyclical revenue gains as well as expenditure restraint, the general government borrowing requirement narrowed sharply in the aftermath of the 1997 financial crisis, falling from 8.4% of GDP in 1998-99 to 0.4% in 2008.

The swift pace of fiscal consolidation cut public debt to 27% of GDP in 2008, well below the constitutional limit of 55% of GDP. Concurrently, the external debt was lowered from 66% of GDP in 2000 to 27% in 2008. Ten years before, in 1998, the external debt had peaked at 97% of GDP. The positive evolution of fiscal indicators owed much to a new framework for fiscal sustainability introduced in 2002 following the end in June 2000 of the 34-month Stand-by Arrangement with the International Monetary Fund (IMF). In 1997, during the financial crisis (Box 2.1), Thailand had received financial assistance from the IMF, the World Bank and the Asian Development Bank, the combined credit line totalling USD 17.2 billion.

With a view to reducing Thailand's vulnerability to external shocks, the government introduced the "Dual Track Development Strategy" (1999) to lay the foundations for more balanced economic growth. The new strategy replaced the single track, pre-1997 export model, which was based upon low value-added products (East Asia Economic Model, EAM). The new approach involved the simultaneous pursuit of mass manufacturing products based upon large-scale FDI from multinational corporations (MNC) (*first track*) and the stimulation of a skill-driven SME sector, especially in the "grass roots" economy (*second track*) (World Trade Organisation, 2008).

The First Master Plan for the Promotion of Thailand's Small and Medium-sized Enterprises (2002-06) set out detailed aims and measures for kick-starting the second track

Box 2.1. **Calendar of main economic and political events**

1997	Adoption of floating exchange-rate regime.
	Financial assistance from the IMF, the World Bank and the Asian Development Bank.
1999	Dual track development strategy.
	Competition Act enforced by Trade Competition Commission.
2000	Adoption of inflation-targeting framework.
2001	New government puts emphasis upon carrying-out existing Master Plan for the reform of State-owned enterprises.
	Creation of Office of SME Promotion (OSMEP).
2002	1st Master Plan for SMEs (2002-06).
	Adoption of SME Bank Act.
	New Framework for Fiscal Sustainability.
2003	OSMEP's operations begin.
	Creation of ARMEC Forum.
2004	National Science and Technology Strategic Plan (2004-13).
	National Telecom Commission becomes independent regulator.
	Tsunami (December).
2005	Telecom Master Plan (2005-07).
	United Nations Year for microfinance.
	Easier access to basic health services.
	Easier access to financial funds.
	Departure of Prime Minister Thaksin.
	Stock market crash.
	Introduction of capital controls.
2007	2nd Master Plan for SMEs (2007-11).
	10th National Economic and Social Development Plan (2007-11).
	New parliamentary elections: return of Thaksin's allies.
	New Constitution strengthening powers of the Judiciary branch and unelected Government officials.
	Adoption of the 8-digit Commodities Classification Code (ASEAN), harmonised tariffs (AHTN).
2008	Fall of two governments. Thaksin sentenced *in absentia*. Exile in Cambodia.
	Removal of capital controls.
2009	New Prime Minister Abhisit.
	Political turmoil.
	Downgrading of Thailand's sovereign local currency debt.
	Adoption of two-stage fiscal stimulus programme.
	Creation of Commission on Intellectual Property Protection.
2010	Extension of debt moratorium for 500 000 farmers.
	Proposed bill on reform of land and property taxation.
2011	New Prime Minister Yingluck Shinawatra

of economic development (Office of Small and Medium Enterprises Promotion, 2002). Fiscal policy has been actively used to strengthen the "grass roots" economy. Among the principal measures adopted figured the revolving "Village Fund", the "One-*Tambon*-One-Product Scheme" and tax cuts (corporation tax and Special Business Tax) and tax incentives for investment in plants and machinery.[2] Off-budget programmes were also used to revive the real estate sector (special mortgage programmes for government housing and for civil servants and employees of State-Owned Enterprises).

The 2009 recession prompted the government to adopt a far-reaching, two-stage fiscal stimulus programme worth 2.5% of GDP. The first, short-term pillar of the expansionary package (SP1) focuses on transfers and subsidies worth 1% of GDP. The second, medium-term pillar (SP2 or Thai Khem Khaeng, TKK, 2012) provides for tax relief and increased

public investment, the additional, off-budget expenditure (1.5% of GDP) being spread out over a 3-year period to 2012.

In an effort to assist poor farmers, the government announced the extension of a debt moratorium for 500 000 farmers in early 2010. Under the scheme, farmers can have one half of their principal cancelled and interest payment waived. To be eligible, individual farmer's debt must be limited to a maximum of THB 2.5 million. Failure to repay the remaining half of the principal within a set timeframe would result in the agreement being cancelled. In April 2010, the government also revealed plans for a new land and property tax bill to promote "justice in society" and to induce a more efficient use of property by way of imposing an annual charge on land assets and property nationwide. The initial draft bill identifies three categories of land, each with a different ceiling: farm land, residential land and others, including commercial shop houses and unused land. Around 4 million farmers with small land plots would be exempted from the tax.

Monetary policy

Overall fiscal prudence exercised during the inter-crisis period has strongly facilitated the conduct of monetary policy. Key interest rates (discount rate and government bond yields) eased in step with both fiscal consolidation and the decline of external debt relative to GDP. At the end of 2008, the discount rate stood at 3.3% and the government bond yield at 4.6%. Adjusted for consumer-price inflation, these rates imply low real interest rates, even by OECD standards.

Monetary policy has been operated in conditions of both a managed-float exchange rate regime (since 1997) and an inflation-targeting framework (since 2000) (see Box 2.1). Both instruments have given the central bank sufficient flexibility to respond quickly to fast changing external and domestic developments. To maintain price stability and to foster investment and sustainable growth, the Bank of Thailand sets a target range for annual core inflation (0-3.5%), excluding volatile raw food and energy prices. Monetary policy is implemented by the Monetary Policy Committee (MPC), comprising the Governor, six Bank of Thailand Executives and two advisors. The 14-day repurchase rate is used to signal the stance of monetary policy.

Deepening integration into regional, emerging markets

Alongside prudent fiscal and monetary policies, structural policies have been committed to an open trading system and to an unrestricted flow of capital across countries since 1997-98. The freedom from capital controls (except in 2006-08) has favoured a deeper integration into foreign goods, service and financial markets. As a result, exports and imports of goods and services along with inward and outward FDI all increased relative to GDP, inward FDI rising to 11% of GDP in 2008 from 7% in 2000, while outward FDI climbed to 3% of GDP in 2008 from 1% in 2000. Inward FDI originated mainly in OECD countries, while the greater part of outward FDI was directed towards regional markets.

Through direct and indirect channels, the creation and expansion of SMEs benefited from enlarged flows of inward FDI. Moreover, the resultant net capital inflows masked important gross capital movements (portfolio outflows), a significant share of savings being channelled into domestic investment via the foreign sector ("round tripping") (Andersen and Johnson, 2009). Overall, judging by its export-, import- and FDI shares in

GDP, Thailand's exposure to international competition is among the highest in South East Asia.

The increased integration into foreign goods markets mainly reflected deepening trade connections with Asian emerging markets (regionalisation of foreign trade). The buoyancy of trade among emerging markets is often ascribed to the so-called "home market effect" where countries with similar income levels increasingly trade with each other because of similar consumer tastes and spending power (Grossman and Rossi-Hansberg, 2006). Largely driven by China's surging import demand, Thailand's exports to these countries increased from nearly 17% of total goods exports in 2000 to as much as 30% in 2008 (Table 2.5). The surge in exports to China is partly explained by its expanding role as an intermediary for exports destined for the United States and other advanced countries.[3] Conversely, Thailand's exports to advanced countries showed a synchronous relative decline, their share in total exports falling from 76% in 2000 to nearly 57% in 2008.

The geographical structure of imports underwent similar changes, confirming the rising trend of stronger regional trade links. Purchases from emerging Asian countries reached 26% of total imports in 2008, whereas imports from advanced countries fell to 52% in 2008. Shifts in the geographical import pattern were dominated by stronger trade connections with China. Regional trade arrangements and intensified economic co-operation among Asian countries (AFTA, ASEAN, APEC and ASEM) contributed to the geographical restructuring of foreign trade, with positive effects upon the internationalisation of SMEs' activities[4] (OECD, 2010c).

Table 2.5. **Geographical breakdown of foreign trade, 2000 and 2008**

Percentage shares in total exports and imports

	Exports		Imports	
	2000	2008	2000	2008
China (mainland)	4.1	9.2	5.5	11.2
Singapore	8.7	5.7	5.5	4
India	0.8	1.9	1	1.4
Indonesia	1.9	3.5	2.1	3
Malaysia	4.1	5.6	5.4	5.5
Philippines	1.6	1.9	1.8	1.2
Vietnam	1.2	2.9	0.5	0.8
Developing Asia	16.6	29.4	18.1	26.2
Japan	14.7	11.4	24.7	18.4
Korea	1.8	2.1	3.5	3.8
United States	21.3	11.4	11.8	6.4
Euro Area	11.7	9	7.9	6.2
Advanced economies	76.3	56.8	66.4	51.8

Source: IMF, *International Financial Statistics*.

Averaging 1.1% of world exports (2008), Thailand's goods exports consist mainly of manufactures (72%), largely computers, electronics integrated circuits and microassemblies, agricultural products (18%) and fuels and mining products. Approximately 80% of Thai food products are exported to supply 250 million people, or around four times the Thai population. Thailand is the world's leading exporter of many agricultural products, including natural rubber products, cassava products, canned pineapples and black tiger prawns.

Top markets for exports are the United States, Japan and China. Averaging 1.1% of world imports, Thailand's goods imports consist principally of manufactures (64%), large machinery and transport equipment, fuels and mining products and agricultural goods. Main foreign suppliers include Japan and China, which together account for nearly one third of goods imports, as well as the European Union and the United States.

Human development

Spurred by strong, export-led growth, Thailand, a middle-income country, has seen remarkable progress in human development. Most of the United Nations' Millennium Development goals set in 1985 (MDGs) have been met in advance of 2015, the target year (Table 2.6). Closer inspection of human development indicators, though, raises questions about the balance and sustainability of social advances (United Nations Development Programme, 2008).

Table 2.6. **United Nations' Millennium Development Goals for Thailand**

Goal	Status
1. Halve, between 1990 and 2015, the proportion of people living in extreme poverty.	Already achieved
2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	Already achieved
3. Ensure that by 2015, boys and girls alike will be able to complete a full course of primary schooling.	Highly likely
4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.	Already achieved
5. Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.	Already achieved, but with warning signs of resurgence.
6. Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.	Not Applicable
7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS.	Already achieved, but with warning signs of resurgence.
8. Have halted by 2015 and begin to reverse the incidence of malaria and other major diseases.	Already achieved for malaria and potentially for tuberculosis.
9. Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.	Target potentially achievable
10. Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation.	Already achieved
11. By 2020 to have achieved a significant improvement in the lives of slum dwellers.	Target likely

Source: UNDP/Thailand Millennium Development Goals Report 2004.

The evidence of large social and economic inequalities across regions, provinces and socio-demographic categories is strong. The United Nations Human Achievement Index (HAI) designed by UNDP in 2003 provides valuable information about social and economic conditions across Thailand's 5 major regions and 76 provinces. Cities have expanded faster than the country side. Poverty varies strongly, and by rising margins, across regions and provinces. People in Bangkok, the vicinity of Bangkok and other prosperous regions and provinces enjoy much higher levels of human development than people in more isolated areas. In contrast, poverty continues to be rampant in the rural Northeast, North and far South of the country. According to the HAI, the three southernmost provinces (Pattani, Yala and Narathiwat) were slipping backwards against the national benchmark until 2004, the last year for which HAI data are available. A lack of physical infrastructure (bad quality of roads and lack of railway links) has hindered entrepreneurial initiatives in these regions.

Despite high levels of school enrolment, the quality of education and training has remained deficient, keeping Thailand from reaping the full benefits of globalisation (Budina and Tuladha, 2010). Access to health benefits is also skewed, maternal mortality remaining exceptionally high in the Muslim majority area in the far South. In industrial zones, safety at work is uncertain. In rural areas, overuse of pesticides endangers sustainable development. HIV/AIDS is once again rising among high-risk groups in the South and industrial areas. Gender is also a factor of inequality, women being largely underrepresented in the political domain.

Overall, the 2007 report of the United Nations viewed the degree of inequality of access to public goods (education, health and social services) as being high for a country of Thailand's stage of overall economic development (United Nations Development Programme, 2008). Inevitably, the sharp differentiation of social conditions has shown up in national income data. In 2007 the top fifth of the population commanded some 50% of total national income as against an income share of 6% for the bottom fifth of the population (Thai National Statistical Office data). These data indicate that amid overall economic expansion, Thailand has seen the emergence of a "two tier" economy.

The upper tier of a "two-speed" economy typically benefits from a well developed IT infrastructure, strong foreign trade connections, an innovative drive (buoyed by external knowledge transfers), high R&D spending and related strong firm and job creation (high-growth SMEs and innovative SMEs). Inward FDI is strongly concentrated in the upper tier. In the lower tier of the economy, *i.e.* the lagging segment of the economy, myriads of small and microenterprises (largely farmers) operate, hampered by an underdeveloped infrastructure (material and immaterial) and suffering from deficient labour skills, low capital supply and lack of entrepreneurial dynamism.

This broad characterisation is relevant to Thailand and is addressed in the ninth and tenth National Economic and Social Development Plans (2002-06 and 2007-11). These Plans laid out specific national objectives for the two tiers. For the upper tier, they include development of an integrated management system, the expansion of the technology base, the building of production linkages among industrial groups, increased R&D spending, the creation of links between SMEs and large enterprises and entrepreneurial training. The objectives for the lower tier focus on the creation of collaborative networks, helping microfirms and SMEs gain access to finance and establishing production co-operatives.

The need to promote both tiers has also been taken up in the SME Promotion Master Plans, which have sought to foster both export-oriented firms and community-based enterprises.

Tax and social security system

In most OECD countries, taxes and non-wage labour costs are viewed as being major impediments to the creation and expansion of SMEs. The tax "wedge", *i.e.* the spread between total labour costs and the net income of employees, normally generates a dichotomy of perceptions between employers and employees about the quality of terms and conditions of employment. In Thailand, the effective tax "wedge" is relatively small, reflecting low contribution rates to the social security system (5% of wages and salaries, each, for employers and employees) and moderate effective personal income tax rates. On the other hand, the complexity of diverse tax and related legal provisions are widely seen as hampering entrepreneurial activity. Tax-related complexities impeding SME

development are mainly related to differences between the tax code and related business laws as well as to differences between financial accounting and tax-based accounting. World Bank surveys show Thailand's tax and social security system to be less complex than that of Indonesia or the Philippines, but more complex than that of Malaysia (World Bank, 2009).

Personal income taxation

The progressive income tax structure applying to personal incomes is relatively flat, with a lower rate of 10% and a higher rate of 47% (Table 2.7). The threshold of the higher rate is equal to about five times average earnings, a high value by international comparison. Entrepreneurial income taken as labour-income is thus taxed at a moderate rate. Tax rates for skilled or specialised labour at entrepreneurial level thus appear to be internationally attractive. Tax payments are made on a yearly basis.

Table 2.7. **Personal income taxation: Rate schedule, 2008**

In THB

Taxable income	Tax rate (%)
0-150 000	Exempted
> 150 000-500 000	10
> 500 000-1 000 000	20
> 1 000 000-4 000 000	30
> 4 000 000	47

Source: Fiscal Policy Office (2008), *A Guide to Thai Taxation*, p. 8.

Corporate income taxation

Thailand's corporate income tax is a direct tax levied on the *net* profit of a company, limited partnership or organised under Thai or foreign law. The net corporate income is the difference between total sales and deductible expenses as defined by corporate income tax laws in most countries (Fiscal Policy Office, 2008). The statutory corporate income tax rate is 30% of net profits, close to the average statutory EU15 rate (OECD, 2010). Reduced corporate income tax rates are applied depending on the category of tax payers and, within each category, upon the level of net profits. A progressive rate structure thus applies to each firm category (Table 2.8). A progressive rate schedule also applies to SMEs (Table 2.9), but tax brackets are different from those applied to personal incomes. Overall, the tax rate differentiation according to net profit levels (degree of progressivity) is considerably lower than that for personal incomes.

Taxation of small unincorporated business and the self-employed

Thailand's income tax system recognises the advantage of system simplicity for unincorporated businesses and self-employed individuals. There is a lump sum option for the self-employed or "individual" SMEs, amounting to around two thirds of average wages and salaries.

Specific business tax

At the time of VAT introduction in 1992, the authorities recognised that certain businesses would find it difficult to measure their added value. Among these were

Table 2.8. **Corporate income tax rates**

Tax payer	Tax base (THB) (net profit)	Rate (%)
1. Small company[1]	0-50 000	Exempt
	150 000-1 000 000	15
	1 000 000-3 000 000	25
	> 3 000 000	30
2. Company listed on Stock Exchange of Thailand (SET)	Up to 300 million	25
	> 300 million	30
3. Companies listed in Market for Alternative Investment (MAI)	Up to 20 million	20
	> 20 million	30

1. Companies with paid-up capital of less than THB 5 million (EUR 125 000) at the end of each accounting period.
Source: Fiscal Policy Office (2008), *A Guide to Thai Taxation*, p. 17-19.

Table 2.9. **SME tax measures**

Net profit (THB)	Tax rate (%)
< 1 million	15
1-3 million	25
> 3 million	30

Note: Special tax rate for small businesses with paid-up capital of less than THB 5 million (EUR 125 000).
Source: Fiscal Policy Office (2008), *A Guide to Thai Taxation*, p. 51.

financial and real estate businesses. Certain enterprise categories were thus initially kept outside the VAT system and continued to pay the turnover tax on gross receipts (business tax). The current specific business tax is imposed on transactions such as banking, finance, real estate lending, securities business, insurance, pawn brokerage and sales of securities at the Stock Exchange of Thailand. The specific business tax rates range from 2.5% to 3%. In addition, a surcharge tax is levied by local governments, amounting to 10% of the of the specific business tax. The combined specific business tax rate thus varies from 2.75% to 3.3%.

Indirect taxation

Indirect taxes, mainly VAT introduced in 1992, excise taxes and real estate taxes provide a sizeable portion of central government revenues. In 2008, they amounted to 6.5% of GDP, significantly below international (OECD) standards. The standard VAT rate is 7%, with firms with an annual taxable turnover of less than THB 1.8 million (EUR 45 000) being exempt from monthly VAT payments. VAT exemption also applies to unprocessed agricultural products and related goods (fertilisers, animal feeds, pesticides, newspapers, magazines, text books and basic services, including educational, cultural, medical, health-care and auditing services).

Central and local government revenues

At 18% of GDP in 2007, central government revenue is low by OECD standards. Main tax revenue sources are, in descending order of importance, the corporate income tax, the VAT and the personal income tax (Table 2.10). Overall, revenues from direct taxation (including the personal and corporate income taxes as well as the specific business tax) match revenues from indirect taxation (VAT and excise taxes on petroleum products, tobacco, stamp duty, liquor and beer).

Table 2.10. **Central and local government revenues**

	In THB billions	As a % of GDP
A. Central government (2007)		
Net revenue	1 522	17.8
Revenue department	937	11.0
Personal income tax	179	2.1
Corporate income tax	367	4.3
Petroleum income tax	66	0.8
VAT	284	3.3
Special business tax	34	0.4
Excise department	287	3.4
Petroleum product tax	77	0.9
Tobacco stamp duty	42	0.5
Liquor and beer taxes	85	1.0
Other government agencies	207	2.4
State enterprises	86	1.0
B. Local authorities' revenues (2006)		
Total Local Government Revenue	312	3.7
Own revenues	29	0.3
Surcharge on government taxes	58	0.7
Shared revenue	65	0.8
Revenue transfer	34	0.4
Grants	126	1.5

Source: Bureau of the Budget (2009).

Local government revenues totalled nearly 4% of GDP in 2007. Main revenue sources are, in descending order of importance, grants, shared revenues, surcharges on central government taxes, revenue transfers and own revenues. Overall, local government budgets are balanced, showing no deficit. Local government expenditure is constrained by limits drawn by own revenues and central government transfer payments. Local administrations are responsible for providing basic public services.

Some local authorities, municipalities (Tessaban), the Tambon Administrative Organisations (TAOs), the Bangkok Metropolitan Administration (BMA) and Pattaya City derive own tax revenues from a variety of taxes, including the house and rent tax, the land development tax, the signboard tax, the slaughter tax as well as fees for garbage collection and licensing fees. Other local authorities (Provincial Administrative Organisations) levy taxes, including the hotel tax, the petrol station tax, the retail tobacco tax and surcharges on the central government's indirect taxes (VAT, specific business tax and excise taxes).

The principle of local autonomy was recognised in 1997 with the adoption of a new constitution. Subsequently, the government introduced the Decentralisation Act (1998) and established the National Decentralisation Committee (NDC). The NDC defined the power, authority and responsibilities of local administrations. According to the Decentralisation Act, aggregate local government revenues, from the fiscal year 2007 onward, must not fall short of 25% of total government's net revenue. The previous revenue floor was set at 20%.

Product market conditions, competitive strength and competition policy

Product market conditions

Thailand's openness to competitive forces is wide and rising. This is manifest in strong international market integration (measured by the sum of goods exports and

imports as a percentage of GDP), which far exceeds the level of nominal GDP. International market integration for services, though weaker than that for goods (a commonly observed phenomenon), has also been deepening under the impact of globalisation and various free-trade agreements. ASEAN countries have progressively reduced tariffs under the Common Effective Preferential Tariff scheme. The ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) were required to remove tariffs for all products covered by the Inclusion List by January 2010. Thailand has also signed the Protocol to implement the Fifth Package Commitments under the ASEAN Framework Agreement for Services (December 2006).

On the external capital side, Thailand's investment regime, among the most liberal in the region, added to rising flows of inward and outward FDIs. Foreign participation is allowed in a wide range of activities, including brokerage services, wholesale and retail trade, construction, non-silk-textiles, garments, footwear, hotels, beverage production and auction businesses. Inward foreign investment is subject to different permissions, ranging from commercial and tax registrations to licenses to operate a factory. In terms of incentives, the Board of Investment (BOI) imposes no foreign equity restrictions in the manufacturing sector.

Competitive strength

Overall, the near-unrestricted play of competitive forces has added to Thailand's competitive strength. In the period 2005-08, balance of payments surpluses led to sizeable currency appreciation under the managed-float regime. Even so, the trade balance remained in substantial surplus. Over the medium run, however, prospects of strengthening or even maintaining Thailand's competitive position may be increasingly threatened by the interplay of several adverse parameters. These include:

- accelerating market entry of emerging, low-cost economies (India, Indonesia, Philippines and Vietnam);
- lack of technological readiness, hindering swift integration of international innovations into the production process (lack of innovative capacity);
- higher complexity of foreign demand, a consequence of bi-lateral trade agreements and increased heterogeneity of standards and regulations;
- absence of coherent government support for SMEs;
- sub-optimal education outcomes; and
- corruption.

These threats were already perceived by Thailand's authorities when they drew up the Second SME Promotion Master Plan in 2006 (Office of Small and Medium Enterprises Promotion, 2007). Four years later, in its report on global competitiveness 2009-10, the World Economic Forum (WEF) expressed similar concerns about Thailand's ability to maintain its competitive edge over the medium run (World Economic Forum, 2010).

The WEF's assessment is based upon the Global Competitiveness Index (GCI), which distinguishes between 12 "pillars" of competitiveness (Table 2.11). The first four of these (institutions, infrastructure, macroeconomic stability, health and primary education), determining the level of economic efficiency, are seen to be of primary importance for countries with a low per capita-income level (the first stage of *factor-driven* economic development). Meeting these basic requirements is viewed as being indispensable at this

stage of economic advancement. As economic progress continues, countries naturally move towards the second stage of *efficiency-driven* economic development. At this stage, the level of competitiveness needs to be boosted by better education and training, increased technological readiness and a high measure of resilience of both financial and labour markets. In the third stage of economic development, economic progress is seen to hinge upon *innovative activity*. At this point, raising standards of living depends upon the momentum of product, process and organisational innovations. Business sophistication and innovative vigour act as key drivers at this stage of economic advancement.

According to the WEF's analysis, Thailand has long entered the second stage of *efficiency-driven* economic development along with China and Malaysia. In terms of real GDP per capita, Thailand finds itself in the upper range of the second development stage. As an efficiency-driven economy, Thailand, according to WEF analysis, displays competitive strength in the areas of market size (a consequence of high international market integration), labour market and goods market efficiency as well as financial market sophistication. In contrast, major weaknesses are found in the areas of technological readiness and innovative capacity. Being seen as the weakest pillar of Thailand's overall competitiveness, lack of both technological readiness and innovative vigour are likely to hold back Thailand's advancement to the third stage of economic development (see Box 2.2).

Table 2.11. **The World Economic Forum's 12 pillars of competitiveness**

Per capita GDP	Characterised by:
1. Basic requirements	
Factor-driven stage (1st stage)	Institutions
(per capita GDP p.a. < USD 2 000)	Infrastructure
	Macroeconomic stability
	Health and primary education
2. Efficiency enhancers	
Efficiency-driven stage (2nd stage)	Higher education and training
(per capita GDP p.a. < USD 3 000-9 000)[1]	Goods market efficiency
	Labour market efficiency
	Financial market sophistication
	Technological readiness
	Market size
3. Innovation and sophistication factors	
Innovation-driven stage (3rd stage)	Business sophistication
(per capita GDP p.a. > USD 17 000)	Innovation

1. Intermediate stage from stage 2 to stage 3: per capita GDP p.a. is USD 9 000-17 000.

Physical infrastructure

Lack of an appropriate physical and non-physical infrastructure acts as a powerful drag on entrepreneurial dynamism. Surveys carried out by the Thai authorities show a low and worsening quality of physical infrastructure, especially in the North and the South. Infrastructure spending has failed to keep up with the needs of the economy, pushing transport and related costs to 20% of GDP, higher than in most other countries and double the ratio in the United States. Infrastructural deficiencies comprise a lack of railway transport facilities, persistent port congestion, lack of storage facilities and low-quality roads. The railway network (4 129km) has less than 3% of the coverage of the road network

Box 2.2. **The World Economic Forum's global competitiveness index (GCI)**

The WEF's Global Competitiveness Index (GCI) takes each country's level of economic advancement into account. It allocates relatively high weights to those determinants of competitiveness which are critical for paving the way for a country's advance to the next stage of economic development. In the WEF's analytical framework, pillars of competitiveness are therefore organised into three sub indices (basic requirements, efficiency requirements and innovation and sophisticated factors). Of these, one is of critical importance for a country's further economic progress, which in the case of Thailand is an issue of efficiency. The specific weights attached to each sub index for each stage of economic development are shown in Table 2.11.

Main sub-indexes for each stage of economic development[1]

	Factor-driven stage (%)	Efficiency-driven stage (%)	Innovation-driven stage (%)
Basic requirements (Stage 1)	60	40	20
Efficiency requirements (Stage 2)	35	50	50
Innovation and sophisticated factors (Stage 3)	5	10	30

1. Weights are derived from a maximum likelihood regression of GDP per capita against each sub-index for past years.

Source: World Economic Forum (2009), *The Global Competitiveness Report 2009-10*, p. 6.

(180 000km). Along with rising fuel prices, worsening infrastructure pushed up logistical costs relative to total production costs in 2004-07. Business logistical costs increased as a consequence.

In 2008, total expenditure on national, physical infrastructure by state owned enterprises (SOEs) amounted to 2% of GDP. Most of these investments were concentrated in the energy, transportation, communication and telecommunications sectors. Specific investment projects included the expansion of power generation and transmission, the development of the international airport, national airline and deep sea ports and the expansion of the mass transportation system, national and international communication and the telecommunication system. In the government's view, these infrastructural investments will generate development opportunities for agriculture, manufacturing and services, with positive effects upon productivity growth and international competitiveness.

The Tenth National Economic and Social Development Plan (2007-11) is partly aimed at reinvigorating the physical infrastructure by promoting cost-effective and energy-saving transport modes (water-, rail- and pipeline transportation). New impulses to improve the physical infrastructure have been impacted by the 3-year TKK investment programme 2012 (the second stage of the fiscal stimulus package adopted in March 2009). Assigning top priority to upgrading the physical infrastructure, the TKK programme allocates funds equal to more than 1% of GDP over a 3-year period (2009-12) for this purpose. According to the Comptroller-General's Department, though, the TKK 2012 programme has been beset by waste and corruption in its initial phase of implementation, as the programme has been funding projects that were previously rejected by the Budget Bureau (Economist Intelligence Unit, 2010).

The TKK 2012 programme covers 6 000 investment projects to be carried out by the central government, local authorities and state-owned enterprises. Public investment initiatives are unevenly spread over a wide area of economic activities, including agriculture, energy and alternative energy, education and public health, infrastructure, tourism, science and technology and the creative economy. Nearly three quarters of the 3-year investment package are earmarked for upgrading the physical infrastructure, nearly 15% for water management and 6.5% for the creation of jobs and incomes.

Competition policy

The long-run interplay of market forces is partially conditioned by the effectiveness of competition policy. Thailand's legal framework in this domain is rooted in the Trade Competition Act (1999). Pursuing the aim of promoting fair and free trade through a competitive environment and reduced anti-competitive practices, the Act prohibits the abuse of dominant position, business collusion, unfair trade practices and "unreasonable agreements" with foreign firms. Competition rules are enforced by the Trade Competition Commission chaired by the Minister of Commerce. In 2007, the Commission fixed, for the first time, the threshold for a dominant market position. Major tools for enforcing the Act include notifications and in-depth inquiry.

Competition rules differ moderately across sectors. The Telecommunications Master Plan (2005-07) contained regulatory guidelines stimulating free and fair competition. Accordingly, the National Telecommunications Commission (NTC) issued a set of Notifications providing the universal service obligation and consumer protection, spurring the liberalisation of telecommunications markets and facilitating operations of service providers. As of July 2007 the NTC had granted 104 telecommunications licenses to operators.

In the maritime sector, Thailand's international shipping is open to both Thai and foreign maritime transport operators. Bilateral maritime agreements have been concluded with a few countries, including China, Korea and Vietnam. In air transportation, Thailand has implemented a liberalisation policy on air transport by allowing Thai privately owned airlines to provide air services on the same routes operated by the national carrier. As a result, the number of international and domestic scheduled Thai airlines has increased from six in 2003 to nine in 2007. Limitations and restrictions imposed upon foreign airlines have been progressively eased.

State-owned enterprises

Privatisation, largely concentrated in the first half of the 2000-08 inter-crisis period, has widened the space for competitive forces. During the inter-crisis period 2000-08, the number of State-owned enterprises (SOEs) has been progressively reduced, the six major privatisation events comprising the Mass Communications Authority of Thailand (MCDOT), Thai Airways Plc, Airport Authority of Thailand Plc, TOT Plc, PTT Plc and CAT Telecom. In 2007, there were 59 SOEs owned by the Ministry of Finance. These enterprises were grouped into nine sectors: energy, transportation, telecommunications, infrastructure, social and technology, agriculture and natural resources, manufacturing, financial services (specialised financial institutions, SFIs) and other service activities. SOEs are an important employer with 222 525 employed persons in 2008, excluding state-owned financial institutions, or 0.6% of total employment. SOEs' annual investments generate

additional employment of approximately 250 000 in the Bangkok, Metropolitan and provincial areas.

At present, no SOE is scheduled for privatisation, but the government is considering merging some SOEs in the quest for greater efficiency, *e.g.* the merger of the Rubber Fund and the Bureau of Rubber. The government is also considering transforming some SOEs into a legal entity so as to provide a basis for a flexible, operational capacity and easier access to capital. Proposals for a new privatisation law have been under discussion since 2007. The proposed legislation, focusing on more rational and transparent privatisation procedures, would replace the Corporation Act B.E. 2442 (1999) (World Trade Organisation, 2008: p 136).

Non-financial state-owned enterprises (SOEs) have incurred substantial losses, amounting to 4.5% of GDP in 2008. The SOE-deficit may have even risen to 5% of GDP in 2010. However, substantial, these losses provide little or no indication of the scale of economic inefficiencies and related impediments to the full play of competitive forces. Thailand's SOEs perform multiple functions, which consist in enlarging and upgrading of the infrastructure; carrying out special government policies; opening up access to credit for farmers, small-business entrepreneurs and grass-root organisations.

The air transport infrastructure is generally viewed as being good (WEF, 2009). Logistical costs, though, expressed as a percentage of total production costs, have been rising in 2004-07, notably in the Northeast and the South. Access to electricity is high, the network covering 99% of the country and 90% of the population using electricity. Public enterprises produce the bulk of electricity, selling it at prices that are low by international comparison. In the same vein, the telephone infrastructure is reasonably good compared to other Southeast Asian countries. However, disparities across regions and provinces are large.

SOEs are also an important source of revenue for the central government. In 2008, lump-sum transfer payments combined with dividends and payments of corporate and excise taxes amounted to 6.3% of total central government revenue. In addition, SOEs occasionally serve as a counter-cyclical instrument for the government's macroeconomic stabilisation policies. A large portion of the TKK 2012 fiscal stimulus programme, amounting to 1.5% of GDP, (the second stage of the fiscal stimulus package adopted in March 2009) is being financed by SOEs.

Sources of financing

Access to financing represents one of the most significant challenges for the creation, survival and growth of SMEs. Small and microfirms face barriers in obtaining debt finance, often reflecting the lack of collateral that these firms can offer. Bank lending rates also tend to be high for small and microfirms, while a scarcity in the supply of venture capital stifles the business momentum of innovative firms. This subsection explores the available evidence on some of the main sources of SME finance used by Thai SMEs and entrepreneurs.

Bank lending to SMEs

Relative to its stage of economic development, Thailand's overall lending rate is quite low, especially when compared to those applied by Mexico and Turkey. Yet, this aggregate indicator is likely to conceal a wide dispersion of firm-size related bank lending rates.

In terms of volume, bank lending to SMEs appears to make up about 28% to 29% of total bank business loans, based on data supplied by the Bank of Thailand (Table 2.12). The definition of SMEs in this context is always difficult. Most banks do not use the definitions used by OSMEP, as described in Section 1.2, based on employees and capital. Instead they use the size of the loan as a proxy. The definition used for SMEs in Table 2.12 is that used by each bank; in other words the definition used is up to the individual bank to determine. According to the Bank of Thailand, most banks set THB 40 million (about USD 1.2 million) as the upper limit for an SME loan. This is higher than the limits for a small and medium loan used in say Australia, the United States, Canada or throughout the Euro area, which typically set the upper limit for a small loan as being about 100 000 in local currency, and 500 000 to 1 000 000 for a medium-sized loan.

Table 2.12. **Bank lending to SMEs, 2007-09**

In THB and as a %

	2007	2008	2009
Total bank business loans (in THB)	1 831 055 269 391	2 142 117 218 919	2 112 232 241 300
Growth in total business loans (% per annum)	. .	16.99	–1.40
SME long-term loans (in THB)	316 106 077 299	350 541 070 704	340 345 698 385
SME short-term loans (in THB)	214 717 728 089	259 236 834 426	257 814 434 687
SME long-term loans (as a % of total SME loans)	56.6	55.6	57.8
SME short-term loans (as a % of total SME loans)	43.4	44.4	44.2
SME loans total sum (in THB)	530 823 805 388	609 777 905 130	598 160 133 072
Growth in SME loans (% per annum)	. .	14.87	–1.91
Total SME loans (as % of all business loans)	29.0	28.5	28.3
Total SME loans/total SMEs (in THB)	233 378	215 650	n.a.[1]

1. Data on the total number of SMEs in 2009 not available from OSMEP at time of writing.

Sources: Total bank business loans; Bank of Thailand. SME loans; OECD (2011), *OECD Scoreboard on SME and Entrepreneurship Finance*.

Table 2.12 estimates that the total SME business loans divided by the total number of SMEs is only about THB 225 000 (or less than USD 100 000). Note that this is not the average loan received by a bank's SME customers; not all SMEs would be borrowing from banks, and so the actual average loan per bank client would be larger. Data on the total number of SMEs receiving bank loans are not available; however it appears that about 1 million of the 2.8 million SMEs in Thailand may draw on formal bank finance.[5]

The OECD's *Scoreboard on SME and Entrepreneurship Finance* provides further information for Thailand focussed on the period of the global financial crisis. This shows that the average annual growth in the value of SME loans from 2006 to 2009 was 6.5%, which compares with the annual growth by value of all business loans of 7.8%. By contrast, based on the figures provided by the Bank of Thailand (BoT Newsletter, 2010) for loans, the average annual growth of SME loans by value from 2006 to 2010 was just 0.9% per annum, which is less than the average inflation rate for 2000 to 2008 as measured by the CPI or deflator (see Table 2.1). This suggests that the real growth of bank lending to SMEs may have been zero or even negative over the period 2006 to 2010.

To sum up, the available evidence suggests that less than about one-half of the 2.8 million Thai SMEs can access formal finance, and that the supply of bank finance to those enterprises that can access it appears to have declined in real terms in recent years.

Non-performing loans

Non-performing loan (NPL) rates for banks in Thailand[6] were rather high in the period following the 1997 Asian Financial Crisis and the 2000 Dot Com Crisis, but have steadily declined from levels of around 36% in 2000 to more manageable, but still high levels of around 7% over the last few years (Table 2.13). Bank NPL rates for SMEs are around 7%. These high NPL rates are likely to constrain the ability of banks to offer finance on good terms to the SME sector as a whole.

Table 2.13. **Non-performing loans in Thailand, 2000-09**

As a % of total loans

Thai registered banks	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross NPL	35.85	16.62	11.33	16.55	12.98	11.73	8.95	7.14	7.14	5.63
Net NPL	. .	. .	. .	. .	. .	. .	. .	4.665	3.93	3.22
NPL for SMEs (%)	. .	. .	. .	. .	. .	. .	. .	7.90	6.85	7.60

Note: Net NPLs not available prior to 2007, SME NPLs not available prior to 2007. These NPL rates are lower than the Gross NPL rates because the NET NPLs include an allowance for provision for the expected loss.
Sources: Bank of Thailand and OECD (2011), *OECD Scoreboard on SME and Entrepreneurship Finance*.

Market for Alternative Investments

The Market for Alternative Investments (MAI) was established in Bangkok in 1999, with the first stock listed in 2001. The MAI aims to provide a simpler, lower cost alternative to smaller firms to listing on the main board of the Stock Exchange of Thailand (SET). As such, the MAI provides an exit point for Venture Capital investors in high-growth firms (via initial public offering into the MAI) and facilitates capital raising by firms (many of which are SMEs) from institutional and sophisticated investors. As of 2010, 62 companies were listed on the MAI, and 8 listed companies had transferred to the SET. The market capitalisation of the MAI listings was THB 43 billion. The MAI had a useful evolutionary step in the development of equity finance for growth-oriented SMEs in Thailand.

Venture capital and private equity

The venture capital (VC) and private equity (PE) industry is relatively small in Thailand, and has tended to focus on mergers and acquisitions and restructurings (such as Management Buy Outs) rather than start-up and mezzanine finance. Government attempts to create a Venture Capital Fund have apparently had only limited success, despite being government underwritten by THB 5 000 million in 2003. In 2009 there were only 11 members of the Thai Venture Capital Association.[7]

SME Bank

The SME Bank was established in 2002 as the SME Development Bank. Its mandate is: "to conduct business with the aim of developing, promoting and assisting small and medium-enterprises to start-up, expand or improve their businesses by providing loans, guarantees, venture capital, counselling and other necessary services as prescribed by the Act".

SME Bank is owned (92%) by the Thai government. It was formed out of the Small Industry Finance Corporation (SIFC) with an initial capitalisation of THB 2.6 billion from the Ministry of Finance. In 2009, the capitalisation by the Ministry of Finance was increased to THB 11.6 billion.

In 2009, SME Bank had total loans to SMEs of approximately THB 44 billion, in other words providing about 7% of the total SME lending by banks in Thailand. SME Bank reported new loans to 8 789 SMEs in 2009, amounting to THB 56 914 million, compared with 8 163 new loans in 2006, amounting to THB 23 734 million (SME Bank, 2009 and 2006). This corresponds to an average new loan of THB 6.5 million per client SME in 2009, compared with approximately THB 2.9 million in 2006. In 2009, about half its new loans were outside the Bangkok municipal area. SME Bank appears to address a relatively small segment of the SME market; by contrast Kasikorn Bank claims to have 250 000 SME clients with total SME loans of THB 356 billion in 2009.

The SME Bank operates as an arm of government policy for business development, rather than as a purely commercial bank. As such, it tends to have riskier loans because it supports government policies by lending to: "OTOP, franchises, informal debts, and special sectors that are the main focus of the government namely: alternative energy businesses, agriculturally processed products, and creative businesses" (SME Bank, 2009).

The SME Bank in 2009 had NPL rates of about 39%, down from 50% in 2008, but still extremely high by normal banking standards. SME Bank aims to bring NPLs down to 20% by 2011, which would still be extraordinarily high. Whilst it reported a profit in 2009, it appears not to account for NPL write-downs as part of that profit or loss figure, instead using recapitalisation from the Ministry of Finance. The 2009 Annual Report indicates that it will move to better risk management and provisioning for bad debts fully by 2012.

These NPLs thus effectively constitute a surprising transfer of funds to a relatively small number of SME businesses, amounting to about THB 22 billion for about 9 000 new client SMEs in 2009, or an average of THB 2.4 million per SME obtaining a new loan in 2009. It is important to understand the reasons for high levels of NPLs by SME Bank and to seek ways to reduce them through the Bank and through appropriate supporting SME policy initiatives.

Credit guarantees

The Small Business Credit Guarantee Corporation (SBCGC) was established in 1991, and prior to that the credit guarantee function was fulfilled by the Small Industry Credit Guarantee Fund. The SBCGC is capitalised by THB 4.4 billion, 93.18% of which comes from the Ministry of Finance and the balance from Thai banks, both private banks (3.58%) and various state related banks, including the SME Bank.

The SBCGC aims to provide credit guarantees to viable small businesses which do not have sufficient collateral to obtain funds from financial institutions. The SBCGC provides a letter of guarantee for approved applications to the financial institution, after the borrowing SME has paid the guarantee fee (which is typically 1.75% per annum of the guaranteed amount for the period of the loan). The SME applicant then has to apply for funds, and the financial institution has to carry out the assessment and find the SME's application viable, but lacking in collateral, before the SBCGC will provide a guarantee; the SBCGC does not carry out the appraisal itself. If the borrowing SME defaults, the lending institution has to make recovery attempts, and if these fail, then the loan, or the unsecured part being guaranteed by SBCGC, is passed over to the SBCGC for recovery and compensation to the lending institution.

The SBCGC had an average annual level of new acceptances for credit guarantee of 2 866 SMEs during 2004-07. The total number of loans guaranteed was 7 800 on average.

This is a relatively small number of SMEs in the total population of SMEs in Thailand; it suggests that about 0.1% to 0.3% of the SMEs in Thailand obtain a credit guarantee. The average loan guarantee per SME is about THB 2.25 million, which is quite a large amount; to put this in perspective, as shown in Table 2.12 the total bank loans divided by total SMEs is only about THB 225 000, or about one-tenth of the average credit guarantee.

The average level of non-performing guarantees was 11.8%, which is quite high, even by industry standards. For example, over the four year period 2005-08, the average non-performing guarantee rate in Chinese Taipei (SMEG – the SME Credit Guarantee Fund of Chinese Taipei) was 4.28% of acceptances, and in Korea (KODIT – Korea Credit Guarantee Fund) it was 1.36%. Consequently, even though the income raised from the Thai Guarantee fee was quite significant (a total of THB 1.128 billion from 2004 to 2007), the SBCGC made a total loss from 2004 to 2007 of THB 584 million. This corresponds to a net burden of about THB 19 700 (or about USD 588) per loan guaranteed. This burden has to be paid for, ultimately by the government (*i.e.* by taxpayers), and so has to be considered against any additional economic benefits generated by providing these credit guarantees to a relatively small number of SMEs.

By international standards, the number of loans covered by guarantees is extremely small, pointing to a largely unexploited potential to ease SMEs' access to credit. On the other hand though, the existing guarantee scheme, judging by the high level of NPLs, appears to be inefficient. This calls for both qualitative and quantitative improvements in the existing guarantee mechanism.

Microfinance

Estimates by the Foundation for Development Co-operation and the Banking with the Poor Network (2010, p. 8) suggest that the total amount of microfinance available in Thailand, for all purposes (*i.e.* not just for business), from all sources, was about THB 30 billion, but about 0.3% of total credit supplied. It is not clear how these estimates were arrived at. The figure of 30 billion corresponds only to about 1.5% of all business loans so it is a relatively small amount. However, it would be about 30% of total household debt for farming activity.

Savings and credit co-operatives contribute to the flow of microfinance. In 2010, about 910 financial institutions of this kind, with a membership of 1.9 million people, extended credits (ordinary, special and emergency loans) at preferential interest rates. Deposits and shares constitute the supply of loan-able funds. Deposit rates are equal to or higher than those offered by commercial banks.

The issue of household debt, especially in regional non-municipal areas is an important one. Microfinance access to the indebted in these areas is provided by a range of sources, including loan sharks, religious groups and informal financial institutions. The Ministry of Finance and the Bank of Thailand have specifically addressed microfinance in the Financial Sector Master Plan Phase II (FSMP II) to be implemented during 2010-14.

Structural challenges

There are two fundamental structural challenges for policy seeking to improve SME access to finance in Thailand.

Firstly, Thai SMEs, like SMEs in many economies, face problems in getting access to formal finance (both debt and equity) at rates commensurate with an accurate assessment

of their risk. In Thailand these problems for SMEs have been compounded by systemic volatility in financial markets, arising for example, from global and regional changes. The Asian Financial crisis of 1997 and the more recent global financial and economic crisis of 2007-09 have made it difficult for Thai banks to accept risky loans, not least because they were often burdened with extremely high NPL rates, a result of their own inadequate risk management. SME loans are intrinsically higher risk and have higher costs, so they have not been an attractive banking proposition for Thai banks for most of the last decade. To its credit, the Bank of Thailand has taken active steps to reduce bank NPLs to more sustainable levels, and to improve risk management in banks, both state and commercial. These systemic problems persist however, and it will take time to work them through, and to address new systemic challenges as they emerge. One promising observation is that some of the non-state Thai banks have led the way in lending to SMEs; for example, Kasikorn Bank has shown that SME lending can be successful, especially if combined with a raft of other services, such as management and financial literacy education. An equally promising observation is the successful emergence and survival of the Market for Alternative Investments.

Secondly, some of the policy solutions to the first challenge have not provided an effective solution and some of the solutions that have been attempted (especially SME Bank) seem to be unnecessarily expensive. In effect, some of the policy initiatives intended to correct market failures may have unintentionally led to "non-market failures". The policy challenge seems to be to unwind some of these "solutions" and to build on more financially and economically sustainable approaches.

Labour market conditions

Thailand's labour market exhibits features of strong resilience and efficiency. The structural, non-cyclical rate of unemployment is very low, hovering around 1.5-2% (Table 2.14). Unemployment is equally split between men and women. Large and rising immigration of labour, accounting for about 8% of total recorded employment in 2008, points to an acute shortage of domestic labour. Including illegal immigration of labour could raise the weight of foreign labour above 10% of recorded employment. From a domestic point of view, Thailand's economy thus operated in conditions of near full-employment in the 2000-08 period.

Table 2.14. **Labour market indicators, various years**

	1997	1998	2000	2005	2008	2009	2010
Labour force (millions)	33.3	33.4	33.8	36	37.6	38.7	. .
Employment (millions)	33.1	32.1	33	35.1	37	37.7	. .
Participation rate (%)	73.5	72.5	71.5	72.5	72.6	73.3	. .
Unemployment rate (%)	0.9	3.4	2.4	1.9	1.4	1.5	1.6[1]
Increase in consumer prices (change in %)	5.6	8.1	1.7	4.5	5.4	3.5	2.9[1]

1. The Thai National Statistical office definition of unemployment refers to persons seeking work in the survey week, but being unable to get at least one hour of work.

Source: National Statistical Office, Labour Force Survey; and IMF, *International Financial Statistics*.

The low level of unemployment, consistent with stable consumer-price inflation (NAIRU), owes much to nominal wage moderation (a consequence of flexible labour supplies), low trade unionisation, limited minimum wage legislation and restricted social

security coverage. The average real wage increased little in the 2000-08 period, the cumulative income gain amounting to less than 3%. Moreover, the social security system barely covered one-fourth of total recorded employment (9.4 million) in 2009. Concurrently, registered SMEs numbered little more than 300 000 firms or 12% of the SME population. These institutional characteristics are suggestive of strong labour market segmentation and across different labour force groups and SME categories. Indeed, wage differentials have widened in the non-agricultural sectors. Three sectors (financial intermediation, electricity production and education) enjoyed rising wage premiums in 2000-08, while opposite trends emerged in construction and private households, which are large-scale employers of immigrant labour. About two fifths of SME employees have only benefitted from primary education, underscoring the scale of insufficient human capital formation.

In this dualistic setting, one group of entrepreneurs, wage and salary earners typically enjoys comparatively high labour incomes and social security coverage, while the other group, which loosely corresponds to necessity entrepreneurs, lacks full social security protection, receiving incomes close to the subsistence level. Aware of this social dichotomy, in 2006 the government eased access to basic health services.

The favourable aggregate labour market outcomes may also conceal sizeable differences across regions, provinces and districts. Data on regional, gender and age related unemployment are, to date, unavailable as are data on the number of vacancies by economic sector and region. Circumstantial evidence, though, indicates a shortage of skilled labour in the automotive and electronic industries. At the same time, the presence of a large immigrant labour force working mainly in agriculture, construction and households, implies that Thai citizens are able to avoid accepting very low wages. Labour immigration mainly originates in three neighbouring countries where wages are much lower: Burma, Cambodia and Laos.

Largely thanks to its flexible labour market and to the efficient clustering of its small enterprises (see Chapters 1 and 3), Thailand's economy has shown a remarkable capacity to absorb economic shocks. The two recent recessions led to relatively small increases in unemployment. In 2009-10, the rate of unemployment edged up by only 0.1-0.2 percentage points, while real GDP declined by 2.2%. Government-supported sharing of working hours (reduced working hours instead of lay-offs) contributed to this outcome. Similarly, during the earlier recession (1997-98), real GDP fell by as much as 12%, prompting the rate of unemployment to rise by 2.5 percentage points.

Notwithstanding the overall favourable performance of the labour market, policy action is needed to ease persistent shortages of skilled labour and entrepreneurial expertise. This calls, above all, for a refocusing of educational and training policies. The current educational system is widely deemed to be ineffective, reflecting systemic inefficiencies rather than lack of resources. The Fiscal Year 2010 budget provides the equivalent of EUR 10 billion (21.5% of central government expenditure or 4.5% of GDP) spending) for education, a large amount by international standards (Bureau of the Budget, 2009: p.6, p.49).

The rule of law and transparency

Corruption distorts the play of competitive forces. In a corrupt environment, SMEs tend to suffer more from illegal practices than large firms, as they are not well placed to resist government officials' unpredictable demands for under-the-counter payments. In

Thailand, the culture of law compliance is still underdeveloped and various surveys show that a lack of law and transparency is perceived to undermine entrepreneurial dynamism. Relative to other middle income economies in APEC, Thailand's rule of law is quite good, even though there are signs of deterioration in the decade from 1997-2007. Rolling back corruption, and thereby reducing economic distortions, is nevertheless an important means of stimulating efficiency gains and strengthening competitiveness in Thailand.

Business and household surveys point to presence of corruption in small business affairs as a pervasive problem in Thailand. According to a recent survey conducted by the Bangkok Post (15/9/2010), the public views corruption as being Thailand's leading "social ill". Subsequent surveys among 1 000 firms conducted by the Institute of Directors' Association (IOD) and by the Stock Exchange confirmed the impression of ingrained and rising corruption (October 2010). In 2009-10, the implementation of the TKK 2012 programme (the second portion of the 2009 fiscal stimulus package) appears to have been hampered by corruptive practices. Corruption affects an estimated 70% of public procurement and public work projects proposed by the national budget. Similarly, diversion of public R&D funds appears to have weakened Thailand's innovative capacity (World Economic Forum, 2010, p. 6).

In response, five major business associations and the National Anti-Corruption Commission signed an Anti-Corruption Coalition Agreement aimed at reining in corruption. While Thailand has not yet signed the OECD's *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Related Documents* (1997), its authorities are committed to reining in corruption. An independent National Anti-Corruption Commission (NACC) was established in 1997. Its sub-committees have

Table 2.15. **Freedom from corruption index, 2005-10**

Index of 0 to 100

	2005	2006	2007	2008	2009	2010
The Philippines	25	26	25	25	25	23
Indonesia	19	20	22	24	23	26
Vietnam	24	26	26	26	26	27
India	28	28	29	33	35	34
Thailand	**33**	**36**	**38**	**36**	**33**	**35**
Turkey	31	32	35	38	41	46
South Korea	43	45	50	51	51	56
Japan	70	69	73	76	75	73
Norway	88	89	89	88	87	79
Switzerland	88	91	91	91	90	90
Singapore	94	93	94	94	93	92
Sweden	93	92	92	92	93	93

Note: The score for "Freedom from corruption" is derived primarily from Transparency International's Corruption Perceptions Index (CPI) for 2008, which measures the level of corruption in 180 countries. The CPI is based on a 10-point scale in which a score of 10 indicates very little corruption and a score of 0 indicates a very corrupt government. In scoring freedom from corruption, the *Index* converts the raw CPI data to a scale of 0 to 100 by multiplying the CPI score by 10.
Source: Heritage Foundation (2010) Index of Economic Freedom.

investigative powers. The NAAC's 9 members are appointed by the President of Administrative Courts for nine-year tenures. However, there are limits to the powers of the

NAAC to roll back corruption by significant margins, particularly given that corruption does not constitute a criminal offence in Thailand.

Barriers perceived by SMEs and entrepreneurs

GEM analysis shows Thailand as a country with a relatively low level of impediments to entrepreneurial activity and a vibrant entrepreneurial culture (Global Entrepreneurship Monitor, 2007). Its business vigour is largely rooted in positive attitudes towards entrepreneurship and recent increases in entrepreneurial activity are a sign of an improved business environment. However, surveys of SMEs and entrepreneurship also identify some weaknesses in the business environment.

Business surveys conducted by the World Economic Forum (WEF) point to political instability, inefficient bureaucracy and corruption as being by far the most largest hindrances to doing business in Thailand. Once a member of the top 30 countries among 133 countries, Thailand's overall position within the WEF Competitiveness Index fell to 36th rank in 2009-10. In 2009-10, political instability and social unrest inevitably damaged Thailand's competitive standing. Ranked 63rd in the category of the quality of public institutions, Thailand dropped by as much as 20 places over three years. Other problematic areas singled out by employers include lack of reliability of the police force (88th rank), lack of law and order (85th rank), insufficient protection of property rights (75th rank), port congestion, small railroad network and widespread HIV/AIDS and malaria (World Economic Forum, 2010, p. 30).

Covering a much larger number of countries, but using a less comprehensive approach towards gauging the business environment, both the World Bank and the GEM portray a moderately different picture. Focusing exclusively on the ease of doing business, but leaving out important parameters such as macroeconomic stability, technological readiness, market size and regional and social disparities, the World Bank Survey (Doing Business 2010, Thailand) presents a more favourable evaluation of Thailand's business conditions than the WEF's Report on Global Competitiveness. The World Bank assessment rates ranked Thailand in 13th place among 183 countries in the 12 month period to June 2010.

According to the World Bank, Thailand outperforms most other Southeast Asian countries in terms of doing business, but lags far behind Singapore in 1st place. The main sources of Thailand's business ease include the issuance of construction permits and property registry and protection of investors. On the other hand, business ease is constrained, in descending order of importance, by the tax system and various obstacles hindering access to finance, employing workers and creating and closing firms. According to the World Bank Survey, business constraints in each of these categories largely derive from:

- Tax complexity in the form of high frequency of tax payments within the year; long hours spent on complying with tax rules and a high total tax rate. The weight of tax regulation has increased since the early 2000s.
- Lack of loan finance and venture capital including low bureau coverage; zero public registry coverage and stringent eligibility criteria for access to venture capital. GEM surveys also point to inadequate supplies of loan finance as a major reason for discontinuing entrepreneurial activity.
- High redundancy costs, which hold back the employment of workers.

- Long time delays and low recovery rates for closing a business.

Data assembled by GEM show that inadequate profitability and lack of financial funds are the main forces reported by entrepreneurs prompting them to cease business.

Table 2.16 summarises the main obstacles to entrepreneurial activity identified by recent business surveys.

Table 2.16. **Main obstacles to entrepreneurial activity**

World Economic Forum	**Global Entrepreneurship Monitor**
Political instability	Lack of financial funds
Corruption	Inadequate profitability
Heavy bureaucracy	
World Bank	**Government Surveys**
Tax complexity	Lack of railway transport systems
Lack of loan finance and venture capital	Lack of storage facilities
High redundancy costs	Port congestion
Cumbersome regulation	Low-quality roads

Sources: World Economic Forum (2010), *The Global Competitiveness Report 2009-10*, World Bank (2010), *Doing Business in Thailand 2010*, Government Surveys, GEM (2007), Thailand 2007.

Research, development and innovation

In a climate of keen and rising competition, economic survival increasingly depends upon the speed with which firms develop new products and services. Shorter product life spans have put a premium on novel products apt to ward off competitors' rapid emulation. Concurrently, the emerging "molecular" economy, based upon bio-, material- and nanotechnology has fostered innovative momentum world-wide in a range of new sectors.

In the new world of speed-based competition, having access to networks and establishing new business links (collective process innovations) plays a vital role in sustaining business success. Enterprises, which are now smaller in size than 20 years ago, have increasingly focused on their own core competence. In an attempt to market products worldwide, entrepreneurs established strategic business alliances, partnerships and joined various kinds of networks and global value chains. In this way, knowledge-based SMEs, supplying niche- and technology-based products, have increasingly entered global business networks (OECD, 2007a, p. 3; OSMEP, 2007, pp. 13-17). In addition, "new technology-based firms" (NTBF), have emerged as a potent agent for the diffusion of technology within innovation networks. Through contagion, NTBFs have helped other firms innovate and diversify into new technologies (OECD, 2008; Virasa, 2007; Freeman and Soete, 1997; Nelson, 1993).

By underpinning firm creation and firm expansion in this new environment, entrepreneurship and SME policies have fostered innovation. Wide ICT diffusion is important in this context as it raises the visibility and the take-up of support programmes. In addition, wide ICT diffusion facilitates the creation and expansion of business support centres (business service stations), enabling network building, network membership, data collection and data exchange. Overall, synergies of innovation and entrepreneurship policies have been found to have positive effects on economic efficiency (Hoffmann, 2007; OECD, 2005).

For Thailand, however, several indicators point to a lack of innovative capacity:

- GEM surveys show that most firms do not focus on innovation. This feature is common to each stage of the entrepreneurial process. About 93% of firms offer products or services which are already known by customers. Government surveys also found that SMEs' ability to absorb more advanced technology is extremely limited, bordering upon what has been termed "technological illiteracy". The current education system, by not favouring the development of innovative mindsets, may play an important part in this innovative inertia. At present, Thailand's education institutes are unable to produce science, technology and innovation (STI) manpower commensurate with demand.
- Research and development efforts are weak, R&D expenditure amounting to no more than 0.25% of GDP in 2006, broadly unchanged from the 2000 level. Considering Thailand's stage of economic development, its R&D intensity is abnormally low. Both China and India, countries with a much lower level of real income per capita, have allocated larger resources to R&D activity (Table 2.17).
- Thailand's private R&D spending, however low, is highly skewed, R&D efforts being concentrated in large enterprises. Only 12% of SMEs have offered new products to their customers. Insufficient protection of intellectual property rights may have dampened innovative efforts. Experience in other countries has shown that the capacity to absorb foreign best-practice technology and best-practice organisation depends on both inward FDI and domestic R&D spending. Strong R&D intensity tends to nourish incremental innovations, quickly transmuting foreign innovations into products which meet consumers' tastes in home markets (OECD, 2008).
- Financial constraints inhibit innovative activities; there is no special capital-market segment specialised in promoting high-tech-start-ups like in Japan (JASDAQ, NASDAQ-Japan, MOTHERS), Korea (KOSDAQ) and Taiwan (TAIDAQ and TIGER). Lack of capital funding for innovation is aggravated by drawn-out processes for innovation-related credit applications (Intarakumnerd, 2010).
- Thailand's lack of technological readiness is also evident in a narrow telecommunication infrastructure, as indicated by comparative low numbers of computer, internet users and broad-band internet subscribers (Internet: 21 users per 100 persons; computer: 6 users per 100 persons). In contrast, mobile telephone penetration is among the densest in the world with 124 mobile subscriptions per 100 persons (World Economic Forum, 2010).
- Horizontal links between enterprises in the same or related industries (co-operative consortiums) have remained weak compared with Japan and Taiwan. Vertical connections between transnational corporations and local firms are equally tenuous, inhibiting the upgrading of local technological capability. Finally, links between science and business communities are underdeveloped, stifling commercialisation of inventions as well as the application of ideas developed by universities and research organisations. SMEs' marketing capacity is therefore constrained, hindering the full use of market opportunities created by regional free trade arrangements. Conversely, the science community has little knowledge about the business sector's needs in terms of product and process innovations (Intarakumnerd, 2010).

The evidence, cited above, may somewhat overstate the negative state of Thailand's technological framework conditions. Data assembled by GEM for 2007 also reveal a relatively strong aptitude to use technological innovations in the early stage of entrepreneurial activity. In 2007, Thailand's use of the "very latest" technology (since 2006)

Table 2.17. **Research and development expenditure, various years**

% of GDP

	2000	2005	2006	2007
Thailand	0.25	0.23	0.25	. .
Indonesia	0.07	0.05	. .	. .
Malaysia	0.49	. .	0.64	. .
Philippines	. .	0.12	. .	. .
China	0.90	1.34	1.42	1.44
India	0.77	0.80	0.80	0.80
Japan	3.04	3.33	3.40	3.45
Korea	2.39	2.79	3.01	3.21
Mexico	0.37	0.41	0.39	0.37
Turkey	0.48	0.59	0.58	0.72

Note: Expenditures for research and development are current and capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge, including knowledge of humanity, culture, and society, and the use of knowledge for new applications. R&D covers basic research, applied research, and experimental development.
Source: UNESCO Institute for Statistics.

and new technology (one to five years old) surpassed corresponding values for China, India, Japan and the United States (Table 2.18). At the same time, the offer of new products was found to be limited, hinting at a preference for process over product innovations.

Table 2.18. **Entrepreneurs' technology use, 2007**

	Use of technology (%)			Product new to customers
	Very latest[1]	New[2]	Not new	
Thailand	23.8	31.7	44.5	6.8
China	8.6	22.7	69.7	5.6
India	13.4	25.7	60.9	13.8
Japan	8.7	31.9	53.5	11.9
USA	12.9	24.3	62.9	14.5

1. Technology available since 2006.
2. Technology 1-5 years old.
Source: GEM Dataset.

Beyond that, the number of both Thai patent applications and granted patents rose strongly in the inter-crisis period (2000-08), suggesting a stronger innovative momentum. The rise in patent applications and granted patents was particularly marked in the area of design as distinct from inventions (Tables 2.19 and 2.20). This may be taken as a sign of strong, non-R&D based innovations. Finally, strong clustering activity combined with a drive to develop and expand different modes of business support services may have contributed to improving the technological framework conditions. These activities have been fostered by the National Science and Technology Development Agency, Thailand's key technological institution. Notwithstanding these positive trends, Thailand's innovative capacity is, on balance, out of step with the adjustment requirements for a middle-income country.

Table 2.19. **Patent applications, various years**

	1995	2000	2005	2008	2009
Patent applications	4 436	7 746	10 885	10 561	9 730
Thai	631	2 500	4 258	3 637	4 196
Foreign	3 805	5 246	6 627	6 924	5 534
Design	904	2 697	4 545	3 820	3 873
Thai	486	1 939	3 367	2 736	3 171
Foreign	418	758	1 178	1 085	702
Invention	3 532	5 049	6 340	6 741	5 857
Thai	145	561	891	902	1 025
Foreign	3 387	4 488	5 449	5 839	4 832

Source: Data supplied by Thai authorities.

Table 2.20. **Granted patents, various years**

	1995	2000	2005	2008	2009
Granted patents	782	744	1 322	2 185	2 010
Thai	101	164	505	781	768
Foreign	681	580	817	1 404	1 242
Design	312	329	769	1 219	1 164
Thai	100	119	443	719	709
Foreign	212	209	326	500	455
Invention	470	416	553	966	846
Thai	1	45	62	62	59
Foreign	469	371	491	904	787

Source: Data supplied by Thai authorities.

Conclusion

Thailand's impressive economic progress over the last ten years owes much to sound macroeconomic policies and a favourable business environment. Rising integration into international goods and service markets and flexible labour markets opened up space for a nearly unrestricted play of competitive forces. In this setting, large numbers of small enterprises were created, spurred by Thailand's traditional entrepreneurial dynamism. In a few areas, though, SME and entrepreneurship framework conditions need improvement. Suboptimal educational outcomes are reflected in labour market mismatches (shortages of skilled labour). An underdeveloped infrastructure has retarded firm and job creation in impoverished regions. Additionally, entrepreneurial dynamism has been held back by tax complexity, cumbersome regulations, lack of financial funds, and, last but not least, by pervasive corruption. Rectifying these imbalances will help Thailand confront the rapidly rising competitive challenges from neighbouring countries.

Notes

1. A military coup in 2006 ousted the Thaksin administration. New elections held in December 2007 produced a return to power of Thaksin's allies. Two governments fell in 2008. Mr. Abhisit assumed the premiership in 2009. Thaksin's allies returned again to power in the 2011 elections with the premiership of Yinglick Shinawatra.
2. A Tambon is traditional municipal unit comprising a group of villages.
3. Palle S. Andersen, *op. cit.* p. 36.

4. AFTA: Asian Foreign Trade Agreement; ASEAN: South East Asian Nations; APEC: Asia-Pacific Economic Co-operation; ASEM: Asia Europe Meeting. ASEAN countries are engaged in a two-pronged strategy for regional integration moving towards a single market and production base by 2015 and enhancing ASEAN's competitiveness through bilateral and multilateral trade agreements with major Asian countries and beyond.
5. This estimate is based on the information that Kasikorn Bank has 250 000 SME clients and grossing up to the population based on Kasikorn's overall market share.
6. Please refer to Annex 2.A1 for the exact definition of Non-Performing Loans in Thailand.
7. Figures on the number of deals or funds invested are not available.

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ANNEX 2.A1

Definition of Non-Performing Loans (NPLs) in Thailand

Definition of NPLs

According to the International Monetary Fund, NPLs are defined as non-performing assets that directly affect financial institutions' balance sheets. Applying this definition to Thailand, NPLs would include all the non-performing assets in the financial system, excluding those already transferred to the Thai Asset Management Corporation (TAMC) or other asset management companies (AMCs). The latter are defined as sub-standard assets rather than NPLs.

Criteria for sub-standard asset classification

According to the new criteria announced by the Bank of Thailand (BOT) on 13 September 2002, sub-standard assets in the financial system can be classified into two parts:

i) NPLs according to the Report on NPLs, Loans to Related Parties, Fine and Summary Statement of Liabilities and Assets by each financial institution. This includes loans with principal and interest repayments that are three months or more overdue (time criterion). According to this classification, only the principal is counted as NPLs, and individual contracts or accounts are treated separately. For example, if a debtor has ten accounts with principal and/or interest payments more than three months overdue in seven accounts, only the seven accounts are classified as NPLs.

ii) NPLs that have been 100% provisioned for. That is, uncollateralised doubtful loans that have been fully provisioned for and written off from financial institutions' balance sheets.

Previously, the BOT allowed financial institutions to write off doubtful loans that had been fully provisioned for and exclude them from reported NPL figures. In practice, however, financial institutions only really ceased their efforts to recover these loans, and thus really wrote them off, once all avenues of pursuit had been exhausted. Thus despite having written off these loans from their balance sheets, they continued to be provisioned for out of capital and added to operating costs. In this sense, these loans had a direct bearing on financial institutions' operating results as they were still actively pursued. The BOT has, therefore, required that these loans be counted as part of the official NPL figure from now on.

NPLs transferred to TAMC and state and private AMCs

Apart from the sub-standard assets already discussed above, which are counted as NPLs, there are also those that have been transferred to TAMC or state and private AMCs. These are not counted as NPLs since they do not directly affect financial institutions' balance sheets. The transfer of sub-standard assets to TAMC and AMCs is an essential part of efforts to resolve the banking-sector problem, since these agencies are directly responsible for the resolution of bad loans and help to establish a clear framework for the process. Loans that are transferred to these agencies reduce the NPL figure of financial institutions.

Chapter 3

SME and Entrepreneurship Policy and Programmes in Thailand

This chapter describes and assesses SME and entrepreneurship policy and programmes in Thailand. Thailand's strategic policy agenda for SMEs and entrepreneurship is presented at the outset. The policy formulation and delivery framework is then examined, including the roles of the various responsible government departments, agencies and related stakeholders and the challenges of co-ordinating policy across a wide range of organisations. Major SME and entrepreneurship projects and programmes are then reviewed, falling in the areas of education and training, information and knowledge, finance, market access and development, and technology and innovation. In order to clarify and assess the targeting and mix of programmes and projects, a policy and portfolio framework is presented and used to examine budget allocations across strategic priorities, categories of policy focus and stages of business development.

The strategic policy agenda

Until the late 1990s there was no specific policy for SMEs in Thailand. Prior to that date most SME policy had been part of co-operatives policy, or part of industrial policy, developed by the Department of Industrial Promotion. The latter focused on using industry level planning and support to upgrade industries populated in great majority by SMEs, so-called Small and Medium Industries (SMIs), rather than providing programmes for SMEs *per se*. Nevertheless, these early policies helped to improve the international competitiveness of SMEs in targeted industries by improving productivity and management skills and providing support for entrepreneurial start-up and growth.

The first true SME policy was initiated by the Board of SME Promotion in the form of the SME Promotion Plan 2002-06, which was used by OSMEP as the framework for policy action. The SME Promotion Plan 2002-06 focused on resolving the effects of the Asian Financial crisis and supporting the revival of SMEs. It therefore took into account the need for a series of remediating measures as well as the need to strengthen SMEs' long-term competitiveness. The main elements of the first SME Promotion Plan 2002-06 are shown in Box 3.1.

Box 3.1. **Strategies and Schemes under the 1st SME Promotion Master Plan (2002-06)**

Strategy 1. Reinvigorating SMEs as a Key Economic and Social Mechanism

- Strengthening SMEs in terms of finance by increasing financial liquidity and creating financial alternatives for SMEs to have greater access to sources of capital.
- Creating and expanding market opportunities and enhancing governmental procurement.

Strategy 2. Building and Improving Infrastructure and Reducing Obstacles in Business Operations

- Promoting collaboration between public and private sectors.
- Infrastructure development and facility providing to support business operation.

Strategy 3. Supporting SMEs to Attain Sustainable Growth

- Promoting efficient management and professionalism in SMEs.
- Promoting innovation research development for commercial purposes.
- Human resource development and quality of life improvement in SMEs.
- Developing full integrated clusters.

Strategy 4. Capacity Building for SMEs in the Export Sector

Strategy 5. Creating and Developing New Entrepreneurs

Strategy 6. Promoting the Role of Community Enterprises

The Key Performance Indicators (KPIs) and the results for the 2002-06 SME Promotion Master Plan are shown in Table 3.1.

Table 3.1. **Results of the First SME Promotion Master Plan, 2002-06**

Goal	Description	Result	Gaps and issues
1	GDP of SMEs to grow continuously until reaching 50% of overall GDP	SME GDP was 39.4% of total GDP in 2006	SME GDP in manufacturing and services grew but at a lower rate than large enterprises, while the SME share of GDP in the trade sector declined slightly.
2	Employment created by SMEs to increase by 180 000 jobs per year	Increase of 67 909 positions per year	Most employment was in labour-intensive enterprises, but with a decreasing trend Inadequate medium and high skilled workforce Job opportunities and working environment remained weak in SMEs
3	SMEs' labour productivity to increase 2.5% per annum, in line with the target for the industrial sector	Labour productivity of SMEs in 4 key sectors increased on average by 4.4% yearly in 2001-05	
4	Exports by SMEs to grow no less than 6% per year	9.3% growth in export value compared with 2005	Exports of most SMEs (51.3%) were still in primary and labour-intensive product groups Lack of product image/branding Lack of appropriate marketing infrastructure
5	Promote SMEs to enter the formal economy, with no less than 72% of total SMEs being registered	519 839 enterprises registered during the period	Most SMEs still lack awareness/insight in conducting business with systematic approaches and good governance
6	The number of new entrepreneurs to increase by 50 000 entities annually	Average of 44 551 start-ups per year (including only those registered at the Ministry of Commerce)	Close to targets in quantitative terms but need to give importance to building up of enabling factors to create better quality enterprises and support the survival of start-ups
7	Number of community enterprise groups with OTOP programme products graded 3 star or higher to increase by no less than 10% per year and to reach 6 300 groups by 2006	Increase by more than 10% yearly, reaching 8 010 groups	Continuing implementation is needed to emphasise the consistency of quality and the strong integration of business entities

Source: 2nd Thai SME Master Plan, pp. 21-23 and p. 39.

The first SME Promotion Plan was followed up by a Second SME Promotion Master Plan for 2007-11. The main strategic priority areas of the Second Master Plan were identified as follows:

Strategy 1: Creating and developing SMEs and entrepreneurs.

Strategy 2: Upgrading productivity and innovation in manufacturing sector SMEs (including indigenous and "new wave" industries).

Strategy 3: Enhancing efficiency of SMEs in the trade sector (retail and wholesale).

Strategy 4: Promoting value creation and value added in the service sector (tourism, tourism-related and other businesses).

Strategy 5: Promoting SME development in the regions and local areas.

Strategy 6: Developing enabling factors conducive to SME business operations.

Policy to address the global financial and economic crisis was subsequently added as a further area for action.

The strategic priority areas of the Second SME Promotion Master Plan are briefly described in Box 3.2.

The strategic priorities of the SME Promotion Master Plan are translated into policy actions through a process of collecting data, information and knowledge, putting budgets in place through the SMEs Promotion Fund and developing appropriate projects and

facilities. The appropriate design and implementation of these projects is supported by monitoring and evaluation.

The following Key Performance Indicators (KPIs) were set out for the Second SME Promotion Master Plan (2007-11):

1. the SME contribution to GDP to expand continuously and reach 42% of overall GDP in 2011;
2. the SME export growth rate to be no less than the overall export growth rate; and
3. SME total factor productivity to expand not less than 3% annually; total factor productivity in targeted sectors to expand not less than 5% per annum; and SMEs labour productivity to expand not less than 5% annually.

The main results of the Second SME Promotion Master Plan are summarised in Table 3.2.

Table 3.2. **Main results of the 2nd SME Promotion Master Plan 2007-11**

Goal	Description	Gaps and issues
1	GDP of SMEs to grow continuously and reach 42% of GDP in 2011	SMEs' share of GDP declined during 2008-10 from 38.1% to 37.1% of GDP
2	Growth of SME exports to increase by no less than the overall growth of exports	Growth of SME exports in 2009-10 was lower than the overall export growth rate. Total export rates were 11.7% in 2007, 11.2% in 2008, 11.2% in 2009 and 13.8% in 2010 compared with rates of 8.5% in 2007, 7.4% in 2008, 6.6% in 2009 and 10.4% in 2010.
3	Total Factor Productivity (TFP) of SMEs to expand no less than 3% usually; TFP in targeted sectors to expand no less than 5% and SMEs' labour productivity to expand no less than 5% annually	Targets were not met.

Source: OSMEP.

While these results did not meet these targets, there is evidence of strengthening of the SME sector despite the effects of the global financial and economic crisis 2007-09 and domestic political instability. The appropriateness of these targets for SME and entrepreneurship policy can also be questioned (see Chapter 4).

Policy delivery structures

The key body responsible for setting strategy and co-ordinating policy across government is the SME Promotion Committee established by the SME Promotion Act of 2000. The Committee is chaired in principle by the Prime Minister, with the Minister of Industry as vice-chair, and Ministers of Commerce, Agriculture and Finance as Committee members, although in practice it has been chaired by the Deputy Prime Minister. It consists in total of 25 members, of whom at least 6 must be representatives from private-sector organisations (in addition to appointed representatives of the Board of Trade and Federation of Thai industries) including three regional SME entrepreneurs. The key responsibilities of the Committee include recommending the "SME Promotion Policy and Plan" to the ministerial cabinet, defining SMEs, submitting an "SME Status Report" to the cabinet and the public, recommending incentives, new laws, or legislative amendments to the authorised agencies, and supervising concerned agencies on the implementation of the SME Promotion Action Plan.

The Office of SME Promotion (OSMEP) is the key operational support agency to the SME Promotion Committee, set up in 2001. The SME Promotion Act gave OSMEP a legal basis as a "special executive agency"; a semi-government, autonomous agency reporting directly to the SME Promotion Committee. The Director of the Office of SME Promotion is Secretary to the SME Promotion Committee.

OSMEP is governed by the Board of SME Promotion chaired by the Permanent Secretary of the Ministry of Industry. The Board gave OSMEP two main roles:

i) A supervising body acting as a central planning office to co-ordinate the action plans of all relevant offices in promoting SMEs in Thailand. This involves activities such as formulation of policy plans and strategies, data collection and monitoring, reporting on the effectiveness of policies and strategies and evaluation of the results of projects, strategies and programmes.

ii) An operational arm taking charge of SME and entrepreneurship promotion activities left unimplemented by other SMEs promotional agencies, and those promotional activities yet to be implemented or implemented but not yet effectively serving SMEs and entrepreneurs.

OSMEP and the SME Promotion Committee develop and co-ordinate policy through the SME Promotion Master Plans as a framework for OSMEP to co-ordinate with related public agencies, state enterprises and the private sector to implement efficient, effective and coherent actions for SME promotion. The First Master Plan ran from 2002-06. It was succeeded by the Second SME Master Plan of 2007-11. The Third SME Master Plan will run from 2012-16. This section examines the structures that are used to deliver the SME Master Plans, moving from the overarching framework to the related support structures.

The overall delivery structure for Thai SME and entrepreneurship policy is presented in Figure 3.1. OSMEP acts as the central co-ordinating body across the government bodies concerned, co-ordinating them in the delivery of the SME components of the various national plans and national and local projects and programmes. This is an enormous task, because it involves co-ordination of hundreds of projects across many different ministries and implementing agencies. Thailand uses a national planning process to co-ordinate the strategic direction of national policies, and OSMEP has a strategic plan to co-ordinate SME and entrepreneurship policy within that context. There are a number of other national plans which have implications for SMEs and entrepreneurship, such as the Bank of Thailand Financial Sector Master Plan II (FSMP II 2010-14), the National Microfinance plan and the National R&D Plan currently being developed.

Thailand, as a "late adopter", was able to adopt a more holistic approach to a structure for SME and entrepreneurship policy than has been possible in many other countries which have had a longer history of SME and entrepreneurship policy, and so have developed their policies by a more lengthy process of evolution, bolting-on, *ad hoc* and niche target approaches (see Lundström and Stevenson, 2002).

In Thailand, as is the case in all economies, SMEs are a cross-cutting policy issue in the SME and entrepreneurship policy structure. Primary responsibility for SME policy rests with OSMEP, but it shares this in practice with the Ministries of Industry and of Commerce. However, as a cross-cutting issue, many of the other 20 main Ministries in Thailand (for example those of Finance, Foreign Affairs, Education, Labour, Agriculture and Co-operatives, Tourism and Sport, and Defence) have policies and programmes which can

have an impact on SMEs, whether intentionally or not. The co-ordinating role of OSMEP is shown in Figure 3.2.

The challenge is how to best manage and co-ordinate the various policies, projects, programmes and decisions across these different government jurisdictions. In principle, agencies which do not want to implement measures recommended by the SME Promotion Committee must report their reasons to the Committee within 15 days. The Committee Chairman may then refer the matter to the Cabinet as appropriate. However, OSMEP is relatively new and junior in comparison to other Ministries and their departmental entities, which constrains its ability to enforce this co-ordination. This is particularly noticeable when it comes to the respective roles of OSMEP, the Department of Industrial Promotion (DIP), the Ministry of Industry and the Ministry of Commerce.

The main process of co-ordination and management of SME policy formulation at a whole of government (Kingdom) level, is that of four or five year planning, based around the National Economic and Social Development Plan (NESDB). The current tenth NESDB plan runs from 2007 to 2011. The SME Master Plan developed by OSMEP is a five year plan; the second plan is for 2007 to 2011, and the third SME Master Plan is scheduled to run from 2012 to 2016.

These plans are not developed and implemented on a rolling schedule, but on a fixed schedule. This has some advantages in allowing a longer-term strategic view, but it can pose problems in accommodating unpredictable volatility; for example in economic, political, and climatic conditions. Many Thai SMEs and entrepreneurs face a regional and global environment which is volatile and dynamic, so turbulence can be seen as the norm rather than as an exception.

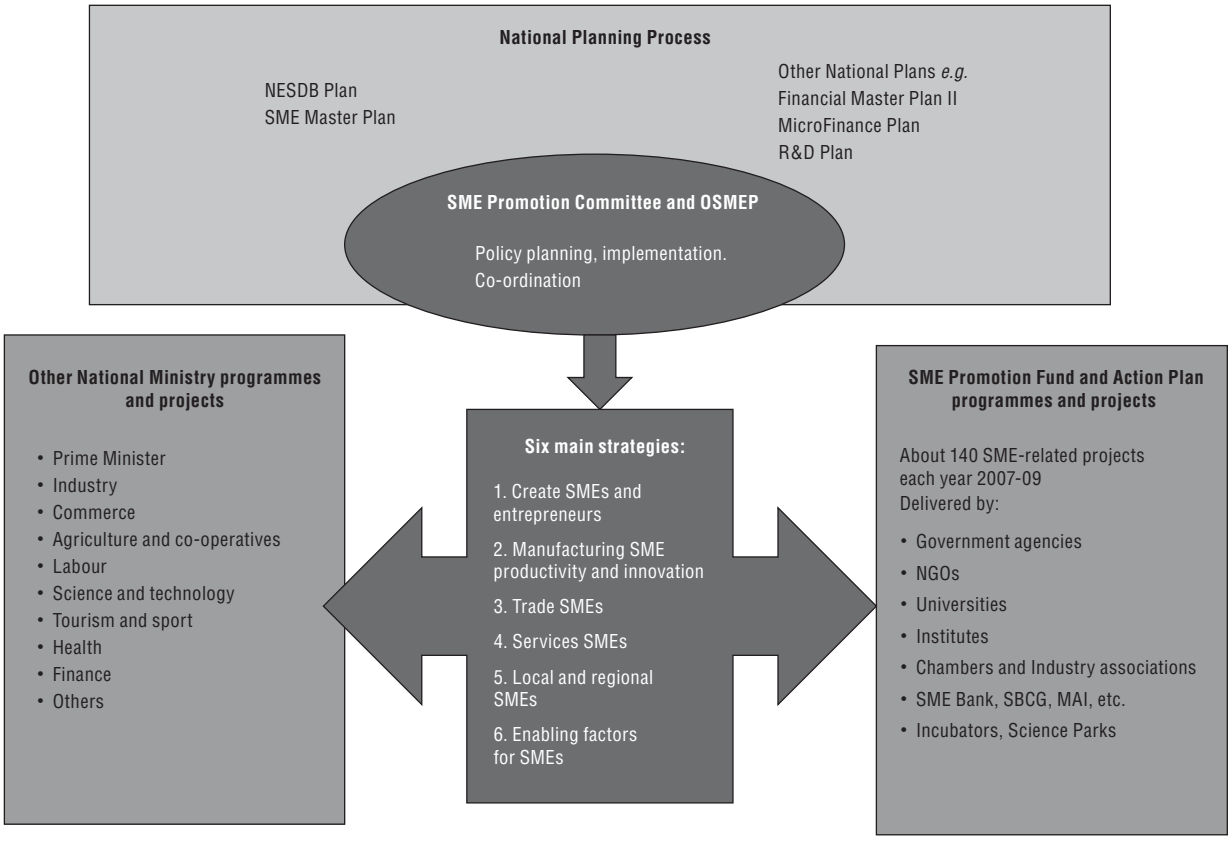
There is also a tendency for the agendas to be set top-down in a centrally-planned approach to policy making and for the agenda priorities to be determined by the more powerful and established players in the process. A more flexible, adaptable and bottom-up approach to agenda and priority setting may be more appropriate for SME and entrepreneurship policy.

The SME and entrepreneurship policy support structure is built around projects, and to a lesser extent, programmes. An estimate is that in 2007 there were 180 projects spread between OSMEP, the Ministry of Industry, Ministry of Commerce, and a number of other Ministries, and agencies. In 2009, the budget had been cut in half as a result of the financial strictures imposed by the global financial crisis of 2007-08 and the number of projects was also cut by one-half.

SME and entrepreneurship projects and programmes can be divided into three groups:

1. *Projects and programmes funded by the SME Promotion Fund:* OSMEP is responsible for managing the SME Promotion Fund. OSMEP may implement these projects itself or contract with other entities to deliver the projects, such as industry associations, institutes, chambers of commerce, foundations, consultants, and other similar non government or semi government entities. Other projects are delivered by a range of government and non-government agencies under the co-ordination of OSMEP. In 2009 the 40 or so OSMEP projects alone were spread across many different implementing agencies, including 16 industry associations, 8 institutes or foundations, 4 universities, not including various syndicates involved in incubators, 3 Chambers of Commerce or Federations, and a number of consultant providers.

Figure 3.1. **Main delivery structures for SME and entrepreneurship strategies in Thailand**



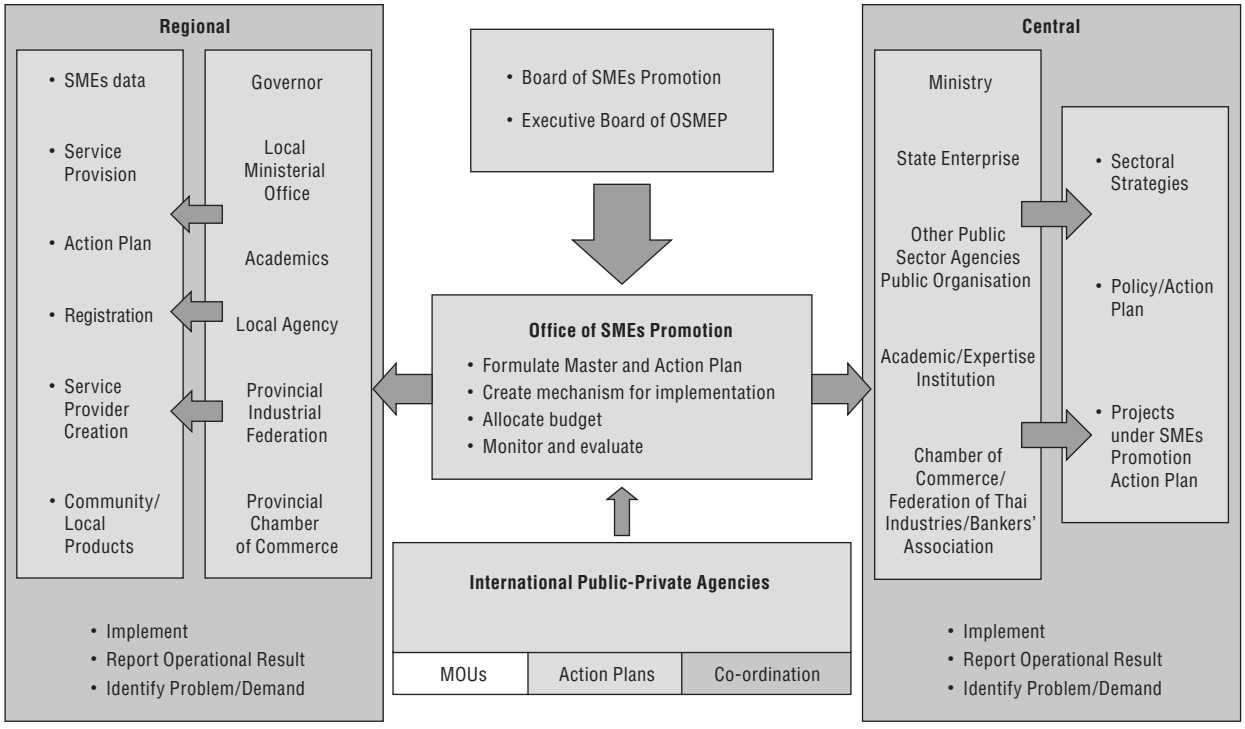
2. *Projects and programmes under the SME Promotion Action Plan* using resources that fall outside the OSMEP SME Promotion Fund. OSMEP has a role in co-ordinating these projects and programmes with other SME and entrepreneurship support. There were 50 or so projects delivered in 2009 under the SME Promotion Action Plan outside the OSMEP SME Promotion Fund. These were delivered by eight separate Ministries, and a number of departments, boards, institutes, industry associations and other entities.
3. *Projects and programmes related to SMEs and entrepreneurship*, but not co-ordinated by OSMEP or covered by the SME Action Plan or SME Master Plan.

The complex policy support structure clearly poses challenges as to how best to co-ordinate and manage so many disparate players across such a wide portfolio of projects and programmes. In principle, Thai SME and entrepreneurship support is co-ordinated organisationally through OSMEP, which should allow a more holistic approach and less duplication and waste in the implementation of SME and entrepreneurship policy. In practice there are some potential problems, in terms of project accretion, duplication and deletion, evaluation, accountability and budgeting.

Project accretion, duplication and deletion

A problem that can arise in any country is that initiating projects can be a way for ministries, ministers, public and private sector managers and agencies to seek to increase their influence. Even in a five-year planning context as in Thailand, projects can accrete simply by public service managers initiating new projects without withdrawing existing

Figure 3.2. **The co-ordinating role of OSMEP in SME and entrepreneurship policy delivery in Thailand**



ones. Thailand has been quite good at reviewing the overall strategic effectiveness of its SME Master Plan (see Tables 3.1 and 3.2), but it is less adept at identifying and rationalising projects which duplicate unnecessarily, or projects that are not effective, or are no longer effective. This also poses problems when budget cuts are forced upon government, as happened dramatically in 2008. Because there is not a clear set of performance and effectiveness data being gathered by economic evaluation processes, the projects that are deleted or discontinued are not necessarily the ones that are the least effective. In addition, the involvement of a large number of bodies in delivering projects can impair the process of imposing strategic direction. For example, the OTOP (One Tambon One Product) programme appears to have been one of the more successful SME and entrepreneurship programmes in Thailand, but in 2008 the national government de-emphasised the role of OSMEP as a co-ordinating organisation for the programme, and reallocated the substantial budget to the more than 20 implementing agencies. This is suggestive of potential losses of strategic vision, synergies, programme visibility and reach and efficiency.

Project evaluation and accountability

Thailand has been slow to adopt impact assessment and economic evaluation and appraisal of SME and entrepreneurship projects and regulations. Impact assessment requires the economic, social and environmental impact of new laws and projects, especially on SMEs, to be assessed and the results made public for discussion before they are implemented. Similarly, Thailand has been slow to require economic appraisal of projects and investments before, during, and after their implementation. In the SME and entrepreneurship area there appear to have been almost no cost benefit appraisals undertaken on the more than 400 projects, with a total budget of THB 10 billion,

implemented over the 3 years from 2007 to 2009. "Evaluation" is clearly recognised as important in the 2007-11 SME Master Plan and in the OSMEP SME White Papers, but it appears to carry insufficient weight. The absence of serious evaluation reduces accountability.

Programme versus project budgeting

A related major issue facing OSMEP, and the various other agencies that it relies on for implementation, is that budgeting is project-based not programme-based and depends on annual allocations rather than being on a rolling budget. This has meant that no continuity in project delivery can be assured from year to year, especially when there is political or economic volatility. It also means that administratively it is difficult to start and complete many projects within a 12-month cycle, especially if this has to correspond to the fiscal cycle. To be effective and useful to the end-clients, many SME and entrepreneurship support projects also need to be delivered across several years and several stages of SME development; for example, projects supporting growth firms often take several years to realise results, and do not fit neatly into fiscal year (October to September) cycles.

Major SME and entrepreneurship projects and programmes

We turn now to a brief review of the major SME and entrepreneurship projects and programmes in Thailand, structured according to *specific* areas where government can make improvements in the business environment through policy intervention (see Box 3.2 for additional details and explanation). This review looks particularly at programmes and projects that have a substantial budget commitment and any supporting evidence of the evaluated effectiveness of the project in the broad context of the overall portfolio. It does not attempt to review all the 400 projects that have been implemented under the 2007-11 SME Master Plan.

Education and training

OTOP (One Tambon One Product)

This programme was co-ordinated by OSMEP from its inception in 2001 until 2010 when budgets were passed to various implementing agencies. It was originally based on the Japanese model of OVOP (or one village one product) which encouraged specialisation by local communities in production of local and cottage industries.

OTOP has been one of the major SME and entrepreneurship programme budget priorities, with just under THB 1 billion per annum.

The main objectives of OTOP are:

- to reinforce the process of local development;
- to strengthen communities so that they could be self-reliant;
- to encourage people's participation in creating jobs and incomes;
- to create jobs and income;
- to promote the use and application of local wisdom;
- to promote human resource development; and
- to promote creativity in communities.

The main target groups are entrepreneurs and SMEs in regional communities. As such OTOP plays an important role in regional development.

The deliverables include:

- Thai Community Product Standards (TCPS Mark);
- OTOP Portal which allows access to information management;
- OTOP Product Champion contest;
- Thaitambon.com OTOP Products (*www.thaitambon.com/English/AboutTTB.htm*);
- OTOP Village Champion: handicraft village, ecology village, cultural village, health village, and agricultural village;
- OTOP City Trade Fairs (*www.thai-otop-city.com*);
- OTOP producer network to promote marketing networks across district, provincial, and regional; and
- Network of community knowledge (*www.otoptoday.com*) under CDD.

Although OTOP has a monthly reporting system for participants to assist in monitoring and evaluation, and although there have been evaluations of some of the 45 or so OTOP project activities, it is difficult to obtain any reliable estimate of the overall economic benefits relative to costs. In general terms, the economic benefits are cited as assisting 22 762 villages nationwide by creating 37 840 OTOP producers (*i.e.* new entrepreneurs). The sales value of OTOP producers has risen from a total of THB 16.7 billion in 2002 to over THB 76.7 billion in 2008.

New Entrepreneurs Creation (NEC)

The NEC programme has been operated by the Department of Industrial Promotion since 2002.

Its main objectives are:

- To stimulate and support young graduates, unemployed people, and well-educated employees pursuing entrepreneurship as their career choice.
- To support new start-ups and nascent entrepreneurs to get through the early-stage of business.
- To build up capabilities of successors to continue and grow their family businesses.

The main target groups are:

- People who wish to start up their own business, and who have never had any experience as an owner of a business.
- Students who are new graduates, who have the idea and the intention to become a young entrepreneur.
- Business operators who started their businesses during the past 1-3 years, but whose businesses are not strong enough and who, as a result, require more knowledge and incubation to grow their businesses with stability.
- Relatives of the owners of businesses who are preparing themselves to inherit a business or to join the management of their relatives' business in order to expand the business or to start up a new business of their own.
- People who are currently engaged in a different career or are independent employment contractors, but who have the intention to change their career and become a business entrepreneur.

The main delivery channels are via education; the programme provides a 60-hours training programme on business planning and managerial skills, company visits, an advisory service after training, access to marketing channels such trade fairs, and business matching.

The programme was evaluated in 2009. For 2009, the Department of Industrial Promotion was allocated a budget of THB 174.24 million, with the target of reaching 7 000 people and covering an area of 65 provinces. The results are as follows:

- People who showed interest and joined the Project: 12 192 persons.
- The number of those selected and who completed the training course: 7 672 persons.
- New entrepreneurs who created/expanded businesses: 1 125 persons (or about 16.07% of the target of 7 000 persons).
- New investment: THB 1 126.09 million.
- New jobs created: 4 463 jobs.
- Government investment: THB 174.24 million.

University Business Incubator (UBI) Programme and other Incubator programmes

This programme was co-ordinated by the Office of Higher Education Commission and Universities. The main function of the incubators appears to be to provide mentoring and advisory services, rather than to correct market failure in delivery of technology to SMEs, which is addressed by the technology incubators discussed in the technology and innovation subsection below.

OSMEP set up a model SME incubation centre in 2002 at Kesetsart University (Bangkhaen), focusing the operation mainly on agricultural and food products. In 2004, OSMEP resumed the operation with three universities: Kasetsart, Chulalongkorn and King Mongkut's University of Technology, Thonburi. Chulalongkorn University then carried out a research project to draft a master plan for incubation system development. The following year, OSMEP included Software Park Thailand and NSTDA in the operation, making four model centres in 2005. Since 2005 a few more incubation centres were developed and subsidised, with 13 new centres in 2006, 20 in 2007, and 2 in 2008, which totalled 28 incubation centres.

The incubation centres received a total budget allocation of THB 129.8 million from OSMEP, which is a relatively large amount in terms of the overall OSMEP budget. This was on condition that 40% of the budget be used for managerial or administrative purposes, 40% for mentor or advisor compensation and 20% for expenses for SME support activities that included material or R&D. However, the actual budget used only amounted to THB 107.7 million.

The main objectives were:

- to stimulate and support university students, researchers, and innovators who expect to start new ventures from research outputs; and
- to encourage an establishment of technology licensing offices in universities and promote public-private partnerships.

Thirty-five UBIs have been initiated with subsidies from OHEC and universities. There appear to have been about 327 cases incubated, with 60 new enterprises established, and 165 enterprises having expanded their business.

The programme has been evaluated, and this led to some suggestions for programme improvement.

Information and knowledge

The setting up of databases and information portals is a recognised part of OSMEP plans. However there are only 3 projects identifiable that are related to this area in the 2009 SME Action Plan projects. Two of these are OSMEP internal management databases. A third was a database of Thai SME suppliers, made for ten target industries, namely leather and leatherwear, textiles and garments, gems and ornaments, printing and screen printing, tourism, furniture and handicrafts, beverages, medicines, herbs, and medical supplies, crispy snacks, and processed seafood. OTOP also maintains an online accessible database of suppliers, but it has had relatively few hits.

The Bank of Thailand Financial Master Plan II makes a number of recommendations and suggestions about encouraging provision of microfinance through different channels, including mobile telephones, and particularly with more reliance on the commercial financial sector. Thailand's mobile telephone network is still at an underdeveloped stage, and there are still problems in introducing 3G at a national level. However there is an emerging opportunity to liaise with the commercial banks to collect information and knowledge about SMEs at the microend of the scale.

Finance

Government initiatives to improve access to finance for SMEs and entrepreneurs are summarised in Chapter 2, and in Tables 3.3 and 3.4. Whilst these initiatives do not usually draw on the OSMEP-managed SME Promotion Fund, they are not costless. SME Bank lends between about THB 20 billion to THB 45 billion depending on the year, but it had NPLs of around 39% of loans in 2009, down from 50% in 2008. It aims to reduce NPLs to 20% in 2011, which is probably optimistic unless there are enormous improvements in risk management, and/or a cut back in lending. These NPLs have to be covered somehow, and ultimately must be borne by government. To put this in perspective, the entire budget for OSMEP and non-OSMEP SME and entrepreneurship projects in 2009 was about THB 3 billion. Even if SME Bank can reduce its NPLs to 20%, it would still have about THB 9 billion in NPLs, or about three times the total SME and entrepreneurship budget for Thailand. As noted in Chapter 2, the loans by SME bank go only to a relatively small number of SMEs; about 25 000 of the 2.9 million SMEs (or less than 1% of all SMEs) have loans from SME Bank. There is a serious question as to whether this is money well spent. That question can be best answered by a more effective process of evaluation, and especially of cost-benefit assessment.

Market access and development

The main project initiated by OSMEP in 2009 is the "Project on Promoting Thai SMEs into the ASEAN Economic Community". This was funded by THB 287 million baht. There are four related projects namely: 1) Project on ASEAN SMEs Partnership Roadmap; ASEAN Design and Crafts Sourcing Hub, Phase 1; 2) Project on SMEs Flying Geese; 3) Project on SMEs Capacity Building: Winning for ASEAN Market; and 4) Project on SMEs Consortium Network towards ASEAN Market (Construction Industry and Downstream Businesses).

At this stage there has been no economic evaluation, but results have been recorded from the Winning for ASEAN Market (WAM) project. This WAM project provides financial

Table 3.3. **Finance (debt and equity) provided to SMEs, 2007-09**

Capital for SMEs	2007		2008		2009		2007-09	
	Number of SMEs	Amount (mil. THB)	Number of SMEs	Amount (mil. THB)	Number of SMEs	Amount (mil. THB)	Number of SMEs	Amount (mil. THB)
Loans (Specialised Financial Institutions[1])	. .	52 521.82	. .	64 634.50	. .	92 099.67	. .	209 255.99
VC (public)	10	301.47	5	77.96	. .	. .	15	379.43
VC (private)	. .	–	8	144.00	2	29.00	10	. .
MAI	6	769.60	3	375	11	1 316.22	20	2 460.82
SBCG	2 298	6 628.67	1 366	3 299.38	5 763	21 558.43	9 427	31 486.48

1. Specialised Financial Institutions include SME Bank, EXIM Bank, Government Savings Bank, and Bank for Agriculture and Agricultural Co-operatives (BAAC).

Source: OSMEP.

Table 3.4. **Details of loans granted by specialised financial institutions to SMEs, 2007-09**

In THB millions

Specialised financial institutions	2007	2008	2009
SME bank	20 819.33	20 743.50	45 131.78
EXIM bank	6 786.54	8 886.30	8 735.79
Government savings bank	10 901.15	9 125.40	9 209.99
BAAC	14 014.80	25 879.30	29 022.11
Total	52 521.82	64 634.50	92 099.67

Source: OSMEP.

support to SMEs for organising trade exhibitions and business matching in foreign countries designed to expand the trade base in the ASEAN+6 countries, which include Thailand, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Vietnam, China, India, South Korea, Japan, Australia, and New Zealand, by subsidising 60% of their expenses on hotel lodging, travel cost and freight charges.

This project provided:

- A subsidy for 60% of entrepreneurs' expenses, which made it easier for them to decide to try expanding the market into countries they had never been to before.
- OSMEP acting as caretaker, taking entrepreneurs to foreign markets, meeting and negotiating on trade with buyers directly. This enabled entrepreneurs who had never been overseas before to gain experience and knowledge on the procedures for trade exhibitions and business matching and learn what preparations need to be made, such as preparing business cards, goods, approach to negotiations and bargaining and presentations, and at the same time study and survey the market.
- Prior to travelling, there was training on preparations so that entrepreneurs would know what goods would be appropriate to prepare for their travel.

There has been no formal evaluation, but monitoring results show:

- A total of 2 851 entrepreneurs gained knowledge on marketing and clustering in order to make an entry into the markets of the ASEAN+6 countries.
- OSMEP attended 16 activities to expand the trade base in the markets of the ASEAN+6 countries by organising road shows, trade exhibitions, trade negotiation meetings in the ASEAN+6 countries, except Brunei, Indonesia and Cambodia.

- The value of trade expected to occur within 6 months was THB 1 500 million.
- A matching of 2 060 pairs of trade negotiation partners occurred.

Technology and innovation

The two largest projects/programmes in this area appear to be:

ITAP – Industrial Technology Assistance Program

This is delivered and co-ordinated by the National Science and Technology Development Agency of the Ministry of Science and Technology with nine network institutes (KMUTT, TGI, NSTDA Northern Network, Khon Kaen University, Mahasarakam University, Suranaree University of Technology, Ubonrachatani University, Walailuk University, and Prince Songkla University).

The objectives are to:

- Increase the level of industrial technology development and build up technological capabilities of Thai SMEs.
- Stimulate technology development and R&D activities in industries.

ITAP does this by:

- Focusing on Thai SMEs/SMIs in manufacturing sectors.
- Industrial Technology Assistants (ITA) serve as a bridging agent between technology service providers and technology users and developers in manufacturing sectors through an acquisition of technical experts and advisory services.
- Subsidising 100% of technical problem diagnosis.
- Subsidising 50% of the consulting service fees of technical experts/consultants including other expenses such as testing fee, materials, and equipment with total subsidy per project not greater than THB 500 000.

The number of ITAP projects during the past four years (2006 – Aug 2010) according to OSMEP and NSTDA, was 1 841 projects, of which 830 projects can be classified as R&D projects and 1 011 projects are product or process improvement. The total investment of the 1 841 projects is USD 28.6 million (about THB 860 million) over 4 years, or about THB 200 million per year. The contribution from SMEs was USD 18.4 million, about THB 550 million, which corresponds to 64% of the total investment. The NSTDA supports the rest of the investment through reimbursement to the SMEs upon the completion of the projects. There does not appear to be any economic evaluation of the programme. OSMEP does not currently fund ITAP, and only funded it in 2007.

Science Parks in the North East and the South and Technology Business Incubators

In 2007, the Cabinet of the Thai government made a resolution to approve the projects of North-Eastern Science Park and Southern Science Park with budget for Phase 1 of THB 394 million and THB 229 million respectively. In the 2009 an additional budget of THB 35 million was allocated to the Northern Science Park.

Activities to support the private sector in Phase 1 included:

- The creation of a Technology Business Incubator.
- The award of a low-interest loan for technology development.

- The application of the Industrial Technology Assistance Program (ITAP) on the Science Parks.

After Phase 1, the results of both projects were evaluated by the National Science and Technology Development Agency (NSTDA) and an external evaluator, the Fiscal Policy Research Institute Foundation (FPRI). It was concluded that "*the results of Phase 1 progress are quite successful, the government should give support for the next phase of the project… Responding to the need of private sector, companies, communities and its region; both Science Parks create the values added to products and services by research, development and innovation. Moreover, the projects act as Technology Transfer Centres for each region, to stimulate S&T human resource development and capacity building in private sector. Results in each Key Performance Indicator (KPI) exceed expectations and goals set forth.*"

There does not appear to have been any economic evaluation, which is understandable at this early stage. However these are major budget items relative to the SME and entrepreneurship portfolio. They should be subject to transparent economic evaluation prior to the budget commitment, and subsequent to it, to ensure that the projects do indeed deliver value.

The North-Eastern Science Park is operated by a network of universities in the North-East region of Thailand. Four Technology Business Incubators have been set up in the Science Park, they are:

- Khon Kaen University;
- Suranaree University of Technology;
- Mahasarakham University; and
- Ubon Ratchathani University.

The Southern Science Park is operated by the Prince of Songkla University, working as a core leader, together with a network of academic institutes in 14 provinces in the south of Thailand and a network of private companies.

As well as these broader Science Park initiatives, ten Technology Business Incubators have been set up, they are:

- Prince of Songkla University – Hat Yai Campus;
- Prince of Songkla University – Phuket Campus;
- Prince of Songkla University – Surat Thani Campus;
- Prince of Songkla University – Pattani Campus;
- Walailak University;
- Phuket Rajabhat University;
- Songkhla Rajabhat University;
- Rajamangala University of Technology Srivijaya;
- Thaksin University; and
- Software Park Phuket.

A framework for portfolio management of policy and programmes

One of the major challenges in managing policies across government departments and agencies is to ensure that the set of projects and programmes pursued is the most appropriate for meeting strategic objectives and that the available budget is directed

towards the activities that give the greatest returns to public investment. A portfolio approach to selecting areas for intervention and managing the distribution of spending across projects and programmes is a useful tool for meeting this challenge. The portfolio approach helps policy makers to ensure that each project and programme contributes to one or more strategic objectives and is coherent with other projects and programmes, to identify and correct any gaps or duplications and to adopt a mix of policies that corresponds well to the strategic objectives and needs on the ground. Used in conjunction with systematic evaluation of projects and programmes, it can enable policy resources to be redirected to the activities with the greatest returns. Annex 4.A1, Model 6, provides the example of the application of a portfolio approach to SME and entrepreneurship policy in Singapore. An explicit portfolio management approach has not yet been applied to the management of SME and entrepreneurship policy in Thailand, but offers a number of advantages.

Table 3.5 proposes a framework for assessing SME and entrepreneurship policy portfolios that can be used in Thailand and other countries. It is helpful in clarifying to all actors where policy effort is being focused and in comparing results across activities. The framework is revisited in the next section of this chapter, where budget allocations to projects and programmes undertaken in 2007-09 are used to reveal the priorities of Thai policy in terms of this portfolio framework, according to the focus, stage and revealed priority of the activities being undertaken.

The premise is that programmes and projects in the SME and entrepreneurship space are often better seen as part of a broad portfolio of activities, rather than as stand alone, or ad-hoc projects. The spread of the portfolio (*i.e.* where budget commitments are made) should be examined in relation to:

a) the strategic agendas and aims of the government; and

b) the profile and needs of the SMEs and entrepreneurs being targeted by policy intervention.

The focus of policy categories is based on the question of what governments can do to make improvements in SME and entrepreneurship activity. Such improvements can best be expected in areas where governments have the greatest likelihood of being able to intervene effectively to correct market or government failures. The main areas where there is a likelihood of success for government intervention are identified as the focus Categories 1 to 5 in Table 3.5.

For example, the market may not provide SME managers (or their entrepreneurs or staff) with the education, skills, and knowledge they require. Similarly the market may not automatically and without intervention, supply the finance required by SMEs to capture opportunities at appropriate rates commensurate with an accurate assessment of risk. Whether a government intervention is justified (*i.e.* whether the benefits do actually exceed the costs) is an empirical question that can only be resolved by an ongoing evaluation process.

For example, in terms of the framework of Table 3.5, the questions that need to be answered in any evaluation of SME and entrepreneurship programmes are:

1. If an amount (say USD 1 million of taxpayers' money) is invested on cell 1D, have the benefits exceeded the costs?

Table 3.5. **Proposed portfolio framework for SME and entrepreneurship policy intervention**

Stages		Focus of Policy and Programme Categories what can governments do to improve *a)* the general business environment; and *b)* specific (1 to 5, A to F) structural conditions at local, regional, national, and international levels for people generally and for specific groups (gender, minorities)?				
		1	2	3	4	5
		Education training, HR	Information knowledge	Finance	Market access and development	Technology innovation
A	Pre-nascent	1A	2A	3A	4A	5A
B	Nascent	1B	2B	3B	4B	5B
C	Start-up	1C	2C	3C	4C	5C
D	Operation	1D	2D	3D	4D	5D
E	Growth	1E	2E	3E	4E	5E
F	International	1F	2F	3F	4F	5F
G	Adjust exit	1G	2G	3G	4G	5G

2. Could greater returns be achieved by reallocating the portfolio, for example, could an even greater benefit be obtained for the same amount of money by combining other cells in the portfolio (*e.g.* spending some money on Cell 1D, some on Cell 1A, and some on 5C)?
3. Does the actual expenditure portfolio spread correspond to the stated strategic objectives and their priorities? If not, where are the gaps?
4. How does the present profile of SMEs and entrepreneurs, and their needs, correspond to the budget profile, and to the strategic objectives?

The focus of policy and programme channels can be broken into *general* improvements, and more *specific* improvements:

General improvements in the business environment relate to providing rule of law, macro economic conditions supportive of investor confidence, a business and legal environment that allows and encourages competition and innovation even where this may lead to failure for some, proper governance and accountability for corporations and government organisations, transparency and absence of corruption in government and business, and so on. Thailand's performance in these issues is reviewed in Chapter 2.

Specific improvements in the business environment relate to intervention in five main focus channels:

i) Education, training and HR.

ii) Information and knowledge access.

iii) Finance.

iv) Market access and development.

v) Technology and innovation.

Box 3.2 gives examples of these, and of the policy initiatives often used by governments as means for intervening to make improvements and to address market and government failures. These focus categories are often more effectively used in combination, so for example, providing access to debt or equity finance for SMEs and entrepreneurs is more effective if education and knowledge on financial literacy and financial management is an integral part of the intervention.

Box 3.2. **Examples of government interventions to assist SMEs and entrepreneurs by policy focus category**

Category 1: Education, training, human resources

Subsidies or direct provision:

- Coaching, mentoring, advisory.
- Diagnostic services.
- Train the trainers.
- Consulting services.
- Extension services.
- Cluster manager training.
- Seminars, workshops, conferences.
  - ❖ Specific industry/technology topics.
  - ❖ Emerging trends and opportunities.
- General business and entrepreneurship education.
  - ❖ University.
  - ❖ School.
  - ❖ Community, industry association.
  - ❖ *Ad hoc*.
  - ❖ On line/traditional.
- Seminars, workshops or conferences.
  - ❖ Specific industry/technology topics.
  - ❖ Emerging trends and opportunities.
- Management training.
  - ❖ General skills and competencies (*e.g.* human resources, finance, marketing, management).
  - ❖ Specific skills (*e.g.* Total Quality Management, change, etc.).
- Employee training.
  - ❖ General skills and competencies.
  - ❖ Specific skills (*e.g.* industry or technique).
- Business and start-up.
  - ❖ Competitions.
  - ❖ Simulations.
  - ❖ Games.
- Educating business support/services providers on SME needs.
  - ❖ *e.g.* financiers, suppliers, procurers.

Category 2: Information access.

Subsidies or direct provision of:

- Databases.
  - ❖ Business opportunities.
  - ❖ Procurement.
  - ❖ Business networking.
  - ❖ Business matching.

Box 3.2. **Examples of government interventions to assist SMEs and entrepreneurs by policy focus category** *(cont.)*

- ❖ Emerging opportunities.
- ❖ Supply-chain opportunities.
- ❖ Patent and trademark.
- ❖ Cultural and biological knowledge.

- On-line access to regulations and laws.
  - ❖ Domestic.
  - ❖ Abroad.
- One-stop shops.
- First-stop shops.
- Web portal for SMEs.
- Expos.
- Trade shows.

Category 3: Finance

Subsidies, direct provision, and regulation:

- Government underwriting or provision of finance to SMEs.
- Encouraging or subsidising new specialist financial institutions for SME and microfinance *e.g.* credit guarantee, co-operative or Grameen style banks, export-import finance etc.
- Sharing of knowledge and provision of expert knowledge (*e.g.* credit rating systems, governance compliance, etc.).
- Creation or growth of new markets (*e.g.* debt, or equity), *e.g.* venture capital, mothers markets, seed or angel markets, etc.

Category 4: Market access and development

Subsidies or direct provision, or regulatory support:

- FTA and international agreements for new markets and products.
- Export development grants and advice.
- Shared market intelligence for industry or cluster groups.
- Expos, virtual expos.
- Trade shows.
- Support new market emergence through standards, R&D, etc.
- Cluster development and support for clusters (*e.g.* cluster manager subsidies).

Category 5: Technology innovation

Subsidies or direct provision, or regulatory support:

- Incubators.
- Science and technology parks.
- Centres of research and innovation excellence.
- Clusters of technology innovators.
- Patent advice and funding.
- Technology adapting, upgrading programmes.
- Research centres.
- Facility sharing and access.

Specific subgroups (such as gender-based groups, or minorities such as the long-term unemployed, or ethnic groups, or regional populations) may also have particular needs which the market does not address, but where some intervention may be warranted because the benefits can exceed the costs. For example, by providing disadvantaged minorities with access to education, knowledge and finance it may be possible to tap nascent entrepreneurial skills and generate significant benefits relative to the costs of intervening.

Stages of entrepreneurship and SME development reflect the overlapping stages in the development of an SME by an entrepreneur from conception of a business idea, through feasibility, to start-up and so on. These stages present different targets for effective intervention. An established operating business with an entrepreneurially-inclined manager presents a different target to a pre-nascent or nascent stage entrepreneur, for example, when it comes to strategic efforts by governments to intervene to encourage more international growth through technology improvement and adoption.

These stages and some examples of the interventions typically used by governments are summarised in Box 3.3.

Box 3.3. **Examples of government intervention by stage of business development**

Pre Nascent – relates to the stage before a person even commences setting-up a business, or going down a path of entrepreneurial activity.

Examples of government initiatives: usually involves building a cultural acceptance of entrepreneurship, and awareness of entrepreneurial opportunities and realities/challenges amongst non entrepreneurs, for example by:

- encouraging and supporting courses in entrepreneurship and business creation in schools and universities;
- competitions and simulations of business creation and strategy;
- positive media related to successful entrepreneurs.

Nascent – relates to early stage activity before a business is operational. Usually covers feasibility studies, market research and prototyping of an idea into a business. GEM considers a person to be at Nascent stage if, "they had engaged in any activity to start the firm in the past 12 months, expected to own all or part of the new firm when it became operational and the initiatives had not paid salaries or wages to anyone for more than three months".

Examples of government initiatives: usually seek to provide support for market research and testing entrepreneurial ideas, for example:

- providing simple on line checklists for what to do before starting a business;
- providing subsidised access to incubation services, testing and research facilities at units;
- subsidising mentoring and advisory services for new businesses;
- making it easier to access patent and trade mark databases and searches.

Start-up – relates to the stage when the business commences operation, and often takes a legal existence separate from the entrepreneur or owner. In most developed countries, going from nascent to start-up where a business is registered can take as little as a few days and regulatory costs are usually less than USD 1 000. The start up phase then may take from a month to several years. In the GEM studies, this stage is characterised by a business less than 42 months old. This is where a lot of gross job growth comes from, but it may not lead to much net job growth.

Box 3.3. **Examples of government intervention by stage of business development** *(cont.)*

Examples of government initiatives for start-ups are:

- simplifying regulatory requirements and fast tracking start-up applications;
- providing access to seed and start-up finance (*e.g.* from specialist providers);
- providing incubators, hatcheries, support networks;
- providing help lines, one stop shops;

Operation – relates to the stage where the business operates and trades as a business. The great bulk of SMEs are operating businesses, and they may continue to operate for many years. This does not preclude the need for continual innovation, adaptation and entrepreneurial activity. The issues they face are how to upgrade to new technology, adapt to changes to laws and regulations, deal with new competitive challenges, economic and political cycles, etc.

Examples of government initiatives are given in Box 3.2 most of which relate to operational firms:

Growth (including high growth) – only a relatively small proportion of operating firms seek continued growth, and only a very few achieve continued high growth for any significant period. Those that do achieve growth contribute to job and wealth creation in a similar way to start-ups. OECD research (OECD, 2002; 2010a) suggests that a small proportion of high-growth firms contribute disproportionately to net job and wealth creation. For this reason many governments seek initiatives to support or encourage this stage. Although most will have started out as SMEs, their growth often means that they are no longer targets for SME policy.

Examples of government initiatives:

- simplification of unlisted public capital raising by SMEs;
- angel markets;
- second or junior board markets;
- government set up and underwriting of VC funds;
- subsidies for consultancy advice and mentoring of growth companies.

Internationalisation – internationalisation is another form of growth, and OECD research (OECD, 2008) and UNCTAD (UNCTAD, 2007) research show that SMEs are a significant player in international trade and investment.

Examples of government initiatives are given in Box 3.2 under "international focus" and also under "finance".

Adjust and exit – this involves how to manage a business contraction, adjust to shift in the market or to a change in the level of competition in the market, or withdrawal from a market. About 80% of operating firms exit from business within ten years, and even for operating business, a rough rule of thumb is that 80% of new products firms find that the market is not as promising as their feasibility studies might have led them to expect. This stage is not trivial.

Examples of government initiatives:

- succession planning, advice and assistance;
- insolvency, bankruptcy, regulations and advice;
- terminating and retraining employees;
- advisory services for human resources and redundancy compliance and assistance.

Entrepreneurship and innovation can take place at any of these stages (OECD, 2010b), but many government initiatives to encourage entrepreneurship and innovation are aimed at early pre-nascent, nascent, and start-up stages, and tend to focus more on technology

channels. In countries such as Thailand this emphasis might sometimes be misguided. For example, if the strategic objective is to encourage innovative and entrepreneurial creative products, it may be more effective to target a mix of technologies and encourage traditional established businesses to be part of the programme (as indeed the OTOP programme tends to do with spices, fruit, jewellery, fabrics, apparel, etc).

A portfolio assessment of SME and entrepreneurship policy

The strategies, programmes and projects in support of SMEs and entrepreneurship in Thailand can usefully be subject to a portfolio analysis to examine the spread and mix of support across different strategic priorities of government, the different stages of SME and entrepreneurship development, and the range of focus areas where policy intervention by government is most likely to be effective in correcting market and government failures.

A portfolio approach, in principle, helps to identify where there are relative gaps in programme activity, and where reallocation of resources could improve the performance of the whole portfolio of budget investments by government, in conjunction with the private sector.

For example, Singapore has developed a comprehensive portfolio of SME and entrepreneurship policies and programmes which is designed to take entrepreneurs and SMEs from the pre-nascent stage, through nascent and feasibility stages, to start-up, expansion, and internationalisation, where that is a relevant option for a growing SME. These are co-ordinated across EDB and SPRING. The Singapore approach and its relevance to Thailand is discussed in Annex 4.A1 Model 6.

Thailand has not yet developed a portfolio approach, and although it has recognised the staged approach to SME and entrepreneurship development policy, this is not explicitly used in agenda setting of priorities, or in evaluation of effectiveness of projects and programmes. Consequently it is harder to identify gaps and to assess the appropriateness of the budget allocation across the portfolio. This section attempts a first approximate analysis of the balance of budgeted expenditures across strategies, programmes and projects in order to demonstrate the approach and to identify areas where budget adjustments could be warranted.

Table 3.6 shows the portfolio spread of government spending on SME and entrepreneurship projects and programmes in the years 2007-09 by strategic priority of the Second SME Master Plan 2007-11. This is for the average of 2007-09, and it shows the spread for OSMEP funded and non OSMEP funded projects supported by the SME Promotion Fund. The Table does not cover all government expenditure related to SMEs; it covers expenditure related to project or programme implementation through the SME Promotion Fund and projects and programmes covered in the SME Promotion Action Plan but funded outside the SME Promotion Fund. There are some other significant programmes that are related to SMEs and entrepreneurship but are not co-ordinated by OSMEP or covered by the SME Promotion Action Plan or SME Promotion Master Plan that are not included. For example, the OTOP scheme, which supports the creation of new businesses and the education of entrepreneurs at *tambon* level, was shifted from OSMEP's co-ordination toward a more decentralised delivery by different agencies. Over the period 2003-08 OTOP usually had a significant budget of close to THB 1 billion per annum.

Figure 3.3 shows the spread of projects across strategic priorities by number of projects.

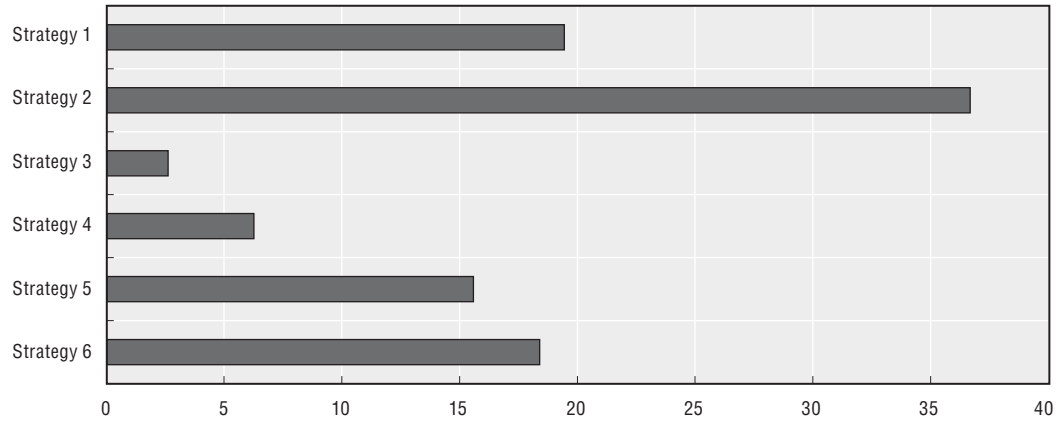
Table 3.6. **Budget allocation by strategy for SME and entrepreneurship activity, 2007-09**

Agenda strategic priority 2007-09	% OSMEP	% OSMEP + non-OSMEP
1. Creating and developing SMEs and entrepreneurs	15.0	28.7
2. Enhancing productivity and innovation capability of manufacturing SMEs	34.5	37.4
3. Increasing efficiency and reducing impact on SMEs in the trade sector	1.5	0.2
4. Promoting value creation and addition in the service sector	3.3	3.6
5. Promoting regional and local SMEs	10.9	10.0
6. Developing enabling factors conducive to SME business operations	34.9	19.7
Total budget (THB million 2007-09)	**3 833.5**	**9 863.7**

Source: OSMEP.

Figure 3.3. **SME Promotion Fund projects by strategy, 2007-09**

As a % of total number of projects



Source: OSMEP.

The budget allocations and project numbers tend to emphasise Strategies 1 and 2, on creating and developing SMEs and entrepreneurs and enhancing the productivity and innovation capability of manufacturing SMEs. Together these two strategies make up two-thirds of the budget allocation and more than 60% of the total number of projects. By contrast Strategies 3 and 4, on measures for the trade and service sectors, have not received much attention. Strategy 5, the promotion of SMEs in the regions, also has a relatively low budget commitment, receiving only 10% of the total budget.

The budget available to address the strategic agenda items was cut heavily in 2008 and 2009. However, as shown in Table 3.7, this did not lead to any major shift in the allocation of funds between strategies; the level of spending and the number of projects was cut by about 50% across all six strategies.

Although it is difficult to make a full assessment on the information available there are *prima facie* indications that the budget allocation by priority may not fully reflect the strategic priorities. In particular, there is relatively low spending on developing trade and services SMEs and SMEs in the regions, although these were set out as priorities in the Second SME Master Plan.

We now turn to an examination of the spread of the portfolio by stage of business development and type of project or programme. Tables 3.8-3.11 provide an overview of the

Table 3.7. **Budget allocation by strategy for SME and entrepreneurship, 2007-09**

Strategy	2007				2008				2009			
	Projects/ Activities	%	Budget (million BHT)	%	Projects/ Activities	%	Budget (million BHT)	%	Projects/ Activities	%	Budget (million BHT)	%
Strategy 1	37	20.6	1 284.84	28.7	33	22.1	845.98	26.8	14	15.6	682.81	30.5
Strategy 2	59	32.8	1 510.98	33.8	57	38.3	1 167.32	37.0	35	38.9	926.79	41.4
Strategy 3									7	7.8	10.72	0.5
Strategy 4	6	3.3	40	0.9	8	5.4	66.44	2.1	9	10.0	175.57	7.8
Strategy 5	31	17.2	456.99	10.2	24	16.1	421	13.3	12	13.3	142.19	6.3
Strategy 6	43	23.9	1126.9	25.2	25	16.8	643.45	20.4	13	14.4	301.74	13.5
Total	180	97.8	4 469.71	98.9	149	98.7	3 154.19	99.7	90	100.0	2 239.81	100.0

Source: OSMEP.

portfolio spread of government spending in the years 2007-09 on SME and entrepreneurship projects and programmes. As with the strategic priority overview, these tables do not cover all government expenditure related to SMEs; they only cover expenditure related to project or programme implementation through the SME Promotion Fund or covered under the SME Promotion Action Plan, and so do not include some expenditure related to the administration of OSMEP, such as for project evaluation, or SME and entrepreneurship support expenditure delivered outside the SME Promotion Fund and SME Promotion Action Plan. They have been generated from budget and project data supplied by OSMEP. See Box 3.4 for information on how the table was arrived at and how it

Box 3.4. **How the portfolio spread estimates were arrived at and how they can be used in the future**

The figures in Table 3.8 are based on the list of projects and budgets provided by OSMEP. Most of this list is repeated in Annex 3.A2.

Based on the brief description provided, each project was then allocated:

- a focus, and if applicable a secondary focus; and
- a stage, or stages, of development, to which it appeared to be addressed.

The projects can then be sorted according to target stages and target focus, and the total budget for that cell, or set of cells, can be calculated; for example the total for cell D1 represents the total budget for all projects which provide education or training to established operational SMEs.

OSMEP does not currently identify in its SME Action Plan budgets:

- the policy focus the project addresses (*i.e.* where is the market or government failure);
- the target of the project in terms of the relevant business stage(s) the project seeks to address; or
- the relevant strategic agenda item(s) the project supports.

In future, were it to do so, the evaluation of project performance would be facilitated because it would permit more precise identification of the target segments (such as high-growth, or start ups) for longitudinal surveying and monitoring. It would also make the allocation and management of the entire budget portfolio more transparent. In the longer term, and based on operational results of projects and portfolios of projects, it would also be much clearer as to which market failures policy funds are being invested in, and what sort of return on investment might be achieved.

might be used by Thailand and OSMEP in the future to improve the effectiveness of its policy management and evaluation procedures. The main projects and the agencies responsible for delivering them is shown in Annex 3.A2.

Table 3.8 shows that in 2009, 65% of the total project budget was allocated to an education focus, and that the bulk of that (44%) went to established SMEs in operations stage, while 14% went to education related to internationalised SMEs and 8% on education at nascent stages. "Market access and development" and "Technology and Innovation" made up about 15% of the total project budget. "Information and knowledge" access made up only 4% of the budget portfolio. The reason why there is no expenditure shown in the Table related to "SME finance" is that most of this is not funded by the SME Promotion Fund or included in the SME Promotion Action Plan. Instead it is channelled as loans by SME Bank or as credit guarantees supplied by the Small Business Credit Guarantee Corporation (SBCGC).

Table 3.8. **Budget allocation by policy focus and business stage in Thailand, 2009**

Per cent of OSMEP + Non-OSMEP Budget[1, 2]

Stages		Focus of policy					
		1	2	3	4	5	
		Education training, HR	Information knowledge	Finance	Market access and development	Technology innovation	**Total by business stage**
A	Pre-nascent	0.8	0.3	0.0	0.0	0.0	1.1
B	Nascent	7.6	0.1	0.0	0.0	0.0	7.7
C	Start-up	0.0	0.0	0.0	0.0	0.0	0.0
D	Operation	42.6	3.1	0.0	6.3	15.3	67.3
E	Growth	0.0	0.0	0.0	0.0	0.0	0.0
F	International	13.2	0.3	0.0	10.0	0.0	23.5
G	Adjust exit	0.4	0.0	0.0	0.0	0.0	0.4
	Total by programme category	**65.0**	**3.5**	**0.0**	**16.2**	**15.3**	**100**

1. Please see Box 3.4 for details and explanation of how the results in this table were calculated. Figures are given to one decimal place.
2. These budget figures exclude small allocations to 'Compliance and Assistance' and 'Administration Functions' and a small number of projects that could not be categorised to a specific policy focus.

How do the revealed policy priorities in Table 3.8 compare with the existing profile of SME and entrepreneurship in Thailand by stages?

First, the existing profile of SMEs and entrepreneurs is summarised in Table 3.9, based on the figures provided in Chapter 1.

Although it is difficult to make a direct comparison, because OSMEP does not categorise its project budgets by stage of business development, this suggests that some important parts of the portfolio may be being overlooked or under-budgeted. For example, in 2009 at least, there seem to be portfolio "gaps" in the funding of projects related to:

- Stage A – pre-nascent;
- Stage C – start-up;
- Stage E – growth; and
- Stage G – exit and adjustment.

Some projects and programmes related to these "gap" stages may be covered in the budget for other stages, but this is not clear. For example, projects which appear to be

Table 3.9. **Profile of SMEs and entrepreneurs by stage of business development, relative to profile of portfolio of project budget**

Stage	Estimated profile number of SMEs and entrepreneurs	% of Thai SME and entrepreneurship budget expenditure by stage in 2009
A. Pre-nascent	No estimates available, but GEM estimates a TEA of 20.5%, or about 8.5 million people are active in thinking about or starting a business in any 42 month period, so the number of pre-nascent entrepreneurs is probably double this.	0
B. Nascent	GEM estimates that about 1.75 million people per annum are active in starting an SME in a year (or about 9% of the population 18-65 in age over a 42 month period), which is about 70% of SME population.	8
C. Start-up	OSMEP estimates that about 40 000 SMEs start up each year, or about 1.4% of total SMEs. This is probably an underestimate and only addresses juristic enterprises, *i.e.* legally incorporated and registered SMEs.	0
D. Operation	There were about 2.9 million SMEs total in 2009.	67
E. Growth	OSMEP estimates that about 7% of SMEs are high growth, representing about 203 000 SMEs. There are no estimates of the number of SMEs that grow, but the total number of SMEs has grown by about 6% per annum since 2004, and they have contributed almost all the job creation in Thailand.	0
F. International	There is no estimate of the number of internationally active SMEs, but SMEs contribute about 30% of exports and imports.	24
G. Adjust exit	OSMEP estimates that about 30 000 SMEs exit each year, again this probably underestimates the number of SMEs exiting and having to adjust to market changes.	0

targeted at Stage D (established operational SMEs), may also indirectly cover nascent and start up entrepreneurship stages (Stage A, B or C), or exit adjustment stages (Stage G), by treating such issues as insolvency, succession planning and general adjustment to market changes. Some of these "gap" areas may also be covered by SME finance activities which are not included in the budget portfolio for OSMEP. The problem is that it is difficult to tell whether these are really gaps or not with the existing management information available.

However, some areas which appear as "gaps", particularly the areas of growth (Stage E), start up (Stage C) and adjust-exit (Stage G), seem to warrant more specific attention, because of their potential to contribute to meeting strategic objectives and agendas in the SME and entrepreneurship space. For example, OECD research points to high-growth SMEs being disproportionately important contributors to growth of value added, employment, and innovation (OECD, 2010a). Given that OSMEP estimates that about 7% of SMEs are high-growth, it might be expected that more could be done with policies and projects to ensure that their potential is realised. Thailand has one of the highest start-up rates in the world, but there appears not to be a commensurate amount of the SME and entrepreneurship portfolio being allocated to meeting the needs of start up entrepreneurs. Similarly, the absence of any clear programmes or projects aimed at the 10% or so of SMEs that exit or have to adjust to market conditions each year suggests a significant gap and lost potential. Until there is proper ex-ante cost-benefit evaluation of initiatives to address potential gaps it is impossible to reliably assess their potential. Further, *ex post* economic evaluation will permit a more reliable assessment of the actual effectiveness of budget expenditure, and so assist in ways of shifting the portfolio of spending to areas where it delivers a higher economic, social and political dividend (see Annex 3.A1).

Tables 3.10 and 3.11 show the distribution of allocated budget by policy focus and business stage in 2008 and 2007. There was a reduction in budget of about 50% in that period.

Table 3.10. **Budget allocation by policy focus and business stage in Thailand, 2008**

Per cent of OSMEP + Non-OSMEP Budget[1, 2]

Stages		Focus of policy					
		1	2	3	4	5	
		Education training, HR	Information knowledge	Finance	Market access and development	Technology innovation	**Total by business stage**
A	Pre-nascent	0.2	0.4	0.0	0.0	0.0	0.6
B	Nascent	2.4	0.0	0.0	0.3	0.0	2.7
C	Start-up	0.5	0.2	0.0	0.0	0.1	0.8
D	Operation	49.3	12.4	0.6	15.6	15.0	92.9
E	Growth	0.0	0.0	0.0	0.0	0.0	0.0
F	International	2.0	0.0	0.0	1.0	0.0	2.9
G	Adjust exit	0.0	0.0	0.0	0.0	0.0	0.0
	Total by programme category	**54.3**	**13.0**	**0.6**	**16.9**	**15.1**	**100**

1. Please see Box 3.4 for details and explanation of how the results in this table were calculated. Figures are given to one decimal place.
2. These budget figures exclude small allocations to 'Compliance and Assistance' and 'Administration Functions' and a small number of projects that could not be categorised to a specific policy focus.

Table 3.11. **Budget allocation by policy focus and business stage in Thailand, 2007**

Per cent of OSMEP + Non-OSMEP Budget[1, 2]

Stages		Focus of policy					
		1	2	3	4	5	
		Education training, HR	Information knowledge	Finance	Market access and development	Technology innovation	**Total by business stage**
A	Pre-nascent	0.4	0.0	0.0	0.0	0.0	0.4
B	Nascent	0.1	0.0	0.0	0.0	0.0	0.1
C	Start-up	1.1	4.1	0.0	0.0	0.1	5.2
D	Operation	41.4	11.1	0.3	11.5	28.4	92.8
E	Growth	0.0	0.0	0.0	0.0	0.0	0.0
F	International	0.7	0.0	0.0	0.9	0.0	1.5
G	Adjust exit	0.0	0.0	0.0	0.0	0.0	0.0
	Total by programme category	**43.6**	**15.2**	**0.3**	**12.4**	**28.5**	**100**

1. Please see Box 3.4 for details and explanation of how the results in this table were calculated. Figures are given to one decimal place.
2. These budget figures exclude small allocations to 'Compliance and Assistance' and 'Administration Functions' and a small number of projects that could not be categorised to a specific policy focus.

Table 3.12 summarises the change in the proportions of budget allocated across the portfolio. The *proportion* of the budget portfolio allocated to education, training and human resource development increased by 21%, and the proportion allocated to market access increased by about 4%. There were cuts in the proportion of the budget portfolio going to technology and innovation, and to information access.

Overall, this initial portfolio assessment indicates that there may be some discrepancies between the spread of the budget allocated by the SME Promotion Fund and

Table 3.12. **Thai SME and Entrepreneurship Programme Budget Portfolio for Policy Intervention, change in % of budget allocated between years 2007 and 2009**

Per cent of OSMEP + Non-OSMEP Budget[1, 2]

Stages		Focus of policy					
		1	2	3	4	5	
		Education training, HR	Information knowledge	Finance	Market access and development	Technology innovation	**Total by business stage**
A	Pre-nascent	0.4	0.3	0.0	0.0	0.0	0.7
B	Nascent	7.6	0.1	0.0	0.0	0.0	7.6
C	Start-up	–1.1	–4.1	0.0	0.0	–0.1	–5.2
D	Operation	1.1	–7.9	–0.3	–5.2	–13.1	–25.5
E	Growth	0.0	0.0	0.0	0.0	0.0	0.0
F	International	12.6	+0.3	0.0	+9.1	0.0	+21.9
G	Adjust exit	0.4	0.0	0.0	0.0	0.0	+0.4
	Total by programme category	**+21.0**	**–11.4**	**–0.3**	**+3.9**	**–13.2**	**100**

1. Please see Box 3.4 for details and explanation of how the results in this table were calculated. Figures are given to one decimal place.
2. These budget figures exclude small allocations to 'Compliance and Assistance' and 'Administration Functions' and a small number of projects that could not be categorised to a specific policy focus.

the strategic priorities, types of policy focus available to address SME and entrepreneurship problems and the mix of enterprises at different stages of enterprise development in Thailand. There was relatively little spending allocated on developing trade and services SME and on supporting entrepreneurship in lagging regions; the budget allocation was weighted in favour of education and, to a lesser extent, to training and technology interventions; and there are apparent gaps in support for enterprises at the start-up, growth and adjust-exit stages. Further, more detailed examination of the evolving policy portfolio would be extremely helpful.

In addition to analysing information on budget allocations and expenditures across the portfolio, it is important to assess the impacts of different projects in order to inform the portfolio analysis about the average and marginal benefits of different interventions. OSMEP had a budget of THB 6 million in 2009 for monitoring and evaluation of projects, which corresponds to 7.5% of OSMEP's Fundamental Mission budget, and is about 0.25% of the total OSMEP and non-OSMEP action plan budget for 2009. Evaluation and monitoring is clearly recognised as an important issue by OSMEP in Thailand. However, of the 400 or so projects under the OSMEP SME Action Plan, from 2007-09, involving a total budget of about THB 10 billion, there do not appear to have been any cost-benefit assessments carried out of any of the projects individually, nor of the portfolio of projects as a whole. Introduction of more and better evaluation would help to assess whether resources might be better spent by reallocating to more effective projects and away from less effective projects across the policy portfolio.

Conclusion

Thailand developed an extensive set of SME policies and programmes in the 1990s, when there was a shift from SMI (Small and Medium Industry) to SME (Small and Medium Enterprise) policy, which was reinforced by the SME Promotion Act in 2000 and the establishment of OSMEP (Office of SME Promotion) in 2001. In this sense Thailand was a "late adopter" of SME and entrepreneurship policy. To Thailand's advantage it has been

able to move to a more holistic and comprehensive co-ordinated approach to SME and entrepreneurship policy.

In Thailand's SME Promotion Master Plan for 2007-11 the main priority areas on the SME policy agenda were identified as:

i) Creating and developing SMEs and entrepreneurs.

ii) Enhancing productivity and innovation capability of manufacturing SMEs.

iii) Increasing efficiency and reducing impact on SMEs in the trade sector.

iv) Promoting value creation and addition in the service sector.

v) Promoting regional and local SMEs.

vi) Developing enabling factors conducive to SME business operations.

In Thailand, as is the case in all economies, SMEs and entrepreneurship are cross-cutting policy issues. Primary responsibility for SME and entrepreneurship policy rests with OSMEP (which in principle, reports directly to the Prime Minister) and with the Ministries of Industry, and of Commerce. The challenge is how best to manage and co-ordinate the various policies and decisions across these different political and government jurisdictions. In Thailand there are, as there are in many economies, a very large number of SME and entrepreneurship projects delivered by government and non-government agencies.

A major challenge for OSMEP in co-ordinating the development and implementation of SME policy and programmes is that it is relatively new and junior in comparison to other Ministries and their departmental entities. The main process of co-ordination and management of SME policy formulation at a whole of government (Kingdom) level is that of four or five year planning, based around the National Economic and Social Development Plan (NESDB) and the SME Promotion Master Plans.

These plans are not developed and implemented on a rolling schedule but on a fixed schedule. This has some advantages in allowing a longer-term strategic view, but it can pose problems in accommodating unexpected and unpredictable volatility; for example in economic, political, and climatic conditions. Thai SMEs and entrepreneurs face a regional and global environment which is volatile and dynamic. A more flexible, adaptable and more bottom-up approach to agenda and priority setting may be more appropriate to SME and entrepreneurship policy.

The SME and entrepreneurship policy related support structure is driven by projects, and to a lesser extent, by ongoing programmes. These projects and programmes are often delivered by organisations other than OSMEP. A major issue facing OSMEP, and the various other agencies that it relies on for implementation, is that budgeting is not programme based and is not on a rolling budget.

The policies, programmes and measures in support of SMEs and entrepreneurship ideally require a portfolio approach to accommodate the different stages of SME and entrepreneurship development. By reallocating resources within a portfolio, it may be possible to increase the return on a given investment, for a given level of risk. A portfolio approach, in principle, helps to identify where there are relative gaps in programme activity, and where reallocation of resources could increase the return on investment of the whole portfolio of budget investments by government, in conjunction with the private sector.

Thailand has not developed a portfolio approach, and although it has recognised the staged approach to SME and entrepreneurship development policy, this is not explicitly used in agenda setting of priorities, or in evaluation of effectiveness of projects and programmes. Consequently it is harder to identify gaps, and to assess the budget allocation across the portfolio.

The actual budget allocation spread for policies, programmes and measures in support of SMEs and entrepreneurship for the average of 2007-09 suggests that the strategic agenda priorities 3 (dealing with competitiveness in the trade sector, *i.e.* wholesale and retail trade, *not* international trade), 4 (promoting value creation in services) and 5 (promoting regional and local SMEs) are the given the lowest budget allocations. Given the two main recurring themes in the SME agenda of building adaptable and innovative SMEs and supporting productive entrepreneurship for regional and social development, this indicates that actual budget priorities are not necessarily aligned with the recurring strategic priorities. Furthermore, there are apparent gaps in support for enterprises at the start-up, growth and adjust-exit stages, and a strong skew of funding towards education and training interventions. It is partly because of these apparent anomalies that a framework of SME and entrepreneurship policy and programme portfolio is useful in assessing where the budget is actually being allocated.

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ANNEX 3.A1

Guidance on Policy Evaluation, Cost-benefit Analysis and Economic Appraisal

The role of evaluation

Since 1997, the OECD Working Party on SMEs and Entrepreneurship (WPSMEE) has strongly encouraged OECD member and non-member governments to systematically evaluate their SME and entrepreneurship policies. The rationale for this is that policy decisions should lead to net economic and social benefits; in other words, the costs of implementing projects and programmes should be less than the benefits. Cost-benefit analysis underlies all evaluation of SME policies and programmes. This means that cost-benefit analysis should be carried out *before* (*ex ante* or *a priori*) a decision is committed to, and before any expenditure is incurred. At this *ex ante* stage, the alternative options for achieving the project objectives should be evaluated to ensure the best approaches are adopted to implement the proposed project or programme. After (*ex post*) expenditure is incurred, projects and programmes should be evaluated at various stages of progress, to ensure that the potential net economic and social benefits are actually achieved.

In their review of policy evaluation in innovation and technology, Papaconstantinou and Polt (1997) provide a very helpful definition of evaluation. They say:

> "*Evaluation refers to a process that seeks to determine as systematically and objectively as possible the relevance, efficiency and effect of an activity in terms of its objectives, including the analysis of the implementation and administrative management of such activities*."

Economic evaluations allow policy makers to examine the justification of policies and programmes, and to analyse their impacts in order to provide information to guide resource allocation and to allow for the identification of international "best practice" in policy. Evaluations can be undertaken on various levels. Policy makers may use evaluations at a broad policy level, examining the justification of policies and programmes, etc. At another level, evaluations are applied at the programme-specific level and can be used to improve the conduct, quality, and effectiveness of programmes. It is important in all cases of economic evaluation of SME and entrepreneurship policies and programmes that some form of cost-benefit appraisal be undertaken. This is because there is always a risk that policy objectives are achieved without regard to the real cost of achieving them. If the project, programme, or policy cannot deliver a net social benefit at least equal to the long term bond rate, then public resources are almost certainly being wasted. A "best practice" initiative should be able to demonstrate a higher net social benefit (*i.e.* a higher rate of return on funds expended relative to the bond rate) than any other alternative.

This summary provides an overview of the key considerations in evaluating SME and entrepreneurship policy including cost-benefit analysis, based on the OECD WPSMEE and OECD member countries' experience in the area. For further information on each of the areas, please refer to the links and sources given below each section.

Efficiency criteria

As a first step in planning a policy evaluation, a common set of policy assessment criteria is needed. The WPSMEE has identified a seven-point criteria under which policies can be assessed (OECD, 2000, 2004):

- *Rationale*: The justification for the policy (for example, does it address a market or government failure?).
- *Additionality*: The net added value of the programme (that is, would an improvement in net economic and social benefit have occurred anyway in the absence of the project or programme).
- *Appropriateness*: The extent to which the programme addresses a clearly identified market or government failure.
- *Superiority*: Whether the programme is more effective than other possible programmes addressing the same goals.
- *Systemic Efficiency*: The extent to which the programme interacts positively and negatively with other government actions.
- *Own Efficiency*: Whether the programme is cost effective in achieving its objectives.
- *Adaptive Efficiency*: The extent to which evaluations lead to the implementation of programme change.

In practice, governments rarely apply all of these efficiency criteria. They represent an ideal of what governments should be aiming for in evaluation rather than a reflection of current practices.

For more information on the efficiency criteria, please refer to: OECD (2004) and OECD (2007).

Box 3.A1.1. **Policy evaluation and economic appraisal in Australia**

On a federal level, the Australian *Department of Innovation, Industry, Science and Research* has developed a handbook on best practice evaluation including information on conducting cost-benefit analysis and its role in policy evaluation. The *Best Practice Evaluation Handbook* is a step by step guide that covers the important elements of evaluation. It contains instructions on how to plan, conduct and write evaluations as well as posing questions that will help define what is to be achieved from the evaluation. It provides clear advice to assist officers who are:

- Creating an evaluation plan or strategy.
- Planning an evaluation.
- Commissioning an evaluation.
- Conducting an evaluation.
- Reviewing an evaluation.

On a state-level, the New South Wales (NSW) Treasury requires economic appraisal to be carried in advance out for a wide range of proposed projects and programmes. These require that the proposer:

- define the objective;

Box 3.A1.1. **Policy evaluation and economic appraisal in Australia** *(cont.)*

- assess options to achieve the objective;
- calculate costs and benefits, including non quantifiable aspects of all reasonable options; and then
- consider the best option to achieve the objective.

For detailed guidelines on economic and financial appraisal from the NSW Treasury, please see: *www.treasury.nsw.gov.au/Publications_by_Policy_Area*.

Terms of reference

A crucial issue in evaluating policies and programmes is the terms of reference to be used when assessing them. Four terms of reference that should be incorporated into the evaluation process are: *i)* overall government objectives; *ii)* the specific objectives of SME policies and programmes; *iii)* market, government and systemic failures; and *iv)* framework conditions.

Government policies and programmes towards SMEs should support overall government objectives, *e.g.* growth, job creation, innovation, enhanced competitiveness, export promotion, regional policies to develop industrial districts or distressed urban areas, etc. Therefore, it is necessary to identify overall government objectives and priorities in order to evaluate whether or not SME policies and programmes are relevant and effective. The purpose is to allow the SME policy or programme to be evaluated in terms of the efficiency criteria of superiority and appropriateness (see above).

It is necessary to know the specific objectives of the SME policy or programme and to know if and how these objectives have changed over time due to changes in the policy/programme operating environment. Only by knowing the specific objectives can it be determined whether or not the policy or programme has been successful (with success measured by the extent to which the objectives have been met by having an SME policy or programme).

Market, government and systemic failures must be established to provide a rationale for government intervention. This allows for applying the appropriateness and superiority efficiency criteria (see above).

- *Traditional market failures* usually fall into one or several of the following four categories: externalities, public goods, imperfect and asymmetric information, and market power and barriers to entry.
- Interventions should also take into account the possibility of "*government failure*". In order to justify government intervention it is not sufficient to show that a market failure exists, but it should also be shown that intervention in the market actually improves upon the imperfect market outcome.
- The nature of factors shaping the development of the SME sector calls for policy measures to address the lack of coherence among institutions and incentives. "*Systemic failure*" occurs when there are conflicting incentives of markets and non-market institutions or when structural factors prevent new market solutions from emerging (*e.g.* venture capital as a new market tool to finance risky investment). The performance of the SME sector depends not only on how specific actors (*e.g.* firms, financial institutions

and intermediaries, governmental institutions, etc.) perform, but on how they interact with each other.

Market, government, and systemic failures are not mutually exclusive, but all require attention by policy makers. Although traditional market failures should remain the basis for government intervention, addressing government failure is essential for limiting the risk of costly intervention.

For more information on market, government and systemic failures and their relevance to SME and entrepreneurship policy, please refer to OECD (2004).

Framework conditions (*e.g.* overall macroeconomic conditions, tax system, regulatory environment, bankruptcy laws, competition policy, etc.) are another important term of reference. Assessing the interrelated impacts of different policies, institutions and market conditions on incentives and performance may be difficult. However, where it is feasible and desirable, the relevant framework conditions should be identified, so that an attempt can be made to isolate the effects of the SME policies and programmes from those of other factors. This allows for applying the systemic efficiency and superiority criteria (see above).

For more information on terms of reference for SME and entrepreneurship policy, please see OECD (1998) and OECD (2001).

Evaluation methodology

Following the establishment of a clear criteria and terms of reference for the assessment of SME and entrepreneurship policies, the methodology(ies) employed to assess SME policies and programmes need to be clearly stated.

There are a number of different methodological tools available to evaluate policies, programmes, and/or instruments, ranging from cost-benefit analysis, econometric analysis, case studies, surveys, peer reviews, and other quantitative and qualitative methods. It should be kept in mind that these different methodologies are not necessarily mutually exclusive and are often complementary. Where it is possible or feasible, it is recommended that more than one approach be used (OECD, 2001).

Evaluation schemes should be constructed around social cost-benefit frameworks, which estimate the impact induced by the policy or programme, and its spill over effects.

Figure 3.A1.1 sets out a checklist for conceiving cost-benefit evaluations, covering the criteria to be evaluated against, the issues to be considered in the terms of reference of the evaluation and key elements of the methodology to be employed and the results to be delivered.

For more information on evaluation methodology, please see OECD (2007).

Box 3.A1.2. **Example: Canada and evaluation frameworks**

An important element to include in an evaluation strategy is a **draft evaluation framework**, as it outlines proposed evaluation questions and identifies the data required to address these questions. The evaluation framework is an important preparatory tool in the evaluation process because it allows the head of evaluation to give advance consideration to the evaluation approach, to identify data requirements for the evaluation and to determine how these requirements will be met. Additional data requirements identified in the evaluation framework beyond the scope of those data already collected may require adjustments or additions to the monitoring data being collected on the programme. In some cases, the additional data required will be collected by evaluators as part of the evaluation process.

The draft evaluation framework should include:

- initial evaluation questions covering the five core evaluation issues and other issues as identified by the programme manager and others (*e.g.* the deputy head);
- indicators;
- data sources and methods of data collection (note that in some cases, the data source may be the monitoring data collected on the programme as it is implemented);
- where applicable, information on what baseline data needs to be collected and timelines for data collection; and
- where required, a description of simple adjustments that can be made to administrative protocols and procedures (*e.g.* third-party reporting templates, financial record keeping) by the programme area to ensure that the evaluation's data requirements are met.

The head of evaluation should work with the programme manager to revisit and revise (as required) the evaluation framework (*e.g.* on an annual basis) and to develop a final evaluation framework at the start of the evaluation process.

Source: Supporting Effective Evaluations: a Guide to Developing Performance Measurement Strategies, available at: *www.tbs-sct.gc.ca/cee/dpms-esmr/dpms-esmr07-eng.asp*.

Box 3.A1.3. **Cost-benefit analysis in policy evaluation in Australia and Canada**

Cost-benefit analysis (CBA) of policies and programmes is one way in which policy makers can determine the net social benefit or cost of a programme and, accompanied by a portfolio approach to SME and entrepreneurship policy, determine the optimal allocation of budget across their portfolio in terms of net social benefit. CBA is a method of quantitative economic analysis that can be used for a variety of purposes including analysing a prospective policy option or *ex post* evaluation of a project or programme. It is used to determine the net social benefit of alternate policy options and in this way aids policy makers in allocating resources in the most efficient way possible. CBA has been an integral part of SME and entrepreneurship policy development in Australia and Canada since the 1990s.

In **Australia,** an updated *Handbook of Cost-Benefit Analysis* was released by the Department of Finance and Administration in 2006. This handbook provides guidance in the use of cost-benefit analysis for evaluation and decision-making. It also covers two alternative methodologies – financial evaluation and cost-effectiveness analysis – for the evaluation of projects and programmes.

Box 3.A1.3. **Cost-benefit analysis in policy evaluation in Australia and Canada** *(cont.)*

For more information, and a copy of the handbook, please refer to: *www.finance.gov.au/publications/finance-circulars/2006/docs/Handbook_of_CB_analysis.pdf*.

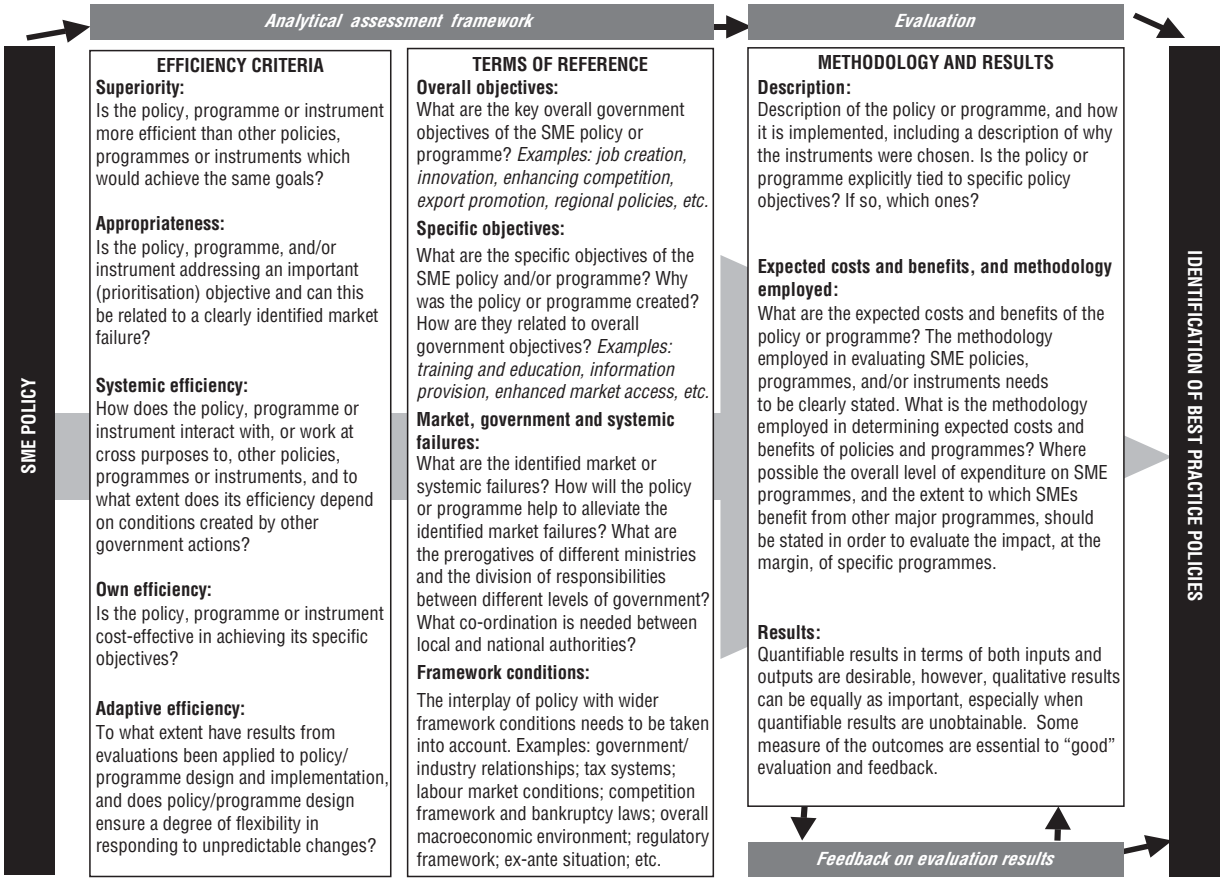
An *Introduction to Cost-Benefit Analysis and Alternative Evaluation Methodologies* is also available at: *www.finance.gov.au/publications/finance-circulars/2006/docs/Intro_to_CB_analysis.pdf*.

In November 1999, the Government of **Canada** instituted the policy that a cost-benefit analysis must be carried out for all significant regulatory proposals to assess their potential impacts on the environment, workers, businesses, consumers, and other sectors of society. As a result, a cost-benefit analysis has become one of the key analytical tools employed to assist in making this determination before approval is given for any significant new regulation.

The cost-benefit analysis should be guided by the principle of proportionality. In other words, the effort to do the cost-benefit analysis should be commensurate with the level of expected impacts on Canadians. Efficiency is not the sole criterion for decision making of a regulatory policy. The stakeholder analysis of who gains or loses as a result of a regulation can be critical to decision making.

For more information, see "Canadian Cost-Benefit Analysis Guide: Regulatory Proposals" at: *www.tbs-sct.gc.ca/ri-qr/documents/gl-ld/analys/analys-eng.pdf*.

Figure 3.A1.1. **Checklist for the assessment of SME policies and programmes**



Source: OECD (2001), *Guidelines for the Assessment of SME Policies and Programmes: new abridged version*, DSTI/IND/PME(2001)2.

Evaluation results

In order to draw lessons and communicate them, feedback is crucial to the evaluation process, so that SME policies and programmes become more relevant and effective, both in and of themselves and within the wider context of overall government policy. This allows for applying the adaptive efficiency criteria (see above).

Links to handbooks, guides and other documentation on policy evaluation

From OECD countries

Canada: Canadian International Development Agency (CIDA) Evaluation Guide – evaluating development co-operation policies, programmes and projects, *www.acdi-cida.gc.ca/inet/images.nsf/vLUImages/Performancereview5/$file/English_E_guide.pdf*.

Canada: Supporting Effective Evaluations: A Guide to Developing Performance Measurement Strategies, *www.tbs-sct.gc.ca/cee/dpms-esmr/dpms-esmrtb-eng.asp*.

Denmark: Evaluation Guidelines, Ministry of Foreign Affairs, Danida, 1999, *www.um.dk/NR/rdonlyres/4BA486C7-994F-4C45-A084-085D42B0C70E/0/Guidelines2006.pdf*.

European Commission: Evaluating European Union Activities, *http://ec.europa.eu/budget/biblio/publications/publications_en.cfm#myths*.

European Commission: Review of methods to measure the effectiveness of state aid to SMEs, *http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=415*.

Japan: Framework of JICA Project Evaluation, *www.jica.go.jp/english/operations/evaluation/tech_and_grant/guides/pdf/guideline01-01.pdf*.

Japan: ODA evaluation guidelines, Economic Co-operation Bureau, Ministry of Foreign Affairs, Japan, 2003, *www.oecd.org/dataoecd/51/31/35141306.pdf*.

Sweden: Swedish International Development Cooperation Agency (SIDA) Looking Back, Moving Forward: SIDA Evaluation Manual, 2004, *www.alnap.org/pool/files/evaluation_manual_sida.pdf*.

United Kingdom: DFID Department of International Development, *www.dfid.gov.uk/aboutdfid/performance/files/guidance-evaluation.pdf*.

United Kingdom: Green Book – Appraisal and Evaluation in Central Government, *www.hm-treasury.gov.uk/d/green_book_complete.pdf*.

United States: USAID Performance Management Toolkit, *http://pdf.usaid.gov/pdf_docs/PNACL702.pdf*.

From international organisations

OECD: Development Assistance Committee, Evaluation Resource Centre, *www.oecd.org/document/63/0,2340,en_35038640_35039563_35067327_1_1_1_1,00.html*.

OECD: Development Assistance Committee Glossary of Key Terms in Evaluation and Results Based Management, OECD, 2002, *www.oecd.org/dataoecd/29/21/2754804.pdf*,

and Joint Evaluations, *www.oecd.org/dataoecd/28/9/35353699.pdf*.

Organization for Security and Co-operation in Europe (OSCE): publications on "Systems of Indicators for Evaluation of State-supported SME Development Programs" and "Monitoring and Evaluation Handbook".

UNDP/Global Environment Facility (GEF): Measuring and Demonstrating Impact Resource Kit, 2005, *www.undp.org/gef/documents/me/UNDP_GEF-Measuring_and_Demonstrating_Impact_Mar05.doc*.

UNICEF: Standards, *www.unicef.org/evaluation/files/Evaluation_standards.pdf*, *www.unicef.org/evaluation/index_13486.html*.

World Bank: Framework for Evaluating Framework the Impact of SME Programs Kris Hallberg Operations Evaluation Department, World Bank, *http://info.worldbank.org/etools/docs/library/86503/Session%201%20Hallberg.pdf*.

World Bank: Ten Steps to a Results-Based Monitoring and Evaluation System: a Handbook for Development Practitioners, 2004, *http://ived.dpt.gov.tr/DocObjects/Download/9658/10_Steps_to_a_Results_Based_M_and_E_System.pdf*.

From other sources

International Development Research Centre: Enhancing Organizational Performance: a Toolbox for Self-assessment, 1999, *www.idrc.ca/en/ev-9370-201-1-DO_TOPIC.html*.

Nexus Associates: Framework for Evaluating the Impact of Small Enterprise Initiatives (Eric Oldsman, Kris Hallberg), 2003, *www.sed.man.ac.uk/research/iarc/ediais/pdf/frameworkforevaluatingimpact-oldsman2003.pdf*.

Performance Assessment Resource Centre (PARC): provides support services on performance management combined with the development of an information resource centre on performance assessment, *www.iodparc.com/category/performance_assessment.html*.

ANNEX 3.A2

List of SME and Entrepreneurship Projects and Agencies in Thailand, 2009

Project	Agency
OSMEP	
Project on the Promotion and Development of the Industry of the Betong Chicken Integrated System Farm for the 3 Southern Border Provinces	OSMEP
Project on the Support of Industry of Cold Storage Co-operative and Central Vegetable and Fruit Market in Pattani Province	OSMEP
Project on the Promotion of SMEs and Community Products	OSMEP
Project on ASEAN SMEs Partnership Roadmap	OSMEP
Project on SMEs Flying Geese	OSMEP
Project on SMEs Capacity Building : Win for ASEAN Market	OSMEP
Project on SMEs Consortium Network towards ASEAN Market (Construction Industry and Downstream businesses)	OSMEP
Project on the Development of Trade Association Network in the Group of ASEAN+6	Department of Business Development
Project on the Capability Enhancement of the Small and Microenterprises in Tourism by Means of Community Tourism Development on the Basis of Sufficiency Economy Philosophy	School of Sports Science, Chulalongkorn University
Project on the Upgrading of SMEs Productivity and Efficiency for Capability Enhancement with Stability and Sustainability	Kasetsart University, Chalermphrakiat Campus, Sakon Nakhon Province
Project on the Applying of Logistic and Supply Chain Management to the Productivity Increase of Support Industries in Thailand	Mahidol University
Project on the Upgrading of Labour Skills, Knowledge, and Competence in the Garment Industry for the Entire Production Line	Thai Garment Development Foundation
Project on the Capability Enhancement of Manufacturing SMEs in Regions and Local Areas: Logistics and Supply Chain	King Mongkut Institute of Technology, Lat Krabang
Project on the Capability Enhancement of SMEs by Q Standards towards World Trade	Thailand Productivity Institute
Project on Product Design Development through Computer Systems for SMES in the Plastics Industry	Thai – German Institute
Project on Feoinformatic System Development for the Connection of Tourism Business Networks on the R3 and R9 Economic Corridors	Thai Chamber of Commerce
Project on Cluster Building for Entrepreneurs of Medical Tourism for Competitiveness Enhancement	Institute for Small and Medium Enterprise Development
Project on Designer Development for the Upgrading of Textile and Garment Products towards wholesale market	Thailand Textile Institute
Project on the Support of Management System Certification for Industrial Manufacturing SMEs	Management System Certification Institute
Project on Efficiency Enhancement and Safety Upgrading of Food Products for SMEs	National Food Institute
Project on the Linkage Development of Industrial Enterprise Network for SMEs	Federation of Thai Industries
Project on the Development of Open-Source ERP Software for Machinery Industry	Thai Machinery Association
Project on Efficiency Enhancement in Manufacturing Process and Design Development to Upgrade Standards and Quality of Thai Leather Goods	Thai Leather Goods Association
Project on the Development of Hydrogen-Powered Engines for Efficiency Increase and Fuel Cost Cutting in Trucks	Thai Logistics and Production Society
Project on Efficiency and Productivity Enhancement in the Composites Industry	Thai Composites Association
Project on SMEs Travel Fair	Thai Tourism Services Association
Project on Management System Development of the Network of Air Conditioning Traders Association	Thai Air Conditioning Traders Association
Project on Handicraft Prototype Development for the Bangkok International Gift and Bangkok International Houseware Fair, Oct. 2009	Northern Handicrafts Manufacturers and Exporters Association
Project on the Modern Pattern Development of Shoes Upstream Industries in Line with Fashion Trends for the Development of Thai footwear competitiveness	Thai Footwear Association
Project on Marketing NetworkBuilding for Community Enterprises with SMEs as Mentors	Association of Thai Small and Medium Entrepreneurs
Project on Productivity Enhancement for SMEs to Sail through Economic Crisis with Help from Lean-Kaizen Restorative Techniques	Technology Promotion Association (Thailand – Japan)
Project on Productivity Increase the for SMEs to Sail through Economic Crisis with Help from the Japanese Advance Production System (JAPS)	
Project on the Development of Human Resource for the Efficiency of Intra-Logistic System	Thai Subcontracting Promotion Association
Project on Capability Increase for Personnel in Textile Industry to Tackle Mass Layoff Problem	Thai Textile and Garment Member Promotion Association
Project on Energy Management and Efficiency Enhancement in the Frozen Food Industry (Pilot Project)	Thai Frozen Foods Association
Project on Capability Promotion for SMEs Entrepreneurs through Thai software	Association of the Thai Software Industry
Project on Data Survey and Network System Development in the Plastics Industry	Thai Plastic Industries Association
Project on Study and Analysis of SMEs Status in Thailand: Economic, Social, and Cultural Roles	OSMEP
Project on Lanna to Andaman, 2009	Chiang Mai Province
Project on Organising of Nationwide Seminars for Chambers of Commerce	Chiang Mai Chamber of Commerce, OSMEP

Project	Agency
Ministry of Industry	
Employer enterprise sized developed	Ministry of Industry
New Entrepreneurs Creation (NEC)	Ministry of Industry
• Training develops the original employer list	Ministry of Industry
Enterprise sized receive promotion and business development	Ministry of Industry
• Consulting advice to enterprise sized	Ministry of Industry
• Training personnel, Government and industrial sectors.	Ministry of Industry
• Development including industry groups and links (Cluster)	Ministry of Industry
Project development capability in Thailand with the information technology industry.	Ministry of Industry
The project promotes and supports industry-food and industrial sized	Ministry of Industry
Project development including industry groups and links (Industrial Cluster Development)	Ministry of Industry
Projects in foreign policy and international economic	Ministry of Industry
Industrial projects to create sustainable jobs in 3 southern border provinces.	Ministry of Industry
Community industry has been to promote and develop	Ministry of Industry
• Consulting industry community walks	Ministry of Industry
• Training and leadership development, community and industry.	Ministry of Industry
• Training project leadership development initiative	Ministry of Industry
Business industry supported the further factor in class	Ministry of Industry
• Information service industry, businesses, industry	Ministry of Industry
Promotion and development of industry service providers	Ministry of Industry
Project management system development environment factory in the areas of water main (EMS for SMEs)	Ministry of Industry Department Industrial Works
Project power plant small (Energy Saving for Small Enterprise: ES for SE)	Ministry of Industry Department Industrial Works
Project development industry links	Ministry of Industry Board of Investment
Projects create personnel the campaign performance within the Organisation (Productivity Facilitator)	Institute under Ministry of Industry
Projects developing technology, personnel and administration in the industry, textiles and clothing	Institute under Ministry of Industry
Project development and management of production systems in the textiles industry, production systems, tourmaline	Institute under Ministry of Industry
Project to enhance the quality of food produced by Supply Chain Management	Institute under Ministry of Industry
Projects empowering of Thailand food industry to the operating principles that excellence in production (Best Practice on Green Productivity)	Institute under Ministry of Industry
Project to promote safety in the food capacity with heat, disinfect and frozen food boiled (Processed Foods)	Institute under Ministry of Industry
Project management system development.	Institute under Ministry of Industry
Personnel development project in the automotive industry.	Institute under Ministry of Industry
Project development workers in industry and electronics	Institute under Ministry of Industry
Project sustainability increases productivity and is strategic integration environment for electric and electronic industry (EE-Green Productivity Integration)	Institute under Ministry of Industry
Campaign project for creating a business link network with standard Rosetta Net/XML for electric and electronic totha Karma	Institute under Ministry of Industry
Project to improve the efficiency and quality in the process of production parts	Institute under Ministry of Industry
Projects increase production Visual workplace SMEs in food industry supply chain by privatisation improve continuously (Continuous Improvement Process).	Institute under Ministry of Industry
Mold industry development project	Institute under Ministry of Industry
Ministry of Commerce	
Business development services for export	Ministry of Commerce Department Export Promotion
Development entrepreneurs to export	Ministry of Commerce Department Export Promotion
Project to promote potential enterprise sized with intellectual	Ministry of Commerce Department Intellectual Property
Project development business professionals	Ministry of Commerce Department Business Development
Business development projects to international franchising	Ministry of Commerce Department Business Development
Project to promote e-commerce	Ministry of Commerce Department Business Development

Project	Agency
Ministry of Commerce *(cont.)*	
Project to promote the accommodation business wholesale-retail	Ministry of Commerce Department Business Development
Business improvement and shop to international Spa	Ministry of Commerce Department Business Development
Project to strengthen good governance and creating a network partner to maintain prices and commercial behaviour	Ministry of Commerce Department Internal Trade
Project to promote and protect the monopolising the trade excerpt	Ministry of Commerce Department Internal Trade
Project development, marketing and systems at all levels of the market.	Ministry of Commerce Department Internal Trade
The confidence index project, employers, trade and services sectors.	Ministry of Commerce Office of Permanent Sec
Ministry of Labour	
Project development/promotion of occupational freedom	Ministry of Labour Department of Skill Development
Ministry Science and Technology	
Technology transfer projects.	Department of Science Service
Northern Science Park project	TISTR
Ministry Tourism and Sport	
Project to strengthen understanding marketing travel to tourist quality	Tourism Authority of Thailand
Project to promote products, services and tourism accommodation community	Tourism Authority of Thailand
Project to strengthen potential home ownership.	Tourism Authority of Thailand
Ministry of Public Health	
Enterprise networking project community health products	
Ministry of Finance	
Campaign project supports employer SMEs	
Ministry of Natural Resources and Environment	
Power sector project building and friendly service, environmental	

Chapter 4

SME and Entrepreneurship Policy in Thailand: Future Policy Directions

This chapter presents a summary of the SME and entrepreneurship policy context and challenges in Thailand and the relative success of Thai policy makers in achieving their stated goals. Looking forward, recommendations are provided on ways to increase policy success, focused on implementing an evaluation-based portfolio approach to managing policy across government, better promoting the creation and development of innovative, growth-oriented and international SMEs, encouraging more productive entrepreneurship for regional and social development. It concludes with a series of possible initiatives that may be appraised in Thailand with the aim of identifying appropriate measures to respond to the challenges. Descriptions of learning model approaches from other countries that may provide inspiration in implementing recommendations are provided in the Annex.

The context for SME and entrepreneurship policy

One of the key strengths of SME and entrepreneurship policy in Thailand is the comprehensive and holistic nature of the approach taken, which involves a range of ministries and agencies co-ordinated in principle by OSMEP since 2001. The challenge in making the system work is to secure effective co-ordination of policy formulation and implementation, ensuring that there is coherence across government organisations and activities, that all are working towards national objectives, that there is good co-ordination and that programmes and projects are appropriate, effective and efficient so that SMEs, entrepreneurs and taxpayers are all well served.

How can this be done? As a relatively junior and young organisation, OSMEP needs to continually show other ministries and agencies that SME and entrepreneurship policy and programmes are important, and that they are paying dividends: politically, socially and economically. OSMEP has a fundamental role to play in setting the strategy, in ensuring coherence and in delivery of results, and is already performing well in these areas, but some suggestions are made in this chapter as to how it could become even more effective.

The challenge is set in the context of a volatile and dynamic business, political, economic, and social environment for SMEs and entrepreneurs in Thailand. This is both good and bad for SMEs and entrepreneurs. It is good because the dynamic changes open up opportunities and help competition and renewal from which come innovations and improvements. A 4% compound per annum improvement in productivity is sufficient to double the material standards of living every 20 years. Although 4% per annum productivity improvement is above levels achieved by Thai SMEs over the last year or so of the 2007-09 global economic downturn, this is potentially achievable. However, change can disadvantage some people and some businesses, and Thailand does not have the safety nets that are in place in developed countries, for example within Europe, and turbulence and volatility can therefore create resistance to change. This means that OSMEP has to be able to direct the ongoing development of policies and programmes in a way that adjusts to emerging needs while promoting both equity and efficiency and ensuring that appropriate policy reforms can happen. This is not an easy task.

There is general recognition that SMEs and entrepreneurs play an essential role in Thailand, and that their role in Thailand is similar to other Asian countries and OECD countries. It is also clear that there is unutilised or underutilised potential. In particular:

i) Thailand has one of the highest GEM Total Entrepreneurship Activity (TEA) scores in the world, with a TEA of over 20 (*i.e.* over 20% of the adult population have been involved in starting a business over the last 42 months). This is about equally distributed between males and females. However, this includes a very high component of "necessity" entrepreneurship. Creating more growth and opportunity-oriented entrepreneurship is a key challenge.

ii) The level of Thai SME exports are on par with OECD economies, with SMEs contributing about 30% of exports and imports by value. What appears to be a problem is the

"missing middle", *i.e.* a relative lack of mid-sized, growth-oriented SMEs in Thailand. Improving the competitive position of Thai SMEs must be an important plank in any policy moves to integrate Thailand into regional markets and take advantage of the emerging growth in ASEAN countries and in China and India, and it will be key to generating more growth-oriented, mid-sized SMEs.

iii) The national SME density (SMEs per head of population) is similar to the middle of the OECD range, but the density is much higher in Bangkok than in other regions. This suggests a lack of entrepreneurial opportunity or capacity in the regions outside Bangkok. These regions face a range of relative social and economic disadvantages. There are many policy and programme options for addressing these relative disadvantages, and there are SME and entrepreneurship options that could be pursued more effectively.

The effectiveness of policy, programmes and projects and their appropriateness for meeting these challenges should be evaluated, using Key Performance Indicators (KPIs) as a guide. KPIs were set up for the First and Second SME Promotion Master Plans. In the case of the current Master Plan 2007-11, the KPIs were given as:

i) SME GDP value to expand continuously and reach 42% of overall GDP in 2011;

ii) SME export growth rate not less than the overall export growth rate; and

iii) SME total factor productivity (TFP) to expand not less than 3% annually while total factor productivity of targeted sectors and SME labour productivity to expand not less than 5% annually.

Partly reflecting the impact of the global financial and economic crisis and domestic political instability, which affected GDP, exports and productivity and may be expected to hit SMEs harder than larger firms, policy is not on track to achieve these targets. However, there are two problems with the strategic level KPIs as there were set up:

i) As discussed in Chapter 1, it is not helpful to set a policy target of SME GDP reaching 42% of total GDP, because of the volatility in the SME agriculture sector, which is a major influence on the target outside of the control of SME and entrepreneurship policy. It would be more sensible to specify non-agricultural SME GDP as a target KPI, if GDP is to be used at all.

ii) The available databases and information on SMEs are not sufficient to provide reliable, timely estimates of TFP and even reliably estimating simple labour productivity changes (which is relatively straightforward and not as data-intensive as TFP modelling) by size class of firm is difficult with the data available. In addition to the measurement difficulties, the use of productivity as a KPI for SME and entrepreneurship policy is questionable on the grounds that OSMEP has little control over it.

The degree of success of SME and entrepreneurship policies in supporting strategic-level KPIs should continue to be monitored and assessed. However, new strategic KPIs should be developed that are more closely under the influence of SME and entrepreneurship and are more easily measured. These KPIs should be complemented with additional KPIs that are more specific to monitoring and assessment of programmes and projects.

These issues are taken up within the recommendations below.

Policy recommendations

There are three major priorities for strengthening SME and entrepreneurship policy in Thailand:

- *Improving the framework for formulation and implementation of SME and entrepreneurship policy,* building on, reinforcing and improving the effectiveness of SME and entrepreneurship programmes and projects. This requires increased policy co-ordination, multi-annual budgeting, more effective evaluation and management of the outcomes of the largely project-driven process of implementing policy plans, and greater accountability for results.
- *Building more innovative, growth-oriented and international SMEs* able to take advantage of opportunities, and deal with competitive threats, in a turbulent, dynamic business environment by addressing gaps in programmes for this group of firms, improving their delivery, focusing on the programmes that work best and improving framework conditions including in finance and trade agreements. This is especially relevant to the changes taking place in the Asian region, especially in the surrounding economies of ASEAN, Japan, China, Korea, and India, but also more generally at a global level.
- *Developing policies which enable productive entrepreneurship for regional and social development,* using entrepreneurship and SME development as a tool to reduce regional and social economic disparities.

Recommendations for addressing these needs are offered hereafter.

Policy Priority I. Improving the framework for formulation and implementation of SME and entrepreneurship policy

Recommendation 1: Reaffirm the central co-ordination of policy and programmes.

The current co-ordination of SME and entrepreneurship policy formulation and implementation through OSMEP has a number of advantages, in that:

- it permits a more coherent and comprehensive approach than in countries which have more fragmented and decentralised multiple agencies engaged in SME and entrepreneurship-related programmes and policies;
- it offers the potential to reduce unnecessary waste associated with duplication, and of redundant or ineffective programmes and activities;
- it enables more accountability through evidence-based evaluation of results, provided that recommendation 4 is also adopted.

However, there appears to have been some erosion of the central role of OSMEP in helping set and co-ordinate policy in recent years, for example in relation to OTOP (although there has been no policy statement which refers to any change in OSMEP's role), and there is evidence of institutional dispersion, overlapping and policy duplication. In this context, and given the importance of strategy and co-ordination, it is important that there be a clear affirmation of the central co-ordinating role of OSMEP from the government; ten years on and the beginning of the next SME Strategic Plan would appear to be a good time to restate OSMEP's role.

In addition to setting the policy strategy across government, OSMEP should have the tools to ensure that the projects and programmes introduced by other ministries and agencies are in line with that strategy, implying the establishment of appropriate lines of

reporting, accountability and budget control. For OSMEP to keep a central role, it must be accountable and deliver evidence-based results. The problem has been that this has not been achieved in a fully clear and transparent way. There have been almost no economic evaluations carried out in the course of the current SME Strategic Plan, so, despite the significant budgets involved, it is very hard to tell what returns are actually being achieved from the money spent. An important role for OSMEP as a central co-ordinator of policy will be to directly undertake and/or promote and facilitate project and programme evaluations that show costs and benefits and relative cost effectiveness, thus enabling spending to be directed towards the initiatives with the greatest returns on public spending.

In this capacity, OSMEP could support more actively the SME Promotion Committee, the top-level co-ordinator. The reorganisation would also involve the establishment of a new framework for regular contacts and consultations among principal stakeholders of SME policy. The SME Promotion Committee should meet more regularly with a high-level chair (at least once every quarter) to take decisions based on information provided by OSMEP. A new inter-agency consultation framework should also be established for regular contacts and consultations among the principal stakeholders of SME policy.

Recommendation 2: Move to flexible, rolling programme budgeting and strategic planning and from sector/industry plans to results-based planning.

The current fixed annual project budgets create problems. This fixed annual budget approach leads to waste and uncertainty in project delivery. Provided that moves are also made to increase accountability and evaluation of project and programme portfolios (recommendation 4) a move to a rolling programme based budget will have the potential to:

- increase certainty for officials and for recipients so that they may plan on achieving results, and are able to commit to investments in people and resources with more certainty;
- reduce waste and inefficiencies arising from officials trying to spend budgets before they disappear even if they cannot be spent effectively in the period; and
- allow more flexibility in addressing unexpected changes in circumstances (as for example was required to accommodate the global financial crisis of 2007-09).

A move away from a focus on sector/industry plans is already under way. The agenda of the current SME Master Plan (2007-11) identifies six main strategies, three of which are based on industry sectors (manufacturing, services, and retail and wholesale trade). However, budget allocations have actually been limited in two of these industry sector areas (services and retail and wholesale trade). A move away from the older Small and Medium Industries (SMI) focus of industry sector planning is already evident in OSMEP planning. This should continue in the Third SME Master Plan of 2012 to 2016.

Advantage should be taken of recent shifts and the forthcoming introduction of the Third SME Master Plan to create a policy framework which is:

- developed more by a bottom-up process, and less by a top-down approach;
- more of a rolling plan, rather than a fixed term plan, based on a portfolio of programmes and projects, and budgeted on rolling programme budgets as against fixed term annual budgets; and

- embedded in a strong culture and framework of evidence-based, results-driven evaluation with all parties being accountable in a transparent and public way.

Recommendation 3: Adopt a portfolio approach to SME and entrepreneurship projects and programmes.

A portfolio approach should be adopted towards the formulation and management of SME and entrepreneurship support. Under this approach, a portfolio of projects and programmes is created and adjusted to provide an appropriate distribution of support across strategic priorities, different stages of the enterprise life cycle and different categories of policy intervention. Focusing on the enterprise life cycle allows an integrated set of support to be developed that can take "would-be" entrepreneurs and SMEs, over a number of years, from the pre-nascent stage to start up, expansion and internationalisation, with business support systematically addressing market and government failures in key areas of each life cycle stage such as education, training and human resources, information and knowledge and finance. In this way, SME and entrepreneurship policy is attuned to natural stages of enterprise life and key policy intervention tasks as well as the overall strategic priorities of policy. All projects and programmes should be required to show where they fit into the portfolio in terms of policy focus and stage of business development, as well as the relevant strategic agenda items which the project or programme supports. OSMEP can develop and implement this portfolio approach. See Annex 4.A1, Model 6, for an illustration.

Recommendation 4: Increase accountability and evaluation of strategy, programme and project results across the portfolio.

To justify SME and entrepreneurship policies, it is important to show that government money is well spent, while evaluation also provides information to help improve policies and programmes in an adaptive way. Ideally government should be able to demonstrate a return-on-funds-invested for each programme. OSMEP has a critical role in increasing accountability and evaluation in the policy system. However, evaluation arrangements need to be strengthened. At present, in over 400 projects carried out in the current SME Strategic Plan, there are no economic evaluations which show a benefit-cost, cost-effectiveness or rate of return estimate, making it difficult to judge policy performance. OSMEP should undertake and promote cost-benefit evaluation, which would also increase its credibility with other more senior Ministries and with the taxpaying public as the co-ordinator of SME and entrepreneurship policy. OSMEP is clearly committed to evaluation, and allocates about 7.5% of its Fundamental Mission budget to evaluation. The main question is how to make improvements in evaluation, which do not add unnecessarily (and preferably do not add at all) to the compliance burden for SMEs, or to the overall budget.

It is suggested that:

- All projects and programmes should be required to show where they fit into the SME and entrepreneurship portfolio in terms of target focus and stage of business development, as well as the relevant strategic agenda item(s) the project or programme supports.
- The information related to this should be made available on-line in a database, and updated regularly, at least yearly, along with evaluation reports and progress reports.
- An amount (say 1% of project budgets) should be built in to all projects to carry out an economic appraisal and evaluation.

- As part of any project or programme tender approval process and for project approval, OSMEP should require the collection and maintenance of data which will permit economic appraisal (benefit-cost), and include in its contracts with providers that funds may be withheld until these data are satisfactorily provided, or their collection are provided for.
- OSMEP should develop guidelines and advice to ensure quality compliance and training in economic assessment and evaluation, within OSMEP and also in other Ministries and agencies responsible for programme implementation.
- At the OSMEP level, but preferably at a whole-of-government level, impact assessment requirements should be introduced in parallel with enhanced evaluation requirements.
- Overall Key Performance Indicators (KPIs) should be based on overall programme portfolio effectiveness, (*i.e.* results based evidence of benefits exceeding costs at programme level).
- Where intermediate KPIs are required for management purposes there should be a clear link or association with the ultimate KPI.
- Where projects do not aim to lead to net economic or monetary benefit (*e.g.* projects for social or cultural reasons) the KPIs adopted, and their "price" in that project, should be made clear in the published performance appraisal. The idea is to encourage more effective and cost effective ways of delivering results.

  See Annex 3.A1 for information on evaluation.

Recommendation 5: Improve quality and timeliness of management information in a cost-effective manner.

Timely and reliable information is critical to OSMEP's performance in improving SME and entrepreneurship policies and programmes. If it is not measured it cannot be managed. Information is not costless, so it is recommended that ways be explored to improve the cost effectiveness of information collection in this area. The point is not to just collect more data. The recommendation is to improve the quality, timeliness, reliability, and accessibility of the information and data available, commensurate with the benefits and costs of doing so.

There are two specific areas in which management information improvements may be particularly useful:

i) An extension of the SME definition and data collection to include a microlevel, and a non-employing enterprise level. Some of these data are already collected, for example by TNSO, but it is difficult to marry them up with OSMEP data. There is already some research work being undertaken by OSMEP on the smallest size classes. Similarly, the thrust of the Bank of Thailand Financial Sector Master Plan II is to encourage development of microfinance using innovative channels, including mobile phones and commercial banks. This should be investigated as a way of opening up low-cost ways of accessing data on this segment, subject to satisfactory resolution of any privacy issues.

ii) The development of a co-operative approach between OSMEP and TNSO, and with other relevant Ministries, to develop a central database on SME and entrepreneurship data and issues. This could be part of the work programme of the Third SME Master Plan. The usual challenge with such databases lies with keeping them up to date, and

keeping the administrative burden on the SMEs as low as possible. This is not a simple task, but the potential contribution of SMEs and entrepreneurship to Thailand is enormous, and it needs to be able to be managed by access to reliable, timely, consistent information and data on SMEs.

Investigations should be undertaken to see if improvements can be made in these two areas and if the benefits (in the form of better information for policy design and evaluation) will exceed costs.

The evidence from SME and entrepreneurship statistics and project and programme evaluations should be disseminated actively to other agencies and to the public. OSMEP has a good, if slightly patchy, record of reporting the progress of its Master Plans, mostly through the SME White Papers and via the OSMEP web site. This should be built on. The effectiveness of a move to increase accountability for SME and entrepreneurship projects (carried-out by OSMEP and by other agencies) through improved economic appraisal and evaluation will depend on making the information about evidence and results readily available.

Policy Priority II. Innovative, growth-oriented and international SMEs

Recommendation 6: Support SMEs to grow, innovate and compete internationally.

Thai SMEs are likely to face increasing structural adjustment pressures resulting from economic, political, environmental and social changes in the Asian region. Cost effective policies, programmes and projects should equip SMEs and entrepreneurs to respond to these challenges and encourage SME creation, growth and international competitiveness. Existing programmes for this purpose should be made more accessible, for example through a web-based one-stop or first stop point and should be easily accessible by mobile devices (telephones, computers). Within a portfolio approach, consideration is needed of whether there are gaps in various elements of existing support for growth- and international-oriented SME development or whether existing programme and project spending could be made more effective and/or efficient through being adapted or knitted together.

See Annex 4.A1, Models 1, 4 and 5, for illustrations of relevant approaches for the support of SME growth and internationalisation.

Recommendation 7: Pay closer attention to the international dimension for SMEs.

New challenges and opportunities, especially relating to subcontracting, are likely to come from China and increasingly from India. It is important that Thailand be prepared to support a level playing field of harmonised regulations in ASEAN and ASEAN+6, because it is the non-tariff barriers created by regulations that tend to pose most problems for SMEs. It is suggested that OSMEP work with the Ministry of Foreign Affairs as part of the Free Trade Area negotiation process to ensure that the impacts of the agreements on SMEs are taken into account.

Recommendation 8: Improve the capacity of financial markets to provide formal finance to SMEs and entrepreneurs and increase the efficiency of government interventions to support access to finance.

At present, the financial system provides only limited access to formal finance for SMEs. Furthermore, some government interventions in SME finance appear to be

ineffective and unnecessarily expensive. Credit rating, credit management and information sharing systems should be strengthened to enlarge the supply of funds for SMEs. The SME Bank and other Special Financial Institutions (SFIs) should enlarge and upgrade financial and entrepreneurship education as well as concomitant advisory services. Previous initiatives to establish venture capital funds were not successful and the reasons for this need to be understood in order to inform future action that voids previous mistakes. In addition, a liaison committee should be set up with financial institutions and commercial banks to explore ways to collaborate more effectively on areas of common strategic benefit. For example, new collaboration should be sought with finance institutions on the provision of microfinance through multiple channels including the mobile telephone and on the provision of knowledge, education and training via these channels.

See Annex 4.A1, Model 3, for an illustration of a relevant policy approach for improving SME access to finance.

Policy Priority III. Productive entrepreneurship for regional and social development

Recommendation 9: Support a shift to more productive entrepreneurship.

Thailand has an unusually high rate of entrepreneurs who start up "necessity" businesses (those who start a business because they lack other realistic options for generating income and wealth). An apparent gap in programmes and projects for pre-nascent entrepreneurs should be addressed by developing programmes to provide information, knowledge, advice, mentoring, training and SME management and entrepreneurship education at pre-nascent stages (*i.e.* before people even think of starting a business). Actions for creating favourable conditions for more productive and opportunity-driven entrepreneurship should be developed. See Annex 4.A1, Model 2, for an illustration of a relevant policy approach.

Recommendation 10: Address regional inequalities in SME and entrepreneurship activities.

There are strong regional disparities in SME densities, entrepreneurial opportunities and activity. The entrepreneurship growth potential and barriers in less prosperous provinces should be assessed and the potential for SME and entrepreneurship policy to release untapped opportunities should be identified in order to find cost-effective ways of meeting both national growth and spatial equity objectives through greater entrepreneurship and SME development. Since the OTOP programme is *de facto* one of the key measures currently supporting entrepreneurship and SME development in the regions, its strategy, synergies, visibility and reach and efficiency should be reviewed with a view to identify ways of increasing its impact.

Possible policy implementation initiatives

This section explores some possible initiatives that may assist in implementing the recommendations for policy priority areas II and III (*i.e.* those that concern programmes to promote innovative, growth-oriented and international SMEs and productive entrepreneurship rather than those concerned with reframing the policy formulation and implementation process). It should be stressed that these are **not** recommendations but ideas suggested for closer appraisal. Before deciding whether to implement any of these ideas it would be necessary to carry out more detailed feasibility appraisals to investigate

expected impacts and options to shape the initiatives so as to increase any net social and economic benefits that may be created. The initiatives must also be seen as part of a wider portfolio of initiatives, implying that their effectiveness may depend on appropriate implementation of other parts of the package. As discussed above, policy makers should not lose sight of the overall balance of the portfolio.

The suggested initiatives are summarised in Table 4.1 and 4.2, and explained in more detail in the text below. The tables show the apparent gaps to which the initiatives respond, as identified in the main body of the report.

Table 4.1. **Possible policy implementation initiatives for innovative, growth-oriented and international SMEs**

Identified gaps and issues	Suggested initiatives
Gap in policy support for knowledge and information.	Initiative II.1: SME Toolkit. Develop and provide better web-based access to an "SME Toolkit" of information, knowledge and education for all SMEs across all stages of development.
Gap in providing support for start-up and growth, including high-growth SMEs.	Initiative II.2: Identify good practices from other countries which may be effectively modified for Thai growth-oriented SMEs. Initiative II.3: Review the potential applicability to Thailand of international experiences on New Entrepreneur, Incubator and Science Programmes. Initiative II.4: Review the potential to integrate entrepreneurship programmes into the SME Toolkit. Initiative II.5: Review the potential applicability to Thailand of an SME University initiative.
A lack of SMEs with the potential to grow and compete internationally, or compete with international competitors entering Thai markets (the "missing middle").	Initiative II.6: Address constraints to missing middle SMEs.
Importance of a level playing field of harmonised regulations for SMEs.	Initiative II.7: FTA harmonisation in ASEAN +.
Only about 16% of the budget in 2009 went to market access and development. Most of this went on promoting Thai SMEs in the ASEAN economic community.	Initiative II.8: Review budget for market access and intelligence. Initiative II.9: Increase emphasis on China and India.
Finance system provides only limited access to formal finance for SMEs.	Initiative II.10: Review previous initiatives to provide Venture Capital funds to establish why they were not successful, and learn from the mistakes. Initiative II.11: Encourage better credit rating, credit management and information sharing between finance providers.
SME Bank does not show effective use of resources.	Initiative II.12: Provide better SME and entrepreneur financial education and advice. Initiative II.13: Reduce SME Bank NPLs via education and risk management. Initiative II.14: Introduce performance dividends to OSMEP and other organisations helping it to reduce SME Bank NPLs.
Encourage finance and microfinance through multiple channels including mobile phones. Liaise with commercial banks to provide knowledge, education and training via these channels.	Initiative II.15: Collaboration and cost sharing on knowledge and education resources.

Initiative II.1: SME Toolkit.

Develop and provide better access to an "SME Toolkit" of information, knowledge and education for all SMEs across all stages of development, and include relevant material for provincial SMEs and entrepreneurs. An example is given the Learning Models section at the end of this chapter based on the SME Toolkit (Annex 4.A1, Model 2). This toolkit could be made available on the web, as a one stop or first stop point, and should be as accessible as possible by mobile devices (telephones, computers). Access by mobile (cell) telephone is now extremely important, because a small proportion of SMEs in Thailand are likely to have computers, but most young entrepreneurs have a mobile phone. There have been developments in use of mobile phones in the Philippines and Kenya to allow money transfer and access to finance in areas where physical bank infrastructure is not viable. It is only a small step to link access to finance for SMEs to access to information and

knowledge on-line, and to build virtual clusters and communities of businesses. At present, the OSMEP web site is not leading any evolution in this direction.

An SME Toolkit also needs to be kept up to date. One option is to make use of a bottom-up wiki based approach to keeping it up to date, and work in collaboration with large firms (*e.g.* commercial banks and telecommunication companies, etc.) to fund it and make it as accessible as possible to SME and entrepreneur target segments. This should cover those interventions by policy *focus* (Box 3.2) and *stage* of business (Box 3.3) relevant to Thailand, and to particular provinces and locations.

Initiative II.2: Growth oriented SME support.

Identify good practices from other countries which may be effectively modified for Thai growth oriented SMEs, especially:

- simplification of unlisted public capital raising by SMEs;
- Angel markets;
- second or junior board markets (especially MAI, which seems to be very effective, and warrants further collaboration on initiatives, such as the SME Toolkit);
- government set up and underwriting of venture capital funds;
- expansion of corporate bond markets, and the exploring of financing of SME growth and innovation through the issuance of government underwritten bonds (SME Bonds) which are then managed by private sector professional managers; and
- subsidies for consultancy advice and mentoring of growth companies.

Initiative II.3: Review of new entrepreneur, incubator and science programmes.

Review existing initiatives in this area (*e.g.* "NEC" programme and Incubator Programmes and Science Parks) to see if they can be revised to be more effective, and/or get better value for money. It is clear that a significant amount of the SME budget is spent in this area, but there is little by way of clear economic evaluation and appraisal, and there seems to be only limited knowledge transfer. There should have been a substantial body of knowledge and information built up over the years, and this could be made more readily available to entrepreneurs and policy decision makers if Recommendation 5 is implemented. This knowledge and experience can then be integrated into the SME Toolkit.

Initiative II.4: Integration of entrepreneur programmes into the SME Toolkit.

Integrate, where possible, the useful information, knowledge and education content from these programmes into the "SME Toolkit" initiative (Initiative II.1).

Initiative II.5: SME University.

Previous initiatives to provide an "SME University" could be reviewed to establish why they were not successful, and learn from the mistakes. The SME University was a good attempt to provide broad access to SME and entrepreneurship curriculum and courses to a wide range of people by a network of co-operating Thai universities. It was widely and prominently promoted on the OSMEP website up until 2009, although many of the links did not work. It is no longer being promoted and is not accessible on the OSMEP website. It appears that funding was discontinued, and the view of OSMEP seems to be that the participating universities should just continue their activities independently without any central co-ordination or funding. This needs to also be seen in the context of the ASEAN

Economic Community Blueprint (2008, section C1), which calls for the adoption of a common ASEAN curriculum on entrepreneurship by 2009. It appears that Thailand has adopted a curriculum, the funding and content of which was provided by the Japanese. The Universities seem unaware of this, and in any case are not using it.

Initiative II.6: Address constraints to "missing middle" SMEs.

A range of projects for the start up and growth of medium-sized, growth-oriented, internationally-competitive SMEs could be adopted as a major strategic thrust. This would require prior identification of what is impeding or constraining these SMEs and appropriate steps that could be taken to address the impediments and constraints. This would almost certainly require a portfolio approach, because it will usually not be a single factor leading to constrained SME performance. Rather it will be a combination of factors including:

- lack of management experience and education;
- lack of knowledge and information;
- lack of finance;
- poor market access and intelligence;
- inadequate technology and innovation (*e.g.* IP, patents); and
- administrative burdens at home and abroad.

Initiative II.7: FTA harmonisation in ASEAN+

Work with Ministry of Foreign Affairs to seek a set of ASEAN Economic Community regulations that take account of SMEs.

Initiative II.8: Review budget for market access and intelligence.

A review of the budget allocations for market access and intelligence is suggested for the Third SME Promotion Master Plan to assess whether increasing the budget in the areas of market access, market research and intelligence will generate better returns than other budget uses.

Initiative II.9: Increase emphasis on China and India.

Major future challenges and opportunities, especially relating to subcontracting, will probably come from China and increasingly from India because of its use of English, and this warrants more attention in the SME Promotion Master Plan and budget.

Initiative II.10: Venture capital.

Previous initiatives to provide venture capital funds could be reviewed to establish why they were not successful, and learn from the mistakes.

Initiative II.11: Credit rating.

Better credit rating, credit management and information sharing between providers could be encouraged.

Box 4.1. **Administrative and regulatory simplification**

The cost of compliance, both in terms of money and time, with numerous regulatory and administrative formalities represents a significant burden on SMEs and entrepreneurs. Regulatory certainty is a necessary and important prerequisite for a conducive business environment. When these regulations become burdensome and unnecessary however, they act as a drag on the ability firms to operate and impose additional barriers to firm growth (OECD, 2010). This issue consistently appears on the agenda of governments, driven recently by the economic crisis and a desire to free resources currently spent on compliance and divert them towards investment in jobs and support economic recovery and growth (OECD, 2010).

Regulatory simplification for SMEs in France: "Assises de la simplification de la réglementation"

In December 2010, a programme of administrative simplification for SMEs was announced in France. This programme was to be carried out on two axes: 1) territorial support through state "SME correspondants" in each department and 2) a simplification of the administrative/regulatory environment by the organisation "Assises de la simplification" in April 2011.

The "SME correspondants" were agents of the *Regional Executive of Enterprises, Competition, Consumption, Work and Employment* (DIRECCTE). Numbering one hundred, the objective of the "SME correspondants" was to position themselves with entrepreneurs so as to gain first-hand experience of their needs, projects and difficulties. So as to fully understand the constraints on the entrepreneurs, the "correspondants" immersed themselves for periods of time in five to ten firms. During this time, they interviewed entrepreneurs and workers so as to construct a sample of experiences from 500-600 enterprises on which the pertinent simplification measures could be developed.

This "on-the-ground" research found that the three principle difficulties for entrepreneurs were: 1) complexity of vocabulary and forms; 2) lack of information; and 3) instability of regulations. The top five measures sought by firms included: 1) a reference service or a reference contact point; 2) more tools be made available for firms to facilitate business processes; 3) simplification of obligations on SMEs and reduction of their frequency; 4) an end to repeated requests for the same information; and 5) procedures made available online.

Following the conclusions of the research by the "SME correspondants", a plan comprising 80 measures was developed. These 80 measures were divided across six themes:

- Thinking from the perspective of the firm ("*Penser entreprise*").
- Facilitate the relationship between firms and the administration.
- Facilitate the application of social rights.
- Improve firms' daily routine.
- Simplify taxes.
- Facilitate access to public procurement.

Some notable measures out of the 80 included in the plan were:

- Creation of a "secure, digital vault" which will allow firm managers to provide all the necessary information to administration only once.
- Simplification of pay slips – with a halving of the number of lines in length thereby increasing clarity to employees and saving close to EUR 100 million in management costs for enterprises.
- The deployment of a nominative social declaration, which will make the filing online easier and replace close to 30 social declarations.

Measures to rationalise public, statistical surveys (research into alternative information sources, sampling to avoid needlessly soliciting firms for information, etc.).

Initiative II.12: Better SME and entrepreneur financial education and advisory services.

SME Bank and other financial institutions could be encouraged to provide more effective financial and entrepreneurship education and advisory services, in collaboration with an "SME Toolkit" initiative, and other OSMEP programmes.

Initiative II.13: Reduce SME bank's SME NPLs via education and risk management.

Ways could be explored for the SME Bank to benefit from an SME Toolkit and other projects and initiatives to reduce its non-performing loans (NPLs) to commercial levels (around 2% or less).

Initiative II.14: Performance dividends.

Consideration could be given to whether reduced NPLs in SME Bank or SBCG could translate into a performance dividend for the OSMEP budget. If OSMEP moves more to performance measurement and results based reporting (Recommendations 1 and 4), it should be able to introduce initiatives to improve the performance of SMEs. For example, by making SME Toolkit knowledge and information available on-line to a wider target group of SMEs, it may be possible to reduce risks to financial providers, and so reduce NPLs to banks such as SME Bank.

Initiative II.15: Collaboration and cost sharing on knowledge and education resources.

A liaison committee could be set up with financial institutions and commercial banks to explore ways to collaborate more effectively on areas of common strategic benefit. For example, new collaboration could be sought with finance institutions on the provision of microfinance through multiple channels including the mobile telephone and on the provision of knowledge, education and training via these channels.

Table 4.2. **Possible policy implementation initiatives for productive entrepreneurship for regional and social development**

Identified gaps and issues	Suggested initiatives
An unusually high level of entrepreneurs, who start up "necessity" businesses	Initiative III.1: Necessity Entrepreneur support
Gap in providing programmes at pre-nascent stage	Initiative III.2: Pre-nascent support
Low budget allocation for the strategy of promoting SMEs in lagging regions and local areas	Initiative III.3: Review budget for SME and Entrepreneurship in lagging provinces Initiative III.4: Review the OTOP programme
Gap in providing services to SMEs facing structural change	Initiative III.5: Improve structural adjustment and exit policy support

Initiative III.1: Necessity entrepreneur support.

More programmes of support, training, advice, mentoring, etc could be provided for necessity entrepreneurs to assist them to develop viable businesses with expansion opportunities. This could be combined with an "SME Toolkit" initiative. It could also be built into social security programmes and provincial service programmes.

Initiative III.2: Pre-nascent support.

The gap in programmes for pre-nascent entrepreneurs could be addressed by developing more programmes to provide information, knowledge, and SME management and entrepreneurship education at pre-nascent stages (*i.e.* before people even think of starting a business). These programmes could be delivered via an "SME Toolkit" and related channels (*e.g.* schools, banks, community organisations, industry associations, etc.).

Initiative III.3: Review the budget for SMEs and entrepreneurship in lagging provinces.

The SME and entrepreneurship strategic budget allocation to overcome problems in non-central provinces with low entrepreneurship and SME densities could be reviewed with the aim of reducing regional inequalities in SME densities, entrepreneurial opportunities and activity.

Initiative III.4: Review the OTOP programme.

The OTOP programme could be revisited and reviewed to encourage more successful start ups in regions and education of entrepreneurs. Emphasis could be placed on encouraging processes and a culture to ensure transparent, performance based budget renewal for OTOP projects and for other related provincial and *tambon* SME and entrepreneurship projects.

Initiative III.5: Improve policy support for structural adjustment and exit.

Thai SMEs are likely to face increasing structural adjustment pressures resulting from economic, political, environmental and social changes in the Asian region. Despite this, there do not appear to be policy programmes in place to assist SMEs to adjust to issues such as succession planning, structural economic and financial integration, climate change, etc. The European Union may be able to provide some experience and lessons for Thailand in this respect.

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ANNEX 4.A1

Learning Models

Model 1: The Industrial Research Assistance Program, National Research Council: Canada

Description of the approach

Widely acclaimed as one of the most effective innovation support programmes in Canada, Canada's Industrial Research Assistance Programme's (IRAP) mission is to provide technical assistance and advice to a wide range of enterprises across Canada. IRAP provides SMEs with four main services, including technological advice, financial assistance for R&D activities, networking and partnerships. Its services are delivered by a network of about 260 Industrial Technology Advisors (ITAs), who are housed in universities, community colleges and other technology transfer organisations across the country. In this respect, IRAP performs a networking and co-ordinating role between firms and other key organisational units in the Canadian innovation system.

Rationale for the intervention

A general feature of the Canadian economy, especially in the high technology sectors, is the predominance of SMEs, especially when compared to other leading industrial countries. More than three quarters of Canadian firms have less than 10 employees. At the same time, Canada has relatively fewer large R&D performers than most OECD countries and the total share of business expenditures on R&D from firms with more than 250 employees is significantly lower than the OECD average. As a corollary, the relative contribution of SMEs to business expenditures on R&D in Canada is significantly higher. As a consequence, government programmes targeted at promoting entrepreneurship and innovation among Canadian SMEs take on greater significance than in many countries.

The main national policy in Canada that addresses the innovation activities of SMEs is the Industrial Research Assistance Programme, which is run by the National Research Council, home to the largest number of federal government laboratories. IRAP is described as the Government of Canada's premier innovation and technology assistance programme, supporting SMEs in communities across the country. The programme has been in existence for almost 60 years and delivers comprehensive innovation assistance to technology-based SMEs in almost every industrial sector of importance to Canada's economic development. While housed under the NRC and administered by staff of the NRC, IRAP is in many respects a stand-alone programme run by its own Director-General. The Industrial Research Assistance Programme provides financial support to qualified SMEs to help them develop technologies for competitive advantage. NRC-IRAP operates on a shared-risk

model, providing cost-shared financial assistance for research and development projects that meet both the firm and project assessment criteria. Financial support may be provided for an eligible R&D project, supporting up to 100% of salary costs associated with the project, or up to 75% of contractor fees.

Impact and available evaluation evidence

IRAP has been evaluated a number of times and has consistently been rated as one of the most effective innovation programmes delivered by the federal government in Canada. An impact evaluation of the IRAP, published in December 2007, found overall that the programme had positively stimulated innovation in Canadian SMEs, both in terms of technical skills and general business capacities and capabilities. It found that the R&D capacity and capabilities of IRAP clients grew over the evaluation period and that total wealth creation benefits of the programme between 2002 and 2007 were in the range of CAD 2.3 billion and CAD 6.5 billion (NRC, 2007).

A study by Lipsey and Carlaw in 1998 concluded that IRAP had been highly effective in achieving its goals and that the assistance it provided to SMEs in Canada had been a major factor in technology adoption and diffusion among those firms and in increasing their innovative capabilities.

A study by Niosi (2008), comparing the effectiveness of IRAP with venture capital funding, found that the receipt of IRAP funding was more often correlated with an increase in the rate of the firm's growth than the receipt of venture capital funding. He strongly favoured an increase in the programme's overall level of funding.

The success of the programme is widely attributed to its ability to provide both highly qualified technical advices to SMEs in a timely and relatively non-bureaucratic fashion, as well as to provide them with small grants to subsidise their costs in developing new products and processes or upgrading their technological capabilities.

Obstacles and responses

In the 2007 impact evaluation of IRAP, it was noted that there were opportunities for improvement of the programme's performance in the area of resource utilisation or economy. The programme's administrative costs were seen as high, as was the ratio of programme delivery staff to administrative staff. The ratio in this case considered the staff salaries for those who were in the field delivering Advisory/Technical Services; and not just the costs associated with delivering the funding. CAD 25 million of the overhead costs is associated with ITA salaries. In addition, over time the number of output metrics for the programme had declined including the number of actively funded firms and the number of new projects. Although counter-balanced by an increase in project values, the number of firms who received advice only had declined (NRC, 2007).

The programme has historically been budgeted at CAD 150 million per annum, but in recent years demand for the services provided by IRAP's national network of ITAs and the subsidies they can provide has outstripped the funds available to the programme. The fact that the programme budget has frequently been oversubscribed by the middle of the fiscal year has been one of the main impediments to its further success. As a result of this, the federal government announced a substantial increase in funding for the programme in the 2009 budget, providing it with an additional CAD 100 million a year for the next two years to allow it to temporarily expand its initiatives for SMEs.

Relevance to Thailand

IRAP undertakes a number of activities that can help address the low innovation capacity and activities of Thai SMEs. As noted in Chapter 2, the innovative capacity of Thai firms is quite low being characterised by: 1) a low focus on novel innovations (only 12% of Thai SMEs offering new products to their customers), 2) low levels of R&D expenditure (0.25% of GDP in 2007, having remained virtually flat since 2000) and 3) few horizontal links between enterprises in the same or related industries. In addition, there is limited financing available for innovative, high-growth firms in Thailand as there is no special capital-market segment specialised in promoting high-tech start-ups and bank financing remains limited.

IRAP's four main services (technological advice, financial assistance for R&D activities, networking and partnerships), if effectively delivered, would address each of the four neglected areas identified above. Low generation of novel innovations and low levels of R&D spending could be addressed through technological advice. So too, networking and partnership services would contribute to improved horizontal links between enterprises. Finally, financial assistance for R&D activities would provide a source of financing specially geared towards the needs of innovative, high growth firms that are currently constrained by the lack of suitable financing currently available.

Thailand has an existing programme that shares many of the features of IRAP, namely the Industrial Technology Assistance Programmes (ITAP) delivered by the National Science and Technology Development Agency. In fact, IRAP was heavily involved in setting up ITAP and sent two staff on a full time basis to assist Thailand initially with their model. One of the strengths of the Canadian approach is that its impact has been regularly evaluated and the programme has been adjusted to increase its impacts. The evaluation studies undertaken in Canada could be used as models for the evaluation of ITAP in Thailand. There may also be opportunities to increase the impact of ITAP in Thailand by assessing whether issues that have proved problematic in Canada are also affecting programme performance in Thailand and whether elements of success in Canada are also in place in Thailand.

For further information see: www.nrc-cnrc.gc.ca/eng/ibp/irap.html.

Model 2: SME Toolkit: International Finance Corporation

Description of the approach

Developed by the International Finance Corporation, a part of the World Bank Group, the SME Toolkit uses the latest information and communication technologies to help SMEs in emerging markets learn sustainable business management practices. It consists of four parts: a CD-rom and web interface, a large set of business content, a content and management tool and a business training curriculum. The Toolkit offers information on a diverse range of subjects including accounting and finance, business planning, human resources (HR), marketing and sales, operations, and information technology (IT). In addition, a series of how-to articles, business forms, free business software, online training, self-assessment exercises, quizzes, and other useful resources are available to SMEs. The SME Toolkit integrates Web 2.0 technology, through an agreement signed with IBM in 2006, and as a result provides accessible information in minimal search time.

For implementation in individual countries, partnerships are developed with local SME service providers and banks, NGOs, IFC Project Development Facilities, and IFC

departments and country offices. The Toolkit is translated into the local language and adapted to the local laws and regulations so as to give accessible and relevant information to SMEs and entrepreneurs. To date, the Toolkit has been translated into 15 languages and is present in over 29 countries.

Rationale for the intervention

Launched in 2002, the SME Toolkit was devised as a way to provide pertinent information to SMEs in emerging markets to help them overcome obstacles in the form of complicated and consuming bureaucratic licensing procedures, burdensome regulatory requirements, lack of access to information about demand or market opportunities and difficulty locating business service providers (Kramer, Jenkins and Katz, 2007). There was a need to simplify and centralise administrative documentation and information while at the same time provide business-relevant information to users.

The Toolkit also provides a link between government/policy makers and the business community. The SME Toolkit launched in Belarus in 2005 provides a good example of this rationale in action. When embarking on a programme of administrative barrier reduction and simplification, the Prime Minister requested that government ministries and agencies list their permits or administrative procedures on the site to gain feedback from the private sector. Located at the site "Reforma.BEL.BIZ", this initiative received thousands of hits and over 70 proposals from business people on ways to amend business-related legislation and sharing of experience from neighbouring countries (IFC, 2007).

Impact and available evaluation evidence

According to Kramer *et al.* (2007), "because the SME Toolkit is a freely available online platform, and because much of its value comes from integration with other players and programmes in local market ecosystems, measuring the impact of usage is difficult to do". In spite of this, an average number of two million unique visitors annually to the site is an indication of the extent to which the information is being accessed.

Obstacles and responses

In launching an SME Toolkit in the Caribbean, Republic Bank encountered challenges designing an appealing layout for the site, ensuring that the content remained current and up-to-date and finding ways to attract businesses to register in the Small Business Directory areas. To address the layout challenge, feedback was sought from users and a website design company engaged. A rotating panel and external consultant were used to ensure the content remained fresh for returning visitors. An incentive campaign involving a prize for chosen winners was started to encourage businesses to register (Mills, 2011).

Relevance to Thailand

There is a need in Thailand to provide greater support to a shift to more productive entrepreneurship and to bring companies out of the informal sector and into the formal sector. To achieve this goal, accessible support, training, advice and mentoring play an important role. The provision of better SME and entrepreneur financial education and advisory services would also contribute to achieving this goal.

An SME Toolkit would provide pertinent business information to necessity entrepreneurs free of charge through a relatively accessible medium, the internet. To ensure the maximum diffusion of the SME Toolkit in Thailand, possibilities for mobile

telephone access should be strongly considered. To date in the Asia-Pacific region, SME Toolkits have been created in Bangladesh, Bhutan, India, Malaysia, Mongolia, Nepal, Pakistan, the Philippines, Singapore and Vietnam. These initiatives have been met with success and Thailand would benefit from leveraging the experience gained in these neighbouring countries.

For further information see: www.smetoolkit.org/smetoolkit/en.

Model 3: National Credit Guarantee System: Mexico

Description of the approach

One of the key pillars of the new SME policy programme implemented in Mexico in 2001 was better access to finance for SMEs so as to raise SMEs' overall efficiency. Creating and promoting new financial instruments in the form of guarantee funds formed one of four prongs in the national strategy to enlarge the supply of affordable financial resources for all categories of SME (Llisterri *et al.*, 2008).

The Ministry of Economy received a mandate to enlarge its range of financial products to SMEs, adopting the portfolio approach. As a part of this enlargement, in 2003 the National Guarantee System (Sistema Nacional de Garantia, SNG) was created. The two most important guarantee programmes in this system were the FONDO PARAGUAS, run by NAFIN (the state development bank), and the GARANTIA SME programme, run by the FUNDES foundation. Credits guaranteed through these funds were mostly of a short-term nature as 90% of firms' credit demand at the time was for the purpose of working capital.

This guarantee system differed strongly from those that had been implemented in other countries. Guarantee schemes normally apply to viable firms which have no access to collateral and therefore, no access to loans. Typical guarantee schemes address this problem by sharing the risk with banks, the public funds usually covering 60-85% of the risk. Financial institutions, absorbing the residual risk in the event of default, charge SMEs an interest rate premium to partly cover the potential losses. In a system such as this, the government can adjust either the interest premium or the percentage guaranteed.

The Mexican programme departed from this typical model as the government only covered the first losses from financial institutions' SME loans. To distribute the guarantee funds, a bidding process or "auction" was set up, which created competition between financial intermediaries interested in obtaining guarantees for SMEs loans. Under this bidding procedure, the amount of guarantee funds rises with a rising leverage index and falling interest rates. Bids are sought from financial institutions and then those institutions with the highest credit/guarantee fund ratio and the lowest interest rate are selected. Guarantee coverage under such a system falls into the range between 60-80%, which is high enough to avoid the use of collateral requirements and sufficiently low to avoid moral hazard.

Part of the strategy also involved the strengthening of institutional links between the Ministry of Economy, the sub-national governments and financial institutions. This was intended to improve the efficiency of programmes and increase leverage. To make a larger number of SMEs eligible for bank credit, NAFIN, in partnership with commercial banks, intensified financial inter-mediation activities and simplified the procedures for guarantee payments. Notary and registration costs declined as a consequence, so too did credit transaction costs with the use of parametric models and better access to credit bureaus.

Rationale for the intervention

Government guarantee programmes for SME loans are commonly implemented in OECD countries to address the many market failures that hinder the supply of finance required by SMEs at rates commensurate with an accurate assessment of risk. These market failures are due to the high administrative costs of small-scale lending, an underdeveloped financial system, the high risk perception attributed to small enterprises, asymmetric information and small firms' lack of collateral (OECD, 2009).

In the early 2000s, SMEs in Mexico had been inhibited by high real interest rates on suppliers' credit (the predominant source of finance for SMEs) and limited access to bank credit. As a result, firm creation and productive investment were hampered as the required rates of return on capital were too high to make borrowing worthwhile. This situation provided an ideal ground on which to justify government intervention in the form of a credit guarantee system.

Impact and available evaluation evidence

The four-pronged policy approach was, "instrumental in enlarging the supply of financial resources available to SMEs" (OECD, 2007) in Mexico in the years following implementation until 2006.

In 2005, all commercial banks and 28 state governments joined the National Guarantee System. In that year almost 32 000 companies were supported through the system, 97% of whom were micro, small and medium enterprises. In 2006, the bidding process improved credit conditions for businesses and induced 38 billion pesos of credit for nearly 68 000 enterprises (Valenzuela, 2009).

Default rates progressively fell to a level of 0.92% following the introduction and refinement of the National Guarantee System, far below the international standard of 5% pointing to low levels of moral hazard. Falling default rates also led to a reduction in risk premiums for SMEs. The spreads for SME lending fell in line with falling risk premiums for SMEs, indicating increased SME access to finance. The average spread of SME loan charges to short-term interest rates narrowed by 7-8 basis points between 2001 and 2006.

The bidding process for guarantee funds also resulted in a much higher SME credit/fund ratio to that previously (66 pesos of credit for each peso of funding in 2006). In the previous system of direct guarantee provision the leverage of SME Fund resources was much smaller, about 2 pesos of credit for each peso of funding. This system also succeeded in leveraging federal funds while keeping the default rates low (0.74% of total SME loan portfolio in 2006).

The increased linkages between the Ministry of Economy, sub-national governments and financial institutions led to an increase in the number of financial products offered by the Ministry of Economy, which rose sharply to 25 in 2006. It also led to a surge in the credit/fund ratio and the portfolio of funding lines became much broader.

The operation of credit guarantee programmes prompted private financial institutions to extend new loans to SMEs, while developing new financial products. The associated rise in bank profitability contributed to the establishment of new financial institutions. Better credit conditions, including lower interest rates and no formal guarantees, were attributed to a smoothing of the entry of informal SMEs into the formal economy reflecting the cost advantages of more affordable credit in the formal sector. The removal of collateral

Table 4.A1.1. **SME credit guarantees in Mexico, 2002-08**

	SMEs (number of enterprises)	Credits (number of credits)	Amount of credit guaranteed (pesos)
2002	3 012	3 330	162 658 003.20
2003	12 815	14 591	2 081 991 170.82
2004	23 692	25 115	6 721 428 430.57
2005	46 156	71 932	15 027 484 333.90
2006	72 200	142 501	23 900 980 926.06
2007	81 138	122 212	21 792 472 496.61
2008 (until March)	4 269	5 182	4 581 471 281.41

Note: In Mexico, the legal definition of SMEs is enterprises with 0-250 employees (industry) or 0-100 (trade and services).
Source: Palomo *et al.* (2010) based on Undersecretariat for Small and Medium Enterprises, Ministry of Economy of Mexico

requirements for some categories of SME credit, the use of parametric models, improved bank records and financial assessments services all led to a fall in transaction costs.

Weaknesses

Although volumes of guaranteed credits to SMEs reached a considerable size, they remained insufficient for the significant demand across the country (Llisterri *et al.*, 2008).

A great deal of uncertainty was created due to the way in which the programme was developed and deployed. The programme's dependence on the annual allocation of financial resources led to modifications to the programmes' rules of operation and in this way undermined the financial institutions' trust in the system. The lack of a comprehensive regulatory framework for the regulation of security systems led to uncertainty about its continuity in the event of changing political circumstances or even possible substantial modification of objectives and/or instruments. The absence of a functional and endowed policy/resource management created confusion between agents and non-participants in the event of management changes (*ibid.*, 2008).

In addition, the processes and experiences developed since 2001 were poorly documented, which made it difficult to identify the origins, operations and motivations of the initiative, and in particular the results achieved.

It was also observed that banks had only been granting loans to SMEs guaranteed by the Ministry of Economy, which demonstrated that the banks' conservative attitude towards SME lending persisted (*ibid.*, 2008).

Relevance for Thailand

Limited access to formal finance has been identified as one of the key structural obstacles to SME creation and growth in Thailand and Recommendation 8 suggests that improvements be made to increase the efficiency of government interventions to support access to finance. The Small Business Credit Guarantee Corporation is the institution in Thailand which provides credit guarantees to viable small businesses. However, as pointed out in Chapter 2, the coverage of this credit guarantee in terms of the number of SMEs is quite small (approximately 0.1-0.3% of Thai SMEs obtain a credit guarantee) and non-performing guarantee levels are high by international standards (11.8%).

This is a similar situation to that in which Mexico found its own credit guarantee system to be in 2002, in terms of low SME coverage and elevated NPL rates, when the

original plans for changes to the national credit guarantee system were floated. Following the implementation of changes in the framework of the National Guarantee System, the number of SMEs receiving credit guarantees increased dramatically (from approximately 3 000 in 2002 to approximately 81 000 in 2007) and the level of NPLs dropped significantly (from 5% to under 1%).

The implementation of a similar auction system to distribute the guarantee funds in Thailand would provide a transparent and accountable means by which guarantee funds could be allocated firstly to banks, and subsequently to the SMEs applying for a guarantee. It would also give further stimulus to the creation of new financial institutions, as was the case in Mexico, implying higher availability of formal finance for SMEs. A key point in ensuring the success of these changes would be avoiding the mistake made in Mexico of having annual budget allocations as this created uncertainty for stakeholders, particularly financial institutions.

Model 4: Export promotion offices in key foreign markets: Chile

Description of the approach

The Export Promotion Bureau (in Spanish, *ProChile*) is an agency under the Foreign Ministry's Directorate General for International Economic Relations. Its mission is to contribute to the economic development of Chile through the international promotion of its businesses, so that Chilean companies can increase their exports and expand their operations into foreign markets.

ProChile has commercial branches located in more than 40 countries around the world. The main tasks of the ProChile offices are: 1) to identify potential markets for Chilean products and/or services; 2) to detect potential buyers and sales representatives for Chilean products and services; 3) to support the organisation of trade shows for potential customers; 4) to gather relevant information of specific markets; and 5) to identify potential strategic partners; to monitor opportunities and threats for Chilean companies, and to launch promotional campaigns for Chilean products. These Export Promotion Offices (EPO) rely on specialised personnel in charge of supporting and advising the operations of Chilean exporting companies in those external markets. They also help to position the Chilean economy in the world market, seeking to stimulate and diversify exports of Chilean products and services by providing the necessary support for the development of the exporting sector.

Rationale for the intervention

Businesses face many obstacles when they decide to export. Traditionally, trade barriers and transportation costs were and remain to a degree the main natural hurdles to greater involvement in exporting activities, even if some of them have been reduced over time as a result of trade agreements.

However, in a contemporary sense, lack of information on foreign markets has become an equally important barrier to increased export activity. Some examples of typical information requirements for business looking at expanding or operating in foreign markets are: understanding the formal process for exporting to the products' final destination, knowing alternative transportation methods and costs, identifying potential markets abroad and demand profiles, knowing the conditions for access to those markets and channels through which they can draw demand for Chilean products.

Public intervention is justified in this case by the existence of market failure in the form of externalities of information. For example, searching for foreign buyers requires resources and can be costly. One company (company X) may gather information about a foreign market, implying significant investment of time and resources. However, this information can subsequently be acquired by another company (company Y) at no benefit to company X. In this way, company Y is able to profit from the efforts of company X at no cost, undermining the incentives for investment in the first place. Market failure may also occur due to information asymmetries including buyers' uncertainty about the quality of products offered for sale. In addition, spatial, cultural, and linguistic barriers in international commerce accentuate buyers' difficulties in discerning product quality (Potoski and Prakash, 2009).

The EPO remedies these information failures by providing information on foreign markets and providing information on Chilean products to potential customers. The EPO helps ease the problems associated with imperfect information and externalities of information and, therefore, increases the probability that a certain good can be exported or that a particular country becomes a business partner, leading to potentially diversified and expanded foreign sales.

Factors for success

Álvarez and Crespi (2000), evaluating exporter committees, international fairs and business information systems, found overall that trade promotion activities had a positive and direct impact on the number of destination countries firms export to and indirectly on the total exports and product diversification of exporting firms. Exporter committees appear to have been more effective than participation in fairs and use of the commercial information system in promoting additional exports.

The Inter-American Development Bank (2010) conducted a study on the effectiveness of export promotion programmes based on six indicators of export performance of firms: exports, number of destination countries, number of products exported, average exports by country, average exports per product and average exports by country and product. The assistance provided by *ProChile* was found to have had a positive effect on the growth rate of total exports. Additionally, trade promotion activities had a positive effect on the rate of growth in the number of destination countries. According to the study, "the benefits from export promotion programs managed by *ProChile* seem to have been greater for smaller, relatively inexperienced firms as measured by their (lagged) total exports, *i.e.*, those companies that face the greatest challenges in overcoming informational barriers".

Obstacles and responses

Sometimes, EPOs are located at embassies or consulates, and their functions are diffused or shared with those of the embassy or consulate. This model, as an alternative to specialised trade promotion offices (or EPO), may not be a successful strategy. These diplomatic offices do not always have a business department or staff qualified to carry out the tasks related to trade promotion. Support for companies is usually just one among several activities that these diplomatic offices are responsible for.

Co-ordination between business organisations and diplomatic offices can be weak. Diplomatic officials do not always have incentives (*e.g.*, job promotions, wage raises) to promote trade; hence it is likely that their activities are narrowed down to certain goods, in particular, goods that do not need special promotion efforts. As a result, specialised

services are needed to achieve a diversified export offer. These services might be included in current diplomatic offices by strengthening the skills of staff working in diplomatic missions, improving their co-ordination with business organisations and increasing incentives for officers to provide support to exporting firms.

Relevance for Thailand

Thailand is a relatively open country in terms of trade and is continuing to deepen its trade integration into the broader Asian region. This integration will continue as Thailand approaches 2015 and the ASEAN Economic Community is implemented. To take full advantage of the opportunities offered by this increased regional trade, Thailand will need to pay closer attention to the international dimension for SMEs. One of the key concerns here is that firms will need to possess the necessary skills and information to enable them to export internationally. By providing information on foreign markets to Thai SMEs and promoting Thai products abroad, EPOs could potentially play a role in improving the competitive position of Thai SMEs *vis-à-vis* firms in other Asian countries.

Model 5: Supplier Development Programme: Chile

Description of the approach

The Supplier Development Programme (in Spanish, *Programa de Desarrollo de Proveedores*-PDP) was created in 1998 by CORFO (in Spanish, *Corporación de Fomento de la Producción*), the main economic development agency of Chile, which depends on the Ministry of Economy. This programme promotes vertical linkages between SMEs and large firms, in order to improve and stabilise the commercial linkages between them. This programme offers incentives to large firms to provide training on quality standards and product design to local SMEs so that they can become reliable suppliers.

The PDP subsidises projects by large firms (the sponsor firms) to strengthen the management of their SME suppliers. The programme also subsidises additional, complementary activities these large firms (the sponsor firms) normally run including: specialised services, professional advice, training, technical assistance, and technology transfer. SMEs appropriate the benefits of the development projects and achieve a stable market for their products and services, while the sponsor firm ensures a continuous supply of quality products and services.

For a large firm to be eligible to participate in the programme and sponsor SMEs that make up its supply chain, its net annual sales must be greater than or equal to 100 000 UF (in Spanish *Unidades de Fomento*,[1] equivalent to USD 4.6 million in May 2011). The sponsor firm must submit the project through an intermediary agent, who helps the sponsor firm prepare the project. The project can then be presented to CORFO leading to three possible outcomes: rejection, approval or a request for the reformulation of the submitted project.

Each project must include 20 SMEs in the agriculture and forestry sector or 10 SMEs in another economic sector (for example: manufacturing, industrial services, etc.). These SMEs must have annual sales not exceeding 100 000 UF.

For approved projects, this programme has two stages:

i) **Diagnostic stage:** during this stage the sponsor firm must identify the areas of intervention they wish to develop with its suppliers. The sponsor firm must present a development plan (this plan is designed either by a consultant, a consulting firm or by the staff of the sponsor firm). The maximum length of this stage is six months after the

signing of the contract. For this stage CORFO pays 50% of the cost of the development plan with a ceiling of CLP 8 million (equivalent to USD 17 021).[2] Once the contract has been concluded, the sponsor firm has three years to begin the development stage.

ii) **Development stage:** in this stage the sponsor firm must implement the development plan, with a limit of up to three years duration. CORFO pays 50% of the cost of this stage with annual ceilings of CLP 2.5 million (equivalent to USD 5 319)[3] per supplier and/or CLP 55 million (equivalent to USD 117 000) per year.

During the years 2003-08 there were 439 projects in execution, 262 sponsor firms and 8 828 supplier firms (Arraiz *et al*., 2011). About 80% of the supplier firms were in the agricultural sector.

The following table shows the sources of financing for PDP, where, on average, 56% of the total cost of the project was financed by CORFO (this is considering the overhead paid to the intermediary agent). If the item overhead is not considered, CORFO financed, on average, 44% of the total cost of the project.

Table 4.A1.2. **Sources of financing of PDP**

Sources of Financing of PDP	% of participation, 2008 (average)
CORFO	44
Overhead (paid by CORFO to the intermediary agent)	12
Sponsor firm	44

Source: Data provided by CORFO. Extracted from Rimisp (2011).

Rationale for the intervention

CORFO's strategy since the 1990s, due to the opening of markets, has been to implement different support programmes for SMEs in order to improve the competiveness of this sector. In particular, the PDP programme has brought about positive externalities due to technological transfer and training from large firms to SMEs, making the latter more competitive and efficient suppliers. The rationale for the programme could thus be understood as a means to generate positive externalities for SMEs, as explained by Arraiz *et al.* (2011): "The presence of a high quality network of local suppliers might help explain why some countries' industries are competitive. The opposite however is not true…" (p. 1)

Impact and available evaluation evidence

There are three impact evaluation studies available for PDP that show the positive impact of the programme:

a) Arraiz, Henríquez and Stucchi (2011): "Impact of the Chilean Supplier Development Program on the performance of SME and their large firm customers". Inter-American Development Bank, January.

b) Centro Latinoamericano para el Desarrollo Rural-Rimisp (2011): "Evaluación de Impacto de Programas de Fomento de CORFO". DIPRES, Ministry of Finance of Chile, January.

c) Tan (2009): "Evaluating SME Support Programs in Chile Using Panel Firm Data", Policy Research WP 5082, World Bank.[4]

These impact evaluation studies used a non-experimental approach with a treatment and control groups. They used propensity score matching (PSM) and difference-in-difference (DID) methods in order to control for the firms' observed and unobserved

characteristics that could affect their participation decision in the programme and the evolution of the outcome variables. The PSM is used to select the treatment and control groups matched on observable firm attributes, so as to make an estimation of the effects of the programme possible. The second step was to apply the DID method, used to correct for potential biases from time-invariant, unobserved factors.

The three studies found that PDP had positive effects on the main variables evaluated, but the intensity of the impact differed between them.

Arraiz *et al*. (2011) found positive impact of PDP on employment, sales and salaries paid to workers stating that, "Following the up to six-month diagnostic stage, supplier firms witnessed on average an increase in sales of 16%, 11%, and 9% one year, two years, and three years after the programme was approved, respectively. Employment followed a similar pattern: it increased 8%, 9%, and 10% one year, two years, and three years after the program was approved, respectively. In addition to having a positive impact on sales and employment, the programme had a positive impact on the average salaries paid by these firms: they increased 9%, 16%, and 8% one year, two years, and three years after the programme was approved, respectively". The authors also mention that there was an impact on the sponsor firms' sales and on their probability to become an exporter, "Sponsor firms witnessed on average an increase in sales of 19% and 25% two years and three years after the programme was approved, respectively. The probability of becoming an exporter increased by 4.6% and 3.7% two and three years after program approval, respectively".

Rimisp (2011) found that PDP had a positive impact on sales in the general model (it included firms in all sectors): the sales increased on average UF 442 (equivalent to USD 20 510) per year. They did not find any impact on the final impact variable (sales, employment, labor productivity, profits, etc.) for the firms in the primary sector. They also found impacts on sales for the firms in the manufacturing sector and the services sector (the average increase per year was: UF 1 495 [equivalent to USD 69 371] for the manufacturing firms and UF 613 [equivalent to USD 28 445] for the firms in the services sector). Finally, they found a positive effect on employment.

The third study, Tan (2009), evaluated the PDP with another CORFO cluster programme named PROFO, so this difference must be considered when comparing these results with those of the other studies mentioned. The conclusion was that the cluster programmes (PDP and PROFO) contributed to an increase in sales, output and wages by up to 7% to 8%.

Strengths and weaknesses of the PDP

The main strength of PDP is the positive effects for the SMEs in the main variables evaluated (sales, employment and salaries) due to technical assistance and technology transfer offered to SMEs (suppliers firms) by large firms (sponsors). The linkages established between large firms and SMEs guarantee continuous improvement in productivity and competiveness in these firms. As is stated in Tan (2009) the positive effect of support programmes for SMEs on certain variables increases over time, "… Finally, we find evidence of positive and growing time-effects from programme participation, typically between 4-10 years after starting participation for final outcomes such as sales, production and labor productivity…".

Also, as is indicated in Arraiz *et al*. (2011), PDP achieved its objective of improving and stabilising the commercial linkages between SMEs suppliers and their large firm

customers. Also, they mentioned the importance of the programme for the survival of the SMEs, "… After participation, suppliers are more likely to survive in business than similar firms who did not participate in the program; and both suppliers and sponsor firms benefit from larger sales…".

The main weakness of PDP is related to the intermediary agents. As mentioned, to access the support offered by PDP, the sponsor firm must ask the intermediary agent for technical assistance to prepare the proposal. This system is prone to the following problem: the intermediary agent is interested in fulfilling all the administrative requirements in order to receive the overhead and has no incentive to control for quality. In Rimisp (2011) it is mentioned that almost 66% of the demand for PDP is generated by intermediary agents, 13% by the consultants and 22% by the firms.

Relevance for Thailand

Exports and foreign direct investment have been driving forces in Thailand's growth over the past two decades (Punyasavatsut, 2008) and large, mutinational corporations (MNCs) have been prevalent in these FDI flows. As noted in Chapter 2, Thai SMEs often lack the innovative or technological capacity required to act as suppliers of larger, multinationals. Indeed, MNCs are recognised as possessing higher productivity and technological capabilities than their local counterparts in Thailand (ibid). The presence of these MNCs in Thailand represents an opportunity for Thai SMEs to act as suppliers within the value chains of these MNCs and in this way, develop their own technological and productivity capabilities in line with the needs of the MNC. A programme such as PDP would encourage these linkages to develop where they do not yet appear feasible and also provide an incentive to large firms to embark on capacity building projects with Thai SMEs.

Model 6: Portfolio approach to SME and entrepreneurship policy: Singapore

Description of the approach

Singapore explicitly designs its programmes and initiatives in terms of an overall portfolio. It has developed a comprehensive portfolio of SME and entrepreneurship policies and programmes which is designed to take entrepreneurs and SMEs from pre-nascent stage, through nascent and feasibility stages, to start-up, expansion, failure, and on to internationalisation, where that is a relevant option for a growing SME. These are co-ordinated across EDB and SPRING. The budget support and priority given to these initiatives change as the Singapore economy evolves, and as the business cycle impacts.

An example of a specific area of support is various forms of financial assistance to help businesses at different stages of growth. The Table below provides an overview of financing schemes, grant schemes, tax incentive schemes and supporting programmes. This specific area of support therefore itself follows a portfolio approach internally covering different types of finance support (debt, equity and grants) aimed at different business development stages (start-up, growth, and internationalisation).

Rationale for the intervention

The "portfolio approach" to policy development rests on the premise that policies and projects in the SME and entrepreneurship space are often better seen as part of a broad portfolio of activities, rather than as stand alone, or ad-hoc projects.

SME and entrepreneurship policies are a cross-cutting policy issue in that they typically deal with issues as diverse as training and skills, education, internationalisation (and thus, trade), finance or innovation. To add an additional level of complexity to this situation, SME and entrepreneurship policies are also deployed across several levels of government – from Federal all the way down to municipal. When not adequately organised and co-ordinated, policy initiatives in one domain or on one level of government may inadvertently duplicate or mitigate another or whole policy areas may be ignored completely, representing an example of a passive government failure.

Table 4.A1.3. **Singapore SME finance policies allocated according to the portfolio approach**

	Start-up	Growth	Internationalisation
Financing schemes		**Debt-related schemes**	
	Micro Loan Programme (MLP)	Local Enterprise Financing Scheme (LEFS)	Internationalisation Finance Scheme (IFS)
		Loan Insurance Scheme (LIS)	Loan Insurance Scheme (LIS)
		Equity-related schemes	
	Business Angels Scheme (BAS)	Enterprise Fund	Enterprise Fund
	SPRING SEEDS	Growth Financing Programme (GFP)	Growth Financing Programme (GFP)
Grant schemes	Patent Application Fund Plus (PAF Plus)	Patent Application Fund Plus (PAF Plus)	Patent Application Fund Plus (PAF Plus)
	Innovation Development Scheme (IDS)		
	Locally-based Enterprise Advancement Programme (LEAP)		
	Local Industry Upgrading Programme (LIUP)		
Tax incentive schemes	Tax Exemption for Start-ups	Development and Expansion incentive (DEI)	Double Deduction for Overseas Investment Development Expenditure
	Enterprise Investment Incentive Scheme		Overseas Investment Incentive (OII)
	Pioneer Incentive (PC-M of PC-S)		Overseas Enterprise Incentive (OEI)
	Industrial Exemption Factory Scheme	Licensed Warehouse Scheme (LWS)	Regional/international Headquarters award (RHQ/IHQ)
	Zero GST Warehouse Scheme		Double Tax Deduction for Market Development
	Investment Allowance (IA)	Investment Allowance(IA)	Investment Allowance (IA)
			Global Trader Programme (GTP)
		Global Trader Programme (GTP)	Expansion Incentive for Partnerships (EIP)
Supporting programmes	Trade Credit Insurance (TCI) Programme Warehouse Retail Scheme International Partners Programme (iPartners) Local Enterprise Technical Assistance Scheme (LETAS)		

Source: SME Toolkit – Singapore. Available at: *http://singapore.smetoolkit.org/singapore/en/content/en/3604/Financial-Assistance-Schemes*.

A portfolio approach, in principle, addresses this problem by helping to identify where there are relative gaps in programme activity, and where reallocation of resources could improve the performance of the whole portfolio of budget investments by government, in

conjunction with the private sector. A portfolio approach, in conjunction with *a priori* and *ex-post* cost-benefit analysis of programmes, allows for the rigorous monitoring of the net economic and social benefits of programmes over the long-term. This framework is helpful in clarifying to all actors where policy effort is being focused and in comparing results across activities. By reallocating resources within a portfolio, it is possible to increase the return on a given investment, for a given level of risk.

Impact and available evaluation evidence

As an approach to policy making, not a policy or programme itself, it is difficult to evaluate the contribution of the portfolio analysis to improved policy impacts. For this reason, few evaluation exercises have attempted to do so.

Strengths and weaknesses of the portfolio approach

The major strength of a portfolio approach lies in its ability to support a holistic design of policy taking account of the spread of activities relative to objectives and needs. It can show what gaps or duplications exist in the policy and programme support across government ministries, agencies, departments, etc, and the extent to which the policy mix corresponds to perceived needs. It does so in a clear and consistent way and by doing so, allows for governments to clearly and transparently assess the degree to which their stated policy goals are being achieved. Accompanied by proper, comparative evaluation across programmes and enterprise stages, a portfolio approach offers a tool to channel funding towards programmes with the greatest social and economic benefits and in this way, bring about an effective and efficient allocation of tax payers' funds.

However, it must be understood that on its own, a portfolio approach does not give a clear indication as to where SME and entrepreneurship policy efforts should be directed. Without evaluation evidence, it only shows the distribution of budget allocation and thus provides no basis on which to decide whether policy can be adjusted to increase impacts.

To provide the information on which to determine useful policy adjustments, resources need to be invested in the thorough evaluation of all programmes across the entire portfolio of SME and entrepreneurship policies. These evaluations also need to be conducted in a consistent way, with a consistent methodology, so as to ensure that the relevant costs/benefits of programmes can be compared in a meaningful way.

It should also be noted that there can be difficulties in quantifying and measuring the social welfare brought about by certain programmes or projects that have outputs that are not easily quantified in monetary terms.

Finally, it should be recognized that inter-connections in policy outcomes across the policy system can be complex. Diverting funds from one area to another may change the benefit/cost ratios of individual interventions compared with the situation before the shift in funding. For instance, based on the prior evaluation that a venture capital fund has been particularly successful in investing in start-up firms leading to a number of high-growth firms, a policy maker may conclude that investing a larger portion of available funds into this fund will bring about a proportional increase in economic and social benefits (in the form or more high-performing start-ups). However, as was the case in Canada in the 1990s with the *Canadian Labor Fund Program*, by funding a venture capital programme that was too large the Canadian government crowded out the private sector as all attractive opportunities were subsequently funded by the public sector (Lerner, 2009). The portfolio

approach should therefore be used in conjunction with knowledge of the inter-connected nature of the policy environment.

Relevance for Thailand

In Thailand SMEs and entrepreneurship matters are a cross-cutting policy issue involving several ministries, agencies and other policy delivery organisations. A portfolio management approach would help meet the challenge of managing and co-ordinating the various policies, projects, programmes and decisions across these different government jurisdictions.

For further information see:
http://singapore.smetoolkit.org/singapore/en/content/en/3604/Financial-Assistance-Schemes

Notes

1. UF is a unit of account that is adjusted to inflation so it maintains its real value constantly. The UF of 31 May 2011 is 21 809 Chilean pesos.
2. 470 pesos per US dollar.
3. May 2011.
4. This study evaluated a group of SME support programs and the impact of PDP is evaluated with another cluster program named PROFO, so the results are for both.

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