

OSMEP 



THE ASEAN SME REGIONAL DEVELOPMENT FUND CONCEPTUAL FRAMEWORK

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Executive Summary: Final Report on the ASEAN SME Regional Development Fund Conceptual Framework

This report proposes a conceptual framework for the planned ASEAN SME Regional Development Fund (the Fund) based on significant primary and secondary information on the challenges facing ASEAN SMEs and on SME funds established elsewhere. This work was completed under a project listed in the ASEAN Policy Blueprint for SME Development 2004-2014. The Fund, scheduled for launch within four years by the ASEAN SME Agencies Working Group, is intended to promote equitable regional economic development, one of the four primary objectives of the ASEAN Economic Community (AEC). Thailand's Office of Small and Medium Enterprises Promotion (OSMEP) has appointed a Thailand-based regional non-profit development organization, the Kenan Institute Asia (the consultant), to conduct this study to assist in the design of the fund as an effective source of financial and technical assistance for ASEAN SMEs.

The consultant began with an examination of secondary sources of information on regional funds in Africa, Asia, Europe, Latin America and the Middle East, reviewing their objectives, characteristics, and operations. This secondary data analysis revealed that there were few models on which to base the ASEAN Fund. Of particular interest, however, was the European Union fund called the Joint European Resources for Micro to Medium Enterprises Initiative (JEREMIE), which has many characteristics potentially useful for an SME development fund in the ASEAN region.

The consultant then sought primary input from each of the key SME supporting organizations in the ten ASEAN member countries, a sampling of 93 ASEAN SME leaders and 12 experts in establishing funds for SME development from local and multi-lateral organizations. Of particular importance was the input from the ASEAN Business Advisory Council, the Greater Mekong Sub-region Business Forum, the Asian Development Bank, the Export-Import Bank of Thailand and the European Union JEREMIE project.

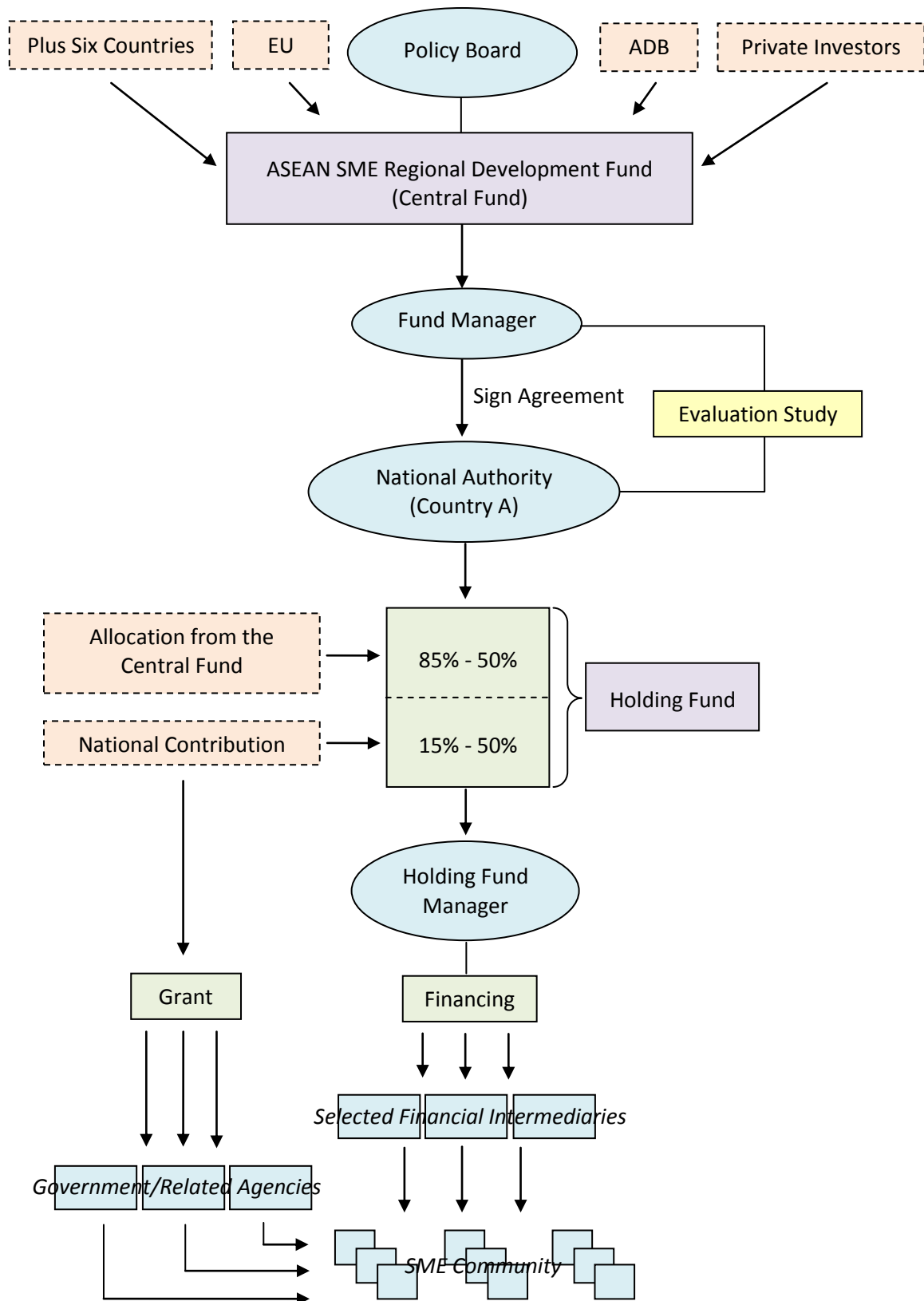
The consultant conducted primary research in the following ways:

- 1) Sent out electronic questionnaires to ASEAN SME supporting organizations and ASEAN SMEs with cooperation from OSMEP
- 2) Conducted in-depth individual interviews with officials responsible for SMEs and ASEAN development
- 3) Participated in the ASEAN SME Round Table Discussion on the Fund during the 25th ASEAN SME Agencies Working Group in the Philippines
- 4) Drafted the Final Report on the establishment of the Fund for discussion and revision at the Expert Group Meeting on June 29, 2010
- 5) Participated in the Expert Group Meeting on ASEAN SME Regional Development Fund during the 26th ASEAN SME Agencies Working Group in Thailand

After analyzing the primary and secondary information collected, the consultant proposed a framework for the Fund based partly on the EU 'JEREMIE' project and the expectations of the ASEAN SME Agencies Working Group. The goal of the Fund shall be to increase SME competitiveness, prepare SMEs for the ASEAN Economic Community, and promote regional economic collaboration and equitable economic development among the member countries through expanded trade and investment. The basic concept of the Fund is a regional

organization with country branches that work closely with local financial intermediaries and SME agencies capable of providing financial support, knowledge sharing, and skill development suitable to the specific needs of each country. One key mechanism will be the required re-payment of financial assistance to enable the Fund to sustain its support for SMEs over the long term. It is proposed that the initial duration for the Fund be set at five years but with a provision for extension if evaluated as successful. There should be a formal evaluation every two years and at the end of the first five years. The framework diagram below shows the structure proposed and the flow of information and funding to SMEs through that structure.

ASEAN SME Regional Development Fund Conceptual Framework



In line with the diagram above, the operation of the Fund can be summarized as follows:

1. Fundraising sources to be explored include the Plus Six Countries (China, Japan, South Korea, India, Australia, and New Zealand), the European Union, the Asian Development Bank, private investors, and possibly ASEAN countries. Additional funds should come from national contributions, which are to be set at appropriate levels for each country as percentage matches of the funds provided from the Fund. The percentage of match, ranging from 15% - 50%, should depend on the level of development of each country. No country should receive funds unless they contribute at least some matching funds. All funds are to support financial assistance to SMEs and need to be repaid to the Fund. For funding technical assistance, each country should consider its contribution according to the needs of SMEs in the country.
2. The highest level body in the operation of the Fund shall be the Policy Board, comprised of one representative from each member country and from each entity contributing money to the Fund. A representative from the ASEAN Secretariat could also be included to provide coordination with the Secretariat's work to establish the AEC. The Policy Board will be responsible for drafting the scope of the operation and the policies of the Fund, as well as identifying the funds necessary for its establishment and operation.
3. After establishing the Fund, the Policy Board will select an organization to serve as Fund Manager to administer the Fund, disburse money to the country-level Holding Funds, and ensure the Fund's operations correspond with its objectives. The organization selected as the Fund Manager should have experience in managing a regional fund, be able to coordinate assistance within ASEAN, and have a clear understanding of the differences among SMEs in the member countries. Several experts proposed the ADB for this role.
4. The Fund Manager will appoint a consultant to conduct a formal Evaluation Study that should include each country's general economic environment, opportunities for multi-country SME activity, SME definition, SME strengths and weaknesses, and need for technical as well as financial assistance. The Evaluation Study will be used to guide distributions from the Fund as well as determine the types of loans or other modes of assistance that would be best suited for each country.
5. Each member country will establish a National Authority made up of representatives from central agencies or SME support organizations. Each National Authority will work directly with the Fund Manager to ensure efficient and effective operation of the Fund in its country. Together, each National Authority and the Fund Manager will use the results of the Evaluation Study to set an appropriate framework for Fund management in its country, and will then sign a cooperative agreement with the Fund Manager based on that framework.
6. Each National Authority will select an organization with the financial management capability to undertake the role of Holding Fund Manager. The Holding Fund Manager will establish the country Holding Fund and work with organizations that can provide SMEs with financial and technical assistance. It will also select reputable financial intermediaries to provide financial assistance to SMEs.

7. The financial intermediaries shall be financial assistance providers, such as banks, finance companies or factoring companies. They should be capable of providing a variety of financial services to SMEs such as trade credit, working capital, capacity improvement loans, equity investment and financial advisory services.
8. Government agencies and private training or consulting organizations may receive support to address technical assistance needs identified in the Evaluation Study.
9. SMEs benefiting from the fund must fit each country's SME definition and must have some form of business activity or linkage in two or more ASEAN countries. They can come from any business sector. The distribution of funds, however, may be weighted towards 12 priority sectors: tourism, airline business, automotive, wood products, rubber products, textiles, electronics, agricultural products, fisheries, IT, health, and logistics. SMEs with regional linkages, such as sales or sourcing, and SME development projects useful to the region as a whole should also receive priority.

Two main aspects of the Fund management structure presented above are particularly critical. First, the Evaluation Study must provide a careful, in-depth analysis of SMEs and their needs in each member country as well as the opportunities for SME linkages with other member countries. This must be sufficiently detailed to allow the Policy Board, the Fund Manager and the country-level Holding Fund Managers to draft practical policies and principles for operation of the Fund. Second, the Holding Fund Manager in each country must be efficient and effective, because the Holding Fund plays the significant role in the administration of the Fund so that it strengthens the SMEs in that country.

Chapter 1

Introduction

1.1 Rationale

Economic collaboration among the members of the Association of South East Asian Nations (ASEAN) has expanded to cover all key economic fields, including goods and services, investment, industrial and agricultural standards, intellectual property, transport, energy and finance. In the ASEAN Vision 2020 and the Hanoi Plan of Action, ASEAN has clearly defined its future goal of becoming an integrated economic community with free circulation of goods, services and investment. An important aspect of ASEAN economic collaboration is the role of ASEAN's small and medium-sized enterprises (ASEAN SMEs). The ASEAN countries are seeking to promote the development of SMEs in order to increase their ability to compete in both regional and world markets. If SMEs are actively developed, they have the potential to become the key drivers in the establishment of a sustainable regional economic system. In many ways SMEs are the foundation of the ASEAN economy and the most significant driving force in the economies of region. Key contributions of ASEAN SMEs include:

- 1) Creating more jobs than larger companies
- 2) Being the investment starting point for new entrepreneurs because of their lower capital requirements
- 3) Taking advantage of their small size and agility to innovate new products and services
- 4) Providing linkages with large enterprises in regional supply chains
- 5) Generating income for the region, especially in the export – production sector and the tourism sector
- 6) Preventing monopolies and increasing business competition – thereby improving economic efficiency
- 7) Playing an important role in alleviating poverty by providing jobs for people with lower level education and skills and those living in remote areas

Despite these well-recognized contributions, SMEs still encounter financial and non – financial challenges. ASEAN SMEs have problems with access to capital; their ability to easily and effectively access low cost capital sources is limited. Other problems include lack of access to technology and markets, insufficient market knowledge and inadequate managerial skills and data for setting operating standards. Typically, SMEs in ASEAN developing countries have been forced to rely on internal sources of capital, as well as informal sources such as moneylenders and buyers of their products. Research has shown that the SMEs receive disproportionately less bank finance than large enterprises. In some ASEAN countries there have been efforts to encourage commercial banks to increase lending to SMEs through means such as lending targets, interest subsidies, tax breaks, and loan guarantees. Despite these efforts, studies have shown that commercial financial institutions tend to have an operational bias against SMEs (due, in part, to SME difficulties in providing full financial information, business plans and adequate collateral).

The establishment of an SME Regional Development Fund was put forward as a way to deal with these problems in a collaborative manner while supporting an effective ASEAN Economic Community (AEC) by the year 2015. Under the AEC, SME development will be

based on the ASEAN Policy Blueprint for SMEs Development (APBSD) 2004-2014. This Blueprint includes the promotion of an SME network, participation in a regional production and distribution system, the promotion of the best practices in SME development, and the expansion and improvement of financial resources for SMEs.

The concept of creating the SME Regional Development Fund as an important source of financial assistance for the SMEs in the ASEAN Region was put forth at the 1st Summit Conference of SME Development and Investment in East Asia, which was held in Beijing. Thailand and the Lao's People Democratic Republic were assigned to implement this project. The main objectives for the Fund are to improve economic cooperation, to promote trade and investment in the region and to develop human resources.

1.2 Objectives of the Project

1. To collect data on and study the operation and utilization of SME regional development funds in various regions of the world. This study should specify the duration of the funds along with the problems, obstacles and conditions concerning the selection of the agencies that will benefit from the funds.
2. To study and collect the data from the agencies and people involved in establishing and using SME regional development funds in order to gain an understanding of how best to establish and manage such a fund.
3. To draft the conceptual framework for the establishment of the Fund and propose it to ASEAN for consideration.

1.3 Scope of Work

In order to fulfill the objectives, the consultant has completed the following:

1. Conducted a Feasibility Study
 - 1.1 Collected primary and secondary data related to the establishment and utilization of the proposed ASEAN SME Regional Development Fund
 - 1.2 Analyzed the data in Item 1.1 in order to draft the Conceptual Framework of the Establishment of the SME Regional Development Fund (Interim Report)
 - 1.3 Attended the ASEAN SME Round Table Discussion on the ASEAN SME Regional Development Fund during the 25th ASEAN SME Agencies Working Group in the Philippines
2. Submitted a progress report on the project every two months, beginning with the delivery of the Interim Report
3. Drafted the Final Report on the establishment of the Fund in order to present it at the Expert Group Meeting during the 26th ASEAN SME Agencies Working Group in Thailand
4. Held the Expert Group Meeting during the 26th ASEAN SME Agencies Working Group in Thailand for 60 participants. Officers from the European Commission (EC), and the Asian Development Bank (ADB) were also invited to attend the meeting, at which the revised Conceptual Framework were presented
5. Completed the Final Report, both Thai and English versions, with details on the establishment of the ASEAN SME Regional Development Fund. The opinions and suggestions of the Expert Group Meeting were presented as supplements to the Final Report

1.4 Planning and Implementation

1. Project Implementation

The study of the ASEAN SME Regional Development Fund Conceptual Framework included the following four main activities:

- 1.1 Collecting data on the establishment and utilization of SME regional development funds
- 1.2 Drafting the conceptual framework for the establishment of the ASEAN SME Regional Development Fund
- 1.3 Attending ASEAN SME Round Table Discussion on ASEAN SME Regional Development Fund during the 25th ASEAN SME Agencies Working Group in the Philippines in order to present the Draft Conceptual Framework of the Establishment of the Fund to the meeting for consideration. There will be continual coordination to consider and improve the Conceptual Framework
- 1.4 Holding the Expert Group Meeting for 60 participants during the 26th ASEAN SME Agencies Working Group in Thailand

2. Data Collection and Study Method

In order to acquire the knowledge and understanding of the contents specified in the scope of the work, the consultant has collected the following data:

- 2.1 Secondary data from studies on the operation and the establishment of SME funds in various regions of the world. The consultant drew information from documents, printed materials, articles and various research reports completed by government agencies, private sector agencies and international organizations. The initial findings of this research include the following information:

1. The European Union (EU) has established and operates clearly structured SME funds for EU members, each of which is controlled by a specific agency of the concerned national government. The EU has also given SMEs financial and infrastructure support, using methods which can be adapted to the establishment of SME funds in the ASEAN Region.
2. The Greater Mekong Sub-region (GMS) is currently establishing a SME fund with the support of ADB.
3. In other regions, such as Latin America and the Middle East, regional funds have been established with the principal objective of maintaining the stability of the balance of payments and regional exchange rates, rather than focus directly on SMEs.

The data collected was checked for correctness before it was analyzed and used in the following reports:

- 1) Scope of the Fund Establishment
- 2) Objectives of the Fund
- 3) Management of the Fund
- 4) Scope / Process of Assistance
- 5) Priorities of the Fund
- 6) Duration of the Fund
- 7) Problems and Obstacles with the Operation of the Fund

2.2 Primary data on opinions and suggestions on the appropriate establishment, objectives, management and utilization of the Fund. This primary data was used for drawing up the draft Conceptual Framework. The consultant collected this data from three target groups:

- 1) Agencies that promotes SMEs in each ASEAN member country.
Specifically, the consultant collected data from the following agencies:

Country	Agency
1) Thailand	- Office of SMEs Promotion, Ministry of Industry
2) Malaysia	- SME CORP
3) Indonesia	- State Ministry of Cooperatives and SMEs
4) Philippines	- Bureau of Small and Medium Enterprise Development (BSMED), Department of Trade and Industry
5) Singapore	- International Partnership Office (Asia) - SPRING, Singapore
6) Brunei Darussalam	- Entrepreneurial Development Centre, Ministry of Industry and Primary Resources
7) Cambodia	- Department of Small Industry and Handicraft, Ministry of Industry, Mines and Energy
8) Laos	- SME Promotion and Development Office, Ministry of Industry and Commerce
9) Myanmar	- Directorate of Myanmar Industrial Planning (DMIP)
10) Vietnam	- Agency of SME Development, Ministry of Planning and Investment

1.1) Topics for study and data collection

- Policy on various promotions, including government SME financing programs
- Problems and obstacles in SME development in the country
- Activities on which ASEAN should collaborate, apart from providing financial support through the ASEAN SME Regional Development Fund

- Becoming the ASEAN Economic Community (AEC) – business plan in ASEAN Region, policy measures and utilization of public services to help business adjust and utilize the AEC
- Support funds in each member country, such as seed funds
- Characteristics of fund management, including financial aid, loans, guarantees, etc.
- Structure of fund management
- Preventing overlap with other funds in this region

1.2) Method of Study and Data Collection

The consultant coordinated with the Office of SMEs Promotion in sending questionnaires by e-mail and gathered additional data by e-mail and telephone.

2) Data was gathered from 93 ASEAN SME entrepreneurs (at least 5 entrepreneurs in each country)

2.1) Topics for study and data collection

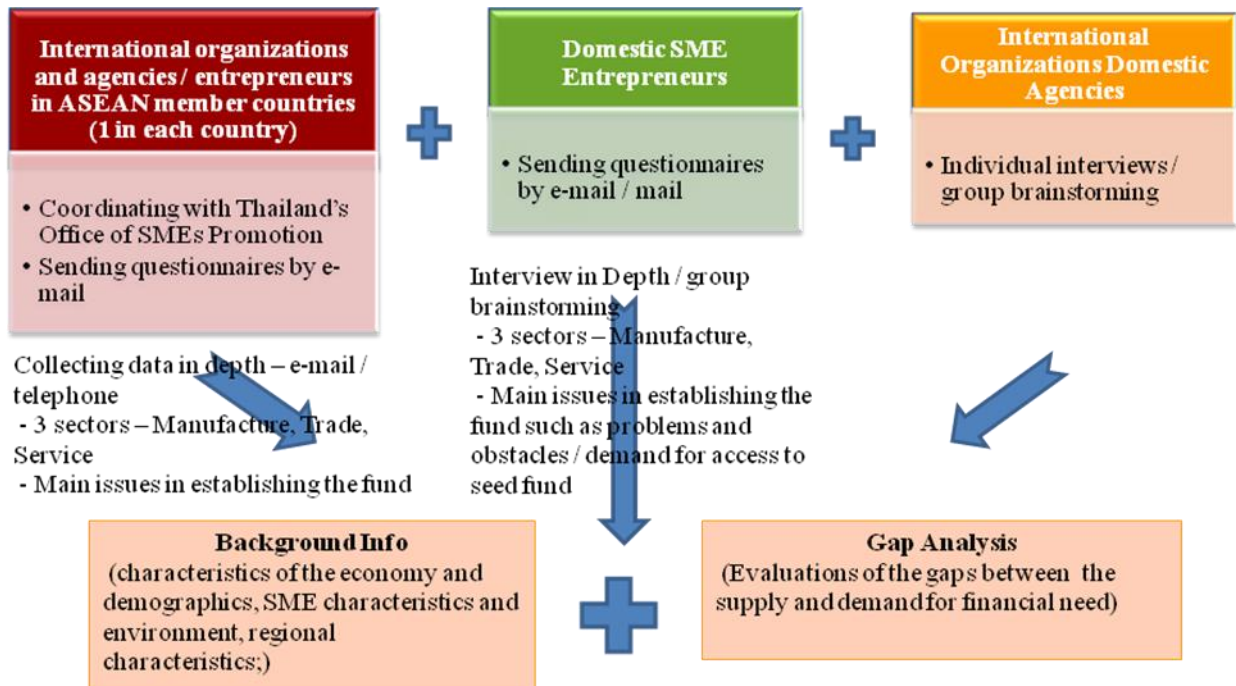
- General condition of the enterprise – category, characteristics, structure, basic, and financial status
- Operational and financial problems and obstacles that the enterprise currently encounters
- Access to seed funds – demand for and utilization of internal and external seed funds, meeting the demand for capital
- Business plan of the enterprise – expansion plans, employment, level of confidence in requesting funds, including debt financing and equity financing, types of seed funds needed, amount of the funds needed, and problems and obstacles in receiving the funds
- Activities or topics on which ASEAN countries should collaborate, in addition to the issue of financial aid under the ASEAN SME Regional Development Fund
- Becoming the ASEAN Economic Community (AEC) – business plans in the ASEAN Region, access and utilization of public services to adjust or expand business under the AEC, assistance measures needed for adjusting or expanding business to the AEC

2.2) Method of study and data collection

- The consultant sent out questionnaires by e-mail and mail.
- Additional data was collected on important topics through individual interviews and group brainstorming among SME entrepreneurs in Thailand, and by email and telephone in the case of overseas SME entrepreneurs
- The consultant used a stratified random sampling methodology, considering three types of sampling groups:
 - 1) Entrepreneurs who currently run an enterprise with regional activities in ASEAN member countries
 - 2) Entrepreneurs who previously ran a regional business in ASEAN
 - 3) Entrepreneurs who have not yet had an opportunity to manage regional business activities.

- With regards to type of industry, the consultant divided respondents into three categories: Manufacturing, Service, and Trade. Even though the definition of industries and SMEs in each ASEAN member country varied slightly (See Appendix 1), the consultant used the definition of each particular country for the respondents from that country.
 - The consultant stipulated that all respondents must be the owners or administrators of their enterprises.
 - Reporting on the data is shown in two ways:
 - 1) According to member country
 - 2) According to the characteristics of the enterprise, such as the size, the number of staff, the economic sector, the duration of the operation, access to seed funds, etc.
- 3) Additional data and input was sought from organizations such as the ASEAN Secretariat Office, the European Union Commission, the Asian Development Bank, the ASEAN Business Advisory Council, and the GMS Business Forum including at least two specialists with experience in the establishment of an SME development fund in foreign countries
- 3.1) Topics for study and data collection included:
- Characteristics of the operation of the fund
 - The income-earning process of the fund
 - Structure and conditions of the utilization of money from the fund
 - Priorities
 - Patterns of the benefits from the fund
 - SME funds in various regions
- 3.2) Method of study and data collection
- The consultant conducted individual interviews and group brainstorming.
 - In the case of overseas organizations or individuals, the consultant sent questionnaires by e-mail, and asked for additional data by e-mail and telephone.

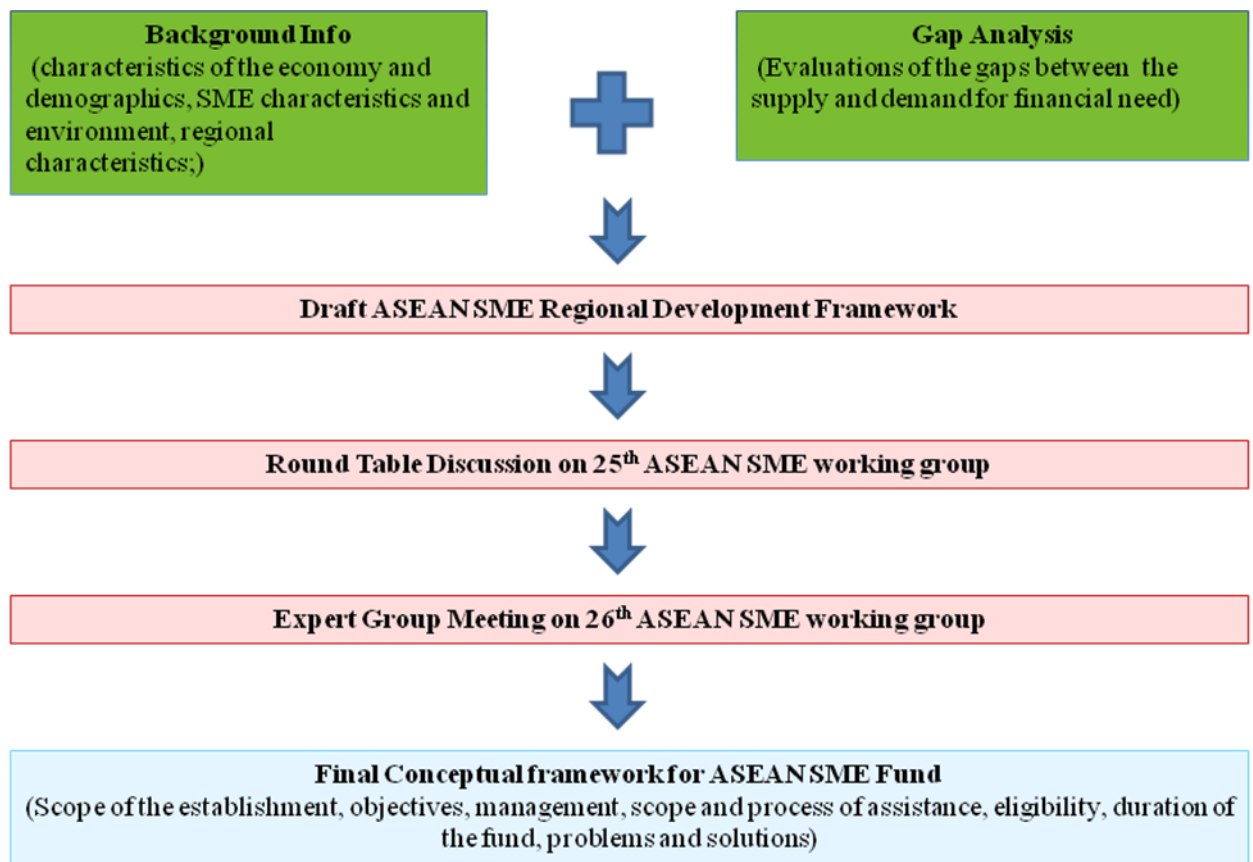
Picture 1.1 Scope of Data Collection



3. Holding Expert Group Meeting

The consultant organized an Expert Group Meeting during the 26th ASEAN SME Agencies Working Group in Thailand for 60 participants to propose ways to improve the Conceptual Framework. Participants invited to the Expert Group Meeting represented SME promotion agencies in ASEAN member countries, ASEAN member country finance agencies and the private sector. Experts with experience in establishing or managing SME regional development fund came from the European Commission, and the Asian Development Bank. The draft Conceptual Framework was presented for review, discussion and improvement. The objective is to ensure that the Framework is appropriate for the specific conditions in ASEAN and really useful for SMEs.

Picture 1.2 Conceptual Framework for the Operation



Chapter 2

SME Development Funds

The consultant has studied extensive secondary information on the establishment and operation of SME funds in various regions of the world, drawing on documents, printed materials, articles and research reports from government agencies, the private sector and international organizations. The study showed that the Commonwealth and the European Union have established and operated SME funds for the member countries with effective agencies and clear structures. The consultant also presented information on a fund in the Latin America Region that is the regional, but whose main objective is to maintain the stability of the balance of payments and exchange rates rather than the development of SMEs. Basic information on each fund studied is shown below.

2.1 The EU SME Fund

Background of the Fund

A. The EU Budget, which provides the resources for the SME Fund, has four sources of income:

- 1) Traditional Own Resources (TOR) includes taxes on behalf of the EU, especially import fees for goods from countries outside the EU that enter the EU countries. The EU Fund earns approximately EUR 17.3 billion or about 15% of its total income from these fees.
- 2) Financial sources from the Value Added Taxes (VAT) charged in a variety of ways in each of the EU countries. This provides about another 15% of the total income or about EUR 17 billion.
- 3) Income from Gross National Income (GNI) is contributed to the EU SME Fund at a rate that they jointly set (0.73%). This provides 69% of the total income or about EUR 80 billion and is capped at 1.24% of the GNI for the EU as a whole.
- 4) Other income such as the tax deducted from the salary of the EU staff, income from countries out of the EU, fines or penalties for breaking EU regulations. This other income makes up the remaining 1% of the budget, about EUR 1.3 billion.

B. Structure of EU Financial Assistance

The structure of financial assistance to the EU member countries is composed of two main funds, the Structural Fund and the Cohesion Fund. The principal objectives of these funds are to support the weaker economies in the EU and to lessen the gaps in economic development, transport, communication and human capacity. The Structural Fund has one-third of the total budget of the EU, and each of 27 EU member countries has one representative on the Managing Authority that sets the policy for the Structural Fund. For the period 2007-2013, the total budget of these two funds is EUR 348.5 billion --- EUR 278 billion for the Structural Fund and 70 billion EUR for the Cohesion Fund. The EU Structural Fund includes the following:

1) The European Investment Fund (EIF)

The EIF was established in 1994 to be the central agency for supervising financial support to SMEs. The EIF does not directly provide funds to SMEs but works through private banks. The support comes in the form of venture capital and guarantee funds. Shareholders of the Fund are the European Investment Bank (59.15%), the EU Community through the EU Commission (30.00%) and other EU private financial institutions (10.85%).

2) The European Regional Development Fund (ERDF)

The ERDF, which is part of the Structural Funds mentioned above, supports programs for the development of the Region, such as preparations to cope with economic change, investment promotion, increasing regional competitiveness and territorial cooperation, transport and communication, innovation research, environmental conservation, agriculture, risk reduction and infrastructure investment in the less developed countries.

3) The European Social Fund (ESF)

The ESF supports employment and socio-economic cooperation. The ESF spends about 10% of the EU Structural Fund and focuses on the economic development and well-being of the EU countries. Other objectives of the ESF are to support an increase in employment and better quality jobs, to encourage employment of women and the underprivileged and to do research on the labor market.

The ESF works in three main areas: improving the self-adjustment ability of labor and enterprises, increasing access to employment and participating in the labor market. The ESF puts emphasis on social participation by eliminating unfair practices and facilitating the development of a labor market that is open to the underprivileged.

The main objectives of the Structural Fund during the period 2007-2013 are as follows:

1) Convergence Objective

This objective covers the member countries with per capita GDP below 75% of the average value for the EU. The purpose is to develop these economies using financial support from the ERDF, the ESF and the Cohesion Fund. This objective focuses on human capital, innovation, creation of a learning society, environment and efficient management. The budget is EUR 282,855 million.

2) Regional Competitiveness and Employment Objective

This objective covers all countries and regions in the EU except the regions included in the first objective. The goals are to create competitiveness and employment, to promote investment, to support innovation and to create new entrepreneurs. The total budget of this objective is EUR 54,965 million.

3) Territorial Cooperation Objective

The goal is to seek cooperation among the EU countries and find solutions to various problems such as the development of towns, the countryside and coastal areas in terms of both economic and environmental management. This objective is divided into three kinds of cooperation:

- Territorial Cooperation
- International Cooperation
- Regional Cooperation

C. Guidelines for grants from the Structural Fund

The Structural Fund has a framework for determining its funding priorities, beginning from the EU level and the national level of each country.

At the EU level, priorities and criteria for the utilization of the budget of the Structural Fund are based on the EU Cohesion Policy. At the regional level, the Community Strategic Guidelines (CSG) are used to set the framework for Fund payments to various regions, taking the following into consideration:

1. The attraction of the opportunity to invest in a region, based on the ability to gain access to the region, as well as the standard goods and services and the maintenance of the economic environment of that region
2. The ability to create innovation, develop entrepreneurs, discover new economic data and the ICT technology
3. The region's ability to create better work and attract people to participate in activities that lead to the creation of a new and more capable work force

In the plan for 2007-2013, the Structural Fund, worth EUR 308 billion, is divided into

- 81.5% for the Convergence Objective
- 16% for the Regional Competitiveness and Employment Objective
- 2.5% for the European Territorial Cooperation Objective

EU Financial Assistance to SMEs

Stimulating economic growth and increasing employment are the main missions of EU financial assistance to SMEs. As in other regions, SMEs are the main factor in driving the economy of Europe, and therefore the majority of EU development spending is targeted at them. There are many programs to enhance SME access to funds because, as in all other regions of the world, SMEs in Europe tend to lack the financial liquidity necessary to expand their business and create new goods for the market. The EU Commission has worked with the member countries to prepare various guidelines to support and promote SMEs. The EU has implemented two main guidelines for the development of SMEs, namely:

- 1) Improving the economic environment for small businesses to grow and develop by holding meetings for the member countries to discuss and exchange policy information and coordinate policy making.
- 2) The European Commission helps small businesses solve their financial problems by working systematically with financial institutions to increase access to bank financing, loan guarantors and venture capital.

The EU has established various funds and financial intermediaries under the frame of the Structural Fund. These are used for the development of projects that promote cooperation in reducing the socio-economic gap. The funds that stress reduction of the socio-economic gap and the promotion of SMEs and small enterprises are as follows:

2.1.1 The European Regional Development Fund (ERDF)

1.1) Scope of its establishment

The European Regional Development Fund (ERDF) was established in 1975 to stimulate economic development in the least developed countries in Europe and to eliminate inequality in the economy and resources with emphasis on:

- Giving assistance to regions that need capital to invest in SMEs through programs that correspond with the Convergence Objective, the Regional Competitiveness and Employment Objective and the European Territorial Cooperation Objective
- Providing direct investment assistance to SMEs to create sustainable work
- Building essential linking infrastructure for research on the development of ICT, the environment, energy and transport
- Creating strong internal capacity through measures for local and regional development, which include measures for helping small businesses through financial instruments such as venture capital, loans and guarantee funds

- Supporting various kinds of specialization, which are essential to economic development

The scope of the establishment of the ERDF has set the following policies:

1) Convergence Objective – 81.5% of the budget

The ERDF emphasizes giving help to maintain the economic sustainability and well-being of the region and developing the internal capacity of the region through various projects. The objectives of these projects include bringing advancement, modernity and economic diversity into the community, doing research and technological development (R&TD), creating goods, innovations and new entrepreneurs, increasing the efficiency of research on development, and combining the research capacities of many areas to form the European Research Area, which emphasizes the development of research for SMEs such as:

- Exchange of technology, establishment of educational institutions and centers for technology research
- Development of business networks such as public–private partnerships and business clusters
- Providing business knowledge to SME groups
- Granting funds to create innovations or new methods through financial instruments
- Creating a learning society by developing the basic factors for communication, supporting the manufacture of goods and services from local content, increasing the safety of and access to the Internet, especially ICT assistance that supports the work of SMEs or stimulates new, creative ideas in trade
- Stimulating local development to create employment
- Solving or preventing environmental problems, such as waste water, air pollution, drought, chemical-contaminated water sources and soil degradation.
- Conserving the environment and biological diversity, including the creation of good management systems and manufacturing technology that is both environmentally friendly and beneficial to SMEs
- Reducing and preventing risks caused by both natural factors and technology, including developing and enhancing coping plans
- Stimulating tourism by promoting sustainable tourism, maintaining the natural environment essential for socio–economic development, and creating new goods and services for conservation tourism
- Investing in the conservation of local traditions and creating regional services and attractions
- Promoting investment in transportation, such as the Trans–European Network, which is convenient, rapid, clean and environmentally friendly
- Investing in creating energy sources for the Trans–European Network that are cost-effective and sustainable
- Conducting finance and investment studies
- Investing in health and social welfare to enhance community development and the quality of life of the local people

2) Regional Competitiveness and Employment Objective – 16% of the budget

There are three objectives:

- Creating economic innovation from new local economic instruments; strong technology research relationships among the public sector, the private sector,

- universities and economic development centers; new entrepreneurs; and developing innovative financial instruments to support SMEs
- Preventing and reducing investment risks, especially by reviving agricultural areas, improving infrastructure, using sustainable energy and communication channels, and maintaining the local heritage and culture for socio-economic development and environmental tourism
- Increasing SME access to communication channels, especially the Internet, in order to facilitate the movement of SME products among countries through railroads, airports, ports and other transport infrastructure

3) The European Territorial Cooperation Objective - 2.5% of the budget

The key elements are socio-economic development and environmental preservation through activities set out in the Strategic Plan, including:

- Supporting the creation of new entrepreneurs in the tourism industry and the creation of trade cooperation
- Stimulating trans-national cooperation to conserve natural resources and the environment and reduce the risks of environmental deterioration
- Creating linkages between the countryside and towns
- Reducing the isolation of remote areas by increasing transportation and communication routes, as well as extending systems for water supply, waste treatment and energy to those areas
- Supporting collaboration on the construction of public utilities, especially those that provide for hygiene, culture, tourism and education

1.2) Objectives of the Establishment of the European Regional Development Fund (ERDF)

According to Regulation 160, Charter 1083/2006 of the European Commission, the ERDF has the duty to grant financial assistance to support socio-economic integration and reduce economic inequality in the region. The Fund should promote economic development and improve the industrial structure of the countries that are developing slowly.

1.3) Management

- *Member States and Managing Authority*

The management of the ERDF is in line with the management regulations of the Structural Fund. Programs and projects that request support from the Fund come under the supervision and management of the member states involved in the program/project. The member states set up a “Managing Authority” whose duty is to select appropriate applicants and projects, and improve project plans. Thus, the Managing Authority is the center for other organizations (public agencies, companies, associations, etc.) in the member states when they seek support from the EU Structural Fund.

- *Annual Implementation Report*

The Managing Authority of each member state must issue an Annual Implementation Report, which provides information on the steps in requesting assistance and on progress towards reaching the goals set each year. This report is delivered to the European Commission which reviews implementation and the progress of projects. The European Commission can ask for an inspection whenever there are changes in a project.

The Annual Implementation Report is an important too in ensuring that project implementation is smooth and transparent. The report must be arranged according to the regulations set by the EU and must include the following:

- Details of the money granted (expenses and details, evidence accounting for all of the money received from the European Commission)
- Progress Report on the implementation of each project and the extent to which it has achieved its targets
- Details of the changes in any conditions related to the implementation and the grant of assistance (such as socio-economic changes, changes in the country or the region)
- Methods used to achieve the goals of each project such as accounting controls, inspection and evaluation, and provision of for technical assistance)
- Methods used to align projects with community policies (such as regulations of competition, employment, protection of the environment, promotion of equality between sexes, etc.)

- *Correction of Projects and Programs*

Because each program plan lasts seven years (the current plan covers fiscal years 2007-2013), there are many socio-economic factors that have an impact on project implementation, changes in which may make it necessary to modify implementation methods. The Managing Authority is the main responsible party for inspection and correction when changes are needed at the program level. All corrections and alterations must be agreed to by the concerned member state. However, corrections at the program level by the Managing Authority must not have any impact on the amount of money that the Structural Fund grants and must also be coordinated with the Monitoring Committee.

- *Monitoring Committee*

In addition to the Managing Authority, the EU member states also have a “Monitoring Committee” for each program. The Monitoring Committee has the duty to certify how effective the assistance from the Structural Fund has been and how well it corresponds with the overall objectives. The Monitoring Committee works closely with the European Commission as the project consultant. The duties of the Monitoring Committee include:

- Inspecting whether the program has been completely implemented and whether it needs any changes
- Approving the criteria for granting funds
- Evaluating the result of work done in order to check whether activities are done according to the main objectives or not
- Inspecting implementation before reporting on it to the European Commission
- Approving the Implementation Report before delivering it to the European Commission
- Approving any project corrections that have an impact on grants from the Fund

The stakeholders of projects supported by the Structural Fund will not receive money directly from the European Commission but from a “Payment Authority” appointed by the EU member states.

1.4) Scope and Process of Assistance

The scope of assistance provided by the ERDF is specified in Charter 1083/2006 as follows:

- 1.4.1) The ERDF has the main duty to provide assistance in line with the key objectives of the Fund:
- Convergence -- improving the conditions for growth and development in the least-developed regions where the economy is still lagging behind the rest of the EU
 - Regional Competitiveness and Employment – assisting those areas outside the Convergence objective to strengthen a region's competitiveness and ability to attract investment and provide employment
 - European Territorial Cooperation -- supporting nine European Territorial Co-operation programs that encourage cross-border, trans-national and inter-regional co-operation and harmonious development.
- 1.4.2) The ERDF must give financial assistance to
- a) Investment that leads to the creation of sustainable work, starting with direct assistance to SMEs
 - b) Investment in infrastructure
 - c) Development of local capacity by various measures including the support of SMEs through venture capital, loans, loan guarantees, local development funds, interest subsidies, business networking exchange of experience in the Region
 - d) Other related technical assistance

1.5) Priorities

Priority is given to various organizations proposing projects that correspond with the three main objectives of the Structural Fund and the ERDF. These organizations include:

- Government ministries, bureaus, departments
- Development organizations
- Local organizations
- Educational institutions
- Other public organizations
- NGOs that work for development

According to the regulation concerning priorities funding, the following cases will not be considered:

- Loan interest
- Land purchase worth more than 10% of the amount of money used in the project (some exceptions may be granted by the Managing Authorities)
- Demolition of a nuclear power plant
- Recoverable Value Added Tax

Housing expenditure has qualified for priority funding since May 1, 2008 in the following cases:

- Housing expenditure must be in the frame of the implementation of a development project to upgrade a community to a town or to upgrade an underdeveloped area
- Housing expenditure must be no more than 30% of the project expenditure and no more than 2% of the total money of the ERDF.
- Housing expenditure is reserved for multi-family housing and government or NGO housing.

1.6) Duration of the Fund

Because the ERDF is set by the Cohesion Policy of the European Commission, the ERDF has a term of seven years according to Charter 1083/2006.

1.7) Problems and Obstacles

Since its establishment in 1975, the main problem that the ERDF has encountered is the frequent change of the rules for giving grants to the member states. For instance, when the ERDF was first established, the largest grants were given to the member states that raised the most funds for the EU. This regulation was changed in 1979 when the ERDF adjusted the regulation of giving the grants according to the program of each member country and maintained this regulation until 1989. During 1990 – 1999 funding changed from the traditional system to providing funds according to the objectives specified by the European Commission. In addition, the ERDF is sometimes regarded as a mechanism for making unofficial “side payments” connected with political negotiations to achieve greater cohesion within the EU. The Fund is sometimes criticized for over-emphasis on correctly following the detailed criteria and budget regulations rather than stressing funding to fulfill the main objective of the Structural Fund for the reduction of economic gaps and for the convergence of the less developed regions with the rest of the EU.

2.1.2 Joint European Resources for Micro and Medium Enterprises (JEREMIE)

JEREMIE is an acronym of “the Joint European Resources for Micro and Medium Enterprises,” a project established by the European Commission and the European Investment Fund under the EU Structural Fund for 2007 – 2013. The JEREMIE is focused on providing assistance to SMEs in Europe and is therefore the mechanism of greatest relevance to the establishment of the ASEAN Regional Development Fund.

2.1) Scope of the Establishment

On October 11, 2005, the EU, through the Central Policy Department, and the European Investment Bank (EIB), set up the JEREMIE initiative at a meeting in Brussels. This initiative was intended to support the development of SMEs using disbursements of EU funds during 2007–2013.

The JEREMIE Agreement was signed between the EIB, the European Investment Fund (EIF) and the EU member states. Each member state is offered the opportunity to utilize its portion of allocated ERDF to set up a Holding Fund. The money is then transferred to the account of the JEREMIE Holding Fund and an Investment Strategy is developed that provides the basis for an official announcement for interested financial intermediaries to apply for funds. Those intermediaries were subject to review and selection by the Holding Fund Managers (such as the European Investment Fund), and the Investment Board.

JEREMIE assistance for SMEs is typically in the form of stock holding, loans or loan guarantee funds. Each Holding Fund has a tailor-made portfolio of financial engineering instruments created to fit the needs of that particular market. In many cases, the Holding Fund is managed by the EIF through various financial intermediaries according to the policy specified in the regulation of the European Commission in Charters 1083/2006 and 1028/2006.

In preparation for the implementation phase, the European Commission and the EIF evaluated the demand for financial assistance, specifying the gap between the demand and supply of various financial goods, in order to be certain that SMEs can get access to seed

funds and receive other kinds of assistance to eliminate that gap. The European Commission and the Directorate General for Regions (DG Regio's) provide 85% of the research expenses and the EIF provides the remaining 15%. The research was designed to include the following:

- Joint conclusions
- Basic data should include characteristics of the economy and demographics, SME characteristics and the economic environment
- Analysis of the supply and demand of financial instruments suitable for SMEs
- Analysis of marketing weak points and recommendations for SMEs
- Recommendation of the appropriate instruments for use with the JEREMIE Fund

Early in 2006, the EIF set up a consulting team to conduct the research above, starting with "Gap Analyses" that included an evaluation of financial structure and a search for defects in the financial markets.

By the end of 2008, the EIF had conducted evaluations for 53 countries and regions using standard evaluation methodology and had received good cooperation from the Managing Authorities of many regions.

2.2) Objectives and Approach

For 2007-2013, JEREMIE was successfully established as a joint regional initiative due to cooperation at the EU level related to the Cohesion Policy and at the local level due to Community Strategic Guidelines. Experience showed that existing program authorities wanted to do more to help SMEs with finance, but lacked both expertise and access to risk capital. JEREMIE, by creating a framework for cooperation with the specialized financial institutions, the EIF and EIB, as well as other international financial institutions, was designed to help overcome these difficulties. JEREMIE provides SME with access to seed funds, technical assistance, grants and financial instruments such as venture capital funds and loan guarantee funds. The EIB and the EIF agreed that the JEREMIE should have the following objectives:

- To assist the SMEs of the member states in getting greater access to seed funds
- To stimulate the Managing Authority of each member state to participate in operational programs to develop SMEs
- To utilize appropriate financial instruments so that SMEs can use the money continuously, rather than receiving only one payment, as in the case of grants

The JEREMIE is an initiative but is not a fund. JEREMIE enables Member States to create Holding funds that supports financial intermediaries, not SMEs directly, and does not provide any grants directly to SMEs. The JEREMIE Holding Fund provides funding to SME-focused financial instruments including loan guarantees, loan co-guarantees and counter-guarantees, equity guarantees, (micro) loans, securitization, venture capital, business angel matching funds, and investments in technology transfer funds. These financial intermediaries, in turn, provide SMEs (the final beneficiaries) with loans and equity participation.

The Holding Fund develops an investment strategy based on the research noted above prior to signing a JEREMIE Funding Agreement with a national or regional government of an EU Member State. The funds are placed in a JEREMIE bank account. A call for expressions of interest is made and the recipient financial intermediaries are selected based on a strict evaluation process.

The main benefits of the approach used for the JEREMIE are:

- **Flexibility:** managing authorities have significant flexibility in allocating the resources provided, but all of the funds must be invested in SMEs by 2015.
- **Benefits of a portfolio approach:** The Holding Fund is able to re-allocate the resources to one or more financial products in a flexible way, depending on actual demand, which may change over time. This allows a diversification of risks and expected returns because different financial products have different default rates. It also allows active cash flow management so that funds can respond quickly to changing market requirements.
- **Recycling of funds:** The Holding Fund is of a revolving nature, so it receives repayments from the financial intermediaries allowing for further investments in the SME sector, giving this approach far more sustainability than a pure grant approach.
- **Leverage:** A big advantage of JEREMIE is its ability to engage the financial sector either at the Holding Fund level, or at the level of financial instruments, to leverage co-financing.
- **Capacity building:** EIF's growing expertise as a Holding Fund manager allows it to provide capacity building for local institutions in the lesser-developed regions. The EIF can advise on a wide range of services such as cash flow management of Holding Funds, structure of Holding Funds, product design, reporting and monitoring, corporate governance due diligence and the set-up of financial vehicles.

2.3) Management

The EIF, whose shareholders include the EIB and the European Commission, plays the key role in the JEREMIE. At the beginning of the JEREMIE Project in 2006-2007, the EIF prepared the research on the demand-supply gap noted above that helped inform further policy for the implementation phase. The implementation of the JEREMIE Fund has the following steps:

Managing Authority

The Managing Authority represents a member state in the implementation of the JEREMIE Project.



Holding Fund

After signing an agreement with the EIF, the Managing Authority will establish the Holding Fund and appoint the Fund Manager. The Holding Fund works as the fund of funds from the Structural Fund. The terms of cooperation between the Managing Authority and the Holding Fund are set by the Funding Agreement. The Holding Fund selects appropriate central financial intermediaries for each type of financial instrument through calls for expressions of interest and inspects the fund utilization of the selected financial intermediaries and the SMEs that receive the benefits.



JEREMIE Investment Board

The JEREMIE Investment Board has the authority at the national or regional level to supervise the Holding Fund. This Investment Board is composed of representatives from the Managing Authority and from government agencies related to SMEs. These representatives are selected by the Managing Authority.



Investment Strategy and Business Plan

The Holding Fund manages the fund according to the Investment Strategy and Business Plan drafted by the Managing Authority and the Fund Manager. Once the plan is approved by the JEREMIE Investment Board, the fund will be transferred from the EU Structural Fund to the Holding Fund.



Financial Intermediaries and Instruments

When the fund is ready, the Holding Fund calls for expressions of interest to find financial intermediaries that have the expertise in SMEs. Typically, the JEREMIE Fund seeks the financial intermediaries and the financial instruments that give the highest benefit to the SMEs such as financial intermediaries for SMEs business, venture capital, loans, technology transfer vehicles, microfinance and guarantee funds.



SMEs

The financial intermediaries that join the JEREMIE Project prepare suitable financial instruments for SMEs. These financial instruments are guarantees or joint guarantees, microfinance funds, asset capitalization, business partnership or technology transfer vehicles.

2.4) Scope and Process of Assistance

The operation of the JEREMIE Project is divided into three phases:

- 1) Evaluation Report, Gap Analysis and Programming Phase;
- 2) Implementation Phase; and
- 3) Financing SMEs Phase.

2.4.1) Evaluation Report and Gap Analysis

The study to evaluate the result of the assistance receives 75% of its supporting money from the European Commission and 25% from the European Investment Fund (EIF), totaling EUR 3,500,000. The EIF conducts the study and issues the evaluation report on the SMEs in each country. The study focuses on the existing financial status of SMEs and includes interviews with government officials, economic organizations and financial intermediaries that provide

financial services for SMEs and SME entrepreneurs. In early 2006, the Interim Reports was completed for the member states to use for writing draft proposals and setting up Operational Programs. The Operational Programs are the action plans for the projects. They cover regional development, competitiveness, environment, transport, human resources, administrative capacity and technical assistance. Representatives of the financial intermediaries that are interested to join the Holding Fund or representatives of SME entrepreneurs can participate in this research by discussing issues with the EIF representatives. The report of the last evaluation was completed at the end of 2006-2007.

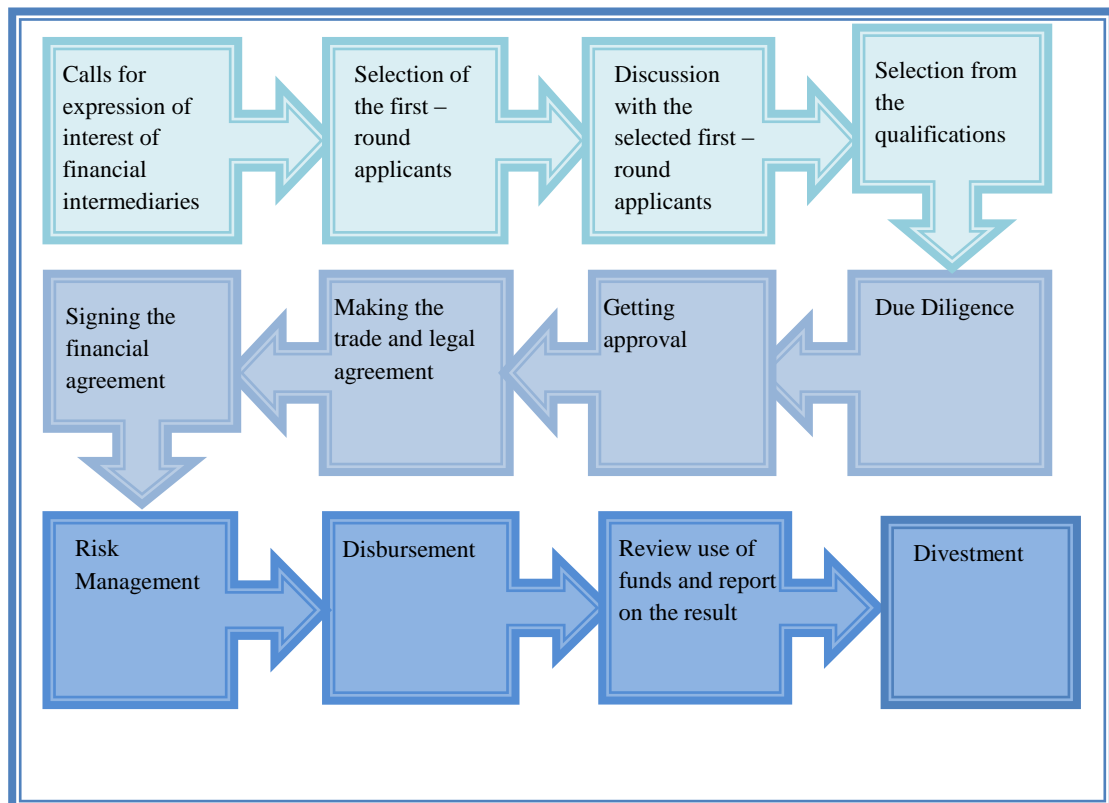
The projects in Operational Programs reflect the evaluation of SMEs and the Gap Analysis. The evaluation includes recommendations on the most effective financial instruments and the best ways to attract seed funds from the ERDF to bridge the economic gaps identified in the analysis.

2.4.2) Implementation Process

The JEREMIE has three implementation phases:

1. Issuing calls for expressions of interest to financial intermediaries and signing the Funding Agreement that is jointly made by the Managing Authority of each member state and the JEREMIE Holding Fund.
2. Selection of financial intermediaries. The Holding Fund Manager selects the financial intermediaries and signs the agreements to transfer the funds.
3. The Managing Authority and the financial intermediaries that are selected by the Holding Fund invite SMEs in the regions to write the investment proposals. Then, the financial intermediaries evaluate them, choose the SMEs that meet the criteria and give them further financial assistance.

Picture 2.1 Implementation Process of JEREMIE



2.5) Eligibility

Regions

All 27 EU member states are eligible. The states under the Convergence and Competitiveness and Employment Objectives are given priority as long as the Managing Authorities stipulate that their regions need assistance for SMEs and want to implement Operational Programs to get that assistance.

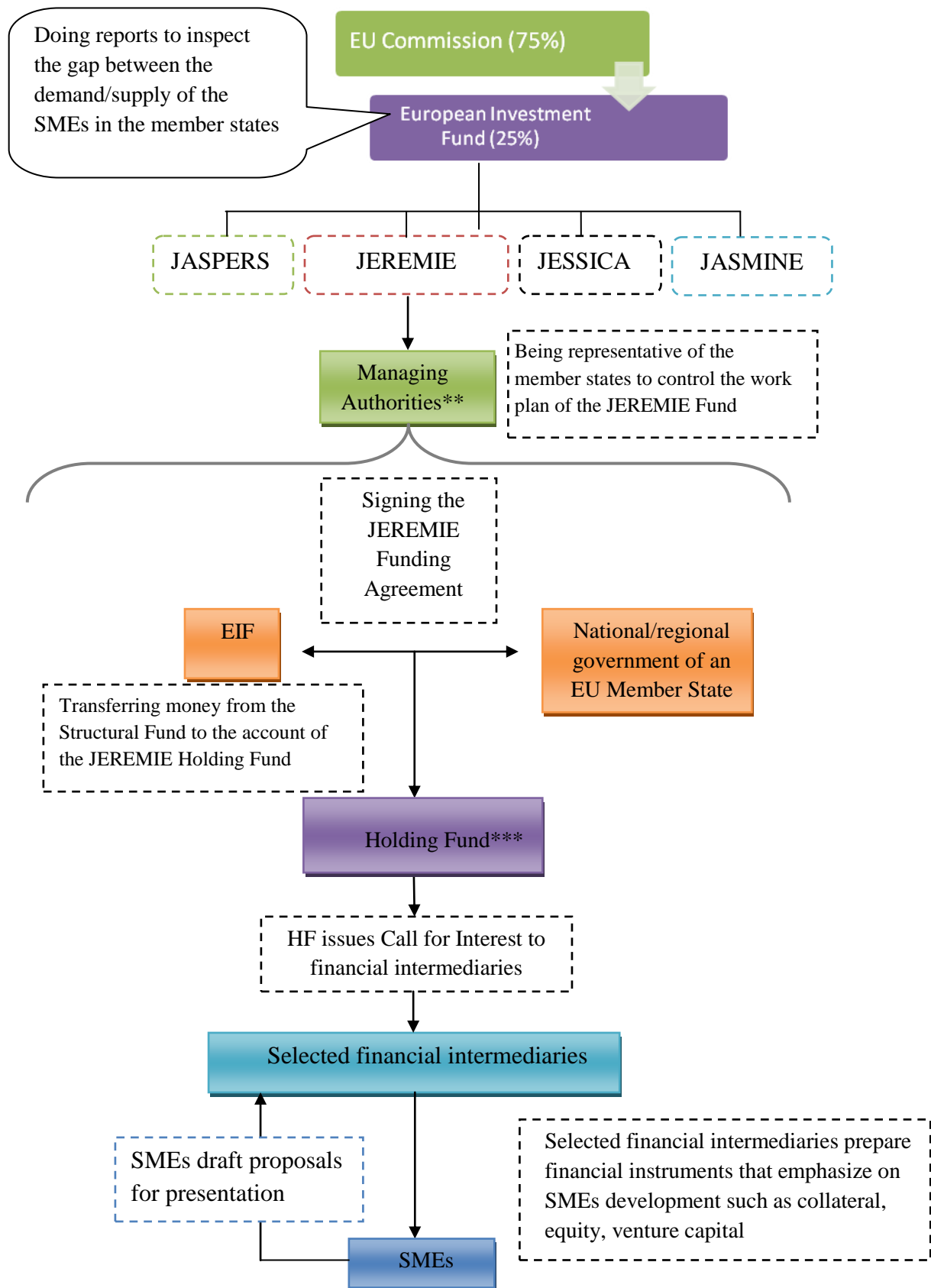
Market Sectors

All sectors are eligible to join the JEREMIE Project, but priority can be given to any sector depending on the judgment and evaluation of the Managing Authorities.

SMEs

All SMEs with less than 250 employees can join the Project (definition and details of the status of SMEs are based on the scope set by the European Commission).

Picture 2.2 JEREMIE Diagram of Initiative Process



2.6) Duration of the Fund

Because the JEREMIE is a subsidiary fund under the EU Structural Fund, the duration of its implementation follows the duration of the Structural Fund, which is 2007-2013. After signing the agreement to establish the JEREMIE Project in October 2006, the EIF conducted the demand–supply gap analysis, which was completed at the end of 2006. The JEREMIE moved into the Operational Phase in January 2007. The first JEREMIE Agreement was issued by the Hellenic Republic (Greece) in July 2007, followed by Romania, Latvia and Lithuania in 2008 and the agreement between the EIF with Languedoc – Roussillon sub-region within in France and Campania sub-region in Italy. Framework Agreements were signed with Slovakia and Bulgaria in September 2009. A total of 11 member states have signed agreements with EIF for JEREMIE, and more negotiations are being discussed by the EIF and countries in other regions such as the Canary Islands and various regions in Italy.

2.7) Problem, Obstacles and Guidelines for Solution and Prevention

- 2.7.1) Lack of clear understanding about the commercial and legal framework and status of the SMEs of the member states. In the case of Poland, for example, there were concerns about the legal framework that made the policy proposal unacceptable to the Managing Authority.

Solution Guidelines The member states must have a clear understanding of EU financial policy and, at the same time, EIF officers must study the legal framework of the SMEs in the regions before reaching the stage of negotiation between the EIF and the Managing Authorities. EIF officers should discuss the results of the study, draw conclusions and ask questions about any legal points that are doubtful so that both sides will have the same understanding and can properly apply them to the JEREMIE.

- 2.7.2) Lack of coordination and monitoring by the Managing Authority. For example, after the study and evaluation of the gap analysis at the end of 2008, the Managing Authority from East Poland did not monitor and report the results to the EIF. As a result, the JEREMIE Project could not begin even though the Minister of Local Development, who was the Managing Authority, asked the EIF to do the Evaluation Report and the DG Regio's gave its support.

Solution Guidelines The EIF officers should have provided better coordination and explanation to the Managing Authority about the need for implementation in the region. They also should have discussed the reasons the Managing Authority was reluctant to go further in the process or did not get in touch with the EIF officers.

- 2.7.3) The Managing Authority did not want to join the JEREMIE but only wanted to get support from the office that gives assistance to the local SMEs in their own country. For example, Portugal decided not to join the JEREMIE but assigned the AIPMEI, the national SME institution, to be responsible for SMEs. Consequently, the member country did not gain full benefits from the Structural Fund and did not use the data from the Evaluation Report.

Solution Guidelines In the initial stage of the study of the Evaluation Report, the EIF should study details of the agencies in the public and private sectors in charge of SMEs to see whether the operation of the JEREMIE has any overlap with existing agencies or whether they should assist the existing SME agencies in the country. Then, there should be a

discussion of the need for support instead of stopping communication without notice.

2.8) How Does the JEREMIE Help SMEs and Financial Intermediaries?

The JEREMIE plays a useful role in improving the financial environment of regional SMEs. It can help SMEs to expand. The JEREMIE has helped improve the financial condition of target areas by facilitating investment by mechanisms such as reducing loan interest rates through guarantee funds, reducing collateral requirements by giving loan guarantees, and increasing the financial reliability of small businesses.

In the past, EU funds were directly sent to the member states in the form of grants. However, this changed with the set up of the JEREMIE, which supports SME investment through financial intermediaries. In this way funds can be used to support SMEs over a longer period of time. The JEREMIE is more market-based because it allows financial intermediaries to put their own funds into the investments and has the goal of self-sustainable investment.

2.9) Roles and Duties of the Holding Fund and the Fund Holder

The JEREMIE Fund, once decided to be implemented by a country, is called the Holding Fund. The Holding Fund is like a general account that is controlled by the Managing Authorities of the member states. The fund manager or the Fund Holder/Manager has the following duties:

1. Being the middleman in the management of the JEREMIE Fund and representing the Managing Authority of each country
2. Being responsible for setting the business plan of the Holding Fund, including relations with related financial intermediaries
3. Issuing calls for expressions of interest to financial intermediaries to join the Holding Fund and invest
4. Coordinating closely with the Managing Authorities to evaluate, select and recommend appropriate financial intermediaries to join the Project
5. Formalizing legal contracts with the selected financial intermediaries that govern the financial relationship with the Holding Fund.
6. Inspecting the work of financial intermediaries, and in the stage of the JEREMIE operation, giving specific assistance to the selected financial intermediaries

2.10) Example of the JEREMIE Operation in Wales

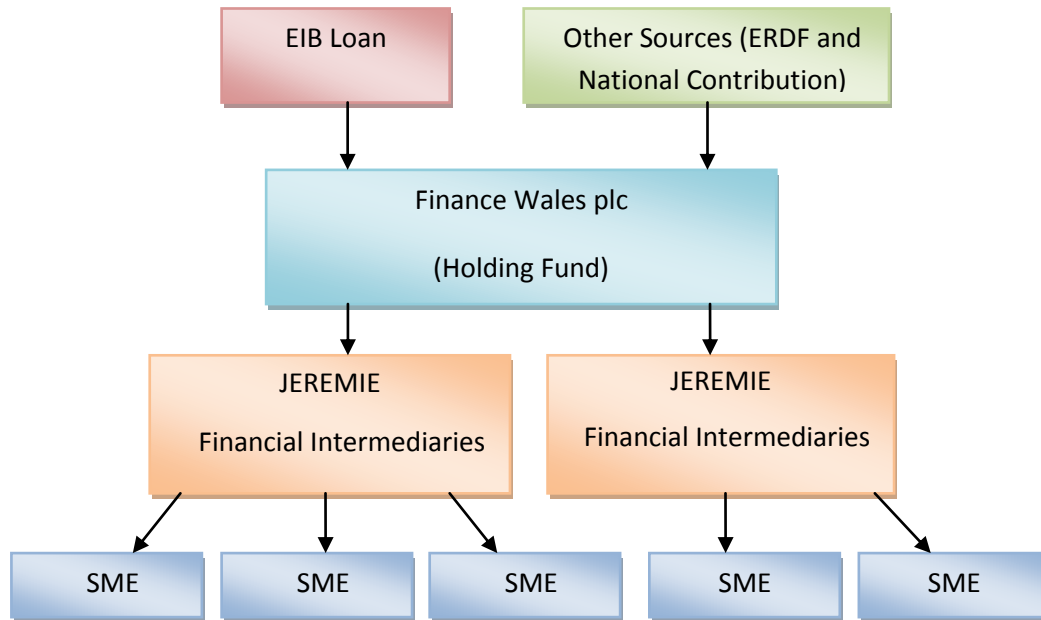
The European Investment Bank (EIB) under the JEREMIE Project gave loans of 75 million pounds to Finance Wales to increase the capital available for investment into SMEs' in Wales. The initial assistance was financial support from the EIB and other sources including the EU Development Fund and the EU Commission to stimulate investment in the underdeveloped EU countries.

Funds come from the JEREMIE Project, which operates under the European Investment Fund (EIF), which is supported by the European Development Fund under the supervision of the DG Regio's and other seed funds. The JEREMIE then uses this fund to support SMEs in the form of loans, mezzanine finance and equity.

This Project had a socio-economic effect on Wales as a whole. It created employment and economic expansion in various sectors. Even though 99% of businesses in Wales are SMEs and those SMEs create 70% of employment, Wales still lacked funding in the form of venture capital or mezzanine financial, compared with other regions in the UK. The fund from the

JEREMIE therefore helped to bridge this gap and helped raise economic standards in Wales, narrowing the gap with other countries in the UK.

Picture 2.3 Structure of the Operation of the Fund through Finance Wales



2.2 Commonwealth Private Investment Initiative (CPII)

2.2.1 Scope of the Establishment

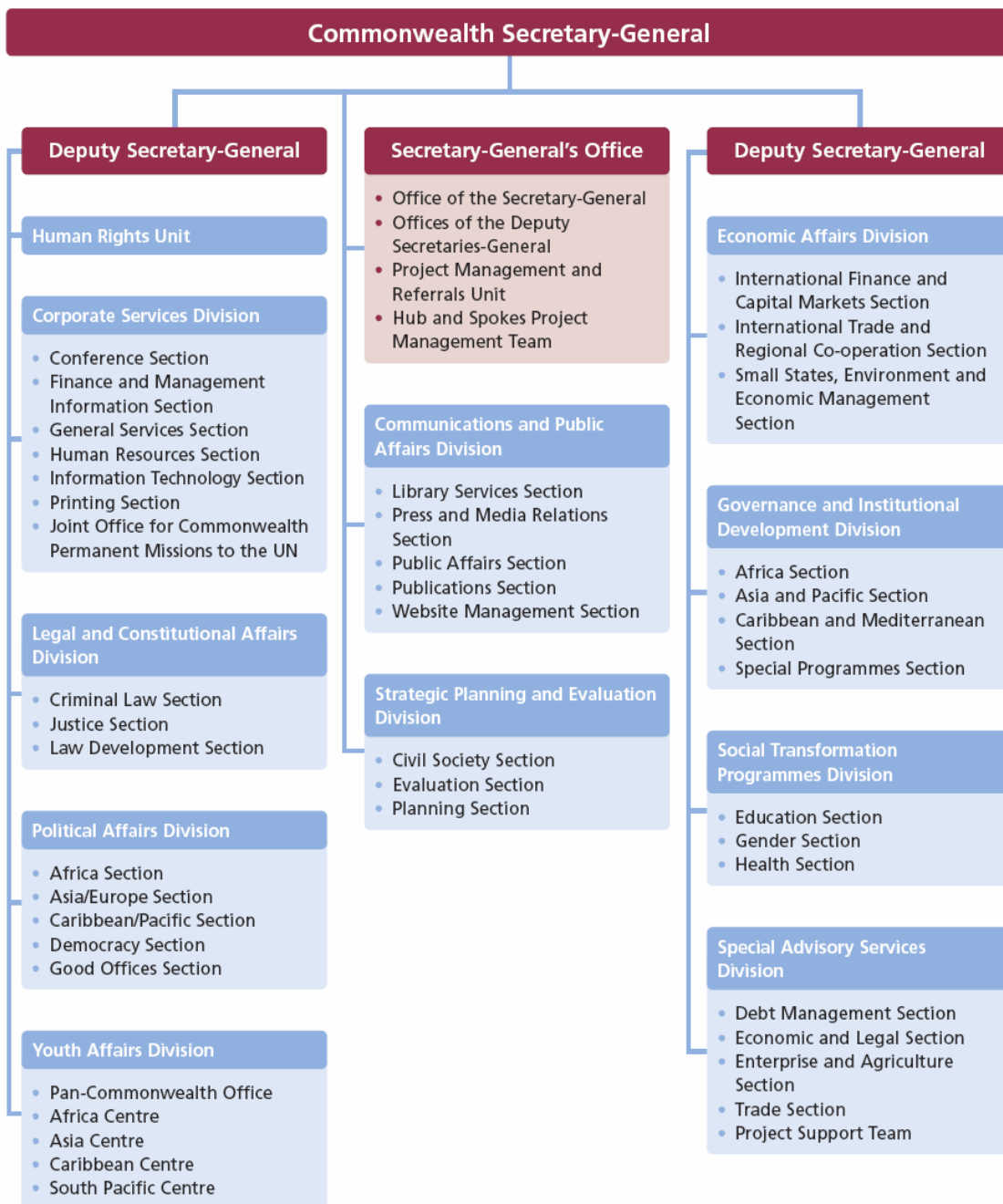
The Commonwealth is an independent amalgamation of 53 self-ruled countries with one-fourth of the world's population. Commonwealth members are scattered over six continents, including Africa (18 countries), Asia (8 countries), America (2 countries), the Caribbean (12 countries), Europe (3 countries) and the South Pacific (10 countries). The Commonwealth was established to support development, democracy, debt management and trade.

The Commonwealth mechanism is composed of three government-to-government organizations:

- The Commonwealth Secretariat that operates according to the plan of the Commonwealth Heads of Government to give technical assistance and suggestions on policy development
- The Commonwealth Foundation that helps civil society to promote democracy, development and cultural understanding
- The Commonwealth of Learning that supports development, extensive distribution of learning and distance learning

The Commonwealth Secretariat was established in 1965 and the administration was divided into 12 divisions and sections to implement the projects approved by the meeting of the Commonwealth Heads of Government. Each division/section is responsible for particular projects according to the following structure.

Picture 2.4 Structure of the Commonwealth Secretariat



The Commonwealth Secretariat emphasizes projects that help small developing countries and has two related strategic goals which reflect the significance of the promotion and development of the Commonwealth as follows:

The 1st Goal: Peace and democracy. Operations are in four areas:

1. Office of Peace
2. Democracy and Unity
3. Legislation
4. Human Rights

The 2nd Goal: Growth that is beneficial to the poor and leads to sustainable development. Operations are in four areas:

1. Public Sector Development
2. Economic Development
3. Development of Environmental Sustainability
4. Human Development

The Secretariat cooperated with the Commonwealth Development Corporation (CDC) in launching the Commonwealth Private Investment Initiative (CPII) in 1995. This is a long-term financial investment channel to support the private business sector in developing countries in the Commonwealth. Under the CPII, various regional investment funds were established, principally for the benefit of SMEs in developing countries. The 63.5 million dollar Commonwealth Africa Investment Fund (Comafin) benefits a group of countries in the south of the Sahara Desert and was established in 1996. The 16.9 million dollar Kula Fund for the Pacific Islands was established in 1997. The 106 million dollar South Asia Regional Investment Fund (SARF) was established in 1998. The Tiona Fund, established in 2000 for the Caribbean countries, was later combined with the Caribbean Investment Fund and at present is not in the CPII Project. The Pan Commonwealth African Partners Fund was established in 2002. These funds were invested in business expansion or revival in order to establish new ventures. The success of the funds in this early period was shown when the investment period ended and their objectives were fulfilled. This demonstrated that owners' capital could generate income from new markets and have an impact on development.

The CPII success led the Financial Ministers of many countries in the Commonwealth to support the Second Phase Project, which covers more countries in need of assistance. The size of the capital infusions available was reduced in order to focus more specifically on private SMEs. This Second Phase Project was launched in 2005 and was operated by the Commonwealth Secretariat and Aureos Capital Ltd., which is a joint venture between the Commonwealth Development Corporation and the Norwegian Investment Fund for Developing Countries (Norfund).

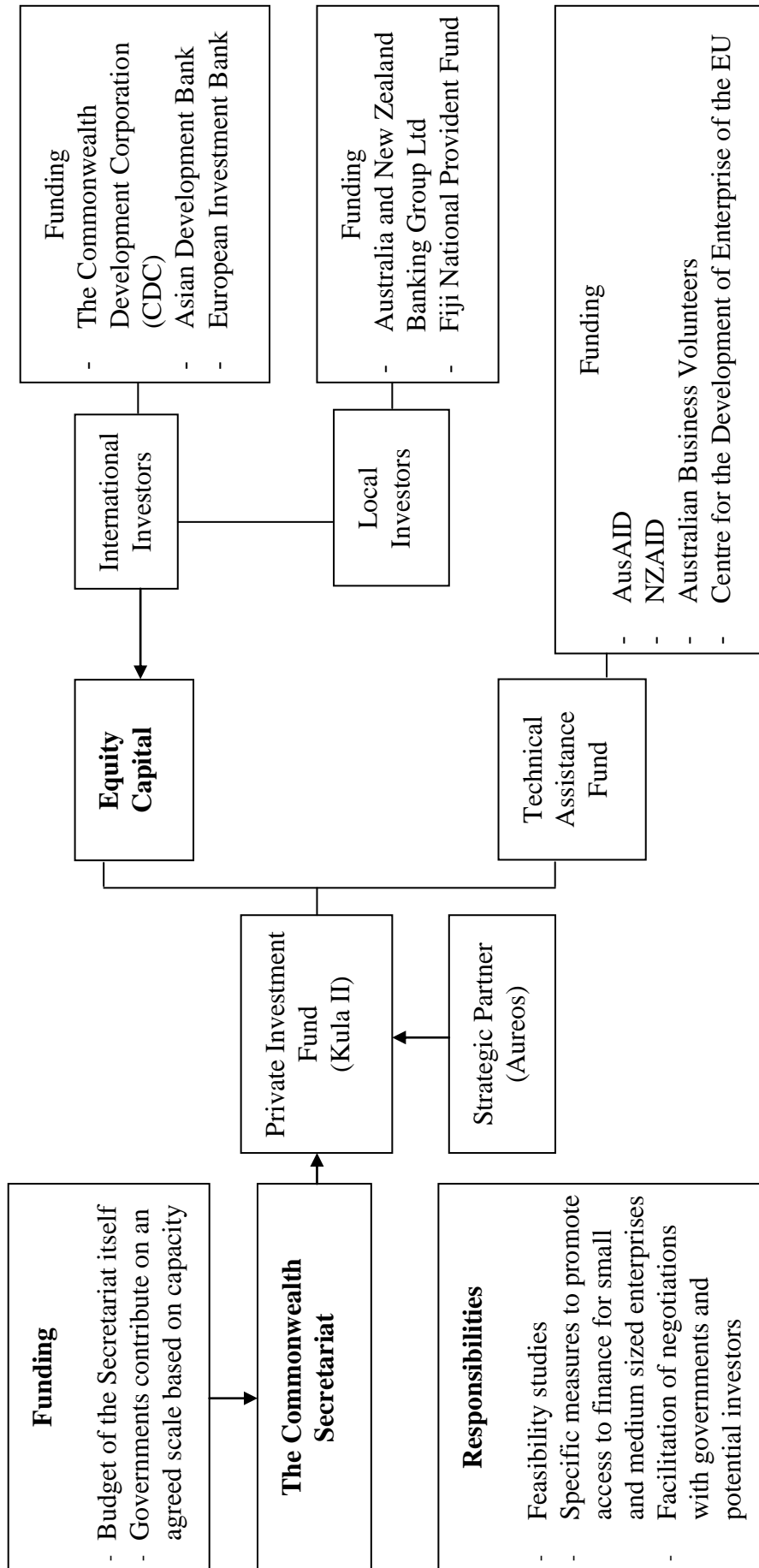
2.2.2 Objectives

- To move capital from various sources, including the private-sector markets, and invest it in trade enterprises of developing countries in the Commonwealth
- To enhance the strength and develop the expertise of the agencies that receive the investment money, especially SMEs, to improve their operations and their decision-making so they can attract other long-term capital sources

2.2.3 Management

The CPII is composed of related local and international agencies with different roles and duties. During the Feasibility and Pre-establishment Phases, the agency that has the most important role is the Commonwealth Secretariat, which has the duty of promoting investment in the private sector. It also supports investment through the project feasibility studies and issues specific measures to enhance access to finance for SMEs. The operation is supported by the budget of the Secretariat and governments' contribution on an agreed scale based on capacity to pay. Aureos Capital Ltd. (Aureos), which has branch offices in Latin America, Africa and Asia, manages the funds. Each fund will give assistance in terms of equity capital and technical assistance funds supported by international organizations and private investors.

Picture 2.5 Structure of Kula II Fund



2.2.4 Scope / Process of Assistance

One of the funds that provides financial assistance to SMEs is the Kula II Fund, which started operations in May 2006. Following on from the original Kula Fund, it covers the Pacific Islands. The Kula II Fund has about 20 million dollars aimed at investing in businesses in agriculture, fisheries, transport, mining, services industry and other trade sectors in the remote areas of the Pacific Islands. The investment fund for each enterprise is 100,000 dollars or lower, depending on the characteristics of the business. Institutional funds are matched with the technical assistance from larger Commonwealth economies in the region and are strongly supported by the local government.

2.2.5 Eligibility

The SMEs in the developing member countries in the Commonwealth

2.2.6 Duration of the Fund

The Kula II Fund is a 10-year fund.

2.2.7 Problems – Obstacles / Solution Guidelines

Due to the reduction in size of the Kula II Fund's maximum investment in each business, implemented to expand assistance to more areas, the cost of seeking suitable small businesses, as well as supervising and increasing the value of that investment has been affected. In order to address this problem, AusAid and NZAid supported the utilization of technical assistance. This technical assistance enabled the Kula II to receive the investment funds from large institutional investors in the public sectors (CDC, ADB and EIB) and private investors (ANZ Bank) and the Pension Funds of Fiji and Papua New Guinea.

2.3 The Latin American Reserve Fund (LARF / FLAR)

2.3.1 Scope of the Establishment

The governments of Bolivia, Columbia, Ecuador, Peru and Venezuela agreed to establish the Latin American Reserve Fund, aimed at increasing collaboration on solving problems caused by factors outside the region that have an impact on the economic systems of member countries. This collaboration has also improved the coordination of member countries' economic policies at the regional level, with joint management of the Fund creating unity in financial, exchange and payment policies. The money from this Fund helps solve balance of payments problem and eases members' access to the money market.

2.3.2 Objectives

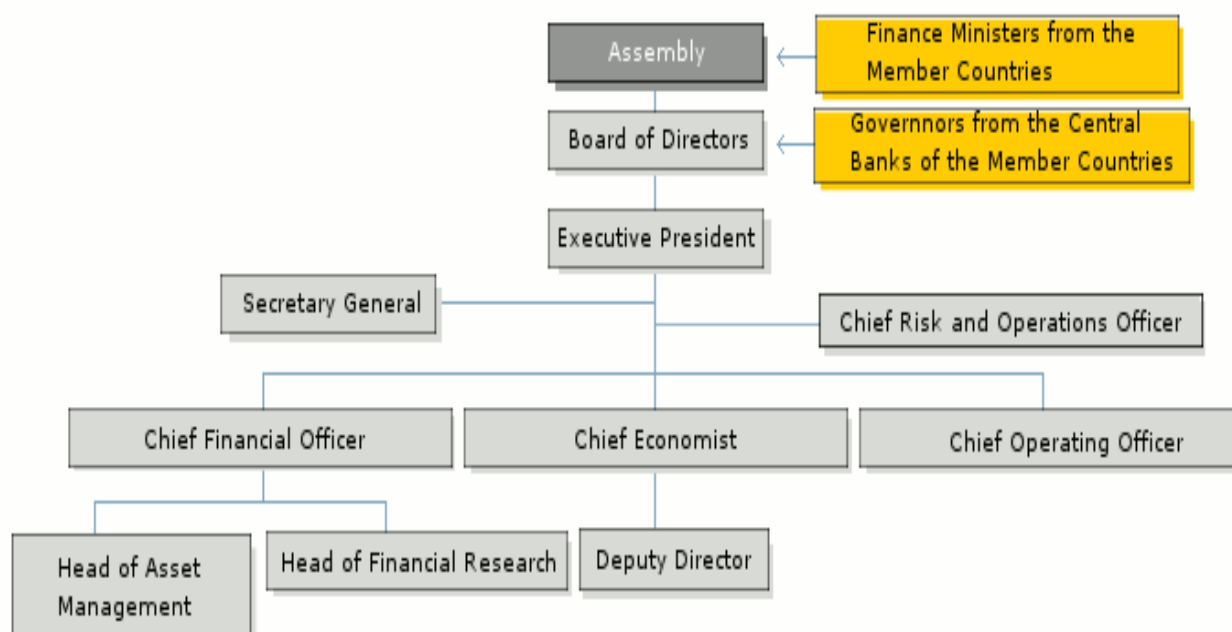
- Support the balance of payments of the member group by providing loans or guarantee funds
- Improve the conditions of investment in the international reserve funds that are set up by the member group
- Help to create unity in international currency exchange rates, currencies and financial policy of the member group

2.3.3 Management

According to the proposed structure, the fund management group is composed of:

- 1) The Assembly, which includes the finance Ministers or representatives appointed by the government of each country. Each representative has one vote.
- 2) The Board of Directors, which is made up of officials from the central banks of the member group. It includes the Executive President, who holds the post of the director but has no vote, and all other directors, who each have one vote.

- 3) The Executive President, who works as the permanent specialist of the Fund. He conducts research and delivers the indices that he deems appropriate for the fulfillment of the objectives of the Fund to the Board of Directors. He also has direct and continuous communication with the central banks of the member group.



Funds from the member countries

- registered capital stocks (in July 2009): USD 2,343.8 million
- paid – up capital (in July 2009): USD 1,774.6 million

Registered Capital Stocks and Paid – Up Capital (in July 2009)				
	Registered	%	Paid - up	%
Bolivia	USD 234.4	10	USD 186.4	10.5
Columbia	USD 468.7	20	USD 372.7	21
Costa Rica	USD 234.4	10	USD 158.1	8.9
Ecuador	USD 234.4	10	USD 186.4	10.5
Peru	USD 468.7	20	USD 372.7	21
Uruguay	USD 234.4	10	USD 125.6	7.1
Venezuela	USD 468.7	20	USD 372.7	21
Total	USD 2343.8	100	USD 1774.6	100

2.3.4 Scope / Process of Assistance

The Fund takes part in the following operations:

- a. Supporting the central bank of each member country by giving loans to maintain their balance of payments. Limits on financial support are as follows:

- 1) Not over 250% of their fund payment to the FLAR. Bolivia and Ecuador, however, have the right to use 260% of their fund payment to the FLAR
 - 2) No more than the total of the balance of payments deficit of the member countries in the 12-month period before applying for the fund
 - 3) Not over the proportion set by the Board of Directors
- b. Giving guarantees to the central banks to maintain the balance of payments. Loans obtained from the guarantee must not exceed the amount specified in Item 1)
 - c. Investment is made under the limitations, indicators and other conditions set by the Board of Directors
 - d. Any other operation in line with the objectives of the Fund must be approved by the Board of Directors at the recommendation of the Executive President

The maximum period for a loan is three years, and the total debt must be repaid before requesting another loan. Interest rates, commission and other fees depend on each loan request. By the recommendation of the Board of Directors, the Assembly may make a decision concerning changes to the limitations and the period of time specified for the loans.

2.3.5 Eligibility

The government of each member country is eligible to receive funding.

2.3.6 Duration of the Fund

No time limit

Chapter 3 Primary Data Collection

In addition to the study of the secondary data described in the second chapter, the consultant also collected primary data from concerned parties and experts on SME development. The objective was to use this input to draft an appropriate framework for setting up the ASEAN SME Regional Development Fund (the Fund). The consultant gathered primary data in the following ways:

- 1) The consultant cooperated with the Office of Small and Medium Enterprises in sending out e-questionnaires to ask for additional data. The e-questionnaires were followed up by telephone calls to key officials in international organizations and national agencies in ASEAN member countries.
- 2) The consultant sent questionnaires by electronic mail and by regular post to ASEAN SME managers. Additional input on important points was obtained from SME managers through individual interviews and brainstorming in focus group meetings.
- 3) The consultant interviewed knowledgeable officials concerned with SMEs and ASEAN development in Bangkok to seek more in-depth information and opinion.

3.1 Round table discussion on the ASEAN SME Regional Development Fund

The consultant presented an early draft of the Conceptual Framework for the ASEAN SME Development Fund to the meeting organized in parallel with the 25th meeting of the ASEAN SME Agencies Working Group in the Philippines, November 17-19, 2009. The four main topics were:

1. **EU SME Fund** - its structure, objectives and operation.
2. **ASEAN SME Development Fund** - proposed establishment guidelines, objectives, management and process.
3. **SME Fund Activities** - a comparison between the activities supported by the EU SME Fund and the activities to be supported by the ASEAN SME Regional Development Fund.
4. **Recommendations** - details of recommendations concerning the Fund duration and circulation patterns and the establishment of an ASEAN Credit Bureau for the ASEAN SME Regional Development Fund.

The participants in the ASEAN SMEs Working Group meeting raised a number of useful points as follows:

- The representative from Indonesia said that since the definition of SMEs and their number differed within ASEAN, careful thought was needed to set clear criteria for support from the Fund. In addition, the representative recommended that the Fund should have the characteristics of a revolving fund in order to create Fund sustainability. The Fund duration should be longer than five years to allow for follow-up and evaluation of the Fund operation. The setup of a data network and data processing systems in the establishment of the ASEAN Credit Bureau needed additional consideration.
- The representative from Brunei Darussalam proposed that a needs assessment be done in each ASEAN member country prior to disbursement of any funds and that this assessment should consider the needs of the regional economy, not just the needs of the SME entrepreneurs. Moreover, there should be experts from organizations such as

the ADB working as consultants to assist the establishment and administration of the Fund. The representative asked about the capital resources of the Fund. To this question, the consultant replied that the possible sources of seed funds included:

- 1) The ASEAN Fund
 - 2) The ASEAN + 3 Nations (China, South Korea and Japan)
 - 3) The ASEAN member countries
 - 4) International organization such as the ADB, the World Bank and the IFC.
- The representative from Vietnam suggested further study of the key success factors of successful SMEs Funds from various places so that these could be applied to the proposed ASEAN SME Regional Development Fund.
 - The representative from Singapore suggested that the Fund should support activities that promote the ASEAN regional economy.

3.2 Interviews with development fund experts and SME officials

1) Officials at the ADB, the Philippines

During November 17-19, 2009, the consultant met and consulted with officials at the Asian Development Bank in Manila to collect recommendations on the establishment of the ASEAN SME Regional Development Fund. The key points from this consultation included the following:

1. The ADB has not yet operated an SME development fund although the idea has been raised for such a fund to serve SMEs in the Greater Mekong Sub-region. The concept was for this fund to lend money to loan guaranty organizations in each of GMS countries. These loans would be used to guarantee loans that the SMEs would seek from local financial institutions. This would reduce the risk of non-repayment by the SMEs and ease the flow of lending to small companies. The ADB is studying the possibility of establishing such a fund.
2. The ADB officials agreed that the SME Regional Development Fund should not be limited to providing loans or financing. There also should be grants to support activities such as infrastructure development, improvement of rules and regulations, public official training and personnel development as long as these activities supported improved competitiveness among SMEs in ASEAN.
3. The ADB officials suggested that the capital resources for the ASEAN SMEs Regional Development Fund could include Japan, China or the ASEAN Infrastructure Fund, a US\$1 billion fund initiated at the meeting of ASEAN Finance Minister in October 2009 in Istanbul, Turkey. ASEAN could ask for support from the ADB and the World Bank for the Fund establishment and administration. It was important that the fund be well administered so that it would receive an AAA rating because the laws of most countries in the region limit central bank investments to those with the AAA rating. In addition, ASEAN member countries should allocate capital to the Fund according to each country's economic ability.
4. The ADB officials noted that because the ASEAN Secretariat has no experience in fund management, it may not be suitable to manage the fund. They recommended that an

efficient and professional fund manager be recruited. Another alternative would be for ASEAN to ask the ADB to manage the fund.

5. Some ADB officials suggested that loan guarantees should be the sole or principle financial mechanism of the fund because member countries already have government banks mandated to provide loans to SMEs. However, other ADB officials suggested that there should be a variety of financial instruments to meet the differing needs of SMEs in each member country. All officials agreed that the criteria for consideration of assistance have to be clear and the management system has to be efficient.
6. The ADB officials recommended that ASEAN study the guidelines for the establishment of the GMS SME Development Fund. These guidelines were recommended at the GMS Business Forum by Dr. Jingjai Hanchanlash, Chairman of GMS Business Forum and Dr. Apichai Boontharawara, Managing Director of the EXIM Bank of Thailand. The objective of this fund is to help SME entrepreneurs in the Greater Mekong Sub-region who lack the capital to expand their business into the export market.

2) *ASEAN Business Advisory Council and East Asia Business Advisory Council (ASEAN+3)*

The consultant met with Mr. Arin Jira, president of the ASEAN Business Advisory Council and Mr. Somkiat Anurat, president of the East Asia Business Advisory Council (ASEAN+3) on November 4, 2009. They discussed issues related to the ASEAN Regional SME Development Fund, including measures to support SMEs undertaken by the Federation of Thai Industries SMEs as follows:

➤ Sources of Capital

- Khun Somkiat raised the idea of using 1% of a proposed US\$ 120 billion ASEAN Fund to support SMEs in ASEAN countries. He noted that a meeting of Ministers of Finance in Bali discussed this ASEAN Fund and concluded that China and Japan would each provide 40% of this budget while South Korea would provide 20%. This budget could then support loans to SMEs at interest rates lower than market rates, Khun Somkiat suggested.
- At the ASEAN Economic Minister Meetings (AEM) in August 2009, Khun Somkiat said, China agreed to provide a budget of US\$25 billion, with the first tranche of US\$10 billion to be given to the governments of ASEAN countries for infrastructure construction and development. A second tranche of US\$15 billion would be provided for loans to SMEs in the ASEAN countries.
- Khun Arin said the Federation of Thai Industries has submitted request to the Thai government for Baht20 billion as a source of capital for SMEs. This request is in process.

➤ Structure of the ASEAN SME Regional Development Fund

- Khun Somkiat and Khun Arin said that the Fund should be required to undertake systematic checking of loan repayments, profits and SME operational records. However, the process of loan provision should not be too complex and difficult for SMEs that have good records. Loans for working capital should be given first priority and funds for equity financing and debt financing should be lesser priority.
- Loans from banks or financial institutions to SMEs should be guaranteed by the ASEAN SME Regional Development Fund.

- SMEs with links to other businesses in ASEAN should get preference for capital assistance.
- There should be the clear agreements by the ASEAN countries on the criteria used by the Fund. For example, it should be clear and explicit which country should receive what amount of capital with what percentage of matching funds required and with what requirements for repayments to the Fund.
- There should be a central organization to administer the fund. Each country should send a representative to serve on a committee of this organization, whose responsibility it will be to coordinate with the countries. Each country should manage its own fund. Apart from this, there should also be a certified public accountant who audits the fund accounts.
- The initial duration of the ASEAN SME Regional Development Fund should be specified -- maybe about two years. After that ASEAN leaders should decide whether there will be additional investment or not and how.

3) European Union

The consultant had a telephone conference with Mr. Georges Kolivas, Coordinator of EU structural Funds, DG Regio, about the SME Regional Development Fund on December 4, 2009. Important points from the interview include the following:

The EU has established an SME development fund, called the Joint European Resources for Micro and Medium Enterprises (JEREMIE) that assists EU member countries with financing to support a variety of SME development efforts, excluding personnel resource development and other activities that come under the European Regional Development Fund (ERDF). The JEREMIE provides assistance in many forms, including loans, loan guarantees and venture capital, but does not offer grants. It does not provide funding directly to SMEs, but works through intermediary funding mechanisms such as banks in the member countries.

The criteria for assistance under JEREMIE are rather broad. SME entrepreneurs do not have to do business at the regional level as EU gives priority to SMEs in the less developed countries. SME entrepreneurs have to propose their business plans to a representative from the selected financial institution who will consider whether or not to offer funding.

First, JEREMIE will receive the funds from the EU Structural Fund for distribution to requesting holding funds in each of the countries. In practice, the holding fund will invite financial institutions to participate with the Structural Fund and to be channels in assisting SMEs through different mechanisms, e.g. loans, loan guarantees or equity funding. There are no limitations on the interest rates offered because JEREMIE has a policy of flexibility intended to optimize the benefits to the entrepreneurs.

JEREMIE expects most financial intermediaries to be private institutions, but support is also given to public financial institutions in some countries. In the case of loan guarantees, the institutions concerned tend to be public financial institutions and there is no limit on the guarantee proportion, leaving this to the public financial institutions to determine the appropriate proportion to fit the circumstances in their country.

As JEREMIE was established about six years ago, it is still considered new, so administrative issues are still emerging. One problem is that there have been difficulties in getting the

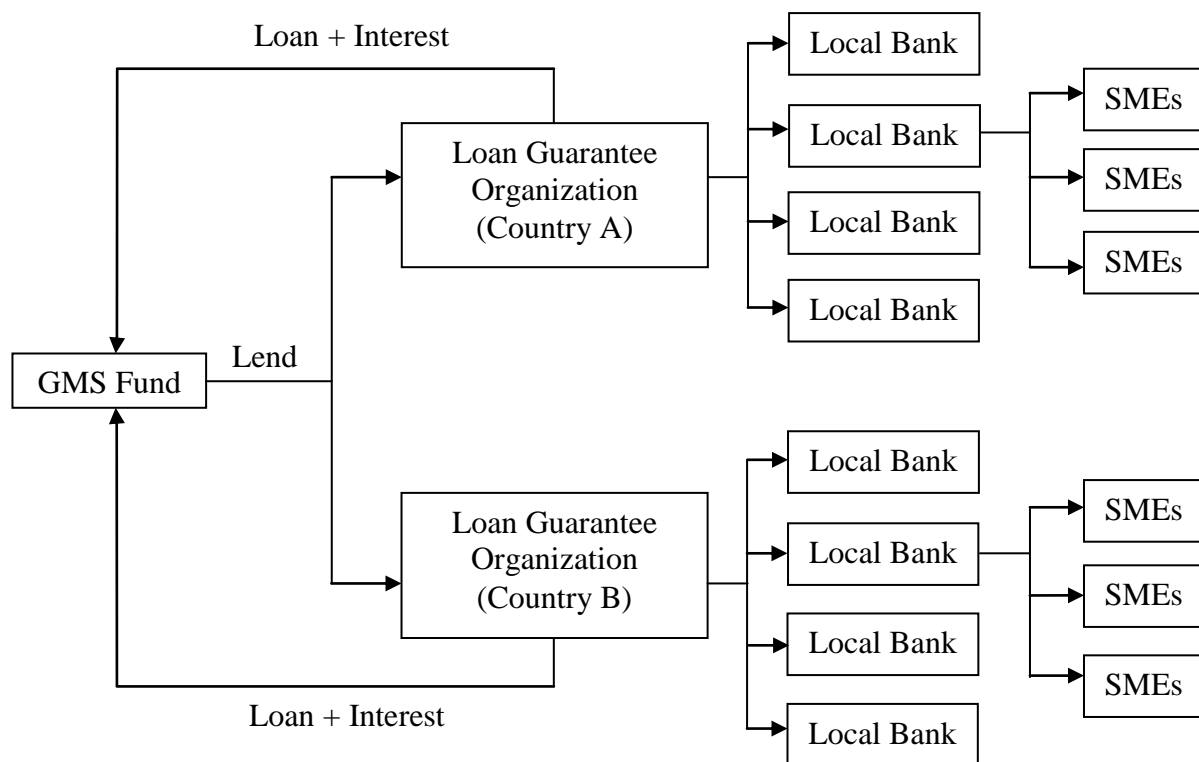
financial institutions in each country to participate in the project. The holding funds are working to find better ways to stimulate interest in the project. Mr. Kolivas said that factors in the selection of recipients in the EU and ASEAN may be different.

Asked for suggestions on capital sources to establish an ASEAN SME fund, Mr. Kolivas said that each member country should make a contribution to the fund and there should be support from a multi-lateral organization such as the ADB to perform the role of fund allocation among the countries. Mr. Kolivas agreed that he or another EU representative would participate in the planned Expert Group Meeting for the ASEAN SMEs Regional Development Fund.

4) *Export-Import Bank of Thailand*

The consultant consulted with Mr. Pramon Neramitmansook, Assistant Director of the Export-Import Bank of Thailand, on the SMEs Regional Development Fund in the Greater Mekong Sub-region (GMS) on December 8, 2009. The important points were as follows:

Picture 3.1 GMS SME Development Fund



- Scope of the Establishment

SMEs in the GMS face serious obstacles to entering export markets. Access to loans is a particular problem because most GMS SMEs are small and new and thus represent significant risks for lending institutions. Moreover, small companies typically lack the collateral required by the lenders. Therefore, the Business Council of the Greater Mekong Sub-region (GMS-BC) has proposed a plan to assist SME exporters and suppliers of raw materials for export in the form of a revolving fund for goods provision and production. This plan supports the establishment of an SME development fund in the GMS and assigns the

Loan Guarantee Organization of each country to be the direct borrower of the GMS fund in order to guarantee loans from local financial institutions. The loan guarantees are used as securities for debt repayments to the local financial institutions. Such guarantees would increase the willingness of the financial institutions to lend to SMEs, who might otherwise be seen as too risky. Currently, the ADB is undertaking a feasibility study on the GMS fund establishment.

- Objective
To be a source of financial assistance for SME entrepreneurs in the GMS
- Management
It has been proposed that the GMS SME Development Fund be established with investment capital from the following:
 - ADB
 - Country governments in the GMS
 - Local banks
 - Investors (International banks)
 - SME Entrepreneurs Associations
 - Loan Guarantee Organizations (LGOs)

Representatives from the supporting organizations mentioned above comprise the committee of the Fund. It is possible for the LGOs, which will be the direct recipients of the Fund's financing, to invite representatives from the supporting organizations to join their governing boards to further enhance coordination of SME funding. The GMS SMEs Development Fund will make loans to the LGOs that, in turn, will guarantee loans to SMEs because each LGO understands business conditions in its own country and can best decide how to support their local SMEs.

- Scope / Process of Assistance
The GMS SME Development Fund supports SMEs by assigning an LGO in each country to borrow funds at less than market interest rates. The LGO will use these funds to guarantee loans to SMEs by local financial institution. The SMEs use these loans to develop their business, with special priority for building the capability to export. The SMEs will repay the loans with interest to the local banks, which will pay guarantee fees to the LGOs that will enable the LGOs to service their loans from the SME Development Fund.
- Eligible applicants for the Fund-supported loan guarantees
SMEs of six countries in GMS are eligible for loans guaranteed by LGOs supported by the Fund.

5) Greater Mekong Sub-region Business Forum

The consultant met with Dr. Jingjai Hanchanlath, a committee member of the GMS Business Forum to discuss the GME SME Regional Development Fund on December 14, 2009. The key points from the discussion were as follows:

The Project of Economic Co-operation Development in the Greater Mekong Sub-region provides for cooperation between the public and private sectors to develop the countries of the Mekong River Basin (including Yunnan province of China, Myanmar, Laos, Thailand,

Cambodia and Vietnam) with a land area of 2.3 million square kilometers and a population of 250 million people. The objectives of the project are to promote the expansion of trade, industrial investment, agriculture and services, as well as increase employment and raise the standard of living of people in the area. It promotes cooperation on technology and education, including efficient natural resources utilization, thus creating economic opportunities for the region in world trade.

The private sector, represented by the Boards of Trade of the six countries have jointly established the GMS Business Forum (GMS: BF) in order to tighten the private sector co-operation in trade and joint ventures. The GMS: BF coordinates with government organizations to seek trade opportunities and facilitate joint ventures for businessmen in the GMS.

At the meeting of the GMS leaders in Vientiane, Laos in March 2008, Dr. Jingjai, then President of the GMS: BF noted the factors that have caused problems for SME entrepreneurs in expanding into export markets. This most important factor, he said, was inadequate access to capital. The GMS: BF proposed the establishment of a GMS SME Development Fund that would include an instrument to be called the “Pre-shipment Export Finance Guarantee”. It was proposed at the meeting that the first step towards establishing a GMS fund should be research into the nature and problems of GMS SMEs. On the basis of this research, the basic working principles of the GMS fund would be proposed.

The GMS: BF wants to assist SMEs by urging the banks in the Sub-region countries to lend working capital to entrepreneurs who seek to export. The GMS fund could give technical and financial assistance to each member country or it could guarantee loans provided by the financial institutions to assist export oriented SMEs. The local financial institutions will actually make the loans to SMEs, because the financial institutions of each country are better able to understand the local business situation. The GMS SME Development Fund may be established with cooperation from various sectors, such as national governments, banks, private companies and financial institutions.

Dr. Jingjai also said that the main objective of the assistance to SMEs in the Sub-region is to increase international competitive abilities and to develop the ability to compete on the regional level. One likely strategy is for entrepreneurs to begin by improving the quality of the items they are already producing for local markets. Such improvement may require better technology or increased labor skills. To reach neighboring country markets, these SMEs will need to improve marketing, logistics and distribution, possibly by linking into a regional distribution system. If successful, they can then seek to further upgrade quality and increase quantity so they can participate in global value chains.

Apart from this, at the previously mentioned meeting at EXIM Bank, Dr. Apichai Boontharawara referred to the challenge of finding organizations to support SME entrepreneurs’ access to capital. Because each member country has different financial institutions and lending rules, it is rather difficult to establish one institution that can meet the needs of SMEs in every member country. Thus, it is more feasible give assistance to financial institutions in each member country. Key points supporting this approach include the following:

- The financial institutions in each country are best positioned to understand local business operating conditions, so they should be able to manage local lending risks more effectively than an international or regional institution.

- The coordination of financial institutions, government agencies and private companies concerned will be easier and more flexible at the country level than at the sub-region level.
- National institutions, however, have some weaknesses, so there is a need for financial and informational support on a sub-regional level. The financial support should come from the GMS SME Development Fund while the regional level information can come from organizations such as the international committee of the GMS-BF.
- The organizational structure of the GMS fund must be flexible enough to deal with the diversity of financial policies and practices in the GMS countries.

The GMS SME Development Fund could be established by grants or investments from governments, financial institutions, private banks and companies that do business in the GMS. Since the GMS fund will not deal directly with SME entrepreneurs but will guarantee loans made by the financial institutions in those countries, it should not adversely affect existing lending business practices between the financial institutions and SMEs.

3.3 Questionnaire Distribution

The consultant developed a questionnaire that was reviewed and approved by the Office of Small and Medium Enterprises Promotion (Examples of the questionnaire may be found in appendices 3 and 4) to collect facts, opinions and suggestions on the objectives, management and assistance provision of the Fund. This information was used for the development of the conceptual framework for the Fund. The consultant sought responses from both public agencies and private organizations as follows:

- 1) The public group included agencies concerned with SMEs in each ASEAN member country. These SME agencies are considered the focal points for SME knowledge and information in ASEAN. The details are as follows :
 - Key information collected
 - Policy on various support mechanisms for SMEs, including government SME financing programs
 - Problems and obstacles in SME development in the country
 - Activities on which ASEAN should collaborate, apart from providing financial support through the ASEAN SME Regional Development Fund
 - Becoming the ASEAN Economic Community (AEC) – policy measures and utilization of public services to help businesses utilize the AEC
 - Support funds in each member country, such as seed funds
 - Characteristics of fund management, including financial aid, loans, guarantees, etc.
 - Structure of fund management
 - Ways to prevent overlap with other funds in ASEAN
- 2) The private group included 93 ASEAN SME entrepreneurs (at least five from each ASEAN country)
 - Key information collected included:
 - The general condition of the enterprise – category, characteristics, structure, basic activities and financial status
 - Operating problems and obstacles that the enterprise currently encounters, including financial problems

- Access to seed funds – demand for and utilization of internal and external seed funds, meeting the demand for capital
- Business plan of the enterprise – expansion plans, employment, level of confidence in requesting funds, including debt financing and equity financing
- Types of funds needed, amount of the funds needed, and problems and obstacles in acquiring needed funding
- Activities on which ASEAN countries should collaborate
- Becoming the ASEAN Economic Community (AEC) – how the enterprise business plan fits with the AEC, how the enterprise can access public services to adjust or expand business under the AEC, assistance measures needed by business to expand business in the AEC

The consultant analyzed the responses by Stratified Random Sampling with three conditions as follows:

- 1) Businesses in the ASEAN member countries
- 2) Business practices of ASEAN SMEs – both those with regional activities as well as those who only work locally.
- 3) Categories of industries – the consultant collected data from SME entrepreneurs in three categories as follows:
 - 3.1) Manufacturing
 - 3.2) Services
 - 3.3) Trading

Because the definition of SMEs may differ from country to country, the consultant applied the national definition to selection of companies from that country.

1) Information from the questionnaires collected from the ASEAN SME agencies

The consultant collected information from the ASEAN SME support agencies considered “SME Focal Points” in 10 countries during December 2009 – March 2010. The responses showed the following:

Table of Survey Results from ASEAN SMEs Separated by Topic

Question Topic	Answer	Countries Responding
SME Policies		
➤ <u>Organizations that have important roles in supporting SMEs in each country</u>	Government	10
➤ <u>Obstacles to SMEs development</u>	Access to capital	10
➤ <u>Support categories that need the local government support</u>	Capital for export and development	8

A common opinion among the ASEAN SME Focal Point surveyed was that each country government should establish both supporting organizations and policies to benefit SMEs.

Most of the agencies surveyed recommended that government policy promote SME access to local sources of capital because a key obstacle to SME development was inadequate access to capital sources. In addition, the focal points felt that there should be the promotion of SMEs export activities through activities such as trade fairs both at home and abroad.

Question Topic	Answer	Countries Responding
Readiness for the AEC		
➤ <u>Obstacles to creating the cooperation needed for progression to the AEC</u>	Laws and regulations including problems of SME access to credit	8
➤ <u>External support to improve readiness</u>		
▪ Categories of support needed to improve readiness for the AEC	Activities for export promotion and export system development	6
▪ Agencies responsible for this support		
- ASEAN	Finance support for SME development	3
- Country Government	- Clustering of industries and entrepreneur network promotion	2
	- Expanding the SME customer base	2
	- Grant support to develop SMEs	2
	- Improving the export process and customs duty procedures	2
- Private Sector	Activities for SME export promotion and export system development	3

The SME agencies surveyed said that problems concerning laws and regulations, including access to capital, are still the obstacles to SME readiness for the AEC. Thus, the governments and organizations concerned should improve regulations to facilitate the expansion of the SME customer base. At the same time, it was noted that work is needed to improve ASEAN SME competitive abilities. Therefore, the SME agencies felt that their own roles should be expanded to include the following:

- Increasing the availability of capital to expand SME trade and broaden SME markets.
- Providing input on ways to improve regulations concerning the export of SME goods.

- Developing the export system to facilitate SME trading.
- Supporting the development of industry clusters including SMEs as well as other networks linking SME entrepreneurs in order to help SMEs work more cohesively together to overcome their competitive disadvantage in terms of their size.

Question Topic	Answer	Countries Responding
ASEAN SME Regional Development Fund		
➤ <u>Types of assistance that ASEAN SMEs receive at present</u>	Capital for the business development	8
➤ <u>Suitable capital sources for the sources for the establishment</u>	ASEAN Fund and Plus 3 Nations (China, South Korea and Japan)	8
➤ <u>Suitable organization to be the manager or inspector of the Fund</u>	ASEAN Secretariat	6
➤ <u>Suitable organization to act as the National Authorities</u>	Organizations that give assistance to SME entrepreneurs	5
➤ <u>Criteria for the capital allocation to member countries</u>	Projects that benefit the region, not only one country	3
➤ <u>Patterns of the main financial instruments</u>	Loans or credits for trade	7
➤ <u>Countries that already have established national credit bureaus</u>	Thailand, Indonesia, Philippines, Laos and Malaysia	5
➤ <u>Need for a regional credit bureau</u>	It is necessary for SMEs	6
➤ <u>Suitable duration for granting capital</u>	5 years	4

At present, most countries in ASEAN already have agencies that provide some level of capital support for SME business development. However, to increase this support and to expand SME business at the regional level, the focal points agreed that ASEAN should move forward on the establishment of the proposed ASEAN SME Regional Development Fund (the Fund). The SME Focal Points of each country agreed that the capital sources for the Fund establishment should be member country governments, international development institutions and support from the +3 Nations – China, Japan and South Korea.

Fund management, they felt, should be under the supervision of the ASEAN Secretariat, with the national SME agencies already helping SME entrepreneurs working as the national authorities for implementation of the fund.

The criteria for Fund disbursement should include a requirement of a regional benefit that goes beyond the benefit to any one country. The most suitable financial instruments needed by SMEs are loans or shorter-term trade credits. According to the ASEAN SMEs Focal Points, a suitable duration for funding would be five years.

In addition, the consultant found that several countries in the ASEAN already have established national credit bureaus. Those countries that still do not have credit bureaus are in the process establishing them. All of the country SME agencies agreed that it was essential to establish a regional credit bureau as the central collection and dissemination mechanism for credit data on a regional basis.

Question Topic	Answer	Order of Importance
Other activities that should be supported most apart from the SME financial assistance	• Human resource development and capacity building	1
	• Enhancing SME marketing capabilities	2
	• Providing better access to technology	3
	• Creating a more conducive policy environment	4

Apart from financing, the ASEAN SME agencies felt that the ASEAN SME Regional Development Fund should support other SME activities as follows:

- Human resource development and capacity building should be given the highest priority, according to the SME Focal Points. The emphasis should be on improving entrepreneurship curriculums and raising the quality and quantity of entrepreneur development projects.
- The second priority should be placed on enhancing SME marketing capability, which should emphasize the establishment of the networks to link entrepreneurs and exchange business data at the regional level for SMEs.
- The next priority is improving access to affordable technology. This should aim first at the upgrade of information technology, including websites, e-commerce and general computerization.
- The last priority is creating a policy environment conducive for regional expansion of SMEs. This policy improvement should cover better and easier SME business registration procedures and provision of export and customs services that must be easy for entrepreneurs to access and use.

See Appendix 5 for more details.

2) Information from the survey of ASEAN SMEs

The consultant collected the information from ASEAN SME managers in ten countries during December 2009 – March 2010. This information is summarized in the table below.

Table of Survey Results from ASEAN SMEs Classified by Topic

Topics	Overall View of ASEAN SMEs	% of SME Respondents
Financial Situation of SMEs		
➤ <u>Key indicators for income creation</u>		
- Labor	Increasing	40
- Other costs	Increasing	63
- Interest paid	Unchanged	43
- Income	Increasing	37
- Net profit	Decreasing	41
- Addition of extra profit	Unchanged	41
➤ <u>Ratio of debts to assets</u>	Unchanged	28
➤ <u>Main problems of entrepreneurs</u>	Access to capital	21

Asked about the overall financial situation facing ASEAN SMES in the past 6 months (beginning roughly in June 2009), the SMEs respondents generally agreed that there had been a negative change. According to the survey results, most SMEs said they faced increasing operating costs -- both labor and other inputs. This negatively affected most companies' net profit even though some companies reported increases in revenue. This response appears connected with the global economic downturn of 2008-2009 even though the global economy was reported to be recovering during the period of the survey. Many companies reported that even though sales were increasing, their internal processes were not good enough to control costs as they increased production. The reports of rising costs may also reflect expenditures made to replenish inventory and raw materials supplies that had been allowed to run down during the crisis. Another factor in the cost increases reported may have been the need for long-deferred repairs or purchases of capital equipment to expand production to meet rising demand.

Topics	Overall View of ASEAN SMEs	Number of Respondents (%)
Capital Provision for SMEs		
➤ Use of various capital sources	Loans from families and friends	56

In response to a survey question about their current sources of capital, the majority of respondents said that in addition to their own personal resources, they depended on loans from family and friends to fund their companies. Despite the existence of government banks and SME funding agencies, these sources were cited by very few respondents, though some said they hope to utilize such sources in future.

Topics	Overall View of ASEAN SMEs	% of Respondents
SMEs Financial Growth		
➤ Expectation of revenue growth	Revenue increases averaging about 10% per year were expected	56
➤ Future external sources of capital		
▪ Favorable type of capital	Government Financing Programs	37
▪ Use of capital	Working capital	37
▪ Demand for the amount of capital	USD 10,000 – 100,000	41
▪ Obstacle to the capital provision	High interest rates	19

An improving economic situation led most entrepreneur respondents to report that they have plans to expand business in the ASEAN region and they anticipate that income will increase about 10% per year. Respondents said they thought growth would come together with higher costs of production and services. Therefore many respondents said their companies would need additional working capital. They indicated that capital needs would range from US\$10,000 – 100,000.

Topics	Overall View of ASEAN SMEs	% of Respondents
SME Readiness for the AEC		
➤ <u>Anticipation of AEC impact on SMEs</u>	Positive and equitable impact	32
➤ <u>SMEs preparation for the AEC</u>	Need more study to understand the AEC agreements and limitations	18
➤ <u>Capital sources for the preparation for readiness</u>	Government Financing Programs	32
➤ <u>External support for AEC readiness</u>		
▪ Types of support required	- Expansion of the SME customer base and market	12
	- Financial support for SMEs development	12
	- Activities for the export promotion	12
▪ Agencies responsible for the support		
- ASEAN	Giving consultation and training concerning international trade	18
- Country Government	Financial support for SMEs	14

Topics	Overall View of ASEAN SMEs	% of Respondents
- Private Sector	Promotion of industry clusters and entrepreneur networks	19
▪ Support for others	Human resource development and capacity building	30

ASEAN SME respondents were generally optimistic about the impact of the AEC. About 75% of respondents felt that the AEC would have a positive impact on business and in general would increase SME opportunities for trade and investment. When asked about their readiness to take advantage of the AEC, it was found that most ASEAN SME entrepreneurs felt they were not fully prepared and wanted support in six main areas:

- Expansion of the customer base and market
- Financial support for SMEs development
- Activities for the export promotion
- Human resource development and capacity building
- Consultation and training concerning the international trade, including the various FTAs in the region and the trade provisions of the AEC
- Promotion of industry clustering and entrepreneur networks

Although the SMEs surveyed generally felt that the AEC would expand their opportunities for trade and investment, the survey showed ASEAN SME entrepreneurs still have limited knowledge and understanding of the AEC. Thus it is essential for the organizations that support SMEs to help them in the following areas:

- Providing access to the capital support needed to expanded small businesses to take advantage of increased regional opportunities.
- Ensuring that financial support does not require complex and confusing application procedures that would deter most SMEs from applying. It should also be noted, as shown in earlier studies, that ASEAN SMEs typically are unable or unwilling to supply government agencies with a high level of information on their finances and operations.

In addition to financial support, entrepreneurs also want the technical support in order raise their competitive abilities (See Appendix 6 for more details)

Chapter 4

Data Analysis

Through the examination of existing regional development funds and interviews with SME and funding experts, the consultant developed a questionnaire for the ASEAN SME supporting agencies and ASEAN SMEs in order to collect facts and opinions on the establishment of the ASEAN SMEs Regional Development Fund. The survey results have already been summarized in the previous chapter. This chapter provides a more detailed analysis of the results according to their role in the ASEAN Regional Development Fund.

The results of analysis are organized into a chart below.

Table 4.1 Conclusion of Guidelines of the ASEAN SMEs Regional Development Fund

Topics	SME Supporting Agencies (ASEAN SMEs Focal Points)	ASEAN SMEs	Experts in the Establishment of SME Development Funds
Guidelines on the establishment	National governments should have the most important role	-	-
Capital sources	Capital should come from the ASEAN Fund and +3 Nations (China, South Korea and Japan)	-	Capital may be contributed by each member country, the contribution from Japan, China or the ASEAN Infrastructure Fund
Objectives	Loans or credits for trade	Objectives arranged in order of importance as follows : 1. Working capital for the operation 2. Provision of assets e.g. land, building, equipment and vehicle 3. Marketing promotion 4. Research and development / intellectual property development 5. Employee training	- Working capital - Equity financing or joint venture - Debt financing
Management	- ASEAN Secretariat should be the Fund manager or Fund inspector - Agencies that supervise SME entrepreneurs should be the National Authorities - Establish a Regional Credit Bureau to exchange credit data	-	The Fund Manager should be ADB or an intermediary company that is approved by ASEAN
Fund characteristics	-	- Low interest rates - Government Financing Programs - Amount of loans about USD 10,000 – 100,000	-

Topics	SME Supporting Agencies (ASEAN SMEs Focal Points)	ASEAN SMEs	Experts in the Establishment of SME Development Funds
Guidelines / procedures for the Fund assistance	The Fund should have the characteristic of Revolving Fund in order to be sustainable	-	-
Criteria for disbursement	Benefit to the region, not only one country	<ul style="list-style-type: none"> - Criteria for consideration that are clear and easily understood - There is no guarantee security. - Loan procedures simple and require few documents. 	<ul style="list-style-type: none"> - Disbursement should be for businesses that can connect with other businesses in ASEAN - The loan should not be complex but there should be the credit inspection
Fund duration	Suitable duration of the Fund is 5 years.	-	Duration of the Fund is about 2 years.
Problems and obstacles faced by SMEs	Access to capital	<p>In the order of importance:</p> <ul style="list-style-type: none"> ▪ Access to capital sources ▪ Marketing ▪ Production cost control ▪ Competition ▪ Employees who have skills 	Access to capital
Other support apart from the financial support	<p>Needs in order of importance:</p> <ol style="list-style-type: none"> 1) Human resource development and capacity building 2) Enhancing SME marketing 3) Access to technology 4) Creating a conducive policy environment 	<p>Needs in order of importance:</p> <ol style="list-style-type: none"> 1) Human resource development and capacity building 2) Enhancing SME marketing 3) Creating a conducive policy environment 4) Access to technology 	<p>The Fund should not only be the loan source but also should support other activities e.g. public utilities development, rules and regulations, official training, personnel development to improve SME competitiveness</p>

Topics	SME Supporting Agencies (ASEAN SMEs Focal Points)	ASEAN SMEs	Experts in the Establishment of SME Development Funds
Support for the preparation for readiness to the AEC	<p>Support that should be given to ASEAN SMEs:</p> <ul style="list-style-type: none"> ▪ Grants for SME development ▪ Industry clusters and entrepreneur networks ▪ Revised rules and regulations to expand SME markets ▪ Improve import-export procedures ▪ Export promotion and export system development 	<p>Support requested:</p> <ul style="list-style-type: none"> ▪ Expansion of the customer base and market ▪ Financial support ▪ Export promotion ▪ Human resource development ▪ Consultation and training concerning international trade ▪ Industry clusters and entrepreneur network 	-
What ASEAN should support for the preparation for readiness to the AEC	Grants for the SME development	<ol style="list-style-type: none"> 1) Consultation / training on the international trade 2) Export promotion 3) Amendments of rules and regulations to support the opening of markets 	-
What the country government should support to improve readiness for the AEC	<ul style="list-style-type: none"> ▪ Promotion of industry clusters and business networks ▪ Rules and regulations for expansion of SME markets ▪ Grants for SME development ▪ Improve export and Customs procedures 	<ol style="list-style-type: none"> 1) Grants for SME development 2) Revise export and Customs procedures 	-

Topics	SME Supporting Agencies (ASEAN SMEs Focal Points)	ASEAN SMEs	Experts in the Establishment of SME Development Funds
<p>What the private sector should support for the preparation for readiness to the AEC</p>	<ul style="list-style-type: none"> ▪ Promote exports ▪ Development of the SME export system to be more efficient 	<ol style="list-style-type: none"> 1) Clustering of industries and the promotion of the entrepreneur network 2) Expansion of the customer base and market 3) Export promotion 4) Financial support 5) Develop public utilities - especially logistics and transportation helpful to SMEs 	<p>-</p>

Chapter 5

Notes from the Expert Group Meeting on the ASEAN SME Regional Development Fund Conceptual Framework and Considerations from the ASEAN SME Agencies Working Group

On June 29, 2010 at Phuket, the K.I.Asia's research team proposed the draft study of the ASEAN SME Regional Development Fund Conceptual Framework to the Expert Group Meeting consisting of representatives from the ASEAN Secretariat, ASEAN member countries, the European Union, the Asian Development Bank, the Japan External Trade Organization (JETRO Bangkok), the Thailand trade representative, Thailand's Ministry of Foreign Affairs, and representatives from financial institutes in Thailand such as the SME Bank of Thailand, and the Small Business Credit Guarantee Corporation.

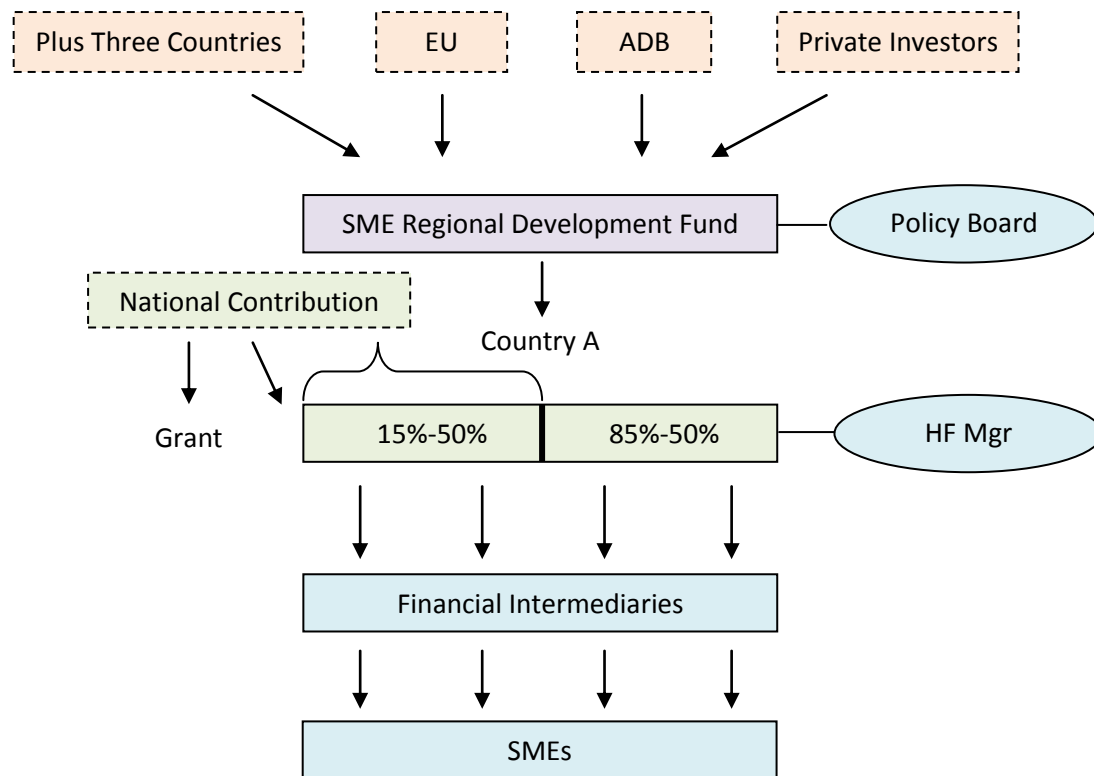
At the meeting, Mr. Graham Cope, who is the Head of Region – Northern Europe, Regional Business Development, EU Commission, and an expert in setting up regional SME funds, introduced 'JEREMIE', a model for the proposed framework, and provided feedback on the ASEAN SME Regional Development Fund Conceptual Framework as well as additional recommendations through email that can be summarized as follows:

Fundraising

Raising funds for the ASEAN SME Regional Development Fund, which should be called the Central Fund, should be the main initial priority and the responsibility of the ASEAN Secretariat, not the ASEAN countries. Fundraising sources to be explored should include the 'Plus 3' Countries, the EU, the ADB, private investors and the wealthier ASEAN countries. The goal should be to achieve a Central Fund with a critical mass of at least USD 500 million, but with a target of USD 1 billion. The argument ASEAN Secretariat should put to donating nations is that the fund will stimulate better SME financing conditions across the region, create better trade opportunities and raise the overall maturity of the various markets. An important issue in attracting funds, especially from private investors, is that the Central Fund should be structured as returnable in some form.

All member countries receiving an allocation from the Central Fund to support SMEs should be required to 'match' the funds provided from the Central fund at an agreed percentage level. The percentage of match, possibly ranging from 15% - 50%, should depend on the level of development of each country. For example, ASEAN should decide to rank the 10 countries according to a suitable measurement such as GDP per capita, unemployment, growth rates, etc and then decide what the percentages should be. It could be that the highest four ranked countries must supply 50%, the next three provide 30% and the poorest three provide 15%. This should be all decided by the ASEAN Secretariat and then formalized. No country should receive funds unless they contribute at least some matching funds.

Picture 5.1 Proposed Source of Funds of the ASEAN SME Regional Development Fund



Evaluation Phase

The Evaluation Study is an important activity that should provide detailed information on the business environment, the situation of SMEs (problems and obstacles, especially in cross-border business) as well as identification of the assistance SMEs need in order to design appropriate financial instruments. Since SMEs in each country are different, the Evaluation Study should be undertaken in each country, sponsored by the relevant Ministry of Finance or Economy with the possibility of some cost coverage provided by the ASEAN Secretariat.

The evaluation should focus on the existing financial assistance provided through market mechanisms, with special attention to the financial mechanisms that raise prices for financing above the ability of SMEs to pay. The justification for the use of public funds is based on such findings. The evaluation should cover financing mechanisms such as investment, lending, factoring and leasing.

Each report should follow a standard template set by the ASEAN Secretariat. However, each country's final report needs to be approved by the Policy Board only when it reaches the required standard. Importantly, the focus of each country fund depends upon the needs of the country but financing from the centre will vary depending upon the quality of the country proposal.

Since strong country level evaluation studies are critical to success, the evaluation study needs to be well done, but should not take too long because the situation can change quickly.

Implementation Phase

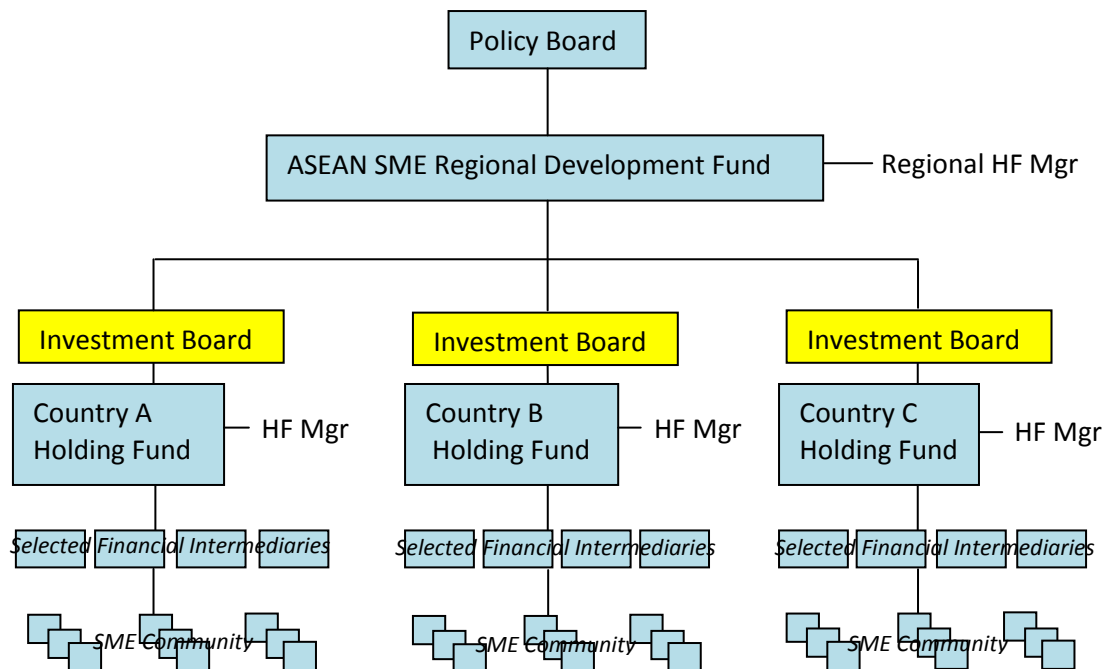
In this phase, each country should establish an Investment Board and a Holding Fund Manager. The Investment Board will oversee the operation of the Holding Fund in a national level with a representative of ASEAN Secretariat sitting on each. The Chairman of the Investment Board reports progress to the Policy Board every six months against set goals and objectives.

The Holding Fund Manager will be selected either by tender process or through direct appointment, but the Policy Board has to approve the choice after a due diligence review. The Holding Fund manager has clear implementation responsibilities and must also be responsible for monitoring activities. Each Holding Fund has to have external annual audits by a professional firm to ensure full compliance and transparency for donating nations

Overall Structure

ASEAN Secretariat should be the main body in establishing the Policy Board which has seats for each entity that contributes capital to the ASEAN SME Regional Development Fund. At the same time, ASEAN Secretariat will establish a project team to oversee all Evaluation Reports and Country implementation and is dedicated to this project only. This team is effectively the 'SME Regional Development Fund Manager' making low interest or no interest loans to each local Holding Fund and structures the repayment plan according to the business plan of each Holding Fund

Picture 5.2 Proposed Conceptual Framework of ASEAN SME Regional Development Fund



Policy Board

The Policy Board is intended to be the highest level of the governance structure for the entire initiative acting as a Steering committee but with certain decision making powers. Therefore, it must represent the key stakeholders and capital contributors as decision makers e.g.

ASEAN Secretariat, ADB, and Plus 3 countries. In addition, all 10 ASEAN countries could also have non-voting attendance at the meetings.

The Policy Board's main role is to keep the entire initiative on track and decide issues such as:-

- Setting percentages of matching funds or at least setting the criteria e.g. GDP per capita
- Appointment of country Holding Fund Managers and approval of Evaluation reports
- Control of overall budget

Regional Fund Manager

If the Fund Manager is seen as a custodian or the nature of the transaction from the Regional Fund to a country Holding Fund is to be a loan of some kind, a financial institution is needed. It could be the ADB, in the same way that the EIF operates in Europe. Then, the ADB could be a capital contributor to the Overall Fund and also a Country Holding Fund manager in each country where required or requested by the countries. The Regional Fund Manager role requires both financial and regional political expertise.

An additional recommendation for consideration is that it should be sufficient to have the Policy Board transfer money directly to the Holding Funds at national level because if the Fund has many management levels, it would add costs and delays.

Investment Board (National Authority)

The Investment Board may be comprised of representatives from appropriate ministries and national authorities such as SME supporting organizations, or key banking figures. This body should be responsible for overseeing the evaluation study, the local Holding Fund Manager's implementation activities and ensuring adherence to the timetable and budget for country activities. The Chairman of the Investment Board should report to the Policy Board.

An additional recommendation for consideration is the possibility of having groups of countries working together under a sub-regional authority instead of a national authority where countries shared common problems and a common level of development. An authority for the Greater Mekong Sub-region would be an example of such a sub-regional authority.

Holding Fund Manager

The Holding Fund Manager should be a financial institution. Its jobs are to structure the portfolio, to structure the financial investment, to select the financial intermediaries and then transact with them.

An additional recommendation for consideration is that the Holding Fund Managers and the National Authorities must avoid demanding too much reporting as this would be a disincentive to financial intermediaries and could increase costs. Also, there should be a clear and reasonable limit on management fees.

Financial Intermediaries

The selection of financial intermediaries must be transparent and explainable as it was likely that intermediaries not chosen would protest. In addition, a network of financial intermediaries helps provide wider and various assistances to SMEs.

The Assistance Process

Financial Instrument

Financial instruments used to assist SMEs should be designed to maximize private funding and leverage. There should be flexibility in such instruments so that they fit changing circumstances. In any case, all financial instruments should provide a reasonable return that will enable the fund to revolve and will attract private financial intermediaries and private capital to join the fund. Possibilities could include provision of

- Risk capital in partnership with private investors
- Seed money for start-ups
- Co-investment alongside business angel investors
- Funded risk sharing instruments that could provide up to half of the money to co-lend with financial intermediaries to SMEs.

An additional recommendation for consideration is that credit guarantees should have percentage limits so that financial intermediaries share part of the risk. Also, the package of financial instruments should be tailor-made for each country.

Grant

Grant funding should be limited in size and be kept separate from funding from financial instruments such as loans, investment funds and loan guarantees. Without this separation, there would be no hope of attracting private sector support and little chance the fund could become sustainable. One possibility would be to use national funding for grant mechanisms.

Timetabling

The fund should be established with a long-term view and sufficient time to do it correctly. The JEREMIE, for example, has taken five years to move from evaluation to disbursement. It took two years for the analysis of needs and two years of planning the implementation (designing financial instruments, setting policies, selecting managers and financial intermediaries). Only then could disbursement begin. Therefore, to be able to implement the formal structures within the timetable, the Evaluation Phase should be run in parallel to the Fundraising activities and be commenced as soon as possible and should be achieved within 18 months. A Budget also needs to be established for these two phases with appropriate cost sharing between ASEAN Secretariat and the 10 countries.

Additional Considerations from the Expert Group Meeting

Although the Expert Group Meeting generally agreed on the conceptual framework proposed by K.I.Asia, the experts suggested some additional considerations and recommendations.

Source of Funds

- Mr. Yamada from Jetro Bangkok said that the fund should try to attract funding interest from the ASEAN plus 6.
- A representative of South Korea said Korean private finance companies would only be interested if the fund were seen to be very profitable.
- A representative of China said the Chinese government might be interested, but was already contributing to the ASEAN-China Fund.
- A representative of the ASEAN SME Agencies Working Group said that ASEAN should provide financial support by allocating a portion of the ASEAN Fund, which is administered by the ASEAN Secretariat, to the ASEAN SME Regional Development Fund for use in SME-related activities.

Background and Scope of the Fund

- Mr. Yamada said that the Fund should be designed to attract private intermediaries and should have a mechanism for attracting investment funds.
- A representative of the ASEAN SME Agencies Working Group proposed that the “Fund of Funds” concept be explored for both private sector and ASEAN member states to invest in the Fund and that the Fund could be accorded microfinance institute (MFI)-like status so that it enjoys privileges similar to MFIs.

Objectives of the Fund

- A representative of the ASEAN Secretariat proposed that if funds are contributed by dialogue partners, the objectives of funds would have to be limited to commercially-viable financial facilities and would need to be attractive for dialogue partners i.e. they would have to provide for mutual benefits.

Management

- Dr. Suthad Setboonsarng, the Thailand Trade Representative, said that government involvement in management of the Fund should be limited.
- A representative of the ASEAN Secretariat said that the policy board could consider issuing financial instruments (e.g. bonds or debentures), especially for the ASEAN member states’ government to purchase and also proposed the establishment of revolving funds at the regional and national level.
- A representative of the ASEAN SME Agencies Working Group suggested that the necessity of having a Holding Fund Manager be re-examined. He said that having several layers to the management of the Fund would increase the administrative costs of the Fund.

The Assistance Process

Financial Instrument

- Dr. Suthad Setboonsarng, the Thailand Trade Representative, said there should be more emphasis on finance innovation – creating new IT and financial tools to meet special SME needs not currently being met by existing finance products.

- A representative of the ASEAN SME Agencies Working Group proposed that the interest rate of the Fund to be set slightly below the market rate.
- A representative of the ASEAN Secretariat proposed that
 - Financial facilities e.g. loans, trade finance, and loan guarantees, to be granted to SMEs by the financial intermediaries should also include facilities for the following purposes:
 - Efficiency & productivity enhancement
 - Green technology
 - Economical and efficient energy utilization including renewable energy and bio-fuel projects
 - Supply chain financing i.e. logistics, invoice financing and post-harvest management
 - Trade financing, particularly export credit (packing credit and export bills)
 - In cases in which loans are provided with no tangible collateral, the basis for “loan amount” could be based on the “project value” or “fair market value” of assets. Loan-to-value ratios should not exceed 80%.
 - Hard collateral may not be required, as collateral requirements would be barriers to SMEs’ access to finance. Meanwhile to ensure commitment from the SME borrowers and to prevent double financing, alternative types of security could be required, such as:
 - Assignment of rights to lease or rent
 - Assignment of short-term working capital assets -- inventory or account receivables
 - Letters of guarantee from shareholders, management or related parties

Grant

- A representative of the ASEAN SME Agencies Working Group proposed that the Fund support technical assistance projects, including ASEAN-wide projects as well as country-specific projects to enhance the capacity of SMEs. This could include technical assistance in areas such as proper accounting and financial reporting, development of viable business plans etc. to help SMEs become good borrowers.
- A representative of the ASEAN SME Agencies Working Group proposed that the Fund also include support in the form of advisory services and hand-holding by the SME development agency of the relevant AMS. This is to ensure follow-through, monitoring and a better outcome.

Eligibility

- Dr. Suthad Setboonsarng, the Thailand Trade Representative, said priority should be given to service sector companies as this was likely to be the fastest-growing sector in ASEAN in the future. Such companies could be in wholesale and retail services, transport, utilities, real estate, construction or health.
- A representative of the ASEAN SME Agencies Working Group proposed redefining the 12 ASEAN priority sectors, since not all sectors are available in each AMS. She also recommended that the credit worthiness and payment capability of firms applying for loans from the funds must be well assessed in order to ensure sustainable lending and confidence in their ability to repay the loans.

- A representative of the ASEAN Secretariat proposed that eligibility include SMEs with links to other ASEAN member states, plus SMEs in ASEAN member states that have international trade with Plus Three countries. SMEs in other industry sectors should be considered if the purpose of the financing is for green technology, energy efficiency or export-oriented projects.

Other Recommendations

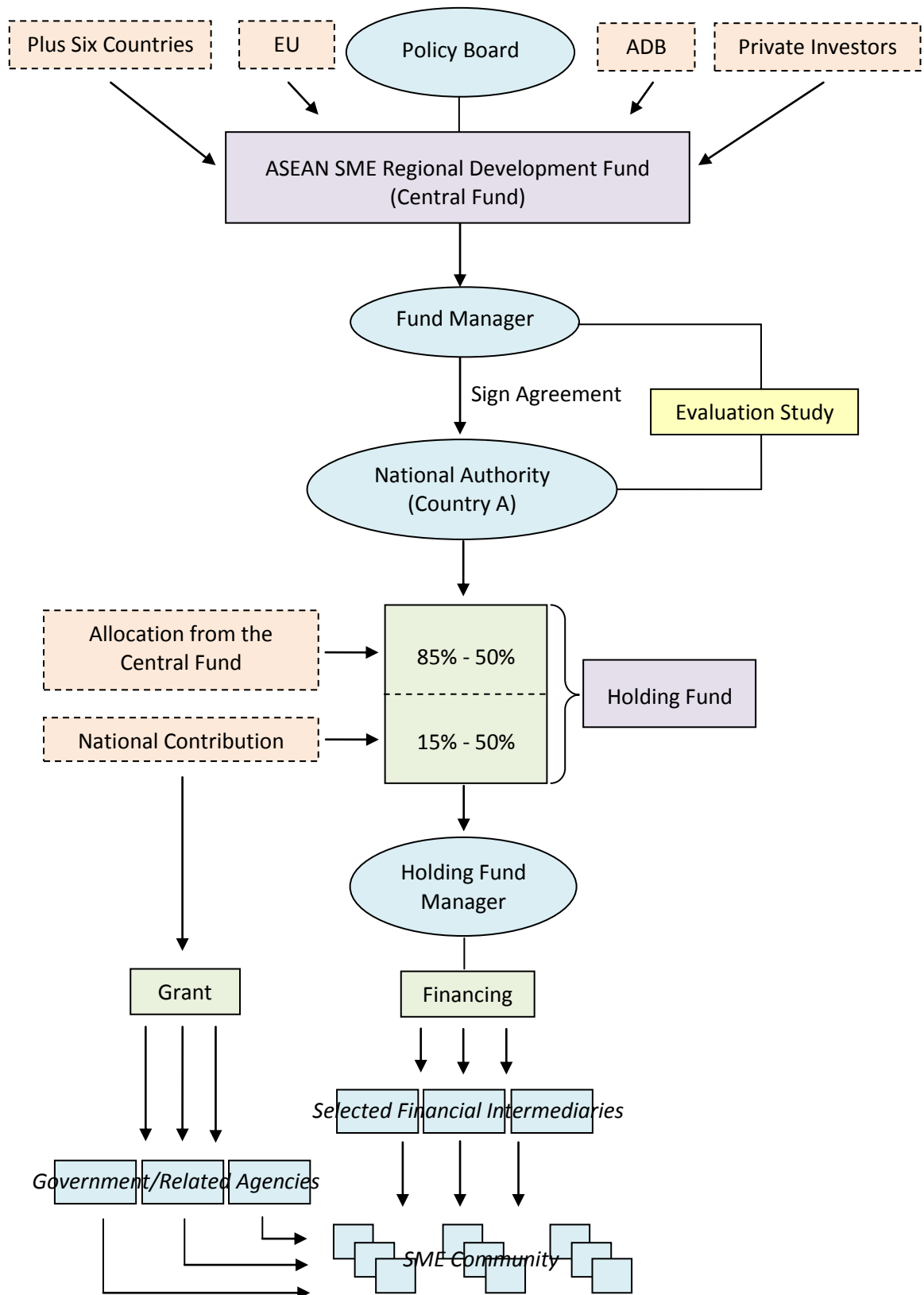
- A representative of the ASEAN SME Agencies Working Group proposed that the ADB be invited to the upcoming 27th ASEAN SMEWG Meeting to share and present its views on possible implementation issues which may arise in managing an SME development fund for ASEAN.
- A representative of the ASEAN Secretariat proposed that:
 - For the establishment of a regional credit bureau, litigation procedures for disclosure of personal information between countries would need to be worked out.
 - To achieve lower risk profile and near-zero risk asset class, the fund will need to be guaranteed by the Ministry of Finance of the country with a high sovereign rating or by an international organization such as the ADB or the World Bank, for instance.

Chapter 6

Conclusions on the Establishment of the ASEAN SME Regional Development Fund

Based on a survey that included responses from SME entrepreneurs and the ASEAN SME Focal Points in the ten member countries, interviews with SME fund establishment experts, as well as comments from the ASEAN SME Round Table Discussion on ASEAN SME Regional Development Fund and the Expert Group Meeting on ASEAN SME Regional Development Fund, the consultant has proposed a model for the establishment of the ASEAN SME Regional Development Fund, as shown in the diagram below.

Picture 6.1 Suggested ASEAN SME Regional Development Fund Model



1) Background of the Fund

The ASEAN SME Regional Development Fund (the Fund) is to be established to provide financial assistance for SMEs in the ASEAN region. The concept of the fund was initiated at “The 1st High-Level Seminar on Promoting SMEs Development and Investment in East Asia” held in Beijing, China in 2005. Because ASEAN SMEs face problems involving both finance and management, the Seminar agreed to support a study of the establishment of a fund to assist SMEs in the finance area. The establishment of the Fund was made one of the main activities in the ASEAN policy blueprint for SMEs development under the AEC. This activity was assigned to the ASEAN SME Agencies Working Group to achieve in 2014-2015 (Source: Office of Small and Medium Enterprise Promotion).

2) Objectives of the Fund

The ASEAN SME Regional Development Fund should be established with the following objectives:

1. To provide financial and technical assistance to ASEAN SMEs, especially those with business linkages in at least one other ASEAN country
2. To promote equitable economic development in the ASEAN region
3. To promote business alliances at the regional level to expand international trade and investments in the ASEAN region
4. To increase the competitive ability of ASEAN SME entrepreneurs
5. To help ASEAN SMEs prepare to enter the AEC and do business in other ASEAN countries

3) Management

The management of the ASEAN SME Regional Development Fund should include the following:

Fundraising

Fundraising sources to be explored include the Plus Six Countries (China, Japan, South Korea, India, Australia, and New Zealand), the European Union, the Asian Development Bank, private investors, and ASEAN countries. Funds should also come from national contributions to match money provided from the Fund at an agreed percentage level for each country. The percentage of match, ranging from 15% - 50%, should depend on the level of development of each country. No country should receive funds unless they contribute at least some matching funds. All funds are to support financial assistance to SMEs and must be repaid to the Fund. For technical assistance, each country should consider its contribution according to the needs of SMEs in the country.

Policy Board

The highest level body in the operation of the Fund will be the Policy Board, comprised of one representative from each member country and from each entity contributing money to the Fund. A representative from the ASEAN Secretariat could also be included to provide coordination with the Secretariat’s work to establish the AEC. The Policy Board will be responsible for drafting the scope of the operation and the policies of the Fund, as well as identifying the funds necessary for its establishment and operation.

Fund Manager

After establishing the Fund, the Policy Board will select a Fund Manager, an organization whose duties shall be to disburse the funds, administer the Fund, and ensure the Fund's operations correspond with its objectives. The organization selected as the Fund Manager should have experience in managing a regional fund, be able to coordinate assistance within the ASEAN Region, and have a clear understanding of the differences among the member countries. The ADB, for example, was seen by several respondents as a suitable organization for this position, and should be capable of effective and efficient Fund management.

Evaluation Study

The Fund Manager will appoint a consultant to conduct an Evaluation Study that will include a needs assessment and gap analysis for SMEs in each member country. The Study should include each country's economic environment, SME definition, SME strengths and weaknesses, opportunities for SMEs in the region and need for technical as well as financial assistance. The Study will be used to determine the distribution of the Fund as well as the types of loans or other modes of assistance that would be best suited for each country. A standard template should be provided to all member states and each country's final report should be approved by the Policy Board only when it reaches the required standard. Importantly, the focus of each country fund depends upon the needs of the country, but financing from the centre will vary depending upon the quality of the country proposal.

National Authority

Each country will establish a National Authority made up of representatives from central agencies or SME support organizations. The National Authority will work directly with the Fund Manager to ensure efficient and effective operation of the Fund in its country. Each National Authority will work with the Fund Manager to use the Evaluation Study to set an appropriate framework for Fund management in its country, and will then sign a cooperative agreement with the Fund Manager on that framework. The National Authority is responsible for overseeing the local Holding Fund Manager's implementation activities that will include the completion of the evaluation study and ensuring adherence to the timetable and budget of country activities. The Chairman of this board should report progress against set goals and objectives to the Policy Board every six months.

Holding Fund Manager

Each National Authority will then issue a call for expressions of interest to act as the country's Holding Fund Manager and select an organization with the financial management capability to undertake this role. The job of a Holding Fund Manager is to structure the portfolio, to manage the financial investment, to select the financial intermediaries and then transact with them. The Holding Fund Manager will be selected either by tender process or through direct appointment, but in either case a due diligence review will be required.

Financial Intermediaries

The Holding Fund Manager will issue a call for expressions of interest to select reputable and capable financial intermediaries such as banks, finance companies or factoring companies to provide financial assistance to SMEs through a variety of financial services to SMEs such as

trade credit, working capital, capacity improvement loans, equity investment and financial advisory services. Interested financial intermediaries will submit a Fund Development Plan proposal, and the Holding Fund will consider the proposed plan along with the interested party's expertise, management efficiency and ability to be a channel for providing financial assistance to SMEs when selecting the financial intermediaries.

Government/Related Agencies

Government agencies and private training or consulting organizations may also receive support from the Fund to provide knowledge and technical assistance to SMEs.

4) The Assistance Process

The Fund shall support efforts to assist SMEs through both financial instruments such as loan guarantees or loans and through technical assistance in fields such as human resource development, management capacity building, enhancing marketing capabilities, access to technology and creating a policy environment conducive for the growth and development of SMEs. While the details of the assistance process may differ somewhat from country to country, the Fund shall ensure that all of the processes at the country level meet high standards of good governance and effectiveness so they can achieve the objectives of the Fund.

5) Eligibility

SMEs benefiting from the fund must fit each country's SME definition and must have business interests or linkages in at least one other ASEAN country. They can be in any business sector -- manufacturing, trade, or services. However, the distribution of funds may be weighted towards 12 priority sectors: tourism, airline business, automotive, wood products, rubber products, textiles, electronics, agricultural products, fisheries, IT, health, and logistics. Projects related to other SME businesses in ASEAN and those that are useful to the region as a whole may also be given more weight for funding.

6) Duration of the Fund

The initial duration of the Fund shall be five years. Thorough monitoring and evaluation of Fund operation should take place every two years and at the end of the five year period. Extension of the fund duration shall be considered on the basis of these evaluations.

7) Possible Problems in the Operation of the Fund

Although the Fund is regional, it shall emphasize member country decision-making, at the level of the Holding Fund, the National Agency, the various financial intermediaries and down to the individual SMEs involved. It is expected that operation of the fund will support SME development at the national level but shall also support increased trade and investment at the regional level. Experts interviewed for this study, however, expressed concerns about financial discipline at all levels, but particularly at the firm level. There were concerns that the financial intermediaries would not have sufficient information on the credit worthiness of the firms applying for loans. Lack of well-kept and well-audited financial accounts has been shown in previous studies to be a significant problem for many ASEAN SMEs. Since most SMEs, as shown in the consultant's surveys and other studies, source most of their funding

privately, there is often little evidence of their repayment record. This problem is made worse by the lack of strong mechanisms for lending institutions to share information on loan repayment and such a mechanism is completely missing on the regional level.

Solution The problems of financial discipline may be significantly reduced by the establishment of a Regional Credit Bureau as the center for exchange of credit data within the region. Such a bureau would make it easier for the financial intermediaries to determine the credit worthiness of SMEs applying for assistance and would provide an additional incentive for repaying the loans provided. In establishing such a Credit Bureau, priority should be given to the efficient data collection, processing and distribution.

Recommendations from the researcher

Generally, the ASEAN SME Regional Development Fund Conceptual Framework proposed by the K.I.Asia research team was approved by the Meeting. Still, there are urgent issues for consideration by the ASEAN SMEWG and ASEAN Secretariat in the coming meeting.

Those issues are:

Fundraising

The most critical initial step in setting up the ASEAN SME Regional Development Fund is finding the funding that will be used to support SMEs. Therefore, fundraising is considered as the most urgent and necessary activity that must be undertaken to be able to set up the Fund by 2014. The research team proposes that ASEAN Secretariat take a leading role in raising funds from various sources since the body represents the ASEAN member countries.

Evaluation Study

This research emphasizes the different needs of SMEs in each country which must be understood in order to design the specific types of assistance that should be supported by the Fund. The Evaluation Study will be used to determine the distribution of the Fund as well as the types of loans or other modes of assistance that would be best suited for each country. Therefore, the research team strongly recommends that the Evaluation Study be undertaken as soon as possible.

The process of launching the Evaluation Study could start with the ASEAN Secretariat setting up a kick-off meeting consisting of researchers from all member countries. An expert from the European Investment Fund should be invited to share the EU experience on conducting such studies with the meeting. Guidelines on conducting the Evaluation Study should be set to ensure all country studies are comparable. The Evaluation Study is undertaken by each country, but may have a representative from the Fund Manager participate in the team. The Evaluation Study should be analyzed thoroughly and carefully and should thoroughly cover the needs of SMEs in member countries in order for the Fund Manager to draft effective and practicable policies in managing the Fund.

Fund allocation

In order to make the ASEAN SME Regional Development Fund sustainable and attractive to private investors, the Fund should consider giving soft loans with low interest to the Holding Funds. These loans should then be repaid to the Fund on an agreed timetable that will enable the Fund to be sustained.

Grant

Some participants in the meeting commented that giving grants to SMEs would create neither strength nor competitive capability, and would adversely affect the sustainability of the Fund. The research team, however, recommends that some grants should still be provided because in ASEAN, there are big differences in the economic development level among member countries. The provision of grant funding will help develop human resource capability that could eventually support greater economic equality among ASEAN countries, one of the Fund's objectives. However, the source of grants and the way that they are managed should be explored at a later stage.

Some additional recommendations to be considered are

Fund management

- There should be clear practices or guidelines in all management processes, but flexibility is also required because the situation can change quickly
- There should be a periodic operational review for transparency in management
- The Fund at the regional and national levels should strive to attain a rating of AAA to attract investment
- All management fees must be defined clearly and set at reasonable levels

Holding Fund Manager

An efficient and effective representative must be chosen to work as the Holding Fund Manager in each country, because the Holding Fund plays a significant role in the administration of the Fund and also helps to strengthen the capabilities of the SMEs in that country. Capable SMEs are critical to the economic sector, and will allow the Fund to move forward with strength and stability. If a country can't recruit a capable Holding Fund Manager, the Fund Manager should help in overseeing the Holding Fund.

Revolving Fund

The research team recommends that the Fund be managed as a revolving fund for continuity and sustainability. At the end of the project, any funds left in any country must be returned to the Fund.

Issues to be noted on the research and recommendations

In considering this report and the proposed Framework, some limitations with respect to the analysis and data should be noted that may affect the accuracy and completeness of the results.

Sample size

The sample size for survey of SMEs was particularly small compared to the number and diversity of ASEAN SMEs. Although best efforts were made to reach as many SME respondents as possible within the limited budget and time frame of the project, the research team has concerns that the number and distribution of respondents in this study are not sufficient to be fully representative of the broad range of ASEAN SMEs and thus has made generalizations difficult. It was particularly difficult to get sufficient responses from SMEs in the newest and least developed ASEAN countries.

Time Frame

The study was limited by its time frame since it is an eight-month project. This led to limitations in data collection, both primary and secondary. Given more time, a wider range of literature review and primary research inputs would have been possible.

Since this is a study of the Conceptual Framework for the Fund, it does not provide details of process and operational management. The research team suggests that a more in-depth study be carried out in the second phase of establishing the fund as soon as possible in order to help set up the Fund within 2015. It is of particular importance that this second phase includes extensive exploration of the possibilities of gaining sufficient financial resources for the Fund to be efficient and effective and that this exploration of funding sources be closely coordinated with the ASEAN Secretariat and the Asian Development Bank.

Appendices

Appendix 1

Definition of SMEs in ASEAN Countries

- Based on number of full-time employees

Country		Micro	Small	Medium
Brunei		1-5	6-50	51-100
Cambodia		1-10	11-50	51-100
Indonesia		1-5	6-50	51-100
Lao PDR			1-19	20-99
Malaysia	Manufacturing	< 5	5-50	51-150
	Services	< 5	5-19	20-50
Myanmar		< 9	10-50	51-100
Singapore		< 200		
Philippines		1-9	10 - 99	100 -199
Thailand	Production	1-5	<= 50	51-200
	Service	1-5	<= 50	51-200
	Wholesale	1-5	<= 25	26-50
	Retail	1-5	<= 15	16-30
Vietnam		< 300		

Appendix 1 (cont.)

Definition of SMEs in ASEAN Countries

- **Based on asset value**

Country		Micro	Small	Medium
Cambodia	Excluding land	Less than US\$50,000	US\$50,000- 250,000	US\$25,000-500,000
Indonesia		< Rp. 50 mil	> Rp 50 mil & < Rp 200 mil	Rp. 200 mil - Rp. 10 bio
Lao PDR			< 250 mil Kip	< 1200 mil Kip
Myanmar			< 1 mil Kyats	1 – 5 mil Kyats
Philippines	Excluding land	Up to PhP 3 mil	>PhP 3 mil – 15 mil	>Php 15 mil – 100 mil
Singapore		< SGD 15 mil Fixed Productive Asset		
Thailand	Production	-	<= 50 mil baht	> 50 - 200 mil baht
	Service	-	<= 50 mil baht	> 50 - 200 mil baht
	Wholesale	-	<= 50 mil baht	> 50 - 100 mil baht
	Retail	-	<= 30 mil baht	> 30 - 60 mil baht
Vietnam		<= 10 billion Vietnam Dong (~USD 620.000)		

Appendix 1 (cont)

Definition of SMEs in ASEAN Countries

- **Based on other factors**

Country		Micro	Small	Medium
Malaysia	Annual Sales Turnover - Manufacturing	< RM 250,000	RM 250,000 – RM 10 mil	RM 10 Mil- RM 25 Mil
	Annual Sales Turnover - Services	< RM 200,000	RM 200,001 – RM 1 mil	> RM 1 Mil < RM 5 Mil
Myanmar	Based on annual production		< 2.5 mil Kyats	2.5 – 10 mil Kyats
Myanmar	Based on Electricity consumption	< 3 Horse Power (HP)	3 – 25 HP	25 – 50 HP
Lao PDR	Turnover		400 mil Kip	1 bil Kip

Appendix 2

List of Interviewed Experts/Officials on the Establishment of SME Development Fund

Organization	Experts/Officials
1. Asian Development Bank, Manila, Philippines	1.1 Mr. Bindu N. Lohani -Vice President (Finance and Administration) 1.2 Mr. Chaiyuth Sudthitanakorn - Executive Director (Representative of Ministry of Finance, Thailand) 1.3 Mr. Hasib Ahmed - Principal Investment Specialist (Capital Markets) 1.4 Ms. Sukhumarn Phanachet - Principal Treasury Specialist 1.5 Mr. Cuong Minh Nguyen - Economist (Regional Cooperation) 1.6 Mr. Kelly Bird - Senior Economist 1.7 Mr. Ronnie Butiong - Senior Regional Cooperation Specialist
2. ASEAN Business Advisory Council	Mr. Arin Jira President of the ASEAN Business Advisory Council
3. The East Asia Business Advisory Council (ASEAN+3)	Mr. Somkiat Anurat President of the East Asia Business Advisory Council
4. European Union	Mr. Georges Kolivas Coordinator, EU Structural Funds, DG Regional
5. Export-Import Bank of Thailand	Mr. Pramon Neramitmansook Assistant Director Export-Import Bank of Thailand
6. GMS Business Forum	Dr. Jingjai Hanchanlash Committee Member of the GMS Business Forum

Appendix 3
Questionnaire for ASEAN SME Focal Points

Survey on ASEAN SME Regional Development Fund

The results of the survey will help in framing the establishment of the SME Regional Development Fund to improve the access to finance for SMEs.

*Your answers to this survey will be treated in strict confidence, used for statistical purposes and published in aggregate form only. Please return this survey to sarinporn@kiasia.org no later than **25 December 2009**.*

Section 1: Organization Profile

1.1 Organization/Unit name _____

Address _____

Telephone# _____

Fax # _____

E-mail _____

1.2 Contact Person _____

Section 2: SME Policy

2.1 WHICH OF THE FOLLOWING ORGANIZATIONS ARE INVOLVED IN SMEs PROMOTION IN YOUR COUNTRY? (May choose more than one item)

- | | |
|--|--|
| <input type="checkbox"/> National government | <input type="checkbox"/> Large state companies |
| <input type="checkbox"/> Local administration | <input type="checkbox"/> Large foreign companies |
| <input type="checkbox"/> International donors | <input type="checkbox"/> Consulting companies and agencies |
| <input type="checkbox"/> Associations of entrepreneurs | <input type="checkbox"/> Insurance companies |
| <input type="checkbox"/> Banks | <input type="checkbox"/> Service centers |
| <input type="checkbox"/> Chambers of commerce | <input type="checkbox"/> Others _____ |

2.2 IN YOUR OPINION, WHAT ARE THE BARRIERS TO THE DEVELOPMENT OF THE SMEs BUSINESS? (May choose more than one item)

- | | |
|--|---|
| <input type="checkbox"/> Law and regulation | <input type="checkbox"/> Qualified human resources |
| <input type="checkbox"/> Product quality | <input type="checkbox"/> Government SME program |
| <input type="checkbox"/> Taxation | <input type="checkbox"/> Market information |
| <input type="checkbox"/> Purchasing power of the consumer | <input type="checkbox"/> Management skills |
| <input type="checkbox"/> Support from local authorities | <input type="checkbox"/> Cost of production/management |
| <input type="checkbox"/> Image of the entrepreneurs | <input type="checkbox"/> Marketing skills |
| <input type="checkbox"/> Procedural difficulties in starting a company | <input type="checkbox"/> Coordination between organizations supporting SMEs |
| <input type="checkbox"/> Difficulty in accessing to credit | <input type="checkbox"/> Other (please specify)_____ |

2.3 IN YOUR OPINION, WHAT ARE THE BARRIERS TO FOSTER BUSINESS ALLIANCE IN AEC? (May choose more than one item)

- | | |
|--|---|
| <input type="checkbox"/> Law and regulation | <input type="checkbox"/> Qualified human resources |
| <input type="checkbox"/> Product quality | <input type="checkbox"/> Government SME program |
| <input type="checkbox"/> Taxation | <input type="checkbox"/> Market information |
| <input type="checkbox"/> Purchasing power of the consumer | <input type="checkbox"/> Management skills |
| <input type="checkbox"/> Support from local authorities | <input type="checkbox"/> Cost of production/management |
| <input type="checkbox"/> Image of the entrepreneurs | <input type="checkbox"/> Marketing skills |
| <input type="checkbox"/> Procedural difficulties in starting a company | <input type="checkbox"/> Coordination between organizations supporting SMEs |
| <input type="checkbox"/> Difficulty in accessing to credit | <input type="checkbox"/> Other (please specify)_____ |

2.4 WHAT KIND OF ASSISTANCE SHOULD THE GOVERNMENT PROVIDE?

- Export procedure/customs procedure
- Finance
- Customers and market expansion
- Grants for SMEs development
- Infrastructure development especially in logistics
- Consultation/train on international trade/FTA/ASEAN
- Regulations amendment to support the open market
- Industry cluster and entrepreneur network promotion
- Export promotion activities i.e. trade show, road show, trade mission, business matching, and web site
- Other (please specify)_____

2.5 WHAT KIND OF ASSISTANCE SHOULD BE CONSIDERED IN ORDER TO HELP PREPARE FOR THE AEC INITIATIVE? PLEASE CHOOSE ONLY THREE ITEMS AND ALSO IDENTIFY THE APPROPRIATE LEADING BODY FOR THE SELECTED ITEMS.

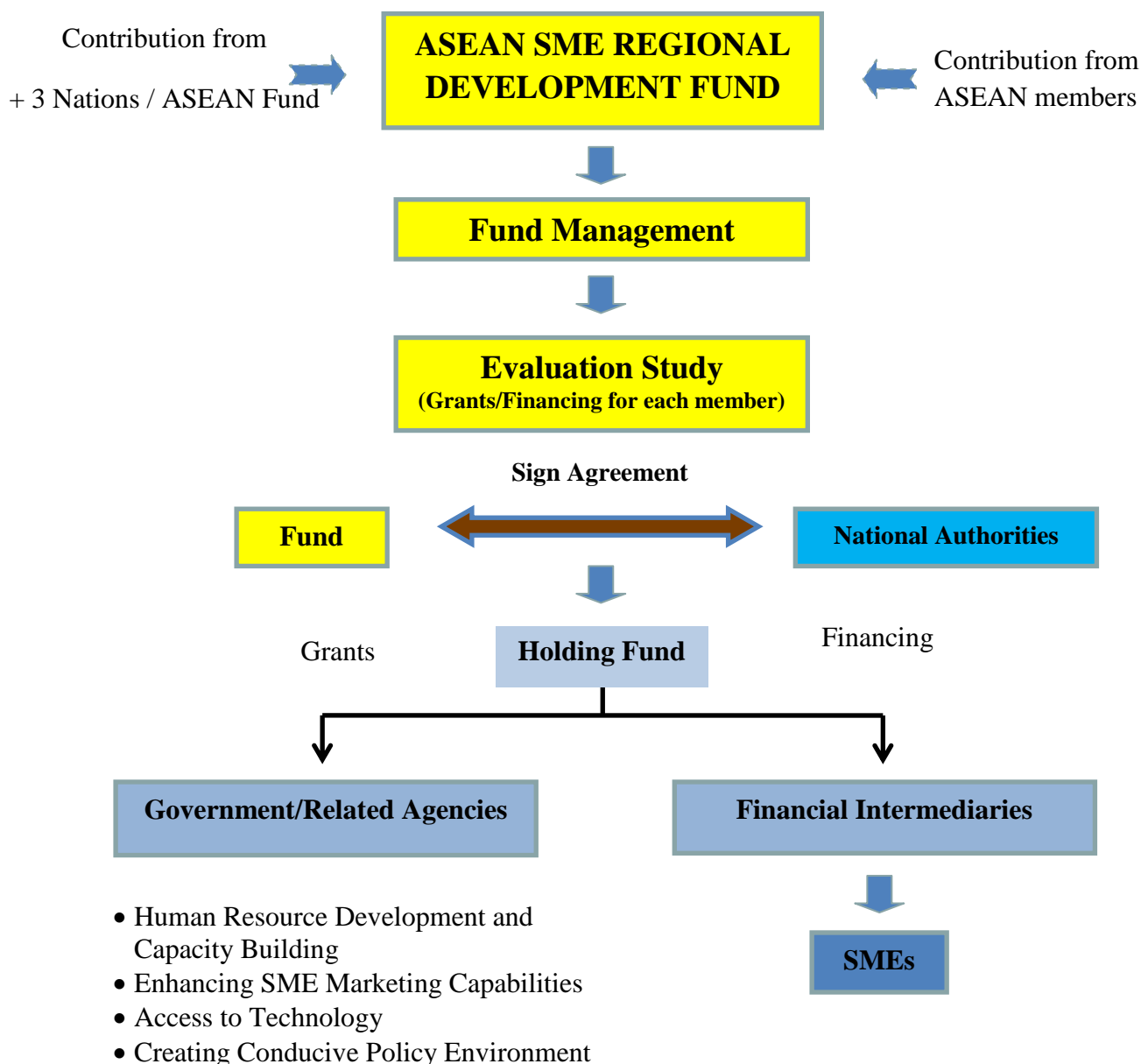
	ASEAN	Country Government	Private Sector
<input type="checkbox"/> Export procedure/customs procedure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Customers and market expansion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Grant for SMEs development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Infrastructure development especially in logistics	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Consultation/train on international trade/FTA/ASEAN	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Regulations amendment to support the open market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Industry cluster and entrepreneur network promotion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Export promotion activities i.e. trade show, road show, trade mission, business matching and web site	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Other (please specify)_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section 3: ASEAN SME REGIONAL DEVELOPMENT FUND

3.1 IS THERE ANY SMEs FUND IN YOUR COUNTRY? AND WHAT KIND OF ASSISTANCE(S) DOES THE FUND PROVIDE?

- Yes
- Export procedure/customs procedure
 - Finance
 - Customers and market expansion
 - Grants for SMEs development
 - Infrastructure development especially in logistics
 - Consultation/train on international trade/FTA/ASEAN
 - Industry cluster and entrepreneur network promotion
 - Export promotion activities i.e. trade show, road show, show room, trade mission, business matching, and web site
 - Other (please specify)_____
- No

ASEAN SME REGIONAL DEVELOPMENT FUND MODEL



3.2 FROM THE MODEL, IN YOUR OPINION, WHAT ARE THE POTENTIAL SOURCES OF FUND?

- | | |
|--|--|
| <input type="checkbox"/> ASEAN Fund | <input type="checkbox"/> International organizations |
| <input type="checkbox"/> +3 Nations | <input type="checkbox"/> Others _____ |
| <input type="checkbox"/> ASEAN Members | |

3.3 FROM THE MODEL, AS A REGION, WHO IS APPROPRIATE TO MANAGE/SUPERVISE THE FUND?

- ASEAN Secretariat
- Specific organization (nominee member nations)

- International Organization i.e. ADB, World bank, please specify_____
- Others_____

3.4 FROM THE MODEL, AS A COUNTRY, WHO IS SUITABLE FOR NATIONAL MEMBER AUTHORITY?

- Supporting SMEs organizations
- Representatives from ministry of finance
- New/specific organization
- Others_____

3.5 FROM THE MODEL, PLEASE RECOMMEND MAIN CRITERIA FOR ALLOCATION OF FUND TO EACH MEMBER NATION.

3.6 FROM THE MODEL, WHICH FINANCIAL INSTRUMENTS ARE FORESEEN UNDER ASEAN SMEs REGIONAL DEVELOPMENT FUND?

- Loan (loan, trade credit)
- Equity Financing (venture capital, etc.)
- Bond (debt securities issued, subordinated loans/mezzanine, etc.)
- Guarantee
- Securitization
- Leasing/hire-purchase/factoring
- Others (please specify)_____

3.7 IS A NATIONAL CREDIT BUREAU ESTABLISHED IN YOUR COUNTRY?

- Yes
- No
- Plan to establish, when_____

3.8 IN YOUR OPINION, IS A REGIONAL CREDIT BUREAU NEEDED?

- Yes
- No

3.9 ASEAN SME FUND WILL SUPPORT PROGRAMS ADDRESSING REGIONAL DEVELOPMENT AND ENHANCED COMPETITIVENESS. IN YOUR OPINION, OTHER THAN FINANCING TO SMEs, WHAT ACTIVITIES ARE THE MOST IMPORTANT FOR SMEs? (Please rank them in order both in item level (A-D) and sub-item level)

__ A. Human Resources Development and Capacity Building

- Entrepreneurship development program/curriculum
- Inter-firm networking and linkages
- Management experts
- Others (please specify)_____

__ B. Enhancing SME Marketing Capabilities

- Setting up sub/regional networks of interlinked, online clearing points/trading house
- Enhancing SMEs on ICTs and e-commerce
- Tracking and benchmarking SME readiness as subcontractors
- Others (please specify)_____

__ C. Access to Technology

- SME technology upgrading
- Transfers of innovative technologies
- ASEAN SME web portal
- Visual ASEAN agencies
- Others (please specify)_____

__ D. Creating Conducive Policy Environment

- Simplification of the procedures for SME registration and support service
- Fine-tune policy for SME development
- Promotion of public-private synergies/partnership
- Others (please specify)_____

3.10 WHAT SHOULD BE THE PERIOD OF FUNDING?

- | | | | |
|----------------------------------|----------------------------------|---------------------------------------|---|
| <input type="checkbox"/> 1 year | <input type="checkbox"/> 3 years | <input type="checkbox"/> 5 years | <input type="checkbox"/> Others (please specify)_____ |
| <input type="checkbox"/> 2 years | <input type="checkbox"/> 4 years | <input type="checkbox"/> Not specific | |

3.11 OTHER SUGGESTIONS/COMMENTS

Thank you for your kind cooperation

Appendix 4
Questionnaire for ASEAN SMEs

Survey on ASEAN SME Regional Development Fund

The results of the survey will help in framing the establishment of the SME Regional Development Fund to improve the access to finance for SMEs.

Your answers to this survey will be treated in strict confidence, used for statistical purposes and published in aggregate form only. Please return this survey to sarinporn@kiasia.org no later than 25 December 2009.

Section 1: General characteristics of the firm (Demographic part)

1.1 Company name _____

Address _____

Telephone# _____ **Fax #** _____

E-mail _____

1.2 Contact Person _____

1.3 Legal status

1. Public Company Limited 2. Company Limited

3. Limited Partnership 4. Shop

5. Other (specify) _____

1.4 How long has your company been in business?

1. 0-3 years 2. 3-5 years

3. 5-10 years 4. > 10 years (specify) _____ years

1.5 Type of activity

Manufacturing

1. Agro-based Goods 2. Fisheries 3. Wood-based Products

4. Rubber-based Goods 5. Textiles and Clothing 6. Automotive Products

7. Electronics Goods 8. Other (specify) _____

Services

1. Information Technology 2. Health Care Products 3. Tourism
 4. Air Transport 5. Logistics
 6. Other (specify) _____

Wholesale Trade/Retail Trade (Not Manufacturer)

1. Wholesale Trade 2. Retail Trade

1.6 Number of employees _____

1.7 Assets value _____

1.8 Annual turnover _____

Section 2: General information of your business

2.1 What are your main business problems? (May choose more than one item)

- | | |
|---|---|
| <input type="checkbox"/> 1. Finding customers | <input type="checkbox"/> 5. Availability of skilled staff |
| <input type="checkbox"/> 2. Competition | <input type="checkbox"/> 6. Law and Regulations |
| <input type="checkbox"/> 3. Access to finance | <input type="checkbox"/> 7. Other _____ |
| <input type="checkbox"/> 4. Costs of production | <input type="checkbox"/> 8. None |

2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged or decreased in your company?

	Increased	Remained unchanged	Decreased
1. Turnover	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Labor cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Other cost (materials, energy, other)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Net interest expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Net profit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Mark up	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.3 Over the past 6 months, the amount of debt compared to the assets (Debt to Asset Ratio) of your firm has

- | | |
|---|---|
| <input type="checkbox"/> Increased | <input type="checkbox"/> Decreased |
| <input type="checkbox"/> Remained unchanged | <input type="checkbox"/> Not applicable/no debt |

Section 3: Financing of the firm

3.1 What is the largest source of the fund for your company?

- Money/Loan from family and friends
- Government financing programs
- Financing from banks/financial institutes

3.2 During the past 6 months, have you ever applied for the following ways of financing support? (May choose more than one item)

Sources of Financing	Applied	Did not apply because of possible rejection	Did not apply because of sufficient internal funds	Did not apply for other reasons
1. Government financing programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Grants or subsidized bank loan (involving support from public sources)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Bank overdraft, credit line or credit cards overdraft	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Bank loan (new or renewal)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Trade credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Leasing or hire-purchase or factoring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Debt securities issued	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Subordinated loans, participation loans or similar financing instruments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Equity issuance or external equity investors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3.3 If yes, what were the outcome?

Types of Financing	Applied and got everything	Applied but only got part of it	Applied but refused because cost too high	Applied but was rejected
1. Government financing programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Grants or subsidized bank loan (involving support from public sources)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Bank overdraft, credit line or credit cards overdraft	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Bank loan (new or renewal)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Trade credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Leasing or hire-purchase or factoring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Debt securities issued	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Subordinated loans, participation loans or similar financing instruments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Equity issuance or external equity investors

3.4 Compare to the last year, any changes for each of the following terms and conditions of the bank financing?

	Was increased	Remained unchanged	Was decreased	Not Applicable
<i>Price terms and conditions:</i>				
1. Interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The cost of financing other than interest rates [charges, fees, commissions]	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>Non-price terms and conditions:</i>				
1. Size of loan or credit line	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Loan maturity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Collateral requirements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Other, e.g. loan covenants, required guarantees, information requirements, procedures, time required for loan approval	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section 4: Future, growth and obstacles to growth

4.1 What is your expectation on the turnover over the next two to three years?

- Grow substantially – over 10% per year in terms of turnover
- Grow moderately – below 10% per year in terms of turnover
- Stay the same size
- Become smaller
- Not applicable/the firm is too recent

4.2 If you need external financing to realize your growth ambitions, what type of external financing would you prefer most?

- Bank loan
- Loan from other sources (e.g. trade credit, related company, shareholder, public sources)
- Equity investment
- Subordinated loans, participation loans or similar financing instruments

- Government financing programs
- Other (please specify)_____

4.3 What will you use this loan for?

- Working capital
- Land/ buildings or Equipment/vehicles
- Buying another business
- Research and development or intellectual property
- Staff training
- Promotion
- Other (please specify)_____

4.4 What amount of financing would you aim to obtain?

- Less than USD 10,000
- USD 10,000-100,000
- USD 100,000 – 1,000,000
- Over USD 1,000,000

4.5 What are the obstacles in setting financing?

- There are no obstacles
- Insufficient collateral or guarantee
- Interest rates too high
- Reduced control over the firm
- Financing not available at all
- Lengthy and tedious loan processing
- Stringent documentation requirements
- Complicated procedures in applying for loans, including from government schemes
- Inability to prepare required business plan
- Lack of knowledge about available financial assistance schemes for SMEs
- Other (please specify)_____
- All of the above

Section 5: ASEAN Economic Community (AEC)

	Yes	No
5.1 Do you have business operations in other ASEAN countries?	<input type="checkbox"/>	<input type="checkbox"/>
5.2 Do you have any plan to expand your business regionally (into other ASEAN countries)?	<input type="checkbox"/>	<input type="checkbox"/>

5.3 Do you know that by 2015 the ASEAN economic community (AEC) will be established?

Please read the following text to answer question 5.4

“The ASEAN Economic Community (AEC) shall be the goal of regional economic integration by 2015. AEC envisages the following key characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy.”

5.4 Do you think the AEC will affect on your business?

- | | |
|--|--|
| <input type="checkbox"/> Positively high | <input type="checkbox"/> Negatively high |
| <input type="checkbox"/> Positively moderate | <input type="checkbox"/> Negatively moderate |
| <input type="checkbox"/> Positively low | <input type="checkbox"/> Negatively low |
| | <input type="checkbox"/> No effect |

5.5 Is there any organization to assist businesses in preparing for the AEC initiative in your country?

- Yes No Don't know

5.6 If yes, what kind of assistance?

- Export procedure/customs procedure
- Finance
- Customers and market expansion
- Grants for SMEs development
- Infrastructure development especially in logistics
- Consultation/train on international trade/FTA/ASEAN
- Regulations amendment to support the open market
- Industry cluster and entrepreneur network promotion
- Export promotion activities i.e. trade show, road show, show room, trade mission, business matching, and web site
- Other (please specify)_____

5.7 Do you have accessibility and utilization of government's supporting program in preparing your firm for the AEC initiative?

	Yes	No	No Government's Supporting Program	Don't know
Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Utilization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5.8 What kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

	ASEAN	Country Government	Private Sector
<input type="checkbox"/> Export procedure/customs procedure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Customers and market expansion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Grant for SMEs development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Infrastructure development especially in logistics	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Consultation/train on international trade/FTA/ASEAN	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Regulations amendment to support the open market	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Industry cluster and entrepreneur network promotion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Export promotion activities i.e. trade show, road show, show room, trade mission, business matching and web site	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Other (please specify)_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5.9 ASEAN SME fund will support programs addressing regional development and enhanced competitiveness. In your opinion, other than financing to SMEs, what activities are the most important for SMEs? (Please rank them in order both in item level (A-D) and sub-item level)

___ **A. Human Resources Development and Capacity Building**

___ Entrepreneurship development program/curriculum

___ Inter-firm networking and linkages

___ Management experts

___ Others (please specify)_____

___ **B. Enhancing SME Marketing Capabilities**

___ Setting up sub/regional networks of interlinked, online clearing points/trading house

___ Enhancing SMEs on ICTs and e-commerce

___ Tracking and benchmarking SME readiness as subcontractors

___ Others (please specify)_____

___ **C. Access to Technology**

___ SME technology upgrading

___ Transfers of innovative technologies

___ ASEAN SME web portal

- ___ Virtual ASEAN agencies
- ___ Others (please specify)_____

___ **D. Creating Conducive Policy Environment**

- ___ Simplification of the procedures for SME registration and support service
- ___ Fine-tune policy for SME development
- ___ Promotion of public-private synergies/partnership
- ___ Others (please specify)_____

5.10 How will your firm prepare for the realization of the AEC initiative by 2015?

- Study and understand the AEC’s agreements and restrictions
- Increase the firm’s competitiveness through such activities as value creation and brand name for international acceptance
- Implement an offensive marketing strategy by accessing buyer market abroad
- Improve machines or bring in new technology
- Emphasize on R&D
- Develop human resources’ capabilities
- Build alliance network with other firms in the region
- Find new business channel

5.11 In doing so, which source of fund will you use? (Please rank them in order from 1-3)

- | | |
|--|--|
| <input type="checkbox"/> Internal Source | <input type="checkbox"/> Venture Capital |
| <input type="checkbox"/> Capital Markets | <input type="checkbox"/> Trade Financing |
| <input type="checkbox"/> Banking Sector Financing | <input type="checkbox"/> Informal Sector Financing |
| <input type="checkbox"/> Government Financing Programs | |

5.12 Other suggestions/comments

Thank you for your kind cooperation

Appendix 5

Findings on ASEAN SME Regional Development Fund from ASEAN SME Focal Points

SMEs Policy

Involved organizations promoting SMEs From the survey, national government has involved in promoting SMEs in all countries (100%). Other involved organizations promoting SMEs stated by most ASEAN SME Focal Points are associations of entrepreneurs (80%) and chambers of commerce (70%).

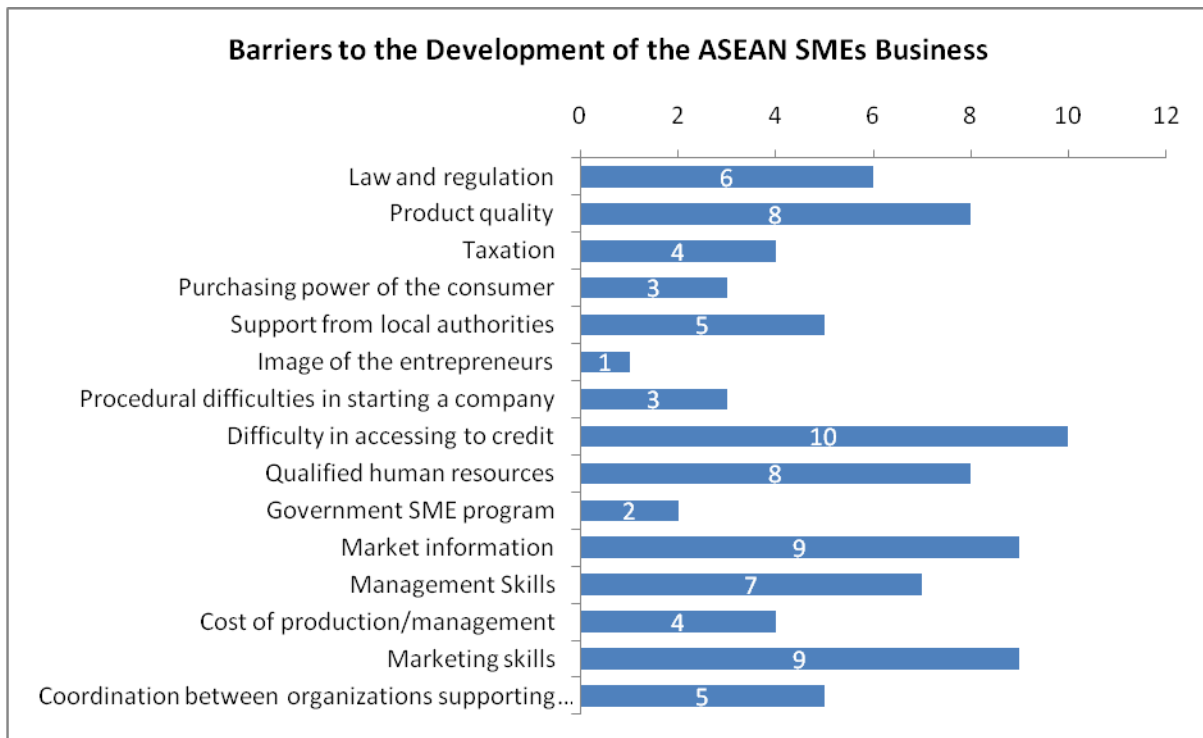
Involved organizations promoting SMEs	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
National Government	√	√	√	√	√	√	√	√	√	√
Local administration			√	√			√		√	√
International donors		√	√	√			√		√	√
Associations of entrepreneurs		√	√	√		√	√	√	√	√
Banks			√	√		√	√		√	√
Chambers of commerce	√		√			√	√	√	√	√
Large state companies			√						√	√
Large foreign companies			√							√
Consulting companies and agencies			√	√						√
Insurance companies										
Service centers	√						√		√	
Others*	√		√							

*Others=Local Government, Venture Capital Enterprises, The Central Bank

Q 2.1 Which of the following organizations are involved in SMEs promotion in your country?

Base: all countries, ASEAN SME Focal Points

Barriers to the development of the SMEs Business Difficulty in accessing to credit is perceived as a barrier to the development of SMEs business by all ASEAN SME Focal Points (100%). Slightly less proportion mentioned market information (90%), marketing skills (90%), product quality (80%), and qualified human resources (80%).



Q 2.2 In your opinion, what are the barriers to the development of the SMEs business?
 Base: all countries, ASEAN SME Focal Points

Considering by country, Indonesia is most likely to face difficulties in developing SMEs as the respondent identified all as barriers (100%). Thailand is the second experiencing most barriers (80%) and Vietnam comes the third (70%).

Barriers to the Development of the SMEs Business	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
Law and regulation		√	√	√	√				√	√
Product quality	√	√	√	√		√	√		√	√
Taxation			√				√		√	√
Purchasing power of the consumer			√				√		√	
Support from local authorities			√	√			√		√	√
Image of the entrepreneurs			√							
Procedural difficulties in starting a company			√	√			√			
Difficulty in accessing to credit	√	√	√	√	√	√	√	√	√	√
Qualified human resources	√	√	√	√		√		√	√	√
Government SME program			√						√	
Market information	√	√	√	√	√		√	√	√	√
Management Skills	√		√	√			√	√	√	√
Cost of production/management			√				√		√	√
Marketing skills	√	√	√	√	√	√	√		√	√
Coordination between organizations supporting SMEs		√	√	√					√	√

Q 2.2 In your opinion, what are the barriers to the development of the SMEs business?

Base: all countries, ASEAN SME Focal Points

Barriers to foster business alliance in AEC Most ASEAN SME Focal Points considered law and regulation (80%) and difficulty in accessing to credit (80%) barriers to foster business alliance in AEC. Market information was mentioned by a less proportion (70%) of respondents as one of the barriers to foster business alliance in AEC.

Barriers to Foster Business Alliance in AEC	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
Law and regulation	√	√	√	√	√			√	√	√
Product quality			√	√		√			√	√
Taxation			√				√			√
Purchasing power of the consumer			√							
Support from local authorities	√		√							√
Image of the entrepreneurs			√		√					
Procedural difficulties in starting a company			√	√			√			
Difficulty in accessing to credit	√	√	√	√			√	√	√	√
Qualified human resources			√	√	√	√				√
Government SME program			√							
Market information		√	√	√			√	√	√	√
Management Skills			√	√						√
Cost of production/management			√			√				
Marketing skills			√	√						√
Coordination between organizations supporting SMEs	√	√	√	√						

Q 2.3 In your opinion, what are the barriers to foster business alliance in AEC?

Base: all countries, ASEAN SME Focal Points

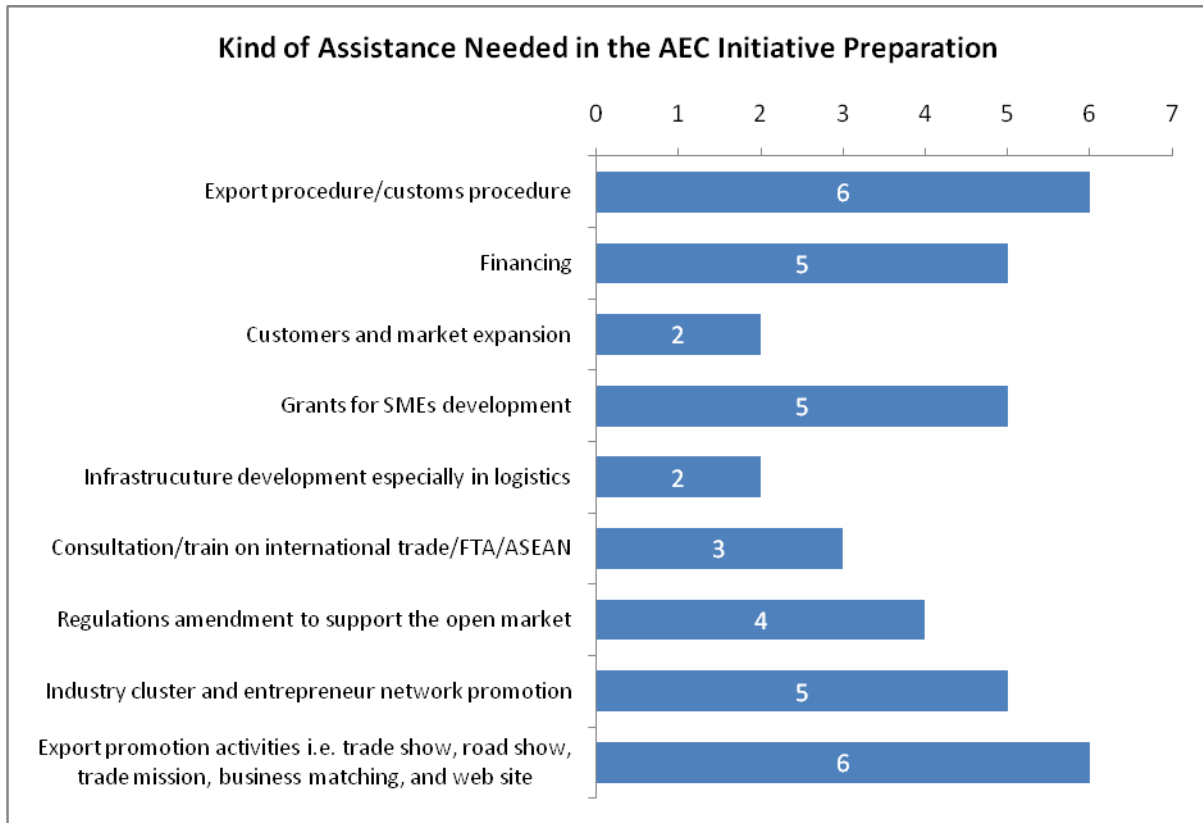
Kind of assistance needed from the government A majority of ASEAN SME Focal Points (80%) answered that grants for SMEs development and export promotion activities were assistances the government should provide. Moreover, 70% of respondents also mentioned regulations amendment to support the open market as well as industry cluster and entrepreneur network promotion as assistances the government should provide.

Kind of assistance needed from the government	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
Export procedure/customs procedure	√	√	√				√		√	√
Finance	√		√		√		√		√	√
Customers and market expansion	√		√		√		√		√	√
Grants for SMEs development	√		√	√	√	√	√	√		√
Infrastructure development especially in logistics		√	√				√	√	√	√
Consultation/train on international trade/FTA/ASEAN			√		√		√		√	√
Regulations amendment to support the open market			√	√	√	√	√		√	√
Industry cluster and entrepreneur network promotion	√	√	√	√			√	√		√
Export promotion activities i.e. trade show, road show, trade mission, business matching, and web site	√		√	√	√	√	√		√	√

Q 2.4 What kind of assistance should the government provide?

Base: all countries, ASEAN SME Focal Points

Kind of assistance needed in the AEC Initiative Preparation Assistances more than half of ASEAN SME Focal Points considered being able to help prepare for the AEC initiative were export procedure/customs procedure (60%) , and export promotion activities (60%). A half of respondents mentioned such activities as financing (50%), grants for SMEs development (50%), and industry cluster and entrepreneur network promotion (50%). It is expected that the development of these factors will help ASEAN SMEs to be well prepared for the AEC initiative in the future.

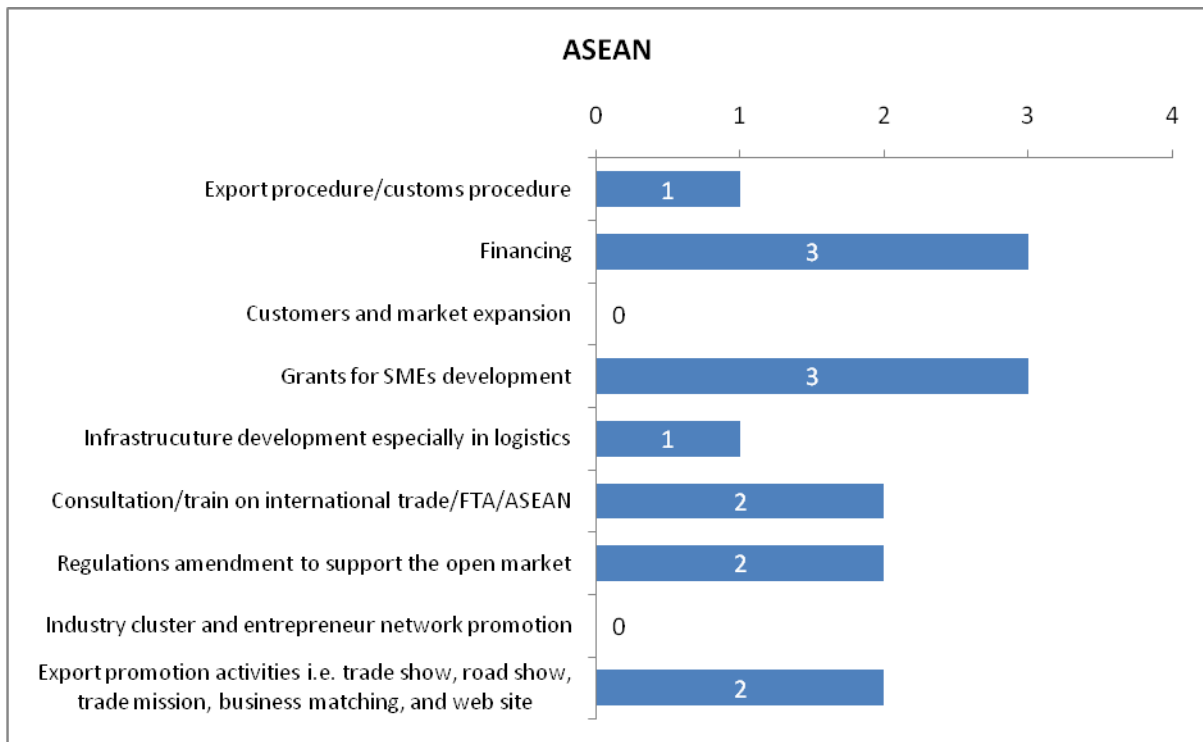


Q 2.5 What kind of assistance should be considered in order to help prepare for the ACE initiative?

Base: all countries, ASEAN SME Focal Points

Leading organization in providing assistance

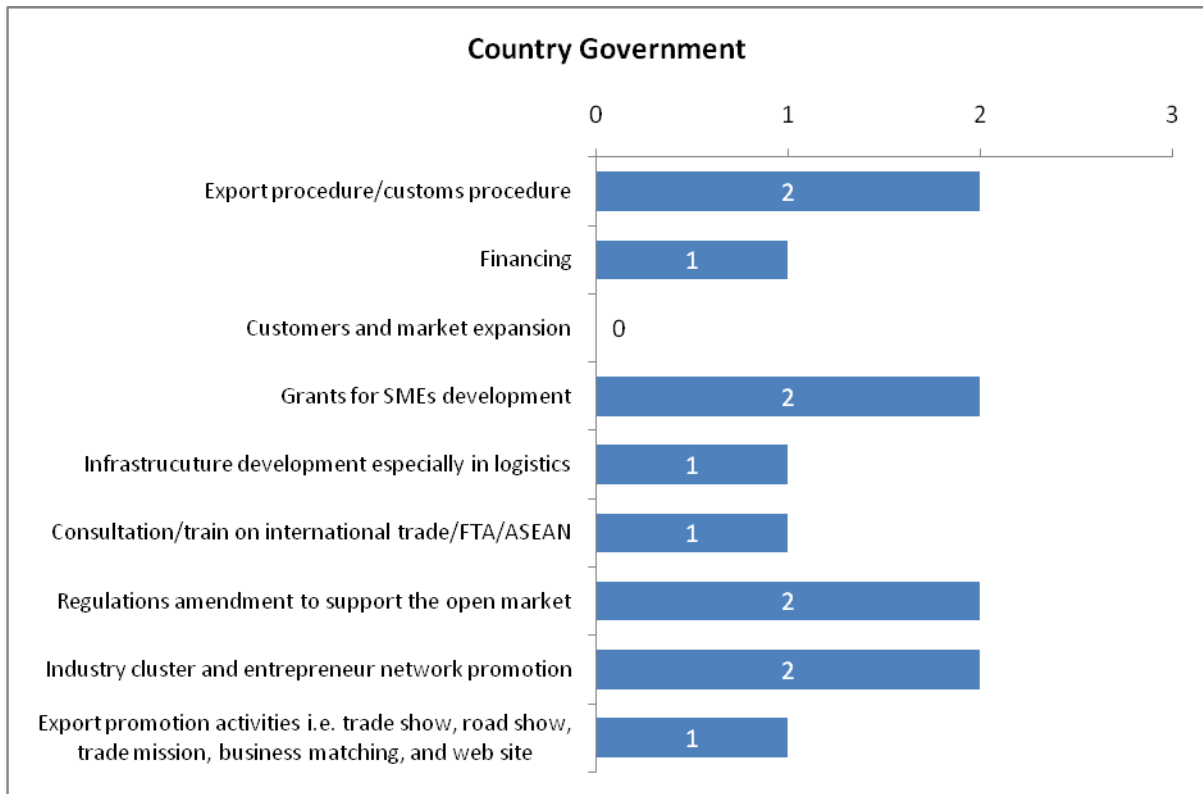
From the survey, financing and grants for SMEs development were identified by ASEAN SME Focal Points as assistances ASEAN should provide.



Q 2.5 What kind of Assistance should be considered in order to help prepare for the AEC initiative? Please choose only three items and also identify the appropriate leading body for the selected items.

Base: all countries, ASEAN SME Focal Points

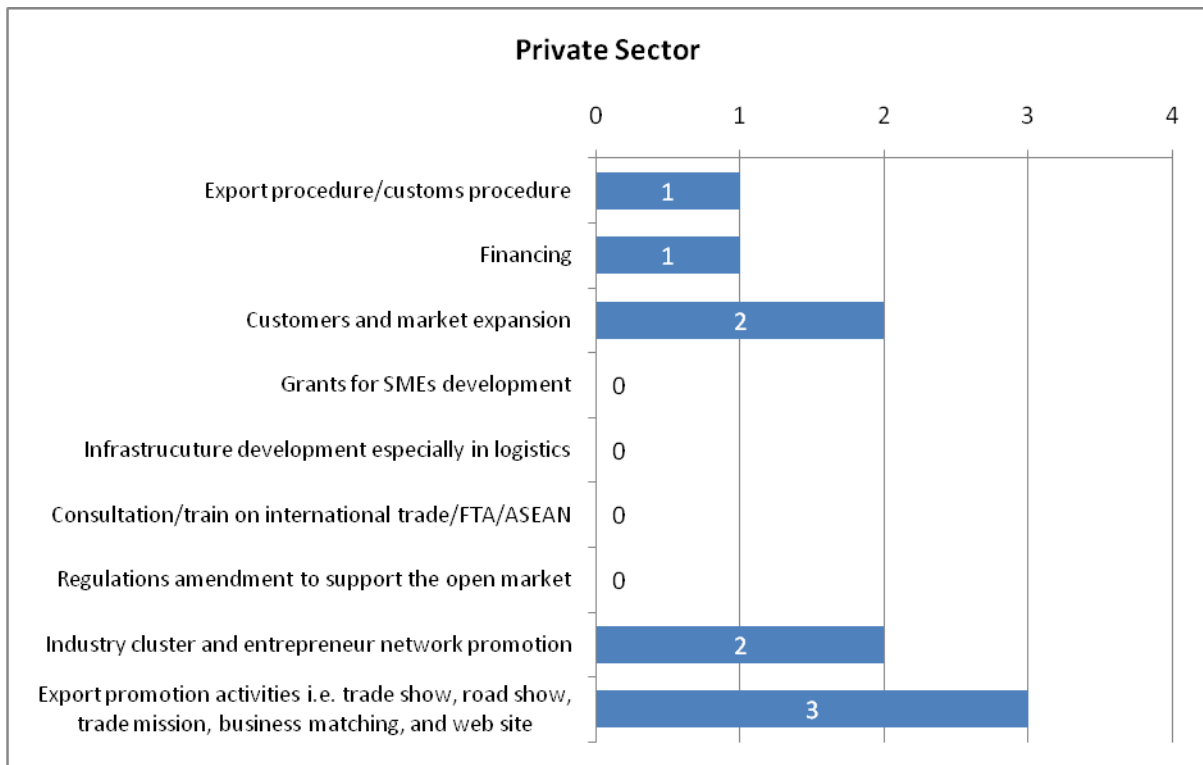
ASEAN SME Focal Points listed some assistances they considered country government should provide to help prepare for the AEC initiative; export procedure/customs procedure, grants for SMEs development, regulations amendment to support the open market, and industry cluster and entrepreneur network promotion.



Q 2.5 What kind of Assistance should be considered in order to help prepare for the AEC initiative? Please choose only three items and also identify the appropriate leading body for the selected items.

Base: all countries, ASEAN SME Focal Points

Assistances private sector should provide to help prepare for the AEC initiative were export promotion activities, customers and market expansion, and industry cluster and entrepreneur network promotion.



Q 2.5 What kind of Assistance should be considered in order to help prepare for the AEC initiative? Please choose only three items and also identify the appropriate leading body for the selected items.

Base: all countries, ASEAN SME Focal Points

ASEAN SME Regional Development Fund

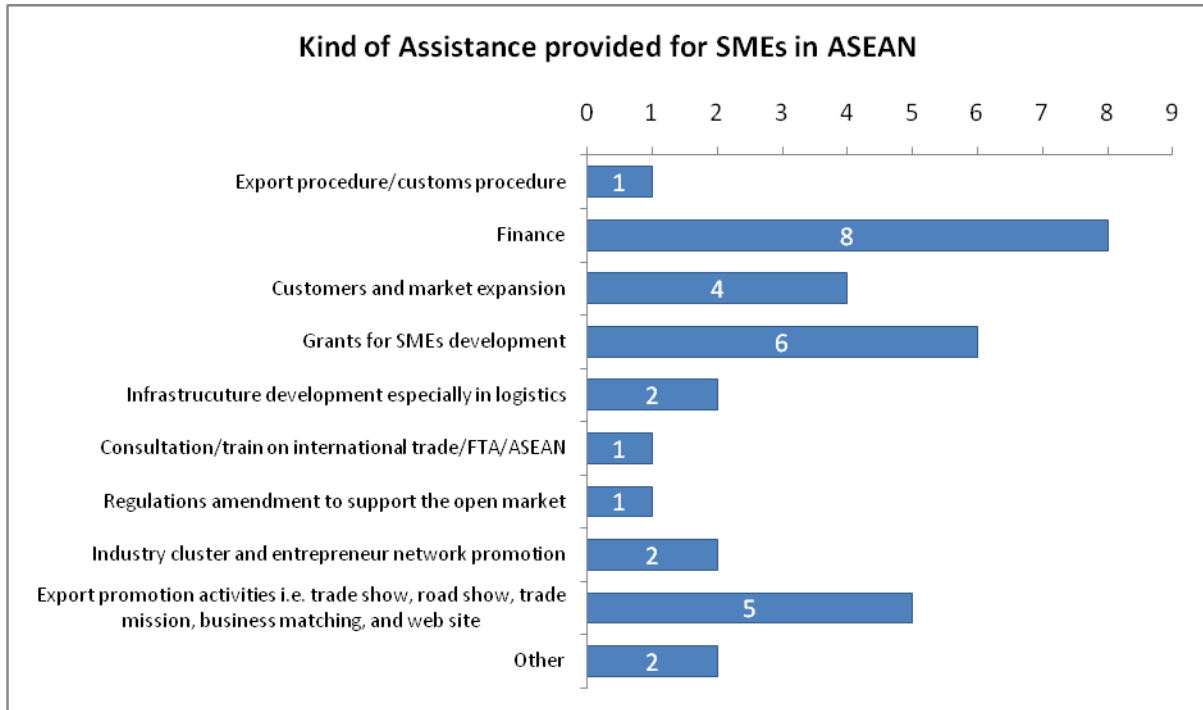
ASEAN SME Regional Development Fund The table below reveals that almost every country has SMEs funds which provide assistances, technical and financial, to SMEs in its country except Laos.

SMEs Fund/Kind of assistance provided	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
Yes/No	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Export procedure/customs procedure			√							
Finance	√	√	√		√	√	√	√		√
Customers and market expansion			√		√		√	√		
Grants for SMEs development	√		√		√		√	√	√	
Infrastructure development especially in logistics						√		√		
Consultation/train on international trade/FTA/ASEAN								√		
Regulations amendment to support the open market								√		
Industry cluster and entrepreneur network promotion			√					√		
Export promotion activities i.e. trade show, road show, trade mission, business matching, and web site	√		√		√		√	√		
Others					√		√			

Q 3.1 Is there any SMEs fund in your country? And what kind of Assistances does the fund provide?

Base: all countries, ASEAN SME Focal Points

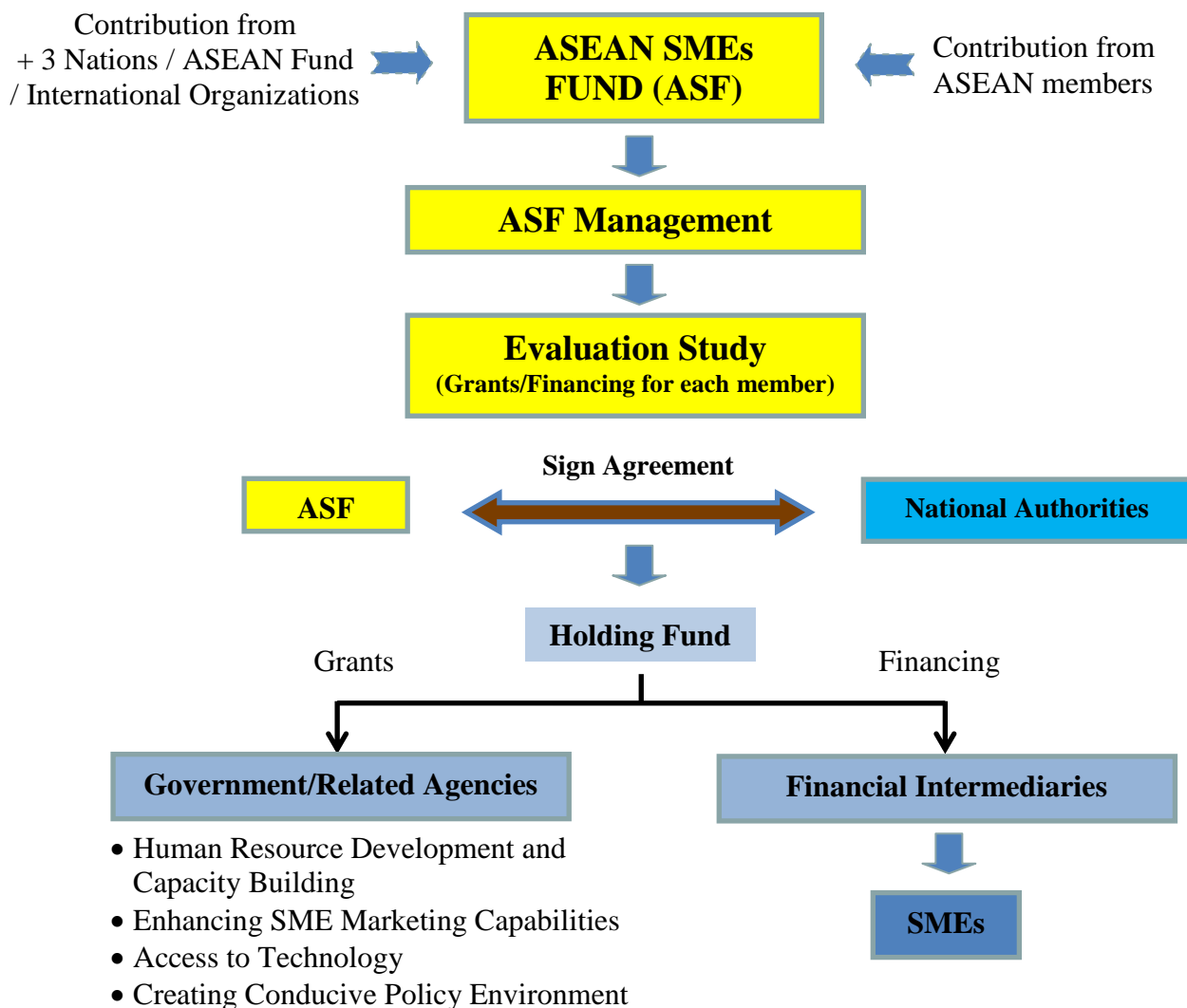
Kind of assistance provided for SMEs in ASEAN Financing was the assistance provided most among ASEAN countries (80%). The second most provided assistance was grants for SMEs development (60%), and the third was export promotion activities i.e. trade show, road show, trade mission, business matching, and web site.



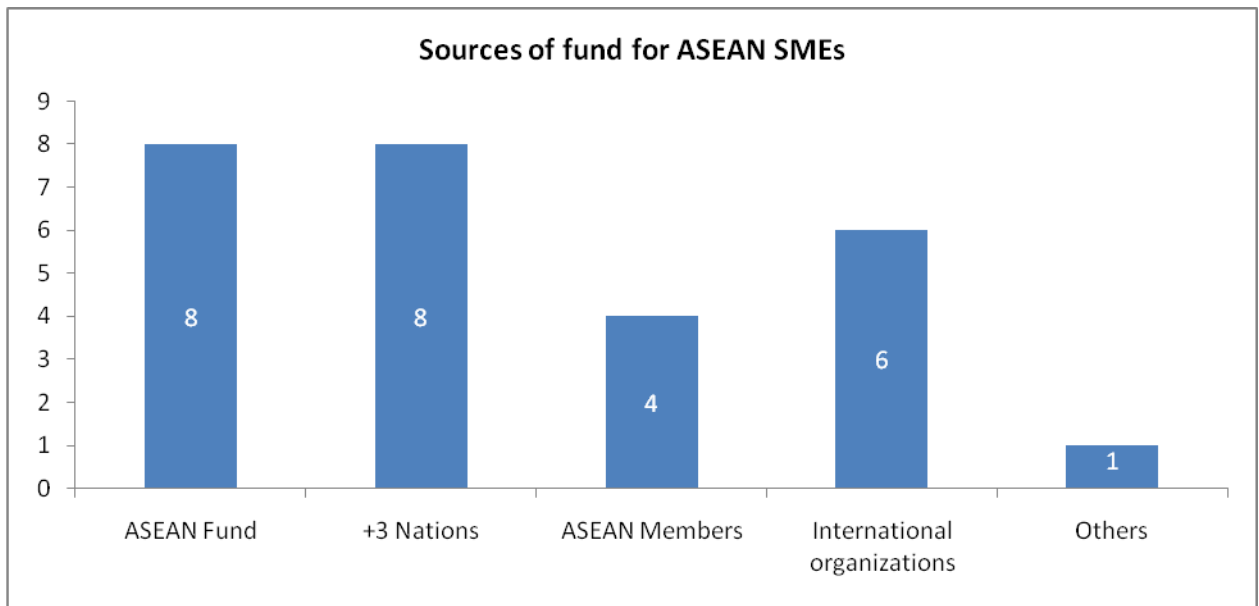
Q 3.1 Is there any SMEs fund in your country? And what kind of Assistances does the fund provide?

Base: all countries, ASEAN SME Focal Points

ASEAN SME REGIONAL DEVELOPMENT FUND MODEL



From the model, a majority of ASEAN SME Focal Points (80%) answered that the potential sources of ASEAN SME Regional Development Fund were ASEAN Fund and +3 Nations which are China, Korea, and Japan.



*Others=ADB, World Bank, GTZ

Q 3.2 From the model, in your opinion, what are the potential sources of fund?

Base: all countries, ASEAN SME Focal Points

Fund Manager 60% of ASEAN SME Focal Points indicated that ASEAN Secretariat was the appropriate organization to manage ASEAN SME Regional Development Fund, while the other 40% mentioned a specific organization, international organization i.e. ADB, World Bank, or ASEAN SME Council as the fund manager.

Appropriate fund manager/supervisor	BN	CA	ID	LA	MA	MY	PH	SG	TH	VN
ASEAN Secretariat	√	√		√	√	√			√	
Specific organization(nominee member nations)										√
International Organization i.e. ADB, World Bank			√							
Others*							√	√		

*Others=An organization/department with good knowledge of SME needs, ASEAN SME Council

Q 3.2 From the model, as a region, who is appropriate to manage/supervise the fund?

Base: all countries, ASEAN SME Focal Points

National Authorities 6 out of 10 ASEAN SME Focal Points pointed out that, as a country, SMEs supporting organization was suitable for national authority. 5 out of 10, however, answered that representatives from ministry of finance was suitable for national authority.

Suitable for National Member Authority	BN	CA	ID	LA	MA	MY	PH	SG	TH	VN
SMEs Supporting organizations		√		√	√			√	√	√
Representatives from ministry of finance	√		√			√	√			√
New/specific organization										
Others*							√			

*Others=Agency in-charged of SME policies

Q 3.4 From the model, as a country, who is suitable for national member authority?

Base: all countries, ASEAN SME Focal Points

Some ASEAN SME Focal Points recommended criteria for allocation of fund to each member nation as below.

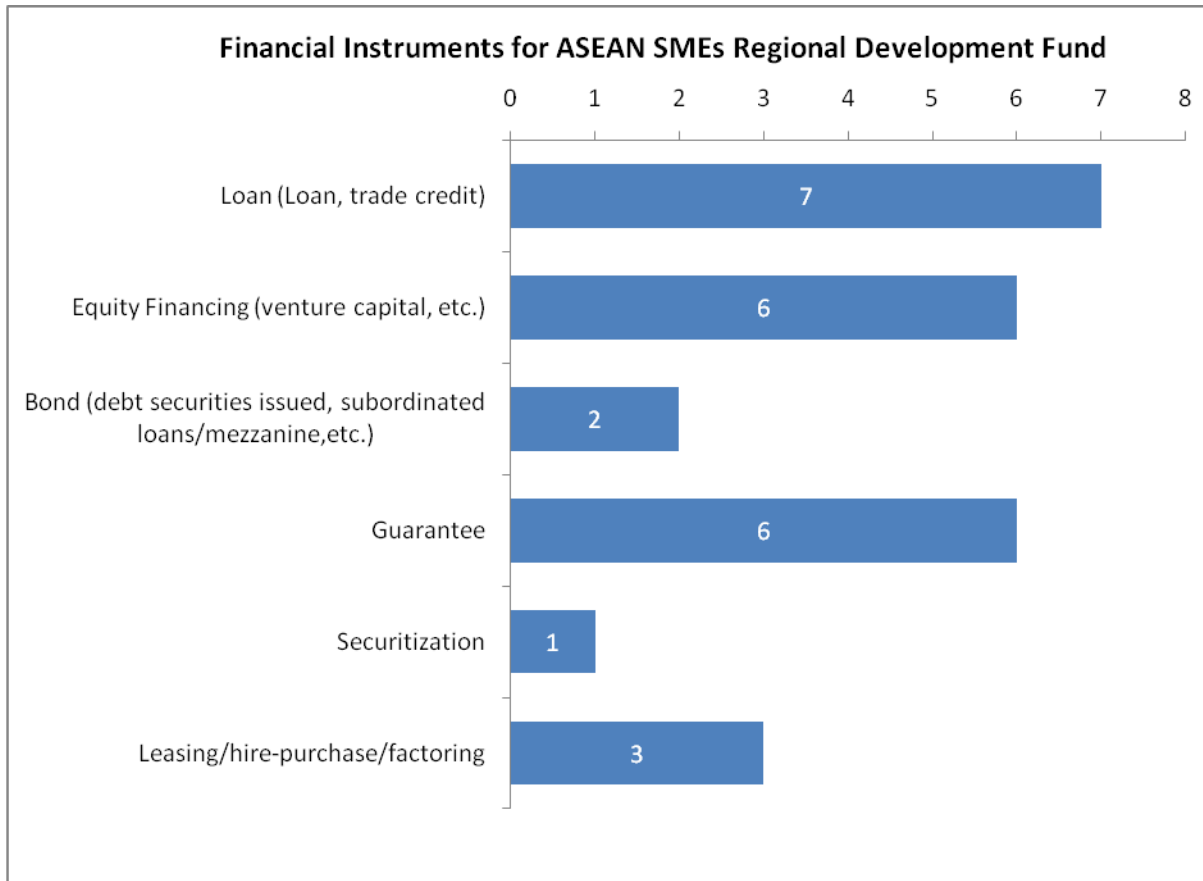
1. ASEAN SME Focal Point from Brunei suggested that the financial assistance should be provided to any project that mainly benefits ASEAN as a region. Also, the project should be agreed by ASEAN member states.
2. ASEAN SME Focal Point from Singapore commented that the fund should be allocated to any project that purposed to benefits the region, not a country.
3. ASEAN SME Focal Point from Myanmar mentioned that from the conceptual framework of ASEAN SME Regional Development Fund, ASF Manager should be the person who set the criteria for allocating fund to the member countries.
4. ASEAN SME Focal Point from the Philippines recommended allocating the same proportion of the fund to each member country.

Q 3.5 From the model, please recommend main criteria for allocation of fund to each member nation?

Base: all countries, ASEAN SME Focal Points

Financial instruments for ASEAN SME Regional Development Fund

For each of financial instrument, 7 in 10 ASEAN SME Focal Points were likely to use loan as a financial instrument for ASEAN SME Regional Development Fund. Slightly less popular financial instruments were equity financing (60%) and guarantee (60%). The least popular instrument was securitization (10%).



Q 3.6 From the model, which financial Instruments are foreseen under ASEAN SME Regional Development Fund?

Base: all countries, ASEAN SME Focal Points

Credit Bureau

Establishment of National Credit Bureau – Countries having established national credit bureaus (50%) were Indonesia, Laos, Malaysia, the Philippines, and Thailand, while countries that had not established national credit bureau (30%) were Brunei, Myanmar, and Singapore. Cambodia and Vietnam, however, had planned to establish national credit bureau in 2010 and 2011, respectively.

Establishment of National Credit Bureau	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
Yes			√	√	√		√		√	
No	√					√		√		
Plan to establish, when		2010								2011

Q 3.7 Is a National Credit Bureau Established in your country?

Base: all countries, ASEAN SME Focal Points

Necessity of Regional Credit Bureau – 6 out of 10 ASEAN SME Focal Points considered a regional credit bureau necessary.

Regional Credit Bureau Needed	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
Yes	√		√		√	√		√		√
No		√		√			√		√	

Q 3.8 In your opinion, is a regional credit bureau needed?

Base: all countries, ASEAN SME Focal Points

Activities important for SMEs other than financing

In most countries, human resources development and capacity building was ranked the most important activity ASEAN SME Regional Development Fund should support to SMEs. Enhancing SME marketing capabilities was ranked as second most important activity, access to technology was ranked as third most important activity and creating conducive policy environment was ranked as fourth most important activity.

The Most Important Activities for ASEAN SMEs	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
Human Resources Development and Capacity Building	3	1	1	1	1	1	1	4	2	1
Enhancing SME Marketing Capabilities	2	4	2	2	3	3	2	2	1	3
Access to Technology	4	2	4	3	2	2	3	3	3	2
Creating Conducive Policy Environment	1	3	3	4	4	4	4	1	4	4

Remark: 1=1st Important, 2=2nd Important, 3=3rd Important, 4=4th important

The Most Important activities for ASEAN SMEs Regional Development Fund	
1st	Human Resources Development and Capacity Building
2nd	Enhancing SME Marketing Capabilities
3rd	Access to Technology
4th	Creating Conducive Policy Environment

Focusing solely on human resources development and capacity building activity, ASEAN SME Focal Points answered that the most important sub activity was entrepreneurship development program/curriculum, followed by inter-firm networking and linkages and management experts.

Important sub activities for Human Resources Development and Capacity Building

1st	Entrepreneurship development program/curriculum
2nd	Inter-firm networking and linkages
3rd	Management experts

For enhancing SME marketing capabilities activity, setting up sub/regional networks of interlinked, online clearing points/trading house was considered by ASEAN SME Focal Points the most important sub activity. The second most important sub activity was enhancing SMEs on ICTs and e-commerce and the third most important sub activity was tracking and benchmarking SME readiness as subcontractors.

Important sub activities for Enhancing SME Marketing Capabilities

1st	Setting up sub/regional networks of interlinked, online clearing points/trading house
2nd	Enhancing SMEs on ICTs and e-commerce
3rd	Tracking and benchmarking SME readiness as subcontractors

SME technology upgrading was ranked as most important sub activity of access to technology activity. The followings were transfers of innovative technologies, ASEAN SME web portal, and virtual ASEAN agencies, respectively.

Important sub activities for Access to Technology	
1st	SME technology upgrading
2nd	Transfers of innovative technologies
3rd	ASEAN SME web portal
4th	Virtual ASEAN agencies

For creating conducive policy environment activity, ASEAN SME Focal Points considered simplification of the procedures for SME registration and support service as the most important sub activity to do. The second most important sub activity was fine-tune policy for SME development, and the third one was promotion of public-private synergies/partnership.

Important sub activities for Creating Conducive Policy Environment	
1st	Simplification of the procedures for SME registration and support service
2nd	Fine-tune policy for SME development
3rd	Promotion of public-private synergies/partnership

Q 3.9 ASEAN SME FUND will support programs addressing regional development and enhanced competitiveness. In your opinion, other than financing to SMEs, what activities are the most important for SMEs?
Base: all countries, ASEAN SME Focal Points

Duration of the fund – 4 in 10 ASEAN SME Focal Points answered that the period of funding should be 5 years.

Period of Funding	BN	CA	IN	LA	MA	MM	PH	SG	TH	VN
1 year										
2 years								√		
3 years			√	√						
4 years										
5 years		√			√		√			√
Not specific						√			√	
Others*	√									

*Others=Depends on the nature of the project

Q 3.10 What should be the period of funding?

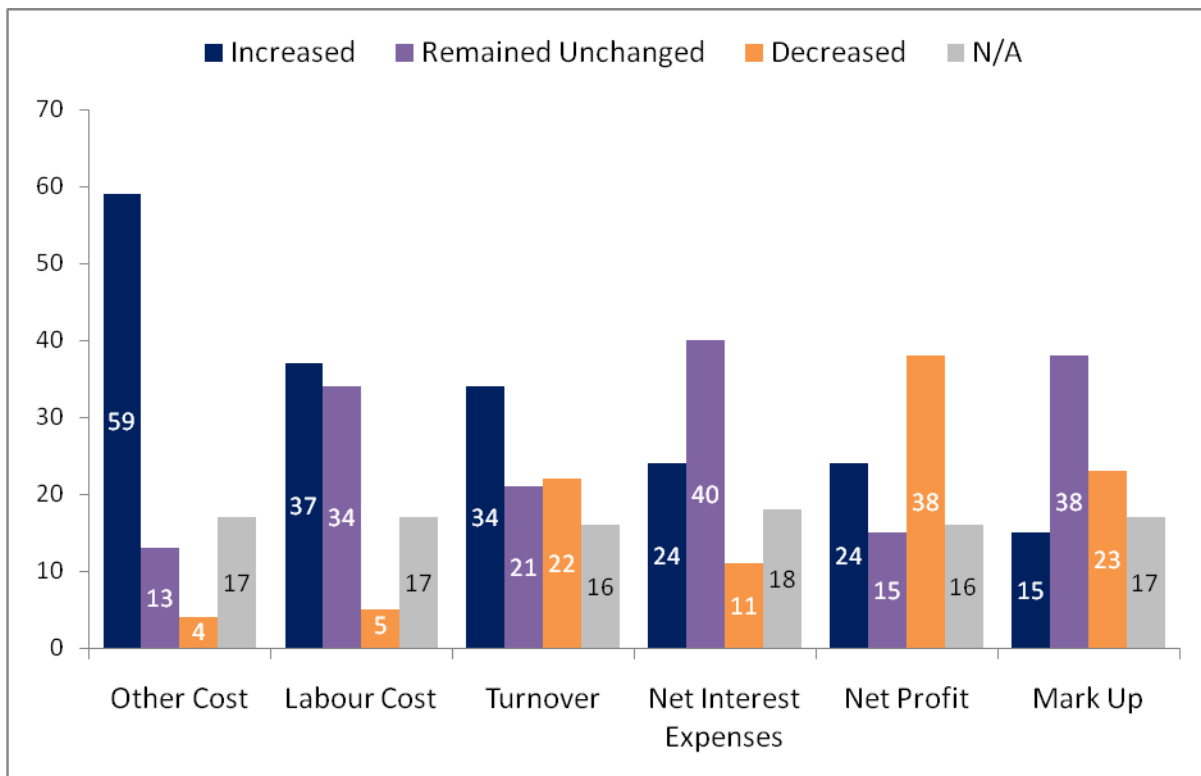
Base: all countries, ASEAN SME Focal Points

Appendix 6 Findings on ASEAN SME Regional Development Fund from ASEAN SMEs

The Financial Situation of SMEs

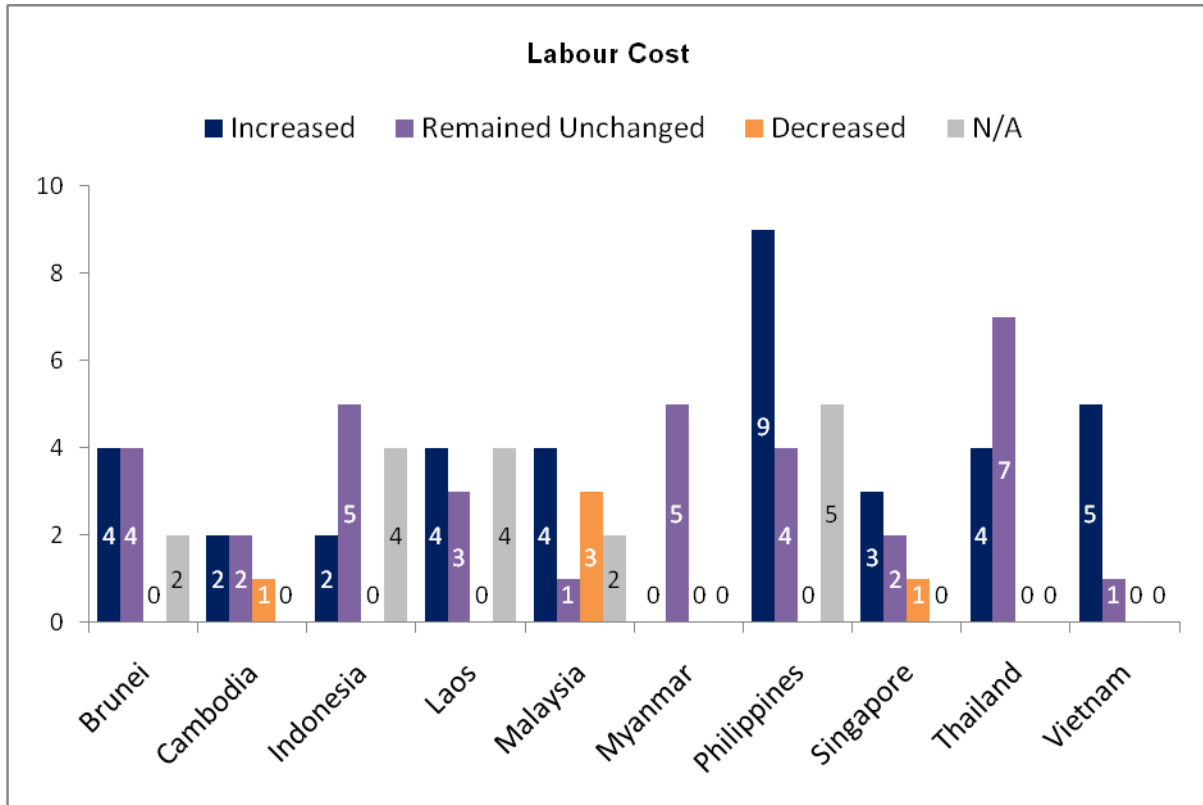
1) Income generation indicators

In the past six months, 59 out of 93 respondents (63%) indicated that there had been an increase in other costs, such as the cost of materials or energy. About two in five (40%) respondents had experienced an increase in labour cost and turnover, while about the same number of respondents reported the decrease in net profit.



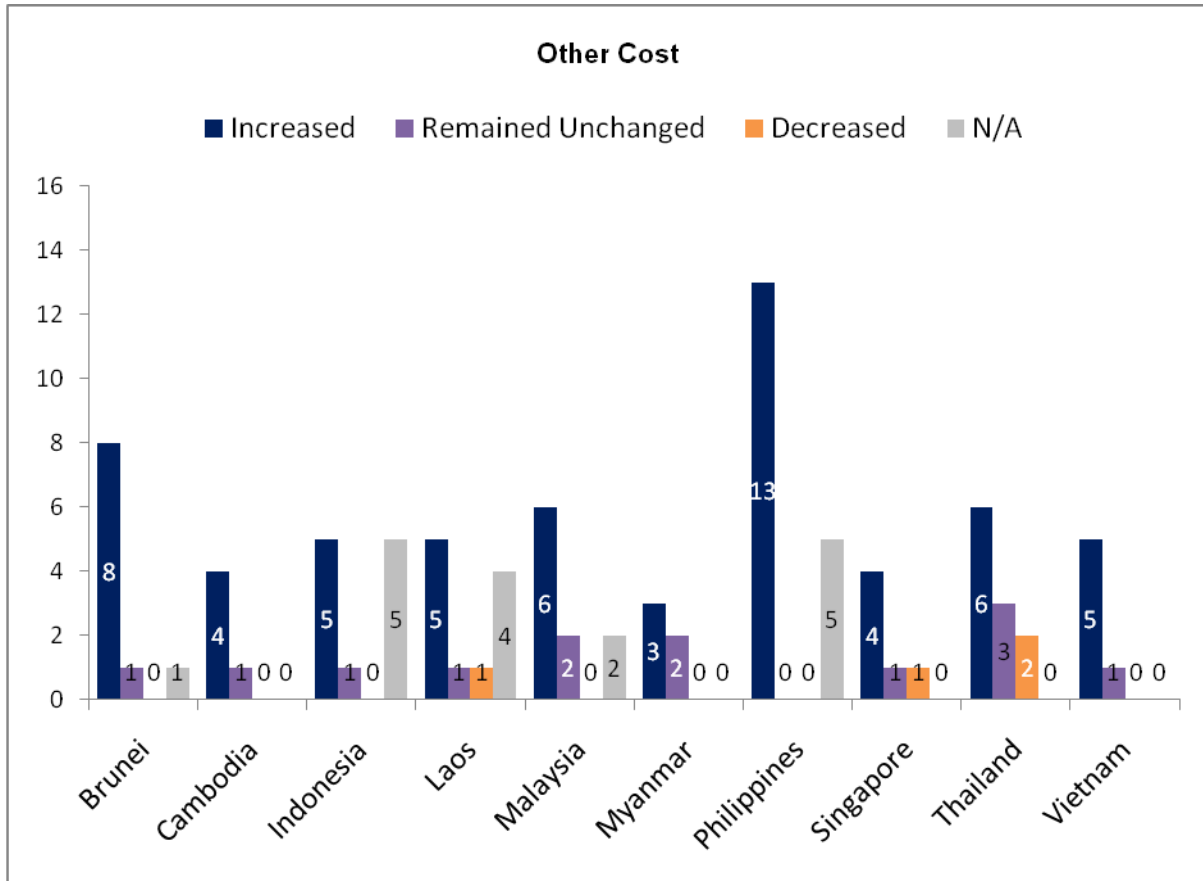
Q 2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged, or decreased in your company?
Base: all companies, all countries

The survey revealed that there were respondents indicating that labour cost had increased in the past six months in all countries except Myanmar where all five respondents (100%) answered that labour cost had remained unchanged. In Cambodia, Malaysia, and Singapore, on the other hand, some respondents said that labour cost had decreased.



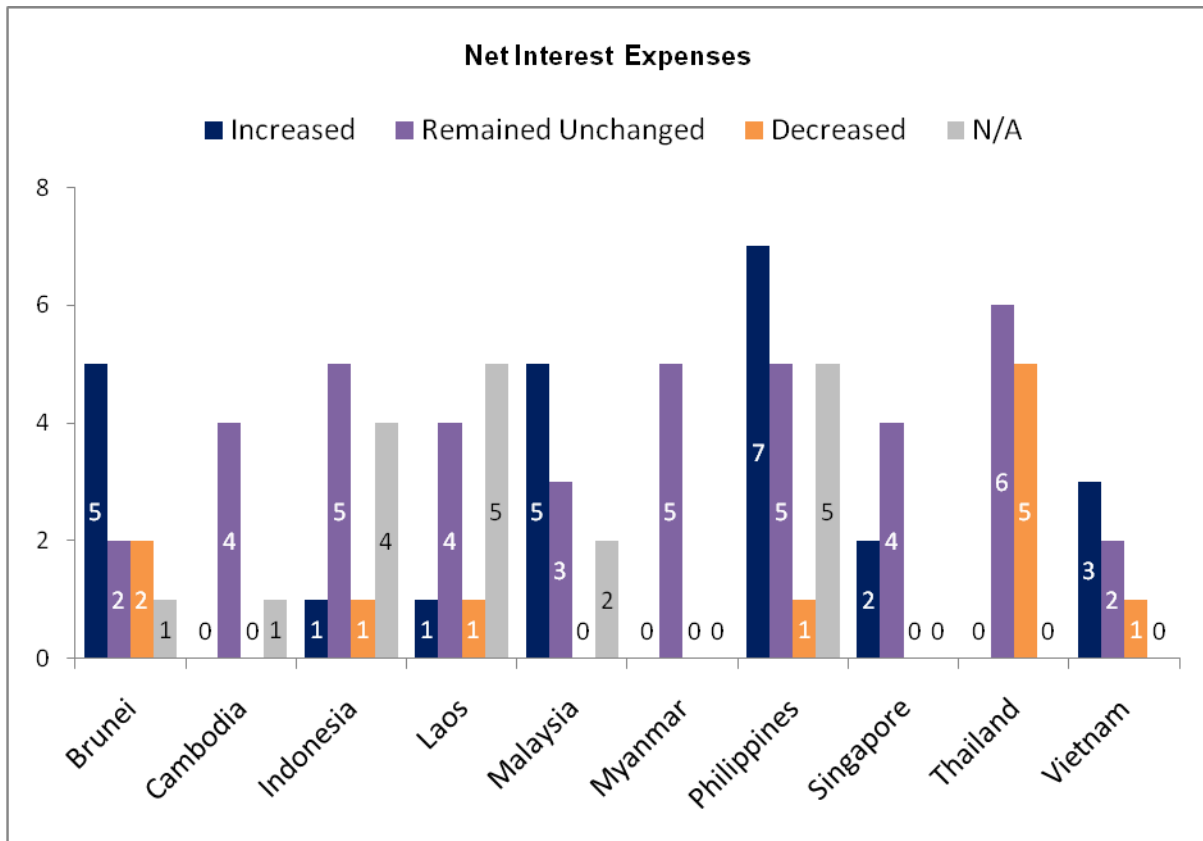
Q 2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged, or decreased in your company?
Base: all countries, % by country

A majority of respondents in all countries had experienced an increase in other cost in the past six months. However, while more than half (72%) of respondents in the Philippines said that other cost has increased, few respondents in Laos, Singapore, and Thailand said that cost had decreased in the past six months.



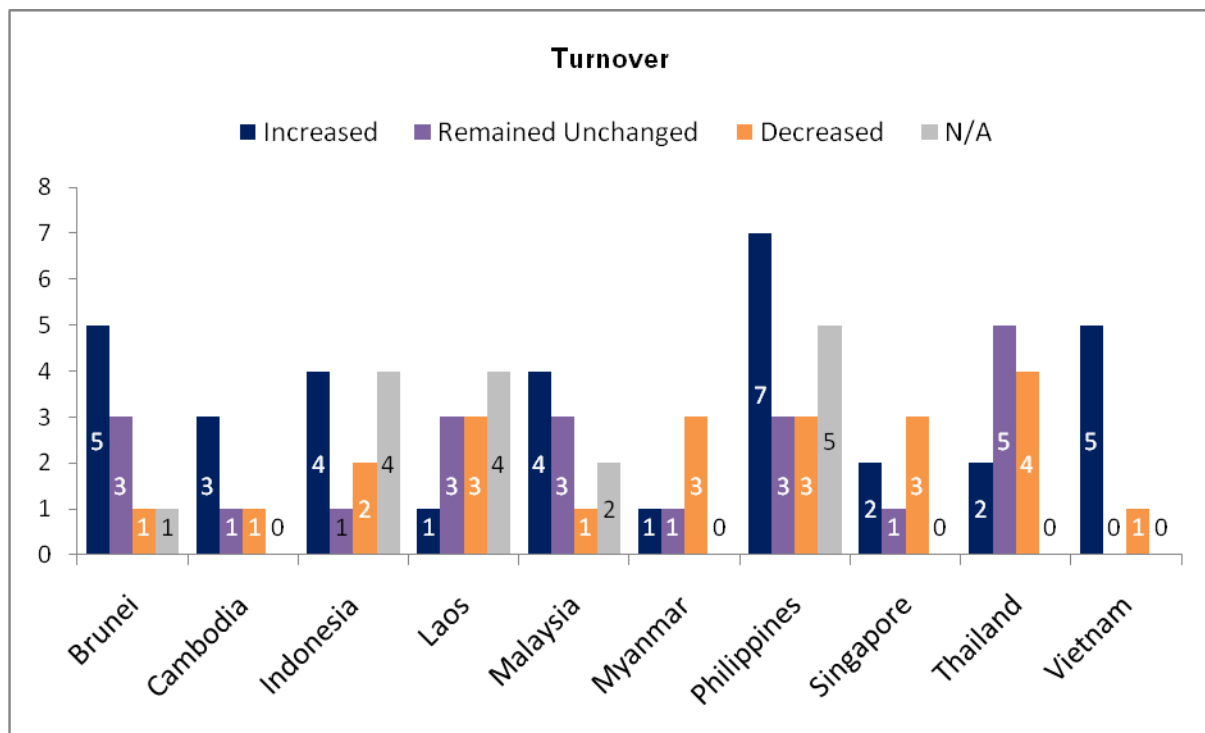
Q 2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged, or decreased in your company?
 Base: all countries, % by country

About half of respondents (50%) in Brunei, Malaysia, and Vietnam said that their company’s net interest expenses had increased in the past six months, while a majority of respondents in Cambodia (80%), Myanmar (100%), and Singapore (66%) reported no change in their company’s net interest expenses.



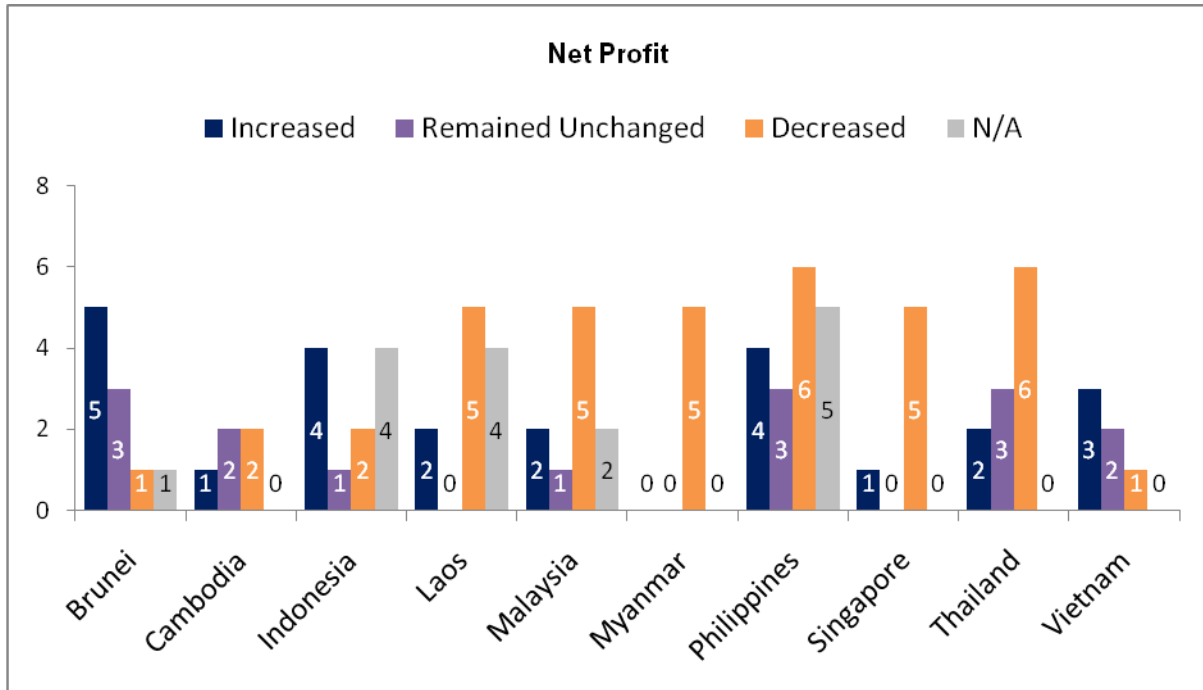
Q 2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged, or decreased in your company?
 Base: all companies, % by country

A majority of respondents in Brunei (50%), Cambodia (75%), and Vietnam (83%) answered that their company’s annual turnover had increased in the past six months, while a majority of respondents in Myanmar (60%) and Singapore (50%) reported a decrease in turnover.



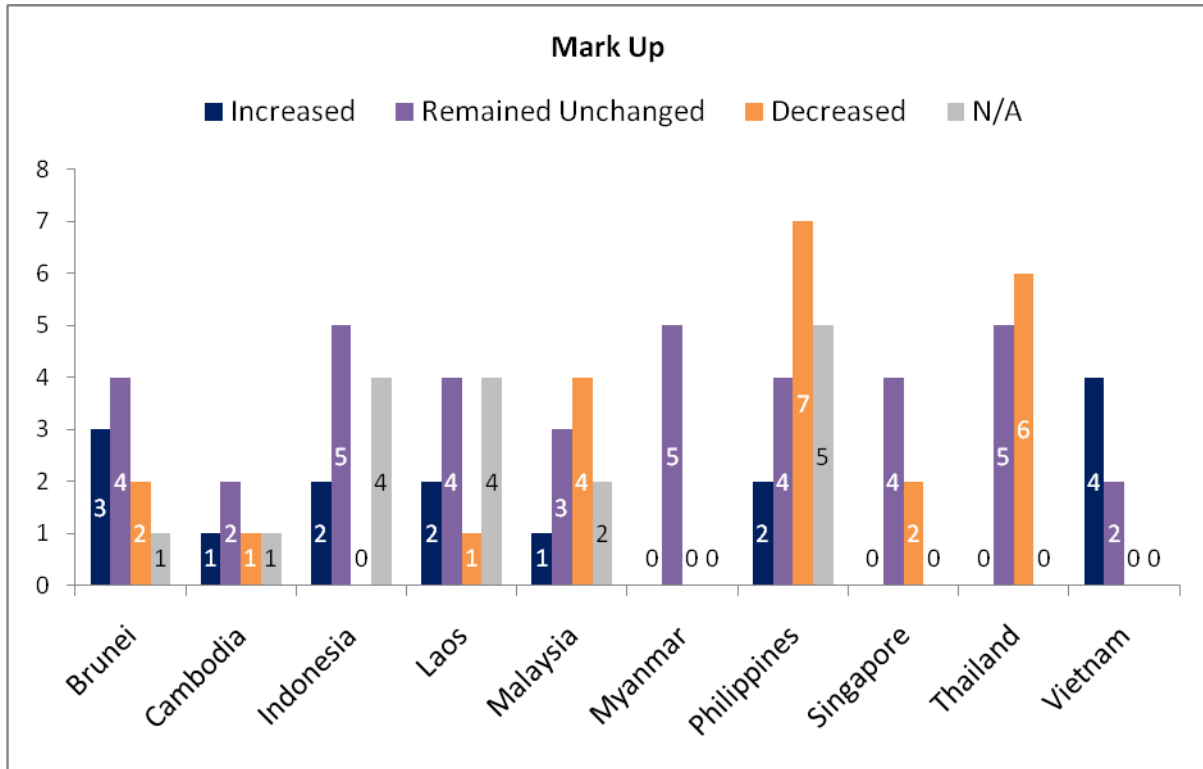
Q 2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged, or decreased in your company?
 Base: all companies, % by country

About half of respondents in Brunei (50%) and Vietnam (50%) said that there had been an increase in their company’s net profit in the past six months, while respondents of the similar amount in Malaysia (50%), Myanmar (100%), Singapore (83%), and Thailand (54%) reported a decrease in their company’s net profit.



Q 2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged, or decreased in your company?
 Base: all companies, % by country

It is remarkable that, in Singapore and Thailand, there had been no respondents reporting an increase in mark up in the past six months. Some similarities could be seen when looking at Indonesia and Vietnam where no respondents reported a decrease in mark up. Myanmar respondents (100%) were the ones reporting no change in mark up.

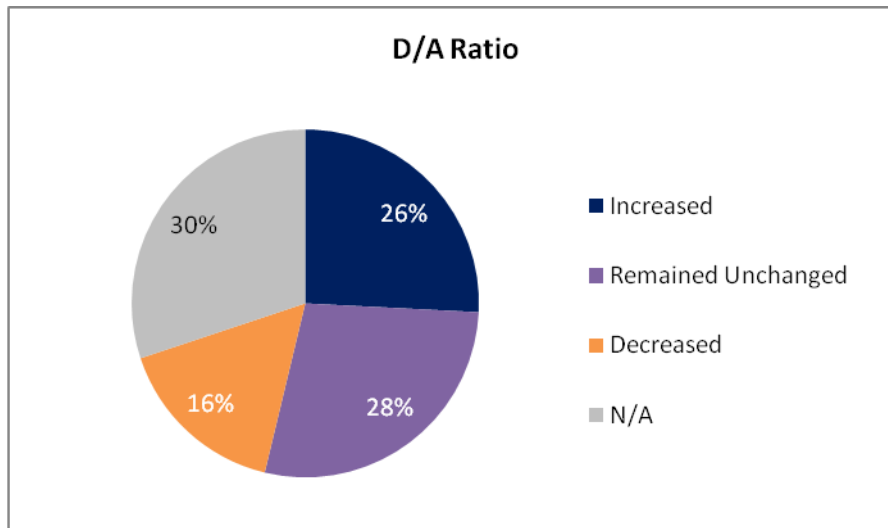


Q 2.2 Over the past 6 months, has each of the following indicators increased, remained unchanged, or decreased in your company?

Base: all companies, % by country

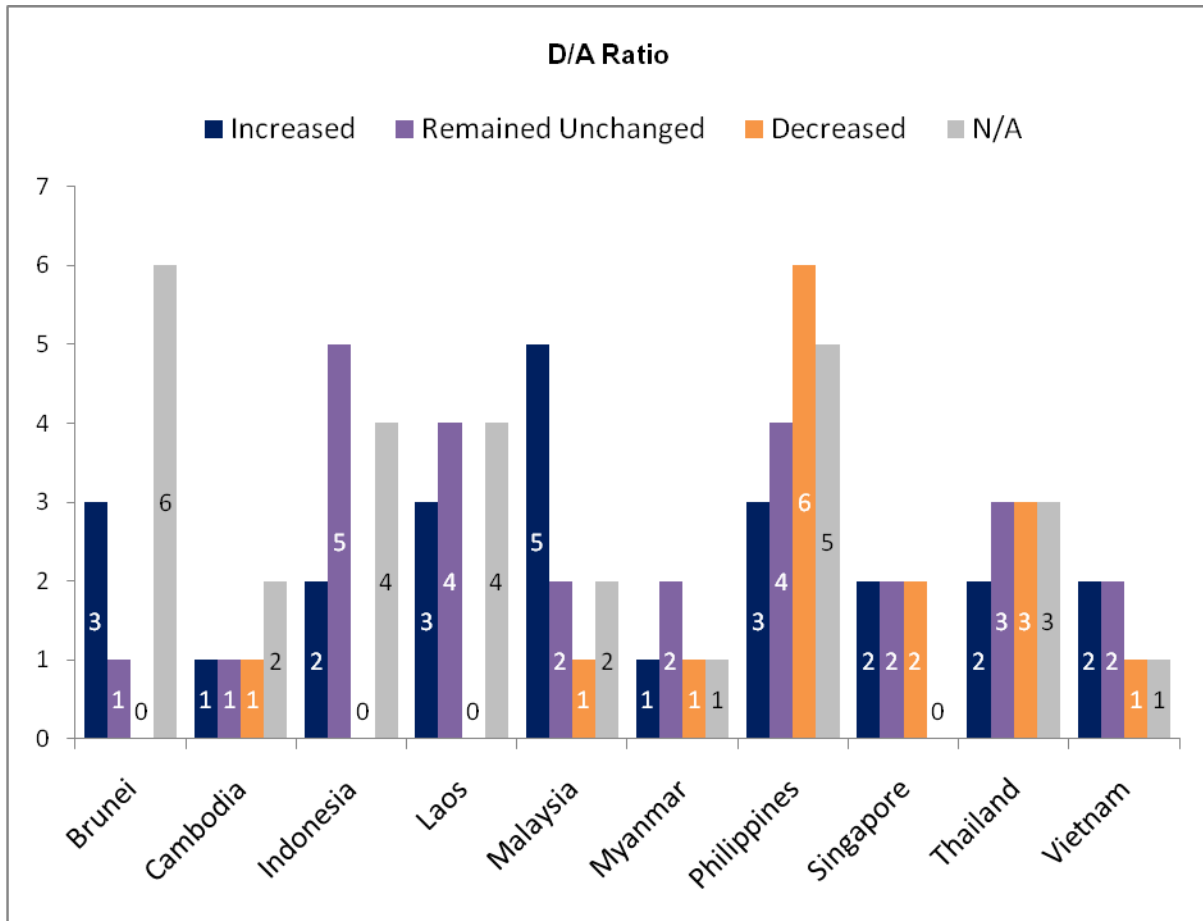
2) Changes in SMEs' debt-to-assets ratio

One-fourth of respondents (26%) answered that their company's debt-to-assets ratio had increased, while a similar proportion (28%) said there had been no change in this ratio. However, the proportion of "not applicable" responses was almost a third, which might be assumed that those companies had no debt.



Q 2.3 Over the past 6 months, the amount of debt compared to the assets (Debt to Asset Ratio) of your firm has
Base: all companies, all countries

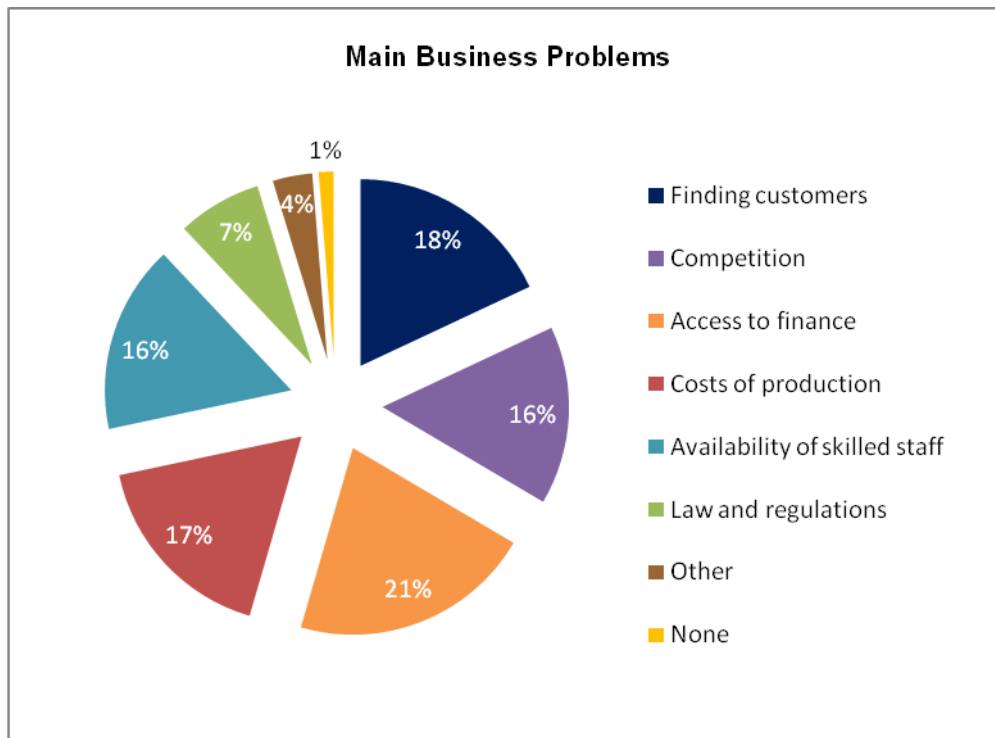
Half of Malaysian respondents (50%) answered that their company’s debt-to-assets ratio had increased in the past six months. Almost half of respondents in Indonesia (45%) reported no change in their company’s leverage. In the Philippines, about one-third of respondents (33%) reported a decreased in their company’s debt-to-assets ratio.



Q 2.3 Over the past 6 months, the amount of debt compared to the assets (Debt to Asset Ratio) of your firm has
 Base: all companies, % by country

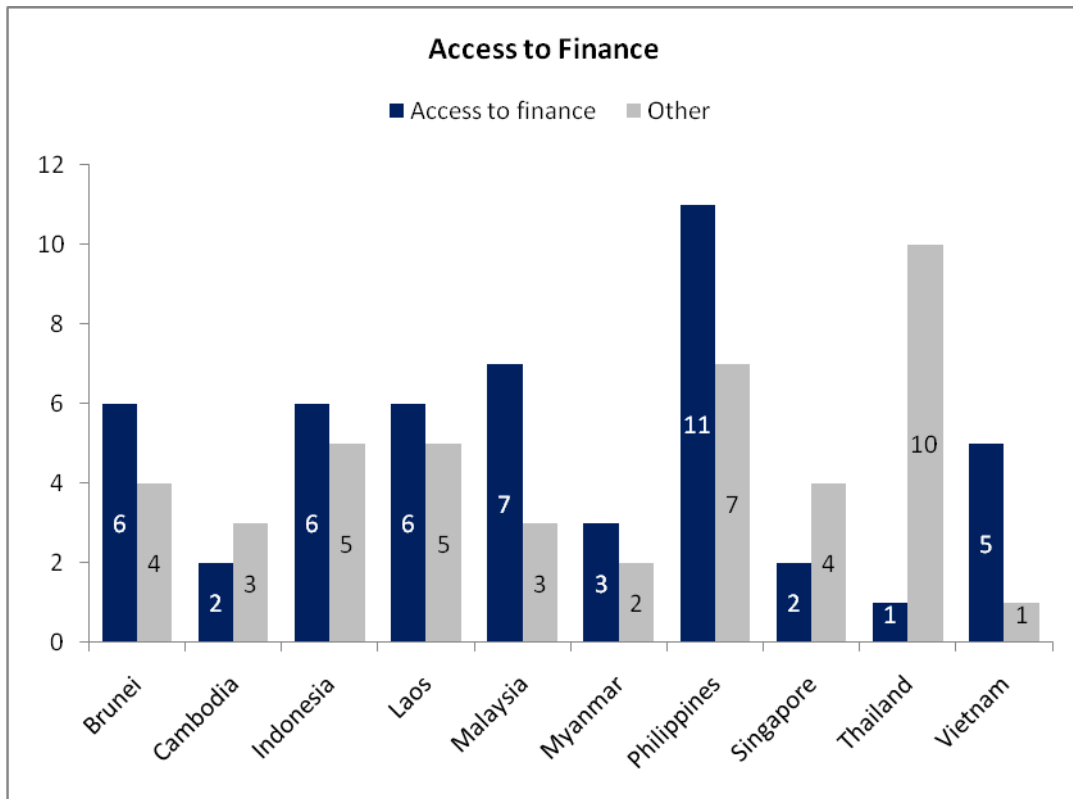
3) SMEs' most pressing problem

Access to finance was identified as the surveyed companies' most serious concern (21%). The second most pressing problem for ASEAN SMEs was finding customers indicated by 18% of respondents. Other problems mentioned were costs of production (17%), competition (16%), and availability of skilled staff (16%). Finally, a few respondents (4%) listed some other issue as the most pressing problem for their company; for example, issues such as unstable supply of imported materials, shortage of local raw materials, and high transportation cost.



Q 2.1 What are your main business problems? (May choose more than one item)
Base: all companies, all countries

Focus solely on access to finance by country, more than half of respondents in most countries selected this problem as the most pressing problem for their company except respondents in Cambodia, Singapore, and Thailand.

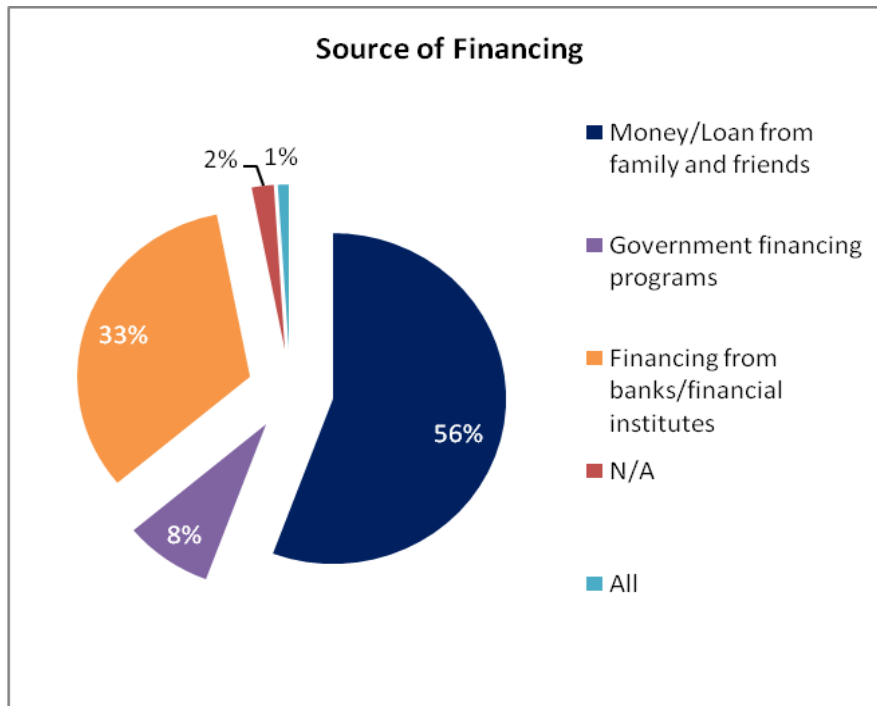


Q 2.1 What are your main business problems? (May choose more than one item)
 Base: all companies, % by country

Financing of Companies

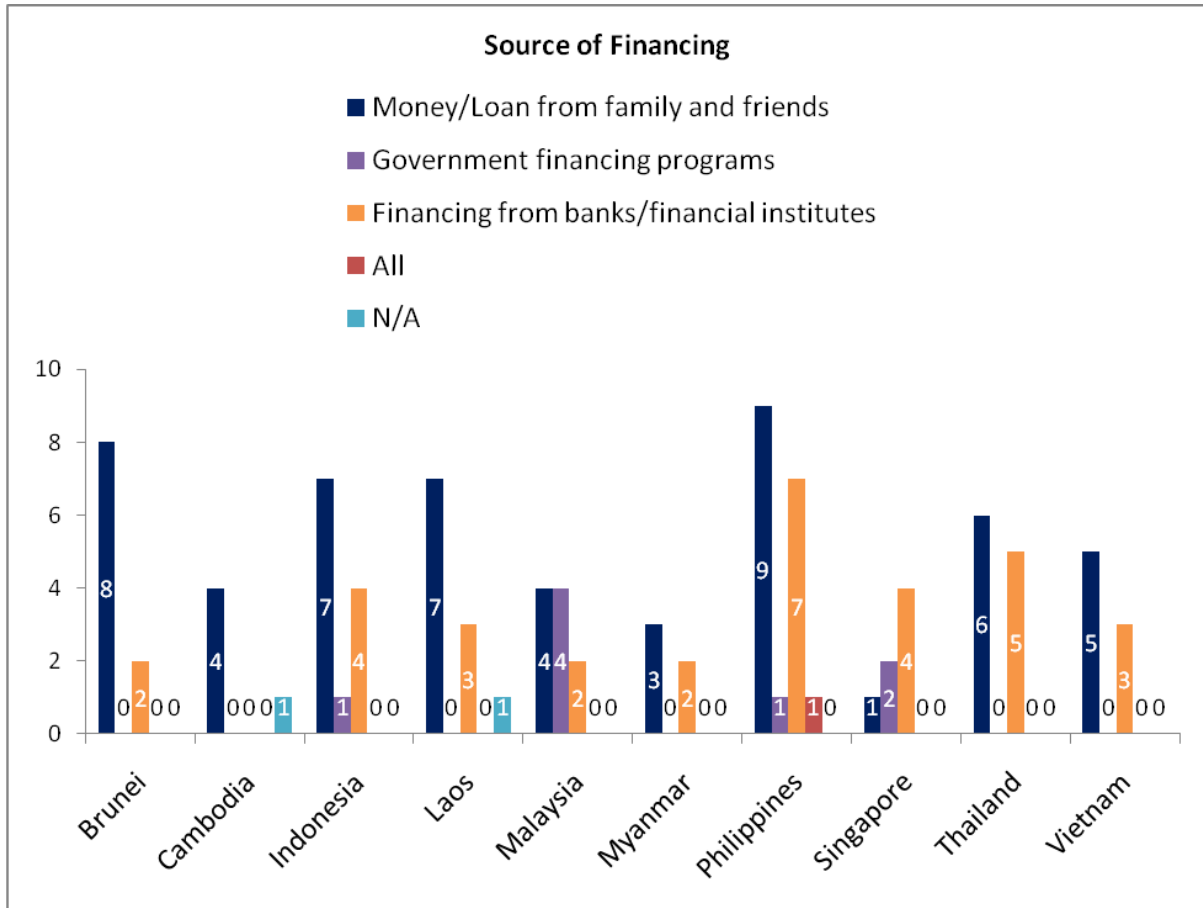
Use of different sources of financing

A slim majority of respondents (56%) had used money/loan from family and friends as their largest source of financing. About one-third (33%) of respondents had used financing from banks/financial institutes and less than a tenth (8%) had used government financing programs.



Q 3.1 What is the largest source of the fund for your company?
Base: all companies, all countries

In all countries, there were respondents who had used money/loan from family and friends as their largest source of financing. However, only respondents in Indonesia, Malaysia, the Philippines, and Singapore reported the use of government financing programs as their largest source of financing.

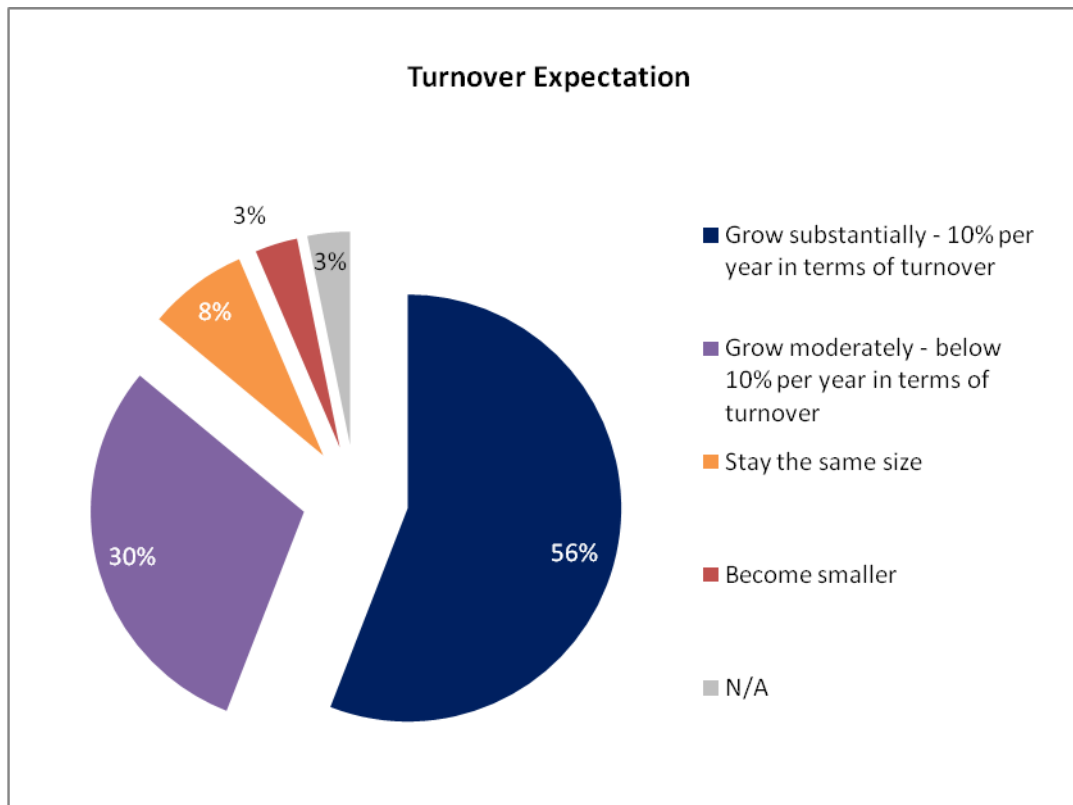


Q 3.1 What is the largest source of the fund for your company?
Base: all companies, % by country

Financial Growth of SMEs

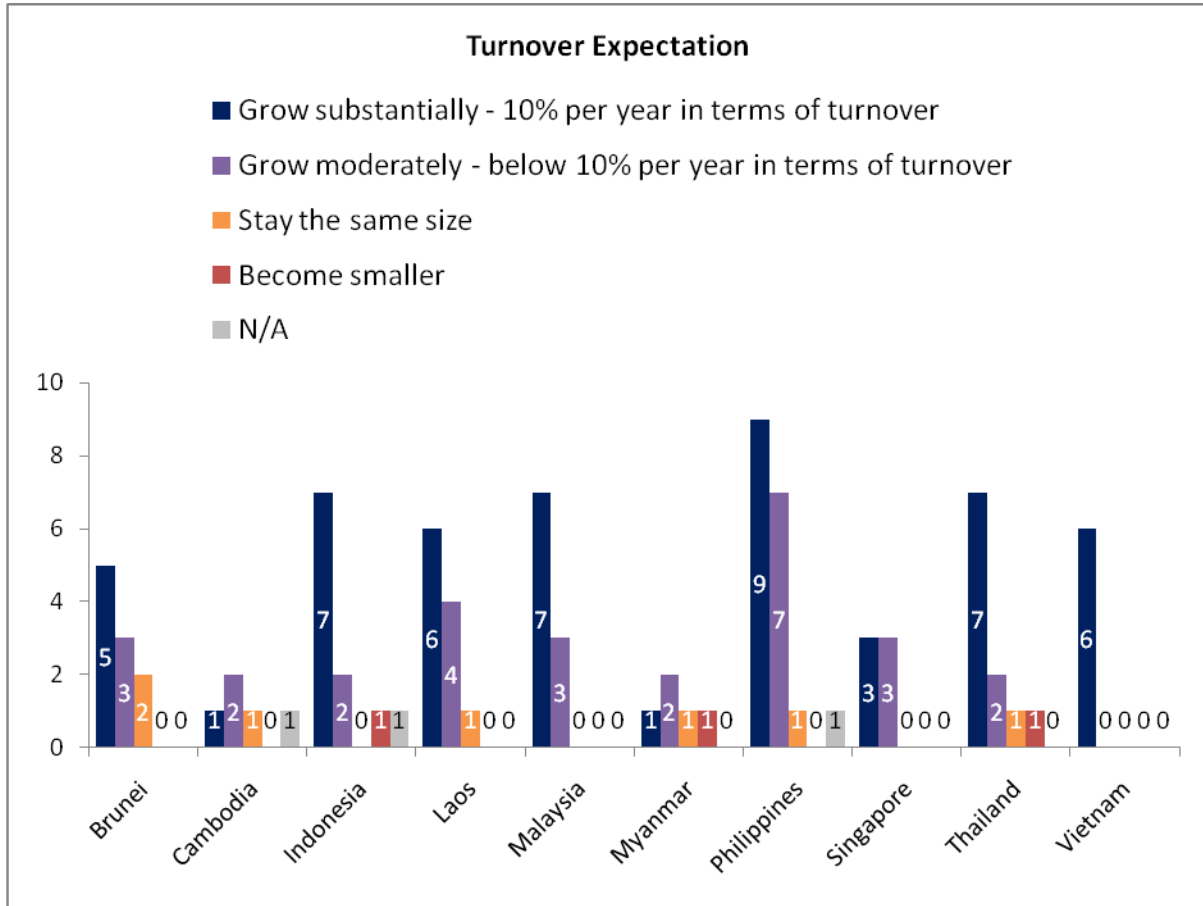
1) Turnover expectation

A majority (86%) of respondents expect that their company's turnover will increase within next two to three years. In this number of respondents, more than half (56%) of them anticipate that their company's turnover will grow substantially about 10% per year while about one-third (30%) of the respondents foresee that their company's turnover will grow moderately less than 10% per year.



Q 4.1 What is your expectation on the turnover over the next two to three years?
Base: all companies, all countries

All of the respondents from Malaysia, Vietnam, and Singapore indicated that their company's turnover was expected to increase within next two to three years whereas only one respondent from Indonesia, Thailand, and Myanmar expected that during the same period of time their company's turnover will decrease.

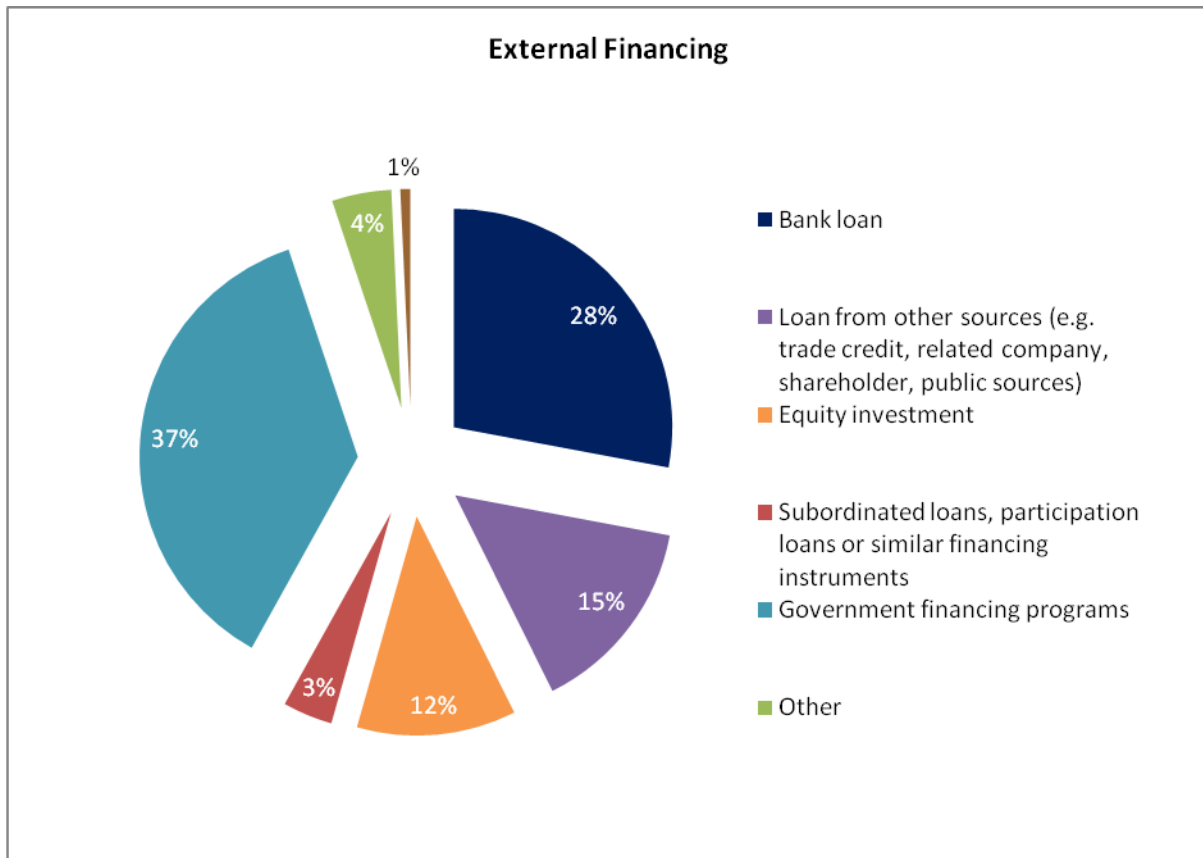


Q 4.1 What is your expectation on the turnover over the next two to three years?
Base: all companies, % by country

2) Future External Financing

1. Favorable Type of External Financing

The majority of respondents revealed that the most favorable type of external financing is government financing programs (37%). Others type of external financing that the respondents showed interest in is bank loan (28%) and loan from other sources (15%); for instance, trade credit, related company, shareholder, public sources.

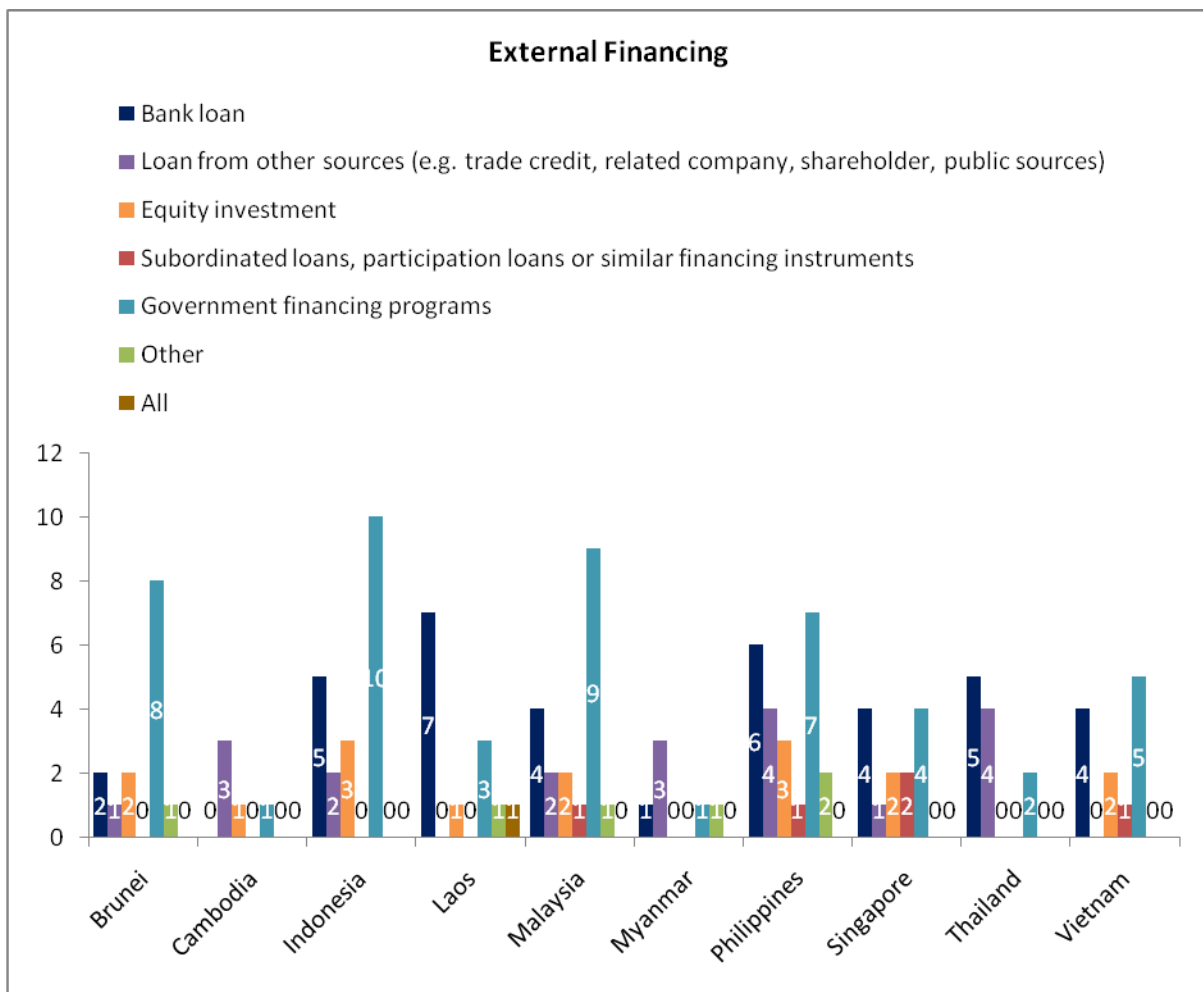


Q 4.2 If you need external financing to realize your growth ambitions, what type of external financing would you prefer most?

Base: all companies, all countries

Even though bank loan is the type of external financing that most of the respondents preferred as the second highest (28%), there are no any respondents in Cambodia needed bank loan to be their external financing. From the survey result, some of the respondents from Brunei, Laos, Malaysia, Myanmar, and Philippines indicated that they need to use financing from other sources. Examples are shown as below:

- Brunei: Loan, indent financing with considerable interest rates and no collateral requirements
- Laos: Low-interest rate loans and a 20-year repayment period or soft loan
- Malaysia: Grant
- Myanmar: Loans with low interest rates
- Philippines: Capital for equipment, Cooperative loan

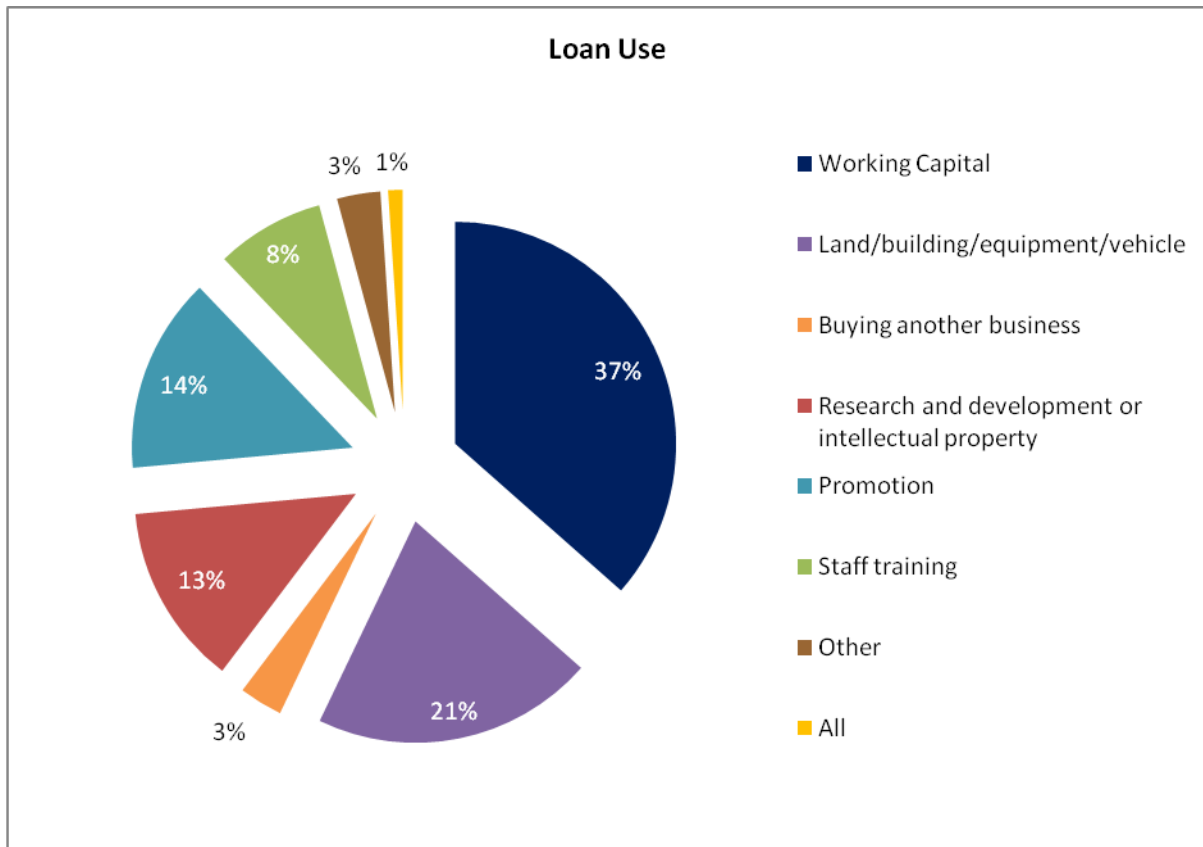


Q 4.2 If you need external financing to realize your growth ambitions, what type of external financing would you prefer most?

Base: all companies, % by country

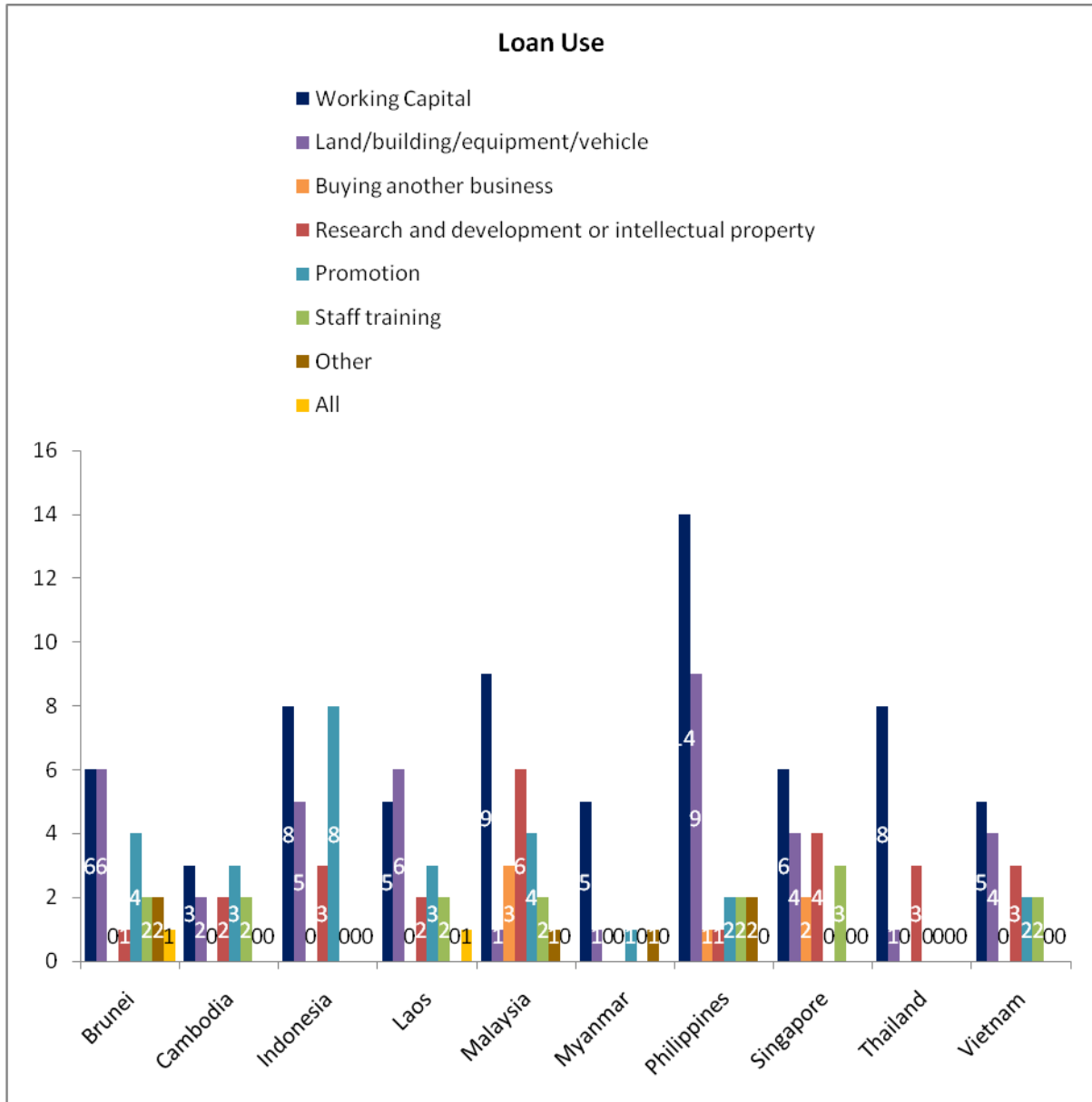
2. Purpose of loan

The largest proportion of respondents will use the loan as working capital (37%). About one-fifth of respondents will use the loan to buy land, buildings, equipment or vehicles (21%). Almost equal proportion of respondents will use the loan to finance research and development or intellectual property (13%) or promotion (14%).



Q 4.3 What will you use this loan for?
Base: all companies, all countries

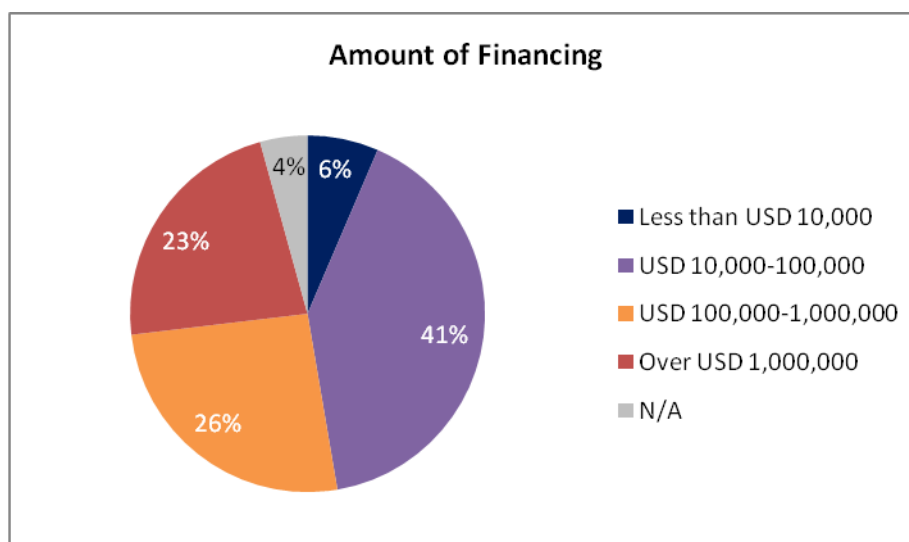
By considering the purpose of loan use by country, there were two purposes respondents in all countries mentioned to use for; working capital, and buying land, buildings, equipment or vehicles. Other purposes answered by some respondents were business expansion, refinance, and recruitment.



Q 4.3 What will you use this loan for?
Base: all companies, % by country

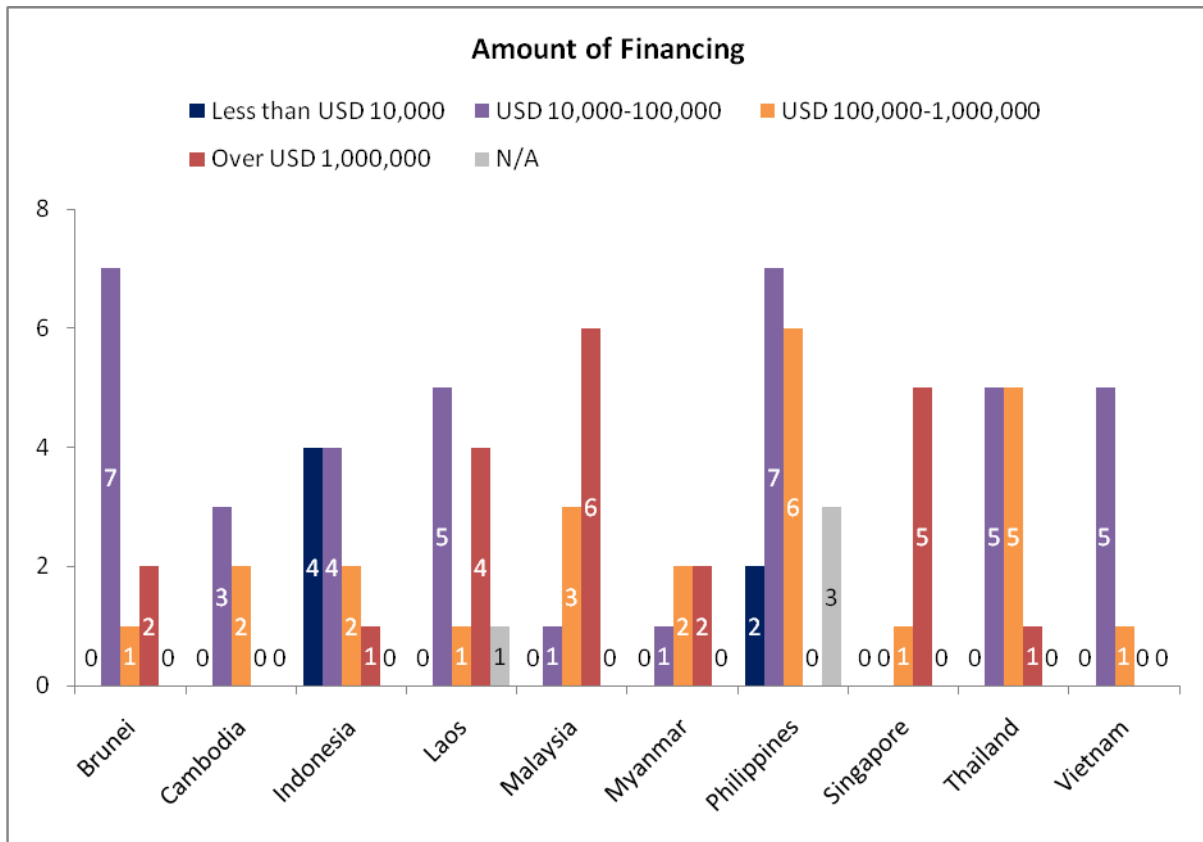
3. Amount of financing

Less than a tenth (6%) of respondents answered that they aimed to obtain loans of less than USD 10,000. A largest proportion (41%) would like to obtain between USD 10,000 and USD 100,000, and roughly a quarter (26%) would like to obtain between USD 100,000 and USD 1,000,000. Finally, a slightly lower proportion (23%) would like to obtain over USD 1,000,000.



Q 4.4 What amount of financing would you aim to obtain?
Base: all companies, all countries

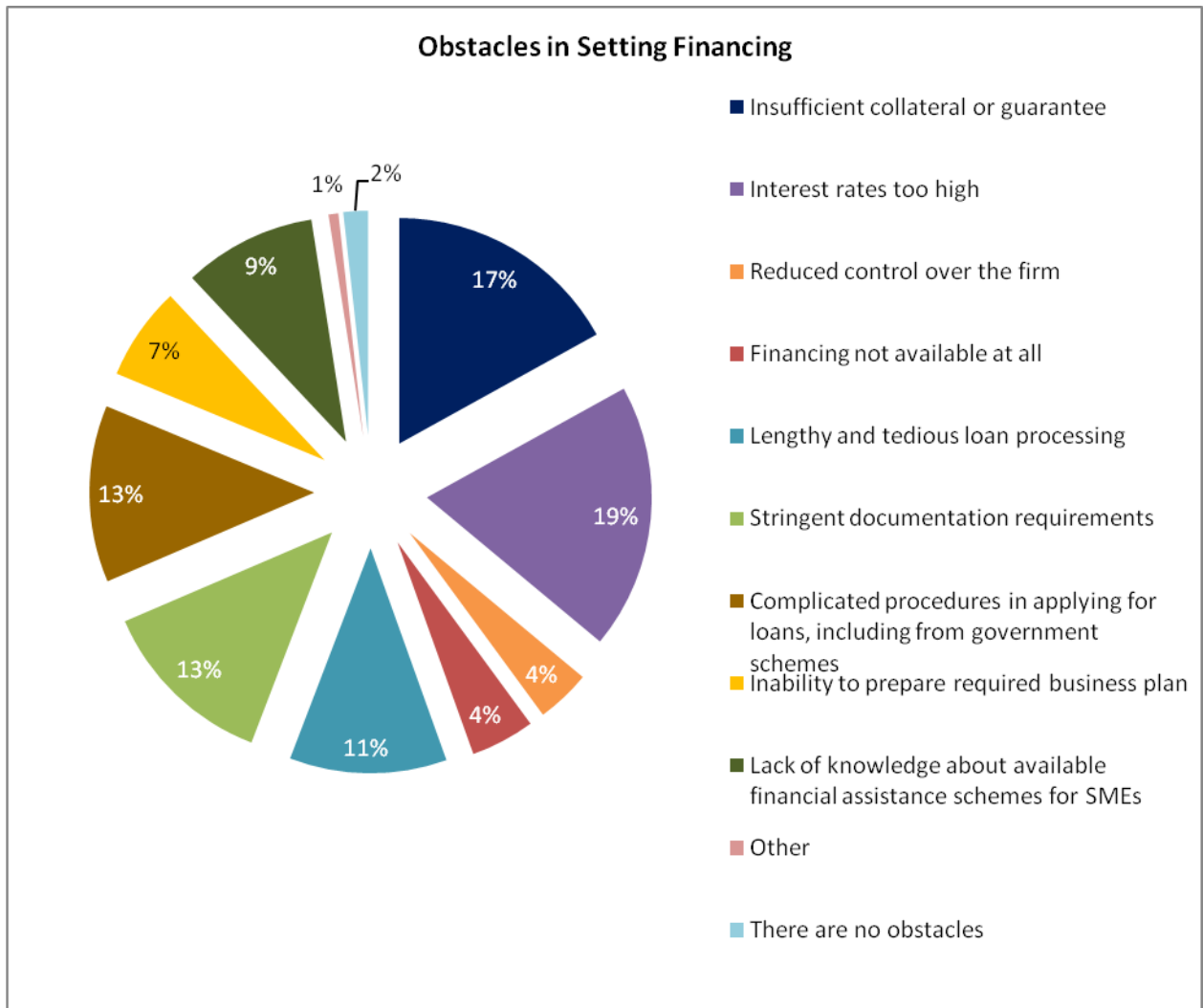
Loans of less than USD 100,000 were most required by a majority of respondents in Brunei, Cambodia, Indonesia, and Vietnam, while loans of more than USD 100,000 were most required by a majority of respondents in Malaysia, Myanmar, Singapore, and Thailand.



Q 4.4 What amount of financing would you aim to obtain?
Base: all companies, % by country

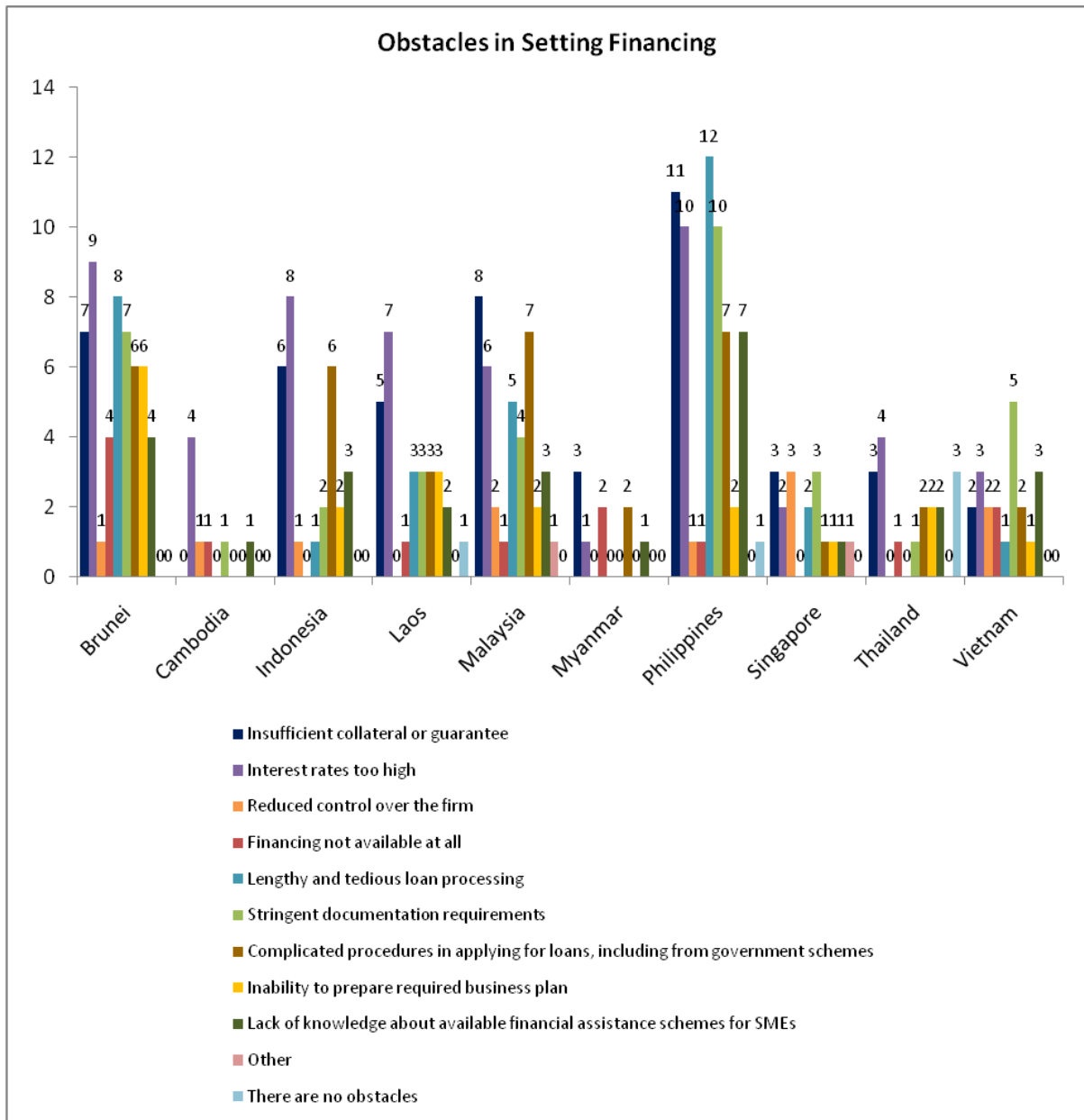
4. Obstacles in setting financing

The most frequently answered obstacle of respondents was “too high” interest rates (19%). The second most frequently answered obstacle for respondents was insufficient collateral or guarantee indicated by 17% of respondents. However, it was likely that the main obstacle in setting financing was the loan application process (37%), which consisted of lengthy and tedious loan processing (11%), stringent documentation requirements (13%), and complicated procedures in applying for loans, including from government schemes (13%).



Q 4.5 What are the obstacles in setting financing?
Base: all companies, all countries

Respondents from each countries faced similar obstacles in setting financing. A minority of respondents in Laos, the Philippines, and Thailand said there were no obstacles in setting financing. However, other obstacles reported by few respondents were bank’s long-term contract and non-committable bank personnel.



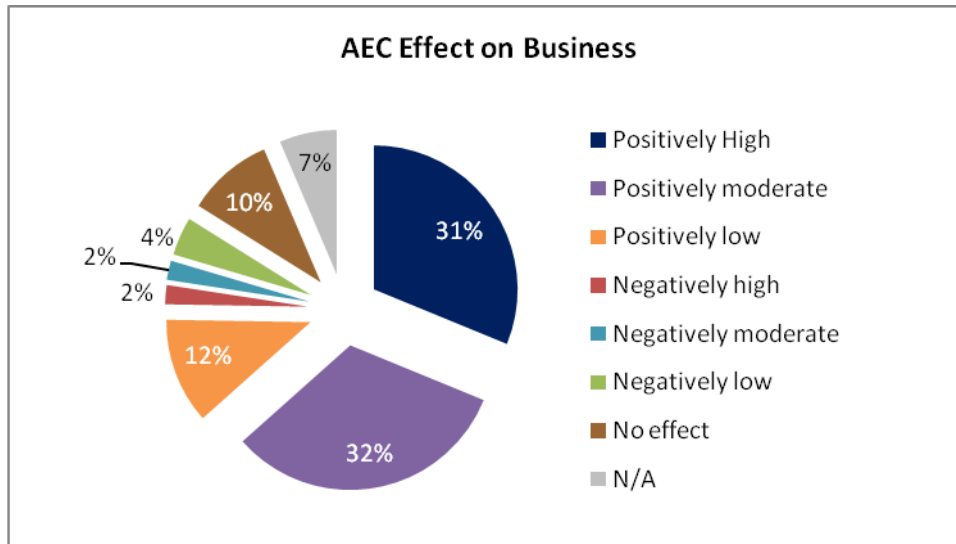
Q 4.5 What are the obstacles in setting financing?

Base: all companies, % by country

Preparation of ASEAN SMEs for ASEAN Economic Community (AEC)

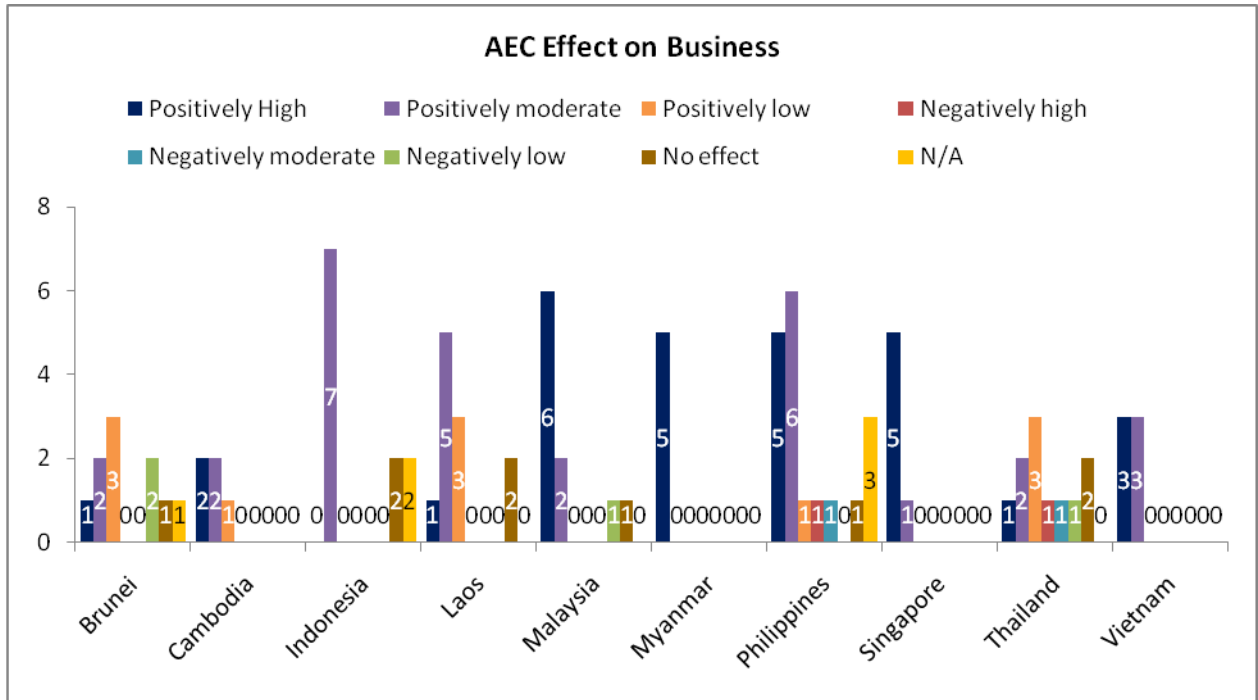
1) Forecast the effect of the AEC to ASEAN SMEs

About third-fourth (75%) of the respondents stated that the establishment of the AEC will positively affect on their business. With slightly amount (8%) of the respondents gave the opposite result by saying that it will negatively affect their business. Only a few (10%) of the respondents indicated that the AEC will not affect to business at all.



Q 5.4 Do you think the AEC will affect on your business?
Base: all companies, all countries

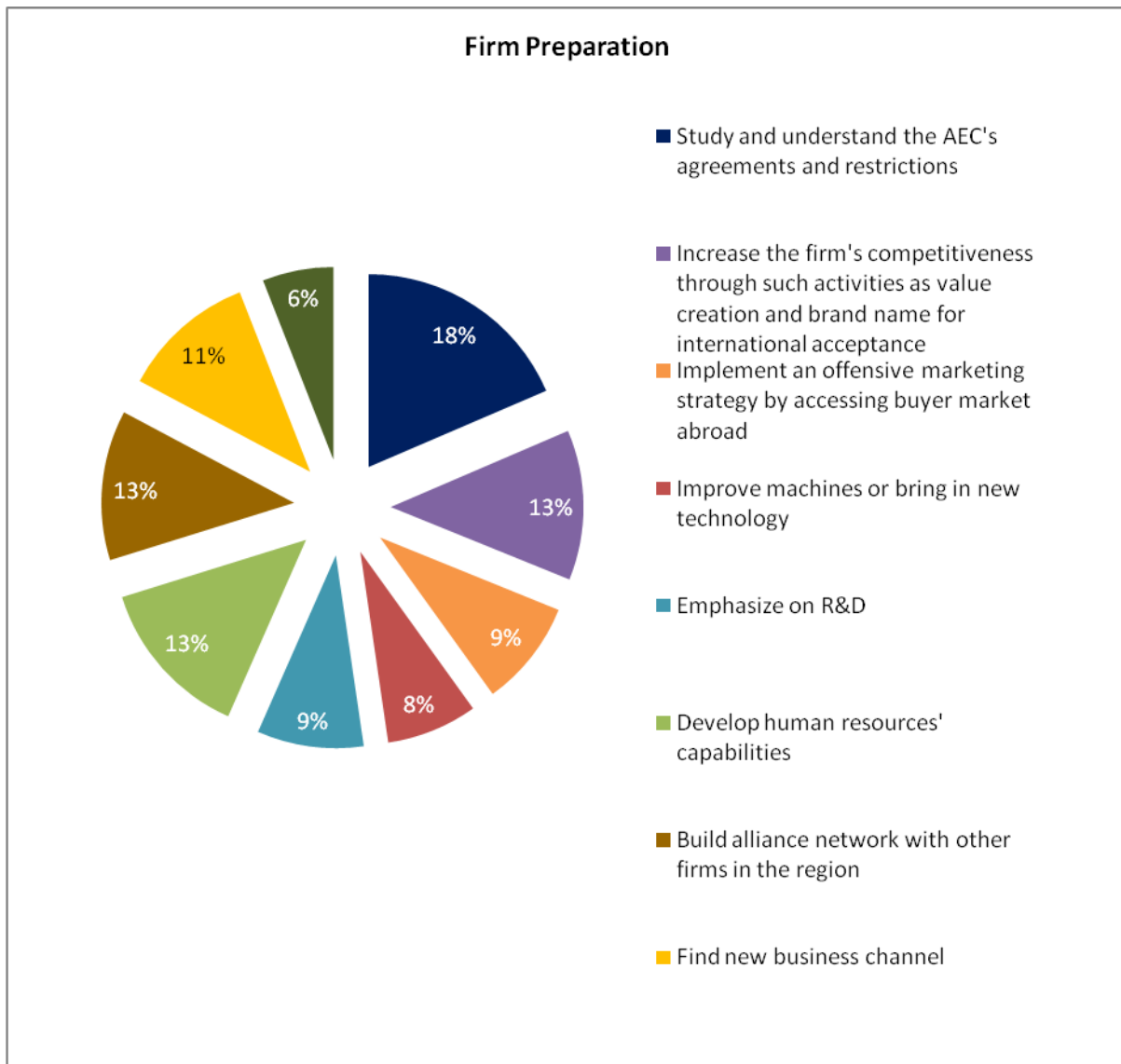
All respondents (100%) from Cambodia, Myanmar, Singapore, and Vietnam indicated that the AEC will positively affect on their business, especially the respondents from Myanmar who significantly see that the AEC will positively affect on their business in high level. In a meanwhile, some of the respondents from Brunei, Malaysia, Philippines, and Thailand mentioned that the AEC will negatively affect on their business, especially in Philippines and Thailand saying that the AEC will negatively affect on their business in high level.



Q 5.4 Do you think the AEC will affect on your business?
 Base: all companies, % by country

2) Preparation of ASEAN SMEs

The proportion of different ways of preparing for the realization of the AEC initiative by 2015 is very similar. The largest proportion (18%) of the respondents had chosen to study and understand the AEC's agreements and restrictions in preparing for the AEC initiative. A slightly lower and equally proportion (13%) of the respondents preferred to increase the firm's competitiveness through such activities as value creation and brand name for international acceptance, develop human resources' capabilities, and build alliance network with other firms in the region for the AEC initiative preparation.

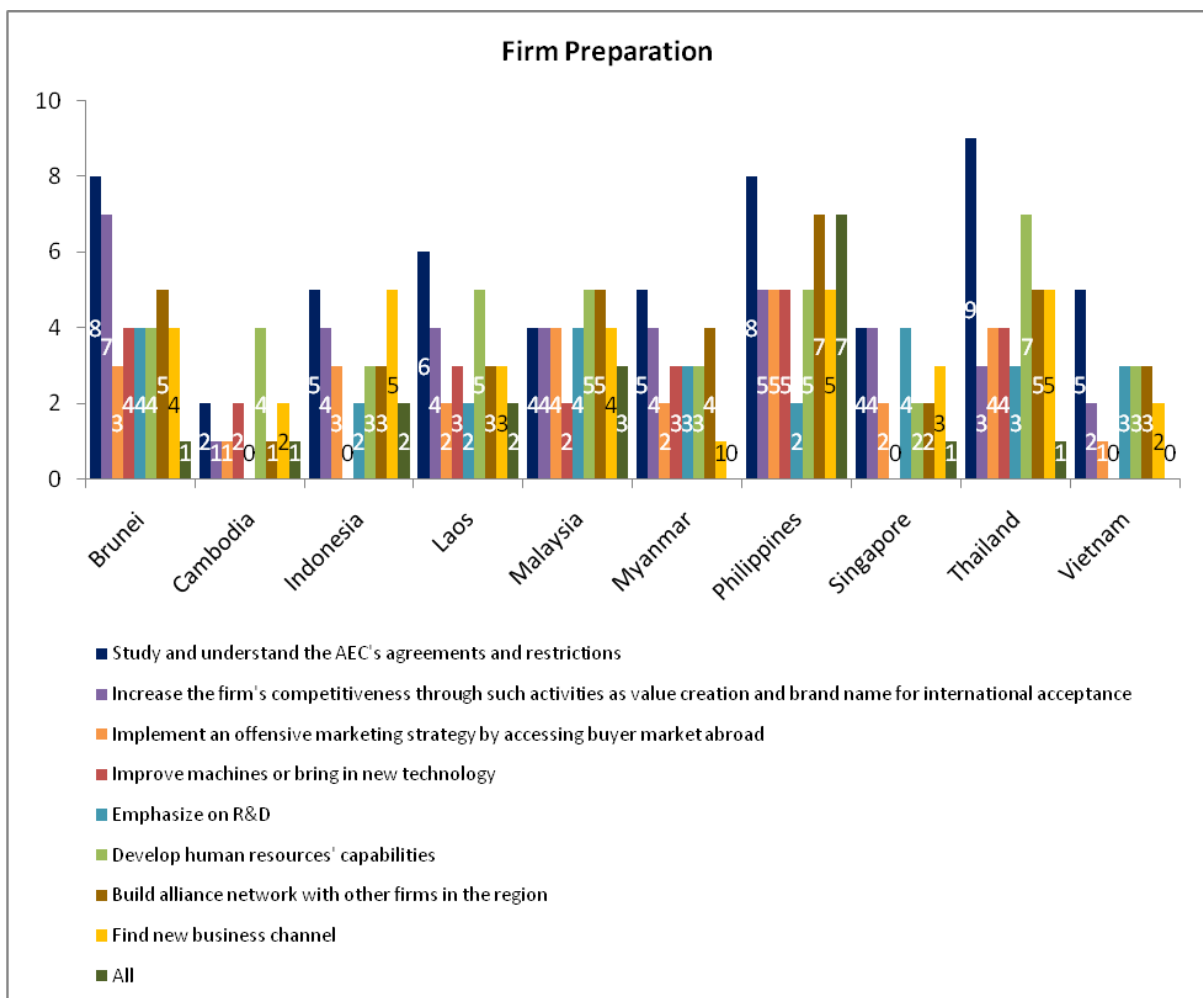


Q 5.10 How will your firm prepare for the realization of the AEC initiative by 2015?

Base: all companies, all countries

As considering by each country, all the respondents will prepare for the AEC initiative more than one way. They indicated that, in fact, there are six ways to help them prepare for the AEC initiative and those ways are shown as the following:

- Study and understand the AEC’s agreements and restrictions
- Increase the firm’s competitiveness through such activities as value creation and brand name for international acceptance
- Implement an offensive marketing strategy by accessing buyer market abroad
- Improve machines or bring in new technology
- Emphasize on R&D
- Develop human resources’ capabilities
- Build alliance network with other firms in the region
- Find new business channel

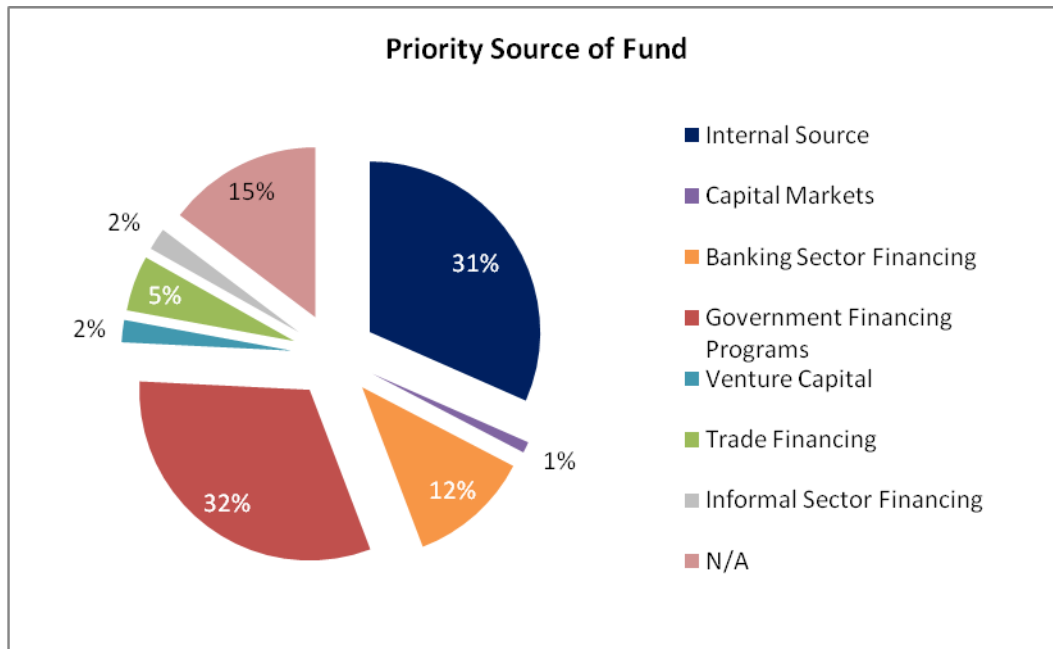


Q 5.10 How will your firm prepare for the realization of the AEC initiative by 2015?

Base: all companies, % by country

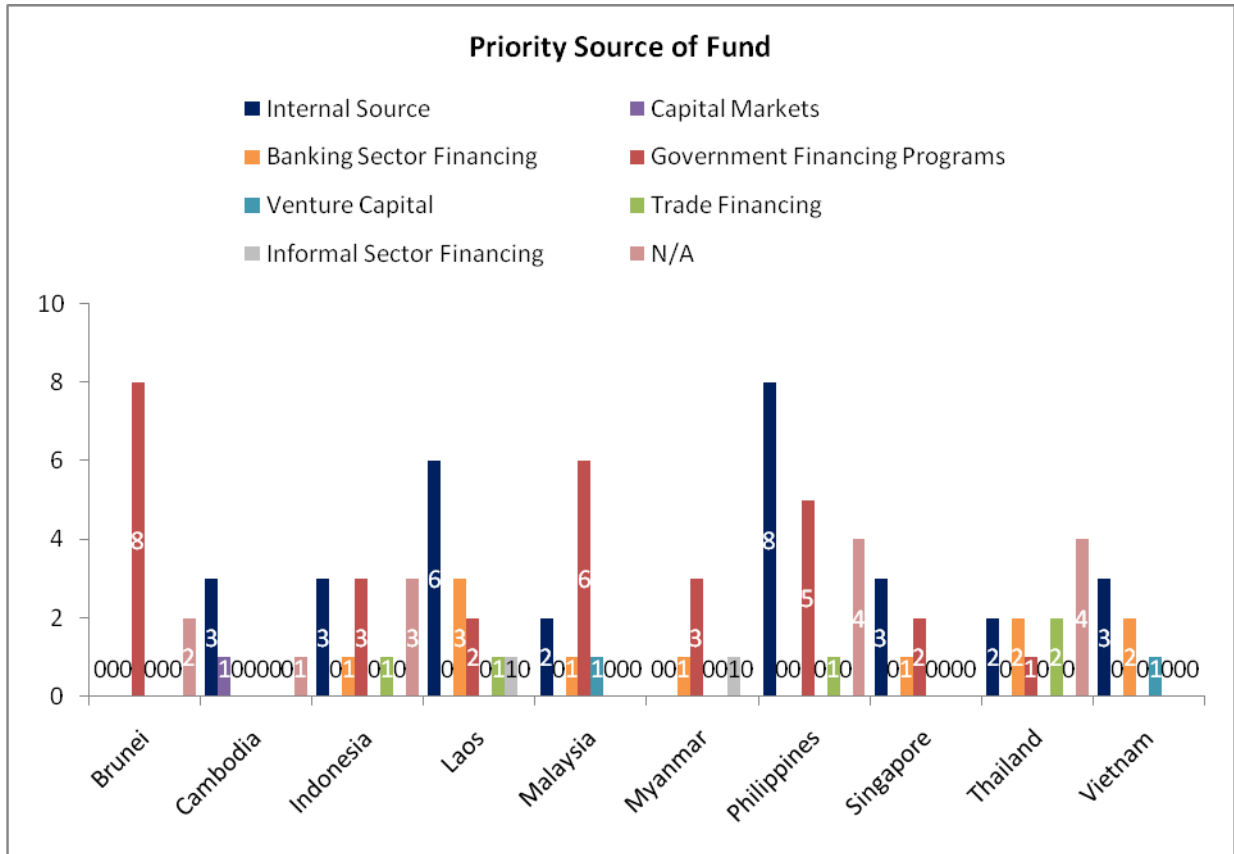
3) Sources of Fund for Preparation

About one-third (31%) of the respondents answered that they plan to use the internal source in preparing for the AEC initiative while another group of respondents, which have a similar proportion (32%) indicated that the government financing programs will be used as their source of funds.



Q 5.11 In doing so, which source of fund will you use?
Base: all companies, all countries

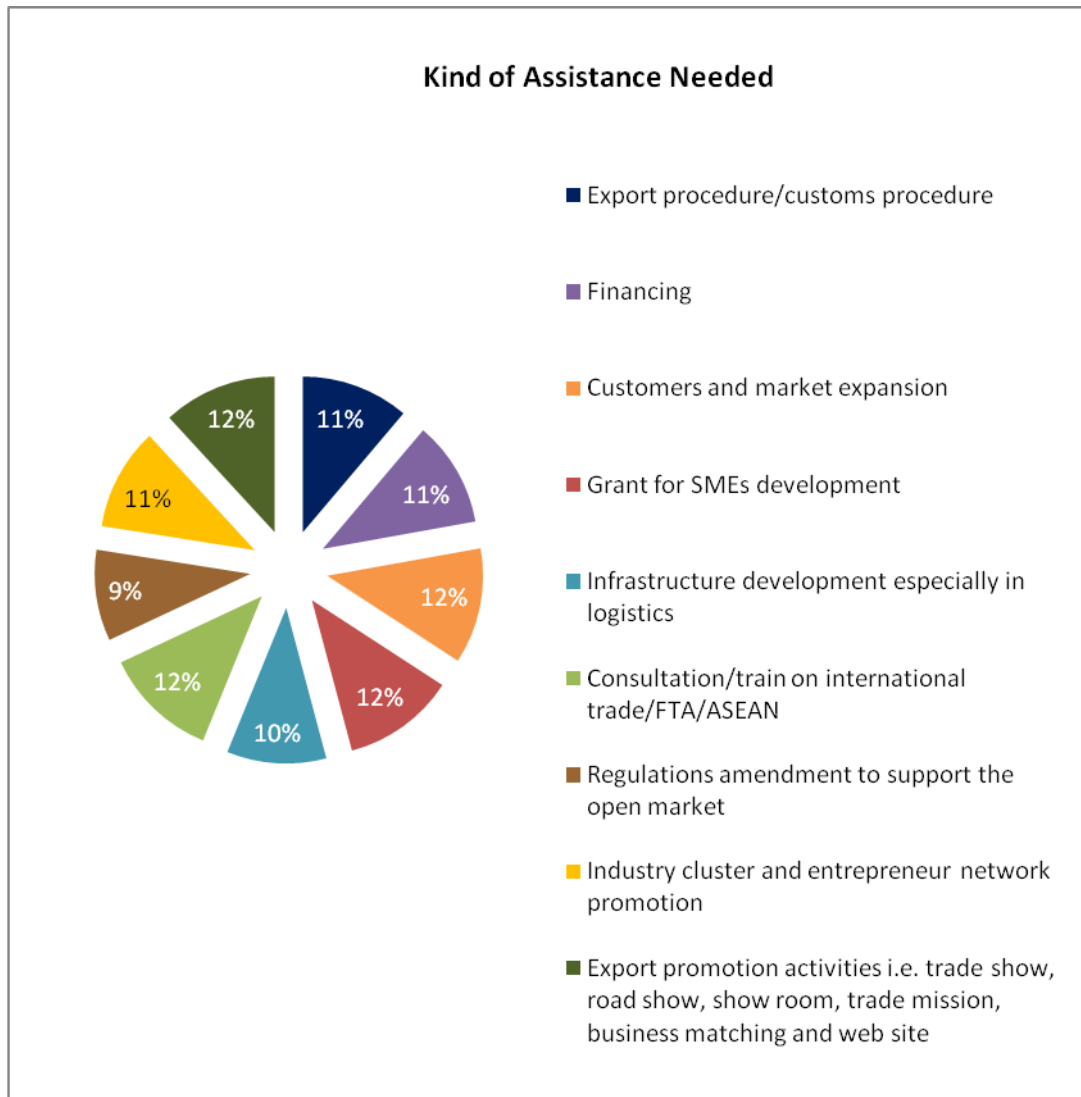
Country with over 50 percent of the respondents who indicated that will use internal source of fund is Cambodia. On the other hand, countries with most of the respondents stated that will use government financing programs as their sources of fund are Brunei, Malaysia, and Myanmar.



Q 5.11 In doing so, which source of fund will you use?
Base: all companies, % by country

4) External Assistance for Preparation
 1. Kind of Assistance Needed

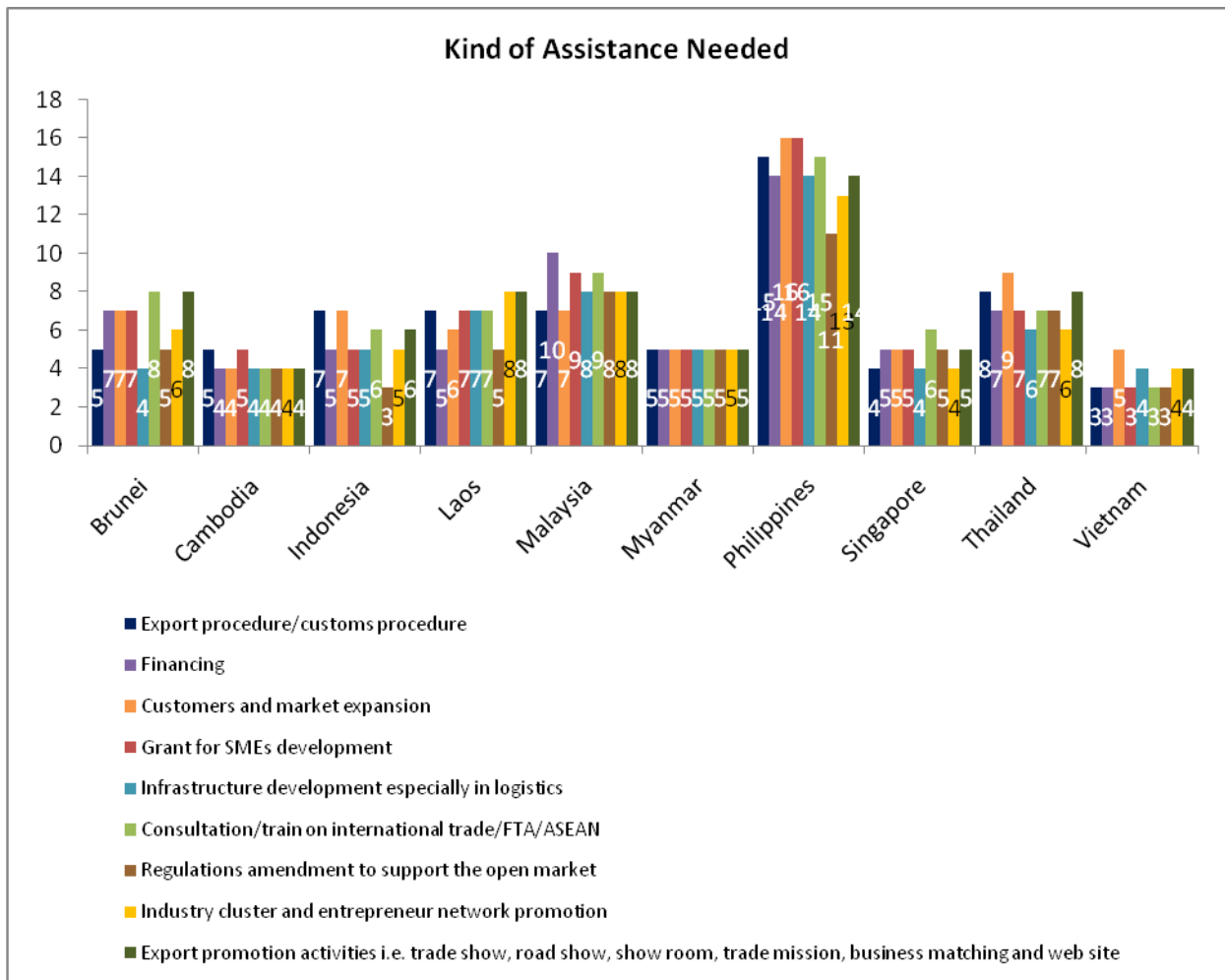
The proportion of many kinds of assistance that the respondents needed to prepare for the AEC initiative is very similar. Assuming that due to most of the respondents do not receive sufficient information about the AEC, thus they need support in many areas in order to help them building the confidence in operating the business and enhancing the competitiveness in the region.



Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, all countries

According to the graph below, it demonstrated that the need of various kinds of assistance from the respondents in each country has similar proportions and they need support in all aspects as same for all countries.

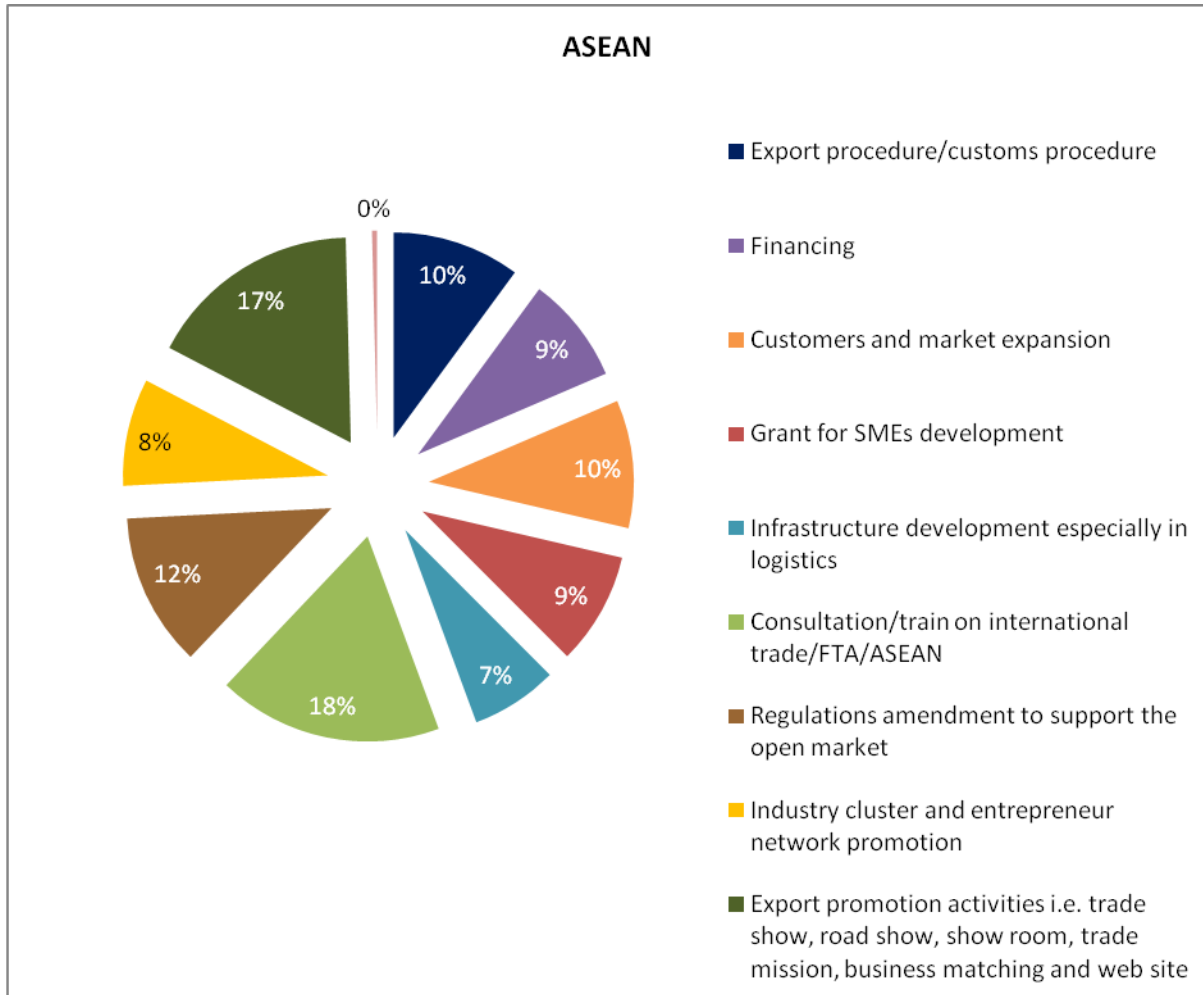


Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, % by country

2. Organizations Supporting ASEAN SMEs

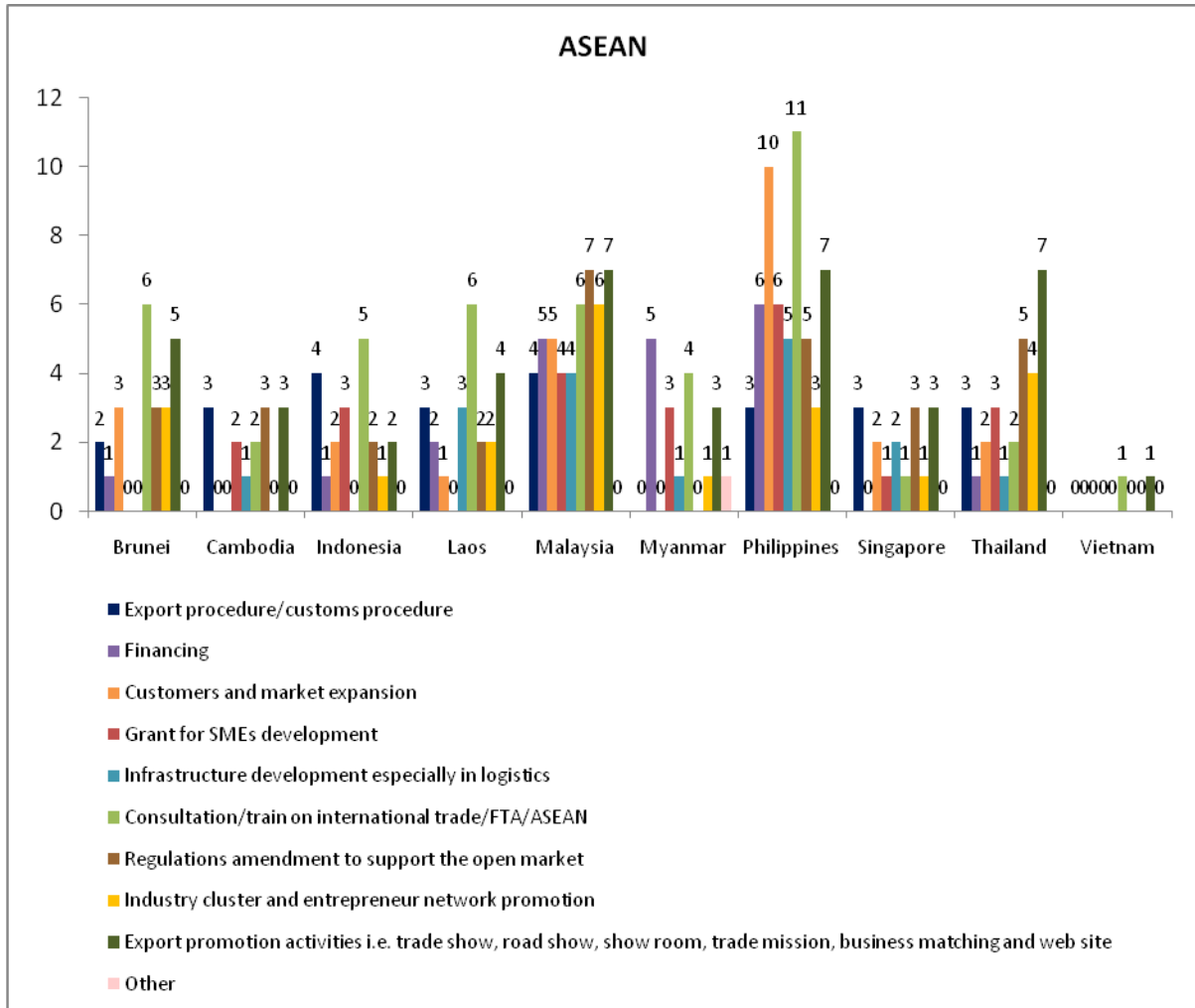
By asking ASEAN SMEs about the assistance needed from ASEAN, it was found that most of the respondents require ASEAN to assist in term of consultation/train on international trade/FTA/ASEAN (18%) and export promotion activities (17%). They also need for financing assistance (9%).



Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, all countries

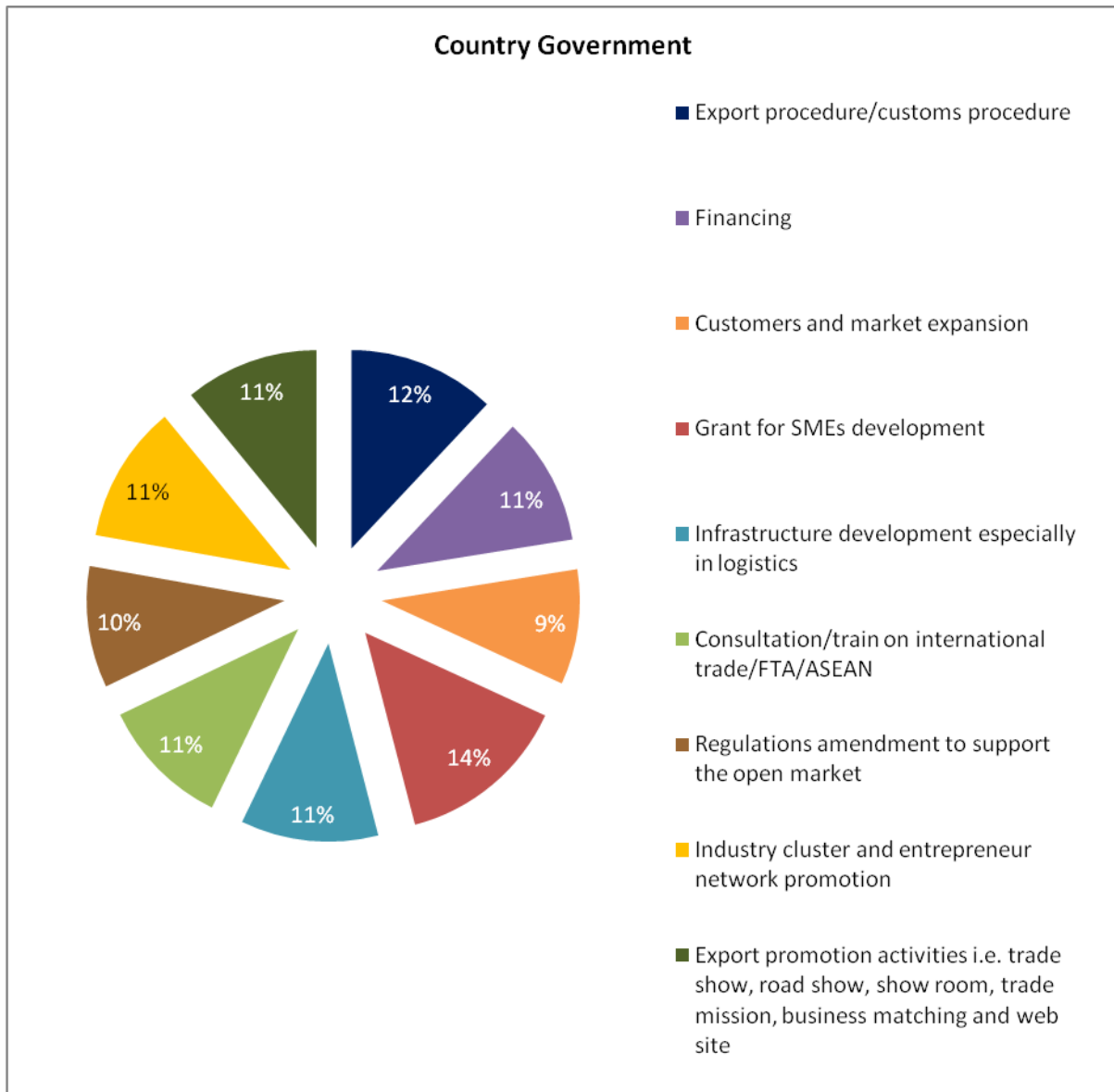
As considering by each country, Brunei, Indonesia, Laos, and Philippines are the countries that have respondents indicated that they need assistance from ASEAN in the field of consultation/train on international trade/FTA/ASEAN the most. For Myanmar, all the respondents (100%) stated that they need financing assistance from ASEAN. Besides, one of the respondents from Myanmar needs ASEAN to help assisting in freely migration in the ASEAN region.



Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, % by country

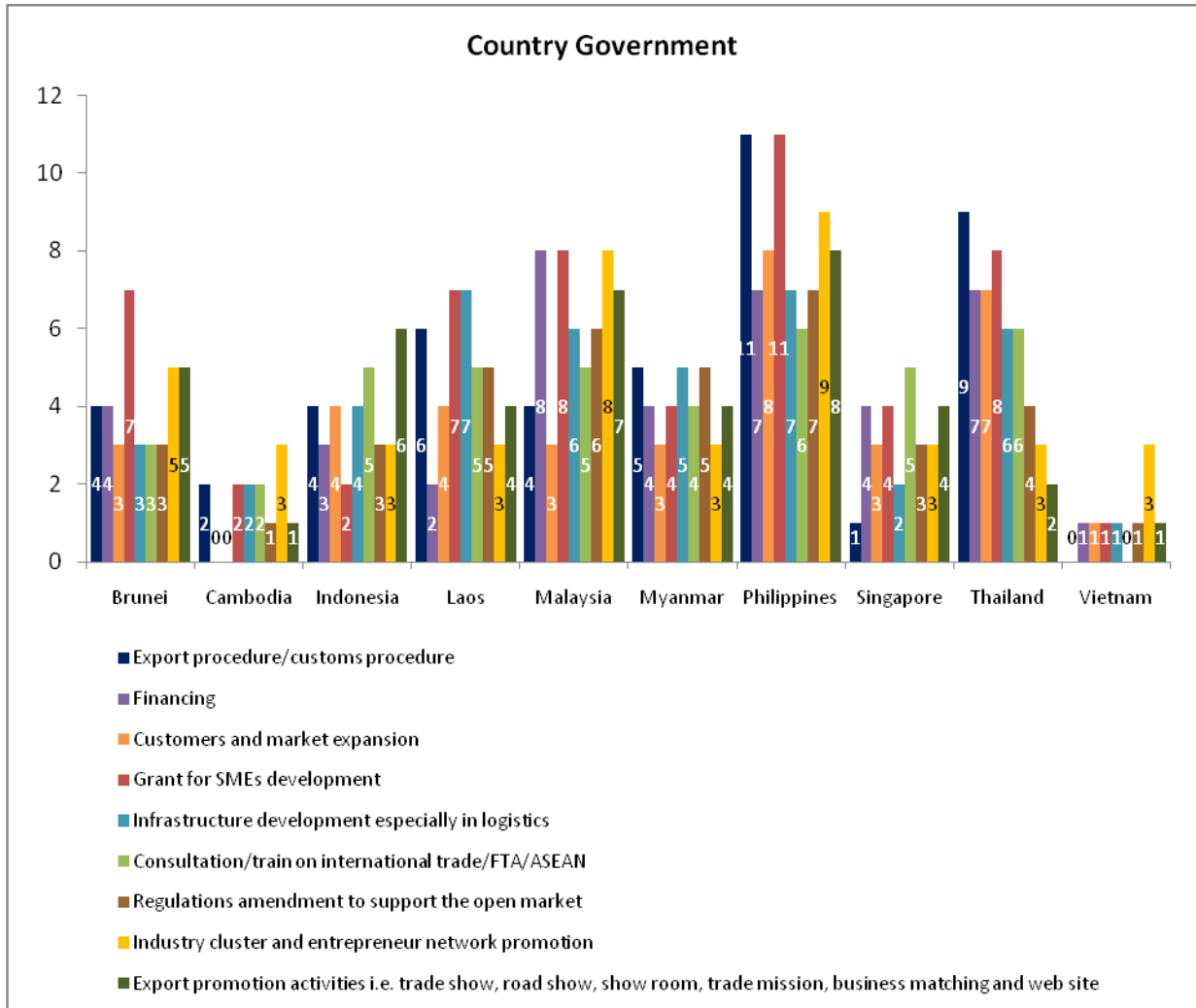
The respondents need to receive assistance in various aspects from country government in similar proportions. The most needed assistance is to have grant for SMEs development (14%) while the financing assistance is needed by 11%.



Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, all countries

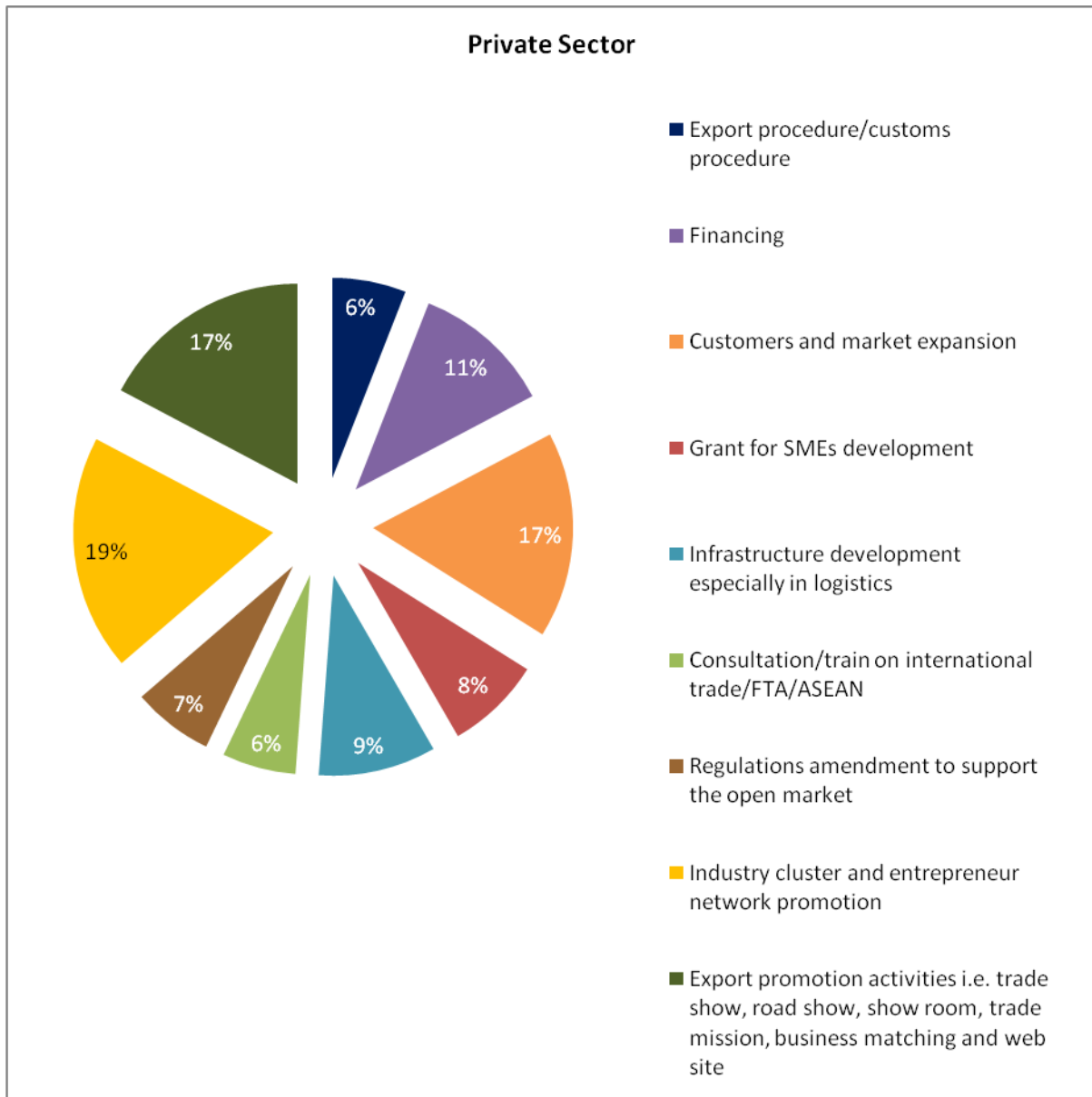
The assistance needed from country government of the respondents in each country has diversified into various aspects. The respondents from Brunei, Laos, Malaysia, and Philippines indicated that they need grant for the development of SMEs the most among other supported aspects.



Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, % by country

The top three of the assistance needed from the private sector answered by the respondents showing in very close proportions are industry cluster and entrepreneur network promotion (19%), customers and market expansion (17%), and export promotion activities (17%) whereas the requirement of financing assistance is only 11%.

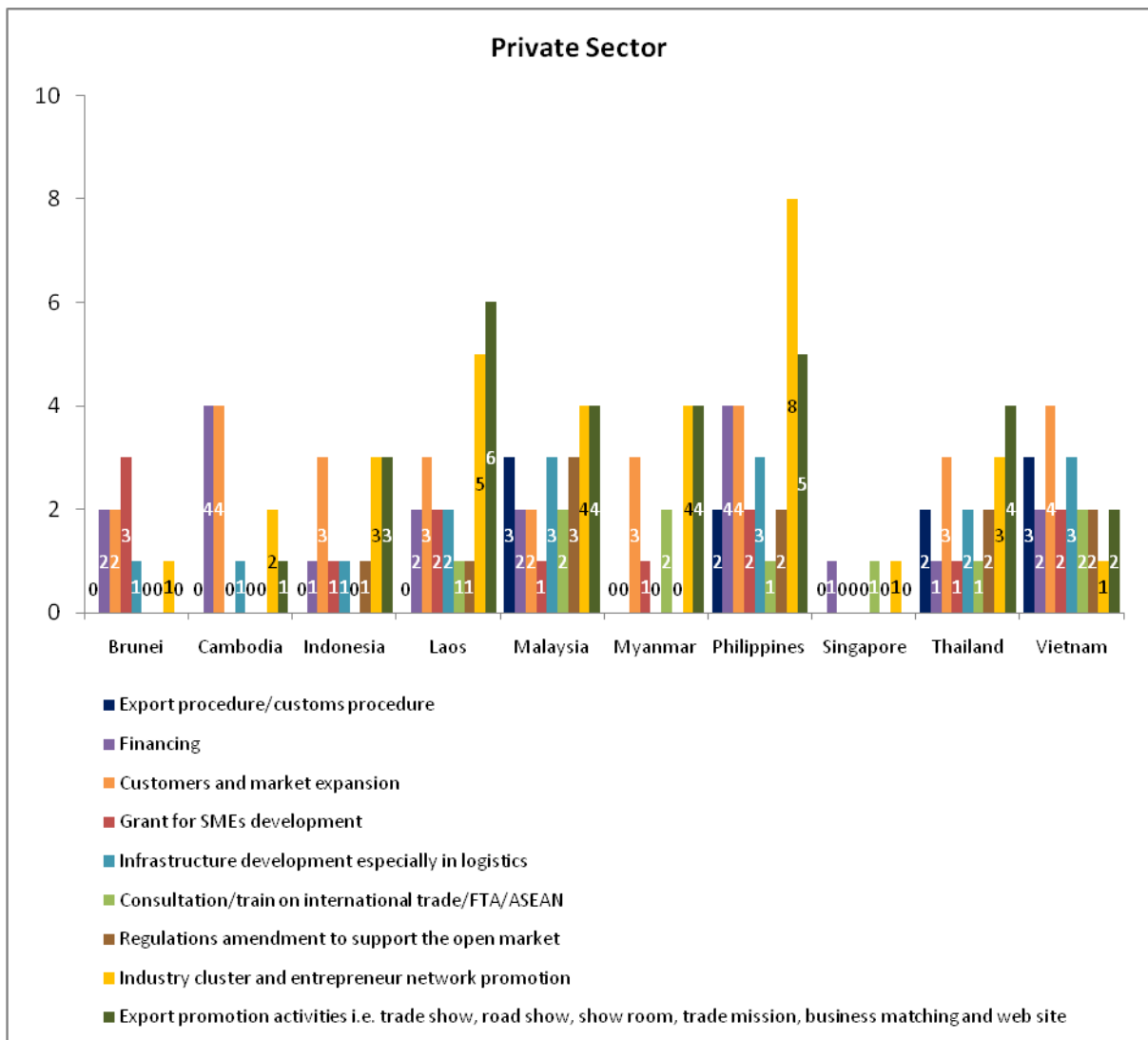


Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, all countries

For the assistance from the private sector that the respondents would like to receive will be vary in each country; for example,

- SMEs in Brunei need assistance in terms of grant for SMEs development from the private sector the most.
- The majority of SMEs in the Philippines need assistance from private sector in the field of industry cluster and entrepreneur network promotion.
- SMEs in Thailand and Laos need to receive assistance in export promotion activities most.
- SMEs in Vietnam need the most assistance from private sector concerning customers and market expansion.

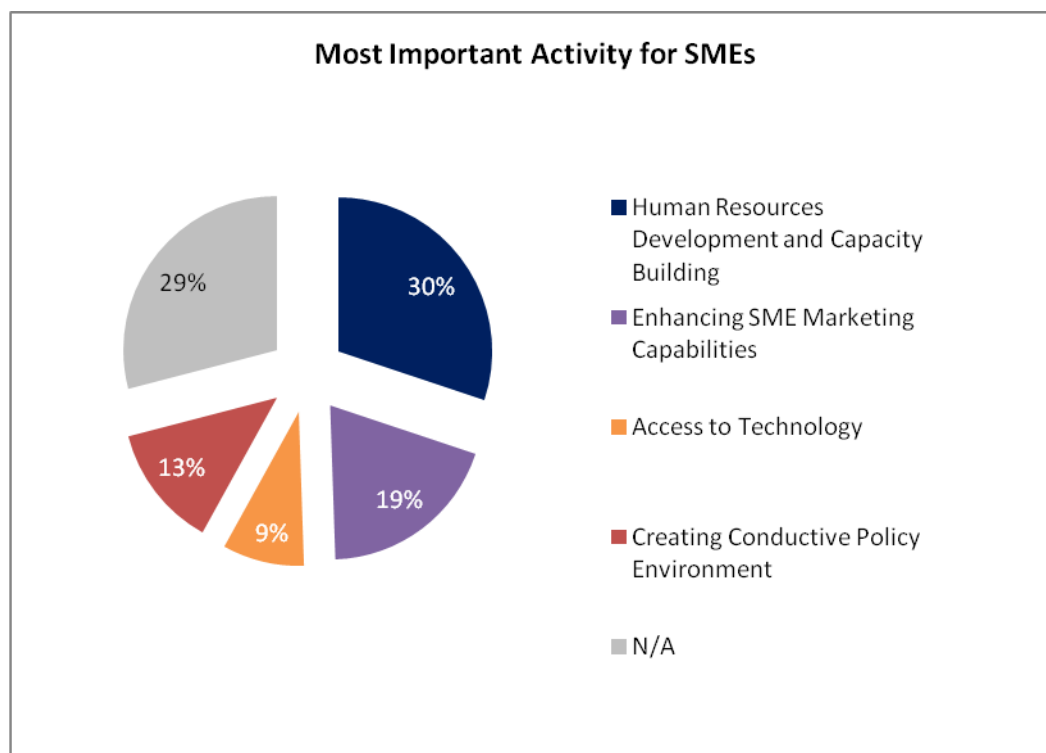


Q 5.8 what kind of assistance should be considered in order to help prepare for the AEC initiative? Please also identify the appropriate leading body for the selected item(s).

Base: all companies, % by country

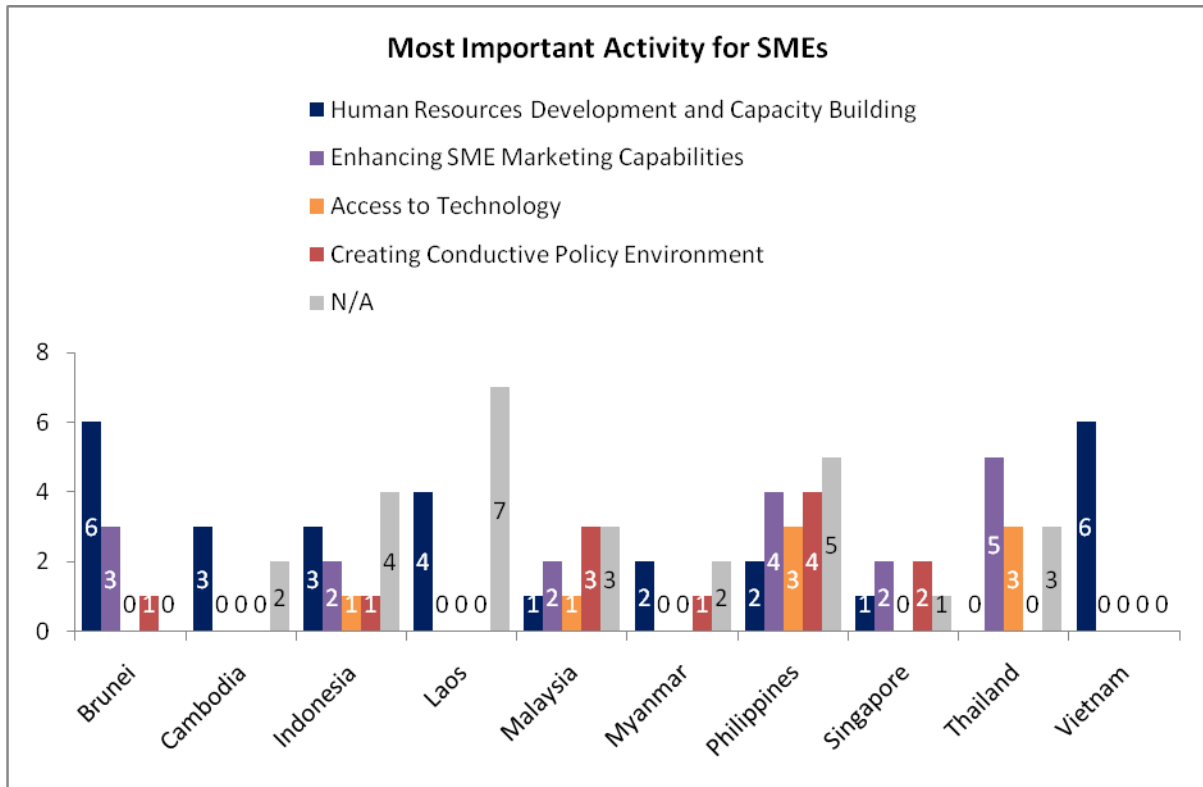
3. Assistance in Other Areas

The assistance in other areas that the respondents needed other than financing assistance is human resources development and capacity building (30%). However, as a similar proportion (29%) of the respondents is the one who do not answer to this question. The three remaining assistance needed in descending order are enhancing SME marketing capabilities (19%), creating conducive policy environment (13%), and access to technology (9%).



Q 5.9 ASEAN SME fund will support programs addressing regional development and enhanced competitiveness. In your opinion, other than financing to SMEs, what activity is most important for SMEs?
Base: all companies, all countries

All the respondents in Vietnam (100%) indicated that human resources development and capacity building is the activity that they would like to obtain additional assistance as the first rank, which is similar to the respondents in Brunei, Laos, and Cambodia. On the contrary, the respondents in Thailand stated that the most needed assistance is enhancing SME marketing capabilities.



Q 5.9 ASEAN SME fund will support programs addressing regional development and enhanced competitiveness. In your opinion, other than financing to SMEs, what activity is most important for SMEs?
 Base: all companies, % by country