

**University of  
Göttingen**

**International Small Business Series 20**

**Chee Peng Lim**

**Some Asian Experiences with the  
Development of Small and Medium  
Enterprises and their Relevance for Africa**

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## **Some Asian Experiences with the Development of Small and Medium Enterprises and their Relevance for Africa**

Göttingen 1994

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## Contents\*

	Page
1. Introduction	1
2. Objectives of SME Promotion	2
3. The Institutional Framework	2
4. SME Development Programmes	8
5. Overall Policy Environment	9
6. Lessons for Africa	15
References	21

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## **1. Introduction**

There are two images of small and medium scale enterprises (SME) in Asia. The first and most common image is that of the traditional SME which are found in most Asian developing countries. These are SME which use traditional techniques of production and serve mainly the parochial market. Traditional SME have low productivity and can barely survive let alone compete in a modern economy. But there is another image of SME which is beginning to emerge in some Asian countries. These are the modern high-tech SME which use the state of the art production technology and export their products all over the world. These SME first appeared in Japan but they are increasingly seen in Taiwan Province of China, the Republic of Korea, Hong Kong, and more recently in Singapore. The modern SME produce electronics and communications equipment as well as high quality sports and computer products. They are organized along modern management lines; they are very productive and highly competitive. For example, in Taiwan Province of China, the SME sector accounts for 80 per cent of total exports and 60 per cent of manufacturing value added. The Asian experience shows that it is possible to transform traditional, low-tech, unproductive SME into modern, high-tech, super efficient and export-oriented SME. It does not require a miracle to affect this transformation. All that is required, as several Asian countries have shown, is a proper mix of policies, institutional framework and appropriate SME programmes. This is probably the most useful lesson which Africa can learn from Asia in SME development. But even if Africa is only interested in the promotion of traditional SME, Asia, which has been promoting SME for more than four decades during the course of which several mistakes have been made while some successes have also been achieved, can offer some useful policy implications and lessons for African countries which are in the process of formulating or reviewing their respective national policies and programmes on SME promotion. This paper attempts to distill some of these useful lessons for Africa by analyzing major elements of national policies and programmes on SME promotion in Asia.

Promotion of SME in Asia has a relatively long history, stretching back to the late 1940s. (For details, see S.V.S. Sharma et. al. 1979, V. Sit (ed.) 1985, Technonet Asia 1983, UNIDO 1986 and Berry and Mazumdar 1991). SME promotion has also been relatively extensive in several Asian countries where almost all government agencies are involved. Success however is varied: in South and Southeast Asia, SME promotion has met with less success; in East Asia SME promotion has been generally more successful. The difference in performance may be attributed to variations in four major elements of SME promotion at the national level. These are: objectives, institutional framework, SME programmes and the overall policy environment.

## **2. Objectives of SME Promotion**

An analysis of SME policies in Asia shows that those which are more successful incorporated consistent objectives based on more realistic assumptions. Very often however, policies for SME promotion are based on misguided assumptions. For example, many Asian countries often assume that only large scale enterprises in the formal sector contribute to economic growth and employment creation while SME are inefficient and can only survive with extensive subsidies. In addition, SME policies in Asia also try to serve multi-social and economic objectives, some of which are contradictory. Clearly, policies formulated on the basis of misguided assumptions are ineffective, while those which pursue too many objectives tend, at best, to subsume the more important under the less important objectives. At worst, multiple objectives may conflict with one another. For example, an analysis of the wide variety of goals for SME promotion in Indonesia shows that some are unrelated while others are contradictory (GOPA 1993:56). Successful SME development policies incorporate objectives which are interrelated, highly focussed and targeted towards enhancing the overall efficiency of the economy. Instead of trying to serve multi-social and economic objectives, the more successful SME policies aim simply at the promotion of competitive and modern SME. For example, the objectives of SME promotion in the Republic of Korea are selective and narrowly focussed: technology development and promotion, international competitiveness and cooperation between small and large enterprises (P. Regnier 1992:112). Similarly, in Taiwan Province of China, SME promotion is focussed on the development of self-reliant, modern and export-oriented SME (S.Y. Tao 1987). In the latter two cases, the objectives are strictly economic, interlinked and targeted towards the modernization of SME.

While the inclusion of social objectives is a valid consideration in SME promotion, such objectives may be more easily achieved through the formulation of appropriate macroeconomic policies. Asian countries which burden SME promotion with social objectives have only succeeded in creating and sustaining traditional SME which are perpetually "sick" or in constant need of government assistance. (See for example, J.V. Sandesara 1990). Even worse, several Asian countries tend to use SME promotion to pursue political objectives by favouring SME which support the ruling party. Such SME have easy access to subsidies or even grants. The few Asian countries which have concentrated on specific economic objectives in SME promotion have developed modern SME which have contributed significantly to the overall efficiency of the economy while relying largely on their own resources for self-sustaining growth and expansion. Consider for example, Taiwanese SME which export automotive components and electronic and computer products (P.L. Chee 1993b).



### **3. The Institutional Framework**

In many Asian countries, a great number and variety of government agencies are involved in SME promotion. For example, more than thirty government agencies provide various forms of assistance to SME in Malaysia. While there may be some merit in having specialised agencies assist SME, the Asian experience shows that a central body for SME promotion is often more effective. For example, in Taiwan Province of China, the Medium and Small Business Association of the Ministry of Economic Affairs provides an integrated package of assistance to SME; this has been much more effective than the fragmented assistance provided to SME in many other Asian countries. Where there is no overarching agency, SME have to go from one agency to another to obtain various forms of assistance. This is not only inconvenient and costly but also, in some cases the assistance is rendered futile because of government red tape. For example, if an SME is able to obtain a loan from one agency but no technical assistance from another agency, the machinery it intends to purchase may remain idle. Clearly, it is desirable to assign the resources and professional expertise for SME development to a single agency, which while professionally accountable, is detached from government bureaucracy. Such an agency should be given the task of providing the critical forms of assistance to SME, namely, finance, technology, marketing and information. Such an arrangement is preferable to an institutional framework characterized by a proliferation of weak institutions, spread thinly over too many services, with minimal outreach capacity and lacking any real strategic orientation. Too many SME institutions are fiercely independent and are often preoccupied with the protection of their own "turf". The net losers are the SME entrepreneurs who are unable to receive a holistic or coordinated package of assistance.

The Asian experience also indicates that assistance is more relevant and effective if the agency in charge of SME development works closely with the private sector in formulating policies and implementing related programmes for SME development. Unfortunately, all too often, governments in Asian countries not only play a predominant, but in many cases, an almost exclusive role in SME promotion. (The few exceptions are Hong Kong and Singapore). This is rather unfortunate since there are several advantages of involving private sector institutions in SME development. (For details, see J. Levitsky 1993). For example, in Japan and the Rep. of Korea, the governments' Small and Medium Enterprise Agency and the Small and Medium Industry Promotion Corporation, respectively, work closely with the private sector through SME associations to assist SME. According to one study, there were nearly 40,000 SME associations in Japan, with almost 50 per cent SME participation (Castillo and Cortellese 1988: 146). The main tasks of these associations related to joint activities in the areas of subcontracting, purchase of raw materials, financial management and production. In the Rep. of Korea, one of the most active SME associations is the

Korean Federation of Small Businesses, with well over 16,000 members. Its activities involve the co-ordination of subcontracting, collective purchasing and selling, establishing contact with overseas buyers and investors, information services, technology transfer and making policy recommendations to the government.

Unfortunately, in most of the other Asian countries, SME associations are generally weak and cannot even claim to represent the small industry sector. For example, Table 1 shows that most SME associations in Asian countries have only a small staff and operate on a shoe-string budget. Their membership is small and generally unrepresentative of their constituents. For example, there are more than 20,000 SME in Malaysia but there is only one small SME association (Medium and Small Enterprises Association of Malaysia) representing SME in Malaysia and even then, its membership is very limited and is highly concentrated in Kuala Lumpur. Similarly, SME associations in Thailand and Singapore have less than 300 members each (P.L. Chee 1990). In Indonesia, according to R. Clapham (1985: 103), although six special organizations have been set up in collaboration with the national employers' association, KADIN, to represent SME, so far, KADIN and these organizations have had only limited success in appealing to SME and recruiting them as active members. For example in Bali, of a total of 12,557 businessmen registered in February 1982, only about 1,000 were members of KADIN. The reason could not have been the membership subscription fee which was relatively low (e.g. Rp. 75,000 for three years for SME with an operating capital of Rp. 25-75 million). More probably, SME in many Asian countries do not see any advantage in belonging to an SME association if it does not provide any tangible benefit. There may be some truth in this since an examination of the programme of one SME association showed that apart from the organization of one poorly attended trade fair and a few seminars, the association did not seem to be very active. In other countries where SME may be keen to form associations, the governments, fearing that such associations may be used by opposition parties, may not want to encourage the creation of such associations. (For a discussion of this and other problems relating to SME associations, see M. Moore and L. Hamalai 1993).

Whatever the reasons, it is imperative to develop SME associations if government-private sector cooperation is to form the basis for SME development. In the meantime, efforts should be made to mobilise the resources of large enterprises and non-governmental organizations (NGOs) which have a relatively stronger presence in several Asian countries. Several channels for mobilizing such support have been attempted in various countries. For example, SEBRAE (Brazilian Support Service For Small Companies) is a private sector institution established to provide support services for SME. SEBRAE's resources come from the private sector through a statutory levy collected from all Brazilian commercial enterprises'. (For details, see V. Santiapillai 1993). SEBRA may be rather unique and probably cannot be replicated in many other countries but there are other models which may be more relevant, such as EMPRETEC or

Table 1: SME Trade Associations in Selected Asian Countries			
Country/Association	Year of Establishment	No. of staff	Annual Budget (US\$)
<b>Indonesia</b>			
Association of Indonesian Small and Medium-Sized Enterprises	1979	6	33,400
Association of Young Indonesian Entrepreneurs	1972	8	n.a.
<b>Malaysia</b>			
Medium and Small Enterprises Association of Malaysia	1981	2	6,100
<b>Philippines*</b>			
<b>Singapore</b>			
Association of Small and Medium Enterprises	1986	n.a.	n.a.
<b>Thailand</b>			
Small Industries Association	1976	19	11,500
<b>Korea</b>			
Korea Federation of Small Business	1962	235	3,300,00
Korean Association of Small Business Studies	1978	5	32,000
<b>Japan</b>			
General Federation of Small and Medium-sized Enterprise Associations	1961	4	116,000
Japan Federation of Smaller Enterprise Organization	1948	6	379,000 (Project costs only)
National Association for Promotion of Subcontracting Enterprises	1979	9	804,000
National Federation of Small Business Associations	1956	52	6,366,000
National Small Industry Mutual Benefit Foundation	1966	30	145,186,000
Small and Medium Enterprises Management Consultants Association of Japan	1954	13	3,300,000

\* There is no SSB association in the Philippines. SSB are represented by various industry associations, such as the Metalworking Industries Association of the Philippines, Inc. Source: P.L. Chee 1990/FAMD 1987.

the Enterprise Promotion Centre in Singapore. EMPRETEC is a business development agency pioneered by the United Nations Centre for Transnational Corporations (UNCTC). Its objective is to mobilise private sector support for SME development by providing a comprehensive range of services such as technology and subcontracting. In Ghana, EMPRETEC functions as a business development agency sponsored by the United Nations Development Programme, Overseas Development Administration (ODA) of U.K., UNCTC, Barclays Bank of Ghana Ltd., and the National Board for Small Scale Industries of Ghana. (For details, see A. Kyerematen 1993). In Singapore, the Enterprise Promotion Centre (EPC) was established in 1989 to coordinate the efforts of local business groups. Supported by a three year grant of S\$5 million from the Economic Development Board, seven local chambers of commerce and industry associations, EPC reaches out to SME by acting as the consultancy arm of the chambers of commerce and industry associations. (For details, see G. Abraham 1992).

Apart from private enterprises, NGO may also be mobilized to supplement government assistance for SME since there are a large number of NGO in many countries. For example, Indonesia has 22 NGO working on SME development. Similarly, Philippines also has several NGO involved in SME promotion such as SERDEF (Small Enterprises Research and Development Foundation), Philippine Volunteers Foundation (PVF) and the Philippine Business for Social Progress (PBSB). (For details, see Technonet Asia 1989: 20 and 277. For a discussion of the role of NGO see R. Hunt 1987: 167-186). There are also several NGO at the regional level which devote some of their attention to SME. These include Technonet Asia, Asian Productivity Centre and the Asian Institute of Management. Nevertheless, NGO cannot compensate for the stymied development of SME associations.

In any case, the weak organization of SME has prevented them from setting up any organization at the subregional level such as the equivalent of an ASEAN Chamber of Commerce and Industry (ACCI). Two exceptions may be mentioned. One is the ASEAN Handicraft Promotion Association (AHPA) based in Bangkok and the other is the World Assembly of Small and Medium Enterprises (WASME) based in New Delhi. AHPA however, is restricted to handicrafts and not all SME while WASME is not a federation of SME associations, but an international non-governmental confederation of governmental and non-governmental bodies concerned with the promotion and development of SME in the member countries.

In view of the asymmetrical and unidimensional institutional framework for SME development in many Asian countries, government SME agencies greatly overshadow those in the private sector where there are, at most, only a few SME associations or organizations. Moreover, many of the latter are small and their functions are severely restricted. More significantly, there is little interaction between the public and private sector SME bodies. Both parties function largely in isolation from each other. The reason for the above situation is obvious. Since SME institutions in the private sector are weak and not at all representative of SME in the country, the government does not see any need to cooperate with these institutions, either in planning or implementing SME programmes. At the

same time, in the absence of a strong and representative SME association, the views of SME, especially in relation to their needs and problems are seldom presented directly to the government. Instead they are often filtered indirectly through academics or chambers of commerce whose interpretation may be distorted, albeit unintentionally.

Large enterprises, all over Asia, on the other hand, have a number of strong and representative associations to communicate directly to the government. In several Asian countries, the governments have also established joint public-private sector consultative bodies to establish a regular channel of communication. These consultative bodies are generally restricted to private sector representatives from large enterprises. For example, the private sector representatives in the Joint Private-Public Sectors Consultative Committee in Thailand comprise the Thai Commerce, the Thai Industrial Council and the Thai Banker Association. The voices of large enterprises are also heard clearly at the subregional and international levels such as through the ASEAN Chamber of Commerce and Industry and the International Chamber of Commerce and Industry. Obviously, this is an important advantage which large enterprises have over SME.

The problem is neatly summed up by R.Clapham (1985 : 101) who stated that "negative effects on the development contribution of small and medium enterprises derive from the fact that they and their interests are not, or at least not sufficiently, represented by institutions in society." As a result of the lack of SME representation, several SME agencies in Asia have not given adequate attention to the needs and problems of SME in their work programmes. For example, industrial promotion programmes are introduced without taking adequate account of the interests of SME while the national education system and occupational guidance provisions often jeopardize the supply of qualified manpower for SME by placing emphasis on training a labour force for large enterprises and the public administration.

To sum up, as stated earlier, Asian government SME agencies operate most effectively when they cooperate with the private sector while those which are less effective tend to operate like government departments and formulate policies and programmes in isolation from the private sector. These agencies not only fail to cooperate with private, especially the large enterprises, they also tend to ignore non-governmental organizations, including SME associations. In fact, some of these SME agencies even adopt an adversarial attitude towards large enterprises by reserving certain products for SME production. Such a policy is short-sighted since harmonious cooperation between small and large enterprises forms the basis for subcontracting which has been shown to be one of the most effective means of promoting SME as indicated in Japan. (See for example, S. Watanabe 1974 and Go Iawaki 1992). Similarly, promoting SME associations will not only help to develop self-reliant SME but also involve SME in their own development.

#### **4. SME Development Programmes**

SME development programmes generally fall into three categories: stimulatory, support and enhancement activities. Stimulatory activities seek to stimulate entrepreneurship and include entrepreneurial education, identification of potential entrepreneurs, and motivating entrepreneurs through the provision of economic insight and managerial skills. Support activities are the most common element in most countries' SME promotion programme. These assist entrepreneurs in establishing and operating their enterprises efficiently. Major support activities relate to finance, technical and training assistance and marketing. Finally, enhancement activities strive to transform traditional SME which produce low price and low quality goods for a parochial market using traditional techniques and organization of production into modern SME which have the potential to grow into large enterprises, producing high quality and high value added products for the export market, using modern techniques of production and organization.

An analysis of Asian SME programmes show that most of them focus on support activities. (See for instance, P.L. Chee 1992: ch. 5. For a general discussion, see Neck and Nelson (eds.) 1987). Some attention is paid to stimulatory activities while enhancement activities are the exceptions rather than the rule. While support and stimulatory activities might be appropriate for developing countries at an early stage of development, it would appear that there is a need for most East and Southeast Asian countries to shift the focus to enhancement activities. Enhancement activities are required to develop a dynamic and modern SME sector in those countries, such as Malaysia and Thailand, which aspire to achieve Newly Industrialized Economy (NIE) status within the next decade or so.

Enhancement activities generally focus on an elite group of SME which have been carefully selected for their potential to export and develop into large enterprises. Such activities have been successfully pursued in Taiwan Province of China where the objectives of SME promotion are modernization, export and competitiveness. In order to achieve these objectives, the Medium Small Business Association (MSBA) in Taiwan Province of China provides various forms of enhancement assistance. The most important is assistance for modernization, that is to encourage SME to move from a traditional form of family operated business to a more professional form of management using modern management techniques and hiring competent non-family members instead of relatives at the executive level. In addition, financial and technical assistance are provided to upgrade industrial operations in order to enable SME like ACER, KENNEX, CalCOMP and Kingtel to compete in the world market. Finally MSBA provides comprehensive and timely market information to SME since experience shows that few SME have the resources to access such information which is extremely important in a constantly changing global environment.

Analyses of the Asian experience in SME development also shows that most Asian countries fail to apply strict and proper screening procedures on prospective SME who apply for assistance. Consequently, assistance is sometimes provided to SME which have little potential for modernization or self-reliance. The result has often been the dilution of the SME programme over a wide universe. Thus it may be desirable for countries to focus their SME programmes on an elite group of SME rather than to disperse the limited resources available to all SME.

Another deficiency in some Asian SME programmes is the failure to incorporate private sector participation. For example, the foster father (bapak angkat) programme in Indonesia which is designed to stimulate ancillary links between SME and public enterprises would have been more successful if it had also tried to promote such links with multinational corporations. Both Singapore and Thailand are attempting to create this linkage through their Multi-National Corporations-Local Industry Upgrading Programme (MNC-LIUP) and BUILD programmes respectively. In both cases, the aim is to develop and strengthen SME so that they could serve as suppliers to MNCs for the mutual benefit of both parties.

## **5. Overall Policy Environment**

Policies for SME development will achieve little progress unless they are situated within an overall policy environment which is conducive to the growth and development of private enterprises. Thus although vast amounts of resources have been committed to SME development in some Asian countries such as India and the Philippines, they do not appear commensurable with the results. In fact, after more than four decades of development efforts, there is little indication that either India or the Philippines has a modern or dynamic SME sector.

On the other hand, Taiwan Province of China, which only started its SME promotion programme in 1980, has succeeded in developing one of the most modern and dynamic SME sectors in the world. While several factors may explain the differences, a major factor may be attributed to the overall policy environment. While Taiwan Province of China has adopted an export-oriented policy, India and the Philippines have pursued an import substitution policy.

More importantly, the policy regime in Taiwan Province of China at present does not discriminate against SME as severely as the one in many other Asian countries. In fact, the Taiwanese experience provides an interesting case study of the impact of macroeconomic policy on the development of SME.

After the Second World War, like SME all over the world, those in Taiwan Province of China faced similar problems, most of which arose from a lack of working capital, a low level of technological expertise and a lack of information. Unfortunately, unlike some other Asian countries, the authorities in Taiwan

Province of China paid little attention to the needs of SME. Instead, public policy in the 1950s and early 1960s focussed on promoting industrialization through import substitution. Nevertheless, the development policy adopted in the early postwar period, as well as the changes in policy introduced in the early 1960s, had an important indirect impact on SME. For example, as Sam P.S. Ho (1980: 88), pointed out, because they helped to influence the economic environment within which SME operated the general development policy of the authority had a considerable indirect impact on SME. The first subperiod (1958-63), when import substitution was emphasized, provided an opportunity for many SME to emerge in industries that relied on relatively simple technology and where the initial required capital was not large. Thus public assistance was not critical. However, the first subperiod was also one during which the government relied heavily on administrative devices to implement its policies. For example, credit and foreign exchange to buy raw materials and capital goods were rationed by public agencies. Since large enterprises were better able to deal with bureaucratic procedures such direct controls generally favoured the large over SME. In addition, SME were also discriminated against by the banking system.

Fortunately, the lack of bank credit was not an insurmountable obstacle to the development of SME in Taiwan Province of China since funds were available from non-institutional sources, albeit at a higher cost. Other forms of public assistance also discriminated against Taiwanese SME. For example, numerous institutions were created by the authority to facilitate the dissemination of industrial technology and to improve managerial and technical skills. However, with the exception of Taiwan Handicraft Promotion Centre, the rest served primarily larger enterprises. Up to the end of the 1970s, there was no organization in Taiwan Province of China which specialised in providing managerial and technical training to SME. Not surprisingly, as a result of various forms of discrimination, especially in the first subperiod, SME in Taiwan Province of China probably found it difficult to grow beyond the smallest size.

In the more outward oriented second subperiod (1963-75), the authority relied less on direct control and more on prices to implement its policies. Thus, for example, interest rates and foreign exchange rates were permitted to move to more realistic levels and to play a larger allocative role. Increasingly, tariffs rather than direct controls were used to limit imports. At the same time, the authority sponsored the Taiwan Handicraft Productivity and Trade Centre to facilitate product development and marketing services to firms producing handicrafts for exports. Most of the beneficiaries were SME.

More significantly, when the outward-oriented policies altered the incentive framework in favour of exports, SME suddenly found that they had a much larger potential market. Since the outward-oriented policies favoured the export of labour-intensive products, SME also found their competitive advantage. However, in order to export, SME had to meet a new challenge: meeting more stringent design and quality standards. Fortunately for the Taiwanese SME help



came from foreign trading companies which provided a more effective form of assistance than any public agency, (not that there was any significant form of assistance outside the handicraft sector). These foreign companies provided the designs, the quality specifications and assisted SME in Taiwan Province of China to meet the export standards, in ways similar to the assistance provided by large enterprises to SME in Japan under the subcontracting system.

The above arrangement helped the modernization and growth of SME in Taiwan Province of China. This may be easily seen in the data which show the annual growth rates of manufacturing employment by size of plants in Taiwan Province of China for the period, 1954-1971. The data show that firms of all sizes grew by 8.6 per cent during the period 1954-71 (Sam P.S. Ho 1980:90). Plants employing 50-99 workers however grew by 10.3 per cent while those employing 100-499 workers grew even faster, by 13.5 per cent. More interestingly, the data also show the impact of Taiwan Province of China's inward and outward-oriented policies on the growth of SME. The data show that SME were adversely affected by the discriminatory policies of inward-oriented policies during the first subperiod but benefitted significantly from the more even-handed outward-oriented policies pursued during the second subperiod. Consider, for example, SME employing 50-99 workers which showed a growth rate of only 4.4 per cent in the first subperiod, compared to 14.4 per cent in the second subperiod.

The differential impact of macroeconomic policies in other Asian countries may not appear to be so obvious but even then, they do affect SME, generally in an adverse manner. This is true not only of policies implemented at the national but also at the local level.

Consider for example, the zoning policies applied by local authorities in many countries. The basic aim of these policies is to separate residential from industrial areas. While the aim is laudable and does not discriminate against enterprises in terms of size, in practice, it is generally SME which suffer most from the zoning regulations. Such regulations have the most severe impact on SME because of their inadequate capital and the limited geographic nature of their markets. Due to inadequate capital, a number of SME often first set up shop in a residential area. Initially, local authorities tolerated their existence but as the town developed, regulations were subsequently tightened up and more strictly enforced. At the same time, the local authority failed to appreciate the locational problems of SME and failed to provide alternative sites before evicting those enterprises. As a result, a number of SME, particularly in the larger towns in many Asian countries have seen their business disrupted, and in some cases, forced to close shop. In those rare instances where the local authorities were considerate enough to provide alternative sites, such locations were either too far from the SME's major customers or they were too expensive. In fact, the locations offered may even do more harm than good for the affected SME because they may entice SME away from their market. (In many cases, it has been found that industrial estates, generally subsidized by public funds, are

occupied by a larger proportion of large, rather than small enterprises. For example, an analysis of industrial estates developed with government assistance in Shah Alam and Senawang in Malaysia showed that SME in those two towns were allocated only 22 per cent and 19 percent of the total available sites in the two towns respectively (P.L. Chee 1986).

At the national level, biases against SME are most evident in the areas of fiscal, monetary, trade, government regulations and procurement policies. Firstly, fiscal incentives to encourage the development of industries often attempt to link the value of such incentives to the level of investment. This implies that larger enterprises (in terms of investment) would receive greater benefits. Apart from fiscal incentives, the tax structure in several Asian countries also imposes a penalty on the operation of SME. For example, the sales tax in Thailand used to favour vertical integration in the production process, and hence, larger enterprises. (For details, see M. Krongkaew 1988.) Similarly, in Singapore, some SME complain that increases in the foreign worker levy are affecting the viability of their operations. (The levy which was imposed to discourage the employment of foreign workers was raised from S\$250 to S\$300 in August 1990).

Apart from the fiscal burden, which is the amount of tax that SME actually pay, B. Levy (1993: 74) observes that SME also have to bear the bureaucratic burden, which is the cost to SME of dealing with government agencies, especially the opportunity cost of entrepreneurial effort diverted away from wealth-generating activities. The size of the bureaucratic burden is inversely proportional to the agencies' efficiency. Since governments presumably do not impose bureaucratic tasks only to torment entrepreneurs, the bureaucratic burden is produced jointly with the fiscal burden - or jointly with some other public task. It is likely to be disproportionately large for the smallest enterprises - in part because its fixed-cost elements are invariant with firm size, and in part because large, but not small, enterprises can hire managers to handle dealings with government officials. Even as a fixed cost, the bureaucratic burden can inhibit the expense of operating enterprises that are too small to hire a manager. With entrepreneurship complementary to other inputs in production, a reduction of bureaucratic costs would free up the entrepreneur's time and lead to a downward shift of both fixed and variable cost schedules.

Secondly, SME also suffer from the trade policies in several countries. Protectionist policies adopted by several developing countries have led to the introduction of high import taxes and over-valued exchange rates to support the growth of their local industries. This has led to higher prices for imported goods and improved the competitive position of local suppliers - especially large firms since the local production substituting for the capital-intensive imports also requires a relatively high amount of capital and a corresponding firm size. This means that SME with its relatively labour-intensive production is discriminated by the above mentioned trade regime.

For example, according to Bruch and Heimenz (1984), a comparison of the structure of effective protective rates and the size distribution of enterprises in ASEAN countries reveals that effective protection tends to be particularly high in industries where SME shares in production are relatively low. Their findings also show that the structure of effective protection in the ASEAN countries, except for Singapore, is biased against not only against certain industries, but also against SME within individual industries. The authors explain that in most cases, the present system of protection is not so much a reflection of deliberated policies in accordance with clear objectives, but rather the result of a case-by-case approach to the setting of tariff rates. Due to their relative importance and easier access to influential administrators, large enterprises are likely to be more successful than SME in arranging government protection against external competition. Since protection is granted against imports of specific products and since manufacturing industries produce a number of different products, large enterprises may be able to arrange protection but SME in the same industry may not, if large and small enterprises differ with respect to their production mix.

Another example of fiscal discrimination against SME are tax concessions granted for the import of new technology and machinery. For SME, used machinery is often better suited and more cost-efficient, but tax concessions are often not granted for the import of such machinery. Generally, high tariffs on machinery, spare parts and accessories deprive SME of the opportunity to expand, modernise and learn new technology.

Thirdly, in many countries, intensive purchasing makes the government a major or dominant buyer of a wide range of goods and services. The government's purchasing activities inevitably discriminate, albeit unwittingly, against SME. Usually, governments do not buy or give out tenders to any particular group of firms; still its policy tends to favour large enterprises. The reason is that in the interests of administrative efficiency, and in the search for economies in purchasing, government purchasing agencies tend to place their orders in relatively large amounts at a time, and often by selective tender. Bulk purchasing and selective tender favours large enterprises, so SME are generally left out of the lucrative government purchasing business.

SME suffer most at the hands of government regulations and bureaucracy. SME with their limited information base and management capacities suffer from bureaucratic procedures in public administration and a complex legal environment (registration and licensing requirements, business regulations, tax schemes, etc.) For example, up to the mid-1980s, SME found that starting a business in the Rep. of Korea was not only financially but also administratively difficult: the local legislation required at least 300 documents (P. Regnier 1992: 114). (Apparently, the situation is not much different in Africa. According to C. N. Ngwasiri (1993: 3), "the cumbersome nature of (bureaucratic) requirements, the financial burden and the time it takes to fulfil them constitute serious barriers

to a vast majority of Cameroon entrepreneurs who have thus been forced to seek refuge in the informal sector."

Usually, large enterprises find it much easier to deal with government red tape because they have the capability of employing staff specialised in these matters. With their know-how on administrative regulations and procedures, large enterprises are able to work more efficiently than SME busy with all the management tasks of their firms. In this context, one can speak of "administrative economies of scale." Therefore, as a ZDH-Technonet Asia's study (1993) rightly points out, a complicated bureaucratic and time-consuming public administration will cause additional problems for SME. In fact, excessive paper requirements for securing business licenses, registration and permits are the bane of all SME since they generally have a very small administrative staff.

In addition, cumbersome licensing requirements and ubiquitous enforcement create substantial opportunities for officials to extract side payments from even the smallest SME. For example, in Tanzania, licenses must be renewed annually. Although the fee is modest and is calculated on a sliding scale according to the size of the enterprise, each renewal is dependant on a host of prior clearances. In the best of circumstance, obtaining clearances and renewals eats into the scarce time of the proprietor. In circumstances in which not all clearances have been obtained, the proprietor is at the mercy of the licensing official. Although incomplete compliance has not been used to obstruct entry or to shut down enterprises, it is a vehicle for officials to extract side payments. According to B. Levy (1993:75), 7 of 13 interviewees reported that "lubrication" is needed to complete license formalities each year.

Certain government regulations which may have a laudable objective such as employment or product quality regulations may have an adverse impact on SME. For example, in some countries all employers are required to grant maternity leave to their female workers. If an SME employs six female workers, and three go on maternity leave, the enterprise will lose half its operating capacity. Similarly, product quality standards which may be relevant to an export-oriented economy, when applied discriminately to goods meant for local consumption may drive some SME out of business. This may be seen in the Malaysian pineapple canning industry where regulations discourage the entry of small, less capital-intensive enterprises. More common examples include regulations which stipulate that food should not be sold unpackaged if the "premises" on which the food was sold did not have a wash basin and toilet attached. (P.L. Chee forthcoming. For a general discussion, see M.S. Salazar Jr. 1991).

Business conditions for SME may also be influenced by government policy in other ways. For example, in many Asian countries where there is excessive state involvement in the economy, the opportunities for gaining entrepreneurial experience are limited. A great deal of economic activity in these countries is in the hands of parastatal enterprises, or subject to licensing and controls. These

state enterprises pre-empt many business opportunities for SME by monopolizing their particular sectors.

## **6. Lessons for Africa**

Granted that Asian economic and social conditions may be quite different from those in Africa, several lessons may still be learned from Asia's national policies for SME promotion. The application of such lessons, however, will have to take into consideration differences in resources and overall conditions in the different regions concerned. At the same time, what succeeded in Asia may not necessarily succeed when it is transplanted to Africa. Nevertheless, some general principles of SME promotion may be drawn from the Asian experience and these may prove more universally applicable than otherwise expected.

Firstly, it may be useful for African countries to review their SME policy objectives to determine if such objectives are interrelated and complementary and to incorporate these objectives into the policy agenda of the government. While most African countries, at their present stage of development may wish to focus on encouraging new and self-sustaining SME, the need to develop modern export-oriented SME which will enhance overall economic efficiency should be kept as a long-term objective.

Secondly, African countries which have a proliferation of SME agencies providing fragmented assistance should consider the need to consolidate their assistance under a single agency, such as in the Rep. of Korea, Taiwan Province of China and Japan. African countries should avoid the mistake made by many Asian countries of creating a lopsided SME infrastructure with minimal private sector participation. Although the Government has a major role to play in SME development, especially in Africa where the various services required by SME are inadequately provided by the private sector, it is imperative to mobilise the private sector's support to complement the Government's effort. For this reason, every effort should be made to develop strong and representative SME associations and encourage the activities of NGO. (In this context, it may be useful to refer to the ZDH-Technonet Asia Partnership Project for promoting private sector institutions for small business development. For details, see H. Waesch 1993). Ideally, the government should recognize the private sector as an equal partner in the development process. Admittedly this will not be easy. Even in Asia, few governments (Japan, the Republic of Korea and more recently Thailand) have accorded a significant role to the private sector in the formulation of government policies. In addition, private sector institutions and donor agencies which are keen to assist SME in Africa should be encouraged to coordinate their activities. The participative approach to SME development which has been adopted by Kenya may be usefully emulated by other African countries. (For details, see I. Onyango and J. Tomecko 1993). African countries can also learn a useful lesson from those Asian countries which have succeeded

in encouraging SME to form linkages with their large-scale counterparts. The focus of all these efforts should be to enhance the access to credit and technology and improve the quality of entrepreneurship for SME. The capacity of local pressure groups should be strengthened so that they will be able to influence policy changes.

Thirdly, African countries may wish to review their macroeconomic policies to ensure that these do not inhibit or obstruct the development of SME but instead provide a conducive environment for SME to develop and expand. The Asian experience shows that while government assistance is a necessary, it is not a sufficient condition for success in SME promotion. For example, governments in several Asian developing countries, such as India, Malaysia and the Philippines have expended enormous resources on SME promotion with little effective results. In the case of India, SME development was based on the premise that SME required a whole range of subsidized services. This misguided premise and the government's overall restrictive policies on trade and investment seems to have succeeded only in keeping SME small and discouraging them from taking the road to modernization. (For details, see I. Little et. al. 1987.) Consequently SME in India are among the most inefficient in Asia, contributing their problems to an equally inefficient economy. (The Indian model of SME development was adopted with the same unfortunate consequences in Kenya. For details, see I. Onyango and J. Tomecko 1993). In Malaysia, government policy on SME promotion takes on a social dimension and tends to focus on selected SME which do not necessarily have the potential for expansion or modernization. Malaysia tried to use SME promotion as an instrument to achieve certain social objectives which could have been more effectively attained using fiscal or other macroeconomic measures. More importantly, in countries like India, even if the resources for SME promotion had been adequate, SME did not have a conducive climate to thrive and prosper. Other countries like the Philippines not only persisted in pursuing a policy of import substitution but also lacked a competitive environment by creating monopolies or favouring selected firms (generally large). More specifically, any economy which is presided over by "lords of privilege" using political influence to acquire profit generating advantages to ward off competition cannot possibly provide a favourable environment for the development of SME.

An enabling policy environment for SME promotion is one where the government and society provide strong incentives to encourage entrepreneurs to establish their own businesses, including relatively easy access to various sources of financing. Such an environment would also enable the entrepreneur to prosper by not having to pay a large proportion of his profits in taxes. In fact, the easiest way to discourage entrepreneurship is to tax it out of existence. For example, before adopting its policy of 'doi moi' (renovation) Viet Nam used to impose such punitive taxes on private restaurants that practically all such restaurants were forced to cease operation. Fortunately, since the implementation of the 'doi

moi' policy, the Government of Viet Nam has introduced a more liberal policy for SME within the broad framework of its transition to a market-oriented economy. Economic reforms and deregulations have created a more open and competitive environment for the private sector in Viet Nam. As a result, the results have been astounding. Prior to 1986, there were hardly any private enterprises in Viet Nam and business activities undertaken by state enterprises even in a major city like Hanoi generally ceased operations every day after 5 p.m. Nowadays, there is a proliferation of SME all over the country, especially in Hanoi and Ho Chi Minh City where business activities continue late into the night, seven days a week. (However, SME in Viet Nam still fall mainly into the smaller category, employing less than 20 workers. Since experience in other countries indicate that the development of a dynamic economy can only be realised when there are enterprises of different sizes, Viet Nam is now trying to encourage the expansion of its SME into larger units. For this purpose, the government has set up a Centre For Management and Entrepreneurship Development. For details, see Pham 1992).

Administrative procedures and regulations pertaining to SME should be promotional in nature. For example, licensing should encourage rather than restrict growth, while taxes should be simple to determine and easy to pay. Procedures or regulations which create barriers for SME which wish to start operations or cause problems for existing SME should be simplified or eliminated. Although deregulation will benefit the entire economy, SME will benefit most, since they are least equipped to cope with regulations, both from a financial and human resources point of view. Thus deregulation will facilitate the operations of SME and enhance the enabling environment for such enterprises. For example, the simplification of income tax payment procedures, such as those introduced in India will be a boon to SME in many other countries. Under the new rules, selected SME in India can now pay income tax of only Rs 1400 a year by filing a simple form at the nearest bank. The SME is not required to file an income tax return or visit an income tax office or even maintain detailed accounts. After paying the stipulated amount of Rs 1400, the SME is free from any inquiry from the income tax authority.

A useful way of reducing the barrier to entry for SME is to append non-opposition clauses for the application of licenses or permits for SME. Such clauses imply that after submitting an application, the absence of reaction on the part of the government agency concerned entitles the SME to assume that his application has been approved. Such a reform will reduce the amount of time it takes for SME to begin operations in countries where administrative barriers are formidable obstacles.

Another essential feature of a conducive environment for SME promotion is a highly competitive environment. No enterprise should, simply by virtue of its size, enjoy any special status in the economy, especially protection. The assumption that SME cannot survive without any significant government support

has to be examined carefully. Otherwise SME will tend to maximize returns from assistance programmes rather than learn how to succeed in business. These circumstances will attract opportunists, who because of their affiliations, are able to access large loans and other subsidized facilities.

The Indian policy of reserving certain products for SME production has only succeeded in encouraging SME to remain small and inefficient. The best strategy is to adopt an even-handed policy on enterprises of all sizes, neither discriminating in favour of SME as in India or in favour of large enterprises as in the Republic of Korea. The Indian and Korean policies tend to pit one size of enterprises against another when the objective should be to encourage cooperation between small and large enterprises. Such cooperation is necessary if subcontracting is to be encouraged. As the Japanese and Taiwanese experiences show, subcontracting, whether on the local or international level, provides the ideal mechanism for promoting SME. Under the subcontracting system, minimal government resources are needed. At the same time, mutual interest induces both small and large firms to work closely and harmoniously to ensure the success of their common enterprise.

Furthermore, the state should re-orient its role, from direct control of production and marketing to a facilitator of private sector operations. Allocation of resources should be determined by market forces instead of government guidelines.

SME have tremendous resilience and adaptability and can survive under adverse conditions. They are forced by the laws of Adam Smith and Charles Darwin to stay lean to survive. SME are also imbued with a fearless spirit, "like new born calves which are not afraid of tigers." In addition, SME have ambition, creativity, innovation and a great deal of experience derived from coping with difficult situations. Given such attributes, SME can prevail even if there were little or no government assistance. But unfortunately, few of even the hardiest SME can survive a restrictive government policy. Thus the least, the government can do, is to leave SME alone. A conducive climate will be more than adequate to ensure the survival of SME. But for SME to expand to become large modern enterprises, some government assistance may be necessary.

Finally, Africa should avoid Asia's mistake of formulating and implementing policies on SME without any careful assessment and analysis of the experiences of other countries. African countries can gain significantly from an exchange of information and experience in SME development and there are significant benefits from regional cooperation in SME development. (For details, see P.L. Chee 1984). Regional cooperation in SME development can enhance national efforts in promoting SME. Such cooperation can take place not only among African but also between African and non-African countries and will be beneficial in the areas of financial, technical, training and marketing assistance. More specifically, African and Asian countries can cooperate with each other in



developing innovative approaches to SME development. Since many countries are now aware that the traditional approach to SME development based on "top down" maximum government involvement and minimal private sector participation is no longer effective; that competition rather than protection provides the best stimulus for entrepreneurship and SME development; that cooperation between SME and large enterprises is essential for the harmonious development of all sizes of enterprises. The search has begun for innovative approaches and instruments for SME development. (See for example, R. Meier 1993, Technonet Asia 1988 and ZDH-Technonet Asia 1993). Innovative concepts which are now being tried out in several Asian countries include franchising, industrial incubator schemes and venture capital financing. Since the franchiser can provide useful "hands-on" experience during the critical phase of starting up a business, franchising is increasingly seen as an effective tool for promoting entrepreneurship (P.L. Chee 1993a). Thus, in Malaysia for example, the Government has established a Franchise Development Division in the Prime Minister's Department to identify, facilitate and "match-make" franchisers/franchisees who are interested in franchising. (For details, see Z. Othman 1993). Similarly the industrial incubator scheme is aimed at providing integrated facilities to young and growing enterprises to allow them to grow in their initial development or expansion phase. (For details, see A. Zawawi Ali 1993). In view of the financial constraints facing SME, innovative financial schemes have been developed facilitate SMEs' access to capital. One of these, venture capital financing, has expanded rapidly in the Rep. of Korea. (For details, see Y.J. Park 1993. For a discussion of other innovative financing schemes for SME see J. Levitsky 1993).

In conclusion, after World War II, several Asian countries such as the Rep. of Korea and Taiwan Province of China were among the poorest economies in the world. With a large population and little natural resources, the prospects for development in these countries were bleak. Yet within a space of less than three decades, the Rep. of Korea and Taiwan Province of China had attained the status of newly industrializing economies with a per capita income which is among the highest in the developing Asian region. Not only that, today these two Asian NIEs have become the world's largest exporters of shoes, umbrellas as well as computers, electronic calculators, telephones and computer terminals. The efficiency of the manufacturing sector in these two Asian NIE, is due in no small part to a highly developed SME sector which has achieved its present level of development through a combination of effective public promotion and conducive policies. While even large firms in the developed countries are experiencing severe problems during the present period of sluggish global economic activity, the prognosis for Taiwanese and Korean SME is much better. Several of them are being transformed into modern SME, far removed from the classic stereotype SME, dependent on labour-intensive, outmoded technology and a low pricing policy to remain competitive. Instead, the modern SME in Taiwan Province of China and the Republic of Korea have moved away from the traditional, often

chaotic, family-centered firms of their forefathers to form operations using the modern system of management and technology and even expanding their reaches to neighbouring countries, such as Viet Nam, the Philippines and Malaysia. Clearly, there is a useful lesson to be learned from the Asian experience.

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