

PD-AAW-568
52720

Evaluation Report

ASEAN-US Small and Medium Business Improvement Project

AID Project No. 498-0277

Jay R. Nussbaum
James W. Dawson
Anwar Hafid
Carmen E. Santiago

May 12 - June 25, 1987

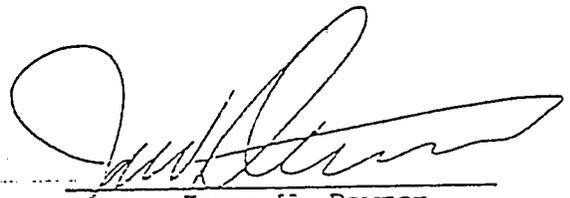
June 25, 1987

To The ASEAN Regional Development Officer, Manila

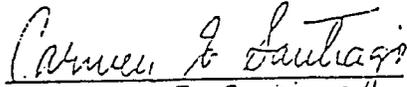
We transmit herewith the Final Report of the Evaluation of the ASEAN-US Small and Medium Business Improvement Project held in the ASEAN participating countries on May 12 to June 25, 1987.



Jay R. Nussbaum
AID/W, Team Leader



James W. Dawson



Carmen E. Santiago



Anwar Hafid

2

EXECUTIVE SUMMARY

The ASEAN Regional Development Officer (RDO) in Manila initiated the evaluation of the ASEAN Small and Medium Business Improvement Project (SMBI). The evaluation took place in May-June, 1987.

SMBI was a three-year test of the merits of four non-governmental organizations (NGOs). Operating regionally, the NGOs were to help small and medium businesses (SMBs) develop or to identify constraints to SMB development in participating ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand).

1. Technonet Asia was established in 1972 with Canadian assistance to help meet technical training, consultancy and information needs of SMBs as identified by national Participating Organizations (mostly government agencies in trade and industry ministries). The project continued Technonet services to ASEAN SMBs with regional and U.S. experts.
2. The Asian Institute of Management (AIM) was established in 1967 with Harvard Business School technical assistance to train managers of large Philippine and Asian businesses. The project enabled AIM to prepare SMB cases and teaching materials and to test them by teaching SMBs general management principles.
3. The Institute for Southeast Asian Studies (ISEAS) was established in 1963 with Ford Foundation support to conduct contemporary political and economic research on the region. The project enabled ISEAS to conduct research on constraints to development of ASEAN SMBs.
4. The U.S.-ASEAN Center for Technology Exchange (CTE) was established in 1984 with U.S. business community (Chamber of Commerce of the U.S.) and AID support to make U.S. private sector technology available to ASEAN SMBs through training, consultancies and business-to-business relationships.

The evaluation was to determine whether the regional NGOs were cost-effective in promoting SMBs and employment. Effectiveness was to be measured in terms of short term impacts on SMBs rather than institutional development of the NGOs and national cooperating agencies.

Many in-depth interviews with SMB participants were conducted by a Philippine small businesswoman-psychologist to determine impacts on how they do business as a result of project activities. Two AID officers (one active and a designer of the project, one retired) familiar with AID attempts to serve SMBs examined NGO operations. An Indonesian scholar active in SMB assistance appraised ISEAS research in identifying constraints to SMB development.

The evaluation found concrete impacts on SMBs. Participants improved use of technology and/or general management practices. Employment impacts were positive, but macro-economic studies are necessary to measure SMB contribution to national employment targets in each country.

The greatest Technonet and CTE impacts came from hands-on and one-on-one exposure to experts rather than lecture and written materials in formal training sessions.

The AIM case method was not only successful but is apparently superior for teaching general management to SMBs.

Cost bars greater use of U.S. private technology in the ASEAN region. CTE has obtained U.S. private sector cooperation in making some U.S. technology available that otherwise would not enter ASEAN. Competition from other industrial countries cannot be matched without far greater funds than AID has for the ASEAN program.

The ASEAN countries' interest in SMB development has increased over project life. Even Singapore, which was only interested in labor-saving technology at the start of the project, now emphasizes national SMB development over previous stress on growth through hosting large multinational firms.

The NGOs had some problems. Technonet increased dependence on AID funding. CTE had to trim programs to hold down costs of obtaining U.S. expertise. Technonet also made limited use of U.S. experts due to costs. ISEAS encountered delays in editing SMB research for publication. AIM decided that it is not suited to direct instruction of SMBs and will concentrate on training trainers of SMBs.

Some grantee programs deviated from original plans. Required annual reports of progress against or modification of work plans were not submitted. Informal correspondence covered some changes, and no operational problems resulted. However, some program drift was not clear until the evaluation.

Continuing modest AID/ASEAN SMB assistance is recommended. There are benefits from greater NGO (vs. governmental) implementation. Indirect regional policy recommendations may be better received than those at the national level. The ASEAN countries can also profit from sharing their lessons learned in SMB development.

Lessons learned of broad importance are:

- (i) the case method has great promise for teaching SMBs general management principles; and
- (ii) a design team member on an evaluation team can usefully compare original design intent with actual outcome.

BASIC PROJECT IDENTIFICATION DATA

1. Country : ASEAN Region
2. Project Title : ASEAN Small and Medium Business Improvement
3. Project Number: 498-0277
4. Project Dates :
 - a. First Project Agreements:

| | | |
|-----------|---|--------------------|
| ISEAS | : | February 14, 1984 |
| TECHNONET | : | February 14, 1984 |
| AIM | : | March 14, 1984 |
| CTE | : | September 27, 1984 |
 - b. Final Obligation Dates:

| | | |
|-----------|---|-------|
| ISEAS | : | FY 86 |
| TECHNONET | : | FY 84 |
| AIM | : | FY 84 |
| CTE | : | FY 84 |
 - c. Most Recent Project Assistance Completion Dates (PACD):

| | | |
|-----------|---|-------------------|
| ISEAS | : | May 31, 1987 |
| TECHNONET | : | August 31, 1987 |
| AIM | : | May 31, 1988 |
| CTE | : | December 31, 1987 |
5. Project Funding
 - a. AID Regional Funding: \$3,350,000.00
 - b. Private Sector and Project Participants: \$2,000,000.00
6. Mode of Implementation: Grants to ISEAS, TECHNONET, AIM and CTE
7. Responsible AID Officials: (for the full life of the project)
AID/ASEAN Regional Development Officer: Bruce M. Blackman
(1984 - 1988)
8. Last Evaluation : May 12 - June 25, 1987

ASEAN SMALL AND MEDIUM BUSINESS IMPROVEMENT PROJECT

| | <u>Page</u> |
|---|-------------|
| I. The Project Setting | |
| A. AID's ASEAN Program | 1 |
| B. AID Management of ASEAN Projects | 2 |
| C. Role of Small and Medium Business in ASEAN | 2 |
| II. Project Design | 3 |
| III. Project Evaluation | 4 |
| IV. Administrative/Institutional Issues and Financial Status | 7 |
| V. Implications for Future AID Assistance | 8 |
| VI. Evaluation Methodology and Approach | 9 |
| VII. Project Evaluations Findings and Recommendations | 10 |
| VIII. Component Analysis | |
| A. TECHNINET Asia | 14 |
| B. U.S.-ASEAN Center for Technology Exchange | 23 |
| C. Asian Institute of Management | 28 |
| D. Institute for Southeast Asian Studies | 32 |

Attachments:

- A. TECHNINET Asia (A-1 to A-7)
- B. U.S.-ASEAN C.T.E. (B-1 TO B-7)
- C. Abstract of Selected Participant Interview
- D. List of Evaluation Contacts
- E. ISEAS/SIMBI (E-1 to E-3)
- F. Joaquin Cunanan & Co./Price Waterhouse Financial
Management Review of TECHNINET Asia and ISEAS
(AID/ASEAN Regional Office Bulk File)

2

LIST OF ACRONYMS

| | |
|-----------|--|
| AID | Agency for International Development (U.S.) |
| AIM | Asian Institute of Management |
| ANE | Asia Near East Bureau (A.I.D.) |
| APPROTECH | The Asian Alliance of Appropriate Technology Practitioners |
| ASEAN | Association of Southeast Asian Nations |
| CEO | Chief Executive Officer |
| COIME | ASEAN Committee on Industry, Minerals and Energy |
| CTE | U.S.-ASEAN Center for Technology Exchange, Inc. |
| CY | Calendar Year |
| ESCAP | Economic and Social Commission for Asia and the Pacific |
| FDA | Food and Drug Administration (U.S.) |
| FY | Fiscal Year |
| IDRC | International Development Research Centre (Canada) |
| IPPM | Institut Pendidikan Dan Pembinaan Manajemen (Indonesia) |
| ISEAS | Institute for Southeast Asian Studies |
| ISSI | Institute for Small-Scale Industries (Philippines) |
| LPPI | Lembaga Pengembangan Peibankan Indonesia |
| MARA | Majlis Amanah Ra'ayat (Malaysia) |
| MARDI | Malaysian Agriculture Research and Development Institute |
| MBA | Master in Business Administration |
| MEDEC | Malaysian Entrepreneurial Development Centre |
| NGO | Nongovernmental Organizations |
| OJT | On the Job Training |

k

| | |
|-----------|--|
| PACD | Project Assistance Completion Date |
| PD | Project Development |
| POs | Participating Organizations |
| PVO | Private Voluntary Organization |
| RDO | Regional Development Officer |
| SEED | Small Enterprise and Entrepreneurship Development |
| SISIR | Singapore Institute of Standards and Industrial Research |
| SMB | Small and Medium Business |
| SMBI | Small and Medium Business Improvement |
| SMEs | Small and Medium Enterprises |
| STEW | Special Technical Workshop |
| TECHNOIET | Asian Network for Industrial Technology Information and Exchange |
| US | United States |

91

I. THE PROJECT SETTING

A. AID's ASEAN Program

Although the ASEAN nations first met in 1967, AID's ASEAN program began in 1979. ASEAN regional activities developed gradually as the member nations (now Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) decided on areas and mechanisms for cooperation. In the late 1970s, the U.S. joined the ASEAN "dialogue" process. ASEAN designates one member (initially the Philippines, now Singapore) to be lead dialogue partner with the U.S. Other members lead the dialogues with Australia, Canada, the European Community, Japan and New Zealand.

The dialogue includes all topics of interest (political and economic) between ASEAN and the partner nation. AID assistance is a relatively small part of the U.S.-ASEAN dialogue agenda. It started at about \$2 million in 1979 and has been as high as \$5 million a year since then.

Three ASEAN countries, Indonesia, the Philippines and Thailand, each have bilateral AID program levels several times the ASEAN regional program level. The remaining ASEAN countries had no previous AID assistance as they were above income levels for bilateral assistance.

ASEAN has chosen not to establish supranational agencies with which AID could arrange to conduct projects. Instead, AID carries out projects through two kinds of intermediaries. Some projects involve cooperating with a single national governmental entity for activities furthering the development of other ASEAN countries. An example is cooperation in plant quarantine training by sending personnel from other ASEAN countries to study at the Malaysian "PLANTI" facility. Most ASEAN projects, including the Small and Medium Business Improvement Project (SMBI), involve cooperation with non-governmental organizations (NGOs) serving the region.

The ASEAN Foreign Ministers normally meet yearly. Their meetings are followed by conferences with the U.S. Secretary of State and other dialogue foreign ministers. The heads of government meet occasionally as well. A Standing Committee (of foreign ministers' representatives) provides broad continuing oversight of ASEAN activities.

Specialized committees of technical ministries (e.g., agriculture, science and technology) also have general oversight over activities in their areas of responsibility. The SMBI project proposal was separately presented to the five (Brunei was not yet in ASEAN) national members of the Committee on Industry, Mining and Energy -- COIME. National members of COIME were from ministries of trade and industry. COIME subsequently approved the SMBI implementation plan.

ASEAN project approvals preserve the principle of sharing equally among all member countries opportunity to benefit from projects. They also assure that nothing is done contrary to the wishes of any member. The approval process also designates national agencies with which ASEAN projects should cooperate.

COIME has not taken part in implementation. It lacks staff to play an operational role. AID and implementing NGOs advise COIME of project progress from time to time. Operationally, the NGOs deal separately with national cooperating agencies of each country.

There is no ASEAN definition of "small" or "medium" business. Each government has its own definition. The ceiling for small and medium business (SMB) varies from 100 to 500 employees. Some governments also consider capital invested a factor in qualifying as small or medium business. Generally, the project covered businesses with no more than 200 employees.

B. AID Management of ASEAN Projects.

AID has a single Regional Development Officer (RDO) with a small number of local national staff to plan and manage ASEAN projects. The RDO resides in Manila and travels widely in the other ASEAN countries.

Considerable RDO time is spent on communication and coordination with the technical committees, working groups, secretariats (in the foreign ministries) and institutions involved in AID projects. AID's ASEAN Regional Office is not set up to take as direct a part in project implementation as a full AID mission. The use of intermediary NGOs helps manage a number of activities with limited resident AID staff.

Nevertheless the number of units of management is high, usually more than ten, for one U.S. officer. Effective project management is only possible because of able foreign national staff of the RDO. The RDO has also made considerable use of contract and TDY personnel for design and evaluation tasks. To assure that grantee financial accounting practices are adequate, the RDO is also contracting for assistance in financial analysis of NGO practices.

With this management style, the RDO handles a complex program with few problems. The evaluation team does not recommend an increase in staff. We find good development results from a small program. We commend the RDO for success in a difficult management situation.

C. The Role of Small and Medium Business in ASEAN.

Since the early 1980s, AID strategy for Asia and for the three bilateral assistance countries (Indonesia, the Philippines and Thailand) has emphasized non-farm employment. The ASEAN countries (except Singapore) had workforces growing faster than they could be absorbed in agriculture. Emphasis on large industries required too much capital investment for the employment generated. Therefore, AID and the four governments placed greater emphasis than before on developing smaller businesses.

This emphasis intensified since the project began. Adverse world economic trends and mild to severe national economic problems in the cooperating countries increased their interest in SMB development. AID and other donor interest in SMBs has also increased.

Singapore, the exception in the region, initially sought only labor-saving technology transfer benefits from the project. As a labor-scarce country, Singapore still avoids labor-intensive technologies. However, Singapore has increased emphasis on smaller businesses. Before the project Singapore enjoyed rapid industrial growth largely through hosting large foreign businesses. It now seeks to develop more national small enterprises.

II. PROJECT DESIGN

The project was designed on the premise that, while many governments try to promote SMBs, their efforts were not always successful. SMBs do not make much use of programs designed for them. Pro-business national policies often help big business more than small. Therefore, the project was designed to test NGO approaches to SMB development.

When the project was designed in mid-1983, it was not clear how effective the regional NGOs would be. Only one, Technonet Asia, had a proven record of helping SMBs. The Asian Institute of Management (AIM), was proven as a trainer of managers for big business but untried with SMBs. The Institute of Southeast Asian Studies (ISEAS) was the premier social science research institution in the region but only occasionally studied SMBs.

There was also business community (the U.S.-ASEAN Business Council and the Chamber of Commerce of the United States) interest in development cooperation between ASEAN SMBs and the U.S. private sector. This led to the founding of a new NGO, the U.S.-ASEAN Center for Technology Exchange (CTE), in 1984. It was then added to the project. CTE was dedicated to SMB development but was unproven in the field.

Because of these uncertainties, project life was limited to three years instead of the usual five to seven years. An impact evaluation was scheduled for year three to determine whether to continue or modify support of the implementing NGOs. Impact to be measured was effect on SMBs. Institutional development of the NGOs was of secondary interest.

It was assumed that impacts on small businesses would occur soon after development interventions. SMBs have short time horizons. They either accept or reject advice quickly. Evaluation after brief implementation only makes sense if this assumption is valid. As expanded below, impacts on SMBs were readily observable, but macro-economic impacts require more time.

The design did not call for much interaction among the four grantees. Instead they are each to contribute in their own way to overall objectives. Only limited interaction has occurred. CTE has helped Technonet get an American expert (in pasta-making) for one of its technical workshops. ISEAS is working with Technonet to define policy implications of its research studies.

III. PROJECT EVALUATION

Because they operated separately, the NGOs were evaluated separately. Most evaluation results are reported under the components rather than at the total project level. However, some common points were in the original design or have emerged in the evaluation process.

Five overall project objectives were set forth in the Project Paper as evaluation criteria for the implementing NGOs:

1. Serving ASEAN National SMB Development Objectives. All the NGOs served general objectives of increased productivity and employment. Only in ISEAS studies was there specific reference to national development plans. All grantees were to make annual reports relating their progress and plans to national plans, but almost no reports of this sort were made. [There are more comments on reporting problems below.]

2. Impact on SMBs. Technonet had the most direct impact by delivery of technical resources to SMBs. CTE has begun direct delivery of U.S. private sector technology, but seems to serve medium rather than small ASEAN firms. AIM has conducted general management training for SMBs but expects its future impact to lie in training trainers rather direct service to SMBs. ISEAS research is totally indirect by helping make policies and agencies serving SMBs more effective.

The NGOs were to have tracked their impacts but did only cursory follow-up of effects on SMBs trained. These were limited to sending out questionnaires to former participants in training courses. Only a small percentage were returned. These captured only a small part of actual impacts. More follow-up appears indicated, but must be designed with cost considerations in mind.

The in-depth interviews by the evaluation team showed more and different impacts than the NGOs reported. A common reaction to Technonet workshops was that general sessions were only the appetizer, the SMBs benefited most from consultancies and/or plant visits which followed workshops. Conversely, government industrial extension personnel in courses wanted more academic training. Observation of these trends led to specific recommendations for modularizing training to provide segments which better fit needs of different audiences.

Participants want follow-up. This includes help tailored to both technical and general management needs. They also want to continue meeting one another to exchange information and express collective needs to governments. There is scope for optimizing NGO performance by conducting in-depth interviews of their own to find out what their participants need and get.

A basic design trade-off is between reaching more participants through general training courses (workshops) and having greater impact on individual firms through one-on-one consultancies. The evaluation team found the pendulum a bit too far on the side of quantity. We recommend some shortening of general audience courses and increase in SMBs' individual time with consultants.

3. Impact on SMB Employment. Only a few of interviewed participants reported higher employment by their own firms. Many indicated they were still considering improvements or expansion but would effect change only gradually. The gradual approach was attributed to cultural patterns but may also reflect the need to accumulate capital before investing in new or expanded activities.

A number of SMBs reported actual or planned increases in employment. They expected that introducing labor-saving technology would not result in firings but in redeployment of employees. This feeling was strongest in the countries with the greatest rural employment needs. Where possible, these firms want to provide more employment. They cite cultural pressures to "feed more people."

One participant reported in-house production (with more employees) rather than buying from suppliers as a project benefit. It is not clear whether this had a negative effect on employment by suppliers. Expansion was often reported as more likely through new firms under the same owners rather than through expansion of the present firm. There are regulatory and tax reasons as well as cultural reasons for this practice.

There are at least anecdotal indications that the project improved SMB employment. The project is too small to be expected to have macro-economic effects on employment. Macro studies for country strategy development should verify and quantify employment effects of SMB expansion.

4. Cost-Effectiveness of Regional Approach. Evaluation of the components shows outputs were achieved within cost estimates. Some outputs exceeded targets while costs were held below estimates. Savings result from using the same consultants and other inputs to serve several countries. Technonet held some regional workshops which encountered language barriers. Otherwise, all components made better use of resources than on single country projects.

As a regional project, SMBI was able to concentrate on NGOs rather than government agencies. NGOs are certainly cheaper per unit of output than most government agencies. The evaluation also finds NGOs more effective with SMBs.

One Technonet affiliate, APPROTECH, takes a "South-South" approach. This holds that it is more appropriate for developing countries to share technology than to import technology designed for advanced countries. This would be highly unlikely to be tried under a bilateral project.

In the policy arena, the sharing of SMB development experiences should be helpful. Especially useful is sharing in ISEAS low-key scholarly atmosphere. This makes possible analysis of current weaknesses and presentation of alternative policies without defensive reactions.

The regional approach may set some examples for AID bilateral programs.

5. Increased U.S. Private Sector Resources Serving ASEAN SMBs. All concerned found U.S. consultants and other technology sources more expensive and less readily available than other non-ASEAN sources. National cooperating agencies only looked for U.S. sources when their "usual" sources were not available. They also were concerned whether U.S. experts would be suitable for work with ASEAN SMBs.

Only CTE and Technonet were affected by this objective. Technonet used a few U.S. consultants (one with CTE help) and concentrated on more consultancies for the same cost. CTE has reduced costs of U.S. consultancies by obtaining in-kind support from U.S. companies but has had to adjust its planned program to keep costs in line. Both are doing as well as cost considerations allow.

Whether greater efforts should be made and costs incurred to bring in more U.S. technology is a question for those who formulate AID's budget. Competing countries are spending vastly greater amounts than AID can for assistance that exposes ASEAN countries to their private sector technology. For the moment, CTE's cost conscious efforts appear worth continuing, but cost considerations rule out anything much larger.

Another criterion for evaluating CTE and Technonet was the degree of reliance on AID funding. Both anticipated major non-AID support for general administrative costs. The amount of fees paid by SMB beneficiaries would be an indicator of the market value of the grantee's services.

CTE reports cash support from U.S. companies about constant. CTE has limited fee levels in the face of competition from other donor sources. Technonet has slipped in both other donor support and in fee collections. It is also limited by competition. Both institutions should continually seek other sources of support including user fees.

Limited results on the objectives of greater non-AID support and greater use of U.S. technology seem offset by better than expected results in direct impacts on SMBs.

IV. ADMINISTRATIVE/INSTITUTIONAL ISSUES AND FINANCIAL STATUS

A. Reporting.

The various grant agreements (Section D-3 of Attachment I) require the grantees to submit annual progress reports. These are to include workplans that reflect any changes in grant activities and an evaluation of how progress relates to the five evaluation criteria in sections III. 1-5 above.

For all practical purposes these reports have not been made. Other reports cover some of planned activities, but it is often difficult to be sure what is described in the grant is what is actually being undertaken by the grantee. This places an extra burden on the AID project manager and evaluators to determine whether grantee activities are what was originally intended.

While program modifications are required as experience is gained, project records have to reflect these changes. Operational problems have not arisen from the absence of annual reports, but the project may drift into unintended activities if the grantees do not update their plans against agreed objectives. Action should be taken promptly to ensure that grantees comply with grant reporting provisions. If alternate reporting procedures are adopted, these should be formally prescribed in writing.

B. Support of Technonet.

AID generally does not want to become too large a part of a NGO's total funding. Originally AID was a minority supporter of Technonet. Over the past three years AID has become the major support for Technonet. For the year ending March 31, 1987, AID provided approximately 62% of Technonet's total financial support due to a lapse in Canadian (CIDA) support.

This trend indicates a changing institutional relationship which should be clarified before further AID assistance. Technonet agrees that other sources of support should be found and the degree of AID support held down. This is particularly appropriate since Technonet serves a wider area of Asia than just the ASEAN region (although AID project funds go for ASEAN activities).

Technonet seeks more AID funds in FY 1987 to carry on its program until an FY 1988 project extension can be considered on the basis of this evaluation. It has almost exhausted SMI grant funds. During this bridge-funding period, AID should closely monitor Technonet's success in obtaining other donor support. Technonet expects to hear in July, 1987 whether it will receive additional Canadian support (Canada was the founding donor).

C. Financial Summary.

As of their most recent vouchers in June, 1987, grantee use of SMBI funds was as follows:

| <u>Grantee</u> | <u>Obligated</u> | <u>\$ (000)</u> | <u>Actual</u> | <u>Percentage</u> |
|----------------|------------------|-----------------|---------------|-------------------|
| Technonet | 1,200 | | 1,160 | 97% |
| C.T.E. | 1,000 | | 580 | 58% |
| A.I.M. | 865 | | 355 | 41% |
| I.S.E.A.S. | 285 | | 234 | 82% |
| T O T A L | 3,350 | | 2,329 | 70% |

V. IMPLICATIONS FOR FUTURE AID ASSISTANCE

The four grantees under this project fall into two basic categories: AIM and ISEAS are basically supportive of SMB development, and CTE and Technonet are more delivery oriented. The first two had reasonably definitive objectives, and both made substantial progress toward their achievement. It is easier to project levels of assistance they require to reach their initial or modified objectives.

A. ISEAS has to complete editing and publication of the remaining draft research studies to convey their major findings to ASEAN policy-makers. The unexpended grant funds (\$51,243) appear adequate for this purpose. However, about a yer's extension of the grant will be required to complete this work.

B. AIM has developed most of the required country-specific case studies and has tested the case study approach through workshops in four of five countries. However, AIM has concluded that it is not the most effective organization to train SMBs directly (at the "retail" level). A more effective role is as a trainer-of-trainers (at the "wholesale" level).

This coincides with host country organizations' desire to be more active in both the development of the case studies and in the actual instruction of the case study approach. This will require AIM to devote more future effort to training cooperating organization staffs in the basic case study preparation and methods of instruction.

The evaluation team strongly supports this modification and recommends that AIM begin to move in this direction as soon as possible. The rather sizeable unexpended balance of AIM grant funds (\$445,151 as of March 31, 1987) is sufficient to achieve a large portion of this modified objective. At a minimum they appear sufficient to fully complete the process in Singapore and Malaysia, achieve substantial progress in the Philippine and Indonesia and to have at least initiated the process in Thailand. Some additional resources may be required to complete the process, but will not be required before FY 1989.

Further support for Technonet and CTE is less related to specific objectives. It is more related to how these grantees develop programs that their client base perceives as relevant to their needs. It is also related to the degree that clients will assume responsibility for their costs. The marketplace will make a better evaluation of their success than any evaluation team.

Both these grantees have activities the evaluation found useful to SMBs. We believe continuing AID support at a lower funding level (about \$500,000 per year) should be sufficient for them to develop the quality of their programs to attract more financing by SMBs and other donors by the end of a Phase II effort of approximately three years.

VI. EVALUATION METHODOLOGY AND APPROACH

The evaluation was undertaken over seven weeks between May 12, 1987 and June 25, 1987, by a four-person team consisting of Mr. Jay R. Nussbaum (ANE/PD), Mr. James W. Dawson (Program Consultant), Mrs. Carmen E. Santiago (Small Business Consultant) and Dr. Anwar Hafid (Economic Consultant).

The evaluation was initiated in Washington, D.C. by Messrs. Nussbaum and Dawson with meetings at the main office of the U.S.-ASEAN Center for Technology Exchange (CTE). On May 18, 1987, the U.S. team members joined Mrs. Santiago in Manila and immediately began a series of interviews with the staff of the various organizations participating in the project activities. On May 23, 1987, the team split-up and began a two and one-half week series of evaluations in Thailand, Singapore, Malaysia and Indonesia.

Dr. Hafid joined Mr. Nussbaum in Singapore for the evaluation of the ISEAS project component and for evaluation of the separate ASEAN/ISEAS Economic Research and Fellowships Project. During June 3-7, the team, less Dr. Hafid, reassembled in Manila where it completed interviewing project beneficiaries and began the drafting of the evaluation report. The major findings and recommendations were reviewed with each of the grantees before final drafting of the report.

Specific evaluation actions included:

- Discussions at each of the grantee's main offices where records and reports were reviewed;
- Discussions with U.S. Embassy Commercial or Economics Officers in three of the five ASEAN countries visited;
- Interviews with a very sizeable number of host-country ministry or program sponsoring organization staff in all five of the countries visited (See Attachment D);
- Interviews with 42 beneficiaries who had participated in or received assistance from one or more of the project sponsored activities.

VII. PROJECT EVALUATION FINDINGS AND RECOMMENDATIONS

[Findings specific to a single component follow the narrative for that component. This section lists findings of general importance.]

A. SMB development is a prime area of ASEAN country interest.

All five cooperating governments and the ASEAN technical committee (COIME) have maintained or increased interest in SMB development since the project was designed (1983). [Brunei Darussalam joined ASEAN in 1984 but has not expressed interest in participating in this project.] AID and other donors are also focusing on SMB development.

B. NGOs are effective in regional and national SMB development.

Although the project was carried out with governments' approval, NGOs carried it out. The NGOs got better and less costly results than do bilateral projects carried out by government agencies. The NGOs even helped SMBs make better use of existing government programs.

The nature of AID's ASEAN operation requires more reliance on NGOs than for bilateral projects. This reliance becomes an advantage for regional assistance as there is less pressure to work through governmental mechanisms. There are no regional government agencies.

RECOMMENDATION: AID should continue assistance to SMBs through support of NGOs serving ASEAN regional SMBs.

C. SMBs showed impacts soon after direct interventions.

Although the NGOs in this project see their work as long term, it was possible to find immediate effects of their training and consultancies. More follow-up by the NGOs would show them where they are most effective. They were not aware of some impacts apparent in evaluation team interviews.

Impacts of this project on individual SMBs are still small on the macro-economic scale of ASEAN. However, a picture emerges from these micro impacts and from the ISEAS research on how greater effects can be achieved. Generally policy implications are against massive government spending and for tailoring policy and existing programs to SMB needs.

It will be some time before macro impacts are measurable. Only national macro studies can capture how much employment objectives are reached through SMB development. The ASEAN informal structure provides a good network for spreading experiences about what works and doesn't.

RECOMMENDATION: AID should continue to evaluate its ASEAN SMB efforts at short (about three-year) intervals and should encourage implementing NGOs to do so.

D. Short or general training sessions had limited impacts on SMBs; most benefits came from consulting with experts, factory visits and practical demonstrations.

Technonet, CTE and AIM encouraged larger numbers of participants through training sessions open to many. SMB interviewees found these general training sessions of little or no use. They found formal lectures and written materials too general, too elementary and/or too long.

The case method AIM introduced was more successful for teaching general management practices. SMB interviewees were particularly impressed with the importance of producing for the market through case studies.

SMB interviewees reported benefits from what followed the general sessions: individual contact with experts, formal consultancies, demonstrations of equipment or processes, plant visits and interaction with other SMBs. Most of the technical or managerial changes they attributed to SMBI assistance resulted from technology transfers separate from or following formal classroom sessions.

CTE training sessions made little impact on SMB attendees but served as introductions to follow-on contacts with U.S. firms and experts. Unfortunately these follow-on activities were not closely monitored by CTE. It is expensive to maintain a relationship with the two sides during lengthy negotiations leading to a business relationship. It should be unnecessary to do so once the U.S. and ASEAN firms start their own discussions. However, only the larger (medium size) SMBs are likely to be affected significantly by this CTE approach.

Personnel of cooperating agencies and government officials were more interested in the general training sessions. They were very impressed by the case method. Their interests are served by making them more aware of the broad outline of management and technical fields.

This use of formal training sessions, plus their role in introducing SMBs to deeper project benefits, indicates they should not be abandoned. Instead, a balance must be struck between group and more one-on-one benefits to SMBs. Group approaches spread lesser benefits widely; one-on-one approaches cause more impact on the fewer SMBs reached.

This evaluation finds the implementing NGOs have generally sought to reach large numbers of participants with limited funds. The NGOs find one-on-one assistance expensive and are not sure of relative impact of this approach. Self-evaluation through in-depth follow-up with SMB participants would tell implementing NGOs more about their effectiveness. Interviews would also produce success stories with which to seek donor and governmental support.

RECOMMENDATION: Techniques for general training of larger numbers of participants should be emphasized less than at present, and more emphasis should be put on one-on-one interventions which have deeper impacts on SMBs.

E. Required annual reports of progress toward or modification of work plans were not submitted. This reduced AID control over changes in NGO activities.

The grant agreements called for annual reports indicating how planned activities were being carried out or modified. These were not submitted, nor were modifications requested. While operational problems did not arise, considerable changes in plan from the original grant agreements were not formally documented.

The RDO maintained and improved control over requests for reimbursement. There were also informal written and oral progress reports by some grantees that provided part of the picture. However, the drift of some programs into new areas and out of planned areas was not made clear before the evaluation.

RECOMMENDATION: The RDO should ask for prompt grantee compliance with the annual report requirement.

F. The evaluation identifies cost-effective ways for AID to continue support for ASEAN NGO assistance to SMBs.

Given limits on AID ASEAN funds, it will not be possible to maintain even current levels of funding for SMBI. However, the participating NGOs directly impact SMBs more effectively than bilateral projects or other regional activities. Each implementing NGO fills a different niche in serving SMB needs, and each has different funding requirements.

Only Technonet will require more FY 1987 funds. It is implementing the project faster than other the NGOs. However, AID support should not become too large a proportion of total Technonet support. Technonet must increase other donor support and collection of beneficiary fees. Reduced levels of AID support (40-60% of 1986-7 levels or \$200-250,000 per year) are likely in future years.

CTE was the late starter in the project (it was incorporated six months after the other grantees were funded). However it has high operating overheads and activity costs which will require more funding in FY 1988. It too should seek more other donor support and beneficiary fee income. Modest support for bringing U.S. private sector technology into ASEAN (40-60% of earlier levels or \$200-250,000 per year) is justified.

AIM has decided to concentrate future SMB assistance on training-the-trainers in the case method. Half the funds are left in its grant, and AIM should be able to complete a significant round of trainer training in four or five countries with no additional funding until at least FY 1989.

ISEAS can finish three series of SMB studies (finance/control, marketing and production management) with existing funds in FY 1988. A proposed extension of the earlier ASEAN/ISEAS fellowships project may be devoted to SMB development research. If this is the case, modest AID funding (\$50-80,000 per year) under an SMBI extension or the ASEAN Human Resources Development Project is justified.

Future levels of direct SMB assistance (Technonet and CTE) of \$400-500,000 per year, and less (\$80-120,000 per year for ISEAS and AIM) for indirect SMB assistance will maintain an AID/ASEAN SMBI effort likely to have both direct impacts on SMBs and to develop further SMB policy and teaching benefits. Because of the changing nature of SMB assistance, an impact evaluation in 1990 should verify the soundness of continuing AID assistance.

RECOMMENDATION: AID should provide \$500-600,000 per year of ASEAN SMBI assistance until 1990.

VIII. COMPONENT ANALYSIS

A. TECHNET ASIA

1. Description of Sub-Component Activities and Status Report Project activities conducted by Technonet Asia fall into four basic categories:

- Special Technical Workshops (STEWs);
- Technical Workshops Cum/Consultancies;
- Technical Consulting Services; and
- Symposiums on Small Enterprise and Entrepreneurship Development (SEED) Symposium.

A total of 20 Special Technical Workshops have been conducted by Technonet since the beginning of the project. These workshops vary from one to three weeks (Average 2.25 weeks) and average approximately 29 participants per workshop. Their primary focus is on the introduction of new technology and on addressing the problems of small and medium businesses (SMB's). They are industry specific and consist of lectures, discussions and some include visits to plants where new and improved technology is being utilized. Participants have paid course fees ranging from \$10 to \$125. The country distribution of the STEWS has been as follows:

| | |
|---------------|----------|
| - Thailand | 5 |
| - Singapore | 4 |
| - Malaysia | 4 |
| - Philippines | 4 |
| - Indonesia | <u>3</u> |
| T o t a l | 20 |

Technical Workshops Cum/Consultancies are similar to STEWS, but tend to be of shorter duration (average one-week), are more narrowly focused on subject/problem areas, elicit more participation from the participants and provide consultancy services for the participants as a part of the workshop program. In some instances, participants have attended earlier STEWS. To date there has been a total of five technical workshops. Also, it should be noted that the subject matter of both the STEWS and technical workshops have been highly focused on food technology, wood industry products (furniture), ceramics, plastics and metal work.

The project has also entered into 36 contracts for consultancy services with experts from the U.S., ASEAN and other sources. These services have been provided for technical assistance to the various STEWS and for direct assistance to specific industries or sectors. The direct assistance is normally provided under a cost-sharing arrangement, with the recipient paying at least a nominal fee. (See Attachments A-5, A-6 and A-7 for a project training and consultancy services)

In addition to the above planned activities, Technonet also planned and implemented two special Symposiums on Small Enterprise and Entrepreneurship Development (SEED). The first of these four-day symposiums was carried out in Thailand in February 1987, and immediately followed up by a similar symposium in the Philippines. The primary theme of these two symposiums was "Making Small Enterprise More Competitive Through More Innovative Entrepreneurship Development Programs." There were 170 participants in the Thailand SEED and 210 in the Philippine SEED.

A summary of planned vs. actual component outputs is as follows:

| | <u>Planned</u> | <u>Actual</u> |
|--|----------------|---------------|
| - Special Technical Workshops | | |
| a. Number | 15 | 20.0 |
| b. Participants | 450 | 576.0 |
| c. Weeks of Training | 60 | 42.5 |
| - Consultancy Services for technology transfer (person months) | 75 | 128.0 |
| - Workshops cum/consultancies | not specified | 5.0 |
| - SEED Symposium (participants) | Not specified | 380.0 |

2. Institutional, Administrative and Financial Arrangements/Status

Technonet Asia is a non-stock, non-profit network of sixteen Participating Organizations (POs) from 11 Asian and Pacific countries. It started as a project of the International Development Research Centre of Canada in 1972, and became an independent level entity in 1980. As a cooperative network, it aims to improve the quality and efficiency of production of its member countries' small and medium industries. It emphasizes the application of known and proven processes, methods, techniques and equipment.

Technonet Asia is governed by a Council consisting of the heads of its POs. The Executive Committee of the Council acts as the management committee and assists the Executive Director in implementing the Council's mandates. Coordination and administrative functions are performed at the Technonet

Centre which is located in Singapore. The Centre is headed by an Executive Director who is responsible to the Council. The Centre performs the functions of financial administration, industrial cooperation, program development and program operations. The Centre maintains a small staff of approximately ten persons to handle programs operations and overall program administration.

Financial support for Technonet is provided by several sources. Over the past two-years eight donor organizations have provided for over 80% of Technonet's total financial support. The remainder is provided by subscriptions from its POs (approximately 10%) and from fees charged from its services (approximately 3%). During the past two-years A.I.D. has provided approximately 62% of total support provided by the donors.

As of May 31, 1987, Technonet had expended approximately \$1,160,000 (97%) of the \$1.2 million provided under their A.I.D. grant.

3. Major Findings and Recommendations

a. Program Related Findings

(1) The design of the Special Technical Workshop requires modification in order to achieve its full potential as a training tool. Common themes that surfaced during evaluation interviews with past program participants were that (1) the subject matter of the workshops was generally too basic, (2) the time period for the longer workshops (over two weeks) was generally viewed as being too long, (3) too much time was spent in lecture presentations and not enough time allotted for discussion and plant visits, and (4) some of the lecture material was viewed as being irrelevant or of only marginal value (history of the technology and comparative designs in other countries.) Another problem often cited was the lack of homogeneity within the participant group; i.e. a wide range in educational backgrounds, sizes of businesses, and the mixing of government officials with business sector participants.

Recommendation: The design of the Special Technical Workshop should be modified to address the comments and suggestions of past workshop participants. Suggested modifications include:

- Modularizing the workshop format in way that would permit the more basic introductory material to be presented during the first several days of the workshop. This approach may fully serve the needs of those who do not desire an in-depth exposure to the technology being introduced; e.g. government officials and extension agents.
- Using the remainder of the workshop period for in-depth lectures and discussions, some in-house consultancies and for plant visits, when appropriate.
- Limiting the workshop period to not more than two weeks.

(2) Regional workshops are significantly more expensive than country-level workshops and language differences sometimes make them less effective. The cost of a Regional workshop is generally two to two and one-half times the cost of a country-level workshop, and in some instances language differences seriously limited the effectiveness for some of the participants. While there are some advantages of the regional approach, these advantages appear to more than off-set by the cost and language factors.

Recommendations: Eliminate the use of Regional workshops except in those instances where language similarities and cost factors make the use of a regional workshop more feasible than individual country workshops; e.g. Singapore-Philippines and Indonesia - Malaysia.

(3) In the move to achieve project targets, the quality of some workshops has been diminished. In several instances country program planners indicated that they felt they were pressured by Technonet to push for quantity in the number of workshops undertaken, rather than for quality programs. They further indicated that they would prefer to undertake a smaller number of workshops and spend more time in producing a quality product.

(4) In spite of the concerns noted above, almost all of the participants interviewed felt that the training received under the project had been in some way beneficial and relevant to their needs. Of the 22% of the participants who responded to a post-training survey (128 respondents), the following behavioral changes were noted as the result of the training received:

- 28% had undertaken specific changes in business or factory operations;
- 44% indicated that they had undertaken training of their staff in the new technologies presented in the workshops.
- 65% had shared the newly acquired knowledge with others.
- 86% indicated that they plan to implement one or more of the technological innovations learned at a workshop at some point in the future.

Information collected by the evaluation team from over two-dozen interviews with past program participants substantiated the above findings. The vast majority of persons interviewed indicated that the information gained at the workshops had been very relevant to their needs, but that less than one-third had actually applied the knowledge gained. The smaller businesses often cited the lack of capital and/or credit as a major factor for the non-application of the new technology.

The evaluation interviews also indicated that the degree of application of knowledge learned was extremely wide and of varying intensity. In some instances it was as little as learning about a special testing service that could be used to improve the quality control of their product, while in others

the application had been extremely comprehensive. For example, one Indonesian furniture manufacturer had:

- Switched to an assembly line production process;
- Tightened and improved quality control;
- Purchased new equipment for the polishing of rattan;
- Increased employment by 260%, from approximately 100

before the training to the current level of 260 employees.

In other instances, a fresh yeast manufacturer in Thailand had learned about drying and dehydration techniques through a workshop and is now actively testing methods of producing a dry yeast; while an exporter of dried fruits cited the training received under the project as being responsible for substantial improvement in the quality and greater market acceptance of his product. There have also been some institutional benefits gained through project related training. As the result of U.S. technical assistance provided under the project, the Food Technology Division of the Malaysian Agricultural Research and Development Institute (MARDI) has received official certification for one of their courses from the U.S. Food and Drug Administration (FDA). See Attachments A-1 and A-2.

In summary, the Technonet workshops appear to have been particularly effective in bringing about improvements in quality control and in improved production processes.

(5) The evaluators have found it more difficult to document substantial achievement in the other non-training areas of Technonet's program; i.e. business consultancies, information exchange and the Symposiums on Small Enterprise and Entrepreneurship Development. This is to a large degree due to the grantee's failure to clearly articulate his objectives in these areas and/or failure to fully comply with the provisions of the grant (Section D-3, Attachment I) dealing with the modification of work plans and internal evaluation systems. However, a review of project records and reports does reveal the following salient points:

- Fees are rarely being collected from firms receiving business consultancy services. A check of seven activities in which it appeared reasonable to collect fees indicated that they had only been charged in two cases.
- The effectiveness of the SEED symposiums as a means of imparting knowledge and technology is questionable due to the low ratio of ASEAN business persons who actually participated. In the case of the Thai symposium, less than half of the participants (78 out of 170) were private sector

participants from ASEAN countries. The rest were either from non-ASEAN countries or speakers, resource persons, secretariat staff, etc. The situation in the Philippines was quite similar where only 81 out of 210 participants were from the ASEAN private sector. (Private sector defined as non-governmental, including NGO'S, educational institutions, and the general business community).

- The large number of beneficiaries (1,314) cited by Technonet as receiving assistance through non-workshop activities is somewhat misleading. A review of project records and reports indicates that this total often includes persons who were also workshop participants.

Recommendation No. 1: Eliminate the use of the SEED type symposiums until such time as it can be clearly demonstrated that this approach is an effective mechanism for technology transfer, management improvement and increased employment.

Recommendation No. 2: Initiate policy and management actions that would significantly address current problems in the project's cost-sharing arrangements. Technonet's trend toward declining resource mobilization over the past several years indicates that a special effort should be undertaken during the proposed "bridge-funding" period between the first and Second Phases of the Project. Future levels of A.I.D. support for Phase II of the project should be determined to a large degree by progress made during the bridge-funding period.

(6) There is a need for greater information sharing regarding technology matters between similar technical training organizations within the ASEAN region. In several instances the quality of the training activities in one country would have been enhanced if it had access to information from another country.

Recommendation: Develop improved mechanisms for information sharing between similar country cooperating institutions; e.g. between the Division of Food Technology at MARDI and the Food Technology Center at Kasetsart University.

(7) There is a need for the Grantee to improve its internal evaluation system to be able to better assess project impact upon the evaluation criteria set forth in the reporting and evaluation section of the grant agreement. Several program implementors have expressed the need to track the impact upon program participants for up to three years after receiving training and/or assistance. A number of the ex-workshop participants have also expressed the desire to form informal associations so they can continue to share information and to make an input into the nature and type of future training activities. Such associations may prove useful in developing better post training follow-up procedures.

Recommendation: Technonet should undertake efforts to improve their internal evaluation process in order to better assess the impacts of their program activities, and to fully comply with the grant agreements provisions on reporting and evaluation. Also, when program modifications are proposed they should provide ammended workplans and supporting budgets in conjunction with the submission of their annual progress report as outlined in the Reporting and Evaluation section of the grant agreement (Section D-3, Attachment 1).

b. Institutional/Administrative

(1) U.S. provided project support has become the major source of support for Technonet. During the three-year grant period, U.S. support increased from 26% of all donor support to Technonet in 1985 to 73% in 1987. When compared to total Technonet revenues, it has increased from 21% in 1985 to 62% in 1987. The primary cause of this increase was due to a decline of CIDA assistance for core support costs. (See Attachment A-3)

(2) As U.S. support has increased, income from fees collected has decreased. In 1985, fees from SMBI activities amounted to \$5,481, by 1987 this had decreased to U.S. \$2,978.

(3) The SEED endowment fund has not grown as projected in Technonet's original grant proposal. Technonet had projected an increase in this fund from U.S. \$209,000 to U.S. \$521,000 by March 31, 1986. Instead the total surplus on March 31, 1987 was only \$179,384, including the the \$105,000 in the SEED fund.

(4) The A.I.D. grant is financing Technonet's administrative costs at a level considerably higher than that anticipated in the grant agreement. It now appears that A.I.D. is providing salary and other support costs for four of the Technonet professional staff and that other full-time staff has charged project funds for consulting services. These items are currently being examined as a part of an independent financial review being undertaken by the AID/ASEAN Office.

Summary Assessment

Several of the Technonet program innovations supported by the A.I.D. grant have demonstrated or show potential as effective approaches for the introduction of new and improved technology and management practices to small and medium businesses. By incorporating the modifications recommended in Section V of this report we believe that these approaches can be further improved and made more cost effective. It is therefore recommended, subject to these modifications, that further A.I.D. support be continued at a level necessary to fully test the effectiveness of the modified approaches. We estimate that this would take an additional two to three years of assistance.

We also feel that Technonet should begin to redefine its institutional role within the project. Initially it was required to take an active role in the program planning and implementation progress. Now that the program has developed interest and momentum, we believe that Technonet should now begin to

transfer more responsibility for these actions to its participating organizations and cooperating associations, with Technonet playing more of a supporting role than it is currently doing. This would allow Technonet management more time to focus its efforts on (1) developing alternative sources of funding for program activities, (2) identifying new technologies and approaches for introduction, (3) improving the quality of on-going programs, (4) expanding its role in the acquisition of consultants and technical assistance, and (5) improving evaluation systems.

Technonet has recently submitted two funding proposals for future A.I.D. assistance; a short-term proposal for bridging the period from now to the end of 1987 and a three-year Phase II proposal beginning on or about January 1, 1988. We have reviewed these proposals in relation to our evaluation findings and recommendations and our comments are as follows:

A. Short-term bridge-funding proposal: We believe that the suggested level of activity (15 country-specific STEWS and 1 regional STEW) is overly optimistic in terms of the short time frame for planning and implementation and the level of A.I.D. funding support available in the immediate future. In view of our evaluation finding we would not recommend the proposed regional workshop and suggest that the number of country-specific STEWS be reduced to two per country for this period of time. This would be much more consistent with the level of past project performance and the levels proposed in the Phase II proposal.

B. Phase II Proposal:

1. The total level of the proposed workshop appears reasonable, but regional workshops should only be supported if they meet the criteria noted in Section V (above). Technonet is proposing 12 country-specific STEWS and 6 regional workshops.

2. We do not recommend that assistance be provided for consulting services until such time as Technonet can demonstrate that it has significantly improved the cost-sharing arrangements for this activity. Further, the proposal does not provide a budget projection for this activity or a detailed explanation of how the activity will be carried out.

3. The proposal requests support for a technical information service for SMBs and support institutions. We strongly support this concept in principle, but again the proposal does not provide enough detail on the approach to be taken or the level of support needed for us to make a reasonable judgement about its specific merits.

4. The proposal requests support for three entirely new activities; i.e. international joint ventures, US-ASEAN businessmen's dialogues and inter-ASEAN study missions. In our judgement we feel that the requirements for assistance in the first two areas are already being largely provided under the grant to the US-ASEAN Center for Technology Exchange (CTE), and we cannot recommend additional support for a new Technonet activity in these areas. We

would, however, urge greater coordination and cooperation between these two organizations to see if the needs expressed in the Technonet proposal can be at least partially satisfied under the CTE activities. In the case of the inter-ASEAN study mission activity we feel that similar activities under the CTE grant have shown promise and at least deserve further consideration, particularly if the concept were expanded to improve information sharing between similar cooperating institutions. However, as with the CTE study missions, these costs should be largely borne by the participants themselves.

B. U.S.-ASEAN CENTER FOR TECHNOLOGY EXCHANGE, INC.

1. Description of Sub-Component Activities and Status Report

The U.S.-ASEAN Center for Technology Exchange, Inc. (CTE) has provided assistance to small and medium ASEAN businesses through several approaches. Their primary approach has been through the presentation of short seminars, usually two days, where new and advanced technology is presented to groups of ASEAN businessmen and women by representatives of U.S. business organizations and firms. These groups have been as large as 200 participants and as small as 27, with the average being close to 75. These initial seminars are generally for the purpose of introducing a new technology or processes, and are best described as familiarization seminars on the state-of-the-art in various technical fields. These are often followed several months later by seminars of similar duration dealing with the financial, investment and trade aspects of the technology that had been introduced in the earlier seminar. When sufficient interest is shown in pursuing the subject further, technical missions are organized to allow ASEAN businesses the opportunity to (1) view the technology in operation in the U.S., and (2) explore joint-venture and licensing agreements with U.S. firms.

In the three-plus years covered by the grant agreement with CTE (9/1/84-12/31/87), the grantee proposed to undertake activities that would result in the following outputs. Actual achievements through December 31, 1986 is shown in the second column.

| | <u>Planned</u> | <u>Actual (12/31/87)</u> |
|--|----------------|--------------------------|
| - Training for CEO's, Managers and technical staff (persons) | 1740 | 3303 ^{1/} |
| - Technical Missions to the U.S. (# Missions/# Participants) | 8/190 | 6/166 |
| - On-The-Job Training | 15 | 0 |
| - Companies Assisted | 25 | 0 |
| - Searches Completed | 75 | 4 |

In summary, CTE has greatly exceeded its planned objectives in the area of technical training and technology acquisition, and is generally on schedule in the area of technical missions to the U.S. Project activities in the areas of OJT, search services and consulting services for firms have either been minimal or non-existent. In the cases of OJT assignments, U.S. firms have shown a reluctance to such arrangements because of the potential unauthorized use of the technology or process being learned. In the case of consulting and search services it had been anticipated that ASEAN businessmen would pay a minimal fee for these services, but this has proven to be a faulty assumption. As the result, activities in these two areas have been either curtailed or completely discontinued.

^{1/} This figure includes some persons trained in programs that were not funded with AID-funds. However, those trained in AID-funded programs greatly exceed the total planned output.

2. Institutional, Administrative and Financial Arrangements/Status

The CTE is a U.S. non-profit corporation (P.V.O.) that was created in 1984, by U.S. business leaders whose organizations had an active history or interest in business and trade in Southeast Asia. The CTE board is guided in its activities by special advisory councils in each of the five participating ASEAN countries whose primary functions are to identify and set priorities for program activities, and to coordinate project activities in their respective countries once they reach the implementation stage. A listing of the CTE board members and the members of the National Advisory Councils is contained in Attachments B-1 and B-2.

Overall program management is performed by CTE's main office in Washington, D.C., which is assisted by a full time regional representative in Malaysia and part-time representatives in Indonesia and the Philippines. Program training activities are generally initiated and implemented by trade and business organizations in their respective countries, and assisted by CTE who bears primary responsibility for arranging for outside consultants and technical assistance. In a smaller number of cases, usually programs with a regional focus, CTE has assumed full responsibility for program planning and implementation.

Financial support for CTE activities is drawn upon from a number of sources. Over the three-year period between 1985-1987 the total of actual and planned resources available is \$2,571,000, of which \$1 million has been granted by AID. The percentage attribution of all project support is shown as follows:

| | |
|--|-------------------------------------|
| - Fees from Participants | 18% |
| - Private Sector Cash Contributions | 29% |
| - Private Sector In-Kind Contributions | 21% |
| - AID Grant Funds | 32% |
| Total | $\frac{32\%}{100\%} \underline{2/}$ |

Funds provided under the AID grant are used primarily for (1) the remuneration and travel costs of U.S. consultants, (2) salary and travel costs of the regional and part-time country representatives (one-half of the regional representative's salary is provided by private sector funding) and (3) the travel costs of the Washington-based CTE Executive Director. All other CTE administrative expenses (support staff, office rent, utilities, etc.) appear to be covered by non-AID resources. Attachments B-3, D-4, D-5 and D-6 provide detailed information on the level and attribution of support received from non-AID sources. Attachment B-7 provides a listing of U.S. and ASEAN organizations who have provided speakers or experts for the various CTE training activities between April, 1985 and December, 1986.

2/Obtained from financial data obtained from CTE, but subsequently checked against CTE's annual financial statements and AID reimbursement records. This subsequent review indicated that the AID proportion shown in Attachment D-2 maybe understated by as much as 6% in 1985 and 2% in 1986. However, this difference maybe explained by the use of accrual accounting procedures by CTE vs. the actual receipt of AID reimbursements.

As of December 31, 1986, CTE had been reimbursed a total of \$580,000 from their \$1.0 million AID grant, and CTE management has indicated that the remaining funds are sufficient to fund planned program activities to at least the end of the grant period; i.e., December 31, 1987.

3. Major Findings & Recommendations

a. Program Related

(1) CTE has not been as successful in reaching as many small businesses as originally envisioned by the original planners. The very nature of CTE's linkages with both U.S. and local trade associations, national-level of Chamber of Commerces, etc.; and the level of technology being exchanged makes it very difficult for CTE to reach down to the really small businesses. In one instance where data was available, only 17 out of 63 participants in a food processing program had annual sales of less than U.S. \$5 million.

Recommendation: AID should recognize CTE's organizational limitations with respect to their ability to reach those businesses that are classified as small, and reduce their expectations accordingly.

(2) Program participants/beneficiaries generally found the CTE sponsored activities to be useful and relevant to their business problems and needs. Post-training questionnaires indicated that the vast majority of participants rated the programs as good to excellent, with only a small majority rating programs fair or poor. Approximately two-thirds of all the responding participants also indicated an interest in attending future programs. However, our evaluation findings indicate a more positive response from participants who attended the longer training programs (3-4 days) as opposed to those who only attended the shorter 1-2 day programs.

(3) Several program beneficiaries have been able to cite specific examples of how program related activities have had a positive effect on their business operations. In one instance an Indonesian participant on a U.S. technical mission gained the information necessary for him to gain FDA approval for a candy that he was attempting to export to specialty shops in the U.S. He is in the process of expanding his current capacity in hopes of being able to break into markets in Japan, Hongkong, Korea and Europe. In another instance, a production manager for a Filipino packaging firm with 40 employees attended a 4-day CTE seminar on improved packaging technology. Using information obtained at the seminar he subsequently up-dated his product line and sent samples to several U.S. firms. He was recently advised that one U.S. firm found his modified product extremely acceptable and that a sizeable order would be forthcoming in July 1987. On receipt of the order the firm will have to increase its present manpower in order to meet the increased production requirements.

(4) CTE has sponsored a small number of AID-funded activities that are outside of the program parameters contained in CTE's grant proposal. On page 2 of Attachment II, CTE stated that they would focus their activities on technological and management problems, but not a general economic issues. Nevertheless, they subsequently sponsored an AID-funded program on "International Financial Trends" in October 1986. Their original proposal was also quite specific in stating that all U.S. Technical Missions would be industry specific (page 9, Attachment II of the grant agreement). However, in two instances this has not been the case; i.e. the Malaysian Human Resources Mission and the Singapore Employee Communications Study Mission.

(5) CTE is the only project component making any significant effort to utilize the services of the U.S. private sector in the implementation of project activities.

b. Administrative Related

(1) Cost for project administration and program development appear to be significantly higher than anticipated in the Grantee's original proposal. One of three major program elements, "Company Assistance", has never been implemented, but there is no explanation of how funds for this activity have been reprogrammed. Also, a comparison of actual administrative and program development costs for the other two major elements indicates substantial cost overruns. Further, the level and regularity of remuneration for one specific consultant raises the question of whether this person is really performing the functions a consultant or has in fact become the Program Director in CTE's head office. Resolution of this problem will have an impact on the overall level of project related administrative costs.

Recommendation: CTE should delineate the role of consultants in the program development process. If they are in fact performing the role of a Program Director or coordinator, the costs of their services should be treated differently than that of a regular consultant. A cost sharing arrangement similar to the one used for the regional representative in Malaysia would seem appropriate; i.e. 50% paid by AID and 50% paid with private sector funds.

(2) The cost of CTE training programs are relatively high when compared to other project component training programs. In several instances the total cost of CTE training programs has run as high as \$25,000 per training day, or an average cost of \$333 per participant day. However, it should be noted that in these instances AID contributions to the total cost have only averaged 27%.

(3) The overall level and trend of private support for CTE is falling short of planned targets. CTE's grant proposal projected a level of non-AID resources in Year #2 (1986) of \$1,056,000. Actual non-AID support was closer to \$480,000 (\$217,000 from participant fees and \$253,000 from other sources), or only 45% of CTE's original projection. However, the level of corporate cash contributions is somewhat better. They appear to have a level out at around \$190,000 per year against the original projects of \$250,000 to \$295,000.

4. Summary Assessment

On balance, the grantee appears to be making good progress toward the objectives of the project and the grant agreement. As a brand new organization at the beginning of the project they mobilized their resources quickly, established the needed linkages with ASEAN business and trade organizations and got their program underway in a very timely manner. Overall project management appears to have been satisfactory in spite of the deficiencies previously noted. These deficiencies appear to be the type of problems that can be resolved rather quickly by responding positively to the recommendations set forth above.

It is difficult to assess project impacts on a project that has only been underway less than three years. Nevertheless, the evaluation team feels that sufficient progress has been demonstrated to justify continued AID assistance to this activity.

However, the evaluation team noted that CTE was drawn into activities off the planned focus on technology from the U.S. private sector (see page 5 of their project proposal). These "targets-of-opportunity" activities were largely on exporting to the U.S. Questions arise whether AID should support whatever CTE activity meets the demand of SMBs in ASEAN or whether an emphasis on exporting to the U.S. is consistent with project objectives. Clearly, it is following the dictates of the market to meet SMBs demands for CTE assistance, and some departure from plan should be permitted to do so. CTE has attracted SMB interest this way that would not have been drawn without this adaptability. Export to the U.S. involves quality control and other management and production disciplines which will help SMBs generally. It is also a good way to create an interest in meeting U.S. technological standards and practices. In any follow-on activity, some flexibility in these directions are needed.

C. ASIAN INSTITUTE OF MANAGEMENT (AIM) COMPONENT

1. Component History and Design.

(a) Background. When the SMBI Project was designed, the role of formal business education in the development of SMBs was minimal. SMBs rarely go outside the owning family for managers. Only a few educate family members as MBAs. AIM and other business education institutions trained graduates to serve in management of bigger businesses rather than to be owner/managers of smaller firms.

AIM is the premier U.S.-style business school in the region. The Harvard Business School helped establish AIM in 1968. It was principally supported by the Philippine business community and tuition charges. It serves as a prime source of managers for larger Philippine and other Asian businesses.

In 1983 (when the project was designed) interest in small business was such that AIM wanted to find a role in SMB development. AID and AIM recognized that there were obstacles. Small businessmen cannot take two years off to obtain MBA degrees. Most lack educational requirements for graduate study.

A particular concern was whether the case method of teaching business administration (by studying real business problems written up to illustrate principles of management) would work for SMBs. Such methods are not used in the school systems. There were no cases written on ASEAN SMBs.

(b) Project Design. AIM proposed to try to develop cases and courses suited to teaching general management principles to SMB managers (including owners). The largest element was to be preparation of 60 SMB cases. Five AIM faculty were to be trained to teach SMB managers. Five to 15 courses were to be carried out to test the cases and methodology. By the end of three years the effectiveness of the approach was to be tested and demonstrated.

2. Component Implementation and Status.

(a) Implementation.

AIM first operated in the Philippines, writing cases and testing its course materials. It later extended training activities to Malaysia, Singapore and Indonesia.

Quantitative targets for case writing are in hand. Of a planned 60 SMB cases under AID funding, 41 are complete and 21 are in process. Several others are in process, but may be completed outside the AID grant. Almost half (29 of 62) are Philippine cases. Cases cover: finance/control, 14 cases (23%); marketing, 14 cases (23%); production, 23 cases (38%); and other topics, 11 cases (17%) [percentages rounded].

As cases became available, courses were prepared (both course materials and faculty had to be prepared to serve SMB needs). The pilot course in Manila took place in November 11-15, 1985. After a final Philippine test July 7-11, 1986, a course in Malaysia was held August 11-14, 1986. The Malaysian co-sponsor was the Malaysian Entrepreneurial Development Centre (MEDEC).

Subsequently, AIM has also given courses for SMBs in Singapore with National Productivity Board co-sponsorship. In Indonesia direct instruction of SMB managers did not appear feasible in English. Case-writing and teaching training was given to potential trainers with co-sponsorship of LPPI (Lembaga Pengembangan Perbankan Indonesia - the Indonesian Banking Development Institute) which is a Central Bank arm serving small business development. Language problems are also expected for Thailand. AIM is seeking a Thai co-sponsor.

A three-week course was finally designed to have one-week segments on finance/control, marketing, and production. These were separated in one-week pieces in some countries to facilitate attendance of SMB managers who cannot leave their businesses for long. Singapore insisted that participants take all three segments to have maximum benefit from the training.

Participants and co-sponsoring agency personnel all found the case method a preferred approach to training SMB managers in general business principles. Even the first Malaysian course (which used Philippine cases) had more impact on participants than would have been expected from conventional training methods. Writing cases and preparing to use cases in their own programs influenced the way the cooperating agencies thought about SMBs. They consider that cases on national SMBs in the national language will be the most effective instructional technique for reaching target SMB managers.

By the evaluation (May-June, 1987), AIM concluded that work with agencies responsible for helping SMBs would be more productive than AIM directly teaching SMB managers. This "training-the-trainers" role keeps AIM training people more accustomed to high educational approaches. It also spreads the ultimate reach of case method teaching.

AIM expects to limit its future SMB involvement to training trainers such as staff of the Indonesian, Malaysian and Singaporean cooperating agencies abroad. In the Philippines it is considering training and working with SMB assistance groups in provincial colleges and universities, especially church institutions. AIM also assigns its students as trainee consultants to small businesses as part of their education.

(b) Component Outputs. The original PACD (May 31, 1986) has been extended to May 31, 1987, and extension to May 31, 1988 is under consideration. Cases written or to be completed will exceed the target of 60. Ten to twelve courses will have been given, about the number expected (5-15). Faculty training has been less than expected, but AIM does not expect its faculty to train SMBs directly after this project.

(c) Component Costs. Only \$356,395 of the \$800,000 grant to AIM was vouchered for reimbursement on May 26, 1987. This indicates most planned outputs will have been achieved at well below estimated cost.

3. Component Findings and Recommendations.

(a) The case method is a successful -- probably a preferred -- way to teach general business principles to SMBs.

By hindsight, it appears that the use of illustrative cases from firms similar in language, culture and economic situation to those of trainees would make it easier for them to relate to what is taught. However, this was not obvious at the start of the project. There are still problems (e.g., length and complexity of cases for some of the audience, difficulty of writing cases, etc.) to be overcome.

The main effect participants reported was that they began to think about business problems for themselves rather than expecting teachers to give formula answers. A particular benefit some reported was to think more about producing what the market wants rather than what they can produce well or at low cost. Cooperating organization staff (often with only academic exposure to business problems) found their outlook on the world of the SMB greatly enhanced by case writing or instruction. They expect to do their jobs much better after their experience with AIM.

RECOMMENDATION: Further case method training of SMB managers and personnel of agencies charged with helping SMBs is a good development investment for AID, ASEAN, national governments and NGOs.

(b) AIM successfully implemented programs with the cooperating agencies.

The ability of AIM to work in three different situations in Indonesia, Malaysia and Singapore established its usefulness in the region. Extension to Thailand appears to require only working out an arrangement with a cooperating agency.

The task ahead with cooperating agencies is to help them spread the benefits from their own staff to the ultimate beneficiaries (SMB managers). This requires commitment from management of the cooperating agencies as well as proper training of their staff to work with SMBs.

RECOMMENDATION: Remaining funds in this component and future AID ASEAN SMB assistance should be used to assist ASEAN country agencies, private and governmental, to make effective use of AIM cases and methods.

(c) Some beneficiaries reported AIM training enabled them to make effective use of government programs targeted at SMBs.

This and other evaluations find that few SMBs make any use of services governments offer them. Most AID policy studies (e.g., under the ISEAS component) do not recommend more government programs for SMBs. They find SMBs fail to make effective use of those available. It appears that AIM teaching, and any other teaching that helps SMBs determine what government activity is useful to them, may benefit both the SMBs and the agencies serving them.

RECOMMENDATION: AID and other SMB training should include giving SMB managers confidence and skills in utilizing available government services.

(d) This training encouraged regional as well as local networking on SMB problems. ASEAN cooperation, at least in exchanging experiences in SMB development appears practical and productive.

The the benefits of networking at various levels showed during interviews with course participants and staff of cooperating agencies. There is still need for more. For example, one evaluator went from a course on fish processing in one country with limited technical materials to another country where a government agency was printing technical material on the same subject. The evaluator felt the two agencies serving similar SMBs could have gained much from an exchange of experiences.

RECOMMENDATION: AID and other assistance to SMBs at the ASEAN regional level can be more effective in some areas than country-by-country efforts. Networking and exchanges among ASEAN SMB agencies have the potential for optimizing results of country investments in SMB assistance.

D. ISEAS COMPONENT

1. Component History and Design.

ISEAS is an academic institution interested in political and economic research on policy issues in the region. It began in 1968, principally through Ford Foundation support and the Singapore government.

AID first supported ISEAS research in 1979 under the ASEAN/ISEAS Economic Research and Fellowships Project (498-0258.10). With amendments, that project will support 25 fellowships (one per year to a person from the five participating countries) for research on food, nutrition, energy, water resources and rural development. That project was evaluated simultaneously with this project. Relevant results of that evaluation are incorporated in this report.

AID and others' experience established that ISEAS was the premier social science research center in ASEAN. When the SMBI Project was designed, ISEAS was seen as the ideal institution for the policy element of the project. Its role was to investigate constraints to SMB development and to disseminate findings through its publications, meetings and network of influential institutions and individuals in ASEAN.

2. Project Implementation and Status.

ISEAS management and its advisory panel for the project decided to carry it out through separate national studies of three factors -- financial, marketing and production management. Each of these was to be about one year's work.

Associated institutions in the five participating countries suggested team leaders to carry out national studies of each factor. ISEAS suggested outlines for the national studies to enhance comparability of results. Meetings of the national teams and general ISEAS oversight coordinated efforts to produce results comparable across countries.

A collection of the first studies has been published: "Small and Medium Business Improvement in the ASEAN Region, Financial Factors," edited by Drs. Kenneth James and Narongchai Akrasanee, ISEAS, 1986. It includes an overview of the national studies by Dr. Narongchai. Dr. James is the ISEAS project manager of the SMBI project, and Dr. Narongchai is the adviser to ISEAS for the project.

The other two studies are in various draft stages. Drafts of the marketing papers were presented at a workshop in February-March, 1986. The production management drafts were presented at a workshop in April, 1987.

All the drafts require considerable editing, but ISEAS expects to publish them in 1987. ISEAS will bring them to usable form for a working group on the policy implications in August, 1987. [This working group was financed separately from the AID project by ESCAP, Canada (IDRC) and Technonet Asia.]

The workshops associated with the studies have recommended further studies. The next topic suggested is subcontracting.

3. The Studies.

The financial factors studies generally examine attempts in the five countries to provide institutional credit facilities to smaller businesses. Some also examine the other sources of finance used by SMBs. Although ISEAS suggested a common outline, the studies did not exactly compare with one another.

(a) Overview. An overview paper by Dr. Narongchai Akrasanee focuses on degrees of reliance on government vs. private sources of finance for SMBs. It concludes a combination of government and private institutions should be the most viable, but notes the need to lower the effective cost of credit through improving lending practices rather than through interest rate subsidies. It sees ASEAN cooperation in the field limited to training personnel of lending institutions to serve smaller business more effectively, further research and joint marketing efforts for products of SMBs. Not all the country studies cover all these topics, so the overview study takes on a character of its own.

(b) Indonesia. The Indonesia study is "Financial Factors Affecting Small and Medium Businesses in Indonesia" by M. Dawam Rahardjo and Fachry Ali. It divides firms by size as small if employing 1-10 workers and medium with 10-50. It also distinguishes different needs of industrial, trade and services firms. It notes that few government programs or commercial banks have reached smaller firms because these firms cannot comply with requirements. Informal lenders and cooperatives are the principal source of finance, especially for operating funds as distinct from borrowing for fixed investments.

(c) Malaysia. The Malaysia study is "Study and Evaluation of Existing Fiscal and Financial Policies and Support for Small and Medium Business in Malaysia" by Chee Peng Lim. It defines SMBs as below 50 employees. It reviews Government incentives which had until recently inadvertently favored large over small businesses. Current incentives (tax, credit and guarantee) are offered small business. Additionally, Government policy to help bumiputera (peoples indigenous to the country rather than the descendants of immigrant groups) benefits SMBs from this ethnic grouping. For instance, banks under the Special Loan Scheme of the Credit Guarantee Corporation were required to extend at least half of their loans to bumiputera SMBs.

SMBs find credit their largest problem. They cite costs of borrowing from banks and lack of collateral. Many rely only on their own and family resources. Special credit sources outside the banking system are pawnbrokers and tontines (informal pools of money for saving and lending).

(d) Philippines. The Philippines study is "Financial Factors and Small and Medium Enterprise Development in the Philippines" by Melito S. Salazar et al. It surveys 230 firms with five to 99 employees. Most firms (about 90%) started with the founder's savings, and almost all (98%) reinvest profits. Only about 9.5% got any bank funds initially. In later years, 39% got some bank finance. Informal sources were used by about 12.6% initially and 22.6% in later years. Firms often cannot obtain raw materials on credit but may have to sell on credit to compete in the market.

Other problems were lack of ready funds (65% had cash to sustain operations for less than a month) and short term borrowing to finance long term investments. Conversely 44% of long term borrowing was used for working capital. Only 30% availed themselves of Government incentives although 61% were aware of them. Most complained of costs and red tape in obtaining Government aid. Informal loans usually took a month to arrange, but 24% were made in a day. Formal loans took a month to a year to arrange.

The study recommends that SMEs improve management practices to better qualify for credit, that lending institutions learn how to serve SMBs better and that Government maintain current incentives while studying industry-specific problems.

(e) Singapore. The Singapore Study is "Financing of Small and Medium Businesses in Singapore" by Ch'ng Hak Kee, Tan Loong-Hoe, and Lim Hua Sing. It sampled 45 small (10-49 employees) and medium (50-99 employees) manufacturing firms.

Official data analyzed by the study showed that due to Singapore's open policy toward foreign investment, between 1963 and 1982 the percentage of SMBs out of total businesses declined from 93% to 86% and their employees from 61% to 32%. However, SMBs and the number employed increased close to four-fold, output fourteen-fold and value added eighteen-fold.

The sample firms were 58% directly involved in export and all may have supplied exporting firms in some way. About 80% were owned at least in part by management and 40% were entirely owned by managers and family. Nine percent had no borrowings, 36% had no long term borrowing (but used overdrafts and hire purchase) and 55% use long term (three years or more) loans, mostly including Government schemes. Among them, the degree of dependance on such finance related to the speed with which the firms wanted to expand.

Some firms have problems obtaining the most advantageous credit and resort to informal sources. Most, if they chose to do so, have some access to the banking system and Government programs. Most have high rates of reinvesting profits in the firm. Government policies to phase out labor-intensive industries affected some firms adversely.

Government policies now favor SMBs more than in the past. Spin-offs from foreign investment (in terms of helping develop local entrepreneurs) have not been as great as hoped.

(f) Thailand. The Thailand study is "Financial Factors Relating to Small and Medium Business in Thailand" by Narongchai Akrasanee, Viyada Avilasakul, and Thitiraht Chudasring. It defines cottage industries as employing 10 or less workers, small industries 10-49, and medium industries 50-200 workers. It deals with non-farm enterprises in four provinces in the less developed North East and North regions of Thailand. Agricultural (rice and saw mills), ice plants and printers are excluded, but cottage industries are included to capture non-farm activities of rural families. Data were collected under World Bank and AID studies of rural and town-based industries.

Government data show 90-95% of registered industrial firms are small. Firms with not more than 5 million baht (\$188,000) capital are 95% of the total. From 1970 to 1980 North East cottage industries increased in number by 34% and small industries by 22%. Cottage industries also increased 20% in the North and South. Hence, while 70% of all registered firms were in the prosperous Bangkok and Central regions, there was potential for rural development through promotion of SMBs in poorer regions. Nationally, small firms account for 24% of output and medium firms 26%. SMBs accounted for 51% of all employment and 80% of industrial employment in 1979.

SMBs rely on their own capital for 70-80% of initial investment, over 60% of their present capital and about 50% of funds for expansion. Commercial bank borrowings were 51% of total borrowings; 87% of bank credits were long term borrowings through roll-over of overdrafts for acquisition of land, buildings and equipment. Informal sources, relatives, friends and chit funds (informal savings and lending pools), accounted for 42% of total debt and 70% of short term borrowings (compared to 14% each for banks and trade credits).

Other factors (production/management inefficiency, poor inventory control, family living expenses) affect the perceived need for credit. However, some unmet demand for formal credit is evinced by heavy use of informal credit. Government schemes seem limited in meeting this demand: they provide 1% of total SMB credit while commercial banks provide 5%.

The commercial banking system works against usury laws (15% interest ceiling). This limits incentives to lend to SMBs rather than safer borrowers. Rural bank branches also seek deposits rather than loan business so that personnel are not trained to lend to SMBs. Government lending is mostly for agriculture, but this may indirectly support non-farm activities of farm households. Government small industry credits are inadequate to meet demand and are concentrated in Bangkok due to lack of trained staff in other areas. The Government is also starting a credit guarantee program to reduce need for collateral for small borrowers.

Suggested changes include allowing banks to count lending to small industry against government requirements to lend a portion of their portfolios for agriculture. Commercial banks would increase SMB lending if allowed higher interest spreads and if staff were trained in SMB loan appraisal. Lending from Government and external (donor) sources should seek commercial bank cooperation if enough interest is charged to cover higher costs of lending to SMBs. Technical support should be given for training banks' staff.

4. Policy Relevance of Studies.

So far only limited policy lessons can be drawn from the studies. They make few explicit policy recommendations. The studies are academic in approach and mild in tone about national governments' SMB programs. They do not make far-reaching conclusions about effectiveness of governments.

The October, 1987 working group on policy implications may make explicit some conclusions implicit in the studies. The marketing and production management studies will also be available to that working group. Review of drafts of these studies did not change conclusions based on the financial factors studies.

The studies generally support findings of other AID studies of financing SMBs. This is comforting confirmation, but it leaves a sense that there is more to be done before the potential for development research on SMBs is realized. The question is how best to approach that potential.

There may be better answers after the working group on policy implications has done its work, but AID can draw some conclusions at this stage. AID must consider the merits of ISEAS' style of research. Its scholarly approach results in understatement compared with advocates of policies. This detachment has made possible the authors' insightful studies of their own countries for an international audience. This same style may make it possible for policy-makers to adopt implicit recommendations which would be rejected out of hand if perceived as criticisms.

5. Project Management.

ISEAS managed the research well. The need to change its project manager late in 1984 put a new person into a project he had not designed, but did not affect support of the work.

The national teams each pursued variations on the outline ISEAS had suggested for the studies. This did not detract from the individual merits of the studies, but it made cross-country comparisons less clear. Given the diversity within ASEAN, some diversity of approach may be inevitable. Also, it is difficult to obtain uniformity of approach from individuals of the caliber of the country research leaders.

The original Project Assistance Completion Date was May 31, 1986; this was extended to May 31, 1987. As of June, 1987, there are still considerable editing tasks to bring the second and third series of studies to publication quality.

6. Component Finances/Costs.

Due to questions in Washington, the budget for this component was initially reduced to \$200,000, below the \$300,000 level recommended by the project design team. It was later increased to \$285,000 by Grant Amendment in June, 1986. Although final costs are not yet vouchered, a March, 1987 voucher showed \$51,243 unexpended in the grant. With the studies not yet published, an extension of time to bring them to final form might result in drawing down much of the remainder.

These costs seem reasonable for the completion of the three planned series of studies.

7. Follow-on Activity.

No further ISEAS activity in the SMBI area was contemplated when the evaluation was begun. However, a further ISEAS activity similar to that under the ASEAN/ISEAS Economic Research and Fellowships Project (Fellowships) has been requested. It was contemplated that this new ISEAS activity would be a component of the ASEAN Human Resources Development Project (398-0287) now about to become effective.

During evaluation of the Fellowships Project concurrent with this evaluation, ISEAS, the RDO and the evaluators concluded that the procedures under that project -- selection of fellows on different topics from each country each year -- made it difficult to manage and support research. All preferred the SMBI system. They felt the follow-on activity should be set up like the SMBI project. Researchers should be selected with help from national institutions working on a common theme acceptable to all.

Further discussion centered on AID's interest in pursuing research only on topics within AID's areas of interest. Small business development is an area of AID and ASEAN interest. Also, the present ISEAS SMBI activity has not exhausted the subject. It now appears that the interests of all concerned may best be served by devoting any follow-on AID assistance to ISEAS to SMB research.

8. COMPONENT FINDINGS AND RECOMMENDATIONS

(a) Work is not complete on two of three series of studies although the PACD has passed. Funds are available to complete this work if the PACD is extended.

ISEAS has considerable editing to do to bring the two series from current draft stages to publication stage. ISEAS expects to publish them in 1987. The value of work to date will be minimal unless it is disseminated.

RECOMMENDATIONS: a.) The PACD should be extended (about one year) to complete publication of the two series still in draft. b.) In the future, ISEAS and AID should make better estimates of the time required to bring research to policy-useful completion.

(b) Research completed and published is of good academic quality. It is expected that, when brought to its publication standards, the work in draft will also be of high quality. This reflects good research management by ISEAS.

(c) AID's interest in research on constraints to SMB development is satisfied by the studies published. ISEAS has begun the process of bringing out policy implications of its research.

The working group to meet in August, 1987 on the policy results of the studies is not AID-funded [ESCAP, Canada-IDRC and Technonet are funding it]. It is taking place after the PACD, and it was not explicitly required by the project. It should lead to publication of a condensed (perhaps pamphlet-sized) report on its policy findings. This should be of more use for policy-makers than the longer, more academic studies themselves. Also the working group process should expose the studies to better critical scrutiny than this evaluation.

RECOMMENDATION: Any AID-financed future SMB research should include a mechanism for bringing together policy-relevant findings of individual studies and for critically extracting and disseminating policy implications.