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Small Industrial Enterprise Supportive Institutions  
A Preliminary Assessment

by

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## FOREWORD

This paper is one of a series produced by the Rural Off-Farm Employment Assessment Project at Kasetsart University. The project is funded by the U.S. Mission of the Agency for International Development in Thailand under Project No. 493-0306. The objective of the Project is to provide information to the Royal Thai Government, USAID, and other international donors, to be used to identify and develop appropriate policies and programs for the rural non-farm sector in Thailand.

The Working Paper Series is designed to share interim or preliminary results on different aspects of the Project work. Some papers also discuss methodologies to be used in future studies.

A list of Working Papers produced to date, along with a list of Research Papers of the Project, is included at the end of this report. Copies of papers in either series can be obtained from Dr. Tongroj Onchan, Director, Center for Applied Economics Research, Kasetsart University, Bangkok 9, Thailand.

Tongroj Onchan  
Project Director

## INTRODUCTION

The present report is a systematic presentation in summary form of information collected on small industrial enterprise supportive institutions in the course of interviews conducted with their responsible officers from September through December, 1980. These interviews are reported upon in more detail in the writer's ROFEAP Small Enterprise Supportive Institutions Report Series Nos. 1 to 20.

The purpose of the paper is to review all institutions contacted by supportive function, examine and evaluate the effectiveness of these institutions in providing support to the small industrial enterprises, identify the main problem areas, and suggest possible interventions by USAID and other donors to act on these problem areas.

The study is a sub-project of the Kasetsart University Center for Applied Economic Research Rural Off-Farm Employment Assessment Project (ROFEAP). The present paper is the sub-project mid-course report, and, as the assessment presented is based on incomplete data, it can only be labelled as preliminary. The vast majority of the institutions reported on are government institutions. Most but not all have been contacted

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directly. Information on the latter remains to be rounded out and verified. This needs to be complemented by an exploration of actual and/or potential support of small scale enterprise from the private sector.

Main acronyms used in the report

ARD	Office of Accelerated Rural Development
BAAC	Bank for Agriculture and Agricultural Cooperatives
BOI	Board of Investment
CDD	Community Development Department
DIP	Department of Industrial Promotion
DOL	Department of Labour
IAT	Industrial Association of Thailand
IEAT	Industrial Estate Authority of Thailand
IFCT	Industrial Finance Corporation of Thailand
ISD	Institute for Skill Development
ISI	Industrial Service Institute
MOC	Ministry of Commerce
MOF	Ministry of Finance
MOI	Ministry of Industry
NESDB	National Economic and Social Development Board
NSO	National Statistics Office
PDA	Population and Community Development Association
PWD	Public Welfare Department
ROFEAP	Rural Off-Farm Employment Assessment Project
SIA	Small Industry Association
SIFCT	Small Industry Finance Corporation of Thailand
SIFO	Small Industry Finance Office
TISCO	Thai Investment and Securities Company
TISTR	Thailand Institute of Science and Technology Research
TMDPC	Thailand Management Development and Productivity Centre

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## 1. Industrial Policy and Development Planning.

Planning takes place at many levels in Thailand: from the general to the sectoral, from the national to the local, regional or provincial. Although there is increasing mention of decentralization in government policy discussion, the overall system is strongly centralized and flows from top to bottom, from center to periphery.

Any concessions made to the periphery are inhibited in practice by the fact that all budgetary funds are allocated by the center and that capacity for planning at the local and regional levels is severely limited. The main problem of the system therefore, if it is to function effectively, is one of coordination to assure that feedback flows effectively from the periphery to the center and from the sectoral planners to the overall planners.

### 1.1 The planning process at the national, regional and local levels

The National Economic and Social Development Board (NESDB) is at the apex of this system and is in principle the integrator of all industrial planning in the national and overall perspective. The unit directly responsible for this within the NESDB is the Industrial Planning Section of the Economic Project Division which also coordinates with other Divisions such as the Economic and Social Planning Division, the Development Studies Division, and the Population and Manpower Planning Division under the overall supervision of the NESDB Secretary General. Its main policy instrument is the National 5 Year Development

Plan which it prepares quinquennially and submits to the Government for approval. Once approved, the implementation of this Plan is monitored by the NESDB and revised on a yearly basis.

The NESDB planning process is a fairly sophisticated operation. Many of its own staff are highly trained professionals. Professional staff from the university community are also drawn upon to assist in the preparation of the plan draft. This draft is then discussed by an industrial plan committee composed of representatives of agencies involved in different capacities with the implementation of industrial policy, hence eminently interested in participating in its formulation. These currently include representatives of the following agencies and organizations:

- Ministry of Industry
- Ministry of Finance
- Ministry of Commerce
- Bank of Thailand
- Board of Investment
- Industrial Finance Corporation of Thailand
- Industrial Association of Thailand

The NESDB has regional offices in Chiang Mai for the North, Khon Kaen for the Northeast, and Songkhla for the South. The function of these offices is to monitor the implementation of current plans in their regions and provide information and feed back for their revisions and for the preparation of successor plans. They

also provide technical assistance to changwat offices for the preparation of provincial plans.

Planning in the Ministry of Industry (MOI) is sectoral and industry specific. Overall planning within the broad industrial sector is handled by the Industrial Economics and Planning Division (Office of the Under Secretary of State). This Division has Regional Industrial Economic Development Centers in the North, Northeast and the South. The capacity of these centers is severely limited by staff and budgetary constraints. This, combined with the fact that they have no line responsibilities, leaves them with little first hand knowledge of the field. A much better source of information is the Changwat Industrial Offices whose officers are in constant contact with industry. Although their primary responsibility is to the Factory Control Division of the Department of Industrial Works, they also function as a liaison office of the MOI at the provincial level. Another source of information on industry at the local level is the Changwat Labour Offices of the Department of Labour.

Specific plans for small scale industrial enterprise, either factory or non-factory, are handled by the Planning Division of the MOI Department of Industrial Promotion (DIP), but this is done in collaboration with other units for the MOI as well. The text of the draft of the next plan for the development of home and small scale

industry acknowledges the collaboration of the following:

- All units of the DIP
- Industrial Economics and Planning Division
- Industrial Economic Development Centers:
  - North, Northeast, South
- Changwat Industrial Office
- University faculty
- Private sector businessmen.

DIP units which are more directly geared to involvement in a planning exercise are the Industrial Service Divisions usually referred to as the Industrial Service Institutes (ISI) in Bangkok and Chiang Mai, as they have industrial development sections which conduct studies related to the potential of their region for industrial development and they are in contact with industrial entrepreneurs in their regions. This is also true to a lesser extent of the Management Development and Productivity Center which works closely with the ISI. The capacity of the IS Institutes is well directed but weak because of personnel and budgetary constraints.

Planning is done at the local level in changwat offices which are required to formulate provincial development plans paralleling and following the guidelines of the National Plan. Some technical assistance is provided by the NESDB regional offices, as mentioned.

delete are provided by the NESDB regional offices, as mentioned. Inputs are provided by the changwat officers of the various line agencies. Those more directly concerned with small scale industrial enterprise, besides the MOI, are the Community Development Department (CDD), the Office of Accelerated Rural Development (ARD), and, to a much lesser degree, the Public Welfare Department (PWD). The CDD does this more deliberately than the others through its regional Rural Development Offices. Proposals by the line agencies inevitably reflect their own work priorities established in Bangkok but all activity is directly under the jurisdiction of the provincial governors who in theory at least can accept or reject them at his discretion. As mentioned previously, these planning exercises are generally very weak for lack of a planning capacity at this level. Ability to act on the plan is also severely restricted because effective control over budgets and locally based line agency personnel has not in fact been transferred to provincial authorities. Any success in implementing locally conceived plans is due more to the leadership qualities of provincial authorities and their ability to obtain the collaboration of their colleagues on a personal basis than to provisions in the structure of local government to help bring this about.

#### 1.2 Current industrial policy and development plans

The next National Development Plan (the fifth in the series) is scheduled to become effective in October 1981 and all planning units are currently actively involved in its preparation. Problem areas

have been identified. There seems to be agreement at the top on broad policy guidelines. Many projects to implement this policy have been identified. These are currently being sorted out and decisions being made on the shape and content of the final package.

We are told that the present mood of the government is to abandon the growth strategy of the previous plans in favor of efforts to achieve a more equitable distribution of income. The stress therefore will be on the restructuring of the economy to favor the poor and increase their productivity, not by social welfare measures as in the past but by genuine employment creation.

The broad industrial development policy guidelines on which we are told there is agreement at the top are as follows:

- 1) Promotion of export oriented manufacturing.
- 2) Rural industrialization.
- 3) Promotion of efficient import substitution industries.
- 4) Energy conservation: switch from imported to locally developed sources of energy.
- 5) Protection of the environment and elimination of pollution.
- 6) More labor intensive industrialization.

A planning document of the MOI provides greater specification for the development of small scale industries. The objectives proposed are as follows:

- 1) Promote home industry and support it so that it can expand to the level of small-scale industry.

2) Encourage and support the spread of small-scale industries throughout the Kingdom by increasing their number, size, and variety of production.

3) The following types of industries will be supported: agro-industry, industry using local raw materials, industries producing exportable products, and industries producing light machinery.

There is a bias in favor of developing complementarities between agriculture and industry: industry producing agricultural tools and equipment and agriculture geared to the production of raw materials for industrial processing.

In another document, the DIP proposes a number of specific project activities to develop home and small-scale industry:

Projects to develop home industry

- Surveys on home industry production locations and markets.
- Develop appropriate technology and design.
- Training and logistic support for production.
- Revitalization of traditional artistic handicrafts.
- Financial assistance: loans, raw materials, equipment, purchase of output.
- Marketing assistance: increase number of handicraft stores, showrooms.

Projects to develop small-scale industry

- Skill development for actual or prospective small-scale industry entrepreneurs.
- Feasibility studies for the establishment of upcountry small industries.
- Greatly increase Small Industry Finance Office (SIFO) capital for loans.
- Expand and multiply Industrial Service Institutes.
- Establish small enterprise industrial zones.
- Disseminate industrial technology.
- Develop small scale food industries upcountry for local consumer needs.
- Promote pottery and ceramics industry: training centers.
- Develop furniture industry: improve technology and quality.
- Develop machine tool industry.
- Develop Thai silk industry.

Changwat development plans typically contain a compilation of statistics on past performance in various sectors with more or less arbitrary projections of targets to be attained in the period to follow. They are not based on a scientific planning process analyzing the natural and human resources of the province, the local project implementation capacity, and relating these to objectively determined development priorities. Their value as an instrument for development is therefore very limited.

As mentioned above, regional NESDB offices, regional Industrial Economics Development Centers, the Industrial Service Institute in Chiang Mai, the Changwat Industrial Offices are the main sources of information and feed-back from the field of the central planners. The following is a sampling of the kinds of proposals that get fed into the pipeline to Bangkok from the field. The suggestions were elicited in the course of open ended interviews. They are not a systematic nor a complete list of all items they would want to have incorporated into the next National Plan but those that came most readily to mind. They are representative of their perception of the projects and enterprises that should be promoted in their respective areas in the light of their experience:

Northern Region (but mainly Chiang Mai area)

- Modernization of small scale industry re management, market intelligence, sales promotion.
- On-the-ground planning for industrial promotion and development i.e. on the basis of local surveys on potential and needs.
- Coordination of government programs with the private sector.
- Provision of infrastructures for small scale industry.
- Promotion and support of agro-based industry to achieve value-added:
  - processed food: vegetable and animal

- R & D to develop new products from crops that can be grown in the Northern Region:
  - .. nuts, crude vegetable oil, aromatic oil
  - .. medicinal preparations
  - .. beverage plants: tea, coffee, mint, ginger, etc.
- Develop alternate sources of energy: alcohol, lignite.
- Promotion of ceramic, earthen ware, stoneware, porcelain, tiles, bricks.
- Promotion of textiles, cotton and silk weaving, ready made clothes.
- Promotion of basketry, mat-making, etc.
- Cement factory to meet the needs of the North.

Northeastern Region (but mainly Khon Kaen and Roi Et)

- Rational planning for the siting of small scale industries.
- More sustained provision of training and promotion for small scale industry: need for Northeastern ISI.
- Simplification of bureaucratic procedures to launch and maintain small scale enterprises.
- Promotion of agro-based industry:
  - .. cassava and rice processing; cassava animal feed.
  - .. food processing: cashew nuts, vegetable and fruit juices, sauce preparation, scientific fish sauce using local ingredients, vegetable oil.

alcohol derived from sugar cane and cassava.  
shaving board manufactured using the stem of  
the cassava plant.

- Promotion of the agricultural implement industry:  
plow shares, knives, carts, etc.
- Promote fertilizer plants using locally found  
materials: potash, salt.
- Promote pottery, improved bricks and cement  
blocks using new technology, concrete products,  
basketry and mat making.
- Promote sericulture, silk spinning and weaving.
- Promote furniture industry.

### 1.3 Planning data sources

Government planners have several sources of information to draw on. Basic data are gathered by the National Statistics Office (NSO) which also conducts periodical surveys between census years. Industrial statistics and directories are compiled on an on-going basis by the various units of government dealing with industry which have their officers in all changwats. Already mentioned are the Changwat Industrial and Labor Offices. Industrial surveys are also conducted by some of these e.g. the Department of Labor and the Industrial Service Institutes. Some analysis is done inhouse by the NESDB, the NSO, and the Bank of Thailand. This is also done by some of the larger banks such as the Eangkok Bank. The universities conduct considerable research bearing on industry. Some of their research conclusions are fed into the planning process

but this resource is underexploited. While this data base is adequate for macro-planning purposes, its shortcomings become increasingly apparent the closer the planning gets to location and product specific considerations. Virtually all planners interviewed at all levels were unanimous in stating that their major handicap for effective industrial development planning was lack of information on the local and regional content of industrial development.

## 2. Industrial Development Facilitation

This section deals with industrial promotion activity that precedes, leads to or makes possible the establishment of specific enterprises. It may or may not be the result of official industrial policy implementation.

### 2.1 Product and production information

If one considers the small industrial entrepreneurs as a group, the process by which they become aware of a product to be developed profitably is probably as varied as the number of entrepreneurs themselves. One can only guess at this stage but it would seem that the rate of involvement of industrial promotion related institutions in this process is very low in town areas. Its occurrence is most clearly in evidence in the case of home industry and handicraft production in rural areas. All of the "generalist" supportive institutions play a brokerage or catalyst role in this respect in the areas in which they are active.<sup>1/</sup> These

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<sup>1/</sup> The term "generalist" institutions refers to those organizations having a general development promotion mandate extending to several sectors, as distinguished from specialized agencies such as the D.I.P. having responsibility for one sector only.

include the CDD, ARD, PWD and, among the non-governmental organizations, the Population and Community Development Association (PDA). The range of products proposed for local production is very wide: silk and cotton production and weaving, clothes making, basketry, mats, artificial flowers, pottery, bricks, cement product making, food preparations, etc. Ideas are proposed to the villagers as employment generating projects, and if the schemes are accepted, follow-up support is arranged.

The ISI's are also involved in this activity by the organization of industrial products exhibitions and by the diffusion of literature on investment opportunities and enterprise development.

The role of large private commercial firms is probably quite important in introducing new types of enterprises in rural areas but this has not yet been evaluated by the present sub-project.

## 2.2 Entrepreneurship development

This activity is engaged in by the ISI's and relates more to small scale industry than to home industry. It consists essentially in identifying actual or potential entrepreneurs and providing them orientation for enterprise development. This activity was initiated only recently and is still in the development stage and not yet fully operational. Technical assistance is being sought of the TECHNUNET Asia organization of which ISI is a network member to develop this program.

## 2.3 Enterprise development feasibility

The DIP has prepared a comprehensive proposal for the Promotion of Regional Small-Scale Industry Development Project targeted for FY 1980-1981. Activity proposed under this project includes pre-investment

surveys, feasibility studies of new factory projects, investment profit analysis and cost benefit analyses of selected projects. The main executing agency is the ISI but other units of the DIP and MOI would also become involved. A pilot project was begun in Nakhon Sawan but it is said to be currently in abeyance.

The Bangkok Bank is said to conduct its own feasibility studies on enterprises proposed for investment. The same is probably true for other financial institutions such as IFCT, TISCO, other commercial banks, etc. but more information is needed.

2.4 Promotional privileges such as exemption from import duty, tax holidays and other special privileges are under the jurisdiction of the Board of Investment (BOI). The record shows that, in practice, the BOI has granted promotional privileges only to medium and large scale industries. We are told that a proposal to set up a small scale industry board of investment was submitted to the cabinet for enactment in the past but it was rejected.

#### 2.5 Enterprise implementation assistance

The Investment Services Center of the BOI provides investment assistance e.g. to obtain clearance to establish a factory, to register an enterprise, to obtain duty clearance for imported machinery, etc. These services are available only to BOI promoted enterprises hence not to small scale industries.

The Thai Factory Development Co., (a subsidiary of the IFCT) provides assistance for building or purchasing factories. Entrepreneurs with the kind of capital that would require this assistance are not in the

small scale category (However, see infra 2.6).

2.6 Industry siting assistance: industrial zones and estates

Industrial zones have been determined in 10 different areas in all regions of Thailand under the Investment Promotion Law with the specific purpose of encouraging industrial dispersion out of the Greater Bangkok area. Factories established in these zones are entitled to certain privileges beyond those accorded by the BOI to promoted industries, such as, allowing higher deductions for corporate income tax purposes for certain types of expenses incurred because of the remoteness of the factories e.g. additional freighting costs to the port of loading for export goods. As traditional and small scale industries do not usually meet the criteria to get these benefits and as these zones are not otherwise especially developed for industrial purposes, these small enterprises derive no advantage from being located in these areas.

Industrial Estates. These are areas under the jurisdiction of the Industrial Estate Authority of Thailand (IEAT) which have been especially developed for the siting of industrial enterprises and include all infrastructures needed such as roads, public utilities, standard factory buildings, waste disposal systems, etc. Three such estates are now in operation and five more are being developed. Existing estates are not suitable for small scale industry as the size of lots and buildings are much larger than needed or can be afforded. The plans of newer estates include areas specifically set aside for small scale industry. Moreover the development of two sites are being planned as specifically small scale industrial estates in Chiang Mai and Nakhon Si Thammarat to

be implemented by the IEAT and the Thai Factory Development Co.

### 3. Industrial Support

This section deals with industrial promotion facilitating activity available to small scale industrial enterprises at the implementation level. This activity is of relevance to entrepreneurs who, if not actually operating an enterprise, are at least acting on a plan that has been finalized.

#### 3.1 Industrial skill training

Both technical and non technical training is provided by several institutions. The most important are the following:

##### a. Institutes for Skill Development (ISD) of the DOL.

There are five such institutes: one in Bangkok, two others in the Central Region, one in Lampang, and one in Khon Kaen. Their main and most important program is pre-employment training for youth in the 16-25 year age group having completed not less than the Pathom 4 and not more than the MS 3 grades of schooling. The training is basic and terminal and lasts from 4 to 14 months according to trade, including a period of in-factory training. Trade training offerings are predominantly in areas in which industrial employment is most readily available, namely, in the mechanical and electronic fields, wood, metal and cement working, and construction. Training is also offered in non-technical fields such as training for factory foremen, in-factory training officers, secretaries, receptionists, etc. Another program of the institutes provides shorter upgrading courses in the evenings for employed workers wanting

to improve their skills. There is also a trade skill certification service for craftsmen without formal training, hence, without diploma or other documentary evidence of their skill level, which some employers require.

b. Industrial Service Institutes (ISI) of the DIP in Bangkok and Chiang Mai. Training provided by the ISI's is more specialized. Trainees are practicing craftsmen, many with vocational training. Supervisors and foremen are the main target group. Training is short, extending from 2 to 10 days. Each institute tends to be somewhat specialized according to the needs of their region. Thus, the Bangkok institute stresses metal working and furniture: that of Chiang Mai ceramic, lacquerware and wood working. The facilities and training provided by both are excellent but their function is rather different from that of the ISD's. For the latter, training is the only function. For the former, training is only one element of an industrial promotion package. The Chiang Mai ISI, in particular, is geared directly to small scale enterprise development.

c. Thailand Management Development and Productivity Center (TMDPC) of the DIP. This center offers short term courses of about 5 days duration for industrial personnel in marketing, personnel relations, accounting organization, maintenance and safety. Four to five thousand persons a

year undergo the training. Most are Bangkok based middle level management. The proportion of those in small scale industry is small.

d. DIP Textile, Cottage Industry and Thai Handicrafts Promotion Divisions. All three specialized divisions of the DIP have Bangkok based training staff who go into rural areas to train villagers in the various skills of their specialty. Training sessions are usually organized by field offices of other agencies: CDD, ARD, MDU etc. and some private organizations. Training in the Chiang Mai area is usually coordinated by the Northern Region ISI. Training sessions can last up to six weeks in one locality. The Textile Division which is the most active in this enterprise has 80 trainers who do nothing but this. The main short-coming of this project is the lack of follow up. Because of this, much of the skill acquired by the villagers is not used and does not result in income generating activity.

e. General development agencies: CDD, ARD, MDU, PWD, PDA. As mentioned, these agencies have projects involving training but, in most instances, they do not conduct the training themselves. There are some notable exceptions however. The CDD regional Rural Development Centers are training centers for CDD related project activity, some of it relating to home industry. The ARD have more specialized technical staff than the other generalist agencies and they

appear to contribute directly to agro-industry promotion in their own project areas. The PWD has centers in which simple crafts are taught to their own socially disadvantaged clientele but this activity provides little leverage for industrial development.

f. Department of Vocational Education - Technical Schools. These are found in all provinces but are said to be less practical and employment oriented than, say, the ISD's.

### 3.2 Extension, R & D

3.2.1 Extension. This is provided by the DIP Industrial Service Institutes and deals with both technical and non-technical (e.g. managerial) aspects. Interventions take the form either of trouble shooting, i.e. helping entrepreneurs solve their organizational or technical problem, or providing information on products or techniques. They seem to do this well.

extension services are also provided by private firms such as the CP Co., Adams International, and others, mainly in the area of agro-industry, in relation to entrepreneurs who enter into contractual arrangements with them to do work on consignment. These interventions appear to be important sources of innovation.

The DIP Textile Division provides substantial extension services to the textile industry but mainly

to medium and large scale industry. It has good laboratories and technical library.

3.3.3 Research and Development on new products and on new/appropriate technology.

Institutions that appear to be of most relevance to small enterprise in this report are as follows.

- ISI. Institutes both in Bangkok and Chiang Mai are doing excellent R & D. Areas stressed are mainly pottery and ceramic, lacqueware, wood products and furniture, metal working. An interesting aspect is that this R & D is incorporated into their training programs, thereby assuring the diffusion of the new technologies. The ISI also obtains the collaboration of manufacturers, e.g. of furniture, to get them to participate in exhibits for the trade to illustrate the use of new materials or technology.

- DIP Textile Division has excellent staff and facilities to conduct R & D on textile and weaving technology. Their most sophisticated work is for the benefit of medium and large industry but some is directed to home industry.

- Institutes for Skill Development. Although R & D are not the mandate of the ISD's, that of Khon Kaen, for example has excellent and sophisticated

equipment and the staff is very resourceful and innovative. It could play a role both in upgrading the technology of Northeastern small scale industry and in developing appropriate technology.

- Thailand Institute of Science and Technology Research (TISTR-ex ASRCT). This institute plays an active role in R & D and collaborates closely with the ISI.

There are obviously many other institutions involved in industry related R & D in Thailand which were not covered by the study. These would include, among others, universities and technical colleges and R & D units of several Ministries. The following will serve as illustrations:

Ministry of Agriculture

- Royal Forestry Department

Forest Products Research Division

- Department of Agriculture

Sericulture Division

Agricultural Engineering Division

- Dairy Farming Promotion Organization  
of Thailand

Ministry of Science, Technology and Energy

- Department of Science Service:

Ceramic Industry Research and  
Development Center

3.2 Financing and Credit

The Small Industry Finance Office (SIFO) was established under the supervision of the DIP for the purpose of giving long and medium term loans of less than Baht 500,000 to small scale industries in the private sector at a low rate of interest. The project was set up in cooperation with the Krung Thai Bank which provides 2/3 of the loan fund, the remaining 1/3 coming from the government budget. Loan ceilings were later raised to Baht 1 million and the rate of interest raised from 9 to 9.5 %. Requests for loans are processed by SIFO examiners but the loans themselves are executed by the Krung Thai Bank. All enterprises requesting loans must be properly registered. Collateral is required which is said to be estimated very conservatively. No loans have been made since February 1980 because of a dispute with the Krung Thai Bank over rates of interest on deposits with the bank and on loans to small entrepreneurs. The Bank is accused by SIFO of being uncooperative and SIFO is accused by the Bank of proposing poor projects for financing. Funds are clearly inadequate to meet the demands of small entrepreneurs who complain that the loan ceiling is too low. There are some who argue against SIFO and the policy of subsidizing credit making the case that entrepreneurs with sound projects can always obtain loans from commercial banks, that what is essential is the availability of credit and that the rate of interest

is of secondary importance. SIFO takes the opposite position and argues that loans to small entrepreneurs can only be handled by an organization like itself where service takes priority over profit. By all appearances SIFO will be disbanded and replaced by an organization called Small Industry Finance Corporation of Thailand (SIFCT). Most recent indications are that it will be set up as a State Enterprise.

#### Industrial Finance Corporation of Thailand (IFCT)

The IFCT is not a government enterprise although it is strongly supported by the Thai Government and the Bank of Thailand and presumably controlled by them to a large extent. The latter assumption is suggested by a recent announcement of the President of the Corporation Mr. Sukree Kachandee on its development strategy up to 1983. It includes, among other points, the promotion of export-oriented projects, the financing of projects aimed at conserving energy, greater effort to develop outlying area projects, assistance to small industrial projects in rural areas, promotion of labour-intensive projects, the financing of pollution control and prevention in industry - all of which very much reflects current government policy concerns. (Bangkok Post, Jan. 22, 1981). The IFCT was set up in 1969 on the so-called World Bank model and has received important loans from the World Bank and the Asian Development Bank. In 1977, 53 % of its shares were Thai owned, the remaining 53 % being owned by banks of Japan, Germany, USA and Hong Kong. At that time, 53 % of its investment was in the Greater Bangkok area although there was also heavy involvement in rural areas, mostly in agro-industry. Normally its involvement is only with medium and large scale industry. As it is a profit

making organization and given the high cost of administering small loans, the support of small enterprises was seen as falling beyond its scope of activity but the Corporation is now showing a willingness to becoming involved. A low interest loan is being negotiated with the Japanese Government for this purpose. As procedures are shortened and simplified and as the branch network is increased, it is hoped that loans can be made to small enterprises at a rate substantially below market costs. (Richard Meyer Memo to Project Staff 9-26-80). As mentioned above, the IFCT is already involved in a project to provide industrial sites and buildings in the provinces for small enterprises through its subsidiary, the Thai Factory Development Co.

Other Government Sources. The CDD in collaboration with the Krung Thai Bank sponsors the Savings for Production Groups project which makes limited funds available for loans for home industry types of activity, among others. The ARD makes small sums available for such projects by the groups they sponsor, Youth Group projects for example. The Ministry of Commerce is said to have a credit program for lending to small traders (Meyer op at).

Commercial Banks. Commercial banks are not usually attracted to projects having high social benefit returns in a developing situation as this is usually inversely proportional to profit returns on investment. Consequently such projects are not considered "bankable". Unfortunately small scale industrial enterprises are often classified under this category.

The Krung Thai Bank, more than others, has been involved in credit ventures with small scale industrial enterprises. Instances already noted are SIFO and the CDD Savings for Production Group. A probable explanation is its government connection as this bank is partially government owned. As already noted also, cooperation has only been half-hearted, more profitable alternate uses of available funds being available.

Siam Commercial Bank is negotiating for a US\$ 2 million loan for an experimental project to fund small and medium businesses. A provincial branch manager maintains however that as of now, the only small enterprises they are willing to finance are rice and cassava processing mills because of the lack of collateral and high rate of defaulting of small entrepreneurs.

Bangkok Bank. This bank is said to play a major role in the financing of rural projects and have a full range of services in this respect. It conducts its own feasibility studies, credit financing is advanced, managerial advice and extension services provided, and projects are monitored while in progress. This report provided by the Chief of the Agricultural Credit Division in 1977, Mr. Chusak Himatongkhom, still has to be checked out. It is not known to the writer to what extent this activity includes support for off-farm projects.

#### Other Private Sources

Large commercial firms can play a supportive role that is analogous to that of formal credit institutions for the entrepreneurs who do work on consignment for them. For example, the Bangkok Farming Co. (a member of the CP Group) provided a guarantee for a Baht 5 million loan for

an agro-business project of the Sankamphaeng Cooperative Village in Chiang Mai. Various inputs can be advanced on credit. For example, the Surapee Co. provides village weavers with dyed cotton thread to produce the cotton cloth they make on consignment for the company. The cost of these materials is deducted from the payment they receive for the finished cloth. This type of activity has yet to be investigated by the project however.

The Population and Community Development Association (PDA) has funds for a small loan program to finance home-industry projects that they promote.

Marketing Support. Thus far, this aspect of small enterprise institution support has only been investigated by the project for handicraft and home industry. It appears to be generally very weak and un-professional.

Thai Handicraft Center (Narayana Phand). The Thai Handicraft Center was established as a State Enterprise under the DIP some 10 years ago to serve as a market outlet for small producers of Thai handicraft. The original investment was Baht 4 million. Its current sales volume is about Baht 20 million a year. Sales are made on a wholesale and retail basis, locally and overseas. The Center has no system of buyers who travel regularly to production centers to solicit and purchase quality merchandise. In practice, it depends on its own regular suppliers who deliver their goods directly to the Bangkok store. No effort is made to improve the supply at source or to systematically gather market intelligence concerning

*With.*  
Notes: 6/52. Interviewee's description to be incorrect. Products are promoted abroad at international shows. They do try to improve quality. Prices in stores however are a whole lot higher than in any private sector or profit margin. Some programs under activities, shows about 5% profit in sales before cost.

supply and demand. There is no sales promotion. Lacking these functions, the effectiveness of the Center to promote the handicraft industry is very weak.

Most of the generalist government development agencies engage in marketing activities as part of their handicraft promotion projects. Many have stores in different locations to sell this produce or function as brokers to find outlets. The effort is generally unprofessional and has more in common with social welfare than with sound business administration.

The Roi Et Silk Industry Project is a notable exception to the charge of unprofessionalism. The project was initiated by the governor of Roi Et as a changwat project financed by the changwat budget. It is executed by a committee composed of the Governor, the Deputy Governor, the Changwat Agricultural Officer, the Changwat CO Officer, the Changwat ARD Officer and the Head of the Agricultural Experimental Station, Cooperation being extended by all organizations represented. The merit of the project is that it brings together all of the elements required to assure that this home industry does in fact become income generating in a more than marginal way. Besides promoting quality silk production and training, the project also has an important marketing component, including market research. The project purchases the local silk production directly from the producers without passing through middlemen, and at a guaranteed price, using its own revolving fund. It then handles onward marketing of this production through provincial traders and Bangkok firms such as the Jim Thompson Thai Silk Company. Market intelligence on overseas demand is provided by

the Queens' Foundation for the Promotion of Special Artistic Crafts which also markets some of the best quality production. The project assures that the village producers get a fair share of the profit from sales in external markets. This model is strongly recommended by the DIP.

Volunteer organizations. The most notable of these from the point of view of marketing assistance is the Queen's Foundation for the Promotion of Special Artistic Crafts which appears to be the most professional. Examples of other organizations playing a similar role but at a much lower level are the National Council of Women of Thailand and The Social Welfare Council of Thailand.

The Surapee Company. Besides serving as a market outlet for village handicraft produce, this company plays an active promotional role both for product development as well as for sales. It is a very small operation however and limited to 3 or 4 villages in the Northeast.

The Northern Region ISI in Chiang Mai does modest market research in its area and does some sales promotion of its produce by organizing exhibits and putting wholesale buyers in contact with producers.

Some larger stores function as wholesale outlets for producers. Examples are 3 large stores in Chiang Mai: Chinnawat, Phromchana and Plenkusun which buy up home produced handicraft, including ready made clothes for resale in Bangkok and abroad. In Bangkok, the Central Department Store has a sizable Thai handicraft department.

The PDA has an interesting set-up that could perhaps play a useful role for the marketing of handicraft. It has used its extensive village network to organize the marketing of agricultural produce most effectively, putting the villagers directly in contact with sales outlets not normally accessible to them. Given the extreme atomization and dispersal of handicraft producers, such a system could perhaps serve as a model to consolidate the producers and develop the industry into something more substantial than it is at present.

Looking now at marketing support in a broader perspective including not only handicraft, the Ministry of Commerce has a number of units and activities that are still to be investigated by the study. They are of potential relevance to small scale industry development although it is doubtful that their services are used by the small entrepreneurs. A few hopefuls are the following.

- Department of Foreign Trade. It has a Commodity Standards Division which provides quality certification and guarantees for agricultural product export. (The DIP Thai Handicraft Center issues certificates of origin for handicraft products.)

- Department of Internal Trade.

- Department of Business Economics. Commodity and Marketing Research Division.

- Department of Commercial Relations. Its Trade Development Division has an Export Service Center which provides assistance and information to exporters on procedures, marketing and sales.

The MOI Thai Industrial Standards Institute provides quality certification for local industrial produce.

Private Sector Trading Companies. Of recent years a number of export oriented trading companies have been granted promotional privileges by the BOI for the purpose of increasing the export of Thai product other than the traditional export earners, the stress being on labor-intensive manufactured goods. According to an NESDB source, they have expanded the volume of exports much more than expected. They are expected to be of benefit to manufacturers for finding markets, and to buyers for getting good export ideas. Targets are imposed by the BOI: Bant 300 million for the 1st year, 400 million for the 2nd, and 500 million for the third. They must be Thai managed and controlled and go public after 5 years. If the requirements are met, they are entitled to certain incentives such as tax exemptions and special loans from the Bank of Thailand at a 7 percent rate of interest. Six such trading companies have begun operations so far and 8 others have been approved. Those already operating include:

- Export Development Corporation Ltd. (PSA Group)
- Asoke International Trading Company
- Texport International Corporation
- SIA International Trading Company
- Siam Cement Trading Company

As these firms are under pressure to meet their government imposed targets, they end up dealing in a very wide variety of produce: motorcycle helmets, industrial gloves, belts, frozen squid, furniture or pottery, for example. A view of one small entrepreneur is that these firms

are monopolizers and create obstacles for the development of small firms. It remains to be seen if this is true in all cases and if working relations cannot be developed with small firms who lack the capacity to deal directly with an international market.

#### 4. Industrial control

Few will argue on principle against the proposition that industrial control is necessary. Natural resources have to be protected from over-exploitation by industry using them as raw materials. The natural and man-made environment must be preserved from contamination by industrial pollutants. There must be an orderly development of industry in line with national development objectives. The safety and health of workers in factories and of populations in industrial areas must be protected. The well being of workers must be assured by minimum but adequate remuneration and benefit requirements. Consumers need to be protected by the imposition of minimum standards of quality, sanitation, etc. for industrial products. And so on.

While the rationale behind industrial regulation is simple and straightforward, its implementation is difficult because of the many often conflicting interests to be served. The formulation of good legislation requires a clear specification of overall development objectives, understanding of situations affected, wisdom and planning skill to establish a proper balance between individual objectives to be served, and a sense of justice and fairness to assure that no group is disadvantaged at the expense of others. The enforcement of legislation needs to be guided by the principle that the purpose of the law is to serve the good of the people,

that the enforcement of regulations is not an end in itself.

Few if any societies achieve this ideal completely, but the best try at least to approximate it. Only too frequently however, regulations are ineffective, unreasonable or unenforceable because the situations for which they are intended are too imperfectly known to policy makers and legislators or the standards aimed at are too high for the society to bear. Regulations are unjust because of the undue influence of powerful individuals or pressure groups pursuing their own selfish interests. In too many cases, the enforcement of regulations becomes a form of oppression rather than support: procedures are complicated and excessively time consuming or/and they are applied with a single mindedness that has no consideration for the intended beneficiaries of the regulations, the bureaucratic mind being notoriously uncompassionate. Worse still, graft and corruption come into the picture. The "beneficiaries" of the regulations are made to pay over and above the established fees for the benefits of complying with the rules by the officials responsible for enforcing them. Because of these and similar situations, the wisest of industrial policies are defeated by their policy instruments. Rather than promote an orderly development of industry, industrial controls become a hindrance and inhibit it.

That such a situation exists in Thailand to some degree is obvious. It is reported upon regularly by the press. Recent studies by National Institute of Development Administration (NIDA) researchers have investigated issues of bureaucratic constraints and corruption as they affect industrial entrepreneurs among others. (See in particular reports by Chirayu Isarangkhun, Saeng Sanguanruang, Thirapan Makata and their colleagues).

This aspect of the context of industrial development is of considerable relevance to a study of small enterprise institutional support as it provides important clues for the understanding of the success or failure of government interventions. For example, there is reason for concern if it is true, as the evidence seems to suggest, that the negative manifestations of industrial controls have created such a climate of distrust for government officialdom that it neutralizes many of its positive aspects. Victims of extortion, corruption, and abuses by government officials are not likely to be very receptive to even well-meaning interventions by government supportive institutions.

It would be gratuitous and counterproductive to assume on principle that all government officials are bad and that all government interventions are ineffective. The writer was impressed on the contrary by the quality of some officials in all organizations visited. They are not insensitive to the problems of small entrepreneurs and are doing their best under difficult circumstances to improve the system. Two areas among others were brought to the attention of the writer. The first is the inadequacy of the labour laws concerning minimum wage and minimum age of workers. They were written in the context of modern large scale industry conditions and are inapplicable in the case of small traditional enterprises in rural areas. They need to be rewritten more realistically taking the conditions of the latter into consideration, but more information on them is needed before this can be done well. The second area concerns the process of industrial firm registration which was described as being too complicated and time consuming and as

imposing a needlessly harsh burden on entrepreneurs. Although registration is the responsibility of the MOI Factory Control Division represented by the Changwat Industrial Officer, he in fact acts only as a coordinator and, except for very small enterprises such as village rice mills, clearances have to be obtained at all levels (amphoe, changwat, Bangkok) from all units of government issuing regulations on industrial enterprise: Local Government, Police, Industry, Finance, Health, Labour, Forestry, Environment, etc. Understandably, clearing those hurdles can be a traumatic experience for small entrepreneurs and many choose to operate illegally, greasing palms as necessary, rather than register.

The response of industrialists, big and small, is to organise their own pressure groups, seeking strength in association to protect the interests of their members. Chambers of Commerce play this role but the Trade Associations are more important. The most important of these as far as small entrepreneurs are concerned is the Small Industry Association. Although based in Bangkok, its membership network covers the Kingdom. Among other services, it provides assistance to small entrepreneurs in trouble with the law, helping them, for example, to legalize their status. There are several more specialized organizations such as the Wood Carvers' Association in Chiang Mai which somehow makes it possible for local wood carvers to deal both with the government Forest Industry Organization and the illegal loggers for the procurement of teak wood.

## 5. Conclusions and recommendations

### 5.1 General observations on policy and planning

Current national development policy guidelines come out strongly in support of small industrial enterprise development. They state that growth strategies will be eliminated and that the economy will be re-structured to favor the poor. Specific measures proposed are employment promotion to increase their productivity and income. In industrial terms, this means dispersal of industry outside of Greater Bangkok, rural industrialisation through the establishment of low technology labour intensive enterprises, and active promotion of small scale industry and home industry.

The seriousness of this intention has still to be demonstrated. It is politically expedient to show concern for the poor but political statements to be taken seriously have to be supported by demonstration of political will to do so. As documented in this report, past and present support for small industry has not been inconsiderable, but it is negligible compared to the outlays made for agricultural support. To give but one example, the funds made available to SIFO for small industrial credit are insignificant compared to the vast amounts provided to the BAAC for agricultural credit. (Cf. Richard L. Meyer, ROFEAP Working Paper No. 9). The comparison is not completely fair given the fact that Thailand has been and continues to be a predominantly agricultural nation, but it does reveal the lack of sense of urgency on the part of the government to come out strongly in support of small industry. Historically, massive development efforts in Thailand have always been

made in response to a crisis situation. The Northeast of Thailand and its poverty were virtually ignored by the Central Government until insurgency transformed them into a threat to national security. Massive interventions were then made to correct this situation.

Non-farm/off-farm employment is becoming increasingly important in Thailand as agricultural options for employment decrease. Of the households surveyed by the ROFEAP, 93 % were reported to engage in some cottage industry in the previous 12 months. A World Bank source estimated that in 1979, about 55 % of all manufacturing employment in Thailand was in firms with less than 10 workers and that nearly half of these were outside Bangkok. (Donald Mead, Memo 16 Jan. 1980). While facts such as these point to the need for government attention, compared to inflation and oil prices, the situation rates rather lowly on the crisis scale and there is a strong probability that it will be given lower priority.

The statement that growth strategies will be abandoned is accepted with some skepticism. As far as industrial policy is concerned, medium and large scale enterprises were always seen as showing more potential for growth and they, not the small enterprises, were supported by policy interventions: BOI privileges, IFCT loans, IEAT facilities. There is no reason to believe that this will be discontinued, nor perhaps should it. Hoped for changes are that privileges granted to large enterprises will at least not be at the expense of small enterprises. Mead cites the example of BOI considering granting privileges to a bamboo mat factory in Khon Kaen able to produce 24 million mats a year, thereby putting all village mat makers out of business.

(Loc. cit.) Better still, one would hope that schemes be devised that would give small entrepreneurs access to similar incentives.

The range of projects proposed to implement the policy guidelines is impressive in the sense that it indicates how well problems relating to small industrial enterprises have been identified. Nothing has been missed. It is easy and inexpensive to prepare a catalogue of measures to act on the objectives identified but much more difficult to implement them. Planning at this level is not operational and probably not realistic in many cases given the constraints under which the government must operate. Perhaps this will be corrected in the final package approved for the Fifth Plan. There is a need to be selective and focus on measures that will have the greatest impact. The draft planning documents provide few guidelines for this. Having identified objectives and projects to achieve them, the closest they get to the implementation level is to more or less arbitrarily designate targets to be obtained and to likewise arbitrarily provide an estimate of budget and additional personnel needed to do this. The plan is structured exclusively around existing government units and program activity. No provisions are made for structural or managerial improvements or for the initiation of new types of organizations or activity that could perhaps achieve the development objectives more effectively and more economically. One is struck, for example, by the extent of overlapping and duplication of activity and poor coordination among existing small enterprise supportive institutions, say in the field of promotion of and market support for the home handicraft industry. This is both inefficient and needlessly expensive.

More is needed to improve the performance of government than to simply increase the size of its existing machinery.

According to one school of thought in NESDB and also apparently in the Ministry of Finance, government interventions in support of industrial enterprise should be made at two levels only: at a high level (policy, infrastructure, regulation incentives, overall supportive institutions etc.) and at a low level (social welfare types of activities: rural off-season employment program, etc.) Middle level interventions by government such as the running of State Enterprises, the direct support of private enterprise by subsidies, etc., are not favored. The government, they argue, has never done this very successfully and it is an area which is best left to private enterprise. There is generally a great deal of ambivalence on this point in government circles. Higher authorities frequently express the desirability of closer collaboration with the private sector. With few exceptions however, government supportive institution officers interviewed in the course of the present study had rather strong anti private sector biases. There is a conviction that small industrialists are not strong enough to help themselves and that they need to be protected from exploitation by middlemen. This, only the government can do. It is not surprising therefore that many government small enterprise supportive activities have more in common with social welfare than with sound economics. The relations of the government sector with the private sector are in fact poorly articulated and there is much need to better define what are proper areas of government

intervention in Thailand. These points have very significant implications for small enterprise development, be it only to avoid unproductive competition between the two sectors (e.g. for the merchandising of industrial production,) and government involvement in activity that the private sector can do better.

5.2 Main problems and issues arising out of current small enterprise supportive interventions.

Summarizing what was said earlier about small industrial enterprise supportive institutions (predominantly of the government sector), the main strengths are technical training, extension and R and D, and provision of technical information on products and production. The most effective institutions are the DIP Industrial Service Institutes, its other technical Divisions, and the DOL Institutes for Skill Development. The generalist government field organizations such as CDD, ARD, also play a fairly effective supportive role for field training provided by DIP units in home industry.

There are many weaknesses however. As of now, the government provides no investment incentives to small entrepreneurs of the type provided to larger industry by the BOI, the IEAT or the Ministry of Commerce. Provisions for financing and credit through the SIFO have been inadequate in the past and have since broken down completely. Marketing support has been from weak to inexistant. The DIP Thai Handicraft Center (Narayana Phand) is not in fact playing a promotional role. Efforts by the generalist field organizations (with one notable exception in Roi Et province) have been unprofessional and consequently not conducive to

the strong development of the industry. Management training is provided only incidentally by the ISI. That provided by the DIP Productivity Center does not reach small entrepreneurs. Entrepreneurship and enterprise development are planned by the ISI but not yet seriously acted upon.

Although there are provisions for supportive interventions for all aspects of enterprise development, it is done by bits and pieces and not as an integrated package, bringing together all of the components needed to develop a successful enterprise. This is most in evidence in the handicraft and cottage industry, admittedly a difficult field because producers are so dispersed, unsophisticated and far removed from market outlets. Skill development is provided by DIP trainers but it contributes very little to income generation in rural areas for lack of needed follow up: design development, consolidation into a network of producers, market development, sales promotion in Thailand and abroad, and so on. The ISI is the only institution that is oriented towards comprehensive support for enterprise development but its capacity is weak.

An important limitation to the effectiveness of supportive institutions in enterprise development is the lack of an adequate information base to plan and develop their programs. This is most in evidence for the ISI's proposed activity for entrepreneurship and enterprise development, the consequences of which affect the work of all other supportive institutions in some way or another.

While this has yet to be assessed, it would seem that supportive institutions providing specialized training for home and handicraft in-

dustry have had considerable impact in rural areas thanks to the supportive role of the government generalist field organization even though these interventions have not been followed up to maximize the effect. On the other hand, there is evidence to indicate that the impact of supportive institutions on town and city type small firms is very low, a conclusion that needs further verification. An obvious explanation that has nothing to do with the performance of the institutions discussed is the fact that small entrepreneurs appear to be generally distrustful of government officials all of whom somehow are perceived as being in the same category as tax collectors and enforcers of regulations, a group to be avoided on principle therefore. A less obvious reason about which not enough is known is the possibility that the interventions by the institutions are inappropriate in the sense that they are not suited to the socio-economic characteristics of at least some of the enterprises. A traditional sub-modern type of enterprise follows a different style and logic and requires a different approach to understand and manipulate for purposes of development than a modern sector enterprise. Traditional enterprises in some cases are not amenable to modernization until a critical level of development of the socio-economic system that supports it has been achieved.

Traditional modes of acquiring credit and establishing market networks for example, might be perfectly adequate in the present situation for some of these and would not warrant further interventions. Finally, even though the preferred interventions might be perfectly suitable, some small entrepreneurs might be obsessively concerned about protecting trade

secrets and refuse to bring any aspect of their enterprise under scrutiny by outsiders. Many entrepreneurs in towns are of Chinese origin and this is a very Chinese characteristics. One might add without being too cynical that Chinese business people are prime targets for extortion, a further reason for them to be untrusting. There is little one can suggest by way of remedy to overcome these constraints others than stress the need to develop sensitivity for the socio-economic context of small enterprises and to develop supportive activity that is, on the one hand, attuned to this context and, on the other, sufficiently attractive to overcome existing misgivings.

One of the main issues and problems of providing financing and credit to small scale industry has been and remains one of bankability. Small entrepreneurs usually have little collateral to offer for loans and, from the point of view of the financial institutions providing the loans, rates of return on investment are low, irrespective of whether or not the recipients of the loans are making a profit or not. Administrative costs to process the loans are at least as high as in dealings with larger firms seeking larger loans; projects have to be evaluated and supervision is difficult. The ratio between these costs and income derived from interest on small loans is such that few financial institutions are willing to get involved in this activity.

From the point of view of small entrepreneurs requiring financing, rates of interest charged appear to be less of an issue than the availability of credit itself. The case for subsidized credit of the type

provided by SIFO is becoming more and more difficult to defend. Enterprises that need it to survive are not economically viable and should not be encouraged except in a social welfare context. Apparently the successor organization being planned, SIFCT, will follow this philosophy, making loans available for sound projects but at commercial rates of interest. There is also some question of backstopping this operation by a government sponsored loan guaranty scheme in which commercial banks would participate, somewhat along the lines of the current compulsory investment of a proportion of their assets in rural development projects.

The financial development approach to small scale industry promotion i.e. the financing of projects on the basis of their merit, assistance being provided to develop sound projects, would seem to offer the most promise. The incentive of receiving financing would motivate entrepreneurs to want to develop financially sound enterprises. No financing on the other hand would be given to entrepreneurs not responding to the incentive. This approach would contribute to the achievement of a longer term objective: the modernization of small scale industry. The ISI are well suited to this approach. They can identify good projects and have an industrial clinic service to provide technical assistance to help small enterprises develop projects or activity that are sufficiently attractive and sound to gain the confidence of financial backers.

### 5.3 Proposals for research/action arising from the preliminary assessment of supportive institutions.

The preliminary assessment attempted to identify the strengths and weaknesses of the current small industrial enterprise supportive

system. The suggestions that follow draw on this analysis to propose interventions to build on the strengths and attempt to correct the weaknesses. The proposals are for both research and action although the distinction between the two tends to become blurred when the overall concern, as in this case, is essentially action. The list is obviously not exhaustive but it includes the interventions that appear most obvious and urgent, at least to the writer.

5.3.1 Research. Lack of information was found to be an important constraint on effective small industrial enterprise development promotion at virtually all levels and stages of promotion. This was most evident at the local and regional level. Effective planning is difficult because not enough detailed and specific data are available to identify the potential of regions for industrial development. Enterprise and entrepreneurship development projects cannot be planned realistically or be effectively executed for the same reason. Supportive action by existing institutions is not as effective as it could be because too little is known of the socio-economic characteristics of small entrepreneurs and their enterprises, the result of which can be poor communication and inappropriateness of interventions. In this as in all development concerns, the human factor cannot be ignored with impunity. The following research suggestions address these issues.

- (1) Local and regional context of small industrial enterprise development.

- available raw materials: wood, clay, etc.

- infrastructure: communications, roads central place network and their services, public utilities: electricity, piped water, waste disposal, etc. and their cost.
- overall manpower characteristics: skill and entrepreneurship pool.
- complementary production, e.g. agricultural production for possible agro-industry development.
- market networks for industrial inputs and outputs: local, regional, national, international.
- medium and large scale industry that could have possible linkages with small scale industry through subcontracting, e.g. labour-intensive low-technology production of components of products of large factories.
- consumer demands that can be met at lower cost by local production.

(2) Socio-economic characteristics of small entrepreneurs

and small enterprises and their implication for support.

a. Socio-cultural profile of small firm owners

- Ethnicity (Chinese, Muslim, of another region, etc.); extent of marginality, if any, in relation to the main stream of local society.
- Social class: relative position in the social hierarchy in terms of esteem, power and influence.
- Education: illiterate, basic elementary, higher.
- Past experience: as affecting personal universe, values, conservatism or openness to change.

b. Pattern of relationships.

- Within the firm: single owner or partnership; basis of partnership (relatives, friends, etc.); relationship of firm workers

(management level, others) to owner;  
extent of family involvement, unpaid  
family workers.

- External relationships of owner:  
With suppliers of inputs: stable trading  
relationships if any; where, on which  
basis.

With customers: stable trading relation-  
ships if any; where, on which basis.

With government officials: which  
(police, tax collectors, Industrial  
Office, Labour Office, ISI, ISD, etc.);  
owner's comments on these contacts.

- Association membership: Chamber of Commerce,  
Trade Association, etc. (Chinese?);  
extent of owner's involvement in them  
and benefits derived.

c. Modernity profile of firms. Some indicators:

- Level of training (general, technical) of firm  
participants: management, others; formal  
or on-the-job training.

- Type of equipment used: modern or traditional;  
maintenance practices; production lay-  
out: scientifically planned?

- Business practices: use of modern office  
equipment; bookkeeping, inventory prac-  
tices - how modern and systematic; source  
of market intelligence; use of adver-  
tising.

- Sources of credit: formal financial insti-  
tutions - SIFO, banks, etc.; friends  
and relatives; private money lenders;  
informal credit group ("len chae").

- Growth history of firm:  
Was the firm inherited or started by  
the present owner; how and why he got  
into this industry. Change over time:  
improvement, deterioration, no change;  
why? Innovations if any, and their  
source. Expansion plans if any; if not  
why? Most important problems in business;  
owner's perception of what is needed to  
improve his business.

d. Implications for supportive activity.

- Public relations strategies for effective communication: awareness of barriers arising from prejudices, fears, ignorance, etc.
- Education for modernization using present level of development as starting point.
- Understanding of the context of development of small enterprises and its limitations to avoid attempting the impossible.
- Evaluation of the potential for development of small entrepreneurs and enterprises; selection of candidates for support on this basis.
- Develop supportive activity which is intelligible and meaningful to this clientele, given the context and its constraints. Etc.

(3) Process of development of enterprises from small to large: case studies of small, traditional, pre-modern firms having evolved into larger, more modern enterprises.

This topic logically follows from the proceeding. The study should provide insights into the dynamics of growth of small scale industry and perhaps provide useful clues for both small entrepreneurs and for promoters of small enterprise development as to how this growth process can be achieved. Going beyond the rather obvious business administration text book explanations of success (e.g. identification of a good marketable product, manufactured

by a process which is cost effective, from abundant and cheap raw materials), the study would be most useful in revealing how a small, ignorant and inexperienced entrepreneur can overcome the constraints of his background and rural environment to act on a vision and marshal the components of a successful venture: where he gets his ideas, how he identifies needed expertise, how he acquires his collaborators, how he negotiates profitable ventures, how he parlays modest resources into important capital, etc. From the point of view of promoters of small enterprise development, the most useful contribution of the project could be the identification of the conditions needed for latent entrepreneurship qualities to blossom and become productive.

5.3.2 Action. Besides lack of information, the assessment identified a number of problems contributing to reduced effectiveness of the supportive system that fall under the broad category of organizational or structural constraints. Although all needed supportive services such as extension, training, financing, marketing, etc. are provided with varying degrees of effectiveness, they are usually supplied by separate organizations each acting on its own mandate to provide a given service, no deliberate thought being given to the need for other complementary services to achieve an overall process. In other words, institutional

structures are inadequate to deliver a needed package of services. The institution that comes closest to achieving this objective is the Industrial Service Institute which deals basically with town type firms and only marginally with rural home industries. Its efforts are well directed but some of its functions need to be redefined and strengthened. Compared to the problems of town firms, those relating to rural home industry are more complex in that individual units are too small and dispersed to be able to develop into a somewhat substantial income generating activity without external support. This support has generally been inadequate, as mentioned, because it was provided on a piecemeal basis without sufficient coordination. It has also lacked professionalism. Different models from both the public and private sectors need to be examined and tested to see how this situation can best be corrected.

A related aspect that merits examination is the actual or potential role of the private sector in support of small industrial enterprise to provide marketing support or, perhaps more importantly in the case of private medium or large industries, to function as providers of funding and expertise for a whole spectrum of activity, from commissioned piece work to joint ventures. In this respect, they can also contribute qualitatively to industrial development by acting as agents of change and technology transfer. Also to be considered in this connection is the role of private financial institutions interested in developing industrial activity for investment purposes and having a capacity to identify, develop, advise on, and finance profitable ventures involving small entrepreneurs. An examination of this situation might perhaps indicate that

some government institution supportive interventions are wasteful because more effective support is, or can be, provided by the private sector, and that other interventions could be made more productive if more private sector involvement were promoted. Hopefully, this examination would help provide a better understanding of which areas are appropriate for government intervention and which are not, and this could serve as a basis for the elaboration of policies and strategies leading to better and more cost effective supportive action.

An investigation of the preceding strategies could also throw light on the problems of financing of small industrial enterprises (the bankability issue) and how to handle them. For some, the idea of dependence of small entrepreneurs on larger firms for support is not attractive. What are the alternatives? Schemes that seem to merit investigation are a combination of loans backed by loan guaranty schemes and technical assistance to develop sound enterprises, on the one hand, and some kind of cooperative scheme by which several small firms can be consolidated into one legal entity for joint financing, perhaps a variant of the small industrial park idea: a "company" of firms under joint management, either a holding company, or an urban version of the Israeli moshave concept.

The following very tentative proposal outlines begin to address some of these issues.

(1) ISI in depth study in a planning perspective

Its purpose is twofold: (1) evaluate the ISI operation in its present form and, (2) explore the

feasibility of a number of ideas to help it achieve optimum efficiency and impact.

1. Evaluation. The evaluation bears on the present ISI functions which include the following:

- extension and training
- technical information dissemination
- technology and product development
- enterprise promotion

Looking at the ISI as a whole and at its functions in particular, the evaluation uses the following categories:

- Personnel: number, qualifications, utilization in relation to functions.
- Budget and its use: cost effectiveness of operations.
- Content and style of activity: its relevance and appropriateness.
- Impact of programs on small enterprises: Number and types of enterprises contacted in relation to total numbers and types.

Types of interventions and their effect.

User firms' evaluation of services provided.

Potential users' awareness of ISI services.

- Conclusions and recommendations.

2. Planning ideas for discussion and examination.

- a. Plan the development of the ISI along the lines of a regional implementing agency for all DIP

functions rather than limit its role to being only one of many services provided by the DIP. It would therefore have a more generalized role in relation to industrial promotion in its region, and the coordination of all promotional activities would be part of its formal mandate. This idea appears to be accepted on principle by DIP policy makers. The feasibility of acting on it depends on the possibility of strengthening and, to some extent, redefining some of the present ISI functions.

b. High priority under this reorganization would be the implementation by ISI of the earlier DIP proposal for a "Small-sized Regional Industrial Development and Promotion Project", The main components of which are:

- pre-investment surveys, feasibility studies of new factory projects,
- meetings and seminars to discuss findings with private investors,
- investment profit analyses, cost benefit analyses, etc. of selected projects,
- assistance to investors or enterprises planning to establish new factories,
- assume leadership to launch innovative enterprises to be sold to the private sector when viability has been achieved.

c. Strengthen the capacity of the ISI to identify and make an inventory of regional industrial potential (Cf supra, under research), to be followed through by specific enterprise feasibility studies. This function

could be greatly enhanced by securing the cooperation of the universities and teachers colleges. Another possibility to be considered is absorbing the Regional Industrial Economic Development Centers into the ISI's. Regional industrial planning could be made much more realistically in this context.

d. Develop an investment service capacity in ISI; for example:

- play a broker role in relation to private sector and government controlled funding sources (provision of information, facilitating contacts, etc.)
- industrial clinic assistance to help entrepreneurs develop bankable activity,
- mediate with BOI, etc. for promotional privileges for small enterprises, e.g. reduction of sales tax and tax exemptions for the purchase of production machinery,
- coordinate with IEAT for small industry estate planning, and mediate small entrepreneur access to them,
- provision of market intelligence,
- referral service to other institutions for services not provided by the ISI, e.g. other training institutions.

(2) Home industry comprehensive support study to determine best model.

- a. Roi Et changwat silk project: evaluation and feasibility study for replication in other changwats
- role of changwat authorities.

- role of silk traders: Jim Thompson Thai Silk Co., and others.
- role of the Foundation for the Promotion of Special Artistic Crafts.

b. Evaluation of interventions by the DIP technical divisions: Textile, Handicraft, Cottage Industry, Narayana Phand.

- possibilities for consolidation and/or closer coordination.
- should this be kept distinct from ISI?

c. Commercial firms: Jim Thompson, Design Thai, Surapee, etc.

- evaluation of their supportive activity compared to that of the DIP for training, marketing, promotion, financing, etc.

(3) Potential of NGO's for small enterprise identification/creation and support.

a. In depth study of the Population and Community Development Association:

- role as brokers of development.
- use of village staff network to consolidate small rural production and to provide market support.
- how to support this activity.

b. Role of national/international volunteers.

c. Interventions by UNICEF, ILO, UNIDO, etc.

(4) Exploratory study of actual or potential linkages of large firms with small producers.

a. Identification of such firms: CP Co., Adams International, etc. large factories subcontracting, trading companies.

b. General characteristics and possibilities.

c. Selected case studies: advantages, disadvantages, problems for small producers.

(5) Trade associations study: Industrial Association of Thailand, Small Industry Association, Wood Carvers Association, etc.

- Nature, function, style

- Contribution to small scale industry support and development.

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