



USAID
FROM THE AMERICAN PEOPLE

Proposals for ASEAN SME Activities

August 2008

This publication was produced by Nathan Associates Inc. for review by the United States Agency for International Development.

Proposals for ASEAN SME Activities

DISCLAIMER

This document is made possible by the support of the American people through the United States Agency for International Development (USAID). Its contents are the sole responsibility of the author or authors and do not necessarily reflect the views of USAID or the United States government.

Contents

Introduction	1
1. ASEAN SME Blueprint	3
Work under the Blueprint	3
Blueprint Critique	4
2. Best Practices	7
Financing SMEs	8
Franchising	10
Networking and Clustering	10
Portals and Portal Models	15
What SME Portals Can Do	17
3. Regional ASEAN SME Portal	21
Market Assessment	21
Partnering in a Regional SME Portal	22
Potential Partners or Allies	22
Carrying the Proposal Through	23
A More Modest Proposal	23
4. Conclusion	25
Appendix A. Overview Implementation of SME Projects	
Appendix B. SME Internet Service Online Documents	

Introduction

This memorandum suggests activities that ASEAN can undertake over the next few years to facilitate the development of small and medium enterprises (SMEs) and regional economic integration. It assess progress under the ASEAN SME Development Blueprint for 2004-2014 to offer guidelines for prioritizing activities, to suggest SME activities not covered in the Blueprint but consistent with it, and to suggest ways to operationalize certain Blueprint proposals.

We review the Blueprint and activities taken in accordance with it, then examine the Blueprint to prioritize suggested activities. We specifically propose that ASEAN focus on SME networking and clustering, financing, and public-private SME development partnerships, and conclude that ASEAN should articulate and promote best practices in all areas, whether proposed, prioritized, or already acted on. We consider how franchising could be used to further regional SME development and whether ASEAN should consider undertaking an activity in this area.

A major SME networking activity proposed herein is development of a regional SME Internet portal to serve as a locus for all regional resources on SMEs, a meeting place for SMEs and parties across value chains in the region, and an online trading and marketplace. We discuss portal development, how ASEAN might bring a portal into being, and offer approaches to portal development, including developing a regional portal in stages. Proposals are summarized at the end of the memorandum.

1. ASEAN SME Blueprint

In 2004, ASEAN adopted the ASEAN Policy Blueprint for SME Development for 2004–2014. The conceptual foundations for the Blueprint were ASEAN’s mission of regional integration, the facts of a globalized economy and globalized competition, rapidly changing consumer preferences and short product cycles.

Viewing SMEs primarily as a part of a chain of production of products or services intended for domestic or foreign consumption, the Blueprint focused primarily on ways to improve SME performance and competitiveness, to integrate SMEs into the global economy, to increase SME capabilities in response to changing demands, to enhance SME enterprise management, and to encourage entrepreneurship. To these ends, the Blueprint made 14 policy recommendations and more numerous action recommendations, ranging from entrepreneurship and enterprise management skills training, networking, surveys, SME database creation, standard setting, SME financing, and technology upgrading, to best practice studies on licensing and registration, on SME policy and regulatory frameworks, and on the provision of business development services.

WORK UNDER THE BLUEPRINT

By May 2008, ASEAN had completed or was completing a number of the recommendations (see Appendix A.) Almost all projects undertaken involved studies (e.g., on feasibility, training), but one involved establishing an SME ASEAN Trading Firm Network for the food processing industry.

All completed activities have some value in regional SME development, but some could have a bigger and more immediate structural impact on SMEs than others—if followed up. For example, access to credit and financing are longstanding problems, and ASEAN actions that can remedy or alleviate them would be very beneficial. The studies on SME access to finance, on credit scoring, on credit information reference and referral systems, and the pending study on SME credit systems should all be followed up with actions that eventually lead to systems development and enhanced SME access to finance.

Another project was a pilot project on automotive sector entrepreneurship and SME subcontractor compliance requirements. Depending on the results of the project and the character of the recommendations, ASEAN may wish to follow up with projects in other sectors (e.g., textiles, food, tourism). Another pending project is to develop a “self-reliant system toolkit package” that includes quality control and SME certification and measures to improve SME abilities in relation to product quality, cost, and delivery. This project lacks a Terms of Reference.

In this regard, ASEAN may wish to consult with the USAID-funded ASEAN Competitiveness Enhancement (ACE) Project in Bangkok, which has proposed a textiles workforce development project that includes:

- Inventorying and evaluating training programs and institutes in ASEAN countries (a quality of training and certification issue)
- Facilitating exchanges of staff between regional training institutes
- Working on regional certification of training programs.

In areas of interest to ASEAN other than workforce development, ACE also proposes to undertake a diagnostic on product capability, cost, and delivery time and to create supply chain, product, and service directories. While ACE will likely undertake these activities with or without ASEAN's involvement, there appears to be a substantial overlap of activities, and each might profit from an exchange of information and cooperation. Indeed, if only for the sake of avoiding a duplication of efforts, ASEAN may wish to confer with ACE about activity overlap, or dovetailing, with ASEAN SME Blueprint activities.

All these projects are positive steps for the Blueprint, but certain other activities might have a more immediate and broader impact. What is ASEAN uniquely positioned to do for SMEs that member states cannot or have no interest in yet would make a substantial difference?

BLUEPRINT CRITIQUE

A striking aspect of the Blueprint and the actions it endorses is an apparent lack of prioritization, of sequencing between categories of activities, and of follow-up plans, and a supply side orientation for recommended actions. This creates the impression that the Blueprint is a mere checklist rather than an integrated strategy and plan for regional SME development. Clearly, however, Blueprint actions have value and all should be completed at some point. But with the exception of recommendations on access to financing, reducing regulatory burdens, and promoting ICT, it is difficult to envision how SMEs will be better off if all recommendations are acted on. Many involve studies, pilot projects, surveys, benchmarking, and the like. These may provide information on which to base or design policy but have no immediate value for SMEs.

For example, note the misalignment between the Blueprint's operational principles and its outlined activities. The operational principles are:

- The formation of SME-based clusters and inter-firm networks and linkages within ASEAN will create further business opportunities for SME entrepreneurs in the region.
- There is a need to create and promote a conducive business environment for SME development where both Government and the private sector assume synergistic and complementary roles.

Most action recommendations focus on studies, surveying, benchmarking, and training. Only 3 of 14 recommendations and 33 activities under these recommendations directly reflect the operational principles: online networks and e-commerce, promotion of public-private synergies and partnerships, and SME policy and regulatory frameworks.

If the principles were merely rhetorical this would not be remarkable but the principles are important and correct. Networking and clustering are proven SME developers, and getting the

government-private sector roles and working relationships right is fundamental to SME advancement. Consequently, the principles should not serve as a *mere preface* to SME-related activities, but as a *guide* to what activities should be undertaken. Doing so implicitly prioritizes activities and allows one to determine which embody the principles and which do not.

ASEAN is more likely to make significant progress if it focuses on a few major activities than on many disparate small activities. Clarity of focus and concentration of message to member states can cut through the distraction of multiple projects, bring more resources to bear on the truly important, and have more impact than a host of worthy but unfocused activities.

For these reasons, we are guided by the principles of networking-clustering and government-private sector synergies in focusing on which SME development activities ASEAN should undertake in the near future.

2. Best Practices

A regional organization, ASEAN is an ideal venue for articulating, endorsing, adopting, and promoting best practices. There is, of course, so much talk about best practices that the idea has become commonplace and perhaps not as highly valued as it should be. Best practice statements are models that can be adapted locally. Although each ASEAN member state has its own interests, traditions, practices, and customary ways of doing things, it may not be aware of best practices or may not be convinced of their superiority. An ASEAN endorsement of a best practice carries a weight that a research paper articulating best practices does not and provides a model, or benchmark, against which member states can measure their practices and progress.

The Blueprint recognizes the value of best-practice statements: it recommends them for technology upgrading, intellectual property matters, SME registration and support services, and regulatory frameworks. Given the Blueprint's operational principles, however, this is a curious list. What is notably absent are best practices in networking and clustering, trade export promotion, government procurement, and government-private sector relationships. These relate more directly to the Blueprint's operational principles than those that the Blueprint recommends.

Networking and clustering are the aims of the Blueprint's first operational principle, and trade export promotion and government procurement relate directly to SME development, networking, and clustering. The other missing category of best practices, government-private sector relationships, forms the basis of the Blueprint's second operational principle.

In each of these areas, a substantial empirical and comparative research literature articulates and discusses best practices; for example:

- **Networking**—the use of a networking agent or broker; that is, someone or some agency that intervenes and works with SMEs to develop a network where none exists. The literature details the steps that are taken to accomplish this, which efforts have been successful, and why. (Networking and Clustering as Primary Targets for ASEAN Action, p. 10, discusses the actions that ASEAN might take to promote networking and clustering.)
- **Government-private sector partnerships in aid of export development**—A single government agency, with an independent board drawn primarily from the private sector, leads a “whole of government” committee. The agency has close ties with business and industry, which provides practical information and insight. The ties also make the agency more private sector driven than bureaucratically driven. This agency integrates onshore and offshore activities, delivers services to users according to their needs, and has mechanisms that allow interaction between the public and private sectors and coordinates market activities. The agency targets individual firms, sectors,

and markets. The agency focuses on smaller firms but has different packages of assistance, depending on the needs, readiness, and experience of firms. Firms that are not export ready are assisted in export development, while firms that are export ready are assisted in export promotion. The agency prioritizes sectors, building on traditional strengths while seeking new opportunities. It also focuses on particular markets. It offers a range of export support, including information, general education, customized training, and contacts and sales leads, and in conjunction with other government agencies offers financial assistance and tax incentives for exporters.

- **Public procurement**—In one model developed in Brazil, public agencies offered procurement contracts to associations of SMEs. If an association did not exist, a networking agency helped form one. The responsibilities of the association were to coordinate the work and activities of small producers, guarantee product quality, and be a single point of contact for orders and performance issues. When the association received orders, it would allocate them to producers. If the producer produced a bad product or defaulted, the association assumed responsibility. This program had a startling success¹ and led to immense local economic and social development. Program success depended on targeting groups of enterprises and requiring an association as intermediary. Using the association greatly reduced transaction costs, created a performance monitor and guarantor, and a focal point for SME cooperation and learning.²

These three examples—methods of networking, public–private partnerships, and government procurement from SMEs—come from a rich body of experience from which conclusions have been or can be drawn and formed into best practice models. The statement, endorsement, promulgation, and promotion of best practice models are appropriate and valuable for the ASEAN SME sector, and member states are unlikely to carry them out. This paper therefore recommends that ASEAN do so in the areas mentioned.

FINANCING SMES

The Blueprint speaks of the second operational principle as “a conducive business environment for SME development where both Government and the private sector assume synergistic and complementary roles.” Although meant to refer to regulatory matters and public-private collaboration to develop SMEs, this language can also be taken to refer to governmental and private roles in expanding financing for SMEs. Indeed, a lack of financing is a fundamental problem for SMEs.

¹ “The association of producers, formed initially at the State’s urging with the purpose of producing the first orders, became a major civic institution in the town, as well as serving the sector. Among other activities, the 42-member association formed a permanent committee for group purchases of timber and other materials; shared equipment among themselves; shared information about opportunities to purchase second-hand equipment; sought ways of preventing sawmill accidents; also pressuring the State to provide an expert on occupational safety . . . The frequent rejections of defective parts at the beginning of the programme translated itself into a self-imposed pressure to improve the quality of the labour force . . . To this end, the Association successfully lobbied the Mayor of São João do Aruaru to arrange night-school sessions for high-school-age sawmill workers.” John Humphrey and Hubert Schmitz, Principles for Promoting Networks and Clusters of SMEs, UNIDO Small and Medium Enterprises Branch, Report No.1, 18, (UNIDO, 1995).

² Ibid.

The SME Blueprint devotes a section to access to financing, recommending capacity building for SMEs in accounting, financial information, and business planning, as well as capacity building for a credit rating system, and “regionalization and subregionalization of financial schemes and alternative financial sources....” Preliminary work has been done on training and a feasibility study, the first two of the recommendations, but none has been done on the third.

These are useful activities, and undoubtedly were considered to be within ASEAN’s capacity—although it is unclear how ASEAN could regionalize or subregionalize financial schemes. In any case, the question is whether ASEAN can do anything that member states are not doing to increase SMEs’ access to credit.

There is strong evidence that as a means of getting financing to SMEs, public-private investment partnerships work well. Because private partners are interested in their return on investment, they have a strong incentive to look for good business prospects among SMEs.³ Good investors are good risk assessors, and deciding to finance an enterprise is a risk assessment activity. Although business plans and credit ratings are undoubtedly useful to investors and financiers, proactive investors often work with small businesses to develop the information they need to decide whether or not to invest. In effect, instead of SMEs’ searching for a source of financing, proactive investors search for profitable opportunities and look for SMEs that can provide them.

Successful public-private finance programs for SMEs have nongovernmental co-investors; “are managed by independent fund managers who are motivated” by profit sharing; limit government returns on investment to increase returns to the private sector; and invest only in small or nascent enterprises.⁴

This is not the place to develop a full brief for public-private SME investment partnerships or to detail their features. Suffice it to say that public-private SME investment partnerships are a successful model that countries should be advised to consider, adapt, and adopt. This is, therefore, another situation in which ASEAN is well placed to articulate and endorse an SME financing model based on successful SME financing activities in many countries, ASEAN countries included.

Such a best-practice model would include a description of the common features of successful public-private investment partnerships; discuss their management; the legal and regulatory framework required (including the law related to investment and guarantee funds, asset ownership, and matters relating to exit and security); the sectors to target according to a country’s development goals and employment stimulation needs; local and regional government funds or involvement, and so on.

For reasons given earlier about the usefulness of best-practice models and the appropriateness of such model articulation as an ASEAN activity, it is recommended that ASEAN develop and promote a best-practice model of public-private SME investment partnerships.

³ Asian Development Bank, Development of SME Financing Support System, TA 3534-PRC, vol. 1, May 2002, 6

⁴ Ibid.

FRANCHISING

Franchising for small businesses has garnered much interest recently. The Blueprint does not mention franchising, but franchising can be considered a kind of networking of a larger business with a smaller business, and the idea is worth ASEAN's consideration.

In franchising there is often a transfer of skills; training, particularly in management; and even a transfer of technology, all of which are desirable for small businesses. But franchisees are only somewhat independent entrepreneurs because the value of their business depends not only on their own efforts, but also on the marketing, support, and brand recognition of the franchisor. Although franchisees sometimes go on to bigger and better things—owning more franchises, or going fully independent after a period of learning and capital accumulation—most remain franchisees.

Franchisors evaluate potential franchisees according to their experience, entrepreneurship and project management skills, and financial strength. They usually require a certain net worth and a certain amount of liquid capital for investing. Anyone who qualifies as a franchisee has both investment capital *and* access to credit, for a franchisor will probably not contract with someone who cannot access credit. Small businesses that have these characteristics and resources are not generally targets for SME development assistance. Given the financial problems that many SMEs have, in particular a lack of credit, it is difficult to conceive of franchising as a significant part of an SME development program..

Furthermore, franchisors also usually want to franchise only in countries that have good franchise laws and fairly good enforcement of intellectual property laws, because franchises gain much of their value from trademarks or proprietary processes or materials. A good franchise law is also necessary to protect franchisees from potential abuses by franchisors, and vice-versa, as well as to have reasonable provisions in case of franchise or franchisee failure. Of course, if a country already has good franchising laws and potential franchisees, it probably already has franchisors offering to contract.

Other than recommending that member states make their laws franchise friendly in recognition of the opportunities that franchising offers small businesses that can afford the capital investment and meet the qualifications, it is difficult to see what ASEAN can or should do about franchising. If ASEAN did something facilitated access to credit for SMEs, potential franchisees might benefit, but not under a separate franchise program, rather under a program that benefited all SMEs.

For these reasons, ASEAN should take no action regarding franchising.

NETWORKING AND CLUSTERING

SME Weaknesses

Many studies have shown that SMEs suffer from isolation—from each other, from connections to value chains, from domestic and foreign markets—and from a lack of information. SMEs lack information about laws, regulations (including export regulations), business opportunities, marketing, financing possibilities, sources of raw material, and possibilities for collaboration; they lack knowledge of useful technology, product standards, marketing; and they need skills development and enterprise management training. This

information may be available, but the transaction costs of acquiring it may be too high for SMEs.

These study conclusions match the problems reported by larger, established businesses that would like to contract with SMEs in developing countries. Large businesses complain that SME products and services lack quality and reliability, that SMEs respond inadequately to tender invitations, lack the capacity and technology to add value to their products, lack management skills, cannot finance their work, and cannot meet supply deadlines.

Networking and Clustering as Solutions to SME Problems

Although not all SME deficiencies stem from isolation and a lack of information and knowledge, many do. The following diagnosis of SME problems points to networks and clustering as solutions.

Individually, SMEs are often unable to capture market opportunities which require large production quantities, homogenous standards, and regular supply. ... [T]hey experience difficulties in achieving economies of scale in the purchase of inputs, such as equipment, raw materials, finance, consulting services, etc. Small size also constitutes a significant hindrance to the internalization of functions such as training, market intelligence, logistics and technology innovation - all of which are at the very core of firm dynamism. Furthermore, small scale can also prevent the achievement of specialized and effective internal division of labour which ... fosters cumulative improvements in productive capabilities and innovation. Finally, because of the continuous and fierce struggle to preserve their narrow profit margins, small-scale entrepreneurs in developing countries are often locked in their routines and unable to introduce innovative improvements to their products and processes and look beyond the boundaries of their firms to capture new market opportunities.⁵

There are different kinds of networking to consider: networking among SMEs, which clustering facilitates, and networking of SMEs (assuming they are qualified) to other parts of value chains of production, marketing, and sales. Networking of both kinds fills some of the information and knowledge gaps that SMEs have. Networking and clustering also create synergies that combine the flexibility of small firms with opportunities for economies of scale, facilitating cooperation and division of labor among SMEs as well as the transfer of knowledge, technology, and information.

Networking and Clustering as Member State Activities

Although networking and clusters have great value for SMEs, creating new networks is difficult. Networking requires trust; and building trust, if it does not come from ethnic or other affiliation or from prior acquaintance or association, requires third-party intervention.⁶ Clustering—collaborative work and information exchange, not just physical proximity—also requires trust. For this reason and because finding network partners and developing relationships with them entails high transaction costs, and because of potential free rider problems as well, networks and clusters rarely arise naturally. They can arise incrementally, however, through a guided trial-and-error learning process in which the members of a

⁵ SME Cluster and Network Development in Developing Countries: The Experience of UNIDO, UNIDO Private Sector Development Branch, Working Paper No. 2. at p. 1.

⁶ Ibid, 3.

potential network or cluster get to know one another—their strengths, weaknesses, complementary skills, appropriate roles—in a process of building trust.

A network or a cluster is a cooperative system that generally needs a catalyst to form. The catalyst is a network broker or system integrator that facilitates the network-forming process. In other words, an actor outside a potential network or cluster perceives the creation of a network or cluster as an entrepreneurial opportunity, has a vision of the gains for joint action, and works to bring the disparate parts into a whole. Network brokers intervene in stages:

1. Promotion and motivation
2. Strategic planning, after relationships have developed and there is a collective desire to move forward
3. Pilot projects
4. Strategic projects focusing on specialization at the production level
5. Network self-management

Successful networking often leads to individual small firm restructuring, efficiency, improvements in performance so that they meet standards, improved skills, technology transfer, increased income, and SME growth.

Network brokers or system integrators introduced to remedy market failure provide a business development service that often succeeds.⁷ Successful interventions of this kind, however, require that some actor (often the state or a public-private partnership) take responsibility for the intervention and continue the intervention over the period it takes to develop a real network that can manage itself. This actor

- a) bears the responsibility of designing and promoting the networking strategy in a given country, b) identifies the sectors/regions to address depending on their potential, c) carries out extensive awareness building among the small-scale enterprises and the local institutions, d) trains network brokers, e) manages the available funds, devising and implementing a sustainability strategy, f) monitors the development and impact of the networking initiative, and g) provides feedback to the various actors involved.⁸

Networking and the ASEAN Blueprint

The ASEAN 2004–2014 SME Blueprint proposes some SME networking. As noted above, one of the operational principles of the document is that “[t]he formation of SME-based clusters, and inter-firm networks and linkages will create further business opportunities for SME entrepreneurs in the region.” The document calls specifically for “fostering SME capabilities through networking and linkages” by tracking SME readiness to participate in production networks as subcontractors; a pilot project regarding compliance requirements for SME subcontracting; and a research study on the drivers and processes of enterprise clustering. It also calls for setting up regional and subregional networks of interlinked, online clearing points or trading houses for SME businesses.

⁷ See *SME Cluster and Network Development in Developing Countries: The Experience of UNIDO*, UNIDO Private Sector Development Branch, Working Paper No. 2, which details the experiences of Honduras, Nicaragua, Mexico, and Jamaica.

⁸ *Ibid.*, 17–18.

Although worthwhile, none of these activities will lead to networking and clustering, although creating online trading houses has a distinct and related virtual networking benefit (explored below). The experience of countries and organizations that have carried out networking and clustering activities shows that networking and clustering, where they do not exist, come about through deliberate interventions intended to realize them.

ASEAN Difficulties in Creating Networks and Clusters

If deliberate interventions are needed, what can ASEAN do (besides conducting the studies mentioned above) that will help develop networking and clustering across national boundaries? ASEAN could fund a networking unit whose mission was to carry out across borders what governmental organizations or NGOs have done within countries. If ASEAN considered this path, it might carry out only the initial stages of network development, such as identifying the sectors where regional networking would work. This would be a substantial empirical assessment that could have significant value if the networking units in the member states involved followed up on the assessment's recommendations.

If ASEAN attempted to go further, after the initial empirical assessment, and set up a networking unit, the unit would probably need to operate in conjunction with individual member country SME agencies. This might be done on a pilot project basis. Although networking and clustering activities are generally viewed as best suited for nations or agencies within nations, ASEAN, as a regional organization of states, might wish to carry out networking and clustering activities that cross state boundaries.

As discussed above, the most recent studies of clustering and networking conclude that inchoate or nascent networks or clusters generally require the intervention of a networking agent or broker. The networking agent is an agency or trained individual who investigates the possibilities of creating a network or cluster, devises a plan for doing so, and then carries it through. Experience shows that demand- or customer-driven network or cluster creation usually is more successful than supply-driven creation. For a networking agent, this means working with buyers or potential buyers to determine their needs and desires, then matching these with a potential network or cluster. Thus, in addition to working with buyers, the agent must also assess SMEs in particular areas and determine whether it is possible to create and develop an association of SMEs that can meet buyers' needs. If the agent determines it is possible, the agent then undertakes the activities required to organize the association and move it to production.

For ASEAN to undertake this activity, it would have to hire staff (not necessarily permanent staff) capable of taking on the role of networking agent. The explicit task of the networking agent would be to make connections and develop customer-oriented forward linkages—that is, develop cross-border networks and clusters (clusters in an extended sense of division of labor and value chain participation). In doing this work, the agent would have to interact with SME and business associations, and probably with member state SME agencies.

For a networking agency to be successful, however, it must be demand driven (responsive to the market); focus on associations of SMEs (for networking, division of labor, specialization, transfer of technology, and enforcement of quality and performance standards); and work toward continuing improvement of the network and its products or services. Eventually, the network (such as an association of businesses) should be able to stand on its own.

Regional networking, however, will often depend on country networks that have already established complementarity of functions and a division of labor. Thus, in some cases at least, there could be no regional networking in the absence of national networking. Furthermore, the inability of network parties to interact directly limits opportunities for trust building. And finally, networking initial parts of a value chain to subsequent parts, which could be a regional activity, should happen naturally, except when there are information failures and high transaction costs. In these situations, if ASEAN did the groundwork in assessing this kind of networking possibility, it could alleviate these problems.

Given ASEAN's mandate, therefore, the creation of networking and clustering seems to belong to member states rather than ASEAN to carry out. ASEAN, however, could encourage member states to undertake such activities, such as by making a statement about best practices in networking and clustering.

ASEAN Virtual Networking and Clustering

Another kind of SME networking—Internetworking—is an ideal regional activity. Internetworking is the use of the Internet to connect SMEs with one another, potential business partners, market opportunities, information, advice, forms, databases, education, technological innovation, and funding sources, and other information and knowledge. It has great value, and the EU and some ASEAN member states, among others, have established virtual networks and clusters through “knowledge management” Internet portals.

ASEAN's website already has a section for SMEs. The SME section primarily has links to national SME sites and information on ASEAN and member state SME policies, and does not have transactional or informational utility for SMEs. It is more useful to government officials than to SMEs.

A few ASEAN member states have service center portals for SMEs, but there is no such regional portal. An ASEAN regional portal of this type would be useful, however. A recent diagnostic report of the USAID ADVANCE ASEAN Competitiveness Enhancement (ACE) project noted “Inefficient information flows appear to be a common constraint on competitiveness and supply chain collaboration.”⁹ The report specified some of the problems:

A lack of awareness among manufacturers and service providers of the producers of materials and services available in ASEAN member states (weak business-to-business knowledge)

A lack of knowledge about the advantages of ASEAN member states as alternatives to China, Korea, and Taiwan for sourcing materials

A lack of understanding of the logistical advantages of working within ASEAN (e.g., reduction in lead time for Cambodian firm to source fabric from Malaysia rather than Taiwan or China)¹⁰

After evaluating five value chain sectors—automobile parts, electronics, health care products, rubber based goods, and tourism—the report concluded, “*Knowledge management may be*

⁹ USAID ADVANCE ASEAN Competitiveness Enhancement Project, Evaluation of Proposed Target Sectors (June 2008), 7.

¹⁰ USAID ADVANCE Project, Upgrading ASEAN Textiles and Apparel Supply Chains (June 2008), 9.

one of the most promising functions and regional activities for ASEAN SCC: informing private sector producers across ASEAN in the supply chains of a target sector about current technologies, standards and best practices, and opportunities for collaboration and sources of expertise.”¹¹

PORTALS AND PORTAL MODELS

A portal is an Internet access point that authenticates and identifies users and provides them with an interface that facilitates access to information and services. The organization establishing the portal organizes multiple sources of information and other resources and can disseminate them among many users according to their needs, interests, and access privileges. Commercial and public portal software is readily available, as are technical experts who can help organize and set up a portal.

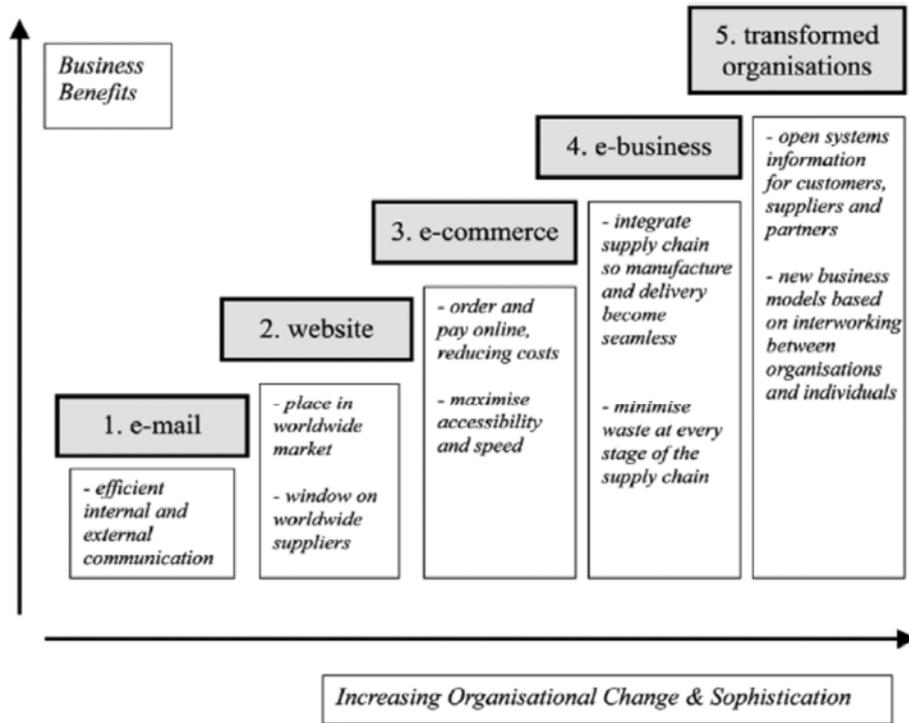
The simplest portal just provides links to other sites, but it can be improved with add-ons. ASEAN already has such a portal, and indeed, adds material of its own to the site (e.g., documents), but it could do more. Instead of merely a gateway, the portal becomes a library. This is an easy add-on, and depending on the comprehensiveness of the material and need for updating, might require a portal manager or site supervisor whose tasks, in addition to maintaining the site, would include updating and developing materials. A further addition could make the site a service center for SMEs wishing to take advantage of opportunities in the region outside their own countries.

Sites such as the *European Enterprise Network* or *SPRING*, a Singapore site, are much more sophisticated and perhaps reflect the state of the art in portal accessibility and usefulness. Unlike the simple gateway model presented above, which is a passive site, this model calls for an interactive site that requires staff not only to locate and input material, but an SME-knowledgeable staff that makes the portal a marketplace and service center for SMEs. In addition to providing services and operating as a marketplace, these sites retain the “infomediary” function; that is, they network with all relevant SME institutions, national and international. In effect, such a portal, although it may be publicly supported, is an entrepreneurial business, whose mission is practical SME development through the creation of a marketplace where SMEs can conduct e-commerce, network, and gain information and skills.

The contrast between the gateway and the service center portal models is illustrated in Figure 2-1. The gateway model is at stage 2, while the service center model is at stage 4. The ASEAN site is at stage 1, but should move to higher stages for SME development.

¹¹ Ibid., 7.

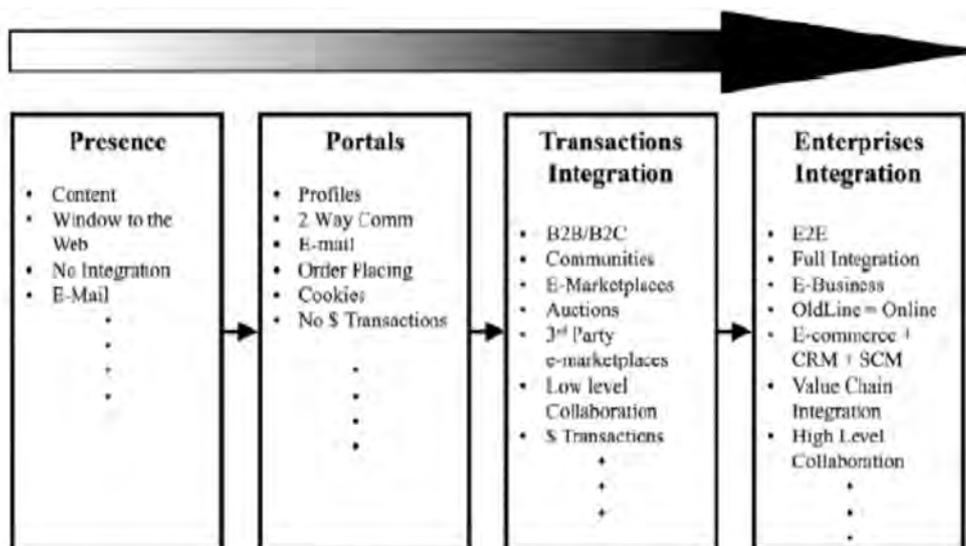
Figure 2-1
Portal Models



Source: Martin and Matlay (2001) adapted from Cisco-led Information Age Partnership study on e-commerce in small business

Figure 2-2 illustrates in more detail how use of the Internet can eventually transform businesses.

Figure 2-2



Stages of E-commerce Development

Source Adapted from Mustafa Shariq and Ghulam Iqbal, Development of e-Commerce in SMEs, Business-2-Business Perspective, 14, Lulea University of Technology, 2005.

WHAT SME PORTALS CAN DO

It is important to understand what an ASEAN-wide SME Internet portal might accomplish. Using the Internet to create business linkages, particularly among SMEs, has proven successful in a number of countries.¹² These portals, in addition to providing important information to SMEs, also serve as a center for business-to-business (B2B) and business-to-consumer (B2C) applications. Business-to-consumer applications may not be useful at this time in developing countries because few consumers use the Internet to make purchases there. But large suppliers already use Internet-based enterprise resource planning software for transactions with other firms. With such software, “[m]anufacturers and retailers in remote countries [...] offer their products or services with information on product capabilities and benefits, content or components, prices, production schedules, delivery terms, and payment conditions.”¹³ A few examples illustrate the possibilities.

The Enterprise Europe Network (http://ec.europa.eu/enterprise/sme/text_en.htm and http://www.enterprise-europe-network.ec.europa.eu/about_network_en.htm) provides services to entrepreneurs and companies in 40 countries and also connects with an SME network in each country that it serves. The EEN

provides “information and practical advice on market opportunities, European legislation and policies relevant to a company or sector”

helps “SMEs to find suitable business partners using its business and technology cooperation database, providing information on tender opportunities and international networking”

develops “the research and innovation capacities of SMEs by helping to create synergies with other research actors, foster technological cooperation and holding brokerage events”

helps “SMEs to share research results, participate in research programs and apply for funding”.¹⁴

Thailand’s Department of Trade Promotion has a website (<http://www.thaitrade.com>) that, among other things, offers online trade matching, buying and selling leads, and import and export services. Similarly, but more extensively, Singapore’s Trade Exchange website (<https://www.tradexchange.gov.sg>) offers a complete range of online services for Singapore’s trade and logistics community. It enables online trade declarations, the submission of manifest data, cargo booking and tracking, the exchange of commercial documents, and the electronic creation and transfer of title to goods.

The European Union has created an extraordinary network where SMEs can tender or buy innovative technologies and can request technical solutions to problems (<http://www.technology-market.eu/ecoplus2008/> www.innovationrelay.net). Operating in the energy, food, building, and health products sectors, the site hosts new technology offers and

¹² Singapore, India, Pakistan, Uganda, and the European Union.

¹³ Capacity-building in business information networking, UNIDO Small and Medium Enterprises Branch, 5, Vienna, 2003.

¹⁴ Quotes taken from network site

requests for kinds of technology from companies in EU countries, and even countries outside the EU. Each year, the network handles more than 4,000 transactions.¹⁵

Figure 2-3 shows the home page of the Malaysian SMIDEC portal, and Figure 2-4, Singapore's SPRING portal home page.¹⁶ It is obvious that both portals have great depth and utility. In comparison, the ASEAN SME page, Figure 2-5, appears underdeveloped.

¹⁵ Considering the number of SMEs in Europe, 4,000 does not seem a large number, but this is a relatively new activity, and the number of offers and requests does not measure gains in competitiveness, enhanced product quality, or increased sales.

¹⁶ See also Appendix B for a list of the trading paperwork that is carried out online in Hong Kong at immense savings of time and administrative costs.

Figure 2-3
Malaysia SMIDEC Home Page

Helping SMEs To Grow

SMIDEC
Official Website
Small and Medium Industries
Development Corporation
1-300-88-1801

Home

- Definition of SMEs
- SME Dev. Programmes
- e-Resources
- List Of Companies
- Enquiry & FAQs
- Useful Links

Upcoming Event !!!

AEROMART

Saturday, 2 August 2008
125591
visitors since 01.04.2008

About Us
Description about our functions, our organization, and a lot more!!!

Financial Assistance
Incentives in a form of grants and soft loans are provided by the various Ministries and their agencies

News & Events
Union (EU) Countries **31 July 2008**
Seminar on "Opportunities Under Malaysia`s Free Trade Agreements (FTAs)" **31 July 2008**
Reducing Cost of Doing Business through Effective Enterprise
[more...](#)

e-Services
The e-Services provides a platform for SMEs to submit and track grant applications and access online advisory services

Contact Us
SME that requires further assistance can click here
[Management Phone Directory](#)
[SMIDEC Phone Directory](#)

Check your grant application status via SMS now !!!
click here to view instructions

BEWARE!

PEMUDAH
Pusat Penyelidikan dan Promosi Perindustrian

Figure 2-4
Singapore SPRING Portal Home Page

The screenshot displays the Singapore SPRING Portal Home Page. At the top right, the Singapore Government logo is visible with the tagline 'Integrity • Service • Excellence' and links for 'CONTACT US | FEEDBACK | SITE MAP'. A search bar is located below the logo. The main header features the SPRING logo and the ASEAN logo, with the text 'association of southeast asian nations'. Below the header, there is a navigation menu with links: 'Home | About This Site | Archive | Meetings and Events | Links | Contact Us | Jobs | Sitemap'. The main content area is titled 'SMEs' and contains a section 'I. SME Network' with a list of member countries and their respective SME-related websites:

- Brunei Darussalam**
- Indonesia**
- Malaysia**
- Myanmar**
 - www.energy.gov.mm
 - www.mpt.net.mm
 - www.perspective.net.mm
- Philippines**
 - Bureau of Small and Medium Business Development
 - APEC Technology Exchange and Training for SMEs
 - Department of Trade and Industry
- Singapore**
 - <http://www.psb.gov.sg>
 - <http://www.lesingapore.gov.sg>
- Thailand**
 - Ministry of Industry
 - Department of Industrial Promotion
 - Office of Small and Medium Enterprises Promotion (OSMEP)
- Vietnam**
 - <http://www.netnam.vn>
 - <http://www.smenetonline.com>
 - <http://www.sigb.org.vn>
 - <http://www.maryknolvietnam.org/>

Below the 'I. SME Network' section is a section titled 'II. ASEAN Manufacturing Companies' with a list of member countries and their respective manufacturing-related websites:

- Indonesia**
 - lmea.dprin.go.id
- Malaysia**
 - www.fmm.org.my
 - www.miti.gov.my
- Singapore**
 - www.psb.gov.sg
- Thailand**
 - www.asidnet.org
 - www.dip.go.th
 - www.sino.net/thai/commerce
 - www.bol.go.th/bol/maseek.html
 - www.fti.or.th
- Vietnam**
 - www.vinaone.com/industry

The left sidebar contains a navigation menu with categories such as 'About ASEAN', 'Member Countries', 'ASEAN Statistics', 'ASEAN Summits', 'Politics and Security', 'Economic Integration', 'AEM', 'AFTA & FTAs', 'Functional Cooperation', 'Transnational Issues', 'External Relations', 'ASEAN Projects', 'Press', 'Publications', 'Speeches and Papers', and 'Save as Homepage'. The right sidebar contains a search bar and a list of links, including 'READ ALL', 'park on business', 'Standard', 'ories', 'READ ALL2', 'news new singapore', 'news / comp', 'ING', 'rt news sites', 'Singapore accessible Singapore 3 August system biologise t e caused', and '9'.

Figure 2-5
ASEAN SME Web Page

3. Regional ASEAN SME Portal

MARKET ASSESSMENT

Were ASEAN to decide to seriously consider establishing a regional SME portal following the models mentioned, the first step would be to conduct a market assessment to determine whether SMEs in the region are in a position to use such a portal and what utility it would have for them. The Internet readiness of SMEs will vary greatly among member states, and even among regions within member states. A market assessment will disclose where Internet penetration is the greatest and what the initial client base should be. After the portal is established, it could grow as demand grows and capabilities increase.

Assessing the feasibility of a regional SME portal means considering carefully what the portal could realistically do. For example, carrying out financial transactions on a regional basis might be difficult because of the differing financial, tax, and regulatory systems in member countries. For e-transactions and e-commerce, credit arrangements and dispute resolution pose problems but must be considered. It may turn out that some activities could not be carried out in all member states; an assessment should state what can be done where.

The possible lack of transaction uniformity among member states, however, need not be a barrier to portal development. Some portal activities will be available in all member states, but some transactions may be possible only in some member states and not in others. This kind of arrangement improves the situation for everyone, although not to the same degree, but injures no one. In the long term, the transaction differential among countries may become a matter of negotiation and further integration.

If an assessment concluded that a portal has value for businesses (small, medium, and large) and a regional SME portal would be commercially feasible, the next step would be to devise a business plan. In conjunction with this, a stakeholder assessment should be conducted, to locate, educate, and motivate potential partners in the enterprise. (See Potential Partners, below).

If, on the basis of the findings of the market and stakeholder assessments, ASEAN decided to proceed, the next steps, involving greater capital investment, would be to

1. Get partners' commitments
2. Establish the entity that will own and operate the portal
3. Design the network architecture
4. Set up the portal office and procure hardware and software

- Obtain technical assistance for website design and training
- Include software for e-security and e-commerce
- 5. Select SME-savvy staff to operate and maintain the portal
 - Mapping, survey, and negotiation to identify, locate, review, and sign up resources to be made available through the portal
 - Note connection and standardization costs
- 6. Develop a marketing plan
 - Publicity
 - Contact with SMEs, business development service providers, buyers, sellers
- 7. Develop online forms, tools, and training and certification programs (optional)
- 8. Launch the portal

Because the European Union and some countries have already developed model portals, and UNIDO has also done a great deal of work in this area, ASEAN can look to these models and to those who designed and implemented them for assistance in developing its portal.

PARTNERING IN A REGIONAL SME PORTAL

Who will own and manage the portal? UNIDO has developed three models for ownership and management plan.¹⁷ In the first model, an existing organization involved with SMEs that is willing to use its own resources hosts the portal. The second model involves government funding, and the third model calls for creating a new entity, a public-private partnership, with a majority of shareholders from the private sector. The shareholders would most likely be institutions having some interest in SME development or Internet trade: government institutions, development banks, SME and business associations, IT institutions, and so on.

POTENTIAL PARTNERS OR ALLIES

Member state public sector SME agencies. Each ASEAN member state has a ministry or other agency dedicated to promoting and supporting SME development. They focus on domestic issues but understand the nature of globalized commerce and the advantages of networking and clustering. They may have considerable interest in seeing SMEs from their countries networked with SMEs and other businesses throughout the region. For this reason, national SME institutions are prime candidates for public shareholding in an entity that will start up, operate, and manage a regional SME portal.

Member state private sector. Member state SME associations, NGOs concerned with SMEs, BDS providers, universities, training centers, research and technology institutes, general business (sector-related) associations, major companies, and buyers also can be expected to have an interest in becoming partners or shareholders in a regional SME portal.

ASEAN's affiliated federations. Business associations such as AFTEK also have shared interests in the development of an ASEAN regional SME portal. Although some associations may not have much SME representation, most associations have some concern for SMEs, or,

¹⁷ *Capacity building*, supra, note 9, 8.

more important, with ASEAN competitiveness. Those that represent businesses that are part of a value chain that start or end with SMEs also have a concern for SME competency and the quality and competitiveness of SME products and services. Business associations are also a very important source of information on business activities, problems, and opportunities. Finally, business associations understand the value of joint action and networking.¹⁸ For these reasons, ASEAN business associations may second and join in the effort to create an ASEAN SME portal. They may be willing to contribute funds or become shareholders, and may also be useful in portal content design, promulgating and promoting contracting and quality standards, and in sectoral matters.

CARRYING THE PROPOSAL THROUGH

Creating a full-service ASEAN regional SME portal is an ambitious proposal. With its current responsibilities, the ASEAN Secretariat probably cannot carry out the activities that this proposal requires without hiring additional staff, but it *can* fund technical assistance to conduct the market assessment and develop a business plan—the first steps.

Assuming a positive market assessment, and after an initial business plan is developed, the next step would be to hire staff to work on portal development—to take the steps outlined above. Mostly this would involve enlisting member state, associations, and other partners, getting their commitment and participation in funding; locating and cataloguing all relevant SME resources in the region; negotiating connections with SME Internet sites in the member states; and working with IT experts to develop the portal and its capacities.

But unless some person or group is assigned the responsibility for doing what is necessary to create a portal, the portal will not be created. We therefore recommend either (1) the secondment of high-level personnel from member state SME agencies to a Secretariat working group tasked with bringing the portal to reality, or (2) the hiring of staff to develop a portal in stages, working with an ASEAN committee.

Member states' secondment of personnel from SME agencies to an ASEAN working group or committee evidences commitment to the result and gives member states an ownership interest in portal development. National experts have the knowledge of SME conditions in their states and the local contacts needed to create partnerships to support and develop a portal that will be useful to the business community. Local knowledge is essential to ensure that the portal has useful information for every member state and is user friendly. Local knowledge is also essential to determine which cross-state transactions are possible through the portal as a marketplace. Harmonization issues uncovered in developing the portal can be raised to the ASEAN level for negotiation if necessary.

A MORE MODEST PROPOSAL

Not only is developing a B2B portal that is commercially viable an ambitious undertaking, but internetworking and virtual clustering will initially benefit SMEs that are e-ready most

¹⁸ For example, AFTEK, the ASEAN textile trade association and ASEAN affiliate, has worked with its member state associations on issues relating to certificates of origin for textile products. It has succeeded in getting agreement on the processes required to qualify for a certificate and is working on standardizing the terms and forms of the certificate. It is also working on networking ASEAN textile producers and the ASEAN textile production value chain.

(although as use of the Internet spreads, the portal's value to SMEs will grow). In addition, secondment of personnel from member states may be difficult or take considerable time. For these reasons we recommend the development of the ASEAN SME portal in stages, using hired staff or ICT consultants to

1. Devise a plan for full portal development in stages
2. Find, work with, and seek funding from potential portal development partners
3. Collect information resources to put on, or link to, the portal
4. Work with member state portals to create links
5. With support and involvement from federated associations, create a first-stage, SME-friendly information portal, focusing initially on the sectors the associations represent
6. Prepare a five-year action plan for ASEAN approval for further stages of portal development, leading to a B2B portal useful to all sectors.

Proceeding incrementally has several advantages. Without committing extensive resources, ASEAN could create a useful information portal, learn what it takes to create a commercially viable e-commerce portal, and proceed step by step in portal development as resources allow and good judgment dictates.

For such a staged proposal, we recommend that ASEAN hire two staff members and a secretary, provide office space and support, and a travel budget for two years. Although both staff members would be responsible for developing the portal plan and creating the first-stage information portal, one might focus on developing partnerships and the other on developing and making e-ready the information sources that would be put on the portal. The estimated personnel cost is \$60,000 per staff member per year and \$15,000 for an administrative assistant. Because regional travel would be required, a travel budget of an estimated \$20,000 per year should be allocated.

4. Conclusion

In accordance with the SME Blueprint, ASEAN has taken steps to advance regional SME development. Now ASEAN must follow up on completed activities and begin work on others after prioritizing them according to operational principles. It should now focus on SME networking and clustering and on developing public-private partnerships. We recommend the following next steps:

1. Articulate and promote best-practice models in SME networking and clustering, SME finance, and public-private partnerships for SME development
2. Develop a regional SME networking, resource, and marketplace portal in stages
3. Continue activities already defined under the Blueprint, particularly those relating to SME financing
4. Work with projects such as ADVANCE to share information, develop cooperative efforts, and otherwise dovetail activities
5. Take no action with regard to SMEs and franchising.

Appendix A. Overview Implementation of SME Projects

Insert ASEAN “Overview Implementation of SME Projects”

Appendix B. SME Internet Service Online Documents

No.	Trade & Logistics Business Process	Key Business Message
1	Establish sales / purchase contract	Sales order / purchase order
2	Apply and obtain insurance coverage	Insurance application form
		<ul style="list-style-type: none"> • Insurance policy / certificate • Open / floating insurance policy • Declaration on shipment details and insured amount against open / floating insurance policy
3	Letter of Credit (L/C) application and processing (for documentary credit only)	<ul style="list-style-type: none"> • L/C application form • L/C • L/C amendment request
4	Prepare goods for delivery	<ul style="list-style-type: none"> • Packing list • Commercial invoice
5	Arrange inspection and issue certificate	<ul style="list-style-type: none"> • Inspection arrangement request • Inspection arrangement notice o Inspection certificate
6	Apply and obtain license / certificate / permit and submit notification for both exportation and importation	<ul style="list-style-type: none"> • License / certificate / permit application form • License / certificate / permit notification
7	Arrange and execute transportation (both single mode and multi-modal arrangement)	<ul style="list-style-type: none"> • Advance shipping notice • Shipping instruction / order form Confirmation of shipping instruction / order form • Shipping order / booking request • Booking confirmation notice • Cargo receipt / cargo reception slip o Empty container order / transport set • License / certificate / permit • Notification • Draft master bill of lading • Manifest • Master air waybill • House air waybill • Pre-alert package • Cargo arrival notice • Container inventory information
		<ul style="list-style-type: none"> • Container maintenance status • Trucking company information

No.	Trade & Logistics Business Process	Key Business Message
		<ul style="list-style-type: none"> • Equipment interchange receipt • Export consignment details form • Reception check list • Bill of Lading • Sea waybill • House bill of lading • Surrender notice for telex release o Telex release • Departure notice • Company guarantee • Detention notice 1 • Detention notice 2 • Delivery order (D/O) • Release order o House D / O • Transshipment notification
8	Present and verify trade documents for financial settlement	<ul style="list-style-type: none"> • L / C • Master air waybill • House air waybill • License / certificate / permit • Notification • Certificate of origin • Inspection certificate • Insurance policy / certificate • Bill of Lading • House bill of lading • Sea waybill • Commercial invoice • Bill of exchange • Packing List • L/C collection letter • Document arrival notice
9	Submit trade declaration	Trade declaration
10	Payment and receipt management	Invoice from insurance company

Source Hong Kong SME Association RFP Promote the Use of E-Business in the SME Community