

Chapter 8

More Effective Representation of SMEs' Interest

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Chapter 8

More effective representation of SMEs' interests

1. Introduction and Assessment Framework

The word “Association”, by nature, refers to an institutionalized collective action or “an action taken by a group (either directly or on its behalf through an organization) in pursuit of members’ perceived shared interests” (Evangelista, 2012). Thereupon, in a firm’s development, having an “association” cannot be considered as having a small contribution. An association may also be created community self-help where the members share the same socio-cultural values. The presence of a business association will thus give many benefits to firms, especially SMEs, one of which is to overcome the disadvantages of their being politically marginalized.

Following the OECD (2009) and Evangelista (2012), two policy sub-dimensions as shown in Figure 19 are considered useful in ensuring a more effective representation of SMEs’ interests, to wit:

(1) Role and capacity of SME association, which includes the presence of SME associations, and their technical and research capacities.

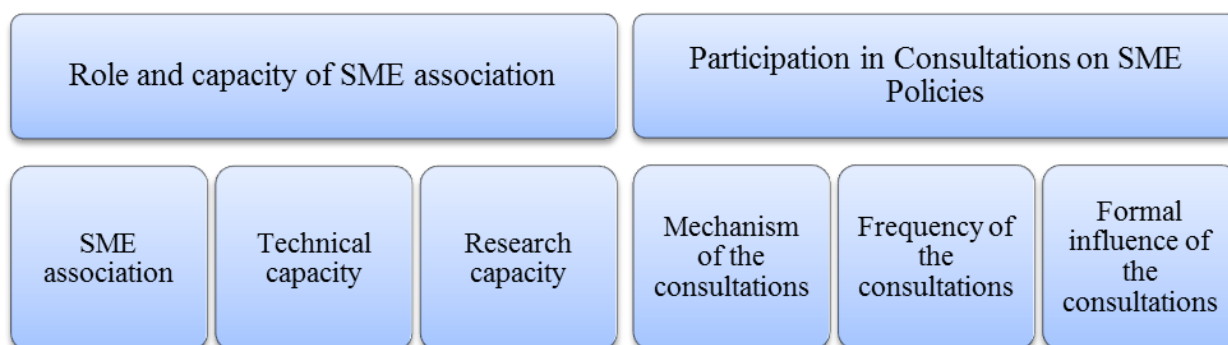
The functions of an SME association are, but not limited to, extending the members’ networks and having the capacity to better exploit research results and acquire technological knowhow. The capacity being referred to includes technical capacity and research capacity of the association. The association has to have a well-organized secretariat with the technical capacity to regularly gather information about its members which the association can utilize for purposes of networking, business matching, training and seminars, among others. In addition, the association needs to have a research capacity to be able to bridge the gap between research and utilization of innovation.

(2) Participation in consultations about SME policies with emphasis on the mechanism of the consultations, frequency of the consultations, and formal influence of the consultations.

Institutions and networks coupled with effective mechanisms of public-private consultations are critical in the trade and economic policymaking process in general and for SMEs in particular. The industry association can mediate between the government and private firms in the formulation and achievement of the objectives of the process of policy development.

In the bridging process between private firms and government, the intermediary organization (in this case, the association) can perform the following activities: collection and distribution of information about problems of the target group and the government; proposition of solutions in the policy process, informing the target group; and finally, participation of the organization which may result in additional legitimacy for the policy instrument. In short, a good and effective mechanism of public-private consultation is very crucial to construct a proactive and supportive business environment.

Figure 19: Assessment Framework for More Effective Representation of SMEs' Interest

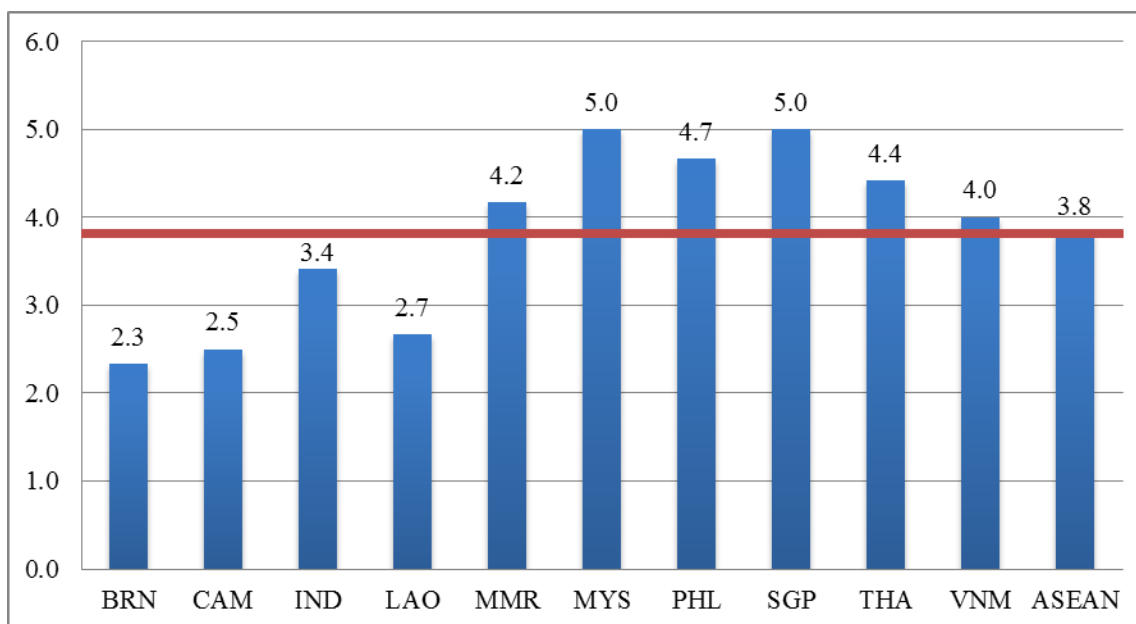


2. Assessment

The gap in promoting an effective representation of SMEs' interest is the smallest in the region due to the active role of industrial, business or SME associations in setting up a structured consultation mechanism with government agencies in the process of policy formulation and advocacy to represent SMEs' voice and interests domestically and internationally. Still, most SME associations lack resources, the technical and

research capacity to provide high quality services, and access to regional and global production networks as inferred from the numbers reflected in Figure 20 and Table 9, and as described in the individual country assessments.

Figure 20: Overall Scores for More Effective Representation of SMEs’Interests



- **Singapore**

Singapore has a multitude of Trade Associations and Chambers (TACs) that represent SMEs’ interest in various communities and industries. The Singapore Business Federation (SBF) is the apex business chamber that champions the interests of the Singapore business community in trade, investment and industrial relations. In 2011, SBF set up a business-led SME Committee (SMEC) which aims to be a key platform for SME engagement on business issues as well as be the voice for SMEs in effecting business-friendly government policies. This committee has representation from major ethnic chambers, trade associations and qualified individuals. A minister from the Ministry of Trade and Industry currently acts as an Advisor to SMEC, illustrating the public sector support for the work of the SMEC.

In terms of research capabilities, SBF conducts an annual National Business Survey to identify the needs and concerns of its members. It also provides a quarterly business sentiment index on Singapore SMEs. The objective of this index is to provide a 6-month outlook on the SME community in relation to the external economic conditions. SBF also supplements quantitative studies with thematic studies through focus group studies on SME issues. These research activities support SBF and SMEC in better representing the SMEs.

Specific to representing the SME community, the Association of Small and Medium Enterprises (ASME) is an organization that facilitates the growth and development of SMEs. The association champions the development of a robust business ecosystem and serves as a bridge between the public and private sectors to promote a more conducive business environment. ASME is able to undertake services such as advocacy and policy consultations, seminars, and trade missions.

ASME also holds regular consultations with SMEs to understand their challenges and equip them with the business knowledge and market opportunities to help them grow. Its board members are entrepreneurs who have established successful SMEs and they regularly provide their feedback and inputs. The association also conducts regular surveys to understand SMEs' sentiments. The association has a good working relationship with government agencies and is often consulted on the formulation of SME-related policies. Government agencies hold regular dialogues and working committee meetings with the association and SMEC to address the needs of SMEs.

- **Malaysia**

The Government recognised the importance of SME associations in developing SME strategies to strengthen the role of private sector institutions. The strategies include encouraging companies to become members of trade and industry associations, establishing Malaysian trade and industry associations overseas, and promoting the role of trade and industry associations as effective intermediaries to collaborate with policy makers in the formulation and implementation of export plans. The government constantly seeks feedback from SME associations through its relationship with the

Federation of Malaysian Manufacturers and chambers of commerce. The Small and Medium Industries (SMI) Association of Malaysia was established with the objective of promoting and providing support, services and solutions towards the best interest of small and medium industries, enterprises and businesses in Malaysia. Said association has been given a strong role for the realisation of the aforementioned strategies.

However, the SMI Association does not have an explicit research and development department which can undertake, among others, research activities related to market research services for members, business surveys to understand the current investment climate and business challenges, and proposals to review the corporate tax system. In general, the function of SMI Association Malaysia is to consolidate inputs from the industry and to act as an advisory organisation to the government rather than to participate as a research centre. Besides the SMI Association Malaysia, there are also numerous industry associations in various specific industries such as the Malaysian Textile Manufacturers Association, Malaysian Plastics Manufacturers Association and Malaysian Rubber Products Manufacturers Association.

The SMI Association is also actively engaged in dialogues with the various ministries of the Malaysian Government to reflect and provide feedback on the needs and improvements required to create stronger and more professional small and medium industries, enterprises and businesses in the country.

There is a nationwide consultative mechanism to absorb SMEs' interests in SME policies in Malaysia. These interests are captured in terms of policies, actions plans, and strategic thrusts. In some cases, these consultations are held on a case-by-case basis. The consultation mechanism takes place on a monthly basis, which allows direct feedback and follow-ups on the outcomes of the measures as well as provides room for the SME associations to give formal comments or recommendations on the drafting of SME-related policies. However, because SME associations in the country lack policy monitoring and evaluation capabilities, their role is often seen as not significantly influential.

- **Thailand**

There are many associations that represent SMEs' interests at both national and local levels such as the Thai Chamber of Commerce, the Federation of Thai Industry, and the Association for the Promotion of Thai Small and Medium Entrepreneurs (ATSME). The business associations could have a strong advocacy to represent SMEs in the formulation of SME promotion policies by sitting in the Board of Directors of the OSMEP. These associations have participated in international SME associations such as the ASEAN SME Advisory Board.

The services provided by these associations include database management of SME contact information, information gathering and dissemination, networking, business matching, training and seminars, processing of certificates of origin, and giving advice to government to review SME-related policies. They also have conducted their own research and published e-news bulletins and surveys. Some joint research projects with SME incubators, NGOs and government agencies are also conducted. However, the associations do not have a dedicated policy research center for SMEs.

Despite their role in representing SMEs' interests, the number of business members in business associations has remained somewhat low. According to the OSMEP statistics, only 2.5 percent of SME businesses participate in business associations while 30 percent of large businesses participate in the associations. As for the ATSME, there are over 8000 members from all over the country in 2013.

The Thai government agencies have a consultative mechanism with the private sector which is nationwide in scope. The consultation mechanism allows direct feedback and follow ups the outcomes of the government measures. The consultations take place on a quarterly basis for the Board of Directors and on a monthly basis for the Board of Executives of the OSMEP. Despite such formal consultative mechanism, communication of direct feedback and follow-ups of the outcomes of government measures are not yet effective. Perhaps this is because such consultations are characterized by a top-down approach or mainly guided by their government-owned agenda.

The association is able to give initiatives, formal comments or recommendations on draft SME-related policies through the members of the Board of Directors. In addition, the association monitors and evaluates policy outcomes such as the effects of the minimum wage policy and the Baht appreciation. However, the desired outcomes from these initiatives from the private sector or business associations are not often achieved.

- **Indonesia**

Despite the absence of a single dedicated SME association, business associations in Indonesia nonetheless have quite a strong voice in representing SMEs' interests. For one, members of the various SME associations are mainstreamed in industry associations and/or chamber of commerce with nationwide networks. They also have a strong domestic and independent advocacy role on SME-related issues although the impact of the advocacy is still unclear. Furthermore, some of the associations have also participated in international SME associations. Nevertheless, the capacity of SME associations is still relatively weak, especially in terms of research capacity as there are no associations that have either a research department or a dedicated policy research center for SMEs.

In Indonesia, as mentioned, there is no single national SME association that particularly represents all SMEs in the country. However, there are many sector-based associations whose members are SMEs such as the association of producers of tofu and tempe and the association of producers of cassava chips. Some associations are locally based while others are nationwide. For nationwide associations, two major business associations, i.e., the Indonesian Chamber of Commerce and Industry (Kadin-Indonesia) and the Indonesian Employer Association (APINDO) have a department/division that is dedicated for managing SME- related issues.

While the SME associations have a strong voice in speaking out their aspirations in the formulation of SME-related policies, their involvement in the policy formulation process, however, is uncoordinated due to the diverse interests of each association.

Thus, the impact of their advocacy is still unclear. One of the survey respondents in this research said that influencing government's policy is a hard job.

Meanwhile, some of the associations, particularly APINDO and Kadin-Indonesia, have international networks with their counterparts in many other countries and regions such as those in European countries, African countries, and ASEAN countries. APINDO, for instance, has an international network with the ASEAN Confederation of Employers and all its members (e.g., e.g. Malaysia Employers Federation (MEF) Singapore National Employers Federation (SNEF) Employers' Confederation of Thailand (ECOT), Employers Confederation of the Philippines (ECOP)).

In terms of technical capacity, the SME associations are supported by a secretariat or administrative office. The secretariat conducts information gathering, database management and information dissemination to SMEs and other organizations as well as networking, business matching, training and seminars. While some secretariats also give advice to local and national governments to review SME-related policies, the advice are not carried out with sufficient ability to generate and mobilize resources to support the secretariat. Despite their involvement in supporting trade and investment promotion in the country, none of the associations undertakes services in processing certificates of origin (CoOs).

Meanwhile, the research capacity of associations is limited to collecting existing researches from various sources. Almost all associations in Indonesia, including the association that this study team interviewed, do not have a research department. Nevertheless, the associations sometimes conduct joint research projects with other institutions. APINDO, for example, have even conducted a research investigating consumers' preference on several products. The result of this research was used as ideas for workshops and/or trainings for its members.

The consultative mechanism between government and the private sector is undertaken in various sectors on an ad-hoc manner. On SME issues, in particular, the public and private sector consultations also occur sporadically and mostly upon the call of the

government, although the private sector has the opportunity to formally comment on draft SME policies and can suggest own initiatives or measures related to SME.

The Indonesian government also has consultative mechanisms with the private sector both at the local and national levels. But the consultations are held on a case-by-case basis, without a regularity in schedule. The product of consultations takes the form of minutes taking or report or recommendation paper.

Like in other issues, SME issues are also consulted or discussed in a sporadic manner between the government and the private sector. There is no structured and regular consultation on SME issues and the government does not seem to have a plan to establish such system.

Nevertheless, the associations have the opportunity to give formal recommendations on the issues discussed and on the draft of SME policies. Furthermore, the private sector can also suggest their own initiatives or measures, though it is not clear how many of their initiatives have been taken by the government. Business associations also conduct the monitoring and evaluation of existing policies, where the results are then given as inputs to the government.

- **Philippines**

At the national level, the SME agenda and interests are articulated by the Philippine Exporters Confederation (Philexport) and the Philippine Chamber of Commerce and Industry (PCCI). Philexport is the country's umbrella organization of exporters and is composed of 3,000 member exporters from fifteen economic sectors accredited under the Export Development Act of 1994. PCCI is a non-stock, non-profit and non-government organization of SMEs as well as local chambers and industry associations. It currently has over 35,000 direct and indirect members and over a hundred local chamber affiliates throughout the country.

Both Philexport and PCCI conduct advocacy work and have partnered with other stakeholders in advancing the interests of SMEs. They actively engage in policy discussions and deliberations on issues affecting industries.

Both organizations have the ability to provide key services to its members, undertake independent advocacy work, formulate/propose policies at the national and local levels, and generate resources internally and externally.

Both Philexport and PCCI have professional staffs who may undertake important research related to their industries and sectors and issues related to their policy advocacy. Both organizations are also able to tap partner academic and research institutions to help them conduct these researches. Both organizations are also able to come up with important publications related to their services to members and their policy advocacies.

The Universal Access to Competitiveness and Trade (U-Act) is the think-tank of the PCCI. It prepares FTA Primers and conducts industry studies along with policy papers and impact on competitiveness such as infrastructure development, education & training policies, competition law, and others. U-ACT works in cooperation with local and international organizations including government departments, trade and industry associations, national trade promotion agencies, chambers of commerce, industry associations and management institutes to strengthen the private sector's role in economic governance and policymaking process.

Both organizations have the capacity to undertake independent research and studies on their own or with partners. They are able to tap technical expertise and funding for joint research projects.

The Micro, Small and Medium Enterprise Development Council (MSMEDC) was established as a formal mechanism for consultations. The Council is organized at the national, regional, provincial and city levels. It has membership from key government agencies and institutions and private SME sector representatives

The PCCI SME Development Division actively participates in the formulation and implementation of policies and programs, both in the national and regional levels to improve the capabilities and competitiveness of MSMEs focusing on five key areas:

access to technology and information, access to credit and financing, access to markets, human resource development and access to market opportunities.

The Council meets at least once every quarter and holds up to, at most, 24 meetings per year to include those of the Executive Committee and Sub-committees. These committees created by the Council meet whenever required and more frequently than the Council meetings. In practice, meetings of the MSMED Council take place every quarter. The Council adopts some recommendations from the private sector representatives. The MSME sector has also seen its inputs reflected in the Philippine Development Plan, MSME Development Plan and Philippine Export Development Plan.

- **Brunei Darussalam**

There are a number of business associations that look at the interest of SMEs although there are no associations that have been established specifically with the name Small and Medium Enterprises as a business Chamber or Association. The main ones are: Malay Chamber of Commerce and Industry (MCCI), Chinese Chamber of Commerce (CCC), National Chamber of Commerce and Industry (NCCI), Brunei Darussalam International Chamber of Commerce and Industry (BDICCI), and Young Entrepreneurs Association of Brunei (YEAB).

All business associations are registered under the Registrar of Societies Order, which is under the supervision of the Commissioner of Police, Brunei Darussalam. Any association or membership to regional or international association will need the approval of the Registrar of Society. Failure to obtain approval from the Registrar can result in the association being suspended. Hence, SME participation in regional activities of other association is only limited to participate in foreign exhibitions and conferences. The local association does not participate in any policy setting or regional and global scope.

There are no requirements for companies to be members of any Chamber of Commerce or Business Association. There are also no specific associations established for SMEs

as most businesses operating in Brunei Darussalam are SMEs. Hence, the existing Chambers and Business Associations would look at issues affecting SMEs. The executive members or council members are elected by their respective Chambers. However, most of the members that help run the Chamber are performing the function voluntarily and operate from their own place of work.

Due to the nature of the Chambers in Brunei Darussalam and lack of resources, there are very limited services provided and none has a research and development department. The services of the Chambers are mainly to organize meetings and arrange for match making and network opportunities for its members at conference, business forum or receiving foreign business delegations.

The private sector has always been referred to as the engine of growth and the Government as the facilitator. Although some Chambers do have dialogues with various government agencies, there is still very limited opportunity for the private sector to be involved in the formulation of government policies or brought in for consultation before any new policy is announced. And since SMEs are not involved in any policy decision, there are no applicable monitoring systems in place to monitor policies.

- **Viet Nam**

VINASME, a member of the Viet Nam Chamber of Commerce and Industry (VCCI), is a social and industrial organization with the function of being a representative of SME-related different associations. It protects legal rights of its member associations and SMEs; gives advice to competent agencies to solve SME-related issues; and serves as a bridge between its member associations, SMEs and competent agencies. It supports its members to expand their business operations/ activities, conducting trade and investment promotion, and international cooperation, among others. In addition, Viet Nam currently has around 400 enterprise associations (officially operation) throughout the country.

The technical capacity of VINASME is supported by an Administrative Office that gathers and disseminates information to SMEs and other organizations. It also

undertakes membership services such as networking, business matching, training and seminars; and gives advice to local and national governments to review SME-related policies. VINASME and its members intend to provide database management of SMEs' contact information.

VINASME has a Research Department and its research capacity is illustrated by collecting research from various sources; publishing magazines, industry studies, and surveys on various topics; joint research projects with donor partners or other institutions. The Association has a dedicated policy research center or think tank of SMEs. It also established the Science Institute for Small and Medium Enterprises (SISME) as a think-tank of SMEs. It conducts in-depth study on SMEs. Recently, these research department and institute have joint research projects with donor partners or other research institutions.

VCCI also established a Supporting Center for SMEs and an Institute for Enterprise Development to conduct specialized studies on SMEs. It also has many joint research projects with donor partners or other research institutions. In addition, many other enterprise associations also conduct studies in order to provide relevant comments and suggestions.

The Government of Viet Nam attaches great importance to policy consultations with the business community in general and private sector in particular. The consultations for legal documents on business are held on a case-by-case basis. Annually, local enterprise associations organize two or three dialogues between enterprises and the local government, three or four dialogues between enterprises and provincial departments, and four or five dialogues between enterprises and district departments. For central enterprise associations (by industry), each association organizes around 10 dialogues with line ministries and state agencies/ central government.

VCCI and VINASME are able to give formal comments and recommendations on draft SME-related policies. They are also able to suggest initiatives on SME-related policies.

In general, the consultation mechanism allows direct feedback although it is not clear how many initiatives have been taken by the government.

- **Lao PDR**

The Lao National Chamber of Commerce and Industry (LNCCI) is represented as an SME association in Laos. The main role of the LNCCI is to bridge state and private enterprises and represent employers, groups and joint ventures across all agencies that have been established under the laws of Lao PDR. It currently has more than 1000 members represented through Chambers of Commerce in 18 provinces and business associations nationwide. In addition, there are a number of associations related with industry, commerce and tourism sectors.

The SME association has a strong domestic and independent advocacy role on SME-related issues. In terms of technical capacity, the association undertakes membership services such as networking, business matching, processing of certificates of origin, trade and investment promotion, and training and seminars. However, its research capacity is limited to collecting existing researches from various sources.

For the mechanism of the consultation, the national, local and sectoral consultations are done on a regular basis, using a committee structure where position or white papers are produced. The consultations involving key actors from the public and private sectors take place on a semi-annual basis. The private sector can suggest its own initiatives or measures.

- **Myanmar**

Although an SME Association has not been established yet, there are many agencies related to and supportive of SMEs in Myanmar. Many government agencies have a strong advocacy to represent SMEs in the formulation of SME laws and SME-related policies. The Ministry of Industry established the SMEs Development Center (SDC) to support and give guidance to SMEs and monitor their performance. The SDC is organized by three main departments: Department of Industrial Development and

Technology, Department of International Relation and Market Expansion, and Department of Investment Promotion and Exploitation of Resources.

The SDC provides various kinds of support for SMEs development such as taking the responsibility for database management, data gathering, dissemination of SME contact information, and provision of training and seminars. In addition, the Ministry of Commerce and the Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry (RUMFCCI) also provide training, workshops and seminars to entrepreneurs, its members and enterprises. The RUMFCCI also issues certificates of origin, and conducts business matching and trade and investment promotion programs. RUMFCCI and SDC also give advice to government to review SME laws and SME-related policies.

In Myanmar, SMEs are vital for the development of the national economy because they can contribute to job creation, resources utilization and generation of earnings. Therefore, Myanmar currently pays special attention to the development of SMEs and the nurturing of existing SMEs to become large enterprises. To create a conducive business environment, related Ministries, Departments, and representatives from the private sector, local experts, and RUMFCCI have drawn a draft of SMEs laws and policy.

Representatives from SME committees, the SDC, the Ministry of Industry and the Ministry of Commerce conduct regular consultations and discuss matters concerning SMEs development. Basic meetings are conducted quarterly to discuss SME-related issues such as challenges for SMEs, advantages and disadvantages of SMEs, development programs for SMEs and major factors for SME development. Participants in the consultations on SME policies are not only from the SDC and RUMFCCI but also from the private sector as well as professionals who can give formal comments and suggestions on the draft SME law and related policies.

- **Cambodia**

The industry associations in Cambodia have been established in a wide range of industries such as garment, rice, rubber, hotel, banking, shipping, and restaurant. Moreover, there are provincial chambers of commerce and many foreign chambers of commerce. Among the largest and influential general associations are the Chamber of Commerce; Federation of Association of SMEs of Cambodia (FASMEC), and a leading industry-specific association, the Garment Manufacturers Association in Cambodia (GMAC). Many associations are facing a number of challenges such as competing associations in the same industry, limited networking inter-association, limited networking among members, limited services to its members, limited technical and research capacity, limited maintenance of databases and contact information of SMEs.

The Government-Private Sector Forum is organized twice a year, following quarterly ministerial meetings, and is co-chaired by the Prime Minister and the representative from the private sector, namely, the Chairman of the Chamber of Commerce. The Forum is composed of nine working groups: (1) Agriculture and Agro-Industry, (2) Tourism, (3) Manufacturing & SME, (4) Law Tax and Governance, (5) Banking and Financial Services, (6) Energy, Infrastructure and Transport, (7) Export Processing and Trade Facilitation, (8) Industrial Relations, and (9) Customs Public-Private Partnership Mechanism (CPPM). In the forum, the private sector can raise issues/challenges which are faced by the private sector and which need a quick decision from the Prime Minister. Decisions are made on a case by case basis. Despite its effective dialogue mechanism, the Forum is for the purpose of troubleshooting rather than for monitoring policy implementation. And some associations do not represent their industries well. Concerning the formal influence of the consultation, SMEs or the private sector can comment on draft SME policies, but the decision is made by the government.

Table 9: More Effective Representation of Small Enterprises' Interests

		BRN	CAM	IND	LAO	MMR	MYS	PHL	SGP	THA	VNM	ASEAN
8.1	Role and capacity of SME association	2.3	2.5	3.8	2.3	3.8	4.3	4.7	5.0	4.2	4.3	3.7
8.1.1	SME association	3.0	3.0	6.0	3.0	4.5	6.0	5.0	5.0	4.5	5.0	4.5
8.1.2	Technical capacity	2.0	2.5	3.5	2.0	4.0	5.0	5.0	5.0	4.0	3.5	3.7
8.1.3	Research capacity	2.0	2.0	2.0	2.0	3.0	2.0	4.0	5.0	4.0	4.5	3.1
8.2	Participation in Consultations on SME Policies	2.3	2.5	3.0	3.0	4.5	5.7	4.7	5.0	4.7	3.7	3.9
8.2.1	Mechanism of the consultations	3.0	3.0	4.0	3.0	4.5	6.0	5.0	5.0	4.5	4.0	4.2
8.2.2	Frequency of the consultations	2.0	2.0	1.0	3.0	5.0	6.0	5.0	5.0	5.0	3.0	3.7
8.2.3	Formal influence of the consultations	2.0	2.5	4.0	3.0	4.0	5.0	4.0	5.0	4.5	4.0	3.8
	Average	2.3	2.5	3.4	2.7	4.2	5.0	4.7	5.0	4.4	4.0	3.8

