MICRO AND SMALL ENTERPRISE DEVELOPMENT & POVERTY ALLEVIATION IN THAILAND

Project ILO/UNDP: THA/99/003

WORKING PAPER 3

CREATING AN ENABLING ENVIRONMENT FOR MICRO AND SMALL ENTERPRISE (MSE) DEVELOPMENT IN THAILAND

Simon White

SERIES EDITOR: Gerry Finnegan

July 1999
Foreword

I am pleased to see this series of reports as outputs from the recent collaboration between ILO and UNDP in Thailand in the form of the Micro and Small Enterprise Development and Poverty Alleviation Project in Thailand. As the UN agency with special responsibility for employment matters, the ILO is concerned about employment in all sizes of enterprises, in both the formal and informal sectors. The ILO is equally concerned about the quality, as well as the quantity, of jobs created. This point is well amplified in the recent report, Decent Work, by the ILO Director-General, Mr Juan Somavia.

From related studies carried out by the ILO following the financial crisis in East Asia, it is apparent that both the level of employment and the quality of employment conditions in Thailand have been adversely affected by the crisis. Consequently, the work being undertaken by this project is most timely, assessing as it does the role of micro and small enterprise (MSE) development in poverty alleviation and employment creation.

Perceptions of the role played by governments have changed; they are no longer expected to be the principal providers of jobs – jobs are created by successful, well-managed private sector enterprises. However, governments do have a vital role to play in ensuring that the policy environment is ‘enterprise friendly’. The path into enterprise should be smooth, and entrepreneurs should be able to receive relevant advice and support (both financial and non-financial) in a highly effective manner from both government and private sector agencies. The needs of the MSE sector should be clearly identified, and linked with a better understanding of the scale and scope of the enterprise sector and its role in national development.

All of these important aspects are addressed in this set of six working papers. Together they provide a substantial body of knowledge and significant inputs for policymakers and decision-makers in Government, the private sector, international organizations and the donor community, as well as for entrepreneurs themselves.

Given the prominence of the small and medium enterprises (SME) sector in Government policy, this information is being made available at an appropriate time. It is also highly relevant, coming as it does at a time when the ILO is carrying out a Country Employment Policy Review in Thailand, as well as providing support to make its Start and Improve Your Business (SIYB) training materials available for extensive use in Thailand.

W R Simpson
Director, ILO/EASMAT
Bangkok, Thailand
Preface

This working paper, Creating an Enabling Environment for Micro and Small Enterprise (MSE) Development in Thailand, prepared by Simon White, has been produced as part of the ILO/UNDP project on Micro and Small Enterprise Development and Poverty Alleviation in Thailand (THA/99/003). A full description of this project can be found in the project document which is available on request.

This series of six working papers is the combined output from the team of national and international consultants engaged by the ILO in Thailand between March and June 1999. Preliminary findings for each of the reports was shared with a group of key informants at a workshop/consultation, held at the Royal Princess Hotel, Bangkok, in May 1999. We are indeed grateful for all comments and feedback received at that workshop. While every effort has been made to ensure the accuracy of the information in these reports, we regret any omission or error contained herein. These working papers are intended as a means of advancing the public debate on the small enterprise sector in Thailand, and the ILO is eager to share this information with the widest possible audience.

The term "micro and small enterprise" (or MSE) is not commonly used in Thailand, as more frequent reference is made to the designation, "small and medium enterprise", or SME. Each of the ILO consultants has made some reference to the issue of definitions of micro, small and medium enterprises, and Paper Six in this series is dedicated to this topic. Therefore, to facilitate a clear and unambiguous understanding of these working papers, we have been at pains to make distinctions between different categories of small enterprises. We believe that the issue of definitions is not simply one of semantics.

One basic premise of this project is that there is a significant number of smaller enterprises which do not fit into the conventional enterprise support programmes of the Royal Thai Government. With targeted forms of support, these enterprises could improve their productivity and competitiveness, make a greater contribution to generating wealth and alleviating poverty among the families of owners and workers alike, and create more jobs.

The ILO has been supporting micro and small enterprise development for more than three decades. In 1998, in a significant landmark event for the Organization, the ILO's Conference – at which Thailand was represented – unanimously adopted a new Recommendation on Job Creation in Small and Medium-sized Enterprises (No. 189). Because of its extreme relevance to the subject of our enquiry, we have reproduced this Recommendation as an Annex. Particular attention is drawn to parts II and III dealing with the policy and legal framework, and development of an enterprise culture, respectively. In addition, to coincide with this new Recommendation, the ILO launched a global International Small Enterprise Programme (ISEP) to provide technical assistance for member countries, including Thailand. The work carried out under this ILO/UNDP project is also part of the ILO's ISEP programme.

Gerry Finnegan
Senior Specialist & Series Editor
ILO/EASMAT, Bangkok
July 1999
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**Acronyms**

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<th>Description</th>
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<tbody>
<tr>
<td>AFC</td>
<td>Asian Financial Crisis</td>
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<tr>
<td>BAAC</td>
<td>Bank of Agriculture and Agricultural Cooperatives</td>
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<tr>
<td>BMA</td>
<td>Bangkok Metropolitan Administration</td>
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<tr>
<td>BOI</td>
<td>Board of Investment, Prime Minister’s Office, Royal Thai Government</td>
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<tr>
<td>CBO</td>
<td>Community-based organization</td>
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<tr>
<td>DCD</td>
<td>Department of Community Development, Ministry of the Interior, Royal Thai Government</td>
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<tr>
<td>DCR</td>
<td>Department of Commercial Registration, Ministry of Commerce, Royal Thai Government</td>
</tr>
<tr>
<td>DIP</td>
<td>Department of Industrial Promotion, Ministry of Industry, Royal Thai Government</td>
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<tr>
<td>DPW</td>
<td>Department of Public Welfare, Ministry of Labour and Social Welfare, Royal Thai Government</td>
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<tr>
<td>DSD</td>
<td>Department of Skills Development, Ministry of Labour and Social Welfare, Royal Thai Government</td>
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<tr>
<td>ECONTHAI</td>
<td>Employers’ Confederation of Thai Trade and Industry</td>
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<tr>
<td>ECOT</td>
<td>Employers’ Confederation of Thailand</td>
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<td>DEP</td>
<td>Department of Export Promotion, Royal Thai Government</td>
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<td>FTPI</td>
<td>Foundation for the Thailand Productivity Institute</td>
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<td>IEAT</td>
<td>Industrial Estate Authority of Thailand</td>
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<td>IFCT</td>
<td>Industrial Finance Corporation of Thailand</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IYB</td>
<td>Improve Your Business (training programme of the ILO)</td>
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<td>KTB</td>
<td>Krung Thai Bank</td>
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<td>MINT</td>
<td>Ministry of the Interior, Royal Thai Government</td>
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<td>MOC</td>
<td>Ministry of Commerce, Royal Thai Government</td>
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<tr>
<td>MOI</td>
<td>Ministry of Industry, Royal Thai Government</td>
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<tr>
<td>MOLSW</td>
<td>Ministry of Labour and Social Welfare, Royal Thai Government</td>
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<td>MOPH</td>
<td>Ministry of Public Health, Royal Thai Government</td>
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<td>MSE</td>
<td>Micro and small enterprise</td>
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<td>NGO</td>
<td>Non-government organization</td>
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<tr>
<td>NHA</td>
<td>National Housing Authority</td>
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<td>NPSC</td>
<td>National Social Policy Committee</td>
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<td>NSTDA</td>
<td>National Science and Technology Development Agency</td>
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<td>OCRDP</td>
<td>Office of the Committee for the Rehabilitation of Disabled Persons</td>
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<tr>
<td>PIO</td>
<td>Provincial Industrial Office</td>
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<tr>
<td>PLR</td>
<td>Policy, Legal and Regulatory</td>
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<tr>
<td>RTG</td>
<td>Royal Thai Government</td>
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<tr>
<td>SBMO</td>
<td>Small business membership organization</td>
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<tr>
<td>SED</td>
<td>Small enterprise development</td>
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Creating an enabling environment for micro and small enterprises in Thailand

SICGC Small Industry Credit Guarantee Corporation
SIFC Small Industry Finance Corporation
SIYB Start and Improve Your Business
SME Small and medium-sized enterprise
SMED Small and medium-sized enterprise development
SOE State-owned enterprise
SPC Social Protection Committee
SPPD Support Services for Policy and Programme Development
SSI Small-scale industry
STDB Science and Technology Development Board
SYB Start Your Business (training programme of the ILO)
TCC Thai Chamber of Commerce
TISI Thai Industrial Standards Institute
TISTR Thailand Institute of Scientific and Technological Research
TTC Technology Transfer Centre
UCDO Urban Community Development Office (of NHA)
UNDP United National Development Programme
VAT Value Added Tax
Executive Summary

This working paper reports on the findings of an investigation into the environment in which micro and small enterprises operate in Thailand with an emphasis on the urban capital of Bangkok. It has been prepared as part of a series of technical inputs by the ILO into the design of policies, programmes and strategies that may be implemented to support the promotion of the micro, small and medium-sized enterprise sector.

The 1997 Asian financial crisis shocked and disrupted the economic and social patterns of growth and development in Thailand and forced a fundamental review of development policies and programmes. This included a greater recognition of the significant role small and medium-enterprises (SMEs) can play in achieving national development goals. The formulation of an SME Promotion Bill and the current development of a new Master Plan within the Department of Industry Promotion (DIP) illustrate the desire of the Royal Thai Government to maximize the potential of this sector. These developments are occurring amidst a rapid process of policy reform and economic restructuring that has affected all sectors of the economy, most notably the financial sector.

Of concern, however, has been a continuing emphasis on the larger, more modern forms of SMEs; an emphasis that has detracted from the perceived value of micro and very small businesses. The Government has tended to describe micro and small enterprises (MSEs) as insignificant and unattached to the core of the economy. These enterprises are seen as poor, informal and unlikely to grow. Support for them has largely been welfare-based whilst only the larger, modern sector has received the attention of commercial and industrial promotion policies and programmes.

This working paper proposes that greater recognition be given to the promotion of MSEs as generators of quality employment and sustainable creators of wealth. It recommends that the policy environment be addressed to ensure that all forms of enterprises are promoted within an integrated policy framework. Furthermore, it recommends harmonizing policy and coordinating programmes across the social and economic ministries involved with micro, small and medium-sized enterprises. Once this fragmentation of policy has been addressed, there will be better opportunities to design development programmes, regulations and administrative arrangements that unleash the full potential of the entire micro, small and medium-sized enterprise sector.

Whilst there is room for improvement, Thailand’s legal and regulatory environment contains all the relevant protection and enforcement mechanisms that most enterprises require. However, the administration of these legal, regulatory and programme instruments has been criticized by many observers. This investigation has been unable to fully unearth the extent of these problems and the full nature of these criticisms, but has found that the Royal Thai Government continues to employ administrative and delivery systems that are in many cases narrowly-focused, out-dated and inefficient. Thus, the working paper recommends that new forms of enterprise
development strategies, services and delivery mechanisms be adopted. The current thrust by the Government toward community empowerment and the decentralized services, however, provides significant opportunities for improving MSEs’ access to the services and support mechanisms they require.

Finally, this working paper identifies one of the major underlying impediments to the design of effective policies, programmes and regulations that are conducive to enterprise development as being the absence of business associations and organizations that are representative of MSEs. These organizations can provide a valuable source of information to Government, information that is critical to the development of an enabling and competitive business environment. They can become partners in the delivery of business development services and advocates for better policies and programmes.
Summary of recommendations

Recommendation 1: Contributing to the Department of Industrial Promotion Master Plan

The DIP is in the process of formulating a master plan for the promotion of the SME sector, based on the directions of the SME Promotion Bill. The Royal Thai Government, in the form of Ministry of Industry’s Department of Industrial promotion, should call on international organizations such as the ILO to assist in the formulation of this master plan. The ILO’s contribution could focus on the role and means of MSE development in the broader SME development framework, and could draw on international, regional and national experiences and best practices that it has documented.

[In addition, the ILO’s Recommendation on Job Creation in Small and Medium-sized Enterprises, 1998 (No. 189) could also provide a valuable framework for the formulation of the Master Plan - Editor’s note]

Recommendation 2: National enterprise forum

It is proposed that the Royal Thai Government, in conjunction with the ILO, organise a national enterprise forum, which would focus on the contribution of MSEs to national development objectives. The Forum would draw international and national speakers and would present information on the Thai experience and the value of the MSE sector. Its aim would be to attract Government ministers and senior policy makers with the purpose of stimulating debate and a greater appreciation of the value of the MSE sector.

Recommendation 3: Technical and popular information

It is recommended that the Ministry of Industry and/or the newly established Institute for SME Development, along with the ILO, develop simple information packages containing data on the MSE sector in Thailand and the contribution of the sector to national development. This package could contain press releases and articles on entrepreneurs in the MSE sector. These articles would illustrate the role of MSEs in development (e.g. as a job creator, as a pathway to larger and more formal SMEs).

Recommendation 4: Compilation of a national assessment of the micro, small and medium-sized enterprise sector

It is proposed that the DIP and ISMED work in collaboration with the ILO in the preparation of strategy for an annual “State of Small Business Report”. This report could present information on the profile of the micro and small enterprise sector, its problems, constraints, opportunities and successes. In addition, it could describe programmes of support and the policy, legal and regulatory environment in which businesses in Thailand operate and develop.
Recommendation 5: Impact measures

It is proposed that the DIP and ISMED work in collaboration with the ILO in creating a mechanism for measuring on a continuous basis the impact of various support activities for micro, small and medium enterprises, including assessments of training and financial support programmes. [Added by Editor]

Recommendation 6: Further assessment and investigation

It is proposed that further assessments of the sector be undertaken. Whilst applying proper research techniques, such activities should not be academic exercises. Instead they should be oriented toward the formulation of effective policies and practical programmes designed to develop the MSE sector, improve working conditions and incomes, and maximise the potential for sustainable business development services.

Thus, it is proposed that further ‘action-research’ be undertaken to investigate the conditions of workers in the MSE sector with a view to improving social protection, work safety and incomes. This investigation could build on the experiences of other ILO programmes operating in these fields in the region, such as the Work Improvement in Small Enterprises (WISE) programme.

Recommendation 7: Research capacity

Whilst this proposal is focussed on specific research projects, it is important that a broader perspective on research be adopted by all Government ministries working with the MSE sector, in particular, the MOI, MOLSW and MINT. A continuous research capacity is required to improve the understanding of the micro and small enterprise sector and the ways it can be further developed.

Recommendation 8: A business environment review team

It is recommended that the DCR, ISMED and DIP, in association with other support agencies such as ECOT, Thammasat University, FTI and ECONTHAI, as well as ILO and other international partners, establish a Business Environment Review Team. This team would oversee a series of activities designed to review the policy, legal and regulatory environment for micro and small businesses in Thailand. It is proposed that the work of this Team initially focuses on specified industry sub-sectors in the Bangkok area. This would allow the Team and its participants to refine their skills and experience in these activities before broadening to other locations and industrial sub-sectors.

Recommendation 9: Regional business environment symposium

There would be a great deal of value in sharing the experiences of the South East Asian countries in the promotion of a more conducive business environment. Such a symposium would focus on the policy, legal and regulatory framework in which business operates with particular affects on the MSEs and SMEs, and should provide insights into how this framework can be reviewed and improved. The symposium would highlight the
initiatives being taken by the Royal Thai Government, whilst recognising and promoting the influences of the broader region on the business environment. International models of best practice could be described, within a regional context.

**Recommendation 10: Building capabilities**

Building the capabilities of enterprise promoters, including development practitioners, advisers, policy-makers, programme managers and administrators. An inter-ministerial MSE advisory and support group should be established to oversee the organization of a number of activities that can enhance the capabilities of enterprise promoters in all departments.

**Recommendation 11: Strategic and development planning**

There are a number of government departments and other organizations that work for the promotion of the micro, small and medium-sized enterprises that would benefit through practical assistance from the ILO, the UN and other international organizations, regarding strategic and development planning. It is proposed, therefore, that a simple information guide and training programme be prepared for individuals and organizations that provide development services to MSEs. This could practically assist these organizations in developing MSE promotion programmes that incorporate clear developmental objectives, relevant strategies and activities, identified resources, anticipated outcomes and an effective monitoring and evaluation system.

**Recommendation 12: Pilot projects**

The Royal Thai Government, in partnership with the ILO and other UN and international organizations, are urged to consider the use of pilot projects as a means of developing new and innovative methodologies for the promotion of the MSE sector, adapted and developed to suit the specific enterprise context of Thailand. Pilot projects can create valuable learning processes and experiences for Thai practitioners. They can draw on international best practice, whilst adapting these approaches to the unique circumstances of Thailand. The following pilot projects are proposed for consideration and further development:

a) Community-based enterprise development agency  
b) One-stop-shop for information and support  
c) Women in business  
d) Micro-franchising  
e) Business Retention and Expansion Programme  
f) Youth enterprise promotion

**Recommendation 13: Investigation of current associations**

Before beginning to promote the development of micro-enterprise associations, it would be valuable to investigate the current scope of activity and interest that exists. This should include a mapping and review of current organizations, along with a survey of the aspirations, interests and needs of MSEs regarding these types of organizations. Such an investigation would provide a basis for the planning of development programmes.
Recommendation 14: Awareness-raising events

Based on the outcomes of the above investigation, at the invitation of the Royal Thai Government, the ILO and other UN and international organizations could work with NGOs and CBOs to inform various groups of the findings, and organise a number of events wherein the awareness of the roles and potential of business associations could be promoted. These events may involve different types of formal and informal meetings, workshops and seminars. The ultimate, long-term aim of these events would be to design a support programme for the development and capacity building of business associations.

Recommendation 15: Capacity building for representative organizations

Following the two proposals above, there is a need for direct development activities aimed at enhancing the capacity of membership organizations that can represent the MSE sector. Due to the paucity of organizations operating in this field at present, such activities must be comprehensive in nature. They should include financial support, training, membership development, strategic planning and organizational assistance.
1. Context

'Three bricklayers were asked about what they were doing. One said, "I'm laying bricks." The second replied, "I'm building a wall." The third stated, "I'm constructing a temple".'

– Anonymous

This working paper has been prepared as part of a series of technical inputs by the International Labour Organization (ILO) into the design of policies, programmes and strategies that may be implemented to support the promotion of the micro and small enterprise sector in Thailand. This project (see Project Document for more details) has been supported by the United Nations Development Programme (UNDP) which has encouraged a particular focus on the role of micro and small enterprise (MSE) development in the alleviation of urban poverty. As a result, specific attention has been given to the MSE sector and to the entrepreneurial efforts of people in poverty and the MSE sector. This paper reports on the findings of an investigation into the policy, legal and regulatory (PLR) environment in which MSEs operate in Thailand, with an emphasis on the urban capital of Bangkok. This entailed a review and assessment of the relevance and effectiveness of various policies, laws and regulations that impact upon the promotion, creation and development of MSEs by both women and men, with special emphasis on the urban sector. Particular attention has been given to gaps or inconsistencies in the policy and regulatory environment, drawing also on essential lessons from other countries, as well as to identifying and recommending new instruments for use by policy-makers. In addition, the experiences of Government ministries and departments, and MSE owners and managers themselves, have been gathered for this study. Finally, a review of existing documentation on the state of the economy and the wider role of MSEs was undertaken, as well as a series of personal interviews with Government officials, and a survey of MSE owners and managers.

This working paper reports on these activities with the exception of the MSE survey, which shall be the subject of a separate report. Special emphasis has been given to identifying best practices and lessons learned from MSE development in Thailand by building upon the global experiences of the International Labour Organization (ILO), and in particular its involvement in the Committee of Donor Agencies for Small Enterprise Development. It also provides practical recommendations for policy, development and regulatory authorities. It is anticipated that the information contained in this report will directly contribute to the efforts of government and non-governmental organizations, civil society organizations and the private sector engaged in, or intending to become involved in, MSE development. This shall include those adversely affected by the Asian financial crisis, particularly the unemployed, women, and families in urban areas.

Like the bricklayers quoted above, it can be easy to overlook or dismiss micro and small enterprises as insignificant actors in the broader development picture. However, this would be ignoring the size, diversity, productivity and potential of the MSE sector and its contribution to national development goals. Thailand, like many other countries, is experiencing a dramatic shift in its employment patterns. Its ability to adapt to change,
recover from the effects of the Asian financial crisis (for convenience referred to as the AFC) and achieve a vibrant economy will, largely, be dependent on policies that recognise and support the MSE sector and link it to other sectors of the economy.

1.1 The context of economic change

Thailand has achieved an exceptional record of economic development over the last 30 years\(^1\), as witnessed by the rapid expansion of the national economy at an average rate of 7.8 per cent per annum. The Kingdom’s average annual income reached 68,000 Baht per capita in 1995, compared with only 2,100 Baht in 1961. The drop in numbers of people living in absolute poverty surpassed all expectations. It, far outstripped the Seventh National Development Plan’s target of 20 per cent by the end of 1996, and fell to 13.7 per cent of the population in 1992.

However, despite the impressive rate of economic growth, most of Thailand’s economic activity and prosperity has remained concentrated in Bangkok and the surrounding provinces. The average per capita income inside the Bangkok Metropolitan Region is still much higher than outside, and almost 12 times higher than in the country’s poorest region, the North-East. The gap between rich and poor in the Kingdom has also widened over the last 30 years. For example, in the four years from 1988 to 1992, the top 20 per cent of households saw their combined income rise from 54 per cent to 59 per cent of gross domestic product (GDP). In the same period, the combined income of the bottom 20 per cent of households dropped from 4.6 per cent to 3.9 per cent of GDP. This growing disparity means more Thais are being excluded from the general improvements in quality of life, and this is proving to be an obstacle to national development.

The Asian financial crisis (AFC) in 1997 plunged the Thai economy into a severe recession, which has threatened to erode the gains of the previous high growth rates. In July 1997 the Baht was floated and as a consequence it was allowed to plunge in value: production, investment, and domestic demand collapsed, and unemployment increased. The financial sector suffered (and continues to suffer) from high levels of non-performing loans (NPLs), corporate bankruptcies increased, and construction came to a standstill. Since the AFC, the growth of GDP in Thailand declined from 5.5 per cent in 1996 to a negative 0.4 per cent in 1997 and a negative eight per cent in 1998\(^2\). [There are some indications that in 1999 positive growth will be restored - Editor’s note.]

The effects on employment have been dramatic. During 1997, the Social Security Office recorded a loss of 164,845 workers due to the closure of 2,107 firms - those employing more than ten workers\(^3\). Between February 1997 and February 1998, the labour force participation rate declined from 53.1 per cent to 52.7 per cent, whilst aggregate employment fell by three per cent and the rate of unemployment grew from 2.2

\(^1\) Extracted from the Eighth National Economic and Social Development Plan document
\(^2\) Estimated, as indicated in the Board of Investment web-page.
per cent to 4.8 per cent. In the same period, the share of self-employment in the employment figures rose from 53.8 to 54.4 per cent⁴.

The immediate impact of the crisis affecting several countries of East Asia including Thailand has been greatest in the urban areas, in particular in that area covered by the Bangkok Metropolitan Administration (BMA). It is in such urban areas where extreme forms of poverty are apparent, and where unemployment and underemployment adversely affect social as well as economic development. Subsequently, these communities are experiencing increased incidences of crime, drug abuse, and family disintegration.

The financial crisis in Thailand, as in other East Asian nations, has led to many severe, unforeseen, and sudden impacts, not only in the financial and corporate sectors but also more broadly in society, with many households enduring losses of wages, jobs, dignity and opportunities. Faced with mounting social impacts, the response of the Government and its civil society partners has been both substantial and innovative. The poorer groups in Thai society are experiencing income decline. Between 1996 and 1998, poverty incidence as measured by a head-count index, indicated that about one million Thais have been pushed below the poverty line. The economic downturn is reverberating throughout the social fabric of the country and is seen to be threatening traditional Thai values. Some have been fortunate to have received support from unofficial family and community networks, but as the crisis persists, there is evidence that family cohesion is disintegrating. Focus group discussions in February 1998 showed increased conflicts within families, among households and in the broader society⁵.

### 1.2 The policy response

There are increasingly encouraging signs that may indicate the beginning of a recovery from the recession induced by the Asian financial crisis, though it is still too early to claim that the worst is over. The Royal Thai Government has launched a fiscal stimulus package, lowered interest rates, and managed to stabilise exchange rates, the results of which provide the basis for cautious optimism. The combined effect of augmented deficit spending, supportive monetary policy, and overall macroeconomic stability are likely to trigger very modest growth in 1999.

The crisis and its impact on Thailand have been instrumental in creating a significant shift in the minds of politicians and policy-makers. Whilst not all of these shifts can be attributed to the crisis alone, there have been a number of policy initiatives that affect the "enabling environment" in which MSEs operate. These include the:

- introduction of a new constitution in 1997;
- shift from the extreme centralisation of previous years to the decentralisation of government services and the empowerment of local communities;

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⁴ ILO Regional Office for Asia and the Pacific 1999: 15
• increase in emphasis on the contribution of small and medium enterprises (SMEs) to national development, rather than a narrow focus on large-scale enterprises;
• privatisation of state-owned enterprises;
• revisions to the Eighth National Economic and Social Development Plan through guidelines to minimise the effects of rising unemployment;
• assistance measures in social welfare, education and health with the aim of preventing and alleviating social problems;
• initiative of Prime Minister Chuan Leekpai in establishing a new National Social Policy Committee (NPSC) in response to public demand for increased coordination of social policy and attention to the social reform agenda; and
• introduction of an economic stimulus package consisting of expenditure measures, tax reductions, and measures to lower energy prices.

The Government has made significant progress with its short-term economic adjustment measures. It has maintained monetary and fiscal stability, resolved some of the troubled financial institutions, alleviated the liquidity crunch, and begun corporate restructuring. Fifty-six finance companies have been closed and the sale of assets is under way. The prudential and regulatory framework for the remaining financial institutions is being strengthened, and tougher loan classification standards have been adopted. The exchange rate has stabilized and interest rates have come down significantly. The stock market is recovering, inflation is under control, and market-led re-capitalisation of financial institutions is taking place.

The World Bank is supporting the Government’s reform program through lending, policy advice, guarantees and technical assistance, and it pledged US$1.5 billion in support in August 1997. By mid-July 1998, loans totalling US$1.08 billion had been approved to assist Thailand’s financial sector reform, to strengthen economic reform, to help with privatisation and public enterprise reform, to resolve un-viable finance companies, to reform public administration, to increase competitiveness, and to improve legal regulations for business. In the social sector, the World Bank’s US$300 million Social Investment Programme loan aims to fund job creation for the poor and the unemployed, expand training for the unemployed, and support low-income health insurance schemes.

The Miyazawa Loan Fund has been established as a 53-billion Baht fund aimed at creating jobs and tackling the economic crisis. The Fund has been established through cumulative loans provided by the Japanese Export-Import Bank (JEXIM), the Overseas Economic Co-operation Fund (OECF) of Japan, and the World Bank. A target of 486,000 new jobs, primarily in rural communities, has been set for the Fund. The Ministry of Finance has defined six areas of spending for the Miyazawa Loan Fund. Twenty-six billion Baht will be used for projects which promote jobs and investment; 5.9 billion for

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Chairied by the Prime Minister himself, NPSC representatives comprise ministers responsible for social issues, NGO representatives, members of people’s organizations, business-persons, academicians and a religious leader. A partnership among the public, non-governmental and private sectors to formulate and monitor social policies is believed to be key to solving the country’s social problems.
those which enhance the quality of life in terms of health, safety and communities; 7.1 billion to support projects in line with national development, such as education and agriculture; 3.1 billion to increase exports; 0.96 billion for the support of economic development projects in border areas; and 6.7 billion to increase the administrative efficiency of the public sector. In addition, varying amounts are provided to specific ministries. The Ministry of Labour and Social Welfare, for instance, has been provided with 341 million Baht. The Ministry of the Interior has received 18 billion Baht from this fund and has announced plans to provide 100,000 Baht in cash to each village, and one million Baht to each tambon administration organization (TAO) for social investment purposes. (There are 68,000 villages and 7,000 TAOs in Thailand.)

The Royal Thai Government has been involved in the promotion of the small and medium-sized enterprise (SME) sector over the past 20 years. Recently, it has assigned considerable priority to the promotion and development of this sector, with the expectation that the sector can make a positive contribution to economic growth and to overcoming the worst impact of the financial and economic crisis affecting Thailand. Since late 1997, the Government’s major strategy in support of the small and medium industry sector has been stipulated under the National Industrial Restructuring Plan, coordinated by the Ministry of Industry. More recently still, however, the Government has been engaged in the formulation of policy measures and related support mechanisms to promote small and medium enterprise development. However, as in the past, much of the emphasis appears to be on the more formal and larger enterprises within the small and medium-sized enterprise sector. The smaller and less formal microenterprises - the major focus of this report - still appear to be inadvertently omitted from the government plans.

The Royal Thai Government has initiated a number of programmes to assist individuals and groups, particularly vulnerable groups affected by the crisis, to enter into self-employment and establish their own micro and small enterprises. Many of these programmes are being implemented through the Department of Industrial Promotion (DIP) in areas such as skill training, entrepreneurship training, investment advice, marketing support, loans and business linkages. In addition to the DIP support, several of these new programmes are being implemented through other “non-industrial” line ministries, such as the Ministry of Labour and Social Welfare (MOLSW) and the Ministry of the Interior (MINT).

To underpin the proposed new policy measures, Government is making available 35 billion Baht to facilitate the financing of the small and medium enterprise (SME) sector. This will be implemented through the existing specialised financial institutions (SFIs), such as the Small Industry Finance Corporation (SIFC) and Industrial Finance Corporation of Thailand (IFCT). Some of this is being channelled through the Bank of Agriculture and Agricultural Cooperatives (BAAC) and the Government Savings Bank (GSB) with the intention of assisting smaller enterprises. In addition, in support of the planned policy initiative five billion Baht has been proposed for a fund to be established under a new SME Promotion Bill and 2.1 billion Baht towards the establishment of an institute for SME development.
In Bangkok, the BMA is also playing an active role in promoting and supporting micro and small-scale enterprise and local economic development by individuals and groups. In 1998, the BMA allocated one billion Baht to job creation projects.

In addition, several financial institutions are addressing the requirements of the micro and small enterprise sector, such as the Bank of Agriculture and Agricultural Cooperatives (supporting non-farm enterprises) and Krung Thai Bank which plans to establish a development division in support of MSEs. The Small Industry Finance Corporation (SIFC) and the Industrial Finance Corporation of Thailand (IFCT) both see increasing demand for finance coming from the SME sector.

The creation of job opportunities and expansion of economic activities in the rural and urban sectors are considered the key development strategies in response to the impact of the crisis. Micro and small enterprises are increasingly seen as the creators of new jobs. Indeed, international organizations such as the ILO have actively supported member countries \[\text{Thailand is an active member of the ILO - Editor's note}\] in the promotion of new employment opportunities through MSE development.\(^7\) In Thailand it is important that the potential of MSEs should be unlocked to generate new quality employment opportunities and create additional incomes, thereby contributing to improved social and economic well-being, as well as the alleviation of poverty. This requires an understanding of the special needs and operational dynamics of micro and small enterprises. The major issues to be addressed in this report, therefore, concern improving the role of the MSE sector in creating and maintaining quality jobs in Thailand, and improving the capacity of the MSE sector to alleviate poverty, with particular reference to urban areas.

### 1.3 The role for micro and small enterprise (MSE) promotion in national development

The past three years of planning and policy-making in Thailand appear to have been characterized by the understanding that there must be a shift from emphasis on large-scale enterprises toward the small and medium-sized enterprise sector, including microenterprises. It is felt that micro, small and medium-sized enterprises are able to contribute to the achievement of national development objectives.

Small business has often been seen as a narrowly defined development activity, with little or no connection to broader development priorities. However, this misrepresents the role this large and dynamic sector can play, and has the effect of limiting the potential contribution of micro and small enterprises to national development objectives. Small businesses are essential actors in the development process. Together with larger enterprises, they play a key role in mobilizing public and private resources and allocating them to productive activities. They provide the main driving force behind the inter-related flows of trade, investment and technology, on which the strength and

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\(^7\) Note, for example, the adoption by the ILO the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189).
dynamism of the economy depends. It is important for government at all levels, as well as for other development organizations, to be clear about the role these businesses can play in development.

Internationally, MSE development can be found to contribute to any or all of the following objectives:

- promoting national and regional economic development goals;
- promoting employment, particularly in creating new jobs;
- alleviating poverty and assisting those who are disadvantaged;
- facilitating the transition to a market economy;
- promoting equity and addressing uneven development; and
- promoting democracy and the development of civil society.

The significance of the contribution of MSEs to national development goals is being recognised increasingly in many different countries. Therefore, closer attention is being paid to the factors that promote the growth and development of this sector\(^8\). Of particular importance has been the identification of the important role of the policy, legal and regulatory environment. Sometimes referred to as the 'business environment', there has been much attention given to the policy and legal framework within which MSEs operate, and the regulatory and administrative systems to which they must comply. It has become recognised that one of the most cost-effective and strategic approaches to MSE promotion is to ensure that the growth of small business is adequately supported by the legal and regulatory environment. Often the MSE sector faces a range of legal and regulatory constraints and biases that can limit the capacity of the sector to create new employment opportunities, foster technological innovation, and produce wealth. [In some countries such as Sri Lanka, it has been seen that liberal and otherwise supportive industrial development strategies actually worked against the MSE sector - Editor's note] Furthermore, even when the legal and regulatory instruments themselves are supportive of small business operations, their enforcement and implementation may be inadequate or inefficient, as well as inequitable and not transparent.

1.4 Defining enterprise in Thailand

There are a number of terms used by the Royal Thai Government (RTG) and various development agencies, including the UN and ILO, when referring to the enterprise sector. An investigation into small and medium enterprise (SME) activity by the ILO in 1993 found a frequent “problem of definition” and it appears this has remained\(^9\).

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\(^8\) See, for example, the Committee of Donor Agencies for SED publication, *Business Development Services for SMEs; Preliminary Guidelines for Donor-Funded Interventions*. ILO, January 1998.

Before this year, the Royal Thai Government applied the following definitions to enterprise activities.

- A “small-scale industry” (SSI), which is also referred to as a “small enterprise”, employs no more than 50 workers and has not more than ten million Baht registered capital.
- A “medium-scale industry” (MSI), which is also referred to as a “medium-sized enterprise”, employs between 50 and 200 workers and has a registered capital from ten to one hundred million Baht.
- Thus, the terms “SMI”, “small and medium-scale industries”, “SME”, or “small and medium-sized enterprises” applied to establishments with less than 200 employees and less than 100 million Baht registered capital.

Therefore, this earlier definition (or set of definitions) was broad and contained a great deal of variation. Indeed, the Bank of Thailand, the SIFC and the IFCT all differed from the DIP by defining an SSI as an establishment with not more than 20 million Baht in fixed assets.

The ILO report of 1993 proposed a four-level framework of definitions that incorporated “cottage enterprises”, “small enterprises”, “medium-sized enterprises” and “large enterprises”. It appears that this proposal has not been adopted. (A companion working paper in this same series considers the case of definitions in greater detail.)

Currently, MSEs - which are our major concern - fall under the category of a “small enterprise”. This broad definition and classification can become an obstacle to any review of the policy, legal and regulatory environment because it is likely that 'micro', 'small' and 'medium-sized' businesses will each experience different factors in relation to their contact with government. Size is not the only variable in these sub-categories of businesses. They are more likely to differ than they are to share in common characteristics, especially, for example, in matters concerning their internal resources, management and operational dynamics, and development paths. This point is reinforced when the support provided by different types of government programmes is assessed. The Department of Community Development (DCD) in the Ministry of the Interior specifically targets micro-enterprises that are owned and managed by unemployed groups, whilst the DIP is more concerned with the typical privately owned SME.

The forthcoming SME Promotion Act will set the benchmark for future references. It is understood that currently this Bill defines a “small enterprise” as one with no more than 50 million Baht invested, and 30 million Baht for retail enterprises, while a “medium-sized enterprise” shall contain a capital investment of between 50 million Baht (or 30 million for retail enterprises) and 200 million Baht. It is interesting to note that this classification has removed any reference to the number of employees, preferring, instead, to focus on the financial capacity of the enterprise.

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10 Manu Leopairote, Director-General, DIP. “The State of Entrepreneurship in Thailand” in The Development of Small and Medium Enterprises (SMEs) in some APEC countries. Papers and proceedings from a conference held in Bangkok, 30 to 31 July 1997.
The issue of definition is more than simply semantics. The use of any classification reflects the conceptualization of enterprise and they are used to differentiate between the needs, problems, constraints and development opportunities of this sector. Far from being homogeneous, there is a great degree of diversity amongst enterprises. The impact of the policy, legal and regulatory environment is not "size-neutral". Similarly, the requirements of and support for enterprise promotion programmes should also take account of the different sizes and characteristics of enterprises. Thus, careful definition of micro, small and medium-sized enterprises is important for the purpose, impact and potential of the environment in which these enterprises operate to be properly assessed.

In the name of consistency and for the benefit of an accurate critique, this report shall use the term “micro enterprise” when referring to self-employed persons and enterprises with no more than four employees. The term “small enterprise” shall envisage an enterprise with five to 19 employees. A “medium-sized enterprise” will refer to an enterprise with 20 and to 49 workers.

Other working papers in this series contain further information on the issue of definition of enterprises according to size. Diagram 1 illustrates the use and clustering of these terms, as applied in this paper.

### Diagram 1: Classification of enterprises by size

<table>
<thead>
<tr>
<th>Micro and Small Enterprises (MSEs)</th>
<th>Small and Medium Enterprises (SMEs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICRO-ENTERPRISES</td>
<td>SMALL ENTERPRISES</td>
</tr>
<tr>
<td>&lt; 5 workers</td>
<td>5 to 19 workers</td>
</tr>
</tbody>
</table>

#### 1.5 The contribution of micro and small scale enterprises (MSEs)

In any discussion of the benefits of the overall SME sector, it is easy to dismiss or ignore the contribution of the MSE sub-sector. However, to do this in Thailand would be to overlook a large section of commercial activity. One of the features of the MSE sub-sector is its size. Of the BMA registered businesses in 1996, 50.8 per cent were found to engage from one to four persons, whilst 26.4 per cent engaged from five to nine persons.
Thus, 77.2 per cent of registered enterprises operating within the BMA area engaged fewer than ten persons.\footnote{Figures provided by the National Statistics Office.}

The MSE sector is an important one for more reasons than just its size. Like the broader small and medium enterprise sector, MSEs are able to contribute to national development goals in a number of significant ways. These include:

- job creation, particularly through self-employment, and also when the enterprise owner and manager begins to employ others;
- services that are provided (e.g. catering, repairs, transportation);
- products that are provided (e.g. garments, food products, handicrafts);
- incomes that are generated, much of which provides important financial resources to poor families;
- equitable growth across regions and amongst women and men;
- mobilization of savings and internal financial resources for productive enterprise activities; and
- the start of a development path towards "larger" small and medium-sized enterprises.

The last point listed above deserves further elaboration. Self-employment and micro-enterprise are often a pathway to the formation of small and medium enterprises. Indeed, it is unusual for an enterprise employing, say, twenty or more workers to have commenced operations with this number of employees. Instead, most smaller enterprises are usually formed, often using personal savings or funds borrowed from family or friends, before external capital is sought and a growth and development phase is commenced. Thus, the MSE sector is a vital resource for the development of Thailand, not only for the contribution that it makes to poverty alleviation and job creation, but because it represents a groundswell of entrepreneurial endeavour and the potential for new business development.

In some cases, the MSE sector is considered within a welfare framework. It is easy, for example, to think of the role of MSE development in poverty alleviation in terms of income generation activities or some other kind of poverty or welfare programme. This can be a mistake. Whilst there will be poor communities and families who benefit from projects of this sort, the real benefits will come from adopting an entrepreneurial approach to MSE development. Such an approach recognises the resource constraints on poor communities and does not interfere with market influences. It does not attempt to remove risk or discourage an individual’s initiative, but does enhance skills development, provide support and facilitate the creation of enterprise linkages and networks. It is the approach to developing this sector that is an issue of debate, not the importance of the sector.
1.6 The importance of an enabling environment

The policy, legal and regulatory (PLR) environment exists to perform two broad functions. Firstly, it provides the means by which government can manage the economy to achieve sustainable social and economic outcomes. Government develops policies, legislation and regulatory mechanisms to achieve particular purposes. The second function of the legal and regulatory environment is to protect and assist the small business itself. Small business operators require space in which to operate, and physical facilities to conduct their business - whether this be providing a service, producing a product or trading. They require physical protection against unlawful behaviour of others, but also protection in the sense of having legal mechanisms available which help to improve the conduct of business (e.g. protection against unfair competition), and incentives to prompt the start of the business. Thus, a legal and regulatory environment is necessary for the proper functioning of the economy, the protection of basic individual rights, and the organization of economic and social functions.

The role of government in small business promotion has often been debated and the subject of fashionable changes. Where once governments promoted small business development by intervening directly in the activities of the private sector, today, there is a greater emphasis on the development of 'market friendly' economies. That is, where markets are not distorted by the activities of government; where the task of developing small businesses is less to do with providing direct assistance to the private sector and more with facilitating access to a 'market friendly' environment.

There is also a need to recognise the vulnerable position many MSEs are in, when compared to large-scale enterprises. For example, many MSEs lack the internal resources to draw upon in times of crisis or change. Whilst they may be more flexible and responsive to market changes than their larger colleagues, MSEs can suffer as a result of their limited size. They have fewer personnel, less financial and physical resources, and are more easily influenced by external pressures.

There is a need to find a balance, in policy terms, between addressing the needs and capacities of the MSE sector and those of large-scale industries. Often governments will provide tax-free breaks and other special incentives to foreign-owned businesses, whilst being overly restrictive to the operations of their own domestic enterprises. Those governments that recognise the value of a strong and vibrant MSE sector and give priority to facilitating the promotion of this sector will be more likely to develop a legal and regulatory environment which enables the growth of MSEs and enhances their contribution to broader development objectives.

It is important for policy-makers, programme designers and administrators to understand that there are many differences between MSEs, SMEs and large-scale enterprises. Far from being large enterprises that operate on a smaller scale, MSEs face a unique set of challenges. Their developmental path is usually very different to that of large-scale firms, they have fewer internal resources to draw upon, their operational

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12 As the World Development Report 1991 calls it.
dynamics are more personalized, and their decision-making practices are less formalized. Thus, the design of intervention programmes to promote the development and growth of MSEs should be distinctly different from those programmes targeting large-scale firms.

Furthermore, when assessing the policy, legal and regulatory environment of MSEs, it is necessary to recognize that the impact that different policy and regulatory instruments on firms will vary according to their size. Whilst larger firms may, for example, appoint a member of their staff member to perform the functions of form-filling and regulatory compliance, a micro or small enterprise will simply not have the resources to do this. Of greater significance than this, however, are the issues associated with the economic strength of larger firms over smaller ones. The internal financial might of many larger firms inevitably gives them greater competitive advantages over smaller enterprises. However, micro and small-scale enterprises are often more flexible, adaptable and able to provide specialized services or products within niche markets. Such variations are common and to be expected in a market-led economy. However, there may be other external biases in the policy, legal and regulatory framework that constrain or hinder the growth and development of MSEs. Whilst MSE development may be recognized as a valuable tool for broader economic and social development, it should also be acknowledged that the MSE sector has a number of special needs. In many circumstances policies affecting economic development are weighted in favour of large-scale and sometimes foreign-owned enterprises, leaving MSEs in a vulnerable position and confronted by barriers to their expansion. For example, most micro and small enterprises have very limited access to foreign exchange and to bank or institutional credit, whilst this is not the case for larger firms.

There are many ways in which complementary policies and structures can be developed in support of MSEs and large-scale industries. Indeed, a diverse and healthy economy will contain both forms of enterprises and will promote inter-linkages, such as sub-contracting and trading arrangements between each other.

Research into the key factors of government policies conducive to small business development suggests that there is a need to\textsuperscript{13}:

- preserve competition in the market place;
- lower the opportunity cost of entrepreneurship;
- understand the nature of dependency between large and small firms and between small businesses themselves;
- foster institutions and policies which facilitate the dispersal of ownership and closer relationship between ownership and control of the business;
- give emphasis to factors that improve the competitiveness of small firms rather than merely subsidise their costs;
- recognise the importance of a strong service sector that complements the larger industrial sector; and most of all

\textsuperscript{13} Gibb, A. A. (1993) "Key factors in the design of policy support for the small and medium enterprise (small business) development process: an overview" in Entrepreneurship and Regional Development Nº 5.
recognise the significance of a decentralised political base allowing differentiation in policies.

The Donor Committee on Small Enterprise Development (of which the ILO is an active member) has found that policy interventions are best understood in relation to the general shape of the macro picture related to MSE development\textsuperscript{14}. The overall ‘market-friendly’ strategy for macro-economic development should accomplish the following:

- A **stable macro-economic framework**, providing the foundation for development and shaping the environment for MSE establishment, growth and activities. This can be seen where there is financial discipline by governments, a prudent approach to fiscal management, a commitment to low inflation, tax reform, financial sector reform, exchange rates which reflect the true strength of the economy, and the privatization of state-owned enterprises.

- A **competitive micro-economy** that frees prices and markets so they act as key signals to producers and consumers; develops a regulatory framework to ensure competition, including eliminating unnecessary barriers to market entry; develops legal and property rights that facilitate the enforcement of commercial contracts; and investment in information and in physical infrastructure, such as transport, to minimize transaction costs.

- **Global linkages** that encourage openness to trade, investment and ideas through a reduction in trade (tariff and non-tariff) barriers, encouraging foreign investment and the transmission of technologies which may come with it, allowing relatively free movement of people and, on the basis of a realistic exchange rate, encouraging exports.

- **Investing in people** for strong private and public investment in people’s health, education and nutrition, and particularly targeted investment in primary education and preventive health care. This can include policies that endeavour to develop entrepreneurial attitudes, behaviour and skills, and thereby directly contribute to the development of an entrepreneurial culture and a thriving small enterprise sector.

In general, the macro-picture that is advocated above envisages a less intrusive role by government, and re-focusing on a more limited number of functions. This healthier enabling environment allows entrepreneurs to take risks, pursue opportunities and organize their commercial operations in response to changing markets. Such activities lead to a more diversified, efficient and sustainable economy in which jobs are created, goods and services provided, and the quality of life enhanced. These functions, however, should not prevent or deter governments from responding to the demands for equity, social protection, and from promoting the development of communities which support enterprise endeavour.

2. Assessing the enterprise environment

The environment in which MSEs start up and operate in Thailand is shaped by a number of influences. As the degree to which the environment enables or constrains MSE activity is not a function of one factor alone, it is necessary to identify the different elements that exist in this environment and understand how they combine to influence the potential development of MSEs.

Three tiers of government activity shape the environment for MSEs. These are policies and legislation, regulatory procedures, and the administration and implementation of these. Clearly, these tiers are inter-connected and it is the degree to which they link effectively that is a major influence on the environment in which micro and small enterprises operate. In addition, the environment in which businesses operate can be affected by other factors that have been designed with specific regard to their impact upon a particular sector, as well as by factors which were not primarily intended to have any direct impact. The diagram, below, illustrates this point.

![Diagram 2: Three levels of business environment, with specific and non-specific impacts](image-url)
Specific factors in the above illustration are those designed with the particular intention of addressing some aspect of micro and small enterprise activity. Non-specific factors are those that affect micro and small enterprise activity even though this impact was unintended. These factors may have a positive or negative impact upon micro and small enterprises. Each of these tiers of government activity is described and assessed in greater detail below.

2.1 Policies and legislation

Policies should demonstrate the directions, intentions and commitment of the Government to MSE development. They underpin the development of the sector and influence the role that MSEs perform in the broader economy. They provide the justification and basis for legislative and regulatory action. Policies do not exist in isolation. Policies are formed in response to different influences and expectations, and generally reflects the government's attitude toward its subject. Policies underpin the formation of legislation and regulations, which, in turn, determine the Government's activities. Thus, the factors influencing the formation of policy require preliminary investigation before the full task of mapping and assessment can occur.

In reviewing the policy environment for MSEs, this study has sought to identify the following potential problems:

- policy that is old and may not necessarily reflect the current views of government, especially given the rapid rate of change that has taken place in Thailand over the last three years, but more particularly since 1997 and the onset of the Asian financial crisis;
- policy that is poorly defined and does not respond to the specific needs, opportunities, challenges or constraints of the MSE sector;
- policy that is poorly targeted and treats the MSE sector as if it were a homogeneous entity, with constant and similar characteristics.
- policy that is not properly coordinated, so that different ministries, departments or other agencies of government are competing, duplicating or dismissing certain concerns of MSE development, rather than working in a complementary and mutually compatible manner;
- policy that is too complex, making it difficult to understand, as well as difficult and costly to implement, monitor and assess; and
- where there is a complete or partial absence of policy for the development of the MSE sector.

Rather than simply failing to see the benefits of a strong and vibrant micro and small enterprise sector, governments will often perceive that it is better to focus on large-scale industry. In such cases policies and programmes supporting large-scale enterprises take priority over those that assist micro and small enterprises. Large firms are seen to employ more people, attract foreign investment, and bring a high degree of respectability for the country. Whilst conventional economic development wisdom has supported this
view, research into the dynamics of employment growth suggest that the true value of MSEs must be understood more fully by policy-makers so that a balance of priorities is attained.15

Finally, it is important to recognize that the creation of an enabling environment for MSE activity requires regular monitoring, review and assessment. New policies, legislation, regulation and procedures that are introduced by government, whether specifically for the MSE sector or not, all have the potential to impact upon the environment in which MSEs operate. It is, therefore, essential that mechanisms be established to keep track of such changes and assess their impact. One valuable way of measuring impact is by receiving systematic feedback from the target beneficiaries - the MSEs themselves. Most often, this can be achieved through promoting advocacy by the MSE sector. However, such advocacy requires the presence of one or more well-organised and participatory associations of micro and small enterprise owners and managers.

2.1.1 The policy framework

The current policy framework in which micro and small businesses operate includes the new Constitution (1997), referred to as the “people’s constitution”. This, the sixteenth Constitution of Thailand, has promised to bring greater transparency and accountability to government. It provides for the equal rights of men and women and prohibits discrimination based on sex, race, language, religious belief, age, education, physical condition, financial status and political opinion (Article 30). It guarantees freedom of speech in any form of communication (Article 39) and provides freedoms of association and assembly as long as such activities are peacefully conducted (Article 44). Furthermore, the Constitution provides individual citizens equal rights to receive free state education for no fewer than 12 years (Article 43).

Beyond this constitutional foundation for democracy, development and community empowerment, the Eighth National Economic and Social Development Plan sets the following objectives and targets for development:

i) To foster and develop the potential of all Thais, in terms of health, physical well-being, intellect, vocational skills and ability to adapt to changing social and economic conditions.

ii) To develop a stable society, strengthen family and community, support human development, improve quality of life and promote increasing community participation in national development.

iii) To promote stable and sustainable economic growth and to empower the people to play a greater role in the development processes and receive a fair share of the benefits of growth.

15 Gibb, AA 1993. op.cit
iv) To utilize, preserve and rehabilitate the environment and natural resources in such a way that they can play a major role in economic and social development and contribute to better quality of life for the Thai people.

v) To reform the system of public administration so as to allow greater participation of non-governmental organizations, the private sector, communities and the general public in the process of national development.

In order to attain the objectives and targets outlined above, the Eighth Plan proposes the development of human potential; the creation of an enabling environment to support human development; enhancing the development potential of the regions and rural areas; the development of economic competitiveness to support human development and quality of life; management of natural resources and the environment; development of popular governance; and the improvement of development management to ensure effective implementation of the plan.

The promotion of micro, small and medium-sized enterprises in Thailand, with specific attention being given to the MSE sector, can become an important vehicle for achieving the above-mentioned objectives.

On 22 December 1998, the Cabinet of the Royal Thai Government approved in principle the draft SME Promotion Bill. This Bill is currently in the process of finalization as Thailand’s first SME Promotion Act. Whilst there are still changes being made to the Bill, it is likely to introduce the following key policy directions. Firstly, the purposes of the Bill are to upgrade the capabilities and efficiency of small and medium enterprises (SMEs) by:

- developing skilled personnel for the industrial sector, especially in technology and management;
- strengthening small industries, particularly in standard quality of production of finished products in order to support linkages and sub-contracting activities; and
- supporting consultancy service activities as well as the information on production, technology, marketing, finance and management in order to solve the economic crisis.

Secondly, to support and promote the decentralization of SME development in rural areas and communities by:

- supporting NGO enterprises in rural communities, with emphasis on the accelerated implementation of the Promotion of Rural Industrial Development Projects; and
- promoting sub-contracting activities from central factories to rural and community areas.
Thirdly, to develop and strengthen the DIP’s capabilities and efficiency of SME promotion by:

- accelerating the development of the SME master plan;
- adjusting and improving the work system and coordination among various agencies in order to become more efficient and effective; and
- developing the knowledge and capabilities of personnel to work in a more aggressive way for industry promotion and development.

The SME Promotion Bill supports the establishment of an SME Promotion Committee comprised of the Prime Minister (as Chairperson), the Minister of Industry (as Vice Chairperson), as well as the Ministers of Commerce, Agriculture and Cooperatives, and Finance. In addition, there will be 19 panellists to be appointed by the Prime Minister, including the Director of the SME Promotion Office (see below) and 12 private sector representatives, with at least three coming from provinces outside Bangkok\(^\text{16}\).

The Bill provides for the creation of an SME Promotion Office, which shall be responsible for SME promotion policy, coordination and monitoring, as well as the administration of an SME Fund. There will be an executive committee of the SME Promotion Committee to direct the office and a full-time director shall be appointed.

The Bill will establish an SME promotion fund, which is expected to have resources of more than 5,000 million Baht. This will provide financial support to the operations of the Institute for SME Development, as well as providing support directly to SMEs and to enable SMEs to improve their productivity.

Finally, the SME Promotion Bill prescribes the formulation of an SME promotion action plan to address the following:

- financial assistance programmes to SMEs;
- the financial and capital markets of SMEs;
- human resource development;
- research, development and the transfer of technology within the sector;
- product development and the promotion of product standards;
- assistance with marketing;
- managerial systems development;
- information assistance, including information technology;
- promotion of linkages with medium and large-scale enterprises;
- promotion of SME associations;
- provincial and regional SME development;
- promotion of NGOs that support SME development;
- infrastructure for SME investments;

\(^{16}\) There may be some inconsistencies in the information concerning the proposed SME Promotion Act as we worked from unofficial English translations kindly provided from different sources.
• incentives to compensate for the disadvantages and limitations of SMEs;
• support for know-how on environmental and occupational hazards; and
• other issues related to strengthening SMEs and improving their competitiveness.

All government agencies involved in SME development will be required to comply with the SME promotion action plan and will be monitored through annual reports presented to the SME Promotion Committee.

2.1.2 Complementary policies

Creating an enabling environment for the development of MSEs implies the creation of a favourable overall policy framework for the development of enterprise and the promotion of entrepreneurship. Such a framework needs to create confidence among economic actors in the management and development of the economy. This requires stable, well-designed policy instruments and mechanisms. A number of policy areas impact upon the operations of MSEs and combine to create an overall policy environment for micro and small enterprises. The following list from an ILO publication\(^\text{17}\) provides a brief overview of these. They are described in this manner to indicate the variety of points at which government policy can influence MSE activity. Whilst it has not been possible to assess the impact of all these policy areas on micro and small enterprises within the scope of this brief investigation, it is valuable to have some idea of the potential areas of influence.

• **Monetary and credit policies.** These policies underpin the broader macro economic strategy of Thailand. Their impact upon MSEs can be direct (e.g. access to bank finance) and indirect (e.g. impact of inflation rates upon the purchasing power of MSEs). There is a lot of debate concerning the direction of the Royal Thai Government in terms of these polices. Much of the restructuring investments of the Asian Development Bank (ADB), the World Bank and other donor agencies, has supported the current package of policies. Thus, it would appear that the broader environment in which micro and small enterprises operate is conducive to their establishment and growth.

• **Taxation.** This is a broad field of government activity that can have a significant impact upon micro and small enterprise activity. Taxation policies include, for example investment and tax incentives, taxes applying to starting and operating a business, and capital-based and income-based taxes. Taxation can be used to stimulate one area of economic activity (through tax incentives) or to limit another area (e.g. by putting a duty on imports to reduce foreign competition). In a number of countries, micro and small enterprises are seen as sources of government revenue and taxed accordingly. However, it is also

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\(^{17}\) Adapted from Tolentino, AL. Guidelines for policies and programs analysis for small and medium enterprise development. Research and Programmes Development Section, Entrepreneurship and Management Development Branch, ENTERPRISE Department, ILO. Draft. 5 May 1995.
important that the taxation policies on MSEs reflect an understanding of their developmental needs. The situation in Thailand appears to support this position. Whilst all personal earnings are subject to personal tax, other forms of taxation, such as VAT, recognise the difficulties in taxing micro and small enterprises. Further details on taxation are provided in the following section of this chapter (see section 2.2.2).

- **Regulatory and control policies.** There are many different ways in which business activities are controlled and regulated. These include, for example, through registration requirements and procedures, permits and licensing laws, as well as the centralisation or decentralisation of administration and control (including the delineation of national and local regulations). Further details on these policies and regulations in Thailand are described in section 2.2. In general, the Royal Thai Government has taken a comprehensive approach to regulation without over-loading reporting requirements or distorting the markets in which micro and small enterprises operate.

- **Trade and export policies.** These policies can significantly affect the manner in which micro and small enterprises contribute to the national account through foreign trade. Thailand has a strong interest in the promotion of exports and has a number of policies and institutions in place to enhance the country’s potential in this field. While foreign investment is not allowed or restricted in some sectors, the business environment is generally conducive toward joint ventures with foreign companies and other forms of international trade.

- **Planning and zoning.** The space allocated for human settlements can affect the availability of working and trading space available to micro and small enterprises and the conditions in which people work. With regard to planning policies and zoning legislation, in Bangkok this field is largely dealt with by the BMA. The BMA has been developing new consultative and participatory mechanisms for planning and development. However, many of these currently have “project” status and, thus, have not been institutionalized. Despite this, the BMA appears to have a mixed relationship with micro and small enterprises. In some cases the BMA has developed close and informal relationships with street vendors, whilst the stories of taxi drivers, tuk-tuk operators and motorbike taxis suggest there is corruption and varying degrees of tolerance. On the other hand, the BMA has complained about the problems it has experienced in dealing with street vendors in terms of health policies and regulations.

- **Sectoral policies.** Specific policies and strategies designed to address the needs of particular sectors of the economy are defined as sectoral policies. This may include specially tailored policies and programmes of support which involve the Government in direct interventions. Sector policies need to be assessed in terms of their impact upon micro and small enterprises. It is easy, for example, for an industrial development policy to focus on attracting
foreign-owned companies and investments, and to overlook the issues related to indigenous MSE development and their role in industrial development (e.g. as suppliers, sub-contractors, etc.)

- **Labour market policies and legislation.** In Thailand these are largely influenced by the Labour Relations Act (1975), which covers workers in the private sector in Thailand, whilst the State Enterprise Labour Relations Act (1991) applies only to civil servants and employees of SOEs. Both Acts provide a legal framework for the settlement of disputes, work stoppages, strikes, and the establishment of unions. The Labour Protection Act (1972) sets out minimum conditions of employment, dealing with hours of work, holiday pay, as well as severance and compensation benefits. It also defines the scope of employment for women, with prohibition in certain areas of work, and their entitlements, including the right to maternity leave. There is very little connection to MSE development within this legislative framework and, indeed, it is questionable as to how much the MSE sector complies with these legal requirements.

- **Education policies.** Promoting the development of a skilled and educated workforce is fundamental to the growth of MSEs generally. Unfortunately, Thailand has been found to have a poorly educated workforce. Whilst the first few years of education enjoy almost universal coverage, enrolment rates for secondary schools stand at only 28 per cent. Over 80 per cent of the Thai workforce have no more than six years of education. Education policies also provide an opportunity to encourage entrepreneurial attitudes and enterprise education within the schooling system. A cursory examination of such education curricula in Thailand has not found any examples of this sort.

- **Policies focused on specific groups.** There are very few policies aimed at addressing specific groups of people who have been disadvantaged in Thai society, such as women, people with disabilities, young women and men, and retrenched workers. However, there are new efforts being made to address this situation, particularly concerning unemployed people, the main victims of the financial crisis. The Rehabilitation of Disabled Persons Act (1991) is based on the conviction that, given the opportunity, most disabled people could acquire skills that would enable them to earn a living, contribute to the local and national economy, and take their place in society. The DPW, the DSD and the Office of the Committee for the Rehabilitation of Disabled Persons (OCRDP) each work with people with disabilities in Thailand. This work includes the promotion of self-employment and the development of enterprises involving people with disabilities.

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2.1.3 Current reforms

The impact of the Asian financial crisis (AFC) has lead to the introduction of a number of policy and legislative reforms. Several of the policy initiatives of the Royal Thai Government were briefly described in Chapter 1. Of direct significance to the SME sector, although of less relevance to MSEs, are the amendments currently being made to the Bankruptcy Act and the Code of Civil Procedure. These amendments will affect the procedures governing foreclosure and are considered by the World Bank and the Royal Thai Government to be prerequisites to speedy corporate restructuring. These amendments have been drafted, but face opposition in the Thai Senate. Creditors have little leverage to force greater compliance with lending contracts, as long as the legal environment for bankruptcy is still evolving, and the Code of Civil Procedure enables debtors to delay foreclosure proceedings without severe consequences. The current round of amendments to the Bankruptcy Act and the Code of Civil Procedure are prerequisites to successful resolution through formal reorganization, voluntary reorganization, or liquidation. The amendments improve security for new loans to distressed firms, create a specialized bankruptcy court, and expedite the process of foreclosure by limiting the number of options for delay. The major part of the package has now passed the House, and has been presented to the Senate. It is unclear when the Senate will pass the legislation. In an important test of the reform program, a Senate committee has approved the establishment of a specialized bankruptcy court.

Thailand relies on unemployment assistance benefits, notably severance pay requirements, as opposed to an unemployment insurance scheme. Before August 1998, employers were required to pay laid-off workers with a minimum of three years’ service a severance equal to six months of wages. As of August 1998 and because the financial crisis, the maximum severance pay requirement for employees with more than 10 years of service was increased from six to 10 months. The extent to which severance requirements are being implemented as a result of the crisis is open to question. The Government is establishing a public compensation fund to ensure that workers dismissed from firms facing bankruptcy receive adequate cash severance support which will be financed by fines imposed for violation of the Labour Protection Act. In addition, the employer-contribution to the Workman’s Compensation Fund reduces risks of income loss for workers in the formal sector. Thailand’s social security system is entering a period of rapid change. Formerly, pension benefits were available only to civil servants, while some larger firms offered provident funds. Other benefits (medical, maternity, invalidity and funeral), not including pensions, were extended to firms with at least 10 employees. As a result of the crisis, the Government extended social security benefits for the unemployed from six to 12 months and reduced the tripartite contribution rate for such benefits by one-third.

A critical and innovative element of Thailand’s response to the social impacts of the crisis is support for decentralization and community development. The Government has viewed the crisis as an opportunity to advance reforms towards decentralization, better governance, community empowerment and forging broad development partnerships with civil society. This is aimed at rebuilding and consolidating social
capital eroded by economic growth and strengthening the unofficial, community-based "safety net". Civil society organizations have played an increasingly important role in providing social protection at the community level. The Royal Thai Government, as well as several donors, have allocated an increasing proportion of their budgets to civil society organizations to implement programs including HIV/AIDS prevention and treatment, care of the elderly, micro and small enterprise development, and environmental protection. In addition, the Government and donors have supported many new community-level initiatives.

The Social Policy Committee (SPC) has created the Pattana Thai Foundation to channel over 40 million Baht in government funds to conduct pilot projects to support local communities to establish civic forums in every province. Government funds will also be used by the Foundation to set up community learning centres for social services and sustainable development and for planning, monitoring and evaluation. The SPC has contracted the Local Development Institute, a Thai NGO, to coordinate the implementation of these activities by a large number of partners in civil society. In September 1998, the Government, with the assistance of the World Bank, the United Nations Development Programme (UNDP) and latterly the Australian Agency for International Development (AusAID), launched the Social Investment Fund which provides grants to community-based organizations to undertake investments designed and implemented by the community.

2.1.4 Initial assessment

An initial assessment of the policy and legal framework for micro and small-scale enterprises in Thailand suggests the following strengths, weaknesses and concerns. It was found to exhibit the following strengths:

- There is a comprehensive set of legislated rights and responsibilities for micro, small and medium-sized enterprises in place.

- The Royal Thai Government does recognize the important role MSEs can play in the achievement of national development goals.

- The passing of the SME Promotion Act, which will provide for better coordination, support and development within the SME sector, will also enhance the policy framework for micro and small enterprise (MSE) development.

- The role of government in terms of setting the proper environment for small and medium enterprise (SME) establishment and growth appears to be well understood, i.e. government is not attempting to interfere with or distort the market place.
The value of SME development programmes is understood.

The policy and legal framework for MSE development in Thailand contains the following weaknesses:

- SME promotion has been skewed in favour of larger and more formal enterprises. Consequently, the role of the smaller MSEs in terms of job creation, service provision and productivity is often neglected or forgotten.

- The government ministries and departments working with MSEs appear to work in isolation. There is no policy or programme link between MSE development programmes (which include supports for self-employment) and SME development programmes, particularly one which promotes the graduation or growth of an enterprise from micro to small to medium.

- The SME Promotion Bill is oriented toward larger SMEs and the SME Promotion Committee to be established by the Bill does not provide for coordination with social development ministries (e.g. does not include the MOLSW or Ministry of the Interior).

- There is little regular, continuous or systematic assessment of the needs or impact of policies and programmes on the micro and small enterprise sector. Occasional studies are the main source of information on the development needs, problems, potential and opportunities of the sector.

- There is an absence of organizations or associations representing the MSE sector in Bangkok. This makes it difficult to obtain a general opinion on the policy environment as it relates to the MSE sector and the possible reforms or improvements the sector would desire.

The following concerns about the policy and legal framework for MSE development in Thailand were identified and may require further investigation:

- The speed of policy change and reform is rapid, which may lead to the introduction of policies that have not been properly designed, or where the consequences of policy implementation have not been adequately considered.

- Very little emphasis is given to the manner in which the MSE sector will be developed.

- The development of policy does not appear to be based on an up-to-date understanding of the dynamics of the micro and small enterprise sector.

- Apart from Japanese experience, little recognition has been given to international best practices in MSE/SME development as accumulated by the Donor Committee on Small Enterprise Development, as well as the ILO and
its International Small Enterprise Programme (ISEP) and Recommendation 189 on General Conditions to Stimulate Job Creation in Small and Medium Enterprises (1998).

- The micro and small enterprise sub sector (and the SMEs sector in general) is a politically contestable arena about which members of different political parties have made many statements. This may be useful in raising the profile of the sector, but it can also lead to the formulation of policies and programmes that are more politically aligned than developmentally correct.

- There are few examples of policies that link large-scale industrial plans with the development of the MSE sector.

- There are very few examples of the promotion of entrepreneurial skills and competencies in schools, and entrepreneurial skills' linkages with institutions of training and education.

- Some areas of micro and small enterprise development are very welfare-oriented. However, the development workers in these fields have limited business experience and, generally, within a social development or welfare framework. It is noted that ILO is actively carrying out capacity building activities with Department of Public Welfare, and DPW officials are being trained by ILO in managing micro and small enterprise support schemes. A related training manual will be produced by the ILO for the DPW within the next 2-3 months.

- There is no Minister for small business, nor is there a political manifestation of commitment to the development of micro and small enterprises. Currently, this field remains within the broader portfolio of industrial development.

- No comprehensive or systematic assessment has been made of the impact of expenditure on micro and small enterprise development to determine its effectiveness or the overall "value for money" coming from the support schemes.

### 2.2 Regulations and procedures

In Thailand, the systems for regulatory and procedural activities are highly centralized, although efforts have been initiated in recent years to decentralize government services and empower local communities. There are four major tiers of government operations in Thailand. The highest is the central Royal Thai Government, located in the capital Bangkok. Below this level are 76 provinces. Provincial governors, who are appointed by the Ministry of the Interior (except in the case of Bangkok Province, which is managed by the BMA and whose Governor is elected) oversee provincial activities. Many central government ministries and their departments have representative offices located in provincial administration offices.
Below the provinces, at district level, are the amphurs. There are 876 amphurs in Thailand. Finally, there are the tambons. These are equivalent to local government structures. There are 7,255 tambons in Thailand, although only 6,397 have the authority of a local government. To qualify for this authority, a tambon must be able to claim a revenue tax potential of more than 150,000 Baht per annum for three consecutive years. Also, villages have village councils. But in terms of the delivery, management and administration of government services, these fall within the tambon.

Regulations and procedures are the tools that are used to enact legislation and pursue policy outcomes. As previously described, the Royal Thai Government provides the overall direction of policy and the legislative basis on which development occurs. Both policy and legislation, however, can be implemented through a variety of government agencies operating at central, provincial and local levels.

A wide range of regulatory and procedural instruments can be used to enact micro and small enterprise policies and legislation. These may be generic instruments, that is, those which all businesses are subject to at various stages of their life cycle, such as business name registration, business start-up registration, licensing and permits, labour standards and social security contributions, or health and safety standards. Then, there are those instruments that deal with specific fields of commercial activity or within a defined location, such as specific sector regulations (e.g. food processing), zoning or export and import regulations.

Legislation in Thailand provides the framework within which government departments operate. It enables specified agencies of government to issue regulations and procedures required to implement the policy directions, programmes and services of government.

Some of the most common forms of mechanisms used in policy implementation are the following:

- **Government ministries and departments**, which can vary in their preparedness to engage directly in policy implementation. At the most basic of levels, however, government ministries can design and introduce policy, undertake regulatory functions, such as registration, taxation, licenses, etc. and ensure government programmes are properly coordinated.

- **Local and provincial government** can have a direct impact upon the legal and regulatory framework that micro and small enterprises find themselves in. This may involve land use and planning (e.g. zoning and licensing), the provision of sites and premises for business operation (e.g. market stalls, industrial estates), health and safety compliance, and even local and regional taxation.
• **Parastatal bodies**, which include small business corporations and authorities that are autonomous or semi-autonomous. They act on behalf of the government to provide specific functions and services, such as information, advice, support, training and so on. Often these bodies are more oriented toward the provision of programmes and support to micro and small enterprises than to the administration of the legal and regulatory environment, although, this may not always be the case.

• **Managing agents** are third party organizations with whom government contracts its operations. These agencies provide a service on behalf of government (e.g. small business training or property management), but operate independently of the government itself. They may also augment their government funding with private sector sponsorship, revenue-raising activities, or by charging a fee for some or all of the services they provide.

### 2.2.1 Business registration

The Department of Commercial Registration (DCR) is responsible for business registration, including the registration of memoranda of association, incorporation, amendment of particulars, dissolution, liquidation, mergers, partnerships, limited companies, public limited companies, and commercial registration. This includes the inspection of and application for corporate names, the removal of company registrations, re-registrations, and compilation of registration particulars for publication in the *Royal Gazette*. The DCR is also responsible for processing applications for the establishment of alien businesses, agencies of foreign corporations and offices of overseas companies. The Department also produces business information, such as certificates of record searches and certificates of registration, and it compiles and produces statistical data on commercial registrations, corporate status, financial statements, etc.

The Royal Thai Government, through the DCR, employs the following classifications of commercial activity for its monitoring and regulatory functions:

- **Major division 1**: Agriculture, hunting, forestry and fishing
- **Major division 2**: Mining and quarrying
- **Major division 3**: Manufacturing
- **Major division 4**: Electricity, gas and water
- **Major division 5**: Construction
- **Major division 6**: Wholesale and retail trade and restaurants and hotels
- **Major division 7**: Transport, storage and communication
- **Major division 8**: Financing, insurance, real estate and business services
- **Major division 9**: Community, social and personal services
- **Major division 10**: Activities not adequately defined
The DCR controls standards of business accounting to ensure that all accounts are properly maintained according to the law pertaining to accounting standards and principles. This includes:

- the licensing of certified auditors according to the rules, regulations and standard of professional auditors;
- the improvement of accounting and auditing techniques and amendments to the laws and regulations;
- the organization of training in accounting and auditing;
- offering information on relevant laws and regulations;
- analysis and improvement of balance sheets; and
- consultation and advice on accounting for auditors and accountants.

**Consumer protection** is also dealt with by the DCR, particularly in the areas of weights and measures by:

- setting internationally recognized standards for weight, volume and length measuring devices;
- issuing licenses to producers;
- issuing orders to repair measuring devices;
- inspection and certification of measuring devices on production and sale;
- inspection and control of measuring devices to ensure compliance with the law;
- setting forth and ensuring compliance with the rules of displaying net quantity of goods, and proper method of packaging to ensure fairness to consumers and farmers at the time of sale and purchase; and
- the organization of training in the use of measuring devices to the public, farmers and other people concerned.

The Department issues licenses for fuel oil traders, service stations, and operators of fuel oil transportation. This involves setting standards and inspecting fuel oils to ensure that consumers get good oils at the standards required by law, and prescribing the types and amounts of fuel oil to be reserved for emergency. Finally, the DCR oversees the improvement, amendment, revision and drafting of laws, ministerial regulations, rules, announcements and orders. It inspects draft copies of agreements and other legislative acts, and takes actions against wrongdoers within the scope of power under the law.

The following regulations are the responsibility of the Department of Commercial Registration:

- Civil and Commercial Code;
- Revolutionary Council’s Announcement (No. 281) Alien Business Operation;
- Revolutionary Council’s Announcement (No 285) Accounting;
- Regulation of the Office of the Prime Minister Governing Application for Establishment of Representative Office of Foreign Juristic Person Respecting International Trading Business BE 2529 (1986), as revised, No. 2 (1992);
• Regulation of the Office of the Prime Minister Governing Application for Establishment of Regional Offices of Transnational Corporations BE 2535 (1992).

There are two general types of business registration required by enterprises in Thailand. The first is the registration and reservation of a trading name; the second is the registration of the business entity. The business name under which an enterprise operates can be registered or reserved to prevent others from using the same name. Certain names are not allowed and therefore the name reservation guidelines of the DCR should be observed.

Business activities\textsuperscript{19} in Thailand can be operated in various legal forms such as sole proprietorship (where an enterprise is not incorporated and is owned by a single individual or family), partnerships (which may be registered or unregistered), limited partnerships, limited companies, as well as other forms of organization associated with foreign partnerships or branches and regional offices of foreign-owned companies. This investigation has found that within the BMA area, approximately 78 per cent of registered businesses are sole proprietors, 15 per cent are limited companies, and five to six per cent are registered partnerships\textsuperscript{20}.

The following characteristics are assessed when deciding upon the appropriate form of business organization:

• The juristic person (registered under the Civil and Commercial Code or under the Public Company Act). This form of business organization includes an ordinary registered partnership, a limited partnership, a public company and any Trade organization formed under a number of possible laws.

• The non-juristic person (registered under the Commercial Registration Act and other special laws). This includes an ordinary partnership, which is unregistered, and a shop belonging to one or several persons but not being a partnership.

An “ordinary partnership” is a legal entity where there exists only one category of partners and every partner must be jointly liable for all the obligations of the partnership without limitation. Ordinary partnerships can be registered or unregistered. If registered, it is called a “registered ordinary partnership”. When two or more persons agree to jointly invest in a commercial activity under any type of juristic partnership, the managing partner, appointed by every partner, shall apply directly to the Commercial Registration Office for registration.

\textsuperscript{19} Information on the legal and regulatory requirements of business operations in Thailand has been obtained from officers of the Ministry of Industry as well as from \textit{Thailand Business Registration Handbook} (undated) produced by the Department of Commercial Registration, Ministry of Commerce, RTG; and \textit{A Business Guide to Thailand} (1997) produced by the Office of the Board of Investment, Office of the Prime Minister, RTG.

\textsuperscript{20} Figures refer to 1996, provided by the National Statistics Office and include the Manufacturing and Non-manufacturing Sectors.
A “limited partnership” is a legal entity with two possible types of partners. The first is partners with limited liability, being one or more partners whose liability is limited to the amount invested in the partnership. The second is an unlimited partnership, where all partners are liable for all obligations of the partnership, without limitation.

A “Limited Company” is a legal entity established with capital being divided into shares; each with equal par value and the liability of every shareholder is limited to the amount unpaid on the share held by each of them. When establishing a Limited Company, the following steps must be taken:

- There must be at least seven or more promoters who shall jointly make and sign a Memorandum of Association and take it to the Commercial Registration Office for registration.

- After registration of the Memorandum of Association, the promoters must arrange for subscription of the entire share of the company to be established. Registration of the Memorandum of Association requires payment of 50 Baht for every 100,000 Baht of capital, with total fees not less than 500 Baht or more than 25,000 Baht.

- Hold a statutory meeting, for which a notice summoning the meeting must be sent to the subscribers of the shares at least seven days before the date of the meeting.

- After the statutory meeting at which the company’s directors are appointed, the promoters must hand over the business to the company’s directors for proceeding further.

- The company’s directors shall demand from the promoters and the subscribers of the shares, payment of at least 25 per cent of each share’s par value.

- After the subscription payment has been made, the directors must register the company with the Commercial Registration Office within three months of the statutory meeting. Registration of the company requires payment of 500 Baht for every 100,000 Baht of capital, with total fees not less than 5,000 Baht or more than 250,000 Baht.

The Public Company Limited Act (1992) governs the procedures for Public Companies Limited. A Public Company Limited being a legal entity established with capital that is divided into shares, each with equal par value, the liability of the shareholders being limited to the amount unpaid on the shares and having the invitation to the public to purchase shares. Whilst there is some variance in the regulations and procedures governing the formation of a Company Public Limited, such requirements are similar to that of Limited Companies.

21 Private Limited Companies require at least seven shareholders, whilst Public Limited Companies require a minimum of 15 at all times.
When registering an enterprise, the applicant must submit an application at the local commercial registration office, depending on where the enterprise, or its head office, is located. In the case of Bangkok, the applicant must approach the Department of Commercial Registration, whereas outside Bangkok, the registration office is located in the provincial commercial office of the province. Registration of the establishment of a partnership not exceeding three partners requires payment of a fee of 1,000 Baht, or 200 Baht per partner when there are more than three partners. Since these type of operations are rarely found amongst micro and small enterprises, this report will not enter into a more detailed description of these requirements.

2.2.2 Taxation in Thailand

The Revenue Code outlines regulations for the imposition of taxes, according to three broad categories. These are described below and are, corporate income tax, value added taxes (or specific business taxes) and personal income tax. In addition to these three broad categories of taxation, are other taxes, such as the Petroleum Income Tax, Stamp Tax, Property Tax and Remittance Tax.

i) Corporate income tax

All companies registered under Thai law are required to pay corporate income tax, which is calculated at a flat rate of 30 per cent of net profits. When a company or partnership becomes registered as a legal entity, it is required to file with the Corporate Income Tax System in which business expenses can be deducted from income. If not a legal business entity, one must only file for the Individual Income Tax System under which only allowances can be deducted. Net losses can be carried forward for a period of up to five years.

ii) Value added tax

The value added tax (VAT) system, which came into effect on 1 January 1992, largely replaced the old business tax system, which critics claimed caused inefficient duplications and promoted tax evasion. Under the current system, value added at every stage of the production process is subject to a 10 per cent tax rate [Editor's note - Some reductions in this rate were introduced in the 1999 Budget]. Those who are specifically affected by this tax are producers, providers of services, wholesalers, retailers, exporters and importers.

VAT must be paid on a monthly basis and is calculated as follows: output tax less input tax equals tax paid, where “output tax” is the VAT the operator collects from the purchaser when the sale is made, and “input tax” is the VAT an operator pays to the seller of a good or service which is then used in the operator’s business.
Enterprises with a special exemption from VAT registration are those dealing with:

- sale or import of agriculture products, livestock and agriculture inputs, such as fertilizer, feed and chemicals;
- sale or import of published material and books;
- auditing, legal services, health services and other professional services;
- cultural and religious services;
- education services;
- services provided by employees under employment contracts;
- the sale of goods as specified by Royal Decree;
- goods exempt from import duties, under the IEAT Act;
- domestic transportation, excluding airlines, and international transportation, excluding air and sea lines; and
- operators earning less than 600,000 Baht per year;

A specific business tax of approximately three per cent is imposed, in lieu of VAT, on the following businesses: commercial banks and similar businesses, financial securities and credit providers, sales of non-removable properties, insurance companies, sales on the stock exchange and pawn shops.

iii) Personal income tax

Every person, resident or non-resident, who derives an assessable income from employment or business in Thailand, or has assets located in Thailand, is subject to personal income tax. This progressive tax is applied annually on the following graduated scale:

<table>
<thead>
<tr>
<th>Net annual income (Baht)</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 100,000</td>
<td>5 per cent</td>
</tr>
<tr>
<td>100,001 to 500,000</td>
<td>10 per cent</td>
</tr>
<tr>
<td>500,001 to 1,000,000</td>
<td>20 per cent</td>
</tr>
<tr>
<td>1,000,001 to 4,000,000</td>
<td>30 per cent</td>
</tr>
<tr>
<td>above 4,000,001</td>
<td>37 per cent</td>
</tr>
</tbody>
</table>

A table of allowances is published by the Royal Thai Government, prescribing the limits for tax deductions according to the individual’s occupation or the type of business activity being undertaken. These allowances are regulations and can be changed as the Government sees fit. For example, what is not shown in the above chart is the minimum personal income tax threshold. Previously, this was 30,000 Baht (i.e. where an individual earned 30,000 Baht per year or less tax was not required to be paid). However, in 1999 this level was raised to 50,000 Baht as a response to the impact of the financial crisis. Here again, it would suggest that the
Government is recognizing and sensitive to the experiences of lower-income groups, including those engaged in the MSE sector.

### 2.2.3 Licences and permits

There are a number of different licenses and permits that are required by enterprises, depending upon certain business activities, locations or circumstances. Business establishments, for example, are subject to various forms of regulation. The Factory Act (1969, as amended in 1972, 1975, 1979 and 1992) stipulates regulations for factory construction and operation, factory expansion, and safety requirements. The latest revision of the Act, along with the introduction of other forms of legislation and regulations\textsuperscript{22}, also imposes stricter controls on industrial pollution, which include air and water pollution, noise, garbage disposal, and the destruction of forests.

A factory is defined by the Act as any premises which uses machinery equivalent to five horsepower or more, or which employs seven or more workers for manufacturing, assembling, packing, repairing, maintaining, testing, improving, processing, conveying, storing or destroying anything included in the classes or types of factories presently listed in the Ministerial Regulations. There are three agencies concerned with factory licensing. The Department of Industrial Works, the Industrial Estate Office (servicing investors and factories located within industrial estates under the IEAT), and provincial industrial offices, located in each province.

The Ministry of Industry is the government agency responsible for the regulation and administration of the Factory Act. However, municipal or local governments also issue licenses and permits associated with the construction of buildings and the operation of businesses within certain sites and locations.

Special permits required by specific forms of enterprise include:

- the processing of food (Ministry of Public Health);
- the manufacturing of pharmaceuticals (Ministry of Public Health);
- the production of cosmetics (Ministry of Public Health);
- the production or use of toxic substances (Ministry of Industry);
- wood-working (Department of Forestry, Ministry of Agriculture);
- hotel and accommodation (as per the requirements of the Hotels Act);
- animal feeds (as per the requirements of the Animal Feed Quality Control Act);
- fuel storage (as per the Fuel Storage Act, Ministry of the Interior); and
- artesian wells (permits required as per the Sub-surface Water Act).

\textsuperscript{22} The Ministry of Science, Technology and Energy, for example, has stipulated a variety of activities that require the preparation of environmental impact assessment reports prior to their approval, whilst the Metropolitan Water Works Authority is responsible for allocating specific water supplies to factory usage.
2.2.4 Business and consumer protection

There are a number of forms of legislative and regulatory mechanisms that have been designed to protect businesses and consumers in their operations. These include:

- Patent protection for inventions, designs and products through the Patent Act (1979 as amended in 1992) which is administered by the Board of Patents.

- Copyright protection through the Copyright Act (1994) for literary, artistic and performance works.

- Trademark protection through the Trademark Act of Thailand (1991) which is administered by the Trademark Office and the Board of Trademarks.

- The Bankruptcy Act.

There have, however, been concerns expressed by foreign businesses about the general flouting of copyright law. (See Illustration 1.) This is an area that is of general relevance to Thailand’s informal and micro-enterprise sector, as quite some number are engaged in the partial production, and in particular the sale, of replicas, such as watches, clothing, electronics.

2.2.5 Initial assessment

An initial assessment of the regulations and procedures for micro and small-scale enterprises in Thailand suggests the following strengths, weaknesses and concerns. The regulations and procedures were found to exhibit the following strengths:
• There do not appear to be too many regulatory procedures that micro, small or medium-sized enterprises are required to comply with.

• The regulatory framework appears to be in place to offer MSEs proper protection in terms of issues relating to human and property rights, limited liability, bankruptcy, standards of auditing and measurements, as well as patents, consumer protection and copyright.

• There appears to be a general recognition of the needs of the MSE (e.g. not all businesses are required to register for VAT and the personal income tax system accommodates people from lower-income sectors).

The regulations and procedures for MSE activity in Thailand contain the following weaknesses:

• It is difficult to determine the extent of compliance by the micro and small enterprise sector.

• There is little information about the MSE sector; descriptions are poor, while quantification and analysis is inadequate.

• There appears to be very little coordination and cooperation between different government ministries. It has been claimed, for example, that a special act of Parliament is required for different ministries to share information or to work jointly on a specific programme or project.

The following concerns relating to the regulations and procedures for MSE activity in Thailand were identified and may require further investigation:

• The extent to which Government ministries can work together, coordinate efforts and share information and streamline regulatory procedures is unknown and requires further investigation.

• Lack of awareness amongst entrepreneurs. Business owners and managers know little about regulations because these are not properly communicated, interpreted or promoted to the MSE owner, or because there is a lack of understanding of these matters by the enforcers of the regulations.

• Locational or regional disparities exist in the way policies and legislation are regulated. Access to provincial administration offices and tambon administration offices may vary for people in different locations. Indeed, some services are provided through very centralized administrative systems.
There is a need for more information and analysis of the MSE sector in Thailand, and there is very little adaptation or sharing of international best practice approaches to development of the sector.

2.3 Administration

One aspect of administration focuses on the ways in which regulations are applied, managed and monitored. Good policy, sound and comprehensive legislation, and a consistent and clear set of regulations will never reach their full potential for enabling MSEs to operate and grow if the administration of these instruments is inefficient or poorly conducted. The need for transparency and accountability is also essential.

Administrative procedures are the point of interface between the government and the entrepreneur. They, therefore, require careful attention to ensure they are consistent with their policy, legislative and regulatory base. They should also have scope for adjustment.

International experience demonstrates that good MSE administration systems are:

- transparent, ensuring that the entrepreneur who is registering a business or reporting on a particular aspect of her or his business, knows what will happen to the information that she or he submits, and will be aware of rights and of processes of appeal that exist;
- simple to use, easy to understand and follow;
- consistent and well-coordinated, promoting a “whole of government approach” where the various ‘arms’ of government (i.e. different departments, ministries and the different levels of government) are working cooperatively to ensure consistency;
- effectively communicated so that entrepreneurs know what is required of them, how they can meet their obligations and where to get information and assistance;
- the benefits of compliance are promoted, and not only the possible repercussions of and penalties arising from non-compliance; and
- decentralized so that entrepreneurs can report to fulfil their legal and regulatory responsibilities close to where they live or operate their businesses.

Processes and systems alone do not achieve effective administration. The attitudes and relationships between the regulating authority and the business owner or manager are also of great importance. Many examples can be found of regulatory authorities that are solely preoccupied with policing activities, and applying fines or penalties on those who fail to comply. However, informal enterprise operators are often extremely skilful at skirting the demands of regulation and evading the law. Instead, it is better for regulatory and administrative authorities to develop a dual strategy of promoting best practice and compliance, whilst also punishing non-compliance. Following this theme, the BMA has
begun to issue “star” awards to food stall operators that meet the health standards of the Authority’s Health Department.\textsuperscript{23}

The following diagram is an illustration of the ways in which compliance with regulations may be promoted as a desirable behaviour, whilst recognizing that there are ‘costs’ incurred by the enterprise for such compliance.

\begin{center}
\begin{tikzpicture}
  \draw[->, thick] (0,0) -- (10,0) node[above] {\textit{TIME}};
  \draw[->, thick] (0,0) -- (0,10) node[right] {\textit{SCALE}};
  \draw[->, thick] (0,0) -- (0,15) node[above] {\textit{BENEFITS}};
  \draw[->, thick] (0,0) -- (0,15) node[left] {\textit{COMPLIANCE DESIRABILITY}};
  \path[draw] (0,0) -- (10,10) node[above] {\textit{POINT WHERE REGULATORY COMPLIANCE BECOMES DESIRABLE}};
  \node at (0,10) {Access to bank finance};
  \node at (0,9) {Access to insurance};
  \node at (0,8) {Access to government subsidies or incentives};
  \node at (0,7) {Limited liability};
  \node at (0,6) {Credit protection};
  \node at (0,5) {Less harassment by authorities};
  \node at (0,4) {Respectability};
  \node at (0,0) {\textit{COSTS}};
  \node at (0,-1) {Time taken to comply};
  \node at (0,-2) {Fees or taxes to be paid};
  \node at (0,-3) {Government monitoring};
  \node at (0,-4) {Costs associated with compliance to standards (e.g. minimum wages, safe work environment)};
  \node at (0,-5) {Harassment by authorities};
  \end{tikzpicture}
\end{center}

Clearly, the promotion of compliance, as illustrated in this diagram, involves a reduction of the perceived costs and penalties associated with compliance, and a greater promotion of the benefits. Central to this is the requirement for effective and open communication between government and the MSE owner/manager.

Administration is a multi-layered process. Diagram 4 illustrates the different layers of influence affecting enterprises. It illustrates how central, provincial and local governments can all be engaged in the design of policy and legislation that affect the sector. Each of these levels of government can also design and implement programmes, regulations and procedures that affect micro and small enterprises, which all require administrative mechanisms. Care must be taken when interpreting this diagram, however, since, whilst local governments may be involved in the implementation and administration on behalf of central government and its policies, programmes and regulations, it is unlikely that central government agencies will do likewise for local governments.

\textsuperscript{23} \textit{Bangkok Post}, 17 February 1999.
2.3.1 Factors affecting administration in Thailand

The scope of this brief investigation has limited the extent and depth of review of the administrative mechanisms, processes and systems that are in place. However, the following observations and assessments have been made.

Decentralization: The Royal Thai Government is actively engaged in pursuing the policies and implementation of decentralization. Whilst development planning and decision-making are still very centralized, there is a commitment by the Government to empower local amphurs and tambons and to localize services. This should bring many advantages for entrepreneurs who are brought into contact with government through local administration of the policy, legal and regulatory environment.

Within Bangkok, the BMA have sponsored the establishment of Bangkok One. This agency is based upon emerging international models (e.g. London First) where businesspeople can be supported with information, guidance and assistance in developing their business. The staff and board of Bangkok One provide advice on government regulations, programmes and connections that can affect the business. They also provide
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furnished office space, a library, secretarial support and meeting rooms for people in the process of starting or expanding their business.

Lack of monitoring and evaluation: Whilst there is adequate monitoring of the legal and regulatory environment in terms of, for example, business registration, taxation and compliance with company requirements, the implementation of policies and programmes is poorly monitored and assessed. There are no regular or consistent monitoring and evaluation procedures in place. When asked, several development programmes can only cite their inputs and activities, such as funds spent and number of people trained. Very little information on outcomes and impact can be found.

Systemizing policy and programme changes: It appears as though government actions in Thailand have entailed a greater degree of political work than systematized bureaucracy. This has meant that new directions and initiatives have relied heavily on the personal and political connections of ministers and senior bureaucrats, rather than on the institutional and procedural arrangements. This, however, is changing. There appears to be a greater resolve within Government to develop a comprehensive legal, regulatory and procedural framework for the realignment of its new social and economic directions, such as those mentioned above.

Throughout the course of this study, many people referred to Thailand to be “good at planning, but not so good at implementation”. The speed at which the Government is designing new policies and programmes is illustrative of both its desire to respond to the current crisis, as well as its capacity to plan. The steps toward implementation, however, are more difficult to identify. Whilst this does not suggest that Government will be unable to implement its plans, it appears that there is scope for international agencies, such as the ILO, to strengthen and enhance the capacity of the Government to implement its new policies and programmes in support of micro, small and medium-sized enterprise development. This would also be in line with the ILO Recommendation on Job Creation in Small and Medium-sized Enterprises, 1998 (No. 189).

Red tape and corruption: Some sub-sectors have reported instances of too much “red tape”, duplication and corruption. However, these reports have been difficult to quantify or corroborate. The following example, however, taken from the Bangkok Post, 14 June 199724, is of interest:

“First and foremost, the government demands of the Go-go, not one, not two, but 28 licences! The paperwork involved (all applications are in triplicate) is mountainous.

Even when correctly filled out and properly submitted with the requisite fees, getting the paperwork signed, stamped and approved adds a new dimension to the term "red tape". Some lucky people have their licences granted in weeks, while others only get theirs after a few months - some do

not get replies at all. Meanwhile, the establishment with a rent paid up opens and operates without proper documentation.

At this point the constabulary arrives, notes the absence of the required licenses and threatens to close the ale house for running illegally. However, baksheesh – the local slang for bribe money – prevents the police from carrying out his threat and the saloon-keeper is told to re-submit his application. This is done, with the same lack of results and the police return – which explains why the vast majority of “oases” in Pattaya and many in Bangkok do not have operating licences.

Until you get someone with influence to assist you, you may never get all the licences required. As a rule, licences do not have an expiry date. Still, if you do manage to acquire them, there is nothing to prevent inspectors from coming around and declaring that certain licences have to be renewed annually and others, every six months.”

The allegations made in the above piece are difficult to substantiate, although it is recognized that the entertainment sector requires a range of special permits (e.g. for the sale of alcohol, preparation of food, hours of opening, health and safety, noise, etc.). There are conflicting accounts of the efficiency of the government bureaucracy. On one extreme is the claim that international executives have assessed Thailand, along with Viet Nam, Indonesia, Myanmar and Cambodia, as Asia’s top five most inefficient bureaucratic systems. Whilst the New York Times’ 1995 “Corruption Index” listed Thailand eighth in the world in terms of official corruption. But whether statements such as this are based on the experience of foreigners or nationals is

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26 Cited by Toews and McGregor (1998), pages 44, 45 and 47.
difficult to determine. It does, however, give cause for concern and raises the need for further investigation.

Smaller enterprises are often more ‘at risk’ of corruption and red tape due to their size and limited internal resources. Evading the formal system of regulation may often place them in a vulnerable position in respect of petty corruption by officials (e.g. inspectors, police).

In addition to the concerns of 'red tape', however, are those of collusion and corruption. A report examining collusion in Thailand in the Bangkok Post contained a diagram model (Illustration 2). The implications for the MSE sector are clear. Without influential contacts, a micro enterprise will rarely manage to win larger contracts. Thus, its access to markets will remain limited and this will constrain any likelihood of growth.

There has been considerable discussion regarding the entrenchment of corruption in Thai culture. Whilst it is beyond the scope of this paper to investigate such matters, it is interesting to note that many Thais find themselves in situations where conventional or acceptable practice contravenes laws or regulations. Klausner (1998; 102) writes that urbanites "like their rural brothers… feel no guilt in their [transgressions]… as they too are largely acting from economic necessity and from the demands of time and convenience, a negotiable currency in urban society." Thus, says Klausner, where positive law and custom diverge, a lack of compliance with the law will occur. In addition, enforcement of the law and the penalties for illegal behaviour will inevitably be arbitrary and open to corruption. "Corruption will inevitably be the by-product of selective, irregular enforcement." (p 105)

Amaret Sila-On, a former Minister for Commerce and current Chairman of the Financial Sector Restructuring Authority, writing in the Bangkok Post, 28 May 1999, says that a change in Thailand's social context is necessary. The current context he says, allows the "four Modern Horsemen of the Apocalypse", namely cronism, collusion, corruption and complacency, to undermine the integrity of the economy and its institutions. His solution to the situation is reform of the civil service, improvements to the country's education system and the promotion of the values of "honesty, hard work, patience and respect for the rule of law".

The implication for micro and small enterprises is the importance of good governance and legitimacy, where the private sector has trust in the law and its administrators. In their study of Thailand's illegal economy, Phongpaichit, Piriyarangsan and Treerat (1998) cite the IMF to emphasize the importance of “…creating systems that limit the scope for ad hoc decision making for rent seeking and for preferential treatment of individuals or organizations…improving public sector accountability…[and promoting] transparency in financial transactions in government budget, central bank and the public sector more generally”.27

In terms of the promotion of an enabling environment for MSE development, it is important that transparency and accountability for administrative practices is established and maintained. It would appear that achieving this requires a revision of many laws, regulations and administrative procedures to reflect the reality of the situation in which MSEs operate. Moreover, there is a need to create mechanisms for dialogue with MSE operators and government administrators to identify approaches to dealing with these concerns. Laws and regulations, it seems, will only be adhered to when those affected by them understand the reason for them and conform to the principles on which these rules are set.

2.3.2 Initial assessment

An initial assessment of the administration of the policy, legal and regulatory environment for micro and small-scale enterprises in Thailand suggests the following strengths, weaknesses and concerns. The administration was found to exhibit the following strengths:

- The decentralization of government programmes is a good development in public administration in Thailand.
- Administration systems appear generally transparent and accountable.
- Recent initiatives by the FTPI to help improve the productivity of government departments are encouraging.

The administration of the policy, legal and regulatory environment for MSE activity in Thailand contains the following weaknesses:

- There does not appear to be a very high level of awareness regarding the administrative procedures for enterprise in Thailand. Thus, these requirements and procedures could be better communicated.
- Examples of bribery and corruption exist, but inevitably they are difficult to quantify. Further research would need to be undertaken to assess the scale of this problem and its impact on the business operations of small-scale enterprises.

The following concerns relating to the administration of the policy, legal and regulatory environment for MSE activity in Thailand were identified and may require further investigation:
• There does appear to be an opportunity to simplify the administration of government policies, legislation and regulations through the promotion of inter-ministry cooperation and collaboration.

• Claims of administrative inefficiency and government corruption exist and need to be further investigated, especially in terms of the impact on the micro and small enterprise sector.

• Other mechanisms for the efficient administration of the MSE sector require further investigation. This may include promoting and developing the functions of business associations, or the use of local government authorities.
3. Consequences of the policy, legal and regulatory environment

Due to the limitations of this investigation in reviewing the policy, legal and regulatory (PLR) environment it is only possible to make a few tentative conclusions regarding this environment. These conclusions can be tested in the course of the broader operations of this ILO/UNDP SPPD project, and through further discussions with and within key agencies of the ROYAL THAI GOVERNMENT. Within this context, therefore, the following conclusions are presented as a stimulus to discussion and a focus for further investigation.

Of particular importance are the implications that arise from the following conclusions, where an attempt is made to anticipate, predict or assume a response by entrepreneurs to the PLR environment. That is, how does the policy, legal and regulatory environment affect the behaviour of entrepreneurs? Does it limit some sectors, whilst promoting growth in others? Does it encourage compliance, or promote illegal activities? These questions, and many more like them, require careful consideration, both within the scope of this report and beyond it.

In summary, it would appear that the policy, legal and regulatory environment for micro and small enterprises has the following characteristics.

The policy environment for MSEs:

• is experiencing rapid change in a political context, as well as in terms of the prominence given to the sector and its potential to contribute to national economic goals;
• is skewed in favour of larger enterprises, that is those with, say, 20 or more employees;
• is skewed toward the modernized sector (e.g. those making use of high technology or which are export-oriented), which ignores many micro-enterprises engaged in service, retail, wholesale, tourism, manufacturing, etc.
• is also skewed toward disadvantaged and poverty-stricken groups where MSE assistance is not qualified by entrepreneurial effort, but by one’s lack of income; and
• has been poorly coordinated – there are many gaps and areas of duplication in the policy framework and, subsequently, in the matrix of government development programmes.

The legal and regulatory framework for MSEs:

• is comprehensive without being overly regulatory or restrictive;
• is difficult to obtain proper information about, unless central departmental offices are approached;
• has been ignored by a large number of micro and small-scale enterprises which operate without formal registration;
• tolerates the lack of registration by many micro enterprises through, for example, the tax system that does not attempt to claim from those operating at the lower end of the commercial scale.

The administrative system for MSEs:

• has been highly centralized, but is currently responding to the Government’s drive for decentralization, which should address this problem in coming years;
• operates along very traditional lines of activity, where government performs all administrative functions in an apparently inefficient manner; and
• suffers from claims of government corruption.

3.1 Acceptance of non-compliance

The Royal Thai Government, at all levels, appears to recognize, accept and (indeed) allow the MSE sector not to comply with all of its regulations. At the national level, this can be observed in the field of taxation, where businesses with a turnover of not more than 600,000 Baht per annum are not required to register or pay taxation. At a local level, the current state of informal acceptance and compliance is well illustrated within the BMA and its relationship with unregistered street vendors. Street vendors do not necessarily need to be registered with any authority (i.e. if they do not earn more than 600,000 Baht or if their employees, usually being the owners themselves, do not earn a personal income of more than 50,000 Baht), but they do need to make sure they do not block public paths or thoroughfares. If they serve food, however, they need to obtain a health permit from the BMA. By not complying with these requirements they risk arrest, the imposition of a fine and the confiscation of their business equipment. However, the BMA appears to have informally agreed to tolerate these vendors within specific areas. These areas, however, cannot be legally defined because to do so would contravene the law, since the street vendors are unregistered. One of the concerns of the BMA is the cleanliness of the streets. The presence of the street vendors has been found to hinder the activities of BMA officers responsible for cleaning public places. Thus, the BMA have come to an additional informal understanding with vendors by allowing them to operate on any day except Wednesday. Wednesday is the day the streets are cleaned and vendors are not allowed to operate since they would obstruct street cleaning activities. Any vendor found operating on a Wednesday shall be arrested and risks prosecution. The BMA has the power to arrest on a Wednesday, not because of any legislative or regulatory authority, but because it chooses to exercise this power on a Wednesday so that other administrative functions will not be hindered.

The notion of the informal sector is difficult to properly define in Bangkok. A micro-enterprise that is not registered is not necessarily operating illegally. However,
there may be other features of these enterprises that are shared with informal operations in other counties. These may include, for example, their: \textsuperscript{6}

- employment of less than 10 people;
- minimal capital investment;
- easy entry and exit pathways;
- reliance on workers being trained on the job;
- high representation of women;
- use of unwritten or informal employee contracts with little or no appreciation of industrial relations, workers’ rights or occupational health and safety; and
- work in conjunction with the formal sector, such as through the supply of products or the repair of equipment.

In developing countries throughout the world, the informal sector has become recognized as an important source of employment, productivity and development. Whilst there is no official record of the size of this sector in Bangkok or other areas of Thailand, it would appear that this sector has grown dramatically in the last two to three years, particularly since the onset of the Asian financial crisis in July 1997.

### 3.2 Lack of knowledge of the MSE sector

One of the concerns with the lack of formal acceptance or recognition with the informal sector is that there is very little knowledge about the dynamics of the sector (e.g. its needs, problems, and development potential). This makes it difficult to plan for development or, indeed, to address any immediate concerns of the sector. Development practitioners and policy-makers provide many impressionistic and unsubstantiated descriptions of these issues. These include stories regarding government corruption, private “mafia-style” activities, the stranglehold of moneylenders and extremes of poverty.

In other countries, e.g. India, there is considerable evidence of training and sensitization programmes to enable officials to better understand and serve the MSE sector. In Thailand this lack of knowledge is exacerbated by the absence of any substantial business associations (e.g. hawkers’ or vendors’ associations, small business clubs, local chapters of chambers of commerce), that can effectively represent the interests of the sector in dialogue with government or any other development organization. For its part, the ILO has developed a considerable body of knowledge in this area; analysing and assisting the informal sector based on experiences in many countries, including India and the Philippines.

\textsuperscript{6} Taken from ILO, Regional Department for Asia and the Pacific, \textit{The informal sector} (undated).
3.3 Dualism in development programmes

Across the ministries and departments of the Royal Thai Government, there appears to be a division in the ways in which support to micro and small enterprises is provided. Those ministries with an interest in economic development, such as the ministries of industry and commerce, have indicated that their central concern is the promotion of the small and medium enterprise (SME) sector. On the other hand, those ministries and departments associated with those experiencing some kind of disadvantage (e.g. retrenched, unemployed, people with disabilities) are engaged in activities intended to assist these people in their endeavours. The difference between these two functions lies in the purpose or direction of support. In the first case, the Government is promoting the development of a particular kind of small and medium enterprise, whilst in the second case, the Government is responding to specific needs of people in this sector. The latter function appears to focus more on micro-enterprises and community enterprises, than it does on the more formal “small” and “medium-sized” enterprises.

The Deputy Director-General of the Department of Industrial Promotion described three types of enterprises within its promotion framework. The first encompasses what he called “Strategic SMEs”. These SMEs meet a set of criteria that are particularly desirable to national development objectives. They are highly productive SMEs, they may earn foreign exchange, they may utilize new and high standards of technology, they may comprise an integral part of supply linkages with larger companies, or they may be growing employers of labour. The second type of SME is that of the majority; those that may be considered “ordinary” or “typical” SMEs. These occupy a variety of sectors and express a wide diversity of characteristics. They employ somewhere between 10 and 200 employees. Finally, there are the micro-enterprises. These are owned and managed by people who do so to survive. They are small, less than 10 employees - usually, in fact, less than five - and they have a very small asset base. It is this last category that the Government considers require assistance rather than promotion. However, all concede that in providing assistance to these smaller MSE enterprises, there is a need for linkages to programmes that support the other larger types of SME enterprises. Such linkages should encourage successful micro-enterprises to grow into SMEs.

In addition to providing an enabling policy, legal and regulatory environment in which micro, small and medium enterprises operate, government can design and implement specific programmes of intervention. These programmes may promote, support or assist the development of MSEs, or specified sub-sectors. Policy can provide the basis for government programmes that contain some form of government intervention and direct assistance (e.g. through an export promotion programme, or a credit scheme). Such interventions and assistance can be of tremendous value to MSE development, although their actual benefits and contribution to MSE promotion can only be assessed on a case by case basis.

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29 Dr Damri Sukhotanang, Deputy Director-General, Department of Industrial Promotion in the Ministry of Industry, interviewed in his offices on 1 April 1999.

30 Other Working Papers in this series look at international best practices in Business Development Services, and their relevance for Thailand.
The DIP has been instrumental in the formulation of the SME Promotion Bill, which will address many of the current concerns regarding policy and programme coordination. For the social ministries engaged in MSE activities, however, no such plans for coordination have been formulated.

The following institutions are involved in the development of micro, small or medium-sized enterprises in Thailand.

The **Department of Industry Promotion**, Ministry of Industry – mandated by a Royal Decree in 1942 and last revised in 1996 to:

- recommend policies and measures in promoting small and medium-sized industries (SMIs) in accordance with the National Economic and Social Development Plan, governmental and ministerial policies, and changes in the global economy;
- Conduct the task of promoting, supporting and developing the capacity of SMIs in compliance with policies of the Ministry of Industry;
- develop industrial human resources in both government and private sectors, with emphasis on technology and management; and
- carry out any other tasks as stipulated for the Department by law, the Ministry of Industry or the Cabinet.

The DIP has translated this mandate into the following three-fold mission: (a) to recommend policies and strategies to develop and enhance the capabilities of small and medium-sized industries in accordance with the country’s social and economic development and changes in the world economy. (b) To cultivate and develop the capability of small and medium-sized industries in compliance with government policies. (c) To develop skilled personnel for the industrial sector, especially in technology and management in order to upgrade productivity according to international standards.

The DIP promotes the development of the SMI sector through training, information, consulting and extension services, financial assistance and research.

The **Department of Community Development**, Ministry of the Interior – providing grants to groups of unemployed persons wishing to establish an enterprise;

The **Office for the Rehabilitation of Disabled Persons (ORDP)** – providing information, training and grants to people with disabilities wishing to start their own enterprise;

The **Ministry of Labour and Social Welfare (MOLSW)**, established in September 1993, comprises the following:

- The Department of Public Welfare – provides direct social assistance to disadvantaged groups;
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- The Department of Skill Development – sets training standards and training programmes, provides pre-employment and on-the-job training to workers;
- The Department of Labour Protection and Welfare – inspects workplaces and enforces labour protection and occupational safety standards, promotes labour relations, collects labour data, carries out analysis;
- The Department of Employment Services – issues licences for employment agencies, provides job placement and counselling services to workers and those seeking employment abroad;
- The Department of Social Security administers the workers' compensation fund.

The **Board of Investment (BOI)** within the Office of the Prime Minister is governed by the Investment Promotion Act (1977, as amended 1991) and is the principal government agency responsible for providing incentives to stimulate investment in Thailand. The Office of the Board of Investment carries out the day-to-day investment promotion activities of the Board. It is empowered to grant a wide range of financial and non-financial incentives and guarantees to investment projects that meet national economic development goals including projects which:

- strengthen Thailand’s industrial and technological capacity;
- use domestic resources;
- create employment opportunities;
- develop basic and support industries;
- earn foreign exchange;
- contribute to the economic growth of regions outside Bangkok;
- develop infrastructure and conserve natural resources; and
- reduce environmental problems.

Much of the BOI’s activities appear oriented toward the foreign investor and the development of medium and large-scale commercial and industrial operations.

A list of other agencies involved in SME development is present in Box 1, to the right. In April 1999, the Royal Thai

**Box 1: Other agencies involved in enterprise promotion**

- **The Department of Export Promotion (DEP), Ministry of Commerce** – for the promotion of Thai exports.
- **The Industrial Estate Authority of Thailand (IEAT)** – for the development, operation and management of industrial estates.
- **The Thai Industrial Standards Institute** – for the formulation and promotion of industrial standards and ISO.
- **The Thailand Institute of Scientific and Technological Research (TISTR)** – for research and development activities in various sectors.
- **The Science and Technology Development Board (STDB)** – for the promotion of local technological capacity through grants and loans.
- **The National Science and Technology Development Agency (NSTDA)** – for science and technology promotion through funding and advisory services.
- **The Technology Transfer Centre (TTC)** – finances research and development projects.
- **The Provincial Industrial Office (PIO)** – for the promotion of safe factories and quality working conditions.
- **The Small Industry Finance Corporation (SIFC)** – for loans to small industries.
- **The Small Industry Credit Guarantee Corporation (SICGC)** – providing guarantees to small-scale industries with insufficient collateral.
- **The Industrial Finance Corporation of Thailand (IFCT)** – for development financing of small and medium industries.
Government has announced the establishment of the Institute for SME Development located within the Rangsit Campus of Thammasat University, in conjunction with six other universities. The new Institute will be supported by an annual budget over the next five years, totalling 2.1 billion Baht. It is anticipated that the Institute will assist some 116,000 entrepreneurs over this period. Before the end of 1999, it is anticipated that the institute will train 8,400 existing and 24,000 new entrepreneurs. It will spend 15 million Baht on research and the creation of an SME database, along with 150 million Baht on activities that raise awareness and promote an enterprising culture. Finally, the Institute will spend 150 million Baht on a loan or capital fund, which can be directly used by SMEs.

In addition to the work of government agencies, the Population and Community Development Association (PDA), the largest NGO in Thailand, launched the ‘Thai Business Initiative in Rural Development’ in 1988. T-BIRD encourages companies to work with villages to identify business opportunities and develop commercial skills. The Bata Shoe Company, for example, has set up four village-level cooperative factories in Buri Ram Province to produce the upper portion of canvas shoes. It has also established revolving loan funds and water supply systems in these villages, along with providing extensive skills training. Similarly, Bangkok Glass has promoted the production of brushes for cleaning glass moulds and face masks for factory workers in two villages in Prachin Buri Province, as well as providing school scholarships, water supply systems and training in sustainable agriculture. T-BIRD has been considered a remarkable success. It has generated new employment opportunities in local villages, developed local skills and contributed to slowing or reversing the urban migration trends. It has also generated additional local incomes and investments. The critical factors identified in this success have been the selection of suitable villages and corporate sponsors, the recruitment of appropriate project staff, the attainment of ‘quick wins’ to address some basic needs and build trust, and income generation activities based upon local skills and the work of the sponsoring company.

Many of the people supported by the DPW and its affiliated agencies, such as NGOs and community-based organizations (CBOs), are experiencing some kind of economic or social disadvantage. They may be people with disabilities, retrenched workers, unemployed people, or farmers required to find some new means of livelihood. In a recent appraisal of the needs and challenges faced by officers of the DPW in working with these people it was found that the common types of micro and small enterprise were in agriculture, such as paddy farming, livestock production (e.g. chicken, ducks, frogs), fish farming; mushroom production; sewing and weaving; retailing of food items; and repair services (e.g. machines and radios). Officers of the DPW who are working with micro and small enterprises have cited the following common problems experienced by the owners and managers of these enterprises:

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31 Bangkok Post, 6 April 1999.
33 ibid
34 This (unpublished) information was obtained by Mr GP Finnegan, ILO Bangkok, through a survey of micro and small enterprise development practitioners, which was initiated in February 1999 in preparation for a training programme on managing micro and small enterprise development schemes.
application forms for assistance are too long and detailed;
they have limited experiences in small business management;
they are operating in highly competitive, limited or marginal markets;
they have limited and inadequate understanding of marketing and commercial financial management; and
they have insufficient capital, to adequately meet start-up, working and expansion requirements.

In addition, they have indicated that they as MSE development practitioners often face problems in the following areas:

- little, or no, experience in providing business counselling;
- limited skills in business and programme management;
- inadequate skills in the assessment of business plans and applications for financial assistance;
- clients sometimes use funds provided for enterprise development for other purposes;
- poor coordination with interdisciplinary departments, agencies and organizations; and
- poor time management.

There is a range of possible functions government can perform when it comes to the promotion of the SME sector. These include:

- Government as a **catalyst and facilitator** – where government brings key groups together, promoting collaboration and cooperation in the initiation and support of national, provincial and local development efforts.

- Government as a **resource agency** – where government ministries promote MSE development efforts through the allocation of practical resources, such as human, financial or physical resources.

- Government as a **leader** – where government takes the lead in mobilizing its resources, along with external resources, to initiate development projects and processes.

- Government as a **manager and developer** – where government intervenes directly in development projects and processes as a major stakeholder with pre-determined outcomes.

None of these functions is mutually exclusive. They all represent differences in perspective on the role of government. In Thailand, government development programmes have focussed on a much narrower range of activities. This has centred on directly providing specific inputs or resources (e.g. finance and training) and has
generally ignored the other functions government can perform. The focus of government policy and support to micro and small enterprises also should be of a catalytic, promotional and analytical nature. Government should use its administrative and operational skills to bring private parties together and strengthen the complementary relationships between them.

The Royal Thai Government has seized the financial crisis as an opportunity for accelerating the social reform agenda, one that combines familiar social reform issues, such as job creation, social security, and employment services. But it also contains a unique Thai approach to addressing long-term social problems through the development of local capacities, social capital, and community self-reliance. Though it is too early to measure the outcomes of this innovative approach, the reform agenda has been greatly enriched by the initiative.

Whilst it is beyond the scope of this report to investigate the value or effectiveness of various forms of interventions or assistance, there are a few points to consider when investigating government programmes and their relationship to the legal and regulatory environment and its implementation and administration. In particular the following are relevant:

- It appears that, to date, the interventions of the Royal Thai Government in terms of small and medium enterprise or MSE development have been largely financial. This has meant that many of the other non-financial and PLR-environmental aspects of business development have been largely ignored.

- The purpose of business development programmes varies. Some promote small and medium enterprise development; others simply provide short-term assistance to those in the MSE sector.

- There is very little coordination or linkage across business development programmes, especially across the different government ministries (i.e. across MOI, MOC, MINT, MOLSW).

- There is very little information on the needs, constraints, problems and development opportunities of the MSE sector.

- Programmes on the development of the MSE sector are inadequately monitored and evaluated.

- MSEs are poorly represented in the design of policy and programmes that affect the sector, as well as in the implementation of programmes and services.
4. Proposals for a more enabling business environment

In summary, this investigation has identified the following constraints, limitations, needs and opportunities relating to the promotion of the MSE sector in Thailand. Whilst several of these issues extend beyond the policy, legal and regulatory environment for business activity with particular emphasis on Bangkok, they are all directly or indirectly influenced by the environment.

Based on an initial assessment, the MSE sector in Bangkok was found to experience the following constraints to its activities and potential for expansion and growth:

- Decline in demand, as demonstrated by reduced spending, savings and investment since the onset of the Asian financial crisis.
- Lack of understanding by government policy-makers and programme administrators of the specific developmental needs and operational dynamics of the MSE sector. Previous development efforts focussed on small and, in particular, medium-sized enterprises.
- Levels of education in Thailand are generally low. This can reduce the capacity of people to respond to change in an innovative and entrepreneurial manner.
- The implementation of policies and programmes appears to take place because of various political pressures and initiatives. Evidence of the institutionalization of policies and programmes has been difficult to uncover.
- Small and medium-sized enterprise development has become a politically contestable area, where political parties have been vying for public attention through their announcements regarding the sector. This politicization of the sector has advantages (see below) but it can also constrain the sector’s growth by focussing on public opinion rather than on the experiences of the sector itself or on the best and most sustainable long-term development policies and strategies.

The potential for expansion and growth of the MSE sector in Bangkok was found to be limited by the following factors:
• The narrow scope of government interventions in the promotion of MSEs, which appears to favour financial incentives and investment over other forms of business development services support (e.g. market linkages).

• Many efforts to develop the MSE sector have been based on welfare models of support, rather than models that promote and enhance the entrepreneurial capacity of the sector.

• The lack of policy and programme coordination. There have been some 18 organizations identified in this report that are involved in the development of micro, small and medium-sized enterprises. This includes four ministries that have a direct involvement in the development of the sector.

• Following from the lack of coordination, there is no planned mechanism to enable MSEs to graduate, and to become more formal small and medium-sized enterprises. - [Editor's addition].

• There are inadequate mechanisms for policy and programme implementation. The existing network of government departments and parastatal organizations is sufficient for the regulation and monitoring of the overall SME sector, but due to their centralized structure and their location in large bureaucracies these bodies are not able to reach entrepreneurs, particularly micro-entrepreneurs, effectively. The lack of participation of the private sector in these programmes is a further demonstration of this problem.

• There appears to be a general lack of member-based representative organizations that can mobilise the MSE sector around development needs and advocate for required resources, policies and programmes.

Based on an initial assessment, the MSE sector in Bangkok was found to experience the following needs that must be addressed to encourage its expansion and growth:

• The creation of a policy framework providing motivation, direction and strategies for the strengthening and expansion of the MSE sector. The forthcoming SME Promotion Act appears to continue the trend of promoting businesses at the larger end of the scale and overlooks many of the needs, potential and scope for development of self-employment and micro-enterprises.

• The provision of comprehensive support and business development services (BDS) that contain properly integrated financial and non-financial business development interventions, with lessons drawn from international best practices as appropriate.
There is a lack of detailed information on the current size and status of the sector.

Decentralized points of information and support are required that can be accessed by MSE owners and managers.

The staff of various government ministries and departments responsible for working with poverty groups (e.g. Department of Skills Development, Department of Community Development) should be provided with skills and methodologies for promoting and supporting enterprises, to ensure they do not rely on welfare or dependency-based models.

There appear to be a number of opportunities to promote the expansion and growth of the MSE sector. These include the following:

- Greater recognition of the value of the MSE and SME sectors and the contribution these sectors can make to the achievement of national development goals, such as poverty alleviation, employment creation, the provision of services, addressing regional development disparities, etc.

- The emergence of a growing informal sector, which demonstrates a high degree of personal entrepreneurship and initiative that can be harnessed toward the development of employment, local services and productivity.

- The current thrust by the Government toward community empowerment and the decentralization of services will be conducive to the improvement of access by MSEs to the services and support mechanisms they require, as well as to the development of business associations and representative organizations.

- Sector enhancement initiatives that target MSEs operating within specific sectors (e.g. tourism, export-oriented enterprises) that provide opportunities to review, assess and improve the operational environment and development programmes of the sector.

- Market linkages (i.e. supply and subcontracting arrangements) between micro and small enterprises and larger ones.

4.1 International lessons and experience

The international Donor Committee on Small Enterprise Development has documented a number of initiatives that have been taken by donors and governments alike to promote a more enabling environment for micro and small enterprise development. These have included the following:
• Setting up national SME agencies, whose objectives include the development of an overall strategy and framework for SME promotion, the coordination of programmes, including donor supported initiatives, and sometimes acting as a conduit for funds.

• Supporting high profile/level conferences, working groups and publications to bring MSEs on to a country’s political agenda.

• Establishing regulatory committees which, on an ongoing basis, monitor and review regulations germane to MSEs and which can, for example, seek to ensure balance between appropriate regulations (say on working conditions and safety) and eradicating unnecessary ‘red tape’.

• Initiatives to decentralize the conception and implementation of SME development policy and regulations to a localised level.

• Initiatives to support dialogue at a national and local level among the main actors with regard to specific strategies and measures to promote MSEs.

• Establishing improved procedures to ensure that MSEs enjoy appropriate access to government tenders, export credits, bank credits, etc.

• Supporting efforts to develop a cultural environment that is conducive to the promotion of MSEs. This may involve encouraging the development of more enterprising approaches to children’s education or national media campaigns.

• Building capacity in trade associations, employers’ organizations, workers' organizations, and other representative organizations to enable them to better assess the impact of policy and regulation on their members and to articulate their members’ wishes more effectively.

International experience in the promotion of the micro and small enterprise sectors has found that the following principles are important.

• Commercial orientation – It must be recognized that business promotion services are not the same as welfare or social services; businesses have a productive capacity, they create profit, they can repay loans and can grow to employ others;

• Based upon initiative – Small business promotion initiatives should be based upon the initiative and enterprise that comes from businessmen and women themselves, not the local authority, its councillors and staff;

• Improve the capacity to manage risk – Effective small business promotion services do not remove risk, instead they help entrepreneurs to deal with the risks that are a part of every enterprise;
• **Appropriate targets** – So that business-people are not treated the same, successful enterprise support programmes should identify variations amongst local business people and their skills, experiences, status, needs, aspirations and capacity to obtain resources – all of which influence their ability to successfully establish, run and expand a small business;

• **Comprehensive in nature** – Addressing one area of need or constraint to small business development will not be sufficient if other needs remain which are not being addressed; successful enterprise promotion programs provide a wide range of services either under one roof (e.g. "one-stop-shop") or in collaboration with other agencies;

• **Complementary services** – Ensuring that the training, advice and support provided complements other services;

• **Sustainability** – To ensure that the implementation of any initiatives are cost-effective and not reliant on a single source of external support, be it technical, organizational or financial; and

• **Equity** – So that those in a position of disadvantage are assisted in ways specifically designed to address their situation, whilst ensuring that the support mechanisms are designed in such a way as to take account of issues such as sustainability and an overall commercial orientation.

Participatory approaches to small business development have been recognised as an effective way of using resources, building capacity and creating change. These approaches create joint efforts by government and the private sector to support small business development. Before joint efforts or partnerships can be formed, however, certain steps must be taken. These include the prerequisite of a commitment by government at the highest level and a clear understanding of the process of joint effort by all stakeholders. The achievement of a specific output (e.g. a comprehensive understanding of constraints and defined strategies for change) is important, as is a political will to create change (i.e. to implement strategies for change and development). A broad understanding and acceptance by the relevant authorities, organizations and the public to accept change is essential to the institutionalization of the change process where the institutional structures and procedures are already well-established.

### 4.2 Recommendations

A number of specific recommendations are proposed to address the main concerns identified in the course of this investigation. These recommendations can be classified into four broad areas of concern: recommendations for promoting the role of micro and small-scale enterprises in meeting national development goals; mechanisms for regular review of the policy, legal and regulatory environment; designing new
methodologies for the development of the micro and small-scale enterprise sector; and ways to enhance the capabilities of the sector to represent its needs for development.

4.2.1 Promoting the role of micro and small enterprises

Traditionally, the emphasis of the Royal Thai Government policies and support programmes has been placed on small and medium scale industrial enterprises, many of which are classified as modern and formal enterprises (those with a workforce of up to 200 persons and with fixed assets of up to 100 million Baht). Insufficient institutional support is currently provided for those enterprises at the smaller end of the spectrum, many of which employ less than 10 persons and may be classified as informal or traditional enterprises, as well as those non-industrial enterprises engaged in trading and services.

It is recommended that the DIP articulates a coherent view on the purpose of MSE promotion in Thailand. That is, that the purpose of MSE promotion and the contribution of the sector to national development objectives are properly understood and agreed upon. This should incorporate a recognition of the role of micro-enterprises in the overall tapestry of commercial activity in Thailand, and an understanding of the value and challenges of this sector.

Furthermore, there is a need for government, and the DIP in particular, to recognize the changing role of government in enterprise promotion. Rather than being the direct provider of support services, governments can perform a more sustainable and effective role by operating at ‘arm’s length’ from the private sector. This means that government agencies should support the provision of business development services through intermediaries that are closer to the target group, such as NGOs, Community-based organizations (CBOs) and small business membership organizations. It also means that government should carefully assess and improve the environment in which businesses operate, with a view to ensuring that it is an enabling environment that does not give greater advantages to the large-scale over the micro and the small-scale enterprises. Other working papers in this series will provide more details on the characteristics of best practice in business development services (BDS).

The following actions are proposed:

**Recommendation 1: Contributing to the DIP Master Plan**

The DIP is currently in the process of formulating a master plan for the promotion of the SME sector, based on the directions of the SME Promotion Bill. The Royal Thai Government, in the form of the DIP, should call on international organizations such as the ILO to assist in the formulation of this master plan. The ILO’s contribution could focus on the role and means of MSE development in the broader SME development framework, and could draw on international, regional and national experiences and best practices that it has documented. *In addition, the ILO Recommendation on Job Creation in Small and Medium-sized*
Recommendation 2: National enterprise forum

It is proposed that the Royal Thai Government, in conjunction with the ILO, organise a national enterprise forum, which would focus on the contribution of MSEs to national development objectives. The forum would draw national and international speakers and would present information on the Thai experience and the value of the MSE sector. Its aim would be to attract government ministers and senior policy makers with the purpose of stimulating debate and a greater appreciation of the value of the MSE sector. [This could mirror the international Donor Committee on Small Enterprise Development, as well as draw on lessons from similar country-level experiences of the ILO in Pakistan and Sri Lanka - Editor's note.].

Such a forum could also be used to re-instigate the former Donor Committee on Enterprise Development in Thailand, which has gone into abeyance in recent months. A committee such as this can act as an important partner to Government as well as private sector and civil society organizations involved in MSE development.

Recommendation 3: Technical and popular information

It is recommended that the Ministry of Industry and/or the newly established Institute for SME Development, along with the ILO, develop simple information packages containing data on the MSE sector in Thailand and the contribution of the sector to national development. This package could contain press releases and articles on entrepreneurs in the MSE sector. These articles would illustrate the role of MSEs in development (e.g. as a job creator, as a pathway to larger and more formal SMEs).

Recommendation 4: Compilation of a national assessment of the micro, small and medium-sized enterprise sector

It is proposed that the DIP and ISMED work in collaboration with the ILO in the preparation of strategy for an annual “State of Small Business Report”. This report could present information on the profile of the micro and small enterprise sector, its problems, constraints, opportunities and successes. In addition, it could describe programmes of support and the policy, legal and regulatory environment in which businesses in Thailand operate and develop. Initiatives such as these have been in operation in a number European countries [such as Ireland - Editor] for a number of years, thus demonstrating the growing importance that is attached to this sector.

Recommendation 5: Impact measures

It is proposed that the DIP and ISMED work in collaboration with the ILO to create a mechanism for measuring on a continuous basis the impact of various
support activities for micro, small and medium enterprises, including assessments of training and financial support programmes. [Added by Editor]

**Recommendation 6: Further assessment and investigation**

One of the factors that has hampered this investigation has been the limited information on the MSE sector; its real size and the needs and experiences of owners, managers and workers in the sector. Whilst the small survey conducted as a part of the ILO/UNDP project to which this working paper belongs, has been useful in testing some assumptions in this regard, a large ‘knowledge-gap’ still exists. It is proposed, therefore, that further assessments of the sector be undertaken. Whilst applying proper research techniques, such activities should not be academic exercises. Instead they should be oriented toward the formulation of effective policies and practical programmes designed to develop the MSE sector, improve working conditions and incomes, and maximize the potential for sustainable business development services.

Thus, it is proposed that further ‘action-research’ be undertaken to investigate the conditions of workers in the MSE sector with a view to improving social protection, work safety and incomes. This investigation could build on the experiences of other ILO programmes operating in these fields in the region, such as the Work Improvement in Small Enterprises (WISE) programme.

Whilst this proposal is focussed on specific research projects, it is important that a broader perspective on research be adopted by all Government ministries working with the MSE sector, in particular, the MOI, MOLSW and MINT. A continuous research capacity is required to improve the understanding of the micro and small enterprise sector and the ways it can be further developed.

*In many countries small business research institutions have taken root within one or more academic institutions, e.g. University of the Philippines Institute for Small Scale Industries - UPISSI. It is important for the development of MSEs and SMEs in Thailand that academics perceive research (both practical/action research, as well as scholarly enquiry) as legitimate pursuits. Initial seed-funding to promote the establishment of academic research centres could come from Government, to help stimulate serious research endeavour. To date, some support for SMEs has been provided in a piecemeal way by some of the departments from Thammasat University, Chulalongkorn University and Kasetsart University (in Bangkok), Chiang Mai University and Maha-Sarakham University (to mention but a few). [Editor’s addition]*

**4.2.2 Creating mechanisms for policy, legal, regulatory and administrative review and change**

The review of the policy, legal and regulatory environment in which businesses operate should not be an isolated or singular event. Instead, it should be a regular process.
of monitoring and evaluation, involving all relevant stakeholders who not only participate in data collection, but also consider and propose reforms.

In addressing these issues, the follow actions are proposed:

**Recommendation 7: A business environment review team**

It is recommended that the DCR, ISMED and DIP, in association with other support agencies such as ECOT, Thammasat University, FTI and ECONTHAI, as well as ILO and other international partners, establish a business environment review team. This team would oversee a series of activities designed to review the policy, legal and regulatory environment for micro and small businesses in Thailand. It is proposed that the work of this team initially focuses on specified industry sub-sectors in the Bangkok area. This would allow the team and its participants to refine their skills and experience in these activities before broadening to other locations and industrial sub-sectors.

**Recommendation 8: Regional business environment symposium**

There would be a great deal of value in sharing the experiences of the South East Asian countries in the promotion of a more conducive business environment. Such a symposium would focus on the policy, legal and regulatory framework in which business operates with particular affects on the MSEs and SMEs, and should provide insights into how this framework can be reviewed and improved. The symposium would highlight the initiatives being taken by the Royal Thai Government, whilst recognising and promoting the influences of the broader region on the business environment. International models of best practice could be described, within a regional context.

### 4.2.3 Promoting new development methodologies

Having clarified the purpose of micro, small and medium-sized enterprise development and, in particular the role that micro-enterprise development can play, it will be necessary to design appropriate methods to further develop this sector. This will require innovation and new approaches by the ROYAL THAI GOVERNMENT - approaches that are responsive to the circumstances of Thailand and adaptive of international best practice.

In addressing these issues, the follow actions are proposed:

**Recommendation 9: Building capabilities**

Building the capabilities of enterprise promoters, including development practitioners, advisers, policy-makers, programme managers and administrators. An inter-ministerial MSE advisory and support group should be established to oversee the organization of a number of activities that can enhance the capabilities of enterprise promoters in all departments. These activities may include:
• training of trainers;
• training of enterprise advisers and counsellors;
• the adaptation of appropriate and relevant training materials, such as the ILO's Start and Improve Your Business (SIYB) curricula; and
• workshops, seminars and conferences organised to provide information and share experiences related to MSE development practices.

**Recommendation 10: Strategic and development planning**

There are a number of government departments and other organizations that work for the promotion of the micro, small and medium-sized enterprises that would benefit through practical assistance from the ILO, the UN and other international organizations, regarding strategic and development planning. It is proposed, therefore, that a simple information guide and training programme be prepared for individuals and organizations that provide development services to MSEs. This could practically assist these organizations in developing MSE promotion programmes that incorporate clear developmental objectives, relevant strategies and activities, identified resources, anticipated outcomes and an effective monitoring and evaluation system.

**Recommendation 12: Pilot projects**

The Royal Thai Government, in partnership with the ILO and other UN and international organizations, is urged to consider the use of pilot projects as a means of developing new and innovative methodologies for the promotion of the MSE sector, adapted and developed to suit the specific enterprise context of Thailand. Pilot projects can create valuable learning processes and experiences for Thai practitioners. They can draw on international best practice, whilst adapting these approaches to the unique circumstances of Thailand.

The following pilot projects are proposed for consideration and further development:

(i) **Community-based enterprise development agencies**

The ILO investigation into SME development in Thailand in 1993 proposed that the Royal Thai Government give consideration to the development of local enterprise agencies as a mechanism for the delivery of enterprise promotion services and the implementation of development programmes. Many countries, as diverse as Cambodia and the United Kingdom, have identified the value of these agencies in providing cost-effective and locally oriented business development services. Thus, two or three pilot development agencies could be established in Bangkok and in other urban centres.
(ii) **One-stop-shop for information and support**

The initiative of the BMA in establishing the Bangkok One project is to be applauded. Whilst this project appears to be oriented toward the provision of practical information, advice and facilities to larger enterprises, it is a concept that can be replicated for the MSE sector, particularly at local district/community level.

(iii) **Women in business**

The MSE sector, particularly the micro-enterprise sector, appears to contain a high proportion of women owners and managers. Whilst this is to be encouraged, it is recognised that women often face a range of problems, needs and constraints in business that are different from men. In light of this, and with the understanding of international best practices, it is proposed that further investigation be undertaken into the issues affecting women in the MSE sector. This research should not be an academic exercise that winds up languishing on the shelf. It should be a participatory, action-oriented project, which is clearly focused on practical ways to promote the MSE sector and the contribution of the sector to the lives of women, their families and their local communities.

In addition, this activity should endeavour to establish networks between women in businesses that may be maintained to provide a continued support mechanism through which business development services may be offered. [The ILO has already carried out work in this field in Thailand (as part of a Swedish Sida-assisted project from 1994-97) and it continues to support associations of homeworkers, most of whom are women. In addition, the ILO produced a working paper on Factors affecting women entrepreneurs in Thailand (1997). - Editor's note.]

(iv) **Micro-franchising**

The use of franchise-based enterprises has been found particularly successful around the world in terms of achieving business growth and promoting the survival of businesses. In a number of developing countries the franchise concept has been adapted to suit the developmental needs and opportunities of MSEs. It is proposed that the ROYAL THAI GOVERNMENT work with the ILO to develop a conceptual project plan for the piloting of micro-franchising schemes in the Bangkok area. Such a scheme could draw on the international experiences of mini-franchises and could apply these experiences to selected sectors. Some possibilities include noodle carts, tour guides, signage suppliers, Internet services, gardening supplies and maintenance, waste collection and recycling, and security services.
(v) Business Retention and Expansion Programme

The Business Retention and Expansion Programme has been in operation in a number of countries with the aim of supporting the established business sector. It is a community sponsored initiative which involves forming a local task force and use of a structured interview process by community volunteers to learn about the needs, concerns, suggestions and perceptions of local businesses. The Business Retention and Expansion Programme provides for the discovery of local business needs and concerns; perceptions by local businesses about what is preventing expansion; perceptions about government actions that help and hinder local businesses, along with good ideas people have for improving the local economy and the business environment. The ideas and issues raised provide the basis for actions to address immediate business requests and concerns, and the design and implementation of community economic development strategies and actions. A pilot programme of this sort in Bangkok, conducted by the BMA and DIP, could produce some very interesting and valuable experiences.

(vi) Youth enterprise promotion

Young women and men in Thailand face limited employment prospects today. Many enter the informal or MSE sector due to a lack of job opportunities in larger enterprises and government service. International experience has shown that the prospects of success for a young person in business can be enhanced through programmes that are specifically tailored to address the needs, opportunities and limitations these people experience. There does not appear to be any programmes or support services that are specifically targeted toward young men and women in Thailand. Thus, there appears to be value in designing and testing a pilot project in youth enterprise to build a body of experience within Thailand in this field. Such a project should build on international experience and be closely connected with relevant Thai youth agencies, such as the Thai Youth Foundation and the Department of Youth Affairs, whilst also linking with the Junior Chamber of Commerce and the DIP.

4.2.4 Enhancing the capacity of the sector

Creating an organised small business sector is a fundamental requirement for empowerment. It is only through organization that the needs and views of this sector can be effectively represented. Chambers of commerce and small business membership organizations (e.g. hawkers' or street vendors' associations) can be effective advocates for policies and programmes that promote small business development. Therefore, the first action toward empowerment of the local small enterprise sector should be aimed at promoting improved organization and representation of the sector.
The mechanisms for change and development can take different forms. They include mechanisms to promote dialogue between the MSE sector and government agencies to review the legal, regulatory and administrative arrangements affecting the sector, as well as to provide a forum for discussion, networking and joint action by all key stakeholders.

There should also be mechanisms to promote collaboration by providing a means whereby different groups in society can come together. Since MSE development requires efforts from a number of different stakeholders in the economy, effective collaboration is very important. Collaboration is a mutually beneficial and well-defined relationship that is entered into by two or more organizations to achieve common goals. It represents much more than cooperation or coordination. The collaborative relationship needs attention and work for it to work successfully, as it includes a commitment to achieving mutual relationships and goals; a jointly developed structure and shared responsibility; mutual authority and accountability for success; and a sharing of resources and rewards. Collaboration between the MSE and SME sectors and government is necessary for designing and monitoring a comprehensive strategic plan for development.

In addressing these issues, the follow actions are proposed:

**Recommendation 12: Investigation of current associations**

Before beginning to promote the development of micro-enterprise associations, it would be valuable to investigate the current scope of activity and interest that exists. This should include a mapping and review of current organizations, along with a survey of the aspirations, interests and needs of MSEs regarding these types of organizations. Such an investigation would provide a basis for the planning of development programmes.

**Recommendation 13: Awareness raising events**

Based on the outcomes of the above investigation, at the invitation of the ROYAL THAI GOVERNMENT the ILO and other UN and international organizations could work with NGOs and CBOs to inform various groups of the findings, and organise a number of events wherein the awareness of the roles and potential of business associations could be promoted. These events may involve different types of formal and informal meetings, workshops and seminars. The ultimate, long-term aim of these events would be to design a support programme for the development and capacity building of business associations.

**Recommendation 14: Capacity building for representative organizations**

Following the two proposals above, there is a need for direct development activities aimed at enhancing the capacity of membership organizations that can represent the MSE sector. Due to the paucity of organizations operating in this field at present, such activities must be comprehensive in nature. They should include financial support, training, membership development, strategic planning and organizational assistance.
It is important that employers' organizations and workers' organizations alike recognise the value of MSE development and engage in supporting such activities. Indeed, the role of FTI in supporting SME development is to be commended. [It is hoped that other employers' organizations and workers' organizations - most of which have affiliations to the ILO - can also play a supportive role in promoting MSE development in general, and the creation of complementary representative organizations in particular - Editors’ insertion]
5. Conclusions

'If you want to build a ship, don't round up people to gather wood and dish out work. But teach them desire for the wide, endless ocean'.

– A. de Saint-Exupery

This working paper has examined the broader environment in which MSEs establish and operate. It has focussed on three essential elements in the business environment, being (a) the policy and legal framework, (b) programmes, regulations and procedures, and (c) the administration of the first two. Of particular concern has been the role that MSEs might play in poverty alleviation and the creation of new employment opportunities.

This examination has found that the great priority for the development of the MSE sector is in addressing the policy ‘mind-set’ and framework. Current policies and programmes are largely geared toward the more formal, and substantially larger, small and medium-sized enterprise sectors. Whilst the need for developing this sector is undisputed, there appears to be a gap in the provision of services which has left the micro and small enterprise sector isolated from support and recognition by the economic ministries, and "relegated" to the welfare-oriented support services of the social ministries. Support to this sector has largely been provided based on welfare criteria and measures of disadvantage, rather than economic potential, productivity and profitability. [Furthermore, there should be more balance between financial support for enterprise development (of which there is a lot), and non-financial business development services (BDS), many of which remain largely untested in Thailand - Editor's note]

Whilst there is plenty of room for improvement within the regulatory, procedural and administrative systems in which micro and small enterprises currently operate, the broader policy framework requires a new orientation. Once this has been achieved, the other elements of the business environment can be reviewed and adjusted. What is required, therefore, is a greater recognition of the MSE sector and its potential for contributing to national development goals.

An inseparable component of an environment that supports and nurtures the development of MSEs is an entrepreneurial culture. Whilst the legal and procedural rules and processes are the instruments that are used to promote enterprise development, the presence of an entrepreneurial culture is essential. Government has a crucial role to play in establishing and maintaining the elements of such a culture. It should recognise MSEs as important players in the national economy; it should understand the special needs, constraints and opportunities of MSEs; and it should ensure that its policies, laws and procedures are administered in a fashion that are equal to all, recognising the issue of size. An entrepreneurial culture may seem like an intangible ideal, but it is located amongst some very practical and concrete stakeholders. These include entrepreneurial business-people who become role models; government administrators who maintain a
balance between their regulatory functions and their facilitative ones; participatory MSE business organizations that support their members by providing practical services and by lobbying on their behalf for relevant policies, laws, procedures and programmes. An entrepreneurial culture also includes enterprise and business skills in its school curricula; it helps college and university students to learn more about business management and entrepreneurship; it promotes enterprising behaviour in local communities and by community organizations; and it is constantly monitoring its policy, legal and regulatory framework to remove constraints, promote opportunities and overcome limitations. On their own, none of these behaviours, attitudes or instruments can fully unleash the potential of the MSE sector. But together, they provide a rich environment for Thai people to assess their resources, seek opportunities and take initiatives that will not only improve their own lives, but also the lives of the people they employ, sell to and purchase from.

This then is the vision to be articulated. One where the people of Thailand develop a deep desire for a future based upon their own aspirations, abilities and opportunities. Once this has been achieved, the mechanisms for development will be easily assembled.
Annex I

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Annex II

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Annex III

Recommendation No. 189

Recommendation concerning General Conditions
to Stimulate Job Creation in Small and
Medium-sized Enterprises

PREAMBLE

The General Conference of the International Labour Organization,

Having been convened at Geneva by the Governing Body of the International Labour Office, and having met in its Eighty-sixth Session on 2 June 1998, and

Recognizing the need for the pursuit of the economic, social, and spiritual well-being and development of individuals, families, communities and nations,

Aware of the importance of job creation in small and medium-sized enterprises,

Recalling the resolution concerning the promotion of small and medium-sized enterprises adopted by the International Labour Conference at its 72nd Session, 1986, as well as the Conclusions set out in the resolution concerning employment policies in a global context, adopted by the Conference at its 83rd Session, 1996,

Noting that small and medium-sized enterprises, as a critical factor in economic growth and development, are increasingly responsible for the creation of the majority of jobs throughout the world, and can help create an environment for innovation and entrepreneurship,

Understanding the special value of productive, sustainable and quality jobs,

Recognizing that small and medium-sized enterprises provide the potential for women and other traditionally disadvantaged groups to gain access under better conditions to productive, sustainable and quality employment opportunities,

Convinced that promoting respect for the Forced Labour Convention, 1930, the Freedom of Association and Protection of the Right to Organise Convention, 1948, the Right to Organise and Collective Bargaining Convention, 1949, the Equal Remuneration Convention, 1951, the Abolition of Forced Labour Convention, 1957, and the Discrimination (Employment and Occupation) Convention, 1958, will enhance the creation of quality employment in small and medium-sized enterprises and in particular that promoting respect for the Minimum Age Convention and Recommendation, 1973, will help Members in their efforts to eliminate child labour,

Also convinced that the adoption of new provisions on job creation in small and medium-sized enterprises, to be taken into account together with:

(a) the relevant provisions of other international labour Conventions and Recommendations as appropriate, such as the Employment Policy Convention and Recommendation, 1964, and the Employment Policy (Supplementary Provisions) Recommendation, 1984, the Co-operatives (Developing Countries) Recommendation, 1966, the Human Resources Development Convention and Recommendation, 1975, and the Occupational Safety and Health Convention and Recommendation, 1981; and

(b) other proven ILO initiatives promoting the role of small and medium-sized enterprises in sustainable job creation and encouraging adequate
and common application of social protection, including Start and Improve Your Business and other programmes as well as the work of the International Training Centre of the ILO in training and skills enhancement, will provide valuable guidance for Members in the design and implementation of policies on job creation in small and medium-sized enterprises,

Having decided upon the adoption of certain proposals with regard to general conditions to stimulate job creation in small and medium-sized enterprises, which is the fourth item on the agenda of the session, and

Having determined that these proposals shall take the form of a Recommendation;

adopts, this seventeenth day of June of the year one thousand nine hundred and ninety-eight, the following Recommendation which may be cited as the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998.

**I. DEFINITION, PURPOSE AND SCOPE**

1. Members should, in consultation with the most representative organizations of employers and workers, define small and medium-sized enterprises by reference to such criteria as may be considered appropriate, taking account of national social and economic conditions, it being understood that this flexibility should not preclude Members from arriving at commonly agreed definitions for data collection and analysis purposes.

2. Members should adopt measures which are appropriate to national conditions and consistent with national practice in order to recognize and to promote the fundamental role that small and medium-sized enterprises can play as regards:
   (a) the promotion of full, productive and freely chosen employment;
   (b) greater access to income-earning opportunities and wealth creation leading to productive and sustainable employment;
   (c) sustainable economic growth and the ability to react with flexibility to changes;
   (d) increased economic participation of disadvantaged and marginalized groups in society;
   (e) increased domestic savings and investment;
   (f) training and development of human resources;
   (g) balanced regional and local development;
   (h) provision of goods and services which are better adapted to local market needs;
   (i) access to improved quality of work and working conditions which may contribute to a better quality of life, as well as allow large numbers of people to have access to social protection;
   (j) stimulating innovation, entrepreneurship, technology development and research;
   (k) access to domestic and international markets; and
   (l) the promotion of good relations between employers and workers.

3. In order to promote the fundamental role of small and medium-sized enterprises referred to in Paragraph 2, Members should adopt appropriate measures and enforcement mechanisms to safeguard the interests of workers in such enterprises by providing them with the basic protection available under other relevant instruments.

4. The provisions of this Recommendation apply to all branches of economic activity and all types of small and medium-sized enterprises, irrespective of the form of ownership (for example, private and public companies, cooperatives, partnerships, family enterprises, and sole proprietorships).
II. POLICY AND LEGAL FRAMEWORK

5. In order to create an environment conducive to the growth and development of small and medium-sized enterprises, Members should:
   (a) adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal economic environment (as regards, in particular, inflation, interest and exchange rates, taxation, employment and social stability);
   (b) establish and apply appropriate legal provisions as regards, in particular, property rights, including intellectual property, location of establishments, enforcement of contracts, fair competition as well as adequate social and labour legislation;
   (c) improve the attractiveness of entrepreneurship by avoiding policy and legal measures which disadvantage those who wish to become entrepreneurs.

6. The measures referred to in Paragraph 5 should be complemented by policies for the promotion of efficient and competitive small and medium-sized enterprises able to provide productive and sustainable employment under adequate social conditions. To this end, Members should consider policies that:
   (1) create conditions which:
       (a) provide for all enterprises, whatever their size or type:
           (i) equal opportunity as regards, in particular, access to credit, foreign exchange and imported inputs; and
           (ii) fair taxation;
       (b) ensure the non-discriminatory application of labour legislation, in order to raise the quality of employment in small and medium-sized enterprises;
       (c) promote observance by small and medium-sized enterprises of international labour standards related to child labour;
   (2) remove constraints to the development and growth of small and medium-sized enterprises, arising in particular from:
       (a) difficulties of access to credit and capital markets;
       (b) low levels of technical and managerial skills;
       (c) inadequate information;
       (d) low levels of productivity and quality;
       (e) insufficient access to markets;
       (f) difficulties of access to new technologies;
       (g) lack of transport and communications infrastructure;
       (h) inappropriate, inadequate or overly burdensome registration, licensing, reporting and other administrative requirements, including those which are disincentives to the hiring of personnel, without prejudicing the level of conditions of employment, the effectiveness of labour inspection or the system of supervision of working conditions and related issues;
       (i) insufficient support for research and development;
       (j) difficulties in access to public and private procurement opportunities.
   (3) include specific measures and incentives aimed at assisting and upgrading the informal sector to become part of the organized sector.

7. With a view to the formulation of such policies Members should, where appropriate:
   (1) collect national data on the small and medium-sized enterprise sector, covering inter alia quantitative and qualitative aspects of employment, while ensuring that this does not result in undue administrative burdens for small and medium-sized enterprises;
   (2) undertake a comprehensive review of the impact of existing policies and regulations on small and medium-sized enterprises, with particular attention to the impact of structural adjustment programmes on job creation;
(3) review labour and social legislation, in consultation with the most representative organizations of employers and workers, to determine whether:
   (a) such legislation meets the needs of small and medium-sized enterprises, while ensuring adequate protection and working conditions for their workers;
   (b) there is a need for supplementary measures as regards social protection, such as voluntary schemes, cooperative initiatives and others;
   (c) such social protection extends to workers in small and medium-sized enterprises and there are adequate provisions to ensure compliance with social security regulations in areas such as medical care, sickness, unemployment, old-age, employment injury, family, maternity, invalidity and survivors' benefits.

8. In times of economic difficulties, governments should seek to provide strong and effective assistance to small and medium-sized enterprises and their workers.

9. In formulating these policies, Members:
   (1) may consult, in addition to the most representative organizations of employers and workers, other concerned and competent parties as they deem appropriate;
   (2) should take into account other policies in such areas as fiscal and monetary matters, trade and industry, employment, labour, social protection, gender equality, occupational safety and health and capacity-building through education and training;
   (3) should establish mechanisms to review these policies, in consultation with the most representative organizations of employers and workers, and to update them.

III. DEVELOPMENT OF AN ENTERPRISE CULTURE

10. Members should adopt measures, drawn up in consultation with the most representative organizations of employers and workers to create and strengthen an enterprise culture which favours initiatives, enterprise creation, productivity, environmental consciousness, quality, good labour and industrial relations, and adequate social practices which are equitable. To this end, Members should consider:
   (1) pursuing the development of entrepreneurial attitudes, through the system and programmes of education, entrepreneurship and training linked to job needs and the attainment of economic growth and development, with particular emphasis being given to the importance of good labour relations and the multiple vocational and managerial skills needed by small and medium-sized enterprises;
   (2) seeking, through appropriate means, to encourage a more positive attitude towards risk-taking and business failure by recognizing their value as a learning experience while at the same time recognizing their impact on both entrepreneurs and workers;
   (3) encouraging a process of lifelong learning for all categories of workers and entrepreneurs;
   (4) designing and implementing, with full involvement of the organizations of employers and workers concerned, awareness campaigns to promote:
       (a) respect for the rule of law and workers' rights, better working conditions, higher productivity and improved quality of goods and services;
       (b) entrepreneurial role models and award schemes, taking due account of the specific needs of women, and of disadvantaged and marginalized groups.

IV. DEVELOPMENT OF AN EFFECTIVE SERVICE INFRASTRUCTURE

11. In order to enhance the growth, job-creation potential and competitiveness of small and medium-sized enterprises, consideration should be given to the availability and accessibility of a range of direct and indirect support services for them and their workers, to include:
   (a) business pre-start-up, start-up and development assistance;
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(b) business plan development and follow-up;
(c) business incubators;
(d) information services, including advice on government policies;
(e) consultancy and research services;
(f) managerial and vocational skills enhancement;
(g) promotion and development of enterprise-based training;
(h) support for training in occupational safety and health;
(i) assistance in upgrading the literacy, numeracy, computer competencies and basic education levels of managers and employees;
(j) access to energy, telecommunications and physical infrastructure such as water, electricity, premises, transportation and roads, provided directly or through private sector intermediaries;
(k) assistance in understanding and applying labour legislation, including provisions on workers’ rights, as well as in human resources development and the promotion of gender equality;
(l) legal, accounting and financial services;
(m) support for innovation and modernization;
(n) advice regarding technology;
(o) advice on the effective application of information and communication technologies to the business process;
(p) access to capital markets, credit and loan guarantees;
(q) advice in finance, credit and debt management;
(r) export promotion and trade opportunities in national and international markets;
(s) market research and marketing assistance;
(t) assistance in product design, development and presentation;
(u) quality management, including quality testing and measurement;
(v) packaging services;
(w) environmental management services.

12. As far as possible, the support services referred to in Paragraph 11 should be designed and provided to ensure optimum relevance and efficiency through such means as:
(a) adapting the services and their delivery to the specific needs of small and medium-sized enterprises, taking into account prevailing economic, social and cultural conditions, as well as differences in terms of size, sector and stage of development;
(b) ensuring active involvement of small and medium-sized enterprises and the most representative organizations of employers and workers in the determination of the services to be offered;
(c) involving the public and private sector in the delivery of such services through, for example, organizations of employers and workers, semi-public organizations, private consultants, technology parks, business incubators and small and medium-sized enterprises themselves;
(d) decentralizing the delivery of services, thereby bringing them as physically close to small and medium-sized enterprises as possible;
(e) promoting easy access to an integrated range of effective services through "single window" arrangements or referral services;
(f) aiming towards self-sustainability for service providers through a reasonable degree of cost recovery from small and medium-sized enterprises and other sources, in such a manner as to avoid distorting the markets for such services and to enhance the employment creation potential of small and medium-sized enterprises;
(g) ensuring professionalism and accountability in the management of service delivery;
(h) establishing mechanisms for continuous monitoring, evaluation and updating of services.
13. Services should be designed to include productivity-enhancing and other approaches which promote efficiency and help small and medium-sized enterprises to sustain competitiveness in domestic and international markets, while at the same time improving labour practices and working conditions.

14. Members should facilitate access of small and medium-sized enterprises to finance and credit under satisfactory conditions. In this connection:
   (1) credit and other financial services should as far as possible be provided on commercial terms to ensure their sustainability, except in the case of particularly vulnerable groups of entrepreneurs;
   (2) supplementary measures should be taken to simplify administrative procedures, reduce transaction costs and overcome problems related to inadequate collateral by, for example, the creation of non-governmental financial retail agencies and development finance institutions addressing poverty alleviation;
   (3) small and medium-sized enterprises may be encouraged to organize in mutual guarantee associations;
   (4) the creation of venture capital and other organizations, specializing in assistance to innovative small and medium-sized enterprises, should be encouraged.

15. Members should consider appropriate policies to improve all aspects of employment in small and medium-sized enterprises by ensuring the non-discriminatory application of protective labour and social legislation.

16. Members should, in addition:
   (1) facilitate, where appropriate, the development of organizations and institutions which can effectively support the growth and competitiveness of small and medium-sized enterprises. In this regard, consultation with the most representative organizations of employers and workers should be considered;
   (2) consider adequate measures to promote cooperative linkages between small and medium-sized enterprises and larger enterprises. In this connection, measures should be taken to safeguard the legitimate interests of the small and medium-sized enterprises concerned and of their workers;
   (3) consider measures to promote linkages between small and medium-sized enterprises to encourage the exchange of experience as well the sharing of resources and risks. In this connection, small and medium-sized enterprises might be encouraged to form structures such as consortia, networks and production and service cooperatives, taking into account the importance of the role of organizations of employers and workers;
   (4) consider specific measures and incentives for persons aspiring to become entrepreneurs among selected categories of the population, such as women, long-term unemployed, persons affected by structural adjustment or restrictive and discriminatory practices, disabled persons, demobilized military personnel, young persons including graduates, older workers, ethnic minorities and indigenous and tribal peoples. The detailed identification of these categories should be carried out taking into account national socio-economic priorities and circumstances;
   (5) consider special measures to improve communication and relations between government agencies and small and medium-sized enterprises as well as the most representative organizations of such enterprises, in order to improve the effectiveness of government policies aimed at job creation;
   (6) encourage support for female entrepreneurship, recognizing the growing importance of women in the economy, through measures designed specifically for women who are or wish to become entrepreneurs.

V. ROLES OF ORGANIZATIONS OF EMPLOYERS AND WORKERS
17. Organizations of employers or workers should consider contributing to the development of small and medium-sized enterprises in the following ways:

(a) articulating to governments the concerns of small and medium-sized enterprises or their workers, as appropriate;
(b) providing direct support services in such areas as training, consultancy, easier access to credit, marketing, advice on industrial relations and promoting linkages with larger enterprises;
(c) cooperating with national, regional and local institutions as well as with intergovernmental regional organizations which provide support to small and medium-sized enterprises in such areas as training, consultancy, business start-up and quality control;
(d) participating in councils, task forces and other bodies at national, regional and local levels established to deal with important economic and social issues, including policies and programmes, affecting small and medium-sized enterprises;
(e) promoting and taking part in the development of economically beneficial and socially progressive restructuring (by such means as retraining and promotion of self-employment) with appropriate social safety nets;
(f) participating in the promotion of exchange of experience and establishment of linkages between small and medium-sized enterprises;
(g) participating in the monitoring and analysis of social and labour-market issues affecting small and medium-sized enterprises, concerning such matters as terms of employment, working conditions, social protection and vocational training, and promoting corrective action as appropriate;
(h) participating in activities to raise quality and productivity, as well as to promote ethical standards, gender equality and non-discrimination;
(i) preparing studies on small and medium-sized enterprises, collecting statistical and other types of information relevant to the sector, including statistics disaggregated by gender and age, and sharing this information, as well as lessons of best practice, with other national and international organizations of employers and workers;
(j) providing services and advice on workers’ rights, labour legislation and social protection for workers in small and medium-sized enterprises.

18. Small and medium-sized enterprises and their workers should be encouraged to be adequately represented, in full respect for freedom of association. In this connection, organizations of employers and workers should consider widening their membership base to include small and medium-sized enterprises.

VI. INTERNATIONAL COOPERATION

19. Appropriate international cooperation should be encouraged in the following areas:

(a) establishment of common approaches to the collection of comparable data, to support policy-making;
(b) exchange of information, disaggregated by gender, age and other relevant variables, on best practices in terms of policies and programmes to create jobs and to raise the quality of employment in small and medium-sized enterprises;
(c) creation of linkages between national and international bodies and institutions that are involved in the development of small and medium-sized enterprises, including organizations of employers and workers, in order to facilitate:
   (i) exchange of staff, experiences and ideas;
   (ii) exchange of training materials, training methodologies and reference materials;
(iii) compilation of research findings and other quantitative and qualitative data, disaggregated by gender and age, on small and medium-sized enterprises and their development;
(iv) establishment of international partnerships and alliances of small and medium-sized enterprises, subcontracting arrangements and other commercial linkages;
(v) development of new mechanisms, utilizing modern information technology, for the exchange of information among governments, employers' organizations and workers' organizations on experience gained with regard to the promotion of small and medium-sized enterprises;
(d) international meetings and discussion groups on approaches to job creation through the development of small and medium-sized enterprises, including support for female entrepreneurship. Similar approaches for job creation and entrepreneurship will be helpful for disadvantaged and marginalized groups;
(e) systematic research in a variety of contexts and countries into key success factors for promoting small and medium-sized enterprises which are both efficient and capable of creating jobs providing good working conditions and adequate social protection;
(f) promotion of access by small and medium-sized enterprises and their workers to national and international databases on such subjects as employment opportunities, market information, laws and regulations, technology and product standards.

20. Members should promote the contents of this Recommendation with other international bodies. Members should also be open to cooperation with those bodies, where appropriate, when evaluating and implementing the provisions of this Recommendation, and take into consideration the prominent role played by the ILO in the promotion of job creation in small and medium-sized enterprises.