



**Asia-Pacific
Economic Cooperation**

FINAL STUDY REPORT ON

**“Studying Existing Financial and Policy Assistances
for Microenterprise Development from Regional
and International Institutions to Find out a Suitable
Approach for APEC to Provide Support to
Microenterprises”**

APEC Small and Medium Enterprises Working Group

April 2009

SME 03/2006

Produced by
Professional Consultant Company
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APEC#209-SM-01.1

ACKNOWLEDGEMENTS

This research study was undertaken with the full financial support of the Asia Pacific Economic Cooperation Forum (APEC). The authors are thankful to Mr. Luis Tsuboyama (APEC Secretariat), Director Program for SMEWG and his assistant, Ms. Mary Tan who have very much helped and given us their support and assistance during the development of this study report.

The authors would like to thank APEC member economies who have responded to our questionnaires on identifying challenges and difficulties of microenterprises in their economies and the need for capacity building for further development of SMEs and microenterprises. Those responses are very useful for us in developing and completing the report.

Our high gratitude also goes to the Ministry of Trade and Industry of Viet Nam, the Viet Nam Women's Development Centre, the Agency for SME Development of Viet Nam (ASMED), the Ha Noi Foreign Trade University.

The authors highly appreciate the cooperation of Mrs. Nguyen Thi Hoang Thuy, Deputy Director General, Mr. Bui Hong Duong, Deputy Director of APEC-ASEM Division and Mr. Hoang Van Phuong, official from the Ministry of Industry and Trade of the S.R of Viet Nam, who have provided us a lot of valuable support and timely guidance for matters related to APEC practices and procedures in compiling and completing the final report.

Our sincere thanks also go to Mrs. Tran Thi Thu Hang, Director General, former Senior Official of Viet Nam to APEC; M.A Pham Quynh Mai, Director of APEC-ASEM Division, Multilateral Trade Policy Department; PhD and Associate Professor Do Thi Loan, Former Dean of the Faculty of Post-graduate Study, Ha Noi Foreign Trade University; Madam Nguyen Huong Tra, Training and Business Consultant on SMEs related matters; Dr. and Attorney at Law Nguyen Thanh Long; Dr. Alain Nguyen Ba-France Institute for SMEs Development; M.A. Bui Nguyet Anh, Dean of the Faculty of Business English and Dr. Pham Anh Tuan who have directly taken part in this study report, reviewed and given a lot of important comments for the improvement and completion of this report.

EXECUTIVE SUMMARY

The primary objective of this study is to collate information about various forms of support to microenterprises in the APEC region and others as well, with specific focus on the support provided by regional and international institutions, in order to make recommendations to APEC on how it might assist microenterprises in its developing economies.

In collating and analyzing the support to microenterprises, the study answered various questions starting from: Who are microenterprises? Why microenterprises need support? What are the purposes of supporting microenterprises? What contexts can affect the development of microenterprises and shape the framework for support to microenterprises?

Then, the study tried to identify and categorize numerous institutions and frameworks that had been established or arranged to support microenterprises indirectly or directly, even they are de jure or de facto supporting micro and small enterprises, to see the big picture of stakeholders involving in microenterprise support. In this process, the study focused on regional and international institutions supporting microenterprises.

Taken another view of the microenterprise support, the study illustrated multiple ways of supporting microenterprises, by identifying different strategies, approaches, models and best practices in promoting microenterprises in a systematic manner. The study went on by reviewing some evaluation methods used to monitor the impacts of support.

By identifying those institutional settings, strategies, approaches, models and types of support, the study came to recommendations on the role APEC may play and the APEC engagement with other international efforts in supporting microenterprises.

In short, APEC could further enhance its function to facilitate discussions, studies, researches concerning microenterprises, advocating microenterprise development in an indirect strategy in combination with capacity building for microenterprise-support intermediaries, triggering the participation of private sector in delivering services to microenterprises. Besides, APEC can involve and collaborate with international organizations to support microenterprises.

Moreover, as seen over years, APEC work is best in innovative solutions and path-finding activities; therefore, it is expected that APEC can bring about as many as possible new approaches to support microenterprises.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	3
EXECUTIVE SUMMARY	4
TABLE OF CONTENTS	5
INTRODUCTION	8
CHAPTER I. MICROENTERPRISES	11
1. Key definitions	11
2. The importance of microenterprises.....	13
2.1 The importance of microenterprises	13
2.2 The significance of microenterprises in developed and developing economies.	14
3. The difference between Microenterprises and SMEs.....	14
3.1 Difference in definition of Microenterprises and SMEs.....	14
3.2 Different characteristics of Microenterprises and SMEs.....	15
3.3 Difference in policy attention	16
4. Nature and categories of microenterprises.....	17
4.1 Nature of microenterprises	17
4.2 Categories of microenterprises	18
5. The context of microenterprise development in developing economies	22
5.1 Informal economy.....	22
5.2 Traditional responsibilities imposed on women at home and women in business	23
5.3 Choice of activities of microenterprises	24
5.4 Workable method of lending to microenterprises	24
5.5 Self-employment and the safety net	24
5.6 Wage jobs and the pool of micro entrepreneurs	25
5.7 Simplicity of becoming a microenterprise owner.....	25
5.8 Government and formalization	25
5.9 Access to financial services	25
CHAPTER II. RATIONALE OF SUPPORTING MICROENTERPRISES.....	27
1. The needs of microenterprises for support	27
1.1 Static view of microenterprise' needs.....	27
1.2 Dynamic view of microenterprise' needs	30
1.3 Review of priorities of microenterprises in APEC economies.....	31
1.4 Review of perceived support delivery to microenterprises	32
2. Objectives in supporting microenterprises	34

2.1	Encouraging Growth.....	34
2.2	Empowerment and equality	35
2.3	The trade-off between these objectives	37
3.	Evaluating the microenterprise intervention	37
3.1	Achievements of social objectives.....	37
3.2	Generating successful and sustainable businesses.....	38
3.3.	Outreach and delivery	38
3.4	Costs vs. impacts	39
3.5	Sustainability of the support	39
 CHAPTER III. INSTITUTIONS AND FRAMEWORK FOR MICROENTERPRISE SUPPORT.....		41
1.	Institutions.....	41
1.1	Donor institutions	41
1.2	Intermediaries	50
2.	The institutional framework to support microenterprises	53
3.	Capacity building for intermediaries/executive agencies.....	55
 CHAPTER IV. STRATEGIES, APPROACHES, MODELS AND TYPES OF SUPPORT TO MICROENTERPRISES		57
1.	Indirect and direct support strategies.....	57
1.1	The indirect strategy	57
1.2	The direct strategy	58
2.	Some approaches and models of support	58
2.1	Classification based on inputs to and design of support program	59
2.2	Point of impact classification.....	59
2.3	Classification of approaches based on purposes of intervention.....	60
2.4	Classification by a different mix and sequence of components such as credit, training, and technical assistance.....	61
3.	Types of support provided	62
3.1	Improving the business environment.....	62
3.2	Facilitated access to financial services	66
3.3	Support services and technical assistance.....	70
3.4	Access to new markets	73
4.	Entrepreneurship and Self-Employment Development.....	74
4.1	Types of entrepreneurship	74
4.2	Some models.....	74
5.	Delivery.....	76
6.	Examples of innovative models to promote microenterprises.....	77
6.1	Microenterprise Clusters:.....	77
6.2	One village one product (OVOP)	78

6.3	The use of communication and technology	79
7.	Case study - Viet Nam	81
7.1	High-level support from the Government.....	81
7.2	Support by local government	85
7.3	Support by international organizations	86
CHAPTER V. APEC AND MICROENTERPRISES		93
1.	The relevance of microenterprises in relation to APEC goals.....	93
2.	The support of APEC to microenterprises.....	94
2.1	Political support to ME development	94
2.2	APEC structural arrangements for supporting microenterprises	95
3.	APEC's potential and resources to support microenterprises	97
3.1	APEC functions	97
3.2	APEC's activities with regard to SME and ME development.....	98
3.3	APEC linkages.....	98
3.4.	APEC limited resources.....	100
CHAPTER VI. RECOMMENDATIONS		102
1.	Findings	102
1.1	General Findings.....	102
1.2	APEC-Related Findings	104
3.	General Recommendations	107
3.1	Enhancing Access of Microenterprises to Resources.....	107
3.2	Facilitation of Market Access	110
3.3	Policy Dialogue aiming at supporting MEs.....	110
4.	Recommendations for APEC.....	111
4.1	Policy dialogue for MEs support	112
4.2	Research for MEs support solutions and best practices.....	115
4.3	Playing the 'trigger' role.....	115
CONCLUSION		117
REFERENCES		118
ABBREVIATIONS.....		122
BIBLIOGRAPHY		124

INTRODUCTION

Taking into account of the high importance, which the Microenterprises (MEs) have been playing in sustaining the social and economic development in economies within the APEC region, APEC Leaders in their meeting in Bangkok, 2003 have instructed Ministers to coordinate on micro enterprise financing and capacity building initiatives, in collaboration with international financial institutions and other relevant parties, in order to leverage resources for implementation of the Microenterprises Action Plan in 2004. Furthermore, the Ministers in 2003 meeting also instructed the APEC SME WG to explore the possibility of establishing an APEC Fund for Microenterprises Capacity Building as a matter of priority in 2004.

In Santiago de Chile, 2004, Ministers considered SMEs to be a cross-cutting issue for APEC and welcomed the dialogues held with other relevant fora and the initiatives of economies to host events aimed at improving dialogue with SMEs. In addition, Ministers encouraged an open dialogue with regional International Financial Institutions (IFIs), in coordination with the SOM Committee on ECOTECH, to advance joint initiatives that specifically benefit MEs, including through microfinance.

APEC Trade Ministers at their 11th meeting in Jeju, Korea, 2005 has noted the importance of small and medium-sized enterprises (SMEs) and Microenterprises (MEs) for economic growth in the APEC region and instructed officials to work towards helping them join the formal economy if they have not done so and to continue to identify projects which will increase their competitive capabilities to enable them to participate gainfully in the international trading system.

To this end, the main objectives of this project aim at collating information about various forms of assistance and support having provided in the APEC region and beyond to promote the development of micro-enterprises. The information will help APEC in deciding how it might assist microenterprise financing and/or other assistance such as policy and management etc.

With this objective in mind, the authors have conducted a desk study of existing support by regional and international institutions to microenterprises in APEC region, taking into account the experiences and best practices of microenterprise promotion in other regions in the world, especially the EU, Latin America, and Africa. The desk study also concentrates on APEC developing economies, in which such enterprises are considered a more crucial element of the economy that contribute substantially to economic growth, employment, poverty reduction, empowerment of marginal groups and women, etc., than

in APEC developed economies. A workshop in Ha Noi to discuss the final report was conducted in Ha Noi from Wednesday, 4th to Thursday, 5th of February 2009, which results in numerous recommendations for APEC.

The development of the study causes the structure of the final report to include:

Chapter I. Microenterprises

This chapter describes different definitions of microenterprises, the need to support microenterprises specifically rather than supporting SMEs generally, their nature and categories, contexts in developing economies.

Chapter II. Support to microenterprises and the objectives of supporting microenterprises

This chapter highlights the reasons that microenterprises need support; the objectives of supporting microenterprises by different donors, including governments, international organizations, private organizations, etc.; common issues in evaluating the impacts of intervention.

Chapter III. Institutions and mechanisms supporting microenterprises

This chapter identifies and categorizes numerous institutions involved in the promotion of microenterprises, including donor organizations, resource organizations and intermediaries. It reveals the roles, advantages and disadvantages of each type of organizations in the development of microenterprises. International and regional institutions supporting microenterprises are specially highlighted.

Chapter IV. Types of support to microenterprises

This chapter identifies the approaches, strategies, models and measures applied by various stakeholders that support microenterprises. It collates best practices and experiences of APEC developing economies in dealing with the informal sector and in promoting microenterprises.

Chapter V. Experience and contribution of APEC to the development of microenterprises

This chapter illustrates the evolvement of themes in APEC, from the establishment of the SMEWG, its subgroup that dedicatedly supports microenterprises to practical activities and initiatives that strongly contribute to the development of microenterprises.

Chapter VI. Recommendations

This chapter summarizes the findings from practices and experiences of international and regional institutions in the world and the APEC region in promoting microenterprises. In this connection, it tries to withdraw ones that may work in the APEC context and suggest actions and initiatives that APEC might take in order to support microenterprises indirectly.

CHAPTER I. MICROENTERPRISES

1. Key definitions

1.1 Microenterprise

Defining 'a microenterprise' is important for several reasons. A formal definition provides the ground for the monitoring work with regard to microenterprises. It facilitates the comparative analysis of the microenterprise 'sector' in different economies and regions. In terms of the government control, it determines the threshold for taxation and regulation as well as eligibility for public support. However, due to the lack of uniform data about microenterprises and the prevailing presence of microenterprise informality in developing economies, microenterprise statistics are difficult to compile; therefore, estimations rely largely on surveys.

In general, a microenterprise is a very small company run by an owner of modest means, usually with few or even no other employees. Professionals, or groups of professional service providers and high-tech firms, although they may be small scale, should not be included as microenterprises since they possessed high levels of skills, profession and technology. Out of that, determining a microenterprise can be based on several measures, including employment, turnover, assets and added value. However, the former is the most commonly used thanks to its simplicity and ease of data collection. The others are problematic and difficult for calculation. Of course, these measures can only be applicable to formal microenterprises.

Concerning the use of employment as the most acceptable determinant of a formal microenterprise, there is another problem: Different economies and regions mark different number of employees to be the upper threshold. For example, a microenterprise in the EU is one that employs from 0-10 employees while APEC economies mostly mentioned of microenterprise as a firm employing less than 5 employees. The average size of all APEC SMEs is only about 6 or 7 employees (plus the entrepreneur), which is not much bigger than the said definition adopted by most APEC economies for a microenterprise.

Given the objective of this study is to learn how to support microenterprises by collating as wide as possible the range of microenterprise support forms, the definition of a microenterprise used for the purpose of this study is a less than 10 employee firm (having 0-9 employees), whether is registered (formal) or not (informal).

Such a definition might be equivalent to international practice (such as definitions used in the American region, the EU, international institutions including the World Bank, ADB,

IFAD, etc.); however, it has the disadvantages of engaging more SMEs (small enterprises specifically) in APEC region than it should because the most common definition of a microenterprise adopted in APEC is a firm employing less than 5 employees. The advantage is that it would allow the inheritance of findings and experience from regional and international institutions in supporting microenterprises with little modifications.

1.2 Microenterprise Support

Microenterprise Support is any activity with the stated or unstated objectives of assisting people with limited resources in starting, reinforcing and/or developing microenterprises. The support generally takes forms of offerings of technical assistance, financial and social support.

1.3 Microenterprise Development

Microenterprise Development refers to the package of services, policies, programs, and institutions intended to develop microenterprises.

1.4 Microfinance, Microcredit and Microlending

Increasingly, these terms are used widely and interchangeably and refer to small loans. In particular, microcredit is often preferred by international experts on grounds of its more focusing and clear nature, meaning micro or very small loans targeting micro-entrepreneurs and low-income households with flexible and easy to understand terms and conditions, suited to the local conditions of the community, for income generation, and enterprise development, but also for community use (health/education) etc. Microfinance also refers to the broader array of financial services used by microenterprise programs, including microloans, asset development activities or access to credit in the event the microenterprise program does not offer micro loans itself. Microlending more or less refers to the supply side of micro loans to microenterprises.

1.5 Microfinance Institutions

Microfinance Institutions refer to institutions that provide microfinance services. These may include non-governmental institutions, credit cooperatives, credit unions, and banks.

1.6 Group Lending

This term describes a lending method that works well in developing economies, in which groups are formed to guarantee members' loans and members are expected to help each other's businesses. The rationale is that group pressure helps ensure repayment because group members are expected to keep their loans current or members of the group will not be able to receive further loans.

1.7 Self-employment

This term means the establishment of self-owned business or self-employed undertaking to earn a profit or a living. Provided that the business is very small in terms of number of employees, it is a microenterprise. Microenterprise and self-employment are used interchangeably but they are different since self-employment refers to the status of the business owner while microenterprise refers to a very small business itself.

1.8 APEC developing economies

There is no such an official classification in APEC. However, there is the classification of 2010 and 2020 economies. 2010 economies are those about to reach the Bogor goal of free and open trade and investment by the year 2010 and 2020 are those to meet the same goal by 2020. 2020 economies include all APEC developing economies.

1.9 Firms, Businesses and Enterprises

These terms are used interchangeable to refer to structural entities set up for profit making purposes through the provision of goods and/or services.

1.10 Social Capital

This term means the social networks and personal support available to people about to establish or having established a microenterprise, which provide them with assistance with regard to material inputs, market, experience, skills, premises, etc. that are important and can bring certain advantages to microenterprises.

2. The importance of microenterprises

2.1 *The importance of microenterprises*

Microenterprises may become sources of income, savings and assets for poor families to overcome natural disasters, illness or death, and other crises. Out of poverty, they can get accessed to purer drinking water, higher quality food, better housing and more decent education. As a result, microenterprises have become more and more popular for some reasons listed below:

Microenterprises:

- supply a majority of goods and services serving basic demands of people in developing economies;
- use local products and skills;

- need small amount of financial investment and making profit more quickly;
- contribute to job creation, poverty alleviation and social equality;
- generate more income for small scale entrepreneurs;
- are simple to be operated due to their small size;
- play as the enclosing wall protecting defenseless households from a riskier environment and economic downturn;
- develop the spirit of entrepreneurship; motivate corporate growth and economic innovation in order to ensure international competitiveness.

As a consequence, the earnings from these small businesses can ensure self-controlled secure lives for the low-income people. Moreover, the interests from the development of microenterprise sector can be gained by a larger society. In developing economies, microenterprises play a significant role in determining the economic growth and creating jobs for those who cannot find one in the formal sector. Microenterprises change the poor into businessmen who can set up their businesses, attain more assets and make more investment in their communities.

2.2 The significance of microenterprises in developed and developing economies

The significance of microenterprises is slightly different in developing and developed economies. Microenterprises have a higher position in developing economies regarding their proportion of businesses and employment compared to those in developed economies. In the APEC region, the number of microenterprises is approximately 70% of the total of enterprises in developed economies but 78% in developing ones. In addition, their contribution to employment in developed economies is only 25% while that in developing economies is 17% greater. Moreover, it seems rational to presume that these statistics in developing economies should be much higher because of the lack of information about the informal sector, which constitutes a larger share of the economy than in developed economies.

3. The difference between Microenterprises and SMEs

3.1 Difference in definition of Microenterprises and SMEs

If the employment is the most commonly used factor to determine a formal microenterprise, it is so true for classifying small and medium ones. However, the size classes (the thresholds – the number of employees) of enterprises used differ across

regions and economies. In the APEC region, most SMEs are actually very small; and about 70% to 80% of them employ less than 5 people. There is only a very small percentage of enterprises, typically ranging from about 1% to about 4%, which have more than 100 employees. Since we have accepted that a microenterprise employs less than 10 people (includes non-employing enterprises and small enterprises - firms having from 5-9 employees) for the purposes of this study, the APEC size range of small and medium enterprises would be a little overlapping (but not significant): a small firm has between 5 and 19, a medium firm between 20 and 99 employees, and a large firm from 100 employees and more.

Besides, a majority of microenterprises are in the informal sector. It is difficult for definitions to reach this level to distinguish microenterprises from SMEs. So, comparing characteristics of microenterprises and SMEs would be another relevant approach.

3.2 *Different characteristics of Microenterprises and SMEs*

Major differences have been identified in the characteristics of microenterprises versus those of small and medium enterprises below.

MICROENTERPRISE	SMALL AND MEDIUM-SIZED BUSINESS
STRUCTURAL	
Organization	
No defined structure and very little information about their size and scope	Defined structure with positions and functions
Financing	
Individual and personal, often without initial financing	In partnership, with links to formal financing institutions
Fixed Assets	
Working tools and utensils. In most cases, they form part of the household	Machinery, equipment, installations, commercial space suited to the type of business
Production	
Traditional technology with little specialization and almost no training	Tendency towards increasingly sophisticated technology

Marketing	
Direct, with few links to chains of production	Linked to chains of production
OPERATIONAL	
Personnel	
Informal remuneration, including non-remunerated staff, mainly family members	Remuneration based on specific positions
Production	
Intuitive definition	Tendency to respond to market strategies and competition, backed up by links to the chains of production
Inventory	
Usually no planning or control	Tendency toward sophisticated management that incorporates modern techniques
Planning	
Non-existent concept	For business and tax purposes, with some applications to control and decision-making
Accounting	
Only for tax purposes, when it exists, since more than 70% of microenterprises form part of the informal market	
Relation to official regulators	
Non existent and frequently resisted	Exist within established policy and regulatory framework

3.3 *Difference in policy attention*

There are still debates on whether microenterprises and SMEs have the same needs. Some argued that the microenterprises' needs are nearly the same as the larger firms except that the latter receive more political support; thus, incline to carry away almost all of the available resources provided that the support is not intended for microenterprises. Other considered microenterprises to have different needs from SMEs because of formalization and business literacy issues. For example, SMEs can more easily participate in development programs while microenterprises must develop and strengthen themselves

before they can benefit from such programs. Therefore, the support to microenterprises must go to a deeper level to reach microenterprises.

Literature reviews have concluded that the support for microenterprises is probably the most effective approach to the poorest households, particularly those taken care of by women. Such support might lead to social integration and equality (referring to the reallocation of income) by income generating activities instead of welfare policies which may result in financial dependency. Focusing the support to microenterprises by taking into account their characteristics, environment contexts, needs and potentials would contribute more to these social objectives.

4. Nature and categories of microenterprises

4.1 Nature of microenterprises

Poor people mostly want to be employed, not self-employed. They only have to work for themselves because there are no jobs suitable to their limited education and skills. In this regard, microenterprises are created when poor people are triggered by the need to earn a living or to have additional income for various livelihood purposes. In fact, microenterprises seek income from ordinary business opportunities. They usually possess and mobilize some primitive input factors to start a microenterprise, such as rudimentary skills, even poor fixed assets, social capital, etc. And like other common businesses, microenterprises aim at providing citizens products or services for which they will be willing to pay. This means that microenterprises are intended for generating income rather than creating jobs. Job creation is a side affect of microenterprise growth process.

The income that they earn does not come from donations or grants (apart from the start-up money, in some cases). Certainly they do not put a burden on the social care system. Microenterprises, therefore, help to make independence rather than dependence on welfare programs. However, they prefer security to taking risks.

Established on the individual situation, usually owned by one person, microenterprises are rarely shared among more than three individuals. Once a microenterprise has been formed based on an individual's requirements, it is possibly only suitable for that one. Also, only by one-person ownership, one can take the absolute control of the enterprise. Any support, therefore, must be personalized to suit the specific needs and contexts of microenterprises as reviewed in detail below.

4.2 *Categories of microenterprises*

From a policy formulation point of view, in relation to microenterprises' contribution to poverty alleviation and development, the two following approaches to classification of microenterprises are particularly useful:

4.2.1 Livelihood and growth oriented enterprises (ADB 1997)

This approach emphasizes the needs and the constraints faced by microenterprises. A livelihood (survival or subsistence) microenterprise is established to secure an alternative source of income. In this case, the business is often just one of many part-time or seasonal activities undertaken to support family income. The net earnings tend to be used for survival purposes. Livelihood activities usually require no skills, or very rudimentary skills, so there are very low-entry barriers to the business, and are consequently overcrowded. Consequently, this type of microenterprise can play an important role in poverty alleviation.

A growth oriented microenterprise is one that the growth activity is pursued by considerations of profitability. In this case, the business is usually the main source of family income. The surplus is reinvested in the expansion and growth of the enterprise. There are considerable experience and skills involved in the activity, which may restrict entry. As a result, this type of microenterprise has the potential to make an important contribution to sustainable growth and development.

Further conclusions have been made from observations of livelihood microenterprises. First, this type of business is usually set up in response to an urgent need for money following a change in the entrepreneur's personal situation and then, in a long period of time, the entrepreneur often stays in the same microenterprise for reasons that are difficult to quantify. Second, livelihood activities are often among several secondary sources of income of the household. Livelihood activities tend to grow rapidly during times of macroeconomic stress, therefore, these livelihood enterprises can act as an important buffer during periods of economic downturn. Third, most livelihood enterprises earn small surpluses, which tend not to be reinvested for expansion. Fourth, the potential of livelihood enterprises for growth is usually limited by a variety of factors relating to both the environment, and to the lack of skills of the entrepreneurs themselves. Very few livelihood activities have the potential for growth beyond a certain size and level of income yielded, and this is the crucial distinction between them and growth enterprises.

4.2.2 Development of microenterprises

4.2.2.1 Classification by Liedholm and Mead (1995)

- Level 1 - Start-up enterprises: Those enterprises that have just entered the business.
- Level 2 - No-growth enterprises: Existing enterprises that had survived after start-up but which have not grown in terms of employment.
- Level 3 - Small growers: Those enterprises that have survived for some time and have increased employment since inception, but their growth has not been adequate to be substantial.
- Level 4 - Expanding enterprises: Those enterprises that have graduated and become “small” enterprises with ten or more workers.

Liedholm and Mead’s classification of microenterprises gave many policy implications on the objects to be promoted and directions to promote microenterprises. For example, when there are the high rates of birth (usually over 20 percent) and death of new microenterprises, promotion of new microenterprises should be cautious. They suggested that to ensure a higher proportion of survivals, intervention should restrict new starts to those with prior experience, encourage on the job and other skill training programs for those without the requisite skills. In the case of non-growing enterprises, the focus should be given to increasing incomes through efforts to reduce costs, increase sales or change of product lines.

4.2.2.2 Classification by IFAD

Also based on Liedholm and Mead’s classification, IFAD looked at microenterprises from their achievements and capacity. This approach is of particular relevance to the informal sector in developing economies.

- Pre-entrepreneurial activities (small crafting, petty trading, etc.), depend on people that have limited knowledge of the basic principles that guide any business activity and lack basic assets, especially working capital, to develop their own small business ventures. Pre-entrepreneurial activities are mostly self-employed initiatives. Benefits may be partially reinvested in the activity but they are mainly used as incremental income. Typically, these activities are mainly undertaken by women, who have limited time and assets to engage in full-time entrepreneurial activities.

- Microenterprises are defined as semi-structured activities, including limited fixed assets (first or second-hand equipment), possibly a physical location; and as observing some basic management principles. Small enterprises are structured businesses that usually have a well-defined market niche and physical location, an acceptable turnover, some business skills, regular access to business advisory services, and some part- or full-time employees.
- Small enterprises may also have legal status and a bank account. Accounting principles and financial rules may also be applied with regard to fixed assets such as machines, vehicles, etc.

4.2.3 Targets of microfinance

From microfinance perspective, there is an approach to classification of microenterprises as customers to microfinance services. In this approach, microenterprises may be distinguished according to MFIs as follows:

- Start-up vs. existing microenterprises
- Unstable, stable, and growing microenterprises
- Agriculture, production or service microenterprises

The second classification is worth noting since microfinance institutions pay special attention to it for their provision of financial services. In which, unstable microenterprises are those created due to the lack of other employment or job opportunities. They carry out activities of a commercial nature, or engaged in simple farm or non-farm (including industrial) activities. These microenterprises are the prevailing ones in developing economies. These unstable microenterprises comprise the group most difficult to provide financial services to in a sustainable manner; because loan sizes tend to remain small and the risk of business failure is high. Focusing on unstable ones as a target market can result in a great deal of time spent by microfinance institutions with clients just to ensure that these microenterprises survive and that they continue to be able to make loan repayments. Some technical assistance may also be required, resulting in further time and cost increases. Also, unstable microenterprises often need credit for consumption smoothing rather than income generating activities. Therefore, the choice to focus on unstable microenterprises will likely be a serious undertaking in terms of time and efforts for MFIs.

Stable microenterprises are the group that many MFIs focus on and the permanent access to credit supply should be promoted. This is the group that benefits from access to financial services to meet both production and consumption needs, while other forms of

assistance from MFIs are not necessarily required. Stable microenterprises are usually targeted by MFIs who give priority to poverty reduction objectives. Stable microenterprises are often women who simultaneously undertake household activities while engaging in income generating activities. However, in this group if profits remain low, reinvestment will also be low and vulnerability be high. Profits usually remain low due to low entry to market leading to over-competition as a result of the unspecialized nature of the product; the lack of timely and complete market information (beyond the familiar local market); underdeveloped infrastructure facilities; the lack of value added services (such as packaging).

Growth enterprises are often the focus of MFIs whose objective is job creation and formalization of microenterprises. This group of microenterprises, however, also shares some characteristics and faces similar problems as the stable microenterprise group. They tend to produce a single product or line of products serving a narrow market, and use labor intensive production techniques that rely on family and apprentice labor. Growth oriented microenterprises are an attractive target group for MFIs, because they offer potential for job creation and vocational training within the community.

4.2.4 First-generation and second-generation microenterprises

The main difference between first and second generation microenterprises is whether they are still attached to traditional communities (first-generation) or not (second-generation). The first generation ones benefit from the local support system including the social relations, markets, etc.; however, they are restricted to the limited scale of the market and suffer from intense competition. The second generation ones have upscale demands, do not profit from the old community support system any longer. However, the challenges to them are more diversified, from the use of new means of manufacture and management, to adaptability to new markets that they have not got used to with new products, new competitors and new trading partners.

This classification emphasizes on the market and the support background of microenterprises. It also shed light on whether a specific type of support is effective, such as facilitation of access to markets, internalization, etc., which is clearly more useful to the second-generation microenterprises.

4.2.5 Other classifications

In addition to above approaches to classification of microenterprises, microenterprise programs may emphasize on particular groups of microentrepreneurs, for example, women-led or men-led entrepreneurs.

5. The context of microenterprise development in developing economies

5.1 Informal economy

Most, if not all, microenterprises belong to the informal economy, which includes all individuals launching businesses without background knowledge of entrepreneurial and lending services and without full understanding of the long-term interrelation between their ventures and government agencies.

Formalization of a business is not the solution to its problems. There emerges a dilemma of microenterprises' decision between whether to remain informal or move toward formalization. Many microenterprises prefer to remain informal, for many reasons such as: they will diversify horizontally instead into other activities, finding it more profitable to keep a low profile and remain small; they may avoid being taxed they continue to benefit from traditional community support in times of crisis. Evidence suggests that businesses may have more difficulties when they attempt to formalize and proceed to the next scale of operation, because they no longer benefit from these support networks while facing greater complexity in their operation (first-generation vs. second-generation microenterprises).

The question of a firm or an entrepreneur joining the formal sector can only be answered after understanding thoroughly which is more beneficial between the formal and the informal sector. A research conducted among microenterprises and other firms in Peru (Jäckle, 2003) showed that an entrepreneur's decision to join the informal or formal sector depends mainly on the size of the business that he wants to set up. Other factors such as age and location hardly affect the legal status of the business. Besides, if one wants his business to grow bigger, the study suggests him to shift to the formal sector.

It is necessary that the legal status of a business should be ensured. However, in Peru, for instance, like in other developing economies, during the start-up, enterprises are confronted by many obstacles in terms of laws and finance. Due to this fact and due to their size, it's reasonable that microenterprises stay in the informal sector, where personal relationships and small scale exchanges might be adequate for them.

For initially large firms or small firms that have gradually got bigger and want to expand their activities, joining the formal sector may offer them a great number of advantages. These advantages include access to a larger group of customers, easier access to capital, better property protection, as well as more reliable credit and a more fertile source of contracts. Thus, moving to the formal sector is inevitably the next step of those wising to grow their business.

In contrast to the research's findings that operating in the formal sector may result in a business growth, the study indicates that the "rate of participation is still low among microenterprises". Efforts have been made to reduce the cost of participation in order to stimulate microenterprises' formality, which unfortunately have not received a positive response yet. The research, therefore, proposes that the applications of different measures in order to further encourage formality as those suggested by APEC. In this regard, APEC has done a substantial work: It has published a study 'Small and microenterprise financing – A tool for mainstreaming the Informal Sector?' which has provided valuable policy implications and recommendations in dealing with the informal sector.

Encouraging formality is a matter of whether or not a firm or entrepreneur wants to grow or not. If a microenterprise requires a greater number of customers, a more reliable source of credit and a better access to capital, formality could help. However, if a microenterprise prefers to keep its size and still can succeed within a limited personal network, a shift to the formal sector would be unnecessary or unbeneficial. In the informal sector, a small enterprise can develop with its close-knit relationship with customers, less legal expenses which drive it downward.

5.2 *Traditional responsibilities imposed on women at home and women in business*

A majority of microenterprises in developing economies are led by women. Enterprises set up by women entrepreneurs tend to be home-based because of their family responsibilities, especially true in Asian developing economies, where the traditional idea of women seclusion is still imposed. Women's enterprises usually focus on business activities requiring lowest level of capital and skills, which explains why this group of enterprises is usually overcrowded, low return. Also, due to the women's high family responsibilities, their microenterprises tend to be part time, generating a secondary source of income for the families (the main source being the husband' salary). Densely concentrated in the sectors with easy entries and low returns, women's enterprises' rates of set-up and closure seem to be higher.

Moreover, women tend to find it more difficult to separate their different responsibilities in their lives than men. A woman's ability to carry out business activities is influenced by the situation of their family, social relations, etc. In addition to these barriers, women's opportunities and goals are also much more affected by their age because of reproduction responsibilities.

Microenterprises led by women also face more constraints. Not to mention that women are the weaker who need particular protection and provisions in humane issue, it rather points out that women have a background of environmental disadvantages and inequalities.

Despite the fact, many women have persevered and succeeded in supporting themselves and their families, proves their strength. However, with a view to achieving equity and optimum development, it is vital that every effort should be made to address and remove these constraints in order to "level the playing fields" in both racial and gender terms.

5.3 *Choice of activities of microenterprises*

In developing economies, microenterprises are mainly located in rural areas because of the scare of jobs in these areas, whereas there are abundance of job opportunities in cities and urban areas. This fact has caused the crowding of poor people from rural areas to cities seeking jobs, mainly laborious, low-skilled ones.

Microenterprises in rural areas provide both goods and services. Most of these firms are subsistence farms. Many sell food products on the sidewalk or staple food in a small store. As a matter of fact, the poor, low-skill people tend to set up business in connection with such daily life-survival activities. These simple businesses require a small amount of capital and human resource, but also offer low returning rates.

5.4 *Workable method of lending to microenterprises*

In developing economies, group lending has a firm basis thanks to the strong social capital. Firstly, social relations are strong among the poor. In the market, most trading activities are frequent and personal. Concentrated and personalized markets exist. These are places where the same buyers deal with the same sellers everyday or every week. As a consequence, such trading activities would make joint-liability lending flourish. In the household, people make ends meet in different ways, which establish many multi-stranded and long-term socioeconomic relationships outside the family. With constant contacts to each other to build trust, joint-liability groups are reinforced. Secondly, another reason that makes groups thrive is the homogeneity of the poor in developing economies. Theoretically, joint liability reaches its optimum with homogenous members who may face similar risks. For example, Viet Nam and Indonesia has it popular this situation where many entrepreneurs are usually farmers or petty traders. Finally, groups become reinforced due to the poor's limited access to financial services in developing economies.

5.5 *Self-employment and the safety net*

A safety net decreases the quantity of microenterprises in five ways. Firstly, it minimize the possibility of personal economic shocks, thus weaken the push toward self-employment. Secondly, compared to public assistance, it is more difficult and risky to get benefited from self-employment.

In developing economies, a safety net is usually found missing or inadequate, therefore encourages attitude towards self-employment.

5.6 Wage jobs and the pool of micro entrepreneurs

In developing economies, wage jobs are scarce and even people with high skills may fail to find wage jobs. Therefore, self-employment may be a way to earn a living and developing economies offer a large pool for low-income entrepreneurs.

At the beginning, poor entrepreneurs only put a low level of capital into their business and penetrate into the sectors with least barriers. Thus, at this stage, their income is often in small sum, their productivity is low and their challenge is a strong competition. They may even face another problem which is weak demand if products lack specialization.

5.7 Simplicity of becoming a microenterprise owner

In developing economies, self-employment is usually simple. Employees in microenterprises might be mainly children or relatives who are easy to manage. Customers are mainly neighbors. Besides, small firms sometimes neglect regulations and taxes. Environment issues are usually not a high priority of microenterprises.

5.8 Government and formalization

Microenterprises in developing economies also face red tape and burden of regulations like those in developed economies, thus make the expenses that a microenterprises covers increase. However, the problem is worse when laws are issued but not properly enforced or out of date, leading to situations when transactions involving microenterprises are not protected by police, court and contract enforcement system; credits of microenterprises are not recorded to give them access to formal lending institutions. Formalization, therefore, does not bring many benefits to microenterprises as it should in developing economies.

5.9 Access to financial services

There are a number of financial services, namely loans, insurance, deposits and payment services. Access to financial services in general, and access to loans in particular, have restrained entrepreneurship in developing economies more than in developed ones (for instance, people in developed countries can easily get a credit card, which is in fact a microloan). In the developing economies, this problem has constrained a larger number of microenterprises. Practically, due to their fixed-cost structures, banks are reluctant to accept small and frequent deposits from the poor. Besides, bank branches are both physically and culturally distant from the poor. Also, banks are open for only a few hours

a day. Therefore, the poor microenterprises in developing economies usually save money for 'rainy days' for two main reasons. Firstly, they usually do not get the earnings at the same time that they have to pay for the expenses. Secondly, there's little public assistance or formal insurance protecting them from unexpected risks.

Microenterprises' savings in the form of financial deposits are usually in small sums. Instead, they save their wealth as gold, foreign currency, materials, foodstuff, livestock, favors for neighbors, and children, etc. Yet, such ways of storing wealth, in comparison with financial deposits, are more disadvantaged in the sense that these properties are less liquid and likely to rust, to be consumed, or otherwise be devalued through time. Financial deposits, however, may lose their value due to inflation and/or devaluation, particularly in developing economies.

CHAPTER II. RATIONALE OF SUPPORTING MICROENTERPRISES

Development via microenterprise is an economic development strategy that provides small loans, business training and technical assistance to those starting very small businesses. Microenterprise development was originated in the 1970s in Latin America, Asia, Africa and other parts of the developing world as a strategy to alleviate poverty. One of the most successful programs to support microenterprises is the Grameen Bank in Bangladesh.

The main aim of microenterprise support is to assist people with limited resources in starting, reinforcing and/or developing tiny businesses. Microenterprises need properties including human capital (education, experiences, skill, and entrepreneurship), financial capital (loans or savings), and social capital (networks and personal support). In reality, people with limited resources cannot have a sufficient quantity of these properties. To make up for this shortage of properties in order for microenterprises to be successful, the support may take the form of offers of training, microfinance, and social support.

1. The needs of microenterprises for support

This section will review the needs of microenterprises in developing economies, from literature and surveys. If the needs are properly identified, there is still another challenge for the support, which is whether the support can reach microenterprises. This issue is also explored in this Section.

1.1 *Static view of microenterprise' needs*

Usually a SWOT analysis at the micro level is conducted to assess the strength of microenterprises and the gaps that constrain them from fully making use of their growth potential. According to Gerbouin (1994)'s observation of microenterprises in Africa, the following findings have been made:

1.1.1 Strengths

Strengths of microenterprises stay in the structural characteristics of microenterprises, which give them the ability to adapt to changes and fluctuations in the context that they operate.

Considering an example of a microenterprise living in rural areas, producing a traditional milk product to serve the local market: First of all, this microenterprise uses family manpower, which has low opportunity costs as well as employees recruited within the network of their social relations and paid very little. Second, fixed assets are minimal: the

premises for production are owned by themselves. Third, the stock of materials and finished products are kept to minimum to avoid mobilizing much cash.

This type of organization has the following strengths:

- Low risks because of the low level of investment in fixed assets. Fixed assets can also be easily reversible to be directed to other activities;
- Relative control over supply which is local;
- Relatively low production costs, making it possible to satisfy customers with low purchasing power.

These structural characteristics contribute to highly flexible functioning. Microenterprises, therefore, can adapt to upstream and downstream conditions: they produce in response to demand and adjust their activity to whatever manpower is available and to the possibilities of obtaining raw materials.

However, this microenterprise may cease to function if better paid employment is offered (for example, moving to the nearby city to become a maid for a rich family), or when raw materials become expensive, or the market becomes too crowded, over-competitive.

1.1.2 Weaknesses

The identified weaknesses include:

1.1.2.1 Limited knowledge about markets

One weakness of microenterprises is their very fragmented information about markets. The type of social environment frequented by microenterprises and in which their networks are established usually give them access to ordinary people. The lack of information on demand and especially on what more affluent customers look for, as well as market mechanisms is therefore often a limiting factor for microenterprises.

1.1.2.2 Limited skills

In most cases, micro-entrepreneurs have learnt their skills from a relative or a neighbor. This 'on-the-site' training may afford excellent technical proficiency, enabling individuals to adjust their production and functioning to the constraints and possibilities, as perceived by them. This skill, however, does not allow adjustment to new situations which are not perceived by the microenterprises. Further, the limited character of this skill does not offer a perception of promising new niche markets or of opportunities for diversification.

1.1.2.3 Restricted technical choices

The techniques (skills), material and equipment available locally offer a small range of choice. They do not allow the choice of growth beyond a certain point. Raising one factor of production does not necessarily lead to growth when other factors of production are constrained. This does not always perceived by microenterprises.

1.1.2.4 Low level of investments

The low level of investments by microenterprises is the strategy to minimize risks; however, it may become another contracting factor. By reducing the stock to a minimum, the enterprise exposes itself to fluctuation of supply and demand. The fact that microenterprises do not processes as much fixed assets as they should makes them vulnerable to market instability.

1.1.2.5 Poorer quality and unattractiveness

Last, defective quality and lack of attractiveness of goods is a weakness frequently encountered in microenterprises. For examples, street vendors have been discredited by campaigns publicizing the alleged lack of cleanness of the food they sell.

The supportive measures, therefore, should be based on both correcting the weak points and maintaining their flexibility. The needs, therefore, include the followings:

- Fixed capital
- Working capital
- Markets
- Inputs
- Skills

Obstacles to microenterprises in Peru

The results of an evaluation of obstacles to microenterprises in 2001 on the basis of statistical information from Ministry of Industries and Commerce – related to the microenterprises from 1990-2000:

The major problems that microenterprises often faced were: low liquidity (29%), little demand (18%), unfair competence (16%), market inequality (7%), few funding opportunities (7%), problems with local governments (5%), insufficient basic services (3%).

What caused these problems are: bad economic policies (30%), unfair competence (16%), low liquidity (12%), insufficient credit (10%), poor management policies (8%), and limited sales due to the weak buying power (5%).

1.2 *Dynamic view of microenterprise' needs*

Identified problems of microenterprises according to Liedholm and Mead (1995) relate to:

- Working capital
- Fixed capital
- Other capital
- Markets
- Inputs
- Government regulations
- Etc.

The important point is that depending on the categories of microenterprises (including 4 types of microenterprises: new-starts, non-growing enterprises, enterprises experiencing small growth, enterprises that had graduated), the priority of need, specifically:

1.2.1 New-starts:

The most serious problem is finding markets. Another frequently reported problem came from the fact that customers placed orders but then did not pick them up or pay for them. This problem is categorized under the heading of 'other capital'. Problems relating to access to raw materials and other intermediate inputs are also a frequently source of complaint.

1.2.2 Non-growing microenterprises

The problem identified in this type of microenterprises are small profits resulting from the business, which can be addressed by efforts to reduce costs, increase sales or switch to product lines that yield higher returns. These intervention methods mean constraints in credit access, management and marketing skills.

1.2.3 Small growth microenterprises

The problems identified in this type of microenterprises are more complex, requiring the combination of different types of intervention. Most cost-effective programs specialize in particular types of assistance. However, these more dynamic microenterprises have multiple needs that must be solved simultaneously.

1.2.4 Graduates

Graduating microenterprises appear to have mastered more complex arrangements. As a result they face fewer problems finding markets for their products. Working capital needs are still a concern for graduating enterprises, but these businesses generally require substantially more funds than are offered by micro credit schemes. At this level, intervention should promote and encourage market-based relationships rather than giving forms of subsidies. Also, the policy environment becomes increasingly important to these microenterprises. Human capital is another constraint.

1.3 *Review of priorities of microenterprises in APEC economies*

Recently, for the purposes of developing the Strategic Plan for Development of SMEs and MEs in the APEC region, a survey of priorities and actions to support SMEs and MEs has been conducted. Questionnaires were sent to SMEWG members, and then transmitted to SME and ME Associations and businesses. Results of this survey are very interesting, as they may reveal to a certain extent the level of development of microenterprises in specific APEC economies and give implications to APEC on how it might support microenterprises.

1.3.1 Priorities of selected APEC economies in terms of areas of support

- Australia: Business Environment
- Brunei Darussalam: Financing
- Chile: Human Resources Development
- Chinese Taipei: Access to Information
- Indonesia: Access to Information
- Japan: Management
- Korea: Access to Information
- Malaysia: Market Access

- Mexico: Financing
- Peru: Business Environment
- Philippines: Entrepreneurship

Priorities commonly agreed:

1. Financing
2. Market Access
3. Business Environment
4. Entrepreneurship
5. Human Resources Development

A survey conducted by the authors in 2008 in form of a questionnaire circulated to SMEWG members with the help of the APEC Secretariat also confirmed such priority in the areas of microenterprise support. A number of practical suggestions by the members were highly welcomed and incorporated in Chapter VI of this study.

1.4 Review of perceived support delivery to microenterprises

At the fringe of a number of microenterprise-dedicated (including the Micro-entrepreneurship Award 2007 Awarding Ceremony in Ha Noi, Viet Nam on 14 December 2007, the Roundtable Workshop on “Models for Supporting Women’s Microenterprise Development: Best Practices and Guidelines” on 12 December 2007 jointly organized by the Ministry of Industry and Trade of Viet Nam and Center for Women & Development sponsored by the Multilateral Trade Policy Assistance Project II of the European Community) and microenterprise-related events organized in Viet Nam, the authors distributed the questionnaires to the entrepreneurs, asked them to fill in as surveys of perception of microenterprises with regard to support services and the delivery of support.

The questionnaires were designed to identify the respondents as microenterprises, SMEs or representatives of agencies in the public sector, governments or NGOs or other organizations. In this way, the authors could separate answered questionnaires from microenterprises. As a result, the authors have received 215 answered questionnaires from microenterprises in the total of 623 answered questionnaire received against the total of about 1000 registered representatives participating in these events.

In summary of the survey results:

1.4.1 Awareness of support and support agencies

All entrepreneurs were asked about the awareness of support agencies and their services. Specifically, they were asked about the assistance that is available to them as a person establishing a business. This was a closed ended question and respondents were assisted with a list of services and providers. The follow up questions either exposed the lack of awareness amongst microenterprises or the lack of services that microenterprises find relevant and can access. Most (73%) demonstrated little awareness of services available to microenterprises. Some (31%) were aware of the agencies, but demonstrated confusion about the services they provided and the eligibility criteria. Combined with the finding about the availability of support to microenterprises, it can be concluded that there is the shortage of microenterprise services and support alone cannot make up for all the services that microenterprises need.

1.3.2 Understanding about the support

The answered questionnaires revealed that microenterprises perceived support more suitable for SMEs than for themselves. Further, they considered that Government agencies' are most responsive to their needs (76%) than other executive agencies (intermediaries) except for those who have the experiences of being benefited form certain support provided by NGOs and international organizations. This fact contradicts the overall consensus of analysts in the world about the role of each type of intermediaries.

The same results are also received from answers by SMEWG members to the questionnaire circulated with the help of APEC Secretariat, who stated that Government agencies are most effective; then NGOs and finally private sectors.

1.3.3 Types of assistances requested

Of course microenterprises liked and requested most subsidized support in various forms linking to their production, selling activities (100%). Clearly there are those who understand what they need (37%) and others who even do not know what they need or they need everything (51%). Others do not respond to this question. Of those who know, a majority (87%) mentioned credit and skills as constraints preventing them from moving to different business activities or diversifying their business activities, which are more profitable. A very small number of microenterprise respondents mentioned the need to expand (6%). None stated problems of government regulations as constraint to microenterprises. Interestingly, of all responded microenterprises, 83% would prefer job security than being a micro-entrepreneur. This confirmed the universal idea about the nature of microenterprises.

1.3.4 The impact of assistance received

Microenterprise respondents were asked if they have actually received any form of support. Not many answered yes (37%) and the majority of this group confused different types of support. Therefore, the questions about whether who received assistance considered the assistance essential to the extent that they would not have proceeded without it were mostly left unanswered.

2. Objectives in supporting microenterprises

Given the importance of microenterprises as stated in Chapter I, Section 2, various international organizations have confirmed their assistance to microenterprises.

Based on their own evaluation of microenterprises, usually in forms of a SWOT analysis, and classification of microenterprises somewhat similar to those in Chapter I, Section 4, putting it in the relevant life context of microenterprises, they come to different approaches, using different models and/or types of support to microenterprises, aiming to lead the growth of microenterprise sector to certain objectives.

2.1 Encouraging Growth

Therefore, a chief affirmed objective is growth, generally meaning a rise in GNP/GDP, development of existing firms as divergent from establishment of new firms, higher profits, employment creation, or a general upgrading of people's welfare. These objectives, not being corresponding, require different types of intervention whilst inferior objectives include the promotion of entrepreneurship.

2.1.1 Promoting Employment Generation

On assumption that microenterprises always wish to expand, thrive when necessary conditions are present to be better off in terms of higher income, profits, interventions have been made to encourage the establish of new microenterprises (start-ups) and expansion of existing ones, so as to generate more jobs.

There are still debates on whether promotion of larger enterprises could generate more jobs and empirical evidence confirms that larger enterprises could do this better. In fact, most enterprises do not develop in terms of number of people employed. In a study of microenterprises in some African economies, whilst similar survey data do not exist for Asia, 75 percent of all enterprises that started with less than five workers had not added even one worker since establish.

In the fourfold categorization created by Liedholm and Mead (1995), based on past growth performance in terms of number of workers added, namely (i) new enterprises in the start-up phase (new starts); (ii) existing enterprises that had survived from the threats of start-up

but had not grown (no-growth firms); (iii) existing enterprises that had shown tiny growth (small- growth firms); and (iv) existing enterprises that had graduated and become “small” enterprises with ten or more workers (graduates), Liedholm and Mead discovered that new starts (firms less than one year old) take 28 percent of all small and microenterprises (SMEs) and their rates are characteristically higher than 20 percent a year, but closure rates are also high which causes the substantial mixing and turbulence in the microenterprise population. Net new starts (new starts less closures) contribute over 80 percent of SME employment in the long run whilst net enterprise expansion does the rest (enterprise expansion less contraction). Liedholm and Mead noted that whilst microenterprises succeeds in graduating to the size of ten or more workers amount to only 1 percent, graduates contributed about one quarter of all new jobs created from the growth of existing enterprises in African economies which are studied since each enterprise added considerable numbers to its work force.

Given the fact that there is a large but still substantial number of enterprises that do grow, there is also potential for microenterprise development programs that focus more narrowly on growth-oriented microenterprises to quickly promote job creation.

2.1.2 Promoting Entrepreneurship or Private Sector Enterprise Development

Proponents of private sector expansion see microenterprises as an abundant source of entrepreneurship for the future, a sort of seedbed for the cosmos of enterprises. In the economies where the proportion of medium and large-scale enterprises is spare, especially in the private sector, the role of microenterprises as incubators of new enterprises becomes even more important.

2.2 *Empowerment and equality*

In theory, the strongest ground for supporting microenterprises is the encouragement of balanced growth (reducing poverty of marginalized groups in the process of economic growth) and empowerment (of women and others) to intercept the widening of gaps that may blocked the domestic economy from getting stronger and better integrated. That kind of domestic base is essential for constant long-term growth, to overcome external shocks, and to avoid serious structural bottlenecks which are caused by the shortage of strong horizontal and vertical connections. In reality, microenterprises particularly provide fundamental connection between traditional and modern production systems, agriculture and industry, rural and urban areas, as well as production and consumption patterns.

As mentioned, the support of microenterprises might also be the most effective means of approaching the poorest households - especially the ones headed by women.

Microenterprise support would thus help to achieve social integration and equality (income redistribution) through income generating activities rather than welfare programs, which is inclined to bringing about economic dependence.

2.2.1 Poverty alleviation

The most popular stated objectives of microenterprise projects are to reduce poverty and to promote women's role in development (women empowerment). There has been much evidence so far showing that appropriately designed poverty-oriented microfinance projects have a strong effect on poverty, make every effort to access the poor who, however are not always the poorest, on a scale which is large enough to cover their costs, and meet the twin tests of outreach and sustainability. The design of such a successful project must consider the following facts:

Firstly, the poor cannot offer pledges thus projects must rely on group collateral as an alternative, as well as the joint and multi-liability of members in the group. The act of grouping people and training them in standard criteria of repayment discipline requires what is sometimes regarded as "social intermediation."

Secondly, poverty-oriented microcredit projects usually display a number of loan characteristics: (i) small preliminary loan size, increasing progressively as the borrower gradually obtain an absorptive ability and creditworthiness; (ii) weekly or at least regular repayment installments to ensure each sum of repayment tiny and likely to deal with, and to keep repayment discipline; and (iii) a short loan maturity period. Not as significant as the first two ones, the last trait is a function of the need to guarantee quick rotation in order that borrowers can be offered larger loans as soon as possible.

2.2.2 Empowerment of Women

On account of the fact that women have less touchable priorities like a more equal role and a huger sense of value inside and outside the family, the objective of empowerment of women can exceed raising the income of low-income ones, such as improving the mobility and access to information of women when they are involved in microenterprise program activities, including the turnout at weekly meetings and other interactions in the public surroundings. Microenterprise programs are able lead to empowerment in its social and the empowerment leads, in order, to such social advantages as more education and lower fertility rates for women.

2.3 *The trade-off between these objectives*

According to the US Agency for International Development (A.I.D.)'s experience in supporting microenterprises, there is often a tradeoff between concentrating on generating successful and sustainable businesses (objectives in Section 2.1) and the goal of targeting special disadvantaged groups (Section 2.2). The most successful microenterprise programs tend to focus primarily on developing profitable and sustainable businesses rather than achieving social goals. Moreover, A.I.D.'s Microenterprise Stocktaking Evaluation in 1989 confirmed that A.I.D. projects have had limited success in graduating microenterprises into non-concessional, formal credit markets.

Since this may have implications on favors of social objectives in practice, one should not forget that there is still potential for microenterprise development programs that focus more narrowly on growth-oriented microenterprises. The question of how to practically address the objectives is discussed in Chapters IV and V, which provide for the 'tools'.

3. Evaluating the microenterprise intervention

Evaluating the impacts of microenterprise intervention should accord to the objectives of the microenterprise development program. This section will review this issue through the 'lens' of A.I.D.'s experience to find out common criteria for evaluating microenterprise program impacts and best practices.

3.1 *Achievements of social objectives*

The experience of A.I.D showed that the poor are reached. Although the poorest 20 percent generally did not become micro entrepreneurs, they benefit from the employment opportunities generated by microenterprises. In addition, A.I.D projects successfully reached women entrepreneurs.

3.1.1 Reaching the poor

A.I.D projects clearly demonstrated that it is possible to deliver services (training, credit and technical assistance) to poor and highly disadvantaged people in remote locations. Although the poor were reached, the very poorest usually did not become microentrepreneurs. In addition to a lack of skills and experience, they lack a minimum amount of household resources necessary for success. However, the poorest do benefit from the jobs created by successful and expanding microenterprises.

3.1.2 Reaching women

Most microenterprise programs are well suited to the goal of integrating women into the development process. The proportion of women beneficiaries is highest in programs that

specifically target women and those that target assistance to urban and commercial micro entrepreneurs – sectors that have proportionally high numbers of women participants. Projects that focus solely on women or those with a high percentage of women participants generally perform no better or worse than those that focus on men. To the extent that problems develop, they are due to factors other than gender.

3.2 Generating successful and sustainable businesses

‘Graduation’ is a stated objective of many microenterprise programs and is included in A.I.D Microenterprise Guidelines. It means the graduation of assisted microenterprises from donor programs into formal commercial markets, i.e. the business has been successful and sustainable. The key is the movement from a concessional donor project to the marketplace. While graduation from concessional assistance is a sound objective, almost all projects have difficulty graduating even their best-performing microenterprises. Formal sector banks are reluctant to deal with small borrowers who lack the type of collateral that they usually expect.

3.3 Outreach and delivery

A.I.D’s successful microenterprise programs were to be accessible to the populations they serve. First, the programs and the executive intermediaries of the programs were clearly visible to microenterprises. Methods of delivery were relevant, i.e. easy access and customized to the absorbent capacity of recipients. For instance, they conducted training and outreach in community settings ideally accessible by public transportation. Targeting diverse communities, programs generally sought and accepted clients from low-income to moderate-income, including dislocated workers, disabled persons, minorities, women and others. In addition, they engaged clients to a constant self-assessment of their skills, including their ability to run the microbusiness, understanding the market or customer base, and the financial viability of the business. Some programs geared toward low-income people also ensured that training materials were written simply so that they were understandable.

The sustainable channel or structure of delivery (specialist finance institutions, local enterprise agencies and business development centers, incubators, etc.) was about to be sustainable for this purpose. Although there has been much controversy as to the types of organizations that might deliver microenterprise business development services, for example, whether it can best be done by state organizations (local and regional government for example), by parastatals (autonomous business centers), by NGO not-for-profit type organizations, by business associations or by the private sector (with or without direct or indirect public subsidy). While in general it can be shown that public organizations are the least effective, there are major problems in the use of NGOs particularly in respect of their ability to survive, grow and achieve broad coverage.

However, in practice, A.I.D has successfully collaborated with local PVOs to execute the programs.

3.4 *Costs vs. impacts*

One of the first issues critics often raised is that microenterprise programs are fairly expensive and require a range of resources to operate soundly. This is true of most microenterprise development programs due to the difficulties in reaching grass root-level microenterprises. When viewed simply in terms of the number and amount of loans made in a given year and compared to the operating costs of the program to support those loans, microenterprise programs may even appear wasteful. Also according to A.I.D, it is not uncommon for microenterprise programs to make an average of one-to-two loans per month, or fewer, at an average cost of two dollars in operating costs for every dollar loaned. Indeed, many microenterprise practitioners would be quite pleased with a dollar-for-dollar cost of making microloans and a volume of one-to-two loans per month.

However, considering the broad range of impact that microenterprise programs had on individuals, especially in developing “human capital” (including self-esteem, confidence, and the drive to obtain financial self-sufficiency); it becomes difficult to compare the ‘invisible’ impacts to the poor people and the expenses. Thus, the numbers do not tell the whole story. The success of microenterprise programs cannot be assessed solely by the number or the amount of the loans and the cost of making these loans. Microenterprise programs pursue several ends including poverty alleviation, business and economic development, job creation and human development.

Microenterprise owners benefit from the many successful outcomes that microenterprise development programs inspire. Some may learn skills such as planning, cash flow management, employee hiring and personnel issues, and communication skills that will make their business venture stronger, make them more employable by others, or simply provide the sounder footing for households. Other clients may receive a microloan and start a successful new business or expand an existing one. In some instances, comprehensive business planning, counseling, and financial advice may enable some clients to get a loan from a commercial bank. Some individuals may decide not to start their own businesses, but if the client makes an informed decision about the risks involved and avoids a possible business failure, this, too, is a success – especially when that individual has acquired business training and goes on to make a better employment choice.

3.5 *Sustainability of the support*

It is important that microenterprise development programs should not only generate substantial development benefits, but also make sure that benefits continue to flow long

after assistance ends. Therefore, it is important to develop programs and institutions that have the financial, organizational and management capacity to be sustainable.

Through informal channels (private talks, telephone interviews and email consultations) with personnels of donors, government agencies, beneficiaries, etc. involving in SMEs and MEs programs in Viet Nam, the authors concluded that the most concerns for these programs and schemes are sustainability and cost effectiveness of delivery, which were stated by most of program managers and staff (81%).

CHAPTER III. INSTITUTIONS AND FRAMEWORK FOR MICROENTERPRISE SUPPORT

1. Institutions

There are donor institutions and intermediaries/executive agencies involved in microenterprise support. Resource organizations including occupational schools, business development service providers, consultants, practitioners, etc. are mostly not involved even though they may be commissioned to carry out some tasks in support of microenterprises. Therefore, they are not discussed herein.

1.1 Donor institutions

Donor institutions are those who fund microenterprise development programs or projects. International and regional organizations, mainly international financial institutions (IFIs), play both roles of the donors and executive agencies, meaning carrying out the programs themselves. Government budgets also fund programs and projects in support of microenterprises. However, the role of Governments would be mainly creating the favorable environment and regulatory frameworks for all enterprises to play, including microenterprises. Governments may also create policies in support of SMEs in general and/or dedicated ME policies. Further, Governments may set up agencies to be responsible for SME promotion and ME development as executive agencies.

1.1.1 IFIs and their policies, strategies to support microenterprises

The most common understanding is that the International Financial Institutions are banks in which the Member States are shareholders and over which they exert a certain degree of influence in proportion to their stake. IFIs can be divided into three categories: the so-called Bretton Woods institutions, regional development banks and the bilateral development banks.

- Bretton Woods institutions

The best-known IFIs were established after World War II to assist in the reconstruction of Europe and provide mechanisms for international cooperation in managing the global financial system. They include the World Bank, the IMF, the International Finance Corporation, and other members of the World Bank Group.

- Regional development banks

The regional development banks consist of several regional institutions that have functions similar to the World Bank group's activities, but with particular focus on a specific region. Shareholders usually consist of the regional economies plus the major donor economies. The best-known of these regional banks cover regions that roughly correspond to United Nations regional groupings, including the Inter-American Development Bank (which works in the Americas, but primarily for development in Latin America and the Caribbean); the Asian Development Bank; the African Development Bank; and the European Bank for Reconstruction and Development.

- Bilateral development banks

Bilateral development banks are financial institutions set up by individual economies to finance development projects in developing economies and emerging markets. Examples include the Netherlands Development Finance Company and the German Development Bank DEG.

Also, remain other regional financial institutions. Several regional groupings of economies have established international financial institutions to finance various projects or activities in areas of mutual interest. The largest and most important of these is the European Investment Bank, an institution established by the members of the European Union. Other examples include the Black Sea Development Bank, the International Investment Bank (established by the economies of the former Soviet Union and Eastern Europe), the Islamic Development Bank and the Nordic Investment Bank.

- How IFIs work

Originally, IFIs were devoted to financing attempts to restore peace in the wake of conflicts and to international financial transactions, but their activity has since evolved and they now focus primarily on providing multilateral funding for development projects and resolving problems created by international indebtedness.

Commonly, IFIs have a Governing Council (Member States' finance ministry) and a Board comprising executive directors responsible for their daily management and representing a set group of economies (referred to as a constituency).

MEs have become of increasing importance in the economic and social development as they contribute to the sustainable development of the economy and the creation of employment for millions of people. However, the difficulties in accessing finance remain a major obstacles to the operation and growth of their business.

Viewing the growth of MEs as an important component to the wealth and sustainable development of the world, many IFIs now lend their support to MEs as a long term strategy for poverty alleviation through financial and non-financial programs in many economies.

Normally, IFIs' financial programs are compounded by the well known models of microfinance, as well as other services like deposits, insurance, and payment services. Non-financial programs include a broad range of services attempting to provide the entrepreneurs some basic assets for livelihood, particularly human capital, by developing skills and knowledge. These services are often referred to as BDS: training, technology transfer, marketing assistance, business advice, mentoring and information, which are aimed at helping the entrepreneurs improve the performance of their businesses.

Many well-known IFIs have been actively involved in supporting MEs through MEs development programs in the past. Look at what those IFIs are doing in the field will help us have an overview of IFIs' policies and strategies towards MEs development. Given the natures of different IFIs, they have various approaches and emphasis on its policies, strategies to support microenterprises financially and/or non-financially.

Below is the experience of some IFIs and international organizations in supporting microenterprises.

1.1.1.1 World Bank (WB)

One of the World Bank's priorities is its commitment to achieve the Millennium Development Goals (as agreed upon in Monterrey), which were designed to significantly reduce the indebtedness of developing economies. These new approaches are gradually taking hold as the influence of globalization becomes more apparent. The emphasis is on providing better guiding and flanking measures whilst at the same time providing greater coherence with the objectives pursued by other UN organizations.

The five institutions that comprise the World Bank Group make it primarily an instrument that provides multilateral finance - through co-financing by its member states - for development programs. In 2002, the World Bank awarded loans totaling roughly EUR 2,000 billion to 97 developing economies. Together with the beneficiary economies, the World Bank draws up and finances programs and offers advice in a variety of areas

including infrastructure, employment, education, public health, social development and the environment.

Concerning WB's support to MEs, International Bank for Reconstruction (IBRD) and International Development Association (IDA) and International Finance Corporation (IFC) play significant roles to the growth of MEs.

IBRD and IDA place their following typical instruments to support MEs:

- matching grants and vouchers for BDS
- credit lines (though MSME specific lines are becoming less common)
- credit and T.A to microfinance institutions
- credit, BDS, T.A through social funds
- T.A & adjustments lending for policy reforms to improve business environment
- World Bank project procurement favoring MSMEs

IFC also apply its own typical instruments:

- direct investment (equity, loans)
- financing for MSME through credit,/equity operations with banks, leasing companies and venture capital funds
- microfinance operations
- T.A to banks that lend to MSMEs
- enterprise fund & project development facilities (to prepare MSMEs projects, provide T.A, work with BDS providers, etc.)

Since the early 1990s, the WB has revealed its trends toward supporting MEs. Firstly, there has been a decrease in credit lines targeted specifically to SMEs (though microfinance continues). Second, witness an increase in T.A to financial institutions serving MSMEs. Thirdly, it has paid increasing attention to business environment. IFC has also moved away from direct loans and investment in SMEs toward T.A, operation with financial institutions and BDS facilitation.

However, the most productive and viable way for the World Bank to support microenterprise development is to advocate and assist structural change in developing

economies. An improved business environment may hurt small enterprises in the short run, but an overall liberalization of historically highly governmentally controlled economies has many macro and micro economic benefits.

Structural adjustment loans (SALs) are the area where the World Bank is most capable of making a difference in the microenterprise world. In many developing economies, regulatory requirements make it difficult for potential investors to start and operate their own business, thereby making the economy less accessible and inefficient. Though structural changes directly affect only the formal private sector, the indirect ramifications spill over into the informal sector. Increasing the incentives for both domestic and foreign investment makes more financing opportunities available for credit starved operating or starting microenterprises. Deregulations and tax incentives allow the informal sector participate in formal sector activity. Structural change toward a more liberalized economy allows for more linkages between the formal and informal sectors. Inputs, capital, and investment can flow freely, thus finding their most efficient use.

1.1.1.2 The Asian Development Bank (ADB)

The ADB is an international organization owned by its 56 member economies. It has provided nearly \$63 billion in loans and almost \$2 billion in technical assistance to 36 of its developing member economies over the last 30 years. The Bank provides two types of loans in its public sector operations. The ordinary lending window provides long term loans at close to market rates. From its second window - the Asian Development Fund - the Bank provides concessional loans to the neediest of its developing member economies. The Bank also provides technical assistance grants to help developing member economies (or DMCs for short) with project planning and design, capacity-building, and policy reforms. In addition, the ADB takes direct equity stakes in, and provides loans to, private enterprises in its region, and seeks to act as a catalyst to mobilize other sources of financial assistance and investment for its DMCs.

The operations of the Bank in its DMCs are country focused, and are guided by five strategic development objectives. They are: (i) the promotion of economic growth, (ii) reduction of poverty, (iii) improvement of the status of women, (iv) development of human resources, and (v) sound management of natural resources and the environment.

In line with its focus, ABD strongly supports the development of micro, small and medium enterprises, or MSMEs. To date, the Bank has provided over \$900 million in direct loans for SMEs development. Besides providing this catalytic financing, the Bank has supported SME development indirectly, through loans and grants encouraging policy reforms to stimulate capital market development and export-led, and market-oriented

industrial growth in its DMCs, and through institutional reforms and capacity building. In transition economies, the Bank has been active in helping to restructure and privatize small and medium state-owned enterprises. In its private sector operations, the Bank has provided loans and equity funds worth more than \$1.1 billion to development finance institutions, which in turn, directly and indirectly, support SMEs development. The Bank has also invested in venture capital funds that have raised significant resources for direct investment in unlisted companies and infrastructure projects. This investment promotes the development of private enterprises, including SMEs, by providing them access to equity and debt capital.

The Bank's SMEs development assistance can be categorized broadly into two types of programs: those with policy reform and promotional objectives, and those with financial objectives. Policy reform and promotional programs encourage the overall activities of small-scale operations and enhance operational viability through providing advice on policy and regulatory reform, fiscal support, particularly in taxation reform, infrastructural support, technological assistance and capacity building, promotion of cooperatives and business associations, and marketing and management support. On the other hand, financial assistance programs enhance the inflow of development funds into the SME sector on reasonable terms.

The ADB provides advisory technical assistance to a number of DMC governments to help them formulate effective SME development plans. It is believed that governments must prepare more integrated approaches to SME development, while at the same time adopting market-friendly approaches and relying increasingly on private sector initiatives to supplement government action. ADB also provides support through advisory assistance to Development Finance Institutions (DFIs) to train personnel and strengthen capacity.

ADB also provides indirect support through the development of financial and capital markets in DMCs. Recent efforts, for example, include a capital market program loan to the Philippines, technical assistance to develop a mortgage-backed securities market in Indonesia, banking reforms in Mongolia, and the training of financial executives capital markets in selected DMCs.

Technically, the most critical impediments to the desirable growth of SME financing are the high cost and the high credit risk associated with SME lending. In this context, the terms of ADB's DFI lending operations for SMEs is described as below: in a typical ADB credit project, a loan is extended to a DMC government at lower government commercial or concessionary rates. The government then onlends the funds to the banking system at prevailing market rates. (Involving commercial banks as participating banks in such onlending has proven to be efficient, as they have a wide network of branch offices which

can cater to SMEs spread over broad geographical areas. However, by their very nature, large commercial banks cannot be expected to specialize in development-oriented SME financing. Accordingly, it is the task of DFIs and small and medium-sized commercial banks to specialize in SME financing and become the main suppliers of development funds).

The Bank has provided over \$1.1 billion in SME financing through DFIs, and will continue to provide such support. Currently, the Bank is looking for opportunities for SME financing through DFIs in such economies as Indonesia and Viet Nam.

One other significant area of financial assistance concerns micro-credit. ADB's policy of poverty alleviation in rural communities has been operationalized mainly through micro-credit projects. These projects provide credit to small enterprises in rural communities. The Bank has provided umbrella lines of credit to state-owned and private banks to channel funds to SMEs. Because of their wide outreach, micro-credit projects can target the poor very effectively, and play a significant role in distributing income over a broad segment of the rural population. Consequently, micro-credit has a crucial role in reducing poverty. ADB has provided over \$148 million in micro-credit financing.

1.1.1.3 The Inter-American Development Bank (IDB)

The Inter-American Development Bank (IDB) is an international financial institution created to help accelerate economic and social development in Latin America and the Caribbean. All of the lending instruments of the IDB are designed to support economic development in the region. To this end, the Bank uses its own capital, funds raised by it in financial markets, and other available resources, for financing the development of the borrowing member economies; to supplement private investment when private capital is not available on reasonable terms and conditions; and to provide technical assistance for the preparation, financing, and implementation of development plans and projects.

The IDB Group consists of:

- the Inter-American Development Bank (IDB)
- the Inter-American Investment Corporation (IIC)
- the Multilateral Investment Fund (MIF)

For nearly a decade now, the Inter-American Development Bank Group has been placing emphasis on expanding the opportunities for small and medium-sized enterprises (SMEs). The IDB Group has attempted to channel entrepreneurial creativity, implement new

technology and provide employment opportunities to the region. It also plays a key role in removing SME constraints such as large fixed costs, absence of economies of scale, and costly financial and non-financial services.

The report on the Eighth Replenishment of Resources states that SMEs are vital to the modernization and integration of the economies of the region. To this end, the IDB developed a specific strategy for SME support that is presented in the "Enterprise Development Strategy" document of March 1995. The Bank, the Corporation and the Fund have supported SMEs through a variety of activities, projects and financial instruments. These activities can be divided into categories namely financial services and non-financial services and others (science and technology, regulatory framework, and strategy and support).

Financial services:

The IDB, Group's strategy to improve financial services for SMEs is two pronged. It involves strengthening financial institutions and the actual provision of financial resources (direct and indirect financing). The IDB financed 16 Multisector Credit operations for a total of \$2.9 billion to financial institutions, to be on-lent to SMEs, and two Global Credits for Small Enterprises for a total of \$52 million.

In a parallel effort, the IIC was created in 1989 to attend to the financial needs of SMEs in the region. As of 1997, the IIC had participated in 180 transactions totaling \$450 million in commitments. The MIF has also participated in this area creating eight venture capital funds with an investment of \$35.4 million covering general and industry-specific small enterprises.

Non-financial services:

The IDB has approved seven loans for \$1,308 million in the area of labor and management development and ten regional technical cooperation accounting a total investment of \$18.5 million. The MIF approved fourteen enterprise development services and twelve training facilities. Nonfinancial services have focused on improving the competitive position of SMEs in international markets.

1.1.1.4 The United Nations Capital Development Fund (UNCDF)

UNCDF's vision of inclusive finance is of large-scale access to a variety of financial services for poor and low-income people and micro and small enterprises. Inclusive financial sectors are defined by a continuum of financial institutions that together offer appropriate financial products and services to all segments of the population. To operate

effectively, inclusive financial sectors need to be supported by sound policy, legal and regulatory frameworks.

UNCDF's strategy to implement this vision is to promote a sector-based approach to financial inclusion, as well as a number of thematic initiatives that support and strengthen the impact of this sector-based approach.

Financial sector development programs are designed to create enabling environments for a variety of retail Financial Service Providers (FSPs). FSPs include commercial banks, non-banking financial institutions (NBFIs), microfinance institutions (MFIs), credit unions, cooperatives, insurance providers, money transfer companies, and other institutions providing financial services. This approach also seeks to address gaps in the supportive infrastructure (meso: audit, ratings, networks) and the policy, legal, and regulatory constraints that prevent a financial sector from being inclusive. This results in a dynamic process, tailored to the realities of each country.

UNCDF's role in the promotion of a sector-based approach is both of a facilitator and an investor.

UNCDF's role as a facilitator stems from being accepted by a range of actors as a neutral broker. Through its strong field presence of technical staff at the national and regional levels, UNCDF is positioned to facilitate the consultative process that underpins the development of frameworks for a range of actors to coordinate their support while encouraging key actors to lead in their respective areas of comparative advantage.

As an investor, UNCDF concentrates its own resources in the areas of greatest need and opportunity at the macro, meso or micro levels, after taking due account of the comparative advantages of others. This often means that it focuses on what often remains as the largest constraint: lack of retail capacity. At the micro-level, UNCDF uses its flexibility to fund retail FSPs through grants, loans or guarantees. UNCDF can flexibly use its investment instruments (grants, loans, loan guarantees, technical assistance, training) to support what is needed for financial sector development. Grants help build capacity and the capital base of FSPs. UNCDF works to ensure that FSP business plans link to commercial sources of funding so that UNCDF grants do not 'crowd out' but rather engage commercial sources of funds. UNCDF actively dialogues with microfinance investors looking for a pipeline of investible institutions. At the meso level, UNCDF often supports national microfinance associations in their advocacy and efforts to structure the microfinance community at the country level.

1.1.1.5 International Fund for Agricultural Development

Over a period of 22 years, IFAD had developed about 60 project/program components aimed at supporting the development of small-scale enterprises in rural areas. IFAD's recent investments in small-scale rural enterprises are mainly concentrated in the Near East North Africa region and Eastern Europe (where 38.2% of the portfolio of projects include MSE-related activities), immediately followed by Asia and the Pacific (33%), Latin America and the Caribbean (32.4%) and Eastern and Southern Africa (18.7%). The Western and Central Africa region (11.9%) accounts for the smallest number of MSE activities. Historically, IFAD has promoted rural micro and small enterprise (RMSE) in the context of specific components and/or sub-components of rural development projects. In 1994, for the first time, IFAD designed a USD 5.4 million rural enterprise project (in Rwanda) that was entirely aimed at promoting small-scale rural enterprises. This was followed by ten other projects: three in Western and Central Africa (Burkina Faso, Ghana and Senegal); one in Asia (The Philippines); one in Eastern Europe (Republic of Moldova); and five in Latin America and the Caribbean (Colombia, Dominica, Grenada, Peru and Saint Lucia). These projects are being implemented on a pilot basis in one or two regions where there is a high incidence of poverty and where economic potential is likely to develop should the rural clientele be empowered and market linkages improved. While the core objective of IFAD's more recent rural enterprise projects is to raise incomes and improve rural livelihoods, such interventions have also tested approaches that combine the provision of financial and non-financial services to small rural entrepreneurs, including women. The objective is progressively to build up an institutional knowledge base of good practices and appropriate, cost-effective methodologies and instruments aimed at supporting RMSEs for replication elsewhere. Since 1994, funding under IFAD's technical assistance (TA) grant program and the NGO/Extended Co-operation Program has been used to support and accompany loan operations through activities linked to the promotion of small-scale rural enterprises.

1.2 *Intermediaries*

How to get accessed to microenterprises is the biggest challenge in supporting them. Therefore, the selection of the best suited intermediary and institution which acts as a linkage between microenterprises and relevant sponsors is of utmost importance. As a consequence, enhancing organizational efficiency of existing intermediaries is a good way of supporting microenterprises. This is most suited to large sponsoring institutions like the World Bank for their limited human sources in order to directly involve in assistance projects, their major role as the lending organization and their inaccessibility to microenterprises.

The organizations below are descriptive and non-exhaustive list of intermediaries usually involved in supporting microenterprises. In some models, some may be more relevant. Relevance is considered on the basis of their ability to respond quickly to the needs of beneficiaries and their availability of field staff as well as their ability to adapt to the constantly changing local environment. However, for the optimal project efficiency, it requires a proper balance between independence and cooperation. As some tasks require a different approach method from the others; for example, a sympathetic and flexible attitude is necessary in dealing with outreach and referral while discipline and decisiveness are vital in loan collection, each institution should hold responsible for one specific type of work but also get ready to work closely together when needed.

1.2.1 NGOs

1.2.1.1 International private voluntary organizations

These organizations are well known for their tremendous and impressive achievements in the international community development and social relief work. They also play an increasingly important role in job creation as a central intervener. They are quite limited in the operational scope. They mostly operate under the direction of sponsoring organizations, which poses a certain limit to their autonomy to make immediate and flexible decisions. They are aimed at replicating and expanding enterprise assistance models into many economies as possible. They are more concerned about maintaining their role as humanitarian organizations than getting involved in political issues. They are quite independent; there is no single donor that can assume control over their operations.

1.2.1.2 National and local private voluntary organizations

These organizations are most abundant, focus and flexible. Most often, they are programs of community development corporations (CDCs) or other community-based organizations (CBOs), including religious establishments. They implemented a model of support of particular adaptability. Although they increasingly join well institutionalized national level umbrella associations or networks, their informality makes them vulnerable to lax management which, together with their proneness to depend on one or two donors only, affects their sustainability. This type of organization is the greatest in number, have flexible organizational structure

1.2.1.3 Business Associations

Business associations are similar to private voluntary organizations in terms of size, method of working and budget, most of them are located in the cities, aimed at providing business skills training and entrepreneurship development. They can influence the

government policies to some extent; however, they are more concerned about the needs of medium and large enterprises, their main source of income and their strong supporter. As a result, they enjoy a relatively high degree of autonomy. Yet when it comes to microenterprise supporting programs funded by donors, they are no longer able to make decisions and adjust to local circumstances on their own will alone.

1.2.2 National and/or local governments/public agencies

These agencies may have the mandate and the capacity to offer several types of services simultaneously. However, they tend to display poor financial management and therefore generally operate at a deficit; they tend to be extremely rigid (overly bureaucratic and centralized) and vulnerable to political influences, and thus have difficulties applying strict eligibility and repayment criteria. Literature suggests that they are better suited for providing indirect support to MEs.

1.2.3 Cooperatives

There are various types of cooperatives: financial cooperatives – a kind of credit organization that grants loans to microenterprises, production cooperatives, marketing cooperatives and supply cooperatives. Cooperatives are a part of and under strict control of a national federation or a government sponsored institution. They were previously financed by the government; therefore, they could hardly develop their own policies for the sole benefits of their members but follow the government's directives instead. Although cooperatives have received a lot of complaints for being too bureaucratic, inflexible, and inappropriate for the cultural context and overly controlled by well-to-do individuals, they could be responsive to local needs when they are managed well by their members.

1.2.4 Banks

In most cases, public and private banks are not aimed at supporting microenterprises. Instead, they are set up to serve customers of a larger scale, they cut down on bureaucratic procedures in order to facilitate retail lending and recruit professional staff. They can not easily adjust their management policies to local circumstances. Nevertheless, they are firmly committed to providing the best performance, except in a few cases when they are subsidized by the government or funded by a certain donor. They have the autonomy to formulate their own policies, especially those on interest charges and exchange rates.

1.2.5 Informal Financial Institutions

These institutions are reviewed in Chapter IV, Section 3.2 below.

Examples of Public Institutions supporting microenterprises in APEC region

PERU

- Peruvian Commission for the Promotion of Small and Microenterprises.

U.S.A

- Small Business Administration (SBA)
- US Department of Health and Human Services. Office of Community Services and the Office of Refugee Resettlement
- US Department of Housing and Urban Development. Community Development Block Grant Program.
- US Department of Treasury. Community Development Financial Institutions (CDFI) Fund.

PHILIPPINES

- Cottage Industry Technology Center, Department of Trade and Industry.
- Technology and Livelihood Resource Center.
- Bureau of Small and Medium Enterprise Development, Department of Trade and Industry

INDONESIA

- Industry for Cooperatives and SMEs

CHILE

- Technical Cooperation Service (SERCOTEC)
- BancoEstado
- National Women Service (SERNAM)
- Agricultural and Livestock Development Institute (INDAP)

2. The institutional framework to support microenterprises

Institutional arrangements should consider local socio-economic conditions and existing networks and organizations. There is no fixed model and procedures that work all the time. In this regard, microenterprises as beneficiaries are best linked when they are established into groups on the self-help basis.

The support for the development of microenterprises should be made in a systematic manner, i.e. microenterprises to grow and develop as part of the supply chain. They need markets, raw material supplies, premises, information about regulations, skills, machinery and all sorts of other services.

The majority of these services are always provided to businesses by other usually small and local businesses. The support by donors and Governments can play a part, by recognizing the gaps and encouraging others to fill in.

Informal financial institutions provide credit, savings, insurance and other financial services to microenterprises. Governments and donors only help if there is a problem in this system. In that case, however, experience of international organizations suggests that loans be made through informal financial institutions with a NGO (PVOs, business associations) or Government agencies as a second-tier intermediary connecting to the formal banking system. Donors have move away from the direct delivery of services towards the development of local businesses service organizations. These are called ‘facilitators’

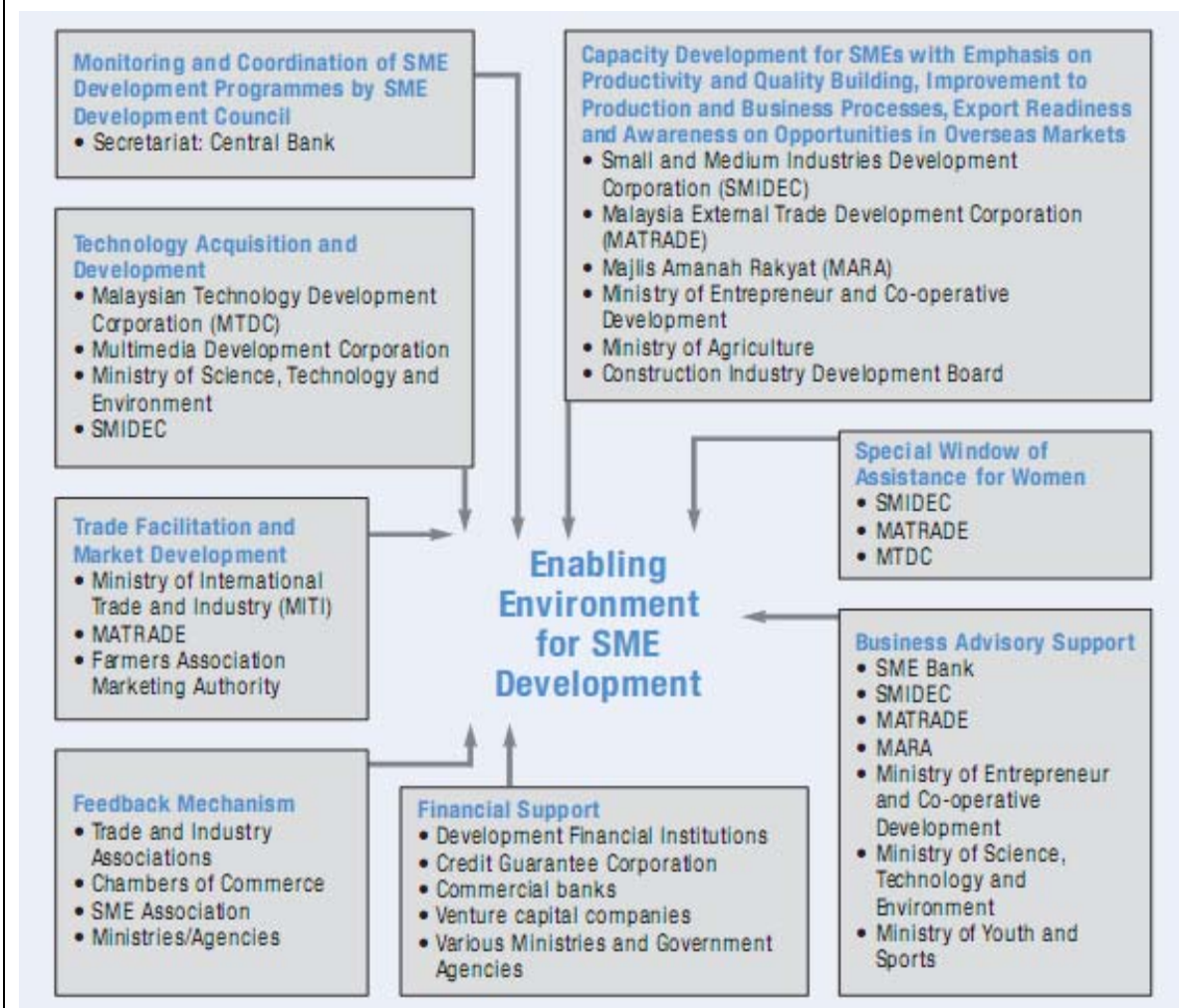
Therefore, the ‘linkage facilitator’ between microenterprises and formal institutions and services suppliers is the most relevant role of support organizations. Actually the best thing outsiders can do is to recognize their role as to identify needs and try to assist other businesses to satisfy them.

The institutional framework to support SMEs in Malaysia

Malaysia has given priority to SMEs and has put in place a policy and institutional framework that addresses their developmental needs. Funding to address critical issues in promoting and developing SMEs was made available through agencies like Malaysia External Trade Development Corporation (MATRADE), Malaysia Technology Development Corporation (MTDC), Small and Medium Industries Development Corporation (SMIDEC) and Standards and Industrial Research Institute of Malaysia (SIRIM) Berhad.

The enabling environment for SME development in Malaysia is shown below. To ensure that SME development plans are focused, in 2004 the Malaysian government set up a National SME Development Council, chaired by the Prime Minister. Regular meetings are held with agencies, ministries, banks and financial institutions that provide support for SMEs, and a reporting mechanism for monitoring outcomes of activities and providing feedback have been established. This is among the measures taken to enhance transparency and accountability amongst policy implementers. The National SME Development Council represents the highest policy-making body and charts the future direction and strategies for SME development. The Council is responsible for formulating broad policies and strategies to facilitate SME development, and for ensuring the effective implementation of the policies and action plans. There are many ministries and institutions involved to support and strengthen SME Development in Malaysia. Strategies will focus

on establishing high performance and high value-added SMEs with strong technical, competitive and innovative capability as well as managerial and business skills.



3. Capacity building for intermediaries/executive agencies

As mentioned above, thanks to the importance of intermediaries in supporting enterprises for greater efficiency and better service quality, the task of building these institutions' capacity has been giving more and more attention. This has been recognized as newly introduced approach in supporting microenterprises, which is not direct but effective. As a result, microenterprise supporting projects should consider including capacity building of intermediaries in their activities and budget. Below is a list of problems most intermediaries often cope with in their management:

- Objectives and priorities setting
- Efficiency development
- Changes management

- Struggling for autonomy
- Project management
- Accounting practices setting
- Personnel and organizational management
- Information management

Though these issues cannot not be easily resolved quickly, the support for building their capacity is necessary for the sustainable impacts.

CHAPTER IV. STRATEGIES, APPROACHES, MODELS AND TYPES OF SUPPORT TO MICROENTERPRISES

1. Indirect and direct support strategies

Widespread approval has been expressed for the idea of supporting microenterprises amongst Governments and donors. However, there are two questions waiting to be answered: the first is exactly what to be achieved by support for microenterprises and the second is how to assist them to achieve these objectives. On the basis of the answer to these two questions, a strategy for intervention will be formulated. The trade-off effect of two groups of objectives has been reviewed in Chapter II, Section 3.

As to the second question of how to assist microenterprises to achieve certain objectives, there are usually two support strategies: indirect strategy and direct strategy. In a indirect strategy, the government plays an important role in the development process. Direct strategy focuses on incentives to match the needs of microenterprises. Another newly recognized strategy is capacity building for intermediaries as mentioned in Chapter III, Section 3 above, which is close to the indirect strategy.

1.1 The indirect strategy

Indirect assistance means creating a favorable environment for private enterprises for the acknowledgment that macro policy distortions may impede some of the micro work. As a consequence, indirect assistance is focused on macro level variables such as infrastructure, regulations, government policies and legal framework. Whether people are able to take advantage of new opportunities and respond to incentives depends on their creativity and initiative. To that end, the business environment and the creation of viable institution, which are also in the focus of structural adjustment programs, are highly appreciated. Because of the large extent of secondary effects, indirect strategy may sometimes have an unpredictable impact and even produce adverse consequences.

For example, some economies might have adopted a strategy of national development in the form of establishing and supporting large corporations in key sectors of the economy, hoping that the benefits of development will ultimately spread to small ones. However, this process does not work without strong vertical linkages or well integrated economy, as in the case of Viet Nam, failing to support smaller enterprises when trying to retain inefficient large enterprises.

In order to achieve optimal efficiency of indirect/indirect intervention, careful monitoring, fine-tuning of policies and coordination of efforts with other organizations at both the

macro and micro levels are vital. The government's managerial capacity might be extended to the full level and they become more dependent on external technical assistance.

1.2 The direct strategy

The direct strategy aims at supporting microenterprises directly on the grounds that process of development is like a pyramid building with microenterprises as its base or 'seedbed'. However, this strategy also bases on the assumption that businesses of various sizes are appropriately linked, such as elements of the supply chains.

The direct strategy assumes that providing people with greater access to resources and information should enable them to bring about changes at the micro level and at the macro level in the long run. This strategy requires that the intermediaries must be appropriately selected to satisfy the needs of microenterprises and encourage them to move to the next level.

Behind these two assistance strategies are the controversy of over small versus large businesses. Empirical evidence suggested that larger well-established units are more likely to expand and therefore to create new jobs than small units. Still, it may be more cost-effective to set up more one-person businesses in spite of their high failure rate. Finally, microenterprise can be highly efficient even though most are unlikely to expand and are not primarily seeking to maximize profit but simply to generate income. The trade-off in promoting small businesses, however, is not so much between profits and employment, but rather between private returns and social costs, or between short-term and long-term growth prospects. Small enterprises generally offer lower wages, fewer fringe benefits, and worse working conditions for the same type of work as larger enterprises. They also attempt to save on overhead costs by minimizing expenses for anti-pollution and safety devices, lighting, and sanitation, for example. Over competition, lack of access to public facilities and to suitable work sites, as well as a hostile policy environment contribute to the sub-optimal conditions under which small enterprises operate. However, promoting self-employment is often the most effective means for integrating marginal elements into society and for alleviating poverty, thus reducing the social costs associated with the persistence of poverty and of sub-marginal elements.

2. Some approaches and models of support

International and regional organizations usually make use of the following approaches and models to support microenterprises.

2.1 *Classification based on inputs to and design of support program*

2.1.1 Fast credit and process approach

One approach that has proven extremely successful in reaching and supporting microenterprise is the combination of the fast credit approach and process approach. The fast credit approach consists of adopting a narrow and modest focus, such as on credit only. The process approach consists of gradually broadening the scope of a program to remove one bottleneck at a time, according to the priorities identified by participants. This approach fosters and relies on people's support and dedication and, therefore, is particularly appropriate when confidence building and/or sustaining new community institutions is crucial for the success of the program.

2.1.2 Blueprint approach

The alternative to the process approach is a blueprint approach, meaning that the project is designed by the sponsor on the basis of an evaluation study. This approach might be recommended when a major obstacle is lack of technical skills at the grassroots and those skills could be provided easily via commissioning. The tendency, however, is to move away from the blueprint approach, in particular from comprehensive nationwide programs, in favor of simpler sectoral or regional projects.

2.1.3 Integrated approach

Success stories with the fast credit + process approach come from contexts characterized by more advanced level of industrialization. This is partly because such an approach presupposes a clientele familiar with credit and interest rates, which has access to markets, and with a tradition in cottage industry. Accordingly, some analysts argue instead in favor of an integrated approach, typically in the form of comprehensive community projects. The latter involves high program costs, although such costs represent a social investment in creating a more dynamic economic environment and as such are not proper indicators of a project's efficiency.

2.2 *Point of impact classification*

An overlapping project classification distinguishes among resource transfer, psychosocial, and community development approaches. Each reflects different assumptions about the source and types of constraints that small enterprises face. Most current projects, however, involve some mix of the three. This typology characterizes projects by their

chosen point of impact, not by their breadth of intervention such as is the case for the distinction between fast credit and integrated projects:

2.2.1 Resource transfer approach

This approach assumes that what constrain microenterprise are bottlenecks in the distribution system and in the transfer of resources such as skills. But it tends to neglect institutional factors that may hamper responses to new opportunities.

2.2.2 Psycho-social approach

This approach assumes that for entrepreneurs to be successful, they must first acquire the prerequisite behavioral attitudes through education and proper motivation. It emphasizes the tapping of people's creativity, and is designed mainly to integrate more marginal/segregated elements into society and to help them create their own employment, thus becoming more independent.

2.2.3 Community development approach

This approach emphasizes the role of community support systems and culture for integrating and affirming individual and group interests, and for mobilizing material and institutional resources. The latter two approaches seek to work with existing institutions and, therefore, may neglect the possibility of creating new institutions at lower cost.

2.3 *Classification of approaches based on purposes of intervention*

2.3.1 Enterprise formation approach

At the lowest level are the very poor or economically disadvantaged who want to start a business. Assistance usually takes the form of a community development program designed to overcome the social and economic constraints that prevent the poor from being entrepreneurs.

2.3.2 Enterprise expansion approach

The goal of this approach is to improve the performance of existing microenterprises. This approach usually relies on a minimum of inputs (usually only credit, although sometimes limited technical assistance and training) to reach a large number of firms.

2.3.3 Enterprise transformation approach

This approach aims at graduating microenterprises into larger ones. It is more costly because it requires much more technical assistance and training.

2.4 Classification by a different mix and sequence of components such as credit, training, and technical assistance

The models also vary in the types of businesses they target (Level 1, 2, 3 and 4; simpler as existing or start-up businesses categorized in Chapter I, Section 4.2).

2.4.1 Model 1

The classic individual financial assistance project which provides subsidized credit to businesses that can either offer loan collateral or that have a well-established track record (preferably Level 3 and 4). Thus, it minimizes labor-intensive tasks and the need for specialized staff. Strict repayment monitoring, escalating loan size based on repayment of previous loans, and a savings component increase the effectiveness of this model. Its main weakness is that it has limited ability to assist clients in loan use and management. Banks and large government programs often utilize this model.

2.4.2 Model 2

Similar to Model 1 except that it provides an integrated package of financial and technical assistance to individual entrepreneurs. It may involve social promotion (community development), in which case beneficiaries participate in group activities. Cooperatives and business associations often use similar models. This model is appropriate for all levels of enterprises including new businesses. A recurrent problem is the appropriateness of the services offered.

2.4.3 Model 3

More ambitious as it seeks to assist individual entrepreneurs in gaining access to formal credit: credit is used to attract clients to the resource institution, which then provides a sequence of credit, technical assistance, and individual training. It is most appropriate for established businesses of Levels 2 and above and is relatively expensive because of the need to subsidize technical assistance and training. This model requires a relatively large staff, and the services offered must be of high quality to prevent drop-outs from the program. Once the loan has been extended the resource institution has no leverage over clients to participate in further training and technical assistance.

2.4.4 Model 4

Targets individual entrepreneurs as well but emphasizes training, which is used as a screening device in a sequence of training, technical assistance, and credit. It is relatively

expensive, requires a large staff dedicated to teaching business skills, and a high level of participation by beneficiaries. This model is best suited for businesses of Level 3 and 4.

2.4.5 Model 5

Targets small groups of very low-income entrepreneurs. The group guarantees and enforces loan repayment by its members who assist each other in resolving business problems: it is a solidarity group model. Community development goals, self-help, and organization are stressed. This model combines group-oriented social promotion, credit, and extension services. It is best suited for reaching the smallest entrepreneurs (Levels 1 and 2) and requires substantial commitment and time from group members. Working with groups reduces the amount of time required from staff members who need community development and social promotion skills more than strictly business-related skills. Although this model is shown as being rather costly, it is usually referred to as a successful and cost-effective way of lending to the smallest businesses, including those just starting up. The latter are considered the most risky ventures, and therefore are deemed hard to reach with non-social programs.

2.4.6 Model 6

Concentrates on providing practical skills for low-income individuals through training. Employment, not business promotion, is emphasized. Costs are high although they can be defrayed to some extent by selling the goods and services produced by the trainees. This model is best pursued on a large scale because of the heavy investments required in buildings, equipment and machines, and staff training. Some programs employ local businessmen to teach courses.

3. Types of support provided

3.1 Improving the business environment

This type of support is the essential element of the indirect strategy. In theory, the business environment can be improved by the creation of appropriate incentives, the foundation of physical and administrative infrastructure and reforms to government regulations and policies. The private sector in general benefits from much of this broad range of measures. However, due to lack of information about microenterprises and their specific needs, the focus of economic policy reform programs is the impact on larger firms. Moreover, for the maximum efficiency, it is necessary to coordinate a program aimed at improving the business environment with efforts of other agencies/projects supporting microenterprise directly.

3.1.1 Economic restructuring policies

The performance of microenterprises is inherently affected by the macro financial policy environment and producer incentives, many of which are undergoing profound changes on the ground that stabilization and adjustment programs are seeking to promote the growth of private domestic industries. However, at least in the short term, it is likely that microenterprises have to cope with many challenges in the process of adjustment.

The supply side effects of adjustment programs, including export promotion, currency devaluation, subsidy reduction, and the public sector contour, may benefit some microenterprises and at the same time hamper others.

To put it differently, stabilization and adjustment programs should keep a close record of their likely impacts on the microenterprise sector. Without strong pre-existing domestic production capabilities, especially in manufacturing, it is almost impossible for microenterprises to be responsive to financial incentives alone and to weather external and policy shocks. It is necessary to take their specific requirements into consideration by means of direct assistance projects and through appropriate regulatory and administrative reforms.

3.1.2 Regulations and Administrative Procedures

Government reforms in this area are particularly relevant to microenterprises. Due to their limited managerial capacity, microenterprises would greatly benefit from a streamlining of procedures and regulations and from the setting of clear eligibility criteria (for licenses, credit, and assistance), rather than a discretionary case-by-case procedure.

In the aspect of microenterprise, relevant issues include:

- To access markets and information
- To legalize their status
- To regularize their property rights
- To streamline taxation and licensing procedures
- To legalize informal foreign exchange dealings
- To remove regulations that discriminate against small enterprises

The removal of explicit and directly discriminatory elements such as subsidies, barriers to entry, and other constraints is relatively straightforward, while much discrimination is

indirect or invisible. The cause of microenterprises' lack of leverage in fighting through bureaucratic red tape, harassment, and corruption is de facto discrimination

In conclusion, the key is to remove these constraints and managerial burdens that regulations and authorities unnecessarily impose on microenterprises.

From directed credit programs to the National Strategy for Microfinance

The Philippines has had experience in Government's directed credit programs starting in the 1960s, which were initiated to address the problem of unequal access to credit and the exclusion of particular segments of society, especially in the agriculture sector, from the credit market. The proliferation of these programs through the next three decades, however, failed to provide sustainable and effective solutions, and instead resulted in large losses to the government arising from subsidies and administrative costs, as well as in distortions in the credit markets.

The directed credit programs of the Philippine government in the 1960s were initially aimed at addressing the problem of unequal access to credit and the exclusion of particular society segments, particularly in the agriculture sector, from the credit market. However, for the next three decades, the growth of these programs was still unable to solve the problems in the sustainable and effective way, even caused the government to suffer huge losses which arose from the cost for subsidies and administrative management as well as distortions in the credit markets.

Calls for a more consistent enabling credit policy environment led to the formulation by the National Credit Council of the National Strategy for Microfinance in 1997. This strategy veered away from active participation of government line agencies in the implementation of credit and guarantee programs. Instead, it focused on the provision of an enabling policy environment and capacity-building, the adoption of market-oriented financial and credit policies (including the use of market-oriented interest rates), and enhancing the role of private MFIs in the provision of financial services to low-income groups.

In order to create an environment that introduced more consistent credit policies, the National Credit Council of the National Strategy for Microfinance was set up in 1997. Instead of having the government line agencies actively participate in the implementation of credit and guarantee programs as earlier, this strategy was aimed at providing an enabling policy environment and capacity building, adopting market-oriented financial and credit policies (including the use of market-oriented interest rates) and enhancing the role of private MFIs in the provision of financial services to low-income groups.

In support of this strategy, the government enacted laws and issued various executive orders and agency circulars. These provided for the rationalization of government-directed credit programs; capacity-building assistance to MFIs that did not involve seed funding, equity infusion or partnership funds from the government; a purely wholesale role for government financial institutions; the promotion of sustainable, community-based private MFIs, an emphasis on savings mobilization; and a recognition of the peculiar characteristics of microfinance.

There are presently three major types of providers of retail microfinance services in the Philippines: (a) microfinance cooperatives (numbering about 50 significant ones); (b) NGOs with microfinance operations (numbering about 500, with 30 conducting sizeable programs); and (c) rural and thrift banks (numbering over 200). Cooperatives typically provide savings, credit and remittance services to group members, NGOs provide credit, insurance and remittance services, while banks provide mainly savings and credit to the general public. Banks can engage in microfinance by establishing a microfinance-oriented bank, a microfinance-oriented branch, or by offering microfinance as one of its products.

MFIs currently reach around 3 million clients in the Philippines, estimated to comprise two-thirds of the potential market. The landscape of microfinance in the economy is rapidly undergoing major changes, with an expanding range of financial services, a shift away from directed credit and donor dependence toward more market-oriented approaches and financially self-sufficient institutions, a change in emphasis from evolving programs to evolving institutions, and growing commercialization with the entry of new players.

The introduction of the new strategy, regulatory framework, performance standards and supervisory approaches has led to the steady development of microfinance in the Philippines. There are now 227 rural, cooperative, thrift and microfinance-oriented banks operating in the Philippines with over 860,000 borrowers and a combined loan portfolio amounting to PHP6billion and collecting over PHP 2 billion in savings from microfinance clients. Commercial banks are increasingly entering the market generally by providing wholesale loans to retail microfinance institutions. The openness of the Bangko Sentral to innovation has proven very beneficial for the industry. At present, new microfinance products such as Micro-Agri Products and Housing Microfinance Products have been approved by the BSP in response to the specific needs of microfinance clients. Banks are also increasingly using ICT in their operations, which now include mobile phone micro-payments, deposits and withdrawals, among others.

Lessons from the Philippine experience

The Philippine experience provides a number of useful lessons for policy makers. The first is that strong private sector collaboration from the beginning is needed to succeed in pushing for critical reforms. Such reforms would then encourage greater private sector participation in microfinance, ensuring a more competitive and sustainable environment. The second is that success can be achieved through less government intervention and a greater emphasis on creating an enabling environment that address legal and regulatory barriers. The third is that capacity- building assistance is more important for MFIs than subsidized credit funds. The fourth is that setting performance standards is very useful for the development of microfinance.

3.2 Facilitated access to financial services

One of the biggest problems of microenterprises is the lack of access to credit. Thus, "fast credit" programs which only and promptly offer credit through simple lending process were launched. Fast credit best approaches accredited enterprises performing in a modern environment that already provides them adequate training, information, technology, assistance services and markets. Fast credit also deals with enterprises run in the traditional environment (first-generation businesses).

Whether credit programs succeed in approaching microenterprises or not mainly relies on terms of lending, resource mobilization (particularly savings), and linkage with existing informal financial institutions.

3.2.1 Terms of Lending

Terms and procedures of lending are determining factors deciding the lending levels that enterprises can reach. Innovative methods have shown their effectiveness in approaching the smallest enterprises. Programs reaching these enterprises have achieved a higher repayment rate than those working with larger firms which have financial assistance based on traditional, conservative lending principles. The actual lesson that can be drawn from different experiments in this aspect is that the poor are absolutely bankable because of their credit-worthiness and inexpensive service. However, there have been few approaches to small firms of Level 3 and above which have the greatest growth potential.

It seems that self-selection not only ensures high repayment rates (not less than 90%-95%) but reduces administrative costs and procedures, and encourages faster loan disbursement. Cost of failure is much decreased by increasingly granting loans from the very small sums. For this reason, it tend to be very essential to resize loans (at the beginning at least) to

small amounts that clients are able to deal with. It is also important to help clients fully understand the principle of interest rates and the consequences of being in debt.

Credit programs should charge non-subsidized interest rates. Cheap credit may negatively affect informal financial institutions, which plays as main actors especially in the development of the rural areas. Without any financial institutions, the project would hardly succeed. In addition, commercial interest rates also give enterprises a hard push to formal credit institutions which offering loans at lower interest rates, encourage a proper allocation of production resources such as capital, promote more careful selection of borrowers, lead to better repayment morale, and reinforce the internal sufficiency of the resource agency (institutionalization of the program). By ensuring a more proper allocation of resources to more efficient activities, high real interest rates basically raise the marginal productivity of capital. Finally, by granting small loans and by charging slightly higher interest rates wealthier entrepreneurs who are already able to access to formal credit are effectively excluded. Nevertheless, for borrowers, terms of lending and the charged interest rates are of equal significance.

To reflect microenterprises' shorter cycle of buying, manufacturing and selling, repayment cycles should be adjusted to be short. For example, the Grameen Bank requires borrows to settle weekly installments regardless of maturity cycles and the end-use of credit. For the low-income group of clients, periodic repayment of smaller sums is preferable because they suffer from high consumption pressures and have inadequate safe-keeping facilities. Besides, flexible repayment terms should be applied on an individual basis to fit the seasonal feature and production cycle of specific enterprises, which consequently makes loans self-liquidating. For this matter, it is worth noticing the reasons for making loans of microenterprises. They borrow money mostly in order to clear their prior debts, to pay for supplies in bulk which are charged at cheaper prices and save delivery expenses, to provide credit to customers and thus both have opportunities to enter new markets and save time collecting dues; and to upgrade manufacturing equipments, to expand their business, and to set up a new venture.

Successful programs have put an emphasis on the importance of working capital though some believes that small enterprises mainly require venture capital. Early investments are chiefly funded by the entrepreneur's savings and borrowings from relatives (equal to or more than 80%) often at interest rates similar to those of informal financial institutions. However, with capital raised from relatives resulting in greater leverage of investment decisions, the risk of dividend overpayment is greater. The ensuing dilution of ownership and returns discourages many from setting up a venture. Yet, it may also be resulted from the greater ease in re-negotiating a debt and in acquiring long-run financing from relatives

and from the insufficiency of other savings and investment opportunities for small entrepreneurs. Lastly, it may simply present the distrust of financial institutions. The reluctance to obtain institutional capital for early investments may minimize the potential importance of financial institutions as sources of venture capital, at least for microenterprises.

3.2.2 Resource Mobilization

Savings mobilization is one of the crucial traits increasing the possibility of success of lending programs, which have been proven true for a number of reasons. It lays a ground for a sustainable developing financial; contributes to the loan fund; eradicates rash loan use, risky business ventures, and weak repayment morale; creates a savings habit as a spiritual basis for investment activities; helps to lower the capital barriers for borrowers, provides them more security and a greater sense of self-esteem; properly follows the self-help principle; helps lenders select borrowers; and also helps to build up reputation of reliability of the organization by providing an addition of careful consideration into its management.

These benefits surpass the latent losses that economies of specialization may suffer from. Despite the recent preference combined savings and credit components, it is suggested that other types of savings with higher profitability be taken into account as well. Non-monetary assets may lose their value less easily during periods of inflation or uncertain and unstable monetary policies of the government. Savings and credit can be integrated in a number of ways, by establishing dual purpose financial institution, or by granting loans when specified savings requirement complied with. A portion of the savings can be deposited with a bank as a pledge for a contractual loan-savings scheme in which a fixed credit-to-savings ratio is specified, conditional on the availability of funds. Direct re-lending activities are also acceptable with this savings fund. In this respect, a flexible ratio with the amount of savings deposited and the quantity of proper repayment cycles can be applied, which therefore promote greater savings and quicker repayment.

Finance and other resources of the formal banking system, and probably of insurance companies for long-run credit should be mobilized and made available to small-scale borrowers as well. Getting banks involved at the first stage offers the two parties opportunities to introduce to each other, subsequently motivates microenterprises to graduate to formal financial at the eventual stage and enhances the sustainability of financial assistance programs as well. This can be effectively done by creating connection between the banking system and existing informal financial institutions with a third party

playing as a catalyst or broker. One crucial criteria of this connection building scheme, however, is a firm and strong formal banking system.

Successful credit programs like that of the Grameen Bank have actually reinforced the positive side of informal financial institutions and have integrated rather than protested local traditional practices and institutions. The process of integration and improvement of existing informal institutions can be regarded as a significant type of local resource mobilization.

3.2.3 Informal Financial Institutions

In any societies, there are different channels of lending; among which establishing permanent institutions are preferred. Below are the four types of informal financial institutions.

Type 1: Rotating Savings Associations

Members of the association make fixed contributions to the fund at fixed intervals. The sum collected belongs to one member at a time in rotating order. The weakness of this type of institutions is the lack of available lending fund for all members in times of need.

Type 2: Rotating Savings and Credit Associations

This type is similar to type 1. The only difference is that a part of the money collected is set aside to build a general fund for loans, insurance, social services and emergencies.

Type 3: (Non-Rotating) Savings Associations

The periodic sums of members are deposited, probably with a bank, and returned at the end of each period the end of which is initially specified.

Type 4: (Non-Rotating) Savings and Credit Associations

The periodic contributions of members and other earnings from fees, penalties, and joint businesses form a loan fund. In most cases, members and non-members are offered loans at different interest rates. Members might or might not receive their contributions back at the end of the specified period according to their initial agreement.

It is observed from the monetization of the economy there is a common inclination from work associations to financial self-help groups, from rotating savings associations to non-rotating ones with a long-lasting revolving loan fund, and from mutual assistance and insurance funds to interest-bearing loan funds. These associations exist for a variety of

purposes and sometimes its real function is not the same as initially publicized. Hence, credit programs can improve their cost-effectiveness by coordinating with these existing associations including religious groups, women's groups to actual credit associations.

Being cash-flow lenders rather asset-based ones, informal financial institutions provide flexible and quick unsecured loans. They also grant loans to formal businesses. Furthermore, based in convenient areas, these institutions can even be approached by the illiterate. They are not as authoritarian as government offices with hard-to-be-squeezed funds. However, these institutions' loans have a drawback which is the high interest rates (not less than 12%, as high as 300%-400%). They averagely charge 20%-50% interest. Local social control mechanisms successfully block cheating and insolvency. Yet, for instance, in India, urban informal financial institutions suffer from bad debts compared with commercial banks with the same kind of credit. In short, on condition that flexible lending activities are applied, the poor can become bankable. In this light, informal financial institutions might be helpful channels approaching poor clients, and existing social associations might act as guarantor for borrower selection and loan repayment.

3.3 Support services and technical assistance

3.3.1 Technical assistance can be divided into different groups on the basis of specific assistance objectives

3.3.1.1 Assisting those kept out of the mainstream economic life such as women, refugees, minorities, and the disabled, etc. in launching their own micro businesses in traditional trades.

Community development or group programs with all-around assistance packages are most appropriate to accomplish this objective. However, it is not easy to be applied to achieve social integration because these groups of beneficiaries have features that make assistance more sophisticated. They are members of a marginal group in society, doing business for the first time. They live in remote places, having no background of handicraft, no experience with credit and little savings.

3.3.1.2 Assisting micro entrepreneurs to conduct their present traditional business activities more effectively (assisting to first-generation enterprises)

Projects which are established with this objective are not popular and their possibility of success is usually suspected. Not many believe that an external agency can help enterprises with their internal activities. The insiders, i.e. microenterprises, are always those who understand their trade most. Assistance to them in this respect is unnecessary but new ideas of exploiting new raw materials, more effective ways of keeping off

regulations and police harassment, advices on locations with higher profitability. These are unlikely to be offered by a formal assistance agency. Nevertheless, should competent delivery mechanisms be applied and services be corresponding to microenterprises' specific needs, there is still a space for support. Thus, assistance based on this objective should involve in self-identification of needs by the beneficiaries and the establishment of business associations as enterprises' forums to discuss and exchange opinions on addressing their business problems. The resource agency mainly plays as a broker and a catalyst.

3.3.1.3 Assisting micro entrepreneurs in moving to the formal sector (assisting second generation businesses of Level 3 and above) or in launching new "modern" small ventures.

Most of the current assistance projects are included in this third group. These are simplified and decentralized projects offering quality services and courses to the modern entrepreneur sector. These programs therefore are feasible and common among different technical assistance activities. The two prerequisites for these programs to effectively approach targeted beneficiaries are timing and location as in business time is money. Also, overseas courses are therefore not preferred due to their higher administrative cost and higher risk of inappropriate and over-sophisticated training content. Some support agencies reach the other extreme when recruiting extension staff with insufficient business knowledge who can only provide simple ill-informed pieces of advice. Such assistance is not only irrelevant but also may harm their businesses.

The biggest challenge of these technical assistance programs is to offer entrepreneurs profits greater than the cost of graduation. Entrepreneurs generally have to learn from scratch how to survive in an unfamiliar economic environment and how to get used to a new social organization of work and production. Simultaneously, they have to leave and no longer get benefits from their formerly habitual community support networks.

Seemingly, in practice the actual importance of bookkeeping in management is exaggerated while that of marketing is usually disregarded. For this reason, entrepreneurs tend to spend much of their valuable time keeping books which they do not even know how to use and which, anyway, is not the solution to address their major problems. Moreover, the domestic and business environments are incorporated in terms of resource allocation and financial flows, thus enhancing the resistance capacity of the business. For this reason, separate bookkeeping for the business is difficult and of little use. Nonetheless, there is little likelihood that most firms can shift to the next stage of development. From a production point of view, an increase in scale is neither necessarily

warranted nor desirable, e.g. retail services and production of goods to customers' specific preference. Further, small-scale activities are preferred when markets for output are limited and entrepreneurs, e.g. craftsmen, want to minimize business risk with a limited but flexible production capability.

3.3.2 Technical assistance can be divided into different categories to address:

3.3.2.1 Strategic Issues:

- entrepreneurship
- government relations
- investment
- planning (access to better premises)
- negotiating
- self-assessment of demands

3.3.2.2 Administrative Issues:

- contracts
- financial management (including under highly inflationary conditions)
- administrative management
- record keeping
- personnel management (information on workplace standards)
- credit (management and information on access to formal credit)

3.3.2.3 Operations and Technical Issues:

- marketing
- sales
- production (trouble shooting)
- quality control (information on product standards)

- inventory control
- customer relations
- technology (the selection and use of new equipments)

The focus can be put on technology. Much should be done to assist microenterprises in getting accessed to new technologies in order to exploit new business opportunities and have higher possibility of winning in the competition with larger enterprises; or else some markets will get more and more over-saturated. Different from larger ones, microenterprises are unable to make a smart choice from the wide variety of technologies. Rather, decreasing the application scale of existing technologies is not a good answer in most cases. Up-to-date technologies should be developed, tested and made available to them, which are costly and sophisticated activities only to be done with necessary facilities and the close-knit cooperation between the scientific community and the microenterprise sector. However, without frequent supplies and expert advices on the issues of raw material, process technologies and quality controls (i.e. without similar improvements in management), improvements in technology will be of little benefit to enterprises

Instead of technological improvement, taking full advantage of products produced with traditional manufacturing methods is recommended. Microenterprises have plenty of public work in many fields, for example, in construction; upon condition that high quality goods and materials are not highly demanded so lower standards of quality are applied.

3.4 Access to new markets

This model may focus on a particular community or neighborhood and emphasizes improving the chances of introducing a business to the area and creating new markets beyond neighborhood borders. This feature of microenterprise development programs focuses on filling unmet consumer demands and minimizing displacement of existing business due to competition. Its success is measured by the number of new businesses. Examples of this may include franchise opportunities or the development of day care centers.

One aspect of creating access to new markets is cooperative or sectorial business development, a collective approach to enterprise development by selecting an industry or sector that has the potential to employ a large number of people (who are usually low-income) and forming a cooperatively owned enterprise in that industry (e.g., home health care or child care). Another strategy is to network entrepreneurs who make similar products so that they might cooperatively seek new markets locally, regionally, nationally, and internationally. In the last decades, cooperatives have been used as a microenterprise model to create and preserve jobs, influence industries to raise wages, and develop

opportunities for business ownership by low-income people in their communities. Its success is measured by the number of jobs created, increased wage levels, increased number of employee-owned and employee-managed businesses, and their potential to influence specific industries.

4. Entrepreneurship and Self-Employment Development

Following the second strategy of economic development, creation of the business seedbed is an important objective to be pursued. Microenterprise start-ups are different from entrepreneurship development when the former is merely the outside of the dynamic business culture, represented by the latter. The latter, therefore, deserves the focus of microenterprise programs by setting aside an important component to identify and encourage entrepreneurship and self-employment development so as to make microenterprises as the seedbed for sustainable development and growth of the economy.

Programs aiming to achieve this objective are usually in forms of training/technical assistance ones targeting establishing new enterprises. Thus, the main function of these programs is to generate new business ideas and help them develop into viable firms.

4.1 Types of entrepreneurship

Entrepreneurship is wide spreading. The real problem lies in the incapability of entrepreneurs to conduct daily management functions effectively, rather than the shortage of innovators. Also, entrepreneurs find it hard to perform new trading activities due to immaturity in working in such businesses and the insufficiency of incentives and support. Entrepreneurship development programs can have three objectives:

- helping those of economic minorities to become self-employed;
- assisting present enterprises graduate by altering their business;
- and supporting the establishment of “modern” enterprises.

4.2 Some models

Entrepreneurship development program will become more potentially successful if the three-step progress mentioned earlier is to be launched in order, especially for communities that are short of entrepreneurial tradition in non-agricultural activities or for groups not yet incorporated into the mainstream economy. Working under other employment can earn the laborers useful experience and skills before they are able to open a business of their own.

While the first objective can be well satisfied through community projects, the latter two require more individualized methods. In the first case, the program is to meet socio-political objectives in the economical way. Skill acquisition through on-the-job training such as apprenticeship is given the highest priority. Technical training institutions cater to demand for skills, not that for goods and services; unlike technical training for employment, technical training for business creation that relates market demands for a product to the technical skills required by the entrepreneur.

4.2.1 The traditional Entrepreneurial Development Program (EDP) model:

It seeks to create first-time entrepreneurs. It utilizes behavioral tests for screening potential entrepreneurs as well as prior motivation and behavior training. It has been widely replicated, with some variations, throughout Asia. The main challenge is that such behavioral selection packages need to be adjusted to the specific target group and to the economic and cultural environment. Also, it is subject to the availability of educated and trained personnel previously excluded from business, which is not always true in many contexts.

It is for the creation of first-time entrepreneurs. It finds out potential entrepreneurs by means of behavioral tests, prior motivation and behavior training. It has been modified and made popular all over Asia. However, it is necessary that changes should be made to these behavioral selection packages so that they will opt to the specific target group and to the economic and cultural environment.

It is easier to reap success with programs designed for existing entrepreneurs than seeking first-time entrepreneurs and matching them with business opportunities. The same situation applies to smaller programs. To that end, programs for existing entrepreneurs are privileged in order to meet the second objective above.

4.2.2 Durham model:

In Durham model, behavioral tests, motivation and behavioral training are excluded for the belief that ownership and business innovation develop motivation and practice makes behavioral attitudes. An intensive and comprehensive business plan whereby participants identify, develop, defend and implement a business idea is the key to a successful entrepreneurship development program. Therefore, training activity is adopted immediately under the Durham method which also shortens training cycles and lowers the program cost.

The candidate is recruited on grounds of their past experience and background. However, under this recruitment process, existing elites are usually retained because the selected

ones are mostly from a community or family that has a strong tradition in business ventures.

4.2.3 The process model

The process supervision is most compatible with this type of program for the reasons listed below: The structure of the training content is based on the participants' capability and the business stage when they join the program. The training method is flexible and practical, affords the opportunities for individual participation, adapts to participants' needs and encourages business initiatives.

4.2.4 Government-sponsored business nurseries and incubators:

A lot of criticism has directed at this supervision for its deemed bureaucracy and entrepreneurship suppression as the program has enabled the beneficiaries to free from risks which are claimed as an dispensable factor in doing business and a driving force to entrepreneurship development. In other words, risks should not completely be shifted from the shoulders of entrepreneurs to those of nurseries and incubators.

5. Delivery

The reality has proved the effectiveness of self-help associations and private voluntary organizations managed by entrepreneurs themselves who have been familiar with the trading activities rather than by agencies with civil servants having little business experience. That is because entrepreneurs generally would rather work with their fellows. Such support activities conducted on mutually beneficial basis will result in networking with more linkages between formal and informal enterprises, thus lead to the restructuring of the economy.

Most specialists believe that compared to dual-purpose agencies (those working for both financial and technical assistance), single-purpose ones are more preferred. Due to their lack of staff, financial institutions also meet difficulties in more support than follow-up and client supervision. However, if the objective is set as graduation of enterprises, dual-purpose agencies with a cautious combination of the two types of assistance are recommended.

Organizations providing technical assistance should be small, local and independent to perform effectively. Microenterprises should be closely assisted in their daily business activities for graduation or in their follow-up activities for development. In this light, not only the substance but also the style and procedure of assistance, i.e. the flexibility, "gap filling" under pressure, showing concern, should be taken into consideration. Flexibility is

reinforced if beneficial enterprises are grouped in discussion to find solutions to their business problems, to exchange ideas and information with each other, and to help to further specify their assistance needs. Such a grouping basis may be applied when gradually expanding the scope of assistance programs. However, resource agencies should play an intermediary role rather than make effort to solve all the problems of enterprises.

6. Examples of innovative models to promote microenterprises

6.1 Microenterprise Clusters:

In developing economies, the rural cottage industry (an industry where the creation of products and services is home-based, rather than factory-based) consists mostly of pre-entrepreneurial one-person microenterprises, often headed by women who would be assisted by casual helpers (often children or aged family members). Though its social functions made it the most deserving rural target group for poverty alleviation, its fragmentation, dispersion and instability made it almost inaccessible for development programs. Levitsky (1996) argued that the main problem of cottage industry is not its small size but its isolation. An isolated location would not only restrict the type of products and the quantities that could be sold, it would also hinder access to information, finance and institutional support. The importance of location for rural industry was stressed by other researchers. Some case studies showed that certain poor but clustered cottage industry branches might even be incorporated in modern international production networks (White, 1992).

Further study (Hermine, 1999) confirmed that cottage industry people can be made to become dynamic entrepreneurs when operating as a group in clusters, provided their clusters are well connected to trade networks and supporting institutions, and provided their economic activities are well chosen. His study demonstrated that rural cottage clusters may have a seedbed function for industrial development and that in rural areas with dense trade networks cottage industry had not been limited to its small local market but could be incorporated in a wider economy. Clustering was a common survival strategy for cottage in Indonesia. APEC has already taken this approach as one of its activity to support SMEs by organizing an APEC Symposium on Industrial Clustering for SMEs in 2006. Case studies including Chinese Taipei's Hsinchu Science-based Industrial Park (HSIP), Silicon Valley in the U.S., Malaysia's Penang and Kelang Valley clusters, and the Hamamatsu cluster in Japan clearly indicated that industrial clusters are of great advantages to SME development. An APEC Best Practice Guidelines on Industrial Clustering for SMEs has been issued.

A successful case of clustering in China

The traditional footwear industry has a history of over 500 years in Wenzhou. However,

by 1978, there were only 19 footwear factories left, including two state-owned, eight collectively owned and nine privately owned shops, with a combined output of 496,800 pairs of shoes per year. These “seed factories” trained a large number of technical workers, marketing specialists, and management talents, laying the groundwork for the emergence of the Wenzhou shoemaking industry in the subsequent reform era.

After 1978, the Wenzhou private shoemaking business recovered rapidly. As state- and collectively-owned businesses gradually went under, more and more ex-employees set up their own workshops and the local shoemaking business boomed. By the end of 1981, there were 99 shoemaking factories in the Lucheng district of Wenzhou alone. As of 2006, Wenzhou had become the most important footwear production base in China and was nicknamed the “Footwear Capital of China.” In fact, since the reform in the late 1970s, Wenzhou gradually formed a highly specialized and coordinated industrial cluster consisting of over 4,000 shoemaking factories (over 30 leading companies with a yearly output value of more than 100 million yuan), 200 leather enterprises, 380 footwear sole enterprises, 200 footwear machine manufacturers, 168 footwear last factories, 100 footwear accessories and ornamental materials enterprises, 50 footwear design studios, and numerous specialized footwear-related information service agents, training schools, research institutes, and family workshops. These enterprises, institutions, and household workshops were linked together via numerous specialized markets, such as the Wenzhou “Footwear Capital” Market, the Hetongqiao Footwear Accessories and Ornamental Materials Market, the South Zhejiang Footwear Accessories and Ornamental Materials Market, the Original Leather Market, the Leather and Footwear Machine Market, and the Leather Chemical Market.

In 2004, the total output of the Wenzhou footwear cluster amounted to 835 million pairs (including 452,980,000 leather shoes, 3,440,000 cloth shoes, and 378,630,000 rubber shoes), and the cluster employed over 400,000 people. Total shoe production in this region increased from 500 thousand pairs in 1978 to 835 million pairs in 2004, with an annual growth rate of 33%.

6.2 *One village one product (OVOP)*

In 1979, Mr. Hiramatsu, Governor of Oita, took the initiative in starting “OVOP” movement. He had the simple but powerful idea of encouraging villages or local areas to concentrate on one product that they did very well and then work to market that product abroad. The One Village One Product concept grew out of this. In the current trend of urbanization, the population shift from rural areas to major cities causes the loss of vitality in various regions. It was, therefore, necessary to create new industries to regional areas. OVOP was an initiative that works if people have longstanding tradition in producing certain kinds of products. The idea was also to make products that represented local areas/regions but that could also be competitive in global markets. Villagers themselves

were encouraged to decide which product(s) should be chosen as OVOP products and local governments were intended only to provide technical assistance.

The establishment of a Laos national brand

In 1998, JETRO dispatched a Japanese expert to Laos to help the country develop its export industries. It held an Indochina exhibition in Japan that displayed selected products chosen by the expert. Laos's textiles were highly valued in the exhibition. Because of the high interest in Laotian textiles, JETRO sent the expert back to Laos a total of five times to work on building up this industry. Then, from a monitoring survey, it was found out that such textile products were virtually unknown in Japan. Therefore, the establishment of a national brand was proposed as a way to promote Lao textiles abroad. Based on the suggestion by the expert, the brand name "Chai Lao" (Heart of Laos) was created

6.3 The use of communication and technology

6.3.1 Telecenters

Community Information Centers (CICs) or telecenters are considered among the tools used to allow a freer flow of communication and information to reach villages and rural areas in Bangladesh, and which could in turn help even small business people or micro entrepreneurs to increase their client base and address information needs. The CIC provides communication, data access and other services that help cater to the learning, livelihood, and communication needs of people living in these remote areas.

Grameenphone CIC in Bangladesh

A Grameenphone CIC is a center equipped with a computer which can access the internet using an EDGE modem. A variety of services are made available via this telecommunication link – voice, email, web and other information based services. Through GP CICs, online marketing, trading, and business transactions can take place through the Cell- Bazaar. CellBazaar is a Grameenphone service that makes buying or selling goods and services possible through the Internet and over the mobile phone. One can post information on goods to buy or sell on Cell- Bazaar (via its website, or for Internet/EDGE activated mobile handsets, one can go to wap.cellbazaar .com with the phone's internet browser). Sellers can be contacted directly. When buyers see an item they like, they can call the seller, get additional information, and meet the seller to complete the transaction. CellBazaar is an example of a platform which micro entrepreneurs can use. It can give them a wider reach and allows them to sell to regions all around Bangladesh. There is still, however, low awareness and usage of the Internet through CICs in remote villages. Grameenphone seeks to beef up awareness of Cell- Bazaar through their local CIC entrepreneurs. There may also be other internet-based solutions that may provide

assistance to microenterprises insofar as their information and communication needs are concerned.

6.3.2 The Mobile Phone as an Enabling Tool

Constraints faced by microenterprises could be reduced in some way with the mobile phone as a business-enabling tool. The mobile phone has become as a catalyst for productivity, networking and information gathering. The mobile phone as a productive tool implies that the small business owners use the mobile phone to conduct business either to complete an order or bid for a stock. In one sense, the mobile phone acts as the compressor of time and distance, minimizing the need for travel or to have face-to-face meeting to complete a business deal. The mobile phone can act as the ‘gatherer and disseminator’ of information for micro entrepreneurs. There are examples of this, especially the well-known stories of the fisherman or farmer checking prices, finding suppliers or bidder customers through his mobile phone. Through the socio-economic lens, mobile phones resemble an engine that pulls forward the socio-economic status of the owner – owning a mobile phone is liberating the economic boundary of the small business owner, therefore, he or she can now be in touch with other business partners or customers. Moreover, the mobile phone also serves as a tool to create networking opportunities – one chance encounter or chat through the mobile phone leads to another business opportunity scenario. The widespread use of mobile phones among the small entrepreneurs leads to new practices in their business transaction, and these changes have significant implications for mobile operators who wish to capture these small entrepreneurs’ unmet needs. Because of the adoption of these new modes of space-time coordination and increasing mobility of the small business owners by owning mobile phones, the spatial formation and processes of interaction between buyers and sellers have apparently become much more complicated in this age of mobile communication.

6.3.3 Internet-Based and Mobile-Based Platforms for Microenterprises

While there are challenges faced by microenterprises, nowadays there are possible tools made available through ICTs for their empowerment and growth. Internet- and mobile-based applications can be used to help microenterprises handle concerns regarding information and communication. Such platforms can provide venues for bringing micro entrepreneurs and traders/ buyers to meet online. This, however, would entail significant work insofar as consciousness-raising on the benefits of the Internet is concerned. At present, there seems to be little awareness and interest among farmers, fishermen, and other small entrepreneurs in availing of Internet services, much less in visiting them. In setting up an Internet-based system, it is essential to build upon and integrate already existing indigenous information mechanisms to make it more viable. This may still include participation of middlemen but in a different level or degree. Making them part of a new digital trading system may entail re-training or re-tooling. However, their

knowledge on the local ecosystem could be helpful, however, and including them as a player in an ICT-based platform can make transparency more possible. This augurs well for small enterprises to ride on the benefits that ICT tools can offer to improve the cost of doing business even in extremely challenging and competitive local settings.

7. Case study - Viet Nam

Since the institutions and types of support have been reviewed from literature above, this section will highlight the experience in Viet Nam.

7.1 High-level support from the Government

Microenterprises in Viet Nam account for 2.7 million, or 97% of total establishments, they employ approximately 5 million people, 52% of the non-farm employment nationwide. Microenterprises are mostly active in wholesale, retail, and service industries.

Up until the second half of the 1990s, development of private sector enterprises, most of which were MEs and SMEs was not very high on the agenda of the Government. However, particularly after the Asian crisis of 1997, importance of SMEs in Viet Nam increased, as MEs and SMEs were able to absorb redundant employees of State-owned enterprises that were put through a rigorous restructuring program. The society's perceptions of MEs and SMEs also started improving from then on, where micro and small enterprises could generate enough income for survival through recessions.

Business enabling environment for microenterprises

In order to create a business environment conducive for enterprises, the Government has issued and introduced a series of new legal documents and support programs as follows:

The Enterprise Law 1999, together with many other reform policies, has brought about important changes in Viet Nam. It has played an important role in liberalizing market forces and in mobilizing domestic resources for social and economic development. Statistics from the Agency for Small and Medium Enterprises Development (ASMED) reveals that 160,172 enterprises were registered during the 2000-2005 period. This is 3.2 times more than the total number of enterprises registered in the previous eight years, from 1991-1999. Accumulated capital registered by new enterprises amounts to nearly VND 321,200 billion (approximately US\$ 20 billion), many times higher than that in the 1991- 1999 period, and domestic investment in SMEs also overtook the amount of registered foreign direct investment (FDI) in the same period.

On 1 July 2006, the Enterprise Law 1999 was replaced by the Enterprise Law 2005,

which was approved by the National Assembly on 29 Nov 2005. In content, the new Law inherits and further expands the reforms which were introduced successfully by the Enterprise Law 1999, creates a “level-playing field” for all enterprises doing business in the market and equalizes the treatment of domestic and foreign investors.

After promulgating Enterprise Law 2005, the State issued Decree 88/2006/ND-CP dated 29/8/2006 guiding business registration, which simplifies business registration processes and procedures to minimize the administrative obstacles in startup a new firm. Furthermore, business registration reform has recently been launched to move to single point registration for business, tax, seal and statistics purposes. This reform is expected to lead to remarkable decrease of cost, including money and time for market entry.

The Government also has State programs and allocates State budget for supporting the development and maintenance of craft villages (including: traditional craft villages, craft villages attached to tourism activities, new craft villages). Those can benefit are MEs and SMEs established under Enterprise Law, Cooperative Law, households that invest in manufacturing, services belonging to rural industries in rural areas. Local People’s Committees prepare the master plans for building craft villages and create favorable conditions for MSMEs to have production sites in these villages. Capital for infrastructure construction and environment protection in craft villages are withdrawn from local budget.

There are also support policies for cooperative development with measures like: provision of information and raising knowledge about cooperative operations and management; providing consultancy services for preparation of cooperative charters; improving cooperative’s establishment, registration and operation procedures.

The ASMED Business Portal, which was prepared with assistance from the United Nations Industrial Development Organization (UNIDO) and which will be on-line soon at www.business.gov.vn, provides comprehensive information on business regulations. By accessing the Portal, businesses and entrepreneurs may check which regulations apply to their business activities, read user-friendly information fact sheets for licenses and download the full text of all related regulations. In addition, there is an extensive business advice section providing information on starting up, financing, human resource management and marketing. A third section of the Portal is devoted to information on the SME policies, SME support institutions, state of SMEs in Viet Nam as well as directories of registered businesses in Viet Nam, business associations, business and legal consultants, banks, leasing companies and other institutional and support information for microenterprises and SMEs. The Portal provides information both in Vietnamese and English.

Facilitating microenterprises to resources

Access to finance

Since 2003, State Bank of Viet Nam guided credit institutions to give loans without collateral up to 30 millions VND for farm owners; up to 50 millions VND for enterprises that produce and sell aquatic products; up to 100 millions VND for cooperatives that supply materials, breeding plants and animals for production of agricultural, aquatic, forest products; up to 500 millions VND for cooperatives that produce export/traditional products.

To help MEs get loan from commercial banks, the State also encourages setting of Credit Guarantee Funds in localities. These Funds may be established with a minimum VND 30 billions (USD 2 millions) in which local governments contribute equal to or less than 30%, remaining amounts coming from other credit institutions, business associations, large enterprises, sponsors. To receive guarantee from these funds, enterprises must have a collateral or mortgage worth at least 30% of the loans. These Funds are non-profit oriented and can guarantee up to 80% of the difference between enterprises' collateral and the loan. While a number of provinces have attempted setting up Credit Guarantee Funds, interest from other credit organizations to join have been lower than expected and most Funds are still at the design stage.

Development Assistance Fund (DAF) - grants credit to export processing projects, agricultural production projects like: perennial plant production, breeding of cattle, aquaculture, and salt production. This Fund grants credits up to 90% of project's total investment capital at or slightly below market rates. Investors can use assets deriving from loans to guarantee that amount of loan or use other types of guarantees. Investors cannot transfer, sell, give, offer, mortgage, or use assets obtained through DAF loans to get other loans from other credit institutions while their debts are outstanding. In May 2006, DAF has been converted into the Viet Nam Development Bank with chartered capital of VND 5000 billion (USD 312,500,000).

Viet Nam Bank for Social Policy (VBSP) is a Government financial institution that provides financing programs for the poor and small businesses. VBSP was established in October 2002 and has been in operation since January 2003. It has 64 branch offices and 592 transaction offices in the provinces. As of 31 December 2005, outstanding loans of VBSP were VND 18.4 trillion (USD 1,152 million).

SME Development Fund (SMEDF) is sponsored by EU and managed by Viet Nam Development Bank. This Fund gives credits and assists partner banks to improve

financial services for micro and small enterprises. Funds partner banks are the Industry and Commerce Bank (Incombank), Bank for Agriculture and Rural Development (Agribank), Bank for Investment and Development of Viet Nam (BIDV) and Asian Commercial Bank (ACB). Phase II between EU and Viet Nam was signed on 16 April 2003, with a total capital of EUR 22,4 millions in which EUR 1 million was reserved for technical assistance.

Human Resource Development

In 2004, the Government decided to facilitate training support programs for enterprises. The program's implementation period is from 2004 to 2008 (5 years) with total State budget of VND 120 billions (USD 7.5 million). Targeted trainees are enterprise owners, potential entrepreneurs and enterprise managers. The program grants subsidies to training course facilitators to cover tuition, accommodation, transportation costs of trainees and training programs focus on formulating business strategy, business management skills, writing bankable business plan, marketing, etc. Since its inception, local authorities, business associations, universities and training schools and training service providers have organized 135 training courses for approximately 6000 trainees.

Viet Nam Chamber of Commerce and Industry (VCCI), which had partnered with ILO in the past, is presently franchising SYOB (Start Your Own Business), SIYB (Start & Improve Your Business) courses to training service providers to hold courses for start ups and existing micro and small enterprises.

Viet Nam Cooperative Alliance (VCA) is another training facilitator which has organized training courses for 12.000 enterprise owners on start-up, promotion of existing enterprises through its provincial network of local Cooperative Alliances.

Technology

Ministry of Science and Technology has an online equipment & technology "market" (virtual techmart: [http://www.techmartViet Nam.com.vn/index_html](http://www.techmartVietNam.com.vn/index_html)) which attracted more than 1000 research institutes and enterprises. In this website, there is information about 2000 technologies and 4500 types of equipment and machinery and total transactions between technology suppliers and buyers have already amounted to VND 2000 billions.

The Government established 3 Technical Assistance Centers for SMEs in the North, Center and South of Viet Nam to provide consultancy on technologies and techniques, equipment leasing, product quality testing. There are also two incubators being set up in Hanoi focusing on food processing and in Ho Chi Minh City on information and

communication technologies for micro, small and medium sized enterprises in collaboration with an EC program.

Enhancing business opportunities for microenterprises

To enhance MSMEs capacity in accessing available business opportunities, Ministries, localities, and industrial parks have their own websites to provide information for enterprises and some websites have “business - matching” section in which enterprises can register online their products and look for partnerships. The following website: www.smenet.com.vn is one of the examples. This is implemented by VCCI, with sponsorship from Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), where microenterprises and SMEs may access information about business management issues, regulation consultancy, export and finance in both Vietnamese and English. There are now 800 registered enterprises since the launching of this site some years ago.

The central Government and also local provinces organize exhibitions, trade fairs for enterprises to participate and show their products, sign business contracts, and exchange business information. In the year 2005, there were 163 exhibitions/trade fairs nationwide with an average of 150-200 booths each (some with 500-700 booths). This figure for 2006 is expected to be around 290 (exhibitions/trade fairs). At present, there are 44 trade promotion centers and 27 trade promotion offices in 64 provinces, and 66 business associations, diplomatic and trade representative agencies that are promoting Vietnamese products abroad and form the domestic and international trade promotion system.

The Government disseminates information about the Government contracts through a periodical magazine. This magazine is frequently published on Monday, Wednesday, Friday since December 2004 with 2000 copies each time. The Government also has a website: <http://dauthau.mpi.gov.vn> for online procurement as well. On this website, regulations on procurement (international and domestic laws, decrees, guiding circulars), procurement plans, invitations for bidding, and tender results are published. This website was launched just 8 months ago, and until now, 88 procurement plans, 100 invitations for bidding, 315 Frequently Asked Questions (FAQs) were received and replied to via e-mail. This is part of Government’s efforts for enhancing transparency in procurement and stock selling process in Viet Nam. All enterprises can access to this website and register for bidding and this is considered the fastest, cheapest way for finding suppliers.

7.2 Support by local government

A Trade Promotion Program worth VND 16 billion (approximately USD 0.9 billion) was sponsored by Ho Chi Minh city’s People’s Committee, aiming at increasing export turnover and improving the reputation of Vietnamese products in the world market. The

program is operated by three agencies which are Department of Planning and Investment, Department of Commerce and Investment and Trade Promotion Center,

The program includes the following activities:

- Creating virtual trade fairs on the Internet in order for the enterprises to exhibit their products on line and for potential customers all over the world to have the initiative to contact the exhibitors. At first, the virtual trade fairs only focus on four main production branches: textile and garment, handicraft, sea food, and processed food.
- Providing financial support in order for the Small and Medium-sized Enterprises to conduct market surveys and do further research on customers' need for products in some economies.
- Sponsoring trade missions (each mission consists of 10-15 members) for export markets such as the United States, Germany, Japan and Switzerland to exhibit and advertise products as well as to present Vietnamese products and build relationship with potential distributors.
- Organizing workshops on foreign markets, trade barriers, trade legislation and fundamental elements in business culture (i.e. etiquette in business) Vietnamese enterprises should fully acknowledge so that they can work well with foreign firms. In addition, the program also aims at the training of export marketing strategies into niche markets for 1,000 entrepreneurs and the improvement of product quality to enhance competitiveness.
- Establishing a Trade Development Authority in some economies to support Vietnamese enterprises to seek trading partners and provide information on Vietnamese enterprises and market to foreign importers. The Center for Trade Promotion is going to be established in Germany (Dusseldorf) and the United States of America.

7.3 *Support by international organizations*

7.3.1 Small and Medium-Sized Enterprise's Sponsorship Program by JBIC

This program is funded by Japan Bank for International Cooperation (JBIC), and operated by Ministry of Planning and Investment (MPI) and the State Bank of Viet Nam (SBV). It started in July 2002 and expectedly lasted 4.5 years. The program's objectives are to provide medium-term and long-term loans for Small and Medium-sized Enterprises through intermediary banks including Viet Nam Bank for Industry and Trade, Bank for Investment and Development of Viet Nam, Eastern Asia Commercial Bank. All the

enterprises that can meet the requirements of lending can receive a loan directly from these banks. The total budget of this program is up to Yen 4 billion (approximately USD 33 million). JBIC's website is www.jbic.go.jp. The loan period and requirements of lending of JBIC are as follows:

- SMEs which have lower than 300 employees and whose charter capital do not exceed VND 10 billion can file a loan application form to one of the chosen banks listed above.
- SMEs to be lent must be located in Hanoi, Hai Phong, Da Nang or Ho Chi Minh City.
- The maximum loan limit is VND 20 billion. The loan period does not exceed 10 years, including days of grace and at the lowest interest rate permitted by SBV.
- The loan structure for each project is specified as: JBIC may lend 65% of the total project cost at most, 20% of which must be lent by the chosen banks and 15% of which must be covered by the Small and Medium-sized Enterprise itself.

7.3.2 Economic re-integration Program for repatriates of KfW

This program is funded by Kreditanstalt für Wiederaufbau (KfW), Germany. It aims at providing credit to Viet Nam IncomBank which, in its turn, provide medium-term and long-term loans at a market interest rate to Small and Medium-sized Enterprises. Each loan may go up to EURO 100 thousand (around USD 100 thousand) and may last 10 years.

7.3.3 Mekong Enterprise Fund

Since April 1002, Mekong Enterprise Fund has acted as an investment fund with the total capital of USD 18.5 million. The Fund drives at providing investment in the form of shares to private enterprises in Viet Nam, Laos and Cambodia. It doesn't perform as a bank and does not offer loans. Despite its investment in different fields, the Fund often concentrates in export-oriented companies which can exploit its area's competitive advantages. It invests in companies with a good management, considerable achievements, and a great potential to keep developing under the Fund's support. Companies that are first invested by the Fund also receive its frequent support in the post-investment period without any interference in their daily management activities. Each investment sum usually amounts from USD 500,000 to USD 1,850,000. The fund does not offer any investment greater than 30% of the company's shares.

7.3.4 Mekong Project Development Facility

Rather than some financial assistance, MDPF also supports local service providers in

developing its capacity of providing business development services to Small and Medium-sized Enterprises. MPDF concentrates its efforts in such fields as: management training by Flexible Study Programs, banking service improvement through Banking Training Center, Small and Medium-sized Enterprise support and capacity building support for management consultants. MPDF helps to develop quality products/services, and to build distribution channels for these services widely. As a part of the program, MPDF offers Small and Medium-sized Enterprises support in identifying the areas in which they should receive the assistance from external service providers, and they have to pay a low fee for this service.

7.3.5 GTZ's support for Small and Medium-Sized Enterprises

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, an organization under the State of Germany, operates as an international cooperation service company. In Viet Nam, GTZ co-ordinates with the Business Promotion and Service Center (BPSC), Viet Nam chamber of commerce and Industry (VCCI) and Directorate for Standards, Metrology and Quality (STAMEQ). GTZ's programs aims at:

- Enhancing competitive capacity of small and medium-sized enterprises in particular and the private sector in general;
- Promoting business development services in some areas such as management training and counseling, internet information services, software services and other information technology services, quality control, environment control, and other social and labor criteria.

GTZ offers the SME.net system, which is the first internet information system in Viet Nam to be designed to meet the information demand of the enterprises and business consultants. SME.net provides information on business management, laws, exporting and finance in both Vietnamese and English.

The Export Promotion Project by GTZ assists The Software Development Company VASC to build an export-import website (www.exim-pro.com), as well as trains the managers to get ready for attending trade fairs in Germany more effectively. The Quality Control Program often organizes seminars to “train the trainers” in quality control. This program is for consultant companies, business developers, and SME support organizations.

7.3.6 The SME support program by SwissContact in Viet Nam

Funded by the Switzerland's government, SwissContact started its activities to support Small and Medium-sized Enterprises in Ho Chi Minh City in 2001. SwissContact offers technical assistance for those firms that specialize in providing business development

services, especially VCCI and Viet Nam Plastics Manufacturer Association. The program has focused in the plastics industry and has planned to extend its activities in other industries since 2004.

7.3.7 Private Sector Development (PSD) Program by DANIDA

PSD Program is funded by Danish International Development Agency (DANIDA). The program focuses on setting up cooperative relationship of long-term stability and mutual benefit between Danish companies and local private companies. These relations may later become trade relations and lead to technical transfers to the local private companies as their partners. Criteria of choosing Vietnamese companies for the program are:

- Small and medium-sized enterprises;
- Manufacturing factories in any industries (except for trade and service);
- Limited companies and Joint Stock companies (except for Joint Venture Companies and Private Enterprises);
- Those with profitability in the past 2-3 years.

The program is divided into two parts:

- Domestic enterprises may ask PSD Program for its support in finding and introducing themselves to Danish companies, and its financial support covering the travel cost to Denmark for attending trade fairs, doing market research and seeking for partners.
- Once the relationship has been established between a Vietnamese and a Danish company, the companies may ask PSD Program for financial support for some technical assistance services for technical transfers in a particular time.

7.3.8 Japan External Trade Organization (JETRO)

JETRO was established by the Government of Japan aimed at helping foreign enterprises to promote trade and other business opportunities with Japanese ones. Its objectives are:

- Supporting small and medium-sized enterprises in international trade and investment activities;
- Helping developing economies to promote the network of components suppliers for Japanese firms via “reverse trade fairs” where exhibit products that Japanese firms have the desire to buy;
- Creating a virtual fair on the homepage of JETRO to motivate developing

economies' enterprises to utilize the Internet for the effective product exhibition and potential customer maintenance in Japan;

- Organizing workshops and training courses in Japan for staff working in both Government-related and private sectors from developing economies.

JETRO opens various Centers for Trade Promotion in Tokyo, Osaka, Yokohama, Nagoya, Kobe and Fukuoka to support the enterprises in the initial stage of market development in Japan by temporarily providing adequately equipped offices in a certain period of time free of charge.

Trade Tie-up Promotion Program is a commercial website at www.jetro.go.jp/ttppe. Through TTPP, JETRO offers help for the cooperation between Japanese firms and foreign ones for mutual benefits in export/import activities, technical cooperation and other relationships when they register and make a search from the database which is connected to the webpage.

7.3.9 Center for the Promotion of Imports from Developing Economies

The Center for the Promotion of Imports from Developing Economies – Holland (CBI) is a Dutch government-related agency whose plays the role in promoting European economies' imports from developing economies. The center is operating in Viet Nam through the Investment and Trade Promotion Center (ITPC). Each program includes various components such as: technical support in the enforcement of regulations and standards, marketing, production and management, training of export knowledge and skills, administration and support in market penetration. The requirements for participation in these export promotion programs may vary.

CBI is adopting export promotion policies for the following categories of products:

- Electronic components and mobile device components
- Textile
- Handicraft
- Software and IT services
- Wood and wooden products
- Wooden furniture
- Organic food ingredients
- Personal protective equipment

- Conducts and conduct-related machinery

CBI provides tools for Vietnamese exporters to acquire information on European market as follows:

- An online database on market data and non-tariff trade barrier. The data also include market development projects, import statistics, channels of distribution, regulations on market penetration, etc...
- Online market surveys and instructions on marketing strategies for more than 50 groups of products.
- “Fashion forecast” provides forecasts and illustrations on the latest fashion trends of the incoming seasons for textile exporters.

CBI and the Investment and Trade Promotion Center are employing a group of experts for a program named “Vietnamese textile in EU market post 2004” (“Target 2005”) to prepare Vietnamese textile enterprises for continued existence and development after import quotas were abolished for WTO members in 2005.

CBI creates a database on its website to help enterprises make online search for appropriate trading partners. This database includes information on exporters from developing economies who wish to find business opportunities for export, processing or manufacturing under the client’s trademark with firms from EU members.

7.3.10 British Executive Services Organization

British Executive Services Organization (BESO) is sponsored by the Department for International Development of the government of England and exclusively provides consulting specialists for small and medium-sized enterprises and government-related organizations in the least developing economies. Depending on the support request, BESO shall look for an experienced volunteer to take on a business trip lasting from 2 weeks to 6 months. BESO does not require any fees other than accommodation, meals and travel costs for volunteers during their working period from the requesting organization. BESO has about 3,500 specialists, most of who have retired and have extensive professional experience and skills in various fields such as construction, wood manufacturing, handicraft, plastic etc. Its representative in Viet Nam is Technology Development Corporation (TEDCO) in Ho Chi Minh City. Since its establishment in 1993, there have been over 50 projects in Viet Nam.

7.3.11 Senior Exporter Service (SES) of Germany

SES is a non-profit organization sponsored by the Federal Ministry for Economic Cooperation and Development. SES sends German retired technical specialists and

managers to work as consultants to local enterprises in a short period of time on a voluntary basis. This program was first launched in Viet Nam in 2000, and so far, 24 specialists have been sent there to cover a variety of sectors such as plastic, weaving and agriculture. The program welcomes the participation of all firms, especially small and medium-sized enterprises of the private sector. Upon receipt of the request for support from enterprises, the program shall look for and provide the most appropriate specialist out of 5,400 voluntary candidates. The supported enterprises only need to pay for accommodation, meals and travel costs, plus a modest amount of daily expenses of US\$8. However, if the enterprise is able to justify that it is in need of financial support, the program shall consider the reduction or exemption of these expenses.

Conclusion

Considering the impacts of a number of assistance forms to microenterprises and SMEs in Viet Nam over the past decade, many MSME experts in Viet Nam agreed that the Government's intervention in terms of introducing open and competitive environment for the private sector to play is the most effective form. Effectiveness was evaluated on the basis of job creation and income generation, which contributed to the higher level of living standards to the ordinary Vietnamese. Effectiveness was also praised on the basis of the presence of strong domestic producing and manufacturing sectors, helping Viet Nam to become an exporter in the world market. This experience maybe somewhat unique to Viet Nam as it was a transitional economy from planning, where State owned enterprises were dominant, to market-oriented, where the private sector was encouraged. However, it demonstrated the high potential and importance of the Government intervention when it produced the right strategies and policies.

State mechanisms to fund or grant credit to microenterprises and SMEs in Viet Nam showed little success as they were bureaucratic and not easily accessible to the beneficiaries.

The engagement of other international organizations was too much related to SMEs and showed little connection to microenterprises. This might be the result of undue attention to microenterprises as a growth force of the economy, but a poverty reduction pathway only; or they might have rigid requirements that could be satisfied only by larger and formal enterprises, rather than microenterprises.

However, as Viet Nam is a latecomer to the field of microenterprise and SME development field, its experience is still limited. Sharing of experience is important to those developing economies like Viet Nam.

CHAPTER V. APEC AND MICROENTERPRISES

1. The relevance of microenterprises in relation to APEC goals

APEC was established in 1989. It now has 21 member economies. The objectives of APEC are to:

- sustain the growth and development of the region for the common good its peoples and, in this way, to contribute to the growth and development of the world economy;
- enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, including by encouraging the flow of goods, services, capital and technology;
- develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies;
- reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies;

According to the Profile of SMEs and SME Issues in APEC 1999-2000, nearly 72% of all formal sector private enterprises in APEC are microenterprises, representing 20% of formal sector employment. Even though this information relies only on formal definition of microenterprises, it provides a clear indication of the wealth producing potential of the sector. The significance of the formal microenterprise sector suggests that these types of businesses are a “seed bed” for entrepreneurship and growth, as an alternative to unemployment, and as a means of alleviating poverty. Besides, microenterprises also constitute important social safety nets in APEC developing economies in times of economic downturns and crisis.

At the APEC High Level Meeting on Microenterprises in Mexico 2002, it was confirmed that microenterprises play an important role in all APEC economies, enabling the participation of large numbers of people in productive economic activity while fostering entrepreneurship, innovation and self-reliance.

Considering the important role of microenterprises in APEC economies, promoting the prospects of microenterprises by removing obstacles to their start-up and growth is part of APEC mission of helping all member economies realize their full potential for sustainable economic growth.

Attention to microenterprises is an organic part of promoting progress towards APEC objectives in terms of shared prosperity, gender equity, poverty alleviation, and the strengthening of social safety nets. Development of APEC microenterprises can lead to increased support for active engagement in the global economy, tapping the enormous potential which exists in the human assets of all economies and, by reducing vulnerability, confronting potential threats to stability in the region.

Giving these considerations, APEC take both groups of objectives in supporting microenterprises as presented in Chapter II, Section 2. However, it seems to give more weight to the dominant functioning of microenterprises, including: solution for absence of safety nets for unemployment or economic shocks, contributing to balanced growth for economic sustainable development; poverty reduction; empowerment of marginalized groups and seedbed for entrepreneurship development.

2. The support of APEC to microenterprises

2.1 Political support to ME development

Taking into account of the important role that MEs have been playing, APEC Leaders in Shanghai, China in 2001 instructed Ministers and officials to build on APEC's Integrated Plan of Action for SMEs and place special emphasis on microenterprises. It was also recognized that one of problems faced by MEs is how to broaden their access to financial institutions, particularly Micro Finance Institution (MFI).

In 2002, during their meetings in Los Cabos, APEC Leaders acknowledged the substantial contribution of MEs to trade and economic development in the APEC region. In this context, Leaders called on Ministers and officials to develop programs to remove obstacles inhibiting their growth, including as regional exporters. In 2003 in Bangkok, APEC Leaders and Ministers called for coordination on microenterprise financing and capacity building initiatives, in collaboration with international financial institutions and other relevant parties, in order to leverage resources for implementation of the Microenterprises Action Plan in 2004.

Ministers in Santiago de Chile, 2004, considered SMEs to be a cross-cutting issue for APEC and welcomed the dialogues held with other relevant fora and the initiatives of economies to host events aimed at improving dialogue with SMEs. In addition, Ministers encouraged an open dialogue with regional International Financial Institutions (IFIs), in coordination with the SOM Committee on ECOTECH, to advance joint initiatives that specifically benefit MEs, including through microfinance.

APEC Trade Ministers at their 11th meeting in Jeju, Korea has noted the importance of small and medium-sized enterprises (SMEs) and microenterprises (MEs) for economic growth in the APEC region and instructed officials to work towards helping them join the formal economy if they have not done so and to continue to identify projects which will increase their competitive capabilities to enable them to participate gainfully in the international trading system.

Recently, at the 15th APEC Small and Medium Enterprises Ministerial Meeting in Chiclayo, Peru, a new SME Strategic Plan has been adopted, emphasizing on both SME and ME development from 2009-2012 in 5 priority areas:

- i. Business Environment
- ii. Building Management Capability and Promoting Entrepreneurship
- iii. Market Access and Internationalization
- iv. Innovation
- v. Financing
- vi. Raise Awareness of Sustainable Business Practices

and the cross-cutting theme, “Youth, Women and Minorities”.

2.2 APEC structural arrangements for supporting microenterprises

APEC economies have a substantial role to play in integrating microenterprises into the globalization process and creating an enabling environment for microenterprise development. Providing opportunities for microenterprises to grow and graduate into SMEs allows economic participation by all segments of the population.

Until 2002, the SME Working Group had the mandate to consider issues relating to microenterprise, but in practice it was difficult for the SME Working Group, partly because certain characteristics appear to distinguish microenterprises from the small and medium-scale enterprises. The limited data available concerning microenterprises in all economies was the other part, especially in the developing economies.

Therefore, in 2002, under Mexico’s leadership, Microenterprise and Microfinance issues were featured at 7 high level APEC meetings. Communication and collaboration on micro sector issues were encouraged all across APEC in order to maximize the sharing of “Best Practices” and economic and technical cooperation. Besides, the linkage inside

APEC in relation to microenterprise issues was promoted as the outcome of Mexico APEC year 2002 via:

- The High Level Meeting on Microenterprise Development
- The Microbanking Regulation and Supervision Symposium
- The Dialogue on Shared Prosperity - Acapulco
- The Women Leaders Network Annual Meeting
- The Small and Medium Enterprises Ministerial Meeting
- The Young Leaders and Entrepreneurs Forum
- The Second Women's Ministerial Meeting

The pioneering work done through those meetings culminated in the establishment of a Microenterprise Subgroup (MESG) in the Small and Medium Enterprises Working Group in 2003 in Thailand.

Since then, microenterprise issues were particularly addressed in the MESG annual meetings and strategically incorporated in the Microenterprise Development Action Plan. Concrete actions were carried out on the basis of the Subgroup's annual Work Plan. Activities undertaken by this subgroup were numerous and significant, including but not exhaustive:

- Workshops conducted in the framework of APEC projects approved by SMEWG, dedicated to microenterprise issues, such as 'Microfinance', 'Enabling a Microenterprises IT Environment', 'Enabling e.MES Environment Through Survey and e-Community Based Capacity Building', 'Building ME Capacity for Market Integration'; 'Micro and Small Enterprise Financing: tool for mainstreaming the informal sector', 'Micro-credit survey on Current Status and Best Practices & APEC Seminar', 'Enhancing the Business Environment for Micro Enterprises in the Asia-Pacific Region';
- Studies on 'Situation of Microenterprise in APEC and regulatory framework', on 'The Need and Availability of Micro-Finance Service for Micro-Enterprise: Bringing Multi-Level Good Practices into Local Context', and this study 'Studying Existing Financial and Policy Assistance for Micro-Enterprise Development from Regional and International Institutions to Find Out a Suitable Approach for APEC to provide Supports for Micro Enterprises';

- Collaboration with International Economic Institutions, including collaboration with international financial and economic institutions on microenterprise development issues, such as sharing best practices, capacity building initiatives, and so on. Examples include the World Bank's Consultative Group to Assist the Poorest (CGAP) on the Regulation and Supervision of Micro-finance International. The Asian and Latin America Economic Commissions of UN, the ADB and IADB were also invited to collaborate. The issues discussed were the contribution of microenterprises to economic growth in the region, especially the significance of microenterprises in the informal sector; identification of data gaps and possible solution; inclusion of APEC microenterprise regional database in the results of studies and dissemination of such results for policy reference;
- Inventory of public institutions supporting microenterprises;
- etc.

However, in an effort to strengthening the institutional arrangements for cost effective activities, APEC re-incorporated the Microenterprises Sub-Group, which operated as an entity under the SMEWG from its establishment in 2002 into the SMEWG in August 2007.

By now, the merged SMEWG arranges its work to give due weight to all its activities - SMEs, microenterprises and internationalization issues. Its goal is to serve as a forum for member economies to strengthen the policy dialogue and to build their capacity to assist in enhancing SME and ME development and the internationalization of SMEs and MEs. Its activities are conducted in the framework of the SME Strategic Plan from 2009-2012 and the annual Action Plans.

3. APEC's potential and resources to support microenterprises

3.1 APEC functions

APEC has two main functions:

3.1.1 Policy-political function

This function is mostly about arriving at political agreements amongst members through official and intersessional meetings (SMEWG Meetings, SME Ministerial Meetings, and related meetings) to future directions and initiatives in supporting SMEs and MEs in the region.

3.1.2 Supporting research and implementation function

This function is about providing a coordinated regional perspective (as opposed to a more narrow perspective of individual members) on SME and ME matters of APEC concern.

3.2 *APEC's activities with regard to SME and ME development*

In order to fulfill above functions, APEC's activities have been conducted in a number of forms:

- Meetings (official and intersessional), where government officials, experts and professionals with SME and ME expertise were assigned by member economies to participate in lively discussions on themes, directions and initiatives in supporting SMEs and MEs;
- Studies concerning specific aspects of SME and ME development;
- Workshops, seminars and conferences involving officials, experts and academia to facilitate the exchange of views and experiences in SME and ME support.

3.3 *APEC linkages*

It is worth noting that SME and ME themes and issues discussed and studied in APEC are closely related to the work of other institutions and mechanisms.

3.3.1 Inside APEC

As the issues of SMEs and MEs are cross-cutting, the SMEWG is the coordinator for close collaboration between APEC fora mentioned below, as well as the Finance Ministers' Process, on capacity building initiatives to assist SMEs and MEs in accessing information technology, networking, markets and finance.

3.3.1.1 The SOM Steering Committee on Economic and Technical Cooperation (SCE), which has the following working groups:

- Agricultural Technical Cooperation Working Group (ATCWG)
- Energy Working Group (EWG)
- Fisheries Working Group (FWG)
- Human Resources Development Working Group (HRDWG)
- Industry Science and Technology Working Group (ISTWG)
- Marine Resource Conservation Working Group (MRCWG)

- Telecommunication and Information Working Group (TELWG)
- Tourism Working Group (TWG)
- Transportation Working Group (TPTWG)

3.3.1.2 The Committee on Trade and Investment (CTI), which has:

- Intellectual Property Experts Group (IPEG)
- Market Access Group (MAG)
- Government Procurement Experts Group (GPEG)
- Sub-Committee on Standards and Conformance (SCSC)

3.3.1.3 The Economic Committee (EC)

3.3.1.4 Finance Ministers Process (FMP)

3.3.1.5 With the cross-cutting priority of Youth, Women and Minorities Promotion, Women Leaders' Network, APEC Gender Focal Points Network are highly involved in APEC discussions in 4 years 2009-2012.

3.3.2 APEC and international organizations, including IFIs

APEC has a long history of working with other multilateral organizations in areas of mutual interest including international financial institutions (IFIs).

- Shanghai 2001: Recognized that APEC resources were limited and that much more could be achieved through cooperative programs with bilateral, regional and multilateral organizations.
- August 2003: APEC/IFIs Roundtable Discussion on Economic and Technical Cooperation (ECOTECH). Representatives from the WB and the ADB attended the meeting. As a result APEC and the WB's Global Development Learning Network (GDLN) initiated cooperation using GDLN's facilities to disseminate training programs to a wider audience; one of the pilot projects was technology for rural distance learning (RDL).
- September 2005: Second Policy Dialogue between APEC, IFIs and the OECD: efforts were particularly important for SME and Microenterprise development. The dialogue made recommendations on "The Way Forward" for collaboration

between APEC and IFIs and other international organizations.

- The Third Policy Dialogue was held in Peru during SOM III 2008 discussed the outcomes of an Australian survey with regard to “The Way Forward”.

Some of the APEC projects that reflect IFIs’ cooperation are:

- Fiscal Management Initiative with WB, ADB and IMF focused on improving fiscal sustainability and transparency among APEC economies.
- APEC dialogue with the World Bank's Global Distance Learning Network (GDLN).
- APEC and ADB report on the role of the private financial institutions in the provision of remittance services compliant with international anti- money laundering/combating of terrorist financing standards (2003).

In terms of common interests, APEC, World Bank and OECD have great potential to collaborate as all aim to promote sustainable economic growth, with a common focus on trade and investment as the modality. Besides, APEC and ADB, UNCTAD, WHO, FAO and UNIDO have showed special common interests in areas relating to SME development.

3.3.3 APEC and the private sector

APEC Business Advisory Council, which represents the private sector in APEC, has deeply involved in many activities under APEC, including but not limited to SME issues. It has given great and practical recommendations to APEC on specific actions to move the work forward. Besides, a number of public-private initiatives have been implemented under APEC leadership.

3.3.4 APEC and member economies

The involvement of government officials, representatives of academia, business associations, etc. of member economies to APEC SME and ME activities are of mutual benefits. It enriches APEC’s pool of knowledge with regard to circumstances of SMEs and MEs in member economies as well as their experience in supporting SMEs and MEs. APEC helps member economies exchange views and experience, learning from others and benefit from APEC projects. APEC has linkage to member economies’ SMEs and MEs through the representative role of APEC SME focal points.

3.4. *APEC limited resources*

APEC has very limited centralized funding. It generally relies upon members to fund initiatives that are put up. Besides, APEC has not the expertise and personnel resources to expand to direct support activities to MEs.

CHAPTER VI. RECOMMENDATIONS

1. Findings

1.1 General Findings

- a) Microenterprises constituted a majority of private sector enterprises in developed as well as developing economies. The strategic role that microenterprises can play in economic development and social improvement (poverty alleviation, decrease in unemployment) of economies worldwide has been repeatedly reaffirmed.
- b) However, targeting microenterprises is usually more appropriate for social objectives, including poverty reduction, empowerment of women, minorities (social integration and equality).
- c) Targeting microenterprises is also relevant to the development of entrepreneur 'seedbed', enhancing entrepreneurship and encouraging independence rather than dependence on welfare programs;
- d) Microenterprises are a diversified group with different levels, categories, which represent different needs and capacities. Support to them must consider these factors plus consideration of the special contexts in which they operate.
- e) Microenterprises have great ability to adapt to changes and fluctuations in their environment thanks to their wealth of structural characteristics. MEs however are weak in terms of knowledge about markets, skills to develop themselves further, technology or technical options, level of investment, quality, attractiveness of products they offer, etc. Those weaknesses are areas where the support may focus on.
- f) There is a dual system of formal and informal enterprises, including MEs. This fact should be accepted and there is no simple and immediate way in which informal ones move to become formal without the consideration of related costs and benefits. However, educating red tape and simplification of procedures are measures that can facilitate the process.
- g) Innovative support and solutions are important as they maximize the chances of microenterprises to grow by capturing opportunities to trade, including even trade outside the boundary of an economy, participate into the supply chain and take full use of technology development. More importantly, innovative solutions

help microenterprises access to services they need in a cost effective manner. They cannot rely all the time on the support given by donors or government agencies;

- h) There are already numerous types of support, which followed different strategies, approaches, models on consumptions of different ME needs and circumstances, in which central governments, local governments, non-governmental organizations, private organizations and international financial institutes, etc. play different roles as donors, executive agencies or intermediaries, or resource organizations.
- i) In global context, there are a number of IFIs that concern to micro finance, such as the WB, the ADB, the IDB, the UNCDF and the UNDP, etc. Each IFI has its own policies and approaches for empowering MEs, including financial and non-financial assistance and under non-profit and commercial scheme.
- j) The failure of many ME-support programs and projects are indicative that there are methodological flaws in the design of such programs. These include support activities that do not take the overall context into consideration or neglect the social networks in which MEs are operating, or fail to get enough participation of all relevant stakeholders in the program or project. In addition, the schedule of implementation, the demand for measurable results imposed by the program or project are usually incompatible with the slow, usually unpredictable of the process of development of MEs, especially in developing economies.
- k) Many support programs are dedicated to SMEs because they have more established prestige in terms of job creation and can satisfy formal criteria set out by donors. Meanwhile, poverty reduction and women, minority empowerment are usually seen themes of support programs for microenterprises. Supporting microenterprises is more costly than supporting SMEs in terms of costs to reach them.
- l) Indirect support in terms government regulations and policies that encourage entrepreneurship, formalization of MEs, innovation, foreign market access and so on is of great importance to microenterprises. This kind of support is difficult to quantify but affects MEs a great deal and is often cited by MEs as an important factor contributing to their failure or success. Thus, studies that attract governments' attention to good practice and shed lights on the potential implications of their initiatives, regulations and policies will help improve much the business environment for MEs.

1.2 APEC-Related Findings

- a) In the APEC region, the number of programs and schemes to support MEs has increased substantively, though inclusive and hidden in SME support schemes. In which, the government initiatives and NGOs are most visible.
- b) However, perception of microenterprises tends to point out that visibility of such ME support needs to be improved when they believe that the support is very general and suitable to SMEs only. The situation changes significantly with those enterprises that already experienced the use of support. They also express a strong need of tailored-made support considering sector or phase of development considerations. They remarked that the process of finding out about the existence and availability of support is difficult.
- c) There is a trade-off between objectives. APEC might consider focusing more on one rather than trying to balance approaches considering its limited resources.
- d) APEC should not consider microenterprises are the main strategy for development but a complimentary approach. The creation of jobs through promoting fast-growing and competitive enterprises in the global markets has been the main objective of any economy. Besides, the creation of social safety net that encourage education, training for human development, creating more opportunities for people, ensuring that they do not fall into the trap of poverty.
- e) Entrepreneurship should be encouraged by APEC since business culture takes time and efforts to form. Entrepreneurship encouragement enhances the potential long-term development of businesses in general and microenterprises in particular.
- f) APEC should focus on facilitating the growth and internationalization of microenterprises, rather than simply creating microenterprises. Targeting microenterprises for growth encouragement objectives must be selective for different types of microenterprises, for which, the classification of Liedholm and Mead (1995) could be most appropriate;
- g) APEC so far is not connected with activities directly supporting microenterprises. Its function is to facilitate discussions, studies, researches concerning microenterprises. Finding best models to approach microenterprises could be appropriate for APEC;

- h) Due to its limited recourses and funding capacity, APEC might not take a role or a donor or intermediaries/executive agencies in supporting microenterprises, but it might take the indirect strategy, focusing on capacity building for intermediaries, piloting and adopting innovative approaches. APEC should support facilitators, encourage the development of microenterprise support services on a market basis.
- i) In terms of the indirect support to microenterprises, APEC needs to understand more about the enabling environment for microenterprises to grow and develop.
- j) APEC should consider the level of development of microenterprises in each member economy, which stated the different priority.
- k) APEC should make use of the tradition of Asian countries, including finance from own earnings, loans from families and friends, or money lenders or local traders. Savings are areas where microfinance would be focused on.
- l) Awareness is an area where APEC can contribute. In particular, APEC can promote the outreach of services to microenterprises, raising microenterprises' awareness of available services.
- m) APEC should recognize a dual system of formal and informal enterprises; reducing red tape and simplification of procedures; recognize labor relations in microenterprises;
- n) Encouraging the internationalization of microenterprises is an innovation solution. APEC needs to link MEs to existing SME networks and supply chain. A safety net for microenterprises which want to expand is still short;
- o) Microenterprise development is a relative new theme in APEC. APEC should rely on cumulative experience of other international organizations to draw on how it might approach microenterprises. Lending is not the area where APEC has the expertise, so it may engage and leverage IFIs' resources;
- p) Targeting microenterprises is more appropriate for social objectives, including poverty reduction, empowerment of women, minorities (social integration and equality), but APEC should do this in conjunction with other donors or put it under themes of other working groups;
- q) Current capacity building programs of APEC to provide available fund to SMEWG projects which closely related to micro financing and supporting are

very helpful to support MEs. Strengthening ECOTECH activities is an important element for supporting MEs in the forms of policy dialogue, information and technical cooperation exchange.

- r) APEC member economies also have their own strategies/policies/programs to support MEs domestically and it's not enough to create a good business environment for MEs to further develop. Individual effort of each economy into regional efforts and actions can be connected to give greater effects.
- s) There were already some proposals for strengthening dialogues within APEC to identify difficulties faced by MEs, their need for support to have appropriate and timely policy response from government. In this regard, Policy Dialogue among APEC fora can be used to coordinate related work.
- t) Policy dialogues between APEC and IFIs on regular basis are good practice to exchange information, to share best practices as well as to coordinate between APEC and IFIs.
- u) IFIs such as World Bank, IADB and ADB have been working on enhancing the development and growth of SMEs and MEs financing programs in a range of areas. Their programs focus on providing managerial and technical knowledge to further enhance competitiveness of MEs; fostering policies that encourages aimed at promoting innovation of MEs for business purposes and for research and development through investment funds and government policies. APEC can look for further cooperation with IFIs in those activities by inviting IFIs representatives to attend some of SMEWG meetings, workshops, seminars to discuss future policy cooperation matter in sectors that both sides have common interest.
- v) APEC Financial Ministers Process (AFMM) can be the right place to discuss matters relating to microfinance as well as trade financing, especially those of supportive for MEs in particular. APEC SOM and APEC Financial SOM as well as APEC Trade, SME and Financial Ministers Dialogue/Meeting can also be involved policy and information exchange with regard to ME support.
- w) Financial inclusion is an interesting topic and can be explored further in the relevant fora to put it in a Plan of Action to be developed and submitted to the APEC Finance Ministers for their consideration.
- x) APEC Financial Officials and Finance Ministers can consider undertaking activities to promote an enabling policy and regulatory environment, including

measurement of levels of policy supporting and funding for MEs in APEC member economies, especially in developing ones, initiation of capacity-building activities and holding of policy dialogues. If such activities are adopted, practical goals/targets to measure the results as well as to implement regular review to evaluate the implementation will need also to be contemplated.

3. General Recommendations

Since MEs have demonstrated their great ability to adjust and innovate, in addition to the traditional approach of “assisting”, ME-support projects and programs should take the approach of “triggering”. This means the outside support can be very limited to the role of catalyst, leaving the initiative to the MEs on its own, encouraging their participation, and the mobilization of local resources.

The support to MEs, therefore, consists of the comprehension of MEs in their local context, the mechanism of their innovations and the institutional structures that are available to offer the services MEs in need. From then, the followings may be considered areas (non-exhaustive) where a support program/project can target, nonetheless must be with comprehensive perspective:

3.1 Enhancing Access of Microenterprises to Resources

3.1.1. Access to Finance

Access to appropriate financial sources is a key element in the establishment and operation of MEs in urban and rural areas, for setting out their working capital and medium-term loans for investments in tools, equipment, technology, etc. Mobilizing financial resources in traditional ways (self-equity, borrowings from relatives, friends and local unofficial lenders, etc.) is less efficient and constrained by the available amount of money to lend. With the rapid development of microfinance institutions (MFIs), MEs have found a great deal of financing possibilities in addition to the traditional ways. However, the lending to MEs by these institutes is still limited for the fact that in most economies, microfinance lending resources usually come from savings and current account deposits. Since the cost of mobilizing small savings is high and official regulations are in place to be abided by, MFIs are mainly involved in providing short-term loans at high interest rates to offset their own operational costs. Moreover, there is evidence of MFIs’ inefficiencies in management, and of limited linkages between MFIs and formal financial institutions, including with international financing institutions.

Given the financial support to MEs is offered on non-commercial basis within the scope of this study, it was suggested that two directions be considered (of course, there is always a

mix of the two in practice to some extent, however, distinguishing them help simplify the approach to give proper conclusions): First, directly offer financial support to MEs in an effective manner through ME-support programs and projects; and second, using financial resources to enhance the sustainable access of MEs to financial services offered by service providers on commercial basis.

According to the consultants' research, to overcome the constraints experienced by MEs, the following solutions should be promoted:

- Introducing credit scoring technologies and establishing credit bureaus. These solutions can reduce the cost of and improve the accuracy of credit risk assessments of MEs. Moreover, integrating these technologies and setting up the bureaus into the banks' lending systems can enhance access to finance of MEs;
- Increasing partnership between commercial and development banks and the microfinance sector through institutionalization of the microfinance sector;
- Establishing medium-term credit and guarantee mechanisms to limit risks borne by financial institutions directly dealing with MEs, provided appropriate rules (such as 50-60% guarantee for loans) are in place to make sure that the financial institutions monitor the proper functioning of MEs they finance to ensure reimbursement. In this regard, leasing finance and self-help guarantee schemes may be more appropriate if MEs are considered highly risky due to their lack of legal status;
- Experimenting and integrating innovative solutions for ME finance, such as venture and start-up capital, and micro-leasing schemes in ME support program, or, guarantee with a sponsor, or mutual guarantees, joint credit and savings, loan cooperatives,
- Increasing geographical and technical partnerships between ME support programs, with the focus on finance and projects dealing with ME development.

3.1.2 Access to Non-Financial Services

If improved access of MEs to financial services is considered the 'first dimension' of support, enhanced access to non-financial services represents the second. Generally speaking, non-financial support services involve (non-exclusive list):

- Training on entrepreneurship, e.g. building up knowledge on primary business principles and practices;

- Market exploration, e.g. market survey, training and facilitation with linkage to traders;
- Access to cost-effective technologies, vocational training;
- Business planning, e.g. analysis of investment opportunities, and linking up with financial institutions for funding;
- Product and process quality assessment.

The role of non-financial support is also to strengthen the capacity of MEs to guide themselves towards relevant business decisions and make appropriate use of resources. The provision of non-financial support should avoid the notion of widely applied to all MEs, therefore, should not be follow rigid mechanisms but be tailored to deal with the context of operation of, the constraints and difficulties encountered by MEs. Taking into account their initial technical, institutional and financial fragility, MEs should be coached until the time they have acquired the needed knowledge, autonomy and are sufficiently confident to manage their business operations on a sustainable basis.

However, the high costs involved in giving non-financial support locally by ME-support projects indicate that development of a sustainable business counseling capacity in rural and urban areas to serve MEs is crucial. Therefore, transitional mechanisms should have been put in place during any ME-support project implementation to ensure that technical and institutional achievements will not be lost. In this context, support networks appear to be the solution to resolve problems related to long-term sustainability of ME-support projects. In some developing economies, the establishment of such networks can be facilitated by the availability of unemployed or underemployed graduates. The establishment of local networks may also contribute to ensuring better delivery of technical messages. Lessons show that MEs pay more attention to messages delivered by local people of similar backgrounds.

- Developing/strengthening business counseling capacities to suit local demands through support projects or NGOs or public/private services. This may be achieved by enhancing the institutional capacity of local existing advisory institutions with training and transfer of expertise (for instance, business associations, educational establishments, private-sector service providers, etc.);
- Promoting networks through self-help groups and business associations;

- Building up production villages, export cooperatives, catalogue distribution networks, industrial clustering, linking up with existing networks of SMEs and industrial clusters to build specializations and to benefit from economies of scale;
- Encouraging the development of supporting institutions, such as incubator, research centers, universities and other non-financial supporting institutions.
- Promoting the use of Information and telecommunication technologies for training, marketing, market access information purposes, etc.

3.2 *Facilitation of Market Access*

The identification of markets will be a crucial element for ME promotion. The assistance of business advisory services can help enhance market access of MEs to existing markets and identify new market opportunities. Efforts should be made to strengthen market linkages through improving rural/urban business links and contacts between producers and potential buyers, connecting business associations, communities and cooperatives so that they will deliver services to their members and customers, to develop specialized market non-financial support (market information and training, dissemination of product quality standards, etc.).

Other support to enhance market access for MEs may include: transportation improvement; access to Internet; hygienic production facilities; support for smallholder market intermediaries; support for market diversification, policy/legislative initiatives aimed at promoting a more favorable policy environment for MEs and market intermediaries, and providing market information.

3.3 *Policy Dialogue aiming at supporting MEs*

Creating an institutional and business policy environment for MEs is an important step towards productive, responsible and sustainable ME development strategy. To that end, concentration should be placed on the followings:

- Establishing dialogue platforms such as poverty reduction strategy forums, ad hoc ME task forces, and other institutional working groups in order to support policy dialogue among all concerned stakeholders (government authorities, financial institutions, SME associations, providers of services, NGOs, etc.). The objective is to promote the activeness of MEs in poverty reduction support programs and ensure that such programs are compatible with the needs of MEs. For doing so, partnerships with NGOs, financial institutions, government administrations, donors can be utilized;

- Supporting government administration in adopting relevant policy and institutional frameworks for MEs, including concrete measures and criteria aimed at preventing child labor use within MEs; and protecting the environment and natural resources. This objective can be achieved by a number of measures, including information dissemination, propaganda of best practices to policy-makers through studies, workshops and seminars; or by providing technical assistance to concerned stakeholders.
- Promoting public-private partnerships in implementation of support program, such as sub-contracting agreements between the public and private sectors for delivery of business support.

4. Recommendations for APEC

APEC is unique in the aspect that it provides the most prominent fora for maintaining and increasing economic dynamism in the region. APEC economies cooperate to reduce constraints and barriers for SMEs in general and MEs in particular in the process of development and integration in the global context, and share knowledge and experience regarding domestic policies and practices to support the development of MEs.

So far, with its advantages of a forum for policy dialogue amongst government officials, business sector, the academics, APEC has done a lot of works contributing to the understanding different aspects of ME growth and development. It is best placed to continue ME-support policy dialogues, sharing of experience and best practices, commissioning researches in response to the need to understand different aspects of ME support mechanisms in the APEC region. Moreover, it can position itself as a sponsor for certain pilot programs in supporting MEs, on the understanding that such support should be only the trigger for further development thereafter. Thus it should carefully choose the kind of support that maximizes APEC potential. In this connection, it is generally agreed that much more of support to MEs could be achieved through cooperative programs with bilateral, regional and multilateral organizations, especially with IFIs, in which APEC gives the lead on the basis of its understanding and comprehension of ME innovation process. It is clearly stated in the APEC Strategic Plan 2009-2012 for the SMEWG, in which financing for SMEs and MEs has been set as priority for SMEWG during the period of 2009-2012, which includes a set of activities, such as: (i) increase awareness and availability of wide-ranging sources of financing, from microfinance to venture capital and (ii) encourage banks and financial institutions to develop policies that assist SMEs and MEs to access appropriate finance on mutually acceptable terms.

Specific recommendations for APEC are listed below in connection with each of the roles APEC can play in supporting the development of MEs.

4.1 *Policy dialogue for MEs support*

Currently, though the policy dialogues, APEC has conducted the dissemination of information and studies on best practices in developed and developing economies on policies, institutional support, cluster programs and other initiatives to support MEs. However, the scope of dialogues can be still widening. For instance, policy dialogues on poverty reduction strategy papers and economic reform programs in developing economies have significant impacts on trade policy and macroeconomic environment, and, therefore, on MEs. (e.g. export promotion for products of MEs, local-tourism oriented programs involving local MEs). Also dialogues for international trade negotiations discuss market access issues in developing economies that have significant implications for MEs producing domestic goods and/or exporting certain types of goods to foreign economies. It is important to note that donor agencies, IFIs, NGOs are already actively engaged in these policy dialogues.

- The focus of such a new APEC initiative should be on financial inclusion as a policy goal, with microfinance as an instrument of choice to achieve that goal. While it is undoubtedly a powerful tool that can help address poverty and gender-related issues, it is important within the context of this APEC initiative to look at microfinance not as a social welfare measure, but primarily as part of APEC's suite of policy tools to advance its economic and financial reform agenda.
- APEC can best support microfinance and promote financial inclusion by promoting the capacity of member economies to provide an enabling policy and regulatory environment that facilitates appropriate pricing of products and services in accordance with risk and market conditions and development of ICT and financial products to reduce costs and expand coverage of microfinance. While governments may also extend direct judicious support measures, experience (including the Philippine experience discussed in the previous section) suggests that some well-intended measures do more harm than good. Examples of measures that should be avoided include direct government lending or providing resources for lending and packaging micro-credit schemes into projects in other sectors without regard for their validity as financial sector initiatives.
- There are many paths to increased financial inclusion, and the diversity of APEC provides an opportunity for member economies to learn from the experience of others. Policy dialogue and sharing of experiences are activities where APEC has a particular comparative advantage. In addition, considering the wealth of expertise and resources available outside APEC member economies and in various international financial and development institutions, an initiative on financial inclusion should allow for appropriate participation of such international organizations, institutions from relevant non-member

economies, the private sector and non-governmental microfinance networks to support the work of APEC in this field.

- Such a new initiative could undertake work to improve the measurement of levels of financial inclusion in member economies. Much needs to be done with respect to improving the availability and quality of data on financial access in member economies. The World Bank's Finance and Private Sector Research program has published estimates of financial access for a number of economies, including 17 APEC member economies. Nevertheless, there is still much that APEC could do to ensure the collection of comparable data for member economies that are also suitable for policy analysis. Activities under this initiative could include (a) developing consensus on criteria for measuring financial inclusion; (b) regular publication of financial inclusion data; (c) comparative surveys of domestic policy frameworks addressing financial exclusion; and (d) documentation of initiatives in member economies, including those undertaken by government, private for-profit, voluntary, public-private and donor-sponsored institutions to increase the level of financial inclusion.
- Capacity-building to promote financial inclusion has an important role to play in an initiative within APEC, complementing ongoing work being done by international agencies active in the region. Capacity-building activities could focus on defining and disseminating best practice in policy and regulatory frameworks and institution-building, and on assisting member economies in their efforts to attain these standards, allowing them to demonstrate measurable progress toward agreed goals. Capacity-building activities could target both officials and financial professionals. An inclusion initiative may in the beginning be primarily of concern to developing economies; in time, however, it is expected to be useful and relevant for all.
- Implement a Technological Infrastructure Program by providing appropriate Information Communication Technology (ICT) services and technological infrastructure for SMEs' development in all APEC member economies by 2020. Detailed actions include, but are not limited to: establishing and improving the ICT social support, service and safeguard systems for SMEs by harmonizing all administrative and social resources; enhancing targeted financial support for ICT use by SMEs; promoting the introduction of programs which assist SMEs to protect their intellectual property; encouraging ICT R&D and utilization capability of SMEs; developing systems and methods for improving SME productivity, especially the use of evolving new technologies; and supporting the development of business transformation mechanisms to help SMEs deal with major challenges to their business.

- Implement a Financing Capacity Building Program by carrying out comprehensive capacity building programs to reinforce SME financing capability of all APEC member economies. Detailed actions include, but are not limited to: establishing micro credit and loan systems and sound financing legal frameworks by APEC member economies; establishing venture investment funds for SMEs; establishing governmental financing guarantee and re-guarantee institutions for SMEs; promoting the establishment of Internet-based lending systems; and promoting new capital markets for trading high risk equities, aimed specifically at SMEs, and especially on-line systems that ensure extreme transparency in invested companies.
- Implement a SMEs Training Program through the following actions: establish day-to-day cooperation and exchange mechanisms among APEC economies; fully utilize and exploit a full range of educational resources, strengthen coordination among relevant international and domestic training institutions; establish Special Fund to support SME management education under appropriate APEC economic and technical cooperation schemes; and consider whether SME management education could, as appropriate, be pursued as an APEC Collective Action.
- APEC explores further scope of policy dialogues in connection with ME support, especially in developing economies, aiming at mapping out factors influencing the successes and challenges of ME development in each of its members;
- APEC introduces ME support issues into national policy dialogues on poverty reduction strategy papers and economic reforms. It is essential that ME policy initiatives are fully integrated into national development strategies to ensure policy coherence, synergies and positive externalities;
- APEC seeks partnership with IFIs, donor agencies in providing for the forums for discussions of developing economies' poverty reduction programs, economic reform programs, trade negotiation strategies;
- APEC conducts policy-oriented studies and open discussions on preventing child labor use within MEs, and protecting the environment and natural resources;
- APEC leads the discussion of how to appropriately attract FDIs to rural areas in developing economies without impacting severely the business of rural MEs or creating a safety network for those MEs whose fixed assets are withdrawn for FDI establishment;
- APEC leads the discussion on the possibility of promoting public-private partnerships, which may facilitate ME development through the establishment of sub-

contracting agreements between the public and private sectors for delivery of business support services.

4.2 *Research for MEs support solutions and best practices*

- APEC conducts a study on how to raise awareness of MEs about available types of support, gearing up to certain effective combination of support as initially identified in the final report;
- APEC conduct studies on increasing the availability of support models in the region;
- APEC explores areas where the government-led or NGO-led or private-led support programs are more effective and the holistic approach towards supporting MEs in each of its members;
- APEC studies the replication of successful ME programs in different APEC members;
- APEC helps developing economies with the development of indicators to monitor and evaluate the success of national policies and technical assistance programs to support MEs;
- APEC studies the possibilities of establishing Key Performance Indicators for certain effective ME support models;
- APEC works with IFIs to identify principles in giving financial support, especially guidelines on the use of micro financing tools to support MEs for local banks and financial institutions;
- APEC considers the possibility of playing the role of assisting in the coordination of bilateral and multilateral efforts and projects to support ME development in developing economies.
- APEC conducts a comparison study for ME development in APEC region.

4.3 *Playing the 'trigger' role*

Since APEC is limited in its resources to implement many projects or programs of direct support to MEs, it can do much through cooperative programs with bilateral, regional and multilateral organizations, especially with IFIs or by conducting pilot programs and encouraging other stakeholders to participate, given the following scenario:

Business support services may or may not be available in an area. Because of their limited financial capacity, MEs may find it difficult to afford such services. APEC may initially subsidize the operational costs linked to the implementation of such business support services but on a gradually decreasing basis during the project cycle. If MEs find such services worthy, they may seek the support from other donors, to which APEC will try to assist the access, to fund the purchase of services or fund it themselves from the returns they receive, thus creating a market for the services and encouraging the sustainable offering of services.

- APEC considers the possibility of establishing an APEC Fund for supporting MEs in the region to fund pilot programs and projects;
- APEC sets up a Centre for Business Development Services which should run on their own after a period of funding from APEC to provide sustainable business development services to MEs in a sustainable basis;
- APEC seeks collaboration with IFIs and donor agencies to jointly fund pilot programs and projects aiming at supporting MEs;
- APEC shares studies and researches with IFIs and donor agencies to identify and address barriers to MEs' full participation in international trade/markets within the APEC region, in order to save APEC's resources;
- APEC identifies the possibilities of approaching IFIs' pool of experts for delivering training courses for trainers in localities on business services.

CONCLUSION

Nearly 72% of all formal sector private enterprises in APEC are microenterprises, representing 20% of formal sector employment, not to mention the informal sector. Considering this formal data alone, the significance of the formal microenterprise sector suggested that these types of businesses are a “seed bed” for entrepreneurship and growth, as an alternative to unemployment, and as a means of alleviating poverty. These objectives are of great relevance to APEC.

Recognizing the abundant existence and importance of microenterprises in the world, many international organizations have provided numerous programs for microenterprise development and have gained substantial experience in this regard.

Taking into account these experiences, APEC can pursue a unique strategy since it is also a unique organization. While mainly contributing to the indirect intervention or support to microenterprises through its goals of improvement of business environment and strengthening of government’s role in private sector development, creating a proper framework for all sectors including microenterprises to take part in the sustainable growth and development of any economy, it can leverage resources of other organizations thanks to its strength in policy dialogue, think-tank capacity and the networks of specific microenterprise-related stakeholders. Moreover, it can serve to promote innovations and identify opportunities and challenges to microenterprises thanks to its flexibility and creativity./.

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ABBREVIATIONS

ADB	Asia Development Bank
ACB	Asian Commercial Bank
AFMM	APEC Financial Ministers Process
AGRIBANK	Bank for Agriculture and Rural Development
APEC	Asia Pacific Economic Cooperation Forum
ASEAN	Association of Southeast Asia Nations
ASMED	Agency for Small and Medium Enterprises Development
BDS	Business Development Services
BESO	British Executive Services Organization
BIDV	Bank for Investment and Development of Viet Nam
BPSC	Business Promotion and Service Center
CBI	Center for the Promotion of Imports from Developing Economies, Holland
DAF	Development Assistance Fund
DANIDA	Danish International Development Agency
DFIs	Development Finance Institutions
DMCs	Developing Member Economies
ECOTECH	Economic and Technical Cooperation (APEC)
EDP	Entrepreneurial Development Program
EU	The European Union
FAQs	Frequently Asked Questions
FDI	Foreign Direct Investment
FSPs	Financial Service Providers
GDP	Gross Domestic Product
GNP	Gross National Product
GO	Government Organization
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HIID	Harvard Institute for International Development
IBRD	International Bank for Reconstruction
IDA	International Development Association
IDB	Inter-American Development Bank
ICB	Viet Nam Bank for Industry and Trade
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFIs	International Financial Institutions
IIC	Inter-American Investment Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
INCOMBANK	Industry and Commerce Bank
ITPC	Investment and Trade Promotion Center (Viet Nam)
JBIC	Japan Bank for International Cooperation
JETRO	Japan External Trade Organization
KfW	Kreditanstalt für Wiederaufbau, Germany
LDCs	Least Developed Economies
MFI	Microfinance Institution
MIF	Multilateral Investment Fund
MPDF	Mekong Project Development Facility

MPI	Ministry of Planning and Investment of Viet Nam
MSMEs	Micro and Small Medium Sized Enterprises
NA	Not Available
NBFIs	Non-Banking Financial Institutions
NGOs	Non Governmental Organizations
NIESBUD	National Institute for Entrepreneurship and Small Business Development
OECD	The Organization for Economic Co-operation and Development
PSD	Private Sector Development
PVO	Private Voluntary Organization
SBV	State Bank of Viet Nam
SECO	State Secretariat for Economic Affairs
SES	Senior Exporter Service of Germany
SIYB	Start & Improve Your Business
SMEs	Small Medium Enterprises
SMEDF	SME Development Fund
SMEWG	Small Medium Enterprises Working Group
SIPPO	Swiss Import Promotion Program
STAMEQ	Directorate for Standards, Metrology and Quality (Viet Nam)
SWOT	Strength - Weakness - Opportunity - Threat
SYOB	Start Your Own Business
T.A	Technical Assistance
TEDCO	Viet Nam is Technology Development Corporation
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
VBSP	Viet Nam Bank for Social Policy
VCA	Viet Nam Cooperative Alliance
VCCI	Viet Nam Chamber of Commerce and Industry
VND	Viet Nam Dong
WB	World Bank
WLN	Women Leaders Network (APEC)
WTO	World Trade Organization

BIBLIOGRAPHY

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3. Dr. Nguyen Thanh Long - an Attorney at Laws who possesses a wide range of experience in business and commercial related fields of laws. Dr. Nguyen is a respected team leader who also works well on his own initiatives, with proven leadership skills in managing, developing and motivating teams to achieve their objectives. His first class analytical, design and problem solving skills, in addition to his dedication to maintain high quality standard of services, have helped to enable Long to assume critical roles in numerous SME and microenterprise development projects either on Government or NGO initiatives.

4. Ph.D. Alain Nguyen Ba, a Vietnamese Oversea who lives and works in France. He is running a private consultant company specialized in the field of helping SME and microenterprises with law and policy-related issues. With many years of working experiences on SME and microenterprises business affairs, Ph.D. Alain Nguyen Ba clearly understands the difficulties and challenges that a SME/microenterprise may face in doing business in a developed country like France as well as in a developing nation like Viet Nam. He also has a broad knowledge of micro financing policy of International Financial Institutions. He academic researches and understanding plus practical experiences in financing and policy consulting for microenterprises have much helped in developing this report.
5. Mrs., Pham Quynh Mai, M.A and Director of APEC-ASEM Division, Multilateral Trade Policy Department, Ministry of Industry and Trade of Viet Nam. With over ten 10 years working on APEC matters, Mrs. Pham has good understanding on what APEC has been doing to support SMEs and microenterprises and what's APEC action plan on SMEs and microenterprises until 2012. Her ability to analyze strength and weaknesses of APEC contributes greatly for the development of the report and create a basis for recommendations part.
6. Ph.D. Pham Anh Tuan, an expert in SME and microenterprises for years. Graduated from the Russian Federation, his PhD thesis focused on how the governments can best support to microenterprises in financial aspect to balance social welfare and economic development. He is also the author of a couple of publication related to SME and microenterprises development. Working as a policy maker for years on SMEs related matters, his valuable knowledge contributes very much for the report.
7. M.A. Bui Nguyet Anh, Dean of the Faculty of Business English, Hanoi Foreign Trade University; associate consultant for the Ha Noi Small and Medium Sized Enterprises Association, she has helped other authors to edit the whole report and taken an important part in Chapter III on Institutions and Mechanisms Supporting Microenterprises.