



Completion Report

Project Number: 48338-001
Technical Assistance Number: 8700
July 2016

Study on SMEs and Trade-Driven Productivity

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TA Number, Country, and Name:			Amount Approved: \$225,000	
TA 8700-REG: Study on SMEs and Trade-Driven Productivity			Revised Amount:	
Executing Agency: ADB		Source of Funding: TASF-other sources	Amount Undisbursed: \$113,859	Amount Utilized: \$111,141
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Description				
<p>Asia's rapid growth over the past 4 decades has had a profound impact on the global economy, and positioned Asia as a driver of global growth. Meanwhile, Asian economies have been increasingly affected by global economic uncertainty. The 2008/09 global financial crisis and its aftermath have depressed demand from developed countries, and brought about an economic slowdown in developing Asia. The pace of growth in labor productivity in the region has decelerated. In this context, the promotion and development of small and medium-sized enterprises (SMEs) have the potential to boost productivity and increase employment at the national, regional, and global levels.</p> <p>The liberalization of trade and investment—accelerated by regional economic integration, such as the Association of Southeast Asian Nations (ASEAN) Economic Community—has generated new business opportunities for Asian SMEs in global marketplaces. Increasingly globalized links in production networks, or global value chains, provide a chance for SMEs to upscale their business models and to grow across borders. This will contribute to enhancing SME competitiveness, creating more jobs, and promoting inclusive growth in developing Asia.</p> <p>The ADB and the ADB Institute (ADBI) have recognized the importance of integrating SMEs into global value chains. This will help establish a foundation for robust growth in Asia, with resilience against unexpected events such as financial crises. To provide pathways for such integration, ADB and ADBI undertook the study to examine ways of encouraging SME participation in global value chains. The study also explored policy solutions to promote SME participation and address the financial and nonfinancial issues that SMEs face.</p>				
Expected Impact, Outcome, and Outputs				
<p>Impact: The TA was expected to improve SME productivity through diversified policy measures to support SME internationalization and innovative financing models for SMEs in ADB's developing member countries (DMCs). The TA targeted the increased share of (i) SMEs participating in production networks from the baseline of 22% by 2020 and (ii) SME exporters in total exports in DMCs from the baseline of 23% by 2020.</p> <p>Outcome: TA was expected to encourage policy discussions on innovative solutions for increasing SME productivity responding to changing business environments in DMCs. The TA targeted plural quotation of the Study Report in national SME policies.</p> <p>Output: The TA was intended to produce the study report on SMEs and trade-driven productivity as a joint work with ADBI. The TA targeted presenting initial findings from the study report at the Regional Cooperation and Integration (RCI) conference scheduled in November 2014 and publishing the report by the end of the TA. The study was closely linked with SME policy priority, i.e., SME participation in global value chains, in designated study countries.</p>				
Delivery of Inputs and Conduct of Activities				
<p>The TA had three key activities: (i) half-day study meetings with relevant stakeholders including government authorities, financial institutions, and SME associations in selected four countries (Kazakhstan, Papua New Guinea, Philippines, and Sri Lanka), aiming to extract financial and nonfinancial constraints and challenges around SME participation in global production networks through interactive discussions; (ii) paper-based and online surveys for government authorities, SMEs, and financial institutions in order to assess key factors to promoting SME participation in global value chains from different angles and to examine financing models for SMEs involved in production networks; and (iii) a study report (publication) jointly prepared by ADB and ADBI, based on the findings from surveys and discussions with stakeholders in DMCs, as an output of the TA.</p> <p>The study report was a collaborative work among experts and academics in the field of SME sector development and trade in Asia, jointly coordinated by the ADB and the ADBI. Also, a special contribution was made by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) to analyze the ADB survey data.</p> <p>An ADB survey team was organized for this publication project, comprising ADB official, one international consultant, and two national consultants¹. The survey was conducted in four select countries mentioned above during September 2014 and February 2015. Survey countries were decided through intensive discussions with ADB operations departments². Surveys were also supported by: (i) Damu Entrepreneurship Development Fund (for Kazakhstan); (ii) Port Moresby Chamber of Commerce and Industry, PNG Chamber of Commerce and Industry, and IBBM Enterprise Centre (for Papua New Guinea); (iii) Philippine Chamber of Commerce and Industries, Philippine Economic Zone Authority, and Export Marketing Bureau of Department of Trade and Industry (for Philippines); and (iv) Sri Lanka Export Development Board, National Enterprise Development Authority, and Sri Lanka Handicrafts Board LAKSALA (for Sri Lanka). The ADB survey team coordinated well</p>				

¹ Consultants were engaged as individual consultants following provisions in TA paper (and follow-on changes) and ADB's consulting services guidelines.

² Study countries were selected from different ADB regions so as to extract and compare different factors behind SME involvement/non-involvement in production networks and different financing models needed for SMEs. In the selection process, the project focused on two different country groups: (i) countries where SMEs participate in global value chains (Philippines and Sri Lanka) and (ii) countries where global value chains have yet to be established (Kazakhstan and Papua New Guinea).

the questionnaire design, delivery, and collection with partner institutions in four countries, resulting in satisfactory ratings for consultants and ADB as an executing agency.

Around 51% of the allocated TA budget was not disbursed. Due to building partnerships with several institutions in four survey countries, the cost for surveys was largely saved. Also, the mission cost to Port Moresby in Papua New Guinea was reduced from the original estimation due to the reduced number of mission members.

The TA was extended from February 2015 to November 2015 due to the time-consuming task of surveys. The data collection from scratch was a challenge and required much time to get responses especially from participating SMEs to complete the study. Also, the study report was to be presented at the Asian RCI Roundtable Conference held on 17–18 November 2014 as the original plan, but due to the time-consuming survey process the venue for presenting the findings from the report was rearranged to the Seminar on Enhancing Financial Accessibility for SMEs.

One of the target survey countries was changed from Timor-Leste to Papua New Guinea through the intensive consultation with Timor-Leste Resident Mission and Papua New Guinea Resident Mission, Pacific Department of ADB. The main reason was due to the difficulty in conduct the survey to SMEs in Timor-Leste.

Evaluation of Outputs and Achievement of Outcome

The study report (<http://www.adb.org/publications/integrating-smes-global-value-chains>) was launched in October 2015, reflecting the discussion in the Seminar on Enhancing Financial Accessibility for SMEs held at ADB headquarters on 2 September 2015.³ The report was also distributed through Brookings in the United States.

The report has promoted policy discussions on SME participation in global value chains at the national, regional, and global level. The ADBI Seminar on Trade Policy Issues in Asia, held at Phnom Penh, Cambodia, on 19–21 October 2015, and the United Nations ESCAP Workshop on International Trade, Logistics and Business Development, held at Yangon, Myanmar, on 27–29 November 2015, discussed key findings from the report and policy directions to help SMEs integrate into global value chains in Asia.

The quotation of the study report in national SME policies has yet to be officially identified at the time of preparing this completion report⁴. Indicators on the share of SMEs participating in production networks and the share of SME exporters in total exports are supposed to be reviewed at 2020.

Overall Assessment and Rating

Successful. Based on the criteria in the Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations, the study report under this TA was *highly relevant* with participating DMCs' strategies on SME development. The 2015 Asia-Pacific Economic Cooperation (APEC) Leaders' Declaration stated that policy actions need to be taken to facilitate micro, small and medium enterprises' participation in regional and global markets to foster an enabling trading environment, whose members include Philippines and Papua New Guinea. Sri Lanka's National Policy Framework for Small Medium Enterprise Development (Ministry of Industry and Commerce) has attached importance of cluster development, addressing the support for entire value chain from input supply to processing and export. In Kazakhstan, economic diversification is one of the strategic national goals, which includes promoting investment in agribusiness value chain. The study report was *less than effective* as the findings were not able to be prepared by the targeted RCI conference, but it has stimulated discussions on SME participation in global value chains which is closely linked to the national and regional agenda on SME development and competitive economies. The study report was also *less than efficient* because the half of the allocated budget was not utilized and the release of the study report delayed. The study report is *likely* sustainable, given the continuous discussions on integrating SMEs into global value chains at the national, regional, and global levels. As requested by the Government of Sri Lanka, for instance, ADB has supported cluster development and SME finance innovation, which aims to promote SME participation in global value chains⁵.

Major Lessons

Knowledge partnership and collaboration with ADBI as the center of excellence is an effective way of exchanging views from different angles and identifying issues on topics of interest which would benefit respective institutions. ADB knowledge works can proactively support DMCs in policy design, and the concept of knowledge works should be designed with more demand sensitivity and operational relevance through close communication with DMCs and ADB operations. As a lesson from the survey process, we encountered some issues in relation to sample size, which made it difficult to conduct further detailed analysis of critical factors constraining SME participation in global value chains by business sector, type of value chains, and country, which requires further studies with higher SME and stakeholder sample size so as to move this discussion forward.

Recommendations and Follow-Up Actions

ADBI is considered a suitable knowledge partner with ADB so as to formulate knowledge-based innovative operations, especially in the field of SME development, access to finance, and financial inclusion, including the continuous discussion on SME participation in global value chains, due to their active role of researches in these fields in Asia and the Pacific.

TA = technical assistance.

Prepared by: Shigehiro Shinozaki Designation and Division: Financial Sector Specialist/SDAS

³ 468 downloads of the report from ADB website were counted for less than three months after the launch (As of the end of December 2015), which was the top 1 downloaded ADBI document in 2015 and suggested the large public interest in this subject.

⁴ Meanwhile, the ADB survey team explained the study concept to the Ministry of Finance in Sri Lanka twice upon its request and interest for considering the next national development plan during the mission to Colombo on 3–5 November 2014. SMEs are strategically important sector to boost national productivity in Sri Lanka. The report's investigation of success factors, impediments, and policy recommendations provides a rich set of ideas for encouraging the further penetration of SMEs into global value chains in Sri Lanka as well as developing Asian countries.

⁵ TA 9080-SRI: Cluster Development and Small and Medium-Sized Enterprise Finance Innovation (\$2 million), approved on 15 February 2016.