

ASIAN DEVELOPMENT BANK

TAR:STU 35465

TECHNICAL ASSISTANCE

FOR

EXPANDING
THE STRATEGY FOR SME DEVELOPMENT

IN THE

EAST ASEAN GROWTH AREA

December 2001

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
BIMP-EAGA	–	Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area
SME	-	Small and medium-scale enterprise
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. The development of subregional economic cooperation under the framework of the Brunei Darussalam, Indonesia, Malaysia, Philippines-East ASEAN Growth Area (BIMP-EAGA) was stalled in the aftermath of the Asian economic crisis in the late 1990s. To help revive the initiative through coordinated development of small and medium-scale enterprises (SMEs), at the request of the Governments of Indonesia and the Philippines, the Asian Development Bank (ADB) approved a regional technical assistance (TA) in 1999 to formulate a strategy to develop SMEs in the BIMP-EAGA region.¹ While the TA focused primarily on the Indonesia and Philippines parts of EAGA, Malaysia and Brunei Darussalam were also kept informed of the progress of the TA, which was concluded this year. In recent discussions among the four countries, the TA was considered successful, yet incomplete as it neither covered the entire EAGA regions including Malaysia and Brunei Darussalam, nor focused on collaboration among all the four member countries of BIMP-EAGA. During consultations in July-August 2001, therefore, the governments of the four participating countries requested ADB to expand the earlier study, focusing on the strategies for cooperation in SME development among the four countries and the interlinkages among the four economies. This report is based on the consultations in the four countries in 2001, and the feedback and lessons learned on the earlier TA.²

II. BACKGROUND AND RATIONALE

2. Subregional economic cooperation schemes or growth areas have emerged as an increasingly important strategy for accelerating economic growth and social development particularly in the less developed areas of Southeast Asia in the 1990s. BIMP-EAGA was formally launched in 1994 and was considered one of the more dynamic subregional cooperation initiatives in Southeast Asia because of its geographic expanse and the richness of the subregion's natural resources. With the exception of Brunei Darussalam, the target subnational regions of the BIMP-EAGA cooperation scheme are among the least developed in Indonesia, Malaysia, and Philippines. The areas share common characteristics: considerable geographic distance from their respective capital states and resource-based regional economies that are less developed than their capital regions. Through close cooperation and collaboration, the target subnational regions are expected to develop a vibrant economic unity through proximity of the areas, taking full advantage of economies of scale.

3. EAGA's strategic objective is to accelerate private-sector-led economic development through increased trade, investments, and tourism in the subregion by (i) facilitating freer movement of people, goods, and services; (ii) rationalizing the development of vital infrastructure in the subregion; and (iii) realizing the economic complementarities as well as sharing of common resources between the participating areas to ensure sustainable development. ADB assessed the potential of the subregion through an investigative study in 1996 and identified several economic complementarities, many of which remain untapped.³ The study confirmed that, with increased regional cooperation, EAGA could become a major investment destination in the Association of Southeast Asian Nations (ASEAN) for agro-

¹ TA 5880-REG: *Small and Medium Enterprise Development in the EAGA Region*, for \$300,000, approved on 17 December 1999.

² The TA first appeared in *ADB Business Opportunities* on 15 October 2001.

³ A 5615-REG: *Study of the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA)*, for \$1,800,000, approved on 16 March 1995.

industry, natural-resource-based manufacturing, and tourism in addition to the energy and transport sectors, which have already attracted substantial investments. The ultimate goal is to harness EAGA's resource endowments into competitive exports, turning the subregion into an important production center for other regional and global economies.

4. The commitment of the four member governments enabled EAGA to achieve significant results within a short period in the 1990s. Early gains were made possible because the four governments focused on addressing the structural impediments to growth within the EAGA areas. Between 1994 and 1997, several national policies were modified and cooperative agreements were facilitated to ensure the success of the EAGA initiative. BIMP-EAGA's development, however, was significantly set back by the 1997 Asian economic crisis. As the economic environment in Southeast Asia generally weakened, governments refocused their attention on national economic issues, especially those affecting their financial and industrial centers. In many cases, declines in government infrastructure spending, especially in the remote regions, effectively slowed down regional development, further resulting in a slowdown in implementing EAGA initiatives.

5. Since July 2001, the four leaders of the participating governments have renewed their commitment and support for reinvigorating the BIMP-EAGA initiative. This renewed interest is partly in support of ASEAN's program for economic integration, but mostly in recognition of the vital role of subregional cooperation in accelerating the economic and social development of the affected areas. Confronted, however, by the weakening global economy, declining foreign direct investments flowing into developing countries, current political uncertainties, and the growing role of new regional and global economic players, the leaders of the EAGA countries have agreed that greater focus should be given to strengthening the capacity of the local business sector in stimulating economic activity throughout the subregion.

6. Given the emphasis on private-sector-led growth, the earlier investigative study recognized early on the central role that SMEs would play in the economic stability and social development of EAGA. The SME sector is crucial in achieving sustainable private sector development, economic growth and poverty reduction in EAGA. SMEs not only operate in all sectors of the EAGA economy, but also form the majority of the EAGA private sector. SMEs are seen to provide the seedbed for developing entrepreneurial skills and the means to broaden participation in the productive sectors of the economy. They play an important role in generating employment, creating income for a significant number of low-income workers, and filling the domestic demand for low-cost goods and services. The performance, therefore, of the SME sector significantly impacts on the economies of the individual participating country and the growth and development of the EAGA subregion. With this understanding, in reviving EAGA the four governments reached consensus to again focus on the development of SMEs.

7. While SMEs have long been viewed as key players in the development process of EAGA, they face a considerable number of challenges and constraints that limit their potential. In 1999 the governments of Indonesia and the Philippines requested ADB help to carry out a study to define a strategy for the development of SMEs, initially covering the EAGA subregions of these two participating countries. The study identified common constraints and barriers to the development of the SME sector in eastern Indonesia and southern Philippines: (i) inappropriate policy and highly restrictive business environment; (ii) weak physical infrastructure, especially in transport and communications; (iii) limited access to credit and other sources of finance; (iv) lack of an efficient and sustainable network of business support services; and (v) insufficient coordination of national SME programs and lack of integration of these programs throughout EAGA.

8. To address these interlocking constraints, the study formulated a *Strategy for SME Development in the East ASEAN Growth Area*. The strategy emphasized an integrated and broadbased package of activities that is both systematic and pragmatic. The strategy also provided for an implementation plan that aimed at lifting the constraints that prevent SME entrepreneurs from realizing their full economic potential. While the strategy received strong support from the concerned stakeholders, its focus, however, was limited to the Indonesia and Philippines subregions in EAGA.

9. The need for a basic framework for SME development in EAGA as a whole has become crucial, as efforts to revitalize economic cooperation within the subregion with SMEs as the anchor sector are rapidly gaining momentum. Although each participating government is currently implementing its own SME development program, it was considered essential to develop an EAGA-wide SME development strategy that can be used as a comprehensive guide by both the public and private sectors in coordinating and harmonizing policies and infrastructure investment decisions in the subregion. As such, the framework to support both the sharing of information, technology, and resources among SMEs in the subregion and the strengthening of public-private sector partnerships needs to be developed and, most importantly, “owned” by the stakeholders in the four countries. Only through such internalization of a common strategy will it be possible to forge an enabling environment in EAGA to allow SMEs in the subregion to fully realize the potentials for economic complementarity.

10. Although Brunei Darussalam is not a member of ADB, its participation in this process is critical to complete the assessment of the subregion’s SME environment and to identify ways to establish linkages and more effectively exploit economic complementarity among SMEs in EAGA. Brunei Darussalam will contribute an estimated \$10,000 equivalent in kind, corresponding to the imputed value of staff time and the use of government facilities for the study and workshops. Brunei Darussalam will also be responsible for the travel expenses of their respective officials to participatory and concluding workshops as required.

11. The SME development strategy formulated for the Indonesian and Philippine subregions in EAGA provides the starting point for establishing a regionwide SME development strategy that is both consistent with and complementary to the national strategies of the four participating countries. To obtain a complete picture of the opportunities and constraints to the development of SMEs in EAGA, an assessment needs to be undertaken for the EAGA regions of eastern Malaysia and Brunei Darussalam. The results of that assessment will then be consolidated with the Indonesia and Philippines strategy to establish the EAGA-wide SME development strategy.

III. THE TECHNICAL ASSISTANCE

A. Objectives

12. The main objective of the TA is to support the revival of economic activities in BIMP-EAGA through cooperation by promoting the coordinated development of SMEs in the subregion. The study will identify the constraints to and opportunities for SME development through cooperation in EAGA, particularly focusing on the economic linkages of Malaysia and Brunei Darussalam and with other EAGA subregions to complement the results of the recently completed strategy for SME development in EAGA, which focused on Indonesia and the Philippines parts of the subregion. The TA framework is presented in Appendix 1.

B. Scope

13. The TA will finance a study that will
- (i) assess the SME environment in the remaining EAGA regions composed of the federal states of Sabah and Sarawak and the federal territory of Labuan in eastern Malaysia and of Brunei Darussalam;
 - (ii) identify the constraints to SME development in the targeted areas and formulate a strategy that will eliminate the constraints, with particular focus on identifying and resolving trade-related issues and concerns;
 - (iii) conduct consultations with and present the results of the study to various stakeholders including national governments, local communities, and aid agencies regarding the strategy for development in the respective target areas; and
 - (iv) incorporate and integrate the results of the study and consultation with the June 2001 ADB report on the *Strategy for SME Development in the East ASEAN Growth Area*,—which focuses on the Indonesia and Philippines portions of EAGA— and establish an EAGA-wide SME development strategy.

C. Cost Estimates and Financing Plan

14. The total cost of the TA is estimated at \$250,000 equivalent of which ADB will finance \$240,000 for the study and the workshops on a grant basis from the ADB-funded TA program. The Government of Brunei Darussalam will contribute an estimated \$10,000 equivalent representing staff time and the use of government facilities for the study and the workshops. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

15. The TA will be implemented over six months starting in February 2002 and ending in July 2002. ADB will be responsible for implementation and monitoring in coordination with the four governments. An international consultant with extensive experience in SME and regional cooperation issues will be recruited to coordinate the study. The EAGA national secretariats of Brunei Darussalam and Malaysia will assist in making appointments with the concerned ministries and agencies and in facilitating access to the data and information required for the study.

16. Four area consultation workshops will be held using a participatory approach, one each in Sabah, Sarawak, and Labuan in eastern Malaysia, and Brunei Darussalam. The aim of the workshops is to review the findings of the consultant, obtain concurrence of the stakeholders on the proposed strategy, and secure the commitment of the two governments to support the strategy. After the two strategies are consolidated a concluding workshop will be held to seek endorsement of the SME development strategy in the EAGA region by EAGA senior officials, heads of the national secretariats, representatives of the East ASEAN Business Council (EABC), other private sector organizations including the joint business councils and SME associations, as well as the aid community. Domestic consultants will be recruited to make arrangements for and supervise the organization of the consultation workshops and also to provide appropriate inputs to the study.

17. Approximately six person-months of international consulting services, supported by two domestic experts⁴ to help prepare and run the TA inputs of three person-months each, will be required to complete the study and the workshops.

18. ADB will select and engage the individual consultants in accordance with its *Guidelines on the Use of Consultants*, and other arrangements for engaging domestic consultants. The terms of reference of the consultants are described in Appendix 3.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding the equivalent of \$240,000 for the purpose of Expanding the Strategy for SME Development in the East ASEAN Growth Area, and hereby reports such action to the Board.

⁴ Excluding those from Brunei Darussalam, which is not a member, and whose nationals therefore cannot be engaged by ADB.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary Goal	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Support the revival of economic cooperation in Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area (BIMP-EAGA) by promoting the development of small and medium-scale enterprises (SMEs) in the subregion</p>	<ul style="list-style-type: none"> • General increase in formal cross-border trade and investments • Increase in share of SMEs in cross-border trade and investments 	<ul style="list-style-type: none"> • Progress reports • Review missions • Final reports 	<ul style="list-style-type: none"> • Continued commitment of the four participating governments to the efforts to revitalize economic cooperation in EAGA • Government support for improving the policy and transport infrastructure environment in EAGA, among others
<p>Objective</p> <p>Formulate an EAGA-wide SME development strategy</p>	<ul style="list-style-type: none"> • Identification of constraints and barriers to development of SME in the EAGA focus areas of Brunei Darussalam and eastern Malaysia • Strategy for SME development for Brunei and Malaysia • Consolidated EAGA-wide SME development strategy 	<ul style="list-style-type: none"> • Inception report • Consultation workshop reports • Final report 	<ul style="list-style-type: none"> • Access to adequate data and information on SMEs • Cooperation of concerned ministries and agencies • Formal integration in the national SME development programs of the identified strategy for SME development

(Reference in text: page 3, para. 12)

<p>Activities</p> <p>(i) Assessment of the SME environment in Brunei and Malaysia</p> <p>(ii) Preparation of draft consolidated strategy for SME development in EAGA</p> <p>(iii) Conduct of regional consultation workshops to develop consensus on the validity of the draft strategy</p> <p>(iv) Conduct of final consultation workshop with four member countries and drawing up of final strategy document</p> <p>Inputs</p> <p>Recruit consultants, contract negotiations, project management team constituted, provision of equipment, inception report</p>	<ul style="list-style-type: none"> • Workshop summary • Workshop summary • Workshop summary • Aide memoire/ endorsement of the strategy by the four participating governments <ul style="list-style-type: none"> ▪ Recruitment completed by February 2002 ▪ Terms of reference 	<ul style="list-style-type: none"> • Staff reports on workshop • Staff reports on workshop • Staff reports on workshop • Staff reports on workshop <ul style="list-style-type: none"> ▪ Signed contracts ▪ Inception/progress reports ▪ Final reports 	<ul style="list-style-type: none"> • Cooperation and participation of government ministries and agencies concerned • Acceptance of the Identified strategy by individual governments and endorsement at the subregional level
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**COST ESTIMATES AND FINANCING PLAN
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Item	Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration, Airfare and Per Diem	
i. International Consultant (1 x 6 person-months)	81,000
ii. Domestic Consultants (2 x 3 person-months)	31,500
b. International and Domestic Travel	17,800
2. Participatory Workshops	28,500
3. Concluding Workshop	45,500
4. Editing, Translation, and Printing of Reports ^b	6,000
5. Contingencies	29,700
Subtotal (A)	240,000
B. Brunei Government Financing	
1. Secretariat, Travel and Per Diem	10,000
Subtotal (B)	10,000
Total	250,000

^a From the ADB-funded TA program.

^b Includes office supplies and communication expenses.

Source: ADB estimates.

(Reference in text: page 4, para 14)

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultant (6 person-months)

1. An international consultant with a background in small and medium-scale enterprises (SMEs) business/enterprise development and regional cooperation will be engaged for five person-months. The consultant will serve as team leader and coordinate the activities of the domestic consultants.¹ The team leader will also be responsible for the following technical and administrative arrangements relating to the organization of workshops and the preparation of the East ASEAN Growth Area(EAGA) strategy.

2. The team leader will assess the SME environment in Brunei and in the Malaysia subregions in EAGA so as to identify the sector's strengths and opportunities for its development, determine the constraints and barriers to development, and recommend a plan of action or strategy for removing the constraints to SME development. To this effect, the consultant will

- (i) use as basic reference the Asian Development Bank (ADB) report on *A strategy for SME Development in the East ASEAN Growth Area* prepared in June 2001 and complement this with documents relating to the national SME development programs of Brunei and Malaysia;
- (ii) gather statistical data, relevant information, and inputs for formulating for these focus areas an SME development strategy that is consistent with both the national programs and the ADB report;
- (iii) conduct preliminary discussions with participating governments and private sector representatives, on issues to be considered in the regional workshops, for example, (a) infrastructure needs and related policy issues; (b) services to business support SME development; (c) cross-border trade and investment issues, and related policy concerns; (d) the need for and ongoing experiences related to economic development funds, equity funds, and venture capital operations; (e) coordination and integration of SME development programs, projects, and activities in the subregion; and (f) environmental constraints affecting SME development;
- (iv) define the opportunities and constraints identified in the context of developing BIMP-EAGA as a subregional economic growth area that is private-sector-led; and

(Reference in text: page 5, para. 18)

¹ In this regard, the consultant will discuss with staff concerned an implementation schedule of the TA.

- (v) prepare a preliminary report based on (i) to (iv) above, which will serve as the focal point for discussion in the stakeholder consultation workshops.

3. The team leader will organize and manage the stakeholder consultation workshops to be conducted in the Brunei and Malaysian focus areas. The consultant is expected to undertake the following activities:

- (i) assist ADB staff in preparing other background papers for the workshops;
- (ii) work with participating countries in selecting the workshop participants;
- (iii) supervise all administrative arrangements relating to the workshop, such as, selecting the seminar venue, arranging for seminar functions, arranging for travel and hotel accommodations for workshop participants, and preparing seminar materials and reports;
- (iv) attend the workshops and serve as a key resource person; and
- (v) facilitate the actual workshops to ensure adequate dialogue and discussion.

4. The team leader will prepare a draft final report on the recommended strategy. The draft final report will be prepared in two discreet exercises. The first exercise will consist in preparing a summary report outlining the results of the assessment of the SME environment in Brunei and Malaysia and the outcome of the stakeholders' workshops. This includes the following activities:

- (i) reviewing the recommendations made during the workshops and preparing a summary report of recommendations;
- (ii) integrating the recommendations as appropriate in the recommended SME development strategy for Brunei and Malaysia; and
- (iii) preparing a draft final report on the recommended strategy for SME development in the Brunei and Malaysian focus areas.

5. The second exercise will consist in preparing a draft final report integrating the findings of the above report with the June 2001 ADB report, *A Strategy for SME Development in the EAGA*.² This draft final report will be circulated for consideration and comments by the respective national secretariats of the participating countries before the concluding workshop is held. The draft final report should already include a consolidated BIMP-EAGA strategy for SME development and identify a plan of action for the immediate implementation of the strategy.

6. The team leader will organize and manage the consolidation workshop in the same efficient manner as the stakeholders' workshops, including conducting preliminary discussions with participating governments and private sector representatives concerning the issues to be considered in the workshop, arranging for venue and facilities as well as the travel and hotel

² Because no assessment of environmental constraints affecting SMEs is carried out in the first phase, in the final report an assessment of such constraints will be carried out for the Indonesia and SME covered by the strategy.

accommodations of participants, and supervising all administrative and logistical arrangements incidental to the holding of the consolidation workshop.

7. The team leader will prepare the draft final report on the recommended strategy. The specific activities follow:

- (i) review and integrate the recommendations made during the concluding workshop;
- (ii) prepare a final report on the recommended strategy for SME development in the EAGA, and circulate for comments documents printed and circulated and integrate such comments before finalizing the strategy.

B. Domestic Consultants (6 person - months)

8. Two domestic consultants will be engaged as individuals for three person-months each. The consultants will assist the team leader in carrying out the technical and administrative arrangements for organizing and conducting the regional workshops and the concluding workshop, preparing the necessary reports and background papers, and undertaking the following technical and administrative activities:

- (i) make an inventory of SME development programs and projects being undertaken by governments, aid agencies and private sector organizations, including Non Government Organizations (NGOs). This report should be ready for distribution during the workshop;
- (ii) assist in preparing the preliminary report and other background papers for the workshops;
- (iii) assist in arranging for venue and facilities and for travel and accommodations of workshop participants;
- (iv) assist in identifying stakeholders and participants to the regional workshops and concluding workshop;
- (v) handle all administrative matters pertaining to the workshop, including seminar materials and other supplies needed;
- (vi) provide technical and secretariat support in facilitating the workshop;
- (vii) assist in preparing the workshop summary reports and other reports that may be required; and
- (viii) handle the preparation, reproduction, and distribution of workshop reports.