© OECD 2011

Executive Summary

Main findings

Sound macroeconomic policies, growing export opportunities, competitive markets and entrepreneurial dynamism have delivered economic growth and resilience.

Over the past 15 years, Thailand has recovered rapidly from two major crises: the Asian financial crisis of 1997-98 and the global financial and economic crisis of 2007-09. The economy's resilience has been associated with highly competitive goods and services markets, flexible labour markets and a vibrant entrepreneurial culture. In the intervening inter-crisis period, Thailand, a middle-income country, enjoyed robust economic growth, allowing real per capita GDP to reach nearly one-fourth the OECD average in 2008. Thanks to sound macroeconomic policies, integration into international goods and services markets accelerated, spurred by knowledge transfers from abroad. In a setting of rapidly expanding market opportunities, firm creation and economic growth were strong, leading to labour shortages and large-scale labour immigration. Overall, both the rate of unemployment (1.2% in 2010) and inflation (3.4% in 2010) stayed low, while the external position posted persistent surpluses.

Thailand's SME and entrepreneurship activity is largely in line with international norms…

Although precise comparison of Thailand's entrepreneurial dynamism with other countries is complicated by data deficiencies, many of the key features of its small and medium enterprise (SME) and entrepreneurship landscape appear to be fairly typical by international standards. Thailand has a similar enterprise size structure to that typically seen in OECD countries. SMEs make similar structural contributions to employment (78% of employment), GDP (approximately 43% of non-agricultural GDP) and exports (approximately 30% of exports) as in OECD countries. Furthermore, the SME density in Thailand is only slightly less than the typical density in OECD countries (about 4.2 SMEs per 100 population, against about 5.0 SMEs per 100 population in OECD countries)

… and the SME and entrepreneurship sector is very dynamic.

Thailand has one of the highest levels of entrepreneurship in the world as measured by the Global Entrepreneurship Monitor's Early Stage Entrepreneurial Activity rate at about 20%. The SME sector also appears to have been growing, with the number of recorded SMEs increasing more than three-fold to 2.8 million between 1997 and 2008, although much of this apparent increase is likely to result from improved monitoring of SMEs. Furthermore, by global standards, Thailand has high proportions of female entrepreneurs and business owners, who make up just fewer than 50% of start-ups and operating SMEs.

But there are also weaknesses: a high proportion of entrepreneurship undertaken for necessity, strong regional inequalities in entrepreneurship rates, …

The proportion of entrepreneurs who have been motivated by necessity, such as a lack of alternative income opportunities, is high at approximately 30%, pointing to both a lack of alternative job opportunities and deep labour market segmentation. These "necessity" entrepreneurs frequently, but not always, have low productivity, lack growth potential and offer poor income and employment conditions. The distribution of Thailand's SME population is also very unequal across regions. About two-fifths of recorded SMEs are located in the more prosperous Bangkok region and its surrounds, where only one-tenth of the population lives. Those regions seeking to catch up with Bangkok in economic development terms are also those with the weakest existing SME and entrepreneurship activity, which may hold back their future economic development and the development trajectory of the country as a whole.

… and a "missing middle" of medium-sized, growth-oriented SMEs.

Thai enterprise size classes, as defined by the Thai SME Promotion Act, differ somewhat from those commonly used in OECD countries, making it difficult to make detailed comparisons. In particular, gauging the weight of microenterprises is hard without an internationally comparable microclass definition and disaggregated information on the smallest enterprises. Despite these information deficiencies, there is little doubt that Thailand's medium-sized enterprises (employing 51 to 200 employees) account for a distinctly smaller proportion of its SME population than is the case in OECD countries and other non-OECD Asian countries. The relative under-representation of medium-sized firms, or the "missing middle", points to barriers weighing on both the creation of medium-sized firms and on the growth of small firms. Overcoming these barriers is crucial to driving continued economic growth, innovation and internationalisation.

Lack of technological readiness is a major impediment to the creation of new productive firms and SME innovation and growth.

Gaps in technological readiness are an important obstacle to the development of a more productive entrepreneurship, less orientated to responding to necessity, and the stimulation of greater SME innovation and internationalisation. Innovation and productivity increases are currently held back by a lack of technological capacities in SMEs to absorb innovation from external sources and to innovate incrementally, and weaknesses in the surrounding research and innovation system. The latter is illustrated by low levels of R&D investment. Thailand allocated only 0.25% of GDP for this purpose in 2007, significantly less than China and India. A narrow telecommunications infrastructure and limited collaborative links between SME agencies, universities, research institutions and the business community have compounded the weakness of Thailand's innovative capacity. The development of innovative SMEs is equally hindered by educational and training systems, which though endowed with appropriate resources, have failed to produce qualified labour commensurate with market demands.

Further obstacles lie in lack of finance for SMEs and entrepreneurship, underdeveloped infrastructure, institutional failures and underdeveloped infrastructure.

Surveys of the views of entrepreneurs on the quality of the Thai business environment point to several important barriers to entrepreneurship and SME development. Many growth-oriented SMEs and entrepreneurs suffer from lack of access to investment finance offered on adequate terms. During the global financial and economic crisis, commercial banks became more cautious in their lending, although lending from government-owned specialised financial institutions (SFIs) increased substantially, cushioning some of the negative impacts. However, non-performing loan ratios have remained high by international standards, largely reflecting an inefficient credit guarantee scheme, which constrains the ability of the financial system to offer finance to a wide group of SMEs on good terms. Overall, the volume of SFI lending to SMEs (preferential credits) is small relative to both the SME population and amounts spent by other countries. Insufficient supplies of venture capital also act as a drag on the birth and expansion of innovative SMEs.

A complex system of taxes, business rules and accounting standards has imposed disproportionate costs of tax compliance upon expanding SMEs, while household and business surveys point to the presence of corruption as a pervasive problem.

Infrastructure spending has failed to keep up with the needs of the economy, pushing transport and related costs to 20% of GDP, higher than most other countries and double the ratio in the United States. Physical infrastructure suffers from lack of railway transport and storage facilities as well as port congestion and poor roads. This affects export-oriented SMEs as well as large firms.

SME policies are well integrated in national development efforts.

Since 2001, the Office of SME Promotion (OSMEP) has played an important role in SME and entrepreneurship policy co-ordination in Thailand and made an important contribution to national development by acting as a central planning office for SME and entrepreneurship policy and an operational arm for implementing a range of SME and entrepreneurship programmes. OSMEP is responsible for the design of the national Master Plans for SME Promotion and for securing their implementation across government, ensuring that they are in line with the broader objectives of the National Economic and Social Development Plans.

The SME Promotion Master Plans have addressed fundamental competitiveness and social issues for Thailand, focused on supporting both the development of innovative, growth-orientated and international SMEs and supporting productive entrepreneurship for regional and social development. Objectives and measures laid out in the Master Plans for innovative SMEs focus on spurring manufacturing output and include the expansion of the technology base, increasing R&D intensity and building production linkages among industrial groups and between large firms and SMEs. Objectives and measures for helping Thai people in lower income regions and provinces to raise their standard of living through entrepreneurship focus on developing the grassroots economy including by establishing collaborative networks, building co-operatives to support small firms in their attempts to gain access to new markets, and promoting finance and human capital for small scale entrepreneurship.

However, SME and entrepreneurship policy effectiveness and efficiency could be improved by greater coherence across government…

There is a limit to the ability of OSMEP to achieve policy coherence across government ministries and agencies under the current arrangements. Although the need to ensure coherent and prioritised SME and entrepreneurship policies across government was recognised in the SME Promotion Act, which established OSMEP as the co-ordinator of policy, OSMEP lacks the operational clout and authority to achieve this objective fully. In principle, it reports to the Prime Minister, which gives it strong strategic direction and authority. On the other hand, being only a semi-government agency and partly depending administratively upon the Ministry of Industry, it lacks weight in co-ordinating and influencing the actions of other arms of government compared with a full-fledged ministry. In addition, numerous institutes and agencies with SME policy relevance operate under the umbrella of the Ministries of Industry and Commerce, with no calendar for frequent and regular inter-agency consultations and experience-sharing. In this environment, OSMEP has found it difficult to affirm its central role in the formulation, co-ordination, execution and evaluation of SME and entrepreneurship policies.

… and stronger focus on policies that meet the greatest needs and have the highest impacts.

A second set of constraints concerns budgeting, appraisal and evaluation. Unstable budget allocations and the absence of multi-year programme budgeting make it difficult for ministries and agencies to develop long-term projects and to adjust their policies based on learning from experience. Policy formulation also lacks a clear portfolio approach through which the budgeted distribution of actions with respect to strategic priorities, business life cycle stages (pre-nascent, start-up, growth, internationalisation, exit and adjustment) and policy methods (education and training, information and knowledge, finance, market access and development, etc.) can be optimised. A lack of standard project and programme evaluation procedures based on cost-benefit or cost-effectiveness analysis, and limited use of key performance indicators for programmes and projects also erode policy effectiveness, putting many headline targets out of reach.

Recommendations

Policies to foster SME and entrepreneurship activity are a vital ingredient of a country's structural economic policies, helping shape the trajectory of future gains in the standard of living. For Thailand, the need to render its SME and entrepreneurship policies more effective and efficient has grown over time. Having moved firmly into the ranks of the middle-income countries, Thailand's attraction as a low-cost production base has waned. Its wages are no longer low enough to export inexpensive goods (the middle-income-trap). At the same time, Thailand has been facing new, globalisation-induced competitive threats that can only be met by enhanced innovative capacity. Productive entrepreneurship and innovative and internationalising SMEs will be key drivers of future economic growth and must be given due attention in policy reform.

This report offers policy recommendations in three main strategic areas:

I) improving the framework for the formulation and implementation of SME and entrepreneurship policy;

II) building more innovative, growth-oriented and international SMEs; and

III) developing policies which enable productive entrepreneurship for regional and social development.

This report contains a vision for improvement of the policy framework founded on results-based programme management co-ordinated by a central agency, which is able to direct available funding to the actions with the greatest benefits. Appraisal and evaluation are needed for all policies and programmes in order to justify their appropriateness compared with potential alternatives and to identify areas for improvement. This also applies to the suggestions for policy actions and programmes offered below.

Improving the framework for the formulation and implementation of SME and entrepreneurship policy

Recommendation 1: Reaffirm the central co-ordination of policy and programmes

Institutional dispersion, overlapping and policy duplication should be reduced by reinforcing the role of OSMEP as the central body for SME and entrepreneurship policy

formulation and co-ordination, actively supporting the SME Promotion Committee, the top-level co-ordinator. As the body responsible for devising the policy strategy across government, OSMEP should have the tools to ensure that the projects and programmes introduced by other ministries and agencies are in line with that strategy. This implies the establishment of appropriate lines of reporting, accountability and budget control. It will be important for OSMEP to directly undertake and/or to promote and facilitate project and programme evaluations that show costs and benefits and relative cost effectiveness, thus enabling spending to be directed towards the initiatives with the greatest returns to public spending. The SME Promotion Committee to which OSMEP reports should meet more regularly with a high-level chair (at least once every quarter) to take decisions on policy formulation and implementation based on information provided by OSMEP. A new inter-agency consultation framework should also be established for regular contacts and consultations among the principal stakeholders of SME policy.

Recommendation 2: Move to flexible, rolling programme budgeting and strategic planning, and from sector/industry plans to results-based planning

A switch to flexible, rolling programme budgeting should be made provided that moves are also made to increase accountability and evaluation of project and programme portfolios. This would increase certainty for programme officials and recipients so that targeted results are clear and investments in people and resources can be made with more certainty. Waste and inefficiencies would be reduced arising from the need to spend budgets before they disappear even if they cannot be spent effectively in the period. Rolling programme budgeting would, in addition, allow more flexibility in responding to unexpected changes in circumstances.

Recommendation 3: Adopt a portfolio approach to SME and entrepreneurship projects and programmes

A portfolio approach towards SME and entrepreneurship support should be adopted. The portfolio of projects and programmes should be based around an appropriate distribution of support across different strategic priorities, stages of the enterprise life cycle and focus of policy support. Under the life cycle approach, "would-be" entrepreneurs and SMEs are taken, over a number of years, from the pre-nascent stage to start up, expansion and internationalisation, with business support systematically overcoming specific barriers to development at that life cycle stage, such as in exploitation of research results, finance and human capital. All projects and programmes should be required to show where they fit into the portfolio in terms of policy focus of intervention and stage of business development, as well as the relevant strategic agenda items which the project or programme supports.

Recommendation 4: Increase accountability and evaluation of strategy, programme and project results across the portfolio

Improved economic evaluations of all projects and programmes should be required without adding unnecessarily to the compliance burden for SMEs or to the overall budget. Ideally, the economic evaluations could show a cost-benefit or cost effectiveness estimate. To this end, one per cent of programme budget should be allocated for evaluation and the creation of a database on programme impacts. Proper economic evaluations would create accountability by showing that government money spent for SMEs and entrepreneurship is money well spent. Such evidence would increase the credibility of OSMEP with both other Ministries and the tax-paying public.

Recommendation 5: Improve quality and timeliness of management information in a cost-effective manner

Efforts should be made to improve the quality, timeliness, reliability and accessibility of the programme management information available, commensurate with the benefits and costs of doing so. Timely and reliable information is critical to OSMEP's performance in improving SME and entrepreneurship policies and programmes. One key area for improvement is to extend the definition of SMEs to include a microlevel and a non-employing level and to collect, harmonise and report data on this group. OSMEP, the Thailand National Statistical Office and other Ministries could also develop a co-operative approach for the creation of a central database drawing together and seeking to harmonise all available SME and entrepreneurship data where relevant.

Improved SME statistics should be communicated swiftly to all policy stakeholders and the public. In the past, inter-agency rivalries resulted in the withholding of statistical information. Programme evaluation and the subsequent refocusing of policy intervention call for much better SME statistics. The effectiveness of moving to increased accountability for SME and entrepreneurship projects will largely depend on making information about evidence and results readily available.

Innovative, growth-oriented and international SMEs

Recommendation 6: Support SMEs to grow, innovate and compete internationally

Thai SMEs are likely to face increasing structural adjustment pressures resulting from economic, political, environmental and social changes in the Asian region. Cost effective policies and programmes should equip SMEs and entrepreneurs to respond to these challenges and encourage SME growth, innovation and international competitiveness. Existing programmes for this purpose should be made more accessible, for example through a web-based one-stop or first-stop point, and should be easily accessible by mobile devices (telephones, computers). Consideration of whether there are gaps in existing support is also needed and whether existing programmes and project spending could be made more effective and/or efficient through being adapted or better knitted together.

Recommendation 7: Pay closer attention to the international dimension for SMEs

New challenges and opportunities, especially relating to subcontracting, will probably come from China and increasingly from India. It is important that Thailand be prepared to support a level playing field of harmonised regulations in ASEAN and ASEAN+, because it is the non-tariff barriers created by regulations that tend to pose the most problems for SMEs seeking to operate internationally. It is recommended that OSMEP work with Ministry of Foreign Affairs to ensure that SME issues are taken into account in the negotiation of free trade agreements (FTAs).

Recommendation 8: Improve the capacity of financial markets to provide formal finance to SMEs and entrepreneurs and increase the efficiency of government interventions to support access to finance

Credit rating, credit management and information sharing systems should be strengthened to enlarge the supply of formal finance to SMEs. The SME Bank and other Special Financial Institutions (SFIs) should also enlarge and upgrade financial education for entrepreneurs as well as concomitant advisory services. Previous initiatives to establish

Venture Capital Funds were not successful and the reasons for this need to be understood in order to inform future action in this area. In addition, a liaison committee should be set up between government and financial institutions to explore ways to collaborate more effectively on areas of common strategic benefit. For example, new collaboration should be sought on the provision of microfinance through multiple channels including the mobile telephone.

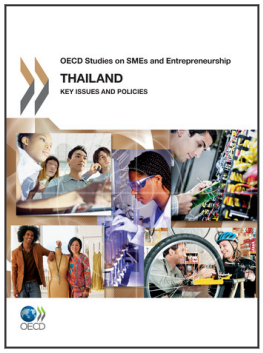
Productive entrepreneurship for regional and social development

Recommendation 9: Support a shift to more productive entrepreneurship

Thailand's unusually high rate of "necessity" entrepreneurs (those who start a business because they lack other realistic options for generating income and wealth) demands stronger action in the pre-nascent domain, creating more favourable conditions for more productive and opportunity-driven entrepreneurship. Cost-effective programmes of advice, mentoring, training and support for productive entrepreneurship should be nurtured.

Recommendation 10: Address regional inequalities in SME and entrepreneurship activity

The entrepreneurship growth potential and barriers in less prosperous provinces should be assessed and the potential for SME and entrepreneurship policy to release untapped opportunities should be identified in order to find cost-effective ways of meeting both national growth and spatial equity objectives through greater entrepreneurship and SME development in areas currently held back by low activity rates. Since the OTOP programme is one of the key measures currently supporting entrepreneurship and SME development in the regions, its strategy, synergies, visibility and reach and efficiency should be reviewed with a view to identifying ways of increasing its impact.



From:

Thailand: Key Issues and Policies

Access the complete publication at:
https://doi.org/10.1787/9789264121775-en

Please cite this chapter as:

OECD (2011), "Executive Summary", in *Thailand: Key Issues and Policies*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264121775-4-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.