



The “Taiwan Experience” is the result of decades of careful economic planning, and has earned the nation a solid reputation as a successful model of development into a knowledge-based, industrialized economy. Aspects of economic development in which the ROC possesses particular expertise include macroeconomic policy planning and management, trade promotion, technical and vocational education, and small and medium enterprise (SME) development. The ICDF has capitalized on Taiwanese experience in all of these areas, but it is perhaps Taiwan’s innovative SME policies that the ICDF has most deeply tapped into during its recent planning and execution of economic development projects. SME development has proven time and again to be a solid foundation for both economic and social development in diverse nations, and the ICDF is working to bring these opportunities to partner nations worldwide.

When Taiwan began its long-term economic planning in the 1950s, the nation was almost entirely a small-scale agricultural economy. The government of

Taiwan recognized that this industry was inherently limited in its ability to expand and create jobs, and could not provide a foundation for modern industrial and technological development. Taiwanese government officials and economic planners therefore began the creation of an institutional policy framework that encouraged export promotion policies and sound financing for business creation. However, rather than focusing on heavy industry development, as many other nations did in the 1950s, Taiwanese policies were tailored to the growth of small and medium enterprises. This “begin at the beginning” approach proved successful, and from the 1960s through the 1990s, the prominent role of SMEs in Taiwanese economic development became ever more apparent. SMEs supplied steadily more and higher-quality products, not only for domestic consumption, but also for export. Increased exports in turn increased the nation’s foreign currency reserves, allowing financing of more ambitious economic development. To this day, fully 98 percent of Taiwan’s manufacturing enterprises are SMEs,

employing 80 percent of the Taiwanese manufacturing workforce (figures from Taiwan Small and Medium Enterprise Administration).

SME sectors yield an impressive variety of economic and social fruits. SMEs require relatively low capital during start-up, and can easily be located in and adapt to rural, suburban or urban areas of a country. They can thus provide essential goods and services to all of a nation's citizens, contribute to the development of a healthy middle class, and position themselves for growth into larger industries. Dotted across the economic and social landscape, SMEs employ a great variety and number of people, including women, low-skilled and other disenfranchised workers. In fact, many SMEs have initially low skill entry requirements—but as they evolve and grow they can provide additional training and experience, bolstering the skills of workers and spurring the growth of the enterprises. As if all of these qualities were not valuable enough, the inherently flexible composition of most SMEs means they can often better ride out changing economic times. The large ratio of SMEs in Taiwan is credited with helping the nation weather the 1997 Asian financial crisis much better than most other Asian countries.

All of these qualities fit the needs of developing economies extremely well, and, backed by Taiwan's abundant SME experience, the ICDF has firmly endorsed SME and related development projects, including industrial park construction, micro-credit and rural area financing, and advisory services. The primary goals of ICDF SME projects are to improve SME policy environments, construct institutions and mechanisms that can provide practical assistance to SMEs, and offer advisory services to strengthen technological and management expertise of budding SMEs. In one of its first SME projects, the ICDF dispatched an advisory group to Central America to develop SME strategies in April 1997. Since then, the ICDF has implemented SME programs in many other countries and regions. Currently the organization has SME and related projects active in Haiti, the Solomon

Islands, Indonesia, Poland, Belarus, Burkina Faso, Senegal, the Philippines, the Gambia and throughout Central America. In the following sections we shall examine the methodologies and specific programs employed in ICDF SME development projects, and the ICDF's many achievements in this area.

### **SME Development Methodologies and Programs**

Various ICDF departments work in conjunction on SME development projects. ICDF Technical Assistance may provide consulting services and perform market research, while Investment and Lending is making loans and grants available to SME start-ups. ICDF human resources development personnel and programs, meanwhile, play roles across the range of ICDF SME projects, through education and training programs.

Working together and with local, state and international organizations, ICDF development professionals have planted and nurtured SMEs in nations worldwide. ICDF SME projects have aided societies from the economic foundations of farms and micro-enterprises, upward into the higher economic spheres of industrial development. Below we will examine ICDF SME development methodologies and programs in ICDF Technical Assistance and Investment and Lending areas.



### Technical Assistance for SMEs

ICDF Technical Assistance projects are providing advisory services for SME development in many countries in Africa and Central America. In Senegal the ICDF Small and Medium Enterprises Advisory Project is developing local industries, making the country's products more competitive, improving agricultural product processing, raising standards in management and sales, and setting up an SME advisory system. To date, the project has collected information on economic conditions and key industries, analyzed government SME development policies, and facilitated information exchange on capital, credit and loans.

The ICDF Small and Medium Enterprises Advisory Groups in Seven Central American Countries project is a large undertaking, initially launched in 1995. The project's aims include alleviating poverty in Central America through business development, promoting regional cooperation among selected countries, and engendering new commercial relationships among Taiwanese and Central American businesses. We shall examine this project in detail in "ICDF SME Development Achievements" below.

### Investment and Lending for SMEs

ICDF Investment and Lending operations are a key timber in the organization's SME development work. ICDF SME investment and lending projects have ranged from small rural handicrafts projects in Africa such as the Handicraft Training project in Swaziland, to the US\$50 million Central America-Five Countries Re-Lending Project, which is supporting SMEs in larger industries and manufacturing.

The ICDF commonly works with local and national financial institutions, reputable NGOs, or other intermediaries in implementing its SME projects. Financial resources for SME development are frequently channeled through these organizations and then re-lent to local enterprises. Working with state banks, the ICDF and other institutions have crafted US\$10 million SME relending projects in Panama and the Dominican Republic; Paraguay's Industrial Development Fund oversees a US\$9.75 million project that is fostering SME development; in Senegal, the ICDF is working with the national Ministry of Finance, Economics and Planning to distribute US\$4 million in loans through the Small and Medium Enterprise Relending Project. The ICDF US\$20 million Small and Medium Enterprises Re-lending in Poland project channels loans through the nation's Industrial



*Business professionals and ICDF personnel consult with companies in the ICDF Small and Medium Enterprises Advisory Groups in Seven Central American Countries project.*

Development Agency, which lends to intermediary institutions and in turn to SMEs. At times ICDF projects will aim to create wholly new lending or SME support agencies. The Women's Technical Assistance Program in Haiti is working to establish a national Institute of Female Entrepreneurs, while the Investment and Lending Project to the Micro-Credit National S.A. in Haiti will create the nation's first financial institution dedicated to commercial lending to small enterprises.

The above examples illustrate an important way that ICDF projects cultivate SMEs. As SME lending processes are implemented, the combined influence of project management and oversight, required compliance with local, state and international laws and customs, and ongoing procedural refinement inevitably reinforces the capacity and strength of participating institutions. By strengthening institutional capacity, financing is made more readily available, economic and governmental policies and practices are stabilized, and essential support systems are provided to sometimes-vulnerable new SMEs. Project seminars for government officials, financial professionals and business leaders deepen understanding of social, economic and political issues surrounding development, leading to sturdier policy frameworks. As well, during implementation, new organizations and mechanisms are created that fortify institutional capacity, and which continue to function after individual projects have been concluded. During the ICDF's Cooperation Program for the Development of Small and Medium Enterprises in Central American Countries, for example, Business Service Centers staffed by technical experts were established, allowing for the delivery of consulting services to developing SMEs and entrepreneurs.

In addition to state and local institutions, the ICDF has cooperated with other international institutions in SME development. In cooperation with the European Bank for Reconstruction and Development (EBRD), with loans channeled through the Belarus Central Bank, a successful SME relending project in that nation has financed 30 SME sub-projects. In other SME financing

work in cooperation with the EBRD and other agencies in Eastern and Central Europe, the ICDF has supported projects in tourism and light industry in Lithuania and previously in the Balkans. The ICDF has also cooperated with the Central American Bank for Economic Integration in SME development, which we shall examine in more detail in "ICDF SME Development Achievements" below.

ICDF Investment and Lending projects for SMEs involve an array of people and institutions: independent entrepreneurs, workers' cooperatives, a variety of small and medium enterprises, local and state financial institutions, regional and international development groups, and nongovernment organizations. To illuminate the range of ICDF SME development work, we shall examine two specific areas at different ends of the economic spectrum in which work is being done by ICDF Investment and Lending: microcredit and rural credit projects, and industrial park and export processing zone development.

### **Microcredit and Rural Credit**

Microcredit and credit extended to farmers and small business owners in rural areas can propel small and medium enterprises at the most foundational level in an economy. This approach is similar to Taiwan's own "begin at the beginning" SME philosophy. With sustainable small business and farming development in rural areas, reliance on imported products is eased, employment is increased, poverty is reduced, and small businesses and farms are put on the road to growth. Not a few of these businesses and farms can, in the longer term, expand to larger operations, including exporting business. Also, as noted above, these sundry lending operations—though small, often providing loans or grants of only US\$150 to US\$7,500—can lead to stronger institutional capacity and stability.

The table next page lists selected ICDF Micro- and Rural Credit projects and loan amounts.

ICDF Micro-/Rural Credit Project	Loan Amount
Rural Credit Project in the Solomon Islands	US\$2,000,000
Cooperative Rural Saving and Credit System in Indonesia	US\$6,476,575
Burkina Faso Rural Credit Project	US\$25,000,000
Investment and Lending Project to the Micro-Credit National S.A. in Haiti	US\$1,900,000
Small Farmholders Financing Scheme for Caribbean Countries	US\$300,000
Small Farmholders Financing Scheme in Honduras	US\$20,000
Small Farmholders Financing Scheme in Panama	US\$100,000
Small Farmholders Financing Scheme in Belize	US\$150,000

### Industrial Park and Export Processing Zone Development

ICDF industrial park and export processing zone projects represent a move up the ladder in SME development, utilizing higher-level organization and complexity, and adopting more explicitly export-oriented goals. The ICDF has worked on the development of industrial parks in the Philippines, Costa Rica, Panama, the Dominican Republic and Paraguay. Results have at times been mixed, but successes are being built upon. Industrial park projects have stimulated economic activity, upgraded production technology and skills, created job opportunities, and reinforced technological and economic links among domestic firms and ROC companies. These larger projects can also be the foundation of more advanced development. The Subic Bay Industrial Park in the Philippines, for example, is a linchpin in the flourishing development of the entire Subic Bay area. The park covers 105 hectares, with Phase II to develop an additional 48 hectares. In addition to its work in the Philippines, other large ICDF industrial park and export processing zone projects are the US\$9 million Costa Rica Chinese Industrial Park, the US\$8

million (US\$7 million provided by the ICDF) Fort David Industrial Park Development Project in Panama, and the Oriental Industrial Park in Paraguay.

ICDF industrial park and export processing zone development frequently employ a unique model, which has become one of Taiwan's preferred SME development stratagems: the Center-Satellite (C-S) system. The core idea in C-S planning is "coopetition" within collaborative networks of larger downstream manufacturing industries ("center companies") and smaller upstream suppliers ("satellite companies"). Center companies, with their deeper and broader resources, are able to convey essential technology, management skill and quality control techniques to suppliers, who in turn supply the manufacturers with higher-quality products and materials. Over time a vibrant, reciprocal relationship is established. The C-S "cluster" concept, which encourages a measure of friendly competition along with the cooperation among center and satellite companies, is extremely fruitful. In support of its own continuing SME development in the early 1980s, Taiwan's C-S system included a rigorous registration process, incentives encouraging companies to join the movement, consultation and training programs, and promotional activities. Virtually any SME—from small, specialized manufacturers to larger generalized suppliers—can benefit from the C-S model. Companies gain experience and expertise both from the center factories and their brethren satellites. The ICDF has worked to develop variations of the C-S model in the Philippines, Costa Rica, Panama, Paraguay, Poland, Belarus, and in its previous work in the Balkans. A current project proposes a simple C-S system to aid in developing the food processing industry in Belize.

## ICDF SME Development Achievements

### Small and Medium Enterprises Advisory Groups in Seven Central American Countries

The Small and Medium Enterprises Advisory Groups in Seven Central American Countries program highlights the importance of consulting services in ICDF SME development. Taiwan has a large and mature business consulting services sector, and these professionals have shared an enormous amount of expertise, culled from decades of Taiwanese SME development, during ICDF SME projects. Central American businesses from the micro-level (1-5 employees) to small enterprises (6-40 employees) to larger, more complex firms (41-60 employees) were given advice in this project. The project expended an enormous effort in planning, strategic industry identification, country and sector studies, and support of successive implementation of project components. Fully 24 person-months were slated for preparatory seminars to share experiences with business and government personnel and build firm understanding of SME development vectors. These seminars resulted in improved SME policy environments, modernized industrial systems, and better understanding of project objectives within regional development.

This phase of the project was followed by 46 person-months of Industrial Advisory Services, which provided expert guidance and hands-on development experience in industrial planning, design and management. These services began by identifying comparative advantages and conducting sector studies across a range of industries in the seven countries. Frequently, a classic SWOT analysis was employed, identifying “Strengths, Weaknesses, Opportunities and Threats” in SMEs. Cooperation was initiated among ROC and host country firms, and pilot programs were created to test new techniques. Technology was continually transferred to the Central American companies and their manufacturing abilities were strengthened. This project has helped the Central

American nations map SME strategies, identify and develop important industries, and create jobs.

### Central America-Five Countries Re-Lending Project

This US\$50 million project, conducted in cooperation with the Central American Bank for Economic Integration (CABEI) and intermediary financial institutions, built upon the preparation and advisory services of the Small and Medium Enterprises Advisory Groups in Seven Central American Countries program. It has made loans to small and medium enterprises in the mold and die, metal mechanical, textiles, footwear and food processing industries (this last is considered of particular importance in Central America). This project created 1,783 jobs, with loans made to 10,588 companies. A breakdown of loan distribution and employment created is presented in the table, below.

#### Central America-Five Countries Re-Lending Project

Country	Total Companies	New Employment	Average Loan (US\$)
Guatemala	95	214	105,263
El Salvador	7,437	678	1,344
Honduras	162	91	61,728
Nicaragua	2,807	778	3,562
Costa Rica	87	22	114,942
Total	10,588	1,783	57,638

The Central America-Five Countries Re-Lending Project was very well received, bolstering capacities and skills in the manufacturing, financial and private sectors in the host countries. The creation of a Credit Guarantee Fund established a system to provide financing to regional SMEs. In the process of lending and recovering loans, CABEI is reinvesting resources intended for loan amortization, enabling new funding,

and extending the results of the program. The ICDF and its partners have used this regenerative approach successfully before.

### Industrial Services Mission to the Dominican Republic

The ICDF Industrial Services Mission to the Dominican Republic has also provided targeted consulting and advisory services to SMEs. The Mission, headed by textile specialist Antonio Wei, has worked since May 2000 with the Dominican Republic's Program for Small and Medium Enterprises and other state organizations to develop a sound policy environment and effective planning for Dominican Republic SMEs. The Mission has also played a part in the Dominican Republic's anti-poverty campaign. No loans are provided by this Mission, but 210 firms in the textile, footwear, metal-mechanics, plastics, handicrafts and furniture industries have been provided SME consulting and technical services.

Many experts and businesspeople have traveled from Taiwan to participate in this project, forge commercial relationships and provide assistance to both large, urban firms, and smaller enterprises in remote towns and cities. Six hundred and sixty-eight participants have attended seminars, courses and discussion groups. As a result of these efforts, Dominican Republic SMEs have received a wealth of information about production and process planning, workflow design, materials science, product development, quality control and machinery operation. The nation's Program for Small and Medium Enterprises has established a training and services department that works cooperatively with the ICDF Mission, and the two groups are continuing to identify key industries and plan other aspects of future development. The Mission is itself now working on combining all of these experiences into a technical "reference model" to be used by start-up SMEs and other businesses.

### Conclusion

SME development in partner nations has become a key ICDF policy that the organization will pursue well into the future. Through nearly five decades of hard work and sound economic management, Taiwan has transformed itself from an agricultural nation into an economic power and leading producer of high-technology and consumer goods. Much of this growth has stemmed from Taiwan's early development of small and medium enterprises. In our examination, we have seen that SME sectors are highly decentralized and multifaceted, and thus their development can result in widespread, diverse economic benefits.

Work in this area can be thoroughly enjoyable for the ICDF. First, strong foundations are built by sharing Taiwan's experience with policymakers, research institutions and scholars, in order to create sound SME development environments. After this, the real excitement begins, as we provide advisory services and technology transfer to eager entrepreneurs, farmers, small business owners, and previously undersupported citizens who are launching new projects. These citizens are transforming many agricultural and underdeveloped economies and creating employment with their introduction and development of myriad small, growing industries. The consequent creation of wealth and alleviation of poverty, emergence of the private sector and a middle class, strengthening of local and state institutions, and improved quality and quantity of domestically produced goods are raising living standards and putting people and nations around the world on fast tracks to economic growth.

