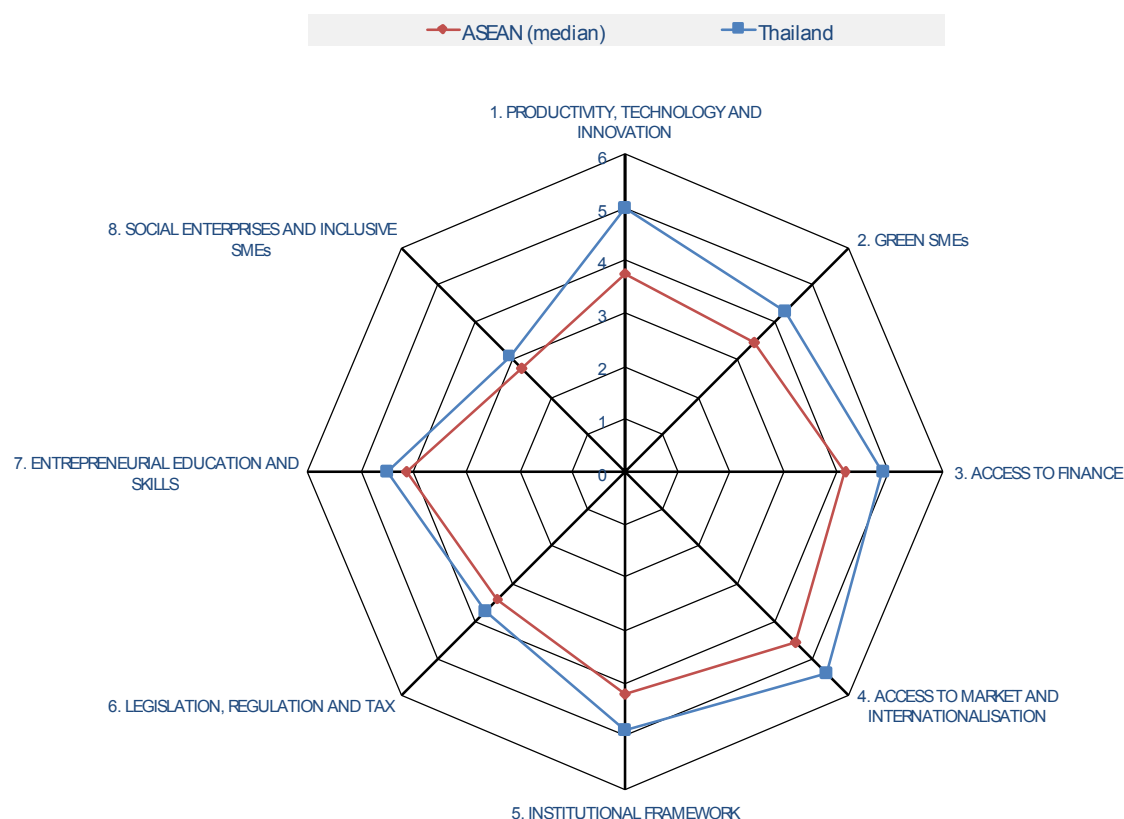


Chapter 20. Thailand

Thailand's SME policy has its roots in the Asian Financial Crisis and a push by policy makers to diversify and establish a broader base for growth. It broadly adopts the "service delivery" approach to SME policy, providing services to help SMEs increase their competitiveness. Its main policy priorities in this area are internationalisation and productivity enhancement. In line with its diversification objectives, the country has identified priority sectors for targeted support.

Figure 20.1. 2018 SME policy index scores for Thailand



Overview

Economic structure and development priorities

Economic structure

Thailand is an upper middle-income country that serves as an anchor for other economies in the Mekong region. It has the second largest economy in ASEAN, the fourth largest population (67.5 million people in 2016) (ASEC, 2016^[1]), and the third greatest land mass. It is rich in natural resources such as coal, iron, manganese, tungsten, copper, gold, rubber and natural gas, and is one of the world's leading producers of tin, gypsum, feldspar and cement. Thailand has managed to graduate from low-income to upper middle-income country status in less than a generation (1950-1973) via the successful pursuit of an export-oriented, FDI-driven industrialisation strategy. Today it has the twelfth biggest automotive industry in the world and the biggest in Southeast Asia (OICA, 2017^[2]). Tourism is another important growth driver: it generated more than 11% of GDP in 2016,¹ and provides a valuable source of foreign exchange earnings. The rich alluvial soil along the Chao Phraya and other rivers is also an asset for the country's agricultural sector, and Thailand remains a leading global exporter of rice.

Capital account liberalisation in the 1980s and early 1990s drew significant foreign direct investment (FDI) inflows into the manufacturing industry and enabled Thailand to build up a solid industrial base. FDI came particularly from Japan and South Korea, attracted by reasonably well-developed infrastructure, an open market economy and generally pro-investment policies. FDI has particularly flowed into the automotive sector, and since the 1990s Thailand has become a major exporter of vehicles and vehicle parts: in 2016 this sector generated around 27% of GDP. The government further invested in infrastructure in the 1990s and 2000s. Thailand is now home to the 20th busiest port in the world, Leam Chabang, and this is where Thailand's automobile industry is most heavily concentrated. Bangkok International Airport is also a hub for Southeast Asia, as well as one of the region's busiest airports (ACI, 2017^[3]).²

Table 20.1. Thailand: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	7.2	2.7	0.9	2.9	3.2
Inflation	Percent, average	3	2.2	1.9	-0.9	0.2
Government balance	Percent of GDP	-1.2	0.2	-0.9	-0.1	0.4
Current account balance	Percent of GDP	-0.4	-1.2	3.8	8.0	11.9
Export of goods and services	Percent of GDP	69.8	68.1	69.4	69.1	68.9
Imports of goods and services	Percent of GDP	68.7	65.3	62.6	57.5	54.2
Net FDI (inflows)	Percent of GDP	3.2	3.8	1.2	2.3	0.75
External debt	Percent of GNI	35.2	34.6	35.4	35.2	31.4
Gross reserves	Percent of total external debt	135.2	121.8	116.2	120.7	141.4
Domestic credit to the private sector	Percent of GDP	136.2	142.3	146.2	149.8	147.4
Unemployment	Percent of active population	0.6	0.8	0.8	0.7	0.6
GDP per capita	PPP (constant 2011 int\$)	14 448	14 778	14 853	15 237	15 682

Source: World Bank (2017) *World Development Indicators*; IMF (2017) *World Economic Outlook*.

This investment in infrastructure occurred rapidly. Between 1990 and 1996, the country's investment ratio (gross domestic investment as a percentage of GDP) was between 40% and 44%, compared to an average investment ratio of 25% from 1980-84 and 30% from 1985-89. This was funded by money borrowed from abroad, facilitated in part by the Bangkok International Banking Facility, an offshore banking entity that became a major conduit for international capital. In 1997, foreign reserves began to dwindle following attacks by speculative investors; the currency crashed; borrowers defaulted on dollar debt; financial institutions began to collapse; and a deep recession ensued. Thailand used this period to undertake major structural reforms. The dollar peg was abandoned, banks were restructured and Thailand built up its foreign reserves, which today are second in Southeast Asia only to Singapore's, at USD 184.5 billion. This solid macroeconomic framework looks to safeguard growth over the medium term, though growth remains rather modest and downside risks include global uncertainty and financial volatility (IMF, 2017^[4]).

Going forward, Thailand's challenge will be to shift from being a low-cost manufacturer of electronic and automotive parts into more advanced manufacturing that can boost incomes still further. The country acknowledges this point under its Thailand 4.0 strategy.

Reform priorities

In common with other upper middle-income countries in ASEAN, many of Thailand's strategic plans are geared towards graduating into the high-income country bracket and avoiding the "middle-income trap". It aims to achieve this by 2026, at the end of the country's 13th national economic and social development plan, conditional on being able to sustain structural reform momentum in the country.

To achieve these goals, the country has a long-term strategic plan in place, known as the National Strategy (2017-2036). The goal of this strategy is to increase economic resilience, sustainability, competitiveness, security, good government, territorial development, science and technology research and development (R&D), and to enhance infrastructure and logistical networks. It proposes SME-specific policies under its second pillar, "enhancing competitiveness". A range of financial measures are proposed, such as creating an SME credit rating database, tax amnesties and access to finance programmes, along with the creation of enhanced service centres, policies to increase linkages between MNCs and SMEs, and measures to support the development of SMEs operating in the digital economy.

To supplement the National Strategy, Thailand is promoting a new economic model, Thailand 4.0, and a new initiative, the Super-Cluster Initiative, to move into high value-added manufacturing. Thailand 4.0 identifies priority sectors and targeted intervention to support development during the infancy stage in order to boost the country's innovative capacity and thereby help to avoid the middle-income trap. The Super-Cluster Initiative looks at promoting productive agglomerations of these industries along the country's Eastern Economic Corridor. All reform priorities are also governed by Thailand's other targets under multilateral initiatives, such as the Sustainable Development Goals.

Medium-term plans (lasting five years) are also developed to realise the objectives of the National Strategy. The country is currently implementing its 12th National Economic and Social Development Plan (2017-2021). The 12th Plan aims to strengthen national competitiveness by building a digital and services-based economy, and to enhance the skills of Thailand's workforce while strengthening employment protection legislation and social security entitlements. It has a broad development agenda, in line with the philosophy of the "sufficiency economy," introduced under the 9th economic plan.

Private sector development and enterprise structure

Business environment trends

Thailand consistently scores as one of the region's top performers on business environment indicators. A programme of high capital investment, particularly in the 1980s, provided the country with good basic infrastructure, and this continues to be a magnet for countries looking to invest in the region. Moreover, the government has a record of policy stability and a pro-business outlook. Reforms enacted after the Asian Financial Crisis (1997) have left the country with a healthy banking sector and sound macroeconomic fundamentals.

Reforms have been implemented over recent years to enhance the business environment. Thailand streamlined the post-registration process for starting a new business through the creation of a single window for registering payments; it adopted a new secured transactions act that strengthens the rights of borrowers and creditors; it introduced an automated risk-based system for selecting companies for tax audit; and it increased the

automation and efficiency of enforcement processes in Bangkok. In addition, it also strengthened its land administration system by implementing a geographic information system and scanning the majority of maps in the capital. Finally, it updated the country's Customs Act to bring it into line with international standards and introduced an electronic ID system for accessing public services.

Yet some constraints to doing business remain. These include issues with integrity, labour-market efficiency and workers' skills. In spite of Thailand's historic investment programme, infrastructure bottlenecks are emerging, particularly in the areas of transport, telecommunications, energy, water and sanitation, and waste management. These challenges are becoming clearer and more pressing as the country begins to ramp up its Thailand 4.0 policy, seeking to transform the country into an innovation-driven economy. The use of irregular payments to "get things done" is common in Thailand, and allegations of graft and bid-rigging in public procurement abound. The country is taking steps to address these challenges, for instance via the adoption of its first national procurement law in December 2016, which is based on model laws of the United Nations Commission on International Trade Law (UNCITRAL) and the WTO Agreement on Government Procurement. Many private-sector players are also taking a leading role in battling corrupt practices through education and advocacy. Thailand is taking action in other areas, too, for instance by partnering with the private sector to catalyse higher investment in infrastructure.

SME sector

According to calculations of Thailand's Office of SME Promotion (OSMEP), the country counts more than 3 million enterprises, of which 99.7% are MSMEs and 0.3%, or about 9 000, are large enterprises. In common with much of Southeast Asia, there appears to be a "missing middle" in the country's production structure: only 0.5% of enterprises, or around 15 000, are observed to be medium-sized. Conversely, there are slightly more large firms than is typical in OECD and other ASEAN countries. Micro enterprises are not disaggregated in official SME statistics, but are included in the "small enterprise" count. SME density is only slightly lower than the typical density in OECD countries (around 4.3 SMEs per 100 people in Thailand, compared to 5.0 SMEs per 100 people in the OECD).

SMEs in Thailand demonstrate a structural contribution to the economy similar to those in OECD countries. They account for a significant share of employment (78.5% of total employment in 2016) but a relatively low share of GDP (42.2%).

SMEs are predominantly found in the wholesale and retail trade sector, which is estimated to account for 41.7% of all SMEs. Manufacturing and hospitality services also account for a high share of SMEs (17.3% and 39.6% respectively). They are more or less spread evenly throughout the country, although there is a particularly high concentration around the capital: Bangkok and environs account for 27.6% of SMEs, with Bangkok alone accounting for around 18.1%. The second highest concentrations can be found in Chonburi (3.4%) and Chiang Mai (3.2%).

SME policy

SME policy entered comprehensively onto the policy agenda in the late 1990s as part of the country's policy response to the Asian Financial Crisis, which had started in Thailand. It was decided that a policy shift was required to stimulate innovative activities and decrease exposure to large enterprises operating in "sunset industries", whose speculative

investing had contributed to the crash. Prior to the crisis, SME interventions had featured only occasionally, typically as part of the country's co-operatives or industrial policy. In 2000, the SME Promotion Act established OSMEP and the National Board of SMEs Promotion. In 2002, the first SME Promotion Plan (2002-06) was enacted. Since then, SME policy has focused on diversifying the country's productive structure and increasing its economic resilience – and thus has often included a sectoral approach.³

2018 ASPI results

Strengthening the institutional, regulatory and operational environment (Dimensions 5 and 6)

Thailand has an intermediate institutional framework for conducting SME policy, reflected in its score of 4.88. It has a strong framework for policy planning, with both a co-ordination committee and a semi-autonomous implementation agency in place. Every five years it develops strategic plans for the SME sector that are linked to its broader economic development strategies. It has an SME definition in place, and firm size is determined by both value and employment criteria. However, some gaps remain in the scope and co-ordination of policies.

The country is also at the intermediate stage of developing policies to enhance the legal, regulatory and operational environment for SMEs, with a score of 3.74. It has undergone a third push⁴ for regulatory reform since 2014, when the country began to stabilise after a period of political instability. In that year, a review by the Law Reform Commission of the Office of the Council of State (OCS) found that many laws governing enterprise activity, particularly subordinate laws, were still based on an outdated licensing system and had been not assessed for regulatory impact. In 2015, the Royal Decree on Revision of Law and the Licensing Facilitation Act instituted mandatory review of all legislation and licenses. The country exhibits strong performance in some areas of regulatory reform, such as improving the ease of company registration. Other areas, such as the filing of tax, remain burdensome. More could be done to support the implementation of good regulatory practices in the development of regulations affecting businesses.

Framework for strategic planning, design and co-ordination of SME policy

The body responsible for formulating SME policy is the National Board of SMEs Promotion. This body is chaired by the prime minister and includes the deputy prime minister for the economy; the ministers of Industry, Finance, Agriculture and Co-operatives, and Commerce; nine permanent secretaries; the budget director and other senior government officials; representatives of the private sector including the chairmen of the Thai Board of Trade and the Federation of Thai Industries; and regional SME entrepreneurs. The board is mandated to endorse the SME Promotion Plan, to review OSMEP's white paper on SMEs and to review and provide ad hoc recommendations on incentives, legislative reform and the SME definition.

The chief body responsible for co-ordinating the implementation of Thailand's SME policy is OSMEP, which also acts as the Secretariat for the National Board of SMEs Promotion. It is a semi-autonomous agency that has been operational for more than 15 years and now has a staff of around 200. In addition to policy elaboration, OSMEP is responsible for formulating action plans for SME development (with implementing agencies and stakeholders), disbursing the integrated budget,⁵ co-ordinating interventions across different implementing agencies and monitoring and evaluating their

implementation of SME action plans. OSMEP is supervised by the prime minister, with a sub-committee in place to oversee its operation. The integrated budget for SME policies and programmes in Thailand amounted to THB 3.49 million (Thai baht) in FY 2017.

Every five years OSMEP develops a mid-term strategy for SME development (the SME Promotion Plan), and each year it develops an action plan for realising this strategy. The current five-year strategy, the 4th SME Promotion Plan, runs from 2017 to 2021. Its main objectives are for SMEs to become drivers of economic growth, inclusion and competitiveness, contributing at least 50% of GDP by 2021. In accordance with Thailand's historic SME policy and its economic diversification objectives, the plan emphasises targeted measures for specific sectors and places special emphasis on upgrading productivity, technology and innovation (to avoid the middle-income trap). The strategy was developed in consultation with stakeholders. It is integrated into the 12th National Economic and Social Development Plan, which covers the same time frame. SME policies are covered under the plan's Development Strategy 3, which targets strong and sustainable economic competitiveness via SME and entrepreneurship development.

SME data collection is partially handled by the Thai National Statistical Office (TNSO), which conducts a survey that includes a small component on SMEs. In addition, SME statistics are calculated by OSMEP, based on information gathered from the TNSO, the Department of Business Development (DBD), the Office of Social Insurance and the Department of Industrial Agriculture Extension. Statistics are released every year via OSMEP's *White Paper on Small and Medium Enterprises*. This is a comprehensive report that provides figures on the number and employment of SMEs, by sector and province; total enterprise creation and destruction over the past year; the total value of SME exports and imports, as well as the main partners and goods; SME contribution to GDP and its growth rate, also by sector; and the results of a Trade and Service Sentiment Index and an SME Manufacturing Sentiment Index assessment.

Scope of SME policy

Thailand's SME definition was formulated in 2000 with the passage of the SME Promotion Act, which gave it a legal status. The definition determines size by sector (manufacturing, services, wholesale and retail). It does not disaggregate micro from small enterprises, which potentially means that firms in one or both of these size categories may not be receiving appropriately targeted interventions. While the definition's legal status makes it the reference point for all government agencies, there is anecdotal evidence that government agencies do not apply the definition strictly in their support programmes. This is partially due to a lack of clarity over some parts of the definition – for instance, whether the employment criterion also includes part-time workers. The upper threshold to qualify as an SME in the wholesale and retail sectors (Table 20.2) is low by international standards, under which the upper threshold for all sectors is around 200 employees.

Table 20.2. Thailand's SME definition

Size classification	Indicator	Sector			
		Manufacturing	Services	Wholesale	Retail
Small	Fixed assets	≤ 50 mn. THB	≤ 50 mn. THB	≤ 50 mn. THB	≤ 30 mn. THB
	Employees	≤ 50	≤ 50	≤ 25	≤ 15
Medium	Fixed assets	51–200 mn. THB	51–200 mn. THB	51–100 mn. THB	31–60 mn. THB
	Employees	51–200	51–200	26–50	16–30

Where informality rates are high, many micro and small enterprises may be excluded from SME development policies, even with the most well-designed SME definition. Southeast Asia exhibits high informality rates, and Thailand is no exception. The 11th National Economic and Social Development Plan (2012-16) estimated that 53.5% of country's workers were operating outside the formal system.⁶ Informality is particularly prevalent in the agricultural and wholesale and retail sectors. Strategies to tackle informality principally focus on easing business registration procedures. In this vein, the DBD launched an e-registration programme in 2017, and in the same year the cabinet approved an act to establish the "single company limited" as a recognised company form. To support enterprises that do not yet have the capacity to formalise, the government leaves certain support schemes open to use by informal enterprises, such as the National Village and Urban Community Fund. Such features may adversely affect the sustainability of support schemes, while at the same time subsidising unproductive activities and limiting incentives for informal enterprises to become formal.

Development of legislation and regulatory policies affecting SMEs

The main body responsible for overseeing regulatory reform in Thailand is the Law Reform Commission, with the Office of the Council of State (OCS) acting as its secretariat. A requirement to conduct good regulatory practices is stipulated in both the 2015 Royal Decree on Revision of Law and Section 77 of the country's new constitution, which was enacted in 2017. Under Section 77 of the new constitution, regulators must: *i*) conduct consultation with stakeholders; *ii*) assess potential impacts thoroughly and systematically; *iii*) disclose the results of the consultation and assessment to the public; and *iv*) take them into consideration at every stage of the legislative process. However, compliance with this requirement tends to vary across government agencies, partially due to flexibility in its application. For instance, government agencies are not currently required to conduct regulatory impact analyses (RIA) on subordinate legislation, which constitutes the majority of business regulations.

There is compliance with many good regulatory practices, and Thailand demonstrates a healthy practice of public-private dialogue. However, issues remain concerning the openness and representation of public-private consultations, as well as the quality of RIA. Public-private consultations are mainly conducted through the Thai Chamber of Commerce and Board of Trade and the Federation of Thai Industries via their SME committees, which are approached when the matter is seen to affect SMEs. This is an efficient way of involving the private sector, but it may limit the representation of SMEs. The government (generally the DBD) mainly sets the agenda of such meetings, and the private sector cannot call for an extraordinary meeting without prior government approval. Manuals and guidelines on implementing RIA have been developed and shared with government agencies, but conducting a thorough cost and benefit analysis is difficult for the agencies due to limited data availability. The outcomes of public private consultations (PPCs) and RIA are not posted online, and no assessment is yet done on their performance or effectiveness.

Ease of company registration and filing tax

Company registration currently takes four and a half days, costs 6.2% of income per capita and involves five procedures. Thailand made significant strides to improve the ease of company registration in 2017 by abolishing two pre-requisites: obtaining a company

seal and obtaining approval of company work regulations from the Ministry of Labour's Department of Labour Protection and Welfare. This sharply reduced the number of days required to register a company, which stood at 27.5 days at the beginning of the year. The DBD, within the Ministry of Commerce, is responsible for all matters related to company registration, and it has moderate monitoring and evaluation mechanisms in place. It conducts some internal monitoring, and its performance is evaluated by the Office of the Public Sector Development Commission.

Company registration can be done online or at provincial branches of the DBD. Under the Commercial Registration Act, an enterprise may register either as a juristic person (such as a limited partnership, limited company or public limited company) or as a commercial entity (such as a sole or ordinary proprietorship). The government is currently looking to reform this arrangement via a draft act on the Establishment of a Single Limited Company, which was put forward by the DBD and approved by the cabinet.⁷ It is now being considered by the Office of the Council of State.

To start operating as a formal business, a company must usually complete five procedures: *i*) search for and reserve a company name online; *ii*) deposit paid-in capital in a bank; *iii*) pay registration fees, submit the full application along with the company's memorandum of association and obtain a tax identification number (TIN); *iv*) register to pay VAT; and *v*) register employees with the Social Security Office. All but the third stage are free of charge, and the first and fourth stages can be completed online. However, online VAT registration is not widespread and in practice is generally done in person at a regional office of the Revenue Department (there are 12 in total, three of which are in Bangkok). Some elements of stages three and five can be completed at a Single Point Service Centre, namely: application submission; receipt of the TIN; social security registration; and registration with the Workmen's Compensation Fund. All documents can be submitted and received in one window, with the full procedure (application and response) taking one day in total (World Bank, 2017^[5]). Manuals on how to complete company registration are available at provincial offices of the DBD. To further streamline the process, the DBD recently signed a Memorandum of Understanding (MoU) with three government agencies⁸ to provide a single identification number for company registration, TIN application, employee registration and the submission of work regulations where the company employs more than ten workers.

To comply with tax regulations, companies must file 21 payments per year, taking around 262 hours in total, which amounts to around 28.7% of total profits. The number of payments and the time required to complete them is high by the standards of OECD high-income countries, where 10.9 payments take 160.7 hours on average. The payment of VAT is not required until an enterprise records THB 1.8 million turnover per annum, and therefore many smaller enterprises are not subject to VAT. Payment of corporate income tax accounts for both the highest share of hours (156 in total, more than double the time required to complete the remaining 20 tax payments) and the highest tax wedge on profits (20.6%). Since the last assessment, Thailand has implemented new measures to enhance tax compliance. In 2017, for instance, it introduced an automatic risk-based system for selecting companies on which to conduct a tax audit.

E-governance facilities

Online platforms are available for filing tax and social security and pension contributions. These transactions are relatively secure: Thailand has developed an electronic signature that falls under the Electronic Transaction Act of 2011 and is in line with the UNCITRAL

Model Law on e-signature. However, the electronic signature has so far been integrated in fewer than 50% of services, and the platforms have not yet been consolidated into a single online platform. Companies must file each transaction with the platform of each respective agency (the Revenue Service for tax, the Social Security Office for social security contributions and the Comptroller General's Department for pensions), and these agencies cannot see each other's data. The use of e-government services in Thailand is also relatively limited. Integration into the country's e-governance infrastructure is currently optional for government agencies, and they tend to opt instead for signing an MoU for data sharing and co-operation with other government agencies.

The process of developing e-governance services in Thailand is under the authority of the Electronic Government Agency, which conducts an annual survey of client satisfaction and market demand. It also conducts an annual survey on government-level digital readiness. Its strategic priorities are governed by the Thailand Digital Government Development Plan (2017-21).

Facilitating SME access to finance (Dimension 3)

Thailand has a moderately high level of financial sector development according to global indices. It performs well on indicators of financial soundness and product availability, but may need to undertake additional steps to enhance the legal and institutional environment for getting credit, particularly in the area of creditor rights.⁹ Some measures have been put in place to provide SMEs with an additional collateral, such as a guarantee scheme. The country's financial intermediation level is high, with domestic credit to the private sector amounting to 147.3% of GDP in 2016 and SME loans accounting for 34% of total bank loans extended by private banks, or USD 153 billion in 2017 (World Bank, 2016a_[6]). Yet surveys suggest that a relatively high share of small enterprises (44.8%) have had loan applications rejected, in contrast to their larger peers¹⁰ (World Bank, 2016b_[7]). This may indicate a persistent financing gap or low creditworthiness, particularly for small and micro firms. Thailand's Dimension 3 score of 4.87 reflects these findings.

Legal, regulatory and institutional framework

Thailand has moderate framework conditions for supplying finance. For debt financing, facilities to assess and hedge against credit risk are available and have significantly improved over the past few years. A credit reporting system is in place, and it currently covers 56.6% of the adult population (in 2017, compared to 21.7% in 2007) (World Bank, 2017_[5]). Credit information is provided by private credit bureaus, which compile at least two years of positive and negative data that can be accessed online. The ability of financial institutions to utilise contracting elements such as securitisation to mitigate credit risk has been significantly enhanced by the introduction of the Business Collateral Act in July 2016. This act broadens the range of assets that can be securitised and the enforcement rights of secured creditors. Previously only a pledge or a mortgage could be used as a security and only land or buildings could be mortgaged.¹¹ Assets could not be securitised as a floating charge, and assets such as raw materials, unregistered machinery or intellectual property could not be securitised. The new range of eligible securities should boost access to finance for certain types of enterprise, such as higher-technology start-ups (whose main asset may be their intellectual property) or agricultural enterprises (which may now be able to securitise crops, for instance through a warehouse receipt scheme or certain types of agricultural machinery). In addition, secured creditors are now paid first in the event of either business liquidation or a debtor defaulting outside an insolvency procedure. Thailand has also strengthened its movable assets register. Other

contracting elements such as out-of-court procedures are possible. But enforcing a contract takes around 420 days, compared to the best regional performer, Singapore, where it takes just 164 days (World Bank, 2017^[5]).

For equity financing, Thailand has a relatively deep stock market. The Stock Exchange of Thailand (SET) was established in 1975, and today market capitalisation stands at around 106.4% of GDP (World Bank, 2015^[8]), with high stock market turnover (72%). A junior board for MSMEs is in place: the Market for Alternative Investments (MAI), on which 151 firms were listed with a total market capitalisation of THB 314 billion (around USD 10 billion) as of February 2018. Between 2012 and 2016, the Securities and Exchange Commission ran two public programmes to increase the number and type of MSMEs that were listing on the MAI: one was targeted at increasing geographic representation (the Scheme of the New Stock, Pride of the Province, or IPOPOP),¹² and the other at increasing the number of listed SMEs from more nascent industries (the Scheme of Creative Innovation Stock, Pride of Thai, or INNO). The Department of Industrial Promotion is currently running a programme preparing entrepreneurs to list on the MAI within three years of programme inception.

Sources of external finance for MSMEs

The three main instruments through which the government stimulates bank lending to SMEs are dedicated credit lines, credit guarantees and the creation of a development bank to address the missing market. Credit lines are provided only for working capital loans. They are normally provided for specific purposes, and the amount allocated fluctuates by year.¹³ To provide SMEs with an additional security, the Thai Credit Guarantee Corporation (TCG) was established in 1991 as a portfolio scheme under the Small Industry Credit Guarantee Corporation Act, with initial subscribed capital of THB 400 million (USD 12.7 million). It has since received five further capital injections, bringing total subscribed capital to THB 6.8 billion, of which 98% is paid-up capital. As of January 2018, this entity had provided 396 122 guarantees amounting to THB 67.5 billion in total. Enterprises operating in the services sector accounted for the highest share of guarantees outstanding (20.2%), followed by manufacturing (13.0%). Access was highly skewed towards the Greater Bangkok region, with the region accounting for 40.3% of guarantees outstanding, compared to 15.6% in Northeast Thailand, which received the second highest share (TCG, 2018^[9]). Although the scheme is a public-private partnership, the government holds the vast majority of the shares (95.49% are held by the Ministry of Finance, and 4.51% by public and private financial institutions). The TCG is monitored by the Bank of Thailand, the Fiscal Policy Office and the State Enterprise Policy Office (since it is classified as a state-owned enterprise).

Alongside schemes to support commercial bank lending, two specialised public institutions provide finance for SMEs. The first is a development bank designed to address the missing market: the Small and Medium Enterprise Development Bank of Thailand (SME Bank), which has been operational since 2002. This bank operates under the Ministry of Finance, and provides credit, advisory and other add-on services for SMEs. The second is the Export-Import Bank of Thailand (EXIM Thailand), which was established in 1993 with an initial capital injection of THB 2.5 billion. EXIM Thailand offers short-term and long-term credits, in both local and foreign currency. Its programmes targeted at SMEs include Exim Instant Credit Super Value, which was announced in 2017 and supports firms in obtaining product certification. EXIM Thailand recently partnered with the SME Bank to increase its support for SME development: the two institutions signed an MoU at the end of 2017.

Thailand has a relatively deep microfinance sector, with one of the world's largest country-based microfinancing schemes. This is the government-sponsored Village and Urban Revolving Fund, a network of 80 000 village banks with 8.5 million borrowers as of 2011 (The Economist, 2013_[10]). Thailand has also been implementing a programme to enhance the regulation and product offering of microfinance institutions operating in the country via its Master Plan for Financial Inclusion, which began in 2015 and runs until 2018. This programme aims to increase the volume and range of microfinance products provided by specialised financial institutions.

The relatively wide range of available asset-based financing products are regulated under Article 4 of the Financial Institutions Businesses Act B.E. 2551 (2008). Prior to 2004, only separate companies could provide factoring instruments, but banks are now also able to provide this product. Thailand has the second highest factoring volume in ASEAN after Singapore. It registered total factoring turnover of EUR 4 414 million in 2015, mostly (99%) directed at the domestic market, and had 16 specialised factoring companies (FCI, 2017_[11]). Despite the relatively high volume of asset-based financing instruments extended (compared to Thailand's regional peers), they are not used in scale by SMEs. Reforms to the country's secured transaction framework, via the introduction of the Business Collateral Act in 2016, may increase the use of asset-based financing instruments by smaller enterprises.

Thailand's equity landscape is growing, but it is still relatively shallow and the market is less developed for early stage financing. There are currently six registered private equity funds in the country, and some equity instruments are regulated under the Securities and Exchange Act B.E. 2535 (1992). In 2015, the cabinet tasked three government banks – Krungthai Bank, the SME Bank and the Government Savings Bank – to establish the SMEs Private Equity Trust Fund, worth THB 2.3 billion (USD 65.6 million). There is currently no comprehensive regulatory framework in place for venture capital (VC) financing. Two types of VC firm can currently operate in Thailand. The first is a “VC fund,” similar to a mutual fund, whereby major investors and institutional investors can invest in SMEs. These funds are under the purview of SEC, and a number of VC funds already operate in Thailand, including Intouch and Digital Venture. The second is a “VC company,” which is under the purview of the Ministry of Commerce. The government is trying to attract VC investors via instruments that include tax exemptions (under a royal decree issued under the Revenue Code Regarding Reduction and Exemption from Revenue Taxes, No. 597/2016).¹⁴ Thailand's approach to catalysing private equity and VC financing is clearly linked to its diversification and Thailand 4.0 strategy: tax exemptions apply only to investments in R&D-based and technology-based companies, certified by the National Science and Technology Development Agency (NSTDA), and the SMEs Private Equity Trust Fund can invest only in high-growth start-ups, technology-based SMEs and suppliers to government or large enterprises. In 2017, ten VC deals were finalised in Thailand, with an aggregate value of USD 59 million (Prequin, 2017_[12]).¹⁵

Enhancing access to market and internationalisation (Dimension 4)

Thailand has put significant efforts into increasing the contribution of SMEs to national income and employment. In 2016, SMEs accounted for 42.2% of GDP. Under the SME Promotion Plan (2017-2021), Thailand aims to increase their contribution to at least 50% of GDP by 2021 via internationalisation, clustering policies and adoption of the latest technology. Thailand's Dimension 4 score of 5.41 reflects its advanced level of policy development in promoting its SMEs to expand globally.

Export promotion

In working to achieve greater market access and internationalisation for SMEs, Thailand has put a strong focus on export promotion. The Department of International Trade Promotion (DITP), under the Ministry of Commerce, works with OSMEP to boost the exports and trade expansion of Thai enterprises.

Major SME export promotion schemes include initiatives to facilitate SME participation in major trade fairs, such as Inacraft, an international handicraft trade fair in Jakarta, and Texworld, an international textile trade fair in Paris. DITP aids the participation of Thai SMEs in more than 100 international trade fairs each year, and has established offices in more than 40 countries to expand the promotion of Thai products. OSMEP has also hosted events to help SMEs prepare to expand into international markets and connect with regional business networks. Its One Stop Service Centre provides free consultations on product development and marketing strategies to support SME internationalisation. Through partnering with large companies and multinational corporations (MNCs), the centre provides SMEs with assistance in accessing specific international markets.

Integration into GVCs

As one of the main manufacturing bases in Southeast Asia, especially in the production of auto parts and electrical and electronic goods, Thailand has maintained its strong supply-chain support for local businesses involved in each production stage, with special focus on SMEs. The chief government agency to encourage SME integration into global value chains (GVCs) is the Board of Investment (BOI), which promotes SME linkages with large companies and MNCs through industrial clustering policies. This is handled by the BOI Unit for Industrial Linkage Development (BUILD). The Department of Industrial Promotion also implements a number of programmes aimed at increasing the value added of SME outputs by strengthening their capacity to link with GVCs, particularly in the production of automotive parts, automatic engines and robotics.

BOI's cluster policy – officially the Cluster-based Special Economic Developed Zones Policy – came into effect on 16 September 2015. Investment incentives for industrial clusters include corporate income tax exemptions and import duty exemptions on machinery. The tax incentives are greater for industries developed under a Super Clusters strategy rolled out for areas of business using advanced technology in the production process. Companies also enjoy personal income tax exemptions for renowned specialists who work in the specified area. To tap into the cluster incentives, companies must co-operate in developing human resources or technology as approved by BOI, support technology and knowledge transfers to Thai SMEs and ensure a supply of skilled workers in the future.

The Super Clusters initiative has allowed Thailand to develop its key industries. For example, seven provinces have super clusters for automotive parts, electrical appliances, electronics and telecommunications: Ayutthaya, Pathum Thani, Chonburi, Rayong, Chachoengsao, Prachinburi and Nakhon Ratchasima. The cluster policy is co-ordinated by various ministries including Industry and Finance. Enhancing SME integration into GVCs through tax incentives and matchmaking initiatives is articulated as a strategy in OSMEP's 4th SME Promotion Master Plan 2017-2021.

Use of e-commerce

Thailand, which recognises the need to maximise the use of digital technology to drive the country forward, is conducting extensive reform in this area. The Thailand Digital Economy and Society Development Plan is its blueprint for digital innovation. The plan, known as Digital Thailand, was co-developed by the Ministry of Information and Communication Technology (MICT) and the Ministry of Sciences and Technology (MOST). In 2016, the new Ministry of Digital Economy and Society (MDES) replaced MICT, with a mandate to implement the plan and encourage all economic sectors to use digital technology within five years. In 2017, the Digital Economy Promotion Agency (DEPA) was established to promote and support the development of digital industry and innovation.

The Digital Thailand plan emphasises the use by SMEs of digital technology, including e-commerce platforms. The plan aims to strengthen the Thai economy within ten years by equipping SMEs with digital technology to make them more competitive in international trade. In the first phase, the government has focused on deploying broadband to all villages to ensure equal access to the internet and e-commerce platforms. By February 2017, MDES had installed high-speed internet networks in 99 villages in 13 provinces and a free Wi-Fi zone was established in each village (Inside Thailand, 2017). There have also been initiatives to provide coaching and assistance for SMEs to go online. To implement the plan, a Digital Economy Development Fund was being set up to complement the annual fiscal budget.

The Thai government has also collaborated with leading e-commerce platform providers. One example is Thailand's 2016 agreement with Alibaba Group to help Thai SMEs use e-commerce platforms (Business Wire, 2016^[13]). The agreement covers four key areas: *i*) offering e-commerce training to 30 000 Thai SMEs and helping Thailand to build a national e-commerce platform; *ii*) creating a nationwide People and Talent Development Programme to train about 10 000 individuals in digital technology proficiency; *iii*) sharing the experience and expertise of Alibaba and Lazada in supply chain and logistics systems with the country's postal system, Thailand Post, to help it expand its delivery services to all provinces; and *iv*) helping to launch Thailand as a hub of digital technology and regional data centres in Southeast Asia under the Eastern Economic Corridor Development project. Towards this goal, Digital Park Thailand is being launched as an innovation hub within the EEC framework. Another example of the Thai government's collaboration with private providers is the Smart Online SMEs programme, in which Google is to train SMEs in accessing digital technology.

Other initiatives to increase SME use of e-commerce include the launch by the Ministry of Finance in January 2017 of PromptPay, a new e-payment system. PromptPay allows registered customers to transfer funds via mobile phone with only the mobile number or national ID number of the recipient. This system also provides an incentive for small businesses by freeing transactions of less than THB 5 000 from service fees. Leading banks in Thailand, such as Bangkok Bank and Kasikornbank, now provide PromptPay service. On the regulatory front, the government has taken action to allow e-commerce and the digital economy to thrive. The Electronic Transaction Act B.E. 2544 and the Royal Decree on Security Procedures for Electronic Transaction B.E. 2553 serve as e-commerce laws, while the Royal Decree Regulating Electronic Payment Services B.E. 2551 and the Consumer Protection Act B.E. 2522 deal with e-payments and consumer protection issues, respectively.

Quality standards

The government recognises the importance of quality standards for making SMEs competitive in domestic and international markets. A key initiative to improve quality standards is the Community Products Standards (CPS) project, which was implemented by the Ministry of Industry. CPS supports Thailand's One Tambon One Product initiative, which helps village communities to identify and promote unique products for export. The Thai Industrial Standards Institute, a member of International Organisation for Standardisation (ISO), has been assigned to develop standards for the CPS project and to certify the community products accordingly. More than 1 200 standards have been developed and more than 70 000 producers have been certified under the project.

Trade facilitation

Thailand scored moderately well in the OECD Trade Facilitation Indicators (TFIs) covered in this 2018 ASPI¹⁶. The country has established basic infrastructure to facilitate trade across borders. The Thailand Customs Department, under the Ministry of Finance, provides information on its website on import-export requirements, tariffs and available free trade agreements (FTAs). Thai Customs also established a call centre, the Customs Care Centre, as an enquiry point for customs information. A separate website, the National Trade Repository, was established under the Ministry of Commerce as an information gateway on Thailand's trade in goods and services and e-commerce. To strengthen Thailand's competitiveness in international trade and facilitate matters for traders, the country established an e-customs system, the National Single Window (NSW), in 2014. As of December 2016, 26 government agencies had completed electric data integration under the NSW for customs formalities for goods or documents. Thailand has conducted training sessions and seminars on use of the NSW and Thai Customs services. However, specific initiatives to help SMEs deal with customs procedures and use trade facilitation services have not been defined.

To further support international traders, Thailand implemented an Authorised Economic Operator (AEO) programme for exporters/importers and customs brokers in 2013. In order to qualify as an AEO, applicants need to possess financial profitability and have a risk management system for supply-chain security. While volume traded is not a criterion for qualification as an AEO, compliance with the other prerequisites might be difficult for SMEs. In addition, the programme has no incentives or support mechanisms for SMEs to become AEOs.

Boosting productivity, innovation and adoption of new technologies (Dimension 1 and 2)

Thai policy makers have made substantial efforts to promote productivity and innovation, and the country's Dimension 1 score of 4.97 is above the ASEAN median. Yet Thai SMEs still face a number of interrelated problems including a lack of financing, insufficient upgrading of capital stock and slow adoption of technology (Charoenrat and Harvie, 2017^[14]). The most advanced policies in this area are related to productivity and productive agglomeration enhancement.

Thailand's overall score of 4.29 on the greening of SMEs also places it above the ASEAN median. This reflects the fact that a number of its environmental policies also cover SMEs. However, these provisions tend to be broad in scope, and more could be done to ensure that they better target the specific needs of small and medium-sized enterprises.

Productivity measures

The Thailand master plan and action plan for the development of efficiency and productivity of industry (2016-2021), proposed by the Office of Industrial Economics (OIE) under the Ministry of Industry, consists of strategies for boosting industrial productivity such as: *i)* applying technology, innovation and new management systems; *ii)* improving human resource skills and capability; and *iii)* developing management skills for entrepreneurs and/or production managers. Regarding SMEs, the plan focuses on the enhancement of productivity growth in dimensions such as production processes, labour productivity, effective management, etc. The consultation process during drafting of the master plan involved the private sector (mostly represented by the Federation of Thai Industries and the Thai Chamber of Commerce) and research centres.

The Thailand Productivity Institute (TPI), an autonomous institution, leads the implementation of productivity enhancement programmes. The Ministry of Industry, Ministry of Science and Technology and other agencies also contribute. Public-private dialogues on productivity are organised every year, but the number of dialogues varies according to the project. Programmes to enhance SME productivity include a scheme based on the Japanese *Shindan Shi* system, whereby a business development services (BDS) provider conducts an on-the-ground assessment of a firm's operations and makes recommendations for efficiency gains. The monitoring of OIE's productivity-related programmes is conducted monthly by private consultants, and a monitoring board for the overall projects meets quarterly. OIE regularly collects key performance indicators (KPIs) such as labour productivity, total factor productivity and capital productivity.

Business development services

The 2014 ASPI showed that Thailand had achieved moderate success in implementing its 3rd SME Promotion Master Plan, and the government has since made further efforts, often integrating the findings of studies regarding the needs of target groups. The 4th SME Promotion Master Plan (2017-2021) puts greater focus on developing BDS mechanisms and involving private service providers. It includes an action plan, measurable targets and a clear timeframe. Implementation of BDS policy is run by OSMEP and the Department of Industrial Promotion (DIP).

OSMEP provides business information and knowledge through its website and also works to increase awareness through its SME National Awards. As of 2017, there were 66 SME One Stop Service (OSS) centres operating nationwide. These centres support SMEs with business diagnosis for starting a business, access to finance, upgrading standards of products and services, technology and innovation, and marketing. DIP offers a list of private-sector providers that can support SMEs with industrial standards upgrading, technology transfer, etc., but co-financing is not available for BDS. An estimated 68 448 SMEs had benefited from services provided by the OSS by the end of 2017. OSMEP's initiatives could be enhanced to facilitate SME access to services, both financially and physically, especially at the local level. The OSS operating model could also be further developed, as its functioning modalities have yet to be clarified.

Productive agglomerations and clusters enhancement

The first strategy in the Ministry of Industry's Industrial Plan 2017-2021 is to empower growth and strengthen industry, including through the development of clusters in national targeted industries that contribute to the development of ASEAN industries. Measures to achieve this consist of: *i)* creating production networks to connect entrepreneurs and

developing Special Economic Zones (SEZs); *ii*) developing clusters in targeted industries at the national level to be the centre of production and value-added centres (industrial hubs) in ASEAN; and *iii*) promoting ASEAN connectivity and upgrading Thai entrepreneurs to link into higher-value supply chains. To strengthen collaboration between research and academic institutions and firms in SEZs, the government has made access to investment incentives in SEZs conditional on various forms of co-operation, including participation in the Talent Mobility Programme and the government's human resource development programmes, such as the promotion of internships and dual systems that combine on-the-job training and school.

Thailand's score of 93% in the 2014 ERIA FIL rates was the second highest score among AMS. The country also achieved the region's highest relative percentage change from 2011 in the FIL score. The Industrial Estate Authority of Thailand (IEAT) is currently managing 54 industrial estates (seven are underdeveloped) in 15 provinces, up from 46 in 14 provinces in 2014. At present, SMEs account for about 10% of the enterprises in the industrial estates. IEAT is also responsible for the establishment of ten SEZs in ten provinces. Tax incentives for enterprises in the IEAT zones include exemptions from import and export duties, value-added tax (VAT) and excise taxes. Non-financial incentives are also available, such as land ownership rights and visa and work permit facilitation for foreign workers and their families. Monitoring is conducted using KPIs such as the number of industrial clusters that are centres of production and value added in ASEAN. Although industrial cluster policies have been in place in Thailand since the early 2000s, they have had limited success in creating a base of high value-added industries. Moreover, policy measures that concentrated heavily on providing financial incentives, such as tax breaks, did not adequately promote agglomeration within the clusters. In particular, weak collaboration and co-ordination among the government, firms and research and academic institutions has hampered the horizontal and vertical integration of stakeholders in the clusters (Fukuoka et al, 2016).

Technological innovation

The National Science Technology and Innovation Policy and Plan (2012-21) is the major policy document related to technological innovation, including for SMEs. However, innovation is also integrated into other strategy documents on policy for SMEs, industry and science. The government has set a goal to increase R&D expenditures to 1% of GDP by substantially increasing public and private investment and by increasing the number of Thais enrolled in advanced STEM subjects. Recently the government managed to increase both gross domestic expenditure on R&D (GERD) as a percentage of GDP (from 0.32% in 2011 to 0.62% in 2015) and total R&D personnel per million inhabitants (from 794 in 2011 to 1 318 in 2015) (UNESCO, 2015^[15]). The three main agencies that promote innovation, including for SMEs, are the National Science Technology and Innovation Policy Office (NSTIPO), the National Science and Technology Development Agency (NSTDA) and the National Innovation Agency (NIA).

To tackle co-ordination, the government established the National Research and Innovation Policy Council in late 2016 as a single body to set research and innovation policy direction. However, the council, which is chaired by the prime minister, could further enhance its co-ordinating role.

Thailand has also advanced its intellectual property (IP) rights framework through significant reform of major IP laws, in particular the Copyright Act, the Trade Secrets Act and the Trademark Act. Thailand's IP laws comply with international intellectual

property standards. The country enacted Copyright Acts No. 2 and No. 3 in 2015 to strengthen enforcement against digital piracy, and it adopted a new Trademark Act, No. 3, in 2016. A Business Incubation Centre managed by NSTDA is responsible for consulting and training about intellectual property rights.

The government has also made progress on demand-side innovation, especially through a procurement programme to support local innovation. R&D tax incentives are available to young and small businesses. The government has increased the reduction rate of R&D expenditure from 200% to 300%, with innovation expenditure eligible, and it provides tax incentives to investors in venture capital.

NIA and NSTDA are the main implementation agencies for innovation. NIA provides grants to SMEs, promotes open innovation methods and provides an “innovation coupon” in the form of grants to support collaboration between SMEs and innovation service providers. NSTDA supports SMEs through instruments such as an industrial technology support programme that provides consultancy and capacity building to introduce technology-based products and processes. NSTDA also provides science and technology knowledge services and space for selected start-ups in its Business Incubation Centre and the Thailand Science Park. Through its Talent Mobility project, NSTIPO provides government staff in the science and technology fields with support for working with entrepreneurs in industrial sectors. Through initiatives such as the National Start-up Promotion Programme, the Thai government is developing an ecosystem approach that combines the efforts of numerous institutions, academia and the private sector.

The government is in the process of establishing a large spectrum of infrastructure for promoting innovation, and this could be of benefit to SMEs. Initiatives include the Thailand Science Park, the Future Innovation Centre, NSTDA’s Business Incubation Centre, the Yothi Innovation District and FOOD Innopolis. But much of this infrastructure is focused on larger companies and based in large urban centres. There is thus a need to establish infrastructure outside industrial agglomerations and large cities.

Monitoring of actions involving technological innovation is conducted on a regular basis, and NSTIPO, NSTDA and NIA produce regular monitoring reports. The results are used to make the action plan more efficient. NSTIPO has also developed a Thailand Science, Technology and Innovation (STI) index, which it plans to publish on a regular basis. There are efforts to advance the process by also evaluating output, outcome and impact.

Environmental policies targeting SMEs

Thailand’s National Economic and Social Development Plan contains multiple provisions for green industry generally and green SMEs in particular. The plan’s third strategy, for strengthening the economy and underpinning sustainable competitiveness, calls for providing green finance to agricultural sector entrepreneurs, developing green tourism, green technology research and development, and building a curriculum at the university and vocational levels to help SME entrepreneurs develop green enterprise knowledge. The fourth strategy, for environmentally friendly growth for sustainable development, calls for green labelling, investment in green industrial production, promotion of life-cycle assessment for products and an expansion of green public procurement policies.

In addition, the Ministry of Industry’s Strategic Plan calls for promoting eco industrial clusters and eco products, including through SMEs. One component of this plan is the Ministry’s Green Industry Project, which provides different levels of green compliance

certification to enterprises. These initiatives are designed to provide guidance to enterprises on adopting greener practices, and do not specifically focus on SMEs.

Incentives and instruments for green SMEs

Thailand has implemented regulatory and financial support incentives to encourage greening. The Green Industry Project is a graduated environmental certification programme. At Level 1, enterprises must implement policies to reduce environmental impact. To achieve Level 5, enterprises must demonstrate that their partners in supply chains also undertake green practices. Through the programme, enterprises can gain access to exceptions on the import of certain technologies and equipment, qualify for government green procurement, use the Green Industry Mark on their products and gain access to green loans, among other incentives. On the regulatory front, enterprises that achieve certain levels of compliance can benefit from less frequent environmental monitoring, although this is likely to be of greater benefit for larger enterprises that are already subject to compliance monitoring.

The Ministry of Industry's Department of Industrial Works (DIW), through its Bureau of Environmental Technology, also helps SMEs to adopt environmental management systems (EMS) and supports green technology transfer to SMEs. The EMS support was initially limited to industrial sectors considered to be the most polluting sectors of the economy. To make the support more accessible to SMEs, there is a graduated process in which accepted applicants sign a memorandum of understanding, participate in a workshop on EMS and are audited by DIW as they attain each stage of compliance. They can progress to achieving ISO 14001 if desired.

Stimulating entrepreneurship and human capital development (Dimensions 7 and 8)

The development of entrepreneurship capacities is embedded in Thailand's SME and industrial development policies. Thailand is also developing a more concrete curriculum on entrepreneurship, as it has recognised the importance of instilling entrepreneurial mindsets and spirit among youth. Thailand's Dimension 7 score of 4.50 reflects its strong commitment to move forward in providing a better entrepreneurial ecosystem in the near future. Regarding social enterprises and inclusive SMEs, Thailand's Dimension 8 score of 3.10 highlights the need to enhance incentive programmes for social and inclusive entrepreneurship.

Entrepreneurial education

In Thailand's education system, entrepreneurial spirit is taught at the primary level despite the lack of a concrete curriculum on entrepreneurship. Basic Education Core Curriculum B.E. 2551 mentions the value of considering future career prospects and possessing the necessary skills and attitudes. To introduce entrepreneurial mindsets among students from an early age, the Ministry of Education launched the Young Innovative Entrepreneur project in 2010.

Entrepreneurial learning (EL) in Thailand is more clearly defined at the secondary level of education (general and vocational). Vocational education, governed by the Office of the Vocational Education Commission (OVEC) under the Ministry of Education, provides training and technical capacity building for students while facilitating internships in private companies. By exposing students to real-world businesses and creating working connections, vocational education provides them with the

entrepreneurship knowledge and skills to start work after graduation as company managers, employees or start-up owners. An initiative to give EL sharper definition in the vocational curriculum was launched in 2016 with the support of the British Council and OVEC. The project, “Developing and Embedding Enterprise and Entrepreneurship in the Vocational Curriculum in Thailand: Sharing UK Innovative Practice”, aims to design a learning programme that could integrate entrepreneurship education into the curriculum for vocational education and training and promote the creation of quality entrepreneurship educators (British Council, 2017^[16]). The new curriculum is now being piloted in colleges in Thailand.

As of February 2018, Thailand had at least seven universities offering entrepreneurship degrees¹⁷. Examples include Assumption University’s Master of Business Administration in Entrepreneurship and Bangkok University International College’ Bachelor of Business Administration in Entrepreneurship. The Bangkok University School of Entrepreneurship and Management (BUSEM) is currently implementing a curriculum developed in conjunction with Babson College, a leading entrepreneurship college in the United States. BUSEM also organises the annual Women Entrepreneurship Conference in Bangkok. Mae Fah Luang University, a public university in Thailand, adopted the ASEAN Common Curriculum Consulting Based Learning (CoBLAS) scheme of entrepreneurship education in 2003 (Goi and Ohe, 2014^[17]). This university now offers a master in entrepreneurial management and an entrepreneurship major in its bachelor of business administration programme.

Entrepreneurial skills

Fostering entrepreneurship has long been a key government initiative. The Bureau of Entrepreneurship Development, a unit under the Department of Industrial Promotion, conducts background studies on entrepreneurship for policy formulation. The bureau helps DIP design programmes to create new entrepreneurs in Thailand.

Programmes to utilise the skills of Thai entrepreneurs and promote SME growth are conducted by various ministries and agencies. One example is the DIP’s Entrepreneurship Development Programme, which was implemented in 1980 and led to the creation of the Association of Thai Small and Medium Entrepreneurs. DIP has also partnered with non-government entities to provide training on entrepreneurship. For example, through a 2006 partnership with Kenan Institute Asia, DIP implemented a New Entrepreneurs Creation project to equip new entrepreneurs with essential skills for running and growing small businesses. Today, many initiatives to promote entrepreneurial skills are embedded in the One Tambon One Product programme. Meanwhile, the Thai government, via OSMEP, has aired a television programme called “Loving SMEs” since April 2015 in order to inspire would-be entrepreneurs and deliver entrepreneurship knowledge to a broader audience.

Social entrepreneurship

Thailand enjoys a relatively developed social entrepreneurship ecosystem involving the public and private sectors and academia. Through the Social Enterprise Promotion Action Plan of 2011-2016, recognition of social entrepreneurship has increased considerably in the country. A formal definition of social enterprise (SE) was set out in 2011 by the Regulations of the Office of the Prime Minister on Promotion Social Enterprise B.E. 2554. Social enterprises are mentioned in the 12th National Economic and Social Development Plan (2017-2021). Several regulations relate specifically to social

enterprises, including one establishing the National Social Enterprise Committee and a decree reducing or exempting social enterprises from income tax.

In August 2017, the Department of Social Development and Welfare began serving as secretariat of the National Social Enterprise Committee, succeeding the Thai Social Enterprise Office (TSEO), which was in charge of implementing national social enterprise policy until February 2016. For the period 2011-2016, TSEO received a budget of THB 105 million to support social enterprises with skills development and management support through intermediaries such as the British Council, UnLtd, Change Fusion and academia. Capacity building, which has taken place on a limited scale, could be further developed to build business acumen among social enterprises. TSEO has also built awareness through SE Week, international seminars and dedicated campaigns. A proposal is being discussed by the Stock Exchange of Thailand to establish a stock market for social enterprises. TSEO has set up monitoring programmes for its activities.

Inclusive entrepreneurship

Thailand benefits from an equal proportion of female and male entrepreneurs at all stages of business activity (Amoros and Bosma, 2013^[18]), and therefore policies to promote women's entrepreneurship have not traditionally been a priority. Targeted policies to promote youth entrepreneurship are also at a relatively early stage of development. Yet Thailand is a regional leader in policies to promote entrepreneurship among persons with disabilities (PWD), with a well-developed institutional structure, the Fund for the Empowerment of PWDs. Frameworks for general entrepreneurship promotion exist, but currently they do not have a special focus on the target groups. Instead, there is a clear preference for providing these groups with strong career development support as a policy response to economic empowerment aims and labour-market integration challenges. Nonetheless, policies to promote entrepreneurship for women and youth do exist. They are generally alluded to as strategies within the National Development Plan for Women under the National Economic and Social Development Plan 2012-2016 and in the Youth and Children Development Plan 2017-2021.

Relatively few instruments are currently in place for implementation. Targeted support for women has included training sessions conducted by the Thai Woman SMEs Association. Activities reported for youth have mainly consisted of enhancing employability through education via OSMEP and special financing through a business start-up allocation from the Youth Development Fund of USD 300 equivalent per person. While women and youth can benefit from general SME support activities, these groups may face particular entrepreneurship challenges that require tailored support activities.

Thailand has made strides on labour-market inclusion for PWD, however, promoting both employment and entrepreneurship. A prime example is the Fund for the Empowerment of PWD, which sources its funds from fines for discriminatory behaviour against PWD and for companies that do not meet the national PWD hiring quota of 1% of employees. The fund is used to provide concessionary loans to PWD entrepreneurs. When funds cannot be paid back, financial assistance is accompanied by business support training, creating a system of paired support activities that respond to major entrepreneurial barriers faced by PWD, namely access to start-up capital and relevant business skills (Halabisky, 2014^[19]; Kitching, 2014^[20]). The fund's operational structure provides a good-practice example of fostering a system of shared responsibility for the social inclusion of PWD by breaking down discriminatory barriers while simultaneously promoting labour-market inclusion through entrepreneurship.

The way forward

Strengthening the institutional, regulatory and operational environment

Thailand has a sound institutional framework for SME policy, with a very proactive SME agency at the helm. It has also undergone a big push to reform its business environment over recent years, though more could be done to further develop good regulatory practices, streamline tax filing procedures and enhance e-governance platforms. To further build on its work, Thailand could:

Institutional framework for SME policy

- **Clarify the country's SME definition.** Because Thailand's SME definition does not disaggregate micro from small enterprises, firms may not be receiving appropriately targeted interventions. The government could clarify the definition both to resolve this problem and to ensure its uniform application in support programmes by specifying, for instance, whether the employment criterion includes part-time workers.
- **Streamline co-ordination among implementing agencies.** Primary responsibility for implementing SME policy lies with OSMEP, but in practice it is shared with the Ministries of Industry and Commerce. To enhance implementation, the government could build a co-ordination mechanism for the relevant agencies.

Legislation, regulation and tax

- **Strengthen the use of RIA.** Regulatory impact analysis is in place, with manuals and guidelines for its use, but government agencies are hampered by limited data availability. The government could strengthen the benefits of RIA by posting outcomes online and assessing the performance and effectiveness of the impact analysis.
- **Further simplify tax filing procedures.** Thailand has implemented measures to facilitate the filing of taxes and to ensure tax compliance. To continue improving the ease of filing taxes, the government could reduce the number of payments and the time required to complete them, particularly for corporate income tax.
- **Streamline e-governance platforms.** While online platforms are available for filing tax and social security and pension contributions, these procedures remain burdensome due to the lack of a single online platform. To facilitate filing, the government could consolidate the platforms of the different agencies and ensure that agencies can view each other's data. It could also integrate Thailand's e-signature into more services.

Facilitating SME access to finance

Thailand has a number of policy instruments in place to support SME financing, and it has stepped up efforts to increase regulatory oversight of financing institutions. To increase the range and functionality of instruments available to SMEs, Thailand could:

- **Further develop the regulatory framework for alternative financing instruments.** A comprehensive regulatory framework for alternative financing instruments is still missing in Thailand, and these activities continue to be

governed by a broad range of laws and regulations. Yet regulators should take care to not place arbitrary restrictions on investors. Going forward, the Bank of Thailand and the SEC could continue experimentation with regulatory sandboxes, to explore how different rules could assist or inhibit growth of the sector.

Enhancing access to market and internationalisation

Thailand has shown impressive commitment to designing schemes for its SMEs to reach out to the overseas market, integrate into GVCs and utilise the latest digital technology to promote business growth. Nevertheless, in order to increase SME competitiveness in global trade, Thailand could undertake the following actions:

- **Further streamline customs and cross-border trading regulations.** This could be accomplished by linking online information on trade procedures with related documents. Improved links between the websites and services of Thailand's NSW, customs service and NTR would facilitate cross-border trading and, in particular, would help SMEs to comply with necessary procedures.
- **Develop specific cross-border trading assistance for SMEs.** While Thailand has developed a relatively advanced trade facilitation system, it has no specific programmes aimed at helping SMEs to comply with cross-border trading procedures. As a result, Thai SMEs face direct competition from larger enterprises. Developing specific assistance, such as a special AEO programme for SMEs, would help small and medium Thai enterprises to become more competitive in foreign trade.

Boosting productivity, innovation and adoption of new technologies

Thailand has taken significant strides to increase productivity, support innovation and the adoption of new technologies, and promote the greening of SMEs. To continue making progress, the country could consider the following actions:

Productivity, technology and innovation

- **Establish a clear division of roles among institutions.** While the mandates of the various institutions dealing with productivity may be clear in theory, there is an overlap in the provision of services that makes it difficult for SMEs get access to programmes. Thailand could benefit from more efficient operational models by clarifying the respective roles and responsibilities of these institutions, as well as by creating a committee with arbitration capacity and regrouping some of the activities.
- **Strengthen infrastructure at the local level.** Thailand could further develop the infrastructure necessary for SMEs to improve their competitiveness by strengthening infrastructure at the local or provincial level. This includes both the infrastructure itself and the provision of services. The structure of the One Stop Service Centres could be bolstered by providing more services for different levels of SME needs.
- **Develop instruments that help SMEs get individualised BDS support.** Policy makers should consider expanding co-financing support mechanisms, similar to innovation coupons, to other areas of BDS. This could allow SMEs get access to needed individualised services, which is especially crucial in their growth phase.

- **Further develop instruments linking SMEs to sources of knowledge.** Thailand could benefit from scaling up bridging programmes specifically focused on SMEs. Such programmes could enhance linkages between local and foreign firms, and could also facilitate the entry of Thai SMEs into innovative domestic agglomerations, both horizontal and vertical.

Environmental policies and SMEs

- **Establish a focal point to support the greening of SMEs.** The government could establish a dedicated unit, potentially within the DIW, to serve as a focal point for the variety of greening initiatives focused on SMEs. The unit could provide information to SMEs on available instruments and support options, and on the steps needed to benefit from them. It could also promote awareness raising.
- **Develop an environmental regulatory regime that promotes SME compliance.** This could be accomplished by establishing new processes and regulations and participation through self-reporting on low-risk activities and a rules-based approach.
- **Ensure co-ordination of environmental activities.** The Green Industry Project and the project that helps SMEs to adopt EMS have complementary goals of enhancing environmental compliance and achieving certification for good practices. Co-ordination could be ensured through the creation of a co-ordination unit or via regular meetings of a dedicated task force involving regular stakeholders.

Stimulating entrepreneurship and human capital development

In order to build a more innovative body of entrepreneurs and to increase their number, it is important for Thailand to strengthen entrepreneurial learning within the education system and to bolster its entrepreneurial training initiatives. In this regard, it could take the following actions:

Entrepreneurial education and skills

- **Develop a national entrepreneurship curriculum covering all levels of education.** Thailand is currently seeking to bring entrepreneurial learning into the national education system. The government has taken the right path by partnering with world-class institutions for better design of the entrepreneurship curriculum. Expediting this process will allow Thailand to form and nurture more aspiring entrepreneurs and to adjust to the dynamics of demand for entrepreneurship skills in society.
- **Align entrepreneurship skills initiatives.** Thailand could increase the benefits of its numerous initiatives to foster entrepreneurship by linking them with each other. Integrating the beneficiaries of various programmes would expose them to a more coherent nurturing ecosystem and help them to acquire better entrepreneurial skills.
- **Develop entrepreneurship programmes for vulnerable groups.** Programmes aimed at vulnerable groups, such as school leavers and the unemployed, would boost Thai entrepreneurship by improving the entrepreneurial skills of these

groups and would help them to make a better contribution to the economy as a whole.

Social and inclusive entrepreneurship

- **Clarify the governance framework related to social enterprise.** The transition period from TSEO to the Department of Social Development and Welfare has created opacity in the area of SE. Given the lack of a clear governance structure, strategy, action plan or defined budget, few activities have been implemented. Without follow-up activities, the efforts implemented over the last five years could be wasted.
- **Further promote support for women and youth.** A focus on dedicated policies to promote entrepreneurship among the target groups would improve Thailand's ability to tackle issues of social inclusion. The government could reach out more effectively by specifically mentioning the target groups in policy documents and by dedicating the necessary budgets and creating specific instruments.
- **Help the target groups gather business acumen skills.** The government could promote capacity building by implementing SE instruments that help the target groups to improve their business skills. These instruments could be developed in partnership with existing private initiatives or through dedicated voucher schemes.
- **Develop dedicated financial instruments for the target groups.** Access to finance, and especially seed finance, is a particular concern for the target groups and social enterprises. While private actors support target groups with financial instruments for growth, few grants exist to help aspiring entrepreneurs. By providing financial assistance at an early stage, the government could spark a more initiatives and help the target groups to consider entrepreneurship as an available option.

Notes

¹ Up from 4% in 1996.

² After Singapore (Singapore Changi Airport) and Indonesia (Soekarno-Hatta International Airport). For further information, see: <http://www.aci.aero/Data-Centre/Annual-Traffic-Data>.

³ For example, as part of Thailand's 4.0 initiative. For further information on this initiative, please refer to Box 4.2 in Chapter 4. Productivity, Technology and Innovation.

⁴ A push for regulatory reform came in 1988, but substantial reform momentum only began in 2002 following the country's recovery from the 1997 Asian Financial Crisis. In that year, the Legal Reform Committee for the Development of the Country was set up as an ad hoc committee to look at ways in which Thailand's pre-crisis deregulation policy (a policy that was seen as having escalated the crisis) could be transposed with a more proactive approach that looked at ways to develop better regulations, through consideration of impact. In 2003, RIA became mandatory and the Office of the Council of State (OCS) was entrusted to be the central technical advisor for other government agencies on how to conduct RIA. By the end of 2004, the OCS had developed an explanatory note and manual, and a module on RIA was integrated into curriculum training courses organised for civil service lawyers. However, these measures had limited impact in practice, and a period of political instability between 2006 and 2013 moderated reform.

⁵ OSMEP met with SME policy stakeholders five times to brainstorm the mid-term SME development strategy, and four times to agree on the action plan and integrated budget. There were 19 implementation agencies in 2017, up from 16 in 2016.

⁶ Amounting to 20.4 million individuals.

⁷ It was approved by the cabinet on 24 January 2017.

⁸ The Revenue Department, the Social Security Office and the Department of Labour Protection and Welfare.

⁹ Thailand is ranked 40th out of 137 economies in the World Economic Forum's *Global Competitiveness Index* (GCI) for financial sector development (WEF, 2017_[10]) and 42nd for ease of getting credit in the World Bank's *Doing Business* report (World Bank, 2017_[2]). Its score for financial sector development in the GCI is significantly lowered by its score on the legal rights index (where it was ranked 95th).

¹⁰ Only 0.6% of medium-sized enterprises, and no large enterprises (0%), have had loan applications rejected, according to this survey.

¹¹ Under the Thai Civil and Commercial Code.

¹² This scheme was open to companies registered and operating outside Bangkok, with at least two years' experience and the ability to demonstrate a financial statement indicating either paid-in capital of at least THB 20 million or evidence of profit, as well as positive local impact. In total, 290 companies from 39 provinces participated, of which 27 companies (10%) had listed on the MAI by 2016.

¹³ For instance in 2015 credit lines were disbursed totalling THB 100 trillion, while in 2016 they totalled THB 50 billion.

¹⁴ Under this law, income tax exemptions are granted to joint venture companies, with the exemption including dividend income, but only on investments in target sectors identified by the National Science and Technology Development Agency.

¹⁵ These figures place Thailand behind Singapore, Indonesia and Malaysia in terms of aggregate deal value and behind these three plus the Philippines in terms of number of deals.

¹⁶ Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: *i*) Information availability; *ii*) Fees and charges; *iii*) Formalities–documents; and *iv*) Formalities–procedures, with 2 being the highest possible score for each of the indicators. In 2017, Thailand scored 1.3 for Information availability, 1.3 for Fees and charges, 1.8 for Formalities–documents, and 1.5 for Formalities–procedures.

¹⁷ More information can be accessed at: <https://studyinthailand.org/study-abroad-thailand-university/entrepreneurship-programs-university.html>.

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