

**Small & Medium Enterprise Development Policies
in 6 ASEAN Countries**

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Small & Medium Enterprise Development Policies in 6 ASEAN Countries

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37th Mori Bldg, 3-5-1, Toranomom,

Minato-ku, Tokyo 105-8453, Japan

Tel: +81-3-5470-2375

Fax:+81-3-5470-2376

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Foreword

In recent years, the role of small and medium enterprises in the national economy has been highly regarded and understanding on importance of promotion of small and medium enterprises has been growing internationally. In many countries governments are making efforts to tailor its SME policies to creating new small to medium sized companies and nurturing them.

ASEAN countries, where many Japanese SMEs have expanded their businesses, have been also making efforts on nurturing and developing small and medium enterprises. However, we have not been disclosed any exhaustive information about small and medium enterprise policies in these countries until today. AEM-METI Economic and Industrial Cooperation Committee (AMEICC) of which Japan Overseas Development Corporation (JODC) acts as secretariat, has been discussing possibilities to publish a white paper on small and medium sized businesses in ASEAN countries covering their development policies and promotional programs.

Therefore, in 2007 SMRJ in collaboration with JODC and the Institute for International Trade and Investment (ITI) organized a research on the definition of SMEs, governing laws, SME development schemes and related information in ten ASEAN member countries such as Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia. This research was conducted through the available basic data and documents on small and medium enterprise policies of each country.

This year we focused on the six ASEAN member countries such as Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam where Japanese SMEs have been developing their overseas operations, and conducted more detailed field study on the small and medium enterprise development policies in each country. This report is the result of this field survey. Researchers visited these countries, collected relevant documents and interviewed with the persons in charge or responsible of government and civilian agencies of small and medium enterprises. This field survey was organized with the collaboration of overseas offices of the Japan External Trade Organization (JETRO) and council members of Working Committee for SME Development, AMEICC.

It would be grateful if this report could help all Japanese concerned to understand present situation and issues of small and medium enterprise development in ASEAN countries so that it would contribute to have closer relations between Japan and those countries.

This English report will be presented at the meeting of AMEICC. We expect that

ASEAN countries will share various information and know-how of SME development and promotion in neighboring countries, and make use of them for their own policies.

Finally, in this report you may find some critical observations or views on SME policies and promotional activities of each country. It would be appreciated if you understand that they are not representing SMRJ/JODC/ITI but researchers' personal views.

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International Affairs Office,

Organization for Small & Medium Enterprises

And Regional Innovation, Japan (SMRJ)

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Small & Medium Enterprise Development Policies
in Indonesia

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- Field Survey, Interview and Report by :

Mr. Keiji OMURA Prof., Kaetsu University of Japan

- List of Visited Institutions & Interviewees

Institution	Interviewee
Department of Industry	Achmad Sanusi (Head of Climate and Cooperation, Directorate General SME)
Coordinating Ministry for Economic affairs	Komara Djaya (Secretary of the Coordinating Ministry for Economic Affairs)
Department of Cooperative, SME	<ul style="list-style-type: none"> • Meliadi Sembirin (Head of Bureau of Planning and Data) • Zainuddin Abdurrahman (SE Deputy Assistant of Business Network and Cordination)
The supreme Audit Boad	Anwar Nasution (Chairman)
Indnesian Chamber of Commerce & Industry	<ul style="list-style-type: none"> •Tulus Tambunan (Secretary General) •Harmon Berwawi Thaib (Director of Business service and SME)
Perum sarana	<ul style="list-style-type: none"> •Nahid Hudaya (President Director) •Bakti Prasetyo (Director of Busines Development)
Indonesia Credit Guarantee Corporation	<ul style="list-style-type: none"> •Krisnagara Syarfuan (President/CEO) •Basalamah Muhammad (General manager)
The Institute for Economic and social Research Faculty of Economics University of Indonesia	<ul style="list-style-type: none"> •Chatib Basri (Director) •Yewenti (Secretary) •Nining I.Soesilo (Director of Small and Medium Enterprises Center) •Lepi Tarmidi (Professor)
Indonesia Research & Strategic Analysis	Faisal Basri (Chief of Advisory Boad)
BTBN (Retiree Savings National Bank)	•Dorodjatun K.Jakti (Chaiman Boad of Commissioners /Former Coordinating Minister for Economic Affairs)
ASKRINDO	<ul style="list-style-type: none"> • Hartono (Director) • Retno Liestyowati (Head of International Desk)

- Exchange rate of the local currency(Indonesian Rupiah) per US Dollar

(source : IMF • IFS)

2006 Average 9.159 IDR/USD

2007 Average 9.143 IDR/USD

Small & Medium Enterprise Development Policies in Indonesia

Chapter 1 Small & Medium Enterprise Policies – Overview

1-(1) Definition of SME and Its basis

The definition of ‘Small & Medium Enterprises’ under Indonesian law differs from the generally accepted definition of ‘Small & Medium Enterprises (UKM—Usaha Kecil dan Menengah)’. The country’s definition of ‘Small & Medium Enterprises’ was set out in the Small Enterprise Act No. 9 of 1995 (UNDANG UNDANG REPUBLIK INDONESIA NOMOR 9 TAHUN 1995 TENTANG USAHA KECIL), where companies that would generally be considered medium sized are included under the definition for “small enterprises” and the definition for “medium enterprises” under Indonesian law roughly equates to the Japanese definition of “medium enterprises”.

The definition of small enterprises under Act No. 9 is as follows:

- a. A business that owns net assets worth 200 million rupiahs or less. However these assets shall not include land or buildings.
- b. Annual Sales of 1 billion rupiah (net) or less.
- c. Owned by a citizen of Indonesia.
- d. An independent economic entity, which is not a subsidiary or branch of a large or medium enterprise, and is not directly or indirectly controlled (including where the operator is dispatched from a large or medium enterprise) by a large or medium enterprise.
- e. The business is managed by an individual, an unincorporated entity, or a cooperative organization.

Definitions a and b may change according to changes in economic conditions. Also, there are no distinctions according to the type of industry.

In addition to this Act, the various related Ministries have their own definitions.

In addition to the definitions under this Act, Bank Indonesia has also set out the following in its “Bank Indonesia 2005 Micro, Small and Medium Enterprise Development Technical Directive 7/39/PBI”. (PERATURAN BANK INDONESIA

NOMOR: 7/39/2005 TENTANG PEMBERIAN BANTUAN TEKNIS DALAM RANGKA PENGEMBANGAN USAHA MIKRO, KECIL DAN MENENGAH). Micro enterprises are considered those with annual sales of less than 100 million rupiah. Small enterprises have net assets (not including land or buildings) of up to 200 million rupiah and annual sales of no more than 1 billion rupiah. And medium enterprises, in accordance with Presidential Order No. 10 of 1999, can have between 200 million and 10 billion rupiah in net assets (not including land or buildings).

In the 1997 Minister's Determination No. 257/MPP/Kep/7/1997, the Ministry of Industry defined medium and small scale industries as those with assets of less than 5 billion rupiah, including land and factories.

The Central Statistics Agency classifies medium sized enterprises and industries in three ways, micro enterprises with household industries made up of three employees or less (including non-paid laborers), small enterprises consisting of 5-9 employees, and medium enterprises consisting of 20-99 employees.

The 1995 Small Enterprise Act No. 9 is due to be amended in 2008 as the "Minor, Small & Medium Enterprise Act (UNDANG UNDANGR EPUBLIK INDONESIA NOMOR....TAHUN....TENTANG USAHA MIKRO, KECIL, DAN MENENGAH)". The proposed definitions under this revision as of February 2008 were as follows:

- ① A micro enterprise is based in a traditional industry and is managed privately, and has net assets of no more than 50 million rupiah (not including land or buildings) and annual sales of no more than 300 million rupiah.
- ② Small enterprises are managed privately or by a corporate entity, but are independent from and are not the subsidiary or branch office of a medium or large enterprise. They have net assets of at least 50 million rupiah, and no more than 500 million rupiah (not including land or buildings), and they have annual sales of between 300 million and 2.5 billion rupiah.
- ③ Medium enterprises have net assets of between 500 million and 10 billion rupiah (not including land or buildings), and have annual sales of between 2.5 billion and 50 billion rupiah.

Note that the net asset and annual sales figures defined herein are subject to change

according to conditions, by directive from the President.

1-(2) Environment and Conditions Surrounding Small & Medium Enterprises

In Indonesia, the development of small and medium enterprises is a major part of economic development. As of 2006, there were 48.9 million small and medium enterprises, employing 85.4 million people (96.2% of total employment), and contributing 53.3% of GDP. The distribution for small enterprises amongst various industries as of 2000 is shown below.

Industry	No. of Companies	No. of Workers (As % of total workers)
Agricultural	23,516,865	60.24
Mining	155,504	0.40
Manufacturing	2,627,122	6.73
Electrical/Gas/Water	4,423	0.01
Construction	136,423	0.35
Trade/Hotels/Food and Beverages	9,139,645	23.41
Transportation/Communication	1,872,892	4.80
Financial/Real Estate	19,440	0.05
Service Industry	1,512,938	3.86
TOTAL	38,985,072	99.85

Source: Development of Small & medium enterprises in Indonesia from the Asia-Pacific Perspective, Tulus T.H. Tambunan, Published by LPFE-USAKTI

Small and medium enterprises form the base of the Indonesian economy and society, and the development of these enterprises is a vital issue. However, as can be seen in the table above, in terms of both the number of enterprises and the number of employees the agricultural industry is far greater than any other, and the manufacturing industry can only manage 6.7% of enterprises and 6.7% of employees. If industrialization is necessary in Indonesia, these proportions for the manufacturing industry must be increased.

Further, the following 4 points can be raised as problems faced by small and medium enterprises.

- ① Restricted access to productive assets. There are limits to the appropriation of stable capital, obtaining high quality materials and facilities, and acquiring modern technologies.
- ② Low productivity is also a feature. According to the 2004-2009 mid-term state development plan, the annual production per company for micro and small enterprises is not expected to rise above the average of 4.3 million rupiah for 2000-2003. Medium enterprises average 1.2 billion rupiah and large enterprises average 82.6 billion rupiah. Productivity per employee for micro and small enterprises average 2.6 million rupiah, compared to 8.7 million rupiah for medium enterprises and 42.3 million rupiah for large enterprises.
- ③ Shortage of qualified workers. Few managers and workers have received a high level of education, they have insufficient ability to adapt for new technologies, modern management methods do not spread easily, and it is also difficult in a practical sense to obtain entrepreneurial experience.
- ④ An economic system and organizations have not been established to create a healthy business environment. A legal and accounting system etc. that encourage the growth of small and medium enterprises is beginning to be established, but the government and legal institutions that govern and run these systems are not adequate, and leaders of small and medium enterprises do not have an adequate understanding of a constitutional government system. There are not enough managers to implement an effective accounting system, and there are endless examples of tax evasion and a low consciousness of the need to pay taxes.
- ⑤ Development of market economy has not been achieved, and transportation costs etc are high. Except for imports and exports, not many products are traded across state or prefecture boundaries. This is due to factors such as limited distribution channels, lack of infrastructure, and a lack of networked information about products. Also, other factors related to interstate trade such as illegal taxes on truck border crossings increase the cost burden.

The above problems are proving to be major obstacles to the survival of small and medium enterprises in the face of the increasing globalization of Indonesia. In other words, the government is currently unable to move forward with the strengthening of competitiveness that it encourages. For example, the domestic markets for textiles and daily necessities have been overwhelmed by Chinese products, and at present small and medium enterprises are unable to meet the need for shortened product life cycles.

1-(3) Laws Related to Small & Medium Enterprises

• Basic Law: The current basic law regarding small and medium enterprises is the “1995 Small Enterprise Act No. 9” (Undang Undang Republic Indonesia Nomor 9 Tahun 1995 tentang Usaha Kecil).

The purpose of this law is to assist the activation of small and medium enterprises to lead to further development in the economy as a whole, and also to provide a legal framework upon which small and medium enterprises may develop. The Act has 9 Chapters and 38 Articles. In the preface, the Act states that the development of small enterprises requires a legal system based on established policies regarding the role of government, and the resultant support of small businesses, and the cooperation of banks in offering loans, credit providers, and large and medium enterprises. The introduction (Chapter 1 Article 1) of the Act, sets out the definition of small enterprises under the Act, the difference between large and medium enterprises, the aim of developing enterprises that are strong and independent, the role of government in establishing a legal framework and implementing policies, and the need for strengthening the support of government and society for small enterprises, the security of a supply of capital and credit guarantees etc., and cooperation between small and large and medium enterprises. In the explanatory documents that were published along with the implementation of this law, the importance of the building of a just and prosperous society based on the constitution of 1945, the need for government to set the direction of the state for the development of society, the duty of government to lead and protect, and the need for the development of large, medium and small enterprises for the attainment of high economic growth were all emphasized. Further emphasized was

the fact that small enterprises are an important strategic part of the development of the state economy, and that in addition to expanding employment opportunities they foster economic growth, redistribution of income, and national security.

The environment necessary for the development of small enterprises is set out in Chapter 4, and includes the ability to secure capital, the strengthening of competitiveness, the maintenance of infrastructure, the provision of information, the cooperation and joint activities with large and medium enterprises, and the improvement of the approval and licensing and credit guarantee systems.

In relation to the securing of capital, Article 7 lists the need for ① an expansion of sources of capital, ② improved access for small enterprises to the sources of capital, and ③ the simplification of the process of securing capital. In the explanation of this Article, for ①, increasing the types of sources of capital that are available, and increasing the distribution of capital were raised. For ②, the reform of capital access systems and for ③, the simplification of conditions for receiving capital were raised.

Article 8 sets out provisions to increase the competitive strength of small enterprises. ① to plan for cooperatives, industry organizations, and associations to improve negotiating capability. ② the formation of a fair market free from monopolies or oligopolies that limit the ability of small enterprises to be profitable. ③ prevent the establishment of a market or exchange whereby any specific person or group can create obstacles for small enterprises. In the written explanation of this Article, ② is given particular emphasis, where it is considered that the implementation of deregulation, and the maintenance of trading systems, price policies, and punishment systems are able to correct injustices in the market place. However, in terms of monopolies, those that are considered by the state to be indispensable to the life of the people may be excepted.

The maintenance of infrastructure (transport, communication, electricity, waterworks, business zoning, markets etc) is set out in Article 9, which sets out that for small enterprises all necessary infrastructure should be maintained, and related costs should be reduced.

The provision of information is set out in Article 10, which sets out the need for the

maintenance of bank data and business information, and the wide dispersal of information concerning markets, technology, designs, and product quality, etc.

Cooperation and tie-ups with large and medium enterprises are set out in Article 11, and in order to strengthen the business environment, ① clarify the purpose of the cooperative, ② prevent undue pressure by large and medium enterprises on small enterprises. According to the written explanation of this Article, ① includes non-forced transfer of technology, management tie-ups, and providing opportunities for fair business transactions, and ② includes preventing the undue use of force to increase risk through delayed consignment contracts and the exclusion of compulsory collection.

Reform of licensing and permission systems is set out in Article 12, including ① the reduction of the number of licenses and a simplification of the approval process providing one-stop processing, and ② relaxing the conditions for obtaining licenses (reduce cost etc.).

The maintenance of a business environment is set out in Article 13, which includes ① the provision of markets, shopping centers, industrial complexes, farmlands, mines, and other places of business, and the establishment of stalls etc in public places. ② protecting businesses that are important from a cultural perspective. ③ prioritize the use of products from small enterprises. ④ use or contract to use the products and services of small enterprises in public enterprises. Offer consultation in relation to laws relating to ⑤.

Chapter 5 lists improvements in manufacturing and processing, market cultivation, staff training, and technology as important for the development of small enterprises.

Article 15 specifies that for improvements in manufacturing and processing, ① management improvements must be made and manufacturing and processing must be promoted. ② improvements in the ability to start businesses and make plans must be measured. ③ infrastructure must be maintained.

Article 16 sets out market cultivation, including ① carrying out market surveys, ② improving market cultivation ability, ③ providing places for the exhibition of sample products necessary for market cultivation, ④ construction of examination sites for market cultivation and distribution, and ⑤ strengthening sales of products from small

enterprises.

Article 17 sets out the development of staff, including ① instilling a mindset of entrepreneurship, ② improve technological and management skills, ③ establishment of institutions for learning, training, and qualifying, and ④ cultivate leadership and consultants for small enterprises.

Article 18 sets out improvements in technology, including ① increasing technical skills, ② bring out design skills, and skills to develop new technologies, ③ provide incentives for new technological developments and environmental protection, ④ transfer technology, and ⑤ establish centers for the study of design and new technologies.

The other Articles include such points as the offering of preferential treatment for a period of three years for businesses that grow from small to medium enterprises.

Chapter 6 sets out the acquiring of capital and credit guarantees, including bank funding, non-bank funding, venture capital, state funding, grants, and other means of funding.

Article 22 sets out the improvement of access to capital for small enterprises, including ① strengthening the ability to self-fund, ② increasing the ability to self-assess, ③ strengthening accounting skills, and ④ the establishment and development of credit guarantee institutions.

The establishment of credit protection institutions by the state, and regional and local governments, based on the law, is set out in Articles 23, 24, and 25.

Chapter 7 sets out cooperation and tie-ups between large and medium enterprises and small enterprises. This specifies that cooperation and tie-ups are equal under the law. The relationship between small enterprises and large and medium enterprises is considered to be that of the core (large and medium enterprises) and periphery (small enterprises, subcontractors, ordinary trading, use of patents, acting as agents, etc).

Chapter 8 sets out the integration required by government for the development of small enterprises, including the President establishing and chairing coordinating institutions, the development of policies, implementation of policies, and evaluation.

Chapter 9 sets out the maximum imprisonment of 5 years or fine of up to 2 billion

rupiah for dishonest actions such as in the acquisition of loans by fraud, tax evasion, and the obtaining of a place of business.

Chapter 10 sets out the punishment of the cancellation of a business license or up to 5 billion rupiah in fines for any large or medium enterprise that violates the terms of their cooperation or tie-up with a small enterprise. Further, any manager that is punished under the provisions of Chapter 9 may have their business temporarily suspended, or their business license cancelled by related institutions.

1998 Small Enterprise Development Act No. 32

In relation to the Small Enterprise Act No. 9 of 1995, in 1998 the Government Ordinance for the Development of Small Enterprises No. 32 (ERATURAN PEMERINTAH REPUBLIK INDONESIA TENTANG PEMBINAAN DAN PENGEMBANGAN USAHA KECIL PRESIDEN INDONESIA) was enacted. This government ordinance sets out policies for the development of small enterprises that are strong and independent, which are also a source of strength in the development of the national economy.

This ordinance has 6 Chapters and 23 Articles. Chapter 1 sets out the purpose of the ordinance, which is for the government to lead in the development of small enterprises, and that the Minister of Control should correlate with other related ministers in this endeavor. In the government's written explanation of this ordinance, the reason for this ordinance is given as being due to the fact that there are elements missing in terms of strength and correlation in policies to develop small enterprises, including a lack of clarity in the tax system, licensing and permission system, and capital acquiring system etc.

Chapter 2 sets out the need for small enterprise development policies to be unified and continuous, for policies to be implemented dependant on the conditions of small enterprise development, and that small enterprise should be classified according to net assets and annual sales by the Minister of Control, in discussion with other related ministers. From Article 4, regulations are set out regarding the production and processing, market cultivation, staff training, and technological development of small

enterprises, and from Article 10 matters under the jurisdiction of the Minister of Control and related Ministers are set out, including the role of the industry and society, and deregulation of the tax system etc. In the government's written explanation, in the Income Tax Act No. 10 of 1994, losses and other costs became tax deductible.

Chapter 3 sets out the role of investors and financing organizations as support for the development of small enterprises. Regarding investors, concessional loans, reduced collateral, and favorable interest systems are set out. In regard to funding institutions, the establishment of new credit protection institutions in addition to the current institutions is set out.

Chapter 4 sets out that in response to the planning and implementation of policies for small enterprise development, the Minister of Control shall conduct surveys of the government and public entities, and shall evaluate the response of related Ministers to their responsibilities. The related Ministers shall hold forums to evaluate the policies, implementations, and management of policies.

2008 Revision to the Act

The following shall introduce some of the major points of the 2008 revision to the law that was introduced in the definitions of 1-(1), "Minor, Small & Medium Enterprise Act (RANCANGAN UNDANG UNDANG REPUBLIK INDONESIA NOMOR....TAHUN.... TENTANG USAHA MIKRO, KECIL DAN MENENGAH)".

The main point of the revision is that because of the current fast changing economic conditions and globalization, the definition for "small enterprise" no longer supports fair and effective policy development, and based on these conditions there is a need for a separation into micro, small, and medium enterprises.

The following points are a major emphasis of the revision.

- ① The expansion of funding sources for small and medium enterprises, and the necessary strengthening of the credit guarantee system. For this purpose, state owned businesses maintain a proportion of their profits for financing of micro and small enterprises, providing credit guarantees, and the central and regional governments and industry contribute, as well as assistance from overseas, and the

central and regional governments combine to provide capital for micro and small enterprises.

- ② For micro and small enterprises to obtain funding, they must meet the application conditions, whereby loans are based on a strict financial examination, and the ability to repay the loan and related interest is called into question.
- ③ For the development of small and medium enterprises, the central and regional governments promote access to the capital markets and obtain investment funds and operating funds, and make the restructuring of bad loans to medium enterprises by developing financial institutions and also increasing export financing functions.
- ④ Regarding subcontracting by large companies, the large companies are to provide the appropriate amount of raw materials at a fair price, and expand fair funding and payment systems and provide cooperation in leadership and technological development for production and management skills, and not make unilateral decisions.
- ⑤ The merger of micro, small, and medium enterprises with foreign entities is set out in a separate law.
- ⑥ Where large or medium enterprises exercise control over micro or small enterprises under a cooperative relationship, they shall each be fined up to 10 billion rupiah and 5 billion rupiah respectively.
- ⑦ Entities that use the name of a micro, small, or medium enterprise to obtain favorable lending conditions and to obtain unfair profits shall be subject to imprisonment for up to 5 years and a fine of up to 10 billion rupiah.

1-(4) Planning and Implementation of Small & Medium Enterprise Policy

Policies for small and medium enterprises are determined by the coordinating committee of the Minister appointed by the President. The actual responsibility for changes lies with the Minister for Economic development. Ministers that sit on the coordinating committee include the Ministers for Finance, Agriculture, Fisheries, Industry, Forestry, and Cooperatives/Small & Medium Enterprises. Although each

Ministry is responsible for implementation of policies for small and medium enterprises within each of their fields, more specific policies are left to regional governments.

Policies for the development of small and medium enterprises are set out in the “State Development Mid-term Plan 2004-2009” (Peraturan Presiden No. Tahun 2005 tentang Rencana Pembangunan Jangka Menengah Tahun 2004-2009).

The following five points are the aims for the development of small and medium enterprises in the mid-term plan.

- ① Increase productivity of small and medium enterprises while at the same time increasing national productivity.
- ② Increase the proportion of small enterprises in formal sectors.
- ③ Urge growth and increase added value by increasing the exports of small and medium enterprises.
- ④ Develop systems for new business training based on technological developments.
- ⑤ Plan for qualitative improvements in cooperative associations.

The following five points are policy directions necessary to the achievement of the above aims.

- ① Help small and medium enterprises to contribute further to growth in the economy, increased employment, and strengthening competitiveness. The development of micro enterprises also contributes to increasing income for low income groups.
- ② Strengthen government institutions through the strengthening of good governance, and with the following policies.
 - Promote access to capital for small and medium enterprises, especially access to banks.
 - Improve the business environment for small and medium enterprises, and simplify approval procedures.
 - Aim in expand institutions offering managements services, technology, management, marketing, and information etc.
- ③ The following are policies for the development of small and medium enterprises, and planning to absorb employment.

- Develop skilled workers that can adapt to technologies.
 - Aim for greater collective productivity in the agribusiness and agricultural industries, and increase efficiency.
 - Aim for growth in industrial small and medium enterprises, and promote improvements in technology and human resources.
 - Promote the development of small and medium enterprises together with regional development, and develop enterprises that are prominent in their communities.
- ④ Raise up small and medium enterprises that produce export products and everyday goods that are competitive.
 - ⑤ Raise up cooperative associations.

The following is a specific program of policies to implement the above policy directions.

Firstly, the maintenance of a business environment for small and medium enterprises. This places importance on high efficiency, stability, competitiveness, non-discrimination, and good business results. In order to achieve these things, the mitigation of inefficiency by the government, the reduction of cost burdens, qualitative improvements in approval processes, and the promotion of cooperation between relevant parties are all mentioned. The following are given as part of such a policy program.

- ① Correct inconsistencies that occur in the constitutional and bureaucratic systems, through the establishment of regulations such as in the small and medium enterprises law and corporate registration law.
- ② Promote the normalization of business units.
- ③ Improve distribution through making transportation of products and raw materials easier, etc.
- ④ Improve the capabilities of institutions that perform planning and the examination of regulations.
- ⑤ Offer quick and easy, one-stop approval processes.
- ⑥ Investigate the effect of national and regional government regulations on small and

medium enterprises, and make reviews of these regulations.

- ⑦ Heighten the ability of the government to adjust policy design and implementation.
- ⑧ Maintain information networks and expand the provision of information to small and medium enterprises.

The second area considered is the expanding of support systems for small and medium enterprises. This has the goal of making it easier for small and medium enterprises to access markets and resources, and to acquire funding, human resources, technology, and information, etc. The following are specific examples.

- ① Provide facilities to support the access of small and medium enterprises to natural and production resources.
- ② Improve the support of industry and society through sharing technology, providing management leadership, cultivating markets, and providing information and consulting etc.
- ③ Improve the skills and quality of micro and cooperative financial institutions, to give them the firm status as corporate entities, and create a network between these organizations and the banks.
- ④ Expand the sources of capital for cooperatives and small and medium enterprises. In particular, set up investment schemes, and raise up credit protection companies for non-bank venture financed companies and small and medium enterprises.
- ⑤ Improve the effectiveness of capital supplied from the central and regional governments and state owned entities.
- ⑥ Reform difficulties in small and medium enterprises obtaining loans.
- ⑦ Establish a system of incentives, ratings, and guarantees, and fully realize a network of training institutions.
- ⑧ Strengthen technology and information generating institutions within government organizations.
- ⑨ Strengthen market networks for manufactured goods, including exports.

Third is the increase of comparative advantage and the mind-set of an entrepreneur for managers of small and medium enterprises. The following are specific policy examples.

- ① While performing activities to strengthen the entrepreneurial mind-set of business owners, institute an incentive system for start-ups.
- ② Provide incentives to start-ups that are export oriented, subcontractors, or involved in agribusiness or the utilization of local resources.
- ③ Provide incentives for small and medium enterprises that work to protect the environment.
- ④ Support the establishment of networks of organizations that encourage the entrepreneurial mind-set.
- ⑤ Support incubators for technology and production.
- ⑥ Support cooperative investment between small and medium enterprises, and joint investments with foreign companies.
- ⑦ Support the creation of production and transportation networks through small and medium enterprises forming into groups etc.
- ⑧ Support qualitative improvements through a steady entrepreneurial mind-set, with the cooperation of small and medium enterprises, including management companies.

Forth is the development of micro enterprises. This is to increase income to the poorer layers of the informal sector. Nine specific policies were mentioned, but these have been abbreviated here.

Fifth is the raising up of cooperative organizations.

1-(5) Financial Support for Small & Medium Enterprise Policies

The jurisdiction for small and medium enterprise policies is not limited to the Ministry of Cooperatives and Small and Medium Enterprises, but also involves the Finance Ministry, the Industry Ministry, and the Commerce Ministry, etc., and since each of these Ministries individually administer policies for small and medium enterprises, the full picture of government expenditure is not clear. The only documents that can explain the expenditure are in the budgets allotted to each Ministry and agency. The allotment to the Ministry for Cooperatives and Small & Medium Enterprises for 2008 (Accounting period from January to December) is 1.1116 trillion rupiah. The total

amount allotted to Ministries and Agencies is 285.4829 trillion rupiah, which amounts to a total of 564.6231 trillion rupiah when added to interest on debt payments, subsidies, etc. So the amount allotted to the Ministry of Cooperatives and Small & Medium Enterprises is only about 3.9% of the amount allotted to the other Ministries and Agencies, and just 0.2% of the total allotted budget. In addition, the central government also allots fund to the regional governments for the purpose of funding small and medium enterprises, which, according to a survey carried out by the Ministry for Cooperatives and Small & Medium Enterprises, was budgeted at about 118.5 billion rupiah for 2008. The table below shows the budget for the Ministry of Cooperatives for 2005-2008, as taken from Finance Ministry documents.

Budget for Ministry of Cooperatives and Small & Medium Enterprises (2005 – 2008)

Unit: 100 Million Rupiah

	2005 Actual	2006 Actual	2007 Estimate	2008 Budget
Ministry of Cooperatives and Small & Medium Enterprises	9,167	9,302	13,345	11,116
Total Allotted to other Ministries and Agencies	1,208,230	1,893,612	2,38,390	2,854,829
Total Budget	3,611,552	4,400,321	4,938,807	5,646,231

Source : NOTA KUUNANGAN 2008 Finance Ministry

1-(6) Breakdown of Responsibilities for Central and Regional Governments

After the collapse of the Suharto administration in 1998, the pace of regional decentralization accelerated in Indonesia. Under the Local Government Act No. 32 of 2004 (UNDANG UNDANG REPUBLIKINDONESIA NOMOR 32 TENTANG PEMERINTAHAN DSAERAH), local autonomy was assured. Regional governments were established at the state level, and below that at the prefecture and city level, all of which were granted autonomy. In relation to the same law, and also the Capital Investment Act No. 25 of 2007 (UNDANG UNDANG REPUBLIK INDONESIA NOMOR 25 TAHUN 2007 TENTANG PENANAMAN MODAL), the Role of Central, State, Prefecture/City Governments Act No. 38 of 2007 (PERATURAN PERATURAN REPUBLIK INDONESIA NOMOR 38 TAHUN 2007 TENTANG PEMBAGIAN

URUSAN PEMERINTAH, PEMERINTAHAN DAERAH PROVINSI, DAN PEMERINTAHAN DAERAH KABUPATEN/KOTA) was promulgated. This law sets out that autonomy under the law is the right and responsibility to independently administer regional governments for the benefit of the community. The central government is to determine the principles for creating norms, standards, and procedures, and then the regional governments are to independently formulate policy based on these principles.

At the prefecture and city level, measures and standards necessary to the effective implementation of policies for cooperatives and small and medium enterprises are set out by the Cooperative and Small & Medium Enterprises Minister in the Ministerial Directive No. 20 of 2000 (KEPUTUSAN MENTERI NEGARA URUSAN KOPERASI DAN USAHA KECIL DAN MENENGAH NOMOR: 20/KEPMENEG, XI/2000 TENTANG PEDOMAN PENETAPAN STANDAR PELAYANAN MINIMAL BIDANG KOPERASI DAN USAHA KECIL DAN MENENGAH YANG WAJIB DILAKUKAN KABUPATEN/KOTA). At the prefecture and city level, actual administration is carried out by the Cooperative and Small & Medium Enterprise Bureau (Dinas), and the Dinas Bureau Chief reports to the Prefecture Governor or Cut Mayor. Dinas has responsibility for administration and planning, licensing and approvals, regulation and implementation of government policy, certification, formulation of budgets, budget corrections, winding down cooperatives, etc.

In fact, the separation of responsibilities between the central and regional governments is not so clear. This is due to such factors as a lack of leadership and supervisory ability centrally, and excessive demands from regional governments for autonomy.

Chapter 2 SME Development Policies – Specific Schemes

2-(1) Financing

In Indonesia, the financial system is still not working well for small and medium enterprises, and the government is placing emphasis on the development of such a system, beginning with the preparation of statutes. Further, at least 60 percent of small and medium enterprises at present are unable to obtain loans. They are generally self-funded. For this reason, firstly, the majority of small and medium enterprises are still just micro enterprises, and most of these reside in the informal sector without modern management skills. As a result, these businesses are not operating effectively or efficiently, accounting practices are second thoughts, and naturally this further makes them ineligible for examination to obtain bank loans. Secondly, even if they want to obtain a loan from a bank, it is difficult to obtain access to banks. To apply at the bank requires an introduction from a trustworthy acquaintance, who will need to be willing to bear the burden or repayment. Thirdly, with the interest rate on loans currently at 18%, financing is very expensive. Rather than borrowing from a bank, it then becomes much easier to finance by borrowing from family or friends. Forth, when borrowing, it can be difficult to secure necessary collateral. In particular, since modern small enterprises do not include land or buildings in their net assets, the provision of collateral can be a major problem, making it difficult for small and medium enterprises to build up good will. The reason that land and buildings are not included in net assets is that, with 87% of the Indonesian population being Muslim, and with the exception of Chinese, Christians, and Hindus, most property inheritance is based on an equal inheritance system, and it is often unclear who actually owns the land.

The Indonesian government understands the need to increase the supply of funds, and to expand its financial system in order for small and medium enterprises to develop, and they are currently preparing laws and an expanded system based on these laws.

First, since entering the 21st century, and against the backdrop of a complete restructuring of the Indonesian financial system, the effective disposal of bad debts from small and medium enterprises has been vital to the expansion of the small and medium enterprise financial system. The proportion of small and medium enterprises

that have received bank loans is low, and while the effect of the Asian currency crisis in 1997 was not considered to be large, in fact companies that did receive loans found themselves with a serious bad debt problem. For the purpose of offering relief, on June 29 2002 the government promulgated the Presidential Directive for Small and Medium Enterprise Trust Restructuring No. 56 (RESTRUTURISASI KREDIT USAHA KECIL DAN MENENGAHKEPUTSUSAN PRESIDEN REPUBLIK INDONESIA NO.56 TAHUN 2002 TGL.29 JULI 2002). The following is an outline of the content: ① Lending Banks and the Bank Reconstruction Agency (BPPN) cause creditors to fulfill their duties to small and medium enterprises, ② Banks as herein defined have their shares fully or majority owned by the state, ③ Small and medium enterprises are as defined in the Small and Medium Enterprises Act No. 9 of 1995, ④ Debts that are subject to restructuring are those that are worth up to 5 billion rupiah as of December 31 1997, ⑤ Debts as herein defined are loans that were borrowed for a productive purpose prior to December 31 1997 or middle-class residences (RS) or low-grade housing (RSS) loans that have been purchased by businesses, and that have become unpaid between January 1 1998 and December 31 2000, ⑥ The creditor is cooperative in the restructuring, and although there is some hope for future activity repayment is not possible at the present time, and the debt is being processed according to regulations, and the creditor is not a subsidiary of a large company, ⑦ Where the bank that is performing the restructuring pays back the government within 6 months of the promulgation of this Presidential directive, they shall be exempted from paying any interest or fees to the government.

Based on the above Presidential directive, the settlement of bad loans is targeted at comparatively well managed small and medium enterprises, which may seem like a good result, but the result on small and medium enterprises that are not the object of the directive is unclear.

For the financing of small and medium enterprises, it is necessary to unify the 2007 revision to the investment law with other financial policies. The new investment law is the Capital Financing Act No. 25 of 2007 (UNDANG UNDANG REPUBLIK INDONESIA NOMOR 25 TAHUN 2007 TENTANG PENANAMAN MODAL). This law

is a combining of the Foreign Capital Investment Act of 1967 and the Domestic Investment Act of 1968, and was aimed at the promotion of capital investment necessary for national development, based on the principles of observing the law, accountability, clarity, non-discrimination against foreign entities, justice, and durability, etc. Regarding small and medium enterprises, those sectors permitted to them have been set out, and large enterprises are only permitted to enter the same sectors on the basis that they cooperate with small and medium enterprises. Also, the government, through the promotion of cooperation between small and medium enterprises and cooperatives, strengthen competitiveness, develop technology, expand the marketplace, and provide information.

In relation to capital for small and medium enterprises, the government promulgated the Cooperative Small & Medium Enterprise Mid-term Development Plan for Capital Investment in Corporations Act No. 38 of 1999 (PERATURAN PERATURAN REPUBLIK INDONESIA NOMOR 38 TAHUN 1999 TENTANG PENYERTAAN MODAL NEGARA REPUBLIK INDONESIA UNTUK PENDIRIAN PERUSAHAAN PERSEROAN (PERSERO) DALAM RANGKA PENBANGANBAN KOPERASI, USAHA KECIL DAN MENENGAH PRESIDEN REPUBLIK INDONESIA). The main point of this law was that in order for cooperatives and small and medium enterprises to help develop the national economy in a fair and just way, it was necessary for them to participate in the development of corporations, and for them to receive the capital and management assistance of the state. For this purpose, the government established the Madani State Investment Company (PT Permodalan Nasional Madani) as a body to promote capital participation. Madani Corporation was established as a state asset, outside of the national budget, and the state's investment totaled 300 billion rupiah.

In accordance with the above law, a policy to support the start-up of incubator businesses for young entrepreneurs was established, and training was carried out for 200 students in 2006 and 300 in 2007. Also, between 2001 and 2005, incubator parks were established in 6 states (including 107 small and medium enterprises), for a total investment of 5 billion rupiah, or 500 million rupiah per incubator park. These 10 incubator parks are as follows.

- ① March 11 University (Universitas Sebelas Maret) Business Incubator (Surakarta)
- ② The Bogor Agricultural College Agribusiness/Agro Business Incubator Center (Bogor)
- ③ Bandung College of Engineering New Manufacturing System Entrepreneur Training Center (Bandung)
- ④ Surabaya College of Engineering Surabaya Business Incubator Center (Surabaya)
- ⑤ Andalas University Business Incubator Center (Padang)
- ⑥ General Soedirman University New Entrepreneur Incubator (Purwokerto)
- ⑦ Jember University Agro Business/Agribusiness Incubator (Jember)
- ⑧ Makassar University New Entrepreneur Incubator (Makassar)
- ⑨ Gadjah Mada University Agro Business/Agro Business Incubator (Jogjakarta)
- ⑩ IKOPIN Business Incubator Center (Bandung)

Credit Guarantee System

The reason that it is difficult for small and medium enterprises to obtain loans from banks and other financial institutions is because of their low credit, or in other words their lack of collateral, which restricts the banks as possible lenders from offering loans. In order to make it easier for small and medium enterprises to obtain loans, the government has worked to establish a credit guarantee system, which is also included in the Small Enterprise Act. Based on this law, the National Enterprise Financing Presidential Directive No. 5 of 2007 was promulgated in November 2007, which clarified the credit guarantee system. The major points are listed below.

- ① Loans guaranteed up to a maximum of 500 million rupiah.
- ② Annual interest on loans at a maximum of 16% p.a.
- ③ For credit guarantees, 70% of the risk shall be borne by credit guarantors and 30% of the risk shall be borne by financial institutions.
- ④ Fees for the guarantee shall be 1.5% of the amount of the loan, and this expense shall be covered from the national finances. (For this purpose, the Finance Ministry has set aside 24 billion rupiah for 2007 and 192 billion rupiah for 2008, and expects to budget 207 billion rupiah for 2009, making a total of 423 billion rupiah over 4

years)

- ⑤ Financial institutions responsible for conducting management examinations of companies that have borrowed funds.

Ahead of the promulgation of the Presidential Directive, in October 2007 the government (Finance Minister, Agricultural Minister, Forestry Ministry, Industry Minister, Fisheries Minister, Cooperative/Small & Medium Enterprise Minister), credit guarantee companies, (Perum Sarana Pengembangan Usaha and Pt. Asuransi Kredit Indonesia) and banks (Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, Bank Tabungan Negara, Bank Bukopin, Bank Syariah Mandiri) released a memorandum regarding credit guarantees and costs for micro, small, and medium enterprises.

The purpose of the memorandum is expanding the credit system to micro, small, and medium enterprises, and cooperatives, with a view to improvements in poverty and unemployment. With this as its goal, first the government has to establish a government institution for administering and supporting the loans. The credit guarantee company would then strengthen the guarantee of the loans or investments made by this government institution. Financial institutions that have received credit guarantees will have all of their loans to micro, small, and medium enterprises and cooperatives guaranteed.

In order to put this memorandum into effect, a Policy Committee has been organized under the auspices of the Minister for Economic Development. This Policy Committee will produce policies to implement the credit guarantees at a national level, determine fields for guarantees to be prioritized for, and will govern whether the performance or guarantee of certain loans is appropriate. The committee will also correlate with other related institutions.

Based on this memorandum, the amounts of funds are as below, as of January 25 2008.

Bank	Total Loans (billion Rupiah)	Number of Loans	Minimum Loan (million rupiah)	Maximum Loan (million rupiah)	Average Loan Amount (million rupiah)
BNI	218,190	3,233	50.0	500	67,488
BRI	351,192	2,666	3.0	500	131,729
MANDIRI	542,420	11,290	12.5	500	48,044
BTN	7,035	40	5.0	500	175,875
BUKOPIN	77,551	173	70.0	500	448,271
BSM	29,137	407	15.0	500	71,589
Total	1,225,525	17,809			68,814

Source: Ministry of Cooperatives/Small & Medium Enterprises Kredit Usaha Rakyat

Credit Guarantee Balance for 3 major Credit Guarantee Companies (Note 1)

		SPU	ASKRIND	PKPI
1	Established	1970	1971	1996
2	Capital (1 billion rupiah)	270	400	5.4
3	Credit Guarantee Fund Balance (1 billion dollars)	21,950	93,400	163.5
4	Processing Costs	1-1.5%	1-1.5%	1-1.5%
5	Risk Coverage Rate	75%	70%	75%

Source: Ministry of Cooperatives/Small & Medium Enterprises

(Note 1) This is an internal Ministry document, and it is unclear when it was created, but it was obtained on February 11 2008, and it is believed that the document was produced in January of 2008.

SPU: PENGUMBANGAN USAHA (National Public Corporation)

ASKRINDO: PT. ASURANSI KREDIT INDONESIA (Government Invested Corporation)

PKPI: PT.PENJAMIN KREDIT PENGUSAHA INDONESIA (Private corporation investing mainly in Chamber of Commerce)

There are no statistics showing the credit guarantees per industry, but according to documents from Askrindo, a major guarantee company, below are their figures for the 36 years since establishment.

	Industry	No. of Credit Protection Companies (1 million)	Total Credit Protection (trillion rupiah)	Non-Performing Rate (%)
1	Agriculture	3.60	53.75	2.05
2	Manufacturing	0.72	10.75	1.86
3	Commerce	2.16	32.25	1.55
4	Service	0.72	10.75	1.86
	Total	7.20	107.50	1.86

Source: PT. Askrindo Feb, 2008 Internal Documents

According to the above table, the proportions of bank loans or credit guarantees are unevenly distributed between agriculture and commerce, and manufacturing makes up just 10%. This is because the ratio of manufacturing in Indonesia among small and medium enterprises is low, and this shows that the regional agriculture related and commerce industries are dominant. Further, there is a low proportion of non-performance, and this is because examinations are performed carefully before credit guarantees are applied to a loan, and therefore these have mainly been given to companies with a solid business condition.

Legal regulations in relation to credit guarantee companies are set out in the Credit Guarantee Company Presidential Directive No. 2 of 2008 (PERATURAN PRESIDEN REPUBLIK INDONESIA NOMOR 2 TAHUN 2008 TENTANG LEMBAGA PENJAMINAN). The purpose of this directive is to ensure that credit guarantee companies operate on the principles of prudence, transparency, and legal compliance, and that any matters that were unclear have been clarified, so that guarantee companies can continue to increase in efficiency and durability with social significance.

Credit guarantee companies can be divided into guarantee companies and re-guarantee companies. Either may be public, incorporated, government enterprises, limited companies, or cooperatives. The stock holders of incorporated companies are the Indonesian people, Indonesian companies, and the central or regional governments. Re-guarantee company stocks are held by at least two companies, owned by the central or regional governments. Cooperative re-guarantee companies are owned by an incorporated association of cooperative guarantee companies. The Minister of Finance has the authority to license or close down guarantee companies. Guarantee companies are established within Indonesia, and they have branches or subsidiaries at various places of business. The organization of a guarantee company shall at least include departments to offer information analysis services to risk examiners, auditors, and loan companies, etc. Guarantee companies are prohibited from offering loans, borrowing, and direct investment.

Condition of Loans from Commercial banks to Small & Medium Enterprises

The proportion of bank loans to small and medium enterprises based on the loan balance of rupiah loans (excluding foreign currencies) from Commercial Banks as of December 2006 is quite low. Since 2002, the proportion of the total loan amount in rupiah loans from commercial banks has fallen from 22.3% in December 2002 to 14.2% in December 2007. Indonesian banks also offer loans in foreign currency, but foreign currency loans for small and medium enterprises are few, making this proportion even lower.

Amount of Loans and Balance to Small & Medium Enterprises from Commercial Banks

Unit: Billion Rupiah

	Dec, 2002	Dec, 2003	Dec, 2004	Dec, 2005	Dec, 2006	Dec, 2007
1. Amount of Loans	271,851	342,026	438,880	566,444	639,152	793,186
2. Small & Medium Enterprises	60,672.1	72,647	85,191	96,580	102,028	112,527
2/1x100(%)	22.3	21.2	19.6	17.1	16.0	14.2

Source: Bank Indonesia Data Statistik (<http://www.bi.id/>)

Next, we will look at loans from commercial banks based on the purpose and sector. A characteristic of the total value of bank loans for small and medium enterprise financing is that circulating financing makes up 4 times that of investment financing, and about 20% of the amount of total loans. Investment financing is about 15%. The value of circulating financing for banks is also more than three times the investment financing amount, and bank loans in Indonesia mostly make use of circulating funds. According to segments of the economy, small and medium enterprise loans are mainly

December 2007 Commercial bank Rupiah Loan Balances by Purpose and Sector

Units: Billion Rupiah

	Total Amount of Loans	Loans to Small & Medium Enterprises	Proportion (%)
Circulating Financing	38,8601	7,7438	19.9
Investment Financing	12,3329	1,8773	15.2
Consumer Financing	28,1256	1,6118	5.7
Manufacturing Sector	11,5172	4,245	3.7
Commercial Sector	18,6882	5,4262	29.0
Service Sector	16,5965	1,5583	9.4

Source: As above

based around the commercial sector, which makes up about 29% of the total. The Manufacturing sector is just 3.7%. This is because the proportion of manufacturing businesses among small and medium enterprises is low.

2-(2) Tax System

There is no special tax system for the income of small and medium enterprises in Indonesia, and taxes on profits (Pajak Penghasilan - PPh) are imposed the same on individuals and companies. There is no distinction under the same system between personal and corporate income, and tax rates are applied according to the income. Taxable entities are ① Individual residing in Indonesia, ② Individual residing in Indonesia for at least 183 days out of the year, ③ Individual that resides in Indonesia and owns a dwelling during the taxable period, ④ or an inheritance that has not yet been distributed or an organization based in Indonesia (corporation, non-corporation). Tax is based on income from salary etc. from working, prizes, business profits, capital gain, tax income from rebates deducted as costs, interest, dividends, royalties, income from assets such as rent from a house, regular income, transferred funds, foreign currency profits, insurance receipts, income from support, assets from non-taxed revenue, etc.

Tax rates are as follows.

Personal Income Tax

Annual Salary	up to 25,000,000 rupiah	5%
Annual Salary	25,000,000 rupiah - 50,000,000 rupiah	10%
Annual Salary	50,000,000 rupiah - 100,000,000 rupiah	15%
Annual Salary	100,000,000 rupiah - 200,000,000 rupiah	25%
Annual Salary	above 200,000,000 rupiah	35%

Organizational, Corporate Income Tax (Domestic, or organizations run by non-residents operating domestically)

Annual Salary	up to 50,000,000 rupiah	10%
Annual Salary	50,000,000 rupiah - 100,000,000 rupiah	15%

Provision of information is always occurring from public organizations such as the central and regional governments and chambers of commerce etc., but recently the sharing of information is increasing due to the use of ITC systems. However, with information overflowing from the internet, it is difficult to know to what extent small and medium enterprises are able to obtain effective information, that is useful to their business. In particular, for micro enterprises, the problem begins with the fact that they cannot even afford to purchase a computer in order to gather information. Also, the organization of industry cooperatives and associations is helping to share information, but with the exception of particularly cutting edge regions, organizations do not yet offer national coverage for their activities.

Human resource training is a vital issue for the development of the Indonesian economy. The first element of this is the expansion of the popularization of higher education for everyone. Under the current constitution, the state is required to spend 20% of the total budget on education, but this is not actually happening. There are many issues to be dealt with, including the improvement of teaching skills and the reform of educational content. Non-standard education such as work training is also taking place, but, as with regular education, this is not meeting the need either. In order for small and medium enterprises to grow, policies must be implemented to develop people that are conversant with current technological developments, and that have an entrepreneurial spirit, but the current status quo is not acceptable, and there is currently a dearth of human resources for the development of small and medium enterprises, particularly in the manufacturing sector.

Reform of the investment and management environments of small and medium enterprises is a pressing need. Commercial businesses and service businesses tend to be situated in certain areas, like in traditional bazaars or shopping malls, but development of the manufacturing sector will require access to raw materials and an expansion of sales markets. In Indonesia, particularly in regions further away from the larger cities, regional markets are exclusive, and manufacturing for other regions is costly. This restricts competition between regions, and is preventing the development of medium enterprises.

2-(4) Support for Obtaining Management Resources for Existing Small & Medium Enterprises

Support businesses for small and medium enterprises provide research and development assistance, IT related support, Industry, academic, and government support, assistance with market cultivation, ISO authorization support, development measures for small and medium scale commerce, and measures to promote subcontractors.

The government is developing a system incorporating these supports into law, but it is at the regional level that most of the specific policy measures are being implemented. Small and medium enterprises find it difficult to dance to the government's tune, since most actual support is going to large companies and foreign companies. By law, cooperation with large companies and small and medium enterprises should be on the same level, and favoritism to large companies is prohibited. However, when small and medium enterprises seek to do business with large enterprises, they have to do so under the influence of subcontracting, and things don't actually happen according to the laws. Also, there are few small and medium enterprises that large companies feel the need to support as supporting industries. For larger companies, small and medium enterprises that serve as supporting industries become the target of buy-outs to be made into subsidiaries, and as a subsidiary they would not longer come under the umbrella of small and medium enterprises. Obtaining ISO authorization etc. is still limited to larger businesses, and this is still a future issue for small and medium enterprises. Cooperation between industry, academia, and government provides a support system for university students to start businesses, but there has been no improvement to the system for small and medium enterprises. This keeps the technological skills of small and medium enterprises low, and makes it difficult for them to make new advances.

2-(5) New Business/Venture Support

Policies to support new businesses have begun on an ad hoc basis, but it has not yet reached the stage where it has spread. A specific example is Prospek Mandiri (Program to increase work opportunities for university graduates), which was held in the six

states of Jogjakarta, West Kalimantan, Maluku, West Nusa Tenggara, East Java, and Gorontalo as a measure against unemployment for university graduates and those with higher education experience. By the end of 2007, 900 university graduates had been recruited, and 41 cooperative organizations were established in 14 states and 31 prefectures/cities. In 2007, the states of Central Java, West Java, Lampung, Bengkulu, Jambi, Central Kalimantan, East Kalimantan, and East Sulawesi were added. This activity is mainly engaged in the processing and sale of local resources.

Venture business training policies have been implemented to support the need for support for eager entrepreneurs of small and medium enterprises that demand capital. The purpose is to train high value added companies, and to provide capital from stake holders such as financial institution, and long term financing.

Regarding the venture business, the Finance Minister's Directive No. 250 of 1995 (KEPUTUSAN MENTERI KEUANGAN REPUBLIK INDONESIA NOMOR: 250/KMK. 04/1995 TENTANG PERUSAHAAN KECIL DAN MENENGAH PASANGAN USAHA DARI PERUSAHAAN MODAL VENTURA DAN PERLAKUAN PERPAJAKAN ATAS PENYERTAANMODAL PERUSAHAAN MODAL VENTURA) set out small and medium enterprises as the basis for venture businesses, and regulated the taxation of venture capital investments. The main points of this law were ① A venture business is a small and medium enterprise with net sales of 5 billion rupiah or below, and ② profits derived from the stock of venture businesses are exempt from tax.

It was not possible to gather documentation on the current condition of venture businesses, but IT related businesses seem to be common.

2-(6) Promotion of Fair Dealing and Maintenance of Markets for Small & Medium Enterprises

In relation to small and medium enterprises, measures are in place to ensure subcontractors are not paid late, measures are in place for retail trade adjustments, and public demand, the law treats large companies and state owned companies equally in terms of dispute resolution, and there are prohibitions and resultant punishments to ensure that they do not trade unfairly with small and medium enterprises,

guaranteeing equal access to public demand. However, it is a genuine issue that large companies and state owned companies exert a great deal of pressure on small and medium enterprises, and such practices as late payment for subcontracting or goods is becoming common. The law is not able to resolve these kind of problems, and mediation is on a case by case basis. The problem is that irrespective of the government's policies, the mindset of legal compliance has not yet permeated the Indonesian business culture.

Dispute resolution is set out in Chapter 15 Article 32 of the Capital Investment Act of 2007. This article only sets out the process for the resolution of disputes between the government and individual businesses, and it places priority on settling disputes by discussion, and then mediation, and finally by the courts.

2-(7) Regional Small & Medium Enterprise Policies

Regional governments are mainly responsible for the implementation of specific policies, and they are seeking to develop an effective working relationship between government and the public. Regions with good leaders and a strong economy find that the region grows well due to the government and the public working together. Many places have already begun the Japanese 'one village, one product' movement, but it is not yet clear how this will go. However, many regions are still building beautiful homes for the governor and placing priorities on administrative authority and KKN (Korupsi, Kolusi, Nepotisme (Collusion, Corruption, Nepotism)), and it is very difficult to develop all of the regions throughout the country at the same level. Around the larger cities regional manufacturing areas are starting to develop, but in other areas it is difficult for them to come together. The reason is that the roads, ports and other infrastructure are not prepared, there is a shortage of specialized small and medium enterprises in the manufacturing sector, and the vision of government and the public in terms of regional development has lagged behind.

2-(8) Supporting the Internationalization of Small & Medium Enterprises

The main issues in terms of internationalization of Indonesian small and medium enterprises are the development of tourism and the expansion of export of regional

goods. In tourist spots like Bali Island, internationalization is already moving forward, and entry to international markets for local traditional handicrafts, chocolates, and other agricultural products is progressing well. The government is strengthening access for small and medium enterprises to export markets and tourism development, but this still relies a great deal on their own initiative.

2-(9) Employment/Work Policies for Small & Medium Enterprises

Workers in small and medium enterprises make up more than 90% of the total workforce, and small and medium enterprises is an essential with regard to policies to increase employment. When the economy is in a bad condition, small and medium enterprises can take on a lot of the unemployed. This is a result of the social tradition of taking care of one's own. However, when conditions worsened after the Asian currency crisis in 1997, small and medium enterprises reached the limit of what they were able to absorb, and employment opportunities decreased due to bankruptcy etc. The unemployment system in Indonesia is still not fully developed, and a system to boost jobs in small and medium enterprises is still not complete. For large companies, there are usually unions attached, and sometimes there can be major industrial disputes, but there is almost no system to protect small and medium enterprise workers. In Indonesia, ordinary citizens hardly have social safety net items such as health insurance, employment insurance, life insurance, and a pension system, with the exception of the system for wealthy private enterprises and national governments. Although the bonds of a family are strong, these bonds are also starting to collapse within the modern society.

2-(10) Small & Medium Enterprise Organizations and Networks

Chambers of Commerce are organized at the national and regional levels, and there is some difference between regions, but they do offer support to small and medium enterprises. The Chamber of Commerce is meant to be an organization of business leaders in an area, but their activities depend on the skill and abilities of its members. Outside of the Chambers of Commerce, there are also a variety of industry associations,

but these are not very active. In particular, organizations for small and medium enterprises are underdeveloped. There do seem to be organizations of Chinese entrepreneurs that are quite active in some regions, but the actual condition of these, especially given the social conditions of Indonesia, are not clear.

Cooperatives are set out by law as similar to small and medium enterprises, and these are also becoming networked together.

2-(11) Small Scale Enterprise Measures

Small scale enterprises have previously been referred to as micro enterprises. Most micro enterprises are stalls or traders, etc., which belong to the informal economic sector and don't really correspond with the term 'business'. The government is attempting to create policies to bring these entrepreneurs into the formal economic sector, but so far the results have been weak.

2-(12) Safety Net

Measures to protect small and medium enterprises against bankruptcy, corporate reorganization, and disaster have not been improved. The credit guarantee system is one example of a measure that is starting to provide a safety net for small and medium enterprises, but there is no complete network. After the Asian currency crisis, corporate laws and bankruptcy laws were enacted, but for managers of small and medium enterprises this knowledge is not much of a comfort. In times of disaster, the government performs rescue operations, but there is no security to be gained for businesses that are shut down because of disasters. For circumstances like these, it would be great if there was a special funding system, but the current conditions in Indonesia say that about 70% of small and medium enterprises would have trouble accessing such a system even if it existed.

Chapter 3 Problems regarding Indonesian Small and Medium Enterprise Policies

In relation to Indonesia's policies for small and medium enterprises, when asking about the role of Japan, people always came back to the report "Policy Recommendation For SME Promotion in The Republic of Indonesia (July 26,200)" which was commissioned by the Ministry of Economy, Trade and Industry and submitted to Indonesia by Professor Hidejiro Urata of Waseda University. This report has been read by many people that are involved in policies for small and medium enterprises, and was a major reference to the government in setting their basic policies. Someone involved in the process said that this report contained all of the experience of Japanese small and medium enterprise policy, and is considered of great worth for Indonesia, who have not been able to set out clear policies up to now. However, there are problems with considering it as an actual proposal for small and medium enterprises in Indonesia itself, and Indonesia requires original policies which are directly aimed at their unique conditions. But as for what those actual conditions are, surveys are not complete, and it is necessary to wait for the results of full national investigation. As such, not only government institutions but chambers of commerce, industry groups, and grass roots organizations are required, but such grass roots industry groups are not developing. When asked what Japan could do to help in this regard, there was no specific response. It seems like it was a question that they weren't ready for.

The Asia Foundation and UNDP have conducted a fragmented survey of small and medium enterprises, and the results seem to reflect the small and medium enterprise policies of Indonesia. From the perspective of Japan contributing to the economic development of Indonesia, it is necessary for a full survey of small and medium enterprises to be carried out. In such an event, it would be necessary to combine knowledge of small and medium enterprises in general with specific understanding of the local conditions. In order to achieve this, it would be necessary to work very closely with the government of Indonesia, universities, survey organizations, and public organizations, etc. Of course, financial support is also needed, and we should investigate

ways that we can help through JETRO or the Japan International Cooperation Agency. Further, support is likely needed for an investigation and policy formation with a view to creating cooperation between small and medium enterprises throughout the ASEAN region.

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Small & Medium Enterprise Development Policies
in Malaysia

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- Field Survey, Interview and Report by :

Mr. Koichi HAYASE JM Link Consultants in Malaysia

- List of Visited Institutions & Interviewees

Institution	Interviewee
SMIDEC (Small and Medium Industries Development Corporation)	Strategy and Planning Div. • Suraya K.A. Rahaman (Deputy Director) • Mohd Shahriza Sulaiman (Senior Manager) • Arizan (Manager)
MIDA (Malaysian Industrial Development Authority)	Dato' Afifdin A. Kadir (Investment Div. Senior Director)
MATRADE (Malaysia External Trade Development Corporation)	• Mohd Mustafa Abdul Aziz (East Asia/ASEAN Section, Director) • Asnor Vidya Nor Azmi (Assistant Manager)
NPC (National Productivity Corporation)	Mohd Yazid B. Jenin (Manager, SMI Unit)
FMM (Federation of Malaysian Manufacturers)	• Tan Teng Ek (Membership & SMI Division, Senior Manager) • Joanne Oo (Membership & SMI Division, Executive)
ACCCI (The Associated Chinese Chamber of Commerce and Industry of Malaysia)	• Tan Sri Dato' Soong Siew Hoong • Poh Wan Khing (Secretary)

- Exchange rate of the local currency(Malaysian Ringgit) per US Dollar

(source : IMF • IFS)

2006 Average 3.668 MYR/USD

2007 Average 3.438 MYR/USD

Small & Medium Enterprise Development Policies in Malaysia

Chapter 1 Small & Medium Enterprise Policies– Overview

1-(1) Definition of SME and its Basis

SMIDEC (Small and Medium Industry Development Corporation) has defined SME as follows. Basically, an SME is categorized based on its annual sales turnover or the number of full-time employees. Most Ministries share this definition.

- Definition of SME in the manufacturing, manufacturing-related services and agro-based industry
 - Micro enterprise

An enterprise that has an annual sales turnover of less than RM250,000 or number of employees that is less than 5.
 - Small enterprise

An enterprise that has an annual sales turnover of between RM250,000 and less than RM10 million or number of employees that is between 5 and 50.
 - Medium enterprise

An enterprise that has an annual sales turnover of between RM10 million and RM25 million or number of employees that is between 51 and 150.
- Definition of SME in the service industries (including wholesalers and retailers), ICT (Information and Communication Technology) and primary agriculture industry
 - Micro enterprise

An enterprise that has an annual sales turnover of less than RM200,000 or number of employees that is less than 5.
 - Small enterprise

An enterprise that has an annual sales turnover of between RM200,000

and less than RM1 million or number of employees that is between 5 and 19.

➤ Medium enterprise

An enterprise that has an annual sales turnover of between RM1 million and RM5 million or number of employees that is between 20 and 50.

1-(2) Business Environment and Present Status of SMEs

• SMEs contribution to the Malaysian economy

- According to the Census on Establishments and Enterprises (2005) conducted by the Department of Statistics Malaysia, the total number of registered companies in Malaysia was 552,929. Out of this figure, the total number of SMEs was 548,387. This was equivalent to 99.2% of the total number of companies registered in Malaysia. By industry, the services industry (which includes retailers) had 474,706 companies. This was 86.6% of the total number of SMEs.
- Further breakdown by industry showed that the manufacturing industry occupied 7.2% (39,436 companies) while the primary agriculture industry occupied 6.2% (34,245 companies) of the total number of SMEs. Out of the total number of SMEs in the services industry, retailers were the main players taking a share of 46.4% followed by restaurants at 14.2%, wholesalers at 9.1%, transportation and communications at 6.5% and financial intermediary businesses at 4.1%.
- In the manufacturing industry, textile and apparel business was the biggest sector at 23.4%. This was tailed by the foods, beverage and tobacco business at 15%, metal processing and metal products at 13%, and paper products and recording media products at 7.2%.
- In 2005, the whole SMEs contributed 32% to the GDP. Compared to the 31.9% recorded in 2003, only a slight increase was noted in 2005.
- In terms of employment, SMEs were the major employment providers at

56.4%. This was only a small increase from the 55.8% recorded in 2003. When compared to the 70% recorded in Japan, this figure is comparatively small.

- SMEs contributed very little to export giving a mere 19% in 2005 and showing a very little increase from the 18.9% in 2003.
- By industry, SMEs in the service industries plays a greater role where it contributed 33.9% to employment, 19.7% to GDP and 7.9% to export.
- SMEs in the manufacturing industry contributed 8.4% to GDP, 14.5% to employment and 11% to export.
- In contrast, the primary agriculture industry only contributed 3.9% to GDP, 3.1% to employment and only 0.1% to export.

1-(3) Legislations for SMEs

- Malaysia does not have a law similar to Japan's SME Basic Law.
- However, one related law for SMEs in Malaysia is the "Small and Medium Industries Development Corporation Act 1995" which is the Act for SMIDEC incorporation. This Act can be viewed at the web site below.

<http://www.parlimen.gov.my/actindexbi/pdf/ACT-539.pdf>

1-(4) Formulation and Implementation of SME Development Policies

- A chapter on SME development has always been included in any Malaysian mid and long-term development plans such as the 15-year Third Industrial Master Plan (2006 – 2020) (with Year 2020 being the final year for "Vision 2020") and the Ninth Five-year Malaysia Plan (2006 – 2010). This shows the great commitment of the Malaysian Government in developing SMEs. As example, some of the development policies that the Government had lined out in the Ninth Five-year Malaysia Plan (2006 – 2010) to promote SMEs are as follows: -
 - To develop SMEs in Malaysia as the preferred R&D outsourcing providers

- To establish linkages between SMEs and Government-linked Companies (GLCs) and with Multinational Companies (MNCs)
- To develop entrepreneurship
- To develop knowledge-based SMEs
- The National SME Development Council (NSDC) was established in August 13, 2004 and is chaired by the Prime Minister himself. This indicates the commitment by the Malaysian Government in promoting SMEs. The objectives of NSDC include coordinating inter-Ministries / inter Agencies SME development programmes and formulate policies that can strategically develop SMEs. At present, NSDC is lined by top officials from Ministries and Government Agencies involved in SME development.
- NSDC activities
 - Formulate policies and strategies to develop SMEs across all sectors.
 - Review roles of Ministries and Government Agencies involved in SME development.
 - Improve collaboration between Ministries and Government Agencies and carry out coordination works to ensure effective implementation of SME development policies.
 - Guide private sector to cooperate in developing SMEs.
- SME Development Blue Print

NSDC started publishing its yearly SME Development Blue Print in 2005. This Blue Print contains specific details of SME development programmes and its budget. In 2006, 248 programmes were implemented at a budget of RM3.9 billion. Focus was placed on capacity building, human resource development and improvement of marketing skill so as to increase SME competitiveness. The 2007 Blue Print included the review of programmes implemented in 2006. It also gave out the following macro numerical targets as the “road map” to be followed from now on.

 - Contribution to GDP: Increase SMEs contribution to GDP from 35% in 2005 to 37% by 2010. In particular, to increase the GDP contribution of

SMEs in the services industry 23% by 2010.

- Increase contribution to employment from 56% in 2005 to 57% by 2010.
- Increase contribution to export from 19% in 2005 to 22% by 2010. In particular, to stretch the total export amount in the manufacturing industry to 12%.
- Currently, Bank Negara Malaysia serves as the Secretariat for NSDC. As explained in the following clause, SMIDEC will be upgraded to an Agency to be named as SME Central Coordinating Agency. This upgrading is meant to give SMIDEC better coordinating strength. When this happens, the Secretariat for NSDC will be undertaken by this Agency.
- The establishment of SME Central Coordinating Agency (“Agency”)

The latest major event is probably the establishment of this Agency. The idea is to elevate SMIDEC to a more powerful organization. This is a strong show of commitment by the Malaysian Government to push the development of entrepreneurs and SMEs. It is hoped that a more effective formulation and implementation of SME development policies can be achieved through the coordination of relevant Ministries and Government Agencies by the Agency. The Agency is set to be a one-stop centre that provides information and advice to SMEs. Therefore, SMEs need only to come to one centralized location for comprehensive and latest information on SME promotion programmes and at the same time receive advice on the applications of such programmes. With this Agency in place, the implementation rate of Government’s programmes are expected to be greatly improved. Apart from that, the Agency will also undertake the monitoring of SME activities so that the observation can be reflected in formulating new SME development policies. This Agency will shoulder the core role in achieving the SMEs’ GDP contribution target set by NSDC from 32% in 2005 to 37% in 2010. Once the Agency is established, Bank Negara Malaysia will cease to be the Secretariat for NSDC. (The event was initially scheduled for April 1, 2008 but is now indefinite due to the General Election in March 8)

The roles of the Secretariat include:

- Supervising and coordinating SME promotion projects in each Ministry and Government Agency.
- Formulation of a more effective SME development policies and strategies.
- Collecting, analyzing and publishing SME-related statistics
- Provide assistance to SMEs by formulating and coordinating financing policies / schemes to be more accessible to all industrial sectors.

1-(5) Government Spending on SME Development Policies

- Federal Government budget on SME development policies and its rate of implementation

In 2006, the Federal Government implemented 213 SME promotion programmes (against 248 planned) for a total budget of RM7.8 billion. This amount is equal to 1.6% of the Malaysian GDP.

- Other key performances in 2006
 - Conducted technical training and entrepreneurship development in 128,000 people from SMEs, women and new graduates.
 - 34,000 SMEs received advisory service from related Ministries and Government Agencies.
 - 5,100 SMEs received offices or factories from Ministries and Government Agencies.
 - 780 SMEs received the Industrial Linkage Programme (ILP) and business matching service during SMIDEX 2006 Trade Fair.
 - 272 SMEs received grants for technical skill improvement, certification, and product development and improvement.
- In 2007, RM3.7 billion was budgeted to implement 189 SME development programmes. 135 out of these 189 programmes were for capacity building that includes human resource development and marketing skill improvement. The 2007 Budget specifically emphasized on the

manufacturing and manufacturing-related industries. 27 programmes were lined up for construction of infrastructures for SMEs while another 27 programmes were for subsidies and soft loans. Various programmes for the services industry that has a certain share in the GDP are being carried out.

State Government spending on SME development projects

- In this survey, we were not able to obtain information on SME development projects carried out by State Governments themselves. Except for the example given below on Penang, it can be assumed that most State Governments do not carry out SME development projects themselves.

1-(6) Role-sharing between the Federal and State Governments

- Joint projects between Federal and State Governments

Joint projects between the State Government and SMIDEC or other Government Agencies to provide comprehensive assistance to the selected SMEs recommended by the State Government have started. At present, Terengganu and several other states are involved in this programme. This assistance covers a various areas including capital funding, product development, quality improvement, certification, design and packaging training, and market development. The objectives of these joint projects are to develop and advance identified SMEs through a combination of the various SME promotion policies and functions that the Federal Government has.

- Seminars at local districts

SMIDEC, in collaboration with MIDA, holds “Seminar on Domestic Investment” at various regions to strengthen global competitiveness of the manufacturing and services industry. This seminar is backed by MITI, MARTRADE, NPC, MIDF, FMM, Labuan Offshore Financial Services Authority (LOFSA), Bank Pembangunan(Development Bank), Export-Import Bank of Malaysia (EXIM Bank), RHB Bank and Telekom Malaysia. During this seminar, SME development policies of the Federal Government and

Government Agencies are disseminated. In 2007, this seminar was held at 3 locations, namely Kuala Lumpur, Johor Bahru and Kedah, which saw the attendance from 3,193 participants.

- Construction of infrastructures at local districts

The Federal Government is developing and improving business infrastructures at local districts by allocating a certain amount of budget to the local authorities through the Ministry of Housing and Local Government. This budget is used to modernize marketplaces, hawker stalls, hawker centres, shopping centres and shop houses etc.

1-(7) Other schemes to be noted

- The National SME Innovation Focal Point (Focal Point)

This was established in December 2006. The Focal Point is a effort to be implemented jointly by SMEs, research institutes, financing companies and relevant Government Agencies, aiming to develop SMEs that are technology and innovation-driven. In summary, universities and research institutes will collaborate with SMEs in a more business-friendly manner and provide assistance to SMES to commercialize newly developed technology by them. The main objective of Focal Point is to develop these SMEs as vendors to MNCs and GLCs such as Telekom Malaysia. A British company, British Telecom (BT), is also participating by supplying its technology to Malaysian SMEs for trial commercialization. These trials are coordinated by SMIDEC. So far, 5 Malaysian SMEs have been selected and matched with BT as BT's potential vendors. On the other hand, Standards and Industrial Research Institute of Malaysia (SIRIM) is a Government Agency under the Ministry of Science, Technology and Innovation (MOSTI) and is responsible in improving the level of Malaysia's Incubation Centre. SIRIM is now introducing the Incubation Centre and providing training so that the Incubation Centre will be on par with that of Taiwan, Australia and China. As part of activities to commercialize R&D products of universities and

research institutes, 22 R&D products with potential for commercialization were exhibited during SMIDEX 2007 Trade Fair (Held on June 6 for 8 days the KL Convention Centre). Similarly, technologies developed by universities and research institutes with commercialization potential have been compiled in a database. At this point, 276 technologies have been introduced.

Chapter 2 SME Development Policies – Specific Schemes

2-(1) Financing

- Financial Assistance Schemes for SMEs

- SME financing by commercial banks

According to SMIDEC, main financiers for SMEs in Malaysia are private banking institutions. Most commercial banks including foreign-owned banks and finance companies provide financing facilities to SMEs. In 2006, the amount of financing for SMEs has increased to RM39.6 billion and the number of SMEs who obtained financing was 84,000. At the end of 1999, the ratio of financing to SME against the total bank's loan amount was 30.1%. At end of 2006, this ratio has gone up to 44.5%. This shows that banks have increased their financing to SMEs. When data from January to May 2007 is studied, it can be seen that banking institutions have approved financing amounting to RM19.3 billion to 42,000 SMEs. Out of this, RM5.59 billion has been disbursed. At the end of May 2007, the loan amount for SMEs stood at RM108.4 billion. Meanwhile, at the end of 2006, the 6 government-owned development financing banks, namely SME Bank, EXIM Bank, Bank Simpanan Nasional, Bank Kerjasama Rakyat Malaysia Berhad, Bank Pembangunan Malaysia Berhad and Bank Pertanian Malaysia have approved financing that amounted to RM6.9 billion to 18,000 SMEs. This financing was given to supplement the financing from private banking institutions. In the first 5 months in 2007, these government-owned development financing banks have approved financing that amounted to RM4.2 billion to 9,000 SMEs. It is estimated that the total financing approved by both banking institutions and government-owned development financing banks for the whole year in 2007 is RM51 billion to a total of 110,000 SME recipients.

- Government financial assistance to SMEs

Below is the data of government funding to SMEs

Monetary Unit: x RM1 billion

Type of Funding	No. of Schemes	Allocation	Number of Approved Applications	Disbursed	Outstanding
Loans	60	12.38	1,130,792	70.67	4.5
Grants	19	2.31	28,099	0.68	N.A.
Capital	2	0.08	142	0.56	0.56
Venture capital	7	1.57	148	0.48	0.35
Loans & equity	3	0.56	1,690	0.54	0.41
Total	91	16.9	1,160,871	72.92	5.83

Source: Bank Negara Malaysia (BNM)

Actual data as of June 2007

<http://www.smeinfo.com.my/pdf/massa1207.pdf>

- Financial assistance and incentives to SMEs
 - The following Ministries and Government Agencies provide financial assistance and incentives for SMEs.
 - ✧ Bank Negara
 - ✧ SME Bank
 - ✧ Bank Pertanian Malaysia
 - ✧ Malaysian Industrial Development Finance Berhad (MIDF)
 - ✧ Sabah Development Bank
 - ✧ ERF Bank
 - ✧ Malaysia Debt Venture Berhad
- Some of the typical financial assistance is introduced below.
 - Bank Negara SME Special Funds

Various Ministries and Government Agencies provide different types of financial assistance. Explained below are the soft loans for SMEs provided by Bank Negara. The soft loans introduced here have an interest rate ranging from 3.75% to 6% which are less burdensome to SMEs compared to market interest rates. These soft loans are intended for use as working capital or business expansion.

 - ✧ Fund for Small & Medium Industries 2

The size of fund is RM67.5 billion. Application for this fund is to be

submitted to Bank Negara.

❖ New Entrepreneurs Fund 2

This fund is for Bumiputera only. The size of fund is RM2.85 billion. Application for this fund is to be submitted to Bank Negara.

❖ Fund for Food

This loan is meant to increase production capacity in the agricultural farming, animal husbandry and fishery sectors. Size of fund is RM1.3 billion. Application for this fund is to be submitted to Bank Pertanian Malaysia (Agriculture Bank).

❖ Rehabilitation Fund for Small Business

Through the Small Debt Restructuring Scheme, this fund is used to restructure and / or arrange a new loan for SMEs facing difficulty in settling their debts. This fund is to be used as working capital or business expansion. The size of fund is RM200 million. Application for this fund is to be submitted to Bank Negara.

❖ Bumiputera Entrepreneur Project Fund

This fund is for Bumiputera SMEs who have been awarded projects by the Government or Government Agencies. The size of fund is RM300 million. The repayment period is 5 years with an interest rate of 5%. Application for this fund is to be submitted to ERF Sdn. Bhd. www.erf.com.my

➤ Soft loans for computerization projects: This low interest loan is coordinated by SMIDEC and MIDF for computerization in SMEs.

➤ Other than the above, the following Government Agencies also provide soft loans to SMEs.

❖ SMIDEC: Soft loans for factory automation and transfer of squatter factories to designated industrial parks.

❖ Majlis Amanah Rakyat (MARA): This fund is to promote Bumiputera entrepreneurs through MARA, a Government Agency

under the Ministry of Entrepreneur and Co-operative Development (MECD). For small businesses, the fund limit is RM10,000 and for franchise businesses, the fund limit is RM1 million. The repayment period is 10 years with an interest rate of 6 to 7 %.

- Grants and incentives

The following Ministries and Government Agencies also provide grants and incentives to SMEs.

- SMIDEC
- Malaysia External Trade Development Corporation (MATRADE)
- National Productive Corporation (NPC)
- Malaysian Industrial Development Authority (MIDA) . This Agency provides only tax incentives.
- Ministry of Entrepreneur and Corporate Development (MECD)
- Ministry of Agriculture (MOA)
- Ministry of Science, Technology and Innovation (MOSTI)
- Ministry of Rural Development (MRD)
- Malaysia Technology Development Authority (MTDC)
- Malaysia Venture Capital Management Berhad (MAVCAP)

The typical grants under the SMIDEC scheme are introduced as follows. These grants are awarded to eligible SMEs who have met all conditions specified below.

- SMEs in the manufacturing and manufacturing-related services industries.

Note: Businesses under the manufacturing-related services industries shall include the following.

- ◆ Product development service
- ◆ Logistics
- ◆ Product designing
- ◆ Marketing
- ◆ Environmental management

- ◆ Gas sterilization and measuring instrument maintenance

- ◇ SMEs in the manufacturing industry having annual sales turnover of less than RM25 million or number of employees that is less than 150 are eligible.
- ◇ SMEs in the services industry having annual sales turnover of less than RM5 million or number of employees that is less than 50 people.
- ◇ All applicant SMEs must have more than 60% Malaysian equity.
- ◇ Sole proprietor businesses are also eligible.

- Matching Grant for Product and Process Improvement

This grant is to subsidise 50% of the cost normally needed by companies in the manufacturing and manufacturing-related services industries. The maximum amount of this grant is quite substantial, which is RM500,000. In short, this matching grant is a grant provided by the government to match half of the cost spent by these companies. Most of the grants under SMIDEC are matching grants.

Eligible expenses include: -

- ◇ Fees for technology transfer.
- ◇ Product design and prototype development.
- ◇ Product testing.
- ◇ Marketing cost.
- ◇ Purchase of machinery and equipment
- ◇ Fees paid for technologies on energy-saving and industrial waste reduction.

- Matching Grant for Certification and Quality Management System

This grant is to match 50% of the cost normally needed by companies in the manufacturing and manufacturing-related services industries. The maximum amount of this grant is RM250,000.

Eligible expenses include:-

- ✧ Certification for ISO 13485, ISO 14000, ISO22000
 - ✧ Certification for HACCP
 - ✧ Halal Certification such as MS1500-2004
 - ✧ TS16949
 - ✧ 5S, Six Sigma,
 - ✧ RoHS
 - ✧ GMP
 - ✧ Other accompanying costs incurred for certification and consultations
- **Special Assistance Scheme For Women Entrepreneurs**

This Scheme is for the development of women entrepreneurs. It is provided as a package of grants provided by Ministries and Government Agencies such as SMIDEC, MARTRADE, MTDC and other Ministries. This Scheme is intended for companies with the specified ratio or more of women shareholders and is managed by these women shareholders.
 - **Grant for Skill Upgrading**

This programme is for the upgrading of manager's skills in SMEs in critical sectors such as electrical and electronics industries, information technology, industrial design and engineering. At present, SMIDEC has approved 23 Skill Development Centres and 12 Professional Training Providers. When the employees are sent here for training by these training institutions, 50% of the training cost will be matched by SMIDEC. The remaining 50% is claimable from the Human Resource Development Fund (HRDF) if the SMEs contribute to this fund.
 - **Matching Grant for Business Start-Ups**

This grant matches 50% of the cost normally required by companies in the manufacturing and manufacturing-related services industries. Eligible expenses include:-

- ✧ Preparation of Business Planning.
- ✧ Feasibility studies.
- ✧ Factory and office rentals for 24 month.
- ✧ Rental for equipments.
- ✧ Costs related to prototype development.

To promote Bumiputera sole proprietors in the manufacturing industry, up to 80% of the cost is matched. (Note that this is available only up to May 31, 2009). In any case, the maximum amount of grant is RM40,000.

- Grants from sources other than SMIDEC

- Market Development Grant (MDG)

This is a grant under MATRADE. This grant matches half of the expenses incurred for overseas market development such as traveling, advertising, trade fair participating fees and others.

Criteria of companies to be eligible for this grant are the same as that for SMIDEC matching grants. Companies that participate or exhibit in overseas trade fairs organized by MATRADE are eligible.

- Brand Promotion Grant (BPG)

This is another grant under MATRADE which aims to promote “brand” that will improve Malaysia’s image. This grant is specifically intended for product and packaging design and sales promotion activities. This is an attractive grant as it provides 100% grant to SMEs for suitable projects. The maximum grant is RM1 million. This grant is also extended to large corporations as a matching grant where it matches 50% of the expenses. The maximum grant in this category is RM2 million.

- Technology Acquisition Fund (TAF)

This fund is under Malaysia Technology Development Fund (MTDC) intended for use in acquisition of advanced technologies such as biotechnology, ICT, new materials, alternative energy and agricultural

technologies. Any SMEs or large corporations with 51% or more Malaysian equity are eligible for this fund. This fund is a matching grant where it matches 50% of the cost. The maximum grant is RM2 million.

➤ **Multimedia Super Corridor Research and Development Grant Scheme (MGS)**

This is a fund under the Multimedia Development Corporation (MDeC) intended for use in developing Malaysia's Multimedia Super Corridor as the centre of multimedia industries. It provides grant of up to 70% of the cost of the eligible projects in the multimedia sector. No maximum amount is set for this fund. This fund is only for MSC status companies with at least 30% Malaysian equity. Thus this fund is also available to foreign and local joint venture companies.

(Note: MSC status is awarded to companies who take part in the Multimedia Super Corridor Programme. MSC status companies are able to enjoy maximum tax incentives and are allowed to have 100% foreign-ownership. Unlimited number of professional expatriate posts are granted)

➤ **Commercialization of Research and Development Fund (CRDF)**

This is a grant by the MTDC. It is a matching grant provided to universities, research institutes and companies to finance them in commercializing their R & D activities. It is given to 4 phases where 50% to 70% of grant is provided for each phase beginning with market research, design and prototype development, testing cost, patent acquisition cost and test marketing. This is a fund provided by MTDC targeting advanced technologies with highly national interest. Industry-wise, it is for biotechnology, ICT, new materials, alternative energy and the agricultural sector. As usual, the companies must have 51% or more Malaysian equity regardless to whether they are SMEs or large corporations.

- Credit Guarantee System

This is a system offered by the Credit Guarantee Corporation (CGC) to provide guarantees to financial institute on behalf of SMEs that could not provide collaterals when applying for financing.

Below are some typical schemes.

- Direct Access Guarantee Schemes (DAGS)

When an applicant submits this application to CGC, CGC will provide a guarantee for up to 100% of the financing amount applied to commercial banks.

- ✧ Companies eligible for this scheme must a Malaysian-controlled company having a paid up capital of between RM50,000 and RM10 million.
- ✧ Repayment period is between 5 and 8 years.
- ✧ Financing amount is between RM50,000 and RM1 million.
- ✧ The applicant should have no history of defaulting financial repayment.
- ✧ The guarantee commission to be paid to CGC is between 0.75% and 1.5%.
- ✧ Financing is provided from the commercial banks which contributed to the base fund to set up CGC.

- Venture Capital Financing

- This is a financing scheme by the Malaysian Venture Capital Management Berhad (MAVCAP) which ranges from RM50,000 to up to RM40 million. The eligible applicants for this financing are the companies that plan to establish the business and intend to be public listed or share resale in 5 years time. MAVCAP requires sitting in the board meeting in the funded companies. This financing scheme applicable for companies in the telecommunication networks, medical and health services, biotechnology, life sciences, internet businesses, electronics and semiconductors.

2-(2) Taxation System

- Corporate tax for SMEs
 - The corporate tax in Malaysia has seen successively reduced in the last few years and as of 2008, the corporate tax is 26%. It has also been announced that in 2009, this tax will be further reduced to 25%. Special tax incentives are available for SMEs. At present, a tax incentive is given to SMEs where up to RM500,000 taxable income is taxed only at 20% and the remaining amount is taxed at the prevailing corporate tax rate. This tax incentive is applicable only to SMEs with a paid-up capital of RM2.5 million.
 - A new policy for a more flexible tax payment for SMEs was announced in the 2008 Budget. In the past, all the companies had to pay advance tax on their estimated income in monthly instalment. As new SMEs find it difficult to estimate their income because they have just started their business. Even penalty would be imposed if the estimated advance tax is lower than the actual tax payable. This new policy exempts new SMEs from advance tax payment in the first 2 years of their operation. This policy therefore releases these new SMEs from the hassle of tax planning.
- Common tax incentives:

Tax incentives in Malaysia are quite comprehensive. Below are some of the common tax incentives. Generally these tax incentives are applicable for both large corporations and SMEs in encouraged sectors.

- Pioneer Status

This is a system that exempts 70% to 100% of taxable income from being taxed for a period of 5 to 10 years and is applicable to companies in promoted industries. When the Pioneer Status is granted to a company, 70% of the company's taxable statutory income (income after deduction of overhead cost and basic deductions) will be exempted from tax and tax is paid only on the remaining 30% taxable income. In other words,

the actual tax is only 7.8% instead of 26%. High-technology businesses and strategically important projects are awarded with Pioneer Status for 10 years. Some project may be specifically examined and tax incentive provided as a package. There are cases where projects were awarded Pioneer Status for 15 years.

➤ Investment Tax Allowance (ITA)

Instead of applying for Pioneer Status, companies may opt to apply for ITA. Generally, ITA grants companies to an accumulated 60% tax allowance on qualifying capital expenditure for a period of 5 years. When the company starts generating profits, the company can then offset this tax allowance against 70% of its statutory income and pay tax only on the remaining 30% statutory income. This tax allowance can be carried over for unlimited years until it is fully utilized. This tax allowance is good for projects with high capital investment and may take sometime before making profits. High-technology companies and strategically important projects are allowed to have 100% tax allowance for a period of 5 years to offset 100% of their statutory income.

- Tax incentives for SMEs: The following are two main tax incentives only applicable to SMEs. Either Pioneer Status and ITA are granted under these schemes.

➤ Tax incentive for companies participating in Industrial Linkage Programme (ILP)

ILP is particularly for the vendors to MNCs such as companies involved in mold making, casting, forging, surface treatment, heat treatment, plastic molding and other parts / components manufacturing.

These companies may apply for Pioneer Status for a 5-year tax exemption or 60% tax allowance on capital its expenditure for 5 years to offset 100% of its statutory income (taxable income) once profitable.

Companies participating in ILP who have achieved world-class standard in price, quality and production capacity are eligible for Pioneer Status

for a 10-year tax exemption or a 100% Investment Tax Allowance on its capital expenditure for 5 years. The SMIDEC website has listed the products that the 3 group companies of Hitachi based in Malaysia are currently sourcing.

➤ Tax incentive for small enterprises

This tax incentive is for companies with Malaysian equity of 60% or more with a capital of RM500,000 or less.

This is more for businesses that add value to primary products, such as vegetables, herbs, cocoa, livestock products, fishery products, floriculture, rubber products, palm oil products, wood products, batik, hand-woven fabrics, ceramics and glassware products.

These companies are eligible for Pioneer Status for 5 years tax exemption or a 60% investment tax allowance on its capital expenditure for 5 years for use to offset 100% of its statutory income (taxable income) once profitable.

• Capital investment

➤ In Malaysia, re-investment tax allowance on capital investment is allowed for both large corporations and SMEs. This tax allowance can be used to offset 60% of its statutory income in later years. It can be carried over until it is fully utilized.

• Business succession

➤ In Malaysia, the inheritance tax has been abolished. Therefore, there is no tax issue is existed in regards to business succession.

• Technical development

➤ As will be explained in later part, various Ministries and Government Agencies provide grants and soft loans for R&D expenses.

2-(3) Information Service, Human Resource Development, Business Environment, Consultation, Advisory Services and Others

• Information service

- Information and advisory service for SMEs by SMIDEC

SME Information Service Centers are set up by SMIDEC in its head office and branch offices in Penang, Johor, Kuantan, Kuching and Kota Kinabalu. Except lunch time, these Centers are open daily from Monday to Friday to disseminate information for SME development.

In its web site at www.smidec.gov.my, SMIDEC has listed down the types of assistance schemes it has such as financing services and grants, as well as news and events. In 2007, the web site recorded 201,792 visitors. (In 2006, the record was 282,567). Its face-to-face advisory service is conducted every day. In 2007, this service was provided to 4,332 companies. (It was 2,922 companies in 2006). The advisory service is also conducted through telephone call at 1-300-88-1801. This service received 497 calls in 2007. These advisors are dispatched from relevant ministries and agencies. The advisory team also acts as trainers in SMIDEC training programmes for SMEs that coach SMEs on business management and problem-solving skills.
- Financial advisory for SMEs by Bank Negara Malaysia (BNM)

Bank Negara has an SME Financial Advisory Unit that provides advisory to SMEs on financial queries and complaints. Through its Small Debt Resolution Scheme (SDRS), it provides debt restructuring advice to SMEs on bad debts. Its SME Business Adviser Network (SME-NET) is its web-based SME directory on SME advisers. These advisers are attached to various Ministries, Government Agencies, commercial banks and government-owned development financing banks. They are experts in their own fields and are therefore able to provide prompt and spot-on advices. The areas covered are wide-ranging from marketing, technologies, business development and many others.
- SME Bank's SME Information and Advisory Centre

This is the information center set up within SME Bank. Established in December 2006, it carries out wide-ranging advisory works including

providing market information, product selling method and introducing of business partners and manufacturers of the specific products. Many commercial banks have also set up their own SME Units that provide advisory on SME matters.

➤ SME Expert Advisory Panel (SEAP)

This is a panel of experts in various industries that was set up in SMIDEC to provide chargeable advice to SMEs. The advisory charges for SMEs are fixed but are subsidized in full or half by SMIDEC. Here, the specified consultant will provide advisory service in 3 stages. The first stage will be the initial consultation service through a face-to-face meeting. This is followed by the second stage consulting where the specified consultant will visit the company for business diagnosis. At the third stage, the specified consultant will prepare a project paper for the utilization of SMIDEC grant. At the moment, only retired local consultants aged 50 years and above with more than 20 years of experience in the respective industries can register as panel consultants. The number of registered consultants at present is about 50 people.

• Other advisory services

➤ The Technopreneur Management Support Scheme of MOSTI provides advisory service to SMEs on international industrial standard and its certification. In addition, a scheme called the “Technopreneur Development Ecosystem” provides advisory service to knowledge and technology-based entrepreneurs.

➤ The Ministry of Rural and Regional Development (MRRD) provides advice to micro entrepreneurs at rural areas on the skills to improve their living standard.

➤ The Ministry of Plantation Industries and Commodities (MPIC) provides technical advice on the planting of trees for wood, palm oil, rubber, cocoa, pepper and tobacco as well as disseminating information on “best practice” in respective area.

- The Ministry of Agriculture (MOA) also provides technical consultation service to improve productivity and competitiveness in areas such as horticulture, livestock farming and aquaculture.
- The Ministry of Entrepreneurs and Co-operative Development (MECD) provides business diagnosis and guidance, workers training course and seminars to Bumiputera entrepreneurs on matters ranging from financing to technical.

- SMIDEX Trade Fair and Business Matching

Previously, “SMIDEX Trade Fair” was known as “SMI Show Case”. This Trade Fair is held every year where business matching for SMEs with large corporations and MNCs are carried out. The 2007 Trade Fair was held from June 5 to June 8 at KL Convention Center located in the centre of Kuala Lumpur with the theme being “SME Networking: Local Links, Global Reach”. This event was supported by Bank Negara Malaysia (BNM), Thailand Office of SME Promotion (OSMEP) and Pos Malaysia. Its official newspaper was the Business Times with Telekom Malaysia being its main sponsor. The 2007 Trade Fair saw participation from 329 companies exhibiting in 422 booths. The 4-day Fair recorded 6,582 business visitors. SME-related events and seminars on networking, partnership and international investment by speakers from large corporations were also held at the Fair. These 2-day events saw 728 local and foreign business visitors. A total of 83 members from the Organization of the Islamic Conference (OIC), Africa, Thailand and Singapore attended the events where market access and outsourcing were introduced. The seminars provided information on overseas investment and on how to create linkage with foreign companies.

- The 2007 SME Conference and Exhibition in conjunction with Indonesia-Malaysia-Thailand, Growth Triangle (IMT-GT) Project.

This event was held by MITI and SMIDEC in cooperation with the Penang Government, Penang Development Corporation and IMT-GT Malaysia Joint Business Council. The objective of this event was to gather and introduce

products and services of SMEs in Malaysia, Thailand and Indonesia at one place.

This event themed “Strategic Partnership: SME Growth for the Future” was held at the Penang International and Sports Arena (PISA) from December 5 to 9, 2007. A total of 96 companies from 3 countries exhibited their Halal products, consumer products and handicrafts in 124 booths. The event recorded a number of 2,762 visitors. The conference also saw attendance by 270 people of whom 20 were from Indonesia and Thailand. During the 5-day event, the business matching activity between SMEs from the 3 countries with large corporations and MNCs received great response. 121 cases of business negotiations were concluded with a contract amount of RM27.6 million.

- Human Resource Development

- Human Resource Development Council (HRDC)

The HRDC was established in accordance with the Human Resource Development Act, 1992. When the Act was revised in 2001, its name was also changed to its Malay name of PSMB. The main function of PSMB is to centrally control the Human Resource Development Fund (HRDF). HRDF is a scheme that reimburses RM2 to every RM1 spent for the training of workers in the companies, including SMEs contributed to the fund. In other words, if a participating company contributes RM10,000 into the Fund, the company will have RM20,000 to spend on suitable trainings for its workers. During the early years of this Fund, it was used to promote training, re-training and technical skill improvement of workers particularly in the manufacturing and manufacturing related services industries.

Beginning February 1, 1995, the scope of HRDF was expanded and employers in selected services industry (hotel, air transport, travel agent, telecommunication, computer servicing, sea transportation, land transportation, postal service and advertising agency) having more than

10 employers were made eligible to participate in the Fund.

Large corporations are compulsory to contribute 1% of the total monthly salary to the Fund. However, SMEs (with capital of RM500,000 or below or number of employees that is between 10 and less than 50) can opt whether to contribute 0.5% of their total monthly salary or otherwise.

The benefits are the same as that given to large corporations.

➤ National Productivity Corporation (NPC) is a government owned corporation under the umbrella of the Ministry of International Trade and Industry (MITI) working to improve the productivity in the following areas.

- ✧ Research activities to improve productivity and quality
- ✧ Research and disseminate the system of employee training and business management.
- ✧ Introduce “best practice”
- ✧ Promote productivity and quality improvement: conduct seminars and workshops on productivity and quality improvement. Publish the NPC Bulletin and organize the following awards.
 - Prime Ministers Quality Award
 - Quality Management Excellence Award
 - Productivity Award
 - National 5S Award
- ✧ Hold seminars on following topics at various locations. The seminars are mainly 2-day seminars costing from RM500 to RM600. SMEs need only to pay about RM100 to RM120 to participate in these seminars as the NPC subsidizes 80% of the cost.
- ✧ Leadership Training
- ✧ Management and Control
- ✧ Quality Control
- ✧ Tie-up with JICA Third Country Training Programme: This programme is for civil servants or employees of private companies

who have more than 5 years experience in the promotion of SMEs in CLMV countries. Participants must be proficient in English as the training is conducted in English. The training period set for 2008 is 45 days. Participants will learn SME development policies in Malaysia, activities of private companies involved SMEs development, business management at SMEs, manpower training, quality improvement, marketing, financial management and ICT usage through both classroom lectures and visiting Government Agencies and private companies in Malaysia. This programme is jointly conducted by the Economic Planning Unit (EPU) at the Prime Minister Department and JICA.

- ✧ Training Programme for Organization of Islamic Countries (OIC): This programme is for employees in Government Agencies and private companies involved in human resource development in the area of productivity improvement of the organizations and quality enhancement of products and services in OIC countries. The training period set for 2008 is 48 days. The contents of training include TQM, organizational diagnosis, productivity and quality best practices, profitability improvement tools and on the job training in private companies. This programme is conducted by the EPU since Malaysia is the current OIC chairman. It is noted that Malaysia, as one of the Islamic countries has achieved remarkable economic development. Therefore, this programme can be considered as a right programme which is deserved for Malaysia.

2-(4) Support for Obtaining Management Resources for Existing SMEs

SMEs development policies in relation to R&D, technology, IT utilization, industry – university – government collaborations, market promotion, new market development and ISO certification have been explained in separate sections. This section is specifically on the policies for the promotion of

subcontractors

- Policies for the promotion of subcontractors

Industrial Linkage Programme (ILP): This is one of the many programmes provided by SMIDEC. The objective of this programme is to create linkage between SMEs and MNCs or large local corporations in Malaysia. Potential SMEs are assisted in the form of SMIDEC grants or soft loans for them to obtain international standard certification or improve their productivity. Those MNCs and large local participated in this programme can deduct expenses used for the development of local vendors from the statutory income for tax saving.

- Global Suppliers Programme (GSP): This programme was initiated by Penang State Government. As it's called as "Silicon Island" , Penang does have many semiconductor and electronic companies. However, since 10 years ago, foreign investors have started to trickle out of Penang for countries with lower wage. As a measure to stop this outflow, the Government of Penang decided to develop technologically advance supporting industries in the state. The objective of this strategy is to increase the number of advanced supporting industries in Penang so that MNCs will stay in Penang. To be specific, the Government of Penang and local MNCs collaborated to manage the Penang Skill Development Center (PSDC), a vocational training centre where these supporting industries are trained to be technologically advanced with the help of MNCs in Penang. With American-affiliated electrical and electronic manufactures at the core of this programme, major MNCs (called as "anchor companies") in Penang undertook to provide technical training to local SMIs and purchase their parts and components later on. American-affiliated companies partaking in this programme are prominent international companies such as Intel, Motorola, Hewlett-Packard, Texas Instrument, Siemens and National Semiconductor. These anchor companies showed great enthusiasm in

this programme and provided generous cooperation such as preparing training materials and dispatching trainers. As a result of this programme, several SMIs in the state have advanced their technology level so that they could secure themselves as parts and components suppliers to these anchor companies. To the anchor companies they could secure local suppliers nearby. This programme was also used by these MNCs for the training of their employees. As most MNCs' basic policy is to encourage their local staffs to spin out and turn to be their suppliers, it seems that this GSP works toward that direction with transfer of technology from MNCs to local SMEs. However, this programme later came under SMIDEC in order to develop SMEs mainly in the electrical and electronics industries and automobile industries to be global suppliers. For that, 23 Skills Development Centers and 7 Professional Training Providers throughout the country were selected as the designated training facilities. SMEs who send their workers for training at these training facilities would receive 50% grant from SMIDEC and if the SMEs are HRDF contributors, they could further claim the remaining training cost from the HRDF to release them from cost burden.

- Outsourcing Promotion Panel: This Panel was set up in SMIDEC in May 2005 officers from MITI, MIDA, MATRADE, Ministry of Finance, Multimedia Development Corporation (MDeC) and FMM as panel members. The Malaysian American Electronics Industry (MAEI) has also been added later as a panel member. This panel covers the manufacturing, manufacturing-related services and other services industries with emphasis on electrical and electronics, machinery and equipment, automobile-related and information sectors. Since its establishment, it has received 26 outsourcing requests from 17 MNCs and local large corporations.
- Vendor Development Programme (VDP) under the Ministry of

Entrepreneur and Corporative Development (MECD): MITI has been the leading ministry for this programme since 1992 which saw active participation from Japanese electrical and electronics manufacturers in Malaysia. When MECD was established in 1995 to develop Bumiputera entrepreneurs, this programme was moved to MECD from MITI and being carried out until now. In this programme, large corporations are linked to specific SMEs where they provide technical training in exchange for the purchase of parts and components from the trained SMEs. This programme also provides low interest financing to eligible SMEs from participating financial institutes. However, not many Japanese-affiliated companies participate in this programme now.

2-(5) New Business / Venture Support for SMEs

- Assistance for Start-Ups

- Cradle Investment Programme (CIP)

This is a scheme by the Malaysia Venture Capital Management Berhad (MAVCAP) under the Ministry of Finance. CIP provides financing from the birth of the idea until its commercialization. The ultimate objective of CIP is to develop companies that are internationally recognized. Heavy emphasis is placed on businesses potential to have high growth prospect such as information and communication technology (ICT) as mentioned below. As Microsoft Corporation is the partner of this program, the participants will have to use Microsoft's software as its platform. The first 10 companies approved will be given a 100% grant.

- ◇ Software and information services
- ◇ Internet: e-services, e-commerce and e-content
- ◇ Communication and networking - mobile data
- ◇ High tech consumer and business products
- ◇ Electronic and semi-conductors
- ◇ Medical devices and advanced materials

❖ Biotechnology and life sciences

➤ Incubation Centre

This facility is set up in SIRIM, Multimedia Development Authority, Technology Park Malaysia and every universities.

➤ Malaysia Debt Ventures Berhad (MDV)

When an eligible company from the ICT sector is awarded a local or overseas project, a revolving project loan of up to 85% of the project cost will be provided to that company. The loan amount is between RM2 million and RM120 million with a repayment period of between 1 and 5 years. Taking the project feasibilities into consideration, the loan repayment period may be extended further. Depending on projects, MDV may provide guarantee on the payment of loans taken from commercial banks to supplement the financing that it has provided.

➤ 50% SMIDEC grant for business start-up

The “Business Start-Up Matching Grant” from SMIDEC may be applied when starting a business. This grant will provide 50 for every 100 invested by an eligible company.

2-(6) Promotion of Fair Dealing and Maintenance of Markets for SMEs

- Laws such as Act against Delay in Payment of Subcontract Proceeds, Retail Business Protection Law are not available in Malaysia. When this was brought up to SMIDEC during the interview, the officials gave the impression that they have no idea on what these laws are for. In Malaysia, private companies operate at their own risk. Whether they succeed or not, the responsibility is all theirs. The government does not interfere their businesses directly.
- Government and Public Sector

Based on the Public Notice from the Ministry of Finance on May 1, 1995, government purchases shall give priority to Bumiputera companies.
- Out-of-court dispute settlement: The Labour Department of the Ministry of

Human Resources will mediate at some level during any labour disputes. Eventually, these disputes are normally argued in civil courts. In due course many of the cases are negotiated and are settled out of court.

2-(7) Regional SME Policies

- Promotion of traditional and local industry

- One District, One Industry

This “One District, One Industry” scheme is called “Satu Daerah Satu Industri (SDSI)” in the Malay language. This scheme aims to create more employment opportunities by promoting local community-based business activities such as tourism, agro-based businesses, livestock farming, aquaculture, pottery-making and handicrafts using locally available materials. Assurances provided in this scheme include provision of technical training, working places and equipment as well as support for R&D and marketing activities.

- SME Industrial Estate

In cooperation with Malaysian Industrial Estate Berhad (MIEL) and various state governments such as Perbadanan Kemajuan Negeri Selangor (PKNS: Selangor Economic Development Corporation), SMIDEC is constructing industrial estates for SMEs across the country. One of its main objectives is to expedite the relocation of squatter SMEs by providing affordable industrial estates with ready infrastructures for these SMEs to move into.

- Formation of industrial integrated areas and clusters and assistance in infrastructure improvement

There are several large-scale Palm Oil Industrial Clusters (POIC) projects. One of them is in Lahad Datu located in the southern part of Sabah in East Malaysia where its 5,000 acres will be developed over 15 years. The construction of port facilities and other infrastructures such as electricity, water and roads have already constructed. This project is also for the development of SMEs. Target businesses are as below.

- Vegetable cooking oil, margarine, chocolate paste
- Pulp and paper, fiberboard, wood and MDF production using oil palm biomass as raw material
- Vitamin “E” and “A” production
- Oleo chemicals (Soaps, shampoos, candles, cosmetics, lubricants etc.)
- Bio diesel, biogas, bio fuel using oil palm empty fruit bunch (EFB)
- Palm oil industries related machinery and equipment manufacturing
- Assistance for town planning and development, and assistance for NPOs: Information on these assistance programmes could not be obtained.

2-(8) Assistance for the Internationalization of SMEs

- Overseas market development by MATRADE
 - MATRADE has a grant scheme called the Market Development Grant (MDG) which subsidize half of the expenses such as traveling expenses, advertising fee, trade fair participation fee and other expenses incurred by SMEs in activities related to overseas market development. Every year, MATRADE participates and exhibits Malaysian products at about 70 trade fairs held across the world. SMEs that participate in these trade fairs are given a 50% grant on the participation fee. However, the participation grant for the same overseas trade fair is limited to 3 times only. Apart from that, MATRADE also reimburses hotel stay of potential buyers from other countries such as Japan, OIC and Africa invited to visit selected MATRADE trade fairs in Malaysia.
 - Dispatch of trade missions for overseas market development. As a measure to increase exports from Malaysian companies, trade missions lead by the MITI Minister are organized to major cities and new markets in the world several times a year. This is also to attract investments from respective countries. In 2008, 9 visits have been organized. In collaboration with the ASEAN Centre, trade missions to Japan are normally organized twice a year, once in July and once in

February or March.

- MATRADE publishes a directory and an internet portal on export companies in Malaysia. At present, there are 13,000 export companies listed in the directory.
- The MATRADE building has a permanent exhibition floor where approximately 400 companies exhibit their products.
- Assistance on foreign investment by MIDA
Policies to promote overseas investment by Malaysian companies have been announced in the Ninth Five-year Malaysia Plan with MIDA appointed as the leading Government Agency. The Malaysian Government is aware that there are benefits in outward investment in terms of access to large markets, holding of market share in the invested country and securing of raw materials. In order to promote foreign investment, MIDA has planned to set up offices in Ho Chi Minh, Bangalore, Guangzhou, Bangkok, Jakarta, Dalian and Johannesburg. Tax exemption is given when the profit generated by these foreign investments is remitted to Malaysia.
- Malaysia Industrial Development Finance Berhad (MIDF)
The Fund for Cross-Border Investment in Manufacturing (FCBI) was set up in June 2004 to support the labor-intensive sector such as the textile and apparel business to invest in ASEAN developing countries where labor cost is lower. The size of financing at that time was RM50 million.
- Information service: Information can be obtained from the various Government Agencies specified above and Malaysian Embassies.

2-(9) Employment and Labour Policies for SMEs

- There is no special labour policy for SMEs. The general Employment Act 1955 is used across the board. However, employees can request the Ministry of Human Resources to mediate or arbitrate any labour disputes through its Labour Relations Agency or in the Labour Court.
- Special employment regulations: There is no special employment regulations

for SMEs. If it has to be said, it will be the HRDF explained earlier on as it has made it optional for SMEs. If the SMEs choose to contribute, it would be at a reduced rate to 0.5% from ordinary 1.0%

2-(10) Assistance to SMEs Organizations and Networks

- Please refer to interviews conducted with Federation of Malaysian Manufacturers (FMM) and the Associated Chinese Chamber of Commerce and Industry of Malaysia (ACCCI).

2-(11) Development Policies for Small Scale Enterprises

- There are several schemes for small enterprises which include business start-up grants provided by SMIDEC, SME Bank, Bank Negara and MARA, tax incentives provided by MIDA and reduced tax for (20% instead of the normal 26% corporate tax) on taxable income of up to RM500,000.

2-(12) Safety Net

- Bankruptcy prevention
There is no such scheme in Malaysia.
- Company restructuring
During the Asian economic crisis in 1997, an organization was set up to acquire non-performing loans. Bank Negara also introduced soft loans for debt restructuring. These initiatives played a role to help company restructure those troubled companies.
- Disaster contingency support policies
Fund For Flood Affected Businesses: Due to the bad flood which affected particularly Johor in December 2006 and January 2007 that saw many companies suffered with major damage, Bank Negara had stepped in to set up a Special Disaster Fund to channel funds through commercial banks, Islamic banks, SME Bank, Bank Rakyat and Bank Pertanian. The application period for this fund was from January to April 2007. The

Malaysia Credit Guarantee Corporation provided guarantee for 80% of the financing. The interest rate for the financing was 2.5% with each group company allowed to receive up to RM500,000 financing. At end of April 2007, about 5,000 companies had applied for the fund with 3,500 companies approved. The total financing amount was RM24.41 million showing that it had attracted great interest.

As part of the rescue plan, other banks were also requested to extend the repayment period of companies who were affected by the flood and insurance companies were instructed to expedite payment of claims made by these flood-affected companies.

2-(13) Other measures to be noted

- Other measures in Malaysia that need to be noted.

To have better views from the public, dialogues with various industrial groups are conducted every year during the preparation of the following year's budget. The idea of listening to public opinion is effective in closing the gap between the Malaysian Government and private sectors. Even during the preparation of the various mid and long-term plans that Malaysia formulated, such as the Vision 2020 (set in 1991 to be a developed nation by 2020), the Third Industrial Master Plan (2006-2020) and the Ninth Five-year Malaysia Plan (2006-2010), the government has diligently held the dialogues to get the public views on it. These dialogues help to improve the level of understanding that the public has on these plans and create an environment where the public will be more ready to cooperate in the implementation of the plans once announced.

Chapter 3 Challenges of and Suggestions on Promotion of SMEs in Malaysia

3-(1) Major Economic Organizations View on SME Assistance Schemes and Requests to the Government

- Federation of Malaysian Manufacturers (FMM)

Interviewees: Membership & SMI Division

Mr. Tan Teng Ek (Senior Manager)

Ms. Joanne Ooi (Executive)

Summary of interview:

- The present number of membership in FMM is 2,400 companies. Approximately 60% or 1,400 of these members are SMEs. (The number of SMEs in FMM has increased. The number reported a few years back was 1,200)
- An SMI Committee is set up in FMM and meets once every 2 months. This is the most active Committee in FMM.
- The followings are events for SME members:-
 - ✧ Seminars and workshops
 - ✧ Business networking meetings
This is to create business network with overseas companies and is normally organized to coincide with overseas trade missions coming to Malaysia. In 2007, networking with the US trade mission was held. In March 2008, networking with the EU trade mission will be held. In collaboration with the Islamic Chamber of Commerce and Industry headquartered in Pakistan, MATRADE will be organizing the Malaysia International Halal Showcase (MIHAS) in May. At this time, a conference will be simultaneously held for business networking.
 - ✧ Visits and observations of Government Agencies to understand their activities: A visit to SIRIM Berhad (formerly

known as Standards and Industrial Research Institute of Malaysia) at the end of February has been planned to enhance members' understanding on the services provided by SIRIM so that they could better use its services.

- ◇ Sends its own trade missions overseas 5 – 6 times a year.
 - ◇ In a year, it channels about 400 – 500 business enquiries from overseas companies to its members.
- FMM has set up its offices in major towns in local districts. Recently, it has set up an office in Alor Star in Kedah. Including this, FMM has now 10 regional offices.
- FMM's requests to the Government (Taken from the Letter of Request from FMM to the Government)

FMM holds dialogues with MITI every year during the preparation of the following year's budget to give proposals that will ensure smooth business operations of its members. The following proposals are submitted to the government almost every year:-

- ◇ Financing for SMEs: SMEs do not have collaterals to place and they tend to have double account meant to overly show weak financial company standing. These factors cause them problems in securing bank loans. Basically, SMEs need to prepare true financial account. But on the other hand, the government has to consider financing SMEs based on their business prospect itself or implement measures to ease the conditions for guarantee by CGC.
- ◇ Business operation of squatter SMEs. This problem arises when SMEs that do not have enough capital to buy the land it is sitting on, illegally occupies and operates from the land. Some state governments are handling this problem from a practical view and have shown some level of understanding. For example the Selangor State Government has started a

move to legalize these squatter factories.

- ✧ Skill training for workers at public training centres. SMEs do not have the resources to train their workers in their company and are not keen in training their workers in their company because of the common job-hopping practice. Job-hopping is where a skilled worker moves to another company after learning some skills from the previous company. FMM wants these public centres to train workers for relevant skills.

Remark: The interviewer explained the case of improvement activities (Kaizen) conducted in a local plastic injection company utilizing JODC scheme, supported jointly by SMIDEC and JACTIM (Japanese Chamber of Trade and Industries in Malaysia). In summary, a Japanese expert from JODC managed to successfully reduce the rate of dust-related defects at the final spray painting process, from 40% to 15% only after 3 months of guidance. The improvements taken are such as installing plastic sheets to partition the factory internal from the external, changing the cleaning method from sweeping with a broom to mopping to prevent dust fly-off and painting the floor so that dust on the floor can be seen more clearly. Those measures did not need much expense. Further, after the Japanese expert returned to Japan, the company continued improvement activities (Kaizen) and managed to further reduce the defect rate to 3% after 6 months. This experience shows that SMEs in Malaysia have still ample room to increase their productivity.

Mr. Tan Teng Ek will be retiring at the end of February 2008 and seems very excited about this Kaizen case as he is planning to work in a manufacturing company after retirement.

- The Associated Chinese Chamber of Commerce and Industry of Malaysia (ACCCI)

Interviewee: Secretary General

Tan Sri Dato' Soong Siew Hoong

Ms. Poh Wan Khing (Secretary)

Summary of interview:

- This is a national body of Chinese Chamber of Commerce and Industry in the 13 states and has 28,000 member companies.
- Has a long history as it was established in 1947.
- Established SMEs Service Providers Panel (SMESP), which is a panel of registered SME advisers. This panel has registered consultants in the various fields to whom members can contact for consultation and advice. This panel is commercially operated. At present, the total number of registered consultants in Malaysia is 53. These consultants mainly provide guidance on the various SME promotion policies provided by the government, its application method and prepare the application on behalf of the member.
- SME Resource Counter. This is a information counter that collects various materials from relevant Ministries, Departments and Government Agencies for perusal. This Counter is set up at Chinese Chamber of Commerce and Industry in every state.
- The following are the comments from Tan Sri Soong.
 - ✧ Malaysia has comprehensive promotion policies for SMEs. In particular, financial assistance schemes. There is no need for additional promotion policies other than existing ones.
 - ✧ SMIDEC will be upgraded to an Agency that will become more powerful body. It will be coordinating the various promotion policies currently under the jurisdiction of other Ministries and Government Agencies.
 - ✧ The recently set up SME Bank is the integration of Bank Pembangunan and Bank Industri. Its functions are not changed much. This bank looks after the financing to Bumiputera.

- ✧ We look forward to technical transfer from Japan. For example, we want the owners of Japanese SMEs, which do not have any successors, to come to Malaysia and teach us their technology. I think setting up a joint venture company will be difficult because of the differences in their business management concept. The profit-sharing concept will serve better whereby the Malaysian partner company can increase their profitability through their guidance they can share the profit.
- ✧ I agree to the proposal of technology transfer by relaxing restrictions to work under “Malaysia My Second Home” program. They are willing to share their expertise. It makes their life more meaningful in the sense that they contribute the Malaysian society.

Remark: In Malaysia, Tan Sri Soong is also called the “Father of SMI”. He holds seminars in many Asian countries on the SMEs development experience in Malaysia and the Malaysian Government policies to promote SMEs. He is about 80 years old. He also holds important positions in SMIDEC and FMM.

3-(2) Bottlenecks, Obstacles and Countermeasures in the Promotion of SMEs

- In Malaysia, the number of Ministries and Government Agencies involved in SME development programs looks too many; it is said that over 18 Ministries and 60 departments are involved in SME development. With so many organizations and people involved, one would be given the impression that no one would know the whole picture of government programmes. It is also ineffective because there are a lot of overlapping works.
- Some interested parties said that although the budget allocation is huge for SME promotion programs, the implementation rate is not necessarily good.
- Some Government Agencies took a long time, sometimes for months to

process applications for incentives, grants and soft loans. One of the reasons for the processing delay is the number of staff handling the rapidly increasing applications is insufficient.

- Chinese-owned and Indian-owned SMEs tend to have such impression that the SME promotion measures are meant more for Bumiputeras’.
- Many Chinese-owned SMEs are not preparing accurate accounts. Looking at these account, no private or government financial institution will provide them financing. It is important to train SMEs on keeping the accurate accounts.
- The setting up of the Agency (CCA), scheduled on April 1 this year is expected to improve the coordination work and centralize the management of SME promotion activities. If there is such experts in Japan who can advise proper coordination system, the dispatch of these experts ,as external consultant to Malaysian government, may enhance the effectiveness of coordination works by the Agency..

3-(3) Japan’s Possible Contributions for Further Development of SMEs in Malaysia

- Assistance from the Japanese government on the upgraded Agency. Especially to sort and integrate the overlapping schemes between Ministries. Dispatch of a Japanese expert might be considered.
- Technology transfer by retired Japanese half-retired expatriates under Malaysia My Second Home Programme
Currently, the most popular program in Japan on post-retirement overseas living is “Malaysia My Second Home” program. Because of that, there has been an increase in the number of Japanese choosing to move and live in Malaysia in recent years. At present, the visa for this purpose restricts the visa holder to work and get some income. If some part of this restriction is eased up to allow these retirees to work for the purpose of technology transfer where they are paid not exceeding a certain fixed limit, for example an amount that is just enough to pay their monthly rental and transportation

(total 100,000 Yen which is equivalent to RM 3,000 or lower), these retirees can enjoy semi-retirement life in Malaysia with a feeling of worthiness because they are still useful in the society. This will be a great merit to the Malaysian SMI because technology can be transferred at a very low cost. One of the ways we may implement this idea is to discuss with Malaysian counterparts during their meetings such as the Japan-Malaysia Economic Partnership Agreement meetings. Similarly, at present, only local consultants are registered in SMIDEC's SEAP. If foreign experts under the "Malaysia My Second Home Program" could register with the panel, after going through certain screening process, a wider and deeper range of advice could be channeled to Malaysian SMEs.

- It is noticed that Japanese companies have little awareness on the Halal food market potential.. Taking advantage of Malaysia's reputation in Halal food Japanese investors may set up Halal food factories in Malaysia There are 1.5 ~ 1.6 billion people in this world whose religion is Islam. This makes the market for Halal food a huge one. It is said that the most reliable Halal mark in the world is Malaysia's Halal mark. In order to enter into this massive Halal food market, Japanese food companies can also tie-up with Malaysian food companies using the steps outlined below for a win-win situation. Although it is not known what type of support the Japanese Government may provide in this regards, this is a great business opportunity that is worth studying. Countries such as China, Thailand, Singapore, Australia and New Zealand are aware of the potential growth of the Halal market and are already trying to participate in the market. (Halal products include not only food but also cosmetics, toiletry products including shampoos and rinses, toothpastes and others).
- Steps to tie-up between Japanese and Malaysian companies for the Halal food market
 - ① Both the Japanese and Malaysian SME can conduct technical tie-up. Joint venture can be also considered.

- ② Halal foods with Japanese quality and attractive packages can be produced at Malaysian cost.
 - ③ Obtain Halal certification from the Department of Islamic Development (JAKIM) and SIRIM.
 - ④ Participate in international Halal product trade fairs in Malaysia such as MIHAS under the Malaysian partner's name or joint venture company's name to get exposure to overseas buyers.
 - ⑤ Participate in overseas trade fairs arranged by MATRADE as well as trade missions to potential market. Participate in MATRADE-arranged business conferences during the trade fair in such countries.
 - ⑥ Eligible for MATRADE matching grant for overseas market development if application is made through Malaysian owned companies.
 - ⑦ Malaysian SMEs involved in the development and production of Halal foods are eligible for SMIDEC matching grants. The maximum grant amount is RM150,000. Halal products development, machinery purchase, sales promotion and Halal certification cost are eligible for the grants. Tax incentive are allowed in the form of double deduction of expenses for the development and promotion of the Halal products..
- Malaysia as the base to enter into the Indian market

Malaysia has a deep connection with India because slightly less than 10% of its population is Indian, is also one of the countries facing Indian Ocean Rim. India is nearer to Malaysia compared to Japan in many senses. At certain aspects, Japanese businessmen find it difficult to liaise with Indian businessmen because of their different business culture. Saying that, India is a huge market and growing very rapidly. It offers great business opportunities and is a market to watch for. So, in order for Japanese companies to further expand trade business and invest in the Indian market, they could tie-up with Malaysian Indian-owned companies rather than participating on its own from Japan directly, making risks minimized. Distance-wise, India and

Malaysia are nearer to one another and is linked by the Indian Ocean. As for investment environment Malaysia has established infrastructures giving no concerns on power and water cut. Compared to Shanghai, labour cost in Malaysia is already cheaper. All these factors will lead to lower total cost, combined with production, marketing and transportation costs lower than imagined. We would like to recommend Japanese companies to consider capturing the Indian market opportunities as one option to invest in Malaysia. JETRO may consider arranging this kind of cross- countries tie-ups.

Small & Medium Enterprise Development Policies
in Philippines

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- Field Survey, Interview and Report by :

Mr. Masahiko EBASHI Prof., Meiji Gakuin University of Japan

- List of Visited Institutions & Interviewees

Institution	Interviewee
DTI (Department of Trade and Industry)	<ul style="list-style-type: none"> • Rhodora Leano (Director, Bureau of Small and Medium Enterprise Development) • Usec. Thomas Aquino (Senior Under Secretary) • Usec. Carissa Cruz-Evangelista (Under Secretary for Regional Operation Group)
SBGFC (Small Business Guarantee and Finance Corporation)	Virgilio R. Angelo (Chairman and CEO)
DBP (Development Bank of the Philippines)	Alexander Magno (Director)
UP-ISSI (UP Institute of Small Scale Industries)	Professor Ruperto Alonzo (Director)
UP Sociology Dept.	Professor Randolph David
PCCI (Philippine Chamber of Commerce and Industry)	Professor Francisco R. Floro (Vice-President, SME Development)
Clark Development Corporation	Levy P. Laus (President)

- Exchange rate of the local currency(Philippine Peso) per US Dollar

(source : IMF • IFS)

2006 Average 51.314 PHP/USD

2007 Average 46.148 PHP/USD

Small & Medium Enterprise Development Policies in Philippines

Chapter 1 Small & Medium Enterprise Policies – Overview

1-(1) Definition of SME and Its Basis

Small and medium enterprises in Philippines are divided according to assets (not including property) and the number of employees into three types, medium, small, and micro enterprises. Each of these enterprises is defined in table 1. The features of Philippine definitions of small and medium enterprises are that there are no divisions according to type of industry such as manufacturing, retail, services etc., that irrespective of the type of company (personal, cooperative, partnership, corporation, etc.) they are determined based purely on the amount of their assets and number of employees, and also that there is a division to micro enterprises, below that of small enterprise.

These definitions were altered with the first resolution of the Small and Medium Enterprises Development Council (SMEDC) on January 16, 2003, and prior to this the definition of micro enterprises was assets of up to 1.5 million peso, and medium enterprises were up to 60 million peso.

Table 1 Definitions of Small & Medium Enterprises in Philippines

	Assets	No. of Employees
Micro Enterprise	Less than 3 million peso	1-9
Small Enterprise	3 million to 15 million	10-99
Medium Enterprise	More than 15 million and less than 100 million peso	100-199

Source) SMED Council Resolution No.1 Series of 2003 dated 16 January 2003.

1-(2) Environment and Conditions Surrounding Small & Medium Enterprises

According to the most recent statistics (SMEs Statistical Report 2000-2004, BSMED, DTI, January 2007), there were a total of 783,923 businesses (offices) in Philippines, of which small and medium enterprises made up 99.6% (781,047), and

large enterprises (more than 200 employees, assets of more than 100 million peso) were just 0.4% (2,876) of the total.

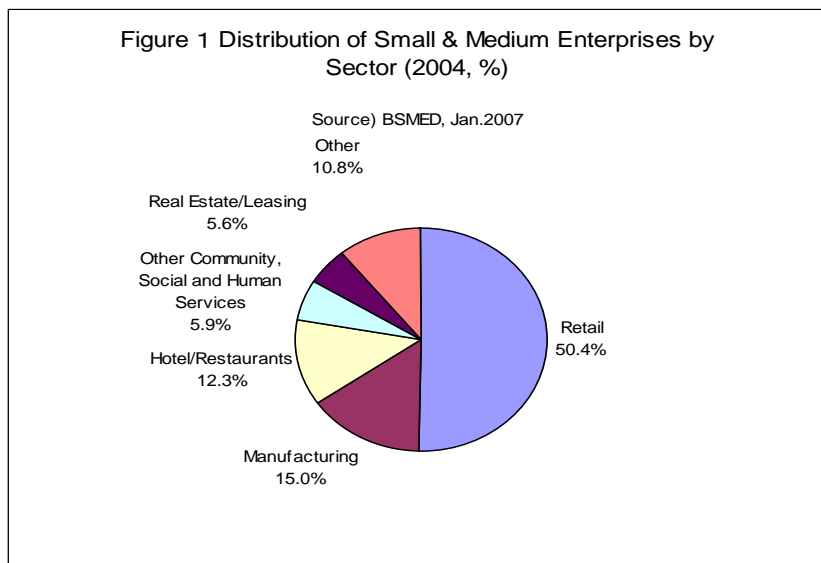
Table 2 Changes in Number of Business by Classification (2001-2004)

	2001	2004	Up/Down	Rate of Change (%)
Large Enterprises	2,958	2,876	-82	-2.8
Medium Enterprises	2,923	2,980	57	2.0
Small Enterprises	61,762	64,501	2,739	4.4
Micro Enterprises	743,949	713,566	-30,383	-4.1
Total	811,592	783,923	-27,669	-3.4

Source) SMEs Statistical Report 2000-2004, BSMED, DTI, January 2007

Of these small and medium enterprises, 91% (713,566) were micro enterprises, 8.2% (64,501) were small enterprises, and 0.4% (2,980) were medium enterprises. The comparison with statistics from 2001 is shown in Table 2, and since the number of micro enterprises has decreased by 4%, the total number of enterprises has also decreased, but at the same time it is worth noting that both small and medium enterprises have increased in number.

Looking at the distribution of small and medium enterprises on a regional basis, the top five regions make up 62.2% of the total, with the metropolitan area making up 25.4% (198,140), followed by Calabarzon with 14.6% (113,792), Central Luzon with

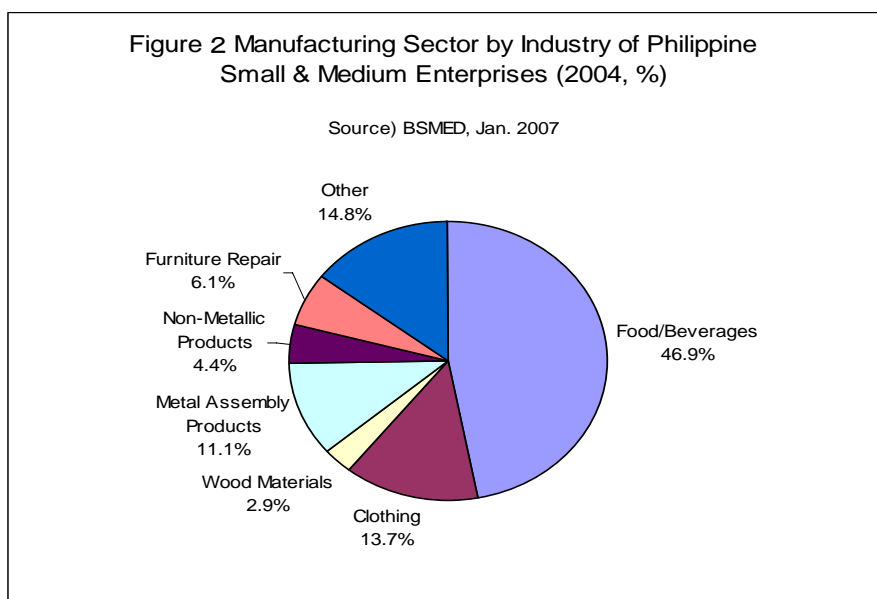


10.8% (83,963), Western Visayas with 5.8% (45,454), and Central Visayas with 5.6% (44,098).

By industry, small and medium enterprises are distributed as shown in Figure 1. Wholesale and retail trade make up more than half of these businesses, followed by manufacturing with 15%, and hotels and restaurants with 12%. However, while the number of small and medium enterprises involved in wholesale and retail trade has fallen a great deal in by 2004, by contrast, the number of companies involved in hotels and restaurants, and real estate and leasing businesses are trending up.

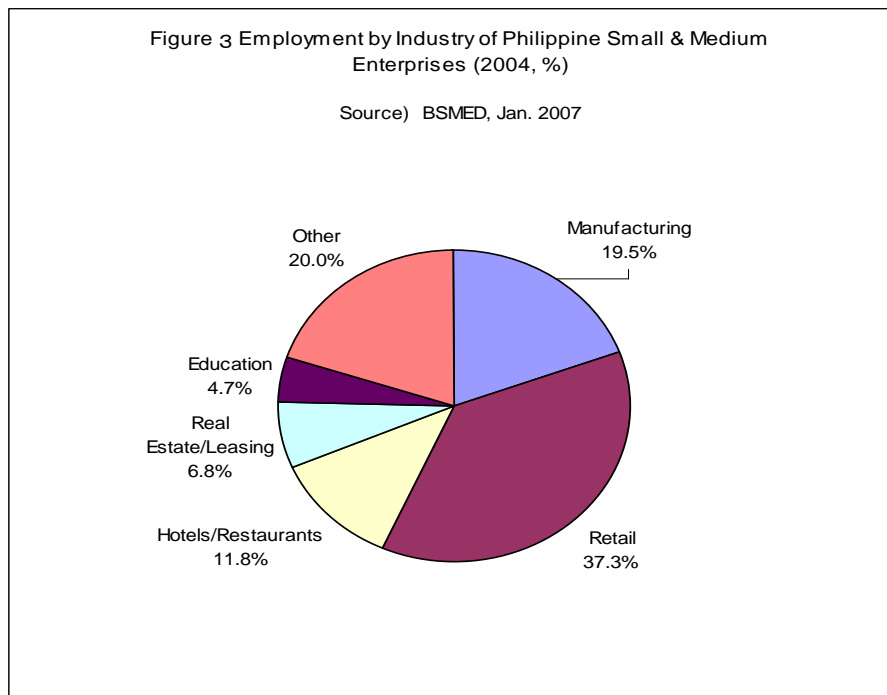
Small and medium enterprises have 117,007 offices in the manufacturing sector (2004), and of these, micro enterprises have 103,926, small enterprises have 12,116, and medium enterprises have 965. The number of places of business for micro enterprises in the manufacturing sector has fallen by 4.6% in 2004, compared to the year before.

Figure 2 shows a classification by industry of small and medium enterprises in the manufacturing sector. Food and beverages make up 46.9%, followed by textiles with 13.7%, metal assembly products with 11.1%, and furniture repair with 6.1%. As of 2004, there were 51,040 micro enterprises involved in food and beverages processing, a jump of 5.5% from 48,367, but the number of textiles businesses fell by 16.4% from 17,328 to 14,485. This is probably due to an inability to survive against cheap and highly



competitive Chinese products.

Figure 3 shows employment by industry for small and medium enterprises in Philippines. In 2004, small and medium businesses accounted for about 3.9 million employees, or about 69.2% of total workers. The other 30.8% work for large companies. When considered by industry, wholesale and retail made up 37.3% of the total, followed by manufacturing with 19.5%, hotels and restaurants with 11.8%, and then real estate and leasing companies with 6.8%.



The position of small and medium enterprises in Philippines (2004) is as below.

- 99.6% of all businesses.
- 32% of value added production
- 69.2% of employees
- 60% of exports

The Philippine government understands that small and medium enterprises play an important role in the following areas for the development of the Philippine economy.

① Farm Industrialization

- ② Farm Development and Industrial Decentralization
- ③ Creation of Job Opportunities and Correction of Income Differentials
- ④ Use of Local Resources
- ⑤ Acquisition of Foreign Currencies
- ⑥ Creation of Forward and Backward Ties with Existing Industries
- ⑦ Expansion of Corporate Mind-set

Since assuming office as President in 2001, President Arroyo has placed emphasis on the development of small and medium enterprises as a means of reducing poverty through rural development and the expansion of employment opportunities. Specifically, the “Small and Medium Enterprise Development Plan 2003 - 2004: National SME Agenda” was commissioned, and a financing program for small and medium enterprises called SULONG (SME Unified Lending Opportunity for National Growth) began in 2003. Further, soon after beginning her second term as President, in July 2004, the “Small and Medium Enterprises Development Plan 2004 - 2010” was released, which called for small and medium enterprises to make up 40% of value added production by 2010, and to increase exports over the same period by 16%.

1-(3) Legislation for SMEs

The Magna Carta for Small Enterprises (RA6977), promulgated in 1991, is the equivalent of a basic law for small and medium enterprises. This Charter was revised and amended as RA8289 in 1997. Under this Charter, the basic laws, definition, and institutional structure to promote the development of small and medium enterprises are set out, and the Small and Medium Enterprises development Council (SMEDC) and Small Business Guarantee and Finance Corporation (SBGFC) were established.

In addition, the Barangay Micro Business Enterprise Act of 2002 (RA9178) is a relevant related law. The aim of this law is the support of micro enterprises (business tax exemptions for a fixed period, the dispensation of minimum wage regulations, loans from government financial institutions, and technological support from government institutions), including the informal sector, for the reduction of poverty and rural

development.

1-(4) Planning and Implementation of SME Policy

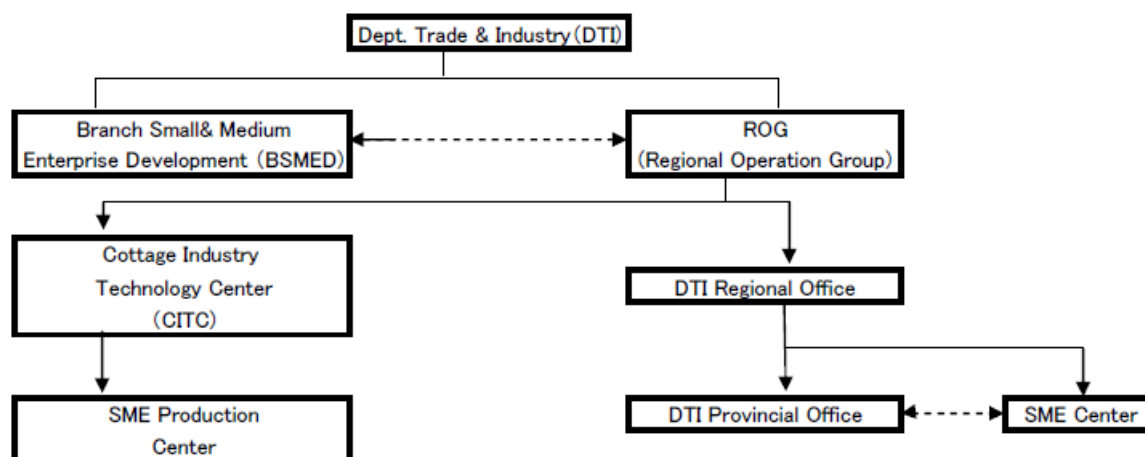
The Small and Medium Enterprise Development Council (SMEDC) is the main organization that sets and deliberates on small and medium enterprise policy. There are 8 council members representing government organizations and 4 private sector representatives. The government representatives are the Directors General of NEDA (National Economic Development Agency), DTI (Department of Trade and Industry), the Department of Science and Technology, the Department of Agriculture, the Department of Environment and Natural Resources, as well as the President of SBGFC (Small and Medium Business Guaranteed Finances Corporation) and the Chairman of the Central Bank Financing Committee, while the private sector representatives are drawn from representatives of the Luzon, Visayas, and Mindanao business world, and a representative from the private banking industry. This committee meets at least once a month, and the Chairman is the DTI Director General, while the BSMED (Small and Medium Enterprise Development Office) from the same Ministry serves as the secretariat.

The small and medium enterprise policy DTI SME Core Group include 1) Branch Small and Medium Enterprise Development (BSMED) (small and medium enterprise policy and program planning and adjustment), 2) Small and Medium Enterprise Guaranteed Funding Corporation (SBGFC) (financial services), 3) Philippine Trade Training Center (PTTC) (small and medium enterprise research), 4) Philippine Product Development and Design Center of the Philippines (PDDCP) (design development), and 5) Cottage Industry Technology Center (CITC) (research/use of facilities). In addition, DTI related agencies that support small and medium enterprises include 1) Bureau of Product Standards, 2) Bureau of Trade Regulations and Consumer Protection, 3) Bureau of Export Trade Promotion, 4) Bureau of Domestic Trade, 5) Board of Investment, 6) Center for International Trade Expositions and Missions, and 7) Philippine International Trading Corporation.

At the regional level, implementation of policies for the development of small and

medium enterprises are carried out by the DTI Regional Offices (16 offices) and Provincial Offices (79 offices). About 15 - 20 employees are in each regional office of the DTI, but only about one third of these are involved with the development of small and medium enterprises. These regional DTI offices operate under the auspices of the Regional Operation Group (ROG). In addition, in 2004 there were 101 small and medium enterprise centers (SME Center) around the country. These SME Centers were all established by the DTI after 1996. Most of them are set up inside the DTI regional offices, but some are in the local Chamber of Commerce or Local Government Office. The role of these SME Centers is to provide information, arrange seminars, etc., and offer business advice through SME counselors, but due to budgetary and human resource limitations many of these areas are not functioning. In addition to this, the DTI in the end of the 1990s also set up seven small and medium enterprise production centers (SME Production Center) for ceramics, marble, basket weaving, furniture, etc., but of these, three were closed down due to funding difficulties, and the remaining four are not functioning effectively. (Figure 4 shows the local level organizational chart of the DTI in relation to small and medium enterprises.)

Figure 4 DTI Regional Organization for the Development of Small & Medium Enterprises



1-(5) Financial Support for SME Policies

Regarding fiscal expenditures in connection with small and medium enterprise

policy, no data has been collected to show the scale of the budget. Taking the costs related to small and medium enterprise development from the budgets of each of DTI, The Department of Science and Technology, the Department of Labor and Employment, the Department of Agriculture, the Department of Environment, and Natural Resources, although some assumptions need to be made, we can see that the DTI BSMED do not constitute all of the expenditure in this area. The DTI BSMED have a staff of 35 people.

1-(6) Breakdown of Responsibilities for Central and Regional Governments

See 1-(4).

1-(7) Other (SME Promotion Programs)

The following are Support Programs for Small & Medium Enterprises from Ministries other than DTI.

- 1) Department of Science and Technology (DOST)
 - SME Technology Upgrading Program
 - Technology Business Incubator Program
- 2) Department of Labor and Employment (DOLE) - National Wages and Productivity Commission
 - Small and Medium Enterprise Manager Training
 - SME Productivity Improvement Program
- 3) Department of Agriculture (DA)
 - Agri-Business Marketing Support Service
- 4) Department of the Environment and Natural Resources (DENR)
 - Environmental Regulations Clearance Program
- 5) Department of Internal Affairs and Local Government (DILG and Local Government and the LGUs)
 - Maintenance of Business Environment for Regional SME, Skill Training

In addition, the following government agencies are involved in the development of small and medium enterprises.

- 1) UP-ISSI (Institute for Small Scale Industries at the University of the Philippines)
Providing Corporate Management and Entrepreneurial Training programs in cooperation with the Small Enterprise Research and Development Foundation)
- 2) TLRC (Technology and Livelihood Resource Center)
Providing Livelihood and Skill Training Course
- 3) DAP (Development Academy of the Philippines)
Providing a Management Program for the Improvement of Business Performance of Small and Medium Enterprises

Chapter 2 SME Development Policies – Specific Schemes

2-(1) Financing

(Loans)

Funding for small and medium enterprises in Philippines is obtained from both private sector and government financial institutions. The Small Business Charter (Magana Carta for Small Enterprises, RA8289, 1997) sets out that for the ten years from August 12 1997 to August 9 2007, without going through the government or foreign investors, Philippine financial institutions were required to have on their previous quarter balance sheet total loans to small enterprises of at least 6% and to medium enterprises of at least 2%, making lending from financial institutions to small and medium enterprises compulsory. However, since this can be substituted by depositing the equivalent amount in the central bank or by purchasing government debt, the real effect of this regulation was reduced considerably. As of March 2002, a little more than 80% of loans from the Philippine private banking sector to small and medium enterprises were given by commercial banks, followed by thrift banks with 13% and rural banks with 5%.

The majority of government financial institution loans to small and medium enterprises are provided by the Development Bank of Philippines (DBP), Land Bank of Philippines (LBP), and the Small Business Guarantee Finance Corporation (SBGFC). The Philippine Development Bank offers wholesale loans to commercial banks (industrial finance such as ISSEP, IGLF, etc.), and also offers policy based retail financing to small and medium enterprises such as it “Industrial Pollution Control Loan Project” and “Female Entrepreneur Loan Program”. On the other hand, the Land Bank services regional industry, and offers micro credit to farmers and fishermen.

The Small Business Guaranteed Finance Corporation (SBGFC) was established in January 1991 attached to the Department of Trade and Industry, for the purpose of reducing the risk to financial institutions of loans to small and medium enterprises. After this, it expanded the scope of its operations, and merged with the Guarantee Fund for Small and Medium Enterprises (GFSME), and is currently known as the Small Business Corporation (SBC). The SBC 1) offers wholesale loans to small and medium

enterprises, 2) guarantees credit, 3) offers wholesale micro financing, and 4) provides retail loans to small and medium enterprises. In 2006, it had 657.7 million peso in wholesale loans, 134.4 million peso in credit guarantees, and 673 million peso in micro financing.

In addition, there is the **SULONG** (The SME Unified Lending Opportunities for National Growth) program, which was developed by the Prime Minister in December 2002 for small and medium enterprise lending. This program aggregates the strength of seven government financial institutions on the behalf of small and medium enterprises, and its members are the Development Bank (DBP), Land Bank (LBP), SBC, Quedan & Rural Credit Guarantee Corporation (QUEDANCOR), Philippine Export-Import Credit Agency (PHILEXIM), National Livelihood Support Fund (NLSF), and the Social Security Fund (SSS). With these government financial institutions being united in this way, loan application processes are simplified, and another feature is the fact that interest rates are the same, at 9% for short term, 11.25% for mid term (less than 3 years), and 12.75% for long term (3 - 5 years) (these interest rates were as of June 2003). The SULONG program, as long as it doesn't go against prudential regulations, makes access to its system liberalized to offer rural, thrift, and commercial banks government financial institutional wholesale loans and guarantee programs. Since it began offering loans in 2004, up to 2007, this SULONG program has surpassed its loan target by more than 7.9%. It has 119.9 billion peso in loans, to 65,083 small and medium enterprises, employing 1.9 million people.

(Credit Guarantee System)

SBC provides a credit guarantee service to Philippine's 45 financial institutions (20 commercial banks, 15 thrift banks, and 10 rural banks). In 2002, it had provided credit guarantees for 42 loans, worth a total of 118 million peso. However, this amount is only 17% of its annual target. Commercial banks make up 50% of these loans, followed by thrift banks with 35% and the remaining 15% are from rural banks. Further, by 2006 the amount of guaranteed credit had stayed steady at just around 134.4 million peso. It is believed that the lack of advertising of the credit guarantee system, together with the low level of understanding of small and medium enterprise entrepreneurs are a reason

for this poor performance.

(Capital Access through Share Issue)

The market to offer funds to small and medium enterprises by share issues through venture capital or unquoted shares etc. is undeveloped at this point. In 2000, an SME board was added to the Philippine Stock Exchange, but a variety of problems has severely restricted the number of listed companies.

2-(2) Tax System

Tax incentives for small and medium enterprises are restricted to the tax exemption for companies registered as Barangay Micro Business Enterprises under the Barangay Micro Business Enterprise Act of 2002 (RA9178). Also, regional governments are encouraged to exempt Barangay Micro Business Enterprises from regional tax and fees.

In addition to this, there are some tax incentives for the export industry, investment in special economic zones or underdeveloped regions, or investment in priority fields through an investment priority plan, but these are not limited to small and medium enterprises.

2-(3) Provision of Information, Human Resource Training, Environment, Consulting, Advice, etc.

In 1996, technical support from the Netherlands helped establish the University of Philippines - Institute for Small-Scale Industries (UP-ISSI), which provides training programs for managers, supervisors, and technical staff to strengthen the management ability of small and medium enterprise entrepreneurs. This Institute also offers programs of capacity building to trainers, regular staff, consultants, and bank staff from the financial institutions and NGO that support the small and medium enterprise sector. In 2006, the Institute had 24 regular training programs and 59 special training programs, and had trained 2,147 people. With APEC, a qualification authorization system is being established to be accepted throughout APEC countries as SME counselors, including with CIDA from Canada.

In conjunction with UP-ISSI, the Department of Trade and Industry BSME is

creating teaching materials to develop the abilities of SME counselors that offer management advice to micro, small and medium enterprises in regional areas, and is also creating manuals for business counselors, as well as providing training beginning with centers in priority areas. Also, from 2007 JICA have begun to offer support with a view to establishing a small and medium enterprise diagnosis system, and Japanese consultants are strengthening the SME centers and training SME counselors.

The National Wage and Productivity Commission (NWPC), under the auspices of the Department of Labor and Employment, is also providing training and consulting to improve the productivity of small and medium enterprise entrepreneurs, managers, supervisors, and employees.

2-(4) Support for Obtaining Management Resources for Existing Small & Medium Enterprises

In order to support the strengthening of productivity and competitiveness of small and medium enterprises to lead to technological innovations, the Department of Science and Technology have implemented a program known as **SET-UP**: Small Enterprise Technology Upgrading Program. The aim is to provide support for technology development and transfers to help resolve issues facing small and medium enterprises such as improvements in quality, personnel training, production cost reduction, and waste treatment, etc.

Also, the PTTC (Philippine Trade Training Center) is conducting research into IT, obtaining ISO certification, and HACCP (food safety).

2-(5) New Business/Venture Support

(Franchise Program)

PITC (Philippine International Trade Corporation) are in charge of programs to support the start up of businesses through introducing investors looking to invest in Philippine businesses, especially people from the Philippines that have worked overseas, to franchise opportunities (especially restaurants).

(Developing Venture Capital)

The government implemented a venture capital system in the 1970s based on the US Small Business Investment Companies Program, which was established to find venture capital from commercial banks and investment businesses, but there haven't yet been any success stories arising from this program. Understanding the importance of venture capital at the seed capital stage, the "Small and Medium Enterprise Development Plan 2004 - 2010" made it one of its strategies to establish a venture capital fund for small and medium enterprises. The government is investigating the possibility of directly supplying seed money into a venture capital fund, and offering tax exemptions or loan guarantees (against seed capital or losses), and thereby participating in the private sector for capital. The same plan also investigated the establishment of a government fund to assist in the setting up of new businesses. The government continues to investigate the establishment of preferential tax treatment while also tackling the simplification of the approval process for the complicated venture capital fund approvals.

(Maintaining a Stock Market for Ventures)

Since the small and medium enterprise board was established in the Philippine Stock Exchange in 2000, only two companies had listed as of 2004. The standards for small and medium enterprises to be listed are ① authorized capital of between 20 and 100 million peso, ② paid in capital of at least 25% of authorized capital, ③ at least one year of net operating profits, and ④ stock issued of at least 20% of authorized capital, etc.

Problems include 1) most small and medium enterprises do not understand the merits/demerits of listing, 2) many don't know of the existence of the small and medium enterprise board at the stock exchange, 3) there are not enough consultants that recommend listing, and 4) there are no success stories from small and medium enterprises that have listed, etc.

2-(6) Promotion of Fair Dealing and Maintenance of Markets for SMEs

As a matter of policy, the government is in a position where it interferes as little as possible in private sector business activities, but the government is operating under the

framework of social responsibility in encouraging private businesses through relevant authorities to take initiative and operate more efficient businesses. The following laws are aimed at creating a competitive environment by making sure of a level playing field for businesses.

- 1) The Fair Trading Act sets out the boundaries to protect business activities and also the interests of consumers.
- 2) The liberalization of retailing (Republic Law RA8762) abolished the Republic Law RA 1180, whereby retail activities were limited to businesses that were wholly owned by Philippine businesses or individuals. Under the Republic Law RA 8762, while there are a few restrictions, foreigners are now able to open retail businesses. This is expected to lead to a more efficient and competitive retail sector.
- 3) Under the Republic Act RA6977 (Amended by RA8289), registered small businesses were granted the right to a 10% share in all government procurement and services. The Alternative Dispute Resolution Directive of 2004 encourages the use of agents, conciliation, and mediation to resolve disputes, instead of the prolonged, money wasting litigation.

2-(7) Regional SME Policies

1) One Town, One Product Movement

In her inaugural speech in June 2004, President Arroyo announced her “10 Point Agenda”, and the first point of this agenda was a plan to increase loans to small and medium enterprises by three times, and to develop 1 - 2 million hectares of farm land to develop an agri-business industry that would employ 6 - 10 million people within 6 years. In order to accomplish this directive, in December 2004 the “OTOP: One Town One Product” movement was developed. The main areas of support were to be in 1) product development and design, 2) training in skills and business start-up, 3) marketing support, and 4) implementation of appropriate technologies, and the government has come together at both the national and regional levels to support the combining of small and medium enterprises and foreign workers into the OTOP movement. The basic process for the OTOP program is 1) select a product or service, 2)

obtain the necessary funds for production, 3) add a local brand, 4) sell the selected product nationally, or export the product.

The following government organizations are involved in this movement. 1) Local governments, 2) DTI Regional Branch Offices, 3) PTTC: Philippine Trade Training Center (human resource training, business start-up training), 4) Cottage Industry technology Center (skill training), 5) Technical Education and Skills Development Authority (skill training), 6) DTI Bureau of Export Trade Promotion (marketing), 7) DTI Bureau of Domestic Trade (marketing), 8) Department of Tourism (marketing), 9) Product Development and Design Center of the Philippines (product development), and 10) Department of Science and Technology (product development).

2) Trade Fairs and Domestic Caravan

DTI opens sample domestic fairs for regional small and medium enterprises. These are typically opened together with training seminars for small and medium enterprise entrepreneurs, and design advice etc. The domestic caravan is a seminar program aimed at increasing the competitiveness of small and medium enterprises, and is being held in regions all around the country.

3) Other

Under the 1991 Local Government Code, some government functions shifted to the regional governments. One of these is industry development, although the main activities that moved to the regional governments include roads, education, and health care infrastructure reform.

2-(8) Supporting the Internationalization of Small & Medium Enterprises

The DTI Bureau of Export Trade Promotion has 1) trade information support group, 2) market strategy consulting group, and 3) product survey/strategy group, and each of these groups provide information to foreign markets and buyers and provide advice on export strategies and market strategies. The Bureau has established an online trade information system (<http://tradelinephil.dti.gov.ph>), which has a directory of exporters

and profiles and other information about products and markets. Large enterprises are also able to make use of the services of the Bureau of Export Trade Promotion, but small and medium enterprises make up about 99% of their work.

The Philippine International Trading Corporation offers consulting and services to improve the international competitiveness of Philippine products (particularly products of small and medium enterprises). They offer information to Philippine manufacturers about raw materials, and also offer support about export procedures and exporting specific products. Also, the Philippine Trade Training Center (PTTC) offers training and seminars for small and medium enterprise exporters about export management, product quality and productivity, environmental management, food safety, e-business, and e-commerce, etc., and also offer support to exhibitors at overseas trade fairs etc.

Further, the Center for International Trade Expositions and Missions (CTEM) develops and participates in domestic and international trade fairs, with a mission to promote the export of Philippine products, including assisting in the development of Philippine brands and designs.

2-(9) Employment/Labor Policies for SMEs

Under the Barangay Micro Business Enterprise Act of 2002 (RA9178), businesses registered as Barangay micro enterprises receive special dispensations for minimum wage regulations.

2-(10) Support for SME Organizations and Networks

The Philippine Chamber of Commerce and Industry (PCCI) has a SME Committee, with a Vice Chairman in charge of small and medium enterprises. The current Vice Chairman is Mr. F.R. Floro, who has more than 30 years experience working with the development of small and medium enterprises, and he is also a member of the Small and Medium Enterprises Committee. The PCCI has about 1,000 full members and about 20,000 affiliate members. However, about half of these are small and medium enterprises. The role of the PCCI for small and medium enterprises is to lobby the government for reforms in the business environment, and to effect policy and the

development of laws.

2-(11) Development Policies for Small Scale Enterprises

The Barangay Micro Business Enterprise Act of 2002 (RA9178) is an example of a small scale enterprise measure. The aim of this law is to reduce poverty and perform rural development, and to support micro enterprises in the informal sector (temporary exemptions for business income tax, special dispensations against minimum wage regulations, government agency loans, technical assistance from government organizations, etc.).

2-(12) Safety Net

Under the Small Business Charter (RA6977, amended by RA8289), the Small and Medium Enterprise Development Committee can take preventative measures against bankruptcy through the foundation of a mutual aid system for destitute companies, and also has the authority to take measures such as in relation to insurance in the case of serious disasters. Also, this committee has the authority to direct government agencies in their interaction with small and medium enterprises in relation to offering tax exemptions of tax incentives in accordance with the Omnibus Investment Act or other laws.

2-(13) Other

The following foreign organizations are assisting in the development of small and medium enterprises in Philippines.

1) Japan

- ① JBIC Two Step Loan for Small and Medium Enterprises, in conjunction with the Philippine Development Bank

The two programs of the ASEAN-Japan Development Fund (AJDF) and the Industrial & Support Services Expansion Program (ISSEP) provide fixed capital in a country for a long period of time, when supply of funds is difficult, and they also 1) provide development and training for small and medium scale

enterprises, especially in the manufacturing industry, and 2) improve funding ability for small and medium enterprises of private sector financial institutions. More specifically, they receive introductions from the Philippine Development Bank (PDB), and invest in small and medium enterprise end users through Participating Financial Institutions (PFIs), in a two step loan system. The AJDF had lent about 30.084 billion yen in 1991, and ISSEP lent 22.5 billion yen in 1994.

② JICA's Philippine Small and Medium Enterprise Development Planning Support Program

A master plan survey was carried out between January 2003 and March 2004. This report was the basis for the Philippine Small and Medium Enterprise Development Plan 2004 - 2010.

③ JICA DTI-SME Counselor Resource Training Project (Implementation of a Small and Medium Enterprise Diagnostic System)

Providing training for about 65 SME counselors in 5 SME centers. Offering assistance from January 2007 to December 2009.

2) GTZ (German Technology Cooperative Enterprise)

① Under a tie-up with TESDA (Technical Education and Skills Development Authority) under the Department of Labor and Employment, a "Double Education Promotion Program" was created in 1966, to promote and train skilled workers. A training facility was purchased for 7 million dollars.

② Private Sector Development Program

Offering a small and medium enterprise and business development service (BDS) worth 5 million dollars since 2004. In joint venture with the Philippine Chamber of Commerce.

③ GTZ-SMEDSEP (Program for Small and Medium Enterprise Development by GTZ for Continuous Employment)

Participates with UP-ISSI and rural and thrift banks providing loans to small and medium enterprises to provide training, with a goal of further promoting

financing for small and medium enterprises. Cooperative agreement signed in June 2007. Mainly to offer guidance in relation to the transfer from collateral based loans to information based loans.

Also, in addition to the German Development Bank (KfW) offering wholesale funds for small and medium enterprises to SBC, they are also providing micro financing for micro enterprises.

3) CIDA (Canadian International Development Agency)

① Private Enterprise Accelerated Resources Linkage (PEARL)

② Promoting Participation in Sustainable Enterprises (PPSE)

Technological leadership and consulting services are the main focus. CIDA is placing its emphasis on supporting micro enterprises in Mindanao and Visayas.

4) Asian Development Bank (ADB)

Using a Japanese Special Fund, in 2003 the ADB provided technological support (400,000 dollars) for the promotion of Philippine small and medium enterprise funding. This mainly involved the review of 1) Prudential regulations of the central bank for loans to small and medium enterprises, 2) Small Business Charter, 3) business development service necessary for small and medium enterprises, and 4) organization and management of government financial institutions. The 2004 SULONG program was one of the fruits of this support.

5) Other

US: Together with its anti-terrorism campaign, USAID joined with the Mindanao Chamber of Commerce to implement a regional business development project to promote the development of the Mindanao economy. The Davao Business Center, run by the Davao Chamber of Commerce is one of the fruits of this work.

Chapter 3 Challenges of and Suggestions on Promotion of SMEs in Philippines

As we have already seen, under President Arroyo's policies to reduce poverty and increase employment, Philippine small and medium enterprise development policies and systems have seen a great deal of fast growth in recent years. However, there are still a number of issues, including those below.

3-(1) Financial Issues

Under the SULONG program, which was implemented in 2003 to expand funding available to small and medium enterprises from participating government financial institutions, such reforms as borrowing procedures and evaluation standards, uniform interest rates, etc. have been implemented, but many loan evaluations are still based on a collateral system, and such areas as project profitability and personal credit are not being given due importance.

In addition to the government financial institutions, the major national financial institutions generally leave loan evaluation decisions to the evaluation department at the head office, and the protracted nature of these evaluations are one of the reasons why customers miss payments and investment opportunities, and is a reason why small and medium enterprises hesitate to borrow from banks. Also, since the fund base of SBGFC is small, the loan and credit guarantee system for small and medium enterprises is not operating effectively, and therefore the issues surrounding obtaining funds for small and medium enterprises have still not been resolved. Direct investment in small and medium enterprises is also not developed, and in the future some effort will need to be made to activating the SME board in the Stock market.

With regard to the requirement under the "Small Business Charter" for private sector financial institutions to provide a certain level of funding to small and medium enterprises (must provide 6 % of their net loan portfolio to small businesses and 2% to medium businesses), currently (on a total loan basis), the requirements are being exceeded by a large degree. According to SBC, as of March 2002, 15.3% of lending from

commercial banks was to small businesses, and 9.8% to medium enterprises. However, the Asian Development Bank (Technical Assistance, December 2002) has stated that “the validity of this proportion of lending at each financial institution is questionable”. This is because this requirement affects the ability of the banks to determine loans on the basis of risk evaluations, which has the effect of degrading the quality of the bank’s loan portfolio, which is a barrier to the flow of funds to small and medium enterprises. Also, since it is problematic for small scale thrift and rural banks to lend to small and medium enterprises that are not their regular customers, they are not able to accomplish their responsibilities with regard to lending, which means that they must pay fines to the central bank, and these fines are then passed on as operating costs. All of this means that the “Small Business Charter” requires re-evaluation.

Banks react negatively regarding loan applications from small and medium enterprises that lack a clear business plan or appropriate financial statements. Because the risk of lending to customers such as those is high, this increases the cost of financing such a loan, while it has no effect on increasing the ability of small and medium enterprises to obtain funding. Also, with the increased likelihood of the entry of the Business Development Service (BDS) nationally, this should have a large effect on reforming the access of small and medium enterprises to funding. On this point, a support system between the providers of business development services and bank loan managers is essential. Also, the lack of credit records is another preventative factor for small and medium enterprise financing. The SBC, who provide credit guarantees, need to construct a credit information system that is available to all banks, based on any credit information that can be obtained for small and medium enterprises.

3-(2) Management Issues

Many businesses start with private individuals or families, and naturally the management activities are left to the family. Also, based on the condition of financial statements, many of these companies have fallen into underdeveloped management practices. Management consulting and seminars are good to help modernize management or technology, but based on the restrictions of its budget and employees,

the organization that should be accomplishing this regionally, the SME Center, are not effectively providing leadership in management or technology. Currently Japan is supporting in the establishment of a small and medium enterprise diagnostic system and in the training of counselor at the SME Center, and the results of these efforts will be interesting in the future.

3-(3) Statistical Issues

The collection and of basic statistical information and the analysis of the needs of small and medium enterprises, which should form the basis for policy decisions regarding small and medium enterprises are inadequate. Statistics about places of work in the Philippines are collected by the NSO (National Statistics Office), which conducts ① 5 yearly CPBI (Census of the Philippines Business and Industry) censuses, ② annual ASPBI (Annual Survey of the Philippines Business and Industry), and ③ quarterly QSPBI (Quarterly Survey of the Philippines Business and Industry). The most recent census figures (1999 data) are from 2000. The NSO announced in 2006 that it will send out questionnaires in May 2007 for another census. The 2006 census should clarify the latest economic and business information which will be useful for policy planning and market strategy decisions. However, since it appears that the NSO census data is taking 5 years to be released, it will be difficult to use any of this in policy.

In addition to the NSO, the following organizations also release business and office statistics.

① SEC (Stock Exchange Commission) Data

Businesses (including partnership), branches, liaison offices, and NPO must register with the SEC, and this data can be used.

② DTI Provincial Office Data

Private companies must register a Business Name for their Provincial Office with the DTI, and this registration data can be used.

③ Local Government Data

All Business Offices must register with the Local Government in order to obtain a Business License, and this data can be used.

Of these data, the NSO business statistics, and the Regional Government Business License Database are considered the most reliable. However, these databases do not contain information about businesses that have become bankrupt, or that have stopped business activity, and this is a problem. The BSMED in the DTI use the DTIs Business Name Registration Database. This has the broadest coverage, but is only renewed about every 5 years. Also, for the formulation of policy proposals, the BSMED has an original database of small and medium enterprises. As of January 2008, this covered 12,000 companies, and is expected to be increased to cover about 80,000 in the future.

3-(4) Issues for Implementation of Small & Medium Enterprise Policies

- ① Although various measures, systems, and organizations have been prepared for the development of small and medium enterprises, the basic problems of lack of budget and lack of staff still exist. Because of this, and since the scope and depth of programs is limited, many programs end without satisfactory results. Even though there are several government organizations providing business development services (BDS) for the development of small and medium enterprises, problems still exist such as 1) there are insufficient funds, and the amount of funds per case is too small, 2) support activities are duplicated, and 3) the speed of implementation is too slow. If the budgetary and staffing problems cannot easily be fixed, it is vital to reorganize and consolidate services and select and concentrate on strategic fields.
- ② Appropriate Training for Staff and Counselors dealing with Small & Medium Enterprises.
- ③ Support services are concentrated in metropolitan areas. These must be disseminated into the regions. Also, regional government systems to assist in the development of small and medium enterprises are inadequate. There should be a shift from centralized to decentralized authority.
- ④ A government agency such as a Department of Small and Medium Enterprises should be established to completely and expertly plan, manage, implement and monitor policies for small and medium enterprises. Currently the SMED Council oversees the adjustment and implementation of policies, and adjustments inside the

DTI are carried out by the SME core group. However, although both have an office, they are more ad hoc organizations than independent and permanent organizations with their own staff.

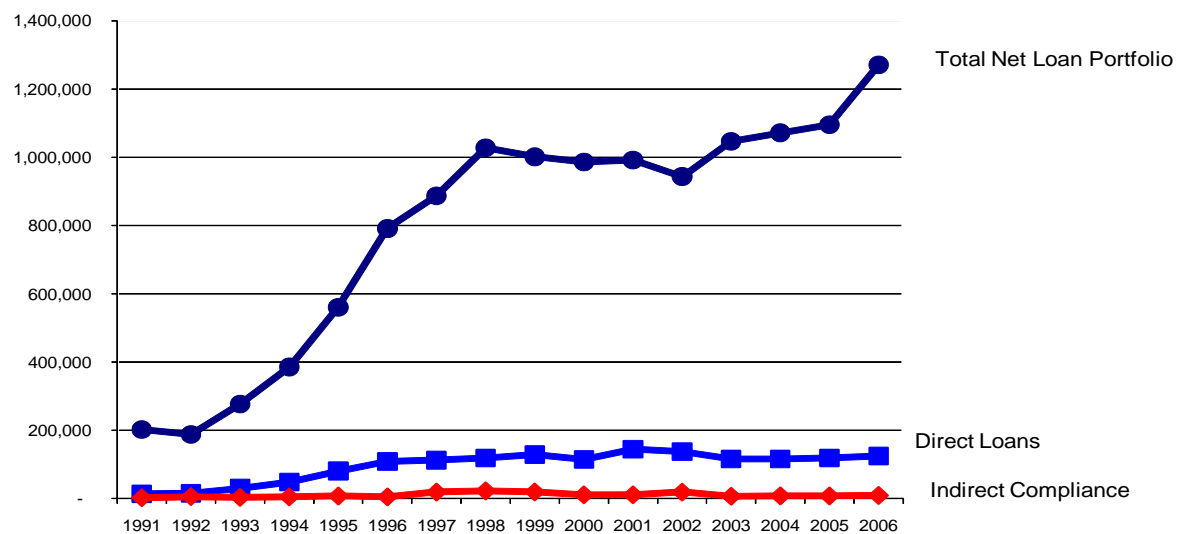
3-(5) Other Issues

Micro businesses are included in policies for small and medium enterprises, but since micro enterprises make up 91% (as of 2004) of small and medium enterprises they become the emphasis for much of the Philippines small and medium enterprise related policy, and micro financing and other poverty reduction measures (increasing production costs of micro businesses) seem to fall more into the area of social policy. Policies for small and medium enterprises differ in character for these kinds of social policies. It is important to be involved with industry, and to set out measures such as 1) training of entrepreneurs and promotion of new businesses, 2) improve training and competitiveness in the export industry by using domestic resources, 3) training and strengthening support industries, 4) improvements in productivity through technology and management innovations, and 5) reform of the domestic market in relation to the flow of foreign goods from China etc.

The Philippine “Small and Medium Enterprise Development Plan 2004 - 2010” places priorities on policies for food, organic produce, fisheries products, clothing and footwear, leather product, furniture, construction materials, micro-electronics, IT services, and auto parts, but the abovementioned issues suggest that concrete measures regarding these items are lacking.

Further, since export duties on raw materials and machinery are more disadvantageous for small and medium enterprises than for large enterprises, the small and medium enterprise environment must be reformed and eased, especially in relation to industrial infrastructure and regulations and costs that affect its use, including energy and transportation costs etc.

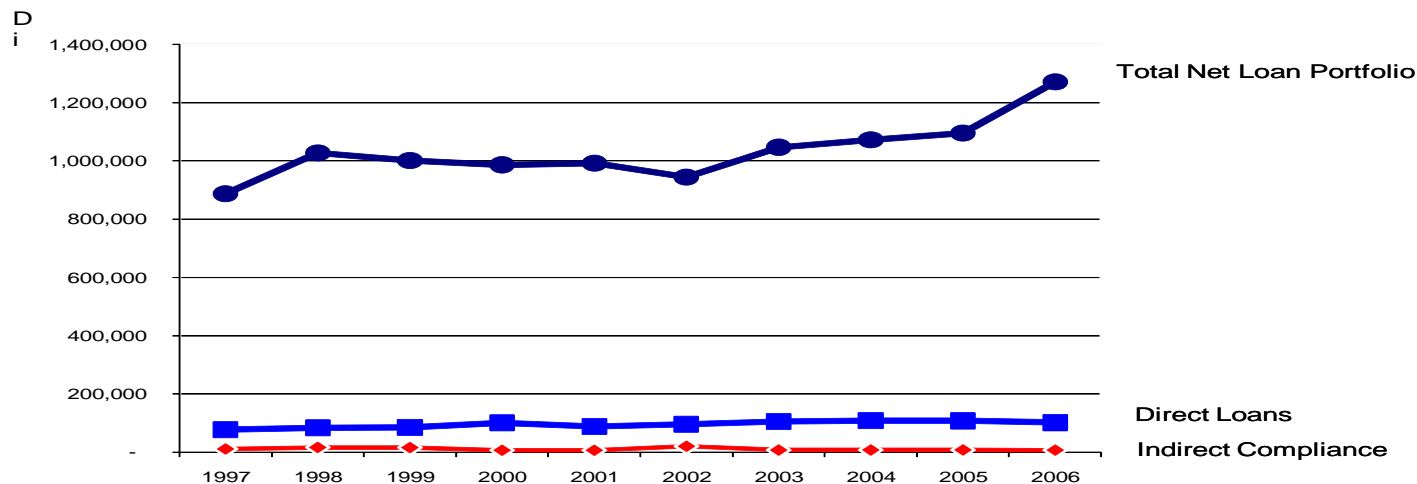
**Figure 1. Compliance of Banks to Mandatory Credit Allocation
Loans to *Small* Enterprises, 1991-2006**
(in million pesos)



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Net Loan Portfolio	201,564	187,594	276,462	385,316	560,213	791,568	886,844	1,027,845	1,001,567	986,427	992,243	943,850	1,046,551	1,071,972	1,095,531	1,271,369
Direct Compliance	14,367	15,088	30,630	48,746	80,535	108,955	112,274	119,070	128,602	114,448	144,154	137,064	115,521	116,157	118,563	124,399
Indirect Compliance	2,469	5,716	3,588	4,813	7,506	4,889	18,844	22,356	19,472	11,020	10,929	18,902	6,772	7,872	7,689	9,039
Total Compliance	16,836	20,804	34,218	53,559	88,041	113,844	131,118	141,426	148,074	125,468	155,083	155,966	122,293	124,028	126,251	133,439
Percentage to Net Loan Portfolio																
Direct Compliance	7.13%	8.04%	11.08%	12.65%	14.38%	13.76%	12.66%	11.58%	12.84%	11.60%	14.53%	14.52%	11.04%	10.84%	10.82%	9.78%
Indirect Compliance	1.22%	3.05%	1.30%	1.25%	1.34%	0.62%	2.12%	2.18%	1.94%	1.12%	1.10%	2.00%	0.65%	0.73%	0.70%	0.71%
Total Compliance	8.35%	11.09%	12.38%	13.90%	15.72%	14.38%	14.78%	13.76%	14.78%	12.72%	15.63%	16.52%	11.69%	11.57%	11.52%	10.50%

Note: 1. Reporting is as of 31 December for every year.

Figure 2. Compliance of Banks to Mandatory Credit Allocation Loans to *Medium-Sized* Enterprises, 1997-2006
(in million pesos)



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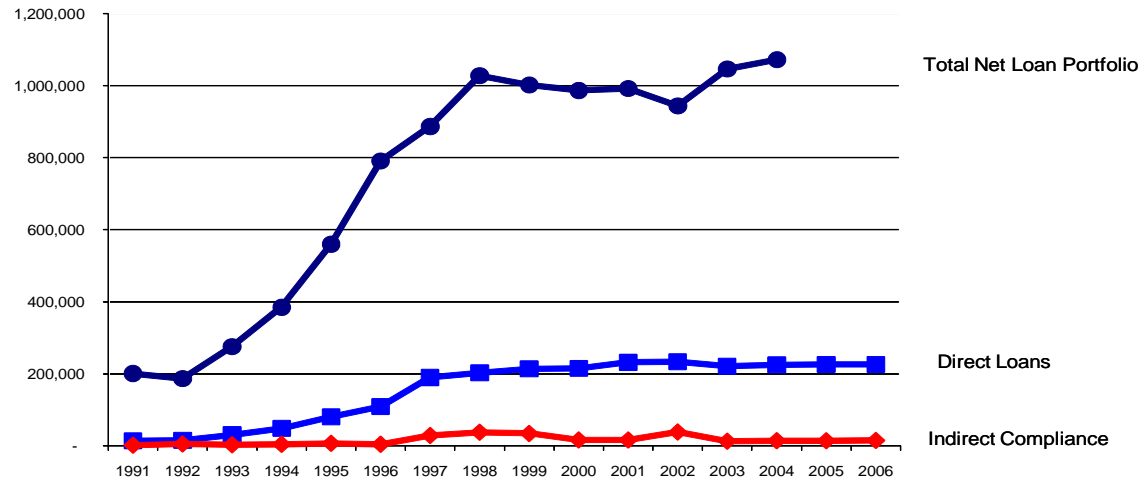
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Net Loan Portfolio	886,844	1,027,845	1,001,567	986,427	992,243	943,850	1,046,551	1,071,972	1,095,531	1,271,369
Direct Compliance	77,550	83,565	84,937	100,281	87,746	96,195	105,344	108,367	107,608	101,601
Indirect Compliance	10,337	15,773	15,182	5,880	5,804	19,869	6,733	6,917	7,001	6,421
Total Compliance	87,887	99,338	100,119	106,161	93,550	116,064	112,077	115,284	114,608	108,022
Percentage to Net Portfolio										
Direct Compliance	8.74%	8.13%	8.48%	10.17%	8.84%	10.19%	10.07%	10.11%	9.82%	7.99%
Indirect Compliance	1.17%	1.53%	1.52%	0.60%	0.58%	2.11%	0.64%	0.65%	0.64%	0.51%
Total Compliance	9.91%	9.66%	10.00%	10.76%	9.43%	12.30%	10.71%	10.75%	10.46%	8.50%

Notes: 1. Reporting is as of 31 December for every year.

2. Mandatory credit allocation for medium-sized enterprises started only in 1997.



**Figure 3. Compliance of Banks to Mandatory Credit Allocation
Loans to *Small and Medium Enterprises*, 1991-2006**
(in million pesos)



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Net Loan Portfolio	201,564	187,594	276,462	385,316	560,213	791,568	886,844	1,027,845	1,001,567	986,427	992,243	943,850	1,046,551	1,071,972	1,095,531	1,271,369
Direct Compliance	14,367	15,088	30,630	48,746	80,535	108,955	189,824	202,635	213,539	214,729	231,830	233,259	220,865	224,524	226,170	226,001
Indirect Compliance	2,469	5,716	3,588	4,813	7,506	4,889	29,181	38,129	34,654	16,900	16,713	38,771	13,505	14,788	14,689	15,480
Total Compliance	16,836	20,804	34,218	53,559	88,041	113,844	219,005	240,764	248,193	231,629	248,543	272,030	234,370	239,312	240,860	241,481
Percentage to Net Loan Portfolio																
Direct Compliance	7.13%	8.04%	11.08%	12.65%	14.38%	13.76%	21.40%	19.71%	21.32%	21.77%	23.36%	24.71%	21.10%	20.94%	20.64%	17.78%
Indirect Compliance	1.22%	3.05%	1.30%	1.25%	1.34%	0.62%	3.29%	3.71%	3.46%	1.71%	1.68%	4.11%	1.29%	1.38%	1.34%	1.22%
Total Compliance	8.35%	11.09%	12.38%	13.90%	15.72%	14.38%	24.69%	23.42%	24.78%	23.48%	25.05%	28.82%	22.39%	22.32%	21.99%	18.99%

Notes:

1. Reporting is as of 31 December for every year.
2. In 1991, the law required banks to set aside 5% of their net loan portfolio for small enterprises. This was revised in 1997 to 6% for small enterprises and 2% for medium-sized enterprises.
3. Aside from direct loans to SMEs, banks may comply through alternative modes such as cash on hand, unavailed committed credit lines, holdings of SBFIC notes, deposit in BSP, etc.

Small & Medium Enterprise Development Policies
in Singapore

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- Field Survey, Interview and Report by :

Mr. Kazuaki HAMADA Researcher, Institute for International Trade & Investment
(ITI)

- List of Visited Institutions & Interviewees

Institution	Interviewee
SPRING Singapore (Standards, Productivity and Innovation Board)	<ul style="list-style-type: none"> • Wong Wai Meng (Head, International Policy Board Secretary) • Katerina Tan (Manager, Corporate Planning) • Alexandar Mathew Williams (Deputy Director, Planning International Partnership Office(Asia Pacific))
MTI (Ministry of Trade and Industry)	<ul style="list-style-type: none"> • Cham Dao Song (Assistant Director , Research and Enterprise Division) • Tan Yinglan (Assistant Director , Research and Enterprise Division)
IE Singapore (International Enterprise Singapore)	<ul style="list-style-type: none"> • Lynne Loh (Manager, North Asia & Pacific International Operations Group) • Seow Wei Qi (Senior Officer, North Asia & Pacific International Operations Group) • Rita King (Senior Manager, Enterprise Advisory Division Enterprise Group) • Leong Liduan (Consultant, Enterprise Advisory Division)
A*STAR (Agency for Science, Technology and Research)	<ul style="list-style-type: none"> • James Ling (Programme Director, Growing Enterprises with Technology Upgrade Programme) • Dr Lim Ee Meng (Head, Growing Enterprises with Technology Upgrade Programme)

- Exchange rate of the local currency(Singapore Dollar) per US Dollar
(source : IMF • IFS)

2006 Average 1.589S SGD/USD

2007 Average 1.507S SGD/USD

Small and Medium Enterprise Development Policies in Singapore

Chapter 1 Small and Medium Enterprise Policies - Overview

1-(1) Definition of SME and its Basis

According to the Standards, Productivity and Innovation Board (SPRING Singapore), definition of small and medium enterprise in Singapore is that the enterprise has at least 30% Singapore local equity ownership and fixed assets of S\$15 million or less. Non-manufacturing SME must have at least 30% Singaporean local equity ownership and 200 employees or less.

On the other hand, definition of foreign SME is that the enterprise has below 30% Singapore local equity ownership and fixed production assets of S\$15 million or less. Non-manufacturing foreign SME must have below 30% Singaporean local equity ownership and 200 employees or less. (There is no official definition of SME. The above definition is made by the SPRING for the purpose of providing various development schemes to Singaporean SMEs.)

1-(2) Business Environment and the current status of SMEs

According to the SPRING Singapore, the number of SME in 2005 is 149,000, which accounts for 99.4% of the total business enterprises. The number of SME employees is 1.4 million, which accounts for 62.3% of the total number of employees. SME creates value added of S\$91.5 billion, which accounts for 46.3% of the total value added.

Singapore currently has no official report equivalent to Japan's White paper on SMEs, but they have alternative material such as "The SME Development Survey". With regards to current status of SME in Singapore, the "SME Development Survey 2006" showed analysis as hereinafter reported. "The SME Development Survey" is conducted by DP Information Group to monitor trend change and concerns among SMEs, with support by IE Singapore, SPRING Singapore and Infocomm Development Authority. DP Information Group is a credibility and business information service company with nearly 30 years of experience. Their expertise is in business information, particularly in

the SME arena.

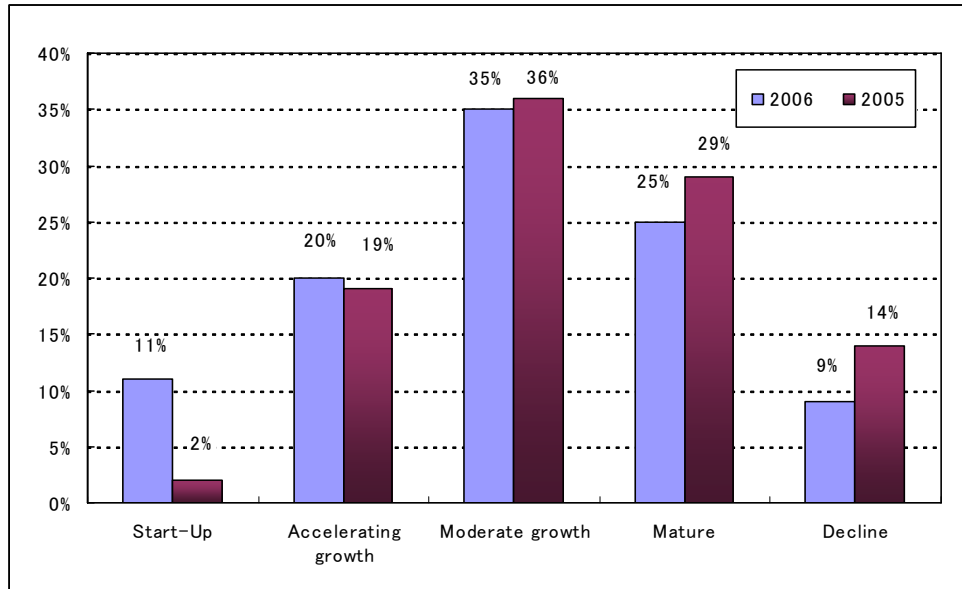
The summary of SME Development Survey results are as follows. (1,068 SMEs responded to this survey.)

Paid-Up Capital

Paid-Up Capital	2006	2005	2004
\$2-\$50,000	18%	6%	9%
\$50,001 to \$0.5mil	53%	27%	41%
>\$0.5mil to \$1mil	6%	26%	20%
>\$1mil to \$2mil	13%	16%	14%
>\$2mil to \$5mil	5%	12%	9%
>\$5mil	5%	13%	7%
Total	100%	100%	100%

(Source) SME Development Survey 2006

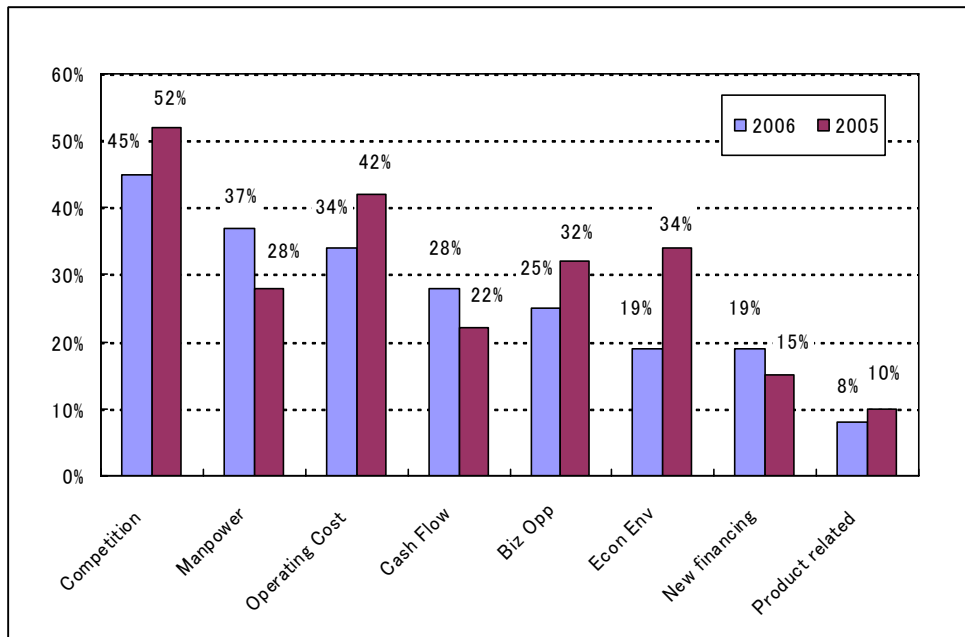
Development Stages



(Source) SME Development Survey 2006

Respondents' breakdown by development stages for 2006 was: *Start-Up* 11%, *Accelerating growth* 20%, *Moderate growth* 35%, *Mature* 25% and *Decline* 9%. This breakdown shows a single-peak distribution with the peak at *Moderate growth*.

Hindrance to Growth



(Source) SME Development Survey 2006

Competition was the top hindrance to growth (45%) faced by the SMEs, declined to a lower percentage compared to 52% in 2005. In addition, more SMEs are troubled by Manpower issues, which was the second most growth hindrance in 2006, highlighting the difficulties faced by the SMES in attracting suitable manpower to their companies. These top two hindrances are followed by *Operating Cost*, *Cash Flow*, *Business Opportunity*, *Economic Environment*, *New Financing* and *Product-related*.

Hindrance to Growth by Development Stage

Development Stage	Top 1 Concern	Top 2 Concern
Start-up	Cash Flow (57%)	Business Opportunity (57%)
Accelerating Growth	Manpower (56%)	Competition (50%)
Moderate Growth	Competition (49%)	Manpower (45%)
Mature	Competition (53%)	Operating Cost (34%)
Decline	Competition (47%)	Operating Cost (45%)

(Source) SME Development Survey 2006

Competitors (Local and Foreign)

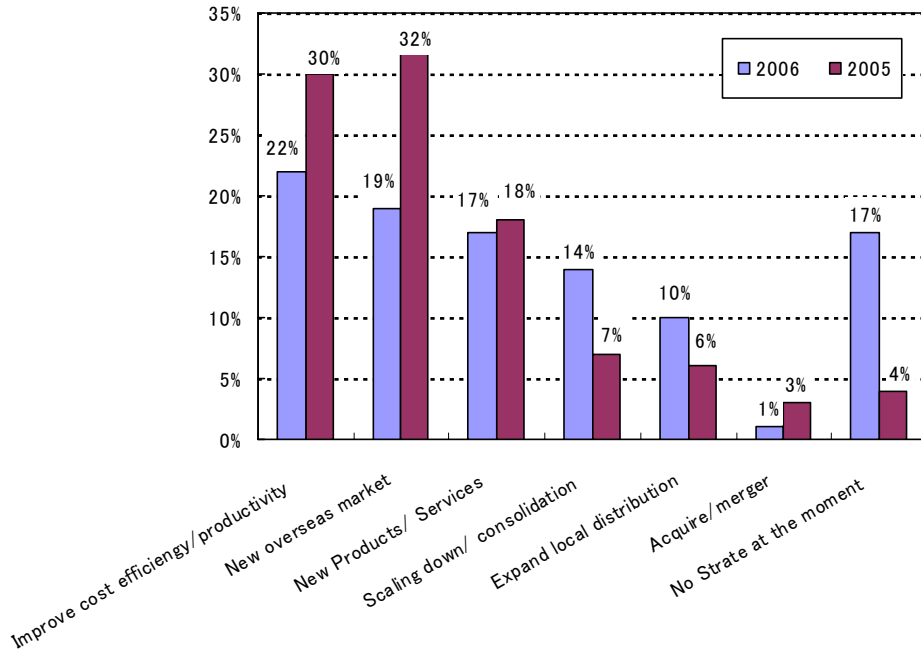
Top competition faced in Singapore	%
Local Competition	69%
Foreign Competition	37%
Do Not Face Any Competition	9%

Top competition faced in Overseas	%
With Local Competitors	17%
With Foreign Competitors from other Countries	48%

(Source) SME Development Survey 2006

For the competition faced in Singapore, Singaporean companies are the major competitors while foreign companies are the major competitors faced in overseas.

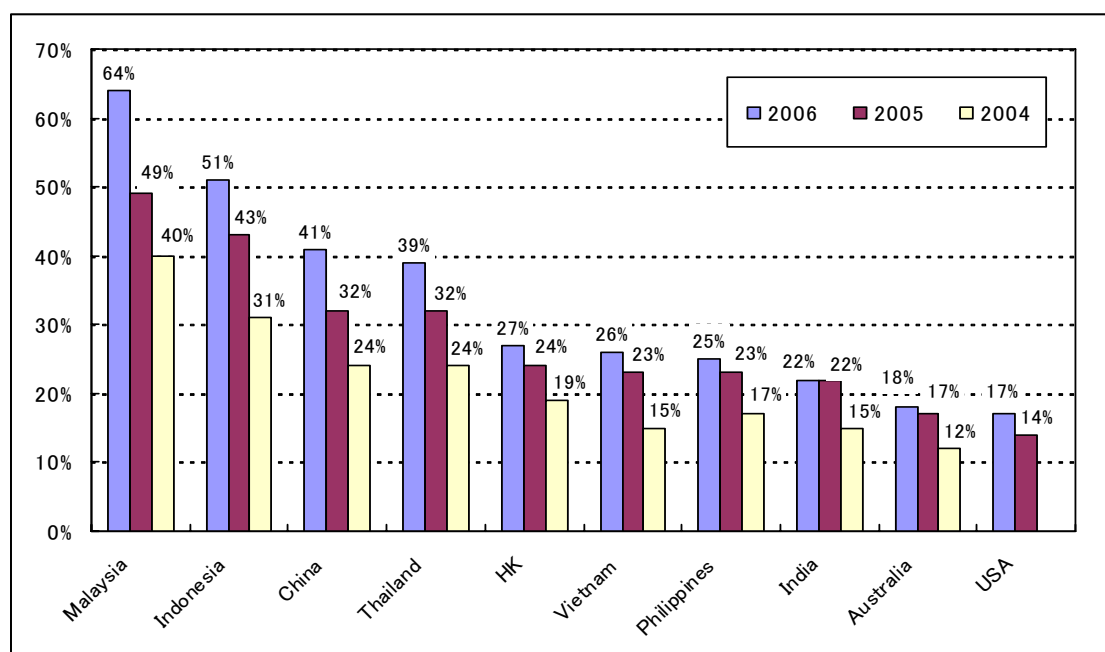
Key Business Strategy for Next 1 - 2 years



(Source) SME Development Survey 2006

Cost Efficiency / Productivity (22%) and *Overseas Expansion* (19%) are main strategies of growing SMEs. Other key strategies are: *New Products / Services*, *Scaling down / Consolidation*, *Expand Local Distribution* and *M&A*. However, this year's survey also uncovered a significant number of SMEs (17%) having no concrete direction for their business in the next 2 years.

Top 10 Countries for Business



(Source) SME Development Survey 2006

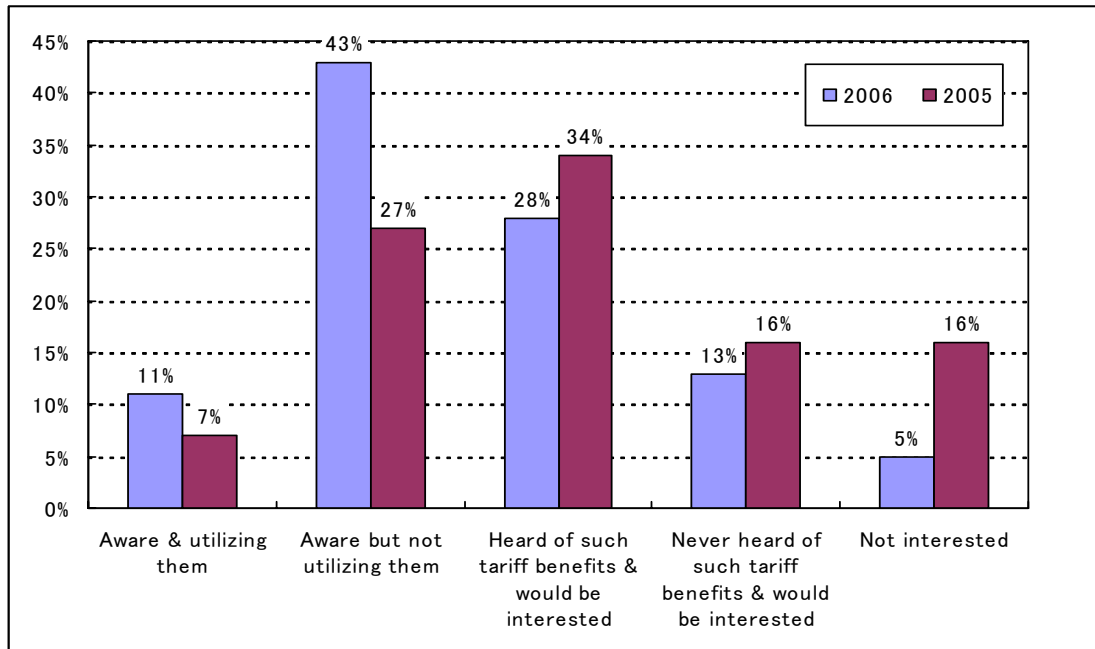
Overseas Business Expansion

	Top 1	Top 2	Top 3
Countries Currently Presence in	Malaysia (64%)	Indonesia (51%)	China (41%)
New Countries Ventured in last 2 years	Malaysia (9%)	Indonesia (6%)	China (6%)
New overseas markets in the next 12 months	India (32%)	Middle East (27%)	Vietnam (25%)

(Source) SME Development Survey 2006

Among respondents, 59% have revenue components coming from non-domestic markets. In expanding the business further in the next 12 months, India and Middle East are the top 2 destinations targeted, highlighting the successful signing of CECA (Comprehensive Economic Cooperation with India) and government policy to expand business with Middle East. Singaporean government has increasingly dispatched various missions to Middle East.

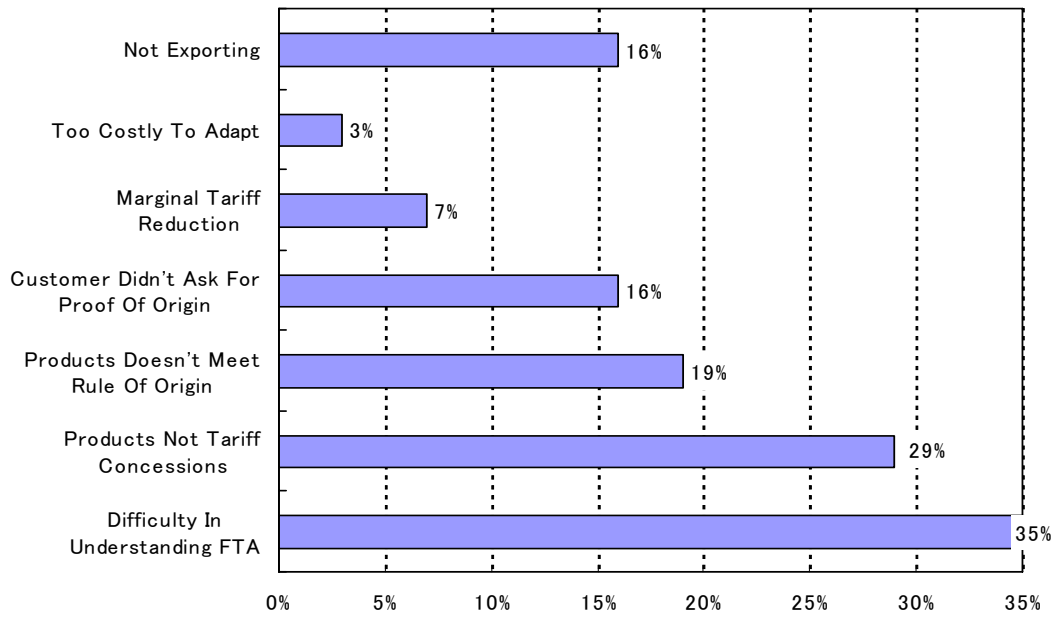
Awareness of FTA



(Source) SME Development Survey 2006

Responses to awareness of FTA are: *Aware & utilizing them* 11%, *Aware but not utilizing them* 43%, *Heard of such tariff benefits & would be interested* 28%, *Never heard of such tariff benefits & would be interested* 13% and *Not interested* 5%.

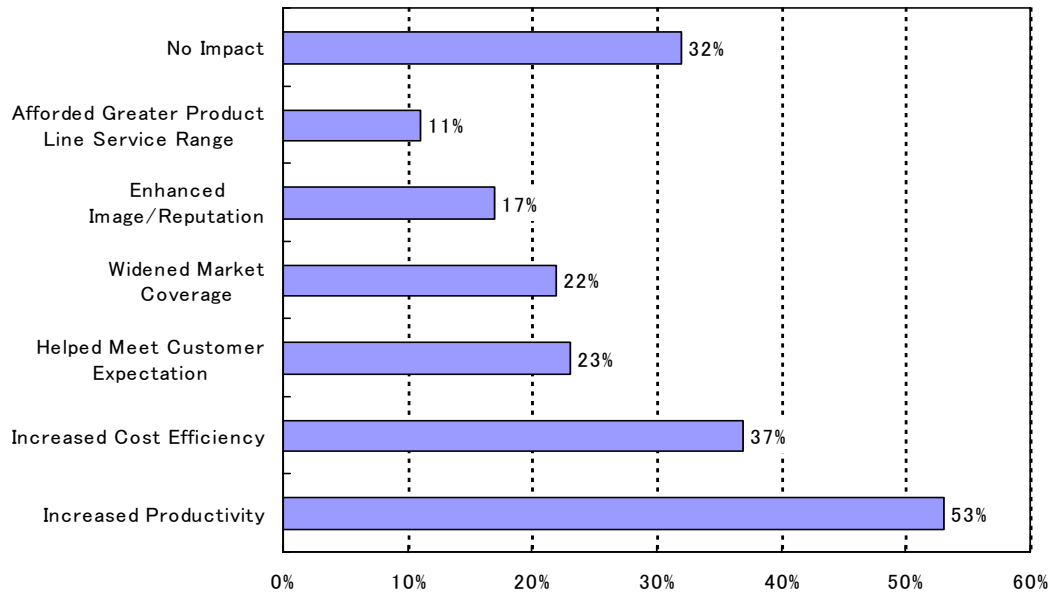
Reasons for Not Being Aware of FTA



(Source) SME Development Survey 2006

Reasons for not being aware of FTA are: *Not Exporting* 16%, *Too Costly to Adapt* 3%, *Marginal Tariff Reduction* 7%, *Customer Didn't Ask for Proof of Origin* 16%, *Product Doesn't Meet Rule of Origin* 19%, *Product Not Tariff Concessions* 29% and *Difficulty in Understanding FTA* 35%.

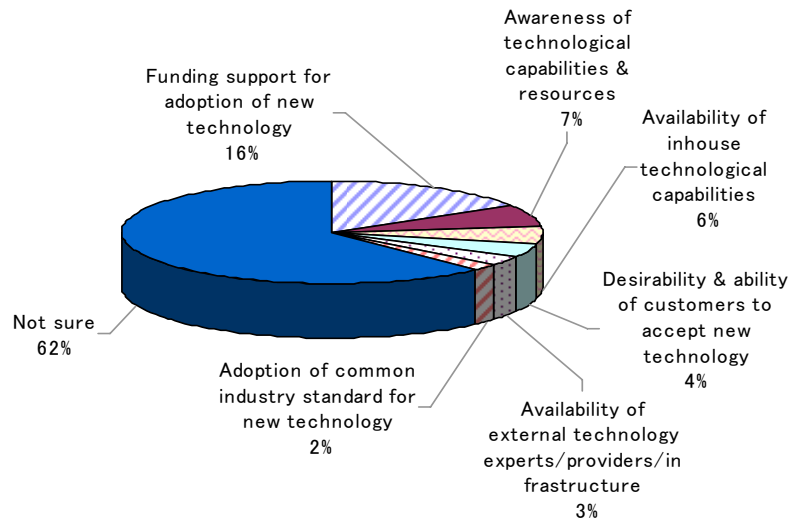
Impact of Technical Innovation



(Source) SME Development Survey 2006

While new technology applications are already a well-adopted corporate strategy amongst larger organizations, it is observed that 32% of SMEs mentioned that IT has no impact on their business growth. Other impacts of new technology on business are: *Afforded Greater Product Line Service Range* 11%, *Enhanced Image / Reputation* 17%, *Widened Market Coverage* 22%, *Helped Meet Customer Expectation* 23%, *Increased Cost Efficiency* 37% and *Increased Productivity* 53%.

Critical Factors for strengthening SMEs' technological capabilities



(Source) SME Development Survey 2006

Notably, *Not sure* was the top critical factor in strengthening of SME's technological capabilities. Critical factors mentioned by respondents are: *Funding support for adoption of new technology* 16%, *Awareness of technological capabilities & resources* 7%, *Availability of inhouse technological capabilities* 6%, *Desirability & ability of customers to accept new technology* 4%, *Availability of external technology experts / providers / infrastructure* 3% and *Adoption of common industry standard for new technology* 2%.

Breakdown of Financing & Funding

Banking/Financing Facilities Used	2006	2005	2004
Short Term Facilities			
Overdraft	40%	44%	47%
Trade Financing	32%	39%	29%
Term Loans	27%	25%	21%
Factoring	7%	6%	6%
Long Term Facilities			
Term Loans	34%	29%	26%
Hire Purchase/ Leasing	31%	33%	35%
Equity Financing			
Venture Capital	15%	5%	NA
business Angels	3%	2%	NA
Funds From Friends Or Relatives	17%	NA	NA
Government Funding Schemes			
Local Enterprise Finance Scheme	8%	4%	NA
Microloan	4%	2%	NA
SME Access Loan	2%	0%	NA

(Source) SME Development Survey 2006

In terms of financing, *Overdraft* is the most common form of facility utilized by the SMEs.

However, the number of SMEs relying on Overdraft has decreased over the years.

Besides overdraft, trade financing against B/L is also utilized by a significant number of SMEs. The number of companies tapping on term loans has increased, as financial institutions refocus their strategy on the growing SME market. Some companies use factoring of receivables as a financing option.

Financing & Funding Method (SME suggestion)

SMEs' Suggestions for better access to external sources of funds	%
Non Collateral Based Financing Instruments	51%
Industry Specific Financing Schemes	48%
SME Credit Rating	37%
SME Centric Financial Institution	25%

(Source) SME Development Survey 2006

SME's suggestions for better access to external sources of funds were: *Non Collateral Based Financing Instruments* 51%, *Industry Specific Financing Schemes* 48%, *SME Credit Rating* 37% and *SME Centric Financial Institution* 25%.

The above statistics are used by the Singapore government as a reference for planning and implementation of its SME development policies.

Currently the government put emphasis on the following areas.

- i) Assisting SMEs in the area of manpower issues;
- ii) Helping the SMEs to have better access to government tenders and quotations;
- iii) To help easier access to financing facilities. Provide advisory support by designated trainers. Enhancing utilization of accumulated experience in the specific areas.
- iv) Supporting the SMEs in utilizing IT to analyze their cost efficiency and increase of productivity; &
- v) Providing more innovative solutions to SME financing needs through the introduction of SME Credit Ratings.

(Note) The Development Survey 2007 has been compiled and issued, but it was unavailable at the time of conducting the research for this report. This report thus has been compiled based on The Development Survey 2006.

1-(3) SME-related laws

Although Singapore has no legislation equivalent to Japan's SME Basic Law, its policies on SME have been well developed. Nine statutory boards i.e. Economic

Development Board (EDB), Standards, Productivity And Innovation Board (SPRING), International Enterprise Singapore (IE Singapore), Agency for Science, Technology and Research (A*Star), Singapore Tourism Board, Hotels Licensing Board, JTC Corporation, Sentosa Development Corporation and Energy Market Authority have been established under the jurisdiction of the Ministry of Trade and Industry (MTI) and playing the respective roles. Statutory board is a corporation established based on individual law and implements national policy effectively. Among these 9 statutory boards, SPRING is playing the main role in SME development policies.

There is the Company Act as a SME-related legislation. According to JETRO, Singapore started working on a major amendment to the Company Act of Singapore in 2000 and it lasted until 2004. Amendment first took place in 2003 and the major amendment to the said act was enacted in April 1 2004. Through this amendment, many rules including printing of company registration number have been revised, aiming to deepen the ties between private sectors and the government. This is to strengthen Singapore's global competitiveness. The Company Act of Singapore in Japanese and English version are available in Japan. It can be read at JETRO Business Library.

Japanese Chamber of Commerce and Industry, Singapore explains the background and objective of the amendment to the Company Act, saying "the Singapore's economy depends on performance of private companies. The Company Act provides for establishment and operation of Singaporean companies and its amendment was undertaken for the purpose of strengthening of corporate global competitiveness, which results in enhancement of Singapore's economic strength." (Source: JCCI Singapore website)

1-(4) Planning and implementation of SME policies

The Ministry of Trade and Industry (MTI) leads country-level economic policies to contribute to the creation of national wealth through stable and sustainable economic growth. Three pillars to achieve this aim are:

- ① Protection of Singapore's interest in international trade and intra-Asian trade

② Promotion of economic growth through foreign investment, improvement of productivity, development of efficient industrial infrastructure, etc.

③ Promotion of intra-Asian investment by domestic enterprises

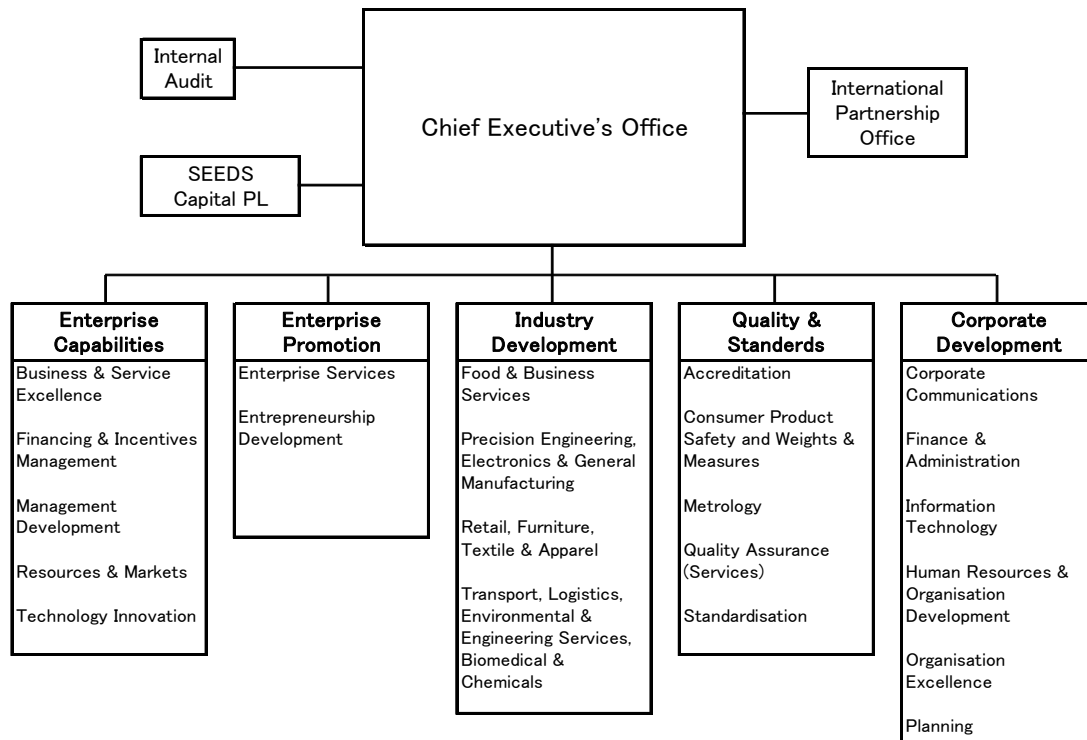
The role of MTI is solely planning and coordination of policies. Statutory boards under the jurisdiction of MTI are responsible for planning and implementation of concrete programs.

① The Economic Development Board (EDB) was established in 1961. As the core statutory board in the economic development which plans and implement policies, it has been playing the most significant role in Singapore's economic development since its independence. Its key tasks are attraction and promotion of investment and provision of mutual coordination between each development organization.

② Standards, Productivity and Innovation Board (SPRING Singapore), established in 2002, aims for enhancement of productivity, improvement of competitiveness and economic strength and enhancement of Singapore's quality of life. To achieve these goals, the SPRING undertakes: (1) implementation of support programs to enhance corporate productivity and innovation, (2) measurement and certification of product standard and quality, and (3) provision of loans and technical assistance aimed at innovation of domestic industries and enhancement of status of SMEs. It is an organization which plays a core role in SME development policies and has approximately 300 staff. (Refer to Fig.1 "Organization Chart")

③ The International Enterprises Singapore (IE Singapore) was established in 2002. To assist overseas successful operation of Singapore-based local and foreign enterprises, the IE Singapore provides market information, supports enterprises to develop business capabilities and helps enterprises find overseas partners. It also works to position Singapore as a base for foreign businesses to expand into the region in partnership with Singapore-based companies. To conduct these tasks, IE Singapore has a global network in 36 locations. The IE Singapore is formerly known as the Trade Development Board.

Figure-1 Organisation Chart of SPRING



④ The Agency for Science, Technology and Research (A*STAR), established in 2002, aims to establish world-class scientific research system for a vibrant knowledge based Singapore. Under the perspective that building up of intellectual capital and scientific capabilities will boost the economic competitiveness of Singapore, A*STAR is responsible for planning of science and technology policies, support for research institutes in industrial/technical fields and development of human resources.

In addition to the above 4 statutory boards, the Workforce Development Agency (WDA) is also one of the policy-implementing organizations.

1-(5) Financial expenditure for SME policies

The Singapore government is implementing industrial and SME policies under the national strategy to enhance Singapore’s position as a global business hub. It places a particular focus on strengthening of industrial competitiveness. Special attention is put on development of human capital. (Refer to Table 1 “Transition of Financial

Table-1 Transition of Financial Expenditure

	Million Dollars				
	2002	2003	2004	2005	2006
GOVERNMENT OPERATING EXPENDITURE					
TOTAL	19,244	19,236	19,936	20,675	23,463
Security & External Relations	9,362	9,236	9,348	10,443	11,973
Social Development	7,979	8,202	8,985	8,548	9,685
Education	4,768	4,876	5,162	4,981	5,685
Health	1,625	1,655	1,890	1,671	1,764
Community Development, Youth & Sports	526	581	808	818	898
Information, Communications & the Arts	221	228	272	275	320
Environment & Water Resources	469	452	460	243	418
National Development	371	410	393	362	599
Economic Development	1,105	994	866	924	954
Transport	379	304	287	285	284
Trade & Industry	535	515	382	444	459
Manpower	160	145	168	165	180
Info-Communications and Media Development	30	29	29	30	31
Government Administration	799	792	737	759	852
GOVERNMENT DEVELOPMENT EXPENDITURE					
TOTAL	7,877	7,953	8,482	8,107	6,412
Security & External Relations	1,068	1,079	874	916	822
Social Development	3,889	4,190	4,031	3,388	2,102
Education	1,654	1,324	1,224	994	688
Health	108	103	90	108	82
Community Development, Youth & Sports	111	109	89	120	65
Information, Communications & the Arts	137	144	109	184	110
Environment & Water Resources	687	926	1,071	877	549
National Development	1,193	1,583	1,448	1,105	608
Economic Development	2,453	2,195	2,755	3,324	3,018
Transport	1,395	1,025	1,402	1,953	1,739
Trade & Industry	986	1,088	1,282	1,320	1,228
Manpower	48	62	49	39	20
Info-Communications and Media Development	24	19	23	11	31
Government Administration	24	490	821	489	470

(Source) MTI, Economic Survey of Singapore

* The beginning of financial year is April and the end of financial year is March of next year.

* Government Expenditure=Operating Expenditure + Development Expenditure

Expenditure")

S\$53.6 million was granted to SPRING Singapore's operating expenditure, depreciation, staff costs etc in 2006.

In 2006, SPRING launched a 5-year \$4 billion Enterprise Development Fund (EDF) III. 99.5% of the 2006 funds went to local SMEs.

1-(6) Role sharing between central government and local governments

Singapore is a city-state with population of approximately 4.58 million as of the middle of 2007. It has no local authorities like the ones in Japan. Governmental ministries and agencies as well as statutory boards under their jurisdiction are providing finely-tuned administrative services directly to residents.

1-(7) Other

The followings are the 3 major problems faced by SME in Singapore.

- Business concerns faced by SME, such as consistently soaring wage, raw material cost and cost of semi-finished and final products and management of increasing rent.
- Growing concern about high interest rate charged by banks
- Concern over tough competition with local and foreign companies

Chapter 2 SME Development Policies Specific Schemes

2-(1) Financing

1) Economic Development Board (EDB)

The Singapore government has been aiming to develop Singapore as a capital venture hub in East Asia, besides its science and technology policies. As a result, there are 165 venture capital companies in Singapore with a total investment balance of S\$ 17.5 billion as of the end of 2005.

Economic Development Board (EDB) started focusing on development of venture capital in 1985, when EDB Ventures was set up with a capital of S\$100 million. Venture capital activities were originally related to the nation's science policies, and this relation became closer since 1999.

In 1999, EDB launched a S\$1-billion fund to financially support entrepreneurs starting up high-tech enterprises. In March of the same year, EDB set up a S\$50 million venture capital company with Walden International Investment Group. In April 2001, TIF Ventures Pte Ltd, a fund-of-funds management company, was set up to attract more overseas high-tech venture capital. Its asset balance has grown to S\$1.3 billion by August 2006.

EDB is promoting attraction of overseas venture capital. In the recent years, it deepens the collaboration with a wide range of fund management companies through Singapore Venture Capital Association as a liaising contact.

○ EDBVM (EDBV Management Pte Ltd)

EDBVM is the wholly-owned investment holding company of EDB. EDBVM's managed funds include PLE Investments Pte Ltd. and Mobile Commerce Ventures Pte Ltd. The PLE Investments was launched in 1999 with a fund size of S\$100 million, while the Mobile Commerce Ventures was a S\$28.5 million fund launched in 2000. EDBVM was originally set up to support entrepreneurs financially, not a fund management company set up with a mission of assisting starting up of high-tech enterprises. However, the ventures recently set up were mainly engaged in the biomedical sciences and other high-tech fields in line with the Singapore government's policy focusing on science and

technology. With this background, EDBVM is now regarded more as a fund management company to support high-tech start-ups. EDBVM's portfolio includes APS Investments Pte Ltd (semiconductor), Distribution Management Solution Pte Ltd (distribution management system development) and New Gen Telecom Co Ltd (communication devices). Its 12 representative portfolio companies as of July 2007 are listed on "Our Portfolio" on its website.

- Bio*One

While EDBVM was set up with the aim of building successful commercial enterprises, Bio*One was set up as a fund management company to accelerate the growth of biomedical science ventures. It manages S\$1.2 billion in funds that invest in global biotechnology, specialty pharmaceuticals and medical technology.

Bio*One has a portfolio of over 60 companies as of January 2008. It makes investment through four funds, namely Singapore Bio-Innovations Fund (SBI), PharmBioGrowth Fund (PGF), Life Sciences Investments Fund (LSI), and Biomedical Sciences Investments Fund (BMSIF).

The SBI Fund I, established in 1990, had a fund size of S\$40 million. SBI Fund II, set up in 1998, had a fund size of S\$70 million. PGF/LSI were established in 1998 and the combined fund size is S\$100 million. BMSIF established in 2001 has a fund size of S\$1 billion.

2) Standards, Productivity And Innovation Board (SPRING)

SPRING is a leading organization to promote innovation of domestic sectors and improvement of the status of SMEs. It undertakes diverse schemes including Local Enterprise Finance Scheme (LEFS) and Local Enterprise Technical Assistance Scheme (LETAS). LEFS provides funds for expansion and development of new capabilities by SME while LETAS provides a grant for acquisition of new business management capabilities.

SPRING has a subsidiary named SEEDS Capital Pte Ltd, which is a fund management company to nurture and support R&D start-ups.

○SEEDS

Like EDBVM, SEEDS (Startup Enterprise Development Scheme) was also launched with the objective of assisting starting up of enterprises. However, SEEDS is different from EDBVM on the point that SEEDS clearly limit its portfolio to R&D companies, in line with the Singapore government's policy to focus on science and technology. The fund size of SEEDS is S\$80 million and this scheme is managed by SEEDS Capital Pte Ltd. The major investment style of SEEDS has been matching investment with private venture capital firm. This style of investment will facilitate investment by venture capital companies because they can share the risk with SEEDS for easier investment by private venture capital firms and combined invested fund between SEEDS and private venture capital company will be provided to applicable enterprises.

About 120 successful SEEDS applicants can be viewed on the EDB website.

Besides the abovementioned schemes, there are The Loan Insurance Scheme(LIS) jointly undertaken by SPRING Singapore and IE Singapore as well as The Enterprise Fund (for non-high-tech enterprises), Trade Credit Insurance Scheme and The Internationalisation Finance Scheme(IF Scheme) undertaken by IE Singapore.

LIS is a programme by SPRING Singapore and IE Singapore to provide an avenue for small and medium-sized enterprises (SMEs) to access financing through the use of loan insurance. Trade Credit Insurance Scheme started in Oct 2005 and offers trade credit insurance at very attractive premium rates (avg 0.18-0.35%) by pooling of demand.

IF Scheme was introduced by IE Singapore in Aug 2007. The loan scheme aims to meet of internationalizing companies' need for asset based financing and working capital/structured financing for overseas projects.

- ①Administered by IE through network of Participating Financial Institutions(PFIs)
- ②Interest rates, collateral requirement and disbursement modes are determined by PFIs
- ③Maximum of \$15m on Group basis (obligor and its subsidiaries/associate companies)

2-(2) Tax system

Reduction of corporate tax, etc.

Reduction of 2% of the corporate tax, from 20% to 18% is being focused.

It will be implemented with effect from Year of Assessment (YA) 2008. With the current 20 % corporate tax being higher than our key competitors such as Hong Kong (17.5%) and Ireland (12.5%), this corporate tax cut will enhance Singapore's competitiveness as a business location in the scope of intense global competition.

In addition to the cut in the corporate tax rate, companies can also count on an increase in the partial tax exemption (PTE) threshold from S\$100,000 to S\$300,000. This means automatic tax exemption of up to S\$152,500 on the first S\$300,000 of a company's normal chargeable income (Tax exemption: (75% of first \$10,000) + (50% of next \$290,000) = \$152,500). For example, a company with normal chargeable income of S\$300,000 will have an effective tax rate of only 8.9%. And for organizations with chargeable income of S\$500,000, the effective tax rate will be an estimated 12.5%, equivalent to Ireland and significantly lower than Hong Kong.

The Head of Tax, KPMG says "Singapore's economic competitiveness has been given a boost with the 2% reduction in corporate rates, bringing us within a whisker of Hong Kong's rate. Moreover, with the new partial exemption threshold, Singapore's effective tax rate for a majority of business will be lower."

New companies setting up in Singapore can also look forward to full income tax exemption up to the first S\$100,000 of their normal chargeable income for the first 3 years of their operations. With the corporate tax exemption and the corporate tax cut of 2%, a new company with normal chargeable income of about S\$300,000 will have an effective tax rate of only 6%.

Other key business tax measures include extending the Writing Down Allowances (WDA) for the acquisition of intellectual property for another 5 years. And this will be available for capital expenditure incurred on intellectual property (IP) acquisitions up to 31 October 2013. The move reinforces Singapore's commitment to develop a conducive environment and infrastructure for intellectual property management activities.

Other

33.33% of capital-investment spending occurred in most of factories and equipment is approved to be recorded as special depreciation reserve with 3 years depreciation. 100% of capital-investment spending (write-off after 1 year) is recorded as special depreciation reserve of computer or other prescribed automation equipment, generator installed for electric power supply in case that ordinary power supply is impossible, robot, efficient pollution management equipment, recognized or authorized energy saving device.

In addition, there is Double Tax Deduction Scheme. This scheme is managed by IE Singapore. Under this scheme, Singapore companies exploring overseas business opportunities are allowed to deduct against their taxable income, twice of approved expenses for approved projects. Activities supported includes participation in approved overseas trade fairs and overseas market development activities.

2-(3) Provision of Information, Human Resource Training, Environment, Consulting, Advice, etc

SPRING is a leading organization to promote innovation of domestic sectors and improvement of the status of SMEs. SPRING is the first contact for SMEs that need information and assistance for the improvement of the operation.

As Singapore has limited number of population, immigrants from around the world is a source of human resource. Under this circumstance, the Singapore government adopted an open policy to offer citizenship to foreign talent. Among foreign human resources, Chinese and Indians with high-level skill and expertise are highly utilized in the Republic. The main field of immigrants is IT industry, but the number of immigrants is also growing in finance and legal fields. The Singapore government has formulated promotion measures in the fields such as inward direct investment, R&D and software production & development to encourage overseas Singaporeans who have worked or started business in Silicon Valley and studied overseas to return to Singapore.

(Refer to Institute for International Trade and Investment (2004), “Research on the formation of a network among those brain drains in East Asia”)

Provision of information by SPRING through EnterpriseOne and Global Sourcing Hub

Launched in February 2006, the EnterpriseOne, consists of a web portal supported by telephone hotline, a network of Enterprise Development Centres (EDCs) and EnterpriseOne Business Information Services (EBIS). This multi-agency initiative involves more than 30 government agencies, chambers of commerce and industry associations to provide “One Network for Enterprises”.

EDCs are set up by industry associations and chambers of commerce specifically to serve local enterprises and would-be entrepreneurs. They are supported by SPRING Singapore. Each EDC is a one-stop centre with a team of business consultants who can advise and provide legal, financial, management and business services.

Human resource development and training by SPRING

In Jan 2008, SPRING Singapore pumped S\$60 million into the Business Leaders Initiatives (BLI), expecting to create by 2012 a pipeline of 1,000 trained SME bosses and senior executives while cultivating another 500 aspiring executives.

2-(4) Support for Obtaining Management Resources for Existing SMEs

A feature of Singapore’s science and technology policy is promotion of R&D focusing on IT and biotechnology fields. Public sector’s research institutes overseen by A*STAR include the Institute of Microelectronics (IME), the Institute of Infocomm Research (I2R) and the Institute of High Performance Computing (IHPC) in IT field, and the Bioinformatics Institute, the Institute of Molecular and Cell Biology (IMCB), the Genome Institute of Singapore (GIS), the Institute of Bioengineering and Nanotechnology (IBN) and the Bioprocessing Technology Institute (BTI) in biotechnology field.

A*STAR comprises 5 organizations namely Exploit Technologies Private Ltd. (ETPL), the Biomedical Research Council (BMRC), the Science and Engineering Research Council (SERC), the A*STAR Graduate Academy and Corporate Planning and Administration Division. While ETPL plans commercialization of technology and legal system for protection of the intellectual property created by the research institutes,

BMRC and SERC plans and implements national intellectual cluster strategies, human development policies and R&D policies in each field. Under these policies, programs and initiatives are undertaken taking into consideration how to make the national R&D policies pervasive in private sector. Furthermore, these organizations carry out performance evaluation of activities conducted by them in the past in order to reflect its result on future policy implementation.

The National Science and Technology Board (NSTB), established in 1991, clearly defined the role sharing where universities and public institutes under the Ministry of Health are to be responsible for basic research while private sector to be in charge of applied research. This role sharing lasted for 11 years until 2002.

One of the major changes in Singapore's science and technology policy after establishment of A*STAR in 2002 is promotion of policies focusing on A*STAR's position as a "bridge" between government and enterprises and their collaboration system, rather than focusing on the abovementioned role sharing.

For instance, SERC and BMRC from A*STAR are playing an important role as an organization linking the government and private sector in IT field and biotechnology field, respectively. These organizations complement the ETPL's function to link the government and R&D industries and reinforce detailed policy measures in each industrial field. These organizations are taking measures to transfer the intellectual properties created by public research institutes, or jointly with public sector, to business industries.

Another feature of Singapore's science and technology policy observed since 2000 is strong facilitation of human resource development. Singapore continues its policy to enhance national innovation capacity through development of R&D human resources taking into consideration of advantages and disadvantages of IT policies undertaken by NSTB in 1990s and based on the observation that scientific and technical output is likely to be dependent on individual skill. Specifically, the government aims to heighten productivity in R&D field on a long-term basis by altering the trend of using most of the budgets for R&D projects and allocating more budgets for human development, including scholarship.

There is a program called GET-UP (Growing Enterprises with Technology Upgrade). This program is undertaken in collaboration among EDB, SPRING, IE Singapore and A*STAR for the purpose of upgrading SME's technical level and growth of enterprises. The GET-UP program consists of 3 pillars: Operational & Technology Roadmapping(OTR), Technology for Enterprise Capability Upgrading(T-Up) and Technical Advisor(TA).

Under the T-UP scheme, for example, growing enterprises can benefit from research scientist/engineer transfer for a certain period from research Institutes in terms of enhancement of enterprises' R&D and technical capabilities. This will facilitate enterprises' development of new product and process, setting up of new technical division and technical transfer from overseas. Partial funding will be provided to the company for the salary of the transferred research scientists and engineers (SPRING: 70% for up to 2 years; or EDB: 50% for up to 1 year).

2-(5) New Business / Venture Support

The path towards innovation designed under the science and technology policies driven by A*STAR has been shortened by its organizational change. The seeds created by the effort of A*STAR need to be efficiently linked with needs, and the Economic Development Board (EDB) and Standards, Productivity And Innovation Board (SPRING) are playing important financial role to achieve this link. These 2 organizations have set up 4 types of public fund management companies/schemes namely EDBV Management Pte Ltd (EDBVM), Bio*One Capital, TIF Ventures Pte Ltd and SEEDS. These are venture capital companies funded by public funds. SEEDS provides funds for start-up of R&D ventures while EDBVM provides investment funds to enterprises to assist strengthening industrial clusters in private sector. Bio*One Capital is a venture capital company exclusively for biomedical science ventures while TIF Ventures is a public venture capital company to nurture private venture capital companies.

The above public venture capital companies are fund management companies launched by governmental organizations and thus they are playing an important role as

a link with innovation from the government policy perspective. At the same time, profitability is also counted as an important aspect and this can be observed typically in EDBVM and TIF Ventures Pte. Ltd. which are companies managing funds through subsidiaries wholly owned by EDB. Bio*One Capital and SEEDS are focusing on R&D ventures/enterprises.

The seeds created under the “control tower” A*STAR are brought into business fields and at the same time placed under the collaboration system among A*STAR and EDB. If the seed is within the scope of IT field, Infocomm Development Authority of Singapore (IDA) will be a part of this collaboration system. IDA also has financial assistance schemes for IT business-related ventures. It is said that this IDA’s schemes played a significant role in reinforcing the foundation of Singapore’s IT industry in 1990s and made a significant contribution to commercialization of Singapore’s R&D outputs.

As can be seen from the above backgrounds, Singapore’s innovation system has features of collaboration among governmental agencies as well as a diverse range of venture capital funds provided by each authority, from funds provided through subsidiaries set up by government agency, funds obtainable directly from governmental agency to funds invested in private ventures which invest in R&D companies. From before, companies established with technical expertise in basic research have been faced with many obstacles in their survival and development processes. Diverse types of schemes for each risk level launched by public venture capital companies, and development of schemes not only for development of R&D enterprises but also for nurturing of private ventures are one of the features of Singapore’s science and technology development policy.

Venture Capital Industry and Promotion by SPRING Singapore

Section 13H (under the Income Tax Act) and Pioneer Service Incentive were introduced to encourage the growth of local and foreign VC funds in Singapore and to enlarge the pool of VC funds available to locally-based enterprises. Both schemes provide tax relief for approved fund and fund management companies, for up to 10 years.

Overseas Enterprise Incentive (OEI) by IE Singapore

Launched in 1993, OEI provides tax exemption on qualifying income from approved overseas investments up to 10 years. Project must generate spin-offs to Singapore.

2-(6) Promotion of Fair Dealing and Maintenance of markets for SMEs

Singapore's judicial system consists of the Subordinate Courts and the Supreme Court. The subordinate courts of Singapore include the District Court, the Magistrate Courts, the Juvenile Court, the Traffic Court and the Small Claims Tribunals. The Supreme Court is divided into 2; the High Court which hears high-value and severe criminal cases as a court of first instance as well as appeals from the decision of subordinate courts, and the Court of Appeals which is a final court of appeal.

On the other hand, the Singapore Mediation Center (SMC) was established in August 1997. At the time of establishment, the Supreme Court made a clear statement that SMC is an independent ADR mechanism exclusively for mediation and an important organization which plays a core role in facilitating alternative dispute resolution.

The SMC is a non-profit organization guaranteed by the Singapore Academy of Law. The SMC has successfully spearheaded the mediation movement in Singapore and is dedicated to the promotion of amicable and efficient settlement of disputes. As of 1 April 2006, more than 1,000 disputes were referred to the SMC. Of those mediated, about 75% were settled. The types of cases include banking disputes, construction disputes, contractual disputes, corporate disputes, contested divorces and divorce ancillary matters, employment disputes, family disputes, information technology disputes and insurance disputes.

There is an international arbitration center established earlier than SMC. It is Singapore International Arbitration Center (SIAC). SIAC, an independent, not-for-profit organization, was established in 1991. Funded by the Singapore government at its inception, SIAC is now entirely financially self-sufficient. It ceased its corporate link with the Singapore Academy of Law, and forged an affiliation with the Singapore Business Federation.

SIAC helps appointment of arbitrators when they cannot agree on their appointment, management of the financial and other practical aspects of arbitration and facilitation of the smooth progress of arbitration.

Singapore acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Under this Convention, arbitral award made in another member country is enforceable in Singapore and vice versa.

(Note) The full name of the New York Convention is “Convention on the Recognition and Enforcement of Foreign Arbitral Awards”. It was prepared in New York, USA in June 1958 and entered into force in 1959. The Convention came into force in Japan in September 1961. The Convention requires courts of contracting countries to give effect to private agreements to arbitrate and to recognize and enforce arbitration awards made in other member countries. It also applies to arbitrations which are not considered as domestic awards in the country where recognition and enforcement is sought.

Competition Commission Singapore (CCS)

The CCS is a statutory body established under the Competition Act (Cap 50B) on 1 January 2005 to administer and enforce the Act. Its mission is to promote healthy competitive markets that will benefit the Singapore economy based on sound economic principles applied objectively and consistently.

2-(7) Regional SME policies

The Jurong Town Council Corporation (JTC) is a leading organization for development, planning and administration of high-quality industrial facilities and business parks. JTC has been main constructor in assistance for formulation of factoryscape in Singapore and growth of manufacturing industry since 1968.

JTC has developed about 7,000 hectares of industrial site and about 45 million square meters of subdivision lots for sale. JTC manages 38 industrial and specialized parks including 3 wafer production parks, chemical products hub in Jurong Island and

biomedical hub in Tuas.

JTC is also the leading developer of new economic hub of 200 hectares in One-North, Buonavista which has research facilities, offices, housings, parks and educational institutes for entrepreneur, scientist and researcher.

In One-North, bioscience and IT research institutes as well as office buildings, residences, shops and amusement facilities are developed in an integrated manner. It is to be developed in 3 phases over 20 years from 2001.

With many educational and research institutions including Singapore Science Park and National University of Singapore (NUS) in its proximity, One-North offers a conducive environment for creation of new industries. One-North is named after the fact that Singapore is located at 1 degree north latitude. In One-North, the following facilities have been developed or are under development.

① Biopolis

In Biopolis, every resources and facilities necessary for biomedical R&D activities are provided and development of new drugs and research on medical equipment are conducted. Phase 1 of Biopolis comprises 7 building complexes and it houses government's research institutes as well as pharmaceutical and biotechnological players from private sector. This research community is supported by infrastructure including shared resources and animal housing facilities. There are biomedical library, scientific resources for R&D activities and laboratories, and amenities such as meeting rooms, business support facilities, restaurants, banks and shops are available in Biopolis.

Biopolis offers an environment where information and ideas are exchanged among research institutes and enterprises in a convenient and efficient way. This environment provides necessary environment for forming an industrial cluster.

② Fusionpolis

As a world-class synergistic hub for infocomm technology, Fusionpolis aims to facilitate industry-academic projects in multimedia field. It is expected that Fusionpolis will house universities, research institutes and enterprises. Shared meeting rooms, halls and studios will be provided for shared use and residence and entertainment facilities will also be developed. The main facility of the first phase was designed by

renowned Japanese architecture Mr. Kisho Kurokawa.

③ Phase Z.Ro

Phase Z.Ro is an incubation facility in orange-color innovative design. There are 60 rooms consisting of 3 types; 27m², 54m² and 108m². Facilities such as broadband internet connection and wireless network are ready for use and necessary facilities/equipments are provided by JTC so that enterprises in Phase Z.Ro can concentrate on their business. There are requirements for setting up an office in Phase Z.Ro, such as that the enterprise is in operation for up to 3 years since establishment and the annual sales turnover is up to S\$1million. Phase Z.Ro mainly houses IT and software development companies.

Local Enterprise and Association Development (LEAD) Programme by IE & SPRING

The 3-year \$50 million LEAD programme was launched in May 05 to improve the competitiveness of our industries and enterprises by strengthening able and willing industry associations to lead various industry development efforts. The programme also serves to groom these associations to become independent and self-sustaining industry leaders.

2-(8) Supporting the internationalization of SMEs

The International Enterprise Singapore (IE) takes over the responsibility for assistance to overseas presence of SMEs in Singapore from the Singapore Productivity and Standard Board (SPB). As part of its services, IE attracts enterprises of U.S.A., European countries, Japan and other countries to make Singapore their business base and promotes enhancement of Singapore's status as an SME hub.

By this, it becomes possible for SMEs to cooperate with internationalized Singaporean enterprises and attract venture business to this area. These new roles are beyond the past role of the Trade Development Board (TDB) in trade promotion.

Policies for internationalization of Singaporean enterprises and making Singapore a global business hub are proposed by governmental organizations, mainly IE.

International Marketing Activities Programme (IMAP) by IE Singapore.

IMAP enables trade associations and chambers (TACs) to organize Singapore pavilions at international trade fairs and business missions for their members and business community at large. IMAP helps to defray the cost of eligible expenses incurred by the TACs and the companies participating in these activities.

iPartners by IE

iPartners catalyses the formation of alliances amongst Singapore-based companies going overseas, by facilitating and supporting the formation, developmental and go-to-market phases of these alliances.

Pathfinders scheme for distribution by IE

Pathfinders scheme helps Singapore-based exporters increase their overseas sales by leveraging on “pathfinders” such as other businesses, consultancies or organizations with broad overseas business networks.

Overseas Marketing Office Programme by IE

This programme assists Singapore-based companies to establish marketing offices in new overseas markets.

Capability Development Support by IE

This programme supports companies to develop certain capabilities, such as Branding, Design, Manpower, IP, which are needed for overseas expansion.

FTA Outreach Programmes

Various outreach initiatives such as seminars and workshops are held to increase companies’ awareness of our network of FTAs, which could be utilized to boost competitiveness.

iAdvisory Portal

The iAdvisory portal was started in Jul 2007, as a web-based platform for companies to seek direct assistance and information from qualified international advisors.

The Regionalization Finance Scheme (RFS)

RFS is a finance scheme established with the aim of assistance for local enterprises to set up overseas bases. RFS is managed by Economic Development Board (EDB) while banks in Singapore which participate in the scheme provide this loan.

Export Technical Assistance Centre (ETAC) by SPRING Singapore

Since its inception in Oct 2006, the Export Technical Assistance Centre (ETAC) has been helping enterprises and companies comply with technical regulations and standards in their export markets. ETAC has launched several outreach initiatives in the areas of food, electrical & electronics and environmental technical regulations.

2-(9) Employment and labor policies related to SMEs

The Skills Development Fund (SDF) was established in October 1979 with the institution of the Skills Development Levy (SDL) Act with the primary objective of skills upgrading of the workforce. Under this scheme, employers are required to pay levy contributions for employees whose monthly salary is S\$2,000 or below. Payment of this levy is made to the Central Provident Fund. S\$2 is payable where the remuneration of the employee is less than \$200. Under the administration of the Singapore Workforce Development Agency (WDA), the Fund provides various incentive schemes including training programs for employees.

The main schemes offered by SDF include; ① Training Assistance Scheme (TAS), ② Total Company Training Plan (TCTP), ③ Skills Certification Plan (SCP), ④ Training Voucher Scheme (TVS), ⑤ Training Leave Scheme (TLS), ⑥ IT Training Assistance Scheme (ITAS) and ⑦ SME Manager Scheme (SMS).

As mentioned in Section 2-(3) of this article, Singapore adopted an open policy to offer citizenship to foreign talent.

2-(10) Support for SME organizations and networks

There is the Singapore International Chamber of Commerce. The Chamber publishes "The Investor's Guide to Singapore 2002" (in English) to promote foreign investment in

Singapore. The ASEAN-Japan Centre and the Economic Development Board (EDB) publish the Japanese version of it.

And SPRING works with Affiliated Partners as follows.

The Singapore Accreditation Council (SAC)

SAC is the national authority for accreditation of conformity assessment bodies. Its primary function is to accredit conformity assessment services such as testing, calibration, inspection and certification. SAC is Singapore's representative in international fora on accreditation and related conformity assessment activities.

The Action Community for Entrepreneurship (ACE)

ACE is a multi-agency movement that involves both the private and public sectors to create a more entrepreneurial environment in Singapore. The BlueSky Festival is an annual national event by ACE and SPRING to showcase our very own entrepreneurs, promote an enterprise mindset and create a buzz on entrepreneurship.

Deal Flow Connection

Deal Flow Connection, a programme of ACE, is the gateway where good business ideas get connected to finance. It is a private sector initiative, supported by the government to serve the deal flow community. Businesses can tap this platform to match their deals with different sources of finance ranging from loans to equity funding such as venture funds and private placements.

Singapore Productivity Association (SPA)

SPA was set up in 1973 as an affiliated body of SPRING. Its objective is to promote the active involvement of organizations and individuals in the Productivity Movement and to expedite the spread of productivity and its techniques.

Asian Productivity Organization (APO)

APO is a regional intergovernmental organization whose mission is to contribute to

the socioeconomic development of Asia and the Pacific by enhancing productivity. Through its APO membership, SPRING is able to better enhance its enterprises' growth by facilitating their participation in the various APO training and expertise programmes.

Association of Small & Medium Enterprises (ASME)

ASME is a not-for-profit organization that provides a wide array of business-centric activities, services and programs to facilitate the growth and development of SMEs.

Enterprise Development Centres (EDCs)

Please refer to 2-(3).

2-(11) Development Policies for Small Scale Enterprises

SME assistance programs and schemes offered by SPRING can usually be applied to both small- and medium-sized enterprises. Essentially, there are 4 fields for SME assistance: (1) money, (2) market, (3) management and (4) know-how.

There is the Micro-Loan Programme as a SPRING's loan program for small enterprises. This is a program which loans up to S\$50,000 to Singaporean SMEs with less than 10 employees. SMEs may use the borrowed funds for daily operations or for automating and upgrading their factory and equipment.

2-(12) Safety net

SPRING Singapore launched the first national standard on Business Continuity Management (BCM) in September 2005. This standard helps enterprises to swiftly respond to potential incidents that threaten an organization and recover from such incidents. BCM, supported by the Singapore Business Federation, EDB and SPRING, will provide Singaporean enterprises with framework to develop effective plans to secure interests of important stakeholders and its reputation, brand and profit on business.

SPRING developed A Flu Pandemic Business Continuity Guide in collaboration with the chamber of commerce, industrial players and the Ministry of Health.

2-(13) Other

One of the features of Singapore's SME policy is focused on nurturing venture businesses for development of advanced technology industries including IT, bioscience and pharmaceutical industries. To secure funding support for this, the Singapore government is making efforts in development of investment funds.

Another feature from the viewpoint of relationship between Japan and Singapore is inclusion of "Chapter 18 Small and Medium Enterprises" in "Agreement between Japan and The Republic of Singapore for a New-Age Economic Partnership" (The Japan-Singapore Economic Partnership Agreement). This Chapter consists of 4 Articles: "Article 129 Co-operation in the Field of Small and Medium Enterprises", "Article 130 Review and Recommendation under Chapter 18", "Article 131 Facilitation of SMEs Investment" and "Article 132 Joint Committee on SMEs".

This Agreement provides for that the both Parties to this Agreement shall co-operate in promoting close co-operation between SMEs of the both Parties, and the both Parties shall co-operate in facilitating investments of Japanese SMEs in Singapore and investments of Singaporean SMEs in Japan with a view to enabling SMEs of both Parties to co-operate in their businesses.

Chapter 3 Challenges of and Suggestions on Promotion of SMEs in Singapore

The author of this article visited Singapore to conduct field survey on “SME development policies in Singapore” from the 27th to 31st of January 2008. Place visited include SPRING Singapore, JETRO Singapore, IE Singapore, JCCI Singapore, A*STAR and MTI and the interview was conducted in these places.

SPRING is now positioned as the core statutory board in implementing Singapore’s SME development policies.

Singapore has no legislation equivalent to Japan’s SME Basic Law nor white paper equivalent to Japan’s White Paper on Small and Medium Enterprise. However, Singapore’s SME policies are never immature. For instance, it is thought that its policy on human resource development can be of reference to Japan. It should be said that Singapore’s SME development policies are well advanced. To be specific, Singapore focuses on development of knowledge-intensive industries such as IT, biotechnology, medical and pharmaceutical industries. It also puts considerable efforts in nurturing technology ventures.

The current Chairman of SPRING Singapore, Mr. Philip Yeo, was in the position of the Chairman of A*STAR until March 2007 and is recognized to be one of the most important person for the Singapore government. From this fact, it can be expected that SPRING will play a significant role in future.

IE Singapore is a statutory board that assists enterprises of city-state Singapore to grow further by seeking overseas expansion to find place and opportunity of growth and by increasing trade volume with foreign companies.

A*STAR is a think tank aiming to nurture technology venture companies for the purpose of development of knowledge-intensive and high-tech industries.

The feature and strength of Singapore’s SME development policies are that these statutory boards are making organizational collaboration among themselves while sharing roles under the Ministry of Trade and Industry.

Among 6 countries on which this survey was conducted, Singapore is in the position

distinctly different from other countries in terms of clear strategies for SME policy. It was impressive that an officer from SPRING showed his interest in the role played by Japanese public-sector financial institutions (such as Japan Finance Corporation for Small and Medium Enterprise, National Life Finance Corporation, Shoko Chukin Bank) during the interview.

From another perspective, what was pointed out by Mr. Inatsugi, the Secretary General of JCCI Singapore, was also impressive. He said, “some affiliates or subsidiaries established by Japanese SMEs are not recognized as SME in Singapore because they do not fall within the scope of Singapore’s SME, and thus they cannot enjoy the benefits granted to SMEs. Japanese companies operating in Singapore usually file a claim or petition or have negotiation with Singaporean government when there is a difficulty in conducting business from the viewpoint not to assist and support SMEs but as Japanese business community”.

From an overall point of view, Singapore is already implementing advanced SME policies. Important (global) partners of Singapore’s economy are not limited to Japan and ASEAN countries but its global partnership covering a wide range of overseas countries including India, China and Middle East countries. Singapore has a strong connection with China by its ethnic background. Recently it deepens its interest in Vietnam.

It can be observed that Singapore is always taking its strong stance to strategically nurture global enterprise, rather than implementing policies for development of SMEs, and it is thought that this point is a challenge for the Singapore government. In terms of this challenge, Japan should consider paying attention to and making cooperation in Singapore’s policies and creation of business opportunities.

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Small & Medium Enterprise Development Policies
in Thailand

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• Field Survey, Interview and Report by :

Mr. Kota NAGAI Associate Economist, Institute for International Trade & Investment (ITI)

• List of Visited Institutions & Interviewees

Institution	Interviewee
OSMEP International (The Office of SMEs Promotion International)	Wimonkan Cosumas (Cooperation Division, Director)
BSID (Bureau of Supporting Industry Development, Department of Industrial Promotion, Ministry of Industry)	Panuwat Triyangkulsri
BOI (The Board of Investment)	Chokedee Kaewsaeng (Investment Strategy and Policy Div. Director)
SBCG (Small Business Credit Guarantee Corporation)	Niramol and Siripon (Vice President)
Small and Medium Enterprise Development Bank of Thailand	Chudachip (Manager)
MAI (Market for Alternative Investment)	Chanitr Charnchainarong (President)
TCC (The Thai Chamber of Commerce)	Chatchai Bonyarat (Vice Chairman)

• Exchange rate of the local currency(Thai Baht) per US Dollar

(source : IMF • IFS)

2006 Average 37.882 THB/USD

2007 Average 34.518 THB/USD

Small & Medium Enterprise Development Policies in Thailand

Chapter 1 Small and Medium Enterprise Policies—Overview

1-(1) Definition of SME and its basis

The Ministry of Industry defines SME as below by Ministerial regulation issued in 2002.

Definition of SME in Thailand

industry	Small Enterprise	Medium Enterprise
Manufacturing Industry	Enterprise which corresponds to any of the following; with employees of up to 50 or with assets of up to 50 million bahts.	Enterprise which corresponds to any of the following; with 51–200 employees or with assets of no less than 50 million bahts and up to 200 million bahts.
Wholesale Industry	Enterprise which corresponds to any of the following; with employees of up to 25 or with assets of up to 50 million bahts.	Enterprise which corresponds to any of the following; with 26–200 employees or with assets of no less than 50 million bahts and up to 100 million bahts.
Retailing Industry	Enterprise which corresponds to any of the following; with employees of up to 15 or with assets of up to 30 million bahts.	Enterprise which corresponds to any of the following; with 16–150 employees or with assets of no less than 30 million bahts and up to 60 million bahts.
Service Industry	Enterprise which corresponds to any of the following; with employees of up to 50 or with assets of up to 50 million bahts.	Enterprise which corresponds to any of the following; with 51–200 employees or with assets of no less than 50 million bahts and up to 200 million bahts.

note : Land cost is not included in assets.

1-(2) Business Environment and Present Status of SME

1-(2)-1) Environment of SME

Currently, SMEs are in severe circumstances.

① Stagnant of the whole economy : the Thai GDP growth rate remains on a plateau such as 6.3% in 2004, 4.5% in 2005, 5.1% in 2006 and 4.0~4.5% in 2007 after hitting a record of 7.1% in 2003. Also the economic growth rate in 2008 will stay at the 4.0~5.0% level, the National Economic and Social Development Board (NESDB) presumes.

② Increase in consumer prices : The consumer price index was 1.8% in 2003. However, it shows an upward tendency such as 4.5% in 2005, 4.7% in 2006 and 2.0% in 2007 (from January to September) and domestic demand decreases.

③ Deterioration of competitiveness in export from the appreciation of the bahts : The bahts-dollar rate had been generally on the bahts weak basis since the economic crisis in 1997 and this enhanced the Thai competitiveness in export. As a result, the Thai trade balance returned to profitability in 1998. The bahts-dollar rate had fluctuated between the high 30 bahts and the low 40 bahts from December 1997 to December 2005. This trend changed in the beginning of 2006 and the bahts moved up to 33.66 bahts against the dollar in December 2007. This resulted the weakening of the Thai competitiveness in export. Especially the export competitiveness of textile product and light industry product which are labor-intensive industries has been seriously affected.

④ Material price including energy price increase : The prices of energy such as petroleum, diesel oil, fuel oil and LPG increased from 2004 to 2006. 36.3% of the Thai energy demand is consumed in the manufacturing sector and 37.7% in the transportation sector. Certain data suggests that the profit of SME shrank 10% because of the material price increase.

1-(2)-2) Present Status of SME

① Number of SME

There are 2,287,057 enterprises in 2006. Of them, large enterprises are 4,292(0.4%), SMEs are 2,274,525 (99.5%). Of them, medium enterprises are 9,791 (0.4%) and small enterprises are 2,264,734(99.0%). Most of the Thai enterprises are small enterprises (table 1).

Table 1 Number of Enterprises based on the size of enterprise (2004-2006)

the size of enterprise	number of enterprises			increase rate 2005 / 2004 (%)	increase rate 2006 / 2005 (%)	proportion to all enterprises (2006) (%)
	2004	2005	2006			
nontypeable	6,209	6,210	8,240	0.0	32.7	0.4
large enterprise	4,311	4,474	4,292	3.8	(4.1)	0.2
SME	2,199,130	2,239,069	2,274,525	1.8	1.6	99.5
medium enterprise	10,036	10,493	9,791	4.6	(6.7)	0.4
small enterprise	2,189,094	2,228,576	2,264,734	1.8	1.6	99.0
total	2,209,650	2,249,753	2,287,057	1.8	1.7	100.0

Source: Office of SMEs Promotion

②Industrial sectors of SMEs

By the industrial sectors of all 2,287,057 enterprises, commerce (trade) and repair industry account for 911,210 (40%), service industry accounts for 678,199 (29.7%) and manufacturing industry accounts for 675,398 (29.6%). Details of SME by industrial sectors are as follows (see table 2).

Table 2 Number of SME by type of businesses (2004-2006)

industrial sectors	number of SME			increase rate (%)		proportion to all SMEs 2006 (%)
	2004	2005	2006	2005 / 2004	2006 / 2005	
manufacturing sector	691,926	696,816	672,351	0.7	(3.5)	29.6
commerce and repair sector	865,906	878,020	908,846	1.4	3.5	40.0
repair industry	64,837	65,349	63,637	0.8	(2.6)	2.8
retailing and other industries	668,112	671,715	681,794	0.5	1.5	30.0
wholesale industry	132,957	140,956	163,415	6.0	15.9	7.2
service sector	621,240	644,032	675,622	3.7	4.9	29.7
nontypeable	20,058	20,201	17,706	0.7	(12.4)	0.8
total	2,199,130	2,239,069	2,274,525	1.8	1.6	100.0

Source: Office of Small and Medium Enterprises Promotion

③Geographical distribution of SME

30.5% of all SMEs is in Bangkok and its surroundings, 27.3% is in the north-east region. Half of all SMEs are in this 2 regions. In 2004-2006, the number of SME in each region doesn't show any noticeable changes. The number of new SME most increased in the east region. The number of SME was 8,666, an increase of 5.8% from 2005 to 2006. In the second place was the central region with the number of 3,646, an increase of 3.9%. (See table 3)

Table 3 Geographical distribution of SME (2006)

region	non-typeable	number of enterprise					proportion to total number of SME (%)	proportion of SME to total number of enterprise in the region (%)
		large enterprise	medium enterprise	small enterprise	SME	total		
Bangkok and its surroundings	2,631	3,098	6,267	686,655	692,922	698,651	30.5	99.2
central	144	151	387	95,583	95,970	96,265	4.2	99.7
east	274	468	1,023	156,834	157,857	158,599	6.9	99.5
north-east	831	163	564	619,905	620,469	621,463	27.3	99.8
south	490	172	645	198,749	199,394	200,056	8.8	99.7
north	542	159	593	396,536	397,129	397,830	17.5	99.8
west	177	70	290	106,160	106,450	106,697	4.7	99.8
nontypeable	3,151	11	22	4,312	4,334	7,496	0.2	57.8
total	8,240	4,292	9,791	2,264,734	2,274,525	2,287,057	100.0	99.5

Source: Office of Small and Medium Enterprises Promotion

④ Form of organization of SME

According to the White Paper on Small and Medium Enterprises of Thailand, the number of enterprises registered as corporate body is 546,319 as of 2006 and it accounts for 23.9% of 2,287,057, the number of corporate body in 2006. Of them, the number of SME is 537,360 which accounts for 23.6% of 2,274,525, the total number of SME. Incorporated SMEs are very few. (Incorporation rate of large enterprise is 93.9%.) (These numbers and rates are calculated by using data of tables in the white paper.)

Inauguration and dissolution

46,816 enterprises (19,037 in Bangkok region and 27,779 in other regions) were registered as corporate body in 2006. Meanwhile, the number of dissolved or closed corporation is 20,078 (10,228 in Bangkok and its surroundings, 9,850 in other regions).

⑤ SME employment

The number of employment by enterprises is about 11,551,000. 2,688,000 (23.3%) are

employed by large enterprises, 1,338,000 (11.6%) by medium enterprises and 7,525,000 (65.1%) by small enterprises. About 80% of all employment is by SMEs. (See table 4)

Table 4 Number of employment by the size of the enterprise (2004 – 2006)

size of the enterprise	number of employment			rate of change(%)		employment rate by the size of the enterprise (%)
	2004	2005	2006	2005 / 2004	2006 / 2005	
large enterprise	2,614,663	2,662,543	2,687,938	1.8	1.0	23.3
SME	8,352,804	8,453,170	8,863,334	1.2	4.9	76.7
medium enterprise	1,357,852	1,378,547	1,338,398	1.5	(2.9)	11.6
small enterprise	6,999,641	7,079,613	7,524,936	1.1	6.3	65.1
total	10,972,156	11,120,703	11,551,272	1.4	3.9	100.0

Source: Office of SMEs Promotion

SME employment by sector (area)

In view of the SME employment rate by sector, manufacturing sector employs 39.4% which is the largest. After that, service sector employs 33.3%, commerce and repair sector employs 27.6%. The employment by manufacturing sector had continued to increase from 2004 to 2006. Service sector showed remarkable growth. In 2006, its employment increased 10.8% compared to the previous year.

©Economic role of SME

SME ratio of GDP

The economic growth rate of Thailand was 5.0% in 2006 (4.5% in 2005). The total value of GDP was 7,816,474,000,000 bahts (increase of 728,814,000,000 bahts compared to 2005). Agricultural sector constituted 836,077,000,000 bahts (10.7% of total GDP) and nonagricultural sector did 6,980,397,000,000 bahts (89.3%). Over the past 5 years, there has been no observable change in this structure which nonagricultural sector accounts for more than 80%..

GDP by SME is 3,041,895,600,000 bahts (4.8% increase over the previous year, 38% of total GDP). Of them, small enterprises account for 2,043,460,300,000 bahts (4.5% increase over the previous year, 26.2% of total GDP), medium enterprises account for 998,435,600,000 bahts (5.3% increase over the previous year, 12.8% of total GDP). SMEs make up almost 40% of GDP.

While SMEs which constitute 99% of all enterprises account for less than 50% in contribution to GDP, they make an important contribution in employment creation and development of the regions. Employment by SEMs accounts for 76.7% of all employment in the regions except Bangkok and its surroundings and 70% of SMEs are based in the provincial areas.

⑦ SME's role in trade

The number of exporter and importer by the size of the enterprise

The number of exporter is 25,445 in 2006. Of them, 22,410 (88.1%) are SMEs and 1,805 (7.1%) are large enterprises. The total number of export is 1,244,119. Of them, 826,361 (66.4%) are by SMEs and 377,659 (30.4%) are by large enterprises. Export value is 131,301 million dollars, that of SMEs is 38,173.9 million dollars (29.1%) and that of large enterprises is 90,230.7 million dollars (68.7%). Large enterprises which account for only about 7.1% of total number of enterprises make up about 70% in Thai export.

The number of importer is 37,867. Of them, 26,069 (68.8%) are SMEs and 2,066 (5.4%) are large enterprises. The total number of import is 2,284,144. Of them, 1,478,128 (64.7%) are by SMEs and 732,432 (32.1%) are by large enterprises. Import value is 129,136.5 million dollars, that of SMEs is 42,254.9 million dollars (32.7%) and that of large enterprises is 83,191.3 million dollars (64.4%). Large enterprises which account for only about 5.4% of total number of enterprises make up most part of Thai import.

(See table 5)

Table 5 Number of importer and exporter by the size of enterprise and each value (2006)

	number of importer	number of import	import value (million)	number of exporter	number of export	export value (million)
large enterprise	2,066	732,472	83,191.3	1,805	377,659	90,230.7
medium enterprise	3,107	332,227	14,152.8	2,605	188,594	17,247.0
small enterprise	22,962	1,145,901	28,102.1	19,805	637,767	20,926.9
nontypeable	9,732	73,544	3,690.3	1,230	40,099	2,896.4
total	37,867	2,284,144	129,136.5	25,445	1,244,119	131,301.0

Source: The Office of Small and Medium Enterprises Promotion

Proportion of SMEs' export to total export is 29.1% and that of import is 32.7%. Export ratio to GDP by SMEs is 47.3%. As compared with the export ratio to GDP in the whole country which is 63.3%, it could be said that SMEs develop their activities more in the domestic market.

⑧ Investing activities by SMEs

Investment projects of up to 200 million bahts (small investment) applied for the Board of Investment of Thailand (BOI) are as follows.

The number of investment projects of up to 200 million bahts approved in 2006 is 910 (582 projects by SMEs, 64.7%, 152 by large enterprises, 177 by other). Approved amount of projects by SMEs is 30,139.1 million bahts (57.7% of 52,238,800,000 bahts which is the amount of total investment of up to 200 million bahts). 62.5% of them is by small enterprises and 37.5% is by medium enterprises.

5 major industries in these investments of up to 200 million bahts are machine and equipment (2,501.8 million bahts), plastic parts or component for industrial products (1,942.1 million bahts), low and middle income housing (1,788.2 million bahts), transport machine parts (1,628.5 million bahts) and parts for electrical products (1,592.8 million bahts).

Note 1: Present status of SME are based on the White Paper on Small and Medium

Enterprises of Thailand 2006 issued by the OSMEP. Composition of the White Paper is as follows. Chapter 1: number of Thai SMEs in 2006. Chapter 2: number of employment by Thai SMEs. Chapter 3: Economic role of SMEs in 2006. Chapter 4: Role of SMEs in international trade. Chapter 5: Investment by SMEs. Chapter 6: Economic indicators of SMEs. Chapter 7: Analysis of fiscal health of major SMEs. Chapter 8: Thai economic forecast for 2007-2008. Chapter 9: Survey about energy consumption of SMEs in 2006. Chapter 10: SMEs labour productivity in major industries. Chapter 11: Participation in business promotion activity and creation of entrepreneur society. Chapter 12: Comparative study of SME by 5 economic bodies. Chapter 13: Summary of the results of the primary SME promotion plan, Executive Summary. Appendix 1: Overview of handling database. Appendix 2: SME promotion secretariat and other SME support service organizations.

1-(3) Legislation for SMEs

1-(3)-1) Basic law

Needs of SME promotion act had been discussed for years. The SME basic law consisted of 48 articles was enacted in February 6, 2000 as part of economic reconstruction policy in the wake of economic crisis in 1997. Current SME promotion policies are developed under this basic law.

The law established the important matters such as responsibility for SME measures (establishment of a board) and clarification of tasks (article 5, article 10), its virtual responsibility (establishment of an executive board, article 17), establishment of project implementing organization (**the Office of SMEs Promotion=OSMEP**, article 15), clarification of concrete responsibility, establishment of SME fund (article 31) and establishment of SME promotion plan (article 36) being a must for SME promotion.

Summary of SME Promotion Act

- **Establishment of SME Promotion Committee**

Article 5 Organization of the SME Committee: chairperson: the Prime Minister, vice-chairperson: Minister of Industry, committee members: Minister of Finance,

Minister of Agriculture and Cooperatives, Minister of Commerce, Vice Minister of Labour and Social Welfare, Vice Minister of Science and Technology, Vice Minister of Industry, Director-General of National Economic and Social Development Board (NESDB), Director-General of Board of Investment (BOI), Chairperson of Thai Chamber of Commerce, Representative of the Federation of Thai Industries (FTI) and knowledgeable persons of 12 or less appointed at the Cabinet meeting. Director of the OSMEP is a member and a secretary. Knowledgeable persons: Appointed from academic experts of SME and 6 representatives of private organizations must be included. At least 3 SME managers of provincial areas must be included in the private organizations.

• **Tasks of the Committee**

Article 10 ①The Committee proposes SME promotion policies and plans to the Cabinet meeting, ②In accordance with the provision of the Article 3, the Committee proposes to the competent minister in order to announce about other management in the official gazette. ③The Committee submits “SME current status report” to the Cabinet and makes public the results at least once in a year. ④Based on the Article 36, the Committee approves the SME Promotion Action Plan. ⑤Based on the Article 36, 37 and 38, the Committee recommends to related administrative organs and private organizations at the implementation of “SME Promotion Action Plan”. ⑥ The Committee recommends to related administrative organs about monetary and fiscal policy, tax system and other policies in order to the projects implemented smoothly in accordance with the principles and the plans. ⑦ The Committee proposes the establishment and amendment of SME promotion laws to related administrative organs. ⑧The Committee supervises the operation of the executive board. ⑨The Committee performs other activities required by the law by right of the Committee.

Meanwhile, the establishment of subcommittee is approved in order to assist the Committee’s tasks. (Article 12)

• **The Office of SMEs Promotion of Thailand=OSMEP**

The role of the OSMEP provided by the Article 15 is as described below.

Article 15 The aim of establishment of the office as corporate entity.

①The OSMEP specifies ranges of the sector and the size of SME considering the economic and social situation. ②The OSMEP specifies the sector and the size of SME which becomes the target of promotion and recommends the SME promotion policy and action plan. ③The OSMEP coordinates and develops the SME promotion action plan in cooperation with related administrative organs or private organizations. ④The OSMEP examines the current state of SME promotion in Thailand and prepares a report. ⑤The OSMEP proposes recommendation such as institution of new law about SME promotion policy or amendment of the law to the committee in order to improve the law. ⑥The OSMEP operates and manages the fund in line with the policy and decision of the committee and the executive board. ⑦The OSMEP handles the administrative clerical work about the committee, the executive board and subcommittee which The OSMEP commissioned to operate. ⑧The OSMEP carries out tasks required by the law or commissioned by the committee or the executive board.

The activities of the OSMEP are as follows.

Article 16 The OSMEP implements all activities including matters listed below within the aim provided by the Article 15.

①The OSMEP has the right to explore every way of management such as possession, lease, installment, transfer, purchase and trade about immovables and movables as donated assets. ②The OSMEP may borrow, offer loans with guarantor or mortgage, and invest only when it is approved to contribute to efficiency of research, development and acceleration of SME promotion. ③The OSMEP offers or assists subsidy with the aim of SME promotion. ④The OSMEP holds stocks of sole proprietorship or cooperating and participating companies with the aim of contribution to SME promotion. ⑤The OSMEP coordinates the related administrative organs or private organizations of Thailand and foreign countries with the aim of contribution to SME promotion. ⑥The OSMEP receives compensation or commission and closes a contract in which the compensation or commission is set out within the aim of the OSMEP. ⑦The OSMEP implements all activities in order to achieve the aim of the OSMEP.

• **The Executive Board**

Article 17 Organization: the Executive Board; chairperson: Vice Minister of Industry, members: director of bureau of budget, representatives of Ministry of Finance, Ministry of Agriculture, Ministry of Commerce and the Board of Investment (BOI), Director of Department of Industrial Promotion and 7 knowledgeable persons appointed by the Board. The director of the OSMEP is a member and a secretary. The knowledgeable persons should have academic backgrounds about SME and at least 5 persons should be non-public servants.

• **Authority of the Executive Board**

Article 19 The board determines the authority and policies about operation, management and conduct of the OSMEP, supervises services and performs the OSMEP's activities with responsibility.

Matters include in authority ①The board consults the Committee at authorization of the OSMEP's services provided in the section 1,2,3,4,5 of the article 15. ②The board submits a recommendation or reports to the Committee and the Minister about SME promotion. ③The board approves the OSMEP's action plan, financial and budget plan of every fiscal year. ④The board sets a policy about fund management by the OSMEP and conducts and supervises it. ⑤The board considers the allocation of the SME promotion fund based on the provision of the article 33. ⑥The board determines the provisions about accounting and finance of the OSMEP. ⑦The board determines the provisions about assigning duties, management and operation of the OSMEP. ⑧The board determines personnel number, duty position, employment period, salary and the amount of other benefits paid to personnel. ⑨The board determines the provisions about personnel management such as appointment, posting, salary, raise, resignation, discipline, punishment and petition, disciplinary punishment and petition of objection. ⑩The board draws up a bylaw for selection and duties of the director and for proxy who acts as the director. ⑪The board draws up a bylaw for benefits of staff and other aids. ⑫The board determines the provisions, policy, condition and method about loans including fund-based finance and investment, giving of subsidy and financial assistance,

and about activities and stock holding. ⑬The board determines the provisions for authority, obligation and method with which the fund manager stipulated in the article 35 manages and operates the fund. ⑭The board draws up the guideline for receipt and payment of the fund. ⑮The board draws up a balance settlement and reports it to the Committee.

Allocation of the fund provided in the section 5 and amendments of the section 12, 13, 14 become effective after the approval of the Committee.

• SME Promotion Fund

Article 31 SME Promotion Fund The fund called SME Promotion Fund is to be established.

Components that make up the fund ①Capital allocation by the government, ② Subsidy from the government annual budget, ③ Donation or donated assets of voluntary contribution, ④Interest or income (by operation) of the fund, ⑤Other financial sources from the fund operation.

Article 33 Purpose of the use of the fund

① Loans to SME and SME association for establishment, improvement and development of SME or SME association with the aim of efficiency improvement of business activities and upskilling. ② The fund supports government-affiliated organization, government corporation or private organization with the aim of implementation of SME promotion action plan. ③The fund provides financial supports to aid all business activities, joint project, investment for business setup, business expansion, and research and development about SME promotion with the aim of overall improvement of efficiency in accordance with the provision of the Executive Board approved by the Committee. ④Funds for operation of the OSMEP and management of the Fund.

• SME Promotion Plan

Article 36 The OSMEP formulates the action plan called “SME Promotion Action Plan” and proposes it to the Executive Board and the Committee with the aim of

implementation of policy and plan for SME promotion provided in the section 1 of the article 10. The competent minister has to announce in the official gazette when the action plan designed to implement the cited SME promotion policy is approved by the Committee.

Article 37 At formulating the action plan, the OSMEP has to consult with related administrative organs and related state-owned enterprises, and carry out research and development combined with requirements, economic status and social problems in line with related administrative organs and related state-owned enterprises, and has to take the results into consideration. At formulating the action plan, the OSMEP has to describe about short-term, medium-term and long-term plans, work plan mentioned below, projects, duties and policies.

①The OSMEP fosters SMEs based on the provincial areas or communities considering proper utilization of local natural resources. ②The OSMEP provides financial support with the aim of improvement and fostering of SMEs. ③The OSMEP builds up capital market or financial market for SMEs and develops it. ④The OSMEP develops knowledge and ability of SME owners and staff in marketing, manufacturing and development area. ⑤The OSMEP develops SME's executive skills about manufacturing management, personnel management, finance, marketing and other methods of management and manufacturing applicable to SME. ⑥The OSMEP develops products for fostering SMEs in the aspect of quality and standard, including promotion of product image, development of product design and packaging. ⑦The OSMEP promotes or supports marketing and market expansion at home and overseas. ⑧The OSMEP carries out promotion of SME's modern and appropriate technology transfer, research and development such as combining modern technology with existing knowledge. ⑨The OSMEP supports provision of information (information gathering) about SME management including development of information technology. ⑩ The OSMEP promotes and supports creation of cooperation between SMEs and large enterprises. ⑪ The OSMEP promotes organization of SMEs with the aim of provision of mutual assistance and implementation of joint project. ⑫The OSMEP fosters and promotes private organizations engaged in SME promotion and support. ⑬The OSMEP improves

investment towards SME and infrastructure for business operation. ⑭The OSMEP provides incentives and benefits for SME promotion or improvement and correction of SME's inherent weakness. ⑮The OSMEP promotes technical support for energy conservation, environmental protection and public health. ⑯The OSMEP improves and revises laws, provisions, procedure and treatment which stands in way of SME's development or is excessive cost burden for SMEs. ⑰The OSMEP carries out promotion and support for copyright, patent, trademark and other intellectual property. ⑱The OSMEP performs duties for promotion of creation of new medium and small size business, including support for continuation of SME business, business expansion and enhancement of competitiveness at home and overseas.

Other important duties Obligation of tabulation of statistics. (article 39, 40)

User of the fund

Article 41 SMEs, SME organizations and private organizations can apply for assistance of the SME Promotion Fund.

Article 43 The Committee has authorization to determine sector and size of SMEs to which the Committee should consider about provision of assistance and various benefits in order to contribute Thai economy and facilitation of SME promotion and development.

1-(3) -2) Other related laws

As for laws about SME's activities, there are not only laws targeting only SMEs but also industries promotion laws. Therefore SME related laws cover a broad range as listed below. (based on provision from expert who is in charge of laws in the OSMEP)

1. Year 2535 of the Thai Buddhist calendar (1992) Research Activities Support Fund Law (Fund Law), 2. Year 2522 of the Thai Buddhist calendar (1979) Road Transport Law, 3. Year 2489 of the Thai Buddhist calendar (1946) Rice Trade Law, 4. Year 2522 of the Thai Buddhist calendar (1979) Tourism Law (Travel Law), 5. Year 2543 of the Thai Buddhist calendar (2000) Accounting Act, 6. Year 2540 of the Thai Buddhist calendar (1997) Organizational Reform Law of Financial Institution, 7. Year 2542 of the Thai Buddhist calendar (1999) Foreign Business Act, 8. Year 2522 of the Thai Buddhist

calendar (1979) Securities Exchange and Trust Exchange Act, 9. Year 2535 of the Thai Buddhist calendar (1992) Public Health Act, 10. Year 2522 of the Thai Buddhist calendar (1979) Export and Import (Trade) Act, 11. Year 2542 of the Thai Buddhist calendar (1979) Response to market investment from abroad and aid supplies, Year 2542 of the Thai Buddhist calendar (1979) Letting and Hiring Act of Commercial and Industrial Immovables, 13. Year 2542 of the Thai Buddhist calendar (1979) Trade Competition Act, 14. Year 2540 of the Thai Buddhist calendar (1977) Civil Servants Information Act, 15. Year 2522 of the Thai Buddhist calendar (1979) Building Management Act, 16. Year 2495 of the Thai Buddhist calendar (1952) Livingware Management Act, 17. Year 2539 of the Thai Buddhist calendar (1996) Ethics in Government Act, 18. Year 2542 of the Thai Buddhist calendar (1999) Protection and Promotion Act of Thai-style Medical Knowledge, 19. Year 2531 of the Thai Buddhist calendar (1988) Medical Equipment Act, 20. Year 2534 of the Thai Buddhist calendar (1991) Trade Seal Act, 21. Year 2535 of the Thai Buddhist calendar (1992) Cosmetic Act, 22. Year 2514 of the Thai Buddhist calendar (1971) Machine Registration Act, 23. Year 2542 of the Thai Buddhist calendar (1979) National Project Investment Act, 24. Year 2499 of the Thai Buddhist calendar (1956) Commercial Registration Act, 25. Year 2545 of the Thai Buddhist calendar (2002) SME Bank Act, 26. Year 2536 of the Thai Buddhist calendar (1993) Export-Import Bank of Thailand Act, 27. Year 2534 of the Thai Buddhist calendar (2001) Small Industry Finance Corporation Act, 28. Year 2522 of the Thai Buddhist calendar (1979), Year 2502 of the Thai Buddhist calendar (1959) Industrial Finance Corporation of Thailand Act enlarged and revised, 29. Year 2534 of the Thai Buddhist calendar (2001) Small Industry Credit Guarantee Corporation Act 30. Year 2535 of the Thai Buddhist calendar (1992) Public Limited Company Act, 31. Year 2542 of the Thai Buddhist calendar (1999) Anti-Money Laundering Act, 32. Year 2545 of the Thai Buddhist calendar (2002) Bureaucrat (Departments and Ministries) Reform Act, 33. Establishment of constitution by national inspector of Parliament, 34. Operation of constitution by political parties, 35. Year 2530 of the Thai Buddhist calendar (1997) Customs Tariff Act, 36. Year 2527 of the Thai Buddhist calendar (1984) Commodity Tax Act, 37. Year 2534 of the Thai Buddhist calendar (1991) Science and

Technology Development Act, 38. Year 2503 of the Thai Buddhist calendar (1960) Export Standards Act, 39. Year 2511 of the Thai Buddhist calendar (1968) Industrial Product Standards Act, 40. Year 2510 of the Thai Buddhist calendar (1967) Drug Act, 41. Year 2535 of the Thai Buddhist calendar (1992) Cleanliness and Tidiness of the Country Act, 42. Year 2543 of the Thai Buddhist calendar (2000) Code of Conduct for Civil Servants Act, 43. Year 2543 of the Thai Buddhist calendar (2000) Labour Relations Act, 44. Year 2535 of the Thai Buddhist calendar (1992) Factories Act, 45. Year 2535 of the Thai Buddhist calendar (1992) Dangerous Substance Act, 46. Year 2535 of the Thai Buddhist calendar (1992) Act on Private Participation in State Undertaking, 47. Year 2540 of the Thai Buddhist calendar (1997) Unfair Contract Act, 48. Act on Injustice Relating to Price Offer to the State Departments, 49. Act on Injustice by State Organization or Person in Charge in Departments, 50. Year 2542 of the Thai Buddhist calendar (1999) Price of Goods and Services Act, 51. Year 2509 of the Thai Buddhist calendar (1966) Trade Association Act, 52. Year 2520 of the Thai Buddhist calendar (1977) Trade Promotion Act, 53. Year 2503 of the Thai Buddhist calendar (1960) Export Promotion Act, 54. Year 2535 of the Thai Buddhist calendar (1992) Enhancement and Conservation of National Environmental Quality Act, 55. Year 2522 of the Thai Buddhist calendar (1979) Referendum Act, 56. Year 2509 of the Thai Buddhist calendar (1966) Chamber of Commerce Act, 57. Year 2535 of the Thai Buddhist calendar (1992) Securities and Exchange Act, 58. Year 2542 of the Thai Buddhist calendar (1999) Public Corporation Act, 59. Year 2522 of the Thai Buddhist calendar (1979) Food Act.

1-(4) Formulation and implementation of SME policies

1-(4) -1) Policy planning organization

SME policy had been implemented as part of industrial development policies until the OSMEP established in February 2002 under the enactment of SME promotion bill. The offices in charge had ranged from the Ministry of Industry and the Ministry of Commerce to the Board of Investment. The establishment of the OSMEP made it possible to implement policy with cross-cutting concept. The base of Thai economic policy is five-year plan by the NESDB (the plan has been developed from 1960s). It's

usually the case that every ministry develops the concrete policy implementation plan (practical plan) roughly in accordance with the five-year plan, setting aside the question of how much the ministry is conscious of the plan. That may be the reason why Thai ministries has a tendency to not only develop a plan but also to implement the plan and to have specific workforce. The OSMEP also has these characteristics. Not only the development of policies but also coordination of action plans, implementation of promotion activities and allocation of the budget are included in the duties of the OSMEP. Duty of the Executive Board and the SME Committee is to give final decision and directions to the OSMEP. (Promotion Plan is to be approved by the cabinet meeting.) This form of organization might be very active and effective or inactive depending on the character of the committee.

1-(4) -2) Policy implementing organization

It is difficult to point out the implementing organization. However, it is considered reasonable to point out the OSMEP as planning and implementing organization.

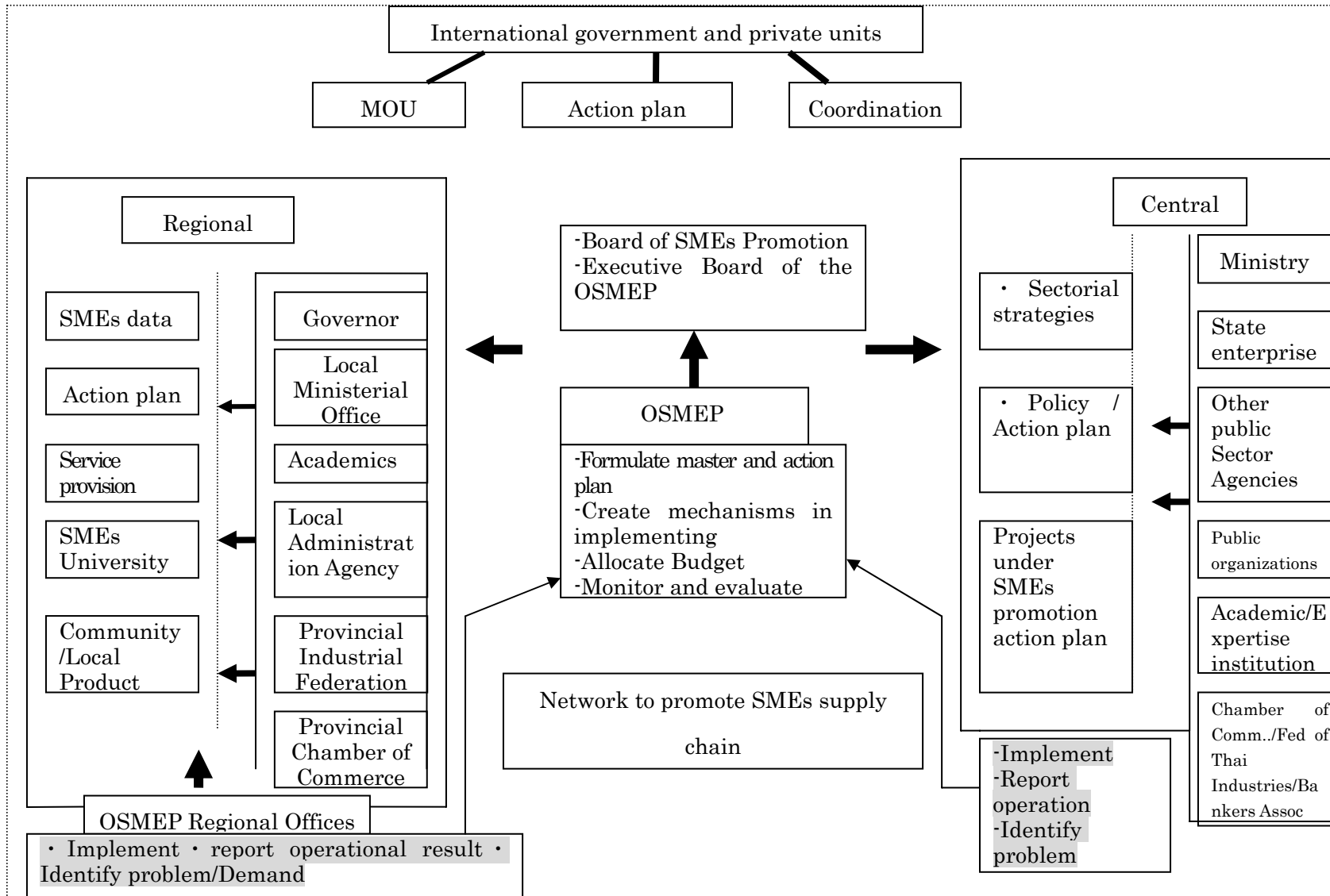
During the first plan (2003-2006), 211 projects were implemented and many public and private organizations participated in them. Breakdown of the projects is as follows; 71 by the Ministry of Industry, 42 by the Ministry of Commerce, 37 by the OSMEP, 21 by the Ministry of Science and Technology, 17 by special governmental financial institution, 11 by the Ministry of Labour, 4 by private financial institution and the Ministry of Finance, 3 by the Ministry of Public Health, 1 by the Ministry of Agriculture and Cooperatives. The relation of these implementing organizations is organized in the chart below with chained mechanism of SME promotion in the second plan. It may be said that policies are implemented by cooperative activity of many public and private organizations. (See table 4-1)

Table 4-1 Mechanism to promote SMEs supply chain (network)

Mechanism		duties
policy mechanism	OSMEP	To create strategies and measures. To identify target sectors. To provide information and suitable enabling factor.
implementation mechanism	Ministry of Tourism and Sports, Ministry of Science and Technology, Ministry of Agriculture and Cooperatives, Ministry of Labour, Ministry of Commerce, Ministry of Culture, Ministry of Industry, Ministry of Public Health, Ministry of Finance	
	Department of Industrial Promotion (DIP)	To promote industries and entrepreneur.
	specialized institute	To develop technology and employees.
	Institute for SME Development (ISMED) Thailand Productivity Institute (FTPI)	Training and development of labour force.
supporting mechanism	SME Bank Small Business Credit Guarantee Corporation (SBCG)	To provide credit Credit guarantee
	OSMEP SME Bank SMEs VC Fund	VC
	Board of Investment (BOI)	To create investment policy for SMEs.
	Thai Industrial Standards Institute (TISI) ISO	To establish standard to the products and services of SMEs.
	Office of the Public Sector Development Commission (OPDC)	To develop resources to SMEs.
	Department of Industrial Works (DIW)	To support and promote environment and community.
	Industrial Estate Authority of Thailand: (IEAT)	To establish industrial estate authority for SMEs.
	• Federation of Thai Industries (FTI) • Thai Chamber of Commerce (TCC) • SMEs Entrepreneur Association	Private sector to promote SMEs.

Relationship between central and regional governments : the OSMEP plays a central role in coordination between central and local, organization of implementing workforce, planning of the budget and consultation. See chart-1.

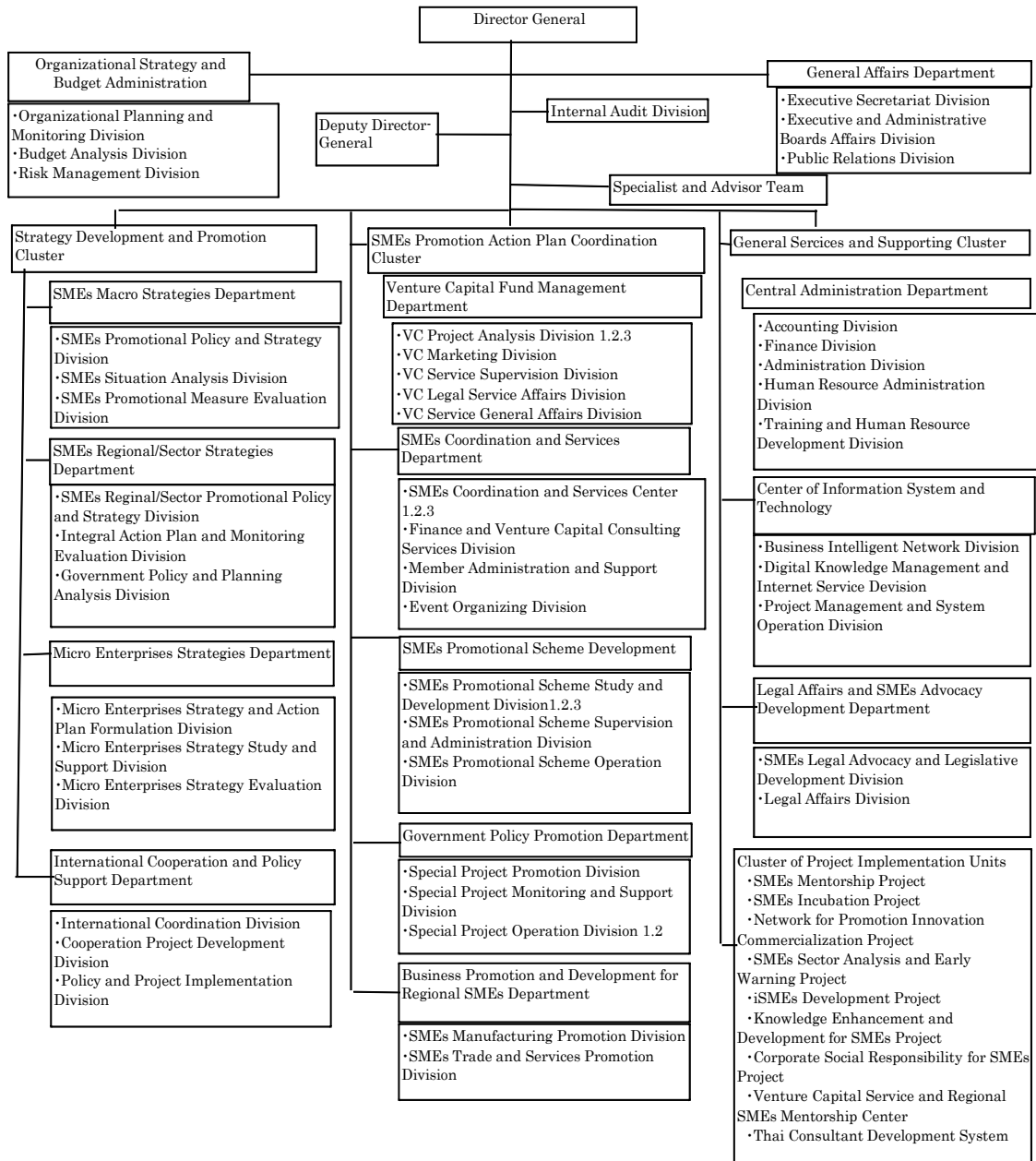
Chart—1 OSMEP and relationship between central and regional governments



• Organizational structure

The organizational structure of the OSMEP is as follows. The actual number of staff is about 200 (about 400 with non-regular member of staff).

Structure of the OSMEP



Source : OSMEP

1-(5) Government spending on SME Development policies

1-(5) -1) SME policy budget amount in central government

Operational budget amount of 2006 in the first plan of the SME promotion project (2002-2006) by the OSMEP was as follows.

- SME policy budget amount in central government

The total amount of operational budget was 4,703.04 million Bahts and its breakdown is as follows.

①Ministry of Industry 1,087.5 million Bahts (23.1% of the total budget amount), aim : SME promotion, community business activities and provision of industrial information.

②Ministry of Science and Technology 692.15 million Bahts (14.7%), aim : support for technology transfer, promotion of science and technology infrastructure and innovation.

③Ministry of Commerce 640.13 million Bahts (13.6%), aim : enhancement and support about export capability, organization of export marketing at home and overseas, export promotion in specific region.

④Ministry of Labour 485.55 million Bahts (10.3%), aim : improvement of skill and capability, improvement and monitoring of safety and sanitation in workplace, protection of rights of workers by labour standards, improvement of worker management.

⑤SME Promotion Fund 1,797.71 million Bahts (38.2%), aim : implementation of “One Tambon One Product” (OTOP) project and comprehensive SME promotion plan in 2006, management of the OSMEP.

1-(5) -2) SME policy budget in regional governments

Regional administration in Thailand is sectioned into ①province, ②county, ③tambon (assembly village), tesaban (urban municipality), ④village etc.. Concrete structure of Thai regional governments was improved in line with detailed local autonomy provisions provided by the Tambon Council and Tambon Administrative Organization (TAO) Act, 1994 and the 1997 Constitution of Thailand. While regional governments

are on the improve in the aspect of organizational structure, they have made little progress on the financial front. The expenditure for regional governments account for about 20% of the total expenditure of central government and tax amount which regional governments are able to collect independently accounts for about 13% of total revenue of regional governments. Under these circumstances, it appears to be a reality that most of the provincial expenditure budgets are for public projects and have little leeway to apply them for industrial development as SME budget. In fact, nearly 90% of tambon which works on “One Tambon, One Project: OTOP” has only about 3 million bahts of annual revenue.

In Thailand, central administrative organizations such as the Ministry of Industry and the Ministry of Commerce have its branch offices in provinces. As for various activities in regional area, it is common that central government ministries plan them and organize in regional area by themselves. Also, its financial base often depends upon expenditure from central government. On that occasion, central government calls for regional government and private organizations such as chamber of commerce and educational institution (university) to participate.

1-(6) Role sharing between central government and regional government

In terms of SME promotion, the SME promotion law which provides basic policy about SME promotion doesn't refer to the classification of projects by central government and regional government. As for relationship between central government and regional government, it is determined to include at least 3 SME managers from regional area in representative of private organizations who participate as a member in SME promotion committee which considers SME promotion policy. There isn't enough ingenuity to reflect regional opinion.

1-(7) Other SME promotion programs

The OSMEP is required by SME Promotion Law to develop SME promotion master plan. It developed the second master plan (2007-2011) which was approved at cabinet meeting in October 2007. Its outline is as follows.

- Master plan is a SME promotion guideline of the country. Its promotion vision is to enhance well-balanced, stable and continuous growth of SME by promoting SME competitiveness based on knowledge and technology, and business ability.

- The aim and numerical targets of implementation of SME promotion in 2007-2011

- ①Continuous growth of GDP amount of SME. To achieve 42% share of total GDP amount in 2011. ②To achieve export growth rate of SME which is not less than total export growth rate. ③Growth of annual total factor productivity of SME which is not less than 3% and annual growth of productivity of target sectors and annual labour productivity of SME which are not less than 5%.

- SME promotion strategy (strategic points and tactics for achievement of SME promotion)

- ①Strategy for creation and development of SME. ②Strategy for enhancement of productivity and innovative capacity of SME in manufacturing sector. ③Strategy for efficiency in commerce sector and reduction of barriers which arise from changes in business environment. ④Strategy for value creation and increase of added value in service sector. ⑤Strategy for SME promotion in regional area. ⑥Various support measures to attract business activities.

SME support activities in next five years are to be developed in line with these strategies.

Chapter 2 SME Development Policies — Specific Schemes

2-(1) Financing

2-(1) -1) Finance structure and loan

Finance is an unavoidable problem for SME promotion. However, it took for many years to establish the financial system. Current financial structure consists of SME support system by private banks and public financial institutions. Services for SME by private banks are in trend of expansion. Major public financial institution is SME Development Bank of Thailand.

- SME Development Bank of Thailand

Need for SME finance was proposed by the National Economic and Social Development Board (NESDB) in 1964 and “Finance Office for Fostering Small Enterprises” (future Small Industry Finance Office (SIFO) was established. It had been operated under the supervision of the Ministry of Industry, Department of Industrial Promotion. However, the operation hadn’t been implemented smoothly because of dependency of loan fund only on budget. After reorganization to the Small Industry Finance Corporation (SIFC) (under the Small Industry Finance Corporation Act, 1991. The Act made it possible to obtain capital and loan fund from home and abroad) and provision of the Small and Medium Enterprise Development Bank of Thailand Act in 2002, SIFC was reorganized to the SME Development Bank of Thailand and authorized capital increased to 10 billion bahts. The supervisory ministry of the bank is the Ministry of Industry.

The aim of this bank is SME development, promotion, support, loan for establishment and management of enterprise and expansion and improvement of business, guarantee, venture capital, advice and mentorship and to implement projects for SME support through provision of services set up by the SME Development Bank. Current situation of loan and capital source including capital structure is described below.

- Capital structure : 7.3 billion bahts as of 2006. (public sector 98.1%, private sector 1.9%)
- Organization : regional office 8, business development center 99, staff 1,900
- Loan (2006) : 23,734 million Bahts, manufacturing 49.6%, service 42.6%, wholesale 7.8%

• loan customers : Loan customers are manufacturing, service, wholesale and retailing industry like private banks. At the same time, many local SMEs including new entrepreneur are loan customers, too (70% of total loan case is to local SMEs). This is the characteristics of the SME Development Bank.

• loan capital source :FRCDs 40%, bonds 12%, government subsidy 1%, ST borrowing 14%, ST deposit 5%, other LT borrowing 20%, LT deposit 8% (The bank doesn't have its own account and depends on all to loans from fund.)

2-(1) -2) Credit guarantee

The Small Business Credit Guarantee Corporation (SBCG) was established under the Small Business Credit Guarantee Corporation Act (December 30, 1991) and is the only credit guarantee organization which takes over all services of the Small Industry Credit Guarantee Fund (SICGF). It began its services on February 21, 1992. The main purpose is to provide credit guarantee to unsecured part of loans. Because of the content of its main services, SBCG is a nonprofit organization. Concrete targets are ① credit expansion for small industries by financial institutions, ②strengthening of credit worthiness of the financial institutions which provide credit to small industries, ③credit expansion to small industries across the country, ④promotion of industrial development for achieving targets of national economic development.

Capital and shareholder composition : SBCG is a government-owned corporation. Capital is 4.4 billion bahts from registered shareholders. Shareholders are the Ministry of Finance (93.18%), members of the Thai Bankers' Association (3.57%), the Government Savings Bank (1.44%), the Industrial Finance Corporation of Thailand (IFCT) (1.32%), the SME Development Bank (0.27%), the Financial Institution Development Fund (0.22%). The competent organization is the Ministry of Finance and SBCG is supervised by the board composed of representatives of the shareholders.

Service : (schemes of guarantee)

1 . Normal scheme : Guarantee for unsecured loan from commercial banks and SFIs and from 10 million bahts to 40 million bahts of total amount. Conditions : ①Thai owned SME operated in Thailand, ②SME which owns land or lease right of 3 years,

③Upper limit of guarantee for leasing land and building is 10 million bahts, ④ Guarantee rate for unsecured part is 100% and up to 50% of total loan. The maximum total amount of loan is from 10 million bahts to 40 million bahts, ⑤Personal guarantee is required, ⑥examination period is 22 days.

2. Risk diversification scheme : Financial institutions and SBCG share the risk of loans provided. Conditions : Thai owned SME operated in Thailand, ②SME with assets usable as hypothetic value which is not below 50% of total loan amount, ③ Guarantee amount is up to 50% of total loan amount or up to 40 million bahts, ⑤ examination period is 5 days.

3. Loan guarantee scheme : Guarantee amount is up to 10 million bahts and payment term is up to 7 years. Conditions : ①Thai owned SME operated in Thailand within 3 years and holds the latest year's stocks of actual shareholder, ②The location of assets to be used as collateral with lender, ③Guarantee amount is up to 50% of total long-term loan amount and maximum guarantee amount per project is 10 million bahts, ④SME operated in Thailand within 3 years and holds the latest year's stocks of actual shareholder, ⑤long-term loan of up to 7 years, ⑥Personal guarantee is required.

- Guarantee guideline

Eligible SME : All small enterprises and business enterprises are eligible for SBCG guarantee service. Conditions : Total assets (except land) do not exceed 200 million bahts as of the day of loan application, ②Natural person or corporate body that engages in business with Thai nationality.

- Eligible financial institution : ①Commercial bank, ②SME Development Bank of Thailand, ③the Government Savings Bank, ④Export-Import Bank of Thailand.

- Guarantee expense : 1.75% per year of total guarantee amount. Financial institution collects it from borrower and pass it to the SBCG.

Table 1 Number of guarantee case and guarantee amount

	number of project	total amount(million bahts)
2004	3,875	4,647.3
2005	3,376	7,543.7
2006	1,916	7,288.6
2007	1,728	6,414.7

Source : SBCG

2-(2) Tax system

Preferential tax treatments for SME are as follows. As for succession of a business, inheritance tax system is not big burden for SMEs. Succession of a business is not really acknowledged as a problem from that aspect.

2-(2) -1) Corporate income tax cut (object: SME with paid-up capital of 5 million bahts or less)

There is a corporate income tax cut system for SME with paid-up capital of 5 million bahts or less at the end of fiscal year (the system started by the decree No.394 of January 26, 2002 and was revised by the decree No.431 of January 21,2005). Usually corporate income tax rate is 30%, while that for SME with income of up to 1 million is 15%, with income of more than 1 million and up to 3 million is 25%, with income of more than 3 million is 30%.

2-(2) -2) Extraordinary depreciation system (equipment investment)

Target of this system is SME (with 200 million bahts of fixed assets except land and with employees of up to 200). Special depreciation is allowed for machine and equipment, computer and factory building. (Current system is implemented under the decree No. 395 of January 26, 2002.) Usually, in case of machinery, up to 20% of acquisition amount is depreciable every fiscal year (under straight line basis, depreciable over a period of 5 years). In case of building, up to 5% is depreciable (depreciate over a period of more than 20 years). In case that calculating method is not

straight line basis, it is permitted to write off machinery over a period of more than 5 years and building over a period of more than 20 years.

Procedure described below is available for SME's extraordinary depreciation.

1. Machinery and equipment : SME can depreciate 40% of acquisition value on acquisition day and 20 % every year for the rest. All is depreciable in 3 years.

2. Factory building : SME can depreciate 25% of acquisition value on acquisition day and within 5 % every fiscal year for the rest.

3. Selection of depreciation method for machinery and equipment : It is possible to combine the extraordinary depreciation method provided to SME with usual method (more than 5 years).

2-(2) -3) Investment promotion

- Investment incentive for venture capital

Conditions for venture capital (VC) to be exempt from taxes imposed on dividends from SME (with 200 million bahts or less of fixed assets except land and with employees of up to 200) and stock transfer : ①VC should be a corporate body under the Thai laws and regulations in line with Finance Minister Decree about the structure of VC. Registered capital of VC is 200 million bahts or less. VC should pay more than half of the registered capital and pay the rest within 3 years from registration. (VC can reduce registered capital in case of holding stocks of SME for 7 consecutive years.) ②VC should register the secretariat with the Securities Exchange Commission within 3 years from January 31, 2002. ③ Relating to paid-up registered capital, VC's investment ratio to SME should be as follows: 1st fiscal year 20%, 2nd 40%, 3rd 60%, 4th 80%. ④VC should hold stocks of SME at least for 7 years. In case that the SME lists a stock on the stock exchange, VC should hold them at least for 5 years with the exception that VC can transfer stocks of SME established within 7 years. ⑤Receiver of securities exchange permit should be the president of SME VC.

- Incentive measures for SME sectors

For the minimum amount of investment incentive by BOI was 1 million bahts, it fulfilled a role to promote investment by SMEs. Measures for the promotion of small

investment project have been implemented under the Notice of BOI in October 16, 2003.

Target sector : 1) agricultural products : • food manufacturing or storage business, or food additive by modern technology (seasoning) (beverage, candy, ice cream), • plants, vegetables, fruits, flower grading, packaging, storage business, • manufacturing of medicinal plant (traditional Chinese medicine) product, 2) Life product and supporting industry which places emphasis on design : fabric manufacturing, • apparel manufacturing (including accessory), • toy manufacturing, • manufacturing of mosaic and memorabilia, • manufacturing of ornament, • manufacturing of stationery and its parts, • manufacturing of furniture and its parts.

Tax benefits : ①Specially important sector. Exemption from machinery import tax, exemption from corporate tax for 8 years and other rights and benefits are provided in accordance with the principle of BOI notification. ②Frame of corporate tax exemption is not provided.

Eligible SME : ①The amount of investment should be at least 500 thousand bahts (without land and working capital). ②Registered capital : The SME should hold at least 51% of Thai capital stock. ③The ratio of debt to capital should be 3 to 1. ④The SME should be approved as the manufacturer of product of “One Tambon One Product” (OTOP) and should be the manufacturer that meets the criteria for community product manufacturing or that obtains the agreement of the SME Promotion Expert Committee, ⑤Promotion measures are applied to the project which has already been implemented and to all new investment for enhancement of production capacity or improvement of production efficiency.

2-(3) Provision of Information, Human Resources Training, Consultation (advice)

SME promotion measures in Thailand are implemented by some ministries and government-affiliated organizations, as described in the paragraph about SME policy implementation organization in section 1, and each organization provides information and advices. Some examples follow.

2-(3) -1) Provision of information

• Provision of information by the OSMEP : ①Provision and construction of a database for SME promotion plan and SME development. ②Data and information service for SMEs and related agencies (provision of service to 15 thousand members of the OSMEP). ③Answering to the questions from SME managers on a web site.

• SME Development Institute : It has research and service division in which information and service department is. The department carries out development and improvement of information provision service for SME, publication of research results on SME and collection and disclosure of data.

2-(3) -2) Human resources development

There are some vocational schools. From the viewpoint of business entrepreneur fostering, Entrepreneur and Business Development Division, Department of Enterprise Capacity Consultation and Department of Entrepreneur and New Business Creation in the Department of Industrial Promotion, Ministry of Industry might be useful. In addition, Technology Promotion Association (Thailand-Japan) trains management consultants in the Education and Training Department.

2-(3) -3) Consultation

• OSMEP : The SMEs Coordination and Service Center provides consultation for matters as follows. ① Method for establishment of enterprise, ② finance and investment, ③ Product design and improvement, ④ Franchise, ⑤ Marketing, ⑥ Business laws, ⑦ Service sector, ⑧ Export marketing. It provided services to 14 thousand enterprises in 2005. Call Center was established in it.

• SME Development Institute : The Institute has the Consultant Division. It consists of Pre Advice Group, Clinic Group for Small Enterprises, Business Plan Group, Business Analysis and Diagnosis Group and Business Fostering Project.

• The Department of Industrial Promotion and the Ministry of Commerce have divisions and departments which provide consultation.

2-(4) Support for Obtaining Management Resources for Existing SMEs

2-(4) -1) Plan for management resources securement

The OSMEP developed the second SME master plan (2007-2011) and the strategy 6 in the plan is equivalent to the support for management resources. It consists of following matters.

①Promotion of building system and structure to offer facility for SME in terms of usage of technological innovation (To work out incentive, preparation and financial assistance to support SME), ② Enhancement of SME's ability (development of manpower) (to draw up standard of behavior and rules for consultant, advisor and service provider and develop system to check them. To help SME employees in knowledge improvement), ③To manage database for SME with ability enhancement of SME Promotion Agency such as modernization of database for knowledge which makes commercialization possible and warning system, ④Avoidance of financial problems (support for improvement of risk management technology of SME manager, promotion of SME registration, increase of service possibility, promotion of new financial product), ⑤Promotion of marketing (display of products, development of infrastructure such as distribution center, sales center and business matching center, usage of free trade system and international agreements for creation of possibility of new market), ⑥ Efficiency promotion of logistic management of entrepreneur (promotion of private sector's participation), ⑦Reduction of business obstacles and ability enhancement of SME by provision of laws information such as domestic and international laws and its implementation and establishment of center for collecting points of laws and regulations and complaints (improvement and development of laws and regulations, surveillance and research for rules and regulations of international agreements), ⑧ Promotion of business area (sector) to develop SME business by central and regional public units and private sector (effective utilization of factors), ⑨Operation of SME promotion activities (including construction of network for SME promotion agency of public and private sector).

2-(4) -2) Reference cases currently conducted

- Case example of support for industry-academia-government collaboration – Establishment of incubation center : The OSMEP established the incubation center under the cooperation with 3 universities and the National Science and Technology Development Agency (NSTDA).

- Case example of promotion of subcontract enterprise

- ① Business matching service by the OSMEP.

- ② BUILD (BOI Unit for Industrial Linkage Development) by the Secretariat of the Board of Investment : Activity to connect finished products manufacturer with parts manufacturing SME. Also, ASEAN Supporting Industry Database has already been constructed. These could be support for cultivation of market.

- Support for cultivation of market : Trade promotion activity by the Ministry of Commerce etc.

2-(5) New Business / Venture Support

2-(5) -1) New Business Support

A lot of SME promotion organizations such as the OSMEP and the SME Bank support for creation of new businesses. As for venture capital, support measures stated in the paragraph about tax system are been implemented and the OSMEP has the department for them.

2-(5) -2) Improvement of the stock market for venture

MAI (Market for Alternative Investment) is the market for start-up enterprises. MAI was established under The Securities and Exchange Act. The aim was to create new financing source for innovative business with a strong possibility. MAI opened in 1999. The number of listed sector is 44, and its size is 26,480 million bahts as of June 2007. 70% of the listed enterprise is engaged in manufacturing industry. 7 enterprises of the listed enterprises shifted to SET (the stock Exchange of Thailand).

Listing requirements : 1. Financial requirements ① The enterprise should be operated at least for 2 years. The enterprise should have same management team at least for 1 year. The enterprise should report net income in the previous year of submitting listing

application. ②Paid-up capital (stockholders' equity) of the listed enterprise should be at least 20 million bahts. 2. Diversification of shareholders : ①20% or more of common stock of the enterprise should be owned by 300 or more minor shareholders. ②The number of the offered share should be 15% or more of paid-up capital at public offering of stock. 3. Good governance and transparency of enterprise : ①The enterprise should have the efficient and highly transparent audit system. ②The enterprise should not have any conflict or potential conflict concerning manager and main shareholders. ③The enterprise should have reliable financial statements and auditor approved by the SEC. ④The enterprise should have the financial advisor approved by the SEC.

The target of MAI is knowledge-intensive enterprises (smart SMEs). MAI seeks to establish the fund with the aim of fostering the promising enterprise and enlisting it on the market. The target sectors are ①automobile component, ②food, ③software and microchip, ④textile, ⑤tourism, ⑥medical services, ⑦biotechnology, and ⑧alternative energy.

2-(6) Promotion of Fair Dealing and Maintenance of Markets for SMEs

While importance of legislative improvement such as Act against Delay in Payment of Subcontract Proceeds, retail business coordination measures, sectors coordination, government and public demand and alternative dispute resolution are recognized from the view of SME promotion, but practical improvement has only just begun. Regulation on establishment of large-scale retail stores as one of the retail business coordination measures is implemented by the Ministry of Interior.

2-(7) Regional SME policies

2-(7) -1) Promotion of traditional and local industry

1. Some of the duties of the Department of Industrial Promotion (DIP) are promotion and development of manufacturer of cottage industry and handicraft industry, enhancement of competitiveness and existence of business of local industry and support for cooperation and grouping of manufacturers in order to create local employment and income. For these duties, there is Handicraft and Cottage Industries

Development Division in the DIP, the Ministry of Industry. In the Division, there are Regional Industries Development Department, Manufacturing Development Department, Products Development and Sales Department and Loan Support Scheme Department.

2. Promotion of regional SMEs in the Second SME Master Plan

Promotion of regional SMEs is listed in the strategy 5. Its directions are to promote creation of network and relationship between regional SMEs, to create products and service quality by regional SME and village enterprises which meet the demand of market, to develop manufacturing ability and business management utilizing technology, Thai culture and knowledge.

2-(8) Support for Internationalization of SMEs

The organizations which engage in SME promotion activities are highly interested in the role of SME in international relations. The OSMEP has the department for it. The department organized a seminar for SME about FTA which Thailand had promoted (about rules of origin necessary for merchandise trade), co-hosted by the Federation of Thai Industries (FTI) and The Thai Chamber of Commerce. The target industries are food industry, automobile industry, textile industry, leather industry and gems and jewelry industry.

Investment abroad : Generally, investment abroad is not developed aggressively. The BOI carries out dispatch of mission to neighboring countries of Thailand (SME managers are participable) from the view of cooperation with regions in investment. In the future, it is expected to grow the importance of investment abroad (development) by SMEs in relation to overseas development of Thai restaurants mentioned in the Economic Partnership Agreement (EPA) with Japan.

Trade promotion : Mainly, the Department of Foreign Trade in the Ministry of Commerce has been in charge of this duty and carries out holding of and participation in overseas exhibitions and operation of merchandise exhibition site. These exhibitions contribute to overseas advance of SMEs, because light industry products and foods which many SMEs produce are often showcased in the exhibitions, though the target is

not limited to SMEs. Also the OSMEP has the international cooperation department. Provision of information : Mainly, the Department of Foreign Trade in the Ministry of Commerce provides information such as market information and trade statistics. The OSMEP described in 3 offers information consultation about trade.

2-(9) Employment Labor Policies SMEs

The Ministry of Labour which is in charge of labour problems implements activities like upskilling of employees. The Labour Protection Act and the Labour Relations Act have some easy implementing terms for small enterprise in its compliance rules. Examples are as follows. ①The establishment of Welfare Committee in a Place of Business is obliged in the Article 96 of the Labour Protection Act but this is applied to the place of business with 50 or more employees. ②Preparation of working regulations of the Article 108 is necessary in case the number of employees becomes 10 or more. The enterprise should make the working regulations public within 15 days in case the number of employees becomes 10 or more. ③The obligation of Preparation of payroll book provided in the Article 114 is applied in case the number of employees become 10 or more. ④Establishment of labour agreement required by the Article 10 of the Labour Relations Act is applied to the enterprise with 20 or more employees.

2-(10) Support for SME Organizations Networks

Network for SME is very widespread. Leading private organizations are the Thai Chamber of Commerce, the Federation of Thai Industries and the Thai Bankers Association. In Thailand, these organizations are often required to participate in the Policy Committee as the representative of the private sector and the Policy Committee often has the characteristics of policy-setting committee in regard to the concrete contents of policy implementation rather than offering opinion about original policy draft. Much the same is true on the SME promotion committee of which the Thai Chamber of Commerce is the member. As association of SMEs, there are various associations by sector (including cooperative association) and they holds technical and training seminars for its members. Activities like co-hosting these seminars with

universities and public organizations are increasing.

As for penetration of policies by public organization, general industrial improvement and enhancement of competitiveness, it is more efficient and may be more effective to go through associations rather than each organization contacting with individual enterprise. This method has been established as the measures taken by public organizations since the organization of regional chamber of commerce was built up in 80s. In addition, there are some movements in public organizations to promote industrial organization. Especially, the Department of Industrial Promotion of the Ministry of Industry utilizes the movement. It has relationship with 11 industry groups of SME and performs activities.

- Support for SME network

Although measures about supporting SME network such as SME Network Construction Support Project in Japan is not clearly specified, there is an effort to it in the Promotion Plan by the OSMEP previously mentioned.

- Network of SME promotion plan : See paragraphs about policy implementing organization.

2-(11) Development Policies for Small Scale Enterprises

The Micro Enterprises Strategies Department in the OSMEP is in charge of the measures. In addition, the Handicraft and Cottage Industries Development Division in the Department of Industrial Promotion of the Ministry of Industry may implement the small enterprise measures. It is clearly specified that the public credit guarantee organization is the Small Business Credit Guarantee Corporation.

2-(12) Safety Net

The importance of safety net is getting recognized and the OSMEP has the unit that is in charge of it. Bankruptcy-prevention and corporate reorganization are dealt in the general act such as bankruptcy act. As for countermeasures against disaster, there is the case that the fund of the OSMEP was used as tsunami countermeasures in south region. The BOI issues the special measures for provincial investment promotion about

these countermeasures and industrial promotion in the regions damaged by natural disaster and unrest. It can be said that the Thai way of safety net measures are implemented.

Chapter 3 Challenges of and Suggestions on Promotion of SMEs in Thai

3-(1) Issues in the SME policy (system problems)

It is considered that problems of the SME policy in Thailand are found more among the system rather than among the policy itself. The OSMEP is responsible for wide range of task including policy planning, implementation planning (coordination of the implementing organizations) and allocation of implementation plan (including budget allocation). This trend is one of the characteristics of Thai administrative organs, especially economic and industrial organizations such as the Ministry of Industry, the Ministry of Commerce and the Board of Investment. As a result, problems are often resolved by action-responsive way (response with decree issued by the ministries and the board rather than laws), not by creating an environment for resolution by sorting out the problems in line with legal system. It is hard to deny that this method is flexible and effective depending on the ability of acting organization and in the case the target area is small. However, it may cause the case impossible to respond when the problems is wide-range and with regional characteristics like problems about SME. In particular, it isn't sufficient to respond to regional problems with central-concentration way and it would be necessary to enhance the ability of promotion activity and improve system.

The enactment of the law (scheme, system) which links directly to the concrete measures described in the Chapter 2 of this survey and corresponds to the Japanese special laws for SME such as the Advancement of SME Manufacturing Law, the SME New Business Activity Promotion Law, the Regional Industrial Cluster Invigoration Law, the Central City Invigoration Law, the Law for Promotion of Generalization and Efficiency of Distribution Operation, the SME Retailing Industry Promotion Law, the SME Labour Power Securement Law, the Area Adjustment Law, the Small Enterprise Support Promotion Law does not show substantial progress. It appears to be a reality in Thailand that the matters which these laws mean are implemented if not all in a manner that corresponds to the situation. It is necessary to review if this system is enough in the aspect of effect and durability.

- Relationship between industrial development and SMEs

SME problems in Thailand have been treated in the past as one of the problems in industrial promotion. However, it would be required to clarify the allocation of roles between industrial promotion and SME promotion.

3-(2) Cooperation with Japan

Japan cooperated with Thailand in establishment of the SME Development Act and other laws. The operation system of these laws is Thailand-specific as stated in the previous section. It is necessary to examine how much result did the country get for SME promotion by this system and, in case of little success, what was the cause of it. This examination is especially required for problems of regional-level. It is considered effective to do the examination in cooperation with Japan and to create a collaborative policy for responding the cause.

Thailand has fostered many consultants. This survey didn't refer much to the consultants. It seems that the Thai Chamber of Commerce has misunderstood that the consultant system was available only for manufacturers. The advantages of utilization of consultant are in on-the-spot training, which has not yet been well-understood. In consideration of this reality, it might be necessary to examine the utilization of cooperation programs in the past and to promote its efficient use.

To implement SME policies, it is extremely difficult to decide whether the SME would be the target of the policy because of its basic vulnerabilities or because of its innovative character and possibility. The SME supporting organizations in Thailand is suffering from this problem. Exchanges of the method of responding to these problems are required. The SME Bank wanted the research about Japanese response to the nonperforming loan problems.

Mutual exchange of officials who are in charge of SME promotion and profound exchange of opinions are indispensable.

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Small & Medium Enterprise Development Policies
in Vietnam

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- Field Survey, Interview and Report by :

Mr. Ryuichiro INOUE Prof. Emeritus, Obirin University of Japan

- List of Visited Institutions & Interviewees

	Institution	Interviewee
HANOI	ASMED (Agency for SME Development)	• Pham Thanh Son (Deputy Director of General) • Nguyen Trong Hieu (Manager) • Toyoharu Kobayashi (JICA) and Another
	VIETRADE (Vietnam Trade Promotion Agency)	• Do Kim Lang (Information & Market Research Dept. Director) • Trieu Thanh Nam (International Relations Dept. Deputy Director)
	MPI (Ministry of Planning & Investment)	Kyoshiro Ichikawa Advisor
	TAC (Technical Assistance Center)	Takehiro Isei , Dr.Eng.
	SBV (State Bank of Vietnam)	• Manabu Tsurutani (NRI Consultant) • Takeshi Murakami (NRI Consultant)
	SCS Global Professionals Co., Ltd.	Takehisa Saito(Consultant)
	VCCI (Vietnam Chamber of Commerce & Industry)	Pham Hoang Tien (Deputy Director of SMEPC)
	JBIC-Hanoi (Japan Bank for International Cooperation-Hanoi)	Ojima Yasuhisa
	JICA (Japan International Cooperation Agency)	• Yasuhiro Tojo(Senior Deputy Resident Representative) • Kinji Okamura(Deputy Resident Representative)
Ho Chi Minh	VCCI (Vietnam Chamber of Commerce & Industry)	Nguyen Duc Binh (Director)
	SHTP-IC (Saigon Hi-Tech Park Incubation Center)	Pham Trong Kha(Department of Cooperation and Investment)
	HUAIC (Ho Chi Minh Union of Association of Industry & Commerce)	Hoang Nam Son (General Secretary)
	VIETRADE (Vietnam Trade Promotion Agency)	Bui Thi Thanh An
	HOSE (Ho Chi Minh Stock Exchange)	Nguyen Minh Duc (Intl Cooperation Dept.)
	VJCC (Vietnam-JAPAN Human Resource Cooperation Center)	• Takao Fujii (Director) • Hisashi Tajima

- Exchange rate of the local currency(Vietnamese Dong) per US Dollar

(source : IMF • IFS)

2006 Average 15.994 VND/USD

2007 Average N.A.

Small & Medium Enterprise Development Policies in Vietnam

Chapter 1 Small and Medium Enterprise Policies – Overview

1-(1) Definition of SME and Its Bases

The definition of small and medium enterprises in Vietnam was clarified by law in November 2001. Basically, any business, irrespective of its industry, is considered a small or medium enterprise (SMEs) if they have capital of less than 10 billion dong (about US\$620,000), and less than 300 employees. The General Statistics Office (GSO) also uses this standard. Also, based on this standard, the GSO has published data from 2002 under the classifications of Micro Enterprises for businesses of up to 9 employees, Small Enterprises of up to 49 employees, and medium enterprises of up to 299 employees.

The number of small and medium enterprises, based on these standards and according to the Vietnam SME Association (VINASME), were about 250,000 companies as of the end of June 2006, which represents more than 96% of all companies registered under the Enterprise Law. Broken down further, about 50% of these are in the fields of commercial sales/tourism, 30% were manufacturing / processing, and about 10% were involved in construction/transport/infrastructure related business. Also, in terms of the ratio of SME contributions to the Vietnamese

Table 1 Number of Registered SME in Vietnam

Year	Annual Registrations	Total Cumm. Registrations
2000	14,457	34,699
2002	21,535	54,679
2004	37,230	83,188
2005	39,959	123,147
2006	41,232	164,379
Mar 2007 (approx.)	-	abt. 270,000
2010 (Target)	-	abt. 500,000

Note) For 2000-2004, created from GSO data and Cu Chi Loi data as quoted by Shozo Sakata ed., and various newspaper articles, etc.

Source) "20 Years of Economic and Social Development in Vietnam since Doi Moi", by Cu Chi Loi, and Shozo Sakata ed. "Vietnam Development Strategies towards 2010", Asian Economic Research Center, 2006 and Vietnam Economic Times, 2006.11.01 etc.

economy, as of March 2007 they make up 26% of GDP, 26% of the workforce, 31% of industrial production, and 78% of retail revenue (see Table 1).

However, Vietnam also has special conditions as a transitional economy, and in many cases the terms SMEs and private company (or Private Sector) are used interchangeably, without definite distinctions. Even in GSO data, in addition to the classifications above, some data is published with the classification of ‘medium-scale enterprise’, consisting of capital of up to 30 billion dong (about US\$1.87 million) and up to 500 employees, and such cases are sometimes mixed in for the development of small and medium enterprise policy. In one sense, this may reflect the growth and development of small and medium enterprises.

From 2007, the definitions and development plans for small and medium enterprises have been under review.

1-(2) Environment and Conditions Surrounding SMEs

1-(2)-1) Analysis of White Paper on SMEs

In Vietnam, there are still no “Small & Medium Enterprise White Papers”, or any other similar published reports from government organizations. However, the “5 Year SME Development Plan 2006 - 2010” is a current example of a basic statement, which discusses the current status of small and medium enterprise development, purposes and methods for development, activities, and guidelines (for more details, see 1-(4)-1) below).

Also, in the formulation of the determination of this plan, support and cooperation has been obtained from related government organizations, private organizations, and donor countries and organizations (collectively referred to as ‘donors’), and many reports have been prepared. There are also reports about the various projects and programs under which small and medium enterprises have received support from donors, as well as annual reports compiled by the donors themselves regarding the planning and condition of their activities, making the number of reports related to small and medium enterprises quite large indeed.

Currently (March 2008), small and medium enterprises in Vietnam are closely

linked with the issues of privatization and equity conversion of public companies, and are still facing many issues. This is because in spite of the tendency among the leadership layers of the government and parties to be strong in the promotion of private companies and small and medium enterprises, at the same time there remains a view, long held, that argues that it is necessary for political stability that the position of state run (or state owned) businesses are fundamental to the strength of the economy and society.

Against this backdrop, while some private companies have experienced fast development, and show great growth potential, it is still a fact that the majority of private small and medium enterprises face difficulties in terms of use of land, financing, taxation, approval procedures, human resource acquisition, and access to information compared to their state run counterparts. As a result, business opportunities are lost, the majority of small and medium enterprises are stopped from accumulating capital, and this makes it difficult to secure financing and to make profits.

Further, in recent years, advantageous conditions for state owned companies have made it possible for them to diversify into profitable industries, and to conglomerate, sending private small and medium enterprises into an even more disadvantageous environment. With the leadership of the government and party expecting further progress for state owned businesses in terms of longevity and performance on the world stage, there is no sign of a strong effort to prevent the strategic development of such state owned businesses.

In addition, while private small and medium enterprises affiliate with the Vietnam Chamber of Commerce & Industry (VCCI) and other economic organizations, and attempt to strengthen their profile through the establishment of new organizations, shortages of talented staff and a lack of needed information mean that they don't even have the ability yet to compete with the government head on. As such, their pressure on the government to reform the current disadvantageous business environment is also weak.

Under these conditions, compared with other nearby ASEAN countries, or even

with China, a country with a similar system, the business environment for small and medium enterprises in Vietnam is very far behind. In order to reform this situation, and to create a good business environment, although it will probably be difficult to see a wide range of fast reforms, at this stage there must at least be a display of energy for the pace of such reforms to be sped up.

1-(2)-2) Statistical Data regarding SMEs

As stated in 1-(2)-1), there are many reports about small and medium enterprise policy, but since there has not yet been a national survey that is representative of small and medium enterprises, there is not yet any truly national statistical data. The following data are examples of that which can be used to a partial degree.

- General Statistic Office (GSO) 2002 census and 2005 Business Information Center Report.
- General Statistic Office Statistical Yearbook 2006, published in 2007, from page 119 there is corporate and individual company data from 2005, and this includes data such as the type of business, industry, region, scale and other business statistics, number of employees, number of employees by scale of business, and capital scale. The yearbook for this year is currently being compiled.
- Vietnam Development Report 2007 - Joint report from International donors. Currently compiling statistics.
- Survey of SMEs by the Institute for Labour Studies and Social Affairs
- The World Bank “Small-scale survey of Enterprises”.

1-(3) Legislation for SMEs

With the ‘Doi Moi Reforms’ commencing in 1986, the privatization of state owned business has moved forward, and in order to newly acknowledge the establishment of private businesses a series of laws and system reforms were enacted. For example, in 1990 a law was established for private enterprises to receive those state owned companies being privatized, and in order to provide new incentives, in 1998 the Law of Promotion of Domestic Investment was amended. Now, in the 1992 constitutional

amendment, the role of private companies in the success of the domestic economy was recognized for the first time, and the principle of privatization was also implemented.

For this period, in the early to mid 1990s the performance of mainly state owned businesses was strong, but from the latter half of the 1990s the growth of the private sector and worsening business performances of state owned businesses brought attention to the need for relief for state owned businesses, and further growth by the private sector. Based on these events, a new Enterprise Law was established in 1999, which sought to reform the policy environment in which domestic private businesses operated, and the new Law went into force in 2000.

With the establishment of the Enterprise Law in 1999, the establishment of new private enterprises changed from a system requiring government approval to a registration system, resulting in the disposal of a business licensing system that was restricted to just 145 different industries, as well as its many entrance restrictions. Most importantly however, even after this amendment to the law and system, Vietnam still maintains a substantial licensing system with many entry restrictions compared to other Asian nations, with regulations added that make access to land use rights, capital and credit more difficult, and as a result the business environment for private enterprises cannot be said to have been fully reformed.

Still, since the establishment of the Enterprise Law in 1999, the number of private enterprises established annually increased dramatically from 2,000 - 5,000 per year up until then to 13,000-20,000 per year. As of March 2007, the total number of registered private businesses had risen to 270,000 (however, according to GSO figures, as of the end of 2004 only about 48.5% of these were considered to be actively operating). Anyway, it is clear that the 1999 Enterprise Law had the effect of bringing on a 'boom in the establishment of businesses' (see Table 2).

In addition, as of 2005 the abovementioned 1999 Enterprise Law was combined with the previously established Enterprise Law which regulated foreign investment and state managed and owned sectors, to become the Enterprise Law of 2005. This has been with the premise, while turning the Enterprise Law of 1999 into a basic

Table 2 Scale and Classification of Vietnam Private Businesses etc.

Item	Type	No. of Companies or Ratio (%)
(1) By Scale	<5 people	17,878
	5~9 people	26,276
	10~49 people	30,673
	50~200 people	6,690
	200~299 people	675
	>300 people	996
(2) By Sector	Commerce/Tourism	abt. 50%
	Manuf./Processing	abt. 30%
	Transport/Construc. Etc.	abt. 10%
(3) As Ratio of Major Domestic Economic Indicators	of Registered Co.	97%
	of GDP	26%
	of Manufacturing Industry	31%
	of Retail Income	78%
	of Workers	26%
	of Non-Agric. Workers	49%

Source) (1) 2004 data from GSO
(2) and (3), June 2006 data from VINASME.

framework, of planning for the anticipated future affiliation with the WTO (World Trade Organization), and the Law also sets out transitional measures for that adjustment. Therefore, as of January 2007, when affiliation with the WTO was realized, this 2005 Enterprise Law is also fulfilling the role of a basic law for small and medium enterprises.

Regarding related laws, the most important of these is the Investment Law, which also adopts the system of classification by ownership sector, the same as in the Enterprise Law. The Investment Law of 2005 was also established in relation to this affiliation with the WTO, with the aim of bringing together the Foreign Investment Act, Domestic Financial Support Act, and other related laws, and this Law set out financing regulations and prohibitions and preferred fields and regions for investment.

1-(4) Planning and Implementation of SME Policy

1-(4)-1) Policy Planning Organizations

A government directive in November 2001 clarified the definition of small and medium enterprises, and also established an SME Development Council in the cabinet

to consult with the Prime Minister, to which the Minister of Planning & Investment (MPI) was appointed chairman with other cabinet members as members of the council. The role of the Council is the ① strategic orientation towards the development of SME, ② advising the construction and reform of mechanisms, ③ the establishment of programs to strengthen skills and competitiveness, and ④ related matters as directed by the Prime Minister. The same statute also established this council as the core of the Prime Minister's leadership in the construction of an SME Support Institution System to set up a support system from related organizations (see Note 1).

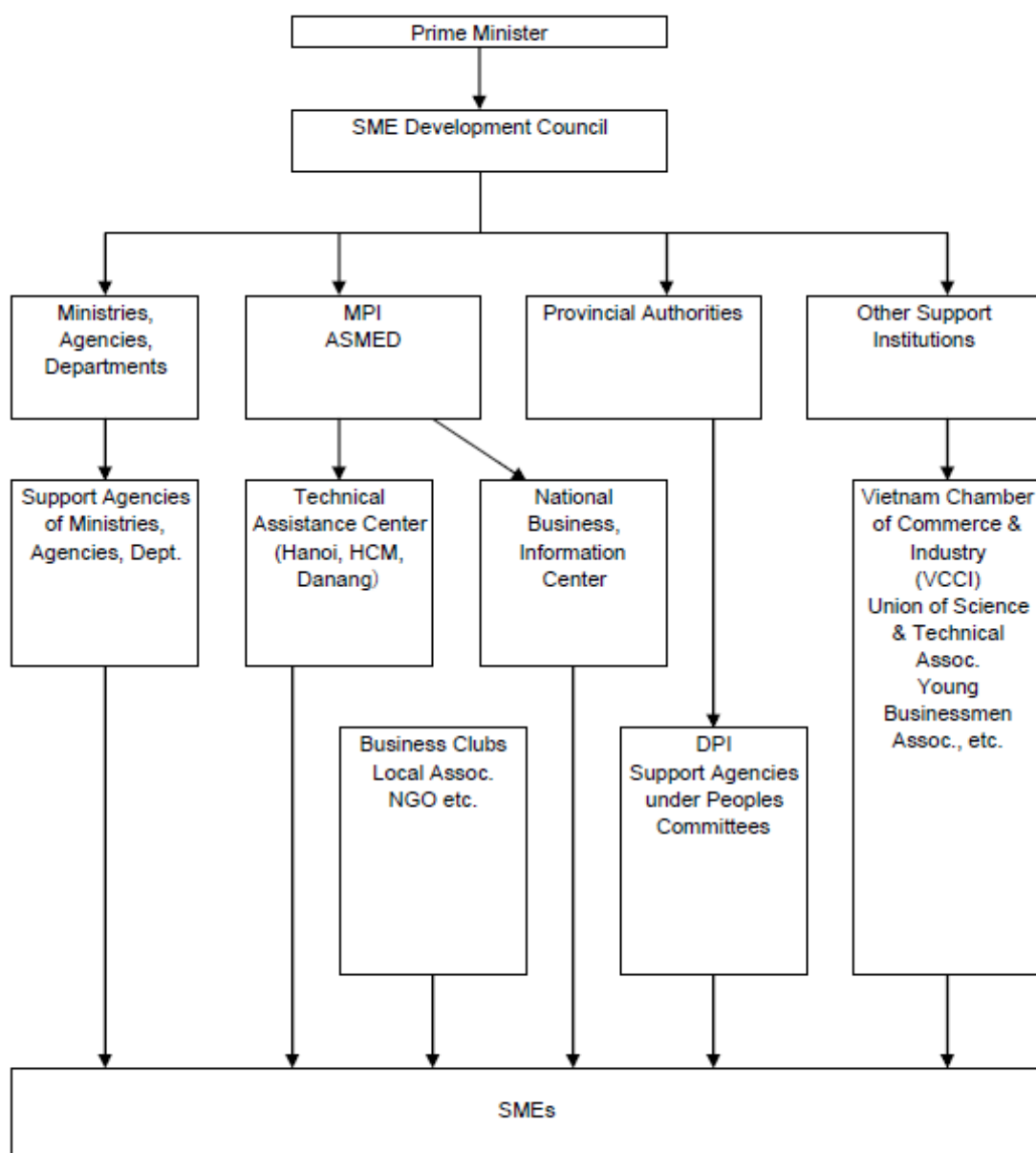
In 2002, the Department of SMEs, a standing committee of the council, was installed as an internal section of the MPI. Also, as a result of a statute in June 2003, its functions were further expanded and strengthened, and it was promoted into the Agency for SME Development (MPI-ASMED). ASMED is responsible for broad areas such as the promotion of SME development, registration of companies, encouragement of investment, coordination of the reform of state owned enterprises, and international cooperation, as well as setting out plans in the country's three major cities for the establishment of Technical Assistance Centers (TAC) which provide information services, consulting, and training. ASMED is positioned as an external department of the MPI to give it a certain degree of independence, and while it is a government agency it also has the characteristic of operating as a service organization.

However, as of March 2008, ASMED and its 3 TACs has about 70 staff below the Director General, and in addition to its handling of the coordination and implementation of support programs from countries and organizations mentioned below that offer aid (donors), and the procedures related to the registration boom of SME, and given the fact that TAC is still in the process of being established, ASMED is still only able to accomplish a fraction of their responsibilities.

Regarding the planning of policies for small and medium enterprises, ASMED performed a central role from 2005 in the SME Task Group set up at the direction of the Prime Minister, and including council members, to develop Vietnam's first full policy for small and medium enterprises, the "SME Development Plan 2006 - 2010". This group was made up of 21 people, with 10 people from related Ministries, 2 from

Central Government Agencies, 4 from Regional Agencies, and 5 from organizations affiliated with the Vietnam Chamber of Commerce & Industry. Below this, 100 experts have been mobilized from ASMED, MPI, the Office of the Prime Minister, related Ministries and Agencies, and private sector consultants, who operate based on the agreement of this group and ASMED to form Plan Drafting Teams on different topics, and work towards the creation of policy proposals. This organization was also used for

Figure 1 Vietnam SME Support Organizations (2006)



Source) Created from Asmed home page.

the “Vietnam SME Roadmap”, which was collated by the Asia Development Bank (ADB) in January 2005.

As a result of workshops (discussions with donors and related regional entities) and round tables in 2005, a draft was submitted at the beginning of 2006, which was approved by the Prime Minister in October. The basic purposes of the plan were to establish 320,000 new companies by 2010, and to create employment for 2.7 million people, as well as incorporating basic policies such as simplifying the establishment and operation of SMEs, improving access to land, and implementing support programs to improve competitiveness (see Note 2).

1-(4)-2) Policy Implementation Agencies and Organizations, Employees

The duties of ASMED at its launch in June 2003 as a policy implementing agency were specified as follows by a directive of the MPI in July of the same year.

- (1) Promotion of SME Development - Setting orientation, regional guidelines, follow up of support policies, coordination with related organizations, access to technology and related training, etc.
- (2) Company Registration - Registration procedures, management of registration process, maintenance and operation of information system.
- (3) Promotion of Domestic Investment - Investment support and incentives, and related procedures etc.
- (4) State Company Related - Coordination of the restructuring, reform, and development etc. of state run enterprises.
- (5) International Cooperation - Cooperation and coordination with donors, etc.
- (6) Improve Skills - Provision of necessary guidelines and training etc.

In order to perform these duties, ASMED has set up the following bureaus and centers.

- (1) SME Development Bureau - Planning of related laws and policies, adjustment of policy, monitoring policy implementation, implementing personnel training programs, etc.

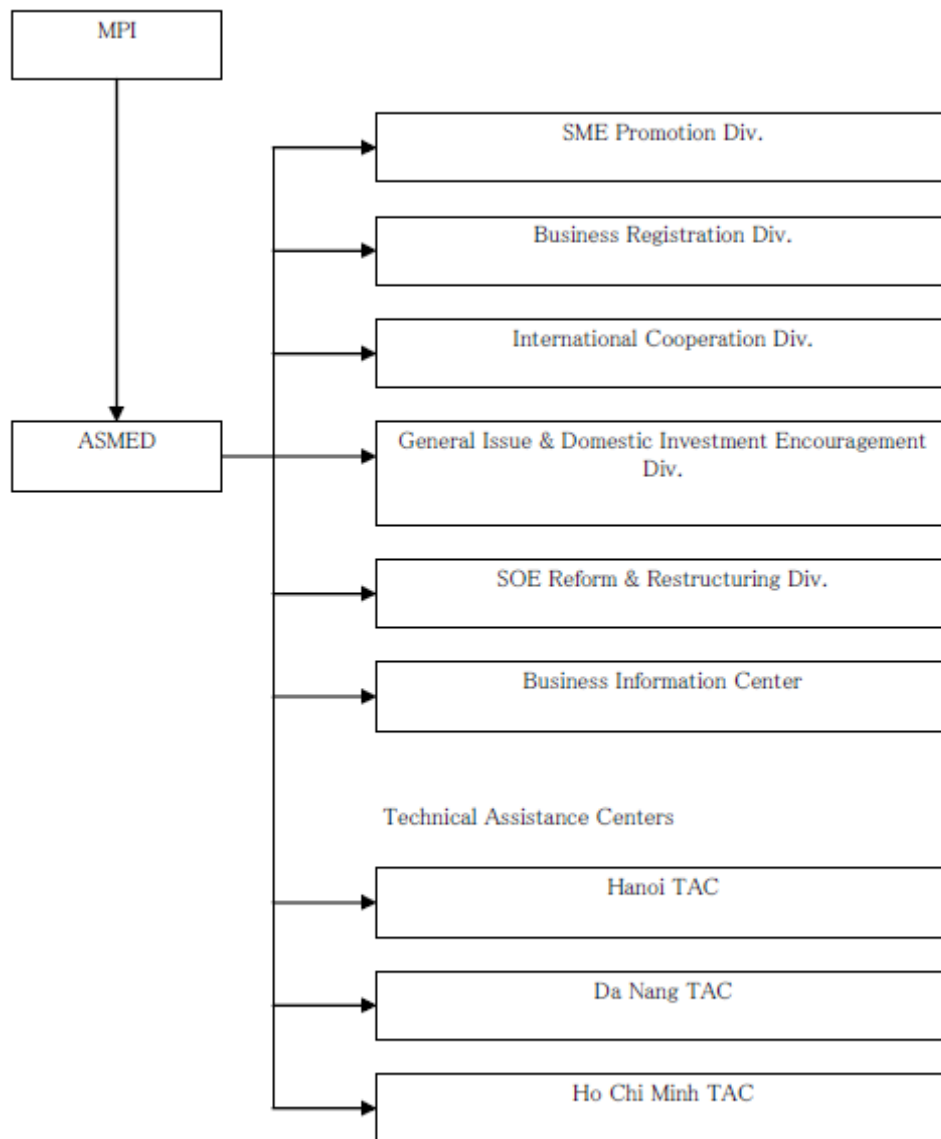
- (2) Corporate Registration Bureau - Implementation of registration system and related laws, regional training, cooperation with Business Information Center, review of licensing system in conjunction with related ministries and agencies.
- (3) International Cooperation Bureau - Cooperation and coordination with donors and donor groups, etc.
- (4) General Affairs/Domestic Investment Promotion Bureau - General ASMED activities, mid-level policies and council office, etc.
- (5) Bureau for the Reform and Restructuring of State Owned Businesses - Coordination in relation to the reform of state owned businesses, etc.
- (6) Business Information Center - Management and operation of business portal, contact with regional registration offices and National Business Information Network (NIBIN), etc.

The organizations are all based in the ASMED head office in Hanoi. As of March 2007, there are 30 staff at the head office, including 1 bureau chief and 3 section chiefs. With the addition of the 40 staff in the three TAC (discussed below) offices (about 20 in Hanoi, and about 10 each in Ho Chi Minh and Danang), this makes a total staff of about 70 people.

The budget for ASMED includes about 2 billion dong (US\$1.25 million) per year for administrative costs, and about 10 billion dong (US\$6.2 million) for office expenses, making a total of about 12 billion dong (US\$7.5 million), or approximately US\$100,000 per staff member. However, if the support of other government agencies and donors, as well as support for small and medium enterprises is added in, it would amount to a total beyond this amount.

Since 2003, the establishment of Technical Assistance Centers (TAC) has progressed in the three cities of Hanoi, Danong and Ho Chi Minh, to operate under ASMED. Each center provides services such as ① the provisions of technical information and advice, ② the construction and operation of a database, ③ training, ④ cooperation and linkages with major corporations, and ⑤ guidance regarding new technologies.

Figure 2 Internal Structure of ASMED (as of end 2007)



Source) Created from ASMED home page.

The most established of these is the Hanoi TAC, which was established in 2003, and has been receiving support from the Japan International Cooperation Agency (JICA) since 2006. Based on the model of a Japanese Prefectural Institute of Technology, 2 Japanese experts join with the 20 local staff to provide technical leadership, lectures, training, and database construction, etc. However, due to delays in the decision making process at ASMED, the resources that JICA planned to provide have not all been utilized, and plans have failed to progress according to schedule, with little hope

for improvement in the future.

Regarding the Ho Chi Minh and Danong TAC, building on the experience of the Hanoi TAC, Vietnam has decided to proceed with its development on their own, but since the Hanoi operations are not progressing little progress is being seen here either. The 10 staff at each site do not appear to have very much work at the moment.

If the activities of the TAC were to progress as envisioned by JICA, it would be expected to promote the development of subcontracting and supporting industries, as will be discussed in 2-(4)-5), but the current conditions do not allow it to play that role. Such a reorganization or different way of proceeding is a pressing matter for discussion between Japan and Vietnam.

Regarding the implementation of small and medium enterprise policies, for example, business registration activities and the provision of information through 'business portals' as carried out by ASMED, since this is done by an organization under the MPI, it is possible to communicate with the Department of Planning & Investment (DPI) which is installed in the district offices of the MPI, and this helps the Ministry of Commerce and other government ministries and agencies to utilize these activities. However, due to delays in the government's IT plan, contact and coordination between these organizations is not working very effectively.

As an organization, ASMED has weak staff that are inexperienced, and this in addition to the delay in IT plans means that at present ASMED cannot be expected to accomplish its role as an organization to implement policy. At present, ASMED are understood to receive a variety of criticisms and demands for improvement.

In terms of support policies for small and medium enterprises, in parallel to the activities of ASMED, the DPI in the organization of each ministry under MPI is operating to some extent in cooperation with private sector organizations. For example, in Ho Chi Minh city, the DPI, in cooperation with the VCCI (Vietnam Chamber of Commerce & Industry) has conducted 39 training sessions on management skills for small and medium enterprises since 2001, and they report that about 1,500 people have participated.

1-(5) Financial and Donor Support for Small & Medium Enterprise Policies

A great deal of the support for small and medium enterprises in Vietnam has in the past and does currently come from donors (countries and organizations providing development assistance).

For example, as was seen in 1-(4)-2), ASMED has an annual budget, including administrative costs, of about 12 billion dong (US\$7.5 million), and as budget for the most important human resource training programs 11.94 billion dong (about US\$7.4 million) has been added for the 5 years between 2004 and 2008. Also, for the promotion of exports of small and medium enterprises in the most important industries, as discussed below in 2-(8), about 6 billion dong (US\$3.7 million) per year has been added to VIETRADE. And further, as credit guarantees for small and medium enterprises, the Ho Chi Minh City Investment Fund for Urban Development

Table 3 List of SME Support Projects by Donors in Cooperation with ASMED (As of beginning 2007)

Donor	Project Name	Major Purpose	Amount	Term
ADB, AFD (France), and KfW (Germany)	SME Development Program Loan (SDPL)	Reform environment for loans to SME	80 + 55 million euro	'05~'08 (2 phase)
DANIDA (Denmark)	Business Sector Programme Support (BSPS)	Reform business environment in 4 regions, strengthen competitiveness	US\$ 35 million	'05~'08
EU	Vietnam Private Sector Support Programme (VPSSP)	Incubation in 2 major cities and support in 9 regions	9 million euro	'04~'09
GTZ (Germany)	SME development Program	Long term support in 4 regions	8.3 million euro	'05~'09
India	Entrepreneur Training Center	Entrepreneurial Training	US\$ 0.35 million	'05~'07
JICA (Japan)	ASMED/TAC Support Program	Dispatch experts to ASMED and support establishment of Hanoi TAC etc.	—	from '03
UNIDO(United Nations Industrial Development Organization), Italy, Finland	Regional SME Support Infrastructure	Strengthen links between ASMED and 5 regions	US\$ 3.81million	'04~'07 (First phase)
JBIC (Japan)	SME Financing Program	Two Step Loan for SME	US\$ 88 million	'02~ (2 phase)
EU	BSS Training Asia Invest	Human Resource Training Business Service Support	20 million euro	'03~'07
SIDA (Sweden)	Poverty Reduction through Integrated Support to Small Enterprise Development (PRISED)	Development of home business and small scale businesses in 6 regions	US\$ 4.5 million	'05~'09 (2 phase)
USAID (US)	Vietnam Competitiveness Initiative(VNCI)	Maintain environment for SME development, build skills, access to financing	US\$ 5.64 million	'03~'08
SECO (Switzerland)	Vietnam Cleaner Production Centre (VNCPC)	Environmental technology	US\$ 2.3 million	'04~'07

Source) Nguyen Hoa Chung "Donor Coordination in SME Development in Vietnam" Vietnam Economic Management Review, No.2, Spring, 2007, Table2, plus some additional data.

set up a fund of 50 billion dong (US\$3.15 million). In other words, the amount laid out annually by the Vietnam government for the most important enterprises is at most in the scale of several million dollars.

In contrast, support programs from donors for small and medium enterprises over a period of a few years were as many as 100, as of April 2005, and most of these were supplied with funds in the millions of dollars. This includes many support plans that have been implemented in conjunction with ASMED (see table 3). For example, a credit grant from the ADB for 100 million dollars, financial support (two-step loan) from the Japan Bank for International Cooperation (JBIC) in the amount of 88 million dollars, and assistance in the amount of 20 million euros (US\$28 million) from the EU for personnel training (BSS-training) (see Note 3).

The value of commitments for Official Development Assistance (ODA) from donors to Vietnam amounted to about US\$3.8 billion in 2005, increased to about US\$4.4 billion in 2007, and is expected to be as much as about US\$5.4 billion in 2008. Looking at the numbers, it appears that a large proportion of this is for small and medium enterprises, which shows that they are being aimed at the important area of support for Vietnamese small and medium enterprises.

1-(6) Breakdown of Responsibilities for Central and Regional Governments

Since 1993 in Vietnam, as part of the comprehensive administrative reform under the support of the United Nations Development Plan (UNDP), the reform of the local administrative system is being advanced, with a particular emphasis on developing good relationships between the central and rural governments. As of October 2007, the first level of regional administration contains 59 provinces (for the sake of convenience, 4-12 provinces are divided into 8 regions), and 5 centrally controlled cities (Hanoi, Ho Chi Minh, Danang, Haiphong, and Can Tho), and below this there is a second level of counties, cities, and special wards, followed by a third level of wards, towns and villages etc. At each administrative unit, a People's Council is established as the parliament, and a People's Committee is established as the government agencies.

Although these administrative units are given certain powers, until a few years ago

most of the licensing, annual expenditure management, and ODA management was concentrated in the central government, and local powers were very limited. However, in recent years these local governments have tended to gain power, for example in the advancement of the change in jurisdiction over ODA management from 2006, and the transfer of power over the granting of approval arising from the execution of the Investment Act in 2007.

In relation to small and medium enterprise policies, the transfer to local governments of jurisdiction for the authority to manage the many ODA projects that aim to develop small and medium enterprises will have a major effect. The role of the MPI, which in the past played a central role in the receipt of ODA, particularly in terms of the management and supply of funds, is now limited to the two areas of □ obtain approval from parliament or the government regarding ODA on a national scale, and □ create a list of those desiring ODA, and gather suppliers. This simplifies the cooperation and deliberations between donors that supply ODA and the local administrative units, and is expected to improve the effectiveness of ODA.

In the past, many ODA cases were managed by the MPI controlled Project Management Committee (PMU), but donors in particular complained that such management was not transparent or effective enough. In addition, in the beginning of 2006, large scale waste and corruption was uncovered in the PMU, which operates under the Ministry of Transport, and this brought about strong criticisms from both inside and outside the country. It is also said that this incident helped lead to the reforms which placed ODA management in the hands of the local governments.

Apart from this, even in the MPI managed company registration activities, conventional procedures have been simplified, and the regional offices (DPI from various ministries) have proceeded in creating a “One-stop Policy” to simplify registration. This involves the computerization of the registration system, and from the middle of 2007, 64 places within ministries and cities had begun creating this system, which especially simplifies new registrations, and the system is also expected to improve the drive to invest in small and medium enterprises. When visiting a DPI office in Ho Chi Minh city in the beginning of March 2008, there were more than 100

applicants around the office, which was great to see.

1-(7) Cooperation and Coordination with Donors

As already mentioned in 1-(5), in terms of Vietnamese policies for small and medium enterprises, donors (development support from donor organizations and countries) provide a great deal of support. Currently, there is a case of policy not keeping up with the need to develop cooperative relationships with donors. In 2008, Official Development Assistance (ODA) is expected to reach US\$5.4 billion, from about 50 different donors. Part of this, as with the development project for the Mekong, some other neighboring countries in addition to Vietnam will also benefit from.

The major donors include the Asia Development Bank (ADB), Japan (JBIC, JICA), and the World Bank, but donors also include international organizations such as the IFC (International Finance Corporation), the UN Development Program (UNDP), and the United Nations Industrial Development Organization (UNIDO), as well as the EU and other individual countries such as Canada, Australia, and India, etc. With the trend towards offering development assistance since the 1990s, conditions in Vietnam made it a suitable candidate for assistance, and this has brought many donors to provide assistance for Vietnam.

Each donor provides assistance after first selecting an issue that they would like to support. Some donors, such as the ADB and Japan, offer broad support for such areas as infrastructure development, information and telecommunications, education and medicine, rural development, and system maintenance, etc., other donors, like the EU and individual European countries, support areas like regional development, agriculture, the environment, and small and medium enterprises, etc., and others like Scandinavian countries place importance in the support of ideas such as poverty, human rights, and democratization.

From the perspective of Vietnam, in order that the support of donors will provide effective development to the Vietnamese economy and society, a Supporting Nations CG (CG=Consulting Group) is held on a regular basis between donors and relevant government ministries and agencies, where attempts are made to coordinate. However,

since there are major differences from the way of thinking and approach of the various donors, it is clear that coordination is not always easy.

Even if we look at small and medium enterprise policies alone, many donors are continuing to provide a great deal of support related to the development of small and medium enterprises, and there are often similarities and substantial overlap between them. In particular, until about 2000, donors tended to concentrate their assistance on the central level, but since then, with the direction of the Vietnam government, they have tended to shift their assistance to the local level, and as contact between donors and local areas has increased, assistance has tended to concentrate in certain areas, and in some cases there is competition between donors for certain projects. Also, there are more cases of Vietnamese partners being selected for their ability to implement assistance, such as the VCCI and CIEM (Central Institute for Economic Management). These points show the importance of coordinating donors with the requests for assistance.

In fact, from 2005, under the initiative of MPI, Japan, and UNIDO etc., a coordinating system was commenced for supporters of small and medium enterprises and the Vietnam government, to run in connection with the abovementioned CG. The International Cooperation Bureau of ASMED served as Chairman and Secretary, and an SME Promotion and Private Sector Development Partnership Group (SMEPG) was established, along with Working groups for smaller issues, with meetings held twice annually before CG meetings, and papers written. Also, with the aim of coordinating each assistance request with the activities of ASMED, some of these cases are to be performed in cooperation with ASMED serving in a partnership role. However, at present, this kind of coordination is not operating effectively.

Within the “SME Development Plan 2006 - 2010”, the goal of joining the government and donors together and the need to improve the effectiveness of SME development is broached. At the same time, there is also a need to work hard for as much assistance as possible from donors, as the current conditions require the continued support of donors in the most important areas of small and medium enterprise policy.

Chapter 2 SME Development Policies – Specific Schemes

2-(1) Financing

In Vietnam, soon after the start of the “Doi Moi (Reforms)” around 1990, financial reforms were advanced based on the advice of the World Bank and the IMF, and some level of success was seen in terms of controlling inflation, management of the money supply, and the stability of the exchange rate, etc. However, at the same time, the independence of banks was restricted, and a determined amount of funds was still automatically prioritized for state projects and state owned businesses, and this system had not changed. Further, though there was some progress in the reform of state owned enterprises through equity conversion, and the equity conversion of small and medium state owned enterprises with poor business performance, the equity conversion of large scale state owned enterprises did not go ahead, and the government did not appear to be taking their problems seriously enough. Also, in the banking sector, up until about 2005, the four major state owned Commercial Banks owned about 75% of the total value of assets held by financial institutions, giving them a continued presence of great power.

In these conditions, financing for small and medium enterprises has faced strong restrictions. According to a 2006 report from the World Bank and other international institutions, 85% of SME capital was from self financing or financing from family or friends, with loans constituted by informal lending arrangements, and the amount of capital itself was very small. In a survey of about 32,000 SME in 30 northern provinces and cities, it was found that 67% of businesses were unable to obtain financing from banks because they did not have any assets to use as collateral. Also, in a survey conducted by the MPI targeting companies that have applied for bank financing, 32.4% replied that they had met financing standards, 35.2% responded that it would be difficult to meet those standards, and 32.4% said that they had not met financing standards.

In 2000, as one measure to resolve these kind of problems, a Development Assistance Fund (DAF) was established under the direct control of the office of the Prime Minister and the Ministry of Finance as a government financial institution,

which received funds from donors and issued bonds, and following this 12 Provincial Assistance Funds (PAF) were established to cover the various provinces. However, in reality these funds still remained targeted to state owned enterprises, and were not used much for the support of SMEs. The DAF was changed in May 2006 into the Vietnam Development Bank (VDB).

In addition to this, in order to urge financing from commercial banks for SMEs, from 2002 the Japan Bank for International Cooperation (JBIC) implemented a two phase, 'two-step loan' totaling US\$88 million. This scheme to provide funding to SMEs from the State Bank of Vietnam through commercial banks, thanks to the hard work of JBIC and Japanese consultants, appears to be meeting its initial goals, in spite of factors such as expected delays in the maintenance of a credit guarantee system, the lack of skills on the part of the commercial banks, and the lack of collateral on the part of the SMEs. However, whether or not this funding is actually helping the SMEs is a matter that will need to be investigated in the future.

There is also a trend to provide other support for SMEs in the form of the Asia Development Bank (ADB) policy loan of US\$100 million from 2004, and other financing schemes from donors in Europe, etc.

Recently, since about the first half of 2006, many state owned companies have experienced management problems which have served to reduce their value to the state owned commercial banks, and this trend is seeing the 70 - 80% share of total funding enjoyed previously by state owned businesses decreasing. In this environment, the state owned commercial banks are starting to more actively offer funds to private businesses, particular small and medium enterprises, and there has also been a growing movement among minor state banks and new private banks to aim funding at the development of SMEs (see Table 4). Still, as of a government survey conducted in November 2007, only about 35 - 49% of applications for funding from commercial banks by SMEs were being approved (see Note 4).

Aside from this, it is not uncommon to see financial support included in the support from donors that are involved in developing various regions of Vietnam. For example, the EU joined with public financial institutions under the auspices of the Vietnam

Finance Ministry to supply a revolving fund from 2003 to 2007 known as the “Asia-Invest Grant Program”, worth a total value of 20 million euros (US\$28 million). Also, the German KfW (Kreditanstalt für Wiederaufbau) has provided funds in the form of a medium term loan from 2003 to 2013 worth a total of 10.2 million euros (US\$11 million).

Vietnam is also continuing efforts to work towards finding answers to problems regarding the maintenance of financing for small and medium enterprises. For example, in the beginning of 2003 the Vietnam Bank of Social Policies was founded out of an expansion and reorganization of similar existing organizations, to provide loans to the poor and small enterprises. As of 2007, they have 64 branches and 7,100 employees, and 30 trillion dong (US\$1.9 billion) in capital, and they have high expectations in terms of fulfilling the role of maintaining a financial system aimed at small scale businesses. The Japanese National Life Finance Corporation, which carries out a similar role, is also providing technical support.

In 2007, the Ho Chi Minh City Investment Fund for Urban Development (HIFU) was established as part of the expected nation-wide establishment of credit guarantee funds for SMEs. However, the size of the investment expected to this fund from city and local governments, of 50 billion dong (US\$3.15 million) does not make it very strong, and part of this has not yet been subscribed.

The Ministry of Finance has called on the People’s Committee of each Ministry to establish credit guarantee funds as non-profit organizations to provide guarantees for the funding of mainly SMEs, with 30% of the 30 billion dong (US\$1.88 million) in capital coming from the local government budget, and the remainder subscribed from local banks, business organizations and businesses. However, only 5 regions, including Ho Chi Minh have currently established funds (see Note 5).

In July 2007, Deputy Prime Minister Sinh announced a statute based on the proposal of the Prime Minister regarding funding policies for SMEs, whereby the SBV would submit a new program to the government by June 2008. At the same time, also in July 2007, new regulations allowing the issue of corporate bonds by small and medium enterprises or foreign companies went into effect, and the Ministry of Finance

explained that this would be “easier to access than bank loans, for small and medium enterprises that are planning to expand their businesses”. Further, as of October 2007, 9 financial companies have obtained licenses from SBV under the funding of state owned companies and foreign capital, and another 20 or so companies have applied for licenses.

It is probably true that the environment for funding of SMEs is heading toward improvement. But there are currently no systems that provide management analysis or evaluations for small and medium enterprises, and with even financial institutions lacking the experience and know-how to provide funds for private businesses, the future is still expected to be difficult.

Table 4 Financial Institutions Placing Emphasis on Private Companies and SME (2006)

Name of Bank	Features	Branches	Assets (\$million)
Incombank *	One of the 4 main state owned commercial banks. Plans funding for private sector. Accounted for 60% of funding for this sector in 2006.	114	8,600
VBARD/Agribank	One of the 4 main state owned commercial banks. Branches mainly in farm villages and rural areas. Deals with 7,500 companies. Accounts for 35-40% of SME funding.	1,568	14,500
BIDV *	One of the 4 main state owned commercial banks. Strengths are in foreign exchange and securities. Affiliated with Mitsui Sumitomo Bank.	>200	12,500
Saccombank *	Merged with one of 4 main state banks in 1992. First bank listed on stock exchange. Branches in China etc. 60% of its funding towards private sector.	>100	3,600
MHB *	Growing fast as a new state owned bank. Developing and international network.	140	1,270
VBSP	Reorganized in 2003 from a bank for the poor. Emphasis on financing for small scale businesses.	64	1,900
VIB Bank	Established in 1996 as a bank for stock organizations. 90% of customers are SME.	80	1,895
SHB	Strategic Affiliation in 2007 with Assoc. of SME. Listed on stock market.	n.a.	650
VPBank	Singapore OCBC capital participant.	n.a.	960

Note) * Participating in JBIC/SBV two step loan funding.

Source) Created from Reuters Market News, Vietnam Banks, 2007.12.17 etc.

2-(2) Tax System, Investment, etc.

For many years, small and medium enterprises in Vietnam have avoided conspicuous investments, and even when they have made a profit they have tended not to make this public. And in spite of the progress of “Doi Moi”, there is still a tendency to caution which has been brought about for private businesses and their owners, and entrepreneurs because of the effects of the communist system in which the party, the government, state businesses, and even the general public had an eye on everything. In actual fact, there were examples of cases in which those who made conspicuous investments, or who were found to have concealed profits being exposed for public criticism, receiving disciplinary fines, or even being taken to caught and punished.

In this kind of environment, many small and medium enterprises have continued to not obtain needed investments and to not introduce new technologies. And because of this many of these companies still have old facilities, have put up with inferior labor conditions, and have also continued to cause serious environmental damage through pollution. According to a January 2007 survey of the Environmental Protection Agency (VEPA), 75% of small and medium enterprises were evaluated to be behind or greatly behind in the modernization of their facilities. Also, 80% of companies that were producing damaging pollution were small and medium enterprises.

From about 2001, the role of private small and medium enterprises in terms of the national economy has been valued higher and higher, and at the same time, there has been a tendency towards the removal or regulations that had limited investment in small and medium enterprises. Between 2001 and 2005, total investment expanded, but this is believed to have been largely based on investments by private companies. Based on statistical data, the rate of investment by private companies that contributes to GDP was about 4.6% in 2001, and had risen to 11.2% in 2005.

During this period, DAF and PAF, which became reorganized after 2000 as policy financial institutions for provincial funding (see 2-(1)), also began in part to offer loans to private companies, and this, while still insufficient, has been seen to lead to an expansion in funding opportunities for small and medium enterprises. With the addition of the financial support discussed in 2-(1) from around 2004, the funding

environment for private small and medium enterprises can be seen to be reforming even further. And in 2005 and 2006, funding incentives have been implemented under the Enterprise Law, even though these are not limited to private small and medium enterprises. Under the Enterprise Law, the basic corporate tax rate for registered companies is 28%, but there are preferential tax rates available under certain circumstances, at rates of 10%, 15%, and 20%. Home businesses have a lump sum income tax applied to them. Also, a value added tax (VAT) is applied at the rates of 0% for export goods and export software, and EPZ (within export processing areas), 5% for 41 groups of products and services, 10% for another 16 types of products and services, and a lump sum amount of VAT for home businesses.

These incentives apply to many fields, from new materials, alternative energy, high-tech products, bio-products, information technology products, and machinery, to traditional industries and agricultural products. For businesses operating in High-tech Parks or Software Parks etc., a 10% corporate tax is applied. And in more than 50 regions around the country, measures are taken to reduce corporate tax, export duties, land tax, and building rent, thus providing a favorable environment for investment. In addition, investment incentives have also been applied to technology transfers, training, industrial area construction, and infrastructure construction, etc. And from 2007, and part of a joint initiative between Japan and Vietnam, the right to give approvals under the Investment Act was transferred to regional areas.

Under these measures, since their content is not completely clear and they have not yet been completely implemented, it is still unclear exactly what kind of effect they will have on investment in small and medium enterprises. However, it is clear that the Vietnamese party/government, and organs of government are beginning to promote investment in small and medium enterprises, and are taking measures such as reducing taxation etc. accordingly.

Actually, since about 2006, some private businesses have begun to show their growth and make public and data such as sales, employees, and investment plans. For example, Minh Hoang Garment (Apparel), Kyndan Rubber (Rubber Bedding), Kinh Do (Confectionary), Daso Group (Oils/Foods, etc.), Cavico (Construction, Electricity),

Table 5 Examples of Private Vietnam Companies showing Growth (2006)

Company	Head Office	Industry	Annual Sales (\$million)	Employees
Min Hoang Garment	HCM	Garments	13	2,000
Kimdan Rubber	HCM	Rubber Bedding	35	1,000
Kinh Do	HCM	Confectionary, Drinks	50	4,000
Daso Group	HCM	Oils, Foods, and Packaged Ingredients	100s	n/a
Dang Khoa	HCM	Bags	n/a	2,000
Cavico	Hanoi	Construction/Electricity	50	3,000
FPT	Hanoi	Computer Software	700	6,000
Nam An	Long An	Furniture/Retail	20	3,000
Trung Ngugen Coffee	Trung	Coffee Chain	n/a	6,000

Source) Created from "Private Businesses in Vietnam Begin to Show Growth Potential, by Ryuichiro Inoue, JETRO, 2007.6.20 etc.

FPT (Software Development/Services), etc. (See Table 5).

This is because the critical air surrounding private enterprises is starting to dissipate, and the danger of punishment is declining, and at the same time, there is a realization of the need for investment from bank lending or stock releases, as well as the expansion of customers and markets, and advertising/PR activities to strengthen their brand. It is believed that if this trend continues, the growth and development of private business and small and medium enterprises could increase in speed.

2-(3) Provision of Information, Human Resource Training, Environment, Advice, etc.

2-(3)-1) Provision of Information

In Vietnam, through the computerization of information and construction of databases under government regulations such as the 1996 - 1998 "National Program on Information Technology" and the 2001 - 2005 "e-Government (Project 112)", trials are being conducted to perform both administrative reform and the provision of information services. However, up until now, the trials continue without having shown significant success, due to reasons such as ① goals were too big, ② errors were made in software development, ③ staff were not adequately trained, and ④ the mind-set of the bureaucrats wasn't changed, etc. (see Note 6). Because of this, other programs to provide information to small and medium enterprises that were progressing on the basis of success here, such as ASMED's "National Business Information Network"

(NBIN) has also failed to show success.

On the other hand, with the support of donors, some success stories have been seen in projects to help small and medium enterprises with information or to utilize IT, restricted to certain regions or fields. Because of these success stories, there have been suggestions that the national IT plans should be constructed with a bottom up approach, by constructing systems for various regions and fields, and then linking them together, rather than the current top down approach.

For example, with the support of the German Development Cooperative Organization GTZ (Gesellschaft für Technische Zusammenarbeit), as part of a joint project (see 2-(4)-4) between VCCI and ASMED from 2004, which was carried out as a regional development project in the Song Hong Delta region of Hung Yen, near Hanoi, some success was seen in building and maintaining a business portal for business and investment in this region. ASMED appears to have begun to combine these kinds of regional systems, to extend them to a national level.

In addition to this, an information service system to promote small and medium enterprise exports, known as “e-trade bridge”, has been developed as part of the support programs of the Vietnam Trade Promotion Agency (Vietrade) as supported by United Nations Industrial Development Organization (UNIDO), International Trade Center (ITC), and Switzerland, Sweden, etc. Also, as part of the functions of the Japan supported Hanoi and Ho Chi Minh TAC (Technical Assistance Center), the construction of a database for SME, as well as the provision of technological information has been included. And with the support of UNIDO and VCCI etc., the

Table 6 Specific Examples of Information Services for SME that are Supported by Donors (as of 2007)

Donor Organization	Support	Service Provided, etc.
GTZ (Germany)	VCCI, ASMED	Business Portal for Hung Yen Province Development Program
UNIDO, ITC, Switzerland, Sweden	Vietrade (Trade Promotion Center)	"e-Trade Bridge" System to Promote Small & Medium Enterprise Exports.
JICA (Japan)	TACHanoi/HCM (Technical Assistance Center)	Database Construction and Technical Information for SME.
UNIDO	MPI/BDS	SMELINK Information Network including Foreign Companies and Large Companies Aimed at SME.
USAID (US)	VCCI	VNCI (Competitiveness Project) Information and Communication Technology for SME..

Source) Created from respective documents

“SMELINK” system has been constructed and is being utilized to share information about the supply of parts, business cooperation, and training etc. between foreign businesses (including Toyota, Honda, etc.), Vietnam’s leading companies, and SMEs (see Table 6).

From 2007, ASMED began operation of a “Business Portal” which links together existing systems as far as possible. Although this has remained for the provision of partial, restricted information services, it is hoped that in the future this system will develop into a complete information provision system for small and medium enterprises. However, this will require integration of individual systems, software development, and database construction, etc., and this will still require a great deal of work and time. In particular, with the failure of the national level plan, there is a great deal of disinterest amongst bureaucrats and businesses alike regarding computerization, and turning this around will be a major challenge.

2-(3)-2) Human Resource Development / Training

As a developing nation looking to industrialize, Vietnam naturally places a great deal of importance and effort on education and training to develop human resources. Many of the donors that are supporting the development of Vietnam are also cooperating in this, supporting a wide range of projects and programs to develop human resources, and human resource development programs are also often found to be a part of the many projects aimed at small and medium enterprises.

As part of the training of small and medium enterprises to develop human resources, the “Human Resource Training Program for SMEs”, which is an independent initiative of the Vietnam government that is gaining attention, is being implemented from 2004 to 2008, and is led by MPI and ASMED, with the cooperation of the Finance and Education Ministries. 119.4 billion dong (about US\$7.4 million) will be appropriated from the national budget over five years, and part of the costs will also be provided by the private sector, to provide continuous training courses in a variety of fields including management, export development, quality control, support services, etc. This program is aimed at entrepreneurs, officers, staff, and people that are looking

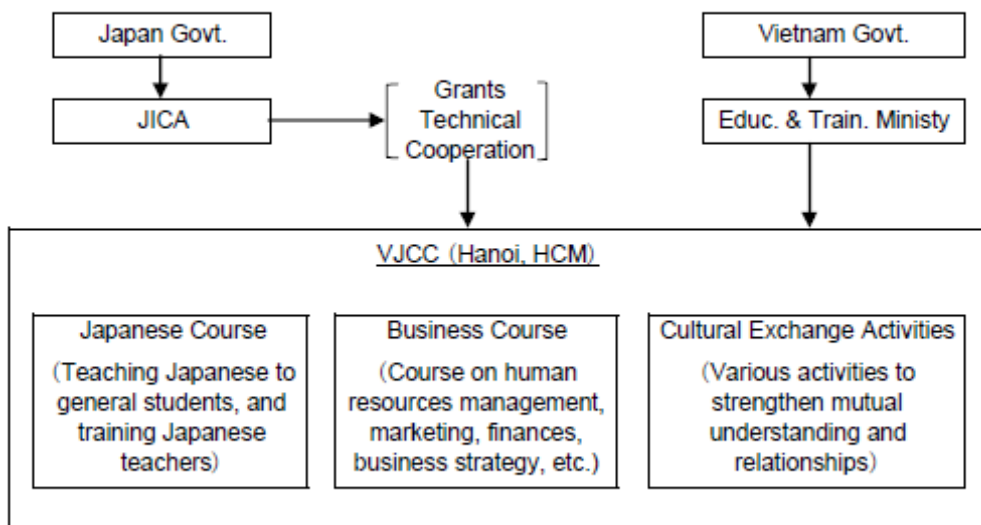
to start a business, and more than 107,000 people will receive training in 3,500, 5 day courses over 5 years. There are also 18 courses planned to train 540 people as trainers.

Training programs with the same aim are also currently being implemented as part of support projects from many donors. Many of the programs supported mainly by JICA of Japan also include this important element.

Japan is providing a variety of assistance for Vietnam, a major recipient of assistance in the form of human resource development and management support for small and medium enterprises, as a developing nation in ASEAN, and as part of the determinations of the 1998 ASEAN Industry Cooperation Committee (AMEICC) which aimed to assist in the 1997 “Asian Currency Crisis”. As part of this process, the “Vietnam-Japan Human Resource Cooperation Center” (VJCC) was established in Hanoi and Ho Chi Minh in 2002, and acts as the base of these operations (see Note 7) (see Figure 3).

The main focus of these human resource development and training programs has been on the areas of language and IT skills, but business courses are also being held about intellectual property, basic certification systems, the environment and energy reduction measures, etc., and there is expected to be a large effect on the

Figure 3 Concept of VJCC (Vietnam/Japan Human Resource Center)



Source) Created from VJCC website.

administrative support of small and medium enterprises (see Note 8).

There are also a wide range of programs from donors other than Japan in the field of human resource staffing and training. For example, the International Labor Organization (ILO), in conjunction with a Swedish development organization, is supporting the VCCI, which began its SIYB (Start to Improve Your Business Programme) in 2000 to train small and medium enterprises. This program has provided lectures and workshops on business and administrative improvement for a total of 15,000 students, and has also developed 30 trainers that have received the title “Master Trainer”. After it completed the five years for which support was provided, this program was transferred to the VCCI, and it has been operating as a business providing human resource development services since 2005. In addition to this, a wide variety of programs are being offered, including the UNIDO small and medium enterprise support organization human resource training program and the German GTZ quality control training program. There is some competition and difference in priorities between donors, but considering the topic of human resource development, this is not considered a bad thing.

Regarding programs that are not limited to small and medium enterprises, the Vietnam government is placing the most priority on computer and IT related fields for human resource development and training. For example, under “Project 112” from 2001 to 2005, a goal of 50,000 trained IT specialists was set, which was not actually achieved, but the current goal, by 2010, is for the training of 100,000.

There are many programs supported by donors that have met these goals, and some of these include programs that are narrowly focused on small and medium enterprises. For example, under the Vietnam Competitiveness Initiative (VNCI), which began in 2005, receives support through USAID for the utilization of IT within small and medium enterprises. This is also true for Japanese aid, which, for example, is a part of the previously mentioned VJCC activities that include the “Small and Medium Enterprise IT Skill Improvement Project”. Other countries such as India, Korea, Malaysia, Singapore and France are also providing training for IT staff, through a variety of support programs.

2-(3)-3) Environmental Policies, etc.

With the increasing debate over global environmental problems and requests from major donors, the Vietnam government has increased its interest in environmental issues, and has produced some policies. In particular, with regard to small and medium enterprises, based on the results of the Environmental Protection Agency survey in early 2007, 80% of companies generating serious pollution were small and medium enterprises, and this is being examined closely, with proposals being received from major donors.

In September 2007, the Ministry of Science & Technology began the “Promotion of Energy Conservation in SME” (PECSME) program, with support from Global Environment Facility (GEF) of the United Nations Development Plan (UNDP). This program targets the five major consumer industries of bricks, pottery, fabrics, pulp, and food processing, to improve operating efficiency to a certain level by 2010, and then to provide all necessary compensation in the way of financial assistance and loans to ensure that the targets are met. Total operating expenses are calculated at 28.8 billion dong (see Note 9).

Prior to this, from 2004, Swiss development assistance agency, SECO, set up the Vietnam Cleaner Production Center (VNCPC) in conjunction with the Hanoi University of Technology, which provides assistance for part of the costs associated with measures to reduce pollution in small and medium enterprise production activities. They further agreed to set up the Green Credit Trust Fund (GCTF) in 2007, which provided 50% credit for investments by small and medium enterprises in “Green Technologies”, and in the first stage of this US\$5 million was distributed.

In this way, with the support of donors, environmental policies for small and medium enterprises in Vietnam are beginning to move ahead. Many support organizations from Europe, where interest in global environmental problems is high, are involved, and it is expected that this kind of trend will continue in the future.

2-(4) Support for Obtaining Management Resources for Existing SMEs

2-(4)-1) Support for Technological R&D

Vietnam has a strong awareness of their backward position in terms of their technological level compared to the rest of the international society, and development plans for the economy and society, where they also fall behind others, have been issues of greater importance. As such, while R&D in state of the art technologies has been part of their plans, its priority has been low. In a national survey of 11,000 companies performed by MPI in 2007 regarding their level of technology, just 8% replied that they “have implemented state of the art technology”, and 42% answered that their “technology is behind the times”.

Even against this backdrop, in terms of small and medium enterprise policy, R&D is not an issue with a high degree of priority. As discussed in 2-(3)-2), within the ASMED human resource development programs and the various support programs of other donors, the main aim is still “practicing the use of current technologies ” and there are currently very few cases where the topic of R&D for new technologies is raised. On that point, gaining attention is the establishment of incubators as discussed in 2-(5) below, to support ventures. Plans have already commenced for three incubation centers (IC) around Hanoi, and 4 around Ho Chi Minh, and gaining particular attention is the Incubator Center being established in the North East of Ho Chi Minh City from 2006, as part of the Saigon Hi-Tech Park (SHTP), known as the SHTP Incubation Center (SHTP-IC).

SHTP aims to be Vietnam’s first High-Tech Cluster, and aims to be finished in 10 years, being constructed primarily by Ho Chi Minh City and the Ministry of Science & Technology (MOSTE), with Intel (semiconductors) from the United States and NIDEC (electronic components) from Japan each having announced plans to invest US\$1 billion. SHTP-IC will be established as a non-profit organization supported by the government, and 70 - 80 incubation businesses will occupy 6,000 of the 15,000 square meters. Universities from the Ho Chi Minh area are also expected to cooperate (details not yet determined). Targeted fields for R&D and business start-ups include IT devices, software, communications etc., biotechnology, nano-technology, etc. Also, cooperation and exchanges with Taiwan incubation organizations are planned.

The relationship to small and medium enterprise policy is not yet clear, but

SHTP-IC are participating in any forums run by ASMED, and any international meetings related to small and medium enterprises. As it becomes operational in the future, it is likely to play an even more important role in terms of Vietnam small and medium enterprise policy.

“Business Incubation” activities are also being performed, with the support of international organizations, at the Center for Research & Consulting on Management in Hanoi University of Technology. The same activities are also under way in various places around Ho Chi Minh and Hanoi.

2-(4)-2) IT Support

IT in relation to the provision of information has been discussed in 2-(3)-1) below, but in addition to this, following on from the government’s plan of 2001-2005, they have implemented an “Overall Plan on Developing E-Commerce” for 2006 - 2010. This plan raises these two major goals: ① increase the use of digital settlement between companies to 60%, and ② increase the percentage of SMEs that use E-Commerce in some way or another to 80%. Further, in order to support the IT to achieve these goals, the World Bank decided in June 2006 to provide US\$87 million in funds (see Note 10).

By the end of 2006, there were 30 B2B market places, 80 for B2C, and many C2C market places, and in 2006 the provision of digital contents began. The number of companies using E-Commerce increased from 300 in 2005 to 800 in 2006, and this is expected to rise even faster in 2007 (see Note 11).

In addition to this, ASMED began offering parts of its national business portal from February 2007, which had been prepared as an information network for small and medium enterprises. An internet information service, SMEnet, also began operation thanks to the support of German GTZ, although the regions that it is available are still limited.

Also, at VCCI, with the cooperation of Intel and Microsoft from the United States and Technobank from Vietnam, Vnemart, a B2B market linking Vietnam companies with international businesses began in 2002, and a gateway was also created to link this market with Korea, China, and Africa. Further, in October 2007 the “Integration

with Information Program” commenced, which sought to integrate the IT of small scale businesses and the home, and this included a financing scheme that allowed non-collateral loans with some conditions of 30 million dong (US\$1,900) over 3 years.

Up until 2005, the state of IT planning at state level in Vietnam was a serious of bad experiences, but it can be seen that at the small and medium enterprise level the use of E-Commerce is helping to move the use of IT forward.

2-(4)-3) Industry, Academia, Government Cooperation

While the participation of the universities around Ho Chi Minh is still not decided, the SHTP-IC for incubation businesses mentioned in 2-(4)-1) above has the potential to be the first real example in Vietnam of cooperation between industry, academia, and government. This is expected to provide results in the development of small and medium enterprises and venture companies in the high tech field.

Aside from this, as part of the support of SMEs from past donors, there have been cases of domestic and international universities and research centers joining together in cooperation. Many of these have been economic/management universities and research centers, but as with the case of Swiss development assistance agency, SECO, discussed in 2-(3)-3), and their cooperation with the Hanoi University of Technology in terms of environmental policy for small and medium enterprises, there are some examples of technology based universities being involved in cooperation. With this kind of support from donors, it is possible that cooperation between industry and academia, and industry, academia and government may further progress in the future.

2-(4)-4) Cultivating Markets/New Advances/Obtaining ISO Certification, Measures for Development of SMEs

In regard to these items, the TAC (Technical Assistance Center) that operates within the ASMED organization, as mentioned in 1-(4)-2), while its current operations may have stagnated, may have a major role to play in the future. Preparations are taking place to provide a variety of services in relation to the provision of information as discussed in 2-(3)-1), the training and development of human resources as discussed

in 2-(3)-2), and the use of E-Commerce as discussed in 2-(4)-2), as part of related support and development policies.

Alternatively, these kinds of activities are often performed by donors as part of their support programs.

One specific example is German development assistance agency, GTZ, which joined together with MPI, ASMED, VCCI etc. from 1994 to 2005 in the “VCA-GTZ SME Development Project”, which was limited to 4 provinces (Hung Yen on the Song Hong Delta, Quang Nam in the central south, Dak Lak in the central plateau, and An Giang in the Mekong Delta). This was to bring together the 4 elements of business environment, supply, demand, and matching for agricultural products and small and medium enterprise products, to strengthen the competitiveness of small and medium enterprises while paying close attention to the formation of a value chain, and the inspection of quality and materials. This also includes the construction and operation of a business portal in Hung Yen province, as discussed in section 2-(3)-1), the section on the provision of information.

In this project, which went through four phases between 1994 to April 2005, Germany gave 7.4 million euros (about US\$10 million). Aside from the scale of this, success was seen by giving total support limited to a single region, and this model is being applied to other regions, and a certain amount of success is being seen (see Note 12).

With regard to cultivating markets and expanding into new fields, as will be discussed in 2-(5)-1) below, adjustments to business areas during the diversification of state owned businesses is a new issue to be resolved.

In regard to obtaining certification from international standards organizations like ISO and HACCP, interest is increasing due to the expansion of exports and affiliation with the WTO, and many donors are increasingly including training in these areas as part of their support for small and medium enterprises. In particular, as part of the support programs from European donors, who are world leaders in this field, this is a commonly addressed topic.

For example, as part of the program for 4 provinces from German GTZ, as discussed

above, workshops and training were provided regarding international standards for product quality and material inspections. Also, Swiss assistance agency, SECO, in addition to the environmental measures discussed in 2-(3)-3), cooperated with the Directorate for Standards and Quality (STAMEQ) in the Ministry of Science and Technology, and provided US\$1 million in funds to run training courses about international standards. And Danish assistance agency, Denida, as part of their Business Sector Program Support for Vietnam, assisted in the obtaining of international certification for the agricultural, forestry and fishery products that it supported in 4 provinces.

On the Vietnam side also, with the importance of exports increasing along with the increase of exports themselves, effort is being made, for example, in recommending the obtaining of international certification when seminars are given for businesses in Ho Chi Minh.

The Ministry of Industry and Trade is in charge of small and medium scale enterprises, but this has not been part of the small and medium enterprise policies of ASMED up to now. However, with affiliation to the WTO, and the opening of retail sales to foreign businesses (planned from January 2009), industry organization and policy discussions have begun on this issue, in an attempt to keep up with the expansion of large scale stores. Policies for small and medium enterprises in the retail sector, including the support of donors, have the potential to be a major issue in the future.

2-(4)-5) Promotion of Subcontracting

In 1994 Germany, in 1997 UNIDO, and in 1999 Japan (JICA) all proposed the development of small and medium enterprises as subcontracting enterprises and in supporting industries, and also provided partial support. After 2000, manufacturing ramped up for foreign affiliated machine assembly makers, but since the supply of domestic parts and materials was difficult, imports increased dramatically, and the need for training of supporting industries was realized. Under the 2003 “Japan-Vietnam Cooperative Initiative”, the Vietnam government confirmed this for

the first time, and in 2006 JICA and MPI agreed on a project to strengthen the competitiveness of small and medium enterprises by placing priority on support for the development of supporting industries (see Note 13).

These circumstances resulted in 2007 in the Vietnam Commerce Ministry setting out a “Master Plan for Developing Supporting Industries” by 2010. However, at this stage, development is not only focused on SMEs, but also on state owned and foreign affiliated companies.

This plan focuses on the five fields of electronics, motor vehicle related, machinery, textiles, and apparel, and policies are put in place to promote the production of their required parts and materials, to modernize management and production techniques of small and medium enterprises, to develop specialized production areas that cater for each part and raw material, and to develop a long term financing environment. In terms of financing, a financing system is being constructed that is modeled on the Japanese system for small and medium enterprise financing (see Note 14). However, some of these plans have stalled at the target setting stage, and have so far failed to realize specific policies.

Until now, in terms of Vietnam’s supporting industries, Japanese and Taiwan affiliated companies have had the biggest share of the market, and the role of Vietnam small and medium enterprises is still small. However, it is expected that with the support policies of the Vietnam government as part of their basic plan, that regional SME will be able to become important suppliers of parts and raw materials. On the part of Japanese companies also, seeing the hard work and improvements in technical prowess of the Vietnamese workers, expectations are high. Further, they are recognizing the value of the Part Procurement Show (Reverse Trade Show) that began in 2005 at the initiative of Japan.

Regarding the development of subcontracting enterprises and supporting industries, the Technical Assistance Center (TAC) operating under ASMED further discussed in 1-(4)-2) is expected to play a significant role, but their activities are in suspension as of March 2008. Even if only being involved in the determination and implementation of the above mentioned supporting industries basic plan, fast

development of businesses is expected.

2-(5) New Business/Venture Support

2-(5)-1) New Business Support

Since the promulgation of the New Enterprise Law in 1999, there was a shift from an approval system to a registration system, and as a result the 2,000 - 5,000 companies that were established every year turned into 13,000 - 20,000 annually. The number of registered businesses also increased from 128,000 at the end of 2002, to 250,000 as of June 2006, and 270,000 by March 2007. The government plans to increase this number to 500,000 as part of its Economy and Society Development Plan 2006 - 2010 (for more details on this, see Chapter 1 regarding small and medium enterprise policy).

However, among these registered companies, there are a number of 'paper companies', or companies that are not operating. As of the end of 2004, 48.5% of registered companies were still operating, and of these operating companies, the average capital of private businesses was 4 billion dong (US\$250,000), with 31 employees (for state owned businesses these figures were 134 billion dong and 229 employees).

The government appears to not only want the number of registered companies to increase, but aims to increase the rate of active companies through small and medium enterprise policies. However, at the same time, with some state owned companies performing badly, there has been a trend of large state owned companies, in the search for high profits, to differentiate and conglomerate, which could have the effect of taking away business chances from small and medium enterprises. SBV and UNDP also see this danger, and have released comments criticizing unfair competition between private businesses and state owned businesses, by stating that "the key to economic development is small and medium enterprises". This seems as if it is going to be a new challenge for the government (see Note 15).

2-(5)-2) Venture Development

As can be seen from the example of the SHTP-IC (Saigon High-Tech Park Incubation Center), as discussed in 2-(4)-1), the Vietnam government have begun to take active steps to develop venture businesses. In terms of support from donors, there are also a number of programs that involve the development of ventures. However, in Vietnam, there is a lack of capital required to support this venture development, and this is said to be limiting the development of venture businesses.

In order to overcome this, the Legislation Department of the Science and Technology Ministry advocated the establishment in July of 2006 of a public venture fund to promote R&D in high tech fields. This plan would see the government subscribe a total amount of 450 billion dong (about US\$28 million), and choose high tech proposals that may be risky but have a chance of success, and offer support to these proposals over a period of 15 years (see Note 17). It is still not clear whether this proposal will go forward.

In addition to this, after some venture funds established in the 1990s failed, with the urging of ADB, a major donor, in 2001 Mekong Capital was established as a venture fund aimed at Vietnam SMEs. Registered in the Cayman Islands for tax purposes, by the middle of 2007 there were offices in Ho Chi Minh and Hanoi, and a staff of 50 people, operating 3 funds (see Note 16). Each fund had capital worth US\$4 - 10 million, which has been invested in apparel, electric wires, plastic manufacturers, gas and communications companies, with about US\$200 million in assets.

After this, a number of other venture funds have been established, for example, the Japan Asia Fund established in Tokyo in October 2006 has begun operating US\$12 million in assets from unlisted Vietnam ventures. It is expected that the establishment of these kinds of venture funds will continue, and it will be important to see how this affects the development of small and medium enterprises in the future.

Regarding the stock market, which has the expectation of being a source of funding for small and medium enterprises, the stock market is currently primarily busy with the equity conversion of small and medium state owned enterprises, and continues to not show much interest in private businesses. As of August 2007, at both the Ho Chi

Table 7 List of Publicly Listed Private Companies (2007)

Company Name	Hed Office	Est.	Listed	Industry
Hai Au	HCM	'03	'04	Wood Furniture
Ngoc Nghia Plastic	HCM	'93	'06	Plastic Bottles
FPT	Hanoi	'88	'06	Computer Software
Pho 24	HCM	'03	'06	Food Chain
Vuong Hong Ceramic	HCM	'90	'07	China

Source) Created from newspaper, magazine articles.

Minh Stock Exchange (HOSE) and the Hanoi Securities Trading Center (HaSTC), there are 198 listings, worth a market value of US\$16.9 billion, but most of these are former state owned businesses (see Note 18). As far as purely private listed companies are concerned, several companies such as computer software maker, FTP, etc., are the exception to the rule (see Table 7).

On the other side of this, it is estimated that there are about 10,000 companies in Hanoi alone that are trading stock outside of the stock market. There are a lot of SME that would like to obtain capital from listing on the stock market, but at the present time most of them do not meet the standards required for listing. In order to urge the listing of SME, in December 2006 the Vietnam SMESC was established, and in December of 2007 the Vietnam Small & Medium Enterprises Joint Stock Co. was established, although the details of their activities and their success are still unclear.

2-(6) Promotion of Fair Dealing and Maintenance of Markets for SMEs

In regard to this point, there are currently a large number of industries in Vietnam in which the state of state owned enterprises hold monopoly powers, and this has a direct and indirect effect on the shortage of management resources of private and small and medium enterprises, and it is often pointed out that this lack of management skill serves to restrict business opportunities. Also, many SME are involved in simply subcontracting work for larger scale companies (most of which are state owned), and it is not clear that they are actually adding value.

The postures of the government agencies, bureaucrats, and the legal system also bring ambiguity and frequent change, which increase risk to private SME, and in

many cases this also prevents the improvement in the skills of entrepreneurs. As part of a reform of the system, there is a trend of the government, bureaucrats and businesses to develop a more transparent relationship in terms of the law, and while some success has been seen in this respect, there are still a number of problems to be resolved. In recent years (since 2006), as previously discussed in 2-(5)-1), there is discussion about the trend of large state owned businesses to diversify and conglomerate, and the effect of this has on private businesses.

2-(7) Regional SME Policies

Under the Economy and Society Development Plan 2006 - 2010, the development of SME in agricultural areas, the development of industrial villages, and the establishment of industry clusters have been implemented to promote business activities.

Part of this is the theme for all ASEAN nations, proposed by Japan, of “One village, one product”. In Vietnam, from 2006, JICA provided support for an agriculture industrialization pilot business, which has seen some success. However, many programs from European donors are already in progress, and this movement has still not seen its end.

As discussed in 1-(6) and 1-(7), many donors began providing extra support at a regional level from 2000, and with the authority to manage ODA shifting to the regional level from 2006, the ability of donors to play a role in the development of SME at a regional level has increased. The German GTZ project across 4 provinces as discussed in 2-(4)-4) is a good example of this, and there have also been a number of other small scale proposals from NGO organizations.

For example, in the central northern Thua Thien Hue province, there were 250 grants offered in the 6 years up to 2006, totaling US\$20 million, and about 30% of this was aimed at manufacturing development (of the remainder, 25% was on infrastructure, and 20% on medicine/education, etc) (see Note 19). The role played by NGO at a regional level, including support for women and minorities cannot be ignored.

2-(8) Supporting the Internationalization of SMEs

The export development activities of the Vietnam Trade Promotion Agency (Vietrade), which has been established within the Ministry of Commerce (currently the Ministry of Commerce and Industry) in 2000 are central to the government's support of the internationalization of small and medium enterprises. Based on experiences in export development projects supported by some donors, such as the Swiss in the 1990s, this agency was established with the support of other donors, particularly UNIDO, the ITC, and other international organizations. Its activities center around trade related services such as holding trade fairs and participating in overseas trade fairs, with a particular emphasis on the development of SME exports, and in this respect a lot of talented people were obtained from the VCCI (Vietnam Chamber of Commerce and Industry), which has experience in these matters, and a close cooperative relationship continues with the VCCI. Also, Vietnam embassies overseas and regional offices of the Ministry of Commerce share these trade promotion responsibilities, in conjunction with Vietrade.

From 2002, with the support of ITC and the cooperation of the VCCI, the "e-Trade Bridge" project was put in place, to provide a trade information system mainly aimed at SMEs, to greater utilize IT, and this began with the provision of information to promote the export of coffee, and has extended to provide personnel training and trade advice. This system is currently being integrated with the Ministry of Commerce and Industry to provide even greater coverage. In 2004, with the support of Switzerland, Sweden, etc., the "Export-led Poverty Recovery Program" was implemented, which provided more than US\$12 million.

As of 2008, Vietrade has about 80 employees, with 50 employees in its main office in Hanoi, and about 30 in its branches in Ho Chi Minh, Danang, and its two overseas branches (New York, Dubai). It has a budget of about 6 billion dong (US\$3.7 million), and about one third of this comes from charges for its services. The two overseas branches are run completely from their own financing, and the ratio of self-financing is increasing. In spite of this, in addition to limited employees and budget, the employees have limited experience and training, and their activities to promote exports are

substandard, achieving little more than acting as travel agents, and the Agency does not receive praise from those businesses that have used them. Also, all regional provinces have Trade Promotion Centers under the Ministry of Commerce and Industry, and while these do have several staff, most of them cannot speak any foreign languages, and they have a low level of knowledge and experience (see Note 20). Vietrade has planned 155 programs as of 2006, but 15% of these were not implemented.

In terms of gathering and sharing information, the Ministry of Commerce and Industry are continuing on their work of integrating the e-Trade Bridge with their own system, and a national network, “V-Trade Portal” is beginning to take form.

As of 2006, Vietrade has placed most of its emphasis on the promotion of export of marine products and processed foods, with 11 programs in operation. These programs have cost the government a total of US\$12,700. However, as of 2008, with plenty of support for marine related products coming from industry organizations, Vietrade is no longer offering support.

Regarding the promotion of exports of SME, the Ho Chi Minh People’s Committee developed programs such as an online exhibition for goods unique to the area, and also conducted market research etc. (budget of US\$1 million). Further, between 2003 and 2005, donors from Switzerland, Denmark, Holland, and Japan etc., as well as related organizations supported individual programs based on their own aims, for example, the implementation of cooperation between Swiss SECO and Vietrade at a budget of US\$300,000 to provide matching and dispatch to companies for specific missions.

On the other hand, regarding the export financing, the Export Support Fund (ESF) was established in 1999 under the auspices of the Ministry of Finance to provide export funding, including but not limited to small and medium enterprises, and in 2000, the reorganization of government financial institution DAF and then VOB (see 2-(1) for more details of both), with support from donors, provided short term export development loans for SME from 2001.

2-(9) Employment/Labor Policies for SMEs

Many donors that support small and medium enterprises do so with the view of poverty reduction, and their various reports often point out the severe labor conditions and inferior work environments of small and medium enterprises. Many support programs include specific measures to attempt to resolve these issues. In the government's Small & Medium Enterprise Development Plan 2006 - 2010, a goal of 2.7 million new employees is included, but there is nothing regarding the improvement of policies to improve the employment and labor conditions in small and medium enterprises.

Cooperatives, which will be discussed further in 2-(11)-2, are labor organizations for small scale businesses and home businesses, and they have begun to place importance on these labor issues. However, there has been no support in terms of small and medium enterprise policy.

2-(10) Support for SME Organizations and Networks

2-(10)-1) Chamber of Commerce & Industry

The most important private organization that is involved in the activities of small and medium enterprises is the Vietnam Chamber of Commerce and Industry (VCCI). It was established in 1963 to promote trade, and became an independent organization for the promotion of all business activities by order of the Prime Minister in 1993. Its head office is in Hanoi, and has about 200 staff, a series of committees, and includes the Small & Medium Enterprise Promotion Center. It also has branch offices in 9 major cities, which gives it a staff of over 1,000 people including its head office.

Its members are domestic business organizations and businesses (including joint ventures where the Vietnam side contribute more than 50% of capital), and as of 2006 there were more than 50 organizations and more than 5,000 businesses with membership. It is run with membership fees, which make up about 20 - 30% of its funding, assistance from the government, which is about 20%, and income from its various services such as training, market research, consulting, holding trade fairs, registration, issuing original certificates, etc. is also important (see Table 8). A large

Table 8 Major Results for VCCI for 2007

Course	No.	Participants
Manager Training Course	700	44,500 people
Seminar on Anti-Dumping etc.	10	n.a.
Foreign Mission Dispatch	403	9,120 people
Receiving Foreign Missions	607	26,600 people
Working with Foreign Businessmen	180	25,330 people
Dometic Trade Fairs	26	2,800 companies
International Trade Fairs	12	6,700 companies

Note) Participants and participating companies not limited to SME.

Source) VCCI News, Jan. 27. 2008

portion of its operating costs are also believed to come from donors.

Activities are varied, including holding trade fairs, participating in overseas trade fairs, providing and receiving staff for certain missions, holding seminars and training courses, providing information, consulting, and providing agency duties for intellectual property, but part of its activities involve operating businesses under its purview. As discussed in 2-(3)-2), SIYB, the human resource training program supported by donors has been transferred to the VCCI, and is one example of the VCCI operating a business, being operated as a personnel training business (see Table 9). Also, since 2002, as discussed in 2-(4)-2), the VCCI actively supports IT, and has obtained support from Intel and Microsoft in the US and Techcombank in Vietnam to create “VNemart”, an E-Commerce B2B portal.

For these business activities, the VCCI and its network is an important partner of ASMED, and has experience working with ASMED in relation to small and medium enterprises. For the same reason, overseas donors also work together with the VCCI in programs related to small and medium enterprises, and many of their programs are actually supported by donors and are operated in cooperation with these donors.

The biggest branch is in Ho Chi Minh, with more than 100 staff, and they are able to operate virtually without support from the government. However, the SME Development Center, which aims to develop SME, plans to open in Hanoi, where 7 staff will work to improve skills, provide information, and offer management services etc.

2-(10)-2) Industry Organizations/Cooperatives

Based on the VCCI, as of about 2001 there were about 200 industry organizations in Vietnam, and this number is continuing to increase. Among these are associations such as the Union of Associations of Industry & Commerce (UAIC), the Young Entrepreneurs Association (YEA), the Women Entrepreneur Association (WEA), and VINASME, as well as national industry organizations for such areas as clothing/textiles, leather/shoes, paper manufacturing, plastics, liquor, tobacco, and electronics, and regional economic organizations (for example the HUAIC, a UAIC in Ho Chi Minh) and regional industry organizations (for example Haiphong Leather & Shoe Association, Central Paper Manufacturers Association, etc. Also, there are an increasing number of more informal organizations, such as 'business clubs'.

National industry organizations used to be organizations of only state owned businesses, but now many of them also include private and small and medium enterprises. In recent years, the rate of membership of private businesses is increasing, and now there are no longer any organizations that are completely composed of state owned businesses. There are a few organizations composed totally of private businesses on a regional level, but there are few cases of this in regional level clubs. VINASME serves the function of helping small and medium enterprises to improve skills, utilize technology, and utilize information, and operates with the support of donors, particular in relation to internationalization and environmental issues.

In addition to the VCCI, those organizations that play a particular role in relation to small and medium enterprises include UAIC, YEA, WEA at a national level, HUAIC, YBS, and regional SME Committees at a regional level, and then certain business clubs. Also, while the characteristics are different from industry organizations, the Vietnam Union of Science and Technology Association has many organizational members related to science and technology, including MPI and SME Council members, and they provide grants to small and medium businesses related to science and technology. These organizations also come up from time to time in relation to foreign donors (see Table 9).

Of these organizations, UAIC began as purely an organization of private businesses

Table 9 Industry Ass. Related to SME Policy (2006)

Organization	Estab./Reorg.	Members	Characteristics
Vietnam Chamber of Commerce & Industry (VCCI)	Est. 1960 Reorg. 1997	more than 50 orgs. more than 5,000 companies 9 branches	Various activities and services for business promotion. About 20% of budget from Govt.
Vietnam Cooperative Alliance (VCA)	Est. early 1990s in North	67,000 Cooperatives. 12.5 million people Branch in every Prov.	Alliance of cooperatives from all over the country. Some support also from foreign donors.
Union of Association of Industry & Commerce (UAIC)	Est. in South in 1970s Reorg. 1991	Several orgs. and more than 1,800 companies	Was initially just an industry association for private companies. Now includes state owned companies.
HUAIC	Club Est. 1998 in Hanoi	Many HCM orgs. and companies	Reorganized in 2001 to become a regional organization of UAIC.
Young Entrepreneurs Asso. (YEA)	First Est. in Hanoi in 1990s	27 branches	Initially only for private business members. Now includes state owned companies.
Women Entrepreneur Assoc. (WEA)	Est. 1993	Branches in many regions	Supported by Canadian NGO. Organization for female entrepreneurs.
VINASME	Est. 2005	Hanoi, HCM, Danang	Still newly established, details not available.
Vietnam Union of Science and Technology Association (VUSTA)	Est. 1983	114 orgs., 400 research centers, 150 newspapers and magazines etc	Participate in promotion of SME from science and technology perspective, in cooperation with VCCI, donors, etc.

Source) World Bank "Vietnam Development Report 2006" etc.

in Ho Chi Minh, but has since become national, and now includes state owned businesses as members. It has drawn a line in its relationship with government agencies, and remains independent. However, in spite of its central branch in Ho Chi Minh having about 5,000 members, there are only 5 staff, making it very different in scale from the VCCI.

In addition, Cooperatives are stronger and more public organizations for small scale and home businesses, and there are also Cooperative Alliances on a regional or industry basis and the Vietnam Cooperative Alliance on a national level. As of June 2007, there are about 17,000 cooperatives, with 1.25 million members. These organizations operate in such fields as agriculture, fisheries, transportation, handicrafts, and micro credit etc., and are employer organizations, although their aim is mainly to protect and profit employees. They have a lot of relationships with foreign

donors, but no conspicuous involvement in small and medium enterprise policies.

2-(10)-3) Support for Networks

There are many examples of cases in which the VCCI and the various industrial organizations have cooperated in providing training and support for small and medium enterprises. In particular, in the planning and implementation of programs supported by foreign donors, they will often seek cooperation and discussions with various local related organizations, and this often ends up in the formation of networks. This is one feature of small and medium enterprise support in Vietnam.

2-(11) Development Policies for Small Scale Enterprises

With regard to “Micro-Businesses” which are small scale or home based businesses, these are defined as having 9 employees or fewer, and are included as small and medium enterprises and governed by the same policies. However, there are no cases among the policies implemented by ASMED of bail-out packages for a business of this scale.

Still, Cooperatives, or employer organizations for this kind of businesses, plan for the development of the national economy and society, and this is carried out mainly through implementing labor policy measures. This includes, for example, the provision of technical training to agriculture or fisheries businesses, and the supply of housing for low income earners.

Also, in terms of support programs of foreign donors (including NGO), there are many cases of programs that are aimed particularly at the training or support of these kind of businesses. The planning and implementation of such programs is often carried out in cooperation with local governments, small and medium enterprise organizations, and cooperatives etc. For example, DED (German Development Service), one of the German cooperative organizations, implemented a Public Private Partnership (PPP) program since 1993, which obtained cooperation from other German cooperative organization, KfW, and GTZ, and supported small scale businesses across Vietnam.

2-(12) Safety Net

In November 2004, a New Bankruptcy Law was promulgated in the parliament, which specifies in a way that was not previously clear that state owned businesses are also subject to this law. However, this law did not include procedures and measures for small and medium enterprises.

In September 2005, a system was established whereby responsibilities towards employees are protected in the event that a business or cooperative receives a ruling of bankruptcy from a court. This established that debts related to wages, retirement benefits, medical expenses, accidents or work related injury, and social insurance etc. must all be resolved in accordance with their relevant statutes.

With a view to the constant development of SME, the VCCI have cooperated with donors and related organizations to establish a business to protect the health and safety of workers, including offering seminars, creating films and pamphlets, and providing information over the internet. Also, the VCA (Vietnam Cooperative Alliance) have obtained support from ILO and other foreign donors to provide a wide range of support for the profit and protection of workers in small scale businesses.

Chapter 3 Challenges of and Suggestions on Promotion of SMEs in Vietnam

3-(1) Causes of the Stagnation of Measures and Programs

Looking at the recent development of small and medium enterprises in Vietnam, some important measures and programs have failed to bring the kind of growth that was expected, and we are seeing conditions whereby companies are forced to suspend business or close down. Part of the reason for this lies in the structural issues of the transitional nature of the economy, and difficulty in obtaining financing, but more specifically, delays in decision making by relevant government agencies in Vietnam, as well as the complicated nature of procedures seem to be a major issue affecting the desire to go into business in not a few cases.

For example, in the case of TAC Hanoi, under ASMED, as discussed in 1-(4)-1), as part of the support offered by JICA of Japan, a major role that was supposed to be handled (particularly with regard to the supply of equipment) was not carried out due to a difference of opinions within ASMED, and this led to the center being unable to perform the functions that were expected of it. TAC Hanoi is an organization that is central to leading the improvement of the technical level of SMEs in supporting industries related to machinery and metals, and was also expected to be a model for the establishment of TAC in Ho Chi Minh and Danang, which meant that the effect of this failure was large.

In relation to financing, as discussed in 2-(1), the SME Credit Protection Fund that was to be established by the Ministry of Finance in each province has not yet been established everywhere, which is also a problem. It is believed that the reason for this also lies in the slow pace of decision making in related government agencies, and also a failure to obtain an agreement of opinions. This has certainly prevented the very important matter of the further expansion of financing for SME.

As discussed in 2-(3)-1), for the provision of information, there was a plan to provide a variety of information in the form of a national scale network involving the various ministries, agencies, and local governments, but this has not progressed smoothly and has had a number of changes and interruptions, resulting in a delay in

an efficient information system that is needed by SME. This is also due in large part to the delays in reaching decisions and inability to find agreement.

In relation to the Saigon High-Tech Park (SHTP) Incubation Center (SHTP-IC), as discussed in 2-(4)-1), cooperation with the University of Natural Science of HCM City, which first came up with the idea, has been held up and is now still unclear, due to the retirement of a key individual at the university. The cause of this can also be seen as an inability of government agencies to reach a consensus opinion. For an incubation facility, a cooperative relationship with a research institution is critical, and the effect of this will certainly not be small.

3-(2) Learning from the Success of Neighboring Countries

These situations do reflect the prudent and active nature of discussions in the Vietnam government and its various agencies, and cannot be generally criticized. However, in terms of affiliation with the WTO and economic affiliation with other Asian countries, with the issues surrounding the competitiveness of Vietnam SME being a major problem, if necessary measures are not taken quickly, these other matters may fail to provide improved results. Regarding these important measures, it is vital that the necessary decisions and procedures be dealt with as quickly as possible, and specific policies set in place.

Also, in relation to decision making and the implementation of specific policies, it would be valuable to learn from other neighboring countries that have gone through the same process. In particular, among ASEAN members, both Thailand and Malaysia tackled these issues relatively early, and have seen some level of success, and a great deal could be learned from their experiences.

For example, from the late 1980s, Thailand, primarily with support from Japan, developed supporting industries for the motor vehicle industry, and were able to see some success including in the development of regional small and medium enterprises. This has led to the establishment of Thailand as the “Detroit of South East Asia”, with the creation of its cluster of motor vehicle related industries (see Note 21). The Malaysian electronics related industries have also seen success, with local small and

medium enterprises supplying parts and materials to leading foreign companies that have transferred there, as well as in developing IT related businesses.

It cannot be argued that currently Vietnam is a long way behind both Thailand and Vietnam in terms of the transfer of foreign companies and the development of local small and medium enterprises to service them. However, based on the fact that such leading companies as Intel (US), NIDEC (Japan), and Hon Hai (Taiwan) are beginning to transfer to Vietnam, there will certainly be a new chance for small and medium enterprises to develop further. If this is the case, there is a lot that can be learned from the successes of neighboring countries that have seen development in their small and medium enterprises.

Learning from neighboring countries' success in this way can have great results in particular for politicians and bureaucrats that are involved in SME development, but also for entrepreneurs and managers that are directly involved in running SME, as well as engineers etc. that are looking to improve to the next level. As the Asian economic alliance moves forward, it will be important to replace the pride of "We will be better than them" with the practical "We can learn from their success".

3-(3) Japanese Support Policies

Japan's policies to support the development of SME in Vietnam will likely continue to center around the provision of ODA, investment, technology transfers, and the training of personnel. However, regarding the content of each area, and the relative emphasis, some elements need to be improved.

With regard to ODA, this is linked to some degree with 3-(2), but it is vitally important to learn from the experiences and successes of neighboring countries. Vietnam is a transitional country, that has a pride of not wanting to just follow its surrounding countries, and have conventionally sought to choose different methods in many cases, but at the present time it is possible to take the experiences of neighboring countries and improve on them. To some extent, Vietnam has gained control over this pride in terms of neighboring countries, and is starting to be inclined to admitting that there are things to be learned from them.

Regarding investment, at the moment it is preferable to offer guidance on joint ventures, which are less common compared to other ASEAN countries. Especially in the area of supporting industries, it would be best for Japanese small and medium enterprises to find local small and medium enterprises that are looking to improve, and create joint ventures to reduce the cost of the production base, and to advance technology transfers and personnel training.

These technology transfers and personnel training need to be carried out for joint ventures with Japanese companies or local small and medium enterprises by sending Japanese specialists, engineers and experts etc., and also by inviting Vietnam engineers and technical workers to Japan for technical training, in order to help them to gain a feel for the “Japanese way of doing things”. In order to accomplish this, in addition to the extension of current public schemes through Japan International Cooperation Agency (JICA), Japan Overseas Development Corporation (JODC), Association for Overseas Technical Scholarship (AOTS), and Japan External Trade Organization (JETRO) etc., it will also be necessary for Japanese businesses themselves to work to transfer their technologies, and for the new Silver Volunteer system to be extended to the extent possible.

Vietnamese people are far from inferior to those in neighboring countries in terms of latent skills, industry, and aspirations etc., and are in fact considered to be exceptionally capable. However, in terms of technology transfers to teach the “Japanese way of doing things”, in comparison to the long years of results and experience with neighboring countries, with Vietnam the length of time has been shorter, the number of cases less, and the base thin. Based on the great potential of Vietnam as a “manufacturing base” for Japanese businesses, it is vital that there be a much deeper sharing of technology and training of personnel.

This survey of local small and medium enterprise policies has confirmed that the successes and experience of Japan and Japanese companies that have operated in neighboring ASEAN countries are largely unknown by Vietnam relevant agencies and small and medium enterprises. As such, there have been few requests directly from Vietnamese people for knowledge and information. However, with the expected

potential with which Vietnamese people look at Japan, contributions from Japan for the development of small and medium enterprises in Vietnam must be based on both parties having an understanding of the experiences of neighboring ASEAN countries, and extending those experiences to the greatest degree possible.

(Footnotes)

- Note 1) See Decree of Government on Support for Development of Small and Medium Sized Enterprises, 23 November 2001 (Attachment 1).
- Note 2) See Decision, Approval of the 5Year SME Development Plan 2006-2010, October 23.2006 (Attachment 2).
- Note 3) Regarding donor proposals for SME support, the IFC developed this detailed matrix as of April 2005 (Attachment 3).
- Note 4) “New investment phase in Vietnam” International Market News 30.Nov.2007
- Note 5) Established in the three provinces of Yen Bai, Tra Vinh, and Dong Thap as of August 2005, and preparing the establishment of 4 sites in HCM, Hanoi, Da Nang, and Ba Ria Vung Tau.
- Note 6) In the Vietnam Economic Times, 2007.5.1, Kim Thai introduced this theory in the paper “Altering the approach”, and in addition to evaluating that project 112 had shown no success, he argued that a completely new approach was necessary.
- Note 7) Japan, through JICA, have established 6 offices in 5 countries of the same type of center in transitional market countries of Vietnam (2 cities), Laos, Uzbekistan, Kazakhstan, and Mongolia.
- Note 8) In the second half of 2007, a 4 - 5 day course on production management, human resource development, marketing and management strategy was held 11 times with 30 - 50 people participating each time.
- Note 9) The Daily NNA, Vietnam version, 2007.9.18. This article state that the support from Incombank was 10 - 30 million dong, and that up to 75% guarantee could be obtained for as much as 80 million -2 billion dong.
- Note 10) From The Daily NNA, Vietnam Version, 2006.9.15
- Note 11) From “Vietnam’s infant e-commerce on the move” People’s Daily Online (Chinese Embassy Website) 2007.1.17
- Note 12) “Former Project – VCA/GTZ Project for the Promotion of SME” 2005 (GEZ Website)
- Note 13) Kenichi Ono, “Vietnam Supporting Industries as viewed by Japanese companies”, Nguyen Thi Xuan Thuy “Supporting Industries: A Review of Concepts and Development”. Both released in June 2006 and published in

the Vietnam Development Forum.

With regard to survey reports prior to this on Vietnam supporting industries, see the October 2001 JETRO document, “F/S Survey of Supporting Industry Training Businesses in Vietnam” (Field survey of Obirin university Professor Ryuichiro Inoue and Yoritaka Technology Research Center Managing Director Masafumi Yoritaka) .

- Note 14) From “Approval of Master Plan for Development of Supporting Industries”, The Daily NNA, Vietnam Version, 2007.8.17
- Note 15) From “Expansion of State-Owned Companies is Pressure for Small and Medium Enterprises”, The Daily NNA, Vietnam Version, 2007.10.24
- Note 16) “High-tech venture capital fund proposed in Vietnam” Sci Dev. Net, 29 Dec.2007
- Note 17) From Mekong Capital Website, 2007.
- Note 18) Thai Thu Hong, Margarete O.Biallas “Vietnam - Capital Market Diagnostic Review” Capital Market Review, Aug. 2007.
- Note 19) From The Daily NNA, Vietnam Version, 2006.7.16.
- Note 20) “Private companies make promotional programme proposal” Vietnam net, 12.9.2007.
- Note 21) Ryuichiro Inoue, “Development of Supporting Industries in Thailand and Japanese Contributions to the development of Small and Medium Enterprises”, Nara Sangyo University, “Industry and Economy”, December 2002. Ryuichiro Inoue Ed., “New Stage of Asian Industrialization and Issues for Economic Cooperation - Assistance for Industries for Surrounding Countries in South East Asia”, Asian Economy Research Center, 1995.

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APPENDIX

Comparison of SME Development
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Small & Medium Enterprise Development Policies in Indonesia

1 Small & Medium Enterprise Policies – Overview

<p>1-1 Definition of SME and its Basis</p>	<p>Definition of ‘Small & Medium Enterprises’ was set out in the Small Enterprise Act No. 9 of 1995</p> <ol style="list-style-type: none"> Net assets worth 200 million rupiahs or less. These assets shall not include land or buildings. Annual Sales of 1 billion rupiah (net) or less. Owned by a citizen of Indonesia. An independent economic entity, which is not a subsidiary or branch of a large or medium enterprise. The business is managed by an individual, an unincorporated entity, or a cooperative organization. <p>Definitions a and b may change according to changes in economic conditions. Also, there are no distinctions according to the type of industry. In addition to this Act, the various related Ministries have their own definitions. The 1995 Small Enterprise Act No. 9 is due to be amended in 2008 as the “Micro, Small & Medium Enterprise Act”</p> <p>According to the Decree of Minister of Industry 37M/-IND/PER/6/2006, definition of small enterprise is that the enterprise conducts business activity in industrial sector and its investment amount is Rp 200 million or less (except land and buildings for the business site). Definition of medium enterprise is that the enterprise conducts business activity in industrial sector and its investment amount is over Rp 200 million and Rp 10 billion or less (except land and buildings for the business site). Meanwhile, the Ministry of Cooperatives and Small and Medium Enterprises defines the number of employees as follows;</p> <ul style="list-style-type: none"> Large enterprise : 100 or more Medium enterprise : 20-99 Small enterprise : 0-19
<p>1-2 Business Environment and Present Status of SMEs</p>	<p>As of 2006, there were 48.9 million SMEs, employing 85.4 million people (96.2% of total employment), and contributing 53.3% of GDP. Distribution of SME workers by industry as of 2000: Agriculture 60.2%, Trade/Hotels/Food & Beverages 23.4%, Manufacturing 6.7%</p>
<p>1-3 Legislations for SMEs</p>	<p><u>1995 Small Enterprise Act No. 9</u></p> <p>The purpose of this law is to assist the activation of small and medium enterprises to lead to further development in the economy as a whole, and also to provide a legal framework upon which small and medium enterprises may develop. The Act has 9 Chapters and 38 Articles.</p> <p>The introduction (Chapter 1 Article 1) of the Act, sets out the definition of small enterprises under the Act, the aim of developing enterprises that are strong and independent, the role of government in establishing a legal framework and implementing policies, and the need for strengthening the support of government and society for small enterprises, the security of a supply of capital and credit guarantees etc., and cooperation between small and large and medium enterprises. Chapter 4 includes the ability to secure capital, the strengthening of competitiveness, the maintenance of infrastructure, the provision of information, the cooperation and joint activities with large and medium enterprises, and the improvement of the approval and licensing and credit guarantee systems. Chapter 5 lists improvements in manufacturing and processing, market cultivation, staff training, and technology as important for the development of small enterprises. Chapter 6 sets out the acquiring of capital and credit guarantees, including bank funding, non-bank funding, venture capital, state funding, grants, and other means of funding. Chapter 7 sets out cooperation and tie-ups between large and medium enterprises and small enterprises. Chapter 8 sets out the integration required by government for the development of small enterprises, including the President establishing and chairing coordinating institutions, the development of policies, implementation of policies, and evaluation.</p> <p><u>1998 Small Enterprise Development Act No. 32</u></p> <p>In relation to the Small Enterprise Act No. 9 of 1995, in 1998 the Government</p>

	<p>Ordinance for the Development of Small Enterprises No. 32 was enacted. This government ordinance sets out policies for the development of small enterprises that are strong and independent, which are also a source of strength in the development of the national economy.</p> <p><u>2008 Revision to the Act</u></p> <p>The main point of the revision is the definition for “small enterprise” no longer supports fair and effective policy development, and there is a need for a separation into micro, small, and medium enterprises.</p>
1-4 Formulation and Implementation of SME Development Policies	<p>Policies for SMEs are determined by the coordinating committee of the Minister appointed by the President. The actual responsibility for changes lies with the Minister for Economic Development. Other members of the coordinating committee include the Ministers for Finance, Agriculture, Fisheries, Industry, Forestry, and Cooperatives/Small & Medium Enterprises. Each Ministry is responsible for implementation of policies for SMEs within each of their fields, and more specific policies are left to regional governments.</p> <p><u>“State Development Mid-term Plan 2004-2009”</u></p> <ol style="list-style-type: none"> ① Increase productivity of SMEs ② Increase the proportion of small enterprises in formal sectors. ③ Urge growth, increase added value by increasing exports of SMEs. ④ Develop systems for new business training based on technological developments. ⑤ Plan for qualitative improvements in cooperative associations.
1-5 Government Spending on SME Development Policies	<p><u>Budget for Ministry of Cooperatives and SMEs</u></p> <p>The allotment to the Ministry for Cooperatives and Small & Medium Enterprises for 2008 (Accounting period from January to December) is 1.1116 trillion rupiah. The total amount allotted to other Ministries and Agencies is 285.4829 trillion rupiah, which amounts to a total of 564.6231 trillion rupiah when added to interest on debt payments, subsidies, etc. So the amount allotted to the Ministry of Cooperatives and Small & Medium Enterprises is only about 3.9% of the amount allotted to the other Ministries and Agencies, and just 0.2% of the total allotted budget. In addition, the central government also allots fund to the regional governments for the purpose of funding small and medium enterprises, which, according to a survey carried out by the Ministry for Cooperatives and Small & Medium Enterprises, was budgeted at about 118.5 billion rupiah for 2008.</p>
1-6 Role-sharing between the Federal and State Governments	<p>After the collapse of the Suharto administration in 1998, the pace of regional decentralization accelerated in Indonesia.</p> <p>At the prefecture and city level, measures and standards necessary to the effective implementation of policies for cooperatives and SMEs are set out by the Cooperative and SMEs Minister in the Ministerial Directive No. 20 of 2000.</p>

2 SME Development Policies – Specific Schemes

<p>2-1 Financing</p>	<p>In Indonesia, the financial system is still not working well for SMEs and at least 60% of SMEs at present are unable to obtain loans. They are generally self-funded micro enterprises in the informal sector, difficult to obtain access to banks, expensive interest rate on loans currently at 18%, difficult to secure necessary collateral. For them it is much easier to finance by borrowing from family or friends.</p> <p>To increase the supply of funds and expand its financial system for SMEs the government is currently preparing laws and an expanded system based on these laws.</p> <p>To support the start-up businesses by young entrepreneur new programs have started, and training was carried out for 200 students in 06 and 300 in 07. During 2001-05 incubator parks were established in 6 states (including 107 SMEs), for a total investment of 5 B. Rupiah, or 500 M. Rupiah per park.</p> <p><u>Credit Guarantee System For SMEs</u></p> <p>Loans guaranteed up to a maximum of 500 million rupiah at a maximum of 16% of interest, fees of 1.5% of the loan amount shall be subsidized.</p>
<p>2-2 Taxation System</p>	<p>There is no special tax system for the income of SMEs in Indonesia, and taxes on profits are imposed the same on individuals and companies.</p> <p>Personal Income Tax: 5, 10, 15, 25, 35%</p> <p>Corporate Income Tax: 10, 15, 30%</p> <p>The Finance Ministry is to reform the tax system in 2008 for simplifying tax system, expanding tax collection, and preventing tax evasion.</p>
<p>2-3 Information Service, Human Resource Development, Business Environment, Consultation, Advisory Services and Others</p>	<p>Policies for the provision of information are regulated by the Small Enterprise Act, and the government and private sector are gradually taking action in this field. For the SMEs to grow, policies must be implemented to develop people that are conversant with current technological developments.</p> <p>The SMEs Human Resource Development Committee was established mainly by the Directorate General of Small and Medium Scale Industry of the Ministry of Industry and the Education and Training Center.</p> <p>In addition, the SMEs Human Resource Development Clinic was established. The establishment of the SMEs Human Resource Development Center become the goal in the future.</p> <p>The Ministry of Industry established a team and a center for introduction of the Small and Medium Enterprise Management Consultants System. And human resources development was enhanced by private sector. The establishment of the Indonesia Mold & Dies Industry Association in February 2006 was one such example.</p>
<p>2-4 Support for Obtaining Management Resources for Existing SMEs</p>	<p>Support businesses for SMEs provide research and development assistance, IT related support, Industry, academic, and government support, assistance with market cultivation, ISO authorization support, development measures for small and medium scale commerce, and measures to promote subcontractors.</p> <p>Government is developing a system incorporating these supports into law, but it is at the regional level that most of the specific policy measures are being implemented.</p>
<p>2-5 New Business/Venture Support for SMEs</p>	<p>A specific example of new business support program is Prospek Mandiri (Program of work opportunities for university graduates) in the six states as a measure against unemployment for university graduates and those with higher education experience. By the end of 2007, 900 university graduates had been recruited, and 41 cooperative organizations were established in 14 states and 31 prefectures/cities.</p> <p>Finance Minister's Directive No. 250 of 1995 set out small and medium enterprises as the basis for venture businesses, and exempt tax of venture capital investments.</p>
<p>2-6 Promotion of Fair Dealing and Maintenance of Markets for SMEs</p>	<p>For SMEs measures are in place to ensure for non-delayed payment, retail trade adjustments, and the law treats large companies and state owned companies equally in terms of dispute resolution, and there are prohibitions and resultant punishments to ensure that they do not trade unfairly with SMEs,</p>

	guaranteeing equal access to public demand.
2-7 Regional SME Policies	Regional governments are mainly responsible for the implementation of specific policies, and they are seeking to develop an effective working relationship between government and the public. As for cluster promotion, the concept of cluster was determined in the industrial policy announced in July 2005 and 10 sectors were set as priority development sectors in 2005-2009.
2-8 Assistance for the Internationalization of SMEs	The main issues in terms of internationalization of Indonesian SMEs are the development of tourism and the expansion of export of regional goods. The Ministry of Trade, the Indonesian Chamber of Commerce and Industry and JETRO established a research team for analysis of competitiveness of exporting industrial products in the world market. The team submitted a report to the Ministry of Trade in March 2006. For export development program please refer to NAFED (National Agency for Export Development) http://www.nafed.go.id
2-9 Employment and Labour Policies for SMEs	Workers in SMEs make up more than 90% of the total workforce, and SME is essential to increase employment. However there is almost no system to protect SME workers.
2-10 Assistance to SMEs Organizations and Networks	Chambers of Commerce are organized at the national and regional levels, and there is some difference between regions, but they do offer support to SMEs. There are a variety of industry associations, but these are not very active. Cooperatives are set out by law as similar to SMEs.
2-11 Development Policies for Small Scale Enterprises	Most micro enterprises are stalls or traders, etc., which belong to the informal economic sector
2-12 Safety Net	Measures to protect SMEs against bankruptcy, corporate reorganization, and disaster have not been improved. The credit guarantee system is one example of a measure that is starting to provide a safety net for SMEs, The improvement of the Small and Medium Enterprise Management Consultants System is an critical item which listed in the Strategic Investment Action Plan (SIAP).

Small & Medium Enterprise Development Policies in Malaysia

1 Small & Medium Enterprise Policies– Overview

<p>1-1 Definition of SME and its Basis</p>	<p>Generally, SMEs are defined into two broad categories: Manufacturing, Manufacturing-Related Services and Agro-based Industries "Small and medium enterprises in the manufacturing, manufacturing related services and agro-based industries are enterprises with full-time employees not exceeding 150 OR with annual sales turnover not exceeding RM25 million". Services, Primary Agriculture and Information & Communication Technology (ICT) "Small and medium enterprises in the services, primary agriculture and Information & Communication Technology (ICT) sectors are enterprises with full-time employees not exceeding 50 OR with annual sales turnover not exceeding RM5 million".</p> <p>In summary, detailed definition of SMEs by size are: Manufacturing, Manufacturing-Related Services and Agro-based industries Micro enterprise - Sales turnover of less than RM250,000 OR full time employees less than 5 Small enterprise - Sales turnover between RM250,000 and less than RM10 million OR full time employees between 5 and 50. Medium enterprise - Sales turnover between RM10 million and RM25 million OR full time employees between 51 and 150. Services, Primary Agriculture and Information & Communication Technology (ICT) Micro enterprise - Sales turnover of less than RM200,000 OR full time employees less than 5 Small enterprise - Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19 Medium enterprise - Sales turnover between RM1 million and RM5 million OR full time employees between 20 and 50.</p>
<p>1-2 Business Environment and Present Status of SMEs</p>	<p>Based on Department of Statistics Malaysia, Census on Establishments and Enterprises 2005, there are a total of 552,929 establishments in operations. Out of this, a total of 548,387 or 99.2 per cent were defined as SMEs. Of these, the number of SMEs in the services sector comprised 474,706 (86.6 per cent), followed by 39,436 establishments (7.2 per cent) in the manufacturing sector and 34,245 (6.2 per cent) in the agriculture sector. The majority of SMEs in the services sector were in retail, accounting for 46.4 per cent of total establishments followed by restaurants (14.2 per cent), wholesale (9.1 per cent), transport and communication (6.5 per cent) and financial intermediaries (4.1 per cent). In the manufacturing sector, textiles and apparels was the largest sub-sector at 23.4 per cent, followed by food, beverages and tobacco (15 per cent), metal and metal products (13 per cent), and paper and recorded media (7.2 per cent).</p> <p>SMEs continued to contribute significantly to the Gross Domestic Products (GDP) at 32 per cent and assumed an important role as an employer, providing 56.4 per cent of employment in the country. In terms of contribution to total export, it was still relatively low at 19 per cent. The services sector contributed the highest in terms of employment at 33.9 per cent, 19.7 per cent to the GDP and 7.9 per cent to exports. On the other hand, SMEs in the manufacturing sector contributed 8.4 per cent to GDP, 14.5 per cent to employment and 11 per cent to total exports. The primary agriculture sector contributed 3.9 per cent to GDP, 3.1 per cent to employment, while its contribution to exports was almost negligible at 0.1 per cent.</p>
<p>1-3 Legislations for SMEs</p>	<p>Laws of Malaysia, Act 539: Small and Medium Industries Development Corporation Act 1995. http://www.parlimen.gov.my/actindexbi/pdf/ACT-539.pdf</p>
<p>1-4 Formulation and Implementation of SME Development Policies</p>	<p>The National SME Development Council (NSDC) The National SME Development Council (NSDC) was established on 13 August 2004. The Council, chaired by the Prime Minister of Malaysia, represents the Government's top-level commitment to promote SME development. It is intended to coordinate inter-Ministry and Agency efforts on SME development, as well as provide a policy strategic framework for the industry's future. There are 19 NSDC members at present comprises of Ministers and Heads of Public Sector Agencies involved in SME development.</p> <p>The NSDC aims to:</p> <ul style="list-style-type: none"> · Formulate broad policies and strategies to facilitate the overall development of SMEs across all sectors; · Review the roles and responsibilities of Government Ministries and Agencies (stakeholders) responsible for SME development; · Enhance cooperation and coordination, as well as guide stakeholders to ensure effective implementation of SME development policies and action plans; and · Encourage and strengthen the role of the private sector in supporting the overall development of

	<p>SMEs.</p> <p>Central Bank of Malaysia or Bank Negara Malaysia (BNM) is the Secretariat to the NSDC. In this capacity, BNM:</p> <ul style="list-style-type: none"> · Oversees the coordination of overall SME development efforts across all Ministries and Agencies; · Formulates policies and strategies for better coordination and efficient implementation of SME development initiatives; · Coordinates SME statistics and publications; and · Formulates and implements overall SME financing policy to enhance access to financing across all economic sectors. <p>SME Central Coordinating Agency</p> <p>The NSDC agreed to establish the SME Central Coordinating Agency, a single dedicated Government agency to spearhead the development of SME across all sectors of the economy. The Small Medium Industry Development Corporation (SMIDEC) will be transformed to become the SME Central Coordinating Agency.</p> <p>The establishment of the Agency reflects the Government's strong commitment in promoting the development of entrepreneurship and SMEs in Malaysia. This is a key initiative aimed at accelerating the development of the SME sector by providing greater focus in formulating strategies and implementation of programmes for SMEs.</p> <p>The Agency will collaborate with the relevant Ministries and Agencies to ensure that comprehensive policies are in place, as well as coordinate and synchronize implementation of SME programmes across all sectors and Agencies.</p> <p>The Agency will provide one-stop information and advisory services to SMEs. This single point of contact and reference will make it much easier for SMEs to obtain comprehensive and up-to-date information on all programmes and provided by the Government assistance, as well as advisory services. This will significantly enhance the delivery of Government programmes and advisory services to SMEs. In addition, the Agency will monitor the performance of SMEs, towards developing appropriate policy response.</p> <p>The SME Central Coordinating Agency will be placed with the Ministry of International Trade and Industry, but will report to the National SME Development Council. Necessary financial and non-financial resources will be provided by the Government to ensure that the Agency can perform its roles effectively.</p> <p>The Council believes that the establishment of the Agency will accelerate the development of the SME sector through better coordination and effective implementation of SME programmes. The Agency will have a key role in achieving the target set by the Council to increase SME contribution to the economy from 32% in 2005 to 37% of gross domestic product by 2010.</p>
<p>1-5 Government Spending on SME Development Policies</p>	<p>In 2006, a total of 213 (out of 248 identified) key programmes were implemented involving a total expenditure of RM7.8 billion, a figure equivalent to 1.6% of nominal GDP. Six Ministries and Agencies completed 24 programmes at a cost of RM2.5 billion benefiting 13,485 SMEs across three strategic thrusts mainly in capacity building efforts.</p> <p>A total of 177 programmes continue to be on-going, the bulk of which include programmes to strengthen SME capacity, and access to financing, which assisted 274,207 SMEs. The major programmes for SME development implemented in 2006 focused mainly on capacity building of SMEs in the areas of entrepreneur development, human capital development, and marketing and promotion of SMEs' products. The implementation of these programmes benefited more than 287,000 SMEs.</p> <p>As a result of 2006 key programmes:</p> <ul style="list-style-type: none"> · About 128,000 SMEs, women entrepreneurs, graduates and students received entrepreneurship and technical training; · About 34,000 SMEs received advisory services provided by various Government agencies; · More than 5,100 SMEs were provided with industrial and business premises; · About 780 SMEs benefited from business matching and expansion programmes such as the Industrial Linkage Programme and SMIDEX 2006; and · 272 SMEs received grants and financial assistance to improve and upgrade their technology and business processes through the Technology Acquisition Fund, Grant for Certification and Quality Management System, and Grant for Product and Process Improvement. <p>In 2007, a total of 189 SME development programmes have been designed to be implemented with a financial commitment of RM3.7 billion. The bulk of the programmes, 135 in all, will focus on building capacity and capability, human capital development and marketing and promotion. The focus of programmes in 2007 is on the manufacturing and related sectors, while consideration has also been given to ensure that sufficient programmes are implemented to support SMEs in the services sector, which has the highest contribution to GDP.</p> <p>Under the Budget 2008, in order to promote the development of SMEs, the Government has</p>

	<p>provided several incentives to SMEs, given their potential to spearhead economic growth. Recognizing that SMEs may face cash flow constraints at the initial stages of operations, the Government proposes giving them flexibility to pay taxes at the end of financial year instead of monthly installments. This flexibility is for a period of 2 years from the date of commencement of operations.</p>
1-6 Role-sharing between the Federal and State Governments	<p>Programs by local government To strengthen the viability of SMEs in all sectors, allocation has been given to local authorities by the Ministry of Housing and Local Government to develop, upgrade and improve the physical infrastructures (build public markets, stalls, hawker's centre, food courts and shop houses).</p>
1-7 Other schemes to be noted	<p>Domestic Investment Seminar SMIDEC in collaboration with Malaysian Industrial Development Authority (MIDA) organized a series of Domestic Investment Seminar on the Manufacturing and Services Sectors : Towards Global Competitiveness. The Seminar is supported by the Ministry of International Trade and Industry (MITI), Malaysia External Trade Development Corporation (Matrade), National Productivity Corporation (NPC), Malaysian Industrial Development Finance (MIDF), Federation of Malaysian Manufacturers (FMM), Labuan Offshore Financial Services Authority (LOFSA), Kumpulan Bank Pembangunan, Exim Bank, RHB Bank and Telekom Malaysia Berhad. In 2007, three Domestic Investment Seminars were organized in Kuala Lumpur, Johor Bahru and Kedah, attracted 3,193 participations.</p> <p>SME Information And Advisory Centre SMIDEC's online advisory service is provided through its virtual information centre at www.smidec.gov.my. For the year 2007, a total of 201,792 visitors have accessed the Information Centre, compared with 282,567 visitors in 2006. The website provides information on SMEs programmes, financial assistance, news and events. The Business Advisory Services' Session that are being conducted every day provide face-to-face consultation to SMEs that need more information about SMIDEC's assistance and development programmes. For the year 2007, a total of 4,332 companies have attended the Business Advisory Services session compared with only 2,922 companies in 2006. Another form of information sharing on SMIDEC's assistance and development programmes is SMIDEC'S Info-Line (1-300-88-1801). Companies or individuals can call and receive the information from SMIDEC Officers on-line. For the year 2007, a total of 497 companies have called for more information that related to SME development programmes such as financial assistance, market development and skills upgrading programme.</p> <p>SMIDEX SMIDEX is an annual Event that serves as the focal point for companies to exhibit their products and services to the public and business communities as well as to create opportunities for large companies and MNCs to solicit potential suppliers from the SMEs. SMIDEX 2007, with the theme "SME Networking: Local Links, Global Reach", was held from 5-8 June 2007 at the Kuala Lumpur Convention Centre, in collaboration with Bank Negara Malaysia (BNM), Office of SME Promotion, Thailand (OSMEP), Pos Malaysia Berhad, Business Times as the official publication, and Telekom Malaysia Berhad (TM) as the main sponsor. A total of 329 companies, taking up 422 booths, participated in the Event. The four-day Event attracted 6,582 trade visitors. The SME Convention was held back to back with the Exposition. The Convention provided SMEs with the opportunity to gain insights on subjects such as networking, partnership as well as reaching out globally from some of the industries big players. The 2-day convention received a total of 728 local and international participants. Out of these, 83 foreign participants came from OIC Countries, Africa Countries, Thailand, Sri Lanka and Singapore. Participants had the opportunities to share experiences, to access market information and outsourcing opportunities. In addition, the Convention facilitates cross-border linkages and global investment among SMEs and potential MNCs.</p> <p>Indonesia-Malaysia-Thailand Growth Triangle SME Conference and Expo 2007 The Ministry of International Trade and Industry (MITI) and Small and Medium Industries Development Corporation (SMIDEC) in collaboration with the Penang State Government, Penang Development Corporation and IMT-GT Joint-Business Council, Malaysia have organized the IMT-GT SME Conference and Expo 2007, under the IMT-GT development initiatives. The objective of the Events is to foster greater collaboration among SMEs from Malaysia, Thailand and Indonesia by convening into a 'one-stop' location to showcase their products and services. This inaugural Event with the theme "Strategic Partnership: SME Growth for the Future" consist of three main activities namely Expo, Conference and Business Matching Sessions was held from 5 to 9 December 2007 at Penang International Sports Arena (PISA), Pulau Pinang. A total of 96 companies from Malaysia, Thailand and Indonesia provinces participated in the Expo in which represented 124 booths focusing on the sub-sectors such as Halal products & services, consumer products and Handicrafts. A total number of 2,762 visitors visited the Expo while the Conference was attended by 270 participants including 20 foreign participants from Indonesia and Thailand.</p>

	<p>The five-day Event was culminated with the Business Matching Sessions between SMEs, MNCs, GLCs and LSIs that has attracted favorable response from the Malaysian, Thailand and Indonesian SMEs. A total of 121 Sessions were materialized including walk-in participants and Group Business Networking recorded a potential sales valued at RM27.6 million.</p>
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2 SME Development Policies – Specific Schemes

<p>2-1 Financing</p>	<p>The transformation of the Credit Guarantee Corporation Berhad (CGC) is to enhance its role and expand its range of products and services offered. CGC will take a holistic approach by providing a wider range of credit enhancement products, advisory services on financial and business development, and credit information services, including business credit rating.</p> <p>Banking institutions has been the main provider of funds to SMEs. The banking institutions approved RM39.6 billion in new loans to more than 84,000 SME accounts in 2006. The share of SME loans of the banking institutions has increased from 30.1% of total business loans at end-1999 to 44.5% at end-2006. For the period of January to May 2007, the banking system approved RM19.3 billion of financing to more than 42,000 SME accounts, whilst RM55.9 billion were disbursed. SME loans outstanding stood at RM108.4 billion as at end-May 2007.</p> <p>As at end-2006, six development financial institutions (DFIs), namely SME Bank, EXIM Bank, Bank Simpanan Nasional, Bank Kerjasama Rakyat Malaysia Berhad, Bank Pembangunan Malaysia Berhad and Bank Pertanian Malaysia approved RM6.9 billion of financing to more than 18,000 SME accounts, complementing the lending to SMEs by the banks. In the first five months of 2007, the six DFIs approved RM4.2 billion to almost 9,000 SME accounts. Moving forward, the banking institutions and DFIs are expected to approve a total of RM51 billion to about 110,000 SME accounts in 2007.</p>
<p>2-2 Taxation System</p>	<p>Effective from the year of assessment 2004, small and medium-scale companies with a paid-up capital of RM2.5 million and below are eligible for a reduced corporate tax of 20% on the chargeable income of up to RM500,000. The tax rate on the remaining chargeable income is maintained at 28%.</p> <p>Recognizing that SMEs may face cash flow constraints at the initial stages of operations, under the Budget 2008, Government proposes giving them flexibility to pay taxes at the end of financial year instead of monthly installments. This flexibility is for a period of 2 years from the date of commencement of operations.</p> <p>There are some subsidies common to general enterprises and SMEs (the Technology Acquisition Fund, the Commercialization and R&D Fund). Such as the Industrial Technology Assistance Fund, the Skill Development Fund, the E-commerce subsidy, the Factory Auditing Scheme are only for SMEs.</p> <p>Especially, the Industrial Technology Assistance Fund established in 1990 is important. The Ministry of Human Resources has a subsidy similar to the Skill Development Fund.</p>
<p>2-3 Information Service, Human Resource Development, Business Environment, Consultation, Advisory Services and Others</p>	<p>SMIDEC's SME Information And Advisory Centre</p> <p>SMIDEC's online advisory service is provided through its virtual information centre at www.smidec.gov.my. The website provides information on SMEs programmes, financial assistance, news and events. The Business Advisory Services' Session that are being conducted every day provide face-to-face consultation to SMEs that need more information about SMIDEC's assistance and development programmes. Another form of information sharing on SMIDEC's assistance and development programmes is SMIDEC'S Info-Line (1-300-88-1801). Companies or individuals can call and receive the information from SMIDEC Officers on-line.</p> <p>MECD's Business Advisory Team</p> <p>The MECD's Business Advisory Team conducted courses under the Improvement Training Programme which focuses on enhancing knowledge and skills in business management, including performance improvement and problem solving for existing entrepreneurs.</p> <p>SME Financial Advisory Services by Bank Negara Malaysia</p> <p>Laman Informasi Nasihat dan Khidmat (BNM LINK) is the central bank's centralized point of contact between itself and members of the public, including SMEs. It provides faster, and more effective responses to enquiries and complaints pertaining to the financial sector. In addition, Bank Negara Malaysia offers assistance to SMEs looking to restructure their non-performing loans through the Small Debt Resolution Scheme (SDRS). SMEs can also contact the SME Financial Advisory Unit at the Bank, which assists SMEs by providing information on the various sources of financing available, facilitating the loan application process, addressing difficulties faced by SMEs in securing loans from financial institutions, and providing advisory services.</p> <p>SME Business Adviser Network (SME-NET)</p> <p>A new online tool for SME Advisers, SME-NET is a one-stop web-based directory in the SMEInfo Portal. It contains the profiles and contact details of SME business advisers in the various Government agencies, commercial banks and development financial institutions. Through the SME-Net, these SME business advisers will be connected and thus aware of the various expertise available in other agencies and financial institutions, which can be utilized to offer comprehensive business advisory services to the SMEs. As a result, SMEs can expect to benefit from a speedier</p>

	<p>delivery of quality advisory services in areas ranging from marketing, technology to product and business development.</p> <p>SME Bank's SME Information and Advisory Centre Launched in December 2006, SME Bank's SME Advisory Centre (SAC) works in tandem with other Agencies that register with the centre to offer support and advisory services to SMEs. Services are offered to SMEs in all phases of the business cycle from providing market information and research findings to guiding them on how to market products and introducing them to partners or manufacturers. In addition, all commercial banks have established SME Units to provide dedicated services to SMEs.</p> <p>SME Expert Advisory Panel (SEAP) The SME Expert Advisory Panel (SEAP) provides SMEs with accessibility to technical assistance and advisory services. The Panel organizes on-site assistance for SMEs by industry experts. Experts conduct free preliminary consultancy services and prepare a report for SMIDEC under a Grant Scheme.</p> <p>Other Advisory Services</p> <ul style="list-style-type: none"> · MOSTI provides technical advisory services pertaining to standards and certification, in view of helping SMEs meet international requirements under the Technopreneur Management Support Scheme; · MDeC provides comprehensive advisory services through the Technopreneur Development Ecosystem, bringing together critical components to assist K-based technopreneurs at all stages of their development; · The Ministry of Rural and Regional Development (MRRD) advisory services focus on equipping rural micro entrepreneurs with the skills they need to boost their standards of living; · The Ministry of Plantation Industries and Commodities (MPIC) grants access to technical advisory services and best practices for businesses involved in timber, palm oil, rubber, cocoa, pepper and tobacco; · MOA provides advisory and technology consultancy services on a wide range of agricultural fields with a special focus on improving productivity and competitiveness in agribusinesses like horticulture, livestock, aquaculture and fisheries; and · MECD provides services to Bumiputera entrepreneurs across all sectors with support covering aspects of financial as well as technical assistance via a calendar of clinics, courses and seminars organized annually. The Portal Usahawan (please log onto www.mecd.gov.my) serves as a good reference point for SMEs <p>Skills Upgrading Programme The Skills Upgrading Programme is aimed at enhancing the skills and capabilities of employees of SMEs in the technical and managerial levels, particularly in critical areas such as the electrical and electronics, information technology, industrial design and engineering fields. Currently SMIDEC has appointed 23 training Development Centers and 12 Professional Training Providers to undertake technical and management skills training for SMEs.</p> <p>SMEs that send their employees for courses at any of the training providers will be eligible for 50 per cent training grant from SMIDEC. In addition, the remaining costs can be claimed through the Human Resource Development Fund (HRDF), if the company is registered with the Human Resources Development Board (HRDB).</p> <p>Pembangunan Sumber Manusia Berhad (PSMB) SME-worker training in Malaysia is centralized through a company owned by the Ministry of Human Resource, Pembangunan Sumber Manusia Berhad (PSMB). PSMB administers the Government's Human Resources Development Fund and also acts as a one-stop agency for all government-sponsored training programmes.</p>
<p>2-4 Support for Obtaining Management Resources for Existing SMEs</p>	<p>The Vendor Development Programme (VDP) is the policy introduced to extend linkage between large enterprises and SMEs. The target is Bumiputera enterprises.</p> <p>The VDP started with vendor development by Proton. It promotes procurement from Bumiputera SMEs.</p> <p>After that, a similar program has started since 1992 by 2 ILP & outsourcing manufacturers of electric appliances.</p> <p>Government loan was made for these programs of 3 enterprises mentioned above.</p> <p>Although, since 1993, foreign enterprises centered around Japanese companies and local enterprises have become anchor enterprises (the enterprises that support SME development), after that private banks are in charge of loans.</p> <p>At first, the VDP was under jurisdiction of the Ministry of International Trade and Industry, but was transferred under the Ministry of Entrepreneur Development with its establishment.</p> <p>Then, not only manufacturing industry but all industries became the targets of the VDP.</p> <p>Industrial Linkage Programme SMIDEC implements the Industrial Linkage Programme (ILP) through close collaboration with the</p>

	<p>MNCs and LSIs. SMEs with potential to supply products and services are identified and linked with the MNCs and LSIs. Those SMEs with potential but lacking in certain areas, such as quality certification and processing efficiency, are provided with assistance to upgrade their capacity and capability.</p> <p>Panel on Outsourcing</p> <p>Panel on outsourcing was established under Section 17(1) of the Small and Medium Industries Development Corporation Act 1965 (Act 539) where the Corporation could appoint Committees for purposes related to its function or powers. The Panel On Outsourcing is chaired by Y. Bhg. Dato' Tan Yew Thong and the members comprised representatives from MITI, MIDA, MATRADE, Ministry of Finance, Multimedia Development Corporation (MDeC), FMM and Y. Bhg. Dato' Wong Siew Hai from Malaysian American Electronics Industry (MAEI). The function of the Panel is to formulate potential outsourcing programmes for the SMEs in the manufacturing, manufacturing related services and services sector. However the priority sectors that has been agreed is in the manufacturing and manufacturing related services sectors namely the electrical & electronics, machinery & engineering, automotive and ICT.</p> <p>Processing of Subcontract Application Since the establishment of the Panel on Outsourcing in May 2005, SMIDEC has received 26 sub-contract applications from 17 MNCs/LSIs. In processing the application, SMIDEC has undertaken due diligence and encourage applicants to consider to award contract to local suppliers. Initiatives undertaken include recommend potential SMEs to the MNCs/LSIs based on SMIDEC's database and other sources eg. MIDA, seek comments and inputs from the Chairman of the Panel on Outsourcing and conduct interviews and discussions with the applicants to understand the processes/activities and to emphasis on the localization. To date, 6 discussions were conducted, chaired by Chairman of the Panel on Outsourcing.</p> <p>Enhancement Programme for SMEs</p> <p>SMIDEC collaborates with State Governments and Agencies in accelerating the development of SMEs under the Enhancement Programme for SMEs. Participants of this Programme are assisted in the areas of product, process and quality improvement, certification and quality management system, design and enhancement of product packaging, as well as access to markets. SMEs are provided with an integrated assistance package comprising of financial support and grant schemes that are offered by SMIDEC, as well as relevant Ministries and Agencies.</p> <p>National SME Innovation Focal Point</p> <p>The National SME Innovation Focal Point was established on 15th December 2006 to provide a platform for entrepreneurs, research institutes, financiers and relevant Government agencies to meet and discuss the initiatives to develop innovation-driven SMEs. The objective of the Focal Point is to increase commercialization of Research and Development (R&D) and development of technology database through:</p> <ul style="list-style-type: none"> · exchange of information on results of research and development (R&D) and design and development (D&D) activities; · facilitation of commercialization of R&D findings by SMEs; and · collation and dissemination of information on current trends of available production and process technologies, as well as best practices. <p>MECD's Vendor Development Programme</p> <p>The Vendor Development Programme (VDP) aims at developing Small and Medium Industries (SMI) in Malaysia to become manufacturers and suppliers of components and services to larger local corporations and also multinational companies (MNCs). VDP also functions as a channel for collaboration and interface between SMI and large local corporations /MNCs and banks/financial institutions. The implementation of this programme involves four main parties; namely MeCD, large companies / registered MNCs as the anchor, vendor SMI companies and banks/ financial institutions. MeCD serves as the implementing agency and facilitator of vendor SMI's involvement in the industry, and to identify the anchor company. The anchor company is responsible for providing market opportunities and technical guidance to the vendor companies. Banks/financial institutions provide advisory services and financial facilities.</p> <p>Commercialization of R&D Fund (CRDF)</p> <p>The Government has been investing significantly in research and development (R&D) activities in an effort to strengthen the technological capability and capacity of the nation. Under the 9th Malaysia Plan (9MP), the Government is giving priority to market-oriented. R&D and increasing the rate of commercialization. In tandem with the 9MP, the Commercialization of R&D Fund (CRDF) has been redesigned to provide financial assistance to universities/research institutions and eligible Malaysian companies to undertake full commercialization.</p> <p>Enterprise Innovation Fund (EIF) by the Ministry of Science, Technology and Innovation (MOSTI)</p> <p>The objective of the fund is to increase the participation of SMEs, micro businesses and individual/sole-proprietors in innovative activities through the development of new or improved products, processes or services with element of innovation for commercialization.</p> <p>Techno-Fund by the Ministry of Science, Technology and Innovation (MOSTI)</p>
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	<p>Techno-Fund aims to:</p> <ul style="list-style-type: none"> · stimulate the growth and successful innovation of Malaysian medium and large enterprises by increasing the level of R&D and its commercialization; • increase capability and capacity of Malaysian Government Research Institutes (GRI) and Institutions of Higher Learning (IHL) to undertake market driven R&D and to commercialize the R&D findings through spin-offs/licensing; · enhance global competitiveness and R&D culture among Malaysian medium and large enterprises; · increase contribution to Malaysia 's GDP through economic wealth creation and exports; and · foster greater collaboration between Malaysian enterprises and GRI/IHL. <p>Soft Loan for ICT Adoption</p> <p>SMIDEC through Malaysian Industrial Development Finance Berhad (MIDF) provides assistance for SMEs to use ICT to improve competitiveness, efficiency and productivity.</p>
<p>2-5 New Business/Venture Support for SMEs</p>	<p>Cradle Investment Programme (CIP)</p> <p>This is an innovative Malaysian Government programme initiated under the auspices of the Ministry of Finance, and administered by Malaysia Venture Capital Management Berhad (MAVCAP) to stimulate the growth of technopreneurs and generation of ideas for an innovative and knowledge society. CIP is also a nation-building programme, which will provide the pre-seed funding and entrepreneurial support to:</p> <ul style="list-style-type: none"> - Generate new ideas and innovations from individuals, research institutes and institutions of higher learning - Create employment through venture development and commercialization - Act as a catalyst to new areas of economic growth - Address the capital gap and industry expectations between pre-seed and seed funding - Create a critical mass of entrepreneurs and technopreneurs - Build a foundation for entrepreneurs and technopreneurs to spin off as a global company <p>CIP's technology investment focus is in the areas of ICT and high growth including:</p> <ul style="list-style-type: none"> - Software and information services - Internet: e-services, e-commerce and e-content - Communication and networking - mobile data - High tech consumer and business products - Electronic and semi-conductors - Medical devices and advance materials - Biotechnology and life sciences <p>Revolving Project Loans</p> <p>Malaysia Debt Ventures Berhad (MDV) Revolving Project Loans are structured to finance the implementation of both domestic and foreign contract-backed projects to deliver ICT as well as high-growth solutions. Up to 85% of the value of the contract, or the total cost of the project, can be financed. Loan sizes from RM2 million up to RM120 million can be considered, depending on risk profile, with repayment periods of between one and five years.</p> <p>Open-Ended Project Loans</p> <p>MDV Open-ended Project Loans are structured to finance exceptional open-ended (i.e. non contract-backed) projects, where the likelihood of achieving project success and profitability is high. These include Build-Own-Operate (BOO), Build-Operate-Transfer (BOT), Concession and other similar projects.</p> <p>Partner Bank Facilities</p> <p>MDV Partner Bank Facilities involve the provision of additional facilities by our Partner Banks, fully backed against MDV's guarantees. These facilities complement the Project Loans provided directly by MDV.</p> <p>Matching Grant For Business Start-Ups by SMIDEC</p> <p>The scheme provides assistance to assist start-up of businesses.</p>
<p>2-6 Promotion of Fair Dealing and Maintenance of Markets for SMEs</p>	<p>Effective from 1 May 1995 under Treasury Circular Letter No. 4 Year 1995, priority is given to Bumiputera companies for Government procurement.</p>
<p>2-7 Regional SME Policies</p>	<p>9 industrial parks were constructed in 1991-2000 with infrastructure development assistance. In these parks, facilities which all SMEs can use (such as product testing facility) are established.</p> <p>The Global Suppliers Program (GSP) was started in Penang State in 1998. The aim is to build up strategic partnership between multinational enterprises located in the state and regional SMEs. The Penang Skills Development Center established in 1989 became central to the GSP. It includes 2 programs; provision of 3 stages training by cooperation with multinational enterprises and</p>

	<p>fostering of particular regional SMEs by multinational enterprises.</p> <p>Then, the GSP came under the jurisdiction of the Small and Medium Industries Development Corporation (SMIDEC) and is expanding to other states.</p> <p>One District, One Industry (Satu Daerah Satu Industri - SDSI) This programme aims to increase and create greater commercial activities in the rural areas, and at the same time, create more employment opportunities in the local areas. Among the activities promoted under this programme are processing, manufacturing, production and services related to the rural areas, such as rural tourism, agro industries, livestock and aquaculture, nature-based products, and indigenous skills.</p> <p>Under this programme, participants will be extended support for training, procurement of facilities/machineries, operation space, R&D activities, and marketing and promotional activities.</p> <p>SME Industrial Estates SMIDEC, together with the Malaysian Industrial Estate Berhad (MIEL) and Perbadanan Kemajuan Negeri Selangor (PKNS) has developed industrial estates all over the country to assist SMEs to operate their business in approved industrial areas or business premises. In the Ninth Malaysia Plan, SMIDEC will continue to promote and encourage SMEs to relocate their businesses to approved areas to ensure that SMEs have the foundation and the facilities to operate in a most conducive environment.</p> <p>MECD Business Premise MECD through its agencies provides business premises to entrepreneurs through rental at a reasonable rate.</p>
<p>2-8 Assistance for the Internationalization of SMEs</p>	<p>MIDA has been tasked to promote cross-border investments under the 9MP. The government will continue to encourage and support Malaysia's overseas investments which can result in economic Benefits to the country. This will include accessing new and larger markets, maintaining market share and sourcing raw material inputs and components for the growth of domestic industries. In order to further assist Malaysian companies in cross-border investments, MIDA plans to establish new overseas centers in Ho Chi Minh, Bangalore, Guangzhou, Bangkok, Jakarta, Dalian and Johannesburg. Lembaga Kemajuan Perindustrian Malaysia / Malaysian Industrial Development Authority (MIDA) Block 4, Plaza Central, Jalan Stesen Central 5 Kuala Lumpur Central, 50470 Kuala Lumpur Tel: 603-2267 3633 Fax: 603-2274 7970 Website: http://www.mida.gov.my</p> <p>Market Development Grant (MDG) by MATRADE To encourage and assist SMEs to undertake promotional activities to develop and expand the outreach of their export market.</p> <p>Perbadanan Pembangunan Perdagangan Luar Malaysia / Malaysia External Trade Development Corporation (MATRADE) East Wing, Menara MATRADE, Jalan Khidmat Usaha Off Jalan Duta 50480 Kuala Lumpur Tel: 603-6207 7077 Fax: 603-6203 7037/7033 Website: http://www.matrade.gov.my</p> <p>The Malaysia Industrial Development Finance Berhad (MIDF), in June 2004, has introduced a new facility called the Fund for Cross-Border Investment in Manufacturing (FCBI), in order to assist Malaysian companies, including those in the textile & clothing industry, to relocate or expand the operations offshore to take advantage of lower labor cost, Especially within the ASEAN region. The Fund has an initial allocation of RM50 million.</p> <p>Malaysia Industrial Development Finance Berhad (MIDF) Bangunan MIDF, 195A, Jalan Tun Razak, 50400 Kuala Lumpur, P.O. Box 12110 50939 Kuala Lumpur Tel: 603-2161 0066/1166 Fax: 603-2161 5973</p>
<p>2-9 Employment and Labour Policies for SMEs</p>	<p>In the private sector, employers need to follow rules and regulations as stipulated in the Employment Act 1955. Employees can refer any employment disputes to the Ministry of Human Resources through the Industrial Relations Department and the Industrial Court. By 2010, the SMEs' contribution to employment (excluding Government) is targeted to increase from 56% in 2005 to 57% of total employment in 2010.</p>

<p>2-10 Assistance to SMEs Organizations and Networks</p>	<p>Five Chambers of Commerces are organized according to ethnic groups and types of industry and there is the National Chamber of Commerce and Industry of Malaysia as the central organization to control these chambers formally.</p> <p>Five chambers are the Malay Chamber of Commerce, the Chinese Chamber of Commerce, the Indo Chamber of Commerce, the International Chamber of Commerce, and the Federation of Manufacturers Malaysia.</p> <p>Federation of Malaysia Manufacturers (FMM) Wisma FMM No. 3 Persiaran Dagang PJU9 Bandar Sri Damansara 52200 Kuala Lumpur Tel: 603-6276 1211 Fax: 603-62776714</p> <p>SMI Association of Malaysia 20-6, Jalan USJ 9/5T, Subang Business Centre, 47620 Subang Jaya, Selangor Tel : 603-8026 1306/7 Fax : 603-8026 1309</p> <p>Dewan Usahawan Industry Desa Malaysia (DUID) 53 Mezzanine Floor, Jalan Datuk Haji Eusoff 50400 Kuala Lumpur Tel : 603-4532186 Fax : 603-4525634</p> <p>Cooperatives Commission of Malaysia / Suruhanjaya Koperasi Malaysia (SKM) Tingkat 5, 6 & 7, Blok J, Pusat Bandar Damansara 50608 Kuala Lumpur Tel : 603 - 20935098 Fax : 603 – 20935026</p>
<p>2-11 Development Policies for Small Scale Enterprises</p>	<p>N.A.</p>
<p>2-12 Safety Net</p>	<p>Fund For Flood Affected Businesses</p> <p>Bank Negara Malaysia established a Special Relief Guarantee Facility of RM500 million to alleviate the problems faced by businesses affected by the floods which hit the country in December 2006 and January 2007. Under the facility, flood-affected businesses were able to obtain financing from all commercial banks, Islamic banks, SME Bank, Bank Rakyat and Bank Pertanian. The Credit Guarantee Corporation provided 80% guarantee to the financing obtained. Made available from January 2007 to April 2007, salient features of the facility included:</p> <ul style="list-style-type: none"> · Availability for flood-affected businesses; · Maximum amount of financing - RM500,000 per group of companies; · Financing rate chargeable at 2.5% per annum; and · The tenure of the financing is up to five years. <p>The response to the Facility was encouraging, with over 5,000 applications received, of which 3,250 were approved and RM244.1 million disbursed as of end-April 2007. In addition to the Facility, banking institutions and insurers were also encouraged to implement assistance programmes to relieve the financial burden of their affected customers. Measures taken included the temporary deferment of loan repayments, restructuring or rescheduling of loans, waivers of transaction fees and/or finance programmes, faster insurance claims payment, and the extension of business hours in affected areas.</p>
<p>2-13 Other measures to be noted</p>	

Sources: 1. SME Annual Report 2006, 2. SME Info Portal (www.smeinfo.com.my), 3. SME Information and Advisory Centre (www.smidec.gov.my)

Small & Medium Enterprise Development Policies in Philippines

1 Small & Medium Enterprise Policies – Overview

<p>1-1 Definition of SME and its Basis</p>	<p>Philippine SMEs are categorized based on assets (exclusive land) amount and number of employees.</p> <p>The definition does not involve industry classification (e.g., manufacturing or agriculture) or the type of organization. "SME" includes micro enterprises. Thus, the Philippine SME is identified as having either not more than Php100 million assets or less than 200 employees.</p> <p>The definition is being reviewed due to the need to define more aptly micro, small and medium enterprises, considering the distinctive characteristics of each category.</p>
<p>1-2 Business Environment and Present Status of SMEs</p>	<p>As of latest count, there are 783,923 business enterprises operating in the Philippines. Of these, 99.6% (781,047) are SMEs and the remaining 0.4% (2,876) are large enterprise. Of the total number of SMEs, 91% (713,566) are micro enterprises, 8.2% (64,501) are small enterprises; and 0.4% (2,980) are medium enterprises.</p>
<p>1-3 Legislations for SMEs</p>	<p>The Small and Medium Enterprise Development (SMED) Council is an interagency body responsible for the promotion, growth and development of SMEs in the country by facilitating and closely coordinating national efforts toward this end.</p> <p>The Barangay Micro Business Enterprise (BMBE) Act (enacted in November 2002) is a law to encourage the establishment of micro enterprises by extending fiscal incentives and simplified procedures. Towards its implementation, the implementing rules would benefit from the experience of a previous law (Kalakalan 20, Countryside Barangay Business Enterprises or CBBE) that had limited success primarily because most of the registrants were pre-existing enterprises and the implementation of the law was bestowed on the local government units (LGUs) that did not provide for centralized monitoring and promotion system. Many of the LGUs discouraged the Kalakalan 20's implementation because it meant substantial losses of revenue without convincing economic benefits to accrue to them.</p>
<p>1-4 Formulation and Implementation of SME Development Policies</p>	<p>The Bureau of Small and Medium Enterprise Development (BSMED) of DTI (Development of Trade & Industry), being the focal agency responsible for the promotion and development of SMEs plays an active role in the implementation of policies, national agenda, and SMED Plan for SMEs.</p> <p>The ROG (Regional Operation Group) serves as the implementing arm of the DTI. It aims to foster countrywide development through the various programs and services in the areas of business development and consumer welfare.</p> <p>The SMED Council formulates SME promotion policies and provides guidance on implementing SME programs. It is a multi-agency group of eight persons who represent concerned government agencies, and four private sector representatives. It has the following powers and functions:</p> <ul style="list-style-type: none"> · Recommends to the President and Congress policy matters beneficial for SMEs; · Fosters an environment conducive to the growth and development of the SME sector; · Formulates a comprehensive SMED plan to be integrated into the National Economic Development Authority Development Plans; · Coordinates and integrates various government and private sector activities significant to SME development; · Monitors and determines the progress of various agencies geared towards SME development; · Provides the appropriate policy and framework to help relevant government agencies tap local and foreign funds for SME development; · Promotes SME productivity and viability by way of directing and assisting relevant government agencies and institutions at the national, regional, and provincial levels; · Assists in the establishment of modern industrial estates outside urban centers; · Reviews government agencies' existing policies affecting the growth and development of SMEs and recommend necessary changes to the President; and · Promulgates implementing guidelines, programs, and operating principles in support of government policies and objectives of the Act.
<p>1-5 Government Spending on</p>	<p>The SMED Council was tasked to monitor, oversee and coordinate the progress of the implementation of SME related activities in the country. The SMED Council is currently</p>

SME Development Policies	<p>undertaking an initiative to localize the national SMED Plan and harmonize with its existing provincial SMED Plan.</p> <p>To ensure harmonious monitoring and evaluation (M&E) activities both at the national and sub national levels, the SMED Council, in cooperation of the German Technical Cooperation (GTZ) will develop and implement an M&E system to monitor the progress, the outputs (may include financial expenditure), and impact of the activities carried out under the SMED Plan at national, regional and provincial level.</p>
1-6 Role-sharing between the Federal and State Governments	<p>The SMED Council involves the LGUs in the streamlining and simplification of business registration requirements for SMEs.</p> <p>LGUs promote SMEs indirectly by providing a conducive business environment through incentives and policies that favor SMEs. Some LGUs have initiated entrepreneurship and skills training and market support/linkages. So far, few LGUs showcase support to SMEs.</p>
1-7 Other schemes to be noted	<p>The Philippine government has been implementing programs and activities that provide the SME sector more opportunities for growth and development. Such programs and activities are currently embodied in the SME Development Plan (2004-2010), which has identified three (3) major strategies with forty-eight (48) specific activities that need to be pursued to address the issues and challenges of the SME sector. The 48 activities were merged and came up with the following 10 priority activities that fall under four outcome areas: 1) business and industry enabling environment; 2) access to finance; 3) access to markets and competitiveness and; 4) productivity and efficiency where efforts are focused on:</p> <ol style="list-style-type: none"> 1. SME Information support 2. SME Counseling and the Upgrading of SME Centers 3. Facilitating Partnerships/Linkages for Competitiveness 4. Enhanced Support for Trade Fairs and Access to Market Services 5. Product Development and Design Services 6. Industry Productivity and Quality 7. Information Technology Appreciation and Application 8. Entrepreneurship Training 9. SME Financing Support Programs 10. Streamlining of Business Registration Requirements

2 SME Development Policies – Specific Schemes

<p>2-1 Financing</p>	<p>SULONG is the brand name for financing initiative under the SMED Plan. This unified lending program is the result of collaboration among government financial institutions (GFIs). Under the SULONG Program, GFIs apply simplified and standardized lending procedures and guidelines (e.g., standardized application procedures, requirements, fees and interest rates) to provide SMEs with greater access to capital.</p> <p>Interest rates are pegged at 9% per annum (p.a.) for short-term loans, 11.25% p.a for medium-term loans and 12.75% p.a. for long-term loans.</p>
<p>2-2 Taxation System</p>	<p>The government has established a liberal program of fiscal and non-fiscal incentives for SMEs in its aim to support start-up businesses and attract local and foreign investments. Following are some of these fiscal incentives:</p> <p>(a) Under the BMBE Law (RA 9178), BMBE-registered microenterprises are exempted from the payment of income tax for income arising from operations of the enterprise (The LGU are encouraged) to reduce the amount of local taxes, fees and charges imposed or to exempt BMBEs from local taxes, fees, and charges).</p> <p>(b) Under the Omnibus Investment Code, incentives are available to qualified firms engaged in preferred sectors and geographic areas included in the annual Investment Priorities Plan (IPP), administered by the Board of Investments (BOI). B20 Income tax holidays for 3-8 years are a central feature in the incentive package for investments registered with the BOI.</p> <p>For technology development, the Philippines has the following legal framework for support:</p> <p>(a) R.A. 7459 (Inventors and Invention Incentives Act), has tax exemption for 10 years; exemption from paying license fees, permits and other business taxes related to the development of the invention; and exemption from customs duties and charges on imports.</p> <p>(b) E.O. 226 (Omnibus Investment Act) has provisions for corporate income tax holiday of 3-6 years depending on the type of firm; an additional deduction of 50% of the wage bill; tax credit for taxes and duties on raw materials, supplies and semi-manufactured products used in the manufacturing, processing or production of exports; and exemption from taxes and duties on imported spare parts.</p>
<p>2-3 Information Service, Human Resource Development, Business Environment, Consultation, Advisory Services and Others</p>	<p>The Department of Labor and Employment (DOLE) runs vocational and technical training facilities called TESDA.</p> <p>Its main service is training and guidance of specific technology and it also has an entrepreneur fostering program.</p> <p>TESDA has 64 training centers throughout the country.</p> <p>Information related to marketing, financing, technology, human resource development and even environment are being made available in the SME Centers nationwide. The business counselors in these Centers also provide consulting services to SMEs in the areas of productivity improvement, technology upgrading, market information, product and market development, financing and entrepreneurial development.</p> <p>The Department of Environment and Natural Resources (DENR) is responsible for environment protection and development services which cover policy formulation, regulations and developmental services to communities, protected areas and organized activities.</p> <p>Two main programs relate to SME development: the environmental clearance and regulatory compliance program through Environmental Clearance Certificates, and livelihood and environment demonstration on key commodity development focusing on market-enterprise "movers" and suitable production areas with competitive attributes.</p>
<p>2-4 Support for Obtaining Management Resources for Existing SMEs</p>	<p>The Department of Science and Technology (DOST) provides support mainly in technical field including loan program for replacement of facility.</p> <p>The DOST has regional offices and science and technology coordinators to promote DOST services and provide relevant services in cooperation with other agencies like DTI and Department of Agriculture.</p> <p>DOST agencies charge subsidized fees for some services, like laboratory testing, even if these fees are remitted to the national government. However, some agencies are specially authorized to retain part of the income for specific uses.</p>

	<p>The DOST has a service for SME popular under the nickname of Set-Up.</p> <p>Set-Up is an abbreviation of the Small Enterprises Technology Upgrading Program. It provides information and direct assistance in improving productivity in selected industries, through a holistic approach in improving the production set-up.</p> <p>IP Philippines is the lead agency in the country mandated to implement state policies on intellectual property. It was created by Republic Act NO. 8293, otherwise known as the Intellectual Property Code of the Philippines (IP Code), which was signed into law on June 6, 1997.</p>
<p>2-5 New Business/Venture Support for SMEs</p>	<p>The National SME Agenda, the Administration's priority strategy for economic development carried out orchestrated efforts of key players to provide SMEs with credit, technology and marketing support, as embodied in the SULONG and One Town One Product programs.</p> <p>The Philippines has few venture capitalists, most of which are private international companies (and/or funded by multilateral bodies such as ADB). Recognizing the importance of equity venture capital in the seed capital stage, the SME Development Plan 2004-2010 has included as one of its strategies to be pursued the establishment of venture capital funds for SMEs. The government would like to pilot such a venture fund with direct seed capital, tax credit, loan or guarantee, (for seed capital or loss) or equity participation with the private sector. The Plan would also like to set up a government fund to assist start-up businesses with their funding.</p> <p>The government is continuously making efforts to simplify the stringent and complex administrative procedures in qualifying for fiscal incentives (e.g., tax breaks, duties exemption, etc.).</p> <p>The SME Capital Market was set up to address the needs of small and young enterprises. The listing requirements for SMEs include the following: authorized capital of P20 - 100 million; with paid-up capital of at least 25% of the authorized capital; a one-year positive net operating income; minimum offering size of 20% of authorized capital. To join the SME Capital Market, an SME must undergo a nomination and listing process.</p>
<p>2-6 Promotion of Fair Dealing and Maintenance of Markets for SMEs</p>	<p>To date, the Philippines does not have a comprehensive and developed legislation relating to anti-trust and monopoly activities. However, there are several anti-trust bills pending in the Congress. The most significant of these is the S.B. No. 175 which proposing the passage of the "Fair Trade Act" or an Act Creating the Fair Trade Commission, Prescribing Its Powers and Functions in Regulating Trade Competition and Monopolies and For Other Purposes. This bill consolidates all anti-trust laws into one law and establishes a Fair Trade Commission, an executive body that will enforce the Fair Trade Act.</p> <p>Generally, the bill seeks to prohibit monopolies and cartels and other practices which diminish, impair or prevent competition and free trade. It defines absolute monopolies, relative monopolies and trust which may constitute prima facie violations of the law. A law trust is defined as a merger, acquisition of control or any act whereby companies, partnerships, shares, equity, trusts or assets are concentrated among competitors, suppliers, customers or any other business entity. Under enumerated circumstances, the bill, if passed into law would require prior notification to the Commission before trusts are formed.C25</p> <p>In the procurement of goods and services, rules and regulations are implemented to ensure that SMEs are provided the 10% mandatory allocation for government procurement. The DBM monitors the implementation of this specific provision.</p>
<p>2-7 Regional SME Policies</p>	<p>Certain government affairs were transferred to Local Government Units by the 1991 Local Government Code.</p> <p>Industry promotion affairs are included, but main fields that LGU allocates budget with independent judgment are improvement of infrastructure such as roads, education and medical service.</p> <p>NGO provides various support to regional micro enterprises. It often supports technical field by training and guidance.</p> <p>It is often the case that it provides support on consignment from foreign donor institutions. It is part of the character that Philippine NGO often handles finance as one of its activities.</p>
<p>2-8 Assistance for the Internationalization of SMEs</p>	<p>The vision of the SMED Plan (2004-2010) is to create globally competitive SMEs, and all programs and activities under the Plan is in support of achieving this vision.</p>

	<p>Below are some of the programs for enhancing the market competitiveness of SMEs:</p> <p>Export Assistance Network (EXPONET) A program of DTI's Bureau of Export Trade Promotion (BETP) that makes possible the networking of government and private trade promotion offices, including trade associations, foreign embassies and other entities engaged in exports.</p> <p>Tradeline Philippines The BETP has an online database that contain, among others, Philippine export and import statistics, world demand, import statistics of the target market, and trade updates.</p> <p>Business Matching Center SME exporters and foreign buyers are linked through this program. Also, direct referrals to visiting foreign investors, businessmen/importers are facilitated. This service is provided by DTI's BETP and Foreign Trade Service Corps (FTSC)</p> <p>Trade Fairs DTI's Center of International Trade Expositions and Missions (CITEM) organizes trade fairs such as the International Food Exhibition, Manila F.A.M.E. International, Bio-Search and Industry Search that helps exporters develop their core competencies in marketing, promotion, and capability-building.</p> <p>Catalog Online Program CITEM undertakes an internet-based promotional program through its Catalog Online Program. The program is a virtual showroom that aims to forge link between exporters and buyers worldwide.</p> <p>Selling Missions CITEM also conducts selling missions, incoming trade mission, and other export promotion projects</p> <p>Merchandising Services As the government's international trading arm, the Philippine International Trading Corporation (PITC) undertakes both import and export of new or non-traditional products. The firm supplies foreign buyers with a wide range of Philippine products which meet international standards. It also offers manufacturers ready access to international and domestic marketing channels.</p> <p>Market Encounter Goes to Manila (MEGMA) Foundation, Inc.'s Programs MEGMA Foundation is a non-stock, non-profit organization registered with the Securities and Exchange Commission (SEC). It is composed of 17 member-associations/agencies from both the government and private sector. MEGMA Foundation was established primarily to assist in the full development of the domestic market and strengthen their capabilities to move into the export markets by providing assistance in organizing buyers' fairs and market encounters.</p>
<p>2-9 Employment and Labour Policies for SMEs</p>	<p>The Barangay Micro Business Enterprises (BMBEs) Act of 2002 grants exemption from the coverage of the minimum wage law (BMBE employees will, however still receive the usual social security and health care benefits).</p> <p>Under the Labor Code of the Philippines, a service establishment with not more than 10 employees; a distressed establishment with a deficit of 20% or more of current paid-up capital; or a new business enterprise outside the National Capital Region (NCR) or is in export processing zones, may pay its employees below minimum wage rates on condition that it will file a request for exemption from compliance with wage orders with the National Wage and Productivity Council (NWPC).</p>
<p>2-10 Assistance to SMEs Organizations and Networks</p>	<p>The SMED Plan (2004-2010) is geared towards building the capabilities of both Philippine SMEs and SME support organizations by providing relevant support programs and services to improve the sector's competitiveness and increase their contributions to the country's economic growth.</p> <p>There is the SME Committee in Philippine Chamber of Commerce and Industry (PCCI). It has a post of vice chairman responsible for SMEs. The number of registered SMEs in the whole country is about 810 thousands and the number of the PCCI members is about 20-25 thousands.</p> <p>Of them, about 1,700 enterprises are directly under the PCCI.</p> <p>Canada and Germany provide assistance for functional enhancement and projects. They often</p>

	provide assistance directly to the regions. In addition, there are training programs by JICA and other organizations.
2-11 Development Policies for Small Scale Enterprises	<p>The National SME Agenda seek to provide existing and potential SMEs the necessary skills and knowledge to become competitive players in the local or global market. It also seeks to create a pool of SME trainers, advisors and counselors who can effectively assist SME nationwide.</p> <p>University of the Philippines Institute for Small Scale Industries (UP-ISSI) is an institute for small enterprises. It started as a technical support project by the Netherlands in the mid-1960s.</p> <p>10 years later, in 1976, the Small Enterprises Research and Development Foundation (SERDEF) was established to improve financial basis of ISSI's activities.</p> <p>These two organizations make efforts cooperatively for SME development.</p>
2-12 Safety Net	Under the Magna Carta for Small Enterprises (RA 6977 as amended by 8289) SME Development Council may exercise its power to provide bankruptcy preventive measures through the setting up of a mutual relief system for distressed enterprises and establish measures such as insurance against extraordinary disasters.
2-13 Other measures to be noted	<p>One of the 10-point Agenda of Arroyo government made in June 2004 is the creation of 6 million employment in next 6 years through threefold increase of loans for SME and development of agricultural land of 1-2 million hectares.</p> <p>For the period January to December 2006, SULONG Program releases amounted to Php32.41 billion, up by 2.56% from Php31.6 billion in 2005. SULONG beneficiaries reached 14,284 SMEs and is projected to support a total of 405,071 jobs.</p>

Small and Medium Enterprise Development Policies in Singapore

1 Small and Medium Enterprise Policies - Overview

1-1 Definition of SME and its Basis	<p>For the purpose of SME development in Singapore, Standards, Productivity & Innovation Board (SPRING Singapore) uses the following definitions for SMEs.</p> <table border="1" data-bbox="584 416 1423 607"> <thead> <tr> <th>Industries</th> <th>FAI</th> <th>No. of employees</th> <th>Local Equity Ownership</th> </tr> </thead> <tbody> <tr> <td>Manufacturing (Local SMEs) (Foreign SMEs)</td> <td>S\$15 m</td> <td>-</td> <td>100% (≥30%) (<30%)</td> </tr> <tr> <td>Non-manufacturing (Local SMEs) (Foreign SMEs)</td> <td>-</td> <td>200 or less</td> <td>100% (≥30%) (<30%)</td> </tr> </tbody> </table> <p>There is no official definition of SMEs, and it is set by SPRING Singapore for administration purpose e.g. to issue grants, loans and deploy its schemes to local SMEs.</p>	Industries	FAI	No. of employees	Local Equity Ownership	Manufacturing (Local SMEs) (Foreign SMEs)	S\$15 m	-	100% (≥30%) (<30%)	Non-manufacturing (Local SMEs) (Foreign SMEs)	-	200 or less	100% (≥30%) (<30%)
Industries	FAI	No. of employees	Local Equity Ownership										
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Non-manufacturing (Local SMEs) (Foreign SMEs)	-	200 or less	100% (≥30%) (<30%)										
1-2 Business Environment and Present Status of SMEs	<p>Statistical data about SMEs</p> <ul style="list-style-type: none"> In 2005, there were 149,000 SMEs in Singapore, or 99.4% of the total establishments. They constituted a major driver of Singapore's economy, accounting for 46.3% (\$91.5 billion) of the total value added in the economy. SMEs were also the major employers of our workforce, employing 62.3% (1.4 million workers) of the total employment. <p>SME Development Survey</p> <ul style="list-style-type: none"> The survey conducted by DP Information Group (DP Info), SPRING Singapore, International Enterprise Singapore and Infocomm Development Authority (IDA) started in 2003 with 2007 Survey as the 5th survey. SME Development Survey is an annual nationwide poll of SMEs on their needs, issues, concerns and aspirations. The objective of the survey is to explore further on domestic cost competitiveness, and detailing issues related to process automation adoption, human resource concerns, and external financing. Survey findings captured SMEs sentiments from 2003 onwards (Pls see: http://www.dpgroup.com.sg/news/press/2007/070413.html for more info) 												
1-3 Legislations for SMEs													
1-4 Formulation and Implementation of SME Development Policies	<p>Policy planning organization</p> <ul style="list-style-type: none"> The Singapore Ministry of Trade & Industry (MTI) leads the national effort to promote economic growth and create jobs, so as to achieve higher standards of living. It does this by: (a)facilitating the development of industry sectors with strong growth potential and fundamentals; (b)protecting Singapore's international trade interests, in particular, with a view to enhance access to global markets for Singapore's goods, services and investments; and (c)providing a good understanding of the current state of and outlook for the Singapore economy for policy formulation and refinement. <p>Policy planning/ implementing organization</p> <ul style="list-style-type: none"> SPRING Singapore is the key SME policies' implementing statutory board under MTI. Where MTI is the leading policy planning organization, SPRING Singapore, Economic Development Board (EDB) and International Enterprise Singapore (IE Singapore) contribute to the policy planning process. Depending on the needs of the SMEs, SPRING Singapore works with other economic agencies such as IE Singapore, EDB, Agency for Science, Technology and Research (A*STAR), Singapore Workforce Development Agency (WDA), Infocomm Development Authority (IDA), JTC Corporation etc. to meet those needs. <p>Number of staff</p> <ul style="list-style-type: none"> There are about 300 staff in SPRING Singapore 												
1-5 Government Spending on SME Development Policies	<ul style="list-style-type: none"> SPRING Singapore is funded by the Ministry of Trade & Industry (MTI) which in turn has its budget allocated by the Ministry of Finance (MOF). SPRING Singapore received grants of S\$53.6m in 2006 for SPRING Singapore's operating expenditure, depreciation, staff costs etc. In 2006, SPRING launched a 5-year \$4 billion Enterprise Development Fund (EDF) III. 99.5% of the 2006 funds went to local SMEs. 												
1-6 Role-sharing between the Federal and State Governments	<p>There is no role sharing because Singapore is a city state.</p>												
1-7 Other schemes to be noted	<p>Some of the main issues faced by SMEs as mentioned in SME Development Survey</p> <ul style="list-style-type: none"> SMEs constantly face the practical concern of managing escalating costs such as labour, cost of 												

	<p>raw materials/ intermediate or final products, and rental.</p> <ul style="list-style-type: none">• Increasing concern of High interest rate charged by banks.• Concern with strong competition coming from local and overseas players.
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2 SME Development Policies Specific Schemes

<p>2-1 Financing</p>	<p><u>Loan schemes administered by SPRING Singapore</u></p> <ul style="list-style-type: none"> • The Local Enterprise Finance Scheme (LEFS) is a fixed interest rate financing programme designed to encourage and assist local enterprises to modernise and upgrade their operations. The scheme can be used for factory loan, renovation, purchase of equipment or meeting working capital requirement. • LEFS has helped SMEs gained access to asset financing via facilities such as Machinery hire purchase and term loans as well as Factory loans. LEFS Micro loan has also helped SMEs obtain working capital to fund their daily operational needs and also to acquire fixed assets. <p>• The Loan Insurance Scheme (LIS) is a programme by SPRING Singapore and IE Singapore to provide an avenue for SMEs to access financing through the use of loan insurance. LIS also provides Participating Financial Institutions (PFIs) with more flexibility in terms of the loan facilities that they can provide. The government bears 50% of the insurance premium, with the appointed insurers covering 75% of loan defaults.</p> <p><u>Equity funding schemes administered by SPRING Singapore</u></p> <p>Investment, Capital injection - Startup Enterprise Development Scheme (SEEDS) by SPRING Singapore</p> <ul style="list-style-type: none"> • SEEDS is established to encourage more investments into high-growth, innovative and promising start-ups. It provides innovative Singapore-based start-ups a matching dollar for every dollar an investor puts in your business, up to \$300,000. <p>Pls refer to II-5 for more details on SEEDS and BAS schemes.</p> <p>For the full range of SME financing options, please refer to http://www.spring.gov.sg</p> <p><u>Equity funding schemes administered by IE Singapore</u></p> <ul style="list-style-type: none"> • The Enterprise Fund is equity financing for asset-light, non high-tech companies • Seed investors are IE Singapore Holdings and Hong Leong Finance • Managed by private sector fund manager, Crest Capital • Expected to eventually provide up to \$100m of funding to internationalising companies <p>• Trade Credit Insurance Scheme started in Oct 2005 and offers trade credit insurance at very attractive premium rates (avg 0.18-0.35%) by pooling of demand</p> <p>The Internationalisation Finance Scheme (IF Scheme) was introduced by IE Singapore in Aug 2007. The loan scheme aims to meet of internationalising companies' need for asset based financing and working capital/structured financing for overseas projects.</p> <ul style="list-style-type: none"> • Administered by IE through network of Participating Financial Institutions (PFIs) • Interest rates, collateral requirement and disbursement modes are determined by PFIs • Maximum of \$15m on Group basis (obligor and its subsidiaries/associate companies)
<p>2-2 Taxation System</p>	<p>The Skills Development Fund was established in October 1979 aiming for upskilling of workers.</p> <p>According to the Fund, employer pays charge of 1% of monthly salary per worker with monthly salary of less than 2,000S\$ to the Central Provident Fund. SDF supports such as training programs for workers based on the fund.</p> <p>Main schemes and plans based on the SDF are;</p> <ul style="list-style-type: none"> • Training Assistance Scheme (TAS) • Total Company Training Plan (TCTP) • Skills Certification Plan (SCP) • Training Voucher Scheme (TVS) • Training Leave Scheme (TLS) • IT Training Assistance Scheme (ITAS) • SME Manager Scheme (SMS)
<p>2-3 Information Service, Human Resource Development, Business Environment, Consultation, Advisory Services and Others</p>	<p><u>Provision of information</u> by SPRING Singapore through Enterprise One and Global Sourcing Hub</p> <ul style="list-style-type: none"> • Launched in February 2006, the Enterprise One, consists of a web portal supported by telephone hotline, a network of Enterprise Development Centers (EDCs) and Enterprise One Business Information Services (EBIS). This multi-agency initiative involves more than 30 government agencies, chambers of commerce and industry associations to provide "One Network for Enterprises".

	<ul style="list-style-type: none"> • The Enterprise One portal had provided enterprises with round-the-clock access to e-services and information such as how to raise financing, manpower recruitment, taxes and accessing government tenders. The Online Business Licensing Service, a one-stop shop for business licences, is also one of the key services within the Enterprise One portal. • The EDCs offered companies with face-to-face advisory and consultation services for enterprises which require more personalised assistance. Four EDCs have been launched so far: EDC at the Malay Chamber of Commerce and Industry (SMCCI) on 13 Oct 06, the EDC at the Singapore Chinese Chambers of Commerce & Industry (SCCCI) on 20 Feb 06, and the EDCs at the Association of Small and Medium Enterprises (ASME) and the Singapore Manufacturers' Federation (SMA) in 2005. • EBIS provides access to business information and upgrading of SME's information literacy to harness the information for competitive advantage. <p>• The SBF Global Sourcing Hub (GSH) is an online, integrated sourcing system consisting of key sourcing e-tools (eRFQ, eTender and Business Alerts) which are linked seamlessly to an extensive eDirectory listing of trusted enterprises. The eDirectory not only provides a yellow-page of company information, it also provides up to 5 levels of supplier's information including TrustM@rk Profile and Credit Information. For buyers, GSH offers a cross-industry platform that will help buyers, both local and foreign, to automate and streamline their sourcing processes through RFQ and Tenders for better efficiency. The portal allows suppliers to have a greater visibility and be alerted and gain wider access to business opportunities, specifically RFQs and Tenders, available globally.</p> <p>Human resource development and training by SPRING Singapore In Jan 2008, SPRING Singapore pumped S\$60 million into the Business Leaders Initiatives (BLI), expecting to create by 2012 a pipeline of 1000 trained SME bosses and senior executives while cultivating another 500 aspiring executives.</p> <p>For more info on BLI programmes, pls refer to http://www.spring.gov.sg/Content/WebPageLeft.aspx?id=169d23c9-3fb3-4415-b9d8-0ad250d1bbd8</p> <p>Pls refer to II-8 for ETAC scheme.</p>
<p>2-4 Support for Obtaining Management Resources for Existing SMEs</p>	<p>Capability Development Programme by SPRING Singapore</p> <ul style="list-style-type: none"> • The Capability Development Programme (CDP) aim to enhance industry innovation and capability to move up the value chain and provide better support to their customers. CDP will enable the participating SMEs to develop new capabilities e.g. product development, workflow process improvement as well as product innovation and make them more competitive in the global market. SPRING has rolled out the CDP to four industries; Marine, Logistics, F&B and Precision Engineering. <p>Technology Innovation Programme by SPRING Singapore</p> <ul style="list-style-type: none"> • The Technology Innovation Programme ('TIP') is the first holistic technology innovation initiative developed with SMEs in mind. Launched in August 2006, it is part of the national Science & Technology Plan 2010 (STP2010), and is being driven by SPRING Singapore. The TIP is designed to help SMEs adopt technology innovation as a competitive strategy. <p>Intellectual Property Management by SPRING Singapore</p> <ul style="list-style-type: none"> • The Intellectual Property Management for SMEs Programme (IPM) is a joint initiative between SPRING and the Intellectual Property Office of Singapore (IPOS) that encourages SMEs to identify, create, own, protect and exploit their IP as a strategic competitive tool. • The IPM for SMEs Programme is a partnership between SPRING and IPOS and consists of two stages: The first stage uses a structured IPM diagnostic tool developed by IPOS called SCOPEIP™ (Strategies for Creation, Ownership, Protection and Exploitation of IP). Consultants will use SCOPEIP™ to help SMEs evaluate the company's IP deployment. This would bring them to the second stage, in which companies implement projects to improve their in-house IPM capabilities. <p>Local Enterprise Technical Assistance Scheme (LETAS) by SPRING Singapore With the Local Enterprise Technical Assistance Scheme, the applicant can get a grant to engage an external consultant to implement quality management and IT systems. Project examples include ISO certification and upgrading computer systems</p>
<p>2-5 New Business/Venture Support for SMEs</p>	<p>SEEDS by SPRING Singapore as mentioned in II -1 Financing.</p> <ul style="list-style-type: none"> • SEEDS also include new entrepreneurship programmes such as the Growth Financing Programme (GFP) and the Business Angels Scheme (BAS), which were introduced in 2003 and

	<p>2006 respectively.</p> <ul style="list-style-type: none"> • SEEDS, GFP and BAS target at start-ups with different needs and stages of growth <p>(i) Funding support quantum – Ranges from \$300,000 to \$1 million; (ii) Age limit of start-ups – Up to 5 years old; (iii) Type of business angels – Pre-qualified investor vs. those engaged directly by the company; and (iv) Point of investment – Investing at the early start-up stage vs. when the company has some form of customer/revenue track record.</p> <p>Venture Capital Industry and Promotion by SPRING Singapore</p> <ul style="list-style-type: none"> • Section 13H (under the Income Tax Act) and Pioneer Service Incentive were introduced to encourage the growth of local and foreign VC funds in Singapore and to enlarge the pool of VC funds available to locally-based enterprises. Both schemes provide tax relief for approved fund and fund management companies, for up to 10 years. <p>Overseas Enterprise Incentive (OEI) by IE Singapore</p> <ul style="list-style-type: none"> • Launched in 1993, OEI provides tax exemption on qualifying income from approved overseas investments up to 10 years. Projects must generate spin-offs to Singapore.
<p>2-6 Promotion of Fair Dealing and Maintenance of Markets for SMEs</p>	<p>Competition Commission Singapore (CCS) http://www.ccs.gov.sg/</p> <ul style="list-style-type: none"> • The CCS is a statutory body established under the Competition Act (Cap 50B) on 1 January 2005 to administer and enforce the Act. Its mission is to promote healthy competitive markets that will benefit the Singapore economy based on sound economic principles applied objectively and consistently.
<p>2-7 Regional SME Policies</p>	<p>Local Enterprise and Association Development (LEAD) Programme by SPRING Singapore and IE Singapore</p> <ul style="list-style-type: none"> • The 3-year \$50 million LEAD programme was launched in May 05 to improve the competitiveness of our industries and enterprises by strengthening able and willing industry associations to lead various industry development efforts. The programme also serves to groom these associations to become independent and self-sustaining industry leaders. • Upon the request of industry associations which have strategic plans to develop their industries, SPRING Singapore and IE Singapore work with them to invite interested Members of Parliament to serve as advisors for the associations. This serves to further strengthen the Government’s commitment to support the industry associations
<p>2-8 Assistance for the Internationalization of SMEs</p>	<p>Export Technical Assistance Centre (ETAC) by SPRING Singapore</p> <ul style="list-style-type: none"> • Since its inception in Oct 2006, the Export Technical Assistance Centre (ETAC) has been helping enterprises and companies comply with technical regulations and standards in their export markets. ETAC has launched several outreach initiatives in the areas of food, electrical & electronics and environmental technical regulations. • Singapore became a member of the International Electrotechnical Commission in May 2007, the first country in Southeast Asia to do so. SPRING Singapore will manage the IECQ schemes such as the HSPM scheme which economies are looking to use as standard for RoHS compliance. As a member of the IECQ, SPRING Singapore helps to provide companies with capacity building tools and supporting infrastructure to meet RoHS requirements. • In July 2007, the Food Import Regulations (FIRS) database was launched. The database summaries the general requirements and technical standards for food imports into various countries and provides local companies with a central source of information on food standards and import requirements. • Through FIRS, companies were able to utilise the information conveniently and be better prepared when planning and developing products for export. It had also help companies to be more efficient by streamlining the compliance process and thereby reducing their costs. <p>Schemes under IE Singapore includes:</p> <p>International Marketing Activities Programme (IMAP) by IE Singapore</p> <ul style="list-style-type: none"> • Enables trade associations and chambers (TACs) to organize Singapore pavilions at international trade fairs and business missions for their members and business community at large. • Helps to defray the cost of eligible expenses incurred by the TACs and the companies participating in these activities. <p>iPartners by IE Singapore</p> <ul style="list-style-type: none"> • Catalyses the formation of alliances amongst Singapore-based companies going overseas, by facilitating and supporting the formation, developmental and go-to-market phases of these alliances. <p>Pathfinders scheme for distribution by IE Singapore</p> <ul style="list-style-type: none"> • Helps Singapore-based exporters increase their overseas sales by leveraging on “pathfinders” such

	<p>as other businesses, consultancies or organizations with broad overseas business networks</p> <ul style="list-style-type: none"> • Under the scheme, the pathfinder will be rewarded for facilitating a successful business deal. <p>Overseas Marketing Office Programme by IE Singapore</p> <ul style="list-style-type: none"> • To assist Singapore-based companies to establish marketing offices in new overseas markets <p>International Marketing Activities Programme (IMAP) by IE Singapore</p> <ul style="list-style-type: none"> • Supports trade associations and chambers (TACs) in organizing participation at international trade fairs and business missions by their members and business community at large. • Helps to defray the cost of eligible expenses incurred by the TACs and the companies participating in these activities. <p>International Partners (iPartners) by IE Singapore</p> <ul style="list-style-type: none"> • Promotes the formation of alliances amongst Singapore-based companies in exploring overseas market opportunities. <p>Capability Development support by IE Singapore</p> <ul style="list-style-type: none"> • Supports companies to develop certain capabilities, such as Branding, Design, Manpower, IP, which are needed for overseas expansion. <p>Double Tax Deduction (DTD) Scheme for Market Development</p> <ul style="list-style-type: none"> • Allows companies to deduct against their taxable income twice the eligible expenses incurred for participation in overseas trade exhibition and other market development activities. <p>FTA Outreach Programmes</p> <ul style="list-style-type: none"> • Various outreach initiatives such as seminars and workshops are held to increase companies' awareness of our network of FTAs, which could be utilised to boost competitiveness. <p>iAdvisory Portal</p> <ul style="list-style-type: none"> • The iAdvisory portal was started in Jul 2007, as a web-based platform for companies to seek direct assistance and information from qualified international advisors. <p>Market Data</p> <ul style="list-style-type: none"> • Companies can conduct market research by looking into the data available through online trade statistics portal, a physical resource centre and internationalisation-related publications.
<p>2-9 Employment and Labour Policies for SMEs</p>	
<p>2-10 Assistance to SMEs Organizations and Networks</p>	<p>SPRING works with Affiliated Partners such as</p> <ul style="list-style-type: none"> • Accreditation: www.sac-accreditation.gov.sg The Singapore Accreditation Council (SAC) is the national authority for accreditation of conformity assessment bodies. Its primary function is to accredit conformity assessment services such as testing, calibration, inspection and certification. SAC is Singapore's representative in international for a on accreditation and related conformity assessment activities. It works closely with government agencies on mutual recognition agreements (MRA) with international bodies for the facilitation of trade of Singapore. • Action Community for Entrepreneurship: www.ace.org.sg The Action Community for Entrepreneurship (ACE) is a multi-agency movement that involves both the private and public sectors to create a more entrepreneurial environment in Singapore. The movement focuses on specific areas on entrepreneurship to strategise and drive the implementation of the programmes and initiatives. The Blue Sky Festival is an annual national event by ACE (http://www.ace.org.sg) and SPRING to showcase our very own entrepreneurs, promote an enterprise mindset and create a buzz on entrepreneurship. The media was also engaged to create awareness. • Dealflow Connection: www.dealflow.org.sg Deal Flow Connection, a programme of ACE, is the gateway where good business ideas get connected to finance. It is a private sector initiative, supported by the government to serve the deal flow community. Businesses can tap this platform to match their deals with different sources of finance ranging from loans to equity funding such as venture funds and private placements. • Singapore Productivity Association: www.spa.org.sg The Singapore Productivity Association (SPA) was set up in 1973 as an affiliated body of SPRING Singapore. Its objective is to promote the active involvement of organisations and individuals in the Productivity Movement and to expedite the spread of productivity and its techniques. • Asian Productivity Organization: www.apo-tokyo.org

	<p>The Asian Productivity Organization (APO) is a regional intergovernmental organization whose mission is to contribute to the socioeconomic development of Asia and the Pacific by enhancing productivity. Through its APO membership, SPRING Singapore is able to better enhance its enterprises' growth by facilitating their participation in the various APO training and expertise programmes.</p> <ul style="list-style-type: none"> • Association of Small & Medium Enterprises (ASME) (http://www.asme.org.sg) is a not-for-profit organization that provides a wide array of business-centric activities, services and programs to facilitate the growth and development of SMEs. • Enterprise Development Centers (EDCs) as mentioned in II -3 Provision of information, Human resource development, Environment, Consultation, Advice, Other <p>EDCs are set up by industry associations and chambers of commerce specifically to serve local enterprises and would-be entrepreneurs. They are supported by SPRING Singapore. Each EDC is a one-stop centre with a team of business consultants who can advise and provide legal, financial, management and business services.</p> <p>Pls refer to II-7 –Local SME policies for LEAD program.</p>
<p>2-11 Development Policies for Small Scale Enterprises</p>	<ul style="list-style-type: none"> • SPRING's programmes such as LETAS and EDCS are generally applicable to both small and medium enterprises except for Micro-loan programme. <p>Micro Loan Programme by SPRING Singapore</p> <ul style="list-style-type: none"> • SPRING Singapore provides loans of up to S\$50,000 for local SMEs with less than 10 employees. The SME may borrow up to \$50,000 at a fixed or variable interest rate. The SME may use the funds for daily operations or for automating and upgrading your factory and equipment.
<p>2-12 Safety Net</p>	<p>Development of National Standard on Business Continuity Management</p> <p>SPRING Singapore launched the first national standard for Business Continuity Management (BCM) in September 2005 to help organizations build capacity, resilience and readiness to respond to and recover from events that threaten to disrupt business operations. This standard, initiated by the Singapore Business Federation and supported by EDB & SPRING Singapore, provides local companies a framework to develop an effective response plan that safeguards the interests of their key stakeholders, reputation, brand and businesses.</p> <p>Flu Pandemic Business Continuity Guide for SMEs</p> <p>Using principles from this national standard, SPRING developed the flu pandemic business continuity guide to help SMEs develop business continuity plans. SPRING Singapore, in consultation with business chambers, industry associations and the Ministry of Health, has developed a guide to help SMEs draft business continuity plans for a flu pandemic.</p> <p>The document, developed using principles found in the Business Continuity Management Technical Reference initiated by the Singapore Business Federation, suggests actions SMEs may take at each alert code as determined by the Ministry of Health. These include introducing infection control measures at the workplace, looking into home-based working arrangements and planning for alternative sources of supply, should existing supplies be disrupted.</p>
<p>2-13 Other measures to be noted</p>	

Small & Medium Enterprise Development Policies in Thailand

1 Small and Medium Enterprise Policies—Overview

<p>1-1 Definition of SME and its Basis</p>	<p>According to the definition by the Ministry of industry, small enterprise of manufacturing industry and service industry has 50 employees or less, or has fixed assets (except land) of 50 million bahts or less. Medium enterprise has 51-200 employees or fixed assets (except land) of over 50 million and up to 200 million bahts.</p> <p>Small enterprise of wholesale industry has 25 employees or less, or fixed assets (except land) of 50 million bahts or less. Medium enterprise has 26-50 employees or fixed assets (except land) of over 50 million and up to 100 million bahts.</p> <p>Small enterprise of retailing industry has 15 employees or less, or fixed assets (except land) of up to 30 million bahts, and medium enterprise has 16-30 employees or fixed assets (except land) of over 30 million and up to 60 million bahts.</p>
<p>1-2 Business Environment and Present Status of SMEs</p>	<p>Number of SMEs: 2.27million enterprises in 2006, 99.5% of all enterprises. By industrial section of SMEs(in thousands) Manufacturing 672 (29.6%) C & repair 908 (40.0%) Service 676 (29.7%)</p>
<p>1-3 Legislations for SMEs</p>	<p>The Thai civil and commercial law and business law, taxation law including ADR (Alternative Dispute Resolution) Small and Medium Enterprises Promotion Act Ministerial Regulation</p>
<p>1-4 Formulation and Implementation of SME Development Policies</p>	<p>To meet the economic crisis, industrial structure improvement plan was taken from long-term viewpoint in combination with short-term measures such as reorganization of financial industry and economic boost. Measures for SMEs were brought into the heart of it.</p> <p>As a result, in 1999, the government implemented comprehensive measures such as improvement of Small Industry Finance Corporation and the Small Business Credit Guarantee Corporation, establishment of the Small and Medium Enterprise Fund and introduction of the Small and Medium Enterprise Management Consultant. At the same time, the government enacted the Small and Medium Enterprises Promotion Act in April 2000.</p> <p>Also the Small and Medium Enterprises Promotion Master Plan was approved in the Cabinet meeting in April 2000.</p> <p>Task force for this Master Plan was formed by the Department of Industrial Promotion, the Ministry of Industry, the Ministry of Commerce, the Thai Chamber of Commerce and the Federation of Thai Industries.(See II -4)</p>
<p>1-5 Government Spending on SME Development Policies</p>	<p>The Small and Medium Enterprise Fund was set up in OSMEP. The fund consists of;</p> <p>Funds contributed by the government. Fiscal budget of the government. Donations. Other. The aim of the fund is as follows; Promotion of efficiency of establishment, organizational change, business improvement for SME and its association. Support for projects of governmental organizations, state-owned enterprises, private organizations that have the aim of promotion of SME. Support and assistance for merger aiming promotion of efficiency, investment and business expansion. Venture Capital Policy for an elevation of Thai SMEs competency by Equity financing without any interest or warranty</p>
<p>1-6 Role-sharing between the Federal and State Governments</p>	<p>SME promotion plan is developed by central and local governments according to the standards listed below. Governments make use of regional potential by project groups and by area.</p> <ul style="list-style-type: none"> •Financing help for promotion of efficiency •Improvement of finance and stock market for SME •Human resources development for SME •Support for management, technology, securement of market and improvement of business finance

	<p>of SME</p> <ul style="list-style-type: none"> •Provision of information •Grouping of SME •Promotion of investment by SME •Environmental protection measures •Improvement of legal system •Protection of intellectual property rights <p>Annual SMEs Promotion Plan</p> <ol style="list-style-type: none"> 1. Entrepreneur Development 2. Enhancing competencies in SMEs Innovative Production 3. Enhancing capacities and decreasing trade's impacts 4. Supporting services part in creating a value added 5. Promoting SMEs both in regional and local area 6. Developing facilities in operating SMEs business
1-7 Other schemes to be noted	

2 SME Development Policies — Specific Schemes

2-1 Financing	<p>Small and Medium Enterprise Development Bank of Thailand, Small Industry Finance Corporation, Small Business Credit Guarantee Corporation</p> <p>SMEs promotion Policy Plan currently adopt the philosophy "Sufficiency Economic" to implement with Thai SMEs</p>
2-2 Taxation System	<p>Tax system is complicated and wide-ranging. We introduce a part of it here just for reference.</p> <p>SME with paid-up capital of less than or equal to 5 million bahts at the end-of-the-financial-year has been taxed less since the fiscal year started from 1 January 2002 by the Royal Decree No.394, 26 January 2002. Additionally another tax reduction has been made since 1 January 2004 by the Royal Decree No.431, 21 January 2005.</p> <p>There are also other tax systems such as extraordinary depreciation for SME, SME tax system by BOI and venture capital tax system to promote investment in SMEs.</p> <ol style="list-style-type: none"> 1. Incentive measurement from BOI such as taxation exempt within the scope of <ul style="list-style-type: none"> - Agricultural and agriculture products - Mines, ceramics and primary metal - Light industry - Metal products, machines, and logistic equipments - Electronics and Electric equipments - Chemical products, paper, and plastics - Services and public utilities 2. Network creation and local link promotion measurement 3. Global reach measurement
2-3 Information Service, Human Resource Development, Business Environment, Consultation, Advisory Services and Others	<p>SME Management consulting project carried out from 2000 to March 2004 is getting generalized in Thailand and neighboring ASEAN countries as one of the best practice of support for SME policies.</p> <ol style="list-style-type: none"> 1. Incubation Project for both employees and entrepreneurs 2. Mentorship project for SMEs entrepreneurs
2-4 Support for Obtaining Management Resources for Existing SMEs	<p>As SME promotion involves a wide-ranging field such as technology and management, many experts and organizations are utilized in the measures which has been implemented since 1999.</p> <p>Therefore it is regulated to establish the Small and Medium Enterprises Promotion Committee led by the Prime Minister as a chairman and the Minister of Industry as a vice chairman.</p> <p>The committee consists of the Minister of Finance, the Minister of Agriculture and Cooperatives, the Minister of Commerce, Vice Minister of Labour and Social Welfare, Vice Minister of Science, Technology and Environment, Vice Minister of Industry, Director-General of National Economic and Social Development Board, Director-General of Board of Investment, Chairman of Thai Chamber of Commerce, Representative of the Federation of Thai Industries and less than 12 academic experts.</p> <p>Also the Office of Small and Medium Enterprises Promotion and its Management Board are established.</p>
2-5 New Business/Venture Support for SMEs	<p>In case that a venture capital acquires capital in a SME (with less than or equal to 200 million bahts of fixed assets except land and less than or equal to 200 employees), an exemption is allowed from corporate income tax on dividend from the SME and on capital gain by stock transfer. This measure has been launched since 31 January 2002 by Royal Decree No. 396. The decree was partially amended by the Royal Decree 442, 14 November 2005.</p> <p>As for dividend from stock of the venture capital and capital gain by stock transfer, if they are concerned with investment into SME, an enterprise is exempted from corporate income tax.</p>
2-6 Promotion of Fair Dealing and Maintenance of Markets for SMEs	<p>n.a.</p>
2-7 Regional SME Policies	<p>Supports for development of specified SME included in a industrial cluster which takes root in each area of Thailand are implemented.</p>

	<p>For example, SMEs in agricultural, handicraft, fashion, textile, tourism, ICT and other industries are objects of the support in upper north area.</p> <p>Meanwhile, famous "One Tambon One Product (OTOP) Scheme" is considered to be included in micro enterprise promotion.</p> <p>Recently, OTOP supports entrepreneurs in loans (with MLR+1% of interest per year) for business reconstruction or enlarge their business. Also SMEs Promotion plan regarding OTOP emphasized local products to be internationalized.</p>
2-8 Assistance for the Internationalization of SMEs	<p>Trade promotion organization Department of Export Promotion (DEP), Ministry of Commerce, Royal Thai Government Bangkok headoffice, Rachadapisek Office:</p> <p>22/77 Rachadapisek Road, Chatuchak, Bangkok 10900 THAILAND Tel: (662) 511-5066-77 Fax: (662) 512-2670 E-mail: iticdep@depthai.co.th http://www.thaitrade.com</p>
2-9 Employment and Labour Policies for SMEs	n.a.
2-10 Assistance to SMEs Organizations and Networks	As SME policy involves a wide-ranging field such as business management, technology, finance and loan, not only the related ministries and agencies centered around the Ministry of Industry but also many relevant organizations like the Thai Chamber of Commerce, the Federation of Thai Industries, the Small Industry Finance Corporation, the Credit Guarantee Association and other financial institutions take part in its implementation.
2-11 Development Policies for Small Scale Enterprises	<p>Although "the Small Industry Finance Corporation" and "the Credit Guarantee Association" were established in 1991, they haven't been utilized actively because of the limited capital and other reasons.</p> <p>Capital increase was decided in the General Economic Measures of October 1999.</p>
2-12 Safety Net	n.a.
2-13 Other measures to be noted	Strengthening of the role of the Small Industry Finance Corporation and other activities were made by "Mizutani Mission" in 1999.

Small & Medium Enterprise Development Policies in Vietnam

1 Small and Medium Enterprise Policies – Overview

1-1 Definition of SME and its Basis	According to the Decree No.90/2001/ND-CP, definition of SMEs is that the investment amount of the enterprise is less than 10 billion dongs or number of employees is less than 300.
1-2 Business Environment and Present Status of SMEs	<ul style="list-style-type: none"> • According to Statistical Yearbook of Vietnam 2005, the total number of business enterprises is 91,755 and the number of enterprises which employ less than 300 is 88,222. • VINASME estimates the total number of SMEs reach around 270,000 as of March 2007.
1-3 Legislations for SMEs	Enterprise Law revised in 2005 has basic role as law for SMEs.
1-4 Formulation and Implementation of SME Development Policies	<p>Based on the Government decree 90/2001, the Small and Medium Enterprise Bureau was established in 2002.</p> <p>The bureau was reorganized into Small and Medium Enterprise Agency in 2003. The Five Year Small and Medium Enterprise Development Plan was made in 2006.</p> <p>The Small and Medium Enterprise Agency consists of about 70 personnel. Director General (1), Vice Director (3), Clerical Office, Enterprise Registration Division, SME Promotion Division, Business Information Center, State Owned Enterprise Reform Division, Domestic Investment Promotion Division, SME Technical Assistance Center (Hanoi, Danang, Ho Chi Minh)</p> <p>At present, the pillars of SME policies are enterprise registration procedures, human resources development, provision of information and technical support.</p>
1-5 Government Spending on SME Development Policies	<p>The Five Year Small and Medium Enterprise Development Plan(2006-2010) was approved by the prime minister's office in October 2006.</p> <p>The main purpose is to contribute to enhancement of economic competitiveness through SME promotion.</p> <p>Concrete numeric targets are inauguration of 320 thousand enterprises , creation of 2.7 million new employment and fostering of 165 thousand technical workers in 5 years.</p> <p>Main tasks are system improvement, tax system improvement, land use, finance, technology, information, human resources development, market development and expansion of the role of SME Promotion council.</p> <p>Main activities are simplification of enterprise registration, improvement of access for land use, smooth finance, competitiveness improvement, human resources development, increase awareness of SME and action plan making.</p> <p>Annual budget of ASMED on 2007 are around VND 2 billion for the administrations expend larger sums for the SME support</p>
1-6 Role-sharing between the Federal and State Governments	<p>The Department of Planning and Investment(DPI) is positioned in 64 prefectures and functions as local organization of central government (the Small and Medium Enterprise Agency, the Ministry of Planning and Investment).</p> <p>Main activities are such as enterprise registration, human resource development project (holding of seminars).</p> <p>Since 2006, the main function to manage the ODA supports transfer from central government (MPI) to local governments.</p>
1-7 Other schemes to be noted	Since 2005, ASMED organize SMEPG between the related ministries and overseas donors for the consulting the SMEs policies and support measures.

2 SME Development Policies – Specific Schemes

2-1 Financing	<p>There is no policy-based finance for SMEs, only the Donor Support Fund exists.</p> <p>State-owned Commercial Banks provide financing mainly for state-owned enterprises. The Commercial Joint Stock Banks incline their financing target to private sector, but the loan balance is small.</p> <p>As for the Credit Guarantee Fund that complements the environment of fund procurement of SMEs, there is a law which stipulates the establishment of the fund. However, only 3 funds exist (the establishment in 64 preferences is expected in the law).</p> <p>Since 2002, JABIC started two-step-loan financial support for the SMEs development. From 2004, ADB started policy loans for SMEs.</p>
2-2 Taxation System	<p>Since 2005 and 2006, tax incentive schemes are introduced based on enterprise law. (not limited to SMEs)</p>
2-3 Information Service, Human Resource Development, Business Environment, Consultation, Advisory Services and Others	<p>"Business Portal" Information system started by ASMED.</p> <p>From 2004, MPI and ASMED started Human Resource Development Program for SMEs.</p> <p>From 2007, MOSTE started PECSME program for energy conservation in SMEs.</p>
2-4 Support for Obtaining Management Resources for Existing SMEs	<p>"SME Technical Assistance Centre Project" has started.</p> <p>In the future, it is expected to implement effectively the technical assistance for SMEs, building up organic link with existing technical assistance organizations (such as Hanoi University of Technology, organizations under the Ministry of Science and Technology, institutes under Ministry of Industry), while the Centre acting as a leader.</p> <p>(TAC project in Hanoi is encountering in the difficult stage. Some new measure should be embossed.)</p>
2-5 New Business/Venture Support for SMEs	<p>N.A.</p> <p>(Necessary to secure the coordination between the incubation center and R & D facility (as university).MOSTE propose public venture capital fund.)</p>
2-6 Promotion of Fair Dealing and Maintenance of Markets for SMEs	<p>N.A.</p> <p>(Enlargement of big state owned companies may disturb SME development.)</p>
2-7 Regional SME Policies	<p>N.A.</p> <p>(One village One product movement could be new method for local industry development.)</p>
2-8 Assistance for the Internationalization of SMEs	<p>Trade promotion organization Hanoi Head Office 20 Ly Thuong Kiet st., Ha Noi, Viet Nam</p> <p>Tel: 84-4-9347628 and other Fax: 84-4-9344260 and other E-mail: viettrade@viettrade.gov.vn Website: http://www.viettrade.gov.vn</p> <p>(Coordination between Vietrade and VCCI should be reinforced. Information services by Vietrade should be up-graded.)</p>
2-9 Employment and Labour Policies for SMEs	<p>N.A.</p>
2-10 Assistance to SMEs Organizations and Networks	<p>As a SME assistance cooperation organization, the Vietnam Chamber of Commerce and Industry (VCCI) aims at the development of domestic private enterprises and has 7 committees and 8 internal subdivisions (including SME Promotion Centre).</p>

	<p>In the country, there are 5 branch offices in Ho Chi Minh, Da Nang, Hai phong, Can-tho and Ba Ria-Vung Tau.</p> <p>Coordination and consultation between ASMED, business organizations and overseas donors should be strengthened.</p> <p>Dialogue between government and business organizations should be more activated.</p> <p>Other cooperation organizations are such as Vietnam Japanese Human Resource Cooperation Center (VJCC), the Hanoi Industrial College (HIC), the Directorate for Standards and Quality (STAMEQ; quality standard management organization under the Ministry of Science and Technology), the Quality Assurance and Testing Center (QUATEST), the SME Development Center (SMEDEC) (QUATEST and SMEDEC are subordinate organizations of STAMEQ), the Ministry of Industry and the Ministry of Science and Technology.</p>
2-11 Development Policies for Small Scale Enterprises	<p>N.A.</p> <p>(Overseas NGO activities could be promoted.</p> <p>One village one product movement may be introduced.)</p>
2-12 Safety Net	<p>N.A.</p>
2-13 Other measures to be noted	<ul style="list-style-type: none"> • Vietnam Marketization Support Development Research Project was made by Japanese economists group including Prof. Shigeru Ishikawa of Hitotsubashi University and economists of the Vietnamese government for 6 years from 1995. • Utilization of the experiences and success stories in the other ASEAN nations should be considered.