

**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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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.

March 2008

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 of 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. Fourth, 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.

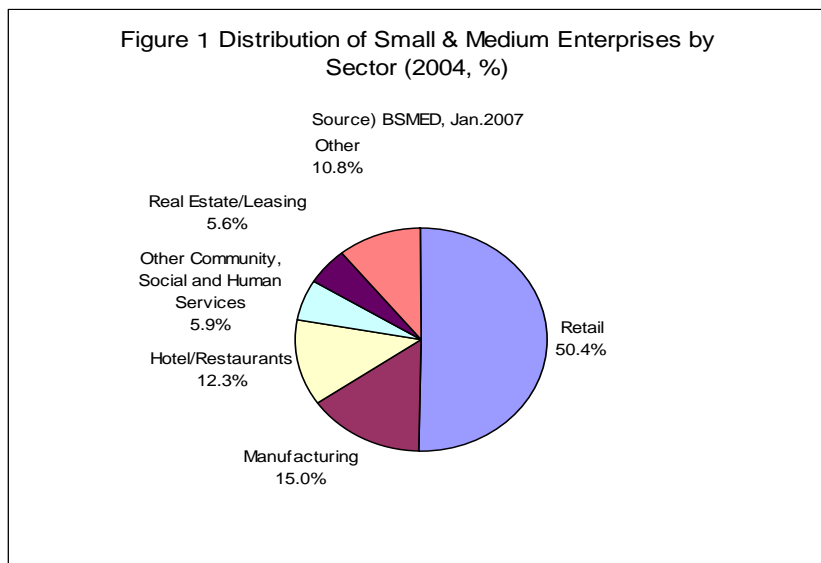
Table 2 Changes in Number of Business by Classification (2001-2004)

	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

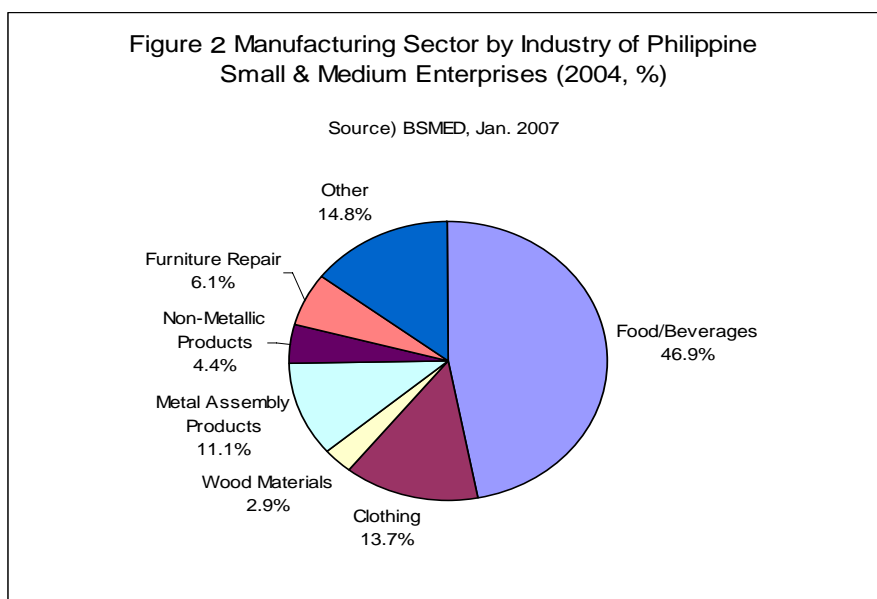


10.8% (83,963), Western Visayas with 5.8% (45,454), and Central Visayas with 5.6% (44,098).

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.

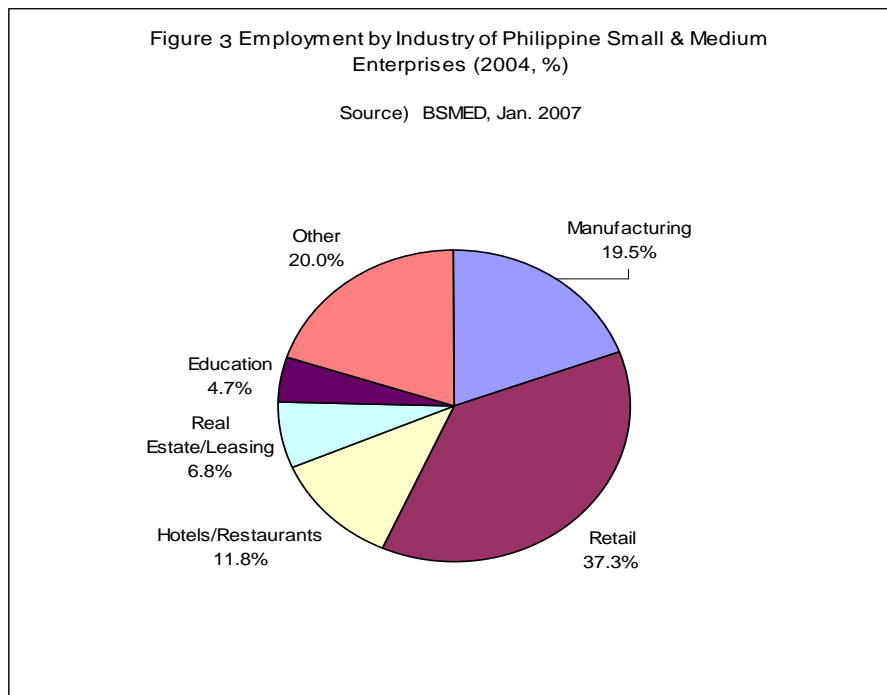
Small and medium enterprises have 117,007 offices in the manufacturing sector (2004), and of these, micro enterprises have 103,926, small enterprises have 12,116, and medium enterprises have 965. The number of places of business for micro enterprises in the manufacturing sector has fallen by 4.6% in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

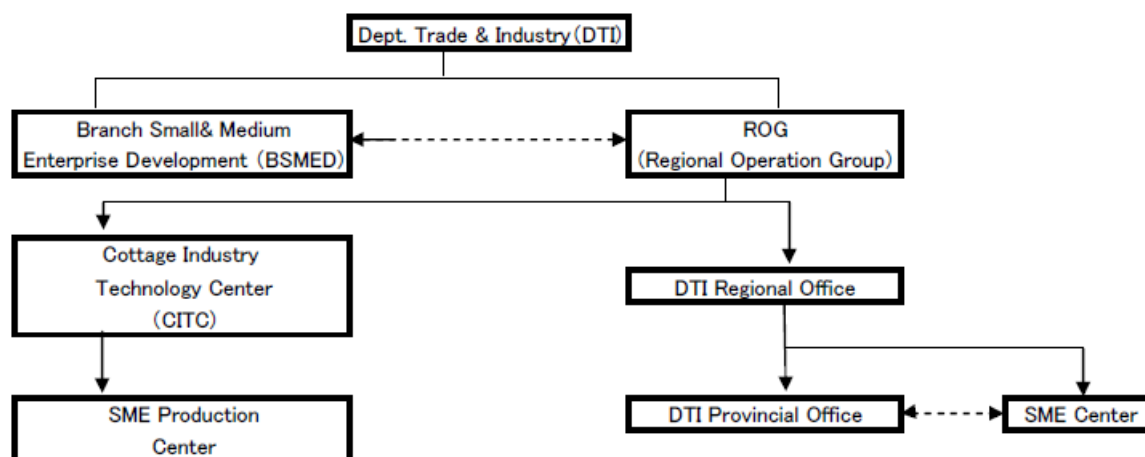
The Small and Medium Enterprise Development Council (SMEDC) is the main organization that sets and deliberates on small and medium enterprise policy. There are 8 council members representing government organizations and 4 private sector representatives. The government representatives are the Directors 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 DTI's 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.

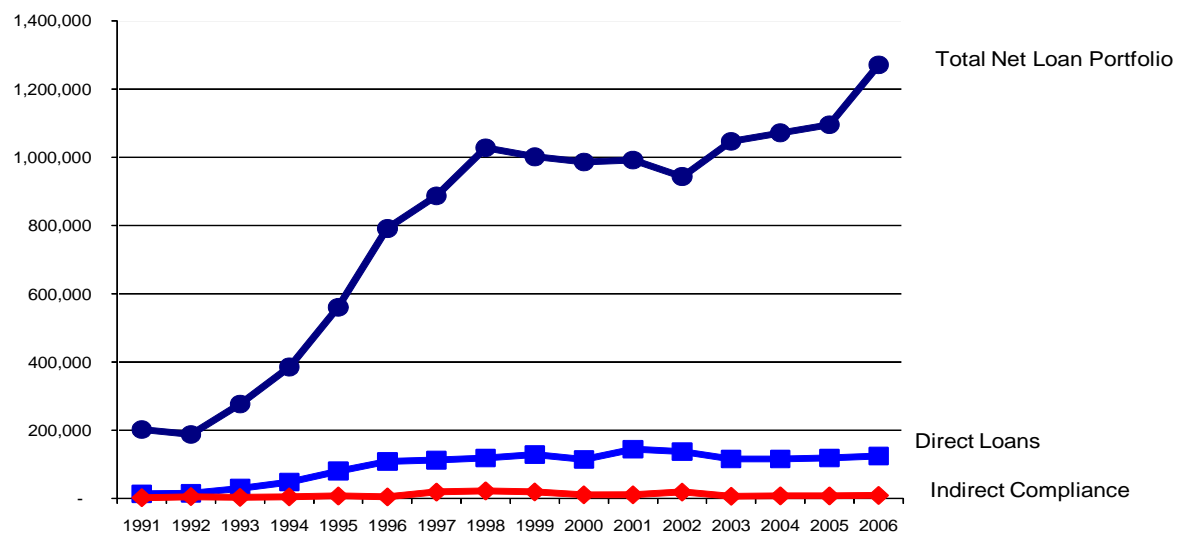
3-(5) Other Issues

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.

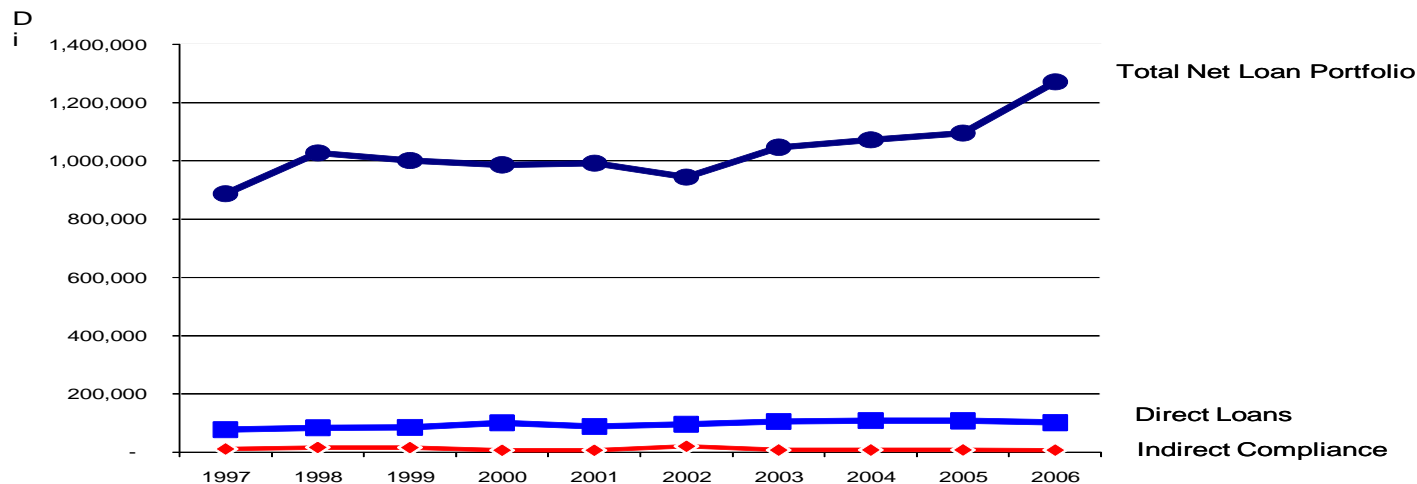
**Figure 1. Compliance of Banks to Mandatory Credit Allocation
Loans to *Small* Enterprises, 1991-2006**
(in million pesos)



	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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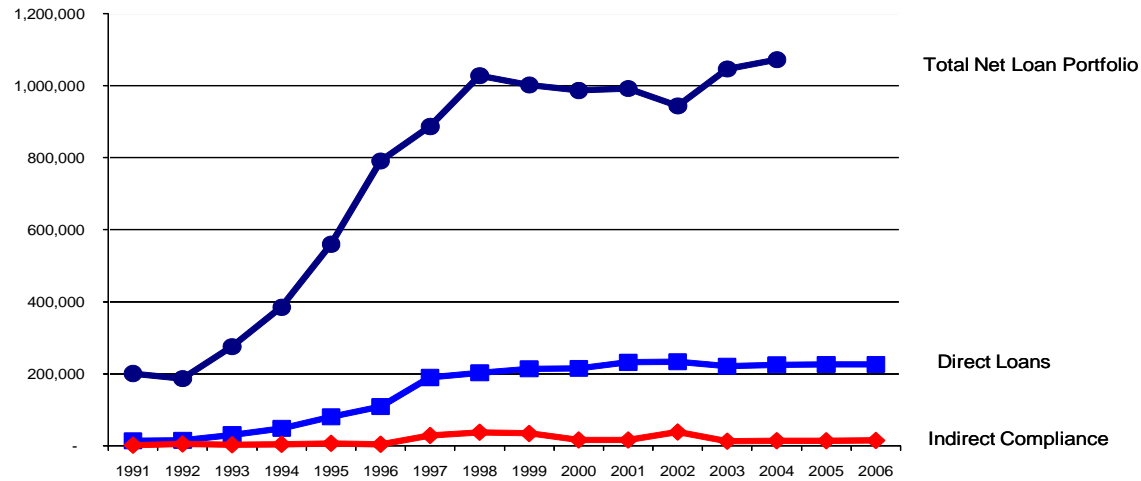
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Net Loan Portfolio	886,844	1,027,845	1,001,567	986,427	992,243	943,850	1,046,551	1,071,972	1,095,531	1,271,369
Direct Compliance	77,550	83,565	84,937	100,281	87,746	96,195	105,344	108,367	107,608	101,601
Indirect Compliance	10,337	15,773	15,182	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.

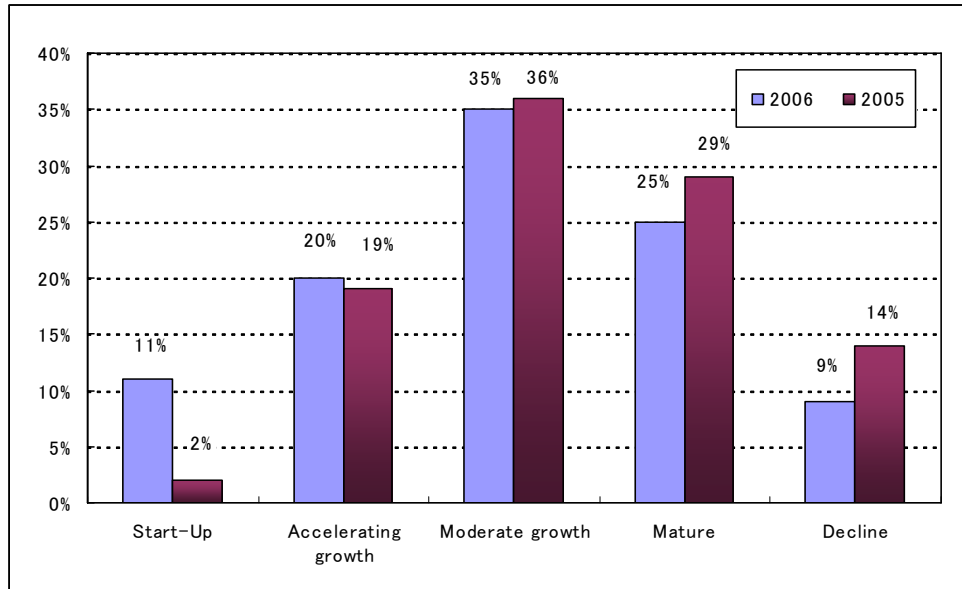
The summary of SME Development Survey results are as follows. (1,068 SMEs responded to this survey.)

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

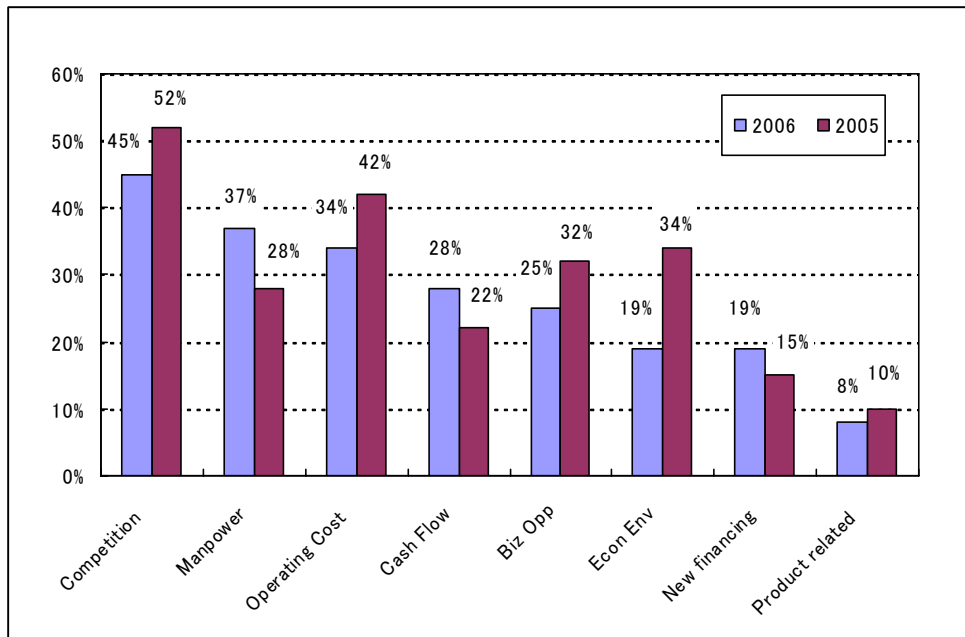
Development Stages



(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)

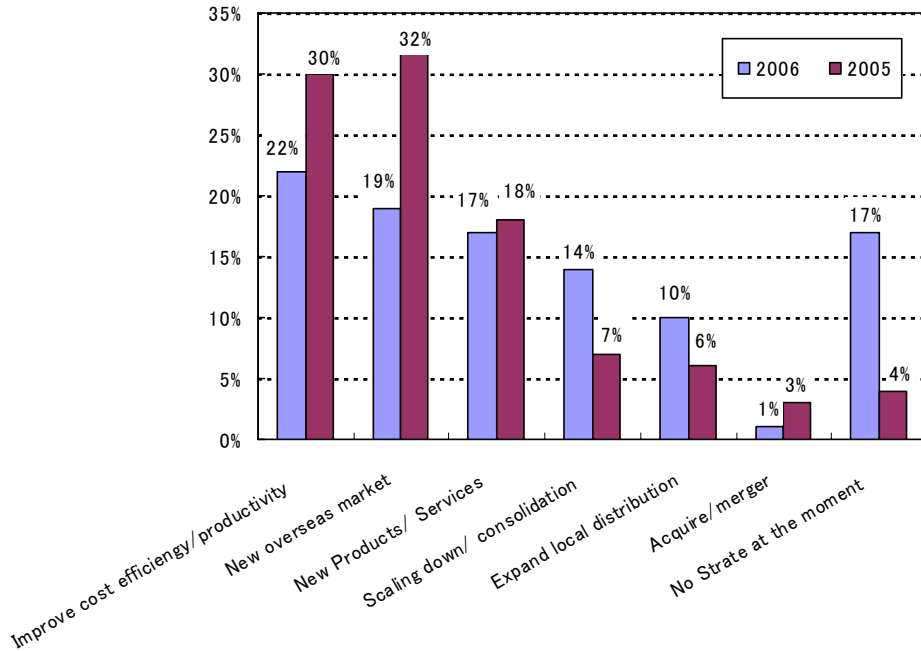
Top competition faced in Singapore	%
Local Competition	69%
Foreign Competition	37%
Do Not Face Any Competition	9%

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.

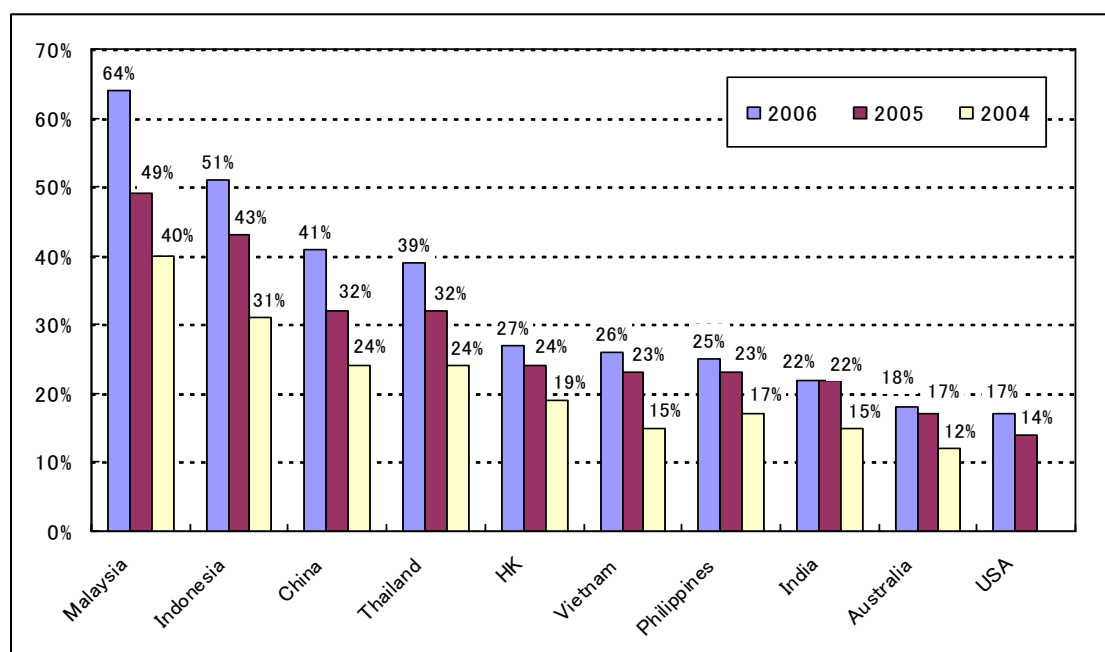
Key Business Strategy for Next 1 - 2 years



(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

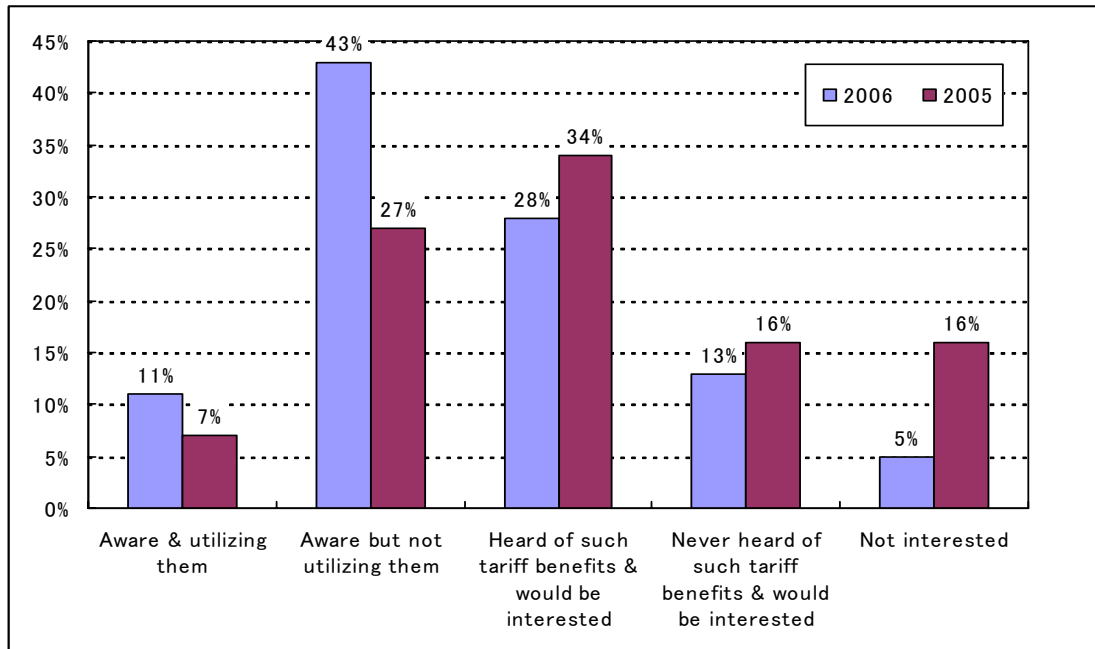
Overseas Business Expansion

	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.

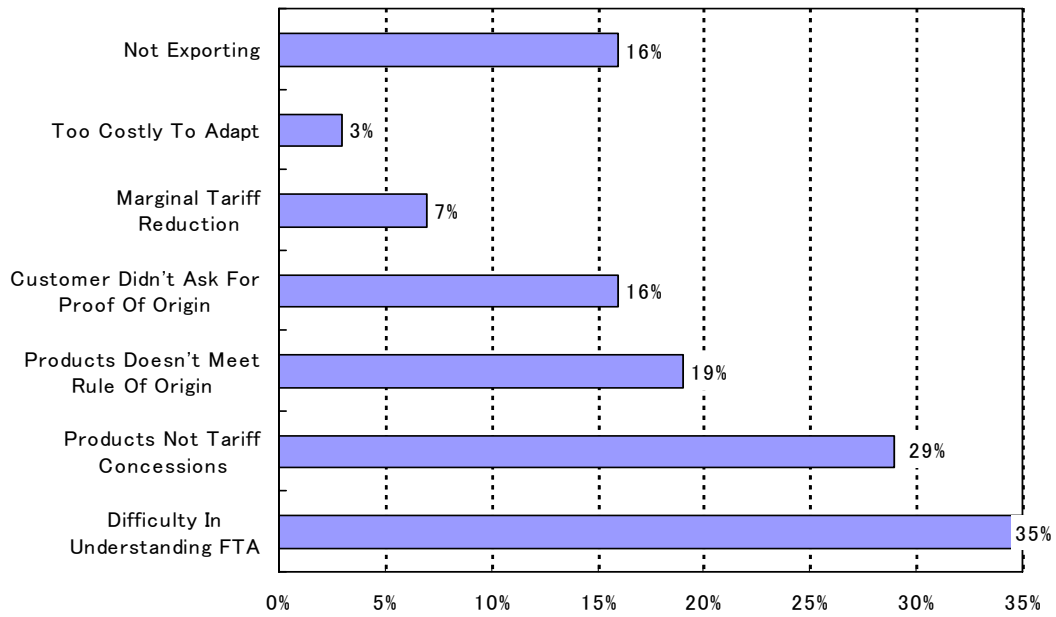
Awareness of FTA



(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%.

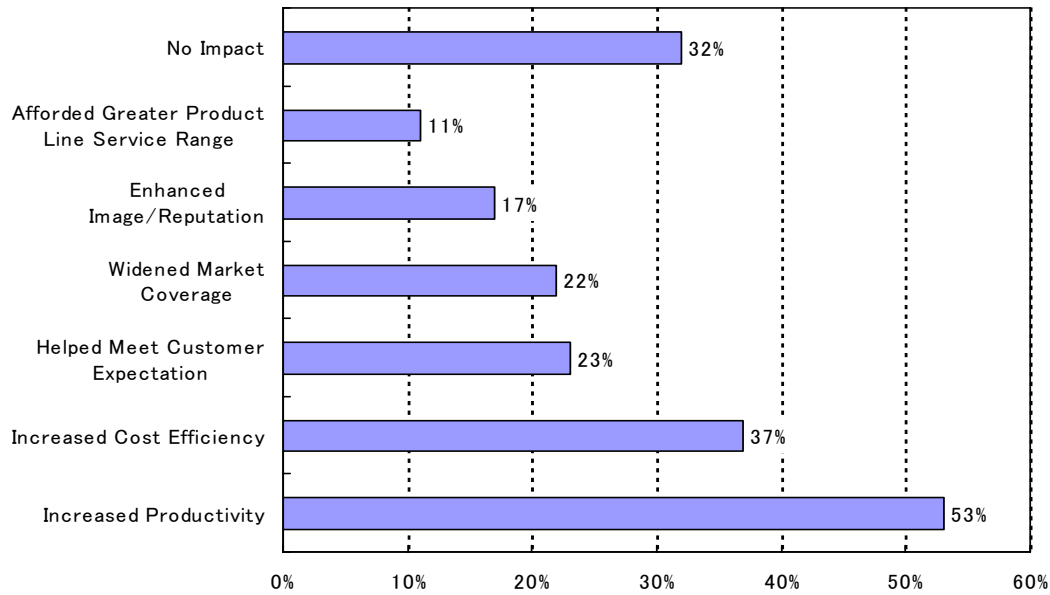
Reasons for Not Being Aware of FTA



(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%.

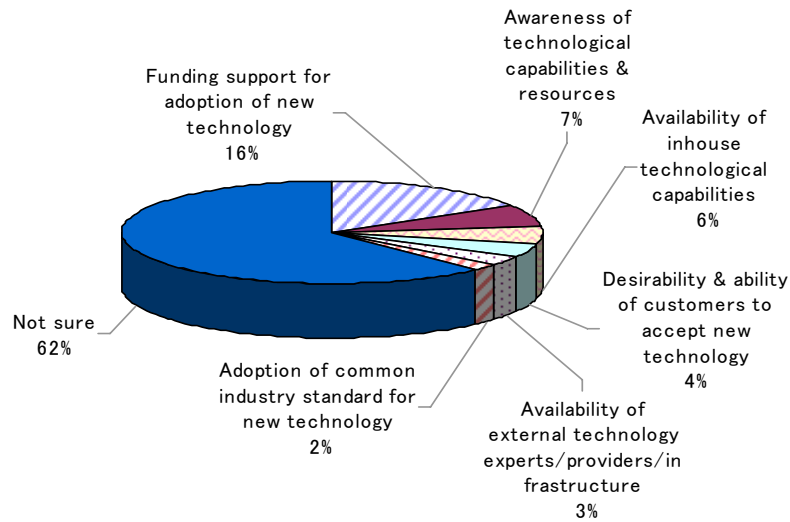
Impact of Technical Innovation



(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

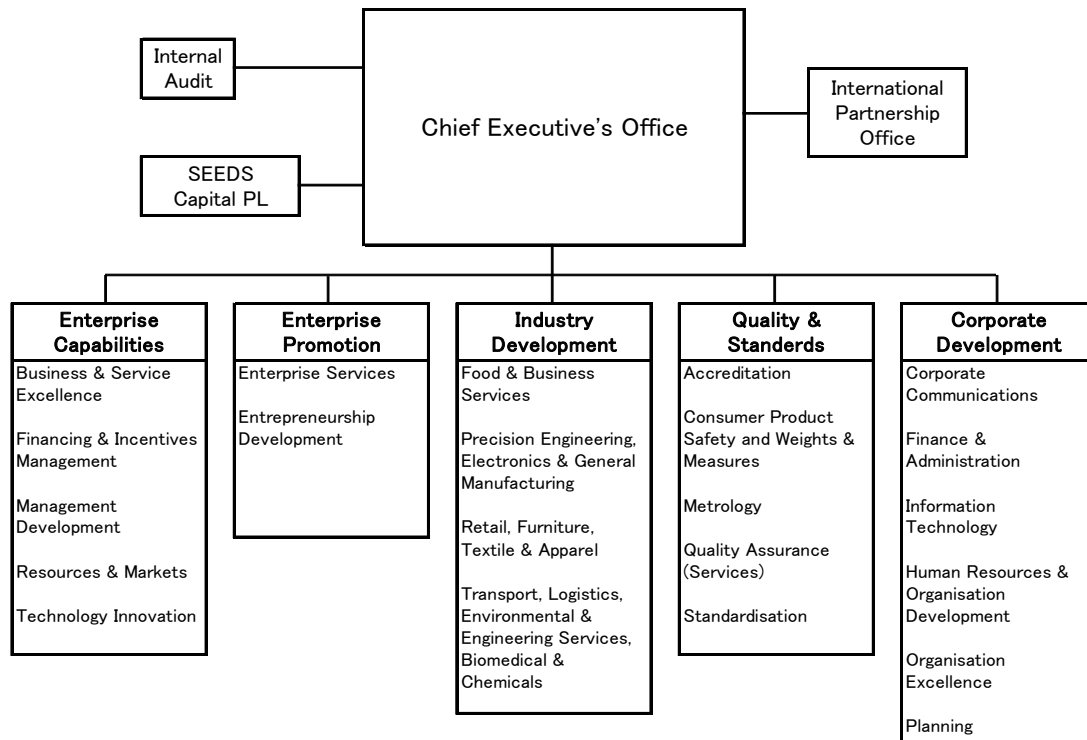
The role of MTI is solely planning and coordination of policies. Statutory boards under the jurisdiction of MTI are responsible for planning and implementation of concrete programs.

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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