

Chapter 1

Institutional Framework

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CHAPTER 1

Institutional Framework

1. Introduction and Assessment Framework

Government's role in SME development is very central in constructing a solid building block for SMEs to engender their growth.

The objective of having a proper set of indicators for the institutional framework is to ensure the consistency and effective implementation of the overall SME development policy (OECD, 2009). There are five policy sub-dimensions for a good institutional setting (Figure 5) which include: (i) clearly defined and consistent application of SME definition; (ii) good coordination among and within government agencies; (iii) responsive and effective implementation of SME development strategy; (iv) resourceful and effective policy executing agency; and (v) proper measures to address the problem of informality of the SMEs.

Figure 5: Assessment Framework for Institutional Framework



It is essential that support measures to SMEs be based on a common definition to improve the consistency and effectiveness of the national and regional SME development. One of the main objectives of a common SME definition is to ensure that support measures are granted only to those enterprises which genuinely need them. A common SME definition applied in a country is necessary to promote a synergy among relevant government agencies in the implementation of the SME development strategies. In addition, it would be best to have a policy implementation agency that monitors all the strategies so that the implementation of the strategies is on the right track.

SMEs are known to operate their business in the informal sector, working in opaque situations that make it difficult for them to access formal services and finance. Governments should therefore develop programs/measures that would facilitate the movement of SMEs from the informal to the formal sector. Both the governments and SMEs would benefit from this transition. The formality of SMEs would generate tax and related incomes for the government (to finance support services to SMEs) and facilitate SMEs' easier access to finance since financing from financial institutions requires legal paperwork of the firms.

Against these settings, the assessment is made to assign a proper level to each policy sub-dimension in the institutional framework, which is reported as follows:

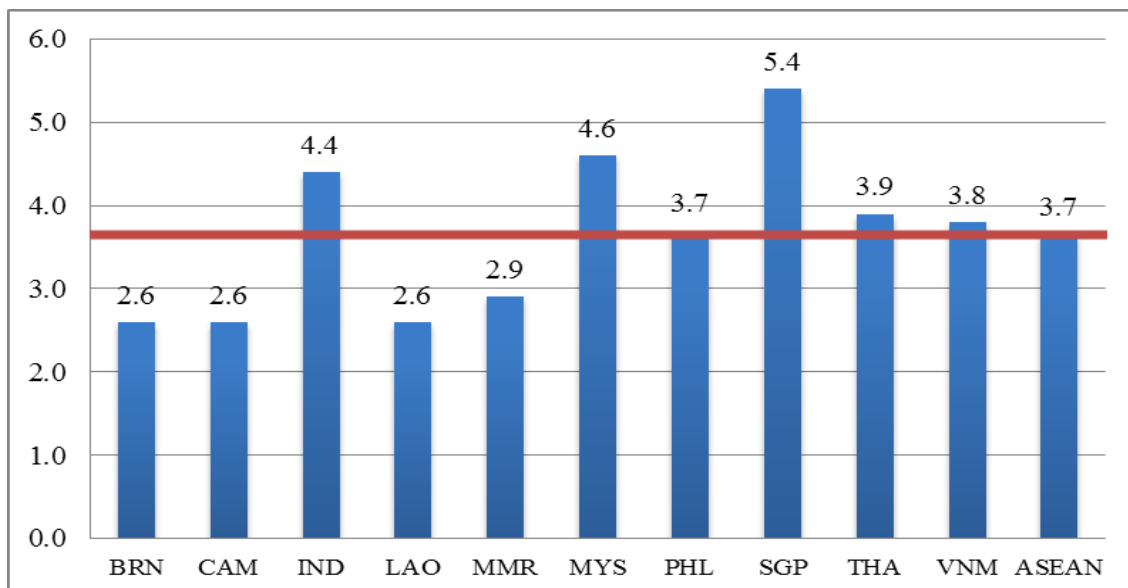
2. Assessment Results

Information collected from reviews of existing reports, interviews and discussions with relevant stakeholders in the various AMSs reveal the high standing of Singapore, Malaysia, Indonesia, and Thailand in terms of the overall institutional framework. These countries have developed a legal framework for SMEs, institutional arrangement and strategy with allocated resources to implement SME development policies. These are shown in the individual AMS index scores for this dimension in Figure 6 and Table 2.

A definition of SMEs in these countries has also been applied by government agencies in the implementation of multi-year SME development strategies with allocated budgets, policy targets, and review mechanism for policy formulation and execution under a designated agency.

At the same time, many other AMSs are far behind the more advanced AMSs due to the lack of proper legal framework, institutional capacity, development strategy, and resources (both human and finance) to coordinate, formulate, and implement an SME development policy. The setting up of a mechanism for facilitating firms' transit from the informal to formal sector in Singapore, however, is not a serious problem. Concrete measure has yet produced good results for Thailand and Malaysia, thus lower scores.

Figure 6: Overall Scores for Institutional Framework



- **Singapore**

The Standards, Productivity and Innovation Board of Singapore (SPRING Singapore) is an agency under the Ministry of Trade and Industry responsible for helping Singapore enterprises grow and for building trust in Singapore products and services. As the enterprise development agency, SPRING works with partners to help enterprises in financing, capability and management development, technology and innovation, and access to markets. As the national standards and accreditation body, SPRING develops and promotes an internationally recognized set of standards and quality assurance infrastructure. It also oversees the safety of general consumer goods in Singapore.

- **Malaysia**

Government has established the National SME Development Council (NSDC) to chart the policy direction of SMEs and a dedicated central coordinating agency, SME Corporation Malaysia (SME Corp.), to formulate policies and coordinate the implementation of SME programmes by various ministries and agencies. In 2011, a total of 183 programmes accounting for RM4.7 billion were implemented for human capital development, access to finance, innovation and technology adoption, and market access. These programmes have benefited 681,263 SMEs and out of the total funds, 91

percent (RM 4.3 billion) was allocated for enhancing access to finance. The SME Master Plan for 2012-2020 has also been approved by the government.

- **Indonesia**

The coordinating work in policy formulation and implementation is under the Ministry of Cooperatives and SMEs (MoCSME). The SME development strategies in Indonesia have been incorporated in the National Medium Development Plan (RPJM 2010-2014) which are then followed up by the Strategic Plan of the respective implementing ministries and agencies. The MoCSME, in particular, decided on seven strategic targets, including: (i) increasing the number and role of cooperatives and Micro, Small, and Medium Enterprises (MSMEs) in the national economy; (ii) improving the cooperatives' and MSME's empowerment; (iii) enhancing the competitiveness of products produced by cooperatives and SMEs; (iv) increasing the sales of products produced by cooperatives and MSMEs; (v) providing better access to finance and credit guarantee for cooperatives and MSMEs; (vi) improving a business environment that is more inclined towards cooperatives and MSMEs; and (vii) developing new entrepreneurship in cooperatives and MSMEs. At least once every semester, the Ministry, together with the National Development Planning Agency (BAPPENAS), conducts a review and evaluation of the strategy.

- **Thailand**

Thailand has established the Office of SME Promotion (OSMEP), a government agency under the governance of the Ministry of Industry, as the central agency responsible for coordinating and aligning the works of state agencies and private entities on SMEs. The SME sector development strategies are implemented under rolling five-year SME Promotion Master Plans. The Third SME Promotion Master Plan 2012-2016 has been adopted to promote Thai SMEs towards a global market. Four strategies are designed to strengthen Thai SMEs: (i) Creation of an environment conducive to SME growth at all stages of development (increasing number of SME business registration with viable operations up to a total of 250,000 enterprises by 2016); (ii) Enhancement of the competitiveness of Thai SMEs through business efficiency, SME cluster formation, and upgrade of product quality and standards (at least 30,000 SMEs in selected sectors by

2016); (iii) Promotion of balanced growth among Thai SMEs based on area potential; and (iv) Upgrade of Thai SME capabilities to engage in greater market integration and internationalization (at least 60 new business networks annually).

- **Philippines**

In 1991, the Magna Carta for Small Enterprises was passed to consolidate all government programs for the promotion and development of SMEs into a unified framework. The Magna Carta mandated all lending institutions to set aside 8 percent of their total loan portfolio to SMEs.

The Department of Trade and Industry (DTI) is the main government agency responsible for the development of Philippine MSMEs. The Micro, Small and Medium Enterprises Development (MSMED) Council is the primary agency (administratively attached to the DTI) responsible for the promotion, growth and development of SMEs, coordination and integration of various government and private sector activities on MSME development; and review of existing policies of government agencies that would affect the growth and development of MSMEs. The Council also crafted two MSME Development Plans: 2004-2010 and 2011-2016.

The Bureau of Micro, Small and Medium Enterprises Development (BMSMED) acts as the Council Secretariat and is tasked to prepare, in coordination with local government units and/or associations of local government officials, and recommend annual as well as medium-term SMED plans for approval by the Council. It also assists the Council in coordinating and monitoring SME policies and programs as well as the activities of all government agencies affecting SMEs. The BMSMED leads DTI's SME Core Group and acts as a "one-stop shop" to guide MSMEs to specialized support agencies.

- **Brunei Darussalam**

All issues pertaining to SMEs will be under the Ministry of Industry and Primary Resources. The Entrepreneurial Development Centre (EDC) under this Ministry plays a key role for the development of SMEs by providing facilities and expertise to facilitate growth and development. The EDC is responsible for the formulation of policies for

approval at the Minister level. The Ministry of Industry and Primary Resources has declared the present decade -- 2010 to 2020 -- as the Decade to Spur SME Development in order to realize the National Vision 2035. In order to realize the National Vision 2035, there are various SME support programmes established by the government which revolve around several strategic objectives such as: (1) producing credible and socially responsible entrepreneurs; (2) assisting SMEs in developing marketable and competitive products of international quality in niche industries; (3) assisting market penetration capability of SMEs via Free Trade Agreements; (4) creating a quality business activity to attract FDI that will contribute to the creation of knowledge-intensive industries; (5) introducing well-designed and well-funded programmes and more effective ways of financing local enterprises; (6) developing incubation centers to assist and promote local SMEs and entrepreneurs in areas such as ICT; (7) encouraging the use of local products, local suppliers and contractors by major businesses and industries; (8) reducing the cost of doing business for local SMEs and entrepreneurs by simplifying government procedures; and (9) ensuring prompt government decisions and payment to local contractors and suppliers.

- **Viet Nam**

The formulation and implementation of SME-related policies has been undertaken by many institutions or agencies. Currently, though, the Agency for Enterprise Development (AED) under the Ministry of Investment and Planning seems to be the leading SME agency. It is fully operational with staff structure and budget in place and covers a range of activities with measurable outcomes. However, in order to implement SME-related policies effectively, Viet Nam is considering the establishment of one institution (or to upgrade the AED) to lead and coordinate the implementation of SME-related policies. Viet Nam is now implementing its second five-year SME Development Plan 2011-2015. The Plan aims to enhance the development and competitiveness of SMEs, creating favorable business and investment environments for SMEs to contribute more to the country's economic development. The Plan likewise seeks to enhance national competitiveness and international economic integration. Specific objectives were set, including: (i) around 350,000 enterprises to be newly established during 2011-2015; (ii) six hundred thousand (600,000) enterprises to be active (in operation)

by 31 December 2015; (iii) SMEs' export revenue target to account for 25 percent of total export revenues of the country; (iv) SMEs' investment targets to account for 35 percent of total social capital investment; (v) SMEs target to contribute about 40 percent of GDP and 30 percent of the total state budget revenue; and (v) SMEs target to create about 3.5-4 million new jobs during the period of 2011-2015. A framework for monitoring and evaluating the implementation of the Plan was also adopted in 2013.

- **Lao PDR**

The Department of Small and Medium Enterprises Promotion (DOSMEP) under the Ministry of Industry and Commerce (MoIC) is the main government agency responsible for coordination and cooperation in matters about SMEs in Laos. The SME development strategy was listed in the Seventh National Socio-Economic Development Plan (NEDP) for 2011 to 2015. The SME Development Plan (2011-2015) focuses on seven direction tasks, namely: (i) improving the regulatory environment and public administration of economic activities; (ii) improving access to finance; (iii) forming new entrepreneurs; (iv) increasing the provision of support and Business Development Services (BDS); (v) enhancing business linkages between large enterprises and SMEs; (vi) promoting the increase of productivity for upgrading the quality and standard of products and services of SMEs; and (vii) enhancing access to markets and enlarging markets for SMEs.

- **Myanmar**

The lack of common SME definition, weak coordination among agencies responsible for SME policy formulation and implementation, absence of SME development strategy and weak facilitation in formalizing SMEs remain as stumbling blocks in the development of SMEs in Myanmar. In view of this, the SMEs Development Center (SDC) was established in 2012 under the Ministry of Industry. SDC is mainly responsible for SME policy formulation by coordinating with related organizations, agencies, and departments. The SME Policy has been drafted in coordination with government and private sector organizations under the guidance of the Working Committee for SME Development. The Committee laid down the policy which encompasses the following main pillars to create the support environment for SME

development: (a) support and nurture of the development of important resources like human resources, technology, innovation skills, and finances; and (b) implementation of facilitating measures which include basic infrastructure development, market modernization of enterprises, favorable taxation system, and good working practices (i.e., efficient and simplified procedures).

- **Cambodia**

A sub-committee for SMEs was established for overall coordination of cross-cutting policy and strategy development in the SME sector. The Ministry of Industry, Mines and Energy's (MIME) general department of industry is a primary agency responsible for developing and implementing government policy and development strategies in industry sector, including the provision of the secretariat to the SME Sub-Committee. However, the MIME is able to manage only the small and medium industry, not the SMEs sector in particular, reflecting its lack of authority in dealing with SMEs as a whole. While the organization is well structured and a number of staffs are designated in the departments and offices under its supervision, its budget, however, is not sufficient. The result is that action plans and policy measures posted in the SME Development Framework (SMEDF) have not been implemented within the timeline of the SMEDF. Most services in support of SMEs still rely on the financial support from the development partners. In 2010, the SME development strategic framework 2010-2015 was formulated to promote industrial diversification, innovation, technology adoption and productivity increase, and to link the SMEs with the multinational enterprises (MNEs). However, the framework has not been updated to meet current economic development requirements. Moreover, the 2010 framework is very broad and does not lay out policy measures and action plans meant to address practical and real issues in the sector.

Table 2: Institution Framework

	BRN	CAM	IND	LAO	MMR	MYS	PHL	SGP	THA	VNM	ASEAN
1.1 SME definition	3.0	4.0	5.0	3.0	3.0	5.0	4.0	6.0	4.0	4.5	4.2
1.2 Intra-governmental coordination in policy formulation	2.0	2.0	4.5	2.0	3.0	6.0	5.0	6.0	4.5	3.0	3.8
1.3 SME development strategy	3.0	3.0	4.0	3.0	2.0	4.0	3.5	6.0	4.5	4.5	3.8
1.4 SME policy implementation agency or equivalent	3.0	2.0	4.5	3.0	2.5	5.0	4.0	6.0	4.5	4.0	3.9
1.5 Facilitation for a transition from informal to formal (registered) sector	2.0	2.0	4.0	2.0	4.0	3.0	2.0	3.0	2.0	3.0	2.7
Average	2.6	2.6	4.4	2.6	2.9	4.6	3.7	5.4	3.9	3.8	3.7

