

# Chapter 9

## **Ways Forward: Towards and Effective SME Development Policy in ASEAN**

March 2014

**This chapter should be cited as**

ERIA and OECD (2014), 'Ways Forward: Towards and Effective SME Development Policy in ASEAN' in ERIA SME Research Working Group (ed.), *ASEAN SME Policy Index 2014-Towards Competitive and Innovative ASEAN SMEs*, ERIA Research Project Report 2012-8, pp.169-224. Jakarta: ERIA and OECD.

## **Chapter 9**

### **Ways Forward: Towards an Effective SME Development Policy in ASEAN**

#### **1. Regional Cooperation for SME Development**

The results of the ASEAN SME Policy Index scoring show that there is a lot to be done in order to go towards the best practice in each of the policy areas. At the same time, it is unrealistic to expect that the gaps can be addressed adequately soon. It is best to view the Index as a mechanism for a step by step process of improving the policy and institutional environment as well as setting targets and time line. In addition, the detailed nature of the ASEAN SME Policy Index allows for a participatory approach to developing the way forward in each AMS involving important stakeholders. Although the Index implicitly presumes equal weighting of all the policy areas, it is likely that the areas of technology, access to finance and easier and faster start-ups would be especially important.

At the same time, it is not efficient and effective to just focus on one or two areas for high scores; this is because levels 5 and 6 in a number of the policy areas would likely need resources and skills and regulatory capability that would be difficult to obtain and develop soon in CLM countries. In the end, a more balanced and gradual but consistently improving approach may be the one appropriate to engender a supportive policy environment for SMEs. This assumes of course that the relative prioritization among the policy areas and indicators would be dependent on the stakeholders' assessment and judgment in each AMS. In addition, it is best that the exercise of stakeholder participation, specific targets, time line, and action plans is done in a concerted manner among all the AMSs in ASEAN in moving forward toward a more supportive policy and institutional environment for SMEs in the region. In this way, there would be much greater coherence between the national SME policies and the ASEAN regional initiatives under the Strategic Action Plan for ASEAN SME Development (SAPASD).

Both at the aggregate level and across dimensions, there are big gaps between the ASEAN average, ASEAN-6, except Brunei Darussalam, and the CLMV countries. This would call for collective efforts and support to be given to the CLMV countries to improve their policy environments and narrow the gaps (refer back to Figures 3 and 4 and to Appendix 1 for each indicator).

The most significant gaps and low regional standing are on **technology and technology transfer, access to finance, promotion of entrepreneurial education, cheaper, faster start-up and better regulations, and access to support services**. Therefore, the following specific actions are hereby suggested to address these shortcomings:

**A. Establish a higher ASEAN body for SME development policy**

Given the stake of SME development in ASEAN and the fact that the success of the regional integration needs to have vibrant and competitive SMEs to fully benefit from a deeper regional integration and narrow development gaps, a higher ASEAN body should be established, i.e., elevate the ASEAN SME Advisory Board to an ASEAN SME Ministers Meeting level which reports directly to leaders in coordinating regional efforts and mobilizing resources for SME development. These efforts will involve the integration of other regional initiatives (trade, investment, banking, and finance) in harmony with the SME development agenda.

- Leader's Mandate and Statement establishing an ASEAN SME Ministerial Meeting on SME Development. This involves the mandate to focus on a number of areas listed below, commitment to set specific targets for reduction in time and cost for formal business registration, commitment to markedly improve information, advisory, technical services on quality control, operational improvements and managerial training, and commitment to encourage dialogue partners to help out especially on technical assistance for SME access to finance (e.g., credit risk management, etc.).
- Leader's Statement on the institutionalization of the ASEAN SME Policy Index (with an acknowledgement of the support of ERIA in the development of the Index). This

could include the delegation of the task of undertaking consultations to the ASEAN SME Working Group under the ASEAN SME Ministerial Meeting in order to further refine the Index and to undertake it on a regular basis for ASEAN.

## **B. Specific measures**

### **Enhance SMEs' technological upgrading and innovation capacity**

The low standing and gaps in technology and technology transfer are due to the lack of legal, policy framework, limited capacity, and resources of the CLMV countries, in particular, the provision of information and database on innovation support services and the inability to provide financial incentives in R&D activities. Therefore, priorities should be given to:

- Provide more capacity building to less developed AMSs on institutional building and program design and best practices, among others
- Provide information and advisory services in quality control management, technology adoption and commercialization, and training
- Provide incentives in R&D and improve service quality of incubators, promote linkages between research, labs, and universities with SMEs, and set up a proper monitoring and evaluation system
- Establish regional networks and hold regular fora for incubators and science park administrators to share best practices

### **Improve SMEs' access to finance**

The most critical issues to facilitate SMEs' access to finance are the absence of credit risk management system (credit guarantee, rating and information) and more flexible collateral provisions. Moreover, alternative finances, especially equity and risk capital finance, are not fully exploited. Therefore, the region should focus on:

- Provision of technical assistance in terms of setting legal framework, system building, and shared good practices with less developed AMSs.
- Establishment and strengthening of credit risk management system (credit guarantee, rating and information) and more flexible collateral provisions

- Promotion of innovative and alternative finances such as channeling through domestic and regional networks of equity fund, venture capital finance, angel capitalists, and Crowdfunding platforms<sup>1</sup> for SMEs.

### **Promotion of entrepreneurial education**

Lack of emphasis on policy for entrepreneurial education, especially the capacity to integrate in the basic education and non-formal training, is the major factor behind the poor standing. Therefore, it is necessary to:

- Streamline and incorporate entrepreneurial education into the education policy
- Integrate entrepreneurial education with human resources development, skill development and upgrading programs as a core part of the national development strategy.

### **Ensure easy start-up and business-friendly regulatory environment**

Lengthy time and high costs required for registration, completion of all processes to enter into operation, coupled with the absence of one-stop-shop services and proper regulatory impact assessment, make the start-ups more difficult for SMEs. As such, it is important to:

- Set specific targets for the reduction in time and monetary cost for formal business registration and operation by taking measures to improve one-stop-shop services and regulatory reforms
- Provide E-government, single online entry point for business registration, and SME portal services.

### **Access to support services**

- Provide integrated business development and advisory services to SMEs
- Establish ASEAN SME Portal and Trade Repository to provide and share online database and information on trade-related regulations, events, joint cooperation for

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<sup>1</sup> Internet platforms which support the collective cooperation, attention and trust by people who network and pool their money and other resources for projects initiated by other people or organizations.

trade fairs, business networking, company matching, and company profiles on the Internet and match them during international trade fairs

- Provide web-based advice and high value information of the regional and other markets

### **Other measures**

- Introduce specific export promotion, capacity building, and other trade facilitation services to potential SMEs exporters
- Improve technical and research capacity of the SMEs' association as well as institutionalize consultation mechanisms with SME stakeholders in SME policy formulation and implementation
- Introduce "Buy from ASEAN SMEs Pact" to encourage large companies and government agencies to sign a voluntary ASEAN pact to commit themselves to buying more from SMEs (start with the showcases of ASEAN SMEs through providing goods and services to ASEAN meetings and Summits).

## **2. Ways Forward for SME Development in AMSs**

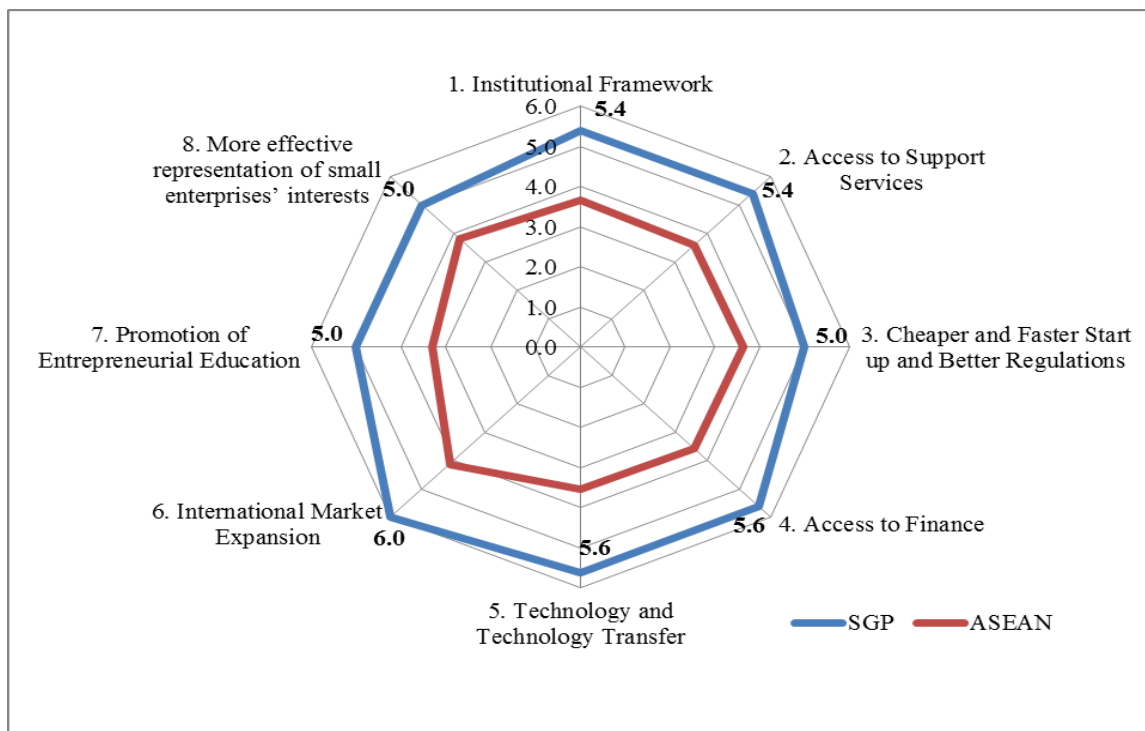
While ASEAN should collectively address the common weakness and share good practices, specific contexts and problems at the national level in terms of prioritization, improved capacity and resources should nonetheless be properly addressed. The following country cases expound on this further.

### **• Singapore**

The Singapore government has built a strong foundation for the development of the SME sector in Singapore. There is a strong drive to create strong SMEs that are global in nature and able to create the necessary linkages in the global economy. The SME Policy Index highlights that Singapore has a strong infrastructure and support system in place to develop globally competitive local enterprises, as illustrated in Figure 21.

In particular, the drive towards developing strong globally competitive local enterprises that can compete in external markets with strong brands is one of the key objectives of SME policy in Singapore. This is clearly indicated by the market access component of the SME policy index. The overall SME Policy Index for Singapore will be in the range of 5.45, which indicates that Singapore has one of the strongest foundations in the area of SME development in terms of technological capabilities, regional integration, infrastructure and support systems, and strong regulatory and institutional framework for intellectual property rights.

**Figure 21: Singapore SME Policy Index**



However, there are several areas that the government could focus on to improve the development of SMEs, and also increase their contribution to the economy in terms of productivity and output growth. These qualitative observations might not be reflected, though, in the SME Policy Index. The following are the key areas of concern:

1. The government should have targeted SME-FDI linkages aimed at supporting industrial policy priorities by linking local suppliers to FDI-based manufacturing

facilities. This allows the domestic economy to extract greater returns from both multinationals as well as domestic firms and SMEs.

2. There is a limited SME database and research in Singapore and this could be strongly improved.
3. There is a need to implement a well-advanced monitoring system to measure the impact of SME development strategy in the economy. Although the E-government platform is in operation for tax returns and procurements, cadastre, and others, it only allows for certain limited number of operations such as procurement and not a fully functional system that allows for online credit and debit activities for the SMEs.
4. There are also limited activities in reporting and accessing the SME statistics online. The government could provide more data and statistics on SME activities that allow them to monitor and improve their economic and innovative activities in the domestic economy and the region. There is a plan to provide the database of innovation support service and providers to the firms but it is currently not available to the public.

#### • **Malaysia**

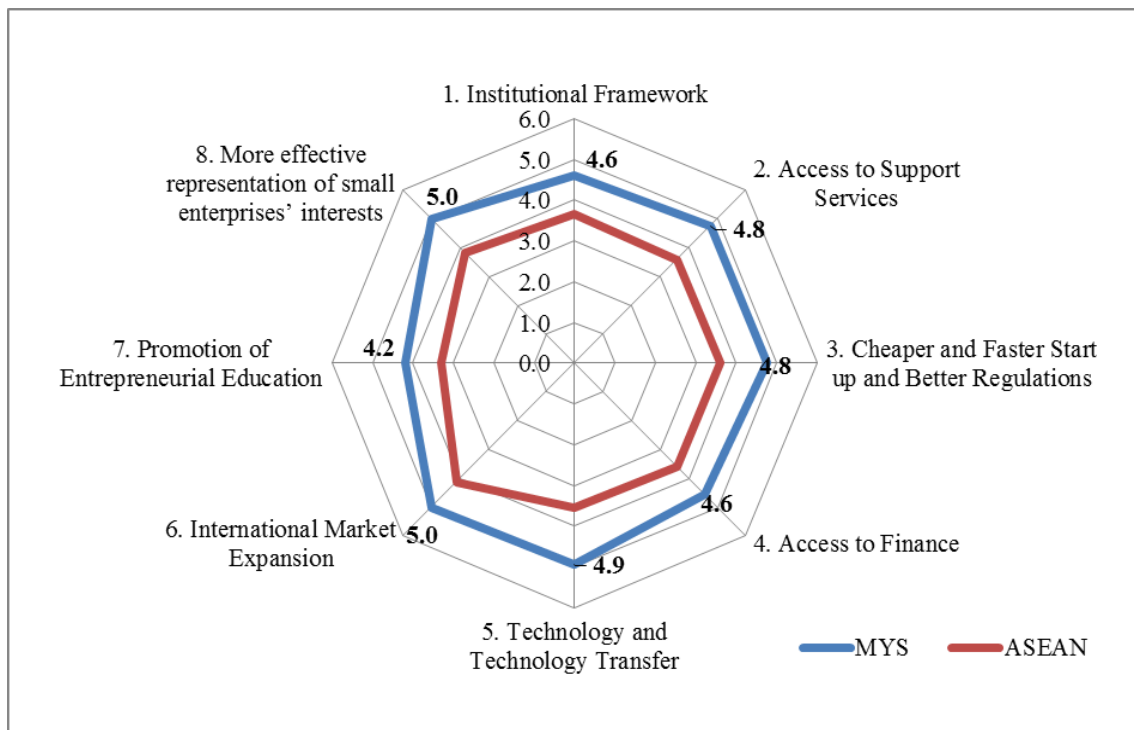
The average index score of Malaysia is above the ASEAN average in aggregate and across policy dimensions as seen in Figure 22. However, there are specific problems that need to be addressed, to wit:

1. An institutional framework focusing on transforming the informal sectors to formal sectors should be emphasised. One of the four goals of the SME Master Plan is to intensify formalisation with the aim to reduce the informal sector's contribution to the economy from 15 percent to 31 percent by 2020. In fact, under the High Impact Programme (HIP) to integrate business registration and licensing, registration will be made as prerequisite for licensing and this is expected to contribute significantly towards reducing the informal sector in the economy.



2. In order to encourage more SMEs to use ICT in their businesses, more efforts should be taken by related agencies to create awareness on the benefits. The cost of acquiring e-services should be minimised so as to raise ICT adoption rates by SMEs. Incentives should also be given to SMEs that adopt e-commerce in their businesses as well as to e-commerce service providers. The government can also provide sharing platforms to encourage SMEs to use common applications such as an online accounting system that will improve the productivity of SMEs.

**Figure 22: Malaysia SME Policy Index**



3. To encourage more foreign companies to participate in Malaysia, the official cost of obtaining business registration certificates in Malaysia should be lowered. The nominal share capital of foreign companies in the determination of the amount of registration fees should be abolished and replaced with a standard flat rate. In addition, serious efforts should be taken to reduce the number of days required to obtain licenses and permits for business operation, which should be consistent with the High Impact Programme under the SME Master Plan that aims to create a single registration point through interfacing of the National Business Registration System

and National Business Licensing System. The system should be simple enough to provide cheaper and faster services for business registration.

4. The role of credit bureaus in collecting and exchanging information on payment performance is important in facilitating the loan application process. The government should promote awareness on the presence of such an infrastructure across the country. The non-banking financing sector support of SMEs in the country needs further strengthening, which can be coordinated through the SME Investment Programme under the SME Master Plan that is aimed to provide early stage financing to SMEs.
5. Malaysia has well-constructed innovation policies and programs to facilitate SMEs to embark on R&D and innovation activities. However, there is still room for the government to introduce and manage new promotional activities to stimulate technological upgrading, especially in the service sector, which will go a long way to support the realisation of the country's vision 2020 to become a developed country. The way forward is to define service innovation in the context of SMEs in Malaysia and to promote specific service innovation among SMEs. Indeed, supporting service innovations will also act as a catalyst for the progress of firms in the manufacturing sectors in Malaysia. For instance, SMEs are well positioned to act as design centres in several industries. A detailed assessment of service innovation in Malaysia is required and the government should support these activities in sectors that have the comparative advantage and in newly emerging sectors that show prospects.

In addition, although Malaysia's policies and programs are conceived, the government has to put more attention on their performance evaluation and monitoring. Except for reports published by the SME Corp. and the World Bank on the impact of selected programs, there are currently no other impact studies available. Monitoring and evaluation is crucial to provide lessons, avoid mistakes and make *kaizen*-like continuous improvement on policies. A national system of program evaluation should be formulated to assess the effectiveness of government programs in supporting SMEs. The government's GTP should be targeted for this cause.

Existing assessments only measure the effectiveness of programs in terms of how the budget is spent. Another area that requires attention is information on innovation support services. Due to the fragmented dissemination of innovation support services, SMEs find it difficult to access such information. Initiatives are needed to provide SMEs with business management advice, market research, technology transfer and testing facilities. Consolidated network that provides the details of such services is also required to act as an info hub. All these entities must be managed by professionals in the respective services. In particular, improvements are needed in the following areas: (a) linkages between universities, research institutions and firms; (b) enhancement of incubators' performance; and (c) establishment of a public R&D grant evaluation system.

Another area which requires greater emphasis is commercialisation. Towards this, the SME Master Plan has proposed a High Impact Programme namely Technology Commercialisation Platform (TCP) to connect all important parties involved in commercialisation under one roof to promote a seamless flow for SMEs to move from proof of concept to commercialisation stage. As pointed out in the SME Master Plan, there is also a need to synchronise measures taken on productivity enhancement technologies with relevant labour policies to enhance productivity in SMEs.

6. More emphasis should be given to expand trade services offered by Malaysia to SMEs in order to increase their exposure in international markets. Export of services is much more resilient to global economic uncertainty than export of manufactured goods. Hence, existing export of services such as tourism, construction, ICT, insurance, and financial services should be expanded, particularly to the newly emerging markets. Furthermore, since the majority of SMEs are in services, this sector should be assisted to expand into international markets. Efforts to do that should include the promotion of innovative SMEs to upgrade their R&D services so that they can increase their capacity to drive global value chains. This should be incorporated in the initiatives of the SME Master Plan, namely, the Going Export (GoEx) programme that aims to promote internationalisation of SME products and services.

7. Although entrepreneurial education in both schools and universities has a long history, more support is needed to encourage entrepreneurial education in basic education and informal levels. While considerable reviews of entrepreneurial education of higher learning institutions are available, specific efforts are needed to review the efficacy of such programs in the basic education and informal levels. There is also a need to monitor the development of entrepreneurial education at the primary and secondary school, and informal levels. There is a need to create more awareness among SMEs on the importance of entrepreneurial learning, which is not only pertinent to ensure that SMEs are better managed but also to make sure that the *kaizen*-like features of such activities will also assist Malaysian SMEs in competing better in global markets. In addition, efforts should be taken to create awareness of its existence and importance and to provide training toolkits to all SMEs seeking such assistance.
8. It is normal that coordination and control becomes difficult when there are too many industry associations in a country. This had led to poor coordination and representation of their interest to the Government. There is a need to encourage greater cooperation and consolidation among the associations to enable them to share information and networking, and address pressing issues faced by the industry collectively. Besides, the SMI Association needs to play a more active role to better represent SMEs' interest. Under the four thematic measures of the SME Master Plan, two refer to the promotion of resource pooling and shared services, and the reduction of information asymmetries. Industry associations can play a critical role in these aspects. Indeed, if better coordination is enhanced, it can reduce information asymmetry that would eventually facilitate improvements in the performance of SMEs in Malaysia.

- **Thailand**

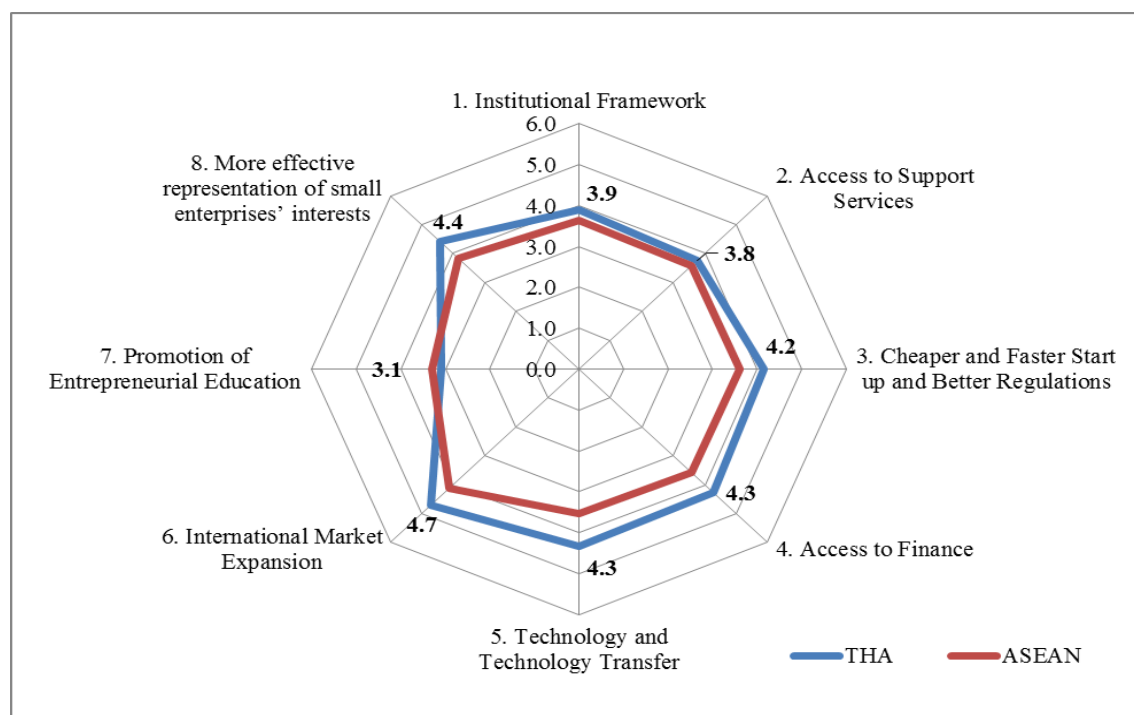
Thailand has performed at an intermediary level with an average score of 4 in implementing policies supporting SMEs (Figure 23). Overall progress is quite even across policy dimensions. Yet, there are some weaknesses in the sub-dimensional areas

that directly affect the overall effectiveness of policy. These weaknesses are of great concern. By looking at each indicator with a score less than 4, weakness in policy development and design in each dimension may and should be addressed.

### 1. Improving the institutional framework for formulation and implementation of SME policy

The effectiveness of the policy supporting SMEs rests heavily on the successful coordination and facilitation across concerned government agencies. By law, the OSMEP acts as the central body for policy and program coordination. In practice, several projects and programs are implemented with no clear indication of appropriate distribution of budgets. The OECD (2011b) study recommends a portfolio approach to guide how project and programs should be funded and implemented across categories of policy intervention and stage of business.

**Figure 23: Thailand SME Policy Index**



This recommendation could be quite useful if this type of analytical work is completed at the early stage of the budgeting process. Unfortunately, this recommendation could be quite difficult to implement in the Thai context. Frequently, programs and plans are

revised annually and are likely to change whenever there are cabinet reshuffles. In addition, rolling program budgeting is not automatic in practice even if it requires medium-term budgeting for all government agencies. The change in budget planning from fixed annual project budget to rolling program budgeting has wide ramifications and is far beyond the role of the OSMEP.

Instead, one possible role of the OSMEP is to promote and undertake evaluations of programs and projects. Armed with evidence-based information, it could identify cost effectiveness, thereby reducing wastes and inefficiencies of several programs.

To improve and evaluate SME policies and programs as mentioned, it requires timely and reliable information. Accessibility and utilization of the information from all concerned agencies might be a challenge and could be very costly for the OSMEP, which might not possess the experience in this area. This task could be outsourced to more professional agencies like the National Statistics Office and universities.

In addition, various government agencies involved with SME promotion should be given a streamlined definition of SMEs. It is important to revise the current definition to incorporate microenterprises in particular and make the definition in line with the international standard.

Improving facilitation for a transition from informal to formal sector is urgently needed. Providing stronger financial incentives and better education and advisory services could contribute to achieving this development. It is estimated that over half of Thai SMEs operate in the informal sector. In addition, the total number of business of all sizes which registers with the Ministry of Commerce has remained very low. The simple rule is to provide more access and benefits of various government programs only to participating SMEs that are registered and to reduce cost of registration and cost of compliance such as simplified taxes and business regulations.

## **2. Improving Access to Information and Supporting Services**

Thailand could improve ways in which SME supporting services programs are implemented. One important initiative is to improve one-stop shop business development centers. The success of the one-stop business development center rests on the high quality and valued services that are integrated. Certain types of information may be costly for a single or small firm to acquire. These services could be provided in collaboration with professional institutes to increase their values. SME Toolkits could also be used as a starting point to access other ranges of programs of support. They provide SMEs with pertinent information to overcome obstacles involving government red tape, burdensome regulatory requirement and other market information. Apart from the single contact point for accessing services, the information related to all types of supporting services should also be made available online and centralized, and updated regularly. Both the SME Toolkit program and online information should improve access to SMEs that are located far from inner cities.

## **3. Cheaper and Faster Start-up and Better legislation and regulation for SMEs**

Improving better legislation and regulation for SMEs require new initiatives to speed up the process in review and amendment of legislation and regulation. Legislation and regulation reform could be prioritized by its social and economic impacts. Special groups of experts from concerned professionals could be formed to provide advice and opinions to the law reform commission.

## **4. Improving Access to Finance**

Despite past policy efforts, expanding access to financial services for Thai SMEs remains an important policy challenge. To help SMEs access to finance, the weakness of the SME policy development points to large collateral and provisioning requirements, and limited availability of risk capital (venture capital, private equity, business angels). Only 40 percent of Thai domestic firms, which are mostly small enterprises and sell locally, gained access to credit from banks (OECD 2011b). Possible initiatives to improve capacity of financial markets to provide more credit to SMEs include:

**Improve the Credit Guarantee Mechanism:** Guarantee arrangements are important as a means of helping SMEs with inadequate collateral to gain access to finance. Recent operations of the Small Business Credit Guarantee (SBCG) Corporation during the economic downturn demonstrated some promising progress as a mechanism to broaden financial access for SMEs. However, the coverage of credit guarantee scheme provided by the SBCG at present is quite small in terms of share of SMEs who obtain a credit guarantee. Thus, sufficient funding for the scheme should be a key priority in times of crisis. Successful credit guarantee schemes then require appropriate risk sharing and prudential measures to reduce over-borrowing and moral hazard behavior.

**Improve financial information disclosure by SMEs.** With good record keeping and proper financial accounting, SMEs can provide essential information such as loan documentation. Information transparency and disclosure can be viewed as evidence of adequate management and the financial literacy of SMEs. Given that the data and information required in a loan application is not too extensive, this information disclosure will notably help to broaden credit access.

**Strengthen institutional capabilities in SME credit risk evaluation and management.** Credit risk is the assessment of the credit worthiness of a borrower. It involves reviewing the loan applications against the firm's history of borrowing and repayment, assets, and liabilities as well as the soundness of its business plan. Given adequate disclosure of financial information in the SMEs business plan as mentioned above, these capabilities should reduce the opaqueness of the SMEs. In the future, the availability of and access to credit information on SMEs may induce more information-based lending rather than the collateral-based lending seen at present.

## **5. Enhancing Technology and Technology Transfer**

The weakness in this policy dimension points to inadequate financial incentives for innovative firms and somewhat low public R&D grants to activities with a commercial orientation. According to the OECD report, the innovative capacity of Thai firms is quite low. Only 12 percent of Thai SMEs offered new products to their customers. R&D spending has been less than one percent for decades. And finance for innovative



and high-growth firms is somewhat limited. Relevant ways to enhance technical capabilities of Thai firms include:

**Improving the features of the existing Industrial Technology Assistance Program (iTAP) in Thailand.** As suggested in the OECD report, such program could provide four main services: technological advice, financial assistance for R&D activities, networking, and partnership. To increase the scale and impact of the iTAP, it should be regularly evaluated and adjusted.

**Promoting the Supplier Development Program.** The presence of large, multinational corporations (MNCs) provides an opportunity for Thai SMEs to act as suppliers within the value chains. Such program could help develop and encourage linkages between small and large firms, wherein technical assistance and technology transfer could be provided by large firms.

## **6. Improving Market Access and Getting more out of the single market**

The weak point in the sub-policy dimension in supporting SMEs to compete internationally is the high cost for exports. Thailand has an unusually high cost of exporting clearance in terms of money and time.

## **7. Promoting entrepreneurial education**

According to the OECD (2011b) report, about a half of the budget supporting SME (from the SME promotion fund and outside, excluding the OTOP program) were allocated to education and training during 2007-2009. Most budgets and programs focus on operating SMEs. The major programs in this area include the OTOP program, New Entrepreneurs Creation (NEC), and University Business Incubator (UBI) program.

Entrepreneurial skills normally include basic start-up knowledge, business planning, financial literacy and manager skills as well as good attitudes toward risk-taking, persistence, and teamwork behaviors. Thailand policies on enhancing entrepreneurial education and skill development have not focused on developing such competencies in

the formal and informal education. Entrepreneurship education is usually not an explicit part of the curriculum of educational institutions at the basic education level in Thailand.

If embedding entrepreneurial education into the curricula is deemed necessary in the near future, preparing a new generation of teachers who are equipped with such knowledge is an urgent issue. New breed of knowledgeable teachers will be a key to transfer such basic skills and to develop awareness and entrepreneurial behaviors of the young.

Retraining the old teacher force is another possibility. However, the average age of the Thai teacher force in the basic education is well over 40 years old. It is thus difficult to imagine retraining them in this later age to equip them with basic entrepreneurial skills or new attitudes. The cost effectiveness of such teacher retraining program may not be suitable.

On the other hand, promoting such skills at the higher education and vocational schools seems to be more promising. As earlier discussed, many government supporting programs on entrepreneurship education (training, counseling, diagnostic and advisory services) are already in place. Monitoring and evaluation of those programs in terms of economic benefits should be beneficial for policy recommendation.

One of the key success factors for EL is the effective engagement of the private sector. Several corporate social responsibility programs are increasing and contributing more to the education sector (partly due to tax incentives). Many large multinational firms in Thailand also have a strategic interest in developing skilled employees and able local suppliers in many skill development programs (due to skilled labour shortage). Some initiatives from the private sector and NGOs are also involved with the poor or young students to enhance their opportunities for self-employment. Due to large external benefits to the society, the government should consider ways to facilitate and encourage more of such engagement. Providing incentives for the private sector to form

networking and to collaborate more with vocational colleges and universities (sponsorship, mentoring, coaching, and curriculum development) should be promoted.

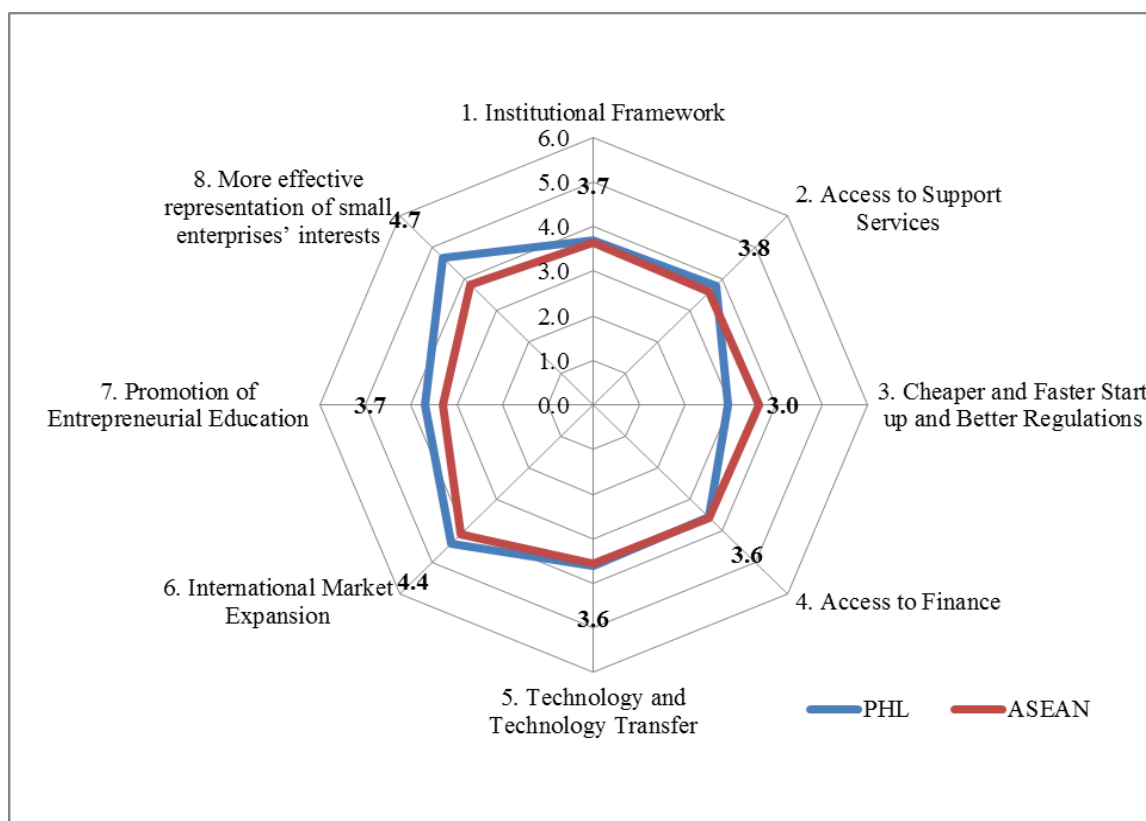
## 8. More Effective Representation of SMEs' Interests

Recommendations to improve this dimension include: developing a more bottom-up process in the consultation between the business association and the government agencies. Strengthening such formal influence of the consultations might also need business associations to have more members and improved capacities in research and technical aspects.

### • Philippines

Figure 24 presents a summary of the average scores of the eight policy dimensions for the Philippines. On the average, the overall score is quite modest at 3.8. The highest average score is more effective representation of SMEs (4.7) and the lowest is cheaper, faster start-up and better legislation (3.0).

**Figure 24: Philippines SME Policy Index**



## **1. Institutional Framework**

- Strengthen and deepen the coordination mechanism among the various government agencies particularly at the department secretary level. Address overlapping and unclear responsibilities across agencies, if any.
- Develop a system to keep track and monitor MSME policies and programs formulated and implemented by different government agencies. Government provides wide-ranging support to MSMEs in order to improve their competitiveness and generate employment. Much more needs to be done in establishing a system of monitoring and evaluation that would directly measure the impact of policies and programs on the growth and development of MSMEs especially on productivity which is vital to MSME's international competitiveness. Understanding the impact of government policies and programs on the performance of SMEs would be crucial not only in properly designing future programs but also in formulating policies for the growth and development of SMEs. A rigorous evaluation of the appropriateness and effectiveness of programs would thus be critical especially given the country's scarce resources. Present monitoring and evaluation only looks at the output or outcome indicators such as number of beneficiaries, employment generated, or total amount of loans granted before and after program implementation.
- Formulate and adopt a clear framework or mechanism for review, evaluation, monitoring, and revision strategy. There should be more focus in identifying key sectors taking into account the financing constraints and how to balance the twin social and economic objectives in MSME development evident in many programs implemented by various government agencies.

## **2. Access To Information and Supporting Services**

- Enhance the monitoring and evaluation of the Plan by designing and introducing a framework to regularly measure the direct impact of the MSME Plan on the performance of MSMEs. This is important to ensure that the resources channeled to supporting MSMEs are being well spent and the programs are well targeted and to

modify or terminate the programs once their objectives have been attained. It is also important to assess the performance of one-stop shops and the quality of services provided.

- Further develop e-government services by creating a centralized online portal for the various MSME programs and services covering finance, marketing promotion, human resource development, training, product and package design development, and technology provided by the different government agencies. Currently, the BSMED regularly publishes handbooks compiling these programs and services as well as government regulations affecting MSME operations. This information could serve as initial database for the centralized online portal on SME programs and services.

### **3. Cheaper and Faster Start-Up and Better Legislation and Regulation For SMEs**

- Significant progress should be made in simplifying the overall registration process, reducing administrative barriers and streamlining regulations. The National Competitiveness Council is currently working closely with government agencies and the private sector to map out ways to streamline and simplify each process, and to eventually automate.
- Current government financial support for start-ups is still limited to have any significant impact. It is important to assess existing programs in terms of scope and delivery with a view of improving and broadening these support services to include business incubators as well as vouchers, grants and loans on favorable terms especially for the most dynamic enterprises.
- There is a need to simplify and improve legislations and regulations as well as institutionalize the framework for conducting regulatory impact assessment (RIA). A simplified, pilot RIA program is being used in certain areas of regulations of the Department of Finance, Department of Labor and Employment, and Department of Tourism under a project supported by the Asian Development Bank.

#### **4. Access to Finance**

- Strengthen the legal and regulatory framework particularly the documentation of land ownership; simplify the land use regime, and consolidate land management into one agency. Establish a centralized and computerized registry for chattel mortgage. Without central registries, it is difficult to ascertain whether or not a particular property is already the subject of an existing encumbrance.
- To effectively implement the Financial Rehabilitation and Insolvency Act of 2010, strengthen the efficiency of courts by introducing measures and reforms to ensure the speedy resolution of court cases. Courts hearing rehabilitation cases should be consolidated to increase judicial expertise and efficiency.
- Implement measures to facilitate and widen access by SMEs to alternative forms of finance such as venture capital and private equity and leasing and factoring products. Encourage the use of the capital market by MSMEs
- Facilitate greater access to credit by the establishment of credit information bureau and secure property registers for collateral related purposes to ameliorate information asymmetry.
- Enhance financial literacy programs for MSME entrepreneurs. These programs build trust in the use of financial services and minimize the risk of MSMEs acquiring unsuitable products and becoming indebted.

#### **5. Technology and Technology Transfer**

- Create a database on innovation services and programs that MSMEs can readily access online.
- Further promote, expand and strengthen incubator programs to reach out to more SMEs, universities, and research institutions.

- Strengthen linkages between science parks/clusters and universities/innovation and technology centers as a step to reach out to more innovative SMEs and develop business networks that would foster connectivity among SMEs, science parks, and universities.
- Strengthen information programs on IPR to educate the public especially MSMEs, business associations, law schools and universities particularly on the importance of IP and its protection as well as its benefits to the country. Strengthen enforcement and coordination among the various agencies involved in its implementation.
- Pursue further development of the required broadband infrastructure in the country to address the connectivity deficit and to increase broadband coverage.
- Increase funding (in terms of amount and number of schemes) available for innovative projects in partnership with private sector investors.

## **6. International Market**

- The government should increase resources available for export promotion programs through innovative fund raising schemes and
- Further expand capacity building and credit programs through more effective targeting of MSMEs with the potential to export.

## **7. Promotion of Entrepreneurial Education**

- Formulate a framework and more specific strategy for the promotion of Entrepreneurial Learning in various government plans
- Provide adequate budget and effective monitoring and evaluation system for these specific programs promoting Entrepreneurial Learning

- Deepen networking by universities with their ASEAN counterparts towards the adoption of the ASEAN Common Curriculum
- Further improve the quality and increase the number of partnerships between academe and the MSME sector in the promotion of entrepreneurial learning
- Establish a system of accreditation of training program providers

## **8. Development of a Stronger, More Effective Representation for SMEs' Interests**

- A regular annual or biennial summit of individual MSMEs and their clusters to highlight their innovative products and articulate their issues and concerns vis-à-vis government should be institutionalized.
- Regular dialogues between the MSMED Council and key legislative committees concerned with specific legislation on MSME should be held.
- A more effective system of feedback, monitoring and documentation of successful policy outcomes highlighting insights and lessons learned for the sector should be established.

### **• Indonesia**

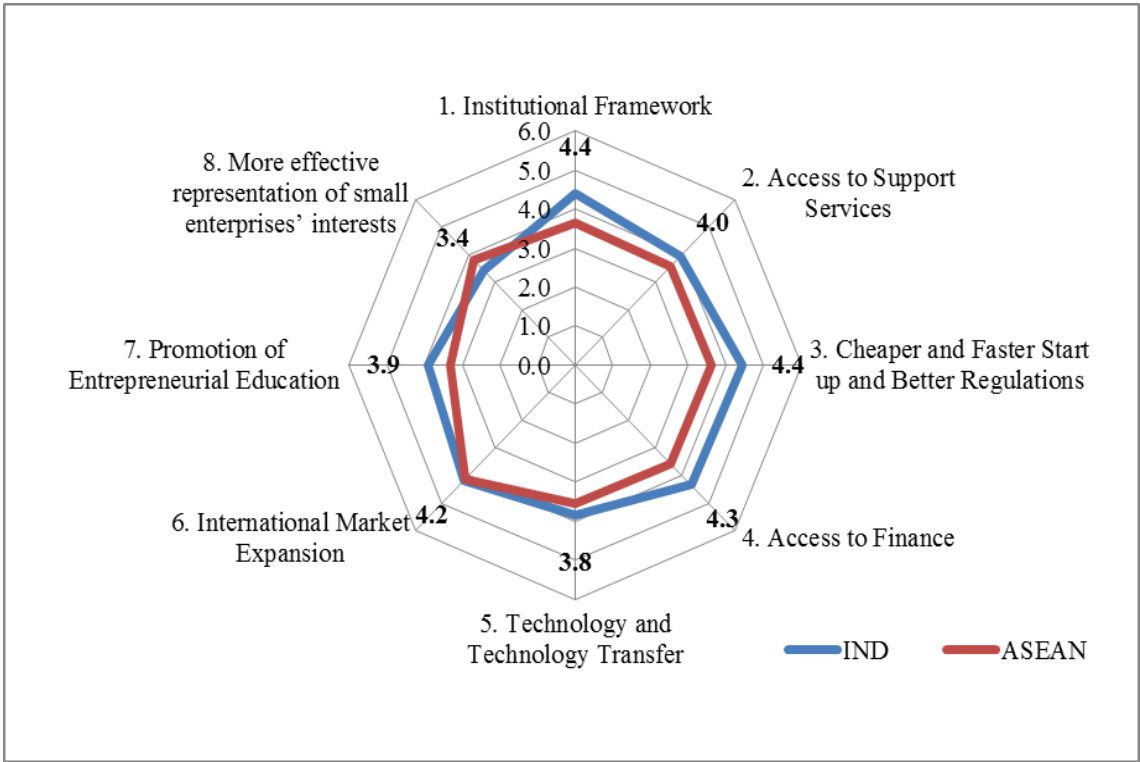
Indonesia's policy framework on SME-related policy is fairly well-developed as reflected in Figure 24. However, the development stage within each policy dimension and sub-policy dimension is still uneven. Indonesia has done relatively well in the areas related to institutional framework; business start-up and legislation and regulation for SMEs; access to information and supporting services, access to finance; market access and getting more out of the single market; and promotion of entrepreneurial education. Nevertheless, Indonesia is still underdeveloped in areas such as technology and technology transfers, and effective representation of SMEs' interest.

It is noteworthy to mention that a well-developed SME policy framework does not necessarily translate into impressive SME development. There is no strong evidence



that government policies and programs (for level 5 or 6) have tangible impacts on SMEs. While a monitoring and evaluation system does exist, the effectiveness of some government policies needs further investigation. Preliminary findings found that the coverage of the programs relative to the vast number of SMEs in the country is small, not to mention the lack of coordination among the programs, Hence, this policy index is to be viewed with caution since the implementation may not achieve the purpose of the policy design.

**Figure 25: Indonesia SME Policy Index**



### ***Institutional Framework***

Indonesia has already had a uniform application of SME definition in government programs and policies within the country. The government has also established a single institution which is in charge of leading and coordinating SME policy, with staffs and budget in place. Nevertheless, further improvement is still needed in areas of coordination on SME policy formulation and implementation to increase the effectiveness of SME-related support programs in order to improve the achievement of

strategic plan targets, given the considerable resources channeled into supporting the SME sector and the range of support schemes put in place. Furthermore, the Indonesian government needs to develop a clear framework for a monitoring and evaluation system to keep track of the related policies and programs on SMEs implemented by different government departments and agencies. This will allow interventions to be more precisely targeted and schemes to be modified or terminated once the objectives have not been achieved.

#### ***Access to information and supporting services***

Indonesia should revive the existing, yet dormant, business development services (BDS) and enhance their support for incubators by providing the legal framework for encouraging the development of SMEs in the country. The e-commerce law should also be further strengthened by enacting the implementing regulations. In addition, priority should be given to the expansion and intensification of e-government services so that they would not only be for a limited number of operations. Furthermore, the unification of existing portal on SMEs and the improvement of website management should be given a special attention so that it can easily be accessed by the SME community. Lastly, business services should also be improved and diversified, as the existing services are still limited, both in number and quality. As for business incubators, in particular, there is a need to provide solid legal framework to further develop and strengthen incubators.

#### ***Cheaper, Faster Start-up, and Better Legislation and Regulation for SMEs***

As the business registration and start-up in Indonesia practically remains cumbersome and costly, the advancement in the implementation of existing regulations and rules is necessary to improve business environment in the country. In particular, efforts should focus on the reduction of administrative procedures/steps, and streamlining and simplification of regulations at the national and regional levels. This can be done, for example, by combining trade business license (SIUP) and company registration certificate (TDP) in a single document or consolidating labor and social insurance registration with SIUP / (TDP). In addition, special attention should also be paid to the enforcement of

laws and regulation through the improvement of the capacity of the public administration to manage and enforce existing laws and regulations

Indonesia should likewise continue to focus on improving the business environment by institutionalizing the framework for conducting Regulatory Impact Analysis (RIA). Furthermore, the regulatory evaluation process on local government regulations (Perda) should be further continued and completed with the elimination of redundant, contradictory, and problematic regulations. At the same time, improvements in the transparency and efficiency of the tax administration should continue.

### *Access to finance*

While the legal and regulatory framework on credit in Indonesia has been largely in place and is quite advanced to enable access to finance, efforts should be made to further strengthen the law enforcement and improve the efficiency of the court system. Moreover, having a firm law enforcement and efficient court system is necessary to facilitate exit and entry of businesses in the market, and to increase access to finance. The uncertainty of the law and inefficient court system would discourage lenders to extend loans to enterprises, as they would have no legal recourse in case of failure of the borrower to repay the loan. Furthermore, the establishment of credit information bureau that records all credit information both in banking and non-banking financial institutions and openly publishes the list of negative creditors might be useful to encourage the lenders to extend loans to enterprises. At the same time, the financial literacy of SMEs should also be improved through better education and socialization programs.

Efforts should also be given to widen the range of financial products offered to SMEs. The credit guarantee schemes still have very limited operation although the default rate is low. At the same time, while microfinance and leasing services have been developed quite well, the factoring and venture capital services remain underdeveloped and limited in scope. Given the lack of government resources, it is important to create conditions favorable for external equity financing and private sector participation.

### ***Technology and technology transfer***

Efforts to further develop the database on information about innovation support services providers are needed since BDS are still dormant and the National Innovation System (Sinan) is still incomplete and underdeveloped. It is also important to further promote, expand, and strengthen the incubators and the one-stop support centres on IPRs to reach out to more SMEs, universities and research institutes. Moreover, the Indonesian government should strengthen the existing network of incubators and enhance its support for incubators so that they can expand their services on more high-quality services which add more value and innovation support for new and science-based firms.

Furthermore, more efforts should be given to improve and expand the broadband infrastructure and increase the funding schemes for innovation projects. In as much as the development of science/industrial parks is still in its infancy stage and the industrial component in these techno-parks is still missing, the government needs to further enhance their supporting infrastructure and provide incentives to attract more innovative companies to locate their businesses in the industrial sites. In addition, it is also necessary to further strengthen the link between the science/techno-park with universities and other innovation and technology research centres.

### ***Market access and getting more out of the single market***

Given the range, extent and richness of export promotion programs conducted by different ministries and agencies, considerable value could be generated by improving and strengthening the coordination among the export promotion programs. Furthermore, efforts should also be given to increasing the capacity of agencies that provide business or specific market information such as Indonesia's Trade Promotion Centers (ITPC), trade attaches and Division of Market Development and Information, and the Directorate of National Export Development of the Ministry of Trade, to improve the quantity and quality of their services on specific market information.

While there are clearly good efforts to support the export capacity building programs, as exemplified by the establishment of the BBPEI and P3ED, a better tracking system is

necessary to determine exactly the extent of training given to SMEs. Furthermore, the extension of the coverage areas and the connections between the practitioners as well as the various parts of the training system is also important to increase the effectiveness of programs.

### ***Promotion of entrepreneurial education***

In the area of human capital development, the government needs to further strengthen and extend the promotion of entrepreneurship across all levels of education as evidence of the government's commitment to the entrepreneurial learning agenda. This should include supporting EL teaching materials and staff with knowledge and skills for teaching entrepreneurship-related subjects and establishing the national standards for EL-related subjects. In addition, there is also need to further strengthen the collaboration between business and education that emphasizes sharing of entrepreneurial skills and spirit. In this regard, the Ministry of Education and Culture (MoEC) has a particular role here in terms of leadership and strategic direction.

The government and education communities, moreover, should also consider developing an entrepreneurship educators' network. This network will not only allow for expertise development and sharing of good practices but also for the creation of greater awareness of the importance of the entrepreneurship agenda. This network should be extended to all levels of education to ensure a lifelong entrepreneurial learning sequence. At the same time, strengthening the networking of Indonesian universities with their ASEAN university counterparts towards adoption of the ASEAN Common should be considered.

### ***Development of a stronger, more effective representation of SMEs' interests***

Although the consultative mechanism between private and public institutions has been in place, the consultations and dialogues have been conducted in an ad hoc and case-by-case basis. Thus, effort should be given to establish a regular, dedicated and institutionalized policy dialogue and co-ordination mechanism between private and public institutions which can facilitate the voicing by businesses of their interests and

initiatives. In this regard, the government needs to consider establishing a consultative committee, bringing together the representatives of the SME policy community. This committee needs to meet regularly and develop a shared agenda on SME development in the country. In addition, particular attention should be paid to strengthen the technical and research capacity of the SME associations so that they have sufficient resources to provide better advice to the government. This can be exemplified through the establishment of a linkage or network between business associations and universities or research institutes.

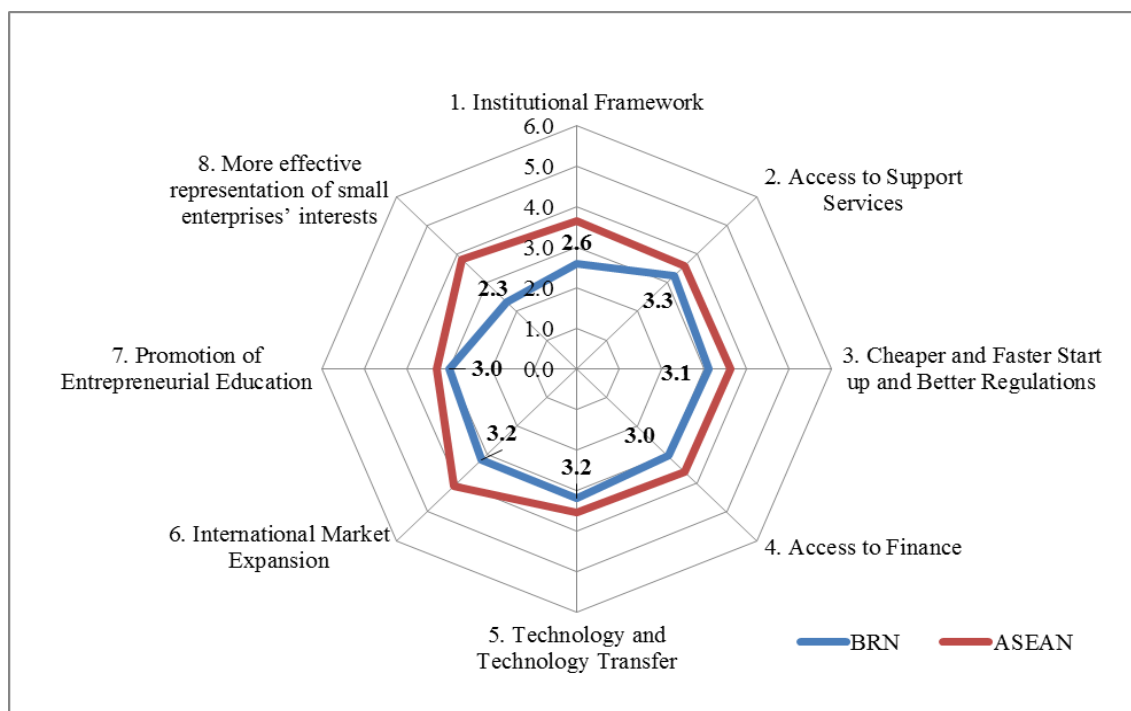
- **Brunei Darussalam**

On the basis on the assessment of each policy dimension for Brunei Darussalam, Figure 25 offers some recommendations towards an effective SME policy in Brunei Darussalam, to wit:

- The definition of an SME should be legislated to ensure consistency in the application of the definition in the different government ministries, agencies and legislations.
- There should be better inter-government coordination of policy formulation for SMEs to ensure consistency in policies for SME development and also to ensure that a regular review is made on which policies are still relevant for the achievement of the country's Vision 2035.
- The SME National Development Plan (NDP) should be coordinated by the Ministry of Industry and Primary Resources to ensure that all the other policies formulated by other agencies apart from the Ministry of Industry and Primary Resource are in line with achieving the National Development Plan. There should also be in place Key Performance Indicators to ascertain how the plan is performing. There should likewise be regular reviews of the NDP to ensure that the policies are still relevant based on the current business environment and level of the SME development.
- The Entrepreneurial Development Centre's capacity should be improved to ensure that there are sufficient funds and resources to the Centre for them to provide a one-stop center integrated service for SMEs. Their key role must be to facilitate and develop SMEs. There should also be a series of mandatory training annually for SMEs that

seek financial assistance from the government or other supporting agencies.

**Figure 26: Brunei SME Policy Index**



- An online portal for SMEs must be developed and put in place so that up-to-date and regular information can be posted. This would include success stories, financing availability, training schedules and news on SME activities, conferences and fora. Up-to-date statistics on SMEs in terms of numbers, sectors and performance must also be made available on the online portal. This will allow SMEs to make decisions based on up-to-date information rather than outdated data (latest information available for Brunei Darussalam was only for up to 2008).
- The ease of doing business must be improved and the implementation of the Business Licensing System planned for 2014 must be a totally stand-alone single portal system to enable entrepreneurs to obtain all relevant approval in order to commence business hassle-free on-line. All procedures should be simplified and be made transparent and consistently applied across all government agencies.
- There should be better access to finance and more financial institutions willing to

provide start-up working capital without collateral. The loans should also have a grace period of at least one year before principal repayment is made to ensure that the SMEs can concentrate on developing the business to enhance their cash flow. This will allow them some breathing space before having to service their loan. An Export Guarantee Scheme should also be put in place to assist local SMEs that plan to export their products.

- The Land Code should be amended to allow SMEs to register the name of their company as the legal owner of the land or properties. Even if not freehold, leasehold of a minimum of 60 years would be sufficient for companies to use the land and building as collateral when obtaining financing facilities.
- There is currently very limited formal channel for dialogue between the public and private sectors. The government should therefore formulate formal dialogue sessions at least once every 3 months with all the business associations and chambers of commerce together so that the private sector can also provide inputs to policy issues and decisions. Constructive dialogue will benefit both the public and private sector since the private sector is the engine of growth and the government the facilitator.

- **Viet Nam**

Based on the assessment of each policy dimension (Figure 26), some recommendations towards an effective SME policy in Viet Nam are hereby outlined:

**(1) Institutional Framework**

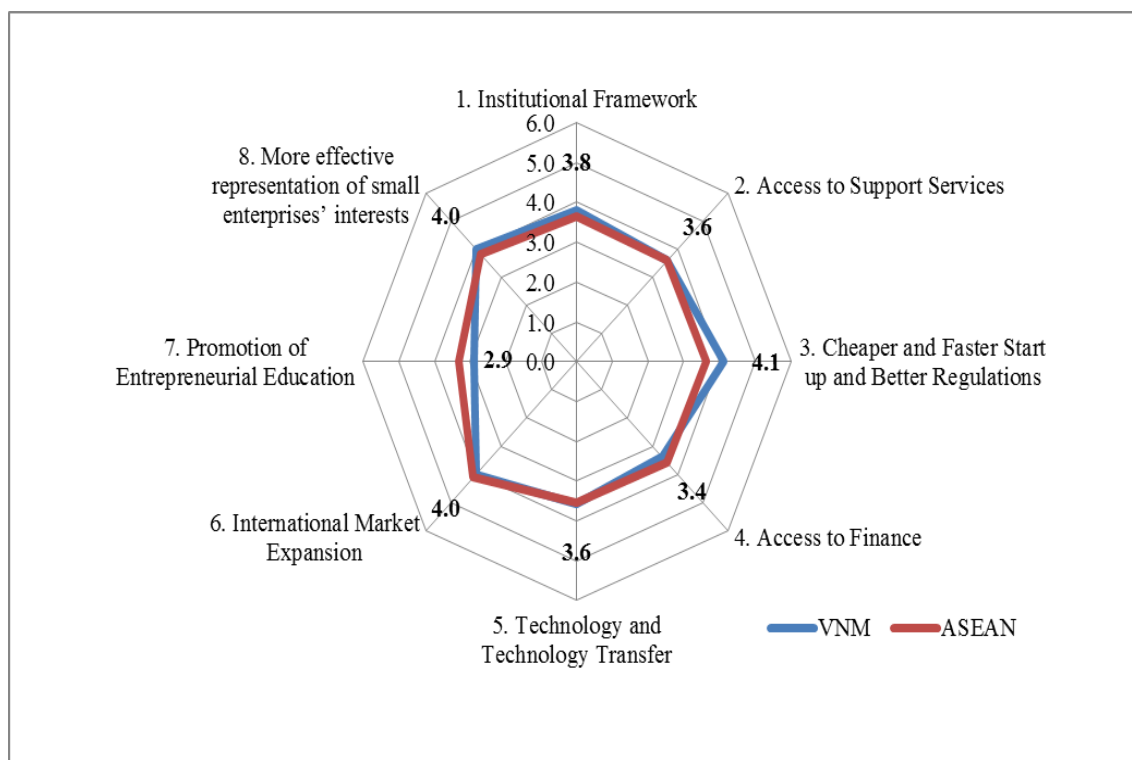
Viet Nam has a uniform SME definition throughout the country. However, the SME definition is applied differently in programs and policies for SMEs which somehow affect SMEs' access to financing from government programs. SMEs would therefore have better chances in gaining the benefits of government programs and policies if a uniform SME definition were applied.

The coordination in formulating and implementing SME-related policies, especially SME supporting policies, should be strengthened. Recently, different SME-related



policies have been issued by different state agencies or ministries. In order to follow the SME development orientation or plan, it is necessary to have an institution such as the Agency for Enterprise Development (AED) that will take the lead in formulating and implementing SME-related policies.

**Figure 27: Viet Nam SME Policy Index**



The AED should create more opportunities for different SME-related agencies and organizations to exchange opinions and experiences in both the central and local levels. The exchange of views and opinions should be organized regularly or at least once a year. Technical Assistance Centers (under the AED) should operate as special entities, supporting other SME supporting organizations and the Department of Planning and Investment (DPI) at the provincial level. Each provincial DPI office should regularly gather opinions and suggestions from SMEs in the provinces.

## **(2) Access to Support Services**

The AED should review all SME supporting policies and other related policies, and then publish manuals for implementation of SME policies. Furthermore, in order to fulfill

the SME Development Plan, the AED should make annual action plans and conduct evaluation annually. Other recommendations include:

Strengthening the capacity of SME assistance centers at the provincial level and establishing the monitoring system to evaluate the services provided by SME assistance centers. Encouraging the development of one-stop shop business development centers in provinces, and developing the legal advisory services of SME assistance centers in order to save time and costs should be pursued.

Improving the legal framework on e-commerce and strengthening the quality of e-government services.

Improving online portal for SMEs by regularly updating SME-related policies and regulations, and gathering and publishing information from all public institutions related to SMEs. The portal should serve as an online forum for consultation and experience exchange.

### **(3) Cheaper, Faster Start-up and Better Legislation and Regulation for SMEs**

Continuing to improve the business environment and to push forth the public administration reform by simplifying administrative procedures; strengthening the capacity of competent agencies/ authorities, capacity of public servants, among others; and adjusting the behaviors and attitudes of government officials/ agencies in working with SMEs. Government officials should take responsibility to guide entrepreneurs or SMEs in going through the administrative procedures. The latter should be simple, fully disclosed and transparent.

To encourage the start-up, financial services support for start-up should be considered by designing and approving financial support tools with detailed proposals and budget allocation, either at the central or local government level. Evaluation and monitoring systems to measure the impact of the services support should be established.

To improve the quality of regulation, RIA should be applied on a wider scale. In this

regard, the government should issue detailed guidelines on RIA.

#### **(4) Access to Finance**

An effective functioning of the central collateral registry would affect the ability of SMEs to provide collateral and would significantly improve their access to finance. Hence, the legal and regulatory framework for supporting SMEs to access finance must be improved.

For SMEs to access finance in general and credit in particular, it is necessary to harmonize benefits among credit institutions, SMEs and the state. The credit institutions should simplify and clarify lending procedures for SMEs. In addition, SMEs should make their operation transparent with a clear accounting book system for credit institutions to follow and make decisions fast. Local governments should pay more attention to establishing credit guarantee funds, capital assistance funds, and others to create more chances for SMEs to access finance.

The government should provide a suitable approach in designing support policies (finance, in particular) for enterprises, especially for SMEs. Supporting policies should clarify objectives and objects of support. At present, almost all supporting methods/policies are applied to all enterprises, not only SMEs. This thereby lessens the chances of SMEs to avail of the policies since large enterprises will have more advantages than SMEs.

The system of credit guarantee funds should be strengthened and collaterals diversified and trust-base (using assets formed from loans, leasing, etc.) so that SMEs can access financing easily. The SME Development Fund which has just been established should serve as a trust fund for commercial banks to provide long-term loans for SMEs.

Furthermore, promoting the financial transparency of SMEs would positively affect their ability to obtain financing from banks.

#### **(5) Technology and Technology Transfer**

Innovation policy is a key issue for the development of SMEs. However, Viet Nam still

lacks a dedicated policy, resources and mechanism for fostering innovative activities. Specific mechanisms and tools for fostering innovation could be developed such as promoting the linkages between universities R&D Labs and Incubators with SMEs and providing more financial incentives. Areas that need to be given more attention include:

Strengthening the National Fund for Science and Technology Development and National Fund for Science and Technology Innovation in order to support enterprises in their application of advanced technology in production and business effectively. In the long term, the government should establish the Venture Investment Fund to support business start-up and incubated technologies. The establishment and development of these funds will not only support enterprises in terms of capital sources but also provide information for enterprises to consider and select technology projects.

Improving the mechanism of monitoring and evaluation for impact assessment of all programs. Encouraging the provision of information on innovation support services. Regular and continuous evaluation of the existing incubators must be conducted.

#### **(6) International Market Expansion**

Strengthening of export promotion programs for SMEs should be considered to further support SMEs in expanding their export market. The export promotion programs should be well-funded and regularly evaluated and monitored.

Enhancing the SME accessibility to the international market by providing better access to industrial standard.

Establishing a system for monitoring and evaluation to assess export capacity building programs as well as financial facilities for SMEs to export.

#### **(7) Promotion of Entrepreneurial Education**

Training and assisting SMEs to improve their production capacity, competitiveness and

accessibility to resources such as finance, land, and labor, etc.

Implementing the reform of national education-training system, supporting training for enterprises' owners, directors, managers and laborers, formulating a framework and more specific strategy for the promotion of EL in various government plans, and paying more attention to supporting EL in basic education.

Strengthening the training capacity of education institution; strengthening the linkages between enterprises and universities, colleges and vocational training centers; and standardizing the contents of entrepreneurship training by designing national standard for subjects on entrepreneurship.

Deepening networking by universities with their ASEAN counterparts towards the adoption of the ASEAN Common Curriculum.

Providing more funds or seeking other sources of funds for implementing entrepreneurial policies, programs and projects.

Strengthening the business- academe collaboration through the deployment of public-private EL support programs to EL specialized research and training institutions, financial institutions, incubators and science parks with a significant number of spin-offs.

Establishing a monitoring and evaluation system for entrepreneurial promotion policies.

#### **(8) Effective Representation of SMEs' Interests**

Improving the professionalism of business associations in general and of SME association in particular by improving the knowledge and skill of the associations' staffs.

Enhancing the effectiveness of public-private consultation by strengthening the role and position of SME representatives (SME associations, VCCI and many other business

associations) in reactive and pro-active consultations. The representation of SMEs in consultations should be ensured by promoting consultations and regular dialogues among business sectors and organizations and the government.

Establishing a more effective system of feedback, monitoring and documentation of successful policy outcomes.

Creating the legal framework for the operation of business associations in general and associations for SMEs in particular.

- **Lao PDR**

Laos' SMEs are still in the early stage of development and face various problems. In order to promote SME development for each of the policy dimensions in Figure 27, there are some recommendations as follows:

- 1. Institutional framework**

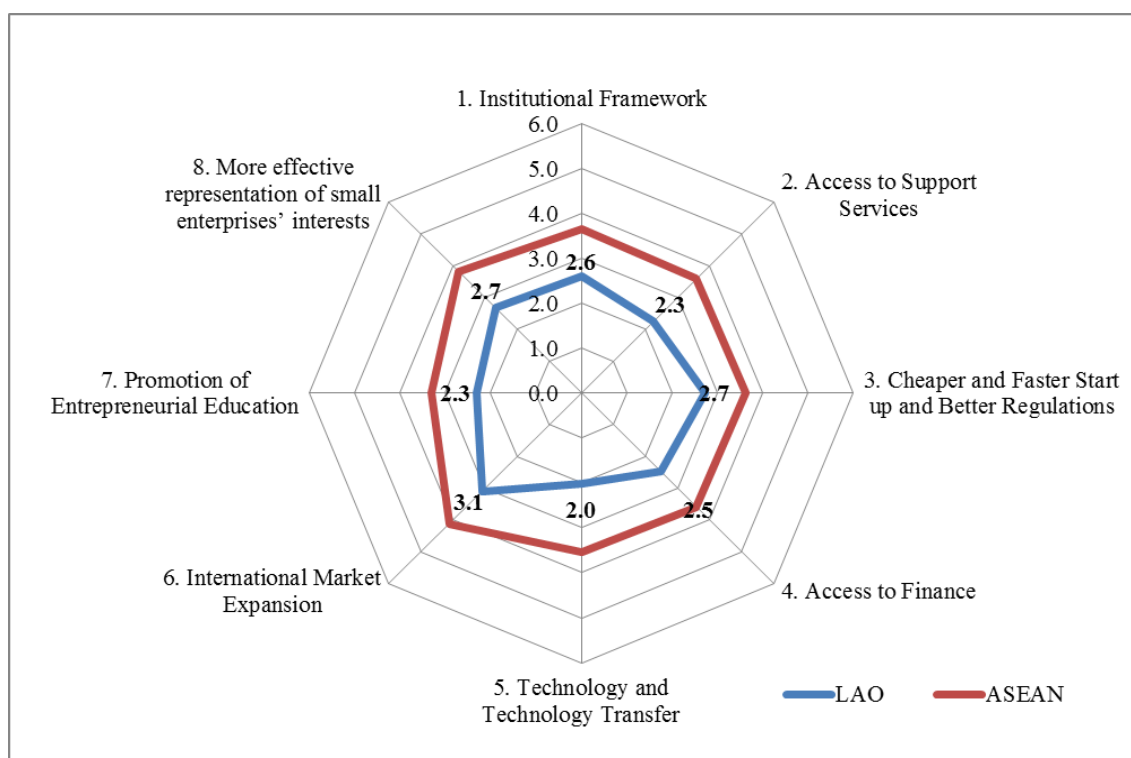
Even if the result shows quite a strong institutional framework, the funding and human resources in institutions in Lao PDR are not sufficient for the promotion of SMEs. It is thus important to mobilize resources and capacity building for government staffs and set up plans of action in order to implement the SME law.

- 2. Access to information and supporting services**

There is some progress in terms of access to information and supporting services among the Laotian SMEs. Nonetheless, there are still some issues to overcome. One, most of the services from government have been supported by donors and international organizations, with the funding from government for SME services being limited. And two, services provided are mostly in accounting and management. There is no diversity in the services offered and often, the services do not match the needs of SMEs. There is still lack of training and services on technology development and innovation.

In order to overcome these issues, it is important to have more budget to support activities on access to information and supporting services. There is a need to diversify service providers and to have service providers from foreign countries who have more experiences and knowledge.

**Figure 28: Lao SME Policy Index**



### **3. Cheaper, Faster start-up, and Better Legislation and Regulation for SMEs**

Despite having regulations, actual implementation still has some issues such as the lack of finance and human resources. This is evident in the time taken to obtain business licenses and in the absence of one-stop windows for business start-up.

It is therefore important to develop supporting and implementing guidelines for laws and regulations. Since finance sources for improvement of business registration come from donors and are often not enough, supporting finances from government are thus necessary.

### **4. Access to Finance**

There are a number of problems that need to be resolved. First, funding from

government is still limited and cannot meet the needs of SMEs. Second, most of the SMEs cannot access information about loans from the SME bank because of some asymmetric information issues. Third, application and documentation seem to be complicated for owners of SMEs to follow in as much as most of them do not have high educational background.

Therefore, in order to improve conditions on access to finance, the government should consider the implementation of the following. First, it is important to increase funding injections to the SME bank to provide more funds for SMEs' needs. Second, because of the information gaps, government should promote and campaign on the access to finance through the SME bank.

## **5. Technology and Technology Transfer**

Despite some improvements concerning technology and technology transfer, a number of problems still prevail. For SMEs. First, there is limited funding support to implement strategies and policies. Second, human resources related with technology development are limited. For instance, until now, there is no innovation center in universities and government agencies. Third, there are still low levels of linkage between private, academic-researcher and government for research activities and technology development.

In order to overcome these issues, there must first be increased funding for research and technology development activities. And second, there must be increased cooperation and linkage between private sector, university and government on innovation and technology development.

## **6. Market Access and Getting More out of the Single Market**

Despite having a trade portal to support SMEs to export in international markets, there are still issues on asymmetric information since most SMEs do not seem to know about the information in the trade portal. Because only few SME owners use the internet in Laos, few SMEs are able to use said information to access to international markets. In order to overcome this problem, it is important for government to raise



awareness on the existence and importance of the trade portal. In addition, capacity building on IT and the internet for SME owners must also be set up. And there must be increased funding from the government to promote SME products in foreign countries.

## **7. Promotion of Entrepreneurial Education**

In order to implement the strategy of promoting entrepreneurial education (EE) more effectively, there are several issues and challenges to overcome as follows. First, as promotion of EE is relatively new in Laos, there is a lack of well-trained lecturers and teachers to teach EE. Second, the documents and materials to support EE are still limited. Third is lack of funding to support the plan and strategy as most of them depends on donors. In order to overcome these issues, it is important to provide training and capacity building for lecturers and teachers on EE. There is also the need to provide relevant teaching materials, documents, and case studies about EE. And government should provide more funds to support EE as well as promote more EE activities such as business plan competitions.

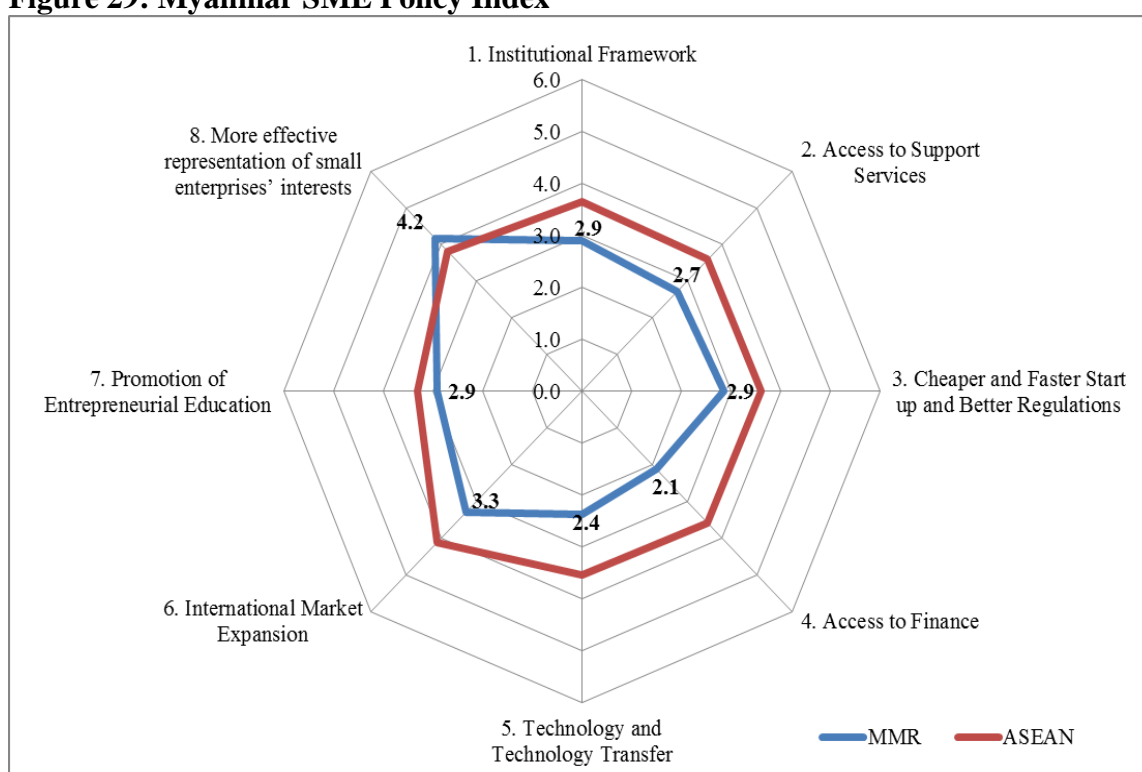
## **8. Development of a Stronger, More Effective Representation of SMEs' Interests**

In spite of the representation of SMEs and existence of official dialogues between the private sector and government in Laos, the frequency of dialogues is just once a year and supported by donors at that. There is also no comprehensive assessment mechanism on the implementation of decisions from dialogues. Moreover, the representatives of SMEs who join dialogues are not diversified and are biased towards specific sectors. Therefore, to address these concerns, the dialogue between the private sector and government should be held more frequently during the year. It is also important to hold dialogues during times of crisis or unexpected shocks. At the same time, there has to be an assessment system to follow up on agreements and decisions reached during the dialogues. Finally, wider SME representations from various sectors should be encouraged in the dialogues and discussions with government.

- **Myanmar**

SMEs have been and will continue to be pivotal for national economic development and promotion of social-economic status of the people in Myanmar. At present, the business environment in Myanmar is changing and each change takes place faster than the preceding one. For SMEs in Myanmar, they face numerous challenges and will continue to do so amidst the period of political and economic transition in the coming years. SMEs in Myanmar consist of various and different types of enterprises and accordingly, their challenges will likewise be varied and complex depending on the sectors they are in and their level of development. Based on the assessment (Figure 29) of Myanmar's SME development and environment, specific recommendations are hereby offered, as follows:

**Figure 29: Myanmar SME Policy Index**



### 1. Institutional Framework

The government is putting emphasis on the development of SMEs and has recently formed central and working committees for this purpose. However, the institutional framework in Myanmar is in an infancy stage and needs to have a more conducive

environment for the development of SMEs. Moreover, the SMEs Development Center (SDC) established in April 2012 under the Ministry of Industry is mainly responsible for SME policy formulation in coordination with stakeholder institutions. In addition, several institutions and agencies take part in implementation of SME-related matters. Regarding the transformation of informal SMEs to the formal sector, the Directorate of Industrial Supervision and Inspection is mainly responsible for the registration of SMEs whereas the RUMFCCI assists in this transformation process by collecting the information of informal SMEs, assisting in registration procedures, sharing information and linking with trade associations. Although the institutional framework seems to be moderately established, the following measures are recommended for creating a conducive environment for Myanmar's SMEs.

- To formulate and adopt a clear framework or mechanism to review the current status of SME-related policies, and to set up, implement, evaluate, and monitor the concrete SME policy;
- To set up concrete SME development strategy and incorporate the cooperation and coordination among stakeholder organizations and agencies in strategy formulation;
- To enforce the establishment of the SDC with staffs, adequate budget, and a system of consultation and coordination with related agencies for effective policy formulation;
- To institute a single implementation entity with a systematic structure and specifically defined responsibility, clear reporting system, and a recognized advocacy and policy advice role, and to make it well-funded and a wide-reaching entity;
- To establish a sound system for transformation from informal to formal sector through inter-ministerial and stakeholder consultation with effective monitoring systems.

## **2. Access to Support Services**

The government set up the Central Committee and Work Committee for Development of SMEs in January this year. It also established the SMEs Development Centre (SDC) which is mainly responsible for coordinating and supporting services for SMEs. Although a one-stop service center was established in Yangon, it seems to offer limited support services for SMEs since it apparently aims to provide all the

required administrative and legal steps at one place for foreign and domestic investors.

Moreover, an E-commerce Law has yet to be set up in Myanmar. E-commerce also has limited usage in domestic business transactions, although some E-government applications such as applying export/import license, issuing e-departure form, and visa application are already available. Although the Ministry of Industry provides an online portal for SMEs, it seems to be limited in usage by the SME community. Recently, a new online portal for SMEs is being developed which will replace the existing portal and is expected to be activated within two months. Meanwhile, the support services for SMEs are very limited and need to be further developed to equip SMEs with capabilities needed for improving productivity and growth. Therefore, the following measures are needed to consider for SME development in Myanmar.

- To formulate a concrete action plan, identify responsible institutions for supporting services for SMEs, and establish monitoring systems in order to measure the impact of the plan;
- To set up Business Development Centers providing integrated and comprehensive support including training, counseling and advice, technology development and transfer, information, business linkage and networking, and access to finance particularly for SMEs;
- To establish technical and legal infrastructure for E-commerce and E-government services that are widely available for all business transactions;
- To create the network between most public institutions to collect and disseminate integrated data for all business transactions including company registration, tax administration, social security administration and labor issues;
- To establish online portal for SMEs which provides the linkages of SME related organizations and agencies with the capability of collecting and disseminating information including business registration, financing, training courses, custom procedures, market access, industrial zones, and ASEAN SMEs and related business events and to be interactive and user-friendly in order to facilitate the operation of SMEs.

### **3. Cheaper, Faster Start-up, and Better Legislation and Regulation for SMEs**

Enterprises wanting to obtain a business registration certificate in Myanmar can expect to wait up to 10 days to 2 weeks. Before applying for the registration certificate, enterprises need to get approval/permit or license from the City Development Committee, General Administrative Department, Ministry of Energy, Ministry of Labor, and tax clearance document from the Internal Revenue and Tax Department and clearance from investigation from the Ministry of Home Affairs. The Directorate of Inspection and Supervision Department under the Ministry of Industry has the responsibility for the registration of SMEs. Although the Ministry does not have an online registration at the moment, it plans to have one soon.

Concerning the financial services support for start-up enterprises, financial support services have not been provided by SME-related agencies, including RUMFCCI and SDC. Although there is no financial support for start-up firms in Myanmar, SDC and RUMFCCI provide advice, market information and consulting to start-up firms. Moreover, SDC provides assistance to SMEs to participate in SME Festivals and Expositions. Recently, the government has approved Kyat 5 billion (US\$5.95 million) for the financing of SMEs in FY 2012-13. At present, the SMEs Development Bank provides collateral loans with 8.5 percent interest rate to potential firms. Hence, not only public organizations but also private organizations need to provide financial services support to start-up firms for the development of SMEs.

On the review and amendment of legislations and regulations, the SME policy was drawn up through collaboration among the government sector, private sector and non-government organizations. Additionally, the Ministry of Industry held meetings to draw up the SME law with related ministries, departments, and representatives of private sectors and professionals of SMEs. The draft SMEs law was submitted to the President's Office in September 2012. At present, although the SMEs law and related policies have been drafted, all enterprises still need to comply with other existing laws and regulations enacted by government. Regarding the Regulatory Impact Analysis (RIA), the government does not have a systematic system or framework on it. Meanwhile, for Cheaper Start-up, and Better Legislation and Regulation for SMEs,

the following measures based on results of interviews, structured questionnaires and focus group discussion are recommended:

- To develop the action plan to implement one-stop shops to provide rapid and responsive customer service, provide faster process for starting a business, increase the number of formally registered enterprises and provide all investment-related services such as approvals, permits and licenses necessary to start and operate a business;
- To establish an action plan for the implementation of SMEs' online registration service and the upgrade of ICT activity to be efficient in operations;
- To adopt appropriate rules and regulations on a number of steps for completing the overall registration process for the promotion and development of SMEs;
- To put more emphasis on SME support programs regarding the nurturing of start-ups and meeting of the needs of the majority of SMEs which lack financial resources, technological and management competencies;
- To use systematic RIA to improve the understanding of the real-world impacts of government action, including both the benefits and costs of such action, and to improve transparency and government accountability.

#### **4. Access to Finance**

As presented and discussed in the previous sections, there are many urgent matters that need to be addressed to improve Myanmar's SMEs for them to be able to face open competition upon the realization of the AEC. At present, local SMEs do not have funds and technology development is non-existent due to lack of encouragement and support for R&D activities. These in turn discourage investments in the SMEs, thereby hampering their growth and competitiveness. In view of this, financial sources available to SMEs must be broadened and deepened for Myanmar's SMEs to survive in the coming years.

Financing is an absolute requirement for SME development since without adequate finance, no investment can be made. However, the provision of SME financing is

quite limited in terms of both coverage and amount. Almost all stakeholders agree that financing should be provided not only to manufacturing enterprises but also to service and trading businesses since financing is one of the limiting factors for their further development. Moreover, many of them agree that the lending rate to SMEs should be cheaper than the present rate and the amount of loans should be increased not only for working capital but also for investment in capital equipment. At present, internal financing for capital investment and trade credit for working capital are commonly used among SMEs in Myanmar. Majority of the SMEs cannot access to even the conventional form of bank loan. To get more sophisticated sources of financing like venture capital and financial market is therefore still a long way off for Myanmar SMEs. The most immediate task to be done in this area then is to make conventional bank loans easily accessible to most of the SMEs.

Improving lending infrastructure is the first thing to be done for this purpose which requires the ease of lending money to SMEs and enhancing creditors' right. The current normal interest rate of 12 percent and subsidized rate which can be available through the SMIDB at 8 percent are still expensive for SMEs. Moreover, their availability is quite limited to SMEs in the manufacturing sector. In this connection, the criteria for getting loans need to be reduced, reflecting the real situation. Unnecessary steps and documents have to be discarded. An SME development fund should be set up, out of which loans should be available to eligible SMEs at very low interest rates.

The specific recommendations for ease of access to finance to SMEs are:

- To ease the loan application process to the banks with regards to the title of land ownership. As discussed before, most of the land ownerships are not formally titled in order to avoid tax in Myanmar. Therefore, the current practice of providing loans only to borrowers with land titles should be removed as long as the borrower can prove that he/she actually owns the land;
- To encourage cadastre process, the link between tax collection and land ownership registration should be cancelled;

- To encourage the banks to assess their own credit risk on individual borrowers instead of fixing the loan amount on the basis of the value of the collateral (i.e., loan amount is allowed from 35 to 50 percent of the value of the collateral);
- To set up a credit information bureau or database that shares credit information to all lending institutions;
- To establish a centralized collateral registration office;
- To allow and encourage other types of assets like gold, commodity and vehicles to be used as collaterals;
- To set up a credit guarantee and insurance system using mainly funds that are supported by government (Government should reserve a credit guarantee fund for SMEs. It should also consider the possibility of using a two-tier guarantee system in which loans for SMEs are guaranteed by private insurance firms and then again by the government to share the risk as in the case of Japan);
- To establish a government fund for loans to SMEs with very low interest rate, i.e., 2 or 3 percent. This fund should be separated from normal banking loans (where normal rate is 12 percent) and priority for loans should be given to innovative SMEs and/or those which have a good potential to be internationally competitive;
- To provide separate regulations for secured transactions and bankruptcy proceedings that allow improvement in creditor rights and at the same time protect the borrower from immature liquidation;
- To simplify and enhance the legal procedure for unsecured loans;
- To establish provisions that encourage diversified sources of financing like factoring and leasing;
- To encourage the development of export financing and venture capital firms;
- To establish stock market or alternative investment market and make necessary arrangements for SMEs to avail from these sources of fund.

The recommendations listed above have to be done in order to ease the availability of



finance to SMEs so that they may survive and grow as well as improve their competitiveness. These should be implemented in terms of importance/urgency and from the shorter term to longer term on a step by step basis. The actions should be done as soon as possible and a central body for financing purpose should be formed in order to guide, coordinate and direct their implementation in a coherent and systematic manner.

## **5. Technology and Technology Transfer**

SMEs, needless to say, cannot be competitive with outdated technology and aging machineries. It is also true that modern technology comes only from investment in R&D and well planned innovative policy. Since both of them are lacking in Myanmar, SMEs can only operate on a subsistence level. Many stakeholders agree that technology and skills development for existing SMEs are more important than technology innovation. At present, many firms are operating on old technology with low skilled labor. Innovation cannot take place in such an atmosphere since they need to pay more attention to the matter of their survival. Nonetheless, encouragement on innovative activities and coherent innovation policy are required for improving the competitiveness and long-term wellbeing of SMEs.

Like the financing aspect, there are many urgent tasks needed to be done in this area. So far, no clear innovation policy can be found in Myanmar (the only exceptions are the innovative SMEs that are annually chosen and awarded through the SME Development Centre). The reward is not regular and not based on systematic selection procedure. In fact, the present award for innovation is self-chosen among self and may have little impact to provide incentive and encouragement for more innovations. The policy is not coherent nor based on a specific industry. The objective, strategy, policy and operational details are lacking. There is no clear plan to encourage R&D for SME development. In particular, innovative policy, R&D and support towards innovative ideas are not found in the SME policy that is currently being drafted. Therefore, the first recommendation is to incorporate an innovation and R&D policy in the development agenda.

Technology development requires considerable time to happen. The benefits of R&D cannot be expected to be reaped in a short time because investment, systematic training and risk taking behavior as well as a lot of patience are required for any type of R&D. It will be too optimistic if one expects the performance of local firms in this area to improve within a short period of time. Therefore, the second recommendation is for attention to be paid more to technology transfer that can be acquired through FDI and returning workers who have been working in developed countries for a long period of time. The opportunity for technology transfer and spillover effects from linkages with foreign multinationals should not be overlooked. The specific recommendations in this area therefore are as follows.

- To adopt a clear policy to promote innovative SMEs;
- To encourage linkages between foreign multinationals and local SMEs;
- To develop Information Centre and Technology Development Centers;
- To establish and encourage linkages among universities, R&D centers and technology incubators;
- To strengthen collaboration between these R&D institutions and SMEs and actions should be taken to increase SMEs' access to the services of these centers;
- To encourage innovation in the form of grants, R&D funds, award, tax concession and special privileges to those SMEs that show enthusiasm and ability in R&D;
- To enforce intellectual property rights;
- To form R&D databases, specialized centers and linkages among resource persons and researchers in accordance with their specialization;
- To increase Broadband network coverage and speed to cover universities, R&D centers, incubators, industrial parks, special economic zones and industrial zones;
- To establish and encourage local and international standardization and classification;
- To encourage industrial clustering and agglomeration among firms in the same or related sectors;

- To increase investment in R&D, vocational and training centers, technology centers as well as pooling of technicians, academicians and experienced workers within the linkages of specialized technology centers;
- To encourage SMEs to upgrade their technology bases and utilize available technology resources by increasing awareness and using various incentives;

## **6. International Market Expansion**

The Ministry of Commerce and RUMFCCI conduct not only export promotion programs but also export capacity building programs to improve export performance. In addition, the SDC also conducts export promotion programs in collaboration with foreign donors. These export promotion programs, however, lack coordination among SME-related agencies and are conducted through their own respective arrangements. As to providing advice and high-value information of international markets, RUMFCCI and the Ministry of Commerce provide information to SMEs, and provide training courses on Entrepreneurs and SMEs Management, export/import procedure courses, and so on. Moreover, the RUMFCCI organizes and supports trade fairs, workshops and seminars. Meanwhile, based on the results of interviews with stakeholders, structured questionnaires and focus group discussions, the following are recommended to expand international market:

- To develop institutional capabilities that support international market expansion and disseminate information on ethical business practices to SMEs for their development;
- To put more efforts by the SDC to match foreign firms and local suppliers to improve the performance of SMEs;
- To establish a coordination agency to conduct integrated and comprehensive export promotion programs and export capacity building programs to support the international market expansion;
- To establish the SMEs Manufacturing Support Agency for promoting R&D activities in direct partnership with SMEs, engaging SMEs in Collaborative Research and Development Consortia, helping SME manufacturers to understand the importance of the role of international standard and encouraging SME manufacturers to be aware of

international standard and norms, and disseminating the best practices conducted by market leaders;

- To encourage SME manufacturers to produce quality products and services effectively and efficiently and to improve product design to reduce costs because in today's competitive environment, quality and cost are important dimensions to achieve competitive advantage;
- To develop R&D and training facilities to support SMEs for domestic and international market expansion in cooperation and linkage among government, private, and non-government sectors to enhance the competitiveness and to strengthen R&D activities of SMEs;
- To upgrade and develop quality certification laboratories for standardization of products and process and to provide appropriate technological information for manufacturing firms to expand markets;
- To conduct marketing research on export markets to identify the customer needs and requirements and to explore the market potentials of foreign markets;
- To create awareness and improvement in supply chain management activities and to take advantage of ICT to improve quality and reduce costs.

## **7. Promotion of Entrepreneurial Education**

In Myanmar, promotion of entrepreneurial education has yet to be specifically mentioned in the national education policy even though the government recognizes the importance of entrepreneurial education as articulated in the draft SME policy, industrial policy and national economic development plan.

Vocational training courses are offered in Technical High Schools under MOST for those who dropped out from junior high school. However, there are no specific curriculum and teaching materials to promote entrepreneurship in primary and secondary education. At the higher education level, entrepreneurship and small business subjects are offered to business and commerce major students in undergraduate and post-graduate courses of three Institutes of Economics. These

universities adopt the ASEAN Common Curriculum under AUN and regularly review and update the courses at the joint meeting of the boards of these institutes.

All Institutes of Economics have internship programs for business major students. Trade associations and private schools regularly conduct business plan competitions with the collaboration of the Institutes of Economics, provide customized training courses, and offer scholarships for business major students in the universities. Private training schools also offer a number of courses supporting entrepreneurial education and SME management. However, these programs can be accessed only in the major cities. The Ministry of Industry and the Ministry of Labor also establish training schools to provide non-formal entrepreneurial education to those who have no chance to access EL in formal channels. However, the services seem to be limited. Moreover, the following issues need to be tackled to promote entrepreneurial education,

- To formulate a framework and more specific strategy for the promotion of Entrepreneurial Learning in various government plans;
- To promote entrepreneurial education with adequate resources and monitoring and evaluation system;
- To specifically identify entrepreneurial learning at each level of the education and training system as a priority area with reference to curriculum, training of trainers programs and school governance;
- To facilitate entrepreneurial learning in primary and secondary schools by equipping teachers with knowledge and skills for teaching entrepreneurship;
- To promote EL by offering the degree in entrepreneurship at least in three Institutes of Economics;
- To deepen networking with universities in ASEAN for the adoption of the Common Curriculum implemented under ASEAN University Network (AUN);
- To increase the quantity and quality of partnerships between academe and the SME sector for the promotion of EL;
- To establish business incubators and science parks to upgrade and facilitate the

capability of entrepreneurs and small firms;

- To establish a system of accreditation of training program providers;
- To provide information on training programs and online services for registration and accessing training toolkits and subsidize them to be affordable for everyone who need to access EL.

## **8. More Effective Representation of SMEs Interests**

The SMEs promotion committee of the RUMFCCI, the Myanmar Industrial Development Committee (MIDC), the Directorate of Industrial Supervision and Inspection, the Myanmar Industries Association under the RUMFCCI and the Small and Medium Enterprises Committee of the Myanmar Engineering Society are SME-related and SME-supported agencies. These agencies have a strong advocacy to represent SMEs in the formulation of the SMEs law and related policy.

Among the SME-related and supported agencies, RUMFCCI has technical capacity such as database management, information gathering and dissemination to SMEs and other organizations, conducts business matching with foreign business firms and local firms, and holds training and seminars conducted by its (RUMFCCI) training school. Moreover, RUMFCCI provides processing certificates of origin and investment promotion. The main responsibility of the SDC, meanwhile, involves the linking of regional and international SMEs through business matching and providing the requirements through the setting up of a database on SMEs. The Ministry of Industry, Ministry of Science and Technology and RUMFCCI have their own research departments.

Very limited research has been done on SME development although SMEs play a vital role in the Myanmar economy. Since Myanmar is a member of ASEAN as well as a member of sub- regional organizations such as the Greater Mekong Sub region (GMS) and Bay of Bengal Initiative of Multi Sectoral Technical and Economic Cooperation (BIMSTEC), Myanmar participates and cooperates in the meetings and activities conducted by these organizations. Nowadays, business people also increasingly

attend trade fairs, exhibitions, seminars, forum, workshops, and participate in facilitating promotion of trade, technology transfer and market studies through their own arrangements or through arrangements done by RUMFCCI.

The following measures should be considered to have more effective representation of SMEs interests:

- To establish the Research and Development Centre in SDC; to conduct research relating to SMEs to provide business and market information, and to expand and enhance the value-added products;
- To develop the modernized laboratory in SDC to ensure the product quality of SME products;
- To seek support from regional and international organizations such as ASEAN, ADB, and World Bank, to help in the development and implementation of the policy and strategy;
- To put more efforts to match business meetings with local and foreign business organizations for the development of SMEs.

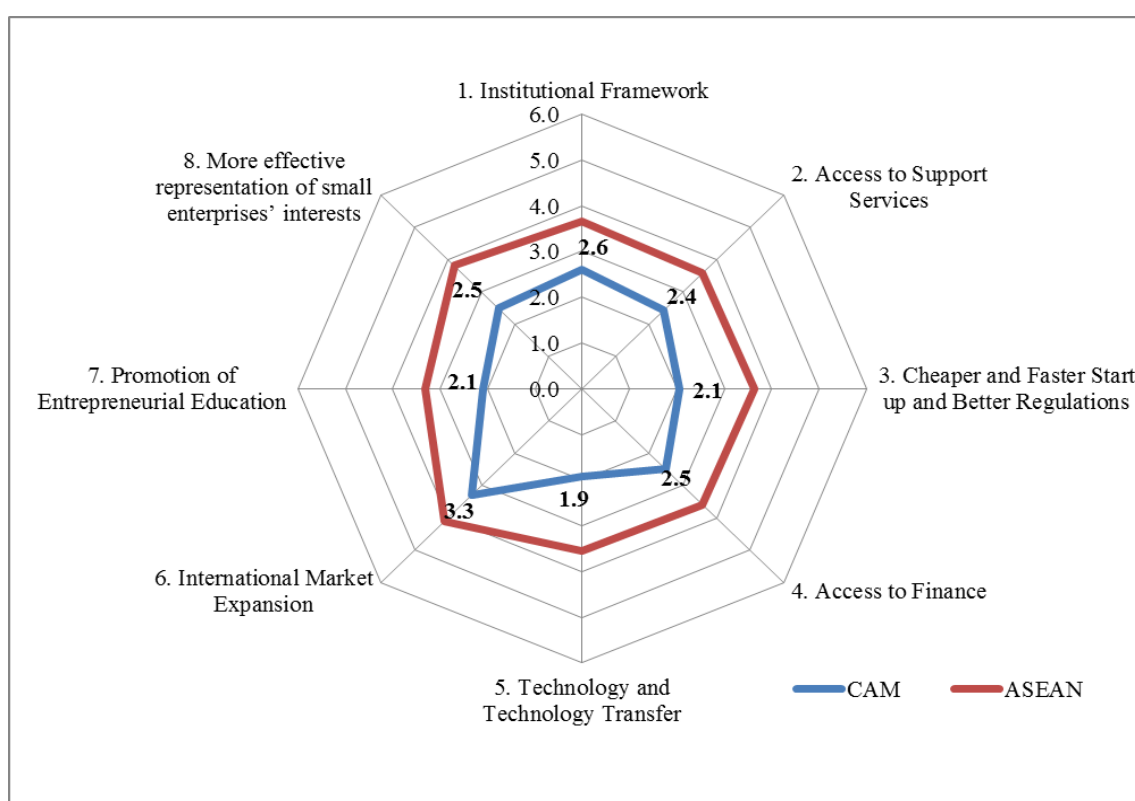
- **Cambodia**

Given the policy gaps of Cambodia across all policy dimensions, Cambodia still needs to travel a long way to move forward towards good practices. In moving forward, a number of interlinked recommendations are proposed, ranked in terms of priority, as follows:

- Strengthening the existing SME Sub-committee to coordinate all SME-related issues. This recognizes the fact that establishing a new agency to take charge of SMEs is not an ideal option (Institutional framework).
- Strengthening associations to ensure more effective presentation of SME interests. The improved organizations will facilitate intervention and support to SMEs such as financial support, information sharing and reducing transaction cost (Representation of SMEs' interest).

- A comprehensive SME reform program should be considered. Cambodia is promoting industrial development by attracting FDI as a core strategy. In this connection, one of the most important processes is strengthening production capability of domestic SMEs. To achieve this, it needs a comprehensive SME reform program which includes inter-agency coordination to deal with issues of upgrading SMEs from an informal to formal one, start-up cost and regulation, taxation, support service, and technology support (Regulation and support service).

**Figure 30: Cambodia SME Policy Index**



- Productivity improvement training and managerial skills upgrading, including bookkeeping and preparation of business plans, should be further provided. In combination with streamlined start-up procedures and improved access to technology and support services mentioned above, the skills upgrading will improve SMEs' financial accessibility, given that banking service and MFIs are scattered across the country (Access to finance and technology).



- Except for rice millers, international market expansion is not a priority. Instead, information on domestic economic opportunities and potential to link with foreign firm is more important, as most SMEs cannot serve the domestic market well, let alone the international market (International market expansion).
- Creative business ideas contest and internship opportunity shall be further promoted. Although entrepreneurial leaders are made and not born, formalized entrepreneurial learning in basic education is not a priority in as much as Cambodia is struggling as yet to achieve universal general education. Moreover, entrepreneurial learning can be more effective off-school from real life experience (Entrepreneurial education).

However, the above recommendations are quite general. To strategically promote any specific kind of SMEs, it is required to conduct in-depth study covering how firms interact with other firms-both large and small- in vertical production and distribution system, so that effective subsector-specific policy intervention and support could be devised.