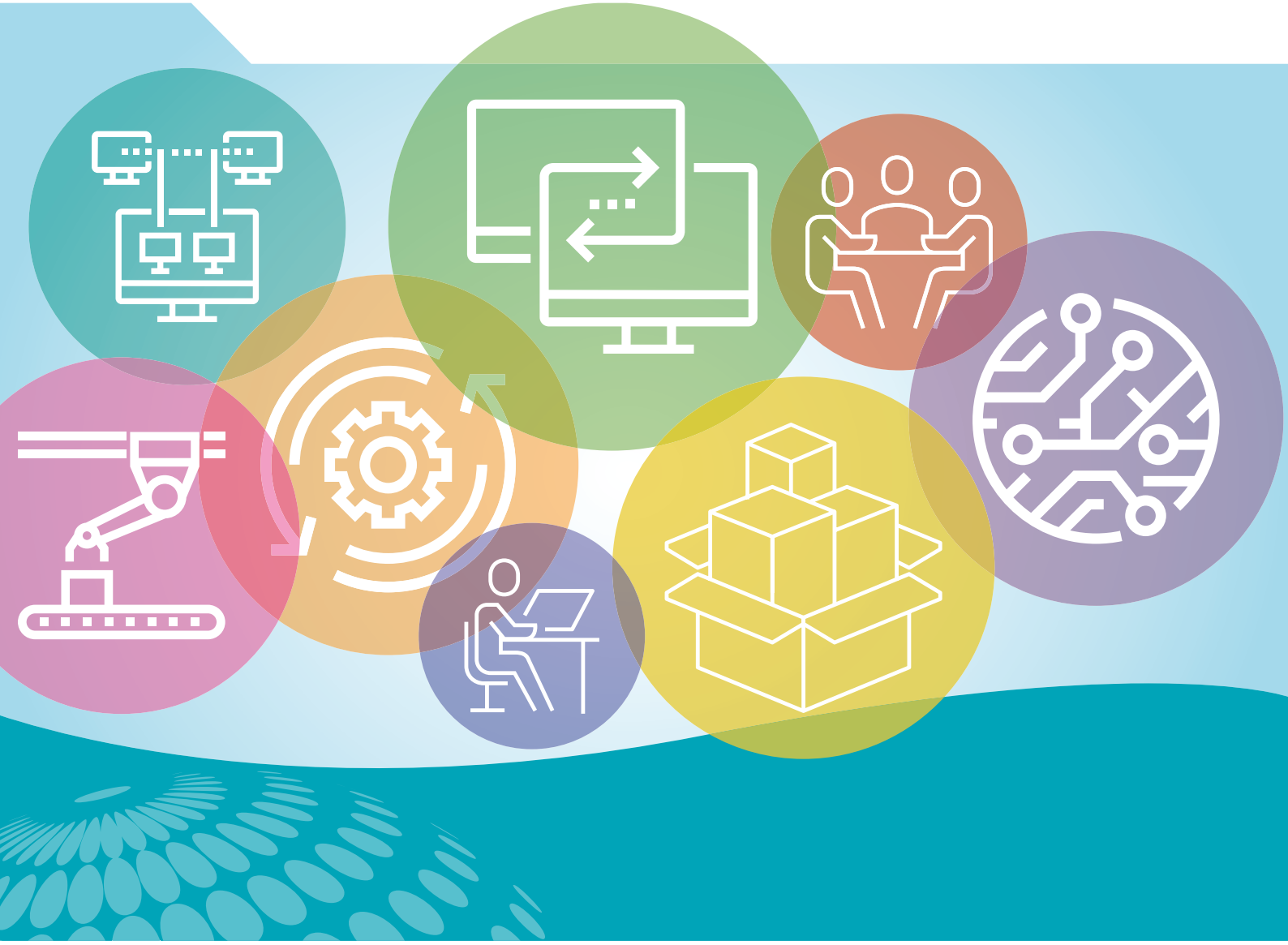
SME Policy Index

ASEAN 2018

BOOSTING COMPETITIVENESS AND INCLUSIVE GROWTH



OECD ERIA asean

SME Policy Index: ASEAN 2018

BOOSTING COMPETITIVENESS
AND INCLUSIVE GROWTH

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Preface

Small and medium-sized enterprises are important contributors to employment and inclusive economic growth around the globe, including in Southeast Asia. As one of the fastest growing regions in the world, Southeast Asia has broadly embraced a growth model based on international trade, foreign investment and integration into regional and global value chains. This approach opens up an important window of opportunity for SMEs, but it also means that they must increase their competitiveness if they are to survive and grow in a highly competitive marketplace.

With the creation of the ASEAN Economic Community in 2015 and the adoption of the broader inclusive development goals of the 2030 Agenda, policymakers in the region are progressively turning to SME development as a way to foster equitable economic growth and to narrow substantial income gaps between and within ASEAN Member States.

The OECD Southeast Asia Regional Programme contributes to this effort by conducting policy analysis and training on SME development work in the areas of digitalisation, innovation, investment, global value chains, productivity, trade and greening the economy. The Economic Research Institute for ASEAN and East Asia (ERIA) also conducts analytical work on SME development related to trade, investment, human resource development and infrastructure enhancement, among other topics.

This study, the ASEAN SME Policy Index 2018: Boosting Competitiveness and Inclusive Growth, is the result of a collaboration between the OECD's Southeast Asia Regional Programme, ERIA and the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME), in partnership with the governments of the ten ASEAN Member States as well as experts, stakeholders and representatives of the SME sector. We are confident that it will be a valuable tool to map the depth and nature of SME policies across ASEAN and providing a framework for assessing and benchmarking progress in the design and implementation of SME policies. Aligned with the objectives of the ASEAN Strategic Action Plan for SME Development 2016-2025, this framework also allows for an assessment of its implementation. The corresponding analysis is supplemented by policy recommendations at the regional and country levels, as well as good practice examples from ASEAN and OECD member countries. It builds on a similar exercise that was piloted by the OECD and ERIA in 2014.

We look forward to continuing this fruitful collaboration to enhance SME development as an important driver of growth, job creation and social cohesion in Southeast Asia.



Prof Hidetoshi Nishimura

President ERIA



Angel Gurría

OECD Secretary-General

Foreword

Small and medium-sized enterprises (SMEs) are the backbone of ASEAN economies. They generate jobs and contribute to inclusive economic growth and prosperity of households and communities.

Despite their contributions and importance to the region's economy, SMEs continue to face significant barriers that prevent them from achieving their full potential. This is particularly true for women entrepreneurs who are a vital piece of ASEAN's economy.

The Government of Canada is firmly committed to addressing these barriers together with our ASEAN partners. We believe that unlocking the region's entrepreneurial potential will help build more inclusive economies and grow the middle class.

Establishing a strong empirical foundation on which to build entrepreneurship is a critical first step and we are pleased to support ASEAN's efforts in this area.

This is consistent with Canada's approach as we rely strongly on evidence-based policymaking. We believe that through sound analysis and research, policymakers are better positioned to identify and implement relevant and effective policies and programs. They are also better equipped to monitor and measure progress, and make adjustments to achieve greater success.

For this reason, we are pleased to support the development of the ASEAN SME Policy Index 2018: Boosting Competitiveness and Inclusive Growth in partnership with internationally recognized policy institutions such as the Organisation for Economic Co-operation and Development (OECD) and the Economic Research Institute for ASEAN and East Asia (ERIA).

This instrument is an important call to action for ASEAN policymakers and supports a culture of learning, innovation and partnerships that is consistent with the ASEAN way. It also contributes to realising ASEAN's strategic goals and desired outcomes on SMEs as laid out in the Strategic Action Plan for SME Development 2016-2025.

On behalf of the Government of Canada, we reaffirm our commitment to ensuring ASEAN SMEs, particularly women entrepreneurs, are competitive, resilient and able to achieve their full potential.

H.E. Marie-Louise Hannan

Ambassador of Canada to ASEAN

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The *ASEAN SME Policy Index 2018: Boosting Competitiveness and Inclusive Growth* is the outcome of work conducted by the ten ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam); ASEAN through the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME); the Organisation for Economic Co-operation and Development (OECD) through its Southeast Asia Regional Programme (SEARP); and the Economic Research Institute for ASEAN and East Asia (ERIA). The report is based on the SME Policy Index methodology developed by the OECD and applied to some 50 economies across five regions of the world. It builds on the previous edition of the report, *The ASEAN SME Policy Index 2014*.

The report was written under the guidance of *Andreas Schaal*, Director OECD Global Relations, and OECD G20 Sous Sherpa, OECD; *Izuru Kobayashi*, Chief Operating Officer, ERIA; members of the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises; the Enterprise & Stakeholders Engagement Division of the ASEAN Secretariat; and *Alexander Böhmer*, Head of Southeast Asia Division, OECD.

This report was made possible thanks to the contributions of the National ASEAN SME Policy Index co-ordinators and National consultants who supported the data-gathering and verification processes. This report received support by national policy makers in ASEAN and was endorsed by the ASEAN Economic Ministers at the 50th Meeting in Singapore. We would like especially to acknowledge the contributions of the following individuals and organisations:

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Abbreviations and acronyms

ACCMSME	ASEAN Coordinating Committee on Micro, Small and Medium Enterprises
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEO	Authorised Economic Operator
AMS	ASEAN Member States
APO	Asian Productivity Organisation
ASEAN	Association of Southeast Asian Nations
ASEC	ASEAN Secretariat
ASPEC	ASEAN Patent Examination Co-operation
ASPI	ASEAN SME Policy Index
B2C	Business-to-Consumer
BDS	Business Development Services
CGF	Credit Guarantee Fund
CGS	Credit Guarantee Scheme
CIB	Credit Information Bureau
CIP	Collaborative Industry Projects
DFTZ	Digital Free Trade Zone
EIA	Environmental Impact Assessment
EL	Entrepreneurial Learning
EMS	Environmental Management System
EPZ	Export Processing Zone
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
EZ	Economic Zone
FAO	United Nations Food and Agriculture Organization
FDI	Foreign Direct Investment
FEC	Future Economy Council
FIL	Foreign Investment Liberalisation
FTA	Free Trade Agreement
GAP	Green Action Plan
GDP	Gross Domestic Product
GERD	Gross Domestic Expenditure on R&D
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GLC	Government-Linked Company
GMV	Gross Merchandise Value
GNI	Gross National Income
GVC	Global Value Chain
HCD	Human Capital Development
IC	Innovation Centre
ICT	Information and Communications Technology
ICV	Innovation and Capability Voucher
IDP	Industrial Development Policy
IFC	International Finance Corporation
ILO	International Labour Organization

IMF	International Monetary Fund
IP	Intellectual Property
IPO	Initial Public Offering
ISO	International Organization for Standardization
ITC	International Trade Centre
JICA	Japan International Co-operation Agency
KPI	Key Performance Indicator
MFI	Microfinance Institution
MNC	Multinational Corporation
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium-Sized Enterprise
NGO	Non-Governmental Organisation
NSW	National Single Window
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PPC	Public-Private Consultation
PWD	Person with Disabilities
R&D	Research and Development
RIA	Regulatory Impact Analysis
SAP SMED	Strategic Action Plan for SME Development
SE	Social Enterprise
SEZ	Special Economic Zone
SME	Small and Medium-Sized Enterprise
SOE	State-owned Enterprise
STI	Science, Technology and Innovation
TFI	Trade Facilitation Indicators
TIN	Tax Identification Number
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
VAT	Value-Added Tax
VC	Venture Capital
WEF	World Economic Forum
WTO	World Trade Organization

Executive summary

SME development is an increasing priority for policy makers across ASEAN as they seek to establish a broader base for growth while ensuring that it is resilient and inclusive. This is becoming more pertinent as incomes rise and trade barriers across the region are lowered, opening up new opportunities to produce goods and services. In most ASEAN countries, SME policy has traditionally had a social orientation, but in some countries (notably in Brunei Darussalam, Malaysia, Singapore, Thailand and Viet Nam) this has evolved to focus increasingly on stimulating innovation and technological upgrading.

This report looks at the policy landscape for SME development across ASEAN, identifying potential gaps and offering recommendations going forward. It is based on an assessment of the scope and intensity of policies across eight thematic areas. The ten ASEAN countries are scored on a comprehensive set of qualitative and quantitative indicators. This methodology builds on the OECD's *SME Policy Index* methodology, which has been applied in various regions, including ASEAN in 2014. It integrates the goals of the ASEAN Strategic Action Plan for SME Development (SAP SMED) 2016-2025. The assessment was conducted by the OECD and ERIA at both the regional and country levels, and was carried out in co-operation with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) and national policy makers, as well as academic experts and the private sector. This report was endorsed at the 50th Meeting of the ASEAN Economic Ministers (AEM) as a reference tool to help monitor and evaluate ASEAN's efforts in advancing MSME development policies.

The report finds that most ASEAN countries are active in the area of SME policy and apply a mix of horizontal and targeted approaches. On the horizontal side, they tend to prioritise measures to cut red tape and streamline business registration. On the targeted side, they tend to focus on measures to enhance productivity and increase access to finance. The intensity and extent of policy intervention varies greatly among countries, and this correlates with the overall level of institutional development. Indonesia, Malaysia, Singapore, the Philippines and Thailand have invested significantly in business development services, an area that Brunei Darussalam and Viet Nam are increasingly exploring, while Cambodia, Lao PDR and Myanmar have focused more on improving the legal and regulatory environment for SMEs and building institutions for SME policy. ASEAN countries are very active in the area of market access and internationalisation, and this is where most regional co-operation on SME policy takes place. Finally, while the social contribution of SMEs is an important consideration for most policy makers, relatively few interventions take place in the areas of SME greening and inclusion.

Based on these findings, the report makes the following key recommendations:

- **Ensuring an integrated approach to SME policy**, whereby interventions are strategic, sequenced and coherent, can increase the impact of interventions and programmes. Some countries pursue a mix of competitiveness and social policy objectives in their SME policy, and at times these objectives may contradict one

another. Taking stock and clearly elaborating the SME agency's mission may help to increase coherency. This should be informed by data on the contribution and nature of SMEs, as well as feedback from business owners. Feedback and co-ordination mechanisms between local and central government could also be enhanced in many countries, as this may clarify objectives and facilitate implementation.

- **Strengthening data collection and analysis** can ensure that policies are evidence-based and well-targeted. Accurate and comprehensive data on the contribution and nature of SMEs is an important foundation for the development of a coherent and measured SME policy. In many countries, such statistics are missing or are not collected systematically. The lack of data also hinders monitoring and evaluation of the impact of SME policies.
- **Attention to policy process throughout the entire policy cycle** from design, adoption and implementation, through to monitoring and evaluation can help to ensure that policies remain responsive to firms' real needs. For example, public-private consultations and regulatory impact assessments in many instances are not carried out systematically. Stakeholder consultation is often approached as a box-ticking exercise, with limited participation. Similarly, many ASEAN countries conduct some form of monitoring and evaluation, but few systematically do robust impact assessments, even for major programmes. Systematic monitoring and evaluation can help to ensure that public resources are used efficiently and, when fed back into policy design, can inform the design of future policies.
- **Expanded regional co-operation on SME development** could allow countries to better leverage domestic resources. ASEAN has a number of regional co-operation programmes and projects in the area of market access and internationalisation, and a few in the area of productivity, technology and innovation. Policy makers could consider other areas where regional co-operation may be valuable. At present, such co-operation principally takes the form of knowledge-sharing, and the ACCMSME is doing important work here. However, more could be done to operationalise the lessons learned from these exchanges, for instance via the secondment of staff between AMS or the development of joint projects between SME agencies and institutions. This could be particularly valuable in the development of better regulations and the creation of e-governance systems. A standardised system for the exchange of financial information could also be very beneficial. This would require more complete company registers and the establishment of harmonised credit reporting systems and information and could therefore be seen as a long-term goal.
- **Greater attention to the social contribution of SMEs in policymaking** could help ASEAN Member States to pursue greener, more inclusive economic development. The social aspect of SME development is a priority for many policy makers in ASEAN. Its importance is evidenced by the fact that it falls under the "resilient, inclusive and people-oriented and people-centred" pillar of the ASEAN Economic Community Blueprint. Yet the region's median score is lowest in the areas of SME greening and inclusive SMEs. This appears to stem from a concern that interventions here could place unnecessary burdens on SMEs. Instead, actions here (as opposed to subsidies in other areas) could enhance the social contribution of SMEs. A range of policy options is available to encourage rather than oblige SMEs to engage in greener and more inclusive practices.

Chapter 1. Economic context and role of SMEs in ASEAN

The economic context

ASEAN is comprised of ten Member States which collectively cover 4.49 million km^2 and are home to 642.4 million people.[1] The region's large and growing market is strategically located. It has large natural resource endowments, is a top destination for the global offshoring industry and is located on one of the world's busiest shipping routes. It generated a combined nominal GDP of USD 2.8 trillion in 2017.[2] Indonesia is the region's largest country, accounting for 37% of its nominal GDP and 41% of its population in 2017.

A thriving yet heterogeneous region, with a diverse economic structure

The ASEAN region is home to abundant oil and gas, coal, precious stones, metals, minerals and timber. It is one of the world's largest producers of agricultural commodities (especially palm oil, rice, cocoa and coffee). In the 1970s and 1980s, many countries used this endowment, along with smart economic policies, as a springboard for industrialisation. Today the region is a thriving hub for global manufacturing and trade, with a particular specialisation in electronics, automobiles and textiles. Incomes have risen rapidly: the GDP per capita (PPP) of ASEAN countries has more than doubled since 2000.

Table 1.1. Key socioeconomic indicators for ASEAN, 2016

Country	Total area (km^2)	Population (million inhabitants) [1 6]	GDP per capita (PPP Intl$) [1 6]	Arable land (% of land area) [2]	Rural population (% total population)
Brunei Darussalam	5 765	0.4	74 914	1.0	22.5
Cambodia	181 035	15.7	4 104	21.5	79.1
Indonesia	1 913 579	262.2	12 349	13.0	45.5
Lao PDR	236 800	6.8	7 332	6.6	60.4
Malaysia	331 388	32.0	29 236	2.9	24.6
Myanmar	676 576	53.4	6 070	16.7	65.4
The Philippines	300 000	104.9	8 355	18.8	55.7
Singapore	719	5.6	93 920	0.8	0
Thailand	513 120	67.7	18 231	32.9	48.5
Viet Nam	331 231	93.7	7 027	22.6	65.8
ASEAN	*4 490 213 [3]*	*642.4 [3]*	*12 361 [5]*	*14.9 [4]*	*52.1 [4]*

Note: **1.** Data from 2017 **2.** Data from 2015 **3.** Total **4.** Median **5.** Weighted average **6.** Preliminary statistics.
Source: ASEC (2016), *Selected Basic Indicators*, https://data.aseanstats.org/ (accessed 15 April 2018); World Bank (2017), *World Development Indicators*, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 4 April 2018); ASEC preliminary statistics for 2017 (2018 forthcoming).

These developments have been supported by sound macroeconomic management, high savings rates,[3] relatively open trading systems and a young, rapidly growing population.

Despite some common themes, however, ASEAN countries vary significantly in terms of economic structure, development levels, population and density, political and legal systems, geographic endowment and cultural and religious traditions (Box 1.1). This diversity can help to explain some of the region's rapid and resilient growth, but it may also open up new challenges for integration.

Box 1.1. ASEAN Member States: economic snapshots

Brunei Darussalam is a small oil-rich country located on the isle of Borneo. It has a very high income per capita with a small population of less than 450 000. With its reliance on hydrocarbons, Brunei Darussalam economy is susceptible to fluctuations in commodity prices. After four consecutive years of negative growth from 2013 to 2016, following a slump in world oil prices, the economy has recently recovered in 2017 recording a positive real GDP growth of 1.3% in 2017. Brunei Darussalam continues to face some challenges in diversifying the economy, such as low productivity outside the oil and gas sector and a relatively attractive public sector. One of its key assets for future growth is its young and well-educated population. Human capital development remains high on the national agenda.

Cambodia is a country located in the Greater Mekong Subregion that recently graduated to lower middle-income status. Since the 1990s it has developed a strong textile and garments industry, but it has faced difficulties moving into higher value-added activities.

Indonesia is an archipelagic nation covering an estimated 17 508 islands, of which around 920 are inhabited. It is ASEAN's biggest and most populous country. Its economy has traditionally been commodity driven, benefitting from the country's substantial natural resource endowment. It remains a lower middle-income country, but its rapidly growing middle class is opening up new market opportunities.

Lao PDR is a lower middle-income country located in the Greater Mekong Subregion. It remains a largely agrarian economy but is developing its tourism industry, with a concentration in ecotourism. It has also invested substantially in hydropower facilities, and is an important provider of electricity to neighbouring countries.

Malaysia is an upper middle-income country on the path to graduating to high-income status. Since the 1970s it has managed to transform itself from a principally commodity-driven economy to one predominantly based on manufacturing and services, though commodities remain important.

Myanmar is a low-income country located in the Greater Mekong Subregion. It has recently begun to liberalise its economy and transition to a civilian government, and it has begun actively to seek investment in industry and infrastructure, although progress here has dwindled in recent years. It is a largely rural economy with substantial natural resources, and it holds substantial growth potential, with a sizeable consumer market. However, conflict persists in a significant proportion of the country.

The Philippines is lower middle-income country and archipelago covering an estimated 7 107 islands, of which around 200 are inhabited. It has the second largest population in ASEAN and an important service sector, with strong business process outsourcing and tourism industries. Its large diaspora makes an important contribution to GDP via remittances. It has developed a specialisation in the production of electronics.

Singapore is a high-income city state with one of the highest population densities in the world. Its strategic location on one of the world's busiest shipping lanes and its highly educated population have enabled it to develop strategic market niches. It is a global hub for financial and insurance services, oil trading and pricing, shipping and biotechnology.

Thailand is an upper middle-income country and anchor economy for the Greater Mekong Subregion. While its agricultural sector remains important to jobs and exports, it has become a

leading producer and exporter of vehicles and vehicle parts. It has a vibrant tourism sector and has invested significantly in infrastructure. Today it is a logistics hub for many countries in the region, with one of the biggest ports and airports in ASEAN.

Viet Nam is a lower middle-income country and market-oriented socialist economy. It remains largely rural and agrarian, but is rapidly building up a strong manufacturing sector via an export-oriented FDI-driven industrialisation model. However, it shows signs of a dual economy, with rather low productivity in non-FDI sectors. State-owned enterprises constitute a particular drag on the economy.

Note: the country income classifications denoted here are based on the World Bank's country income group classifications for the 2019 fiscal year, which is based on the GNI per capita calculated using the World Bank's Atlas method. Further information on the methodology and country groupings can be found at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups.

Among ASEAN countries, Cambodia, Lao PDR, Myanmar and Viet Nam remain largely rural economies, with 60-79% of their population residing in rural areas. Agriculture accounts for a significant share of total private-sector employment in three of these countries: Lao PDR (62%), Myanmar (51.3%) and Viet Nam (41.9%) (ILO, 2016[1]). In Cambodia, the service sector is the largest employer (45.5% of total private-sector employment).

Many ASEAN countries have built up strong manufacturing bases. Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam have managed progressively to develop manufacturing capacity in higher value-added products, such as electronic parts and automobiles. Cambodia has developed a strong textiles and garments industry,[4] and today this is one of the main drivers of jobs, revenue and export earnings in the country. The region is highly integrated into global value chains, and many ASEAN countries have successfully leveraged outsourcing opportunities from industrialised economies such as Japan, South Korea, and, more recently, China. Economic zones have played an important role in this process, with Singapore, Malaysia and the Philippines first pioneering the approach in ASEAN. As of December 2016, there were more than 1 600 economic zones in the region, including over 1 162 industrial parks, 200 information technology centres (all in the Philippines), 71 special economic zones, 52 technology parks, 35 free industrial zones and 13 export processing zones (ASEC, 2017[2]). Many ASEAN Member States have used economic zones as a rapid way to attract foreign direct investment and export-oriented industries, and have increasingly competed to attract the best companies via a range of incentives such as tax exemptions, subsidies and the relaxation of labour laws. Today, accounts for one-sixth to one-quarter of private-sector employment and value-added in all ASEAN countries except Lao PDR and Brunei Darussalam (ILO, 2016[1]; World Bank, 2016[3]).[5]

Finally, a number of ASEAN countries have managed to develop a vibrant service sector, and are today service-driven economies. Services, particularly trade, finance, and real estate, absorb 59% of total FDI inflows to ASEAN (ASEC, 2016[4]). In Malaysia, the Philippines and Singapore, services account for more than 50% of gross value added and private-sector employment, while in Thailand services account for more than 50% of gross value added and generate the highest share of private-sector employment (44%). In 2015, the total contribution of tourism to ASEAN GDP was 12.4% - with a direct contribution of 5% and indirect and induced GDP accounting for the remaining 7.4% (WTTC, 2016[5]). The region has developed a healthy tourism sector that holds future

potential for growth. Singapore is a global hub for financial and insurance services, while the Philippines is a world leader in business process outsourcing.

Despite a contraction in global trade, growth has been resilient

Today ASEAN is one of the fastest growing regions in the world, and it has broadly managed to sustain high economic growth rates over three decades. Over the past five years (2013-17), most ASEAN countries have continued to record GDP growth rates above 5%. While many ASEAN countries are export oriented, making them vulnerable to the global growth cycle, growth in recent years has been predominantly fuelled by domestic consumption. The region has a rapidly growing middle class, and this is creating new economic opportunities. An estimated 190 million middle-class consumers[6] were estimated to reside in ASEAN in 2012; by 2020, this figure is projected to rise to around 400 million.

Table 1.2. Main macroeconomic indicators for ASEAN, 2016

Indicator	Unit of measurement	Country									
		BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
GDP growth [2 3]	Percent, y-o-y	1.3	6.8	5.1	6.9	4.2	6.8	6.7	3.6	3.9	6.8
Inflation [2]	Percent, average	-0.2	2.2	3.6	0.8	2.1	4.5	3.2	0.6	0.7	3.5
Government balance	Percent of GDP	-21.5	-2.9	-2.5	-1.2	-3.0	-4.6	-0.4	3.3	0.4	-6.6[1]
Current account balance	Percent of GDP	15.5	-	-1.8	-4.4	3.0	-6.6	-0.3	19.0	11.9	4.1
Export of goods and services	Percent of GDP	49.6	61.3	19.1	38.9	67.2	-	28.0	172.1	68.9	93.6
Imports of goods and services	Percent of GDP	37.7	65.7	18.3	51.6	61.0	-	36.9	146.3	54.2	91.1
Net FDI	Percent of GDP	-1.3	-	0.4	3.1	4.6	-	2.6	25.0	0.75	7.6
External debt	Percent of GNI	-	-	-	93.3	69.6	-	21.1	-	31.4	38.4
Gross reserves	Percent of external debt	-	-	-	15.6	47.2	-	104.3	-	141.4	46.0
Domestic credit to the private sector	Percent of GDP	44.3	69.7	39.4	94.8	123.9	-	44.7	132.9	147.4	115.0
Unemployment	Percent of active population	6.9	0.3	5.6	-	3.4	4.0	5.5	3.0	1.0	2.1

Note: **1.** IMF staff estimates **2.** ASEC estimates (2017) **3.** Preliminary statistics.
Source: World Bank (2017), *World Development Indicators*, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 4 April 2018); IMF (2017), *World Economic Outlook*, https://www.imf.org/external/pubs/ft/weo/2017/02/weodata/weoselgr.aspx (accessed 4 April 2018), ASEC (2017).

Sound macroeconomic fundamentals across the region as a whole have helped to moderate the impact of lower export earnings from sluggish global trade recovery. Most ASEAN countries have managed to maintain a relatively strong external position thanks to substantial international reserves, which provided an important buffer while global trade recovered, as well as growing regional markets.

Domestic structural reform may be needed to broaden and sustain growth

The region is anticipated to sustain a high growth rate over the medium term, with average annual GDP growth of 5.2% forecast between 2018 and 2022 (OECD, 2018[6]). This is highly contingent on governments' ability to deliver on planned infrastructure projects. Notable downside risks include the possibility of a more rapid monetary policy contraction in advanced economies, growing protectionism and rapidly increasing private-sector debt (OECD, 2018[6]).

Domestic structural reforms may become more pressing if growth is to be sustained and broadened (OECD, 2018[6]). Over the medium term, many governments in the region may face increasing pressures to moderate credit growth through enhanced bank regulation and supervision. While the quality of bank assets is not yet a cause for concern, the volume of non-performing loans and assets has increased, and this may leave ASEAN economies more vulnerable to external risks such as a reversal of nascent trade recovery or more rapid monetary contraction in advanced economies. Moves to tighten credit growth may dampen domestic demand, but may also reduce the threat of economic slippage should such risks be realised (OECD, 2018[6]).

Over the long term, the region will need to sustain and increase investment, particularly in infrastructure. By some estimates, ASEAN's infrastructure investment needs may reach USD 2 759 billion over the next 10 years, or 5% of the region's projected GDP (ADB, 2017[7]). ASEAN continues to face issues of connectivity, both within and between member states, with important transport corridors between trading ASEAN nations still missing, particularly rail links (ADB, 2015[8]; ASEC, 2016[9]). This is especially pronounced in the Greater Mekong Subregion,[7] and large-scale transport infrastructure projects are planned but at different levels of implementation. As the region's middle class continues to expand, demand for transport infrastructure is increasing, particularly in the region's urban centres. Development of the digital economy is constrained by underdeveloped telecommunication infrastructure in many countries, with less than 30% of the population online in Cambodia, Indonesia, Lao PDR and Myanmar (OECD, 2018[6]). Climate change is also likely to increase demand for investment in infrastructure, as pressures build to make existing infrastructure more disaster-proof and resource-efficient (ADB, 2017[7]).

Policy makers will need to crowd in more private financing into infrastructure investment to meet these demands. In some countries, this will require new business models and regulatory reform. Only two ASEAN countries operate at general cost recovery levels for electricity production, and in three ASEAN countries unitary revenues from electricity tariffs do not cover the marginal cost required to generate electricity (World Bank, 2018[10]). Reform may also require the exploration of new financing instruments that use private funds more efficiently and tap into new sources of funding, such as blended finance.

Alongside measures to upgrade infrastructure, policy makers are also seeking ways to enhance productivity to increase incomes and avoid the middle-income trap. While FDI has been an important driver of industrialisation in many countries, some show signs of a dual economy, with productivity in non-FDI sectors significantly lagging behind.

Human capital development is one facet of productivity enhancement measures and will be an increasingly pressing priority for policy makers over the long term. Strong education and training systems will enable AMS to respond to and keep pace with emerging skill needs in the global economy. In some countries this will mean upgrading the current workforce via literacy drives and better provision of vocational education and training, typically via close public-private collaboration.[8] In others the focus will be more on preparing the country's future workforce, via skills planning and the development and promotion of facilities for lifelong learning.

Finally, some ASEAN economies may face pressures to improve the quality of public spending. Some countries are facing a widening budget gap, although the fiscal outlook appears to be largely stable (OECD, 2018[6]). A number of countries are embarking upon tax reform, while others are attempting to increase integrity in public service provision

and are increasingly undertaking more rigorous evaluation of public policies and programmes.[9]

Further economic integration presents challenges as well as opportunities

Further economic integration offers to enhance economic growth and resilience in Southeast Asia. The freer movement of goods and services can lower barriers to trade and open up new markets for firms operating in the community. The freer movement of labour and capital can act as a macroeconomic stabiliser and a tool for spreading wealth from the community's more developed to less developed countries and sub-national regions. However it can also open up new challenges. Disparate levels of institutional development and income tends to increase competitive pressures and the need for structural reform in lower-income countries as integration advances. ASEAN demonstrates particularly divergent levels of economic development relative to other economic communities. Gross domestic product per capita (PPP) ranges from PPP Intl$ 4 104 in Cambodia to PPP Intl$ 93 920 in Singapore.[10] Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam continue to account for around 97% of ASEAN trade, 96% of GDP and 94% of FDI[11] (ASEC, 2016[4]).

More can be done to lower barriers to trade. While import tariffs for most goods have been removed, non-tariff barriers remain rather high.[12] Likewise, while gradual opening of the services market continues and offers better policy certainty, the question remains on whether this has led to actual liberalisation. Intra-ASEAN trade stands at around 23% of the region's total trade, which is lower than in other economic communities such as the European Union and NAFTA.[13] In absolute terms intra-ASEAN trade has been growing, and the region's market has effectively cushioned the adverse impact of a weakening external sector. There is, however, still some way to go to achieve the community's objective of doubling intra-ASEAN trade by 2025.

Obstacles also remain for the free movement of labour and capital. Labour migration in ASEAN currently tend to be concentrated in a few one-way corridors: from Cambodia, Lao PDR and Myanmar into Thailand (which accounts for around 55% of total intra-ASEAN labour migration); from Indonesia to Malaysia (16%); and from Malaysia into Singapore (16%) (WEF, 2016[11]). Regional initiatives such as the creation of frameworks to facilitate and promote the mutual recognition of skills will be important to create a more fluid regional labour market. Freer movement of capital may be stymied by different levels of capital market development, and by gaps in the regulatory framework for financial services in some AMS.

SMEs in ASEAN

SME development is an important pillar of regional integration efforts. Micro, small and medium-size enterprises represent around 97-99% of the enterprise population in most ASEAN countries.[14] The SME sector tends to be dominated by micro enterprises, which typically account for 85-99% of enterprises (where data are available). There is a relatively low share of medium-sized enterprises across the region as a whole, which may be indicative of a "missing middle" in the region's productive structure.

In most ASEAN countries, SMEs are predominantly found in labour-intensive and low value-added sectors of the economy, particularly retail, trade and agricultural activities. As such, they continue to account for a high share of employment but a low share of gross value added in most countries. The latest available data for the region suggests that

SMEs account for around 66.3% of employment (based on the median)[15] and 42.2% of gross value added.[16] While these figures should be approached with caution,[17] they suggest that SME productivity and growth may lag behind larger enterprises.

SMEs in general appear to be underrepresented as exporters, with their contribution to total exports estimated at around 10-30% (ERIA-OECD, 2014[12]). SMEs tend to engage more in global value chains as exporters than as buyers of foreign inputs (López González, 2017[13]), though the OECD (2016[14]) finds the sourcing of foreign value added to be associated with greater productivity, more sophisticated exports and less concentrated export structures.

SME policy

SME policy goes hand in hand with private-sector development, and is premised on the idea that micro, small and medium-sized enterprises face barriers to growth. The limitations of SMEs relative to large firms include: *i)* lower bargaining power; *ii)* fewer resources to invest in technology and people, and to ride out difficult periods; *iii)* higher compliance costs; *iv)* smaller networks; and *v)* limited managerial and/or technical skills. These barriers can discourage entrepreneurs from embarking on a business venture or can cause SMEs to operate well below their optimal efficiency frontier. Advocates of SME policy argue that this may constitute a drag on productivity growth. They contend that measures to address these barriers could produce a more flexible, resilient, competitive and inclusive economy overall, generating a stream of social gains that outweigh the direct cost of financing SME support programmes.

Policy makers take a range of approaches to SME policy based on their objectives (Table 1.3). Often they employ a mix of approaches, with the dominant approach fluctuating over time in line with current, often political, policy priorities. They may also adopt different approaches for different segments of the SME population. The approach taken informs the selection of policies and how they are structured, and both horizontal and targeted policies may be used.

Table 1.3. Objectives of SME policy

Overarching goal	Specific goal
Macro objectives	• Creation of employment • Economic development • Export growth
Social objectives	• Income redistribution • Poverty alleviation in developing countries
Correction of market failures / inefficiency (static efficiency objectives)	• Presence of externalities • Market access barriers • Asymmetric information • Small number of competitors • Information imperfection (lack of access to information about potential markets) • Levelling the playing field
Dynamic efficiency objectives	• Promotion of innovation

Source: Harvie and Lee (2005), http://ro.uow.edu.au/commpapers/1052/.

The three key approaches to SME policy could be summarised as follows:

- **SME development as a tool to improve market efficiency**. This approach is broadly horizontal. It aims to ensure that all enterprises have equal access to markets and to promote dynamic competition. It focuses on removing administrative barriers that may distort competition, reducing information asymmetries, promoting easy entry-exit procedures and stimulating entrepreneurship.
- **SME development as a structural challenge that requires targeted support**. This approach calls for providing proactive, ongoing and direct support to enterprises until they have overcome most of their structural weaknesses. It places more emphasis on the structural features that constrain SME growth, such as a lack of economies of scales and scope, a lower capacity to invest in human and physical capital, and weak research and development activity. It tends to target select groups of enterprises and sectors, which may change over time.
- **SME development as a tool to increase human welfare**. The main objective of this approach is to increase social development and generate additional employment opportunities. To achieve these aims, policy makers mostly focus on introducing initiatives to support entrepreneurship, particularly among the most vulnerable, and on developing microfinance schemes. This approach generally targets micro and small enterprises, mainly the former, and tends to focus on those operating in traditional, highly labour-intensive sectors, such as hospitality, construction, transport and small-scale manufacturing.

A number of different approaches have been adopted in ASEAN, and these have tended to change over time.

Notes

[1] Based on preliminary ASEC statistics for 2017.

[2] Based on preliminary ASEC statistics for 2017.

[3] Both high savings rates and sound macroeconomic management have become particularly pronounced in the years following the Asian Financial Crisis (1997-98).

[4] Since the 1990s, though it has faced difficulties upgrading to higher value-added products.

[5] An exception is Lao PDR, where industry accounts for 9.6% of private sector employment and 32.5% of value added (ILO, 2016[1]; World Bank, 2016[3]). As a small country mainly oriented around oil and gas production, Brunei Darussalam is also an exception, with industry accounting for just 18.0% of private sector employment but 57.3% of gross value added (ILO, 2016[1]; World Bank, 2016[3]).

[6] Defined as those with disposable income of around USD 16-100 a day.

[7] In particular in Cambodia, Lao PDR and Myanmar.

[8] For instance in CLM countries, which may not be able to adopt the export-manufacturing development model used by many ASEAN-6 countries in the 1970s and 1980s if technologies associated with Fourth Industrial Revolution disrupt the global economy to the extent predicted (WEF, 2016[11]).

[9] For instance, six AMS (Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand and Viet Nam) have joined the OECD's Inclusive Framework on BEPS. Indonesia has emphasised tax reform as one of the government's key priorities under the administration of President Joko Widodo.

[10] Based on preliminary ASEC statistics for 2017.

[11] Singapore alone absorbed 55% of FDI in 2016 (ASEC data).

[12] 99.2% of items on the Inclusion List in ASEAN-6 and 90.9% in CLMV countries, as of Q4 2016.

[13] Intra-EU exports account for 64% of total exports in the EU-28 and intra-EU imports account for 63.8% of total EU-28 imports, for example (EC, 2018[16]).

[14] Data for Myanmar is unclear. Official statistics suggest that only 87% of all enterprises are MSMEs, but this data may not fully represent the true population due to fragmented and irregular data collection. SME data in Myanmar is collected by a number of different bodies including the Directorate of Industrial Supervision and Inspection in the Ministry of Industry, the SME Development Centre, city and township development committees, and the Central Statistical Organisation. Until 2015, the country's SME definition also included a "horsepower" criterion, meaning that it could only be applied to those enterprises producing finished goods from raw materials, excluding service and trade businesses from official SME statistics. While the new SME definition is certainly an improvement, the inclusion of a number of different criteria may still create problems of application for many government agencies.

[15] The median is used due to rather high dispersion of values.

[16] Although data on SMEs' contribution to GDP/value added is missing for three countries (Cambodia, Lao PDR and Myanmar). The results are also skewed by Brunei (where SMEs reportedly only account for 16% of gross value added) and Indonesia (where they reportedly account for 61%), which again is why the median average is used.

[17] Since they are based on highly heterogeneous SME definitions and because some countries in the region face capacity constraints in collecting regular and accurate data.

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Chapter 2. Policy framework and assessment process

The ASEAN SME Policy Index framework aims to provide an independent and rigorous assessment of the policy environment for SMEs and to benchmark this assessment against the goals and actions identified in the ASEAN Strategic Action Plan for SME Development (SAP SMED) 2016-2025, as well as OECD good practice. It aims to provide guidance for policy reform and development on the basis of these findings.

While other indices and benchmarking exercises assess the business environment in Southeast Asia, the SME Policy Index adds value by going beyond the statistics to examine the policy environment for SMEs across a broad range of areas. In addition:

- It focuses on the ASEAN region as it embarks upon further economic integration, enabling policy makers to identify challenges that may lie ahead.
- It evaluates the SME policy environment comprehensively around the objectives of the SAP SMED 2016-2025, allowing for an assessment of progress.
- It takes a participatory approach to evaluation and measurement through its involvement of policy makers, the private sector and partner organisations.
- It provides guidance on how to improve the SME policy framework in each country through good practice examples and policy recommendations.
- It incorporates relevant data by other organisations, such as the World Bank's Doing Business report and Enterprise Surveys, as well as additional ERIA and OECD data, such as ERIA's foreign investment liberalisation index scores and the OECD's trade facilitation index scores.
- It uses the country context and broader factors affecting SME development to complement the analysis that emerges from the scores.

However, the SME Policy Index methodology also has limitations:

- The inputs and outputs of government policy can be hard to capture, particularly in countries where SME policies are mainly implemented by local government.
- A lack of SME data in many Southeast Asian countries, as well as substantially diverse SME definitions, limit the comparability of data across economies.
- The indicator weights are defined based on expert opinion, and therefore can be open to challenge.
- Certain indicators may have been given special prominence due to their importance to ASEAN member states and the SAP SMED 2016-2025, rather than necessarily on the basis of expert opinion.
- The assessment covers a hugely diverse group of countries that differ substantially in terms of income, geography, population, resource endowment and

institutional capacity. The application of a single set of indicators and weights can therefore mask certain country-specific characteristics in the scoring. Attempts were made to address this constraint, such as graduated scoring and the exclusion of certain countries from indicators that were not applicable (for more information, see Annex A).

The 2018 assessment framework

The 2018 ASEAN SME Policy Index assessment framework maps and benchmarks SME policies across eight policy areas ("dimensions"), which are broken down into 25 components ("sub-dimensions"). These components were developed in reference to the SAP SMED 2016-2025 as well as the more generic SME Policy Index framework developed by the OECD. A repeated application of the framework, at least over the duration of the SAP SMED 2016-2025, should provide a dynamic picture of SME policy reforms and priorities over time.

Table 2.1. The 2018 ASEAN SME Policy Index assessment framework

2018 ASPI dimensions and sub-dimensions	ASEAN SAP SMED strategic goals and desired outcomes
1. Productivity, technology and innovation	A. Productivity, technology and innovation
1.1 Productivity measures	A.1 Productivity will be enhanced
1.3 Productive agglomerations and clusters enhancement	A.2 Industry clusters will be enhanced
1.2 Business development services	A.3 Innovation will be promoted as a key competitive advantage
1.4 Technology and innovation promotion	
2. Environmental policies and SMEs	A. Productivity, technology and innovation
2.1 Environmental policies targeting SMEs	A.3 Innovation will be promoted as a key competitive advantage
2.2 Incentives and instruments for greening SME operations	
3. Access to finance	B. Increase access to finance
3.1 Legal, regulatory and institutional framework on access to finance	B.1 Institutional framework for access to finance will be developed and enhanced
3.2 Diversified sources of enterprise finance	B.2 Financial inclusion (and literacy) will be promoted, and the ability of MSMEs to engage in the financial system will be enhanced
3.2 Diversified sources of enterprise finance (microfinance component)	
4. Access to market and internationalisation	C. Enhance market access and internationalisation
4.1 Export promotion	C.1 Support schemes for market access and integration into the global supply chain will be further developed
4.2 Integration to global value chains	
4.3 Use of e-commerce	C.2 Export capacity will be promoted
4.4 Quality standards	
4.5 Trade facilitation	
5. Institutional framework	D. Enhance policy framework and regulatory environment
5.1 SME definition	D.1 Inter and intragovernmental co-operation in terms of policy and regulation will be enhanced
5.2 Strategic planning, policy design and co-ordination	
5.3 Measures to tackle the informal economy	D.3 Obtaining of permits and business registration will be streamlined
6. Legislation, regulation and tax	D. Enhance policy framework and regulatory environment
6.1 Public-private consultations	D.2 MSMEs' interests will be promoted and involvement in the decision-making processes will be enhanced
6.2 Legislative simplification and regulatory impact analysis	D.3 Obtaining of permits and business registration will be streamlined
6.3 Company registration	
6.4 Ease of filing tax	
6.5 E-government	

2018 ASPI dimensions and sub-dimensions	ASEAN SAP SMED strategic goals and desired outcomes
7. *Entrepreneurial education and skills*	**E. *Promote entrepreneurship and human capital development***
7.1 Promotion of entrepreneurial education	E.1 Entrepreneurial education and learning programmes will be instituted
7.2 Entrepreneurial skills	
8. *Social enterprises and inclusive SMEs*	**E. *Promote entrepreneurship and human capital development***
8.1 Social enterprises	E.2 Human capital development for MSMEs will be enhanced, especially for women and youth
8.2 Inclusive SMEs	

Source: ASEC (2016) adjusted by OECD and ERIA experts.

The 2018 ASPI assessment framework differs significantly from the pilot framework used in 2014. While the pilot also featured eight dimensions, it touched upon different policy areas, some of which have become sub-dimensions in the new assessment. It also covered fewer and different indicators, and this limits the comparability of the two assessments.

A detailed description of the assessment framework, including changes from the 2014 version, is presented in Annex A.

The assessment process

The SME Policy Index is based on the results of two parallel assessments. A self-assessment is conducted by governments, led by a predesignated "national co-ordinator" (a government official assigned to lead the policy assessment). This self-assessment is informed by inputs collected from the various agencies and ministries involved in SME policy development and implementation. In addition, an independent assessment is conducted by the OECD and ERIA based on inputs from a team of local experts who collect data and information and conduct interviews with key stakeholders and private sector representatives, led by a predesignated "national consultant". In the 2018 exercise, a number of national consultants collaborated with national co-ordinators on information gathering due to the difficulty of obtaining data in some countries. Preliminary scores were developed on the basis of these two assessments, enhanced by further desk research, missions and consultations with government representatives conducted by the OECD and ERIA. A series of stakeholder meetings were subsequently held in each economy to discuss and compare the two parallel assessments and to help reduce bias and misjudgements. These meetings were typically attended by 30-50 SME policy stakeholders, including representatives of ministries and government agencies, international donors, civil society, the academic community, NGOs and the private sector. At these meetings, discrepancies between the parallel assessments were discussed, information gaps filled and draft scores presented. Based on the information gathered, the OECD and ERIA determined the final scores for each country and presented them to the national co-ordinators and consultants at a regional meeting held at the end of the assessment process.

A detailed description of how the scoring was conducted, including innovations since the 2014 assessment, is presented in Annex A.

Timing of the 2018 assessment

The 2018 ASPI assessment was carried out between 1 July 2016 and 31 October 2017 in three phases:

- **Design phase** (July-December 2016). The methodology and assessment framework were prepared in consultation with the ASEAN Co-ordinating Committee on Micro, Small and Medium Enterprises (ACCMSME), drawing reference from the OECD SME Policy Index methodology and the 2016-2025 SAP SMED. National co-ordinators and national consultants for each country were identified.
- **Data collection and evaluation phase** (January-October 2017). ASEAN countries carried out a self-evaluation of their policy frameworks (through an assessment questionnaire and other materials). This was complemented by an independent assessment carried out by the OECD and ERIA with the support of local experts. Stocktaking missions and workshops were held in all ten countries to support the data collection exercise. Desk research and follow-up with relevant stakeholders were used to fill information gaps and resolve inconsistencies. Finally, a workshop was conducted in Jakarta in October 2017, followed by a presentation of the initial results at the fourth ACCMSME meeting, held in Manila in October 2017.
- **Consolidation and publication phase** (November 2017-July 2018). Additional data were gathered, the draft report was prepared and the report was reviewed by participating countries, the ACCMSME and the ASEAN Secretariat. The draft report was presented at the fifth ACCMSME meeting, held in Luang Prabang in April 2018. Following the meeting, final comments were integrated into the report. The completed publication was presented at the Senior Economic Officials Meeting in July 2018 and formally launched at the ASEAN Economic Ministers' Meeting in August 2018. A series of training workshops and national dissemination events were due to be conducted after the launch.

The 2016-2025 ASEAN Strategic Action Plan for SME Development

The ASEAN Strategic Action Plan for SME Development 2016-2025 was developed in the context of the ASEAN Economic Community (AEC), which was established in 2015. The commitment to co-operate on SME development falls under the AEC Blueprint's third pillar, "equitable economic development". It represents ASEAN's recognition that SMEs may require additional support to take full advantage of the trade and investment opportunities that are expected to come from further economic integration, as well as to increase their competitiveness. This is regarded as key to narrowing the development gap across and within ASEAN member states.

Built around five strategic goals and twelve desired outcomes, SAPSMED 2016-2025 proposes a set of time-bound actions and action lines with key performance indicators (KPIs). Its main objectives are to: i) promote productivity, technology and innovation; ii) increase access to finance; iii) enhance market access and internationalisation; iv) enhance the policy and regulatory environment; and v) promote entrepreneurship and human capital development. It was launched at the ASEAN Business and Investment Summit in November 2015.

Chapter 3. Overview of key findings

This assessment suggests that ASEAN countries have made significant progress in the area of SME policy since the first such assessment was conducted in 2014. In particular, they have made notable efforts to build up the institutional framework for SME policies, enhance the provision of business development services and increase SME access to e-commerce. Productivity enhancement is now a key policy priority, although many countries still focus on improving the policy environment for micro enterprises, which are often informal, and often do so through subsidies. Measures to support the development of social enterprises and inclusive SMEs remain limited. The sophistication of the policy framework for SMEs generally correlates with overall income levels and institutional capacities across most ASEAN member states (AMS).

Overall key findings

MSMEs operate mainly in wholesale and retail trade, with high levels of informality

Across ASEAN, the industrial sector is dominated by large enterprises, notably in the extractive industries and manufacturing, while MSMEs dominate the service sector (with the exception of banking, finance and telecommunications), where they can leverage on their flexibility and capacity to cater for consumer needs. On average, more than 70% of formal MSMEs in ASEAN countries are engaged in labour-intensive services, with only 10-15% engaged in manufacturing. The exception here is Viet Nam, where a high share of formal MSMEs are engaged in manufacturing and integrated into global value chains (GVCs). Informal and unregistered enterprises account for a very large share of micro enterprises in ASEAN, particularly in lower-income countries. While there are no exact figures on enterprise informality in the region, data on employment informality, both in formal and informal enterprises, suggest that informal practices are widespread.

Data gaps and the lack of a common SME definition complicate policy making

While some general observations can be made about the MSME population in ASEAN, accurate and comprehensive data for most countries are missing. Only half of AMS conduct a regular enterprise census, and few calculate a comprehensive set of performance indicators such as SME contribution to GDP. The comparability of data across ASEAN is further hindered by the fact that member countries have not adopted a harmonised MSME definition. The metrics used to classify firms by size vary widely across ASEAN, both in terms of thresholds and the indicator used, and in some countries different criteria are also applied by sector.

MSME policy priorities and tools differ widely across the region

All AMS pursue a pro-active MSME development policy. As of 31 October 2017, seven of the ten ASEAN countries had adopted multi-year SME strategies, while the remaining three were exploring the development of such strategies. Where strategies are in place,

they largely reflect the goals of the 2016-2025 ASEAN Strategic Action Plan for SME Development (SAP SMED), albeit with significant variation in the prioritisation of these goals. Most AMS now regard SME policy as a tool for increasing overall competitiveness. In Indonesia and the Philippines, SME policy is also a pillar of poverty reduction efforts, and these countries therefore place a greater emphasis than other AMS on supporting micro enterprises. The region as a whole scores highest, on a scale of 1 to 6, on measures to enhance access to markets and internationalisation (4.55), promotion of entrepreneurial education and skills (4.27), and institutional framework (4.20) (all scores represent the ASEAN median). The region scores lowest on measures to promote social enterprises and inclusive SMEs (2.77), a relatively new policy area for ASEAN countries. These aggregate results, however, mask significant cross-country variation. The standard deviation, an indicator of dispersion around the ASEAN median, is well above 1 for all policy dimensions, with the interesting exception of the "social enterprises and inclusive SMEs" dimension. This suggests that while performance is more limited in this area, all countries are starting from a similar base.

Significant progress can be observed since the 2014 assessment, although methodological changes limit the comparability of scores. There has been particular progress in provision of business development services, SME access to e-commerce and GVC integration.

The level of MSME policy development correlates with overall development

Singapore and Malaysia have reached an advanced stage of policy development in a significant number of policy areas (seven for Singapore and five for Malaysia). This indicates that their SME policies and programmes in most areas are aligned with internationally recognised good practice and are adequately resourced, well run and effectively monitored. Indonesia, Thailand and the Philippines, all middle-income countries with moderate institutional capacity, are identified as mid-level performers in most policy areas. This indicates that their SME policy is well elaborated and adequately implemented, though some limitations remain, often in monitoring and evaluation. Brunei Darussalam and Viet Nam are relatively new to SME policy, but they are rapidly catching up with their peers. In these countries, there have been significant improvements over recent years, particularly in the institutional framework for SME policy. Cambodia, Lao PDR and Myanmar are generally at an early stage of developing SME policies and programmes, and this tends to reflect overall institutional capacity challenges. Of the three, Lao PDR is relatively advanced in the development of an institutional framework for SME policy, and Cambodia and Lao PDR are undertaking measures to inculcate good regulatory practices and enhance their business environments. Myanmar has made substantial advances in streamlining company registration procedures and is in the process of setting up an SME development agency.

Key findings by dimension

Dimension 1: Productivity, technology and innovation

AMS have made considerable progress in this dimension, especially in developing relevant policies and business development services, but they face a number of challenges. With production becoming increasingly complex, productivity performance of enterprises in ASEAN has varied across sectors, and there has been some evidence of faster growth in lower-productivity sectors in recent years. Stronger implementation instruments focused on SME productivity growth, and stronger support services and innovation performance, will not only help the ASEAN region to strengthen its

performance in global value chains but also boost both regional trade and the overall economic development of the region as a whole.

Dimension 2: Environmental policies and SMEs

The greening of SMEs is a new area of policy development for most AMS, and few environmental policies target SMEs. For many AMS, unfamiliarity with green-growth principles was evident during the ASPI's information-gathering phase and in subsequent discussions. In almost all cases, even in AMS with green-growth strategies that support greener practices for SMEs, there remains a disconnect between the agencies supporting SMEs and those supporting greener practices for SMEs.

Dimension 3: Access to finance

The majority of AMS have undergone a wave of institution-building over the past five years. The bulk of public subsidy programmes in this area are targeted at increasing SME access to bank loans. A common instrument across AMS is the provision of an SME-specialised development bank and/or a refinancing scheme for selected commercial banks. AMS have stepped up efforts to improve access to microfinance and to bring MFIs and rural credit operators into the formal financial system. To stimulate bank financing, most AMS provide a mix of programmes, notably refinancing, credit-guarantee and export-financing schemes.

Dimension 4: Access to market and internationalisation

The region as a whole is already quite advanced on this dimension, but variation is high across AMS, both overall and in the five sub-dimensions. This suggests wide differences in the policies implemented by AMS and indicates that, although considerable efforts have been made, several ASEAN countries might still face difficulties in designing policies to move SMEs into the next stage of trading across borders. The low score for trade facilitation suggests that the region has considerable room for improvement in this area. Many AMS are promoting e-commerce and have designed policies to enhance the use of e-commerce among SMEs.

Dimension 5: Institutional framework

Development of institutional and policy frameworks varies considerably among the AMS. Given high levels of informality, a number of AMS have started systematically to address the issue of enterprise informality, but less developed AMS are still at an early stage of policy elaboration.

Dimension 6: Legislation, regulation and tax

All AMS have adopted an SME policy approach that combines horizontal actions with targeted or vertical policies directed at specific segments of the SME population or specific sectors. A number of AMS have established inter-ministerial committees to ensure improvement in their *Doing Business* ranking. Horizontal policies that benefit all classes of enterprises include establishing effective channels of public-private dialogue, implementing broad-based regulatory reform programmes, reducing entry barriers by reforming the process of starting a business, simplifying tax filing procedures and introducing digital government services. These policies are highly relevant for SMEs, which tend to experience a heavier administrative burden than larger enterprises.

Dimension 7: Entrepreneurial education and skills

The variation in country scores for this dimension suggests a development gap among AMS. While Singapore and Indonesia have developed relatively advanced policies for their entrepreneurial ecosystems, Cambodia, Lao PDR, Myanmar and Viet Nam are still in the early stage of developing and including the relevant programmes in their policy frameworks. Entrepreneurial learning has not yet been fully integrated into the national education systems of all AMS.

Dimension 8: Social enterprises and inclusive entrepreneurship

Dispersion is greatest in the sub-dimension on social enterprise, possibly because it is a relatively new policy area in most AMS. In the sub-dimension on inclusive entrepreneurship, policies to support women's entrepreneurship show the greatest variation, reflecting the fact that several countries have more advanced policy measures than others. Interestingly, women's entrepreneurship is the area where countries have achieved the most progress overall under this dimension. Since inclusive entrepreneurship is a relatively new policy area, policy makers might want to consider focusing more on policies and instruments to stimulate activity in this area.

ASEAN SME Policy Index 2018 scores

This section presents the 2018 assessment scores by country for each dimension, sub-dimension and thematic block, as well as the overall median, standard deviation and weights used for each element. Scores range between 1 and 6, with a higher score indicating a more advanced level of policy development and implementation. For the detailed methodology of the assessment, please see Annex A.

Table 3.2. ASEAN SME Policy Index 2018 scores

Dimension 1: Productivity, Technology and Innovation

Dimension / sub-dimension / thematic block	*BRN*	*KHM*	*IDN*	*LAO*	*MYS*	*MMR*	*PHL*	*SGP*	*THA*	*VNM*	*Weights*	*Median*	*StD*
1: Productivity, technology and innovation	***3.37***	***2.62***	***4.14***	***2.76***	***5.06***	***2.38***	***4.08***	***5.84***	***4.97***	***3.48***	***NA***	***3.78***	***1.10***
1.1 Productivity measures	**3.75**	**2.46**	**4.31**	**2.84**	**5.38**	**2.26**	**4.08**	**6.00**	**5.08**	**3.60**	**25%**	**3.91**	***1.19***
Thematic block 1: Planning and design	3.27	3.48	4.52	4.33	5.37	2.65	3.68	6.00	5.16	3.69	35%	4.01	*1.00*
Thematic block 2: Implementation	3.75	2.10	4.31	2.28	5.63	2.47	4.68	6.00	5.06	3.38	45%	4.03	*1.33*
Thematic block 3: Monitoring and evaluation	4.58	1.51	3.92	1.51	4.84	1.13	3.41	6.00	4.95	3.94	20%	3.93	*1.59*
1.2 Business development services	**3.67**	**1.96**	**4.21**	**2.93**	**5.00**	**2.32**	**4.25**	**6.00**	**4.89**	**3.06**	**25%**	**3.94**	***1.22***
Thematic block 1: Planning and design	3.58	2.51	3.38	3.02	5.43	2.19	4.27	6.00	5.29	3.77	35%	3.67	*1.22*
Thematic block 2: Implementation	4.07	1.95	4.79	2.85	5.09	2.76	5.07	6.00	4.96	3.19	45%	4.43	*1.25*
Thematic block 3: Monitoring and evaluation	2.93	1.00	4.33	2.93	4.05	1.55	2.38	6.00	4.05	1.55	20%	2.93	*1.47*
1.3 Productive agglomerations and clusters enhancement	**3.53**	**3.75**	**4.06**	**3.01**	**5.10**	**3.26**	**4.10**	**5.36**	**4.91**	**3.73**	**25%**	**3.91**	***0.75***
Thematic block 1: Planning and design	4.18	4.73	5.17	3.52	5.90	4.64	4.68	5.86	5.89	4.76	35%	4.75	*0.75*
Thematic Block 2: Implementation	4.00	3.77	3.82	3.22	4.52	2.91	4.01	4.68	4.71	3.70	45%	3.91	*0.56*
Thematic Block 3: Monitoring and evaluation	1.33	1.99	2.65	1.66	4.99	1.66	3.31	6.00	3.64	1.99	20%	2.32	*1.48*
1.4 Technology and innovation promotion	**2.55**	**2.33**	**4.00**	**2.27**	**4.77**	**1.68**	**3.88**	**6.00**	**5.01**	**3.52**	**25%**	**3.70**	***1.33***
Thematic block 1: Planning and design	2.42	3.22	4.34	2.89	4.86	1.83	3.89	6.00	5.56	3.70	35%	3.79	*1.28*
Thematic block 2: Implementation	3.05	1.92	4.49	2.20	5.19	1.86	4.13	6.00	5.05	4.07	45%	4.10	*1.39*
Thematic block 3: Monitoring and evaluation	1.66	1.66	2.32	1.33	3.64	1.00	3.31	6.00	3.98	1.99	20%	2.16	*1.46*

Dimension 2: Greening SMEs

Dimension / sub-dimension / thematic block	*BRN*	*KHM*	*IDN*	*LAO*	*MYS*	*MMR*	*PHL*	*SGP*	*THA*	*VNM*	*Weights*	*Median*	*StD*
2: Environmental policies and SMEs	***2.04***	***1.88***	***3.28***	***1.94***	***5.08***	***1.72***	***3.75***	***5.30***	***4.29***	***3.63***	***NA***	***3.45***	***1.28***
2.1 Environmental policies targeting SMEs	**2.68**	**2.07**	**3.52**	**2.14**	**5.37**	**2.20**	**4.03**	**5.45**	**4.74**	**3.80**	**60%**	**3.66**	***1.24***
Thematic block 1: Planning and design	3.20	2.28	3.75	2.38	6.00	2.65	5.06	5.63	4.68	4.13	35%	3.94	*1.28*
Thematic block 2: Implementation	2.65	2.38	3.91	2.10	5.15	2.38	4.03	5.43	5.72	3.49	45%	3.70	*1.29*
Thematic block 3: Monitoring and evaluation	1.83	1.00	2.24	1.83	4.75	1.00	2.24	5.16	2.65	3.90	20%	2.24	*1.39*
2.2 Incentives and instruments for greening SMEs' operations	**1.09**	**1.60**	**2.92**	**1.65**	**4.66**	**1.00**	**3.32**	**5.09**	**3.63**	**3.38**	**40%**	**3.12**	***1.37***
Thematic block 1: Planning and design	1.00	1.66	3.64	2.32	4.66	1.00	3.97	4.66	4.30	4.66	35%	3.81	*1.46*
Thematic block 2: Implementation	1.21	1.83	2.86	1.41	5.36	1.00	3.48	5.58	3.90	3.08	45%	2.97	*1.56*
Thematic block 3: Monitoring and evaluation	1.00	1.00	1.83	1.00	3.06	1.00	1.83	4.74	1.83	1.83	20%	1.83	*1.13*

Dimension 3: Access to Finance

Dimension / sub-dimension / thematic block	*BRN*	*KHM*	*IDN*	*LAO*	*MYS*	*MMR*	*PHL*	*SGP*	*THA*	*VNM*	*Weights*	*Median*	*StD*
3: Access to finance	***4.38***	***2.89***	***4.58***	***2.36***	***5.35***	***1.83***	***3.93***	***5.69***	***4.87***	***3.81***	***NA***	***4.15***	***1.21***
3.1 Legal, regulatory and institutional framework on access to finance	**5.24**	**3.79**	**4.59**	**2.83**	**5.38**	**2.00**	**2.87**	**5.39**	**4.42**	**3.65**	**50%**	**4.10**	***1.13***
3.1.1 Legal regulatory framework for commercial lending	*5.77*	*3.66*	*4.40*	*2.63*	*5.23*	*2.23*	*2.40*	*5.33*	*4.03*	*3.26*	*70%*	*3.85*	*1.21*
Thematic block 1: Collateral requirements	5.00	3.00	4.00	1.00	6.00	1.00	3.00	6.00	1.00	1.00	20%	3.00	*1.97*
Thematic block 2: Creditor rights (World Bank Doing Business)	6.00	5.17	3.50	3.50	4.33	1.83	1.42	4.33	3.92	4.33	40%	4.13	*1.31*
Thematic block 3: Tangible and intangible assets register	5.92	2.49	5.50	2.57	5.75	3.23	3.08	6.00	5.67	3.31	40%	4.41	*1.44*
3.1.2 Credit information bureau (WB Doing Business)	*5.26*	*4.52*	*5.26*	*3.78*	*6.00*	*1.00*	*3.78*	*5.26*	*5.26*	*5.26*	*20%*	*5.26*	*1.36*
Thematic block 1: Credit information bureau	5.26	4.52	5.26	3.78	6.00	1.00	3.78	5.26	5.26	5.26	100%	5.26	*1.36*
3.1.3 Stock market operations and facilities for SMEs listing	*1.55*	*3.20*	*4.60*	*2.38*	*5.15*	*2.38*	*4.33*	*6.00*	*5.43*	*3.22*	*10%*	*3.77*	*1.42*
Thematic block 1: Planning and design	1.55	3.20	4.60	2.38	5.15	2.38	4.33	6.00	5.43	3.22	100%	3.77	*1.42*
3.2 Diversified sources of enterprise finance	**3.52**	**1.98**	**4.57**	**1.89**	**5.31**	**1.66**	**4.99**	**6.00**	**5.32**	**3.97**	**50%**	**4.27**	***1.51***
3.2.1 Bank credit or loans	*3.48*	*1.17*	*4.59*	*1.17*	*5.46*	*1.17*	*5.26*	*6.00*	*5.50*	*3.81*	*70%*	*4.20*	*1.85*
Thematic block 1: Export financing schemes	4.30	1.00	4.30	1.00	6.00	1.00	6.00	6.00	6.00	4.30	70%	4.30	*2.08*
Thematic block 2: Credit guarantee schemes	1.55	1.55	5.27	1.55	4.21	1.55	3.53	6.00	4.32	2.65	30%	3.09	*1.60*
3.2.2: Microfinance	*N/A*	*4.54*	*4.58*	*4.16*	*4.88*	*3.08*	*4.65*	*N/A*	*5.12*	*4.66*	*20%*	*4.62*	*0.58*

Thematic block 1: Planning and design	N/A	4.54	4.58	4.16	4.88	3.08	4.65	N/A	5.12	4.66	100%	4.62	*0.58*
3.2.3: Alternative sources of enterprise finance	*3.81*	*2.62*	*4.39*	*2.43*	*5.14*	*2.28*	*3.79*	*6.00*	*4.52*	*3.73*	*10%*	*3.80*	*1.14*
Thematic block 1: Asset-based finance	5.17	3.39	4.88	3.20	5.16	2.93	5.25	6.00	6.00	4.87	35%	5.02	*1.06*
Thematic block 2: Crowdfunding	1.55	1.83	3.48	2.10	4.88	1.00	2.38	6.00	3.20	2.10	35%	2.24	*1.49*
Thematic block 3: Equity instruments	4.87	2.65	4.88	1.92	5.43	3.02	3.76	6.00	4.32	4.30	30%	4.31	*1.22*

Dimension 4: Access to Market and Internationalisation

Dimension / sub-dimension / thematic block	***BRN***	***KHM***	***IDN***	***LAO***	***MYS***	***MMR***	***PHL***	***SGP***	***THA***	***VNM***	***Weights***	***Median***	***StD***
4: Access to market and internationalisation	***3.41***	***2.69***	***5.21***	***2.45***	***5.43***	***2.46***	***4.95***	***5.94***	***5.41***	***4.15***	***NA***	***4.55***	***1.29***
4.1 Export promotion	**3.32**	**2.82**	**5.49**	**2.43**	**5.69**	**3.04**	**5.62**	**6.00**	**5.70**	**4.54**	**50%**	**5.02**	***1.34***
Thematic block 1: Planning and design	3.37	3.84	5.76	3.12	6.00	4.08	6.00	6.00	6.00	5.76	35%	5.76	*1.16*
Thematic block 2: Implementation	3.72	2.84	5.36	2.24	5.74	2.55	5.32	6.00	5.62	4.28	45%	4.80	*1.37*
Thematic block 3: Monitoring and evaluation	2.32	1.00	5.33	1.66	5.00	2.32	5.66	6.00	5.33	3.00	20%	4.00	*1.78*
4.2 Integration into global value chains	**2.57**	**2.49**	**4.65**	**2.28**	**4.93**	**1.33**	**3.52**	**5.77**	**5.58**	**4.20**	**15%**	**3.86**	***1.44***
Thematic block 1: Planning and design	3.36	3.36	5.04	2.53	5.40	1.94	4.07	6.00	5.76	5.88	35%	4.55	*1.41*
Thematic block 2: Implementation	2.65	2.24	4.74	2.66	5.58	1.00	3.48	6.00	6.00	4.33	45%	3.90	*1.64*
Thematic block 3: Monitoring and evaluation	1.00	1.55	3.77	1.00	2.65	1.00	2.65	4.87	4.32	1.00	20%	2.10	*1.43*
4.3 Use of e-commerce	**3.66**	**2.03**	**5.57**	**2.71**	**5.47**	**2.07**	**5.06**	**6.00**	**5.61**	**3.82**	**10%**	**4.44**	***1.46***
Thematic block 1: Planning and design	4.74	2.24	5.58	3.90	6.00	3.50	5.58	6.00	6.00	5.16	35%	5.37	*1.21*
Thematic block 2: Implementation	3.77	2.33	5.89	2.54	5.32	1.44	4.98	6.00	5.89	3.53	45%	4.37	*1.59*
Thematic block 3: Monitoring and evaluation	1.55	1.00	4.87	1.00	4.88	1.00	4.32	6.00	4.30	2.10	20%	3.20	*1.85*
4.4 Quality standards	**4.03**	**2.04**	**5.31**	**2.18**	**5.29**	**1.30**	**5.36**	**6.00**	**4.89**	**3.41**	**10%**	**4.46**	***1.58***
Thematic block 1: Planning and design	3.48	1.83	6.00	1.83	6.00	1.00	6.00	6.00	4.33	1.83	35%	3.90	*1.98*
Thematic block 2: Implementation	5.33	2.66	4.98	2.99	5.66	1.66	5.32	6.00	5.33	4.99	45%	5.16	*1.41*
Thematic block 3: Monitoring and evaluation	2.10	1.00	4.87	1.00	3.20	1.00	4.32	6.00	4.87	2.65	20%	2.93	*1.75*
4.5 Trade facilitation	**3.99**	**3.30**	**4.49**	**2.69**	**5.13**	**2.69**	**3.78**	**5.84**	**4.48**	**3.48**	**15%**	**3.89**	***0.97***
Thematic block 1: OECD Trade Facilitation Indicators	4.75	3.50	4.33	2.67	4.75	2.25	3.50	6.00	5.17	5.17	25%	4.54	*1.13*
Thematic block 2: Planning and design	2.65	3.48	4.33	1.00	4.30	1.00	4.30	6.00	3.48	1.00	25%	3.48	*1.63*
Thematic block 3: Transparency and predictability	4.87	3.77	4.87	4.87	6.00	4.32	4.88	6.00	4.87	4.87	25%	4.87	*0.64*
Thematic block 4: Simplification of procedures	3.70	2.44	4.43	2.24	5.47	3.18	2.44	5.36	4.43	2.87	25%	3.44	*1.15*

Dimension 5: Institutional Framework

Dimension / sub-dimension / thematic block	*BRN*	*KHM*	*IDN*	*LAO*	*MYS*	*MMR*	*PHL*	*SGP*	*THA*	*VNM*	*Weights*	*Median*	*StD*
5: Institutional framework	***4.01***	***2.55***	***4.35***	***2.89***	***5.86***	***2.17***	***4.44***	***5.85***	***4.88***	***4.05***	***NA***	***4.20***	***1.21***
5.1 SME definition	**3.95**	**3.95**	**4.51**	**5.06**	**6.00**	**3.77**	**4.51**	**5.43**	**4.87**	**5.43**	**10%**	**4.69**	***0.70***
Thematic block 1: Planning and design	3.95	3.95	4.51	5.06	6.00	3.77	4.51	5.43	4.87	5.43	100%	4.69	*0.70*
5.2 Strategic planning, policy design and co-ordination	**4.02**	**2.35**	**4.77**	**2.81**	**5.84**	**2.35**	**4.89**	**5.92**	**5.56**	**3.88**	**60%**	**4.40**	***1.31***
Thematic block 1: Planning and design	3.43	2.93	5.47	4.04	5.76	2.84	5.10	5.76	5.88	4.66	35%	4.88	*1.13*
Thematic block 2: Implementation	5.22	2.03	4.53	2.44	6.00	2.38	4.52	6.00	5.86	3.68	45%	4.52	*1.48*
Thematic Block 3: Monitoring & Evaluation	2.34	2.04	4.12	1.49	5.62	1.43	5.38	6.00	4.31	2.96	20%	3.54	*1.65*
5.3 Measures to tackle informal economy	**NA**	**2.49**	**3.44**	**2.32**	**NA**	**1.29**	**3.52**	**NA**	**3.53**	**3.94**	**30%**	**3.44**	***0.87***
Thematic block 1: Planning and design	NA	2.65	3.48	2.65	NA	1.83	3.48	NA	5.15	5.15	35%	3.48	*1.18*
Thematic block 2: Implementation	NA	2.65	3.77	2.65	NA	1.00	3.75	NA	2.65	3.75	45%	2.65	*0.93*
Thematic block 3: Monitoring and evaluation	NA	1.83	2.65	1.00	NA	1.00	3.06	NA	2.65	2.24	20%	2.24	*0.76*

Dimension 6: Legislation, Regulation and Tax

Dimension / sub-dimension / thematic block	*BRN*	*KHM*	*IDN*	*LAO*	*MYS*	*MMR*	*PHL*	*SGP*	*THA*	*VNM*	*Weights*	*Median*	*StD*
6: Legislation, regulation and tax	***3.69***	***2.31***	***3.49***	***2.40***	***4.71***	***2.23***	***3.36***	***5.52***	***3.74***	***3.32***	***NA***	***3.43***	***1.00***
6.1 Public-private consultations	**1.88**	**2.75**	**3.66**	**2.75**	**5.15**	**2.86**	**4.48**	**5.47**	**4.58**	**3.46**	**25%**	**3.56**	***1.12***
Thematic block 1: Frequency and transparency	2.83	2.98	3.22	2.81	5.11	2.06	4.16	4.97	4.69	3.85	40%	3.54	*0.99*
Thematic block 2: Private sector involvement in PPCs	1.09	3.39	4.61	3.29	5.34	4.33	5.16	6.00	4.87	4.03	40%	4.47	*1.31*
Thematic block 3: Monitoring and evaluation	1.55	1.00	2.65	1.55	4.87	1.55	3.75	5.43	3.75	1.55	20%	2.10	*1.50*
6.2 Legislative simplification and regulatory impact analysis	**2.94**	**2.60**	**3.57**	**2.68**	**5.38**	**1.34**	**2.77**	**5.03**	**2.62**	**2.95**	**25%**	**2.85**	***1.14***
Thematic block 1: Planning and design	2.66	2.93	3.48	2.65	5.72	1.28	2.66	4.58	3.48	2.47	35%	2.80	*1.17*
Thematic block 2: Implementation	4.02	2.32	3.70	2.72	5.04	1.55	3.27	5.70	2.30	3.09	45%	3.18	*1.22*
Thematic block 3: Monitoring and evaluation	1.00	2.65	3.48	2.65	5.58	1.00	1.83	4.31	1.83	3.48	20%	2.65	*1.39*
6.3 Company registration	**5.01**	**1.75**	**3.33**	**2.72**	**3.81**	**3.05**	**2.51**	**5.78**	**3.91**	**3.80**	**25%**	**3.57**	***1.13***
Thematic block 1: Performance (WB Doing Business)	4.44	1.31	2.56	3.19	3.19	2.88	2.25	5.38	4.13	3.19	35%	3.19	*1.10*
Thematic block 2: Implementation	6.00	2.18	3.24	2.89	4.08	3.36	2.65	6.00	4.30	4.79	45%	3.72	*1.27*
Thematic block 3: Monitoring and evaluation	3.77	1.55	4.88	1.55	4.30	2.65	2.65	6.00	2.65	2.65	20%	2.65	*1.37*
6.4 Ease of filing tax	**3.78**	**3.22**	**2.67**	**1.56**	**4.89**	**2.67**	**3.78**	**5.44**	**3.78**	**4.33**	**10%**	**3.78**	***1.08***
Thematic block 1: Performance (WB Doing Business)	3.78	3.22	2.67	1.56	4.89	2.67	3.78	5.44	3.78	4.33	100%	3.78	*1.08*

6.5 E-government	**5.70**	**1.41**	**3.86**	**1.39**	**4.26**	**1.00**	**3.65**	**6.00**	**3.94**	**2.24**	**15%**	**3.76**	***1.69***
Thematic block 1: Planning and design	6.00	1.83	5.15	1.41	4.74	1.00	5.16	6.00	5.15	3.49	35%	4.94	*1.82*
Thematic block 2: Implementation	5.33	1.28	2.66	1.55	3.49	1.00	2.93	6.00	3.21	1.83	45%	2.79	*1.59*
Thematic block 3: Monitoring and evaluation	6.00	1.00	4.30	1.00	5.15	1.00	2.65	6.00	3.48	1.00	20%	3.06	*2.01*

Dimension 7: Entrepreneurial Education and Skills

Dimension / sub-dimension / thematic block	***BRN***	***KHM***	***IDN***	***LAO***	***MYS***	***MMR***	***PHL***	***SGP***	***THA***	***VNM***	***Weights***	***Median***	***StD***
7: Entrepreneurial education and skills	***4.06***	***2.54***	***4.52***	***2.29***	***4.58***	***2.38***	***4.50***	***5.36***	***4.50***	***2.87***	***NA***	***4.27***	***1.07***
7.1 Promotion of entrepreneurial education	**4.17**	**3.30**	**4.41**	**2.67**	**4.50**	**1.80**	**4.34**	**5.16**	**4.08**	**2.77**	**40%**	**4.12**	***0.98***
Thematic block 1: Planning and design	5.39	4.88	5.49	2.43	5.17	1.55	4.66	5.83	5.05	3.31	35%	4.97	*1.37*
Thematic block 2: Implementation	3.65	2.10	4.10	3.10	3.32	2.10	4.10	4.99	3.20	2.65	45%	3.26	*0.87*
Thematic block 3: Monitoring and evaluation	3.20	3.20	3.20	2.10	6.00	1.55	4.33	4.33	4.33	2.10	20%	3.20	*1.28*
7.2 Entrepreneurial skills	**3.99**	**2.03**	**4.60**	**2.03**	**4.63**	**2.77**	**4.60**	**5.50**	**4.78**	**2.94**	**60%**	**4.30**	***1.18***
Thematic block 1: Planning and design	2.65	1.83	5.15	1.83	3.50	1.83	5.15	6.00	3.48	1.83	35%	3.06	*1.53*
Thematic block 2: Implementation	6.00	2.65	4.30	2.65	6.00	4.30	4.30	6.00	6.00	4.30	45%	4.30	*1.26*
Thematic block 3: Monitoring and evaluation	1.83	1.00	4.33	1.00	3.50	1.00	4.30	3.50	4.33	1.83	20%	2.66	*1.39*

Dimension 8: Social Enterprises and Inclusive Entrepreneurship

Dimension / sub-dimension/ thematic block	***BRN***	***KHM***	***IDN***	***LAO***	***MYS***	***MMR***	***PHL***	***SGP***	***THA***	***VNM***	***Weights***	***Median***	***StD***
8: Social enterprises and inclusive entrepreneurship	***2.33***	***2.35***	***3.22***	***2.05***	***4.00***	***1.71***	***3.65***	***3.96***	***3.10***	***2.43***	***NA***	***2.77***	***0.77***
8.1 Social enterprises	**2.52**	**1.92**	**3.43**	**2.18**	**4.57**	**1.80**	**2.78**	**5.07**	**4.17**	**2.70**	**25%**	**2.74**	***1.09***
Thematic block 1: Planning and design	3.03	2.28	4.12	2.47	5.24	1.73	3.02	4.51	5.25	4.33	35%	3.58	*1.19*
Thematic block 2: Implementation	2.65	1.90	3.10	2.05	4.61	2.05	3.10	5.85	3.86	1.75	45%	2.88	*1.27*
Thematic block 3: Monitoring and evaluation	1.33	1.33	2.98	1.99	3.31	1.33	1.66	4.32	2.98	1.99	20%	1.99	*0.97*
8.2 Inclusive entrepreneurship	**2.27**	**2.49**	**3.15**	**2.01**	**3.81**	**1.69**	**3.94**	**3.58**	**2.74**	**2.34**	**75%**	**2.62**	***0.74***
8.2.1 Inclusive SMEs for women	*2.05*	*3.06*	*3.18*	*2.47*	*4.22*	*1.82*	*4.90*	*4.34*	*2.56*	*2.55*	*35%*	*2.81*	*0.99*
Thematic block 1: Planning and design	2.00	4.42	3.74	2.91	3.82	2.25	6.00	4.25	3.08	3.49	35%	3.62	*1.10*
Thematic block 2: Implementation	2.19	2.55	3.34	2.66	5.10	1.86	4.44	4.66	2.61	2.27	45%	2.63	*1.10*
Thematic block 3: Monitoring and evaluation	1.83	1.83	1.83	1.28	2.93	1.00	4.04	3.77	1.55	1.55	20%	1.83	*1.00*
8.2.2 Inclusive SMEs for youth	*2.41*	*2.87*	*3.82*	*2.05*	*4.17*	*1.86*	*3.19*	*3.47*	*2.63*	*2.25*	*35%*	*2.75*	*0.73*
Thematic block 1: Planning and design	2.00	3.00	3.00	1.99	3.00	1.66	2.00	1.66	2.33	1.99	35%	2.00	*0.51*
Thematic block 2: Implementation	2.99	3.24	4.60	2.44	5.38	2.27	3.24	4.75	2.60	2.77	45%	3.12	*1.03*
Thematic block 3: Monitoring and evaluation	1.83	1.83	3.48	1.28	3.48	1.28	5.17	3.77	3.20	1.55	20%	2.52	*1.25*

8.2.3 Inclusive SMEs for persons with disabilities	*2.35*	*1.39*	*2.35*	*1.42*	*2.92*	*1.33*	*3.68*	*2.84*	*3.10*	*2.20*	*30%*	*2.35*	*0.76*
Thematic block 1: Planning and design	3.22	1.73	2.84	1.73	3.22	1.37	3.22	1.73	3.22	2.48	35%	2.66	*0.72*
Thematic block 2: Implementation	1.91	1.17	2.32	1.25	3.04	1.33	3.75	3.41	3.32	2.27	45%	2.30	*0.91*
Thematic block 3: Monitoring and evaluation	1.83	1.28	1.55	1.28	2.10	1.28	4.33	3.48	2.38	1.55	20%	1.69	*0.98*

Note: Scores have been developed using the 2018 ASPI assessment methodology, with occasional exceptions incorporated. "N/A" indicates that the AMS was not scored on the thematic block due to expert agreement that this was not an applicable policy objective for the country. Weights are expressed in percentages, and scores were re-weighted when countries were excluded from particular indicators. For further information on how scores were calculated, please refer to the technical annex of this report (Annex A)

Part I. Findings by Dimension

Chapter 4. Productivity, technology and innovation

Introduction

Productivity and technology enhancement are viewed as key drivers of successful integration with the production networks of multinational corporations in Southeast Asia. Small and medium-sized enterprises are considered to perform better when they are allied with other SMEs or with large enterprises, including multinational corporations (ASEAN, 2015[1]). Business development services can also support this process, enabling SMEs to compete on a more equal footing with large enterprises, access new markets and increase their profits and efficiency (OECD, 2016[2]). The development of industrial clusters and business development services could help SMEs to enhance productivity and foster innovation.

Productivity measures

The ability of firms to increase their productivity while upgrading their technological and innovation capacity is regarded as an important determinant of competitiveness. Firm-level intensification of productive and innovative activity, achieved with critical mass, can create important spillovers for an economy as a whole. The Harvard economist Michael Porter and others regard this as such an important determinant of national economic competitiveness that they propose an economic development model that sees countries move from being factor-driven to investment-driven to innovation-driven (Lopez-Claros, 2009[3]; Porter, 2003[4]).

While very few studies were found on capital investments directly affecting overall economic productivity growth, the Strategic Action Plan for SME Development (SAP SMED) points to it as one of the actions to enhance SME productivity growth. In most cases, capital investment's effect on productivity is implicit. For example, data on Italian SMEs from a survey on manufacturing firms covering the period 1995-2003 showed that investment in equipment (capital investment) enhances the likelihood of both process and product innovation. This in turn has a positive impact on firms' productivity, especially process innovation (Hall, Lotti and Mairesse, 2009[5]).

Business development services

Business development services (BDS) are generally defined as non-financial services that enable companies to enhance their competitiveness and improve their performance across a wide range of activities. They provide information, specialised external advice and experience to enterprises to support them in upgrading their internal resources and capabilities. BDS allow SMEs to compete on a more equal footing with larger peers, gain access to new markets and improve their productivity. Evidence suggests that businesses that do not harness the opportunities offered by professional business support are more

likely to fail than firms seeking professional consulting and mentoring (Lussier and Halabi, 2010[6]).

SMEs often have limited knowledge of the availability, effectiveness and potential benefits of BDS. Moreover, SMEs are often not able to develop their own internal services due to the high cost and complexity associated with such services (Auguste, Harmon and Pandit, 2006[7]). The support services required by an SME vary depending on its type of activity and stage of development. Often this causes small firms to underinvest in such services (Carter and Jones-Evans, 2006[8]).

On the supply side, BDS providers might be less interested in SMEs than in larger firms and might lack information on their needs, which could impede them from providing the right services. Private BDS providers might also see SMEs as risky customers with limited financial resources. The diagnosis of these market failures should serve as a foundation for policy frameworks and models for the provision of BDS to SMEs. Governments should intervene only to address actual market failures or they risk crowding out private investment. They should strive to provide SMEs with updated information about the benefits and availability of BDS and to develop incentives that encourage them to use these services. This approach could help develop a sustainable ecosystem of BDS providers and respond in the optimal manner to SME needs.

Productive agglomerations and cluster enhancement

Clusters are geographically close groups of interconnected companies and associated institutions in a particular field, linked by common technologies and skills. They normally exist within a geographic area where ease of communication, logistics and personal interaction is possible (Porter, 2003[4]). Clusters create an environment conducive to productivity gains, which are a factor of growth, and so form a structure that helps enterprises meet the challenges of international competition (OECD, 2009[9]). SMEs provide crucial industrial linkages to set off a chain reaction of broad-based industrial development. Without SMEs as subcontractors and suppliers of intermediate inputs to multinational corporations (MNCs) and domestic large enterprises, industrial growth may not be able to sustain increasing domestic value, employment, productivity and industrial linkages (Foghani, Mahadi and Omar, 2017[10]). However, the weak involvement of small firms in cluster projects is considered as one of the main barriers hindering cluster development. Clusters do not usually integrate small enterprises in traditional sectors into their core research, development and innovation activities. In some cases, these enterprises are seen to lie outside the sphere of policy support and collaborative projects (OECD, 2009[9]).

Clustering may be particularly relevant for the manufacturing sector. It is of great importance especially for the main regional manufacturing hubs – Malaysia, Thailand and Viet Nam – in terms of extending their supply network to neighbouring countries. Country evidence for Cambodia finds that manufacturing is the sector most affected by clustering (Chhair and Newman, 2014[11]).

A number of countries that cultivated successful clusters were able to do so without a national cluster programme. For example, Ireland's very active strategy for attracting foreign direct investment (FDI) played a major role in the development of the country's information and communications technology (ICT) cluster (OECD, 2007[12]). This also points to the importance of foreign investment in the development of industrial clusters. However, some have questioned the impact of cluster policies and even suggested that policy makers should switch their focus from the local production structure to a more

efficient provision of public goods and land-use planning that could serve the needs of local producers and consumers (Duranton, 2011[13]).

Technology and innovation promotion

Research, development and innovation play an important role in the efforts of emerging and middle-income economies to move up global value chains, escape the "middle-income trap" and move towards knowledge-based economies.

Technology has been described as "the currently known ways of converting resources into outputs desired by the economy" (Schreyer, 2001[14]). It appears either in its disembodied form (such as new blueprints, scientific results, new organisational techniques) or embodied in new products (advances in the design and quality of new vintages of capital goods and intermediate inputs). Innovation is defined by the Oslo Manual as "the implementation of a new or significantly improved product (good or service) or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations" (OECD and Eurostat, 2005[15]).

Many SMEs are likely to be characterised by the use of traditional technologies, limited technical skills and lack of information about markets and new technologies (ADB, 2009). Among the key firm-specific factors driving innovation, the literature has emphasised the role of size, age and expenditure on research and development (Hall, Mairesse and Mohnen, 2010[16]).

Empirical studies on the determinants of innovation have found that smaller firms have a lower propensity to innovate than larger ones. SMEs might initiate innovation activities but find it difficult to carry them through on their own. Knowledge spillovers from other firms and universities are important for the development of innovative enterprises (Audretsch, 2004[17]).

Supportive policies and institutions adapted to the needs of SMEs may strengthen their ability to get involved with innovation. Public policy can enhance innovation through measures to promote co-operation between firms, and academia can do so by promoting collaboration mechanisms, developing necessary infrastructure and using capacity building, incentive packages and support schemes with commercialisation of outputs. Governments can also use direct financial instruments to promote innovation or provide innovation vouchers to allow SMEs to benefit from specialised service providers. Policy makers could also play a central role in developing an "ecosystem" approach involving a variety of players.

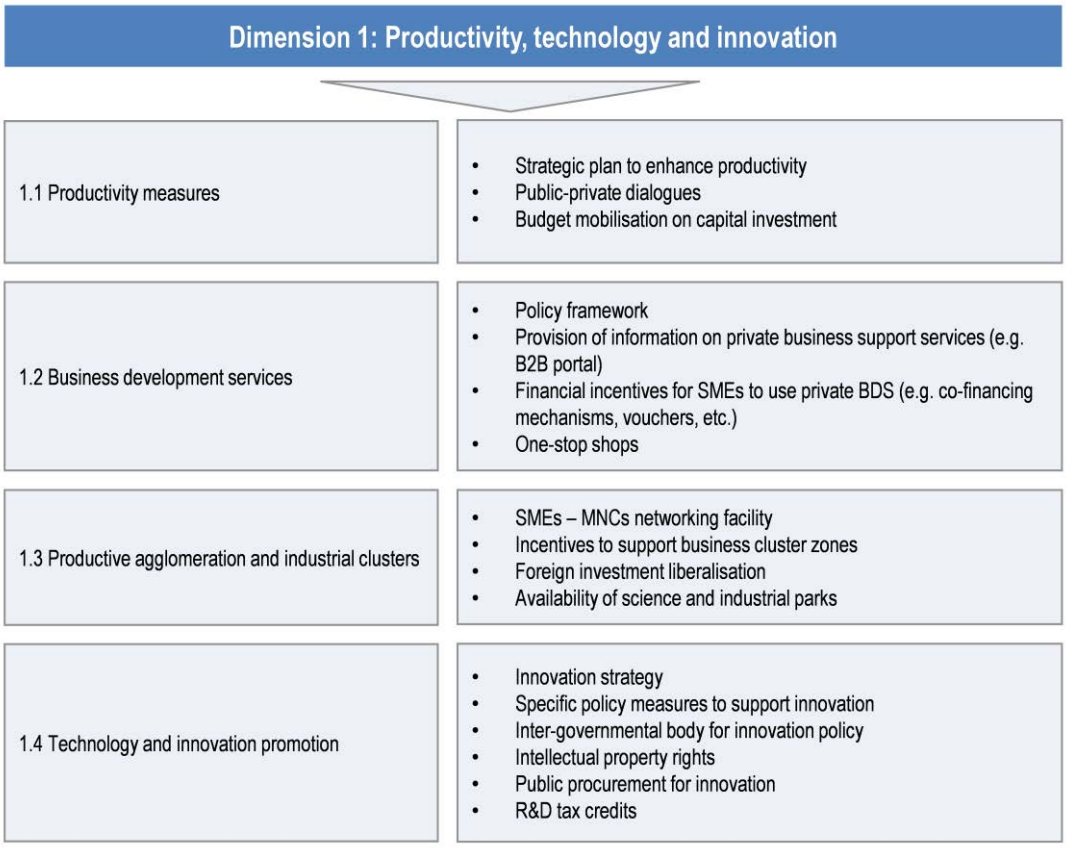
Assessment framework

The framework used to assess Dimension 1 on policy for enhancing productivity, technology and innovation in ASEAN covers four sub-dimensions (Figure 4.1).

Sub-dimension 1.1 looks at productivity measures specifically aimed at SMEs. It focuses on the inclusion of productivity enhancement elements in national strategic plans and on the main agencies involved in SME productivity enhancement policies and programmes from the perspectives of planning and implementation. The assessment also looks at the institutions that are responsible for planning and implementation, with clear roles assigned to every institution involved. It looks at stakeholder participation (private sector, research centres and academia) in the dialogue on productivity enhancement in order to understand from relevant perspectives where bottlenecks and market failures arise. The

assessment also considers the level of implementation of programmes, the sources of the budget for productivity enhancement and the availability of key performance indicators (KPIs), e.g. on labour productivity or for productivity enhancement programmes.

Figure 4.1. ASPI 2018 framework for assessing productivity, technology and innovation



Sub-dimension 1.2 explores the different aspects of business development services for SMEs in ASEAN. It looks first at whether the government assesses the risk of crowding out private support services and helps ensure that support programmes are sustainable in the long run. It then explores whether business support services are embedded in the overall SME policy framework as necessary to respond to gaps in the BDS market. Information on BDS is examined to assess whether the available services are effectively marketed, allowing their optimal utility. The availability of different types of co-financing options for private BDS, like direct co-financing, vouchers, etc., is also studied. Another important element of the assessment includes one-stop shop business centres.

Sub-dimension 1.3 examines the enhancement of productive agglomerations and industrial clusters in ASEAN. The assessment framework focuses mainly on the manufacturing sector. The policies and programmes on business agglomerations and clusters development is one of the main assessment tools for this sub-dimension. Liberalisation of foreign investment, using ERIA Foreign Investment Liberalisation and OECD Regulatory Restrictiveness indices, was also examined. One of the specific economic drivers of cluster formation includes the availability of infrastructure. The existence of such infrastructures and their relative improvement since 2014 are examined in this sub-dimension. Given the different barriers to investing in clusters, both for local

citizens and foreign nationals, incentives (both financial and nonfinancial) to support business cluster zones are also inspected. Lastly, the monitoring and evaluation mechanisms of the programmes for enhancing industrial clusters are also examined.

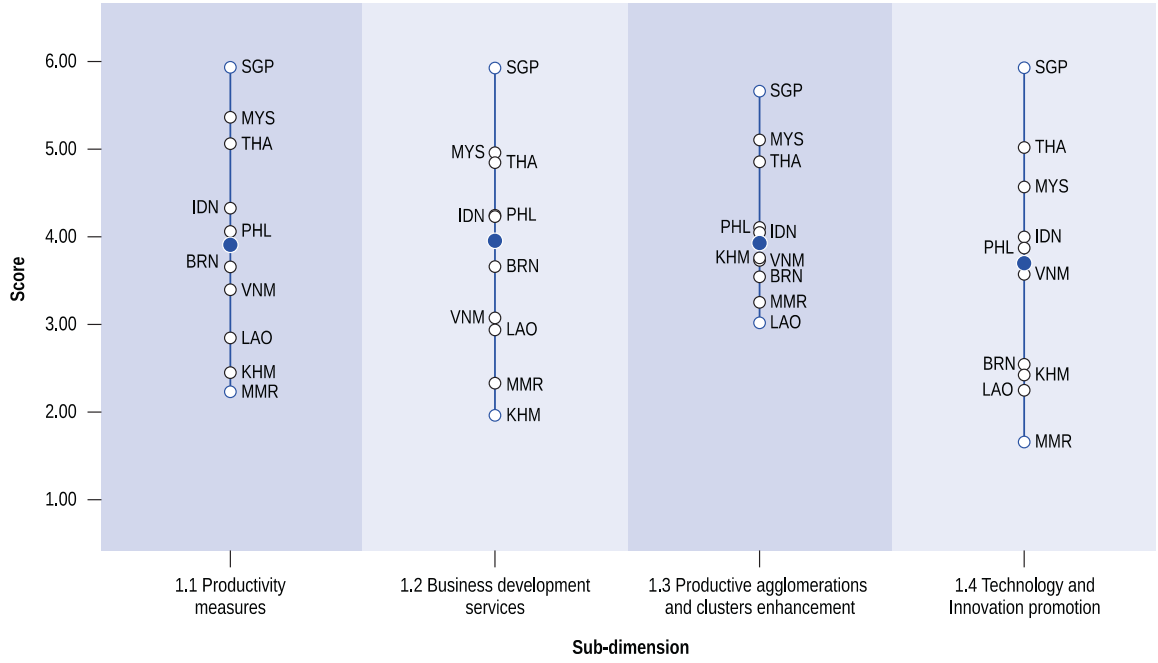
Sub-dimension 1.4 looks at technology and innovation promotion policies and instruments for SMEs in ASEAN. It assesses the innovation policy framework and whether SMEs are integrated into the framework. Since a number of different institutions are typically part of innovation systems, it also looks at the availability of a co-ordination body for innovation strategy. Also analysed are elements relating to intellectual property (IP) legislation and enforcement, research and development (R&D) incentives and the promotion of demand-driven measures through clauses in public procurement. Regarding implementation of policies, the assessment looks at the availability of innovation infrastructure such as incubators, science and technology parks, technology transfer offices and other relevant elements. The availability of government support mechanisms for institutional support services is analysed, along with dedicated schemes directly focusing on SMEs, such as co-financing and innovation vouchers, among others. Finally, the monitoring and evaluation section looks at the available mechanisms for evaluating the implementation of policies and how the findings are integrated into the policy cycle.

The four sub-dimensions of Dimension 1 are given equal weight as they are presumed to be of equal importance and relevance. This was confirmed by experts from the region. The human capital development element of productivity measures is covered under Dimension 7 on entrepreneurial education and skills.

Analysis

The overall assessment results for Dimension 1 are presented in Figure 4.2. Countries are scored for each sub-dimension on a scale of 1 to 6, with 6 being the highest. Detailed analysis by sub-dimension follows.

Figure 4.2. Weighted scores for Dimension 1: Productivity, technology and innovation



Sub-dimension 1.1: Productivity measures

Overall productivity growth in the four years following the global financial crisis and its immediate aftermath (2010-13) has tended to be lower than in the four years preceding it (2004-07), except for multifactor productivity growth in Indonesia, the Philippines and Thailand, and labour productivity growth in Brunei Darussalam, Cambodia, Indonesia, Lao PDR and Thailand (OECD, 2017[18]). Performance has been varied across sectors, and there is some evidence of faster growth in lower-productivity sectors in recent years (OECD, 2018a[19]). In ASEAN, the identified main drivers of SME productivity include clustering, FDI and trade liberalisation. The main challenges identified were regulatory restrictions, formalisation, access to finance and access to technology. Interestingly, and unlike typical patterns in OECD countries, initial analysis of SME labour productivity growth data in Indonesia and Viet Nam in manufacturing sector (only two countries with data available) points to a reassuring catch-up pattern, where firms with lower productivity levels are able to benefit from technology and knowledge from leading firms to strengthen productivity performance (OECD, 2018a[19]).

Table 4.1. Scores for sub-dimension 1.1: Productivity measures

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	3.27	3.48	4.52	4.33	5.37	2.65	3.68	6.00	5.16	3.69	**4.01**	**1.00**
Implementation	3.75	2.10	4.31	2.28	5.63	2.47	4.68	6.00	5.06	3.38	**4.03**	**1.33**
Monitoring and evaluation	4.58	1.51	3.92	1.51	4.84	1.13	3.41	6.00	4.95	3.94	**3.93**	**1.59**
Total sub-dimension score	3.75	2.46	4.31	2.84	5.38	2.26	4.08	6.00	5.08	3.60	**3.91**	**1.19**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Among the different thematic blocks, ASEAN has a rather high median score in the policy framework for productivity enhancement measures (4.01). Its slightly lower median score in implementation (4.03) is mainly due to the limited number of capital investment programmes in half of the ASEAN Member States (AMS). There is wide variation in the scores for monitoring and evaluation of productivity enhancement programmes relative to the scores for planning and design and for implementation. Overall, the ASEAN median score for this sub-dimension is 3.91, meaning that the region is moving towards putting plans for productivity enhancement into action.

Planning and design: Few AMS have clear action lines with measurable targets

The structure of the agencies responsible for planning productivity policies and programmes varies across ASEAN. In all AMS except the Philippines, the national productivity policy development agency takes charge of productivity for both SMEs and large firms. While the Philippines has a separate planning agency for SME productivity (the MSMED Council for MSME Productivity Policy), in practice other government agencies also plan or create their own projects and programmes related to productivity enhancement, including for SMEs (e.g. the Department of Labour and Employment's National Wages and Productivity Commission).

All AMS except Brunei Darussalam and Myanmar are members of the Asian Productivity Organisation (APO), which aims to enable economies to be more productive by

strengthening national productivity offices, promoting the development of SMEs and communities, catalysing innovation-led growth and promoting green productivity.

SME productivity policies are generally embedded in overall national development plans and/or SME development plans, though few AMS have clear action plans with defined measures and KPIs on productivity. Thailand has a stand-alone strategic plan on productivity enhancement that consolidates various programmes and policies in this area. Singapore's Industry Transformation Programme lists productivity as the first of its four pillars to move Singaporean enterprises to higher value-added activities and raising their operational efficiency. Malaysia's Productivity Blueprint, launched in May 2017, connects SME productivity-related measures being implemented under the SME Masterplan 2012-20 to broader strategic goals. In Lao PDR, productivity enhancement is included as the first pillar of the country's new SME Development Plan (2016-20).

Most AMS have a developed consultation process in policy development. In eight of the ten countries, the private sector and research organisations are almost equally represented. In Lao PDR, the private sector is more involved in consultations than research organisations. In Viet Nam, it is the opposite. Given that strategic plans on productivity enhancement appear in different sections of national strategic plans, consultations are generally conducted at varying levels across different ministries.

Implementation: Execution of productivity measures varies highly across AMS

The main implementing agency for SME productivity enhancement programmes generally falls under the main ministry responsible for implementing SME development programmes. Aside from the SME implementing agency, the equivalent Ministry of Science and Technology is also among the government stakeholders implementing productivity enhancement measures in all AMS except Brunei Darussalam. In Singapore, the Future Economy Council is responsible for policy design and overseeing implementation by different government agencies.[1] Two AMS have an autonomous productivity implementing agency: the Malaysia Productivity Corporation and the Thailand Productivity Institute. In the other AMS, the main national productivity institute conducts research/planning and/or implementation of its own programmes. The placement of the national productivity agency in the government varies across countries, too. For example, the Viet Nam Productivity Institute is under the Ministry of Science and Technology while Indonesia's National Productivity Institute is under the Ministry of Manpower and Transmigration.

In all AMS except Cambodia and Lao PDR, public-private dialogues are conducted regularly during the implementation of productivity enhancement programmes. However, in terms of sufficiency of dialogue, some countries have big gaps between targets and the actual activities conducted. In the Philippines, for example, the MSME Development Medium-Term Evaluation Report found that, of the 59 active provincial/city SME councils, only 35 were conducting meetings regularly. In Myanmar, while public-private dialogue is conducted regularly every two months, it takes place in only three to four out of seven regions.

Capital investment programmes for SMEs exist in five AMS. For countries with such programmes, implementation is generally small scale. Also, except for Singapore and the Philippines, AMS with capital investment programmes have not examined the best practices for funding these programmes, which may lead to mismatched investments. In the Philippines' Shared Services Facility programme, technical proposals are evaluated

first through criteria such as whether they address manufacturing or processing gaps and whether they increase cluster productivity.

All ten AMS have instruments for enhancing SME productivity. In higher-income countries, these instruments tend to be mostly financed by the government, although organisations such as the APO often provide support.[2] In lower-income countries, they tend to be financed or co-financed by development partners. In Myanmar, for instance, programmes are run by the UN Industrial Development Organization (UNIDO) and the Japan International Co-operation Agency (JICA). Where programmes rely on donor support, stakeholders should ensure that they are sustainable in the long run.

Monitoring and evaluation: AMS also vary on collection of KPIs

In a majority of AMS, productivity enhancement programmes have monitoring components. However, in terms of KPIs, the countries in the early stages of development do not systematically collect information on SME labour productivity and the value added of SMEs to gross domestic product (GDP). Brunei Darussalam, Malaysia, Singapore, Thailand and Viet Nam have more solid monitoring mechanisms on productivity indicators, as they collect data on total factor productivity in addition to labour productivity. However, at the SME productivity level, Viet Nam does not collect official data on value added of SMEs to GDP. Singapore collects comprehensive productivity KPIs (value added per worker and per hours worked) for the overall economy by industry, as well as a set of indicators for each of the 23 industries covered by the Industry Transformation Programme. For example, the Infocomm Media Development Authority of Singapore collects KPIs that are needed to calculate productivity measures, such as nominal value-added growth, new jobs created (specifically professionals, managers, executives and technicians) and the number of workers in the infocomm and media sectors.

In most AMS, the budget is not broken down into specific programmes on productivity, thus making it hard to monitor and evaluate the budget's efficiency. Since productivity covers a wide range of areas, the tendency is for the different components, for instance skills development, to have a budget that implicitly aims to increase productivity.

Sub-dimension 1.2: Business development services

Table 4.2. Scores for sub-dimension 1.2: Business development services

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	3.58	2.51	3.38	3.02	5.43	2.19	4.27	6.00	5.29	3.77	**3.67**	**1.22**
Implementation	4.07	1.95	4.79	2.85	5.09	2.76	5.07	6.00	4.96	3.19	**4.43**	**1.25**
Monitoring and evaluation	2.93	1.00	4.33	2.93	4.05	1.55	2.38	6.00	4.05	1.55	**2.93**	**1.47**
Total sub-dimension score	3.67	1.96	4.21	2.93	5.00	2.32	4.25	6.00	4.89	3.06	**3.94**	**1.22**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Planning and design: Few AMS integrate data into BDS policy design

Although all ASEAN governments highlight the importance of SME business development services in their strategic document, few have developed a study regarding BDS demand, availability and gaps in their countries. Several countries gather data, but there is not sufficient evidence as to whether this data has been integrated into the design of SME support strategies and mechanisms, except in Singapore, Malaysia and Thailand.

All ten AMS have an institution or institutions responsible for the design and implementation of BDS. In most cases, the institution responsible for SME policy is also responsible for BDS. For instance, this role is co-ordinated by SME Corp. Malaysia, under the Ministry of Trade and Industry (MITI). Most AMS have developed a set of actions and measurable targets to promote BDS, but these vary in depth. In Lao PDR, some actions to enhance BDS and one measurable target are included in the 2016-20 SME Development Plan. In Viet Nam very little has been done in this area, and in Myanmar actions and targets have been elaborated only for the garments sector and certain regions.

Implementation: Delivery channels for BDS vary widely across AMS

AMS have made progress in the provision of information on and implementation of BDS since publication of the *ASEAN SME Policy Index 2014*. More and more private BDS providers are available in ASEAN, and the region has a larger number of BDS enablers such as incubators, accelerators and co-working spaces, often run by private-sector providers. The median score of 4.43 points shows that, overall, BDS are available in ASEAN and being offered to SMEs.

Currently, seven countries provide information through government websites detailing the range of BDS available. In Cambodia, Lao PDR and Myanmar, some information is provided online, but further efforts to increase awareness about the variety of schemes available would be welcome. All countries have business plan competitions available for SMEs, although in Myanmar they have been organised by the private sector and not by government providers. In Lao PDR, the government has conducted a business plan competition in partnership with the private sector and development partners.

Different delivery channels for BDS are available across ASEAN. In the less developed countries, BDS have traditionally been developed through a set of government agencies, such as SME development centres, where services are delivered through donor-driven programmes, NGOs and public employees. This is often necessary due to a lack of private-sector providers and insufficient awareness or resources among SMEs to get external support. Often such services are delivered free of charge or with a very small contribution by SMEs. This is the case in ASEAN countries such as Lao PDR, Myanmar and Viet Nam. These mechanisms create awareness among SMEs, but they often have to provide standardised services, which have limited impact and often lack sustainability.

With increased development, ASEAN governments are increasingly turning to private suppliers to deliver BDS. While market-oriented channels are generally seen as preferable for the provision of BDS, policy makers should recognise that a certain level of economic development is necessary for this to be effective. Many AMS use a hybrid model in which the government provides a number of services for free, but also collaborates increasingly with private-sector providers. Countries using the hybrid model include Brunei Darussalam, Indonesia, the Philippines, Singapore, Malaysia and Thailand. A number of services in these countries are offered through a network of providers at the

local level, such as the Integrated Business Service Centre in Indonesia, Thailand's One-Stop Service Centre or the Negosyo Centres in the Philippines (Box 4.1). SMEs can get some services for free at these centres, but for more customised BDS support they would need to approach private-sector providers.

Box 4.1. Facilitating access to BDS: The Philippines' Negosyo Centres

The Philippines established its Negosyo Centres in order to strengthen MSMEs by facilitating job creation, production and trade. The centres are responsible for promoting ease of doing business by integrating a single business processing system for registration, permits, set-ups and management of MSMEs. They were established under the 2014 "Go Negosyo Act" (Republic Act No. 10644) and are governed by the Department of Industry and Trade (DTI).

The centres provide services such as business registration facilitation, business consultancy and business information and advocacy. Registered Barangay Micro-Business Enterprises (BMBEs) can benefit from incentives including income-tax exemption on operations income, exemption from the minimum wage law, and a special credit window of government financing institutions serving such enterprises.

Negosyo Centres are classified into three operating models that differ in the level of services offered. Full-Service Centres are equipped with staff who are able to deliver all the services offered at any given time and who conduct activities independently. Advanced Centres are similar, but need the support of the DTI or the nearest Full-Service Centre to execute programmes, activities and consulting. Basic Centres mainly process documentation and disseminate business-related information, and can provide only minimal forms of consulting or advisory work without the full support of the DTI.

With the implementation of the "Go Negosyo Act", there was a rapid increase in the number of centres. By 2017, a total of 789 Negosyo Centres had been established nationwide – a significant increase from just 5 in 2014 – and the centres had assisted nearly 636 000 clients and helped more than 300 000 businesses to register. The centres have considerably facilitated the provision of BDS and registration of micro enterprises. The DTI plans to establish 526 more centres by the end of 2022.

The "Go Negosyo Act" also provides an opportunity DTI business counsellors and staff to develop their competency for providing development services to the public. Personnel who are assigned to the Negosyo Centres take a Small Business Counselling Course that covers several modules on business management and operations. The training aims to deepen their knowledge and skills on coaching, consultation and mentoring services for MSMEs.

Once a certain level of development is reached, countries should move towards the provision of co-financing assistance for SMEs for business development services that involve consultancy or engagement of experts. The government can provide dedicated vouchers or grant or subsidy support to defray part of the qualifying costs. Countries such as Malaysia and Singapore provide dedicated voucher schemes to help SMEs reach out to private sector providers. Singapore's Innovation and Capability Voucher scheme, with vouchers valued at SGD 5 000 (Singapore dollars), allows SMEs to strengthen core business operations through consultancy in the areas of innovation, productivity, human resources and financial management. Vouchers have also been employed in Thailand to help SMEs improve the quality of products and services, and in the Philippines to assist SMEs with export promotion.

Monitoring and evaluation: Stronger assessment can boost BDS effectiveness

Indonesia, Malaysia, Singapore, the Philippines and Thailand have implemented overall monitoring. Other AMS have been monitoring government or donor-support mechanisms, but have not yet developed dedicated KPIs to monitor the provision of the BDS across the country. Evaluations have been taking place only in Malaysia, Thailand and Singapore, where studies have been conducted and lessons from the previous experience have been integrated into the policy-making cycle when designing new support mechanisms for the BDS development.

More regular and comprehensive monitoring and evaluation mechanisms need to be developed to ensure the effectiveness of support schemes and mechanisms. Another challenge is a lack of information on the variety of initiatives taking place at the regional or local level. Improved provision of information could supply a better picture of the challenges faced.

Sub-dimension 1.3: Productive agglomerations and cluster enhancement

Industrial cluster development has been advancing in Southeast Asia in recent years, and research confirms that AMS have performed well in enhancing policies on industrial clusters and productive agglomerations. All ten AMS are already at least at the intermediary level of development in this sub-dimension, and there is also relatively little inter-country variation. However, countries that fall into the "advanced stage" category on this sub-dimension have relatively more room for improvement, particularly on incentives to support business cluster zones. It is worth mentioning that policy makers should apply a critical approach in order to evaluate the impact of clusters and evaluate the benefit of incentives provided to the companies in productive agglomerations and clusters. Incentives provided could be combined with the monitoring and impact evaluations mechanisms conducted on a regular basis.

Table 4.3. Scores for sub-dimension 1.3: Productive agglomerations and cluster enhancement

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	4.18	4.73	5.17	3.52	5.90	4.64	4.68	5.86	5.89	4.76	**4.66**	**0.81**
Implementation	4.00	3.77	3.82	3.22	4.52	2.91	4.01	4.68	4.71	3.70	**3.91**	**0.53**
Monitoring and evaluation	1.33	1.99	2.65	1.66	4.99	1.66	3.31	6.00	3.64	1.99	**2.32**	**1.48**
Total sub-dimension score	3.53	3.75	4.06	3.01	5.10	3.26	4.10	5.36	4.91	3.73	**3.91**	**0.75**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Policies on business agglomerations have already been developed in general, but many AMS still lack specific policies on industrial clusters. The implementation of such measures is at varying stages across ASEAN, specifically on infrastructure development for cluster zones. With the exception of Singapore, countries have few monitoring and evaluation elements, also due to recent upgrades in their policies and programmes. Overall, the median score for this sub-dimension stands at 3.91, mainly driven by advancing policies and implementation activities.

Planning and design: Few AMS actively promote SME participation in clusters

All ten AMS have already put in place policies on the promotion of business agglomerations such as economic zones (EZs), special economic zones (SEZs), industrial zones (IZs) and export processing zones (EPZs). Economic, geographical and social aspects are the general criteria for the identification of the business agglomerations. But the level of policy development varies across the region regarding industrial clusters that involve linkages among large enterprises, SMEs and other relevant institutions such as universities and research centres. Malaysia, Singapore and Thailand have more comprehensive cluster policies that detail policies on linkages among the main actors in the identified zones. Indonesia and the Philippines also have policies on business agglomerations and cluster enhancement in their national strategic plans and other strategic documents. Brunei Darussalam has identified five investment priority clusters, as part of a range of measures designed to achieve Goal 3 of Wawasan (Vision) Brunei 2035.[3] These clusters benefit from a range of special arrangements to encourage investment, with the end goal of attracting FDI in value-added, export-oriented and high-tech industries. They are in the following activities: *i)* halal products; *ii)* innovative technology and creative industry; *iii)* business services; *iv)* tourism; and *v)* downstream oil and gas. Lao PDR's 2011 Law on SMEs refers to the promotion of business clusters, and clustering is mentioned in the country's 2016-20 SME Development Plan. Viet Nam has a decree on business agglomerations, though policies are lacking on linkages among institutions within the clusters. Myanmar's Special Economic Zone Law was enacted in 2014, and its implementing rules were published in 2015. Cambodia drafted its SEZ law in 2008.

A majority of AMS have few instruments to support linkages among SMEs and between SMEs and large enterprises in cluster zones. Cambodia has elements on the promotion of SME linkages with large firms in different national development plans. Only Indonesia has a specific regulation stating that all industrial sites should allocate 2% of their land area to SMEs.

Box 4.2 provides an example from Thailand of a recent practice on cluster development, including identification of targeted sectors and incentives for investing in them.

Box 4.2. Translating policy into implementation: Thailand's superclusters

In the context of the economic model known as Thailand 4.0, the government selected a set of priority sectors in November 2015 comprising "First S-Curve" and "New S-Curve" industries. The "S-Curve" concept posits that an industry's growth is relatively slow during the infancy stage due to limited market size, but that output rises rapidly once economies of scale take hold and the market expands, and that growth eventually levels off due to demand saturation. "First S-Curve" industries include five sectors that can be upgraded in the short or medium term by adding value through advanced technologies: next-generation automotive (e.g. electronic vehicles), smart electronics (e.g. high value-added ICT products), high-income tourism and medical tourism, efficient agriculture and biotechnology, and food innovation. "New S-Curve" industries include five sectors identified as promising drivers of growth in the long term: robotics, aerospace, biofuels and biochemicals, the digital industry and the medical hub.

To support the development of these priority sectors, the government launched investment promotion measures in designated Special Economic Zones in different locations and with specific purposes (Table 4.4). SEZs are based on the concept of clusters to improve industrial value chains by strengthening linkages among firms, research and academic institutions, and

public organisations within a geographical area. The government provides both financial incentives (e.g. tax reduction and subsidies for innovation and human resource development) and non-financial incentives (e.g. simplifying visa procedures for skilled foreign labour and easing regulation of foreign equity and land ownership). In July 2016, three provinces in the east coast area were designated as the Eastern Economic Corridor, which is to be the flagship SEZ and leverages off the existing manufacturing and energy industrial base there. The government has set an ambitious target of THB 1.5 trillion (Thai baht), or some 10% of 2016 nominal GDP, for public and private investments in the corridor from 2017-21. The initiative is still at early stage and more analysis and evaluation is needed to monitor its impact; however this case provides a good example of how government can translate a policy into an implementation model.

Table 4.4. Thailand's Special Economic Zones

Designated SEZs	Supercluster zones and an economic corridor to promote S-Curve industries
Border area SEZs	Ten provinces close to the borders of neighbouring ASEAN countries aim to boost cross-border trade and employment (started in 2016).
Superclusters and other targeted clusters	Supercluster zones are located in 32 provinces (including overlaps), mainly in the central and eastern regions. Targeted sectors include: automotive and parts; electrical and electronics; eco-friendly petrochemicals; digital services; food; aviation and aerospace; automation and robotics; and medical services. Other targeted clusters are located in rural regions and focus on agro-processing and textiles (started in 2016).
Eastern Economic Corridor (EEC)	Three coastal provinces (Cachengsao, Chonburi and Rayong) in the eastern region aim to promote the ten S-Curve industries. The act for developing the corridor was approved by the parliament in February 2018.

Source: BOI (2017), http://www.boi.go.th/upload/content/BOI-A%20Guide%202017-EN-20180402_5ac3614b3ee08.pdf; OECD (2018), http://dx.doi.org/10.1787/9789264293311-en.

In terms of investment openness, ERIA's foreign investment liberalisation (FIL) scores for the region indicate that the most AMS have a relatively open regime for investment in manufacturing,[4] with the partial exception of Indonesia and Viet Nam. Many AMS are more restrictive in the agricultural and resources sectors, as well as services. In several AMS, strategic industrial, nationalist and/or developmental gap considerations may work against foreign majority ownership in some manufacturing sectors (Intal Jr., 2015[20]). By 2014, all AMS had already reached an ERIA FIL rate of at least 75%, with half of them scoring at least 90%. Cambodia, Lao PDR, Myanmar, and Singapore have very high and nearly comparable investment liberalisation rates in the agriculture and natural resources sector and in the manufacturing sector (Intal Jr., 2015[20]).

The OECD FDI Regulatory Restrictiveness Index indicates that, when the manufacturing and service sectors are combined, Cambodia, Viet Nam and Lao PDR have the fewest statutory restrictions on FDI among the AMS, with available data. Cambodia has an index value of 0.052, below the OECD average of 0.067. The Philippines (0.398), Myanmar (0.356) and Indonesia (0.315) have the most restrictions.

Implementation: Participation of SMEs in cluster zones remains relatively limited

Fiscal incentives to support business cluster zones (corporate income tax, value-added tax, withholding tax, etc.) are already in place in all ten AMS. All countries except Brunei Darussalam and Myanmar also have non-fiscal incentives, such as immigration benefits

for foreign investors and workers. Corporate income-tax breaks in SEZs in the region vary greatly in terms of tax rate and validity period. Notably, in Indonesia the SEZ corporate income-tax break can extend up to a maximum of 25 years. The Philippines allows a corporate income-tax break in SEZs of up to 100% for a period of six years for pioneer projects. Singapore also provides tax exemption of up to 100% of capital expenditure, although the investment allowance is not specific to clusters. Brunei Darussalam is the only ASEAN country where no tax is levied on personal income, payroll, goods and services, or capital gains. Examples of financial incentives in EZs, IZs, SEZs and EPZs include: tax deductible expenses for investment in construction, operation or lease of apartments and social infrastructure facilities servicing employees (Viet Nam), and tax reduction and subsidies for innovation and human resource development by firms (Thailand).

All ten AMS have facilities to encourage networking among innovative companies, such as science/industrial parks, competitive clusters or technology centres. However, disparities exist in terms of the level of development and sufficiency of facilities relative to the needs of the country. Singapore and Malaysia have the most advanced facilities, especially in the digital economy sector (digital hubs, cyber centres, etc.). Under Singapore's SGD 4.5 billion Industry Transformation Programme, roadmaps have been developed for 23 industries (grouped into six clusters) to address issues within each industry and deepen partnerships among the government, firms, industries, trade associations and chambers.

Since 2014, a number of countries have made major improvements in developing industrial sites, specifically Brunei Darussalam and Cambodia. Brunei Darussalam currently has 26 industrial sites, while Cambodia has 22 special economic zones (up from nine in 2014). Indonesia had six science parks in 2014, mostly at early stage, but it is planning to create 100 techno parks across the country by 2019, with the electronics sector as a focus area. The DTI -Philippines Economic Zone Authority listed 277 special economic zones in 2014, but by July 2016 the country had 358 SEZs, including manufacturing economic zones, information technology (IT) parks/centres, agro-industrial economic zones, tourism economic zones, and medical tourism parks/centres, with the biggest increase in the IT sector.

Despite these improvements in the region, linkages in the cluster zones among SMEs and between SMEs and large enterprises are still not well established. Participation of SMEs in the clusters is relatively small. In most AMS, the number of SMEs in the cluster zones is not specifically monitored.

Monitoring and evaluation: KPIs are needed for SMES in cluster zones

Only some AMS have well-defined monitoring mechanisms for policies to promote industrial clusters. KPIs specifically for SMEs have not yet been developed. Independent evaluation of the cluster policies has also not been conducted for most of the ASEAN economies; it takes place only in Singapore, and to a degree in Malaysia, the Philippines and Thailand.

Monitoring and evaluation of policies supporting productive agglomerations and clusters is essential for understanding the impact of these policies on the economy and at what cost. Monitoring could help policy makers determine whether the policies and incentives provided are effective, attract the right companies and help the local economy to develop skills. To estimate the benefits of clustering, policy makers should take into account the

industrial and special scope of clusters and try to measure possible outcomes such as innovation promotion or intensity of labour-market participation (Duranton, 2011[13]).

Sub-dimension 1.4: Technology and innovation promotion

The technology and innovation promotion sub-dimension was part of the *ASEAN SME Policy Index 2014*; however, it has been considerably revised and is not directly comparable with the results of the current publication. Although ASEAN highlights the importance of technological innovation and the region is becoming more innovative overall, progress since ASPI 2014 varies substantially in this sub-dimension. The large spread in ASEAN between countries that are world leaders in technological innovation and those that need to advance their capacity to innovate is highlighted by a relatively high standard deviation across this sub-dimension. The Figure 4.3 (GERD in selected AMS) showcases the large variety of R&D expenditures by government among the AMS.

Table 4.5. Scores for sub-dimension 1.4: Technology and innovation promotion.

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	2.42	3.22	4.34	2.89	4.86	1.83	3.89	6.00	5.56	3.70	**3.79**	**1.28**
Implementation	3.05	1.92	4.49	2.20	5.19	1.86	4.13	6.00	5.05	4.07	**4.10**	**1.39**
Monitoring and evaluation	1.66	1.66	2.32	1.33	3.64	1.00	3.31	6.00	3.98	1.99	**2.16**	**1.46**
Total sub-dimension score	2.55	2.33	4.00	2.27	4.77	1.68	3.88	6.00	5.01	3.52	**3.70**	**1.33**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to chapter 2 and annex A for further information on the methodology.

Planning and design: Co-ordination of innovation policy should be strengthened

All ASEAN countries have highlighted the importance of innovation in their strategic documents. Several countries have a dedicated innovation policy (Singapore, Thailand and Viet Nam). Innovation is often a key element in a National Development Plan (Brunei Darussalam, Indonesia, Malaysia and the Philippines) or integrated through an industrial development policy (Cambodia, Myanmar) or science and technology strategy (Lao PDR). The median score for planning and design block in this sub-dimension is 3.79, reflecting the fact that policies have been put in place, although they are at an early stage in a few countries. Eight countries have specific provisions for SMEs in at least one of the policy documents, with Brunei Darussalam and Indonesia as the exceptions.

A large number of institutions are involved in innovation policy development in the region, including ministries for science and research, education, industry and, in some cases, specifically for innovation. OECD good practice guidelines call for a co-ordinating body for innovation policy development and implementation in order to ensure exchange of information and efficient collaboration. Five ASEAN countries have dedicated councils or committees for technological innovation. In other countries (Brunei Darussalam, Indonesia, Lao PDR, Myanmar and Viet Nam), the co-ordinating role is held by the relevant ministry or division, most often the Ministry of Science and Technology.[5] A high-level co-ordinating mechanism, possibly anchored at the prime-minister level, is important for ensuring arbitrage among the large number of agencies involved. Singapore provides a good example of such structure with its recently established Future Economy

Council, which groups 31 members from the government, industry, unions and educational and training institutions, and is chaired by the Minister of Finance.

All ASEAN member states except Myanmar have established policies and national offices to deal with intellectual property. AMS adhere to numerous international treaties and conventions on IP, and the majority have put in place comprehensive IP laws. Five countries are fully compliant with international standards (Brunei Darussalam, Malaysia, the Philippines, Singapore and Thailand). Although considerable progress has been made in the region, Cambodia, Indonesia, Lao PDR and Viet Nam still face a lack of resources and difficulties in the enforcement of IP legislation, while IP registration is not available in Myanmar. A new ASEAN Patent Examination Co-operation system has been established by nine AMS (excluding Myanmar), allowing them to share regional patent work. Increased use of e-services in some AMS (Singapore, Indonesia and Malaysia) could further support patent and copyright applications.

Demand-side innovation policies, such as public procurement, regulation, standards, consumer policies and user-led innovation initiatives, are becoming more common among policy makers as a way to boost technological innovation through introduction of relevant clauses and regulations. Although this is still at early stage in ASEAN, Malaysia and Singapore have applied demand-side policies in order to accelerate technology assimilation and promote selected sectors. R&D incentives, such as increasing the reduction rate for R&D expenditure, have been used in Indonesia, Singapore and Thailand and are specially targeted at SMEs.

Implementation: Support for innovation varies across the region

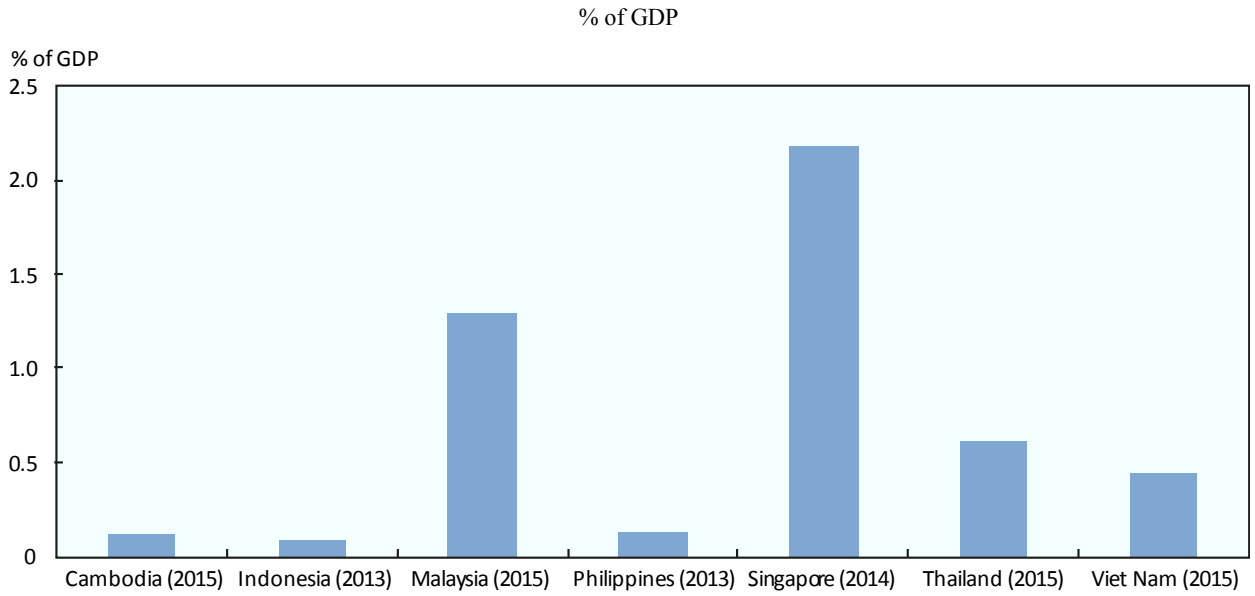
AMS have undertaken considerable efforts to implement policies related to the promotion and implementation of innovation. The median score of 4.10 for this block indicates that the region is establishing the necessary infrastructure and has started to put in place instruments for integrating innovation.

All AMS have webpages related to the promotion of research, development and innovation, but only three (Malaysia, Singapore and Thailand) have dedicated webpages or portals that centralise the variety of initiatives implemented by the government. In the other countries, innovation-related webpages only showcase the initiatives of a dedicated institution, and it is difficult for users see the whole range of initiatives available. AMS have made efforts to raise awareness about the importance of innovation and its role for SMEs. Governments in all AMS have conducted events on innovation that are open to the public, such as conferences, festivals and science exhibitions. They have also organised awards for innovation, often in partnership with academia and the private sector. However, in some countries innovation is still perceived mainly as technological or digital, and only few countries have dedicated programmes to promote awareness of non-technological innovation (Brunei Darussalam, Malaysia and Singapore).

Infrastructure such as science and technology parks, innovation centres, business incubators and accelerators, and technology transfer offices is important for ensuring that SMEs have access to the equipment and services necessary for innovation. Reliable and fast internet access is crucial for growth related to new e-services. The availability of infrastructure varies across the region. Some AMS offer a whole range that can benefit SMEs (Indonesia, Malaysia, the Philippines, Singapore and Thailand). An interesting example is Singapore's Centres of Innovation, which act as one-stop centres providing laboratory facilities, consultancy and training services, and assistance for SMEs to test and develop their technology projects. Some countries have made substantial efforts to

improve their infrastructure. For instance, Brunei Darussalam has established an "iCentre" (an incubator and co-working space for high-growth enterprises) and the Brunei Darussalam Bio Innovation Corridor. In Viet Nam, the National Technology Innovation Programme aims to establish 40 high-tech business incubators across the country. Although Cambodia, Lao PDR and Myanmar have limited infrastructure that could benefit SMEs, they have made efforts to promote innovation. Examples include Myanmar's ICT Park and Lao PDR's IT business incubation centre. The AMS that are strong performers in this sub-dimension are in line with the OECD good practice of combining infrastructure with soft support services. Some governments have dedicated instruments or programmes to support innovation, enabling providers like incubators, accelerators or innovation centres via collaboration with the private sector (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand). However, few use competitive processes to fund the innovation-enabling institutions.

Figure 4.3. Gross domestic expenditure on R&D (GERD)



Note: The graph illustrates the most recent data available for each country. Recent data is not available for Brunei Darussalam, Lao PDR and Myanmar.
Source: UNESCO (2018), http://uis.unesco.org/indicator/sti-rd-gerd-source_fund.

The majority of AMS have developed programmes to support SMEs in innovation and to promote collaboration between academia, the private sector and, in some cases, the public sector. These programmes include dedicated business support services as well as training, coaching or business-matching support (mentioned earlier under sub-dimension 1.2). They may also include financial assistance such as R&D grants, subsidies for R&D research, capital risk coverage or guarantee schemes, or innovation vouchers. Examples of OECD good practice suggest that governments should ensure that a variety of services are available for enterprises at different stages of their development. In ASEAN, while the general offer of innovation support provided by governments has improved in recent years, only a few countries (Malaysia, Singapore and Thailand) offer a range of support options. Business enterprises thrive on innovation and can leverage R&D performed in academia and the public space, which is often a driver of successful national innovation systems. Singapore offers a wide range of instruments designed for different stages of

SMEs. It has an Innovation and Capability Voucher and a Capacity Development Grant for SMEs to develop their business capabilities, a Growing Enterprise Through Technology Upgrade scheme ensuring secondment of researchers and engineers to more mature companies, and initiatives such as Tech Access that give SMEs access to special equipment and facilities for learning and experimenting.

In countries where innovation policies are new, the road is long to creating a basis for support structures, but they can "leapfrog" by adopting technologies from more advanced peers. Most initiatives in Cambodia, Myanmar and Lao PDR are funded by international donors. Although useful, these initiatives are insufficient to ensure systemic change.

Monitoring and evaluation: Policies should adjusted based on evaluation results

Most AMS have developed and are using at least some national performance indicators to monitor the performance of SME innovation policies (Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam). The difficulty of monitoring overall innovation policy and performance is that activities are spread across a number of stakeholders representing different agencies. Malaysia, for example, has several agencies dealing with innovation policy implementation, and this could be a challenge. A few countries, such as Thailand, have developed a national science, technology and innovation (STI) index that is published regularly.

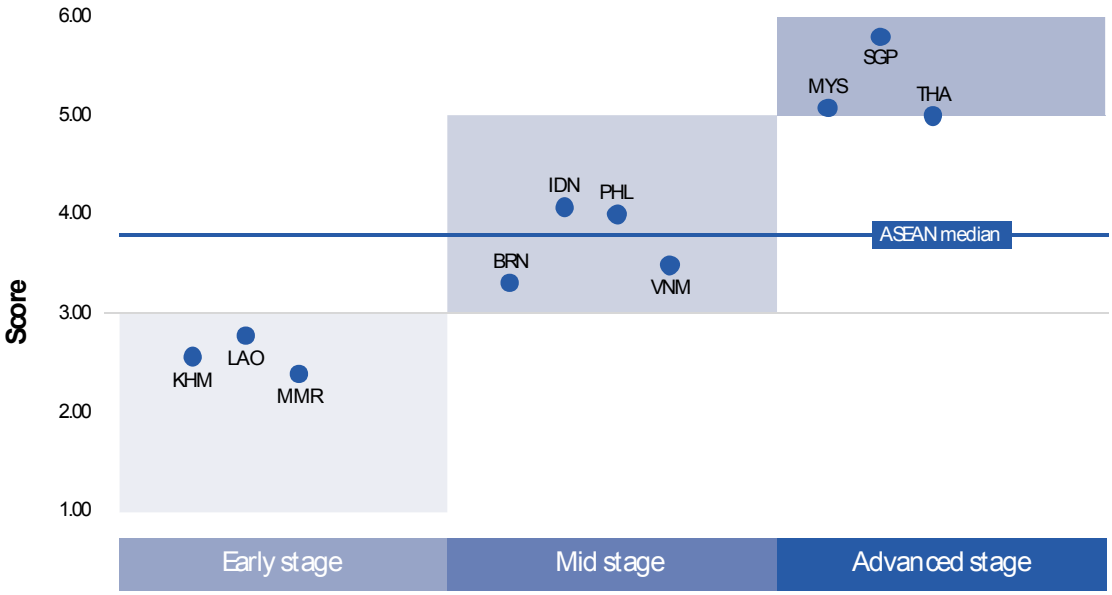
Few AMS use independent evaluations by policy makers for adjusting policies and showcasing the tangible economic and social benefits of STI policies. Evaluation needs to be pragmatic, timely, transparent and actionable. Singapore offers an excellent example of independent reviews conducted on a regular basis.

The way forward

The ASEAN region has made considerable progress in this dimension but many AMS continue to face a number of challenges. At present, SMEs across the ASEAN region as a whole contribute a disproportionately small share to overall productivity gains. Their productivity tends to not only be much lower than that of large firms, but it also tends to be particularly low compared to the productivity of SMEs in other regions, like Europe or other Asian countries. Stronger productivity growth by SMEs, and stronger support services and innovation performance, will not only help the ASEAN region to strengthen its performance in global value chains but also boost both regional trade and the economic development of the region as a whole. The sophistication of policies to promote SME development in this area across AMS are indicated in Figure 4.4. A wide variation can be observed across the region as a whole, albeit with a number of trends.

The early-stage countries – Cambodia, Lao PDR and Myanmar – have only recently embarked on a journey of regional economic convergence. They still have to develop a number of policies from scratch and must further develop institutions and mechanisms that not so long ago were absent. They lack a strong research base and mechanisms for co-operation between academia and the private sector. Policy makers may also lack necessary skills and experience, and may be constrained by requests coming from the donor side. However, once the framework conditions and right policies are set up, these countries have an opportunity to leapfrog by learning from their peers.

Figure 4.4. Weighted scores for Dimension 1: Productivity, technology and innovation



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

The mid-stage countries – Brunei Darussalam, Indonesia, the Philippines and Viet Nam – have already created solid policy frameworks and are in the process of implementing their policies. They typically have a set of support instruments for SMEs to improve innovation and productivity and become more competitive. They have also established infrastructure including science parks, incubators, innovation centres and other facilities. The challenge for these countries is to find ways to collaborate with academia and the private sector and facilitate development of an ecosystem where a variety of stakeholders could create synergies. Monitoring mechanisms are generally already developed, but more efforts are needed to get a better understanding of the effectiveness of the existing support schemes.

The advanced-stage countries – Malaysia, Singapore and Thailand – have also developed solid policy frameworks and typically have a set of institutions in place to implement them. Often institutions have a certain degree of independence, and co-ordination is developed through councils or relevant committees. These countries not only offer a wide range of infrastructure for use by SMEs (science and technology parks, innovation centres, incubators, etc.), but also provide extensive support services that specifically target the various growth stages of SMEs and that focus on dedicated industries, often in partnership with the private sector. They also make use of vouchers that allow SMEs to benefit from the range of service providers available.

Moving forward, governments and policy makers could consider some of the following policy options:

Table 4.6. Policy recommendations to boost productivity, technology and innovation among SMEs

Level of policy	Challenges	Policy recommendations
Early stage *Cambodia, Myanmar and Lao PDR*	Weak institutions and policies that are either absent or have been recently embarked upon	• **Promote enhanced productivity through a set of business environment reforms and policies** to foster the emergence of productive firms. • **Ensure capacity building** of the staff of the policy-makers.
	Few mechanisms or instruments to support productivity and innovation promotion, often due to lack of budget	• **Developing instruments and incentives for multinationals and large companies to collaborate with SMEs**, sharing technology and approaches, could enable SMEs to become more competitive.
	Lack of awareness about the importance to improve productivity and innovation ad well as relevant skillset among the policy-makers due to relatively recent focus on these areas	• **Create awareness among the SME community** about the importance of improving performance, competitiveness and innovation for the future of SMEs
	Lack of strong research base and mechanisms for co-operation between academia and the private sector	• **Develop BDS and innovation-related infrastructure** (BDS centres, incubators, accelerators, one-stop shops) integrating basic support services for SMEs and would-be enterprises.
Mid stage *Brunei Darussalam, Indonesia, Philippines, Viet Nam*	Weak mechanisms for collaboration of various stakeholders	• **Further develop coordination mechanisms to ensure collaboration among different actors**, such as a council or task force integrating academia and the private sector.
	Lack of support mechanisms supporting with individual requests and mechanisms	• **Better match supply and demand for services,** encourage the development of a sustainable and diversified market of private BDS providers and promote the use of their services through dedicated instruments such as co-financing or provision of vouchers. • **Promote enhanced productivity through a set of business development services** to improve information sharing between regional and national initiatives and develop awareness and on-line training sources. • **Increase R&D investment** and develop mechanisms for co-operation between academia and the private sector. • **Develop instruments to promote collaboration** between large companies and SMEs in industrial clusters.
	Monitoring mechanisms are generally already developed, but further evaluation mechanisms are still lacking	• **Develop tools to support monitoring and evaluation** and providing policy-options for policy-makers to ensure that clusters and productive agglomerations provide positive economic impacts
Advanced stage *Malaysia,*	The existence of a large number of initiatives by various institutions to promote MSMEs could potentially lead to confusion and create additional costs within the	• **Ensure rationalisation of governance structures** in order to avoid overlap of responsibilities among the various government institutions dealing with SME productivity enhancement, BDS and

Singapore and Thailand	government	innovation. • **Further promote the available mechanisms and programmes** among the SME population in order to increase awareness.
	Potentially high cost of running the relevant infrastructure to promote BDS and innovation among companies	• When designing innovation or BDS-related infrastructure, focus on **the development of a sustainable business model.**

Notes

[1] The Future Economy Council was formerly the Council for Skills, Innovation and Productivity. It is chaired by the Minister of Finance and is comprised of government, industry, union, and educational and training institution representatives. It is tasked with guiding and supervising the implementation of productivity enhancement programmes carried out by various government agencies under the 23 Industry Transformation Maps of the Industry Transformation Programme.

[2] For instance in Indonesia, where organisations such as the APO and the International Labour Organization have provided training sessions.

[3] Goal 3 stipulates Brunei Darussalam's aim to become a dynamic and sustainable economy by 2035.

[4] In accordance with the ASEAN Comprehensive Investment Agreement.

[5] In Brunei Darussalam this function is performed by the Ministry of Energy and Industry.

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Chapter 5. Environmental Policies and SMEs

Introduction

Concerns about environmental degradation, quality of life and climate change are driving the global consensus on the need to ensure that economic growth is environmentally sustainable. Support for the greening of SMEs is an important component of that. Although the environmental footprint of individual small businesses may be low, their aggregate impact is significant. In the OECD area, SMEs account for approximately 99% of all enterprises and two-thirds of employment (Calogirou et al., 2010[1]). In Europe alone, SMEs account for 60-70% of industrial pollution (Miller et al., 2011[2]). Improving the environmental performance of SMEs is vital for shifting to greener economic growth.

As the ASEAN economies continue to expand, this is a critical time for ensuring that growth is green. Developing and implementing policies and programmes that support SMEs in becoming greener will help to ensure the region's long-term economic growth and the health of its environment (OECD, 2014[3]).

Broadly, there are two types of green SMEs: green innovators, which are developing new products, technologies and approaches that can have transformational impacts, and green performers, the vast majority of SMEs, which can take steps to make their operations more resource efficient and environmentally friendly (UNEP, 2017[4]). Supporting the success of both has benefits for national and regional economies. Innovative green SMEs can introduce new technologies into ASEAN Member States (AMS) and create new export markets for goods and services. Support for the broader population of SMEs in pursuing greener practices can save those businesses money by making them more efficient; allowing them to participate in value chains and procurement that require a certain level of environmental performance; and improving environmental performance while lowering carbon emissions.

The regulatory framework should enable and incentivise the greening of SMEs while ensuring that environmental standards are appropriate and enforced. A challenge is balancing the effectiveness of the regulatory framework against environmental impact and enforcement costs so that SME compliance is not overly burdensome. Most countries continue to use a one-size-fits-all approach to environmental regulation that either puts SMEs at a disadvantage or ignores them. Public efforts to support the growth of the green economy are often scaled for larger enterprises, as are many green finance programmes, environmental management systems (EMS) and technical assistance programmes.

Supporting the greening of SMEs involves a holistic approach that goes beyond the regulatory framework and makes use of all the policy tools at the government's disposal. Regulatory incentives, such as reducing inspection frequency or pollution penalties for enterprises using environment management systems, and financial incentives, including tax laws, can provide the government with important leverage to support the uptake of green technology. SMEs face unique challenges in accessing finance, including high

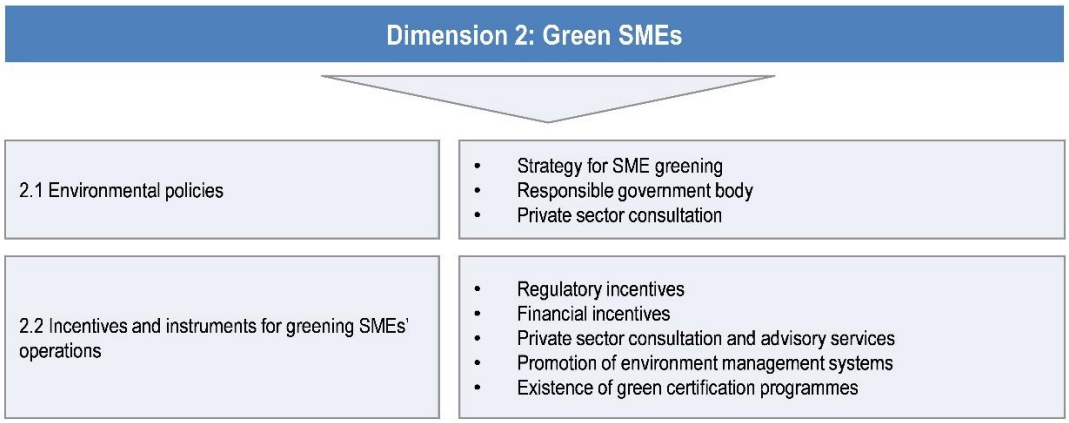
interest rates and relatively short repayment periods. Those challenges are compounded for green SMEs, which also need to make the business case for investing in more sustainable technologies. Green innovators and green performers alike typically need access to finance, and there are various avenues through which governments can mitigate challenges around this.

Supporting SMEs in becoming greener and providing a framework for innovative green SMEs to develop is not a simple task. Many intersecting factors must be considered. This section will delve deeper into the current state of affairs in ASEAN countries with regard to the greening of SMEs, and will consider examples of good policy implementation as well as suggestions as to the next steps.

Assessment framework

The framework for assessing policy progress on the greening of SMEs is divided into two sub-dimensions: environmental policies targeting SMEs (sub-dimension 2.1), and incentives and instruments for greening SMEs (sub-dimension 2.2). There is some crossover. The actions taken under sub-dimension 2.1 support sub-dimension 2.2, and in some cases are a prerequisite. Each sub-dimension is further organised into three thematic areas: planning and design, implementation, and monitoring and evaluation. In order to put more emphasis on implementation than planning, the final score for the dimension is based on a 60/40 weighting between sub-dimensions 2.1 and 2.2 respectively.

Figure 5.1. ASPI 2018 framework for assessing SME greening



Sub-dimension 2.1, on environmental policies targeting SMEs, measures the extent to which such policies are embedded inside government strategies and how developed plans are to support SME greening with action. It also looks at budget mobilisation, whether eco-efficient and innovative products are included, whether the private sector was consulted on environmental policies that impact SMEs and whether there is a dedicated government body that provides guidance to SMEs.

Holistic government support for greening SMEs requires both short- and long-term plans. The development, budgeting and integration of environmental policies into government strategies set the stage for co-ordinated action on greening SMEs. In the short term, environmental policies that target SMEs support effective environmental regulation of small enterprises, send market signals that the government is supporting the growth of green SMEs and lay a foundation for future growth. In the long term, these policies help

to co-ordinate government action and create an ambiance in which better environmental performance becomes mainstreamed across the economy.

There are three fundamental questions in sub-dimension 2.1, one for each thematic block: *i)* Are environmental policies for SMEs included in the government's strategies? *ii)* Has a budget been mobilised for the action plan? *iii)* Does regular monitoring of environmental policies targeted towards SMEs take place? Within the thematic blocks, the Policy Index methodology also measures the kind of policies in place and the level of government commitment in terms of institutional backing, budget and outreach to other stakeholders.

Sub-dimension 2.2, on incentives and instruments for greening SMEs, builds on the policy foundations of sub-dimension 2.1 to explore how countries give concrete support to SME greening. It measures whether the government provides regulatory and financial incentives to SMEs, whether there is any evidence that SMEs benefit from those incentives and how those incentives and support schemes are structured and delivered. This includes outreach to the private sector broadly and to business associations specifically. This sub-dimension also looks at how governments recognise more sustainable actions taken by SMEs.

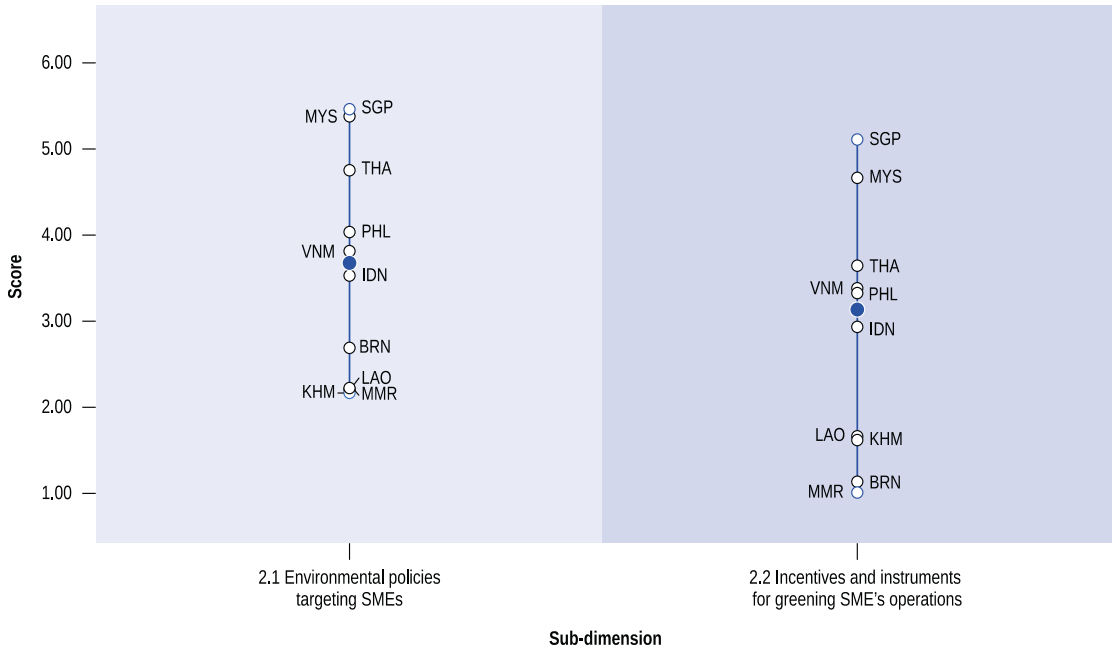
In order to realise government plans for making SMEs more environmentally sustainable, it is important to measure what kind of incentives, initiatives and programmes are in place. It is also important for governments to understand the impact of those incentives and to verify that they are actually reaching the targeted SMEs. In the short term, activity in this sub-dimension can help kick-start the greening of SMEs and provide data about which approaches work best for different sectors and different types of enterprises. In the longer term, this sub-dimension allows governments to apply incentives and support schemes that help SMEs become greener in the most impactful and cost-effective manner.

How governments set and enforce environmental regulation, and incentivise compliance, can help support the greening of SMEs. Rules-based regulatory regimes for SMEs rather than complex permit systems are important, as are policies to promote good practices, such as reduced environmental compliance inspections for SMEs that have implemented EMS and reduced compliance costs for self-reporting of incidents. Support schemes and financial incentives may include: preferential tax treatment for investments in more environmentally sustainable equipment; financial support for efficiency audits; or the implementation of green procurement strategies for the public sector. These aspects are further measured through questions about what kind of incentives are in place, whether evidence is gathered on their effectiveness, whether the government provides assistance with compliance and whether programmes exist to provide official recognition to SMEs that are implementing greening projects.

Analysis

The overall assessment results for Dimension 2 on Environmental Policies and SMEs are presented in Figure 5.2. Countries are scored for each sub-dimension on a scale of 1 to 6, where 6 shows the best performance. Broadly, AMS recognise the importance of environmental sustainability, but the concept is unevenly applied in terms of regulatory approach, expected policy outcomes and the industries covered. Detailed analysis by sub-dimension follows.

Figure 5.2. Weighted scores for Dimension 2 by sub-dimension



Specific efforts to support the greening of SMEs are relatively rare in the region. With some exceptions, countries do provide support to private enterprises that are working to adopt green practices, but policy frameworks, regulatory incentives and financial support programmes are often not targeted at SMEs and are more accessible for larger enterprises. This includes access to green finance as well as the adoption of EMS.

Support for the greening of SMEs often falls outside the purview of agencies specifically tasked to support SMEs and is instead overseen by ministries and agencies responsible for environmental protection. In part, this is because green SMEs are still seen as a niche area of the economy.

However, it is clear that change is afoot, with concerns about environmental sustainability increasingly mentioned in national planning documents. Going forward, it is vital that policies to support SME greening become mainstreamed within broader government support for SMEs. Countries in the region should ensure that the implementation and impact of new greening policies are monitored and evaluated so that policies can be refined and expanded based on what works. As ASEAN countries begin to focus more clearly on creating a supportive policy environment for green SMEs, there is substantial room for progress.

Sub-dimension 2.1: Environmental policies targeting SMEs

Support for SME greening requires the development of effective policies that target SMEs specifically. SMEs generally behave differently than larger companies, especially concerning environmental regulation and green practices. Where larger companies may task specific individuals with monitoring environmental compliance or adopting green practices, this is generally not true in smaller and even medium-sized enterprises. Legislation needs to take this into account.

The development levels of environmental policies for SMEs differ widely across AMS. While the most advanced countries in the region provide targeted support for SME

greening, countries in the early stage of green SME policy development, such as Cambodia, Lao PDR and Myanmar, are still developing their approach to environmental policies and supporting green growth more broadly.

A fundamental issue facing all countries in the region is how SME greening policy is conceived: whether as an issue separate from other policies supporting SME or as part of a holistic approach. Support for the greening of SMEs should be seen in the context of support for SME growth overall, rather than simply as environmental compliance or support for specifically green industries like ecosystem services or renewable energy. Green growth policies for SMEs need to be mainstreamed at both the planning and institutional stages in order to enhance opportunities for co-ordination and impact.

Table 5.1. Scores for sub-dimension 2.1: Environmental policies targeting SMEs

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD
Planning and design	3.20	2.28	3.75	2.38	6.00	2.65	5.06	5.63	4.68	4.13	**3.94**	**1.28**
Implementation	2.65	2.38	3.91	2.10	5.15	2.38	4.03	5.43	5.72	3.49	**3.70**	**1.29**
Monitoring and evaluation	1.83	1.00	2.24	1.83	4.75	1.00	2.24	5.16	2.65	3.90	**2.24**	**1.39**
Total sub-dimension score	2.68	2.07	3.52	2.14	5.37	2.20	4.03	5.45	4.74	3.80	**3.66**	**1.24**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Planning and design: Policies should specifically target the greening of SMEs

Across the region, all countries have environmental policies that could potentially impact SMEs, but only a minority have policies that specifically support or target SMEs. Instead, environmental plans are often included in other planning documents or in environmental laws that regulate industry or specific sectors of the economy. The first thematic block of this sub-dimension – planning and design – puts significant weight on the development of environmental policies targeting SMEs.

Some countries, notably Singapore, Viet Nam and Malaysia, have national plans on green growth and the adoption of green technology. The Sustainable Singapore Blueprint 2015 includes the environmental impact of SMEs, for example. In other AMS, including the Philippines, Thailand and Indonesia, environmentally sustainable economic growth is discussed in high-level strategic planning documents. Thailand specifically mentions supporting green SMEs as one element of its National Development Plan. Other countries in the region have environmental legislation but are still developing a strategic approach to supporting green growth. Lao PDR, for instance, is being supported by the World Bank to develop new green growth development policies.

Countries were further scored on whether environmental policies targeting SMEs included an action plan, measurable targets, timelines and expected impact. While most of the countries with environmental policies targeting SMEs also had action plans, setting timelines with measurable targets and establishing the expected impacts of SME environmental policies was much less common.

Although a wide variety of different avenues can impact the green development of SMEs, two key avenues are innovation around eco-efficient products and the implementation of more energy- and material-efficient processes. Eco-innovation in environmental policies

targeting or impacting SMEs was included by more countries than strategies on SMEs becoming more resource efficient. This correlates with the broader trend of environmental sustainability being regarded as a specific sector or trend, rather than something that can be pursued by enterprises across the economy.

Ideally, support for green SMEs should be mainstreamed within countries' overall strategies for SMEs, rather than regarded as a separate issue. Having a separate agency responsible for greening SMEs reduces the number of businesses that access it and encourages the self-selection of enterprises that are already interested in greening or specifically pursuing green businesses.

By contrast, integration of support for the greening of SMEs into the government's overall support for SME development can help reach the broad mainstream of SMEs that would benefit from adopting more efficient practices. This would also lower the burden for government. During discussions in the information-gathering phase of the 2018 ASPI, representatives from agencies responsible for supporting SMEs were unaware of actions undertaken in their country by other ministries to support the greening of SMEs, suggesting missed opportunities.

In many AMS, the agency tasked with supporting the greening of SMEs was based at the government ministry responsible for environmental protection or for assisting enterprises with environmental compliance. This speaks to greening being a cost to businesses rather than a potential benefit, and to a focus on compliance issues rather than resource and energy efficiency and cleaner production practices. Some AMS, however, such as the Philippines, Indonesia and Thailand, have greening plans based in their Ministry of Industry, suggesting a green growth focus. Another recurring issue is that responsibility is split in some countries, with different ministries or agencies responsible for providing support for greening to industry broadly or to SMEs specifically, and administering different programmes and support schemes. This not only complicates matters for enterprises seeking assistance but also increases the cost to government and reduces opportunities for co-ordination.

Box 5.1. An example of good practice: The EU Green Action Plan for SMEs

The European Union adopted a Green Action Plan (GAP) for SMEs in 2014, with the goal of helping SMEs to improve their green performance and take advantage of opportunities presented by the global transition to a greener economy. Its objectives and actions are grouped in five thematic areas:

1. **Greening SMEs for more competitiveness and sustainability**. Actions to help SMEs reduce production costs and increase productivity through better resource efficiency, supported by information, advice, access to finance and technology transfer mechanisms.
2. **Green entrepreneurship for the companies of the future**. Support for SMEs in accessing opportunities in the environmental goods and services market through the development of eco-innovation clusters and the facilitation of business partnering for skills and knowledge exchange.
3. **Opportunities for SMEs in a greener value chain**. Support for SMEs in entering circular economy activities such as re-manufacturing, repair, maintenance, recycling and eco-design by addressing value chain barriers, promoting collaboration and promoting new business models based on efficiency

and the reuse of materials and/or waste.

4. **Access to new markets for green SMEs**. Growth-supporting actions to help SMEs access new markets by promoting a greener internal market, enabling access to international markets and facilitating green technology uptake in partner countries.

5. **Governance**. Monitoring and evaluation, co-ordination between EU member states and SME stakeholders, and consultations on SME policy developments.

With its holistic approach to supporting the greening of SMEs, the Green Action Plan demonstrates the benefits of co-ordinating action to reduce duplication and enhance impact. Although it is an EU-wide plan, the approach could also be replicated at the national level.

The Green Action Plan is expected to raise awareness among SMEs of the benefits of resource efficiency, the improved productivity and competitiveness stemming from the circular economy and the existence of a range of resource efficiency actions that can be accessed under different EU programmes, including COSME (Competitiveness of Enterprises and Small and Medium-sized Enterprises), Horizon 2020 (the EU's research and innovation programme) and the European Structural and Investment Funds.

Source: European Commission (2017), "Green Action Plan for SMEs: Turning environmental challenges into business opportunities", http://www.switchtogreen.eu/?p=1180.

Implementation: Green growth plans for SMEs require a budget

To provide a proxy for policy implementation and commitment, the ASPI takes into account whether there is a budget associated with implementing environmental policies around SMEs. Thailand and Singapore have committed money directly from the national budget to implement plans, with Singapore budgeting SGD 1.5 billion (Singapore dollars) to implement the Sustainable Singapore Blueprint 2015 and Thailand budgeting THB 30 million (Thai baht). Malaysia has committed to greening 20% of its public procurement by 2020.

However, most other AMS policies to support green growth are funded by external sources on a project-by-project basis. This is particularly the case in countries without strong green policies in place. Donor funding of projects can play a vital role in kick-starting green growth policies for SMEs and provide a conduit for technical assistance. Examples include the Switch programme in Myanmar, which supports sustainability in the garment manufacturing sector, and the Environmental Management Support Programme in Lao PDR. However, governments should aim to support green growth plans directly from the budget, even if the scope and amount is modest. This helps ensure stability over the long term, and indicates to investors and enterprises that it is a priority.

Another important element of implementation is sector-specific planning. Different economic sectors have different environmental challenges and opportunities. They can also react to different types of incentives and can be reached through different channels. Most AMS, even those without national plans to support SME greening, have some degree of sectoral support. This includes Malaysia, which has specific greening policies for the energy, construction and transportation sectors; the Philippines, whose greening manufacturing roadmap has provisions for the automotive, plastics, pulp and paper, construction, and furniture industries; and Cambodia, which has policies supporting more sustainable manufacturing.

Monitoring and evaluation: Assessment of greening policies is essential

Viet Nam conducts regular monitoring and reporting on the implementation of its greening policies, generally on a biannual basis. Malaysia conducts quarterly monitoring of its policy implementation, and the Singapore Sustainable Blueprint is tracked annually. Other countries struggle with monitoring and evaluation, often lacking regular systems, and none of the AMS conduct regular third-party reviews of the implementation of their greening policies. Monitoring and evaluation of policy implementation is vital, as it helps inform policy makers on what works and does not, whether pilot programs should be scaled up or modified and whether resources are being well spent. As support for greening SMEs in ASEAN increases, policies should be structured with monitoring and evaluation strategies from the outset.

Sub-dimension 2.2: Incentives and instruments for greening SMEs

A wide range of tools are available to governments to support SME greening. Some correlate with support for SME development more broadly, such as access to finance and assistance with entering new markets, while others are specific to environmental concerns, such as regulatory incentives and eco-labelling initiatives. This sub-dimension assesses countries on these incentives and instruments, as well as their progress on implementation and evaluation. Broadly speaking, government support for SMEs falls under two main areas: regulatory features and structures that incentivise SMEs to adopt greener practices, and support schemes and financial incentives that support greener SME practices. With some exceptions, both are still developing in most AMS. However, there is clear interest across the region in trying new approaches for supporting green growth.

Table 5.2. Scores for sub-dimension 2.2: Incentives and instruments for greening SMEs

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	SID
Planning and design	1.00	1.66	3.64	2.32	4.66	1.00	3.97	4.66	4.30	4.66	**3.81**	**1.46**
Implementation	1.21	1.83	2.86	1.41	5.36	1.00	3.48	5.58	3.90	3.08	**2.97**	**1.56**
Monitoring and evaluation	1.00	1.00	1.83	1.00	3.06	1.00	1.83	4.74	1.83	1.83	**1.83**	**1.13**
Total sub-dimension score	1.09	1.60	2.92	1.65	4.66	1.00	3.32	5.09	3.63	3.38	**3.12**	**1.37**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Planning and design: Regulatory incentives can encourage SME greening

Environmental regulatory practices in AMS vary widely, with different approaches and degrees of centralisation. AMS face the same challenges in environmental regulation as other countries around the world: how to balance the need for a clean environment with the regulatory burden placed on industry and government. Environmental regulation and enforcement, including the need for environmental impact assessments (EIAs), generally focus on larger enterprises and projects in sectors where environmental impact is likely to result from activity. These sectors include natural resource extraction (mining, forestry and energy); construction; infrastructure development; and other emitting industries such as chemical and garment production. However, regulations are often unevenly applied.

OECD countries have tried to address this challenge by implementing information-based tools and regulatory and economic incentives to encourage SMEs to improve their environmental performance, to comply with regulatory requirements and to adopt broader green practices that go beyond what is required by law. This may involve simplification of regulatory requirements for SMEs through standardised permits or general binding rules for low-risk activities, and requiring operators to notify regulators before they begin an activity. SMEs can be encouraged to establish environmental management systems (EMS) through reduced inspection frequency or enforcement penalties. The burden for both industry and government should also be reduced wherever possible through regulatory co-ordination. As noted under sub-dimension 2.1, there are significant potential benefits for all parties when environmental issues are not kept in a separate silo from the government's other interactions with SMEs.

The Philippines Environment Partnership Programme encourages self-monitoring and self-regulation Box 5.2). The Philippines has also advanced its regulatory process by moving some environmental certificates and permits online. This supports access for SMEs and reduces the burden on government. Self-reporting and the use of a rule-based system, as opposed to customised permitting, can help to increase environmental performance for SMEs. However, most countries in the region do not have explicit environmental regulatory incentives or, as in Cambodia and Lao PDR, are still in the process of developing their environmental regulatory approach to SMEs.

Box 5.2. An example of good practice: Philippines Environment Partnership Programme

The Philippines Environment Partnership Programme (PEPP) was created in 2003 by the Environmental Management Bureau of the Department of Environment and Natural Resources (DENR-EMB) to support industry self-regulation and reporting while improving environmental performance. It includes incentives and assistance for SMEs to achieve cleaner production standards. The PEPP has two tracks:

- *Track 1* gives recognition and incentives to enterprises that go beyond compliance in their environmental performance. To qualify for Track 1, enterprises need to show they have been consistently environmentally compliant for three years prior to the date of application and that they have gone beyond compliance through actions such as implementing an EMS, undertaking pollution prevention or waste minimisation initiatives, or engaging in community or social responsibility programmes.
- *Track 2* is an assistance programme aimed at industry associations and individual companies, particularly SMEs that are not yet compliant with environmental regulations but that are committed to improving their performance. Successful applicants sign an environment consent agreement, a legally binding accord between the company/industry association and the DENR-EMB that commits the company to:
    - implement environmental management plans within the framework of an environmental management system
    - attain waste reduction targets within an agreed timeframe and agree to means of verification
    - adopt pollution prevention and/or cleaner production
    - provide an environmental performance report to EMB.

Source: DENR-EMB (2017), Philippines Environmental Partnership Program (PEPP): Catalyst for Holistic Environment Partnership, http://pepp.emb.gov.ph/.

The ASPI 2018 results show that while regulatory approaches and incentives are still developing, economic incentives are relatively further ahead in the region. Almost all AMS offer some form of financial incentives for greening, including grants, soft loans and tax incentives for businesses investing in green technologies. Thailand, the Philippines, Indonesia, Viet Nam, Singapore and Malaysia have measures specifically to help SMEs access funds for green investments, or provide tax and/or customs waivers for different types of environmentally designated equipment. These are vital for helping SMEs to adopt greener practices and invest in new equipment.

For example, Indonesia's Centre of Forest Development Financing (Pusat P2H) operates under the Ministry of Environment and Forestry. It provides soft loans to micro and small enterprises through a variety of structures, both directly and through intermediaries, and by establishing revenue sharing arrangements. It offers long payback periods (up to 16 years), grace periods and below-market interest rates. However, many of the green finance assistance programmes in AMS do not target SMEs specifically, and SMEs may have trouble accessing programmes that are scaled for larger enterprises. Some of the financial incentives are also funded by donors, which may impact their longevity.

Implementation: Targeting SMEs increases the impact of incentives

AMS governments struggle to show evidence that SMEs are benefiting from regulatory incentives. This is true even in the countries most advanced on this issue: the Philippines and Thailand. Although this may reflect still nascent approaches to results monitoring, it points to the need to target SMEs specifically in regulatory incentives.

There is better evidence of the impact on SMEs of support schemes and financial support, although again countries face challenges. The most advanced AMS in this area are Malaysia, Singapore and Indonesia, which have programmes to support access to green finance that specifically target SMEs. Other countries with green finance support schemes that were potentially accessible to SMEs, such as Viet Nam, have struggled to ensure that SMEs are aware of the available support.

The issue of targeting also impacts support for EMS. Malaysia, Viet Nam and Indonesia, for example, promote ISO 14001 standards for environmental management and provide technical assistance for implementation (in Malaysia assistance is provided specifically for SMEs through SME Corp.). While ISO 14001 is the globally recognised standard for EMS, it is technically difficult, aimed at larger enterprises and expensive for most small enterprises to implement. Thailand also promotes ISO 14001, but has coupled that with support for a more simplified EMS for SMEs that operates on a graduated basis. OECD countries have also adopted this strategy, providing simplified EMS schemes specifically for SMEs, with less onerous requirements or requirements that are graded so that an SME can become progressively greener (OECD, 2018 forthcoming[5]).

Governments have an important role to play, not just in providing tools to SMEs for becoming greener but also in helping to expand the market for green products in order to help enterprises make a better business case for investing in greener practices. This support can come both directly, through greening public procurement, as well as indirectly, by developing eco-label regimes. For instance, Malaysia mandated in its 11th Malaysia Plan (2016-2020) that 20% of public procurement must meet standards for reducing environmental impact and mitigate the impact of human activities. The plan is supported by complementary programmes that will help SMEs to produce green products and adopt green practices. Support includes capacity building through the MyHIJAU SME & Entrepreneur Development Programme; funding through the Green Technology

Finance Scheme; eco-labelling; and support for the adoption of EMS. Other AMS, including Singapore, Viet Nam and Thailand, have implemented eco-labelling and green certification schemes.

One of the most vital aspects of supporting greener SMEs is providing them with access to information – not just on how they can comply with environmental regulation, but also on how greener practices can have a positive impact on their bottom line and what options exist to help them become more resource efficient. Singapore has a one-stop portal, E2Singapore (Energy Efficient Singapore), which provides information on these issues to enterprises, including SMEs. In the region as a whole, however, significant improvement is necessary. Provision of information aids environmental compliance and helps to ensure that other initiatives, such as regulatory and financial incentives and support schemes, are able to reach SMEs.

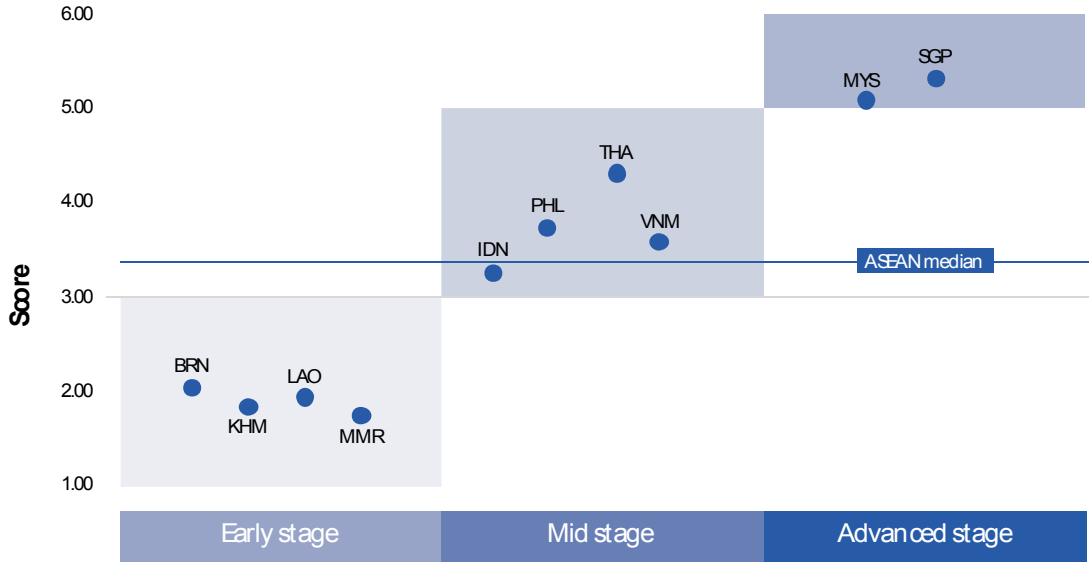
Monitoring and evaluation: Tracking the results of incentives and support is vital

The region needs to improve its approach to monitoring and evaluating the impact of incentives and schemes to support the greening of SMEs. This is a vital step for assessing whether policies are working, for making changes to improve them and for justifying ongoing funding. Although Singapore, Viet Nam and Malaysia all conduct some monitoring, it is most often carried out by the same agencies and ministries that implement the policies. Other AMS do not perform any monitoring or evaluation.

The way forward

Figure 5.3 illustrates the results of the 2018 ASPI assessment for Dimension 2 on the greening of SMEs. It categorises countries into different levels of policy development, based on their weighted average across the two sub-dimensions.

Figure 5.3. Weighted scores for Dimension 2: Environmental policies and SMEs



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

For most AMS, support for enterprise greening and environmental policies in general are at an early stage of development. In many AMS, even in some that have a green growth strategy in place and are working to support greener practices for SMEs, coordination between SME development agencies and those agencies supporting the adoption of greener practices could be further enhanced.

However it is also clear that there is a strong interest in most AMS to develop and refine approaches to SME greening. Going forward, policy makers could consider a number of options:

Table 5.3. Policy recommendations to boost the greening of SMEs

Level of policy	Challenges	Policy recommendations
Early stage *Cambodia, Myanmar, Brunei Darussalam and Lao PDR*	Disconnect between the agencies supporting SMEs and those supporting greener practices	• **Develop national policies that specifically support the greening of SMEs**, as opposed to industry broadly, and that have clear action plans and timelines.
	Lack of awareness about the advantages of greening and mechanisms available	• **Establish one-window agencies** that support SMEs in becoming greener with advice and signposting to available resources.
Mid stage *Indonesia, Philippines, Viet Nam and Thailand*	Lack of awareness about the advantages of greening and mechanisms available	• **Develop communication strategies and information tools** to reach out to SMEs and help them understand the business case for adopting more energy and resource-efficient practices.
	Monitoring mechanisms are generally already developed, but further evaluation mechanisms are still lacking	• **Strengthen monitoring and evaluation of the implementation of incentives** and support schemes targeting SMEs in order to track their effectiveness and improve them.
Advanced stage *Malaysia and Singapore*	SMEs might be disadvantaged compared to larger companies in having access to available incentives	• **Establish environmental regulatory regimes that differentiate between SMEs and larger enterprises**, and that take account of the risk level of the activity being pursued, with regulatory incentives for going beyond compliance and with assistance for SMEs to accomplish this.
	Potentially disconnect between the programmes supporting SMEs and those supporting greener practices	• **Mainstream strategies to support SME greening** within the overall approach to supporting SMEs, including technical assistance, access to finance, regulatory incentives and market access.

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Chapter 6. Access to finance

Introduction

An extensive literature supports the principle that barriers to accessing formal external finance prevent all firms from reaching their optimal size, and that greater access to a broad range of financial products can also aid innovation (Ayyagari et al (2017[1]; Aghion, Fally and Scarpetta, 2007[2]). Well-functioning financial markets that allow firms to access alternative sources of financing, outside informal finance and retained earnings allow competitive firms to invest further in tangible assets, to select more efficient organisational forms (Demirguc-Kunt, Love and Maksimovic, 2006[3]), and to ride out periods of stunted or volatile cash flow (Siedschlag et al., 2014[4]).

While all firms seem to benefit from well-functioning financial markets, studies show that this is particularly critical for small to medium-sized enterprises. Studies indicate that financing obstacles do indeed impede growth in small firms, often to a greater extent than in large firms (Beck et al., 2006[5]). Moreover, SMEs often find it harder to access external financing. Financial institutions are often reluctant to lend to this segment – even though it can be perceived as attractive – given the higher risk profile associated with it. This is largely due to the high failure rate among small firms combined with three challenges implicit in SME lending: information asymmetry, principal/agent problems and transaction costs.

Information asymmetry reflects the fact that the owner/operator of an SME tends to have more accurate information on firm operations than an external financier due to the difficulty of capturing all relationships, activities and funds in formal reporting documents like financial statements (OECD, 2015[6]). Principal/agent problems stem from the risk that once financing is received, an entrepreneur may not use the funds in the way they were intended, potentially increasing the risk of non-repayment. SME financing is more exposed to this risk due to the greater opacity surrounding this type of enterprise and the more limited exit options available to them. Finally, transaction costs tend to be higher in SME lending due to the need to conduct the same, or more rigorous, checks for the appraisal, monitoring and enforcement of lower-value loans as for large loans. These fixed costs reduce the lending profit margin for banks and can drive a wedge between the funding costs of such institutions and their expected return on investment (Beck and de la Torre, 2007[7]). Such costs are largely transferred to SMEs via interest rates and fees and collateral requirements, which can render the total loan costs prohibitively expensive.

These three challenges exist in all economies to some extent, but they tend to be particularly pronounced in emerging economies, where SMEs may lack professional management and financial literacy skills, where gaps may exist in the legal framework to protect creditor rights, and where financiers may have more opportunities to gain acceptable returns from other borrowers given limited market-based financing alternatives, and thus less incentive to invest in the skills and technology required to lend to SMEs. This also appears to be the case in ASEAN. Data collected by the International

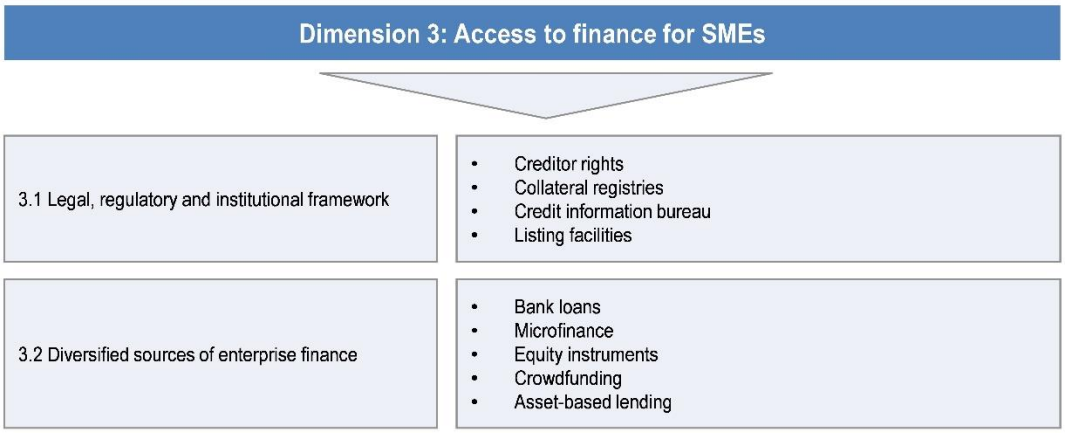
Finance Corporation suggest that SMEs faced a credit shortage totalling USD 184.7 billion in 2010, while a study of seven ASEAN Member States (AMS) found that SMEs tend to experience credit rationing and high risk premiums, particularly in the lower-income AMS and among SMEs that are small and new (Harvie, Narjoko and Oum, 2013[8]). Moreover, the study found limited access to finance to have a significant impact on the innovation capability and export market participation of SMEs.

This identified competitive disadvantage, coupled with the belief that taking corrective action can create positive spillovers for an economy as a whole, is a key rationale for policy intervention in the field of SME finance, particularly in emerging economies. Policy makers wishing to address these gaps can take various steps. They include providing support for the development of institutions to mitigate credit risk, such as credit information facilities and collateral registries, and adopting rules and regulations to protect creditor rights and to streamline settlement procedures in the event of insolvency. The key is to avoid many of the market distortions associated with government-sponsored SME financing programmes and policies that risk diverting funds away from the most productive and creditworthy enterprises. Policy makers should therefore carefully consider where interventions are needed and which instruments are the most suitable, and carefully monitor both their costs and their benefits.

Assessment framework

The framework used to assess policy interventions for boosting SME finance in ASEAN (Dimension 3) covers two sub-dimensions. The first looks at the legal and institutional framework governing SME lending in ASEAN – namely the rules, regulations and facilities available to structure and inform lending to this segment. The second looks more closely at the capacity of financiers in each AMS and the policy instruments provided to support them more directly in lending to SMEs, with the output being the range of financial products available to SMEs in ASEAN. These sub-dimensions and key components are illustrated in Figure 6.1.

Figure 6.1. 2018 ASPI framework for increasing SME access to financing



In the 2018 ASPI framework, the first sub-dimension is assigned the greatest weight. The logic underpinning this choice is based on various studies that have shown the level of institutional development to be the most significant determinant of cross-country variation in SME access to financing (Beck et al., 2006[5]). The component looks at the

extent to which some of the information asymmetries and principal/agent problems implicit in SME lending are mitigated. It looks at the depth and breadth of credit reporting systems, which can reduce information asymmetries faced by lenders in assessing the credit risk of a prospective borrower. It looks at registries for recording the ownership and value of assets, both immovable and movable, which can reduce moral hazard[1] and guarantee partial repayment in the event of loan default. It looks at creditor rights, which protect the ability of creditors to reclaim their money in the event of default. Finally, it measures facilities for listing firms, including SMEs.

The second component looks at the products available to SMEs across AMS. Traditional debt finance provided by commercial banks is generally the most common source of external finance for the ordinary and short-term needs of low- to medium-risk SMEs. Generating moderate returns, it is generally characterised by stable cash flow, modest growth, tested business models and access to collateral or guarantees. Policy makers looking to stimulate the flow of this type of credit to SMEs can consider providing (properly structured) guarantees and lines of credit on the supply side, or financial literacy programmes and interest rate subsidies on the demand side.

Another form of debt finance provided to SMEs by financial institutions is microfinance. Microfinance institutions (MFIs) provide relationship-based lending to very low-income borrowers or to borrowers located in remote areas. Alongside loans, most MFIs provide basic financial literacy modules prior to credit allocation, and other advisory services to support business development. Instead of asking for collateral, which many of their clients do not have, most MFIs pool borrowers together, using peer pressure as a buffer to incentivise loan repayment.

Aside from traditional debt finance and microfinance, SMEs can benefit from access to alternative financing instruments. These have been discussed at length by the OECD (2015[6]) and are illustrated in Table 6.1. This group of instruments can be characterised by different degrees of risk and return.

Table 6.1. Taxonomy of alternative financing instruments

Low risk/return	Low risk/return	Medium risk/return	High risk/return
Asset-based finance	Alternative debt	"Hybrid" instruments	Equity instruments
• Asset-based lending • Purchase order finance • Warehouse receipts • Leasing	• Corporate bonds • Securitised debt • Private placements • Crowdfunding (debt)	• Subordinated loans/bonds • Silent participations • Participating loans • Profit participation rights • Convertible bonds • Bonds with warrants • Mezzanine finance	• Private equity • Venture capital • Business angels • Specialised platforms for public listing of SMEs • Crowdfunding (equity)

Source: OECD (2015), http://dx.doi.org/10.1787/9789264240957-en.

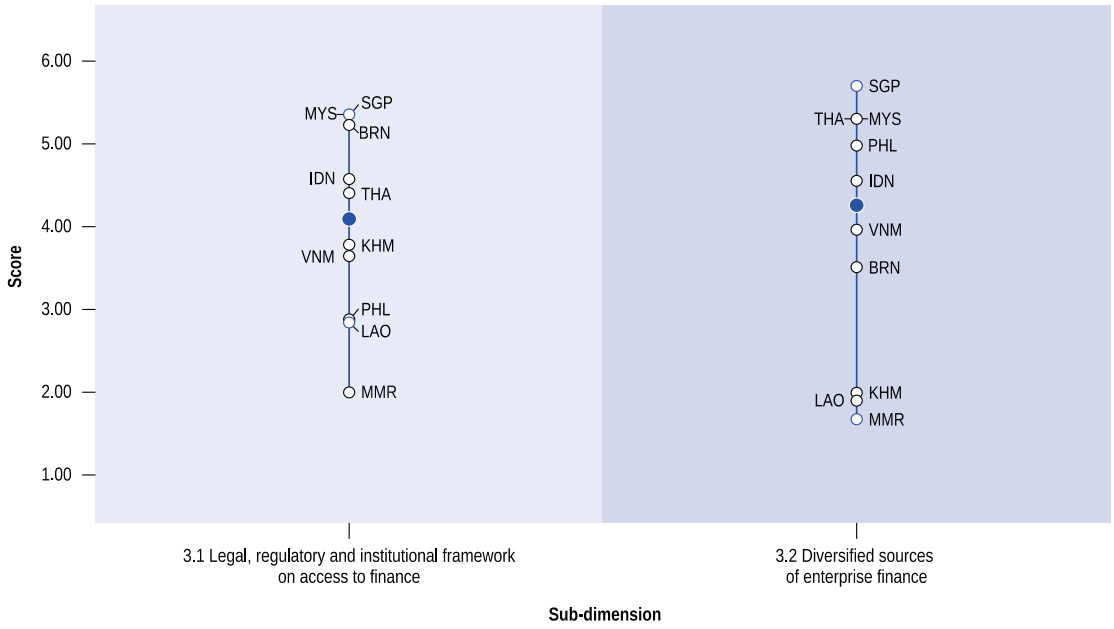
The 2018 ASPI framework covers asset-based finance and equity instruments, but does not score countries on the presence of hybrid instruments and includes only one alternative debt instrument (debt crowdfunding). This limitation is due to the lack of bond markets across the Asia region, including Southeast Asia.

In sum, the 2018 ASPI assessment broadly covers products that could be grouped under three headings: cash flow-based financing, asset-based financing and viability-based financing. The first covers credit lines and loans provided by banks, microfinance institutions and government entities; the second covers products such as leasing, factoring, purchase order finance and warehouse receipts, normally provided by banks; and the third covers equity provided by business angels and specialised equity funds and platforms, including venture capital (VC) funds. These are defined and discussed in greater detail under sub-dimension 3.2.

Analysis

The overall assessment results for Dimension 3 (Access to finance) are presented in Figure 6.2. Countries are scored for each sub-dimension on a scale of 1 to 6, with 6 being the highest. Detailed analysis by sub-dimension follows.

Figure 6.2. Weighted scores for Dimension 3 by sub-dimension



Sub-dimension 3.1: Legal, regulatory and institutional framework

The legal, regulatory and institutional framework is of key importance in mitigating information asymmetries and principal/agent problems in the process of allocating credit to SMEs.

On the debt side, cash flow-based finance, which remains the most common source of SME external financing in OECD countries, depends on the ability of lenders to assess the creditworthiness of SMEs and ascertain future earnings. This process relies on having a credit reporting system in place where lenders can retrieve the credit histories of prospective borrowers. In formulating contracts that protect against credit risk, lenders are greatly assisted by a comprehensive secured transaction framework, reliable and deep asset registries, and strong creditor rights. Asset-based debt financing instruments depend particularly on the environment for secured transactions.

On the equity side, facilities that allow SMEs with high growth potential to access risk capital to finance their growth provide them with an alternative financing source that may be more suited to their needs. Many OECD countries have developed junior boards for their stock exchanges, allowing SMEs at this stage of development to access public equity with lower listing requirements. This facility is most relevant for SMEs that exhibit strong growth prospects and are sufficiently structured to meet a base level of reporting and corporate governance requirements.

The 2018 ASPI framework incorporates these elements, assigning the greatest weight to the legal framework for commercial lending (70%). Credit reporting systems and facilities for SME listing are assigned 20% and 10% respectively.

Table 6.2. Scores for sub-dimension 3.1: Legal, regulatory and institutional framework

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD
Credit information bureau	5.77	3.66	4.40	2.63	5.23	2.23	2.40	5.33	4.03	3.26	**3.85**	**1.21**
Legal and regulatory framework for commercial lending	5.26	4.52	5.26	3.78	6.00	1.00	3.78	5.26	5.26	5.26	**5.26**	**1.36**
Stock market operations and facilities for SME listing	1.55	3.20	4.60	2.38	5.15	2.38	4.33	6.00	5.43	3.22	**3.77**	**1.42**
Total sub-dimension score	5.24	3.79	4.59	2.83	5.38	2.00	2.87	5.39	4.42	3.65	**4.10**	**1.13**

Note: scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The median score across ASEAN is high in terms of institutions for credit information reporting, but rather low in terms of the creditor rights/secured transactions framework and facilities for SME listing. There is rather high variation across all groupings, however, with Singapore scoring high across all areas, Brunei Darussalam scoring high for the first and second blocks, and Malaysia and Thailand scoring high for the first and third blocks.

Credit information bureaus: Limited credit information may penalise SMEs

The two main lending technologies used by financial institutions to extend credit to SMEs are relationship lending and transaction-based lending (Berger and Udell, 2002[9]). Transaction-based lending technologies like credit scoring are becoming increasingly preferred in most mature financial markets for lending to SMEs (Berger and Black, 2011[10]), since such methods can lower transaction costs and decrease agency problems. Unlike relationship lending, which relies on "soft" information gathered over time by a loan officer, transaction-based lending often relies on "hard" quantitative data for ascertaining the creditworthiness of a prospective borrower (Berger and Udell, 2002[9]).

Credit reporting systems play an important role in the facilitation of transaction-based lending. All but one AMS have a credit reporting system in place. In most countries this service is provided by private credit bureaus or a mix of private credit bureaux and public credit registries. The exceptions are Brunei Darussalam and Lao PDR, which use a public credit registry. Since public credit registries are generally created for the purpose of monitoring system-wide banking risk, they tend to collect only data on loans above a certain threshold, meaning that private credit bureaus can be more effective at increasing the coverage of smaller firms (Hengel, 2010[11]). Brunei Darussalam's credit registry, however, is a full credit bureau that collects both positive and negative credit information

on all types of loan regardless of the amount. The country that does not yet have a credit reporting system in place, Myanmar, has made important progress since the 2014 ASPI assessment by enacting a regulation in March 2017 to allow for the establishment of credit bureaus. The Myanmar Banks Association and NSP Holdings of Singapore had signed a memorandum of understanding (MoU) in 2016 to set up a credit bureau in the country.

Three AMS – Indonesia, Malaysia and Viet Nam – use a dual credit-reporting system. In these countries, a regulation was passed allowing for the creation of private credit bureaus. These credit bureaus work alongside the registry, building on its data to provide credit scoring services. Other AMS appear to be considering the adoption of similar models to increase the depth and breadth of credit information coverage. In Lao PDR, for instance, where systems currently cover only 11.2% of the adult population, the central bank is in talks with international financial institutions on how to reform its credit reporting system to allow for the creation of private credit bureaus in the country.

Where credit information is available, it is generally accessible and comprehensive. In all remaining AMS except Cambodia, financial institutions can access a borrower's credit information online. In terms of the depth of information, positive and negative credit data are collected in all remaining AMS except one (Cambodia), and in seven countries at least two years of historical data are distributed (all except Cambodia and the Philippines). However, coverage provided by credit reporting systems is highly varied – ranging from 73.4% of the adult population in Brunei Darussalam to 8% of the adult population in the Philippines. In four AMS, these systems became operational over the past six years. The Philippines is currently working on reforming its credit reporting system to increase coverage. In 2008, it passed the Credit Information System Act and created a public corporation, entitled the CIC, which is responsible for collecting, collating and disseminating information provided by private credit bureaus. One of its key achievements has been the issuance of a memorandum by the Securities and Exchange Commission requiring all financial institutions to submit their five-year historical and current credit data by a stipulated date.[2]

The Strategic Action Plan for SME Development (SAP SMED) 2016-25 lists the harmonisation of credit reporting, and potentially the creation of an ASEAN-level credit information system, as a strategic long-term goal. The findings of the 2018 ASPI suggest that important progress has taken place over the last ten years in building up credit information systems across ASEAN. However, there remain significant disparities in the breadth and depth of coverage across AMS that must be addressed as a first step. Promising signs can already be observed in cross-border co-operation, for instance with the passage of an MoU between the Myanmar Banks Association and NSP Holdings of Singapore. Once these disparities have been decreased, ASEAN policy makers could look at finding ways to foster mutual recognition and common disclosure requirements among national credit information bureaus and registries, and at harmonising the regulation and standards that currently govern credit information reporting.

Legal and regulatory framework: Some gaps remains in secured transaction laws

The legal and regulatory environment for commercial lending also affects the ability of banks to utilise contracting elements that enable them to overcome information opacity and principal/agent problems (Berger and Udell, 2006[12]; OECD, 2015[6]) and thereby reduce their credit risk. One of the most common of these elements in SME financing is securitisation. However, the efficacy of securitisation as a credit-risk mitigation

technology depends on a country's legal framework for secured transactions, its creditor rights and its systems for registering assets. These conditions also influence the viability of asset-based lending.

All AMS have a cadastre in place for registering immovable property, though in some countries, like Cambodia, these systems are still being piloted and are therefore not yet fully functional. Nine AMS have a movable assets register in place (all except Myanmar), but in the Philippines this remains a document-based system covered by the Registry of Deeds. Five AMS[3] – Brunei Darussalam, Cambodia, Indonesia, Lao PDR and Viet Nam – have a centralised registry for listing movable assets[4], and in six AMS – Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia and Singapore – third parties can conduct registrations, amendments, cancellations and searches online. In only three AMS – Cambodia, Lao PDR and Brunei Darussalam – are these registries notice-based, whereby potential creditors can easily assess their ranking priority in potential claims over specific collateralised assets.

Credit risk can be decreased not only by having access to a reliable and comprehensive asset registry, but also by having clearly crafted rules over perfection and priority in case of competing claims on or interests in the same assets (World Bank, 2015[13]). According to World Bank (2017a[14]) data, only Malaysia and Singapore currently have clear rules over perfection and priority in place, while Brunei Darussalam and Cambodia have completed most of the reforms required. In Brunei Darussalam, the Secured Transactions Order (2016) includes provisions on the perfection of security interests (Part IV) as well as the order of priority between security interests (Part VI). Non-possessory security rights such as liens and hypothecation are only recognised without a specific description of the collateral in Brunei Darussalam, Cambodia, Malaysia, Singapore and Viet Nam.

Few AMS have a sufficient legal framework overall for conducting secured transactions, according to the World Bank *Doing Business* methodology. In the World Bank's 2018 assessment, only the three civil law countries (Cambodia, Lao PDR and Viet Nam) are scored as having a complete legal framework in place. Outside ASEAN, many common-law jurisdictions are currently reviewing their secured transaction frameworks to ascertain whether and how reform is needed. Canada, New Zealand, Australia and Jersey have recently enacted Personal Property Securities Registration Act regimes based on Article 9 of the US Uniform Commercial Code, which is generally held as a model for secured transaction reform in common-law countries (see Box 6.1). Brunei Darussalam, which operates under common law in commercial affairs, has recently overhauled its secured transaction framework, removing many of the ambiguities over perfection, priority and notification of collaterals.[5] Thailand has also enhanced its secured transaction laws through the introduction in 2016 of its Business Collateral Act, which increases the range of eligible securities and the enforcement rights of secured creditors.

Box 6.1. Secured transactions under common law: New Zealand's PPSA regime

Many common law countries currently lack a unified statute for secured transactions, meaning that such transactions tend to be governed by a number of different laws. This can increase complexity in the legal framework governing secured transactions, with treatment varying based on type of legal entity. Without clear rules governing secured transactions, particularly on the perfection and priority of collaterised assets, financial institutions may be reluctant to make use of hedging instruments such as securitisation to extend loans. This can particularly penalise SMEs, which may have fewer assets to collatarise and not be covered under existing secured transaction laws.[1]

With this in mind a number of common laws have started to amend domestic legislation governing the possession and transference of security interests. Many have adopted a Personal Property Security Act (PPSA) regime, which establishes a single national regime governing security interests in personal property, covering most tangible and intangible assets, including intellectual property.

New Zealand introduced its PPSA regime in 1999. Some good practice features of the regime and its implementation include:

Design features:

1. Uniform rules: a wide range of security devices (including fixed and floating charges) were replaced with a single concept, that of the security interest. All are now subject to the same rules of registration, priority and, generally, enforcement.
2. Perfection flexibility: a security interest can be perfected by registration, possession or (in the case of financial collateral) control. Registration can also be done in advance of the security being created ("notice filing").
3. Clearer ownership: a national, centralised, electronic registry was established.
4. Priority coherence: a clear set of rules were introduced to govern competing claims on security interests. Priority is typically determined based on the date of perfection.

Implementation features:

1. Involvement of stakeholders early on in reform process.
2. Justification of departure from status quo.
3. Continued to educate stakeholders on nature of reforms post-implementation.

Changes to the legal framework governing secured transactions can be politically contentious, particularly among legal professionals. However surveys indicate a high approval rating for the regime among practitioners in New Zealand (Gedye, 2012).[2]

1. In many common law countries secured transactions are principally governed under the country's Company Act, meaning that only incorporated entities tend to be covered and a highly restrictive regime is applied to unincorporated entities (such as sole proprietorships and partnerships).
2. Gedye (2012) cites an approval rating of 95%.
Source: SSM (2017), https://www.ssm.com.my/sites/default/files/acts/konsultasi_awam_ppsr.pdf; STR (2017) https://securedtransactionslawreformproject.org/.

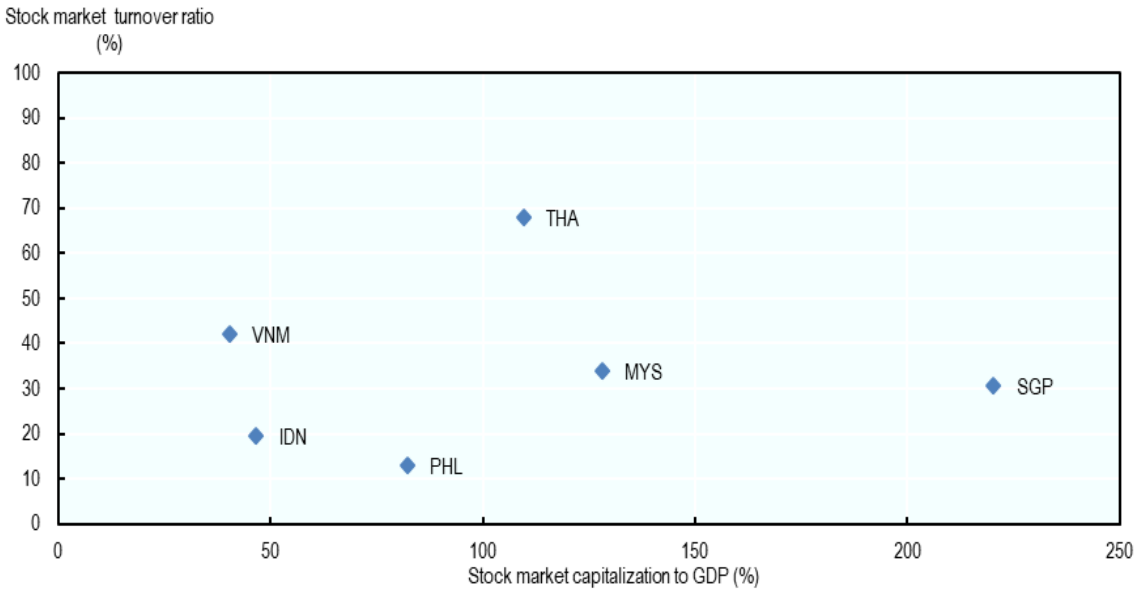
In terms of enforcement rules, secured creditors are paid first in the event of either business liquidation or a debtor defaulting outside an insolvency procedure in only four countries: Brunei Darussalam, Malaysia, Singapore and Thailand. In three countries – Indonesia, Lao PDR and Myanmar – they are paid first in neither case. In four countries – Brunei Darussalam, Cambodia, Indonesia and the Philippines – the debtor can file a stay on enforcement of a security interest. In Brunei Darussalam, under the Secured Transaction Order, this stay is automatic when the debtor is insolvent. However, in eight AMS, a range of out-of-court debt resolution procedures are possible. The only countries that face some obstacles in this area are Indonesia and the Philippines, according to World Bank data. In Indonesia, auction houses generally insist that banks can only liquidate collateral with a court order, meaning that out-of-court debt resolution is complicated in practice if not by law. In addition, creditor rights are negatively affected by loopholes in Indonesia's Bankruptcy Law, last amended in 2008, whereby creditors can be prevented from enforcing their security interest for up to 270 days if the debtor obtains a debt moratorium, or 90 days of s/he is declared bankrupt. Strong creditor rights

are particularly important in countries that demonstrate lower judicial efficiency – for instance in Cambodia, Lao PDR, Myanmar and Viet Nam, where procedures to resolve insolvency can take five years or more (World Bank, 2017a[14]).

Stock market operations: Most AMS have launched a junior board for SME listing

All AMS have a stock exchange except Brunei Darussalam, which is due to establish one in the next few years. These stock exchanges vary in depth and liquidity – capitalisation ranges from around 228% of GDP in Singapore to 40% in Viet Nam, and turnover from 68% in Thailand to 13% in the Philippines.[6] Lao PDR and Cambodia have had a stock exchange in place since 2012, and Myanmar since 2016, but currently all three exchanges have fewer than ten firms registered, with most firms being state-owned enterprises. In these three countries, therefore, relatively few enterprises of any size have access to public equity financing, and this constraint is particularly acute for SMEs. In the six countries with the deepest stock markets, the number of listed companies per 10 000 people is only particularly substantial in Singapore and Malaysia, which have listed 8 542.5 and 2 863.4 companies per 10 000 people respectively.[7] In Indonesia, the Philippines, Thailand and Viet Nam, the figure ranges from 205.7 (Indonesia) to 952.6 (Thailand), skewed towards the lower end (World Bank, 2018[15]).

Figure 6.3. Depth and churn of ASEAN stock markets, 2017



Note: Dataset does not include recent data for Brunei Darussalam, Cambodia, Lao PDR and Myanmar.
Source: World Bank (2018), http://www.worldbank.org/en/publication/gfdr/data/financial-structure-database.

Six AMS – Cambodia, Indonesia, Malaysia, the Philippines, Thailand and Singapore – have also established a junior board on which SMEs can list. Malaysia, Singapore and Thailand have had such facilities in place for ten years or more and have more than 100 listed firms. Indonesia launched its junior board, the IDX Incubator, this year, with the goal of listing 1 000 "unicorn" start-ups with a total market capitalisation of USD 1 billion by 2020. In 2015, Cambodia launched its junior board, called the Growth Board, for the CSX, and an Excellence Programme for building SME capacity to meet listing requirements, although the board remains relatively shallow and illiquid. In Viet

Nam a similar proposal is being considered, though various Vietnamese start-ups have criticised the measure, contending that few start-ups in the country have the valuation size and structure for the facility to reach any sustainable level of depth and liquidity. The most advanced junior board in the region is the Singapore's Catalist. As of December 2017, it had 201 listed companies (200 primary listings and 1 IPO) with a combined market capitalisation of SGD 12.8 billion (Singapore dollars) (SGX, 2017[16]).

To facilitate the listing of small firms and increase market capitalisation, some AMS provide support programmes for SMEs. The Securities and Exchange Commission in Thailand ran two programmes from 2012-16, namely the Scheme of The New Stock, Pride of the Province, and the Scheme of Creative Innovation Stock, Pride of Thai. Thailand's Department of Industrial Promotion is currently running a programme preparing entrepreneurs to list on the Market for Alternative Investment (MAI) within three years of programme inception. In Singapore, such programmes are also provided, but they are delegated to the private sector, specifically the country's stock exchange (SGX). In carrying out these programmes, the SGX is known to partner with the public sector. For instance, it announced in 2017 that it would be partnering with Exploit Technologies Pte Ltd, the commercialisation arm of the Agency for Science, Technology and Research (A*Star), to select high-potential tech start-ups and SMEs and support them in raising growth capital on private or public capital markets in Singapore. The advantage of such a scheme is that it enables founders to tap into A*Star's research and development (R&D) and product development capabilities alongside SGX's knowledge of listing requirements and marketing.

Viet Nam does not yet have a junior board, but a secondary market, UPCoM, was created for the Hanoi Exchange (HNX) in 2009. At the time of writing, UPCoM counted 710 listed companies with a total market capitalisation USD 27.4 billion, making it more than double the size of the HNX main board.[8] The market enables enterprises of different sizes to access equity financing with no listing fees. Since 2017, HNX has begun to categorise UPCoM listed firms by size in order to better monitor and supervise the market. Currently, 40 UPCoM Large, 291 UPCoM Medium and 379 UPCoM Small companies are listed. HNX is also looking to establish a market for start-up firms. In Malaysia, the LEAP Market (Leading Entrepreneur Accelerator Platform) was launched on 25 July 2017, with the aim of providing SMEs with an alternative platform to raise equity funds in an efficient, fast and transparent manner. Aside from fundraising, the platform provides SMEs with an opportunity to raise their visibility, by being a listed entity, and to enhance their corporate governance and operational standards. Listing on the LEAP Market could also enable small firms to take a first step towards listing on the country's ACE[9] or Main Market platforms in the future. Due to the risks associated with investing in companies that are at developmental stage, only sophisticated investors (those individuals and corporations that fulfil certain income or net asset-value thresholds) can invest in companies listed on the LEAP Market. The creation of the LEAP Market is part of an accelerated push by the government to stimulate alternative financing in the country.

Stock exchange consolidation has taken place within various AMS over recent years. In the Philippines, the Manila Stock Exchange and the Makati Stock Exchange were merged in 1992 to form the Philippines Stock Exchange (PSE). In Indonesia, the Surabaya Stock Exchange and the Jakarta Stock Exchange were merged in 2007 to form the Indonesia Stock Exchange (IDX). In Viet Nam, two stock exchanges still exist, the Hanoi Stock Exchange, formed in 2005, and the Ho Chi Minh Stock Exchange, formed in 2000. Steps are currently underway to merge these two markets, which it is hoped will increase transparency and foreign investment. The authorities expect this process to be completed

in 2018. Such processes can increase the scale and solidity of listing facilities, allowing them more room to develop specialised SME-platforms.

Sub-dimension 3.2: Diversified sources of enterprise financing

SMEs require access to a range of financial products suitable to their stage of development, particularly if they are to bridge the "growth capital gap" (OECD, 2015[6]). Three types of financial products can be discerned in the literature: cash flow-based financing, asset-based financing and viability-based financing.

The first covers traditional debt, usually provided by commercial banks. This type of financing is contingent on future cash flow as the principal source of repayment, and a pre-decided share of the principal and interest must be repaid at regular intervals regardless of the performance of the investment or the financial situation of the borrower (OECD, 2015[6]). It is the most common form of SME financing found in most markets, since it tends to be less risky for the lender and therefore cheaper than other forms of financing. It is generally well suited to serve the day-to-day and short-term financing needs of SMEs that are able to demonstrate stable cash flow, modest growth, tested business models and access to collateral or sureties (OECD, 2015[6]). The credit allocation decision for these products is based on an appraisal of estimated future income along with collateral support.

The second type of product covers lending that is based on the liquidation value of a particular asset owned by or due to the firm. Common assets include accounts receivable (factoring), letters of credit (trade finance), agricultural commodities (warehouse receipts), purchase orders (purchase order finance), and vehicles, machinery and equipment (leasing). This type of financing often allows for increased repayment flexibility and quicker access to credit or goods, which can be a useful facility for a growing firm that faces temporary and immediate cash flow shortages, for instance in fulfilling a particular order. Such instruments are often provided with a revolving facility, which allows for more flexibility than instalment credit by allowing firms to access additional funds once advances on an initial asset are paid off (OECD, 2015[6]). This can be a helpful facility for bridging recurring or cyclical cash flow shortages.

The third product type covers all instruments targeted at high-potential SMEs, where investors take on a high level of investment risk in return for a share of future profits. This type of financing is based on the perceived viability of a firm's business model and the profits to be gained from it. It covers all forms of public equity (stocks and shares) and private equity (venture capital and private equity), as well as certain classes of mezzanine finance. The financing allocation decision for these products is either based on direct contact with the firm (business angels and venture capital or other forms of private equity), often supported by fund managers in the case of non-VC private equity, or indirect communication via company accounts and activity reports regulated by a designated government authority (public equity).

The 2018 ASPI covers all three product types, grouping asset-based and equity financing together as alternative sources of enterprise finance. Cash-flow based debt is also split into two categories: *i)* conventional credit lines and loans provided by banks; and *ii)* microfinance. Policies that support access to bank credit are assigned the greatest weight, accounting for 70% of the overall score. Policies to support microfinance are assigned the second highest weight, or 20%, given the need to increase financial inclusion in many AMS. Policies to stimulate alternative sources of enterprise finance are assigned a weight of 10%.

Table 6.3. Scores for sub-dimension 3.2: Diversified sources of enterprise financing

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Bank credit	3.48	1.17	4.59	1.17	5.46	1.17	5.26	6.00	5.50	3.81	**4.20**	**1.81**
Microfinance	NA	4.54	4.58	4.16	4.88	3.08	4.65	NA	5.12	4.66	**4.62**	**0.58**
Alternative sources of enterprise finance	3.81	2.62	4.39	2.43	5.14	2.28	3.79	6.00	4.52	3.73	**3.80**	**1.14**
Total sub-dimension score	3.52	1.98	4.57	1.89	5.31	1.66	4.99	6.00	5.32	3.97	**4.27**	**1.51**

Note: scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The median score across AMS is generally the same in all three product groups, though with quite high cross-country variation in terms of the level of policies to facilitate access to bank credit, reflecting disparities in income levels across ASEAN. Of the three, fewer policy interventions seem to be taking place in the area of stimulating SME access to alternative financing instruments, a pattern that can also be observed in OECD countries.

Bank credit: Many interventions for SMEs flow through state-owned institutions

The 2018 ASPI indicator covering policies to stimulate bank credit scores countries on two main instruments. The first, a credit guarantee scheme (CGS), is generally regarded as a more "market-friendly" and scalable instrument for increasing general credit to SMEs. It provides banks with an additional surety in the event of loan default, thereby decreasing the credit risks faced by banks and thus often increasing the extension and improving the contracting terms of debt products. The second, an export financing scheme, is an SME financing tool that supports one of the main priorities of the ASEAN community. It provides exporters with a concessional short-term financing facility, with the objective of increasing a country's overall exports.

Five ASEAN countries have a public or public/private credit guarantee scheme in place,[10] and six AMS have government-sponsored export financing schemes. Brunei Darussalam, Cambodia, Lao PDR and Myanmar currently have neither facility, though the necessity of the former is limited in Brunei Darussalam given its small size and well capitalised banking sector. Singapore has no credit guarantee scheme, but Enterprise Singapore (SPRING at the time of information gathering and validation) continues to offer a range of risk-sharing products with eligible banks – including a SGD 2 billion SME Working Capital Loan Programme and a SGD 500 million Venture Debt Programme. In both schemes, SPRING covered 50% of loan default risks.

Many of the programmes designed to increase bank credit for SMEs appear to flow through state-owned entities. For instance, of the six AMS that have government-funded export financing schemes in place, five are run through EXIM banks, as is the case in Indonesia, Malaysia, the Philippines, Thailand and Viet Nam. This is a popular model in emerging and developing markets, where operational risks are generally higher, and thus the backing of a sovereign entity can facilitate financiers to take on a higher level of credit risk. In the remaining country with export financing schemes, Singapore, such instruments are provided by Enterprise Singapore (IE Singapore at the time of information gathering and validation) as dedicated export credit lines to commercial banks. Two main products are available: the Internationalisation Finance Scheme and the Trade Credit Insurance Scheme. The second mitigates the risk faced by would-be and

current SME exporters, while the first enables SMEs to access up to SGD 30 million in credit facilities to support overseas expansion. In Brunei Darussalam, DARe has partnered with a local state-owned bank to provide a Microcredit Financing Scheme, which provides up to BND 15 000 to eligible firms with no collateral requirement.

Of the five countries with a public or public/private credit guarantee scheme, Malaysia and the Philippines have multiple schemes running alongside each other, while Indonesia and the Philippines have funded a network of schemes that are run at the provincial level. These approaches are generally intended to increase outreach, but may lack co-ordination and thus risk duplication of effort. In some countries, a network approach may mean that schemes become operational more often in regions that already have higher capacity, and thus perhaps lower need, as appears to be the case in Viet Nam. Most schemes provide portfolio guarantees as the dominant type of support, though some also offer individual guarantees. Some AMS have also developed credit enhancement programmes for their CGS in order to increase financial inclusion. In Malaysia, the Credit Guarantee Corporation introduced a Credit Enhancer Scheme in 2006 that allows for risk-adjusted pricing to be applied to SMEs. In the Philippines, the Credit Surety Fund was created in 2008 to facilitate the financing of riskier SMEs by pooling monetary contributions from a wide range of stakeholders, including co-operatives, non-governmental organisations (NGOs) and local government units, thereby reducing default risks by lowering information opacity faced by commercial banks.

Box 6.2. Credit guarantee schemes for SMEs: Design elements and good practices

Credit guarantee schemes are an instrument under which a guarantor contracts with a creditor to repay a proportion of a loan or loan portfolio disbursed to a third party in the event of default. This arrangement can help to stimulate bank lending to SMEs by providing banks with a security to lend to firms that are otherwise creditworthy but do not have sufficient collateral to obtain a loan. In principal, it should have the effect of reducing both credit rationing and collateral requirements, though such a scheme should be carefully designed to ensure it achieves its additionality and sustainability objectives.[1]

A few design considerations

Four initial elements should be formulated in the design of a CGS:

- *The mission statement.* This is the basis on which the scheme's operational objectives will be set, and outlines its purpose and objectives to future stakeholders (for instance, partner banks).
- *The delivery mechanism*. Guarantees can be disbursed to cover an individual loan or a portfolio of loans. The advantage of the latter is that it entails lower operational costs and more rapid disbursement. The advantage of the former is that it allows the scheme's owners to have a greater say in the type of firms that are guaranteed, and to have greater oversight for monitoring purposes. In either case, credit appraisal should always be performed by the partner bank.
- *Ownership of the scheme.* The scheme's owners are those who provide funds and perform executive governance of the entity. They can be public, private, public/private or international bodies. In many OECD countries, a public/private model is favoured, but the model selected will depend on available funding, oversight requirements and the institutional setting of each country.

- *The target group*. This defines the scope of the scheme. It will determine whether the scheme targets specific sectors and/or regions, and how firm size is measured. Almost all CGS in OECD countries target SMEs across a range of sectors. Where schemes are mono-sectoral, they often target agricultural or rural SMEs,[2] though these often also come with a much higher level of implicit lending risk.

Good practices in designing an additional and sustainable CGS

CGS must be carefully designed. A number of features could be considered to increase the scheme's additionality and sustainability:

- *A partial coverage rate*. In most OECD countries, guarantees cover only a share of the loan's principal. This is designed to mitigate moral hazard by ensuring that the creditor remains partially liable in the event of default and thus does not extend loans to non-creditworthy SMEs. Generally a rate of not higher than 70%-80% is advised.[11]
- *A competitive bank selection process.* Creating a competitive environment around the disbursement of guarantees, particularly when the scheme is first implemented, will encourage banks to strive harder to meet its additionality aims. Chile's FOGAPE scheme auctions its guarantees to commercial banks, which must then bid for guarantees. The successful bidder is the one that is prepared to offer the highest leverage and the lowest interest rates.
- *Risk-adjusted fees*. In principal, risk-adjusted fees enable the scheme to offset higher credit risk (and thus greater likelihood of default) through higher pricing. Japan's Credit Guarantee Corporations charge annual fees indexed to the borrower's credit risk, ranging from 0.5-2.2%, and these are determined by the scheme's credit-risk database (OECD, 2013).
- *A diversified portfolio*. Portfolio diversification reduces a scheme's exposure to co-variant risks. Diversification can be achieved by guaranteeing firms from a range of sectors or regions, or by guaranteeing loans with a range of maturities or loan purposes. Lithuania's ACGF is an example of a sectoral-focused scheme that has achieved diversification by extending guarantees to activities that are ancillary to agriculture, and by blending the type of agricultural activities it supports, to cover activities that have both short-term and long-term business cycles (crop production and livestock breeding, respectively).

1. The additionality of a CGS is defined in two parts, one being the scheme's financial additionality and the other its economic additionality. Financial additionality refers to the increase in the volume of credit flowing towards viable SMEs as a result of the scheme. Specifically, it refers to guaranteed credit that would not have been provided without the guarantee, or more favourable credit conditions that emerge as a result of the guarantee – for instance, longer maturities or lower interest rates. Economic additionality describes the effect of increased access to finance on overall economic welfare. This is generally measured in terms of increased sales, employment, investment or innovation by the supported SME or, at the macro level, by increased competitiveness and growth. Sustainability refers to the CGS's ability to cover its own costs while increasing leverage towards its target group. A sustainable scheme will also encourage more reliable partner banks to trust the value of the scheme's guarantees, thus increasing the volume of credit extended to target firms. A scheme's sustainability will depend on its ability to encourage lender participation so as to achieve a sufficient volume of credit. [2] Beck et al. (2009) noted that, in a survey of 76 partial guarantee schemes around the world, 29 were mono-sectoral schemes and 12 of these were targeted at agricultural or rural enterprises.
Source: OECD (2013); Beck et al. (2009), https://doi.org/10.1016/j.jfs.2008.12.003.

In terms of performance, the CGS in Malaysia and the Philippines seem to demonstrate a low net loss rate, but in Indonesia, Thailand and Viet Nam the net loss rate is higher than commonly advised. Few of the credit guarantee funds in Viet Nam are fully operational, and banks have reported limited trust in the programme (Le, 2016[17]).

Policy makers can tap into a range of other instruments to stimulate bank credit to SMEs, though many of these risk introducing market distortions and therefore are not scored in the ASPI framework. The most common instrument used across ASEAN as a whole tends to be the provision of a credit line to banks for SME lending, which is currently provided in eight countries (all except Brunei Darussalam and Myanmar). In Cambodia, Indonesia, the Philippines and Malaysia, interest rate subsidies are provided. In two AMS – Indonesia and the Philippines – mandatory lending programmes have been implemented. The first dates back to 2012, when Bank Indonesia issued a regulation stipulating that banks should allocate 20% of their total loan portfolios to SMEs by 2018. The second is covered by the Philippines' Magna Carta for MSMEs, which states that until 2018 (ten years post the act coming into effect) all lending institutions registered with the central bank should direct at least 8% of their total loan portfolio to MSMEs. Both of these programmes are due to expire in 2018. Anecdotal evidence suggests that the impact of these mandatory lending programmes is limited. In the Philippines, for instance, banks tend to prefer to pay the fine for non-compliance or to channel funds to firms that deliberately understate their assets in order to qualify as an SME (Aldaba, 2011[18]).

One of the most substantial SME financing schemes in the region is the Kredit Usaha Rakyat (KUR) in Indonesia. This scheme started as a financial access programme, providing partial credit guarantees for loans to micro and small-to-medium-sized enterprises. The original programme ran from 2009 to 2014, with outstanding loans supported by the KUR totalling IDR 49.5 trillion (Indonesian rupiah) by 2014, or 14% of all outstanding loans to MSMEs (World Bank, 2017b[19]). Similar to other schemes mentioned previously, the majority of the KUR is channelled through state-owned banks: 85% of total KUR-backed guarantees were disbursed by the BRI, Mandiri and BNI banks. Between 2009 and 2014, BRI alone disbursed 65% of the entire KUR programme (World Bank, 2017b[19]). In 2015, it was decided to continue the scheme, but to transmute it into more of a subsidised credit programme, with an interest rate subsidy component added to lower the cost of financing for MSMEs. The programme represents a sizeable investment by the government of Indonesia, sending a clear message of its commitment to financial inclusion. However, in an assessment of the KUR, the World Bank expressed concern over two new additions to the scheme, namely the interest rate subsidy component and the fact that it no longer limits KUR-backed loans to first-time borrowers. Both are likely to substantially increase the fiscal cost of the scheme for the government of Indonesia and to reduce its additionality over the long term (World Bank, 2017b[19])

Finally, seven AMS have established a development bank to address the missing market for SME finance. These are the Rural Development Bank in Cambodia, the Lao Development Bank, the Bank Perusahaan Kecil dan Sederhana Malaysia Berhad (SME Bank) in Malaysia, the Small and Medium Industrial Development Bank in Myanmar, the Development Bank of the Philippines and the Small and Medium Enterprise Development Bank of Thailand. An important development is the establishment in Brunei Darussalam of an SME Bank in late 2017 (after this ASPI assessment was completed). This bank, called Bank Usahawan, started its operations in 2018, and operates in accordance with Islamic Sharia principles. In Indonesia, the government is a majority shareholder of BRI, a commercial bank that specialises in providing banking services to MSMEs.

Microfinance: AMS are increasing regulatory oversight of MFIs

Eight countries in ASEAN[12] have an active network of non-bank microfinance providers. In Thailand and Viet Nam, credit unions and financial co-operatives appear to dominate, with each country hosting 1 986 and 1 167 institutions respectively in 2016, according to IMF data. According to the same data, there were no MFI institutions in Thailand that year, and just four MFIs in Viet Nam, which were of the deposit-taking variety. Lao PDR and the Philippines have a mix of credit unions/financial co-operatives and microfinance institutions, with the latter being more dominant in Lao PDR (it had 76 MFIs in 2016, mostly of the non-deposit taking variety, relative to 28 credit unions/financial co-operatives). Myanmar has no credit unions/financial co-operatives, but 167 microfinance institutions, mostly deposit-taking (108). In Malaysia co-operatives and two large MFIs (non-deposit taking) are the main sources of non-bank microfinancing, but the country's microfinancing needs are principally served through banks. No data is available for Cambodia, though there are eight deposit-taking MFIs, 56 non-deposit taking MFIs and 18 rural credit operators registered with the Cambodian Microfinance Association. The majority of these entities provide loans to households rather than firms.

In Cambodia, Lao PDR, the Philippines, Myanmar and Viet Nam, microfinance activities have principally been catalysed by NGOs, both international and domestic. In the remaining three countries – Indonesia, Malaysia and Thailand – microfinance activities have been driven by the government. The largest microfinance programme in Thailand is the government-sponsored Village and Urban Revolving Fund – a scheme with a network of 80 000 village banks and 8.5 million borrowers in 2011, and one of the largest in the world (The Economist, 2013[20]). In Lao PDR the "village bank" model of microfinance also predominates, but these were set up by NGOs and donor agencies after the country began to open up in the 1990s. Accurate data on these village banks is scarce, though it has been estimated that members numbered around 430 000 (6% of the Laotian population) in 2011 and held an aggregated loan portfolio of around USD 37 million (GIZ, 2012[21]). In Indonesia, the People's Credit Banks (BPRs) are the most prevalent form of microfinance facility, and the government is a majority shareholder. In Malaysia, microfinance is principally provided through state-owned banks and three large MFIs: Amanah Ikhtiar Malaysia (AIM), the Economic Fund for National Entrepreneurs (TEKUN) and Yayasan Usaha Maju (YUM). AIM is an NGO, while YUM and TEKUN are run by the government (YUM falls under the Ministry of Finance and TEKUN under the Ministry of Agriculture and Agro-based Industry). In total, ten financial institutions provide microfinance in addition to non-bank entities, and 33% of the total SME financing they provide (as of 2017) takes the form of microfinance, up from 22% in 2010. In addition, the country has one co-operative bank, Bank Rakyat, which was established in 1954.[13]

Since the last assessment in 2014, some AMS have stepped up measures to bring MFIs and rural credit operators into the formal financial system. In 2015, the Philippines enacted the Microfinance NGOs Act, which required all MFI NGOs to file regular reports with the country's Microfinance NGO Regulatory Council, and for this institution in turn to submit an annual report to the president of the Philippines and relevant committees (EIU, 2016[22]). Financial reporting rules were also updated for co-operatives via the Co-operative Development Authority. In the same year, Indonesia enacted its new Microfinance Law, an initiative to increase oversight of smaller microfinance providers, coupled with an institution mapping exercise, led by the Financial Services Authority (OJK). In Thailand, the government made the formalisation and consolidation of existing MFI providers a lynchpin of its Master Plan for Financial Inclusion, which was adopted

in 2015. Similar steps had already been taken in Malaysia, with the approval of an institutional framework for microfinance by the National SME Development Council in 2006. In Lao PDR, Cambodia and Myanmar, there remain many unregistered entities engaging in microfinance activities, and there do not currently appear to be sufficient programmes in place to formalise them (EIU, 2016[22]). This is largely due to capacity constraints. Legal directives have been attempted previously, for instance via the Regulation on the Establishment and Implementation of Microfinance Institutions in Lao PDR (No.10/BoL) in 2005 or the Prakas on Registration and Licensing of Microfinance Institutions in 2000 (Cambodia). In some cases, regulatory gaps can also be attributable to the rapid growth of the sector: in Cambodia, the size of microfinance loans grew at four times the income growth of the average borrower between 2004 and 2014 (Hutt, 2017[23]).

Many countries have started to implement proactive financial inclusion strategies over recent years, with supply-side microfinance policies and programmes playing a key role. Following the development of an institutional framework for microfinance in 2006, Bank Negara Malaysia developed a range of microfinance products for disbursal by three state-owned banks. Thailand's Master Plan for Financial Inclusion, which runs until 2018, likewise aims to increase the microfinancing products provided by specialised financial institutions. In the Philippines, the government launched a National Strategy for Financial Inclusion in 2015, alongside a range of programmes to pursue it. Finally, to complement regulatory measures taken by OJK, Bank Indonesia developed Branchless Banking rules in 2015 and piloted the scheme as part of a push to increase the number of banked citizens in the country. Financial inclusion programmes are particularly imperative in Cambodia, Indonesia, Lao PDR, Myanmar, the Philippines and Viet Nam, where the proportion of the 15+ population with a bank account ranges from 12.6% in Cambodia to 35.9% in Indonesia.

Many microfinance schemes across ASEAN target women entrepreneurs as opposed to offering universal access. In some countries this choice reflects the fact that microfinance services have principally been provided by NGOs, which have adopted a Grameen approach.[14] This is the case in the Philippines, which has an active and long-established microfinance sector (MCP, 2016[24]). In Malaysia, the country's largest MFI, Amanah Ikhtiar Malaysia (AIM), also adopts a Grameen approach and provides microfinancing predominantly to women in order to promote income-generating activities (VMWG, 2014[25]). The same is true for YUM. Conversely in Viet Nam, this approach has been influenced by the way that microfinance developed in the country – since the beginning, the Women's Union of Viet Nam has been a major partner in implementing many of the country's microfinance policies and programmes (VMWG, 2014[25]). This approach is consistent in AMS where women have much higher rates of financial exclusion than men, as is the case in Cambodia, Thailand and Malaysia. However, the validity of this approach could be explored in financial inclusion strategies in the Philippines, Viet Nam and Indonesia, where women are more likely to be banked than men (World Bank, 2014[26]). In these countries in particular, microfinance facilities may be directed more towards achieving social goals, such as poverty alleviation, than increasing competitiveness through more equal competition among enterprises.

Alternative sources of finance: Such instruments remain scarce in many AMS

Asset-based financing instruments are well developed in some AMS, but remain underdeveloped in others. Countries such as Malaysia, Thailand and Singapore have legal frameworks that support the use of asset-based financing instruments, and the use of such instruments is rather common. In Thailand, this was accelerated by the passage of the

Business Collateral Act in 2016. Other countries, such as Cambodia and Lao PDR, have developed legal frameworks for leasing and factoring, but the use of such products is rather limited, mainly due to difficult court procedures that render it difficult to liquidate assets. In some AMS, such as Viet Nam, regulation of factoring and leasing is rather fragmented, with at least five different entities holding different responsibilities. Leasing and factoring products are not currently available in Brunei Darussalam or Myanmar.

In terms of access to equity instruments, there is a high level of variation across the region. The bulk of PE/VC deals take place in Singapore, with Malaysia and Indonesia vying for the region's second place. In the top five destinations for PE/VC funds, which include Viet Nam and Thailand, these funds ranged from USD 3.7 billion in Singapore to USD 72 million in Thailand in 2015, with funds in Viet Nam and Thailand climbing in 2016 while dropping in Singapore, Malaysia and Indonesia (AVCJ, 2017[27]). The majority of these deals are in the technology, media and telecommunications sector (Preqin, 2017[28]; Bhalla et al., 2012[29]). A trade sale is the most common form of exit, followed by an initial public offering (AVCJ, 2017[27]), as is the case in many OECD markets. As indicated in sub-dimension 3.1, an IPO is not a common exit option offered in Brunei Darussalam, Cambodia, Lao PDR or Myanmar, given the lack or limited depth of stock exchanges in these countries.

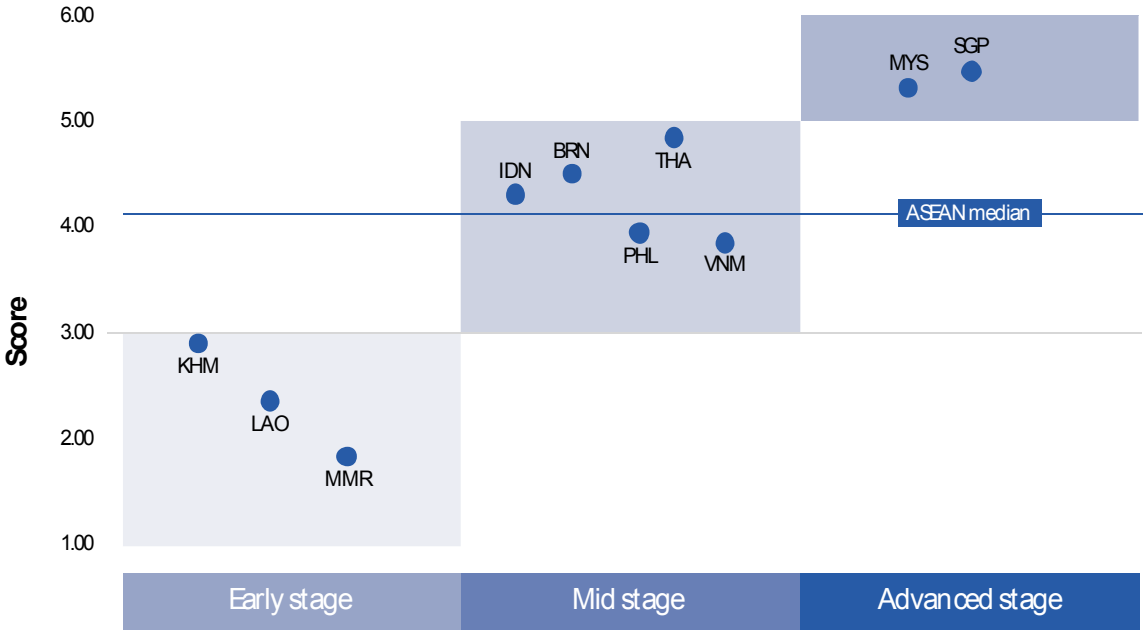
Policy makers have attempted to stimulate this area of SME financing to varying degrees. Over recent years, Malaysia has been working on the development of its private equity/venture capital (PE/VC) industry, chiefly by directing institutional investor funds such as Khazanah (Malaysia's sovereign wealth fund) and Kumpulan Wang Persaraan (one of the country's largest pension funds) towards venture-backed start-ups. In addition, it has introduced the SME Investment Partner (SIP) Programme as its third High Impact Programme under the SME Masterplan (2012-2020), which aims to increase SME access to non-bank financing.[15] In Singapore, various schemes are in place to catalyse the supply of venture capital. These schemes include a tax exemption for VC funds; StartupSG Equity, whereby the government will co-invest with a qualified third-party investor in a start-up; and the Early Stage Venture Fund, whereby the government seeds funds to selected VC firms that wish to invest in Singapore-based early-stage tech start-ups.

In sum, however, there are relatively few government-sponsored programmes to stimulate alternative finance in ASEAN. Many of the policies implemented in this area are concerned with secured transaction reform, a necessary condition to facilitating the use of asset-based financing instruments, or involve the creation of a junior board for SME listing. In some AMS there is not yet a critical mass of SMEs demanding such products, and therefore it is not a priority area for policy makers. However, some countries are exploring innovative ways to boost alternative financing, both as a means to provide a wider range of financial products for SMEs and to increase financial resilience and investment opportunities. In Malaysia, the government is piloting a new initiative to develop open application interfaces that can be used by third-parties to access the databases of financial institutions in order to design more innovative financial products. In many AMS, the SME agency or business support centres are also working to increase demand by providing SMEs with advisory services or awareness-raising programmes on the types of instrument available to them. This is the case in Brunei Darussalam, Malaysia, the Philippines, Singapore and Thailand.

The way forward

As in many other policy dimensions, the financing landscape for SMEs is highly heterogeneous across ASEAN. However, a number of trends can be observed.

Figure 6.4. Weighted Scores for Dimension 3: Access to finance



Note: The graph demonstrates the level of policy development in each AMS as indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

The majority of countries that fall within the "early stage" and lower "mid stage" bracket have undergone a wave of institution building over the past five years – in some cases, almost from scratch. This has principally been in the shape of secured transaction reform. Many have also completed (Cambodia and Brunei Darussalam) or recently begun (Lao PDR, Myanmar and the Philippines) work to increase credit information coverage. In these countries, SME finance is principally provided through microfinance facilities. The bulk of public subsidy programmes in this area are targeted at increasing SME access to bank loans, and tend to be in the form of an SME-specialised development bank, as well as a refinancing scheme for selected commercial banks.

The countries that fall within the "mid stage" category have focused on boosting some of the institutions developed previously – for instance their country's secured transaction framework, its movable assets registry, and developing facilities for SME listing. These countries have tended to concentrate efforts across all three product categories covered in sub-dimension 3.2. In microfinance, they have stepped up efforts to bring MFIs and rural credit operators into the formal financial system and have made them a pivotal part of financial inclusion strategies. To stimulate bank financing, they provide a mix of programmes, most notably refinancing, credit guarantee and export financing schemes. In the case of Indonesia and the Philippines, interest rate subsidies are also provided, and a mandatory lending programme is in place. Efforts to boost alternative financing

instruments pivot around secured transaction reform, the creation of SME listing platforms and financial literacy programmes for start-ups.

The countries within the "advanced stage" category have already developed mature financial markets, with the institutions required to provide sophisticated financial products. These countries have concentrated on boosting the level and efficiency of financial intermediation in order to increase the availability of long-term local currency funding and the menu of financial products available for innovative firms. In turn, it is hoped that an increase in PE/VC financing will foster the development of deeper and more vibrant financial markets. In Malaysia, the government is also looking to boost financial inclusion.

Across the region as a whole, and in line with the ASEAN Economic Community's pursuit of innovation-led growth, there appears to be particular interest in developing alternative financing instruments – a trend that may be somewhat premature in some AMS.

In order to increase access to finance for SMEs in the region, governments could prioritise the following steps going forward:

Table 6.4. Policy recommendations to increase SME access to finance

Level of policy	Challenges	Policy recommendations
Early stage *Cambodia, Lao PDR and Myanmar*	Very little credit information is available. This makes it difficult to establish the likelihood of repayment, and credit is thus commonly allocated to groups rather than individuals.	• **Develop legislation and provide support to facilitate the introduction of credit bureaus.** Private credit bureaus can be a cost-effective way to increase coverage while providing value-added services such as credit scoring that would lower transaction costs for banks. • **Introduce legislation to oblige MFIs and utility companies to report credit information** to the country's central banks, and make this data publicly accessible.
	Financial literacy tends to be rather low, particularly among micro enterprises.	• **Develop a national strategy for financial education.** Policy makers could consider developing a financial education strategy for the population in general, with specific interventions that target SMEs. To build knowledge in this area, countries could consider becoming members of the OECD/INFE.
	SMEs, particularly micro enterprises, own few assets to collateralise, and in several of these countries land rights remain unclear.[16]	• **Look into the development of a credit guarantee scheme**. Credit guarantee schemes can be a market-friendly instrument to incentivise lending to SMEs. A diagnostic exercise could be completed to explore whether a CGS is desirable and feasible, as well as what form it should take.
Mid stage *Brunei Darussalam, Indonesia, the Philippines, Thailand and Viet Nam*	Firms have more assets to collaterise, but financial institutions still find it difficult to firmly secure claims over assets provided as collateral.	• **Enhance institutions to support secured bank lending, for instance via centralisation of the movable assets registry.** All mid-stage countries have a movable assets registry, but it is often still difficult to firmly establish ownership. Movable asset registries could be further developed, for instance via centralisation, to ensure that all notices recorded under secured transactions legislation can be easily retrieved.
	Capital markets remain rather	• **Consider directing a small amount of**

	shallow, as is common across many middle-income countries, and this limits the use of equity instruments.	**government funds towards high-growth firms**, for example institutional investor funds or by co-investing with a third party**.** This may be a way to catalyse equity financing where private investors and high-growth firms are scarce.
Advanced stage *Malaysia and Singapore*	Ambiguities remain in the national framework for secured transactions – particularly as concerns the filing of securities by unincorporated entities and individuals. This may limit collateralisation options and access to a range of financial products.	• **Review secured transaction legislation to ensure that any ambiguity has been minimised,** for instance by adopting a law similar to Article 9 of the Uniform Commercial Code. This recommendation is shared across many common law countries.
	Demand for innovative financial products is increasing, both from national and regional firms.	• **Consider developing common standards on data sharing and information security for financial institutions**, to support the use of APIs that may stimulate the development of customised and innovative financing solutions.
	Demand for regulatory oversight of innovative products such as fintech is increasing	• **Further experiment with regulatory sandboxes.** Regulatory sandboxes can be a good way to test regulation in innovative new areas.

Notes

[1] By ensuring that a borrower has some "skin in the game" in the event of default.

[2] Memorandum Circular No. 3/2016.

[3] Namely, Brunei Darussalam (2014), Cambodia (2013), Lao PDR (2012), Viet Nam (2014).

[4] The Secured Transactions Filing Office in Cambodia, the Fidusia Registry Office in Indonesia, the Registry Office for Security Interests in Movable Property in Lao PDR, and the National Registration Agency for Secured Transactions in Viet Nam.

[5] Specifically, in 2016 with the enactment of its Secured Transactions Order and creation of a collateral registry within the AMBD.

[6] World Bank Financial Structure database, data from 2017. No data for Cambodia, Lao PDR or Myanmar.

[7] World Bank Financial Structure database, data from 2016 (last available data).

[8] Which has 384 companies listed and a total market capitalisation of USD 10.1 billion.

[9] ACE is Bursa Malaysia's existing junior board.

[10] Namely, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam. Singapore and Brunei Darussalam are not scored in this area, given their limited need for this type of instrument.

[11] Beck et al. (2009[30]) report a median coverage ratio of 80% across 76 schemes worldwide, but a lower rate is usually advised for schemes that are more risk-averse (such as those that cannot count on public subsidies) or that are exposed to higher risk (such as those that target only one sector).

[12] All excluding Brunei Darussalam and Singapore, which are not scored on these indicators given their small and mostly urban population.

[13] Bank Rakyat is an Islamic co-operative bank that was established in 1954 under the Co-operative Ordinance of 1948.

[14] An approach which theorises that repayment rates are higher among female borrowers than male.

[15] The SIP is a co-funding initiative between the government of Malaysia and private investors. It aims to provide financing to SMEs, mainly those in the start-up phase. Under this programme, three investment entities, or SME Partners, have been appointed to raise funds for SMEs from private investors, which will be matched by an initial capital investment from the government. Once sufficient capital is raised, these SME Partners are required to provide financing to viable SMEs from all sectors.

[16] For instance in Cambodia where the majority of land titles are soft titles (those which are only established and recognised at the local government level) and the cadastre is only in a pilot phase.

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Chapter 7. Access to market and internationalisation

Introduction

For most of human history, production and consumption have been tightly bundled together, as the prohibitive cost of moving goods resulted in a geographic clustering of production and people (Baldwin, 2006[1]). Baldwin and others argue that this situation was disrupted by two great production "unbundlings" that precipitated a significant expansion in global trade. The first of these unbundlings was highly aggregative, and had the effect of substantially increasing income disparities between countries – disparities that became persistent as firms in higher-productivity countries continued to innovate, scale and increase their productivity, and thus the price and quality competitiveness of their goods, via agglomeration.[1] The second, brought about by a reduction in communication and co-ordination costs, allowed firms in industrialised countries to take advantage of productivity-adjusted wage gaps in lower-income countries (Baldwin, 2006[1]) by unpacking their operations and beginning to "trade in tasks" (Grossman and Rossi-Hansberg, 2008[2]). This second unbundling affords firms in lower-income countries the opportunity to trade competitively[2] on global markets, with trade in turn acting as a competitive pressure to incentivise the firm to boost its productivity over time.

The development of global value chains (GVCs) – a result of the second unbundling – enables countries to industrialise without first establishing an extensive industrial base. SMEs may have a particular role to play in this process. Their flexibility may enable them to adapt quickly, making them particularly well suited to fill supply niches (OECD, 2013[3]; OECD, 2008[4]). Linkages between SMEs and larger international firms can also be an important conduit for transferring know-how, technology and better quality inputs, and can allow SMEs to specialise while increasing their productive and innovative capacity (see also (López González, 2017[5]; OECD, 2018 forthcoming[6]). Internationalisation can also benefit SMEs in industrialised countries: SMEs often use internationalisation as a tool to grow and achieve economies of scale that would not be possible while operating in the domestic market alone (OECD, 2009[7]). Internationalisation may be particularly important for high-technology start-ups since it allows them to recover initial fixed costs more quickly, and because their business success often depends on being able to get to market and scale as rapidly as possible (Burgel et al., 2000[8]).

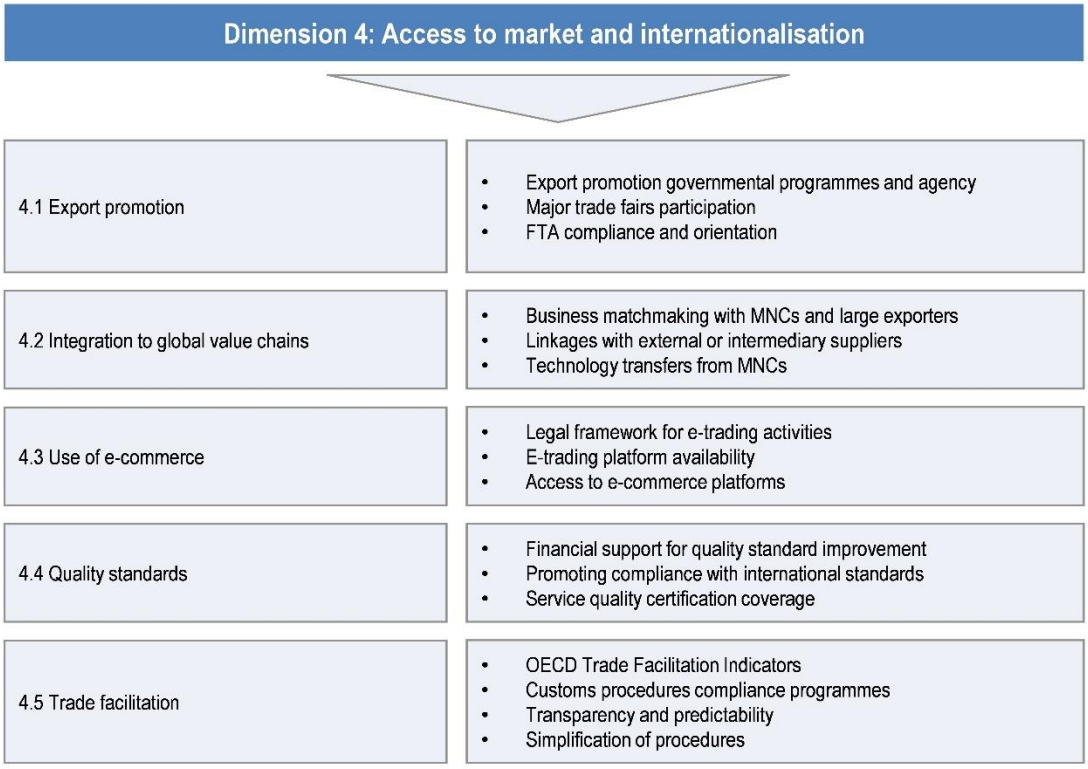
Despite these benefits, SMEs are generally less likely than larger firms to internationalise. Their limited size, resources, managerial structure and geographic location can result in informational, technical and administrative barriers that make it difficult to access finance, comply with quality standards, bridge connectivity and infrastructure constraints, innovate or find and develop suitable human capital (UNCTAD, 2010[9]; Harvie, Narjoko and Oum, 2013[10]). Policy interventions designed to increase SME presence in export markets and global value chains thus often focus on export financing facilities, training programmes and portals for international marketing, "business matchmaking" activities

between SMEs and multinational corporations (MNCs), support to acquire internationally recognised product quality certification, support for attending international trade fairs and the creation of e-commerce platforms on which SMEs can list (Duval and Utoktham, 2014[11]; Yuhua and Bayhaqi, 2013[12]). These programmes are often part of a country's overall economic development and/or export promotion strategy.

Assessment framework

The framework used to assess the sophistication and intensity of policies to enhance market access for SMEs covers five sub-dimensions. These sub-dimensions look at policies and programmes to encourage SMEs to internationalise, help them upgrade their capacity and take advantage of the new opportunities opening up with global technological change. The sub-dimensions and their key components are presented in Figure 7.1.

Figure 7.1. ASPI framework for assessing SME access to market and internationalisation



The five sub-dimensions were weighted based on expert opinion. Sub-dimension 4.1 was assigned a weight of 50% based on the notion that this is a foundational step to encourage SMEs to think global. Sub-dimensions 4.2 and 4.5 were assigned the second highest weights (15% each), based on the rationale that integration into GVCs and trade facilitation are an important next step, greatly supporting SMEs that have started to think about going global. Sub-dimensions 4.3 and 4.4 on the use of e-commerce and quality standards were assigned weights of 10%, since they are more concerned with helping SMEs to increase the sophistication of their products and trade networks. These weights do not imply that policy makers should prioritise export promotion, for instance, above

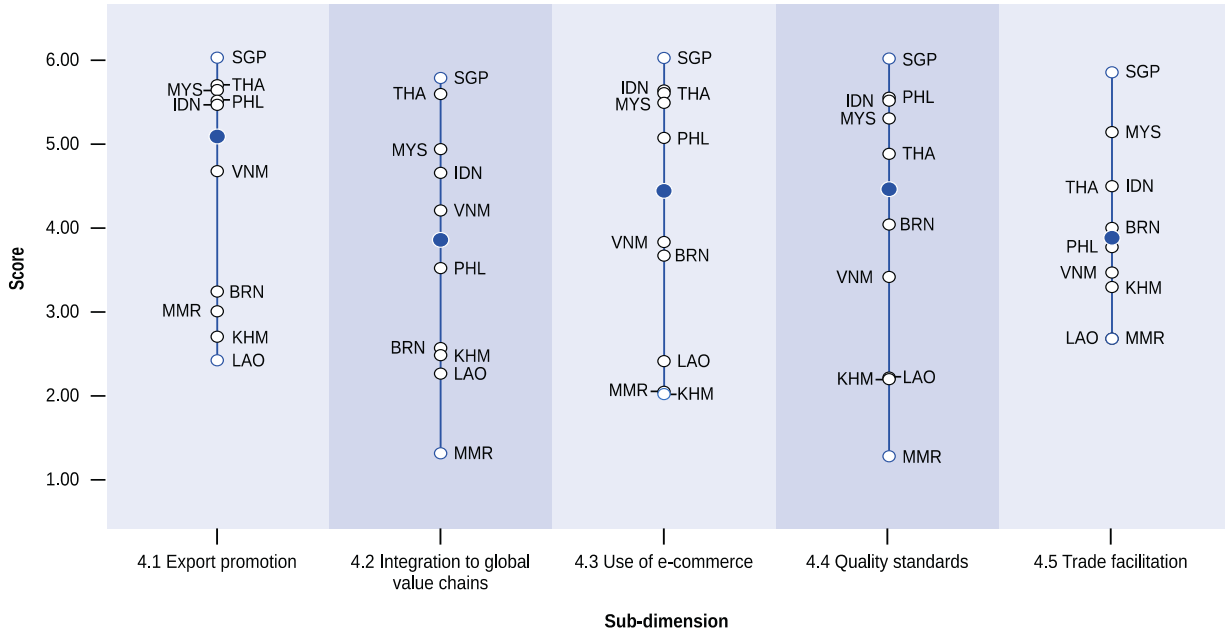
other "access to market" related measures. Priorities should be decided on a case-by-case basis, following a clear articulation of policy objectives as well as an analysis of firm-level dynamics in each country. The OECD (2018 forthcoming[6]), for instance, has found the use of foreign inputs to be a significant determinant of firm-level productivity among a sample of Southeast Asian SMEs.

Four of the five sub-dimensions consist of three thematic blocks that are weighted as follows: *i)* planning and design, 35%; *ii)* implementation, 45%; and *iii)* monitoring and evaluation, 20%. The exception is sub-dimension 4.5, where the four thematic blocks have each been assigned a weight of 25%.

Analysis

The overall median across ASEAN in Dimension 4 is 4.55, suggesting that the region as a whole is already quite advanced in this area. However, country-to-country variation is high, both overall and in the five sub-dimensions, suggesting wide variation in policy development across ASEAN member states.

Figure 7.2. Weighted scores for Dimension 4 by sub-dimension



The highest regional median score at sub-dimensional level is in the area of export promotion, which receives a high score of 5.02, although cross-country variation is again high. This is unsurprising given the fact that many AMS have long pursued an export-oriented growth strategy. Going forward, policy makers could prioritise interventions in the areas of GVC integration and trade facilitation, which are both important for SME internationalisation but receive a lower regional median score of 3.86.

Sub-dimension 4.1: Export promotion

Globalisation can open up new opportunities for SMEs, providing them with access to higher-quality factors of production and knowledge transfer, as well as new markets. However it can also expose them to new challenges. Globalisation can heighten

competitive pressures, as imports and foreign firms enter the domestic market, and SMEs can be affronted by a host of trade challenges as they seek to internationalise.

Table 7.1. Exporting firms and direct exports in ASEAN, by firm size

Economy	Share of firms exporting directly [5]			Share of total sales that are exported directly (%)		
	Small	Medium	Large	Small	Medium	Large
Cambodia [1]	6.9	19.1	26.9	6.8	16.7	26.3
Indonesia [2]	5.3	7.9	25.2	2.9	5.0	11.7
Lao PDR [1]	1.1	19.8	21.9	0.7	7.7	17.7
Malaysia [2]	4.3	19.2	69.0	2.2	7.6	30.3
Myanmar [1]	1.2	10.7	39.6	1.2	5.3	38.2
The Philippines [2]	3.9	9.0	23.6	1.8	6.1	16.6
Thailand [1]	2.2	3.4	28.1	0.8	2.0	18.9
Viet Nam [2]	4.0	11.5	36.1	2.2	6.6	21.6
Czech Republic [3]	29.9	45.7	60.1	11.8	19.2	38.8
Poland [3]	10.2	19.8	36.4	3.9	6.7	17.5
Mexico [4]	0.7	9.1	15.9	0.1	2.1	5.6

Note: **1.** Data from 2016. **2.** Data from 2015. **3.** Data from 2013. **4.** Data from 2010. **5.** Defined as those where exports constitute at least 10% of sales.
No data is available for Brunei Darussalam and Singapore, which are not covered by the *Enterprise Surveys*. For further information on firm size classification, please refer to the WBES methodology. Data from select export-oriented OECD countries provided for comparison.
Source: World Bank (2015); World Bank (2016).

Firm-level surveys suggest that SMEs are under-represented in export activity, which may support an argument for export promotion policies targeted at SMEs. As indicated in Table 7.1, which presents data from the World Bank *Enterprise Surveys*, SMEs have a lower propensity to export than larger firms and those that do export do so in lower relative volumes. This appears particularly pronounced for smaller firms, and is a trend also observed in OECD countries.

The indicators covered in this sub-dimension explore initiatives by ASEAN Member States (AMS) to reduce some of the cost for SMEs exporting across borders, provide them with information on trading opportunities and requirements, support their attendance at major trade fairs, and support their compliance with free trade agreement (FTA) rulings and quality certification.

Table 7.2. Scores for sub-dimension 4.1: Export promotion

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	3.37	3.84	5.76	3.12	6.00	4.08	6.00	6.00	6.00	5.76	**5.76**	**1.16**
Implementation	3.72	2.84	5.36	2.24	5.74	2.55	5.32	6.00	5.62	4.28	**4.80**	**1.37**
Monitoring and evaluation	2.32	1.00	5.33	1.66	5.00	2.32	5.66	6.00	5.33	3.00	**4.00**	**1.78**
Total sub-dimension score	3.32	2.82	5.49	2.43	5.69	3.04	5.62	6.00	5.70	4.54	**5.02**	**1.34**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The 2018 scores suggest that AMS as a whole are relatively well advanced in the area of planning and design of export promotion policy and less advanced in the area of monitoring and evaluation. It is in this final block where variation is also highest.

Planning and design: Export promotion can be integrated into broader strategic goals

The 2018 assessment suggests that Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam have developed comprehensive export promotion programmes for SMEs, while Brunei, Cambodia, Lao PDR and Myanmar are currently at an intermediate stage of policy development.

All AMS have an export promotion agency in place, which is usually embedded in the Ministry of Commerce or a related ministry. Countries with relatively advanced export promotion policies have integrated these efforts into broader strategic goals and planning documents. In Malaysia, for instance, the Going Export programme, a government-co-ordinated initiative to expedite SME exports, is one of the six High Impact Programmes covered under the country's SME Masterplan 2012-20. Countries with less developed export promotion policies, by contrast, tend to have only scattered initiatives in place for SMEs. These tend to take the form of facilitating SME participation in trade fairs. They also tend to lack targeted export promotion policies for SMEs, and some are still developing more structured national export strategies.

Implementation: Some countries offer SMEs an array of export support

The 2018 findings suggest that Indonesia, Malaysia, the Philippines, Singapore and Thailand have relatively well-advanced policies and programmes in place to promote SME exports. These programmes appear to be fully operational and well-funded. They tend to offer SMEs support across a wide range of areas, from trade policy information and market intelligence to complying with FTA rulings.[3] They not only facilitate SME participation at major trade fairs but also support them with marketing, product development and navigating export markets. Indonesia and Thailand, for instance, have established trade centres in major cities around the world in order to promote the products and services of local SMEs. These centres also provide market research and information on overseas markets and organise export promotion activities.

Other countries offer more limited support for SMEs. In Cambodia, Lao PDR and Myanmar, for instance, export promotion initiatives for SMEs tend to be limited to supporting attendance at major trade fairs and ad hoc training courses organised in partnership with development partners. Cambodia currently lacks initiatives to support SMEs in navigating the country's FTAs, while Myanmar and Lao PDR lack services to facilitate self-certification and compliance with rules of origin.

Monitoring and evaluation: Only a few AMS assess export promotion regularly

In Indonesia, Malaysia, the Philippines and Singapore, the agency responsible for export promotion appears to have concrete monitoring and evaluation mechanisms in place. The annual performance reports of these agencies are made publicly available. In Cambodia and Lao PDR, meanwhile, relatively little monitoring and evaluation currently takes place.

Sub-dimension 4.2: Integration into global value chains

Developing and advanced countries are increasingly participating in GVCs. This has allowed firms to increase the volume and sophistication of exports without having to master every step required to produce a final product (Stamm, 2004[13]; Baldwin, 2013[14]). At a firm level, however, the benefits of GVC participation ultimately depend on the extent to which firms can use this position to obtain efficiency gains (Lopez Gonzalez, 2016[15]). In particular, the OECD finds the sourcing of foreign value added to be associated with greater productivity, more sophisticated exports and less concentrated export structures (Kowalski et al., 2015[16]).

While it might not make sense for all SMEs to participate in GVCs, integration into global value chains may accord advantages to many. SMEs can benefit on both the buying side (via access to more sophisticated and competitively priced inputs) and on the selling side (via new opportunities to meet a supply niche and specialise) (López González, 2017[5]). Public policy can play an important role in building SME capacity and interest in linking up with GVCs, as well as attracting and targeting foreign firms and encouraging them to engage SMEs as suppliers.

Table 7.3. International linkages in ASEAN firms, by firm size

Economy	Firms using material inputs and/or supplies of foreign origin (%)			Total inputs that are of foreign origin (%)			Firms exporting indirectly (at least 10% of sales)		
	Small	Medium	Large	Small	Medium	Large	Small	Medium	Large
Cambodia [1]	39.0	43.4	94.5	25.7	29.5	90.9	3.8	0.5	32.7
Indonesia [2]	1.6	10.7	42.3	0.9	4.6	16.4	3.6	2.8	7.5
Lao PDR [1]	5.0	35.7	71.4	3.4	27.7	59.1	2.7	3.1	7.6
Malaysia [2]	45.8	46.7	44.0	17.9	12.6	13.8	6.9	14.6	5.8
Myanmar [1]	15.5	26.2	74.3	12.4	18.3	53.8	0.1	0	3.0
The Philippines [2]	23.8	53.9	77.4	15.0	31.6	48.6	1.5	0.9	2.8
Thailand [1]	4.2	3.6	7.7	1.8	1.0	2.7	0	1.1	1.4
Viet Nam [2]	24.5	50.9	65.8	13.9	31.9	37.2	2.4	3.9	5.9
Czech Republic [3]	68.6	88.6	100.0	27.5	38.6	42.5	6.3	9.4	3.1
Poland [3]	48.3	55.2	70.3	23.4	23.1	29.9	4.5	4.1	8.6
Mexico [4]	40.4	50.8	80.3	19.7	16.7	27.8	1.4	3.3	5.1

Note: **1.** Data from 2016. **2.** Data from 2015. **3.** Data from 2013. **4.** Data from 2010.
No data available for Brunei Darussalam and Singapore. For further information on firm size classification, please refer to the WBES methodology. Data from select export-oriented OECD countries provided for comparison.
Source: World Bank (2015); World Bank (2016).

Firm-level surveys suggest that ASEAN firms are less likely to source foreign inputs than firms in a number of export-oriented OECD countries. The gap between smaller and larger firms appears particularly pronounced. In a number of AMS small enterprises are significantly less likely to source foreign inputs than larger enterprises (Table 7.3). A number of exceptions can be seen: the *Enterprise Survey* findings suggest that a relatively high percentage of SMEs in Cambodia, Malaysia, the Philippines and Viet Nam source foreign inputs. In all cases, however, more could be done to promote further SME linkages on the import side.

The indicators covered in this sub-dimension look at the sophistication and intensity of government programmes to promote linkages between SMEs and MNCs and/or larger

exporters, and/or with external or intermediary suppliers. They also explore the level of policies and programmes in place to promote technology transfer from MNCs to SMEs.

Table 7.4. Scores for sub-dimension 4.2: Integration into global value chains

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	3.36	3.36	5.04	2.53	5.40	1.94	4.07	6.00	5.76	5.88	**4.55**	**1.41**
Implementation	2.65	2.24	4.74	2.66	5.58	1.00	3.48	6.00	6.00	4.33	**3.90**	**1.64**
Monitoring and evaluation	1.00	1.55	3.77	1.00	2.65	1.00	2.65	4.87	4.32	1.00	**2.10**	**1.43**
Total sub-dimension score	2.57	2.49	4.65	2.28	4.93	1.33	3.52	5.77	5.58	4.20	**3.86**	**1.44**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to chapter 2 and annex A for further information on the methodology.

The 2018 scores suggest that AMS have a number of policies and programmes in place to promote SME participation in GVCs, but that there is considerable space for further development, with the region as a whole receiving a median score of 3.86. A high standard deviation for this sub-dimension also suggests considerable variation between countries, with some countries offering a comprehensive range of policies and programmes that are systematically monitored and evaluated.

Overall, Singapore and Thailand appear to be the most advanced in this area. Singapore has long promoted technology transfer and other linkages between MNCs and SMEs. Starting from the 1980s, its Economic Development Board has provided subsidies for local SMEs to employ engineers and technicians from MNCs over a period of two years (Vandenberg et al., 2015[17]). In Thailand, the Bureau of Supporting Industries Development (BSID), under the Ministry of Industry, and the Board of Investment Unit for Industrial Linkage Development (BUILD) have played a major role in fostering SME participation in GVCs. Associated initiatives have included a free sourcing service provided by BUILD, helping both Thai and foreign buyers source parts in Thailand, and business matching activities by BSID in co-ordination with SME banks.

Planning and design: Some AMS have strong policies for integrating SMEs into GVCs

Singapore and Thailand have the most comprehensive programmes in place to promote SME participation in GVCs. In Singapore, for instance, Enterprise Singapore (SPRING Singapore at the time of information gathering and validation) has developed a number of initiatives to promote SME integration into GVCs and support them in moving up the value chain. These include the Partnership for Capability Transformation (PACT) programme, the Local Enterprise and Association Development programme, the Technology Adoption Programme and the Collaborative Industry Projects programme. Indonesia, Malaysia and Viet Nam have also made notable progress in this area. In Viet Nam, the government has mandated measures to support MNC-SME linkages for SMEs engaged in ancillary industries.[4] These measures include business matching through specialised industrial parks and foreign direct investment (FDI) incentives. They are part of a strong political commitment to deepen Viet Nam's participation in regional production networks, which has become particularly pronounced following the country's accession to the World Trade Organisation in 2007 (Vo, Nguyen and Bui, 2017[18]).

The remaining AMS are at an earlier stage of policy development, but work is taking place, often supported by development partners. In Lao PDR, the Ministry of Commerce and Industry and the Lao National Chamber of Commerce and Industry, in partnership with barterfli Holdings, provides paid assistance for SMEs to connect with foreign companies.[5] In Myanmar, the UN Industrial Development Organization (UNIDO) and the US Agency for International Development (USAID) are implementing a number of programmes to increase SME participation in GVCs. The country, with donor support, also has established training facilities in a number of Special Economic Zones (SEZs) that support SMEs in linking up with foreign firms and upgrading their participation in these networks.

Implementation: Three countries have well-funded GVC integration programmes

Malaysia, Singapore and Thailand are well advanced in this area. They have a number of programmes in place, and these programmes are well funded and executed. In Singapore, for instance, around SGD 300 million (Singapore dollars) was allocated for PACT, and another SGD 80 million was earmarked to enhance the programme. Between March 2013 to March 2016, an estimated 1 024 SMEs were involved in 147 projects under the enhanced PACT programme. In Thailand, meanwhile, BUILD allocated THB 23.9 million (Thai baht) in 2017 for programmes to promote SME-MNC and SME-large enterprise linkages. It is difficult to pinpoint the exact budget apportioned to such programmes in Thailand since they are implemented by a number of different agencies.

Among the remaining AMS, Viet Nam has established a relatively strong policy framework for SME-GVC integration, but programmes are not yet fully operational and performance has not been assessed. The same hold true for Cambodia, which has highlighted SME integration into GVCs under its Industrial Development Policy 2015-25. Those with less-developed policy planning in this area also seem to have fewer and less comprehensive programmes in place. In Lao PDR, there appears to only be one programme (the Plaosme initiative) and a number of ad hoc business matching sessions. In Myanmar, there are no clear measures in place.

Monitoring and evaluation: All AMS could improve their monitoring of GVC integration

All AMS receive relatively low score in this area, although Singapore and Thailand clearly lead the way. Both conduct programme monitoring and reviews, but the results are not made public.

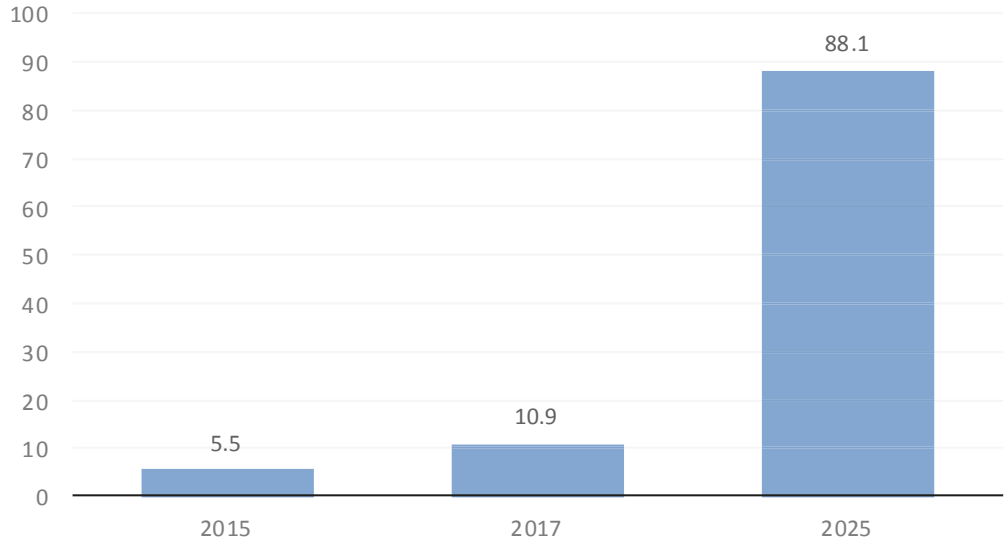
Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Viet Nam do not seem to have clear monitoring mechanisms in place, and Lao PDR and Myanmar seem to be at the very early stage of implementing policies in this area. Indonesia, Malaysia and the Philippines conduct some monitoring of GVC integration programmes and policies. In the Philippines, the Export Marketing Bureau of the Department of Trade and Industry (DTI) reviews programmes through client satisfaction feedback. These programmes are not independently monitored by a third party.

Sub-dimension 4.3: Use of e-commerce

The use of e-commerce is expanding rapidly, with online sales expected to account for more than 16% of total retail sales worldwide by 2021 (eMarketer, 2018[19]).[6] This development opens up important new opportunities for SMEs, which can use e-commerce to access non-traditional markets while bypassing some common size-related constraints.[7]

E-commerce is also becoming increasingly important in Southeast Asia. Significant growth is anticipated over the next ten years, with some analysts forecasting a compound annual growth rate of around 32% (Google-Temasek, 2017[20])[8] Southeast Asia's perceived potential in this space is attracting bullish investment. The region has already produced a number of internet "unicorns" (companies valued at over USD 1 billion), with Chinese companies and investors such as Alibaba Group and JD.com particularly active. Perhaps the most notable business-to-consumer e-commerce company in the region is Lazada. As of April 2017, Lazada was registering around 41.4 million monthly page views in Thailand and 54.4 million in Indonesia alone (eMarketer, 2018[19])

Figure 7.3. E-commerce growth in Southeast Asia (USD billion)



Source: Google and Temasek (2017).

This robust private sector activity opens up new opportunities for public-private collaboration. For instance, Singaporean SMEs can now market themselves online, free-of-charge, by listing on the 99% SME website, thanks to a partnership among Singtel, DBS, and Lazada Singapore (Straits Times, 2017[21]). In Indonesia, the executive chairman of the Alibaba Group has stood as special advisor to the government's steering committee on its e-commerce roadmap since 2017. Private sector collaboration could be considered an important aspect of public programmes to promote the use of e-commerce.

Table 7.5. Scores for sub-dimension 4.3: Use of e-commerce

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	4.74	2.24	5.58	3.90	6.00	3.50	5.58	6.00	6.00	5.16	**5.37**	**1.21**
Implementation	3.77	2.33	5.89	2.54	5.32	1.44	4.98	6.00	5.89	3.53	**4.37**	**1.59**
Monitoring and evaluation	1.55	1.00	4.87	1.00	4.88	1.00	4.32	6.00	4.30	2.10	**3.20**	**1.85**
Total sub-dimension score	3.66	2.03	5.57	2.71	5.47	2.07	5.06	6.00	5.61	3.82	**4.44**	**1.46**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to chapter 2 and annex A for further information on the methodology.

Focusing on the policy environment for increasing SME use of e-commerce, this sub-dimension looks at the availability of e-trading platforms in each AMS (such as e-payment and logistic facilities and online marketplaces), at government programmes to facilitate SME access to these platforms, and at the sophistication of legal and regulatory frameworks to govern e-commerce activities.

The 2018 scores show that the region performs moderately well in this area as a whole, and particularly in planning and design, where it registers a median score of 4.44.

Planning and design: Legal frameworks for e-commerce vary in sophistication

Indonesia, Malaysia, Singapore and Thailand appear to be the most advanced in the area of planning and design. These countries have clear legal instruments in place to govern e-commerce, e-payments and consumer protection. The Philippines follows closely behind, and it is currently undertaking steps to enhance its regulatory framework for e-commerce – notably by amending its Consumer Act to include a provision on e-commerce. Cambodia, Lao PDR and Myanmar do not yet have a clear strategy in place to promote e-commerce, and legal frameworks remain incomplete.

Implementation: Targeted e-commerce programmes for SMEs are important

Indonesia, Malaysia, Singapore and Thailand receive the highest scores in this area, and each is implementing targeted e-commerce programmes for SMEs on a national scale. These programmes include the Smart Online SMEs programme in Thailand and the SMEs Go Digital initiative in Singapore and Indonesia. In Malaysia, the government launched a Digital Free Trade Zone (DFTZ) in 2017, in partnership with the Alibaba Group (Box 7.1). Malaysian government agencies are also implementing other e-commerce initiatives for SMEs, such as SME Corp.'s "Go e-Commerce" programme.

Box 7.1. Streamlining e-commerce transactions: Malaysia's DFTZ

Malaysia and Alibaba Group launched a Digital Free Trade Zone (DFTZ) in 2017 to provide a holistic e-commerce trading environment for SMEs and other companies. Said by Malaysia to be the world's first digital free trade zone, the DFTZ aims, by 2025, to double the growth rate of SME goods exports in order to reach USD 38 billion, to facilitate USD 65 billion worth of traded goods and to create 60 000 Malaysian jobs.

The DFTZ combines physical and virtual zones. It has an "eFulfillment (SMECorp., 2017[22]) Hub" to help SMEs export their goods easily; a "Satellite Services Hub" to connect SMEs with relevant services; and an "eServices Platform" for digital management of cargo clearance and other cross-border trade processes. Its objective is to provide an opportunity for SMEs to thrive in the global marketplace.

SMEs that use the DFTZ will have access to:

- A dedicated Malaysia Pavilion page in Alibaba featuring "Made in Malaysia" products
- Trained and certified e-commerce advisors
- A detailed analytic dashboard and report of store and sales performance
- Traffic from Alibaba's other marketplaces, such as Tmall.com, TaoBao and 1688.com

To enjoy these benefits, SMEs need to register their business entities, be exporters or

interested in exporting, and produce or manufacture "Made in Malaysia" products. The DFTZ thus encourages the formalisation of SMEs and domestic production, as well as facilitating SME use of e-commerce to go global.

Source: SME Corp. (2017), http://www.smecorp.gov.my/index.php/en/programmes/2015-12-21-09-44-11/digital-free-trade-zone-dftz; MYDFTZ (2017), https://mydftz.com.

The remaining AMS have begun to enhance their legal and regulatory frameworks for e-commerce, but do not generally have specific programmes in place targeting SMEs. In Cambodia, Lao PDR, Myanmar and Viet Nam, targeted measures take the form of ad hoc workshops and seminars, but comprehensive programmes are currently missing.

Monitoring and evaluation: Progress is needed on assessing e-commerce strategies

AMS have less advanced mechanisms in place for monitoring and evaluating e-commerce initiatives, with the exception of Singapore (which scores 6.0). Two notable performers in this area are Malaysia and the Philippines, which have set up dedicated bodies to monitor implementation of their e-commerce strategies. Malaysia established a joint secretariat to monitor all programmes implemented under the National e-Commerce Strategic Roadmap. In the Philippines, an E-commerce Office was set up under the DTI to monitor implementation of the Philippines E-Commerce Roadmap 2016-20. Indonesia and Thailand have internal monitoring mechanisms in place for all programmes, but they rarely conduct specific and in-depth reviews of a particular programme.

No clear mechanisms for the monitoring and evaluation of e-commerce programmes have yet been identified in Cambodia, Lao PDR or Myanmar. This can also be explained by the relatively limited work currently taking place in this area in those countries.

Sub-dimension 4.4: Quality standards

Quality assurance is an important condition for SMEs to scale in export markets. SMEs are most commonly encouraged to consider compliance with general standards such as those set by the International Organization for Standardization (ISO). Compliance with commonly recognised standards can send an important signal to customers that an SME's products and services conform to a certain level of quality, enabling them to better compete with larger companies. Additional requirements may be in place – according to the Standards Map database of the International Trade Centre (ITC), any firm exporting from one of the ten AMS may need to comply with any of 115 standards (ITC, 2017[23]).[9]

Yet SMEs may be deterred from obtaining quality certification by factors including a lack of awareness, complicated requirements (ITC, 2016[24]) and/or high upfront costs. A survey of SMEs in Thailand, for instance, found that restrictive health, safety and technical standards in foreign markets, such as sanitary and phytosanitary (SPS) requirements, were the most significant barrier to trade perceived by SMEs (Punyasavatsut, 2010[25]). Table 7.6 indicates that smaller firms are much less likely to obtain internationally recognised quality certification than larger enterprises, and are less likely to possess internationally recognised quality certification than similar-sized firms in export-oriented OECD countries.

Table 7.6. ASEAN firms with international quality certification, by firm size

Economy	Share of firms with an internationally recognised quality certification (%)		
	Small	Medium	Large
Cambodia [1]	5.1	2.9	18.6
Indonesia [2]	2.0	11.1	60.2
Lao PDR [1]	0.5	3.8	21.4
Malaysia [2]	8.5	15.6	72.0
Myanmar [1]	1.7	2.5	37.6
The Philippines [2]	4.6	9.7	36.4
Thailand [1]	5.6	4.0	42.5
Viet Nam [2]	4.6	11.7	37.9
Czech Republic [3]	22.4	61.7	87.6
Poland [3]	20.0	46.0	62.9
Mexico [4]	19.1	34.6	30.6

Note: **1.** Data from 2016. **2.** Data from 2015. **3.** Data from 2013. **4.** Data from 2010.
No data available for Brunei Darussalam and Singapore. For further information on firm size classification, please refer to the WBES methodology. Data from select export-oriented OECD countries provided for comparison.
Source: World Bank (2015); World Bank (2016).

The indicators included in this sub-dimension look at the availability of support programmes to increase compliance with quality standards, support schemes to obtain quality certification, and the presence of adequate funding behind these programmes and comprehensive monitoring mechanisms to regularly assess their performance.

Table 7.7 Scores for sub-dimension 4.4: Quality standards

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	3.48	1.83	6.00	1.83	6.00	1.00	6.00	6.00	4.33	1.83	**3.90**	**1.98**
Implementation	5.33	2.66	4.98	2.99	5.66	1.66	5.32	6.00	5.33	4.99	**5.16**	**1.41**
Monitoring and evaluation	2.10	1.00	4.87	1.00	3.20	1.00	4.32	6.00	4.87	2.65	**2.93**	**1.75**
Total sub-dimension score	**4.03**	**2.04**	**5.31**	**2.18**	**5.29**	**1.30**	**5.36**	**6.00**	**4.89**	**3.41**	**4.46**	**1.58**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to chapter 2 and annex A for further information on the methodology.

The 2018 scores rank the region as a moderate performer in this area, with substantial cross-country variation, particularly in the area of planning and design. As a whole, the region is relatively well advanced in implementation, where it scores 5.16.

Planning and design: A comprehensive strategy is needed on quality standards

Brunei Darussalam, Indonesia, Malaysia, the Philippines and Singapore particularly stand out in this area. In the Philippines, the government has provided capacity-building programmes for SMEs to enhance understanding of quality and food-safety standards. A certification subsidy from the Department of Agriculture is also available for SMEs in the Philippines. In Singapore, capability development grants and vouchers are available to encourage more SMEs to adopt relevant standards. In Malaysia, SME Corp.'s SME Hub runs a National Standards Compliance Programme, which provides SMEs with advice

and technical assistance to increase standards compliance. In Indonesia, the Ministry of Co-operatives and SMEs (MCSME) has included programmes related to increasing compliance with quality standards under its SME strategy. In Brunei Darussalam, an MSME Standards Advisory Programme has been offered by the National Standards Centre to increase MSME awareness of quality standard requirements, via workshops and advisory sessions, and between 2006 and 2016 the country ran a certification programme specifically targeted at MSMEs.

Cambodia, Lao PDR, Myanmar and Viet Nam have planned few initiatives in this area. Cambodia and Myanmar have established dedicated bodies for overseeing activities on standards compliance, but a comprehensive strategy is missing. In Viet Nam, the government has mandated all Vietnamese enterprises to be supported through measures to increase their product quality and productivity by 2020.[10] However little seems to have been done to target SMEs specifically.

Implementation: Quality certification for services is rare among AMS

Implementing agencies are operational and quality certification programmes are well-funded in many AMS. In Indonesia, for example, SMEs receive facilitation and assistance from the MCSME in the form of training and special discounts for SMEs to apply for certification of their products or services. The budget for the programmes in 2015 totalled almost IDR 12 billion (Indonesian rupiah), and 89% of the budget was realised, with 1 000 SMEs participating in the programmes, according to the ministry's performance report[11].

In 2016, Singapore allocated up to SGD 100 million for a five-year period to increase standards adoption via the Singapore Standardisation Programme and Singapore Accreditation Programme. In the Philippines, the budget for programmes on standards adoption is a mix of government funding and donor support. For example, Germany's GIZ collaborated in a project called Standards in the Southeast Asian Food Trade. The Philippines' Department of Agriculture allocated more than PHP 10 million (Philippines pesos) in 2017 as a subsidy for organic farming certification.

In contrast, Cambodia, Myanmar and Lao PDR still show limited capacity for implementing quality standard programmes, and they usually rely on donor support. For example, USAID supported Viet Nam's ISO programmes for SMEs.

The implementation category also scores ASEAN member states on quality certification for service sectors like tourism, health or education. Very few AMS have developed a clear framework for this. Indonesia, Malaysia and Singapore have established a regulatory environment for standards in the service sector. Indonesia has done this through its Minimum Service Standard, particularly for education and health services. Indonesian ministries also enact more technical regulations, such as the Tourism Ministry's law on tourism service quality certification. In Singapore, certification services are largely delivered by private service providers and cover a vast variety of service-sector certifications. Likewise in Malaysia, non-governmental accreditation bodies deliver service quality certification in some areas, such as health care (the Malaysian Society for Quality in Health) and financial services (the Institute of Internal Auditors Malaysia). Service quality certification in other countries, including Brunei Darussalam and Thailand, mainly involves tourism.

Monitoring and evaluation: Assessment needs to focuses on programme impact

Indonesia, Malaysia, the Philippines, Singapore and Thailand have relatively clear monitoring mechanisms in place for their quality certification programmes. Often, however, these tend to take the form of ordinary measures to monitor the activity's use of budget, rather than specific impact. In Thailand, for instance, some monitoring takes place on the use of the budget by the Bureau of the Budget.

Little monitoring and evaluation of quality standard programmes appears to take place in Cambodia, Lao PDR and Myanmar. However this is also due to the fact that few such programmes are currently in place in these countries.

Sub-dimension 4.5: Trade facilitation

Progress in advancing trade facilitation is key to boosting cross-border trade, particularly for SMEs. SMEs tend to exhibit lower capacity for dealing with administrative and regulatory procedures (Duval and Utoktham, 2014[11]), smaller networks and lower bargaining power, a lower awareness and rate of compliance with international standards, inadequate or expensive access to financing, and a lower level of information and knowledge on international trade issues (UNESCAP-ITC, 2016[26]). Studies have shown that as trade facilitation advances, so does the likelihood that SMEs will begin to export, and that measures to increase policy predictability and access to information technology services can have a particularly significant effect (Li and Wilson, 2009[27]). Others have shown how a reduction in customs and trade clearance times can have a greater impact on the likelihood of SME participation in international production networks than it does for larger enterprises (Duval and Utoktham, 2014[11]).

The indicators included in this sub-dimension look at the presence and nature of public programmes to support SME compliance with customs procedures. Specifically, they look at the existence of facilities to bridge information gaps for SMEs – for instance manuals or other guidelines, support centres, and / or a trade portal. They also look at progress in simplifying customs procedures, for instance via the creation of an e-customs platform, an Authorised Economic Operator (AEO) programme[12] and /or a National Single Window (NSW) facility. They look at whether these programmes and facilities include specific criteria for SMEs and whether support programmes are in place. Finally, this sub-dimension also integrates the 2017 OECD Trade Facilitation Indicators (TFI) for ASEAN countries.

Table 7.8. Scores for sub-dimension 4.5: Trade facilitation

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
OECD TFI	4.75	3.50	4.33	2.67	4.75	2.25	3.50	6.00	5.17	5.17	**4.54**	**1.13**
Planning and design	2.65	3.48	4.33	1.00	4.30	1.00	4.30	6.00	3.48	1.00	**3.48**	**1.63**
Transparency and predictability	4.87	3.77	4.87	4.87	6.00	4.32	4.88	6.00	4.87	4.87	**4.87**	**0.64**
Simplification of procedures	3.70	2.44	4.43	2.24	5.47	3.18	2.44	5.36	4.43	2.87	**3.44**	**1.15**
Total sub-dimension score	3.99	3.30	4.49	2.69	5.13	2.69	3.78	5.84	4.48	3.48	**3.89**	**0.97**

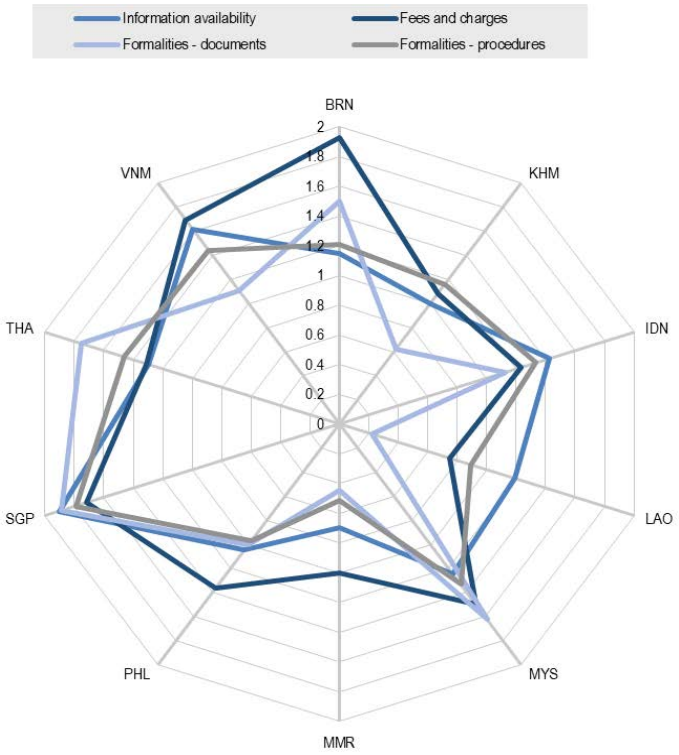
Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Overall, the region performs moderately well on enhancing trade facilitation for SMEs. The regional median is 3.89, indicating a mid-level stage of development. Variation across countries is lower than in the other sub-dimensions of Dimension 4, indicating relatively more equal policy implementation across countries for trade facilitation for SMEs.

OECD TFIs: Indicators rate several AMS as advanced in trade facilitation

The 2017 OECD TFIs were used to help assess trade facilitation measures in AMS. These indicators measure the extent to which countries have introduced and implemented trade facilitation measures in absolute terms. Four sets of these indicators are included in the 2018 ASPI: *i)* information availability; *ii)* fees and charges; *iii)* formalities-documents; and *iv)* formalities-procedures.

Figure 7.4. AMS performance on OECD Trade Facilitation Indicators, 2017



Note: Scores are on a scale of 0 to 2, with 2 being the highest. For the purpose of this assessment, only four of the Trade Facilitation Indicators were selected.
Source: OECD Trade Facilitation Indicators (2017), http://www.oecd.org/trade/facilitation/indicators.htm.

Singapore is scored the highest on these indicators.[13] This is not surprising given Singapore's long outward-looking trade policy. Thailand and Viet Nam also achieve high scores, placing them at an advanced level of development in this thematic block. By contrast, Lao PDR and Myanmar are still at an early stage.

Planning and design: Clear strategies are needed to help SMEs with customs compliance

Singapore received the highest scores in this area, followed by Indonesia, Malaysia and the Philippines. Singapore does not have specific programmes in place to support SME compliance with customs procedures, but it provides numerous resources that can be used by SMEs. These resources include the Singapore Customs Academy, which offers courses that are available for all traders, and the Singapore Customs website, which offers multiple enquiry points for all traders. In addition, the country's SME centres[14] provide assistance and services for SMEs, and this includes support in the area of business facilitation and guidance on tapping into government schemes and grants in general. In Indonesia, the government has developed an initiative that exempts export-oriented SMEs from import duties and taxes. The initiative, Kemudahan Import Tujuan Ekspor, is administered by the Indonesian Customs Office.

In contrast, most initiatives in Lao PDR, Myanmar and Viet Nam are part of broader regional initiatives such as the development of a national single window. Some have developed a trade portal, but few other programmes are in place.

Transparency and predictability: Procedural guidance is available in all AMS, but is generally not SME-specific

All AMS provide user manuals or procedural guidance on trade facilitation, however this guidance, which is publicly available, is generally not specific to SMEs and the level of information varies across countries. Singapore and Malaysia appear to be the most advanced in this area, followed by Brunei Darussalam, Lao PDR, Indonesia, the Philippines and Thailand, which are very close to the advanced stage of policy development.

A notable initiative to highlight is the Lao PDR Trade Portal (LPTR), which serves as a single-stop point for SMEs to navigate import and export procedures. Through the LPTR, traders can find information on tariff rates, related legal documents, forms and procedures, as well as measures, standards and requirements related to trading across borders. Lao PDR's progress in increasing the transparency and predictability of cross-border trade has been highlighted as a good role model by UNESCAP and others (UNESCAP-ITC, 2016[26]).

Simplification of procedures: Myanmar has made notable progress

Malaysia and Singapore receive the highest scores in this area. They have developed mature e-customs systems equipped with related IT-support programmes for SMEs. They each have an AEO programme in which volume traded is not the criteria for the AEO qualification, opening the door to SMEs. They both also have a well-developed national single windows. Malaysia has made particular efforts to engage local SMEs in its NSW, notably via the creation of myTRADELINK. This is a trade facilitation portal that provides special discounts to SMEs, as well as free training for first-timers when they register for its services.

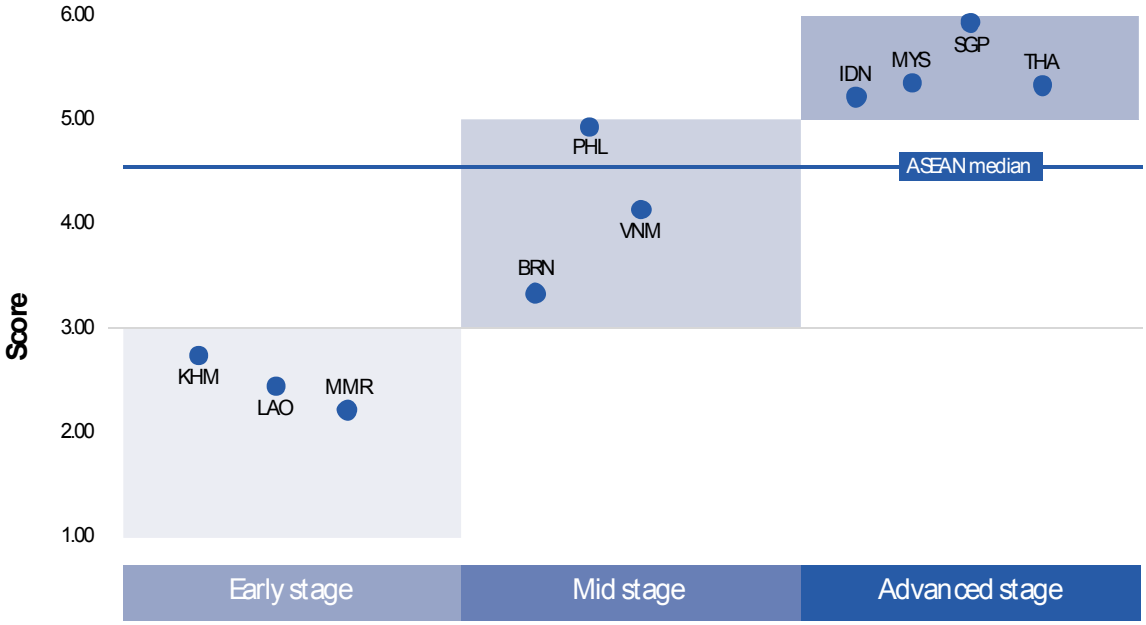
Most AMS have a national single window in place, but these are at different stages of implementation. For instance, the second phase of the Philippines National Single Window was stalled for several years due to bidding issues, and its functions are currently covered by TradeNet, a unified online trade facilitation system developed by the Inter-Agency Business Process Interoperability team.

Among the countries at a lower level of policy development in trade facilitation, Myanmar demonstrates notable progress. It has considerably simplified barriers to trade, for instance by installing an e-customs system, adopting an AEO programme and implementing a national single window, complete with related IT training for traders. In July 2013, its customs department began to implement the Myanmar Automated Cargo Clearance System (MACCS), which is part of the Myanmar Customs Intelligent System being built to support the single window. MACCS, a collaboration between the governments of Myanmar and Japan, was officially launched in January 2017 and was implemented in the Yangon region in 2017, with broader implementation expected in 2018 (Eleven, 2017[28]).

The way forward

One can typically observe robust policy support for export promotion, and countries have often invested significant resources in this area. However, regional results mask important cross-country variations, and in most countries more could be done to target specific barriers faced by SMEs. Despite the significant cross-country variation, a number of trends can be observed, which are illustrated in Figure 7.5 and described in further detail below.

Figure 7.5. Weighted scores for Dimension 4: Access to market and internationalisation



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

The majority of countries that fall within the "early stage" category have made significant progress in the area of trade facilitation, particularly customs reform. They now face the challenge of enhancing policies that may enhance SME participation in GVCs and their use of e-commerce, as well as providing support for SME adoption of quality standards. These countries typically benefit from donor support, particularly for increasing SME

adoption of quality standards. Many of these programmes may be linked to the AEC agenda.

The majority of countries that fall under the "mid-stage" category already have a policy framework and institutions in place for most of policy areas covered under this dimension. The one area that tends to be less developed is e-commerce, with many countries still developing a policy framework for these interventions and upgrading existing regulation. Most countries are now seeking to ensure that planned policies are implemented and are sufficiently resourced. In the area of trade facilitation, initiatives such as custom reform and the development of single windows are ongoing and have shown positive results, but many initiatives apply to all firms and do not specifically address the needs of SMEs.

In general, those in the "advanced stage" category have developed a comprehensive policy framework and are well-advanced in implementation. Some are world leaders in this area. However some gaps could still be addressed, often in the areas of e-commerce, trade facilitation, and enhancing GVC participation.

Among the five sub-dimension, and institutionally, framework for ecommerce activities are not yet in place or currently being developed. Challenges toward greater participation in GVCs are more in program implementation while support for quality certification in services are still limited in many of these countries.

In order to encourage SMEs to internationalise and increase their market access, policy makers could prioritise the following steps going forward:

Table 7.9. Policy recommendations to increase access to markets for SMEs

Level of policy	Challenges	Policy recommendations
	Export assistance for SMEs tends to be ad-hoc in nature	• **Conduct a comprehensive assessment on the competitiveness gap of SMEs' exports**. This assessment would be a first step in creating more systematic and specific policy measures to support SMEs in exporting. This assessment should cover all factors affecting SME propensity to export, including those implied by regulations.
Early stage Cambodia, Lao PDR and Myanmar	Lack of support and infrastructure to promote linkage development between SMEs and MNCs	• **Ensure connectivity cross-country for seamless movement of goods (whether final or intermediate)**. Connectivity is an important pre-requisite for SME participation in GVCs. Good connectivity can reduce trade costs between firms within the country. The following are required to develop a robust connectivity: o Establish well-connected hard infrastructure (i.e., roads, ports, industrial parks, urban amenities, etc.) within countries. In general, this ensures seamless movement of goods with important impact on the development of networks between production chains/units. o Reform trade and investment regime. An open trade policy can facilitate the supply flow of intermediate inputs, while a flexible investment regime can create demand for SMEs' product through outsourcing.

	Legal instruments to support the growth of e-commerce (e.g. on e-payments or consumer protection) are incomplete and there has been no clear strategy to enhance the use of e-commerce among SMEs	• **Align regulations and investment policy in order to provide a conducive business environment for the development of e-commerce**. This is a first step for establishing a strong participation of SMEs in e-commerce. Investment policy needs to be flexible and open to major global investors.
	Clear monitoring and evaluation framework is absence in the member states of this group – partially related to immaturity of policy design	• **Introduce regulatory framework for better monitoring and evaluation**. It is important for countries in the early stage of policy development to introduce and integrate a framework and measures for effective monitoring and evaluation, and this should be considered at the very early stage of policy formulation.
	Service quality certification is not yet well-incorporated, while service sectors are becoming prominent in international trade Some trade facilitation infrastructure is still to be developed Specific initiatives to support SMEs in accessing and utilising trade facilitation infrastructure are not yet well-developed	• **Improve connectivity within countries and conduct reforms to improve trade facilitation**. The trade facilitation performance of SMEs in the member states classified under this group is perhaps not as strong as it could be. Issues at (e.g. inefficient ports or customs) and within borders (e.g. missing infrastructure or logistic facilities) seems to be a strong contributing factor. • **Update infrastructure to help SMEs meet international standards. It is important for member states to maintain their level of conformance with international standards**. In a more globalized environment, countries must be adaptive to fast-changing product standard and a rise in non-tariff measures.
Mid stage Brunei Darussalam, the Philippines and Viet Nam	Specific integration policy elements for SMEs are missing in the countries' broad strategy to attract foreign MNCs	• **Develop programmes that could enhance current, models of partnership between MNCs and SMEs**. Programmes supporting SME participation in GVCs in some countries have not been as strong as in other member states. In these countries, more could be done to enhance partnership programs that would link local SMEs to firms that operate in GVCs.
	The regulatory framework may not have been designed to maximise SME participation in e-commerce	• **Reform regulations to intensify and increase the participation of SMEs in e-commerce activities**. In these countries issues have started to emerge, especially pertaining to fiscal matters such as tax collection, or how fiscal incentives could foster higher SME participation in e-commerce activities.
	Monitoring and evaluation appear to be lacking in most areas	• **Improve regulatory framework for better monitoring and evaluation**. In addition to reviewing and designing a better framework for evaluation, developing stronger ties with the private sector through deeper consultation could provide an additional way to monitor and assess the impact of public programmes.

Advanced stage Indonesia, Malaysia, Singapore and Thailand	Some initiatives to promote SME participation in global production networks are still focusing on certain sectors or industries, while SMEs are dynamically spread across all sectors in the economy Usually these countries would also be looking to upgrade in GVCs, moving to activities that involve the high-speed movement of products within chains, more advanced production technology, and more intensive use of the digital economy	• **Intensify and widen sectoral coverage for policies supporting SME export and participation in GVCs**. It is important for member states in this group to explore support programmes for developing new products and new markets for SME exports. This could help to sustain SME growth in the country. • **Conduct studies to prepare a regulatory framework and policy measures to enhance the third unbundling**. This assumes the country has also moved into quite an advanced stage vis-à-vis in its services sectors, especially those closely related to GVCs.

Notes

[1] The theory posits that the "first unbundling" took place in two waves between 1850 and the 1980s, with a hiatus from 1914 to the 1960s, while the "second unbundling" began in the 1980s and continues to the present day. The first was triggered by a decrease in transportation costs, which allowed for a spatial separation of factories and consumers as productive firms increased the price competitiveness of their products and thus reached new customers. The phenomenon led to an agglomeration of production as competitiveness began to hinge on specialisation and achieving the critical mass required to realise economies of scale as well to develop and diffuse innovations. The second unbundling, dated to the 1980s, was initiated by huge strides in ICT adoption and sophistication that significantly reduced communication and co-ordination costs. The net result was the ability to spatially unbundle factories and offices (Baldwin, 2006[1]) and outsource labour-intensive activities to lower-wage countries, thereby increasing price competitiveness.

[2] Mainly on labour cost in labour-intensive activities.

[3] For instance providing guidance on new rules under the FTA and assistance with self-certification.

[4] Through the Prime Minister's Decision No. 1556/QD-TTg, dated October 17 2012.

[5] Plaosme initiative, in collaboration with barterfli Holdings.

[6] In 2017, e-commerce sales were already estimated to account for around 10% of total retail sales worldwide.

[7] For instance, e-commerce can lower barriers to entry by eliminating certain sunk costs such as investment in a physical retail space. It can also connect supply and demand with minimum transaction costs, helping SMEs to reach non-traditional markets. Engagement in e-commerce can lead to higher productivity, heightened competition, greater consumer choice and the creation of new jobs (Rillo and de la Cruz, 2016[8]).

[8] Google and Temasek estimate that the gross merchandise value of e-commerce sales in first-hand goods in Southeast Asia will increase from around USD 10.9 billion in 2017 to around USD 88.1 billion by 2025.

[9] The exact number will depend on the origin and destination countries, as well as the product or service.

[10] Decision No. 712/QD-TTg.

[11]Laporan Kinerja Kementerian Koperasi dan UKM Indonesia Tahun 2015, page 66. Available at http://www.depkop.go.id/uploads/tx_rtgfiles/lakipkkukm2015_01.pdf

[12] The World Customs Organisation (WCO) defines an AEO as "a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards." The idea is that customs will trust AEOs and expedite procedures for them.

[13] See https://sim.oecd.org/default.ashx?ds=TFI for further information on the OECD's TFI scores.

[14] For instance the SMECentre@ASME, with the support of Enterprise Singapore.

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Chapter 8. Institutional framework

Introduction

The institutional framework for SME policy shapes the scope and efficacy of interventions. It defines the segment of enterprises that can benefit from targeted policies and how interventions are organised. Institutions, and the laws, regulations and policies they produce, define the "rules of the game" that influence the actions and behaviour of economic actors (North, 1990[1]; Williamson, 2000[2]) and policy makers.

Implementing an effective and efficient SME policy is a challenge across different country income groups, even in countries that benefit from substantial public resources and a competitive public administration. This is due to the highly diverse nature of any SME population and its geographic spread, and to the significant impact that SME policy has on economic growth, employment and social inclusion, rendering it a highly political topic. The fact that SME policy cuts across many different policy areas also makes implementation challenging. The co-ordination, sequencing and targeting of interventions thus becomes critical to effective SME policy.

The institutional framework for SME policy should include both a "hardware" component and a "software" component. The hardware component is the set of bodies in charge of elaborating, implementing, monitoring and evaluating SME policy, at both the central and local levels, as well as their physical structures and human and financial resource allocations. The software component determines how and whether those institutions work together towards reaching common objectives, how they interact with target enterprises and their representatives, and how they interact with a broader community of SME policy stakeholders including employers, employees, local administrations, academics, development assistance agencies and non-governmental organisations (NGOs).

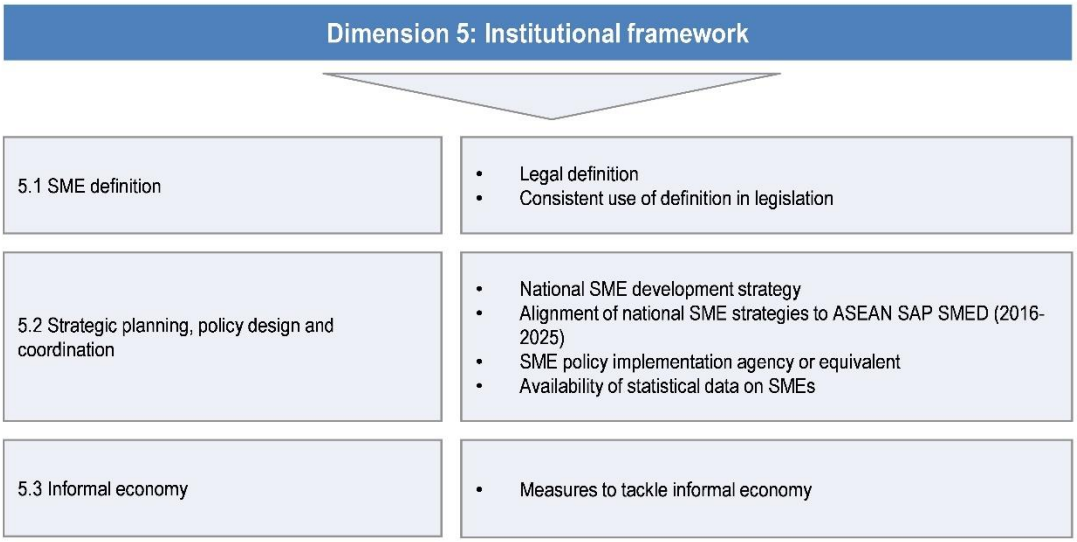
Assessment framework

The assessment framework for this policy dimension on institutional framework (Dimension 5) is comprised of three sub-dimensions, each covering different building blocks of SME policy. The first and third are concerned with the scope of SME policy, and the second covers the organisation of interventions and strategic planning.

Sub-dimension 5.1 considers the nature and use of the respective country's SME definition. The object is to define the scope of an SME policy and to establish a common understanding of the target of public policies and programmes in order to facilitate co-ordination among public institutions. Alongside an assessment of whether a definition exists and is used consistently, this sub-dimension looks at the nature of the definition itself: the criteria it uses and whether it segments an "SME" by sub-class (micro, small and medium). The type of criteria used has implications for data collection and the efficacy of policies. If the purpose of SME policy is to address market failures of scale

and scope, the definition must define the limit above which such structural market failures no longer play a significant role.

Figure 8.1. ASPI 2018 framework for assessing institutional framework



Sub-dimension 5.2 looks at how SME policy interventions are organised, whether mid- and long-term strategic planning is conducted, whether co-ordination and consultation mechanisms are in place, whether the impact of policies is monitored and evaluated, and whether a comprehensive set of SME statistics is regularly collected. This sub-dimension covers both the "hardware" of SME policy (institutions, budgets and resources) and its "operation software" (strategic approach, action plans, policy mandates, co-ordination and consultation mechanisms), as mentioned in the introductory section.

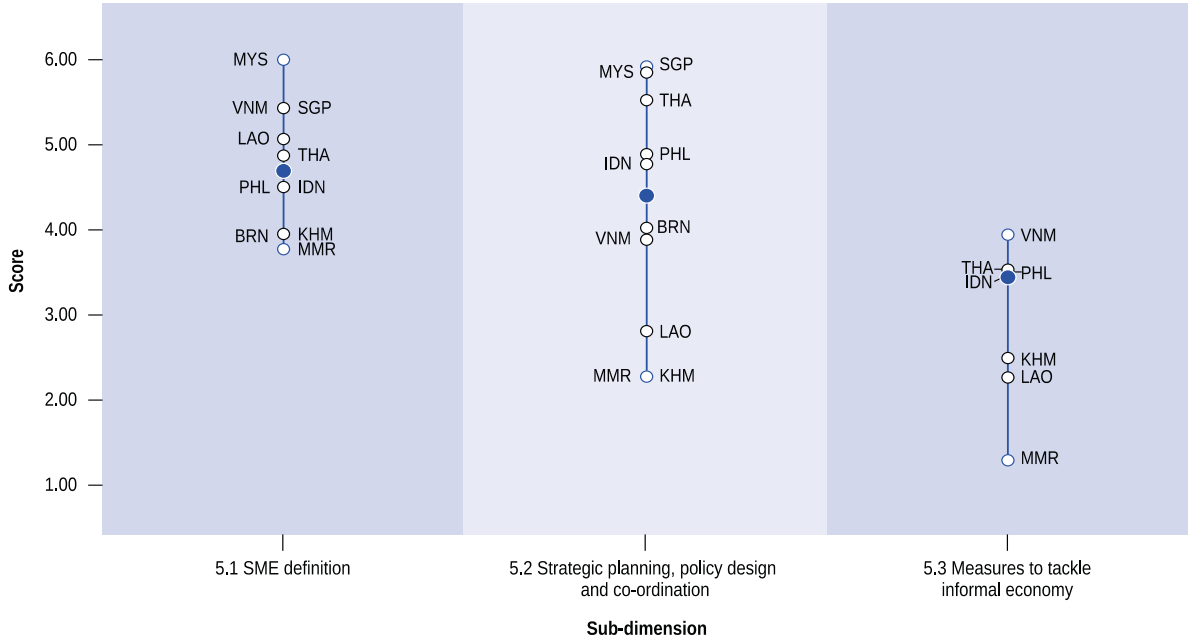
Sub-dimension 5.3 covers the informal economy. In many ASEAN member states, a significant number of SMEs, particularly those operating at micro level, can be considered informal – either entirely (they are absent from formal business registers), or in part (they adopt informal practices that make them non-compliant with government laws and regulations). Enterprise informality is a complex phenomenon with wide social, fiscal and legal/regulatory ramifications. While this assessment considers the size and structure of the informal economy to be an important consideration for SME policy makers, informal enterprises mostly operate outside the scope of SME policy, and therefore this sub-dimension is restricted to examining the intensity of policies and research dedicated to tackling informality. Brunei Darussalam, Malaysia and Singapore are not assessed here, since they have indicated that informality at enterprise level plays a marginal role and that addressing the phenomenon is therefore not a priority objective.

The assessment framework assigns a weight of 10% to sub-dimension 5.1 (the SME definition), 60% to sub-dimension 5.2 (strategic planning, policy design and co-ordination) and 30% to sub-dimension 5.3 (measures to tackle the informal economy).

Analysis

The overall assessment results for Dimension 5 are presented in Figure 8.2. Countries are scored for each sub-dimension on a scale of 1 to 6, with 6 being the highest. Detailed analysis by sub-dimension follows.

Figure 8.2. Weighted scores for Dimension 5 by sub-dimension



Sub-dimensions 5.1 and 5.2 show a relatively high and similar ASEAN median score. However, significant dispersion can be observed in sub-dimension 5.2, suggesting significant variation in the level of policy development across the region. Sub-dimension 5.3 presents a lower ASEAN median score and an equally significant dispersion of scores at the country level.

Sub-dimension 5.1: SME definition

Although the ten ASEAN Member States (AMS) are moving towards closer co-operation in the area of SME policy,[1] they have not adopted a common SME definition, unlike the European Union, for instance. Each AMS has its own SME definition, which reflects the country's economic characteristics, its policy priorities and the level of data available on enterprise dynamics.

Table 8.1. Scores for sub-dimension 5.1: SME definition

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	3.95	3.95	4.51	5.06	6.00	3.77	4.51	5.43	4.87	5.43	**4.69**	**0.70**
Total sub-dimension score	3.95	3.95	4.51	5.06	6.00	3.77	4.51	5.43	4.87	5.43	**4.69**	**0.70**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

In line with international good practices, most AMS have adopted a multi-criteria definition of SMEs or MSMEs that covers both employment and either total assets or turnover. Brunei Darussalam and the Philippines rely on a single criterion to determine size: namely, employment in Brunei Darussalam and total assets in the Philippines. Employment is the most common criterion used across AMS, as it is the easiest characteristic to observe and a proxy good indicator of enterprise structure. Only Indonesia and the Philippines do not use employment as the central criterion for SME classification. In Lao PDR, Malaysia, Myanmar and Thailand, different thresholds are applied based on the enterprise's main sector of activity. While sectoral differentiation may facilitate better policy targeting, it can also increase the complexity of data collection, particularly in countries that may currently have less sophisticated statistical systems in place.[2]

Table 8.2. SME definitions in AMS by type, criteria and sector approach

	Type		Criteria			Sector approach		Upper threshold for employment
Economy	Legal	Working	Employment	Assets	Turnover	Cross-sectorial	Sector-specific	
Brunei		✓	✓			✓		100
Cambodia	✓		✓	✓		✓		200
Indonesia	✓			✓	✓	✓		–
Lao PDR			✓	✓	✓		✓	99
Malaysia	✓		✓		✓		✓	200
Myanmar	✓		✓	✓	✓		✓	600
Philippines	✓			✓		✓		–
Singapore		✓	✓		✓	✓		200
Thailand	✓		✓	✓			✓	200
Viet Nam	✓		✓	✓	✓	✓		200

SME size thresholds vary considerably across the region but respond broadly to standard international practices. All AMS except Myanmar use fairly restrictive criteria to set the threshold between medium and large enterprises, using a maximum threshold of 200 employees for medium-sized enterprises. Given that many enterprises in the manufacturing sector tend to engage in labour-intensive operations, particularly in the lower-income AMS, a restrictive upper limit may prevent a number of medium-sized enterprises with relevant growth potential from receiving policy support. It may also result in a relatively small share of medium-sized enterprises in the total SME population.

SME definition: All public agencies should recognise a common definition

All AMS except Brunei Darussalam and Singapore have given a formal basis to their SME definition by either enshrining it in a specific SME law or charter[3] or through a specific act issued by the mandated ministry. Brunei Darussalam and Singapore have taken a more flexible approach, using a definition that responds to the operational needs of the various government agencies implementing SME policies.

This definition sets the scope of SME policies and programmes, while establishing a common denominator for policy co-ordination across different government agencies. It also provides a single classification for private enterprises to determine their size, which can be useful for accessing certain programmes. It would therefore be good practice for all public agencies to recognise a common SME definition. Currently this only appears to be the case in Malaysia, with other AMS using a number of different definitions with

varying degrees of internal co-ordination. In several cases, for example in Lao PDR, the national statistical office uses enterprise size categories that do not correspond with the official definition, potentially depriving policy makers of a solid statistical base. Some AMS have established inter-agency working groups that are currently reviewing the country's SME definition in order to establish a common understanding of the target segment among public agencies.[4]

Sub-dimension 5.2: Strategic planning, policy design and co-ordination

SME policy tends to be horizontal in nature. It is applied in a wide range of policy areas and requires intervention by a number of different public agencies to be effective. Since it generally aims to produce structural change, it tends to require a longer policy cycle to take effect. SME policy thus requires a strategic medium-term approach with close co-ordination among different public agencies, and this should be built on consensus through consultation with the private sector and other policy stakeholders.

To organise policy interventions effectively, countries often elaborate a multi-year strategic document for SME development – either as a stand-alone strategy or as part of a national medium-term development plan. A well-structured strategy should usually include the following elements: *i)* a clear indication of how the SME sector is expected to perform at the end of the strategy timeline; *ii)* well-defined and quantifiable objectives, as well as intermediary targets; *iii)* an outline of how to organise policy interventions to achieve these objectives; and *iv)* the sequence of policy interventions. It should indicate the resources required to implement the strategy, as well as how to monitor and evaluate implementation. The strategy should be elaborated on the basis of intense consultation within and outside the public administration in order to build consensus among different stakeholders. Strategy elaboration should be based on solid evidence, in particular a thorough understanding of the characteristics and trends of the SME population. It should also usually be developed in reference to broader development plans or strategies at the national and regional levels.

On a broader level, the roles of different agencies involved in policy design, implementation and monitoring and evaluation should be clearly assigned. Action plans, usually annual, should be in place to govern the mobilisation of human and financial resources over the short-term.

Table 8.3. Scores for sub-dimension 5.2: Strategic planning, policy design and co-ordination

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	3.43	2.93	5.47	4.04	5.76	2.84	5.10	5.76	5.88	4.66	**4.88**	**1.13**
Implementation	5.22	2.03	4.53	2.44	6.00	2.38	4.52	6.00	5.86	3.68	**4.52**	**1.48**
Monitoring and evaluation	2.34	2.04	4.12	1.49	5.62	1.43	5.38	6.00	4.31	2.96	**3.54**	**1.65**
Total sub-dimension score	4.02	2.35	4.77	2.81	5.84	2.35	4.89	5.92	5.56	3.88	**4.40**	**1.31**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The median score for this sub-dimension is relatively high, at 4.40. Yet the standard deviation is also high at 1.31, indicating a wide dispersion in performance across AMS.

Planning and design: AMS share a culture of consensus building on SME strategy

All AMS agree on the benefit of adopting a strategic approach to SME policy, but they are at different stages of policy development and implementation. Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam carry out strategic planning for SME development, in line with many good-practice approaches noted above. Most are currently implementing mid-term strategies for SME development. In the Philippines, a new strategy has been drafted to cover the period 2017-2022. In Viet Nam, a new strategy is being prepared following the approval of a new SME law in June 2017.

At the time of assessment, Lao PDR's new SME strategy (that would run until 2020) was pending approval, and Brunei Darussalam had begun to elaborate its first SME strategy. Cambodia has enacted two major strategic documents, the Cambodia Industrial Development Policy (2015-20) and the National Development Plan (2014-18), both of which include a section on private-sector and SME development, and it planned to elaborate a dedicated SME strategy in 2018. Myanmar has not yet put in place a comprehensive SME strategy, but it has elaborated plans to increase the competitiveness of its tourism and garment industries, and both of these plans include an SME component. Where strategies are in place, they generally conform to SAP SMED 2016-25 goals.

All AMS share a culture of consensus building around the government's strategic objectives for SMEs, and this is typically achieved through inter-ministerial consultation and private-public dialogue. Most AMS view SME policy as a tool for achieving productive transformation, and therefore place significant emphasis on enterprise internationalisation, integration into global value chains, linkages between SMEs and larger enterprises, and technological upgrading and innovation. In Malaysia, Singapore and Viet Nam, SME policy primarily targets enterprises with high growth potential, mainly in the advanced technology sector or within specific manufacturing sectors. In many AMS, however, SME policy is also used as a means to achieve inclusiveness objectives. In Thailand, for instance, policy makers adopt a firm life-cycle approach to SME development, and they provide support measures to further both inclusiveness and competitiveness objectives.[5] In Indonesia, and to some degree the Philippines and Lao PDR, a much stronger emphasis is placed on the social aspects of SME policy, for instance as a means to alleviate poverty. In these countries, a strong emphasis is placed on support for micro enterprises and measures to reduce informality.

Table 8.4. Status of SME strategic planning among AMS

Economy	Status of national strategic plans for SMEs		
	Developed	Being developed	Period covered
Brunei		✓	
Cambodia		✓	
Indonesia	✓		2015-19
Lao PDR	✓		2016-20
Malaysia	✓		2012-20
Myanmar		✓	
The Philippines	✓		2017-22
Singapore	✓		2016-20
Thailand	✓		2017-21
Viet Nam [1]		✓	2016-20

Note: **1.** At the time of assessment Viet Nam had recently passed a new SME law (in 2017), and this was serving as a broad strategy for SME development.

In most ASEAN member countries, SME policy is governed by a ministry connected to the economy – for instance the Ministry of Economy, Trade or Industry – in line with the productive transformation approach. In Indonesia, SME policy is governed by a dedicated ministry for SMEs and co-operatives that was established in its current form in 1995. In Thailand, SME policy is supervised by the National Board of SME Promotion, which is chaired by the prime minister. Policy in most AMS is conducted centrally, while in Indonesia and Philippines, two large and geographically dispersed countries, many SME support programmes are led by local authorities, often in co-operation with central government institutions.

Implementation: Four AMS have specialised SME development agencies

Four AMS – Brunei Darussalam, Malaysia, Singapore and Thailand – have created a specialised agency for SME development, and one AMS (Viet Nam) has created a specialised agency for enterprise development in general. These agencies contribute significantly to SME policy elaboration, lead policy implementation and manage intra-agency co-ordination. They manage a broad range of support programmes,[6] and are typically well-resourced. The agencies in Brunei Darussalam, Malaysia and Thailand are exclusively dedicated to this task, while the agency in Singapore performs a number of parallel functions.

Malaysia established a specialised SME development agency in 1996, and this was rebranded as SME Corp. in 2009. The agency is a central co-ordinating body under the Ministry of International Trade and Industry. It is in charge of implementing the country's SME Masterplan (2012-20), which involves co-ordinating policy interventions carried out by 15 ministries and more than 65 government agencies at central and provincial levels. SME Corp. also acts as a secretariat for the National SME Development Council, chaired by the prime minister. It employs over 300 staff.

Thailand established the Office for SME Promotion (OSMEP) in 2000. This agency reports directly to the National Board of SMEs Promotion, which is chaired by the prime minister. OSMEP is responsible for overseeing implementation of the national SME Promotion Plan (2017-21), which involves co-ordinating SME policy-related interventions carried out by 20-30 government agencies, managing the integrated budget for SME development[7] and monitoring implementation of the SME Promotion Plan. It employs around 200 staff.

Singapore established an agency responsible for SME development, among other tasks, in 1996, and this was rebranded as the Standards, Productivity and Innovation Board (SPRING) in 2002. The agency falls under the institutional umbrella of the Ministry of Trade and Industry, but it enjoys considerable operational autonomy. MTI governs SPRING Singapore via a set of key performance indicators that are developed for the agency, and they have a contractual relationship. On 1 April 2018 SPRING Singapore merged with International Enterprise Singapore, the government agency in charge of helping Singaporean companies to internationalise, to form Enterprise Singapore.

Brunei Darussalam and Viet Nam have established their agencies more recently, but they are advancing quickly. Brunei Darussalam established a dedicated SME development agency, Darussalam Enterprise (DARe), in 2016. This agency offers a variety of business development services as well as logistical support to local enterprises. Viet Nam established its Enterprise Development Agency (EDA) in 2010, and this agency has an SME division. The EDA operates under the Ministry of Planning and Investment, and SME policy elaboration and co-ordination is conducted through the Council for SME

Development, which is chaired by the prime minister. The country's new Law on SME Support and an associated decree provide new guidelines on public support for SME development.

In the remaining AMS,[8] the functions of policy elaboration, implementation, monitoring and evaluation are concentrated in a single unit situated within the line ministry in charge of SME policy. The Philippines and Indonesia have a relatively well-developed institutional framework, and the central ministry can rely upon a network of implementation units across the country, established with the support of local authorities. In Cambodia, Lao PDR and Myanmar, the institutional framework for SME policy is still being developed.

In the Philippines, the policy scope and mandate for SME development has been defined under the Magna Carta for MSMEs since 1991.[9] The mandate for SME development has been assigned to the Department of Trade and Industry (DTI), while policy action is co-ordinated through the SME Development Council, which brings together all line ministries and government agencies involved in SME policy. A similar structure is replicated at the provincial level. Direct enterprise assistance is provided through a network of Negosyo Centres, which are co-managed by local authorities. Their role was enhanced in 2014 under the Go Negosyo Act.

In Indonesia, the Ministry of MSMEs and Cooperatives is responsible for SME development and it also manages central government instruments for SME support. These instruments mainly focus on improving access to finance, with two notable examples being the SME Revolving Fund and the KUR microcredit programme.[10] The Ministry of Economic Affairs is responsible for policy co-ordination, while Bappenas, the national planning ministry, ensures that these policies are consistent with national development objectives. Enterprise assistance is provided by a network of business development centres at the local level.

Cambodia and Lao PDR have a dedicated department or unit for SME development that sits within the line ministry responsible for SME policy. In Cambodia, the General Department for SMEs, under the Ministry of Industry and Handicraft, has limited policy implementation capacity due to a lack of funding and human resources. It therefore generally exercises a regulatory function, and SME development programmes tend to be conducted in co-operation with bilateral and multilateral donors.

In Lao PDR, the Department for SME Promotion is part of the Ministry of Industry and Commerce. Its policy implementation capacity is limited, and enterprise support is mainly provided by donor-funded projects. A first pilot SME support centre was established in 2017 in Vientiane in co-operation with the Chamber of Industry and Commerce, the Department of SME Promotion (within the Ministry of Industry and Commerce), and GIZ. The plan is to establish similar centres in the country's main economic centres.

In Myanmar, SME policy is guided and co-ordinated by an inter-ministerial body, the Central SME Development Committee, which is chaired at the highest government level. The mandate over SME policy has been assigned to the Ministry of Industry, but other line ministries retain responsibility for SMEs operating in non-manufacturing sectors. Over the last three years, the Ministry of Industry has established SME Centres across the country. It plans to establish a dedicated SME development agency and bring the centres under its aegis, but development plans have been slowed by the fact that the SME Development Committee rarely meets and by limited human and financial resources. More concrete plans to establish this agency have recently been proposed.

Monitoring and evaluation: A lack of reliable data can hinder assessment

Monitoring of SME policy is conducted across all AMS. Regular monitoring and advanced mechanisms have been established in the countries with the most advanced institutional frameworks (Malaysia, the Philippines, Thailand and Singapore). Indonesia and Viet Nam are working on improving current monitoring systems, which partly rely on information provided by local administrations. Brunei Darussalam, Cambodia, Lao PDR and Myanmar have implemented a limited number of SME support programmes, which rely mainly on monitoring performed by international and bilateral donors.

Impact evaluation of SME support programmes commissioned by public institutions is relatively rare in the ASEAN region. In Singapore, Enterprise Singapore (SPRING Singapore at the time of information gathering and validation) regularly commissions independent evaluations of its major enterprise support programmes to independent experts and academics. The evaluation reports remained confidential, but their conclusions were taken into account during periodic programme reviews. In Malaysia, SME Corp., with the assistance of the World Bank, undertook a Study on Early Assessment of the Malaysia SME Masterplan to assess the implementation of the plan's High Impact Programmes, including the performance of their monitoring and evaluation frameworks. In the Philippines, the DTI has commissioned an independent review of the 2011-2016 SME Development Plan, but no programme impact evaluation studies have commissioned so far.

Reliable and timely data on SME population characteristics and trends allow governments to design policy actions based on strong evidence. Such data form the basis for effective monitoring and evaluation. But standards on official SME data vary considerably across the ASEAN region which could contribute to confusion.

The most economically developed countries (Singapore, Malaysia and Thailand) release yearly data, including information on SME numbers, employment, turnover, and, except for Thailand, value added, divided by enterprise classification size, sector and location. Viet Nam is also producing increasingly complete sets of SME statistics, while Brunei Darussalam has started to collect SME data regularly. Philippines Statistical Authority produces fairly complete SME data, but the figures are issued irregularly and are subject to time delays. In Indonesia, the data set is limited and the classification of independent farmers as SME units results in a bloating of the total SME population. SME data for Cambodia, Lao PDR and Myanmar are limited and the available data sets are often incomplete. In Myanmar, for instance, SME statistics include only enterprises operating in the manufacturing sector and registered with the Ministry of Industry; likely underestimating the total number of SMEs in the country. In Lao PDR, SME data exclude micro enterprises (the large majority of enterprises) and, in a country where enterprise informality is estimated to be extensive, official statistics significantly underestimate total employment in MSMEs.

Sub-dimension 5.3: Measures to tackle the informal economy

Most mid- and low-income ASEAN Member states have a large informal sector. As informality plays only a marginal role in two relatively high-income countries – Malaysia and Singapore – they are not included in the following analysis.

The presence of a large number of informal enterprises has significant implications for social, fiscal and economic growth. Those implications extend to enterprise development and competition dynamics, and are therefore highly relevant for SME policy. The level of

informality is often particularly high among micro enterprises and self-employed entrepreneurs, which make up a large share of the SME population. These enterprises and entrepreneurs have no public voice or representation, and there are no official statistics documenting their existence, only anecdotal evidence and ad hoc surveys. A considerable section of the enterprise population thus risks being confined to a limbo outside the scope of SME policy.

A broad definition of the informal sector includes all enterprises and self-entrepreneurs that produce legal good and services but are not compliant with labour, fiscal and administrative laws and regulations (Feige, 2016[3]). There are different degrees of informality, from unregistered enterprises and self-entrepreneurs with no relations with the public administration (total informality) to enterprises that are registered and acknowledged by the public administration but that are not fully compliant (partial informality). The most common cases of non-compliance relate to non-respect of labour regulations, non-payment or partial payment of social security and pension contributions, and tax evasion.

The reduction of informal labour has wide implications for social inclusion and public health, and it is these areas that have attracted the highest attention from economists, international organisations (particularly the ILO) and policy makers. The same is true of informality's fiscal implications. The implications of informality on enterprise development have been relatively less studied, mainly due to the extreme difficulty of collecting data for empirical analysis.

In general terms, informal enterprises tend to have lower operational costs than their formal peers. Informality tends to be higher in sectors where non-qualified labour is the main production factor, entry of barriers are low and economies of scale play a very limited role. In those sectors – traditional services, low-scale construction activities and labour-intensive manufacturing such as garment, furniture and food processing – competition from informal enterprises undercuts the margins of more formal enterprises. This distorted competitive dynamic reduces incentives to formalise and has a negative impact on capital accumulation and on the upgrading of production processes and the introduction of product innovation. These factors may force formal enterprises to move towards partial informality or to rely on informal suppliers and sub-contractors to retain a competitive edge. Informal enterprises are less inclined to invest in skills development and in fixed assets, also because they are excluded from formal access to finance.

A high rate of enterprise informality is common in many rapidly developing countries and can be viewed as a transitory phenomenon that is driven by economic necessity and will decrease as more opportunities open up in the formal sector. Factors that increase informality include lack of social benefits in the formal sector and high costs, like taxes, that are imposed on formal employees and entrepreneurs. Informality can also result from a dual economic system, with informal workers and entrepreneurs providing cheap labour, goods and services to the formal sector.

Since the informal economy tends to be hidden, both the forces driving it and the characteristics of informal enterprises across ASEAN remain largely opaque. The scarce available data indicates that informality is also pervasive in mid-income and well-diversified ASEAN economies. In Indonesia and Philippines, informal labour represents around 70% of total employment in the non-agricultural sector. In Viet Nam and Thailand, the informal labour share is respectively 44% and 42% (ILO, 2013[4]).

The assessment framework for sub-dimension 5.3 looks first at the efforts of the selected AMS to document, analyse and understand the issue of informality. It then considers the government policy response and the status of policy implementation. The final set of indicators covers the phase of monitoring and evaluation.

Table 8.5. Scores for sub-dimension 5.3: Informal economy

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	NA	2.65	3.48	2.65	NA	1.83	3.48	NA	5.15	5.15	**3.48**	**1.18**
Implementation	NA	2.65	3.77	2.65	NA	1.00	3.75	NA	2.65	3.75	**2.65**	**0.93**
Monitoring and evaluation	NA	1.83	2.65	1.00	NA	1.00	3.06	NA	2.65	2.24	**2.24**	**0.76**
Total sub-dimension score	N/A	2.49	3.44	2.32	NA	1.29	3.52	NA	3.53	3.94	**3.44**	**0.87**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The overall assessment scores for this sub-dimension are relatively low. The median score for the seven countries covered by the assessment is 3.44, but the level of standard deviation is also relatively low at 0.87, indicating that no country has made major progress in this area.

Planning and design: Toleration of informality is higher in lower-income AMS

Of the seven AMS scored in this sub-dimension, four have made attempts to evaluate the size and characteristics of the informal sector (Indonesia, the Philippines, Thailand and Viet Nam). In three countries (Cambodia, Lao PDR and Myanmar), where the level of informality is believed to be particularly high among micro enterprises, the government is currently considering policy options to tackle informality.

The countries in the first group generally consider that informality is mainly driven by the regulatory system's complexity and high compliance costs, but that it is also generated by poor enforcement of labour regulations, particularly for labourers who have low skills and limited information, and by the lack of access for most micro enterprises to formal external financing. Statistical information about the size and characteristics of the informal sector are drawn mostly from the population census and labour force and household surveys, complemented by ad hoc surveys conducted by international institutions, NGOs and independent researchers. Data availability remains limited, is often not updated and mainly relates to informal labour.

In Cambodia, Lao PDR and Myanmar, informality is largely seen as way of securing employment opportunities and subsistence for large segments of the low-income population. Self-entrepreneurship and informal household business activities act as a buffer given the lack of social protection and the high rate of urbanisation. At the same time, an increasing number of formal jobs are being generated in labour-intensive manufacturing activities, such as garment production in Cambodia and Myanmar, or in the service sector, such as tourism in Lao PDR.

Implementation: AMS are tackling informality from different perspectives

The four countries that are most advanced in planning and design have taken action to reduce the level of informality, although the level of implementation still remains rather limited. There is scant evidence of targeted government actions to tackle informality in the lower-income AMS, where toleration of informality is higher.

In Indonesia, the government is trying to tackle formalisation of the informal sector from different perspectives. It has created incentives for informal enterprises to register as companies by providing free registration for micro enterprises and simplifying the registration process. It is also facilitating access for all micro and small enterprises to a system of subsided loans and government-backed credit guarantees (the KUR programme), regardless of the formal or informal status of the company, with the expectation that an informal enterprise will move towards formalisation once it starts to expand its operations.

In the Philippines, most government action is directed at reducing the level of informal labour through a series of pro-active programmes conducted by the Department of Labour and Employment. The government is also simplifying company registration procedures, extending the network of Negosyo centres that provide assistance and information to formal and informal entrepreneurs, and creating incentives to push informal enterprises towards formalisation, for example by reserving 10% of the total value of public procurement tenders for formal MSMEs.

In Thailand, a large number of enterprises (around 2.2 million) are known to the authorities but are currently classified as non-juristic entities. Only around 600 000 enterprises are currently classified as juristic entities. Non-juristic entities are those enterprises that are unincorporated[11] yet still licensed to operate (usually by the local government administration). Thailand is currently working on a legal framework to enable sole ownership enterprises to register as a juristic entity. While the government has not yet put in place a comprehensive strategy for the reduction of informality, the National Economic and Social Development Board has been active in this area. After it organised a national conference on the matter, the reduction of informality became a main objective of Thailand's national economic and development plans.

Table 8.6. AMS shadow economies, 1991-2015 (% of official GDP)

Economy	Average	Standard deviation
Brunei	29.8	1.2
Cambodia	46.0	6.8
Indonesia	19.8	1.6
Lao PDR	30.3	3.8
Malaysia	31.5	2.8
Myanmar	51.4	6.9
Philippines	39.3	5.5
Singapore	11.9	1.3
Thailand	50.6	3.4
Viet Nam	15.1	2.3
ASEAN	*32.6*	*3.6*

Note: "The shadow economy" refers to all economic activities that are hidden from government authorities.
Source: Schneider and Medina (2018), https://doi.org/10.5089/9781484338636.001.

Viet Nam is currently developing initiatives to encourage household enterprises, where informality is prevalent, to register as incorporated enterprises. This is part of its objective of reaching the bar of 1 million registered enterprises by 2020. At the same time, it is tackling the issue of informal labour and monitoring the progress of labour force surveys conducted by the General Statistical Office.

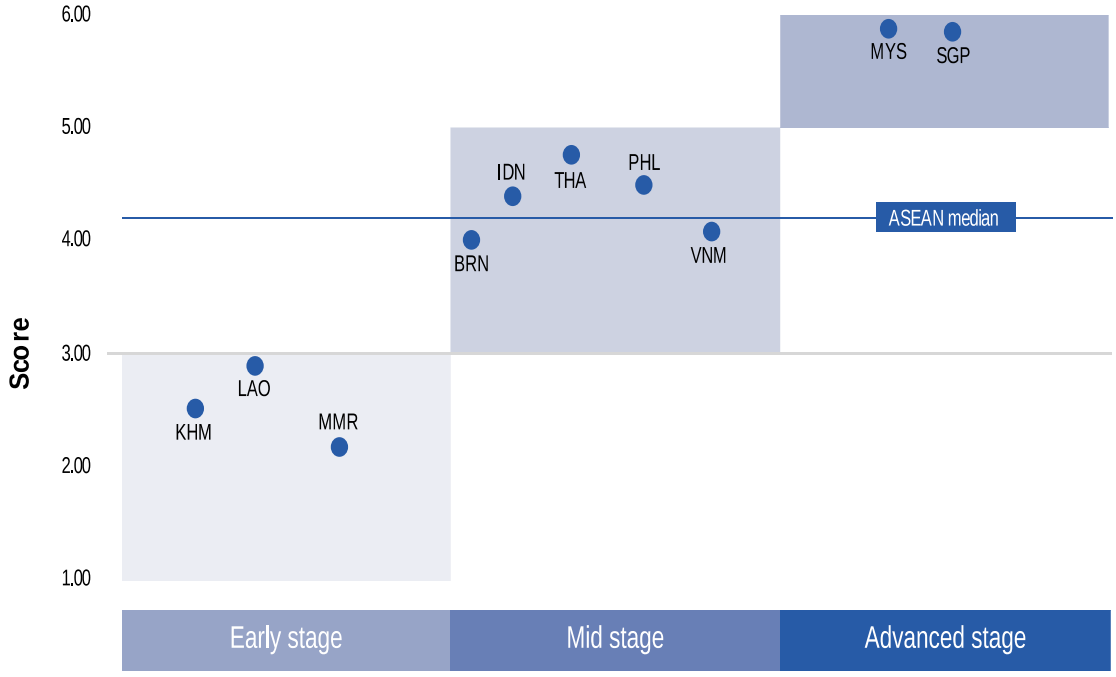
Monitoring and evaluation

Few AMS have monitoring mechanisms in place to assess the performance of programmes to tackle informality, since few countries have a concrete strategy to tackle informality. Some countries do monitor the performance of specific initiatives. For instance in some countries the main initiative in this area is to increase the ease of company registration. These countries often use some metrics to monitor performance here, for instance performance in the World Bank's Doing Business, or the number of local government offices where registration can now be conducted. However few AMS conduct assessments of informal or previously informal enterprises to ascertain the effectiveness of public programmes and policies.

The way forward

The institutional framework is the main building block for effective and time-consistent public policy towards the SME sector. A strong correlation exists between the level of a country's institutional and policy framework and the results achieved across the other policy dimensions. The development of the overall institutional and policy framework varies considerably among the AMS Figure 8.3. However, a number of trends can be observed.

Figure 8.3. Weighted scores for Dimension 5: Institutional framework



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

Countries in the "early stage" of policy development are generally still in an early phase of institution building. While a multi-criteria definition of SMEs has been developed, the public administration generally uses a common definition of SMEs consistently. Some countries are still the in process of formulating comprehensive strategic documents to guide policy interventions for SME development. Many of these countries are in an early implementation phase. Instead of a specialised agency, policy elaboration and implementation is generally performed by a single unit placed within a ministry responsible for industry, commerce or trade. Human and financial resources are often limited, which can reduce the unit's capacity for policy implementation. SME data for impact evaluation is often incomplete, and few programmes are comprehensively evaluated. The level of informality in these countries is often high, particularly among micro-enterprises, and governments are still considering how to tackle this issue.

Countries in the "mid stage" have largely built institutions for SME policy and are now fully engaged in policy implementation – testing and refining strategic planning and policy co-ordination mechanisms. The majority of the countries have established a common SME definition and an SME or enterprise development agency (Thailand, Brunei and Vietnam). In large and geographically dispersed countries (Indonesia and the Philippines) SME development programmes tend to be implemented by local authorities, with a central authority acting as co-ordinator. Regular monitoring mechanisms have typically been established, although there tends to remain a lack of robust and regular data for effective monitoring. Many of these countries have made attempts to evaluate the size and characteristics of the informal sector and have taken actions to reduce the level of informality, although the level of implementation still remains rather limited.

Countries in the "advanced stage" have established institutions that are aligned with internationally-recognised good practices. Specialised development agencies contribute significantly to SME policy elaboration, and they also coordinate implementation with different line ministries and agencies. Some countries have established an agency with the single task of developing the SME sector, while others have established an agency that also performs other parallel functions. Monitoring and evaluation mechanisms are generally advanced, and are supported by robust and timely data.

Across the region as a whole, AMS are moving towards closer co-operation in the area of SME policy. However, the varying stages of economic development may present some challenges here. Going forward, policy makers could consider the following policy options:

Table 8.7. Policy recommendations to enhance the institutional framework for SME policy

Level of policy	Challenges	Policy recommendations
Early stage *Cambodia, Lao PDR and Myanmar*	Limited human and financial resources may restrict policy implementation capacity	• **Leverage donor support**. Donor support can be used to augment resources. In addition to financial resources, policy makers could consider integrating project implementation units into government structures in order to build further capacity within government institutions • **Set policy objectives in relation to resources available**. Policies and elaborated during the design phase should carefully consider the resources required for desired interventions, in order to ensure that they can realistically be implemented.

	The level of informality is particularly high among micro-enterprises and self-employed entrepreneurs, and there is a lack of reliable statistical data on the dynamics of informality	• **Enhance cooperation with entities that have extensive contracts with informal enterprises**. Working more closely with such entities, such as NGOs, micro-finance institutions and local public administration, may help central governments to gain a clearer picture of informality in the country • **Develop data collection through enterprise surveys**. Where policy makers lack resources for a comprehensive enterprise census, they could consider conducting a survey on the topic, or by utilising studies conducted by bi- or multi-lateral agencies such as bilateral donors, UN agencies and international organisations.
Mid stage *Brunei Darussalam, Indonesia, the Philippines and Viet Nam*	In a number of countries, some government bodies have overlapping responsibilities Some countries could further refine the practice of evidence-based policymaking	• **Clearly define clear roles and responsibilities of different actors**. Policy makers could consider conducting a stock take of SME development interventions carried out by different government agencies, assigning the body that holds the ultimate mandate for SME development to lead the exercise. This could be followed by a clear delineation of responsibility by policy area. • **Enhance data collection.** In some countries data on the SME population is collected irregularly, with key indicators missing, or by using a different SME definition to the one used by other public authorities. This can hamper governments' ability to design evidence-based policies. • **Ensure that strategies include measurable targets, and develop annual action plans.** This will be important in later assessing the effectiveness of policies, and ensuring that policy interventions are implemented on time and appropriately sequenced.
Advanced stage *Malaysia, Singapore and Thailand*	These countries typically host dynamic enterprises, and must stay reactive to their needs	• **Continue to focus on improving and refining policy co-ordination and monitoring mechanisms**. These countries could focus on enhancing the use of systematic independent impact evaluations for their most important support programmes. This evaluation should be planned from the outset, with data collection requirements identified.

Notes

[1] As demonstrated by the adoption of the SME Blueprint and the SAP SMED.

[2] For instance, this may be the case in Lao PDR and Myanmar.

[3] As has been the case in Viet Nam, Indonesia and Lao PDR.

[4] For instance in Cambodia and Indonesia.

[5] To enhance inclusion, policy makers provide support for micro and community enterprise development. To enhance competitiveness, policy makers provide support for innovative and technology-intensive SMEs.

[6] Such as measures to increase access to finance, training and advanced business development services.

[7] The number of government agencies varies by fiscal year.

[8] Cambodia, Lao PDR, Indonesia, Myanmar and the Philippines.

[9] The Magna Carta for MSMEs is a legislative act that was approved in 1991 and amended in 2008.

[10] The KUR microcredit programme is a large subsided credit scheme for MSMEs.

[11] These enterprises also tend to be absent from the official company register.

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Chapter 9. Legislation, regulation and tax

Introduction

In a well-functioning market economy, policy makers develop rules to govern the market and maximise public welfare. These rules are designed to maintain competition and to promote positive spill overs from economic activity, for instance by supporting public investment in common goods such as infrastructure, law and order, and education (through the payment of taxes), or by mitigating negative externalities such as risks to public health and safety or adverse effects on the environment. The rigidity of these rules may vary, ranging from soft tools, such as implicit or explicit signals and communications, to progressively harder instruments, such as direct and indirect incentives or mandatory rules and regulations.

Compliance with these rules invariably increases the cost of doing business (OECD, 2004[1]; Schiffer and Weder, 2001[2]), and studies have shown that these costs tend to be particularly onerous for SMEs (EC, 2007[3]). SMEs tend to possess fewer internal resources than larger firms. They may need to seek external advice or invest in specific training, which costs more for SMEs than for larger firms (OECD, 2017[4]). Moreover, the success and comparative advantage of SMEs generally derives from their flexibility (OECD, 2017[4]), and rules that constrain this flexibility may lead to the exit or stagnation of otherwise promising firms. This is particularly the case for rules that are frequently changed or sporadically enforced.

Onerous regulations may encourage firms to select informality over compliance. Informal practices may increase profit margins in the short run – through the avoidance of tax, administrative burdens and social security contributions – and can theoretically allow enterprises to retain their flexibility. Over the long run, however, informal practices can limit economy-wide productivity growth. Informal enterprises may face higher barriers to accessing finance, high-quality inputs and managerial talent, while being further exposed to rent-seeking by public officials (Bannock and Mariell, 2003[5]; La Porta and Shleifer, 2014[6]). Regulations that drive a significant proportion of SMEs to operate informally may have a detrimental impact on public budgets, the environment and inequality, as well as economic structure and net productivity as a whole. Bannock et al. (2003[5]) have argued that unrealistic rules and unpredictable enforcement may divide an economy into formal and informal sectors, erecting a barrier between the two, and thereby creating an entrenched dual economy.

Yet the ability of policy makers to correct informality should not be overstated. Many ASEAN Member States (AMS) face high levels of informality, but this is generally corrected over time by economic growth (La Porta and Shleifer, 2014[6]). Various studies suggest that many informal enterprises operate in their own economy, displaying very little interaction with formal enterprises, and may lack the productivity ever to be able to compete as a formal enterprise (La Porta and Shleifer, 2014[6]). Where informal and formal firms do transact, the latter may prefer for the former to remain informal in order

to keep their own costs low.[1] Informal enterprises are a source of livelihood for the poorest in many emerging markets, and the net result of imposing regulatory and taxation requirements may be to drive such enterprises out of business, resulting in poverty and destitution among informal workers and entrepreneurs (La Porta and Shleifer, 2014[6]).

Regulations are often developed under the influence of shifting economic views, political changes and reactions to market distortions (De Grauwe, 2017[7]), which increases their complexity and unpredictability and adds more burden on SMEs. Rather than pushing firms to register and increase tax and regulatory compliance, either through costly incentive programmes or strict enforcement measures, policy makers could ensure that regulations are designed with SMEs in mind. This approach has been adopted in many OECD countries, including those in the EU, with the "Think Small First" principle. This principle requires public officials to consider the interests of SMEs early on in the policy-making process in order to ensure that they are not overly onerous on SMEs and that public initiatives effectively address their needs. Such rules should be proportional, accountable, transparent and consistent (OECD, 2004[1]) and designed in consultation with the private sector and other relevant stakeholders, with the aim of producing a more holistic assessment of their impact. The institutionalisation of good practices in developing regulatory and tax policies, the provision of digital platforms, and the rationalisation of procedures for registration and compliance can help create a more conducive environment for SMEs (OECD, 2018 forthcoming[8]).

Assessment framework

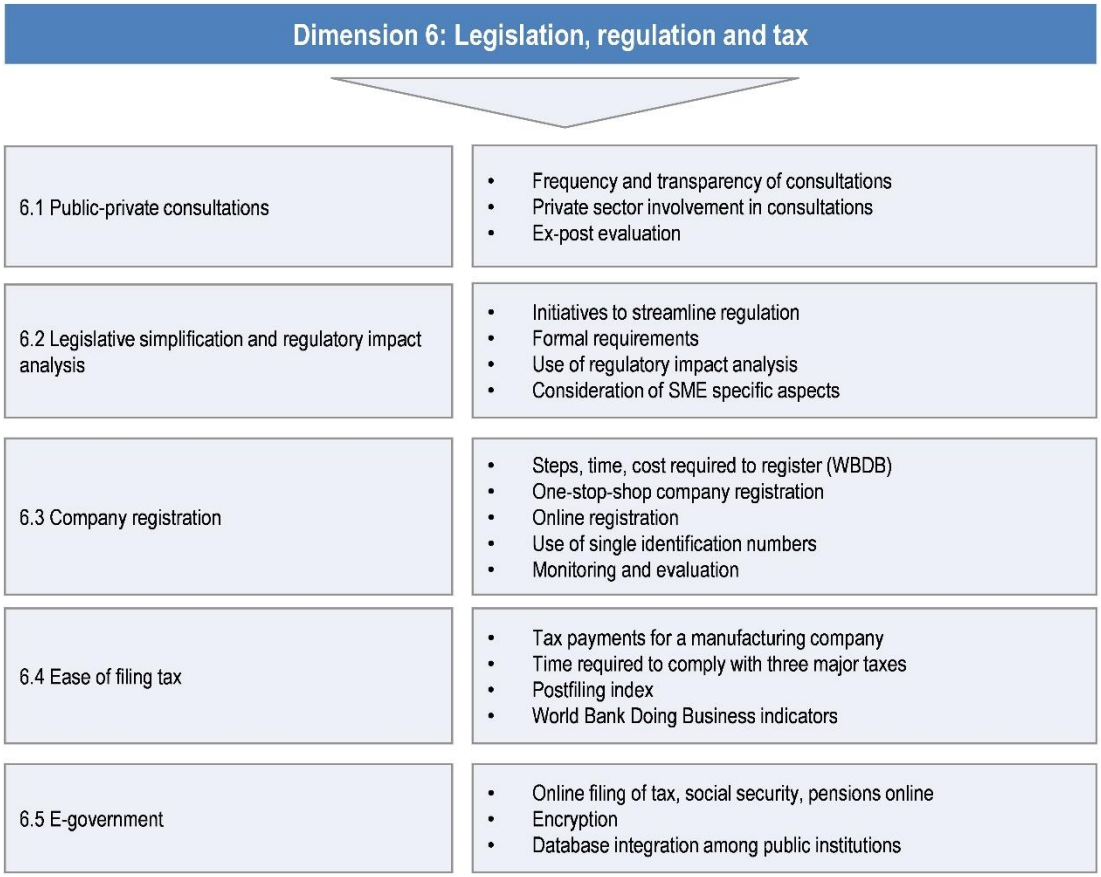
The assessment framework for Dimension 6 focused on legislation, regulation and tax, is structured around five sub-dimensions. Two of these sub-dimensions cover the process of developing regulation, and three cover the facilities and procedures surrounding the key points of transaction between an enterprise and the public administration: company registration, the ease of filing taxes and the use of digital versus analogue platforms for payment of pensions and other forms of social security.

Sub-dimension 6.1 assesses whether public-private consultations are conducted to inform the development of business-related regulations, and if they are frequent, transparent and representative. Such consultations are an important element of good regulatory practice, enabling policy makers to establish a constructive, transparent and open dialogue with representatives of the SME sector; obtain feedback on proposed reforms; and better calibrate regulatory measures that maximise compliance while minimising negative impacts on private-sector activity.

Sub-dimension 6.2 looks at legislative simplification and whether the potential impacts of regulatory reform are evaluated. In particular, it considers whether mechanisms are in place for systematic review of legislation, such as regulatory impact analysis (RIA) or a similar tool to assess the impact of reforms, particularly for major regulations. In addition, it looks at whether the impact analysis includes an SME-specific component.

Sub-dimensions 6.3 and 6.4 look at policies governing two main transactions with the public sector, namely: company registration and tax filing, as well as their respective performance. This is mainly assessed using World Bank data.

Figure 9.1. ASPI 2018 framework for assessing legislation, regulation and tax



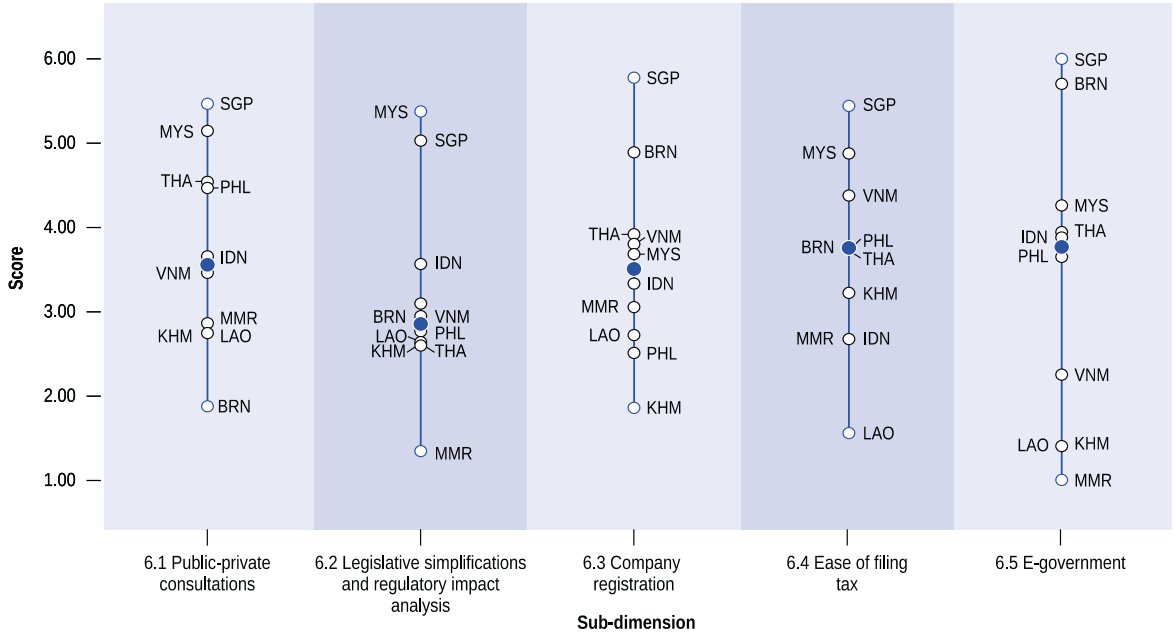
Sub-dimension 6.5 gauges the sophistication of e-government services. Digital platforms can significantly lower compliance costs for smaller companies by reducing the time and cost required to visit public administration offices and fill out paper forms. The indicators used in this dimension cover the existence and operability of e-government platforms, harmonisation between different government databases, and the use of electronic signature, or other unique forms of identification.

In aggregating Dimension 6 assessment scores, the first three sub-dimensions have been assigned an equal weight of 25% each, while sub-dimension 6.4 on ease of tax filing carries a weight of 10%, and sub-dimension 6.5 on digital government services is assigned a weight of 15%.

Analysis

The overall assessment results for Dimension 6 are presented in Figure 9.2. Countries are scored for each sub-dimension on a scale of 1 to 6. Detailed analysis by sub-dimension follows.

Figure 9.2. Weighted scores for Dimension 6 by sub-dimension



Sub-dimension 6.1: Public-private dialogue

The indicators included in this sub-dimension are divided into three blocks. The first row covers the frequency and transparency of public consultations. In particular, it looks at the existence of mandatory requirements for public consultation; the structure, practice and frequency of those consultations; and the existence and use of feedback and comment-collection mechanisms. The second row examines the openness and transparency of private-public dialogue, as well as the ability of the private sector to initiate dialogues. The final row considers whether the performance of public-private consultations is monitored and evaluated.

Table 9.8. Scores for sub-dimension 6.1: Public-private dialogue

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Frequency and transparency	2.83	2.98	3.22	2.81	5.11	2.06	4.16	4.97	4.69	3.85	**3.54**	**0.99**
Private-sector involvement in PPCs	1.09	3.39	4.61	3.29	5.34	4.33	5.16	6.00	4.87	4.03	**4.47**	**1.31**
Monitoring and evaluation	1.55	1.00	2.65	1.55	4.87	1.55	3.75	5.43	3.75	1.55	**2.10**	**1.50**
Total sub-dimension score	1.88	2.75	3.66	2.75	5.15	2.86	4.48	5.47	4.58	3.46	**3.56**	**1.12**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Frequency and transparency: Dialogue is common, but structure varies

All AMS use public-private consultations (PPCs), but their frequency and nature differs considerably. Broadly, three country groupings can be observed: *i)* those that have developed a solid, open and constructive practice of public-private dialogue (Singapore and Malaysia); *ii)* those that have established the basis for a constructive dialogue, but do not yet have robust feedback and monitoring mechanisms in place (Indonesia, Thailand, the Philippines and Viet Nam); and *iii)* those that have established channels for public-private dialogue, often through partnership with a business association or equivalent, but do not have a formal structure in place that promotes transparent, open and regular dialogue (Brunei Darussalam, Cambodia, Lao PDR and Myanmar).

In Singapore, while there is no legal requirement for public-private consultation, public-private dialogue is commonplace. This dialogue is part of a well-established practice of engaging the private sector in policy design and implementation, with sectoral organisations occasionally implementing government-sponsored projects. Private-sector representatives are active board members in each of the key governmental agencies. The Pro-Enterprise Panel (PEP), a public-private panel chaired by the head of the civil service and comprised mainly of business representatives, is a prime example of this partnership. An online government platform, named REACH ("reaching everyone for active citizenry @ home") is provided so that the general public can engage with the government, including on rules and regulations that affect them. Public officials are encouraged to share draft regulations on this platform in order to gather feedback from the public. In Malaysia, a requirement to conduct consultation with the private sector and the general population is stipulated in the National Policy on the Development and Implementation of Regulations (NPDIR).[2] These consultations are framed by guidelines issued in 2014 by the Malaysia Productivity Corporation (MPC), an agency under the Ministry of International Trade and Industry (MITI) that is tasked with promoting productivity enhancement and productive transformation. Public-private consultations are decentralised, with a regulator in charge of structuring the process and extending invitations to the private sector. The minimum period for conducting public consultation is 4 to 12 weeks, but integration of private-sector feedback (namely how and when) is left to the regulator's discretion.

In Thailand, the most advanced country in the second grouping, a requirement to conduct consultation with stakeholders, including the private sector, is stipulated in the country's new Constitution.[3] This includes the timing of public-private consultations, which must be held for a minimum of 15 days before the enactment of the law or regulation. In addition to timing, the constitution provides a structured approach to the consultation process, by requiring ministries to disclose detailed information on the legislation ahead of the consultation process and provide a report to conclude the results of all consultations, among others. Two websites are used to publish all ongoing consultations with stakeholders and the Office of SME Promotion have also been actively involved in consultations with the private sector on specific policies.

In Indonesia and the Philippines, the practice of public-private consultation is commonplace, but the process is less structured and well-defined than in other countries. Private-sector organisations may review and comment on the initial draft of new or revised regulations and may be involved in the final review process, but this is not always the case.

In Viet Nam, the private-sector consultation process is defined under the Law on the Promulgation of Legislative Acts, which was approved in 2013. This law sets out

guidelines for conducting consultations, including a standard consultation time of 30 days. In addition, a public portal is in place to gather public feedback. During elaboration of the new Law on SME Support, public-private consultations were held during both the pre-drafting and final drafting phases. The private sector also participated in the elaboration of the Law on SME Support.

The remaining AMS are in the process of creating a systematic framework for public-private consultation, often in close partnership with business associations.

In Cambodia, an official Private Sector Forum was established in 1999, which holds a plenary session twice a year under the chairmanship of the prime minister.[4] However the activities covered by the Forum mainly focus on investment issues and large projects. Ten private-sector working groups dealing with both sectoral and horizontal issues, including one group dedicated to SMEs, meet regularly throughout the year. Further consultations are conducted by line ministries under the guidance of a regulatory oversight body within the Executive that advises them on conducting RIA applications and on structuring the consultation process.

In Myanmar, open public-private dialogue is more recent, having been formalised for the first time in 2012. Consultations are now rather common, with the private sector playing a major role in shaping and promoting economic reform. It is also often engaged to act as partner in projects promoted by bilateral and multilateral donors, compensating for the relatively low level of development of government organisations. However a systematic framework for public-private consultations is not yet in place, and there is room for increasing their transparency.

In Lao PDR, private-sector organisations are consulted during the elaboration of major legislative acts, regulations and strategic documents such as the new SME development strategy.

In Brunei Darussalam, the practice of conducting regular private-public dialogue sessions is quite recent, and is part of the government's ongoing efforts to build widespread awareness about reforms affecting the private sector. These dialogues take place on a regular basis, but often take the form of informal public-private consultations. The government is currently developing a set of guidelines for public engagement.

Private-sector involvement in PPCs: Policymakers tend to drive the agenda

Singapore, Malaysia and the Philippines demonstrate the strongest performance in this area – with Singapore, which has a solid history of private-sector involvement in PPCs, scoring a perfect 6. In these countries, the private sector plays an active role in consultation meetings, and a wide range of stakeholders are involved. The private sector can contribute to the agenda of these meetings and call for exceptional meetings when deemed necessary. Singapore and Malaysia have assigned a body to deal with formal recommendations coming from the private sector. In Malaysia, this body is the Special Task Force to Facilitate Business (PEMUDAH).

In Indonesia, Myanmar, Thailand and Viet Nam, the private sector has less space to set the agenda and the range of participants may be more limited, but consultations are common and SME representatives participate in the discussions. In Indonesia and the Philippines, SME associations are regularly invited to PPC meetings and actively provide their feedback. In the Philippines, the private sector is also given a platform to voice any concerns, via the National Competitiveness Council (NCC) of the Philippines, where the private sector acts as a co-chair and represents half of the members. In other countries,

consultations are generally conducted through a national chamber of commerce or business association. In the case of Thailand, consultations are normally conducted in partnership with the Thai Chamber of Commerce and the Federation of Thai Industries, which now have a committee representing SMEs. In the case of Viet Nam, business associations are usually engaged in consultations, including the Viet Nam National SME Association. In Myanmar, the dialogue is very much driven by the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), a private-sector organisation with more than 30 000 members that operates as a federation of sectoral and regional organisations. The UMFCCI plays an active role in the National SME Development Committee, and SME associations are engaged when the issue directly affects SMEs.

In other AMS, the private sector has less space to set the agenda of consultation meetings, and SMEs are rarely represented in discussions. In Cambodia, public-private dialogue is mainly government-driven, but the private sector can request meetings of a joint government-private sector working group, co-chaired by a senior minister and a private-sector representative. In Lao PDR, consultations are also government-driven, and are mainly conducted in partnership with business associations and chambers of commerce such as the National Chamber of Commerce and Industry (LNCCI). The LNCCI, in partnership with the Ministry of Industry and Commerce, also organises an annual Lao Business Forum, which is chaired by the prime minister. The event is structured around a number of private-sector working groups linked to different business sectors and serves as a platform for discussing barriers to doing business and propose solutions. In Brunei Darussalam, the private sector can openly engage the public sector on emerging issues, but these discussions are generally informal and may only represent SMEs on an ad hoc basis. The government is currently trying to engage more SME representatives in public-private dialogues – one of the main tasks of the new SME development agency (DARe), for instance, is to initiate a dialogue between local SMEs and government agencies responsible for regulating them.

Monitoring and evaluation: Assessment of PPCs is rare in ASEAN countries

Few AMS conduct reviews of PPCs. In some countries, a survey is distributed at the end of a consultation session and this feedback is used to consider how future consultations will be conducted. Where reviews take place, they are generally not made publicly available. Few countries have a formal mechanisms whereby SMEs can provide formal feedback on their level of participation in the decision-making process of PPCs. In Malaysia and Singapore, reviews are conducted and SMEs can provide their feedback, but making these reviews public is left to the regulators' discretion.

Sub-dimension 6.2: Legislative simplification and regulatory impact analysis

This sub-dimension looks at measures taken by AMS to steer and implement regulatory reform. In particular, it examines initiatives to improve the business environment and simplify administrative requirements that may be overly burdensome on SMEs. Box 9.1 illustrates twelve good principles for creating a conducive legal, regulatory and administrative environment for SMEs.

The assessment framework for this sub-dimension looks at the extent to which current laws and regulations have been reviewed and at how new laws and regulations have been developed, including their quality and impact.

Box 9.1. An "SME-friendly" legal, regulatory and administrative environment

The OECD (2004) has characterised an "SME-friendly" environment as one where:

1. Property rights are clearly recognised.
2. Contracts are easily enforced.
3. A simple and transparent tax system with low compliance costs is operational and perceived as fair.
4. Businesses are able to register with the authorities through a simple and inexpensive system, preferably via the internet.
5. Business licensing requirements are minimised, and when enforced they aim to safeguard the health and safety of consumers and labour rather than to serve as a source of revenue for local and/or central government.
6. Labour regulations are balanced and flexible, protecting the rights of labour and the firm equally.
7. SMEs interact with a streamlined customs administration that is efficient, simple and transparent.
8. Financial sector regulations (banking, insurance, leasing) recognise SME constraints and include legal and regulatory instruments that enable commonly available SME assets to be used as collateral.
9. Public administrators at the local level appreciate entrepreneurs as contributors to economic growth, treat them fairly and are committed to limiting corruption.
10. Legislation and regulations are gender blind, applying equally to men and women.
11. SMEs can easily set up and join membership organisations.
12. Bankruptcy legislation does not impose unduly high penalties on entrepreneurs or SMEs.

Source: OECD (2004), https://www.oecd.org/cfe/smes/31919278.pdf.

As with other sub-dimensions, it is structured around three phases of the policy cycle. Focus is placed on whether RIA has been integrated into the process of developing regulations, since this can help to anticipate the costs and benefits of new laws and regulations.

Table 9.9. Scores for sub-dimension 6.2: Legislative simplification and RIA

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	2.66	2.93	3.48	2.65	5.72	1.28	2.66	4.58	3.48	2.47	**2.80**	**1.17**
Implementation	4.36	2.32	3.70	2.72	5.04	1.55	3.27	5.70	2.30	3.09	**3.18**	**1.22**
Monitoring and evaluation	1.00	2.65	3.48	2.65	5.58	1.00	1.83	4.31	1.83	3.48	**2.65**	**1.39**
Total sub-dimension score	2.94	2.60	3.57	2.68	5.38	1.34	2.77	5.03	2.62	2.95	**2.85**	**1.14**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

All ten AMS are committed to improving their business climate through regulatory reform. Many focus on reforms in areas where they score lowest in the World Bank's annual *Doing Business* report. Only Malaysia and Singapore have adopted a systemic and comprehensive approach to regulatory reform that goes beyond targeted interventions. These two countries have established a number of institutions and practices to periodically review and streamline existing regulations, and they have institutionalised the use of impact assessment in the development of new or current regulations. Both countries have also embraced digital government solutions as a way to streamline administrative procedures.

Planning and design: Most AMS have structures for reviewing legislation

Over recent years, many AMS have established inter-agency bodies to review laws and regulations affecting the private sector. This is the case in Brunei Darussalam, Cambodia, Indonesia, Malaysia, the Philippines and Singapore.[5] In Malaysia, this task is carried out in partnership with the Malaysia Productivity Corporation (MPC). In some countries, for instance Brunei Darussalam and Indonesia, the review process is conducted in reference to the country's performance in the World Bank's *Doing Business* assessment. In Brunei Darussalam, an Ease of Doing Business Steering Committee was established in 2011 under the office of the prime minister. It brings together nine ministries and government agencies that together form 13 "champion groups." In other countries, regulatory reform is taking place on a more vertical basis and is the responsibility of the regulator.

In a number of countries, regular reviews are required under a policy or law. This is the case in Malaysia, under the National Policy on the Development and Implementation of Regulation (NPDIR), and in Thailand, under the Royal Decree on the Revision of Laws and the Licensing Facilitation Act.[6] Both Malaysia and Thailand have developed their frameworks in reference to OECD guidelines. In Singapore, improving regulatory performance is seen as one of the main tasks of each government institution, which has been considered highly effective.[7] Regulatory reform is designated to the regulator, but regular reviews are demand-driven rather than a formal requirement. Ministries and public agencies are expected to review rules and regulations[8] every two to three years, and the Pro-Enterprise Panel (PEP) publishes an annual ranking of the best performing public institutions.

In Indonesia, Malaysia, Thailand, Viet Nam, Cambodia and Lao PDR, the use of RIA is required. In Indonesia, RIA has been mandatory for all new regulations since July 2017. In Malaysia, all ministries and public agencies have been required to undertake RIA since 2013, under the co-ordination of the MPC. In Thailand, Article 77 of the new Constitution[9] stipulates that an impact assessment should be performed on each draft law. Viet Nam's law on the promulgation of legislative acts requires a RIA assessment as part of the approval process of new legislation. In 2016, Cambodia established a working group with the task of making the use of RIA mandatory for the promulgation of all major legislative acts and regulations. In Lao PDR, all draft laws that go to the National Legislative Assembly require the completion of an Impact Assessment Note.

Implementation: Streamlining of existing regulations is used more widely than RIA

A number of countries have embarked on a thorough review of regulations affecting the private sector. In 2000, Singapore completed a comprehensive reform programme that was designed to remove redundant regulations. In 2016, Malaysia and the Philippines

have also conducted similar programmes, with Malaysia completing ten such reviews and the Philippines implementing this under the Repeal Project. In Malaysia, the MPC is working with local authorities to modernise the country's business licensing system and PEMUDAH regularly conducts consultations with the private sector.[10] Brunei Darussalam is undertaking this process through its Ease of Doing Business Steering Committee. Indonesia and Thailand are also undertaking regulatory review and reform while Myanmar has been undertaking reviews as part of its political and economic transition process.

Table 9.10. World Bank rankings on ease of doing business, 2014 vs. 2018

Economy	Year	
	2014	2018
Brunei	59	56
Cambodia	137	135
Indonesia	120	72
Lao PDR	159	141
Malaysia	6	24
Myanmar	182	171
Philippines	108	113
Singapore	1	2
Thailand	18	26
Viet Nam	99	68

Note: The methodology has changed between 2014 and 2018.
Source: World Bank (2014); World Bank (2017), http://www.doingbusiness.org/.

The use of RIA has been fully institutionalised in only one country (Malaysia). In Singapore, the use of RIA is not required, but impact is regularly considered in the development of new and current regulations. RIA is applied only when a major review of regulations is undertaken, given the relatively small size of the economy and ongoing efforts to improve regulation within the public administration. Most of the remaining AMS are raising awareness on the use of RIA in the development of regulations. In Cambodia, Lao PDR and Viet Nam, RIA offices have been established to promote the use of RIA in the development of regulations. In Lao PDR and Viet Nam, this office resides within the Ministry of Justice, while in Cambodia the office has been transformed into a Regulatory Executive Team, operating under the country's Economic Social and Cultural Council. In Indonesia, this task has been assigned to Bappenas; in the Philippines, to the National Economic Development Agency; and in Thailand, both the Council of State and the Ministry of Justice are implementing measures to encourage the use of RIA.

A number of countries have developed guidelines and/or handbooks to assist public officials in implementing RIA. Guidelines were developed in Indonesia (in 2013), Lao PDR and Viet Nam (in 2005), while a RIA handbook or manual was developed in Cambodia (in 2014) and Viet Nam (in 2010 and 2014). In Cambodia and Lao PDR, this was carried out with technical assistance from the Asian Development Bank and, in Viet Nam, with the support from Germany's GIZ. In Malaysia and Thailand, both guidelines and a handbook have been developed. In Malaysia, guidelines on the application of RIA and a handbook on good regulatory practices were developed by the MPC. In Thailand, guidelines on the use of RIA for public officials were developed by the Council of State and a RIA manual was developed by the Ministry of Justice in 2016.

Table 9.11. World Bank RIA indicators among AMS

Economy	Do ministries or regulatory agencies conduct an impact assessment of proposed (not yet adopted) regulations?	This assessment is distributed on a unified website for all proposed regulations	This assessment is distributed on the website of the relevant ministry or regulator	This assessment is distributed through public meetings	This assessment is distributed through targeted outreach to stakeholders	Is there a specialised government body tasked with reviewing and monitoring regulatory impact assessments conducted by other individual agencies or government bodies?
Brunei Darussalam	No	No	No	No	No	No
Cambodia	No	No	No	No	No	No
Indonesia	Yes	No	No	No	No	No
Lao PDR	Yes	Yes	No	No	Yes	Yes
Malaysia	Yes	Yes	Yes	No	No	Yes
Myanmar	No	No	No	No	No	No
The Philippines	No	No	No	No	No	No
Singapore	Yes	No	No	No	No	No
Thailand	Yes	No	No	Yes	Yes	No
Viet Nam	Yes	Yes	Yes	No	No	No

Note: Please refer to World Bank Global Indicators of Regulatory Governance for the detailed methodology.
Source: World Bank (2016a), https://rulemaking.worldbank.org/.

Almost all AMS have provided training for public officials on the use of RIA. In Cambodia and Lao PDR, public officials have also participated in study visits to countries where the use of RIA is more advanced. Singapore's Civil Service College provides an "Introduction to Regulatory Impact Assessment" course.

Monitoring and evaluation: Assessment of the use of RIA is rare in the region

In four countries – Cambodia, Lao PDR, Malaysia and Viet Nam – a government body has been nominated to decide when regulatory impact analysis should take place. In three countries – Indonesia, Singapore and Thailand – this decision is left to the regulator's discretion. These assessments are only for major regulations and are occasionally available online, such as in Viet Nam. Few AMS conduct assessments on the effectiveness of RIA in leading to modifications of regulatory proposals.

Malaysia has systematic procedures in place for monitoring and evaluating the use of RIA. It has nominated the MPC to assess regulatory proposals and whether RIA should take place. Once conducted, the regulatory impact statement should be posted on the websites of both the regulator and the MPC after the decision is officially announced.

The Philippines has piloted the use of RIA and no government body has been assigned to decide when it should take place and assessments are not made available online. Myanmar and Brunei Darussalam are not currently using RIA.

Sub-dimension 6.3: Company registration procedures

Entrepreneurs first interact with government institutions when they go through company registration procedures and other formalities linked to starting a business. Complex and

costly procedures tend to deter enterprise formalisation. They also generate opportunities for corruption and can involve high fees by professional intermediaries such as lawyers, notaries and accountants, further raising the indirect cost of starting a business. However, data collected during the registration process feed into the country's business register, a primary source of information for public and private institutions like banks, credit registries, legal firms, etc., and are used by national statistical offices to collect structural business statistics, including SME statistics. It is therefore important that company registration and "starting a business" procedures be transparent, simple, predictable and relatively inexpensive.

This sub-dimension analyses how these procedures are structured in the ASEAN member countries. Company registration and procedures for starting a business can be divided into three phases. The first covers pre-registration (registration of the company, name, company bylaws, etc.) and procedures that are completed for the issuance of the company registration certificate. The second phase covers procedures related to notification of the company's establishment to the various concerned branches of the administration, such as tax authorities, labour office, pension fund, etc. The final phase covers compliance with licensing procedures at the national and/or local level, when required.

Table 9.12. Scores for sub-dimension 6.3: Company registration procedures

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Performance (WB *Doing Business*)	4.44	1.31	2.56	3.19	3.19	2.88	2.25	5.38	4.13	3.19	**3.19**	**1.10**
Implementation	6.00	2.18	3.24	2.89	4.08	3.36	2.65	6.00	4.30	4.79	**3.72**	**1.27**
Monitoring and evaluation	3.77	1.55	4.88	1.55	4.30	2.65	2.65	6.00	2.65	2.65	**2.65**	**1.37**
Total sub-dimension score	5.01	1.75	3.33	2.72	3.81	3.05	2.51	5.78	3.91	3.80	**3.57**	**1.13**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The first thematic block uses scores from the 2018 World Bank's *Doing Business* "ease of starting a business" indicator.[11] This indicator looks at the number of procedures, time and cost required to start a business, as well the minimum capital requirement, if in place. The second thematic block examines whether one or multiple registration numbers are issued by administrative bodies, whether a one-stop shop[12] has been created and is functional, whether an electronic registration system has been created and whether a body has been created to guide new entrepreneurs through the process. The last thematic block assesses whether a monitoring and evaluation process takes place.

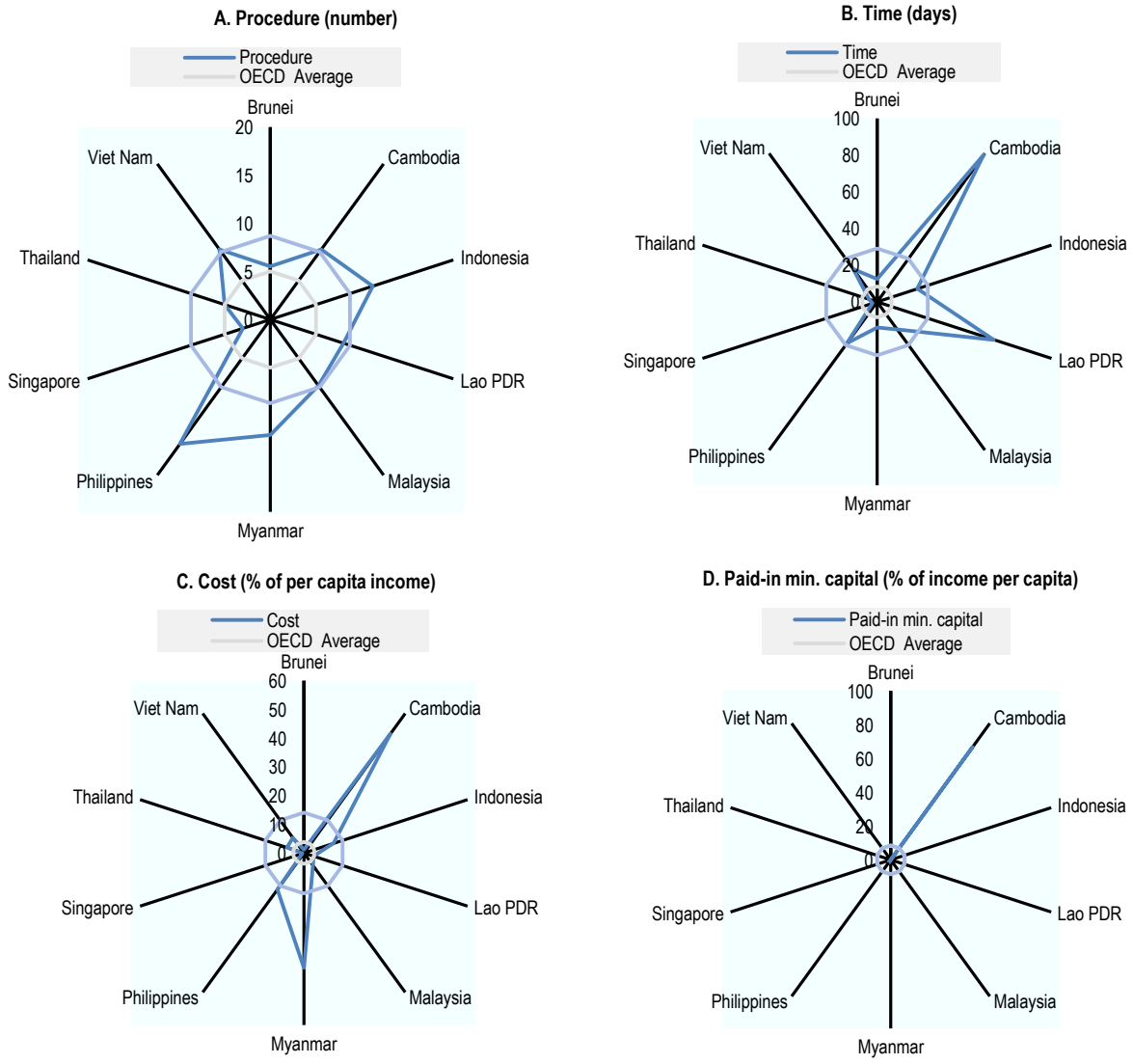
Performance: Singapore stands out in terms of ease of starting a business

The ease of starting a business varies greatly across ASEAN, with countries ranking from 6th out of 190 countries (Singapore) to the bottom tier of the 2018 *Doing Business* report.

The development of new information technologies (IT) supporting digital government offers the potential for far quicker and simpler company registration and notification procedures. This has led to a significant reduction of the time needed to complete the overall starting-a-business process, as well as the cost of handling a new registration, as indicated by the performance of leading countries in the *Doing Business* ranking for this sub-dimension. However, achieving those results requires a high level of co-ordination

and co-operation between different branches of the public administration, often complemented by legislative changes and a substantial investment in IT equipment. While IT may enable countries rapidly to improve their performance, reforming the company registration system is often a complex process built on political support and driven by a leading government agency.

Figure 9.3. AMS performance in the World Bank "starting a business" indicators (2018)



Source: World Bank, 2018.

Brunei Darussalam, Singapore and Thailand exhibit strong performance in this area, with Singapore and Thailand being some of the top performers globally. In Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, and Viet Nam, starting a business requires over 6 procedures. In five of these countries (Cambodia, Indonesia, Lao PDR, the Philippines and Viet Nam) this begets long registration completion times, with registration generally taking over 20 days and up to 99. Cambodia, Indonesia, Myanmar and the Philippines set high registration fees and pre-tax payment requirements, while

Cambodia and the Philippines require a minimum capital down-payment upon registration.

Table 9.13. AMS performance in the World Bank "starting a business" indicators (2018)

Economy	Procedure (number)	Time (days)	Cost (% of per capita income)	Paid-in min. capital (% of income per capita)
Brunei Darussalam	5.5	12.5	1.1	0
Cambodia	9	99	51.3	82.5
Indonesia	11.2	23.1	10.9	0
Lao PDR	8	67	3.5	0
Malaysia	8.5	18.5	5.4	0
Myanmar	12	14	40.1	0
The Philippines	16	28	15.8	3
Singapore	3	2.5	0.5	0
Thailand	5	4.5	6.2	0
Viet Nam	9	22	6.5	0

Note: Figures represent an average of the male and female scores.
Source: World Bank (2017), http://hdl.handle.net/10986/28608.

Implementation: AMS are using online portals to streamline company registration

Many AMS have undertaken reforms to streamline company registration. Malaysia, for example, is conducting a comprehensive process to integrate business registration and licensing systems through a single gateway, under the SME Masterplan (2012-2020).[13] This initiative is being undertaken in three phases, namely: *i)* the development of a gateway for business registration and licensing; *ii)* integration of the country's business registration and licensing systems; and *iii*) implementation of the initiative in Sabah & Sarawak.

Streamlining has been achieved through the introduction of single registration numbers, one-stop shops and online portals. Since the last assessment, Thailand has established a single registration number,[14] a network of one-stop shops across the country and an electronic portal that allows enterprises to complete some registration procedures online.[15] Brunei Darussalam has also made significant progress since the last assessment. In 2015, the country's Registry of Company and Business Names[16] launched a portal for online registration. The single registration number issued by the Registry is now shared automatically via direct interface with the Employees Provident Fund and the tax administration system, which then utilise the same registration number for company identification. In Indonesia, an online registration system has been introduced, where firms can register once they have bought a voucher to pay the registration fee. An online registration system is currently being developed in the Philippines by the country's Securities and Exchange Commission. Myanmar and Viet Nam are each currently establishing a network of one-stop shops.

Singapore's company registration process stands out in particular. The entire process is managed by the Accounting and Corporate Regulatory Authority (ACRA), which acts as a single-window one-stop shop. ACRA issues the single identification number used by the company for all interactions with the public administration. The company registration application is submitted online via the Bizfile portal. Applicants may select their company profile, with standard company by-laws attached. The entire application can be completed online in 15 minutes, and applicants may download the incorporation

certificate after payment of a standard fee of SGD 300 (Singapore dollars), or about USD 230. The process relies on the digitalisation and interconnection of all public sector data bases. In 2016, ACRA conducted a review of the some filing services such as renewal of business registration, change of address, abolished the need for a company seal and introduced a mobile phone application for company registration. The mission of ACRA, established in 2004, is to provide a responsive and trusted regulatory environment for businesses, public accountants and corporate service providers. In addition to acting as a company register, the agency performs other functions – as regulator of accounting standards, advisor to the government, monitor of corporate compliance – and it is the main collector and source of corporate data in the country.

Monitoring and evaluation: Assessment is often based on "Doing Business" indicators

Most AMS have a specific institution in place that is responsible for company registration and any associated reforms. In most countries, this is a department within the Ministry of Industry or equivalent. In Singapore, the nominated body is the Accounting and Corporate Regulatory Authority, a statutory body under the Ministry of Finance. In Brunei Darussalam, the nominated body, the Registry of Companies and Business Names, has also been housed under the Ministry of Finance since 2012. Many of these bodies monitor reforms to streamline company registration procedures, often through monitoring progress on the "starting a business" indicator of the World Bank's *Doing Business* assessment. Some countries also have a feedback function on their company registration website. Few AMS seem to have concrete frameworks in place to monitor the implementation and process of company registration, which are separate from monitoring progress on the indicators covered by the *Doing Business*.

Sub-dimension 6.4: Ease of filing taxes

Filing taxes may entail considerable time and indirect costs for small enterprises, particularly when the number of tax payments is high and spread across various administrations. The introduction of an electronic tax filing and payment system can substantially reduce those charges.

This sub-dimension assesses AMS on the basis of the World Bank's 2018 *Doing Business* data. The indicators used look at the number of tax payments per year, the time required to file tax payments, and the post-filing index, which measures the ease of claiming a VAT refund and going through a corporate income tax audit. The availability and sophistication of platforms for electronic tax filing is reviewed under sub-dimension 6.5.

Table 9.14. Scores for sub-dimension 6.4: Ease of filing taxes

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Performance (WB Doing Business)	3.78	3.22	2.67	1.56	4.89	2.67	3.78	5.44	3.78	4.33	**1.00**	**1.08**
Total sub-dimension score	3.78	3.22	2.67	1.56	4.89	2.67	3.78	5.44	3.78	4.33	**1.00**	**1.08**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Performance: Procedures for filing taxes remain burdensome in many AMS

The ease of filing taxes varies across AMS, but in many countries SMEs face complex and time-consuming procedures for filing and paying taxes. Only Singapore, ranked 7th, is among the global top tier countries in the 2018 *Doing Business*. Brunei Darussalam, Indonesia, the Philippines, Malaysia, Thailand and Viet Nam are ranked in the second tier, while Cambodia, Lao PDR and Myanmar are ranked in the bottom tier.

Table 9.15. World Bank "paying taxes" indicators

Economy	Payments (number per year)	Time (hours per year)	Post-filing index (0-100)
Brunei	15	64.2	0
Cambodia	40	173	25.97
Indonesia	43	207.5	68.82
Lao PDR	35	362	18.57
Malaysia	8	188	52.65
Myanmar	31	282	45.54
Philippines	20	182	50
Singapore	5	64	71.97
Thailand	21	262	73.41
Viet Nam	14	498	95.71

Note: Please refer to the World Bank *Doing Business 2018* report for the detailed methodology.
Source: World Bank (2017), http://hdl.handle.net/10986/28608.

In many countries, the filing of corporate income tax is associated with a particularly high number of payments, standard hours required to file and tax wedge on profits.

Sub-dimension 6.5: E-government services

Digital government facilities can greatly increase the ease of interacting and exchanging information between enterprises and public institutions. Micro and small enterprises can particularly benefit from access to digital government services, via time and resource savings. The fact that most AMS have achieved a good level of IT infrastructure and a relatively advanced level of internet and mobile phone penetration is a good base for the introduction of digital government services.

Table 9.16. Percentage of individuals using the internet, 2016

Economy / region	Share of population (%)
Brunei	90.0
Cambodia	32.4
Indonesia	25.4
Lao PDR	21.9
Malaysia	78.8
Myanmar	25.1
Philippines	55.5
Singapore	81.0
Thailand	47.5
Viet Nam	46.5
ASEAN	39.0
Africa	19.9
Arab States	41.8

Asia & Pacific	41.5
CIS	65.1
Europe	77.9
The Americas	64.0

Note: ASEAN figures are estimated as a weighted average for the total population by country.
Source: (ITU, 2016), https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx. Author's calculations.

Table 9.17. Share of firms using e-mail to interact with clients/suppliers, by firm size

Economy	Share of firms using e-mail to interact with clients/suppliers (%)		
	Small (5-19)	Medium (20-99)	Large (100+)
Cambodia [a]	53.6	69.8	88.5
Indonesia [b]	23.0	55.8	85.0
Lao PDR [a]	21.5	46.1	80.5
Malaysia [b]	73.4	35.9	90.9
Myanmar [a]	18.6	29.9	82.1
The Philippines [b]	89.7	74.3	88.2
Thailand [a]	51.7	48.6	74.3
Viet Nam [b]	97.1	87.0	98.3

Note: **a.** Data from 2016. **b.** Data from 2015. No data is available for Brunei Darussalam and Singapore, which are not covered by the Enterprise Surveys.
Source: World Bank (2015); World Bank (2016b), http://www.enterprisesurveys.org/.

This sub-dimension focuses on a limited number of e-government services that are highly relevant for SMEs. The first row looks at the existence of online platforms for filing tax, social security and pension contributions as well as whether an electronic signature or electronic ID has been adopted. The second looks at whether these platforms are fully operational and integrated with other government services. For instance, it explores whether enterprises must submit information to a number of different government bodies, which may increase the burden of compliance on SMEs. The final row looks at whether the government collects satisfaction surveys and whether feedback from these surveys is fed back into enhancement of these platforms.

Table 9.18. Scores for sub-dimension 6.5: E-government services

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	6.00	1.83	5.15	1.41	4.74	1.00	5.16	6.00	5.15	3.49	**4.94**	**1.82**
Implementation	5.33	1.28	2.66	1.55	3.49	1.00	2.93	6.00	3.21	1.83	**2.79**	**1.59**
Monitoring and evaluation	6.00	1.00	4.30	1.00	5.15	1.00	2.65	6.00	3.48	1.00	**3.06**	**2.01**
Total sub-dimension score	5.70	1.41	3.86	1.39	4.26	1.00	3.65	6.00	3.94	2.24	**3.76**	**1.69**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

E-government services are in a relatively embryonic phase in most AMS, with the exception of tax services, which are more advanced. While a median score of 3.76 indicates a fair deployment of e-government services, this masks considerable variation across the region, which is the highest of all sub-dimensions in Dimension 6.

Planning and design: Most AMS have operational e-government platforms

All AMS except Myanmar have developed e-government platforms. In Cambodia and Lao PDR, only tax e-filing platforms are currently available. Cambodia, Lao PDR, Myanmar and Viet Nam are in the process of piloting broader e-government platforms, but Viet Nam is rapidly moving from piloting to a comprehensive rollout. Most AMS have created an electronic signature or digital identifier.

Implementation: New e-government services are expected to complement online tax filing

Tax filing is the most advanced e-government service across AMS. It is operational to some extent in nine countries, with the only exception being Myanmar. However it is only possible to complete all tax filing procedures online in Brunei Darussalam, Malaysia, Singapore and Thailand. Other services are less operational in most AMS, with facilities to file social security returns being generally more advanced than facilities to file pension contributions. The integration of public databases appears to be relatively limited in most AMS. The exceptions are Singapore and Brunei Darussalam, which have fully integrated systems. However the implementation of e-government services is expected to increase at a fast pace, as governments are stepping up investment in IT, technical capacity and knowledge exchange in this area.

Monitoring and evaluation: Some AMS still lack feedback on e-government services

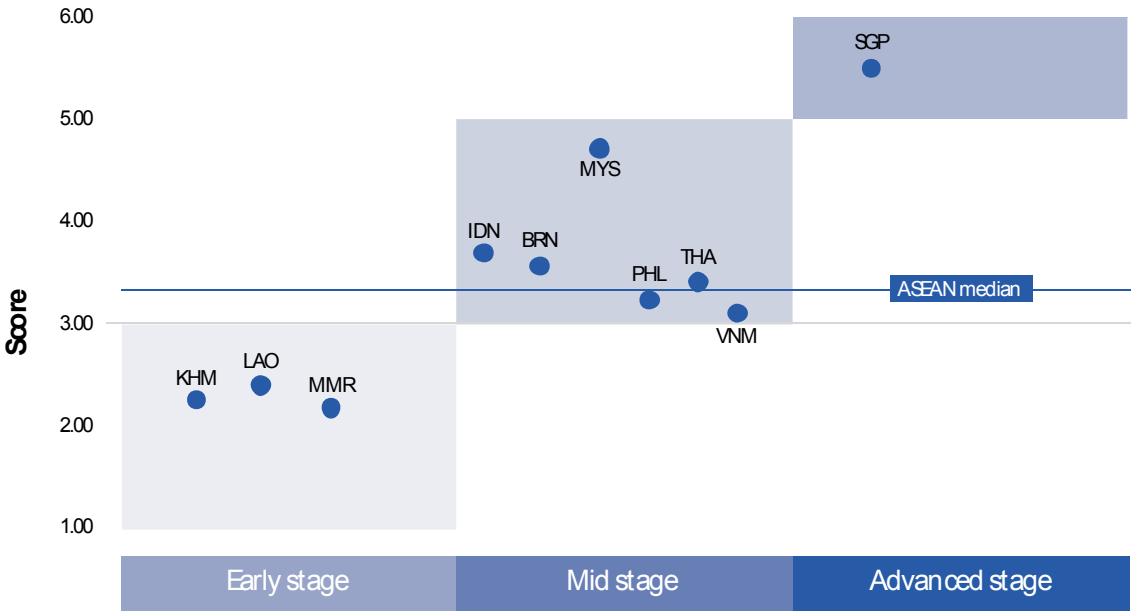
Feedback on the use and effectiveness of e-government services is only collected regularly and fed back into platform development in Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand. In Singapore, GovTech Singapore conducts an annual "satisfaction with digital government services" survey, while some services feature a feedback button on site. In Thailand, the Electronic Government Agency undertakes a satisfaction survey to further improve its services.[17] Feedback is collected occasionally in the Philippines, and it is also used to inform platform development. Feedback on the use and effectiveness of e-government services is not currently collected in Cambodia, Lao PDR, Myanmar or Viet Nam.

The way forward

The legal, regulatory and tax environment for SMEs varies significantly from country to country, as do the intensity and sophistication of policies in this area. However, a number of trends can be observed.

The majority of countries that fall within the "early stage" and early "mid stage" bracket have tended to focus on easing and streamlining company registration. They have therefore tended to focus on streamlining permitting and licensing requirements, upgrading company acts and developing ICT systems to facilitate greater co ordination among government agencies. These countries have also begun to pilot RIA in order to enhance existing and future regulations. This has often been done with donor support, and has often involved setting up a RIA office in the country's Ministry of Justice. Public-private consultation is often channelled through a chamber of commerce or equivalent.

Figure 9.4. Weighted scores for Dimension 6: Legislation, regulation and tax



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

Most countries in the "mid-stage" have embarked upon a process of regulatory review and reform. A number have done this in reference to their performance in the World Bank's *Doing Business* assessment and have created an inter-ministerial committee to this end. Most have e-government platforms in place, although these vary in sophistication and the range of services provided. Many are currently trying to enhance their tax administration, often through the development of e-filing platforms. Most of these countries are trying to socialise the use of RIA and other good regulatory practices, but often leave the terms to the discretion of the regulator, and these practices can sometimes take the form of a "box ticking" exercise, with some important aspects, such as an ex-post evaluation, missing.

Singapore is the only country to fall within the "advanced stage" bracket, but Malaysia is closely approaching. Both of these countries have undertaken a comprehensive process of regulatory review and reform, and both have taken significant steps to embed good practices into the development of regulations, as well as to raise awareness among regulators. Both have invested significantly in the development of e-governance platforms over recent years, and in Singapore most government transactions can now be completed online and in very little time. Both countries have adopted an "active participation" model of stakeholder engagement, whereby regulations are developed as part of an ongoing partnership between the agency and the stakeholder.

Across the region as a whole, stakeholder engagement is a common practice, but it varies on metrics of transparency, openness and rigour. A relatively weak tax administration system is also common across most of the region, and this tends to be the e-government platform that is developed first.

In order to enhance the legal, regulatory and tax environment for SMEs in the region, policy makers could prioritise the following actions going forward:

Table 9.19. Policy recommendations to enhance the regulatory environment for SMEs

Level of policy	Challenges	Policy recommendations
Early stage *Cambodia, Lao PDR and Myanmar*	Company registration remains rather burdensome.	• **Continue to streamline company registration procedures**. Governments could advance in the following areas: i) simplify notification procedures by establishing one-stop shops across the country; ii) review pre-registration and non-essential licensing requirements (thus reducing indirect costs and facilitating compliance); and iii) introduce digital company registration services wherever possible to ease the burden on registration agencies, reducing delays and costs. • **Continue to participate in regional co-operation initiatives**. ASEAN has established a regional task force on company registration, and this can be a good forum to exchange good practices, explore avenues for collaboration, and align systems. Such initiatives may be particularly valuable in countries that face resource constraints. • **Continue to invest in ICT infrastructure in government offices**. This can not only facilitate greater decentralisation, allowing local governments to support company registration and input data into a centralised system, but it is also an important prerequisite for the future development of e-governance platforms.
	Good regulatory practices are often not used systematically.	• **Continue to develop the use of good regulatory practices and build capacity**. In most of these countries, good regulatory practices take place but are not yet part of a systematic process, and expertise remains rather low. More could be done to train regulators on the application of these procedures, for instance on how to complete a thorough regulatory impact statement or how to conduct a PPC complete with an ex-post evaluation. This could be done via secondments and study visits, among other initiatives.
Mid stage *Brunei Darussalam, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam*	In a number of countries, many superfluous regulations continue to exist, and gaps remain in the application of good regulatory practices.	• **Pursue regulatory review and reform, clearly delineating regulatory responsibilities and socialising an awareness of good regulatory practices among regulators**. Efforts to streamline regulation can be hindered by limited communication and/or co-ordination between central and local government authorities. Governments could consider and pilot a number of approaches to address this constraint, for instance via the creation of a "primary authority" body responsible for overseeing the local enforcement of national regulations; by developing a performance framework for local authorities; and/or by creating an association of local government representatives at the national level.
	In some countries, tax administration remains rather weak	• **Continue to streamline tax procedures**. Steps to reduce the number of payments required, to balance out tax and credit liabilities for business tax payers,

	and e-governance platforms are still being developed.	and to develop e-filing platforms may significantly reduce the administrative burden of tax filing on SMEs and increase compliance. • **Continue to foster inter-agency collaboration, particularly in terms of database integration**. Different government agencies often cannot view one another's data, which means that a user must file the same information with multiple government bodies. This slows down the development of e-governance platforms and can discourage users.
Advanced stage *Singapore*	There is an increased need for the public sector in advanced countries to remain reactive to emerging business trends, challenges and opportunities.	• **Continue to ensure inclusive engagement with diverse enterprise needs**. Singapore is known as having one of the most reactive and collaborative public administrations globally, and this makes the country highly attractive to investors. In order to maintain this position, Singapore could continue its efforts to widen its participation base, reaching out to a wide range of stakeholders to ensure that these processes are inclusive, and continuing to respond to emerging business needs and challenges.

Notes

[1] For instance some enterprise surveys show formal firms opting to use informal firms as sub-contractors.

[2] The NPDIR is a key policy document governing regulatory reform in Malaysia.

[3] Which was approved in April 2017.

[4] The Council of Development of Cambodia also supports the Forum, by acting as its secretariat.

[5] These include the Ease of Doing Business Steering Committee (Brunei Darussalam), the Economic Social and Cultural Council, otherwise known as ECOSOCC (Cambodia), the Special Taskforce to Facilitate Business, otherwise known as PEMUDAH (Malaysia), the National Competitiveness Council (the Philippines) and the Pro-Enterprise Panel (Singapore).

[6] Thailand's Royal Decree on the Revision of Laws and the Licensing Facilitation Act was approved in 2015. It calls for a review of laws and licensing regulations every five years.

[7] Singapore regularly ranks at the top of assessments of regulatory quality worldwide (Semam, Lim and Bahari, 2016[11]).

[8] Those rules and regulations that are under their aegis.

[9] The new Constitution was approved in April 2017.

[10] Via focus groups and company surveys.

[11] It should be mentioned that while the *Doing Business* provides harmonised data, systematically collected, for a large group of countries, its methodology is by necessity based on a standardised company definition. This is the small-sized limited liability company. This may create definitional issues for this analysis, since many new enterprises are registered as non-incorporated legal forms (such as a sole ownership or partnership).

[12] Through a one-stop shop, and enterprises can complete registration, notification and, in some cases, the compliance procedures through one interface.

[13] This initiative is being undertaken in three phases: *i)* the development of a gateway for business registration and licensing; *ii)* integration of the country's business registration and licensing systems; and *iii)* implementation of the initiative in Sabah and Sarawak.

[14] This number is used by the Department of Business Development (DBD), the tax administration, the Social Security Office and the Department of Labour Protection and Welfare.

[15] This portal was launched in April 2017 by the DBD.

[16] Which operates under the Ministry of Finance.

[17] In addition, a survey is also conducted on the government's digital readiness, and this is used to review the Plan of Thailand.

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Chapter 10. Entrepreneurial education and skills

Introduction

In many countries, policy makers are increasingly looking at ways to stimulate entrepreneurship in order to boost economic growth. This interest is underpinned by a theory of entrepreneurship elaborated by Kirzner (1973[1]) and Hausmann and Rodrik, among others: that the entrepreneur is a critical agent in driving the discovery process required to generate growth and equilibrate markets. Kirzner's entrepreneur plays a role in equilibrating markets – s/he picks up on the profit opportunities that exist when markets are at disequilibrium until competition picks up and returns the market to equilibrium. Hausmann and Rodrik (2003[2]), meanwhile, have shown how, through experimentation, lone entrepreneurs can spawn entire industries. They cite the examples of garments in Bangladesh, cut flowers in Colombia and information technology (IT) in India. This theory underpins the idea that entrepreneurship generates growth by creating new economic opportunities, stimulating competition and driving productivity improvements in an economy.

However, the theory distinguishes another type of entrepreneur that is not so closely connected with economic growth. This is the type that Kirchhoff (1994[3]) refers to as constituting "the economic core" of a society. Such entrepreneurs constitute the majority of the self-employed and tend to provide stable employment while exhibiting low innovation and limited growth.[1] They have traditionally been regarded as a group that exists and that should be maintained as a social good, but with a cost to economic efficiency. In developing economies or those undergoing rapid structural change, these entrepreneurs are often informal and tend to be found in activities related to agriculture, basic services or very small-scale industry. In these economies, their activity is often negatively linked to economic development because it is generally necessity driven and exhibits low productivity. These individuals have often been pushed into entrepreneurship, and they move away from it once opportunities for wage employment begin to open up (Acs, 2006[4])

Development economists generally distinguish three stages of development,[2] with entrepreneurship being a critical growth factor only in the last. It is therefore generally advised for policy makers in low- and middle-income countries to focus first on strengthening their SME sector before tackling entrepreneurial framework conditions. Should there still be a political economy drive to improve the enabling environment for entrepreneurship in middle-income countries, interventions could focus on business climate elements that would improve the entrepreneurial environment for major established firms – for instance, enhancing the rule of law, infrastructure, labour market flexibility and financial market efficiency (Acs, 2006[4]). In ASEAN, only Singapore is classified as an innovation-driven economy, while Malaysia is classified as transitioning from an efficiency-driven to an innovation-driven economy (WEF, 2017[5]).

Building entrepreneurial and management skills – the skills required to run a productive business – is a major area where countries across different income groups can develop policies to stimulate entrepreneurship. La Porta and Shleifer (2014[6]) remark that a lack of such skills may be one of the most critical bottlenecks to growth in many lower and lower-middle economies, where a high degree of informality persists. Their observation is based on an empirical study that finds managerial human capital – and not worker human capital – to be one of the most significant differences between informal and formal enterprises,[3] as well as a statistically significant determinant of productivity in production function estimates.[4] In efficiency-driven economies, entrepreneurial activity[5] decreases as industry consolidates to exploit economies of scale, but the skills aspect remains crucial. Since growth is now driven by progress in production efficiency, in-firm entrepreneurial skills (or, "the skills required to run a productive business and to innovate") become increasingly important for identifying and exploiting opportunities for new products and processes, and for increasing co-ordination and communication across different production functions. This is the entrepreneurial function identified by Schumpeter (1942[7]) and others.

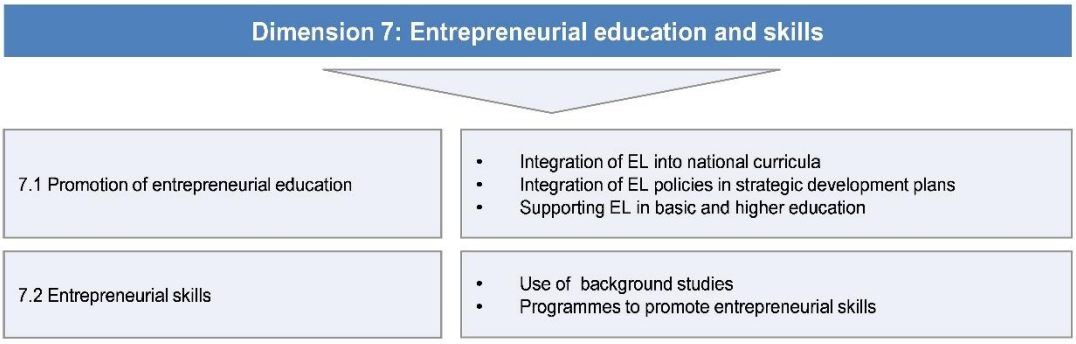
Given high rates of informality across the region and widely divergent development levels, boosting the supply of entrepreneurial and managerial skills – skills that can be used in both waged and self-employment[6] – could be seen as a common priority across ASEAN. This is the logic underpinning the inclusion of this component in both the SAP SMED 2016-25 and the 2018 ASEAN SME Policy Index.

Assessment framework

The development of policies and programmes to promote entrepreneurial mindsets is a complex task, since entrepreneurial skills and disposition are difficult to nurture and capture. It is particularly complex to monitor the performance of programmes to foster this mindset, since such programmes often target "softer" outcomes, such as changes in attitude, rather than "hard" outcomes, such as the number of initiated business start-ups.[7]

Dimension 7 of the 2018 ASPI thus looks at the policy framework for developing entrepreneurship in ASEAN. It is divided into two sub-dimensions: the first (7.1) assesses policies and programmes to promote entrepreneurial education, while the second (7.2) assesses policies and programmes to enhance entrepreneurial skills.

Figure 10.1. 2018 ASPI framework for assessing entrepreneurial education and skills



Policies that promote entrepreneurial education (sub-dimension 7.1) are assigned 40% of the weight, while policies that help develop the entrepreneurial skills of SMEs (sub-

dimension 7.2) are assigned 60%. While both sub-dimensions look at building knowledge and skills in entrepreneurship, 7.2 focuses on building entrepreneurial capabilities among SMEs: management skills, accounting, marketing and technical knowledge.

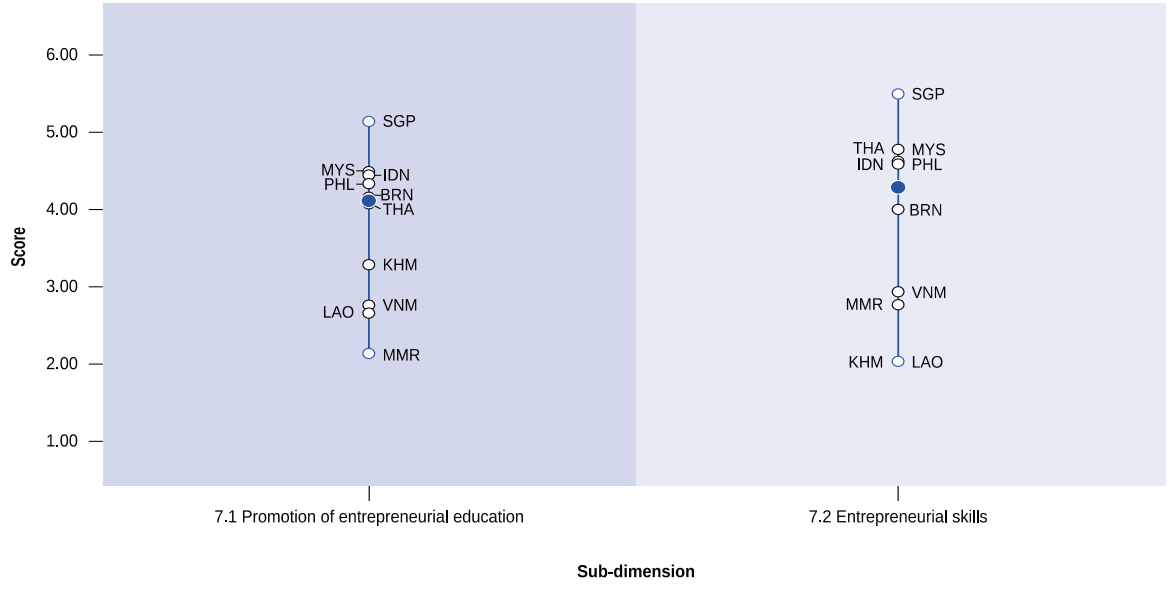
Sub-dimension 7.1 centres on shifting people's attitudes towards recognising and capitalising on entrepreneurial opportunities. Since any shift in mindset does not happen overnight, ASEAN Member States (AMS) need to embed entrepreneurship education in their long-term national strategies. This sub-dimension assesses the extent to which governments have endorsed the elements of entrepreneurial learning (EL) in their national education policies and integrated them into other national strategic plans. It also covers how EL has been institutionalised at all education levels. It specifically looks at the level of adoption of a common entrepreneurship curriculum, entrepreneurial education in universities, capacity building of teachers for EL programmes and how EL policies, programmes and projects are monitored and evaluated. How private entities are incentivised to provide entrepreneurial education is also assessed.

Sub-dimension 7.2 centres on the design of strategies and implementation of measures to promote the entrepreneurial skills of SMEs in each ASEAN member country. Small firms serve as a vehicle for entrepreneurship (Acs, 1992[8]; Thurik and Wennekers, 2004[9]), and it is therefore essential to upgrade such skills among SMEs. Entrepreneurship can contribute to economic development when a country has high-growth enterprises or firms that can serve as a source of income and employment for vulnerable populations (Valerio, Parton and Robb, 2014[10]).

Analysis

The ASEAN region as a whole received a moderate score (4.1) for Dimension 7, indicating that more can be done across the region to develop policies and programmes in entrepreneurial education and skills. Among AMS, Singapore and Indonesia score highest in this dimension and in the associated sub-dimensions.

Figure 10.2. Weighted scores for Dimension 7: Entrepreneurial education and skills



Variation in country scores for this dimension suggests a development gap among AMS. While Singapore and Indonesia have developed relatively advanced policies for an entrepreneurial ecosystem, Cambodia, Lao PDR, Myanmar and Viet Nam are still in the early stage of developing policies and programmes to promote entrepreneurship. Malaysia, the Philippines, and Thailand scored moderately high in the dimension overall as well as in the two sub-dimensions, ranking slightly below Indonesia. Brunei Darussalam just made it into the mid-stage group of countries.

Aggregate scores suggest that the region as a whole has moderately well-developed policy frameworks in place to promote entrepreneurship. This suggests that the majority of AMS have a number of programmes and policies in place to promote an entrepreneurial ecosystem, but that further work could be done to build on this, for instance through the development of more robust monitoring and evaluation mechanisms.

Sub-dimension 7.1: Promotion of entrepreneurial education

The development of entrepreneurial mindsets is generally regarded as a long-term process, and for this reason the European Commission identifies entrepreneurship as one of eight key competencies that should be targeted in lifelong learning programmes.[8] Studies also show the importance of investing in entrepreneurship education early on. Based on Global Entrepreneurship Monitor data, (Acs and Szerb, 2007[11]) argue that it is important for middle-income countries to start promoting entrepreneurial skills and mindsets early in an individual's life. Their study identifies perceptual variables as being the main determinants of entrepreneurial drive and talent, which are difficult to change in the short run.

Based on these assumptions and findings, this sub-dimension looks at policies and programmes that promote entrepreneurial mindsets, particularly from school age. It covers three key components of the policy cycle, and weights each according to its perceived importance. The first, planning and design, has been assigned a weight of 35%; the second, implementation, has been assigned a weight of 45%; and the third, monitoring and evaluation, has been assigned a weight of 20%.

Table 10.1. Scores for sub-dimension 7.1: Promotion of entrepreneurial education

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	5.39	4.88	5.49	2.43	5.17	1.55	4.66	5.83	5.05	3.31	**4.97**	**1.37**
Implementation	3.65	2.10	4.10	3.10	3.32	2.10	4.10	4.99	3.20	2.65	**3.26**	**0.87**
Monitoring and evaluation	3.20	3.20	3.20	2.10	6.00	1.55	4.33	4.33	4.33	2.10	**3.20**	**1.28**
Total sub-dimension score	**4.17**	**3.30**	**4.41**	**2.67**	**4.50**	**1.80**	**4.34**	**5.16**	**4.08**	**2.77**	**4.12**	**0.98**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to the Policy Framework and Assessment Process chapter for further information on the methodology.

Across the region as a whole, the "planning and design" thematic block receives the highest score, placing the region in the advanced category here. This masks significant variation in scores across countries, however, indicating that a number of AMS may lag behind others in this policy area. Scores for Lao PDR, Myanmar and Viet Nam suggest that they may be at an early stage of developing policies to promote entrepreneurial

education, while Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand appear to be relatively advanced in this area.

Planning and design: Concrete policies on entrepreneurial education are needed

Myanmar, Lao PDR and Viet Nam are currently at an early stage of designing policies to promote entrepreneurship. Myanmar's education policy does not yet include a component on EL. Lao PDR has incorporated EL into its Five-Year Education Development Plan, but it has only recently started to develop pilot programmes with development partners. Viet Nam has incorporated EL into secondary and tertiary curricula, but concrete EL programmes are still under construction.

Singapore, Indonesia, Brunei, Malaysia and Thailand are currently in an advanced stage of designing policies to promote entrepreneurship. In these countries, EL is a component of national education plans and a number of concrete policies and programmes are already in place. In Brunei and Malaysia, EL is promoted at all levels of education. In Indonesia, the enhancement of entrepreneurial skills has been listed as a strategic goal under the National Education Plan 2015-2019, but to date EL has only been incorporated into the mandatory national curricula of vocational students at secondary level. Nevertheless, Indonesia has made EL a key competency for selecting public school principals at both primary and secondary levels[9].

In Singapore, meanwhile, entrepreneurial education is optional, not mandatory. However, the country has identified entrepreneurial skills and drive as one of its Desired Outcomes of Education, as well as a key focus area under the Ministry of Education's 21st Century Competencies framework. Starting from secondary school, students in Singapore can choose to engage in entrepreneurship programmes such as the Applied Learning Programme in Business and Entrepreneurship, elective modules on business and entrepreneurship, or co-curricular activities that focus on business and entrepreneurship. Through this approach, the government attempts to provide the highest possible quality of learning and training, targeted at interested students.

Implementation: National curricula should include entrepreneurial learning

This thematic block explores how EL policies have been translated into action. It looks at the level of funding for given programmes and policies; the availability of teaching materials, curricula and pilot projects on entrepreneurship; and whether vocational schools and universities offer courses on entrepreneurship. It also measures the availability of degrees on entrepreneurship, the existence of university alumni networks for entrepreneurs and the number of universities that have adopted the ASEAN Common Curriculum For Entrepreneurship as well as its six-month practicum, Consulting-Based Learning for ASEAN SMEs (CoBLAS). Finally, this block evaluates the availability of training programmes for EL trainers and incentives for private service providers of entrepreneurship education.

Only one AMS, Singapore, is scored as being at the advanced stage of implementing policies and programmes in this area. The dispersion of scores for this block is moderately low, indicating a relatively even level of development across the region. Indonesia, Philippines, Brunei, Malaysia, Thailand, and Lao PDR are identified as being at the mid-stage of development, while Myanmar, Viet Nam and Cambodia follow closely but are still at the early stage of implementing actions that support entrepreneurial education.

Many AMS have developed a national curriculum on entrepreneurship to some extent. Most have integrated EL into national curricula at either vocational, secondary or tertiary level. Myanmar, Lao PDR, the Philippines and Malaysia have integrated EL at university level. Brunei Darussalam has adopted a national entrepreneurship curriculum for vocational and university studies.[10] Its university syllabus has been developed as part of the country's National Entrepreneurship Agenda, which aims to encourage young people to think in a more entrepreneurial way. Cambodia and Indonesia have so far only incorporated EL in national curricula at the vocational secondary level.

By contrast, neither Singapore nor Thailand has yet incorporated EL into national curricula, though Thailand's Basic Education Core Curriculum does convey a certain entrepreneurial spirit. In Singapore, initiatives to promote entrepreneurial skills and drive are incorporated into national curricula for each subject area and level of education where it is considered relevant, for instance the country's polytechnics and Institutes of Technical Education.

Notable pilot projects to promote entrepreneurship in school include Thailand's One College, One Business project, which is run at the vocational level, and Brunei's Junior Achievement Programme. Through its Ministry of Education, Indonesia is expanding a pilot project to transform appointed schools into entrepreneurship-based high schools. In 2016, there were 204 such pilot high schools spread across 34 provinces in Indonesia (Banten Raya, 2016[12]). In Lao PDR, the Department of SME Promotion has started to develop programmes to promote entrepreneurship among secondary school students, which is done in partnership with the International Labour Organization. Myanmar and Viet Nam do not have pilot projects in place yet.

In the ASEAN region, entrepreneurship education at the university level is generally less inclusive than at the secondary level. Only a few universities in most AMS offer an entrepreneurship degree, although many business majors take short courses or subjects on entrepreneurship. The Philippines is a notable exception, with 285 of its 1 934 higher education institutions offering stand-alone degrees on entrepreneurship.[11] Some universities in Malaysia[12] and Thailand[13] also offer degree programmes on entrepreneurship, but there are fewer dedicated degrees than in the Philippines.

The provision of training-of-trainers programmes for EL is rather weak in the region. There are some unstructured training-of-trainers activities in Brunei, Cambodia and the Philippines, while Singapore, Malaysia and Indonesia have programmes that are more specific. To address this gap, a number of regional initiatives have emerged. This includes the ASEAN SME Academy, which was launched in May 2016 as an open-access, online training platform for SMEs. After completing a series of training sessions, participating trainers were then expected to provide training to SMEs within their own networks on how to use the academy. In 2016, the academy conducted training-of-trainers sessions in Lao PDR, the Philippines, Indonesia and Cambodia.

Finally, specific incentives for private service providers of entrepreneurship education are non-existent in the region. Some countries have instead focused on developing links between the private sector and schools. Indonesia, for instance, has developed a mandatory internship programme for vocational students in both state-owned and private companies.

Monitoring and evaluation: Malaysia is the regional leader in monitoring EL

The region scores lowest on this thematic block. Countries were scored on two components: *i)* the presence of monitoring and evaluation mechanisms for EL policies, programmes and projects; and *ii)* the availability of university networks for EL that regularly review or monitor the implementation of EL courses.

Among AMS, only Malaysia has both of these components in place. The Malaysian Qualification Agency monitors the implementation of EL in universities, while government agencies regularly monitor specific EL programmes and projects such as the TEKUN National Entrepreneurship Institute and the Tunas Usahawan Belia Bumiputera programme. In other AMS, EL projects and programmes are monitored as part of the general monitoring conducted by assigned government agencies, but only Malaysia has a specific network in place for monitoring the development of EL in universities.

Sub-dimension 7.2: Entrepreneurial skills

This sub-dimension looks at the sophistication and intensity of policies and programmes to develop entrepreneurial skills among SMEs. Equal weights are applied across each thematic block.

Table 10.2. Scores for sub-dimension 7.2: Entrepreneurial skills

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Med.	StD.
Planning and design	2.65	1.83	5.15	1.83	3.50	1.83	5.15	6.00	3.48	1.83	**3.06**	**1.53**
Implementation	6.00	2.65	4.30	2.65	6.00	4.30	4.30	6.00	6.00	4.30	**4.30**	**1.26**
Monitoring and evaluation	1.83	1.00	4.33	1.00	3.50	1.00	4.30	3.50	4.33	1.83	**2.66**	**1.39**
Total sub-dimension score	**3.99**	**2.03**	**4.60**	**2.03**	**4.63**	**2.77**	**4.60**	**5.50**	**4.78**	**2.94**	**4.30**	**1.18**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to the Policy Framework and Assessment Process chapter for further information on the methodology.

Planning and design: Background studies should be used in policy design

Only five AMS currently use background studies to inform the development of programmes on entrepreneurial skills. Research on entrepreneurial skills among SMEs is mostly conducted by independent academics or non-government institutions, and their findings are generally not considered in the policy planning process.

The five AMS that do conduct background studies are Singapore, Thailand, Malaysia, Indonesia and the Philippines. In Indonesia, every government agency has an internal planning or research division that conducts background studies to inform policy design. In the Philippines, the Department of Trade and Industry conducts background studies before developing entrepreneurial skills strategies for SMEs. One notable Philippine programme in this area is the SME Roving Academy, which is a continuous learning programme for the development of skills among MSMEs.

Implementation: Concrete initiatives are needed to upgrade entrepreneurial skills

Implementation levels vary across AMS. A number of AMS have already begun to implement programmes to foster entrepreneurial skills among SMEs. In Indonesia, for

instance, these programmes are implemented by a number of different ministries and are incorporated into the strategic plans of the Ministry of Research, Technology and Higher Education and the Co-ordinating Ministry of Economy. In Malaysia, these programmes are spearheaded by SME Corp. In the Philippines, training programmes and research projects are implemented under the "Tara Na, Negosyo Na" initiative, while in Myanmar entrepreneurship camps and incubators are run by the country's Young Entrepreneurs Association.

Few initiatives seem to be implemented in other AMS. In Viet Nam, a government decree[14] has identified the agencies responsible for these activities, but no concrete programmes have yet been implemented. In Lao PDR, the Five-Year National Socio-Economic Development Plan 2016–2020 outlines measures to enhance the capacity of entrepreneurs, but few concrete programmes appear to be in place. However, some activities are incorporated into donor-backed projects, such as the Regional Economic Integration of Lao PDR into ASEAN, Trade, and Entrepreneurship Development (RELATED) project, which is being implemented with GIZ.

In Cambodia, the government is in the process of setting up a committee to develop entrepreneurship programmes. The country also has a number of private-sector initiatives to nurture entrepreneurs, for instance those organised by the Young Entrepreneurs Association of Cambodia.

Monitoring and evaluation: Skills programmes need independent assessment

This thematic block focuses on monitoring and independent evaluation of entrepreneurial skills training programmes. Results show that Myanmar, Lao PDR and Cambodia have put in place neither monitoring mechanisms nor independent evaluations of those programmes.

Malaysia has monitoring mechanisms, but independent evaluation of its training programmes is unavailable. In Singapore, while many training programmes are conducted by private-sector providers and are therefore not covered by the government's monitoring mechanism, they are regularly evaluated by the private institutions themselves.

In Thailand, only SME training programmes that fall under the country's integrated budget for SME development are concretely monitored, and this is done by the Office of SMEs Promotion. In some cases, Thailand's Department of Industrial Promotion hires third parties (university or research institutions) to provide independent evaluation of training programmes, but this is done on an ad hoc basis. Since the government often sponsors the activities of these third parties, issues may arise concerning the impartiality of results.

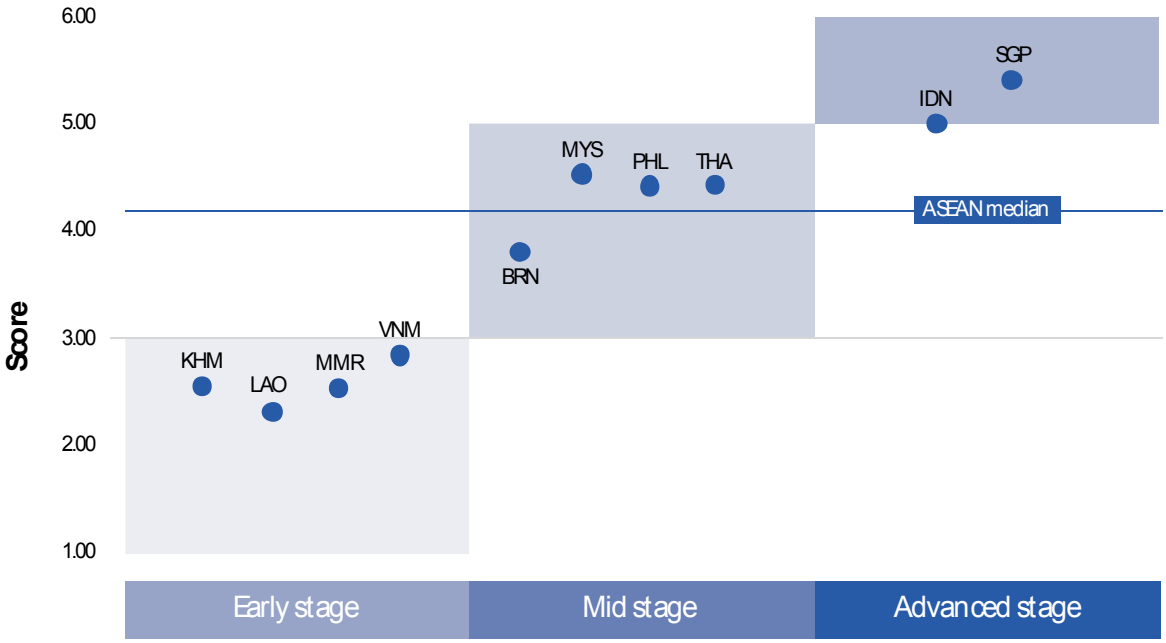
Overall, the region is making significant efforts to promote entrepreneurial skills among SMEs. Singapore, Indonesia, Thailand, Malaysia and Philippines have relatively more advanced policies, followed by Brunei. The variation in scores among the countries is wide, however, with Cambodia, Lao PDR, Myanmar and Viet Nam trailing far behind. By improving their policy design mechanisms and embedding more structured monitoring and evaluation schemes into their programmes, these four nations can get in step with the other AMS, paving the way for a more equal level of development.

The way forward

Dimension 7 of the index aims to evaluate the extent to which EL has been adopted within national curricula and the extent to which policy instruments are in place to develop entrepreneurial skills. The 2018 ASPI assessment of different AMS is illustrated in Figure 10.3.

The median score for the dimension as a whole suggests that most countries have not yet reached the advanced stage of policy development and implementation. Singapore and Indonesia have reached this stage, and other ASEAN-6 countries follow. The newer AMS (Cambodia, Lao PDR, Myanmar, and Viet Nam) are currently at the early stage of policy development in this area, but have the potential to leapfrog in this area.

Figure 10.3. Weighted scores for Dimension 7: Entrepreneurial education and skills



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores.

Among the "early stage" countries, the main challenge is to integrate EL programmes into their national education systems, which tend to face greater resource constraints than other AMS. Few EL programmes have been included in government strategies.

Countries that fall within the "mid-stage" have generally adopted EL programmes in their national education systems. They are now attempting to integrate them in a more structured way, and incorporate them into different levels of education. Many countries, for instance, do not yet provide EL programmes at secondary education level. Another challenge for the countries in this group is to ensure the sustainability of training programs for EL trainers.

Countries that fall within the "advanced stage" are generally seeking to further develop monitoring and evaluation mechanisms for programmes to promote entrepreneurial drive

and skills. The sustainability of training programmes for EL trainers may also be a challenge for some countries within this group.

Overall, great efforts and resources seem are needed to intensify the strength of policies to mainstream entrepreneurship in ASEAN countries. Going forward, policy makers could prioritise the following:

Table 10.3. Policy recommendations to boost entrepreneurial education and skills

Level of policy	Challenges	Policy recommendations
Early stage *Cambodia, Lao PDR, Viet Nam and Myanmar*	Member states of this group have not yet fully incorporated EL into their national education policy	• **Introduce entrepreneurial learning in national education policy.** It is important for these countries to commence on the process in order to meet the ASEAN objective on entrepreneurship and to get in step with the other member states. In some of these member states, the way forward could also be to strengthen the integration of EL into policy.
Mid stage *Brunei, Indonesia, Malaysia, the Philippines and Thailand*	EL has not been thoroughly evident in all levels of education yet	• **Expand the adoption of EL within the structure of national education.** Member states at mid-level of development on EL have typically integrated entrepreneurial learning into some level or type of educational programme. Expanding the coverage of EL could be beneficial for increasing the awareness of entrepreneurship among the young generation. For example, EL could be extended from its current use in vocational schools to non-vocational schools as well.
	Expanding EL throughout national education system needs a robust supply of quality EL educators	• **Prepare and implement a robust model for training of trainers (ToT).** The ASPI found that ToT tends to be unstructured. It is therefore important for member states to prepare and implement a more robust model for ToT. This will help to ensure the effectiveness of the campaign to increase awareness of entrepreneurship.
Advanced stage *Singapore*	Larger scale of entrepreneurial education and skill promotion might take many forms and therefore requires strong monitoring and evaluation mechanism to keeping track of the programmes achievements as well as challenges	• **Improve evaluation and monitoring of EL implementation and policy programmes.** This is important in order to ensure that policy programmes designed to improve entrepreneurial skills actually benefit the performance of entrepreneurs. The survey conducted for this policy index revealed that monitoring and evaluation in general could be significantly improve.

Notes

[1] High-growth firms can also "leap out" from the economic core. (Bridge, O'Neill and Cromie, 1998[13]) cite the example of WalMart, which only achieved substantial growth after 30 years of operation.

[2] Broadly, this is the structural shift of an economy from agriculture (and small-scale production) to manufacturing to services. The first phase is marked by high rates of self-employment, while the second is marked by more sole proprietors moving into waged employment as more economic opportunities open up and the returns from waged employment increase. In the third and final stage, entrepreneurial activity increases as the share of manufacturing in the economy declines and the share of services increases. Service-sector firms tend to have a smaller optimal

size than manufacturing firms, and competition tends to be greatest in industries where entrepreneurial activity is important (Acs, 2006[4]).

[3] The study found that only 7% of managers in informal firms had a college degree, compared to 76% of managers in formal firms.

[4] Their findings suggest that while informality decreases with economic growth, this transition is hindered where the supply of educated entrepreneurs – or those that can run a firm competitively in the formal sector – is lacking.

[5] This mainly refers to the rate of self-employment, but could also apply to the number of individuals within a managerial function.

[6] And increased either through immigration or education and training.

[7] This approach has been advised by the OECD (2009[14]) and others.

[8] Entrepreneurship has been included as one of the EC's key competencies for lifelong learning since 2006 (Recommendation 6/962/EC). For further information see http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006H0962&from=EN.

[9] Peraturan Pemerintah Republik Indonesia No. 19 Tahun 2005 tentang Standar Nasional Pendidikan (Indonesian Government Rule No. 19/2005 on National Education Standard).

[10] Universiti Brunei Darussalam, for example, is aiming to embed the concepts of entrepreneurial learning in all modules by 2019.

[11] Universities offering degrees in entrepreneurship include the Polytechnic University of the Philippines in Quezon City (which offers a Bachelor of Science in Entrepreneurial Management) and the University of Makati (which offers a Master of Business Administration (MBA) in Entrepreneurship).

[12] For instance, Universiti Malaysia Kelantan offers a Bachelor degree in Entrepreneurship.

[13] For instance, Bangkok University, Mahidol University, the University of the Thai Chamber of Commerce and Assumption University.

[14] Government Decree No. 56/2009/ND-CP mandates the Ministry of Planning and Investment to co-ordinate with other agencies to provide assistance and training programmes for SMEs, and the Ministry of Science and Technology to formulate policies for SME business incubation.

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Chapter 11. Social enterprises and inclusive SMEs

Introduction

The ASEAN Economic Community (AEC) has increasingly pursued an inclusiveness agenda as it steps up integration efforts, attempting to reduce subnational and regional income disparities and thereby to spread the gains of enhanced economic integration. In particular, it advocates for policies to stimulate entrepreneurship among commonly marginalised groups. This commitment is demonstrated under the equitable pillar of the AEC Blueprint, which highlights the value of targeting poverty alleviation and protecting vulnerable segments of the population through business creation and self-employment (ASEAN, 2012[1]).

Inclusive entrepreneurship policies aim to address any market failures that prevent an individual from setting up and operating a business based on an aspect of their identity. The aspects covered in this Index are gender ("inclusive entrepreneurship policies for women"), age ("inclusive entrepreneurship policies for youth"), and handicaps ("inclusive entrepreneurship policies for persons with disabilities"). Such policies aim to level the playing field for entrepreneurship.

As another instrument for boosting inclusion, the concept of the social enterprise[1] is gaining popularity worldwide as a market-friendly alternative to cost-intensive social policy programmes. Advocates argue that civil society can address social problems in innovative new ways that also include social enterprises. Social entrepreneurship has been shown to assist resource-constrained governments in tackling socio-economic problems such as poverty, disease and access to education and work, and in dealing with disabilities (Seelos, Ganly and Mair, 2006[2]; OECD, 2014[3]). Policies to stimulate social entrepreneurship are progressively becoming popular across the OECD, as well as in high-income AMS such as Singapore. For the purposes of this publication, the OECD has considered a relatively wide definition of social enterprise and has integrated initiatives such as inclusive businesses and co-operatives into the analysis.

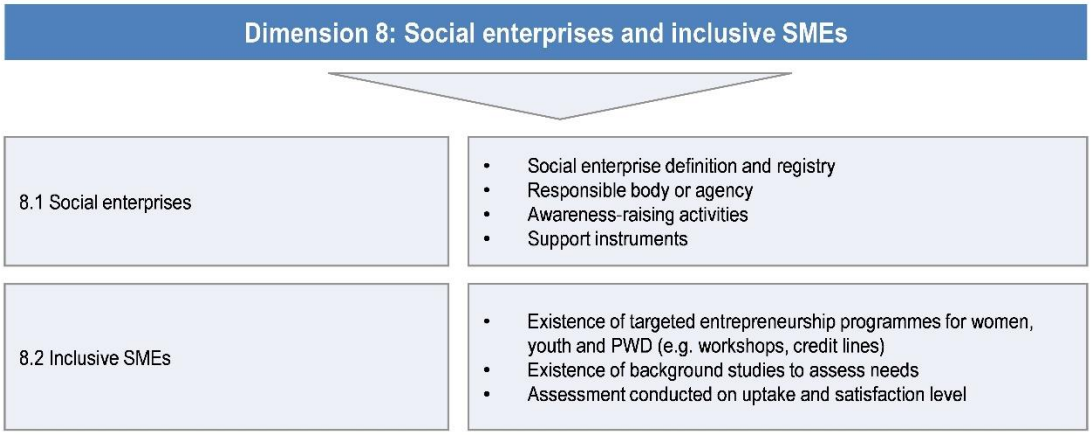
Assessment framework

The framework used to assess policy under Dimension 8 comprises two sub-dimensions: one on social enterprises and the other on inclusive SMEs. Each sub-dimension has three thematic blocks spanning the breadth of the policy cycle: *i)* planning and design; *ii)* implementation; and *iii)* monitoring and evaluation.

Sub-dimension 8.1 assesses the maturity of the ecosystem for social enterprises and the depth of policies to facilitate their creation and operation. In particular, the indicators look at whether the country has a formal definition for a social enterprise, whether national strategies or legislation are in place, the existence of national social enterprise registries and whether one agency has a clear responsibility for this policy area. The assessment attempts to get a picture of the full range of actors operating in this space, including those

from the private sector and from civil society. On a more programmatic level, it looks at whether the country runs awareness-raising activities on social enterprise and whether support instruments are in place, with an indication of their budgetary allocation to provide a sense of scale. The assessment takes into account funding from government, donors, civil society and private initiatives. Within this sub-dimension, the highest weight is given to implementation activities, followed by planning and design, and then monitoring and evaluation.

Figure 11.1. ASPI framework for assessing social enterprises and inclusive SMEs



In the assessment, a social enterprise is defined as a vehicle that "involves private activity conducted in the public interest, organised with an entrepreneurial strategy, but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment." For purposes of comparison, and given the novelty of these enterprises globally, including in OECD countries, a variety of socially oriented ventures in ASEAN countries – such as co-operatives, inclusive business initiatives and associations – were counted as a "social enterprises" in the implementation and monitoring and evaluation blocks. In the planning and design block, however, the assessment followed the definition of a social enterprise stated above.

Sub-dimension 8.2, on inclusive SMEs, looks at the policies and activities in place to level the playing field for entrepreneurship among three target groups: women, youth and persons with disabilities (PWD). Given varying policy priorities across ASEAN Member States (AMS), interventions for each target group were assessed individually. Indicators included whether such policies were covered under a strategic plan, the mechanisms for co-ordination across different government agencies, the availability of data, the existence of dedicated training programmes and business networking facilities, and financial support programmes. As in sub-dimension 8.1, the greatest weight was assigned to implementation activities, followed by planning and design, and then monitoring and evaluation.

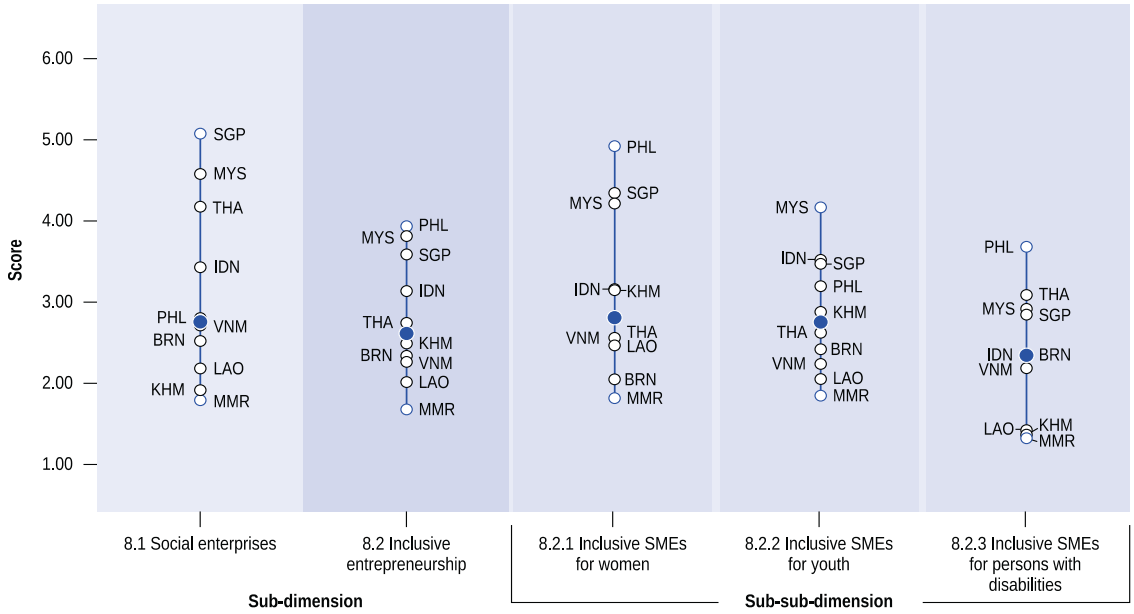
Although sub-dimension 8.2 focuses on entrepreneurship policies, other labour-market policies, such as programmes to boost employability, were also considered in the assessment. The rationale was that entrepreneurship policies are often considered to complement employability measures, and that therefore policies to boost inclusive entrepreneurship can be assessed in relation to broader labour-market policies.

Dimension 8 intersects with areas reviewed elsewhere in this report: the "business development services" sub-dimension in Dimension 1, and the "entrepreneurial skills" sub-dimension in Dimension 7. Given the novelty of social enterprise activities, both in the region and globally, sub-dimension 8.1 was assigned a weight of 25%. The remaining 75% was assigned to the larger policy area covered in sub-dimension 8.2. Taking this sub-dimension as a whole, inclusive entrepreneurship policies for women and youth were each assigned a weight of 35% (given the importance of these policies for the region, as evidenced by their inclusion in the SAP SMED action lines), while those for PWD received 30%.

Analysis

The overall assessment results for each sub-dimension are presented in Figure 11.2. The graphic also presents scores for the three target groups analysed in sub-dimension 8.2 on inclusive SMEs.

Figure 11.2. Weighted scores for Dimension 8: Social enterprises and inclusive SMEs



Analysing the results, the spread is highest in sub-dimension 8.1 on social enterprises, possibly because it is a relatively new policy area and some countries might need time to develop relevant policies. In sub-dimension 8.2 on inclusive SMEs, women's entrepreneurship shows the highest spread, reflecting the fact that several countries are outliers with more advanced policy measures. Interestingly, women's entrepreneurship is the sub-group where countries have achieved the most progress overall.

Sub-dimension 8.1: Social enterprises

This sub-dimension examines planning and design for social enterprise policy and its implementation, monitoring and evaluation. The first thematic block, on planning and design, includes indicators relating to the availability in each country of formal and shared definitions of social entrepreneurship, a formal law or policy covering this area and the referencing of social enterprises in national strategies. The second block covers

implementation of policies for enhancing social entrepreneurship, including the budget, dedicated instruments and implementation agencies. The third block assesses monitoring and evaluation mechanisms at a national level.

Table 11.1. Sub-dimension 8.1: Social entreprises

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	3.03	2.28	4.12	2.47	5.24	1.73	3.02	4.51	5.25	4.33	**3.58**	**1.19**
Implementation	2.65	1.90	3.10	2.05	4.61	2.05	3.10	5.85	3.86	1.75	**2.88**	**1.27**
Monitoring and evaluation	1.33	1.33	2.98	1.99	3.31	1.33	1.66	4.32	2.98	1.99	**1.99**	**0.97**
Total sub-dimension score	2.52	1.92	3.43	2.18	4.57	1.80	2.78	5.07	4.17	2.70	**2.74**	**1.09**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

The median score for the region as a whole on this sub-dimension is 2.74, indicating that policies to promote social entrepreneurship are at an early stage of development. This is consistent with the fact that it is a relatively new area for policy makers, as is also the case in many OECD countries. Social entrepreneurship has received much more attention in ASEAN over the last decade. In some countries, social entrepreneurship is promoted as a key policy response to gaps in socio-economic well-being, and it is included in key policy documents. There is little official statistical data, but based on data received from a number of countries, the vast majority of social enterprises are in an early or seed stage of development and could be considered as SMEs based on size and the challenges they face.

Planning and design: AMS are making progress on policy for social ventures

AMS have a history of supporting the development of co-operatives, associations, non-governmental organisations (NGOs), not-for-profit organisations and foundations. Over the last decade, ASEAN governments have gone further, making progress in designing dedicated policies for the promotion of social ventures. This is reflected by a relatively high median score of 3.58 in the planning and design thematic block. In many cases, the governments have integrated social enterprises into national development strategies. In Thailand, Malaysia and Singapore, they have designed specific action plans for social entrepreneurship promotion. Many AMS have also created dedicated initiatives to promote inclusive business (IB). For example, the Philippines selected IB models as a preferred area for investments for 2017-2019, and it has established an IB promotion programme.

As for defining a social enterprise, however, only Thailand, Viet Nam, Malaysia and Singapore have a formal set of characteristics or definition. A definition is important for bringing clarity to the nature, missions and activities of social enterprises, and forms part of the legal framework that in turn grants social enterprises the recognition and visibility needed to thrive; conversely, inaccurate definitions can be harmful to social enterprises by causing confusion or failing to capture the full spectrum of vehicles that qualify as social enterprises in a given context (OECD, 2017a[4]). Among the AMS, Thailand and Viet Nam have a clear formal definition. In Philippines, the Senate is working on a bill that integrates a shared definition for social enterprise, but the document is still in the

proposal stage. Other countries are without a formal definition for social enterprises, although they do have definitions related to co-operatives, associations, foundations and NGOs, whose activities closely adhere to social entrepreneurship. In some cases there is a shared working definition, though not formally approved. For example in Malaysia, although there is no formal definition, the government has developed a guidebook, *MaGIC SE 101*, which provides a shared working definition for government institutions that serves as a basis for social enterprise accreditation.

Only a few ASEAN countries have an institution with a clear mandate covering the area of social enterprises. The mandate is often shared among several institutions, such as the Ministry of Social Affairs or Social Services. Singapore and Thailand have a dedicated committee in place for promoting social enterprise. In the Philippines, there is a proposal to create a Social Entrepreneurship Development Council. A number countries do not have a dedicated institution to promote social enterprise, but they do have institutions in place tasked with providing policy support to co-operatives, NGOs, foundations and other social organisations. Other countries do not yet have a dedicated institution in place, but ministries or agencies responsible for social affairs or enterprise development carry out ad hoc activities. In Brunei Darussalam, a number of activities are carried out by the Ministry of Culture, Youth and Sports (MCYS) and Darussalam Enterprise (DARe), and the Legislative Council has expressed an interest in further developing the policy framework for social enterprise.

Several countries have designed dedicated policies for promoting social entrepreneurship, among them Thailand (Social Entrepreneurship Promotion Action Plan for 2011-16 and part of the 12th National Economic and Social Development Plan for 2017-21) and Malaysia (Malaysia Social Entrepreneurship Blueprint for 2015-18). Social enterprises are mentioned in the national strategic documents of Cambodia and Singapore. In the remaining AMS, national strategic documents do not specifically mention social enterprises, but they strive to promote social inclusion through provisions for other organisations involved in inclusive businesses.

Since the area of social entrepreneurship is relatively new, few countries have developed registries of social enterprises. Information was available only from registries in Malaysia, Thailand and Singapore. Registries form an essential aspect of the monitoring and evaluation framework and can greatly aid in sectorial mapping and data collection for improved policy making. Accreditation systems support the setting of standards and help to maintain and reinforce formal criteria for social entrepreneurship within a country. In addition, online registries can allow networking among social entrepreneurs.

Box 11.1. From the Republic of Korea, an example of a social enterprise ecosystem

The Republic of Korea's government has taken an active role in building a comprehensive ecosystem for the social economy. The Social Enterprise Promotion Act (SEPA) was enacted in 2006 to facilitate new employment and provide qualified social services for the local economy. Following SEPA, the Second Social Enterprise Promotion Plan (2013-2017) was adopted in 2012 to increase the sustainability of social enterprises and spread enterprise values. Diverse types of social enterprises exist based on the SEPA and can take the legal form of a corporation or association under the Civil Law, a company under the Commercial Act, or a non-profit private organisation (SEPA Act, Article 8).

Unlike many other countries where social enterprises emerge from the voluntary efforts of civil

society, social entities in Korea receive substantial focused support from the government to develop the social enterprises sector (Kim and Moon, 2017[5]). The Ministry of Employment and Labour certifies social enterprises through the Korea Social Enterprise Promotion Agency (KoSEA), which is the chief agency responsible for the execution of policy programmes (SEPA Act, Article 20). A range of institutional support to social enterprises is provided through operational support (including specialised advice and information), management support (including management consulting and accounting programme support), financial assistance (including tax benefits and funding for insurance) and educational support (including academic programmes for raising professional social entrepreneurs).

As a result of implementing the SEPA, there was a dramatic increase in the number of certified social enterprises. The total number of active social enterprises rose from 55 in 2007 to 1 460 by 2015. Furthermore, networks of social enterprises were expanding in many regions of the country instead of being concentrated in metropolitan areas. This success is attributed to the government's effective mobilisation of the necessary budget and the creation of an effective institutional arrangement for collaborative partnerships with the private sector and local governments (Kim and Moon, 2017[5]). Policy makers, newly established social enterprises, consumers, the co-operative sector and civil organisations have become increasingly aware of the importance of the voluntary efforts of citizens for nurturing the social economy (Jang, 2013[6]).

Implementation: Governments could collaborate more with private initiatives

The second thematic block, on the implementation of social enterprise policy, analyses data on government budgets for promoting social entrepreneurship and identifies good-practice initiatives focused on awareness raising, financial support, skills development and market access. The region's median score for this block is 2.88, but scores vary widely from country to country, indicating that government support for implementation of social enterprise policy is limited and not available in all countries.

While budgets to support co-operatives and NGOs have been mobilised in all ten AMS, support instruments specifically for social enterprises have been put in place in only three countries: Malaysia, Thailand and Singapore. Malaysia has created a dedicated Social Entrepreneurship Unit within the Malaysia Global Innovation and Creativity Centre (MaGIC), and in 2015 mobilised a budget of MYR 20 million (Malaysian ringgit), or about USD 5.1 million, to finance the unit and its activities, including awards, seed funds and capacity-building programmes. Thailand provided a budget of THB 105 million (Thai baht), or about USD 3.3 million, for the period 2011-16 to finance activities for promoting social entrepreneurship. The Thai social entrepreneurship system is currently in transition, but budgetary support is expected to continue. Singapore's government, in partnership with the sponsor community, has committed a fund of SGD 30 million (Singapore dollars), or about USD 22.8 million, including investment and grants, to support social enterprises for the period 2015-20. Substantial budgets have also been put in place across the region by a community of donors, foundations, social impact investors and private initiatives, among them the British Council, DBS Foundation, LGT Impact Ventures and Impact Hub. Overall, the number of players providing finance to social ventures and social enterprises in ASEAN has been growing rapidly, adding to donor budgets and government support.

Two countries, Malaysia and Singapore, have well-structured implementation agencies for social innovation. In Malaysia, this role is carried out by the Social Entrepreneurship Unit within MaGIC. Other institutions, such as the National Innovation Agency and the Agency of Youth and Sports, are also involved in implementing social innovation.

MaGIC offers financial grants, skills development and market access support through its Global Accelerator Programme and other initiatives. In Singapore, a Social Enterprise Association and a Social Enterprise Development Centre serve as focal points for the sector. Set up in 2015, the Singapore Centre for Social Enterprise, known as raiSE, has implemented initiatives that provide skills development, mentoring support and funding in the form of grants and capital investment. Thailand formerly had a dedicated Thai Social Enterprise Office that supported social enterprises with skills development through intermediaries. It ceased to exist in 2016, but the Department of Social Development and Welfare was due to take over its function from August 2017. The operating modalities and budget for this new situation were not clear at the time of publication.

Other AMS are at an earlier stage, but are beginning to implement some initiatives in this field. In Indonesia, the government is supporting social venture initiatives through its KUBE programme, and the Ministry of Youth and Sports is promoting social entrepreneurship among young people via business-plan competitions. In Brunei Darussalam, Universiti Brunei Darussalam has embedded a module on social enterprise into its Discovery Year programme. This module is called the Community Incubation Programme, and it aims to promote a mind-set for social enterprise among young people.

Across ASEAN, an increased number of intermediaries are offering business-related services to ventures pursuing social goals. Cambodia, Indonesia, Malaysia, Thailand, Singapore, Philippines and Viet Nam have seen a rise in such private-led initiatives. International networks such as Ashoka, Impact Hub, the Spark project and UnLtd are present in several countries and have played an important role in creating awareness and providing support services to social ventures. In Cambodia, Myanmar, Lao PDR, and Viet Nam, donors like the British Council and the United Nations Development Programme (UNDP) play a substantial role in promoting social entrepreneurship initiatives. In Viet Nam, a Centre for Social Entrepreneurship Development has helped more than 100 social ventures thanks to initial support from the Netherlands Development Organisation.

There is also a spectrum of impact finance and investment opportunities in Southeast Asia, with varying levels of risk accompanying the potential for financial return and social impact. Impact investment is more advanced in countries with developed financial systems (Singapore, Malaysia), but growing numbers of impact investors can be found across ASEAN, among them LGT Impact Ventures and the Insitor Seed Fund. In Singapore, the DBS Foundation set up a USD 50 million fund in 2014 to champion social entrepreneurship. In Malaysia, the Social Outcome Fund was launched with MYR 3 million in 2017 to finance social intervention projects. The Stock Exchange of Thailand is considering the establishment of a Stock Change Market for Social Enterprises. Despite these initiatives, the impact investment market is still nascent and fragmented in the region, and most social enterprises are still in demand of early-stage seed funding.

Monitoring and evaluation: National assessment of societal impact is rare

The third block has a median score of 1.99, indicating that monitoring and evaluation of social enterprise policy are not yet common in the region. Only a few AMS are developing key performance indicators (KPIs), gathering data on KPIs and integrating findings into the policy development cycle. In many countries, programmes funded by the government or donors were monitored but the findings from this process were not available.

However, a number of AMS have taken initiatives to evaluate not only the economic impact of measures supporting social ventures, but also their societal impact. Initiatives include the Payment by Results programme in Malaysia, the SE quality index in Philippines and the Social Value Toolkit in Singapore.

Sub-dimension 8.2: Inclusive SMEs

This sub-dimension looks at institutional structures, programmes, initiatives and monitoring and evaluation mechanisms for advancing inclusive entrepreneurship for three groups: women, youth and persons with disabilities. The first thematic block, on policy planning and design, assesses the framing of entrepreneurship for the target groups in national strategies and co-ordination mechanisms among relevant actors. The second block, on implementation, examines the budgets allocated for entrepreneurial activities, as well as the quality and variety of support available to target-group entrepreneurs in terms of finance, training, promotion and market access. The final block assesses monitoring and evaluation mechanisms vis-à-vis programmes and strategies, paying particular attention to the use of KPIs.

The ASEAN region counts numerous initiatives to engage women, youth and PWD in entrepreneurship. This social approach developed in response to labour-market challenges and the objectives of alleviating poverty, promoting social inclusion and moving towards gender equality. Nevertheless, while support activities may be gaining ground in AMS, especially for women and youth, a comprehensive structural approach is largely lacking within the region, although this varies from country to country according to national priorities for the three target groups. On the regional level, inclusive entrepreneurship is at an early stage of development, evidenced by the sub-dimension 8.2 score of 2.56. In many AMS, existing initiatives for entrepreneurs from the target groups have yet to be matched by coherent policies and strategic documents, which are needed for full support.

The results suggest that that policy implementation could benefit from a more co-ordinated, structured approach. For each of the target groups, about half of the ASEAN Member States have national strategies or action plans to promote entrepreneurship. Although women's economic empowerment is consistently mentioned as an aim in national strategies, there are still few explicit strategies to promote women's entrepreneurship, and women remain largely absent from MSME strategies. For youth, who receive considerable support from youth associations, strategies and support are not always co-ordinated among the many actors involved (youth ministries, SME agencies, educational institutions, etc.). Support for youth can also tend to cluster around start-up activities, leaving out young entrepreneurs with ventures in the growth stage. For PWD, many initiatives have focused on access to finance. A more holistic approach may be needed, such as matching financial support with the skills required to start and run a successful business, and awareness raising that reinforces the feasibility of self-employment as a viable option.

As noted above, interventions for each target group have been assessed individually in view of the varying policy priorities across AMS.

Inclusive entrepreneurship policies for women

Women face unique challenges and barriers to entrepreneurship: social pressures, limited access to finance, lack of business-related knowledge and skills, and limited access to business networks and networking activities. These issues merit targeted and regularised entrepreneurial programmes (OECD, 2017a[4]).

Table 11.2. Sub-dimension 8.2a: Inclusive entrepreneurship for women

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	2.00	4.42	3.74	2.91	3.82	2.25	6.00	4.25	3.08	3.49	**3.62**	**1.10**
Implementation	2.19	2.55	3.34	2.66	5.10	1.86	4.44	4.66	2.61	2.27	**2.63**	**1.10**
Monitoring and evaluation	1.83	1.83	1.83	1.28	2.93	1.00	4.04	3.77	1.55	1.55	**1.83**	**1.00**
Total sub-dimension score	2.05	3.06	3.18	2.47	4.22	1.82	4.90	4.34	2.56	2.55	**2.81**	**0.99**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Planning and design: Explicit strategies on women's entrepreneurship are needed

Advancing women's entrepreneurship and economic activity is widely acknowledged as a general aim in national strategies across the region, and all AMS have agencies and co-ordination mechanisms for enhancing women's economic empowerment. ASEAN also has a number of regional platforms for issues related to women and women's entrepreneurship, among them an ASEAN Committee on Women and an ASEAN Women Entrepreneurship Network. However, women are still largely absent from strategic documents on SMEs, and few countries have clear, explicit strategies for advancing women's entrepreneurship. The regional median score of 3.62 for planning and design reflects the fact that, although institutional structures are in place, gaps remain in the policy framework.

Women's entrepreneurship policies and implementation in AMS are generally handled by the country's ministry for women or social and family affairs, meaning that the ASEAN countries take a gender mainstreaming approach to women's entrepreneurship development (OECD, 2017a[4]). The Philippines is the only ASEAN country where implementation is formally handled by the lead SME agency, the Department of Trade and Industry.

All AMS engage various agencies in implementation, including the lead SME agency, women's associations and the private sector. For example, in Cambodia and Lao PDR, a women's business association is formally involved in the co-ordination structure for implementation of entrepreneurial activities. This multi-stakeholder approach and the active involvement of the women's business community can be an important avenue to meeting the needs of women entrepreneurs and identifying the main hurdles they face for successful start-up and operation of a business. There may also be segments of women, such as low-income women or single mothers, who are more disadvantaged than others in entrepreneurship. This is recognised in Malaysia, which has an action plan for single mothers who are entrepreneurs.

Nonetheless, many countries have yet to identify women's entrepreneurship as a separate intervention point. Only four ASEAN countries have clear and explicit strategies for women's entrepreneurship accompanied by targets and areas for intervention like access to finance, market access and product development support. In Viet Nam, the National Strategy on Gender Equality 2011-20 seeks to change norms in the labour force by encouraging new enterprise creation by women, with a target of raising the share of women-owned SMEs to 35% or higher by 2020. Lao PDR has a National Strategy for the Enhancement of Women SMEs. In Cambodia and the Philippines, women's

entrepreneurship is referenced across multiple strategic documents on gender equality and national development. The remaining ASEAN countries have an action plan or a strategic document that highlights women's economic participation through career development and employment, with no specific mention of women entrepreneurs or areas of intervention. (Singapore does not have a specific strategy, as barriers to entrepreneurship for women have been assessed as being very low.)

Overall, women entrepreneurs are absent from SME strategy documents across the region except in the Philippines and Viet Nam. Specific strategies for women's entrepreneurship send a strong signal, especially in countries where women are at a significant disadvantage in entrepreneurship. The absence of clear commitments in the form of stand-alone strategies, or placement in national development and SME strategies in particular, inhibits the mobilisation of resources.

Implementation: AMS could gear up support for women's entrepreneurship

Women entrepreneurs in ASEAN have access to general SME support activities provided by governments, and uptake of these services is relatively high in countries like Malaysia and Singapore. But the score for implementation of women's entrepreneurship activities on a regional level is 2.63, indicating that while programmes exist, they are at an early stage of development and at a low level of intensity.

There are numerous examples of business development support services, incubators and mentoring programmes specifically targeted towards women. Several countries have market-access support programmes in the form of trade promotion exclusively for women, among them Cambodia, Indonesia, Malaysia, the Philippines and Viet Nam. This is a positive development in helping women's businesses to scale up, especially in industries with high export-growth potential. Some countries also have training programmes focused on ICT skills for women entrepreneurs or programmes that ensure nationwide accessibility, for example the network of Women's Development Centres across 14 provinces in Cambodia.

The nature of targeted opportunities available for women entrepreneurs varies across AMS. Where the implementation of entrepreneurship programmes is handled by a women's ministry, entrepreneurship policy appears more likely to be used as a tool for poverty reduction and livelihood creation than for meeting the needs of women entrepreneurs who already have skills or of women-owned enterprises with high-growth potential (OECD, 2017a[4]). Priority is often given to developing the entrepreneurial capacity of women who are at a greater disadvantage than others. In Indonesia, activities focus on empowering women in co-operatives who are already beneficiaries of conditional cash-transfer programmes. In the Philippines, the GREAT Women Project (Box 11.2) targets low-income women micro entrepreneurs across the country.

Box 11.2. The Philippine's GREAT Women Project is a good-practice example

The Philippines' GREAT Women Project 2 aims to improve the economic empowerment of women micro entrepreneurs and their workers. The project, whose full name is Gender-Responsive Economic Actions for the Transformation of Women, is a cross-cutting initiative carried out by several government agencies, including Philippines Commission on Women (the lead implementer) and the Department of Trade and Industry. The project offers technical assistance to 12 000 women micro entrepreneurs and to numerous national and local government agencies by delivering gender-responsive business development support services. Its activities are

designed to increase the competitiveness and sustainability of women's micro enterprises and to improve the enabling environment for women's economic empowerment.

The GREAT Women Project 2 has helped women micro entrepreneurs across priority sectors identified in the national development plan. It links the women with mentors to help them refine business ideas, provides access to finance and facilitates access to domestic and export markets. The project has been able to increase the profitability of beneficiaries' businesses, helping them to move up the value chain and scale up by linking them with existing SMEs under a gender-responsive value chain approach.

The project illustrates the success and value of a government-wide gender mainstreaming initiative in which the women's agency is involved in all areas of project implementation. This kind of cross-cutting work is enabled by the inclusion of gender as an intervention pillar in the national MSME development plan. What should also be underlined is the project's ecosystem approach to overcoming disadvantages faced by women micro entrepreneurs via interventions in the areas of governance and capacity development.

Monitoring and evaluation: Gender-disaggregated data and KPIs are needed

Monitoring and evaluation of women's entrepreneurship policies and activities in the region focus predominantly on programmes and training. The regional median score on this block was just 1.83. Gender-disaggregated information is available only in Indonesia, Malaysia, Philippines and Singapore. Lack of such data impedes the systematic analysis of barriers to women's entrepreneurship and can inhibit the creation of better, evidence-based policies and programmes. It should be noted, however, that without specific entrepreneurship strategies for women with clear KPIs, the means for monitoring the advancement of women's entrepreneurship is understandably limited.

Inclusive entrepreneurship policies for youth

Engaging youth through entrepreneurship can help to achieve inclusive growth, especially since the formal labour market may not provide enough opportunities for all in countries where the workforce is young (UN, 2014[7]). The chances of young entrepreneurs running productive and performing businesses that are able to create decent jobs, as opposed to subsistence businesses, can be significantly increased when young people are drawn towards entrepreneurship for opportunity reasons rather than pure necessity. This is where entrepreneurial education has been shown to be an important building block for the economic impact and success rate of youth entrepreneurship (OECD, 2017b[8]).

Table 11.3. Sub-dimension 8.2b: Inclusive entrepreneurship for youth

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	2.00	3.00	3.00	1.99	3.00	1.66	2.00	1.66	2.33	1.99	**2.00**	**0.51**
Implementation	2.99	3.24	4.60	2.44	5.38	2.27	3.24	4.75	2.60	2.77	**3.12**	**1.03**
Monitoring and evaluation	1.83	1.83	2.65	1.28	3.48	1.28	5.17	3.77	3.20	1.55	**2.52**	**1.25**
Total sub-dimension score	2.41	2.87	3.82	2.05	4.17	1.86	3.19	3.47	2.63	2.25	**2.75**	**0.73**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Planning and design: Quick progress is possible on youth entrepreneurship

The regional median of 2.00 on planning and design for youth entrepreneurship indicates that this is still a nascent policy area. Youth constitute an important segment of the population in ASEAN economies, and youth employment will continue to be a pertinent policy area, as will identifying the role of the youth in economic growth. But while several AMS have a dedicated strategy for youth employment, few highlight youth entrepreneurship in policy documents. Some do – for instance in Thailand, the promotion of youth entrepreneurship[2] is highlighted under the 4th SME Master Plan. In Singapore, there is no dedicated youth policy, since policy makers regard young people as having equal access to the labour market and support schemes for entrepreneurship.

Many AMS recognise that youth entrepreneurship can be a policy tool for addressing youth employment, social inclusion of disadvantaged youth and informality within the labour market. They also recognise that young people can create high-growth business ventures that may contribute to economic growth through innovation and job creation. Five AMS have dedicated policies for youth entrepreneurship. These include Cambodia's National Policy on Youth Development, in which entrepreneurship is a strategic area; Indonesia's Grand Design for Youth Entrepreneurship Development; Philippines Youth Development Plan; and Thailand's Youth and Children Development Plan 2017-21, which identifies entrepreneurship as means of engaging youth outside the formal labour market. In Malaysia, youth entrepreneurship figures in several strategic documents, including the Malaysia Youth Strategy and the national development plan.

The scope is broad for youth entrepreneurship at the national level. Ministries of youth, industry, employment, social affairs and education all have a role in shaping entrepreneurial policies and programmes (OECD, 2016[9]). Within ASEAN, youth entrepreneurship falls under a youth ministry, and there is some co-ordination with education ministries, social affairs ministries and youth associations.

Implementation: Start-up support for youth entrepreneurs is strong in AMS

The regional median for implementation of youth entrepreneurship policy is 3.12. This indicates that initiatives targeting young entrepreneurs exist, even if dedicated strategies do not. Young entrepreneurs in ASEAN have access to numerous forms of support, such as training in managerial skills, incubators, business competitions and coaching activities. In addition to government-backed training schemes, there is high involvement of universities, the private sector and associations. This situation reflects the unique dynamics and broad set of actors on youth entrepreneurship in ASEAN compared to the region's entrepreneurship initiatives for women and PWD.

Although the environment for youth entrepreneurship is relatively vibrant, activities are sometimes ad hoc in nature and not necessarily co-ordinated. Given the scarcity of clear guiding documents on youth entrepreneurship and the multiplicity of actors involved, there can be inconsistencies, duplication and gaps in support. Most support appears to centre on start-up activities for would-be youth entrepreneurs or early-stage enterprises run by youth. The region's focus on start-up activities is a positive development, especially in countries where youth entrepreneurial activities are at a very early stage of development. Support includes seed grants and interventions to expedite the regulatory process. Among AMS, many of the largest initiatives for youth have focused on business creation, for example Startup SG initiatives in Singapore, the STEPS (Supporting Talent, Entrepreneurial Potential and Success) project in Lao PDR, the Youth Start-Up

Programme 2016-21 in Viet Nam and the YES (Youth Entrepreneurship Support) project in Philippines.

Some countries have shown a preference for supporting young entrepreneurs looking to build technology-based start-ups or engage in innovation activities. In Indonesia, for example, seed investment grants go towards tech-based enterprises. Specifically targeting tech-based enterprises can provide much needed policy support to encourage movement into this industry. However, too much focus could crowd out other promising ventures and limit the impact of youth entrepreneurship in the long run. High performing and high-growth ventures that can create jobs and foster innovation are not exclusively tech-based.

The capacity to deliver targeted training sessions varies significantly across AMS. Countries with stronger activities for promoting the development of entrepreneurial skills (sub-dimension 7.2) tend to perform better on implementation of youth entrepreneurship policy. They are more able to provide targeted entrepreneurial and managerial skills training for youth because general SME training schemes and business development services already exist.

In addition to youth ministries and universities, youth associations and youth councils play a vital role in supporting young entrepreneurs in the region through access to finance, competitions, networking opportunities, mentoring and incubators. Governments are empowering and giving formal mandates to youth associations to carry out entrepreneurial activities. In Cambodia and Viet Nam, youth associations are the main bodies delivering support. The Young Entrepreneurs Association of Cambodia, a volunteer-driven non-profit organisation, is taking the lead in facilitating peer-to-peer learning and enlarging the social capital of young entrepreneurs. In a joint initiative with a women's association, it is also intervening in the regulatory landscape to expedite the start-up process – a rare example of a blended initiative that targets regulatory barriers faced by both women and youth. Meanwhile, the Viet Nam Youth League's Youth Start-Up Programme 2016-21 is being conducted in co-ordination with banks, large businesses and organisations.

Monitoring and evaluation: Programmes are assessed, but national impact is not

The regional score on monitoring and evaluation is 2.52. Given that few countries have strategic documents on youth entrepreneurship, monitoring and evaluation are rarely in place on a national level. Rather, monitoring and evaluation are conducted on a programme level by the different actors. At present only Indonesia and Malaysia have statistical data on self-employment and business creation for youth.

Box 11.3. Cambodia's Business Information Centre targets both youth and women

Cambodia's new Business Information Centre (BIC) is helping to foster a vibrant entrepreneurial ecosystem and to ensure that young entrepreneurs embark successfully by making the start-up process easier and resolving information asymmetries. The centre was launched in 2017 when the Young Entrepreneurs Association of Cambodia teamed up with the Cambodian Women Entrepreneurs Association, the Cambodia Chamber of Commerce and the Mekong Business Initiative.

The BIC is an online, open platform for SME support services. It aims to be a one-stop resource for up-to-date information on business laws and regulations, opportunities and business support services, including information on training sessions, a database of financial support services, tailored industry market insights and an SME activity calendar. The initiative is designed to clear

obstacles to business incorporation and formalisation by helping to remove barriers that demotivate potential and early-stage entrepreneurs from regulatory compliance.

The BIC represents a prime example of successful blending of women and youth entrepreneurship policies when clear, shared disadvantages between target groups have been identified. The centre took shape after a needs assessment found that the regulatory environment and information asymmetries – for business support services in particular –were pertinent policy areas for both youth and women entrepreneurs.

The initiative also stands out for its stakeholder involvement, which demonstrates the leading role that associations can play in entrepreneurial policy by illuminating and pushing forward the particular needs of entrepreneurs among their constituents. The BIC was born from feedback collected from SMEs through the associations and the needs assessment phase of documenting and evaluating business registration and licensing processes, with special attention paid to gaps between formal and actual processes.

Source: YEAC (2017), "Business Information Centre to expedite business growth in Cambodia," https://yeacambodia.org/content_news_events/detailNewsEvent/375.

Inclusive entrepreneurship policies for persons with disabilities

Creating a basis for inclusive employment practices for persons with disabilities is an important step towards rectifying labour-market disadvantages and social exclusion. Much can also be done on the strategy level to promote and empower PWD as business owners. Self-employment can provide an important avenue for greater labour-market participation, especially for people with disabilities who are subject to greater prejudice by employers or in contexts where discrimination is frequently reported (Halabisky, 2014[10]). Nonetheless, there are limitations to PWD entrepreneurship, which may not be a feasible option for people with severe or multiple disabilities (Halabisky, 2014[10]).

Table 11.4. Sub-dimension 8.2c: Inclusive entrepreneurship for PWD

	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Median	StD.
Planning and design	3.22	1.73	2.84	1.73	3.22	1.37	3.22	1.73	3.22	2.48	**2.66**	**0.72**
Implementation	1.91	1.17	2.32	1.25	3.04	1.33	3.75	3.41	3.32	2.27	**2.30**	**0.91**
Monitoring and evaluation	1.83	1.28	1.55	1.28	2.10	1.28	4.33	3.48	2.38	1.55	**1.69**	**0.98**
Total sub-dimension score	2.35	1.39	2.35	1.42	2.92	1.33	3.68	2.84	3.10	2.20	**2.35**	**0.76**

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to Chapter 2 and Annex A for further information on the methodology.

Planning and design: Policies focus on employment rather than entrepreneurship

Planning and design of inclusive policy for PWD mostly focuses on entrepreneurship from an employment perspective. Emphasis on the ability of PWD to become successful business owners is still in the early stages in AMS. Nearly all AMS have laws and action plans to protect and enhance work and employment prospects for PWD. These include legislature prohibiting job discrimination, provisions for vocational training, job-placement and career-support services, and regulatory incentives for hiring. In Cambodia,

a government sub-decree[3] incentivises the employment of persons with disabilities by introducing tax exemptions for foreign enterprises based on factors including the percentage of disabled workers they employ. In Thailand, the government operates a national hotline to help PWD to find decent work through job-matching services. In the Philippines, the Department of Trade and Industry's PWD Economic Empowerment Framework outlines three intervention areas for integrating PWD into the labour market: enterprise level assistance, enabling environment and policy advocacy.

The only countries with strategic documents that clearly frame and advance entrepreneurship for PWD are Brunei Darussalam, Malaysia, the Philippines and Thailand. Without a structural approach, it is difficult to overcome the unique barriers and challenges faced by PWD in starting and operating a successful business. Given that each country has a clear focal point for PWD entrepreneurship, the foundations for implementing future strategies are already in place.

Implementation: Entrepreneurship initiatives for PWD remain small in scale

Despite the attention given to career and employment support for persons with disabilities, there has not been much concerted, national-scale activity towards promoting self-employment among PWD. Malaysia and the Philippines engage in awareness-raising activities through information campaigns, but awareness-raising efforts around entrepreneurship for PWD are limited elsewhere. The private sector, NGOs and donors participate in small-scale efforts in some countries.

The region counts very few training and assistance schemes specifically targeted towards PWD entrepreneurs. Donors, NGOs and the private sector are involved in such efforts in Indonesia, Lao PDR, Myanmar, Singapore and Viet Nam. Each AMS has at least one initiative in place. On a regional level, interventions like entrepreneurial training, mentoring, coaching and advisory support remain small in scale, with minor budgetary support, and concentrate on providing basic business development services. The low regional median for this thematic block is not entirely unusual given the target group.

Within ASEAN, Malaysia is the only country to offer an array of support activities, ranging from start-up support to export-market access and ICT training. These services are offered by the main SME agency in co-ordination with other agencies. Other countries, like Brunei Darussalam and Lao PDR, have established dedicated training centres. One consideration going forward is physical access to training and business development centres, which can pose a challenge for individuals with disabilities. A solution can be found in online training, which is provided to PWD entrepreneurs in Singapore and Malaysia.

Access to start-up capital is a main barrier to entrepreneurship for PWD. Efforts are underway in the region to address access to finance for PWD entrepreneurs through special financial instruments. In Brunei Darussalam, Malaysia and Thailand, PWD can take out loans to start a business without the need for collateral or a guarantor. This is done through microcredit facilities, mainstream banks and a special government fund. In Viet Nam, PWD may take out loans with preferential interest rates through the Viet Nam Bank for Social Policies.

The availability of special financing instruments is not in itself a guarantee that PWD entrepreneurs will be able to start and operate a business successfully. PWD may lack the necessary skills due to difficulties in accessing education and/or work and entrepreneurial experience in the labour market. Access to finance should therefore be linked to provision

of the necessary business knowledge and skills. One example of this is Thailand's Fund for the Empowerment of Persons with Disabilities.

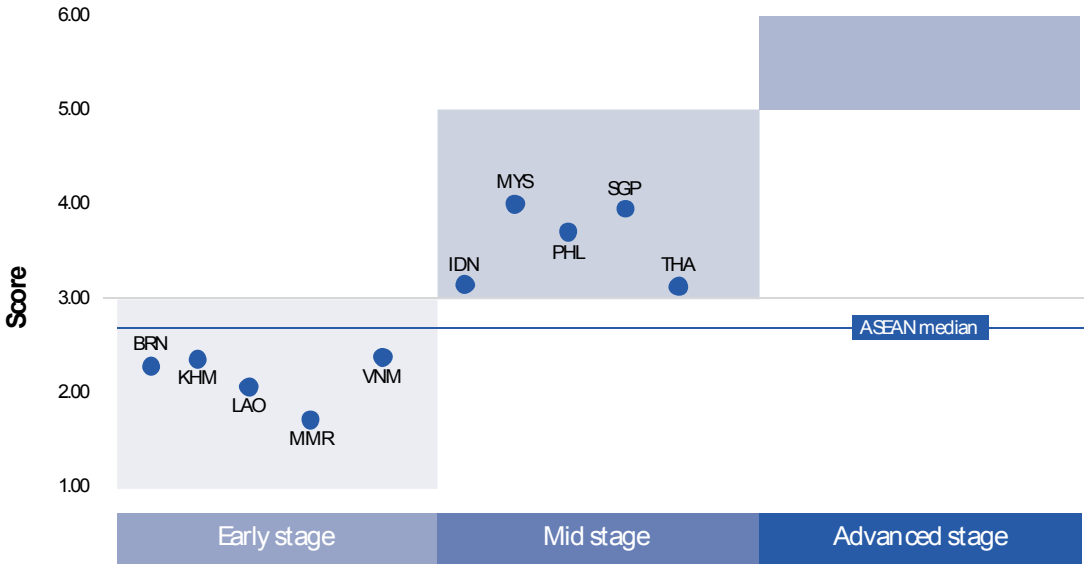
Monitoring and evaluation: The region scores poorly on national assessment

Monitoring and evaluation of PWD entrepreneurship is mainly conducted at the level of programmes and training. The lack of national strategies available for monitoring helps explain the low regional median score of 1.69. Most countries have employment data on PWD, and Indonesia, Malaysia, Philippines and Thailand have national statistical data on the self-employment activities of PWD. This is an important step for addressing the needs of those PWD who have already embarked upon entrepreneurial activities.

The way forward

Figure 11.3 presents scores for Dimension 8: Social enterprises and inclusive SMEs.

Figure 11.3. Weighted scores for Dimension 8: Social enterprises and inclusive SMEs



Note: The graph demonstrates the level of policy development in each AMS indicated by the 2018 ASPI scores. Countries fall into one of three categories and are ordered in this category alphabetically.

ASEAN Member States have clearly made efforts to promote social ventures and inclusive entrepreneurship for women, youth and PWD, but policies and systems vary significantly. Areas of focus and approaches to the roll-out of initiatives differ based on each country's specificity. Half of the AMS fall in the mid-stage category and half in the early stage.

Social and inclusive entrepreneurship policies have started to be applied relatively recently, and there is scope for developing them further. In social entrepreneurship, apart from Singapore, Malaysia and Thailand, AMS are in the early stage of policy development and implementation. A structural approach is largely absent for the promotion of inclusive entrepreneurship for the three target groups: women, youth and PWD. For each of these groups, about half of ASEAN countries have national strategies

or action plans. By developing a more structural approach, governments could improve co-ordination and minimise overlaps, inconsistencies and gaps in support activities, both among government agencies and with external actors. This is particularly relevant in the case of women, for whom there are few explicit strategies to promote entrepreneurship and who remain largely absent from MSME strategies.

Policy makers might wish to focus their attention on the following areas:

Table 11.5. Policy recommendations to promote social enterprise and inclusive entrepreneurship

Level of policy	Challenges	Policy recommendations
Early stage *Brunei Darussalam, Cambodia, Lao PDR, Myanmar, Viet Nam*	Lack of awareness of social and inclusive entrepreneurship, and lack of understanding and clarity about what differentiates concepts relating to social enterprise, inclusive business, civil society, responsible business conduct and corporate and social responsibility	• **Promote awareness of social enterprise and inclusive entrepreneurship** among the general public, and provide good-practice examples to policy makers, in order to build understanding of the concepts and of how they can contribute to the inclusiveness agenda.
	Lack of relevant co-ordination structures within the government. Even if a country has a dedicated institution responsible for social or inclusive enterprise, it often lacks a co-ordination mechanism with other governmental institutions and relevant stakeholders from the private sector and civil society. Co-ordination mechanisms help to create understanding of the ecosystem of actors and to harmonise their efforts	• **Further develop specific policy frameworks** and action plans, identifying the responsible institutions for policy implementation and defining the co-ordination mechanism. • **Create platforms for the collaboration of stakeholders** who work with the target groups, including donors and actors from the private sector, academia and civil society.
	Lack of instruments promoting access to finance. Limited access to finance is still a major barrier to social and inclusive entrepreneurship. All of the countries have microcredit facilities, but few have a dedicated system for supporting the larger seed and growth phases, and few mechanisms exist for linking loans to dedicated business development services (BDS)	• **Develop a set of instruments for promoting target groups** and linking access to finance to the provision of necessary knowledge and business acumen.
	Lack of available data on target groups	• **Start collection of data related to the target groups**.
Mid stage *Indonesia, Malaysia, Philippines, Singapore, and Thailand*	Unclear coordination mechanisms and institutions involved	• **Further develop national policies with clearly defined criteria or definition**s and determine the governance structure of institutions for the relevant target groups. • **Develop instruments for better co-ordination and collaboration of actors** in the social and inclusive entrepreneurship ecosystem, including the private sector, academia and civil society.

Limited access to markets. Social enterprises and the target groups often face difficulty accessing markets to sell their products or services. Few mechanisms are in place for connecting them to GVCs or designing special clauses in public procurement to make it easier for them to be suppliers to the government, among other measures	• **Explore a possibility to develop mechanisms supporting market access** for the target groups, such as public procurement provisions, certification processes or instruments linking the target groups to larger companies.
Limited access to knowledge and BDS. Social enterprises and target groups often lack business acumen and skills. They could benefit from various types of BDS, such as support for social enterprises with measurement of their societal impact, and easier access to training facilities for PWD	• **Support development of impact measurement mechanisms at the micro level of companies**, but also at the meso and macro levels, to be able to analyse and evaluate the impact of the target measures not only from the economic perspective. • **Further improve data collection efforts and integrate data analysis into policy making** when deciding which instruments to apply for which group.
No countries yet in advanced stage of policy development	

Notes

[1] Precise definitions vary, but a social enterprise can be broadly defined as "an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities" (EC, 2011[12]); (OECD, 2017c[13]). Social enterprises are not the only form of social venture, but they are the form covered by this assessment because they have the legal status of a company and are often SMEs.

[2] Wherein "youth" are specifically understood as those enrolled in schools and universities.

[3] Government Sub-Decree on Investments 1999 (No. 88/ANK/BK).

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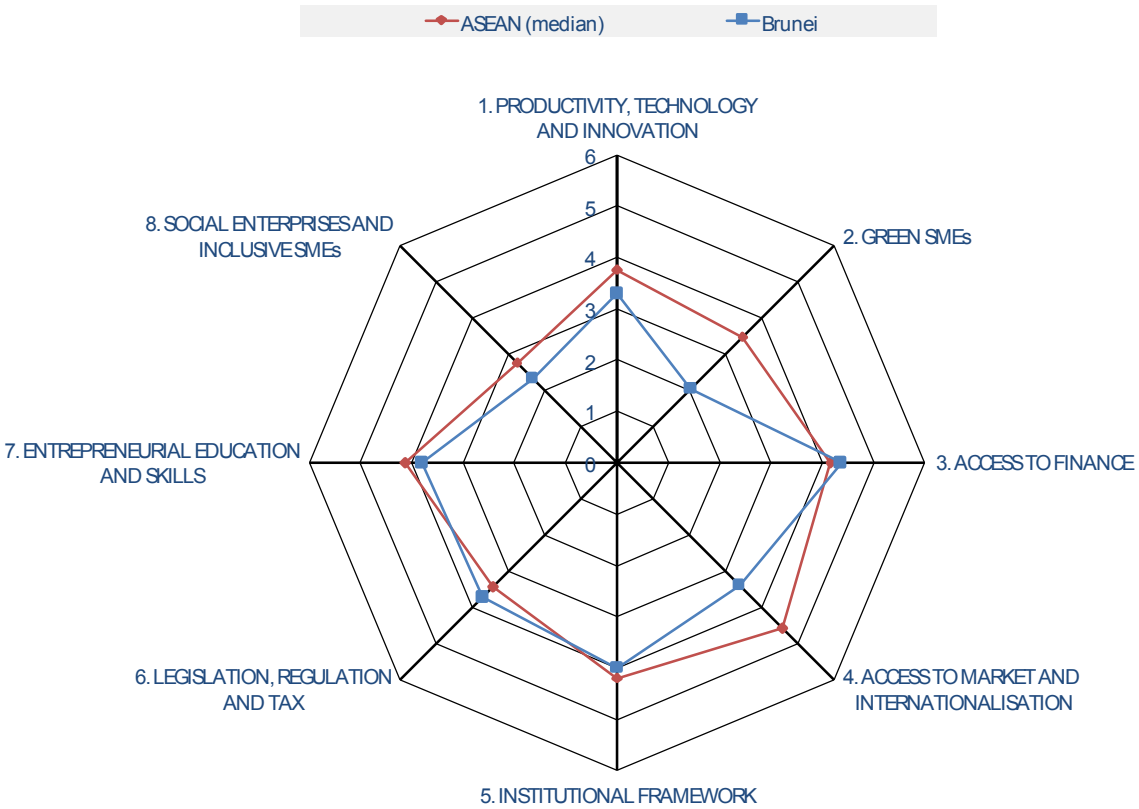
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Part II. Findings by Country

Chapter 12. Brunei Darussalam

Brunei Darussalam has accelerated its SME policy since the recent slowdown in global oil prices. It is beginning to adopt the "service delivery" approach to SME policy, providing services to help SMEs to increase their competitiveness. In line with its diversification objectives, the country has identified a number of priority sectors for targeted support. It is still in the early phase of developing SME policies, but it is advancing rapidly.

Figure 12.1. 2018 SME policy index scores for Brunei Darussalam



Overview

Economic structure and development priorities

Economic structure

Brunei Darussalam is the smallest and the second highest-income country in ASEAN. Its wealth comes predominantly from crude oil and natural gas production, which generates more than 60% of GDP and around 90% of merchandise exports.[1] Japan and South Korea are the principal importers of Bruneian mineral fuels, particularly liquefied natural gas, for which long-term supply contracts are in place.[2] With a population of only around 423 000 people (ASEC, 2017[1]) and the second smallest territory after Singapore, Brunei Darussalam boasts a gross national income per capita of Intl$ 83 170 in purchasing power parity (World Bank, 2016[2]). A substantial share of the population works in the public sector, which employed 47.7% of the country's labour force in 2014 (ILO, 2017[3]). This is predominantly financed through earnings from the oil and gas sector, which accounted for 89% of government revenue between 2012 and 2016 (IMF, 2016[4]). Brunei's major oil producer, Brunei Shell Petroleum (BSP), and its major operators were the country's largest employers after the government, providing jobs to 2.3% of the labour force.

The government has been exploring ways to diversify the country's economy since the 1980s. In the 1970s, the government managed to build up substantial foreign currency reserves and investment holdings through a combination of increased revenue from petroleum exports and a moderation of public spending. These investment holdings include assets such as a cattle ranch in Australia, which supplies all of Brunei Darussalam's beef, and a stake in the Indonesian cement industry to counteract shortages of cement and other construction materials. Through these investments, the government has managed to secure its citizens' access to many consumer goods and to keep prices low. These foreign holdings are thought to amount to around USD 40 billion in assets (SWFI, 2017[5]).

Brunei Darussalam's overseas investments and oil and gas revenue have traditionally helped to finance robust government expenditure. In 2015 and 2016, government spending ran into a negative balance,[3] and this trend is expected to continue over the medium term (IMF, 2017[6]), risking a deterioration of the country's investment holdings and making it more vulnerable to petroleum price fluctuations. Government revenue has been badly hit by falling world oil prices over recent years. GDP growth declined at an average annualised rate of 1.3% between 2012 and 2016, making Brunei Darussalam the only Southeast Asian country to record four straight years of economic recession. A muted recovery is expected over the medium term amid renewed optimism in oil and gas prices, with year-on-year GDP growth of 0.5% forecast between 2018 and 2022 (OECD, 2018[7]). Yet diversification measures will become increasingly important, particularly as oil and gas fields begin to age.

Table 12.1. Brunei Darussalam: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	0.9	-2.1	-2.3	-0.6	-2.5
Inflation	Percent, average	0.5	0.4	-0.2	-0.4	-0.7
Government balance	Percent of GDP	15.7	13.0	3.6	-14.5	-21.5
Current account balance	Percent of GDP	29.8	20.9	30.7	16.7	15.5
Export of goods and services	Percent of GDP	70.2	68.0	68.7	52.2	49.6
Imports of goods and services	Percent of GDP	35.5	42.9	30.7	32.7	37.7
Net FDI (inflows)	Percent of GDP	4.5	4.3	3.3	1.3	-1.3
External debt stocks	Percent of GNI	-	-	-	-	-
Gross reserves	Percent of external debt	-	-	-	-	-
Domestic credit to the private sector	Percent of GDP	28.0	31.2	33.2	41.4	44.3
Unemployment	Percent of total labour force	5.0	6.3	7.0	6.9	6.5
GDP per capita	PPP (constant 2011 intl$)	81 994	79 070	76 089	74 600	71 789

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

Brunei Darussalam's population is well educated, with an adult literacy rate of 96% in 2011 and gross enrolment rates of more than 90% at both primary and secondary levels (UNESCO, 2016[8]). The country has a high level of human development, ranking 30th in the world in the UN's Human Development Index (UNDP, 2017[9]). One of the principal challenges for the government moving forward will be to encourage more citizens to enter the non-oil-and-gas private sector and to engage in entrepreneurial activity. Oil and gas revenues have generated high wage levels for the country's citizens, notably also in the public sector, despite rather low underlying labour productivity: Brunei Darussalam is the only ASEAN country where labour productivity per worker seems to have declined

since 2000 (APO, 2015[10]).[4] These conditions have traditionally discouraged entrepreneurial activity and decreased the international competitiveness of the private sector. Yet Brunei Darussalam has a relatively young population, and the country's two largest employers have been unable to provide a sufficient supply of jobs over recent years, with those aged 15-24 classified as NEET (not in employment, education or training) amounting to 17% in 2017 (ILO, 2017[3]).[5] The country benefits from close proximity to very large markets. With strong certification standards and a healthy banking sector, it is particularly well positioned to provide these markets with Islamic products and services such as halal food and Sharia-compliant banking and finance.

While the dominance of the public sector will need to be rebalanced over the long term, the lack of critical mass in private-sector activity may require the government to play a catalysing role. Investments could be encouraged and capacities built through public-private partnerships (where the private sector provides expertise and technologies, and the public sector provides financing) and through measures to stimulate research and development (R&D) activities (OECD, 2013[11]). Policies and programmes could also be put in place to build skills and encourage risk-taking among young people, for instance measures to increase educational attainment at tertiary level. Gross enrolment in tertiary education is low in Brunei Darussalam, amounting to 30.8% in 2015, compared to 45.9% in Thailand and 42.4% in Malaysia (UNESCO, 2016[8]). In addition to diversifying the economy away from oil and gas, such measures will be critical for reducing the public-sector wage bill.

Reform priorities

Brunei Darussalam just completed its Tenth National Development Plan 2012-17 (NDP10), the second medium-term development plan under the national long-term development plan, known as Wawasan Brunei 2035, or Vision Brunei 2035. Wawasan Brunei 2035 aims to enhance the skills and quality of life of the population and to build a dynamic and sustainable economy. To achieve these goals, it emphasises accelerated economic growth through productivity enhancement, and the development of education and skills as a way to realise high productivity.

Consistent with the long-term goals, NDP10's theme was "knowledge and innovation, increased productivity and accelerated economic growth". The plan aimed to increase economic growth and resilience through the country's human capital. To provide a better enabling environment, it targeted improvements to the institutional environment (both governance mechanisms and the business environment); improvements in infrastructure; greater investment in R&D, education and training (particularly in STEM subjects); and strengthened links between industry and schools. To create a more conducive business environment, it placed special emphasis on enhancing the ease of starting a business, supporting internationalisation and strengthening intellectual property (IP) rights.

To achieve the goals of Wawasan Brunei 2035, the country is also implementing a diversification strategy focusing on five industry clusters where the country could develop a competitive advantage: *i)* halal products; *ii)* innovative technology and creative industry; *iii)* business services; *iv)* tourism; and *v)* downstream oil and gas.

Private sector development and enterprise structure

Business environment trends

Brunei Darussalam boasts high literacy levels, a comprehensive health care system, a stable macroeconomic framework and a robust legal framework for accessing and extending credit (WEF, 2017[12]; World Bank, 2017[13]).[6] Yet private-sector activity may be challenged by low productivity levels outside the oil and gas sector, a rather high level of government bureaucracy and the difficulty of enticing the local labour force away from highly paid and stable public-sector employment (WEF, 2017[12]; World Bank, 2017[13]). Brunei Darussalam also has some restrictions in place concerning the hiring of foreign workers for highly-skilled jobs. Since the last assessment in 2014, the country has enacted a number of reforms to attract foreign direct investment (FDI) into new sectors and stimulate private-sector activity, and this includes measures to speed up the hiring of foreign workers. In 2016, the Foreign Worker License was introduced to replace the Labour Quota License. This makes the process of hiring foreign workers faster but also comes with new rules designed to safeguard Bruneian jobs.[7] Other measures to attract FDI and stimulate private-sector activity include the enactment of new laws such as the Competition Order of 2015, a bigger push for SME development (through new institutions and instruments) and a package of incentives for foreign investors that are covered by the state budget for fiscal year 2017/18. These measures constitute a core component of the Brunei Darussalam's diversification strategy, which has been ramped up in response to the country's recent economic downturn. Going forward, Bruneian enterprises may face challenges that stem from the country's limited market size, rather high regulatory barriers to trading across borders, and its currency peg to the Singaporean dollar, which results in a costly exchange rate. Addressing these challenges will be important to enhance the competitiveness of Bruneian enterprises.

SME sector

An estimated 5 342 enterprises were operating in Brunei Darussalam in 2015, of which MSMEs accounted for 96.5%. Of these small enterprises were the most common, accounting for an estimated 42.9% (JPKE, 2016[14]).

MSMEs in Brunei Darussalam appear to provide a much lower structural contribution to the broader economy than MSMEs in other ASEAN countries. They accounted for 54.5% of employment and 34.8% of gross business revenue in 2015. Small enterprises accounted for a particularly small share: despite representing 42.9% of enterprises, they accounted for only 19.0% of employment and 10.2% of gross business revenue (JPKE, 2016[14]).

Bruneian MSMEs were concentrated in the wholesale and retail trade sector (34.7% in 2010), manufacturing (12.6%) and construction (12.0%) in 2010 (JPKE, 2011[15]).[8] Geographically, they are concentrated around the capital, with the Brunei-Muara district accounting for 75.4% of MSMEs (4 089 in total) in 2010.[9] Brunei-Muara is the country's most urbanised district, home to 69.3% of the population, and therefore the high share of MSMEs is not remarkable. In the Tutong and Temburong districts, small enterprises represented a higher share of total enterprises (79.6% and 77% respectively) and medium-sized enterprises a lower share than in other districts in 2010. Temburong is relatively isolated due to a lack of transport links and the fact that commuters must go through four immigration checkpoints to reach other parts of the country, and this may explain the dominance of small enterprises.[10] The government has started a BND 1.6 billion

(Bruneian dollars) project to build a bridge that would link Temburong with Brunei-Muara in order to ease the connectivity constraints. The bridge is scheduled to be completed by November 2019.

SME policy

A concrete MSME policy is relatively new in Brunei Darussalam, and has really only come into play over the past five years, precipitated by a fall in global oil prices and several years of economic recession. Over the past few years, two new bodies have been created to improve the business environment. The first, the FDI Action and Support Centre (FAST) was established in November 2015 as a government entity under the Prime Minister's Office to facilitate FDI. The second, Darussalam Enterprise (DARe), was established in 2016 as a statutory body to develop domestic enterprise, particularly SMEs. Previously, programmes and grants for MSMEs were administered by different agencies and co-ordinated to some extent by the Brunei Economic Development Board (BEDB).

2018 ASPI results

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

Brunei Darussalam has taken important steps to enhance the institutional and regulatory environment for small-scale enterprise activity over the past five years. It has created a statutory body responsible for enterprise development (DARe) and has developed new initiatives to increase formalisation. It has significantly enhanced the ease of company registration, decreasing the time required to register a limited liability company from 104.5 days in 2014 to 12.5 days as of 2017. Many initiatives in this area have been conducted in reference to the World Bank's *Doing Business* indicators since 2011, when an Ease of Doing Business Steering Committee was established within the Energy and Industry Department of the Prime Minister's Office (EIDPMO) (now the Ministry of Energy, Manpower and Industry, or MEMI), the main institution responsible for private-sector development. Going forward, more could be done to build on the country's reform momentum. It would be beneficial to develop a strategic vision for SME development, with a more thorough understanding of the policy scope, and to institutionalise good regulatory practices such as public-private consultations and regulatory impact analysis (RIA). The country is currently scored at the mid-level stage in this area, with 4.01 for its institutional framework and 3.69 for legislation, regulation and tax, but its score could be significantly increased via a few "quick win" measures.

Framework for strategic planning, design and coordination of SME policy

One of the main bodies responsible for setting the broad private-sector development agenda and co-ordinating interventions is the MEMI (EIDPMO at the time of information gathering and validation). The MEMI oversees a broad range of policy interventions related to industry, energy, and labour, including science and technology matters. It aims to promote capacity development and the growth of local industries and firms of all sizes (including MSMEs and cooperatives), as well as to stimulate technology and knowledge transfer and to generate further capital investment through FDI. Its overarching objective is to forge a pro-business environment in Brunei Darussalam through inter-agency collaboration, aspiring to reach a "top 20" position in the World Bank's *Doing Business*

assessment. As a small city-state with under half a million people, Brunei Darussalam has a less challenging task of co-ordinating SME policies and programmes than other AMS, and therefore no other inter-ministerial co-ordination body is in place. As the successor institution to EIDPMO, MEMI is likely to maintain close links with the Prime Minister's Office, which would provide its activities (including SME-related interventions) with high-level endorsement. Measures that ultimately foster private-sector, and especially SME, development are a strategic priority for most government ministries and agencies operating in the country.

The main body responsible for implementing MSME policy, with a particular focus on entrepreneurship, is DARe. As a statutory body under the Darussalam Enterprise Order 2016, it is given operational autonomy, which allows it to take independent decisions on hiring and operational structure. In practice, however, it remains linked with the MEMI (EIDPMO at the time of information gathering and validation), under whose strategy DARe's activities are still governed. The board has nine members: four from the public sector (the Minister of Energy, Manpower and Industry, the Deputy Minister of Finance, the Permanent Secretary for Energy and Industry and the CEO of DARe) and five from the private sector (many of whom come from engineering and construction companies).

At the time of assessment, there was no MSME strategy in place, though one was subsequently adopted in February 2018. Prior to adoption of the strategy, DARe activities fell under the broader EIDPMO (now the MEMI) strategy, and six activity areas were defined to promote MSME development: *i)* access to finance; *ii)* access to industrial spaces and facilities; *iii)* access to training; *iv)* access to markets; *v)* access to support services; and *vi)* MSME promotion.

Data on MSMEs operating in the country is limited. The Department of Economic Planning and Development (JPKE) collects MSME data every five years through its Economic Census of Enterprises (ECE). The census collects data on MSME employment, revenue, expenditure, inventory and fixed assets. However, the only statistics currently available are from the 2011 ECE (and refer to 2010), as the 2016 ECE is still being processed. The 2016 data will become publicly available once processing is completed. To cover the gap and inform policymaking, the government launched an Annual Census of Enterprises (ACE) in 2015 to provide basic data on enterprise dynamics for each year that is not covered by the comprehensive ECE. However, only aggregated data for the 2015 ACE (conducted in 2014) are currently available. The 2017 ACE is being processed by JPKE.

Scope of SME policy

There is currently no legal or official SME definition in Brunei Darussalam, though DARe is in the process of elaborating one. For now, the commonly accepted classification of firm size, elaborated by JPKE, is by number of employees and disaggregates micro, small and medium-sized firms (Table 12.2). In this definition, the upper threshold for classification as a medium-sized enterprise is relatively low compared to many OECD countries (where an upper threshold of 200 employees is common), potentially excluding some enterprises that would normally be classified as an SME from development policies and programmes.

Table 12.2. Brunei Darussalam's SME definition

Size classification	Number of employees
Micro	1-4
Small	6-19
Medium	20-99

Despite measures to increase the ease of company registration, the number of informal enterprises operating in the country has increased in recent years, and these enterprises may fall outside the scope of SME policy. The government is working to increase formality via outreach and training measures. Measures to tackle the informal economy are currently at an infancy stage, and therefore a strategic approach has not yet been developed and few monitoring and evaluation mechanisms are in place.

Development of legislation and regulatory policies affecting SMEs

Good regulatory practices are undertaken to some extent in Brunei Darussalam as part of an ordinary process in the development of regulations and policies, but these practices could be implemented in a more systematic or structured way. Public-private consultations take place informally and on an ad hoc basis. The MEMI meets with representatives of the country's private sector every Wednesday morning to conduct an informal dialogue, and conducts a formal dialogue when legislation is up for review. However, MSMEs do not commonly participate in these discussions. The public is generally not informed that a consultation will take place and is not told of the meeting's outcome. The same observation holds for RIA. Some sections of the civil service conduct RIA for the development of certain regulations, but work is ongoing to improve the structure and scope of these assessments. Assessments are conducted based on private sector demand and are reported to senior officials, and there is no formal requirement to examine the impact of regulatory change on MSMEs or to conduct a post-implementation review.

Brunei Darussalam established its Ease of Doing Business Committee within EIDPMO (now MEMI) to improve the country's business environment and attract investment. The committee is chaired by the Minister of Energy, Manpower and Industry, who reports to the Crown Prince. It comprises around 40 members from across the government, including representatives of the ministries of Finance, Development and Health, the Land Department and the Monetary Authority of Brunei Darussalam (AMBD), which is the country's central bank. It meets every month to identify areas for reform based on the World Bank's *Doing Business* indicators, to develop action plans for improving performance in priority areas and to report on progress. Many of the country's business environment reforms are now indexed to its rankings in this report.

Company registration and ease of filing tax

Starting a business in Brunei Darussalam currently takes 12.5 days, costs 1.1% of per capita income on average and involves 5.5 procedures. The sultanate has made substantial strides in this area since 2015, when registering a business was highly burdensome, typically taking 104.5 days, costing 10.4% of income per capita and involving 18 procedures (World Bank, 2017[13]; World Bank, 2014[16]). Company registration alone now takes just one day and can be completed online.

To start a business, an individual must undertake the following steps: *i)* search and reserve a company name; *ii)* submit incorporation documents and pay registration fees (at the Registry of Companies within the Ministry of Finance); *iii)* get share certificates stamped at the Ministry of Finance; *iv)* make a company seal or stamp (at a seal-making shop); and *v)* register for the Employees Provident Fund. Since 2015, the first and second steps can be performed online. The third and fifth stages account for the bulk of the time required to register a company, at seven and three days respectively (all others take one day), and they are the only two stages with associated costs. Since an amendment to the Companies Act (Chapter 39) in 2014, however, only industrial companies are obliged to pay a registration fee, at a flat rate of BND 300 (World Bank, 2017[13]). Companies can now utilise a single identification number. They can register as a sole proprietor or partnership, or incorporate as a private company, a public company or a foreign company. A Ministry of Finance how-to guide has been prepared on company registration, and information can also be sought from the country's business support centres.

Corporate income tax is sought only from private limited companies. Sole proprietors or partnerships are not obliged to pay this tax. To comply with tax regulations, private limited companies must make 15 payments, taking 64.2 hours per year and amounting to 8% of total profits. While the country's tax rate is low, the time required to file taxes is rather high, particularly for corporate income tax, which takes 43 hours. The highest number of payments are made to the employer-paid Employee Provident Fund (the *Tabung Amanah Pekerja*, or TAP), which requires 11 payments, taking 22 hours.

E-governance facilities

Corporate income tax can be paid online via the System for Tax Administration and Revenue Services (STARS). Pension contributions can be paid online, via e-Amanah, but not other forms of social security. The country has an electronic signature in place that is integrated with other services of e-government. Through e-Darussalam Account, a single nationwide digital authentication key, Bruneian citizens, permanent residents and expatriates that have an employment pass or work permit can access a range of government services such as paying tax, transferring land titles, applying for licenses (for instance to access electricity or construction permits, to export or to attend international trade fairs), registering with the country's job centre or renewing a driving license.

Facilitating SME access to finance (Dimension 3)

Brunei Darussalam is somewhat of an anomaly in the area of access to finance. It has an excellent legal environment for getting credit, ranking 2nd globally for ease of getting credit in the *Doing Business* report (World Bank, 2017[13]). But this is not reflected in its financial market development: the country was ranked 87th for this pillar in the 2017-18 Global Competitiveness Index (WEF, 2017[12]). The economy still has a relatively low level of financial intermediation, though it has increased since the last assessment, partially as a result of activities undertaken by the AMBD.[11] Domestic credit to the private sector, a proxy measure, stood at 44.3% of GDP in 2016, relative to 31.2% in 2013. Much of this growth has been driven through Islamic banks, which surpassed conventional banks in terms of market share in 2015 and today account for around 52.8% of total financial system assets.[12] The development of Sharia-compliant financial services is one of the diversification strategies of the current government and a range of measures to support financial sector development have been implemented over the past few years.[13] Overall, Brunei Darussalam scores 4.38 in this dimension, with its score significantly helped by recent measures to improve the framework conditions for extending credit.

Legal, regulatory and institutional framework

Important work has been conducted by the AMBD since the last assessment to improve the legal, regulatory and institutional environment for accessing finance. In 2012, a public credit registry began operations as a unit under the Regulatory and Supervision Department of the AMBD and pursuant to Section 42A of the AMBD Order (2010). The registry supplies credit information to all licensed banks and finance companies operating in Brunei Darussalam and to the country's Islamic Trust Fund. In 2014, it was enhanced through the creation of a self-inquiry and dispute resolution service, which allows citizens to check and request modification of an inaccurate credit history. Credit registry coverage has increased from 56.6% of the adult population in 2014 to 73.4% by 2018. In 2016, the country also upgraded its framework for secured transactions, enacting a Secured Transactions Order and establishing a centralised movable assets registry. The country is now ranked as having one of the strongest creditor rights frameworks globally. It still faces some issues in enforcing contracts. Recent measures to address this include the introduction in 2016 of the Insolvency Order, under the purview of the Ministry of Finance, which seeks to improve rules for mediation and rehabilitation. It currently applies only to limited private companies, but steps are being taken to extend the order to cover sole proprietors.

In terms of equity financing, there is currently no stock market in Brunei Darussalam – unsurprising given the country's small domestic market. Few Bruneian companies have sought public listing to date, and in 2017 Bank Islam Brunei Darussalam (BIBD) was the first Bruneian company to announce that it would be raising funds via an IPO, either on the MYX (Malaysia), the SGX (Singapore) or the LSE (UK). Since 2015, however, the Ministry of Finance has been looking into the establishment of a stock exchange in the country, and as a first step has been drafting its rules. To date, the listing rules for publicly traded corporations have been outlined, and a payment and settlement system, including an automated clearinghouse, has been set up. According to AMBD, the bourse's initial focus will likely be on equities, followed by both conventional and Islamic bonds. There are currently less than a dozen domestic companies that could potentially be listed, coming from the financial, health care, telecommunications and energy sectors. Concerns have been raised that the exchange may initially struggle with limited liquidity and depth given the small size of the domestic market. However, the government regards the exchange as an area in which Brunei Darussalam can be competitive, and it will seek to draw investors and companies from abroad. It is currently taking steps to enhance corporate governance and financial reporting standards, including among family-owned firms that may need to improve their financial reporting before they could consider a listing.

Sources of external finance for MSMEs

Formal external finance, including for SMEs, is mainly provided by banks (World Bank, 2016[2]). The main instrument in place to increase bank lending to MSMEs is a subsidy programme, known as the Micro Financing Scheme (MFS), which is co-managed by DARe and BIBD. This programme offers loans of up to BND 15 000 to Bruneian MSMEs (firms with up to 100 employees), with no collateral required and a low interest rate. This scheme, in place since 2016, has financed 59 companies with loans totalling more than BND 560 000. Little monitoring and evaluation seems to have been conducted on the scheme's performance, although DARe and local banks conduct some monitoring of repayment patterns via a dedicated SME Financing Committee that meets every 4-6 weeks. Other instruments that are more market friendly, such as credit lines or guarantees

extended to a number of partner banks, may also create a greater multiplier effect. There is currently no export financing scheme in place for SMEs.

In terms of asset-based financing instruments, factoring is not currently offered in Brunei Darussalam, and other asset-backed lending instruments, such as leasing or trade and purchase order finance, are offered, but at relatively low volume, particularly to MSMEs. This may change over coming years as recent reforms to the secured transaction framework begin to take hold. Some private leasing companies have also begun to create dedicated MSME lending facilities. For instance, Pak Brunei Darussalam Investment Company Ltd. set up a dedicated SME Division in 2012.

Equity financing, particularly early- and risk-stage financing, is likewise relatively scarce in Brunei Darussalam, mainly due to limited demand. The development of a private equity/venture capital (PE/VC) industry in the country has predominantly been led by the government, which partnered with private-sector investors in 2014 to form both a VC fund, Seri Venture Capital, and a private equity fund, the SBI Islamic Fund (Brunei). Seri Venture Capital was formed through a partnership between the Brunei Economic Development Board, ChinaRock Capital and Soon Loo, a Bruneian investor and now CEO of the BEDB. The SBI Islamic Fund (Brunei) was formed as a joint venture between Brunei Darussalam's Ministry of Finance and Japan's Strategic Business Innovator (SBI) Holdings. The SBI Islamic Fund (Brunei) has operated two Sharia funds to date. The first amounted to USD 75 million, while the second will amount to around USD 60 million, with the Ministry of Finance and SBI each contributing USD 25 million and the remainder coming from the Islamic Development Bank. However the fund predominantly targets investment opportunities in Indonesia rather than in Brunei Darussalam. Seri Venture Capital is more targeted at growing domestic companies and helping them to internationalise, and has made several big deals in this area, though there is limited publicly available information on its activity. Overall, however, few Bruneian MSMEs receive PE/VC funding, and this is partially due to a lack of scalable business ideas and capacity to realise them. Crowdfunding and business angel facilities are not currently available in the country.

Enhancing access to market and internationalisation (Dimension 4)

Brunei Darussalam is increasingly aware of the need to shift its sights overseas since its domestic market poses limited growth opportunities for local businesses. It is committed to helping local small and medium enterprises expand beyond domestic borders through innovations in e-commerce, trade facilitation and the establishment of DARe. Its Dimension 4 score stands at 3.41.

Export promotion

The responsibility for promoting local businesses to expand their market overseas falls under several agencies including the MEMI, DARe and the Ministry of Foreign Affairs and Trade (MOFAT). To implement one of the objectives of its foreign trade policy, which is to advance Wawasan Brunei 2035's goal of becoming a dynamic and sustainable economy, the Trade Promotion Section of MOFAT facilitates the participation of local firms in international trade exhibitions. In these endeavours it co-operates with other countries within region-based collaborations such as the ASEAN-Japan Centre, ASEAN-Korea Centre, and ASEAN-China Centre. It also supports business missions overseas.

DARe was established in January 2016 to facilitate SME access to regional and global markets and to support local enterprises from start-up to the growth stage. It takes a

unified approach to encouraging the growth of local enterprises, with the private sector and its industry representatives driving the growth. In May 2017, DARe launched a new initiative, Made in Brunei (Wong, 2017a[17]), which supports local SMEs to market their goods and services in the country's largest local supermarkets and hotels (via high-end displays), and via an e-commerce platform (https://unexpectedtreasures.com.bn) and in-flight brochures on Royal Brunei flights. DARe also runs an Industry Business Academy (IBA) to support SMEs in developing more sophisticated products and capturing a wider market. The academy's intensive six-month development and learning programme aims to increase small enterprises' skills and knowledge for starting, running and expanding a business. Subjects are designed for businesses that want to expand and export, and cater to specific SME needs at different maturity levels. Another of DARe's capacity building activities for small businesses is the Start-up Bootcamp programme, which incubates start-ups for 100 days and provides intensive mentoring to help SMEs grow their businesses. The body works closely with MOFAT in implementing activities and initiatives to facilitate and empower local SMEs to expand overseas and take advantage of Brunei Darussalam's free trade agreements (FTAs) with other countries.

Integration into GVCs

Brunei Darussalam does not yet have any defined strategies specifically for integrating SMEs into global value chains (GVCs). However, there is growing awareness of the need to help SMEs link with larger enterprises and multinational corporations (MNCs). In DARe's IBA, for instance, the general curriculum on SME skills enhancement for starting, running and expanding a business is coupled with a special topic that tackles SME opportunities to integrate into GVCs.

Other initiatives to promote SME integration into GVCs have emerged spontaneously. For example, Semaun Marine Resources Sdn Bhd, a quasi-government entity engaged in fish and shrimp hatchery, invited Golden Corporation Sdn Bhd, an FDI company from Taiwan, to develop the Multi-Purpose Marine Resources Processing and Business Centre in Tutong district. Since then, Golden Corporation has been strengthening the partnership with local SMEs engaged in the supply of raw seafood products (Wong, 2017b[18]). Business matching between SMEs and larger companies or MNCs is also being pursued during international trade exhibitions such as the ASEAN Food Festivals and the ASEAN SME Showcase and Conference.

Use of e-commerce

Brunei Darussalam has the highest internet and social media penetration in Southeast Asia, with internet penetration at 86% (We Are Social, 2018[19]), and it has progressively developed a strong legal foundation for e-commerce activities. In 2000, it enacted the Electronic Transactions Act, based on the United Nations Commission on International Trade Law (UNCITRAL)'s Model Law on Electronic Commerce and the Singapore Electronic Transactions Act, and in 2011 it enacted the Consumer Protection (Fair Trading) Order to further support commercial transactions. More specific laws on e-commerce activities are now being considered.

Brunei Darussalam has organised capacity-building activities to promote the use of e-commerce by SMEs. In April 2017, DARe co-operated with DHgate.com, a leading e-commerce company from China, and Universiti Brunei Darussalam (UBD) to launch an e-commerce bootcamp, the Asia Pacific Economic Co-operation Cross-Border E-Commerce Training, under the APEC Business Advisory Council. DHgate.com has also

encouraged Bruneian SMEs to sell their products to potential buyers overseas via its digital marketplace.

Other initiatives involve logistical and e-payment support. In 2017, through the National Chamber of Commerce and Industry Brunei Darussalam (NCCIBD), the Cottage and Youth Initiative Programme launched an e-commerce platform called Cube Junction. Cube Junction allows SMEs to sell their products by linking them with foreign logistics service providers. Its e-commerce and social network platform for SME products is regulated by NCCIBD. It features a fast and secure payment gateway and logistics support through partnerships with AFL Hong Kong; an international logistics service provider; and Kargolink Indonesia, a fully integrated air, sea and land freight forwarding company. Since 2016, local SMEs have also been accepting online credit card payments through the Brunei Darussalam Online Payment Solution from Baiduri Bank. In 2017, Baiduri Bank launched another e-payment innovation called MerchantSuite service that allows very small businesses and individual sellers to issue invoices and receive payments online without setting up a website (Imhof, 2017[20]). Many small businesses in Brunei Darussalam also utilise popular social media platforms such as Facebook and Instagram to market their products, given the high use of social media in the country.

Quality standards

Local regulations and certifications are governed by various ministries and agencies. The Ministry of Health develops national food safety requirements; the Department of Agriculture and Agrifood, under the Ministry of Primary Resources and Tourism, regulates food labelling and shelf-life requirements; and the Authority of Building and Construction Industry, under the Ministry of Development, regulates requirements for the construction industry. Known for its strong halal certification mechanism, Brunei Darussalam governs its halal requirements through its Ministry of Religious Affairs.

The National Standards Centre (NSC) under the MEMI (EIDPMO at the time of information gathering and validation) is the overall authority on matters pertaining to standards and conformance and is responsible for ensuring that these are in line with international standards. The NSC acts as the secretariat for the National Standards Council, which is responsible for overseeing the development of standards in collaboration with MSMEs as well as various agencies and other stakeholders. To date, 121 national standards documents have been developed and published.

The NSC supports the country's MSMEs to ensure that their systems and products comply with national and international standards. Its services include the MSMEs Standards Facilitation Programme, which aims to help MSMEs meet industry requirements, increase their productivity and add value to their products and services through conformance with quality standards. Participating MSMEs have the opportunity to attend training on becoming eligible for international certification, such as the Good Manufacturing Practices, the Hazard Analysis and Critical Control Points and the International Organisation for Standardisation (ISO) certificates. The NSC also conducts awareness programmes and dialogues in the area of standards and quality.

Trade facilitation

Brunei Darussalam garnered moderate scores for the "information availability" and "formalities-procedures" indicators in the OECD Trade Facilitation Indicators used in this 2018 ASPI[14]. While basic infrastructure is in place, the country continues to improve on initiatives that will facilitate trading across borders. The Brunei Darussalam National

Single Window (BDNSW), run by the Royal Customs and Excise Department, allows for the electronic submission and exchange of trade information and documents between different government agencies. Since 1 September 2017, BDNSW has been shifting away from a cash payment system by creating an online payment facility, run in collaboration with Baiduri Bank and BIBD. Through the BDNSW website, traders can easily access basic procedures and guidelines on exporting and importing.

In addition, Brunei Darussalam has also set up the Brunei Darussalam National Trade Repository (BDNTR), which contains essential information for cross-border trading such as tariff nomenclature, preferential tariffs, rules of origin, non-tariff measures, national trade and customs laws and rules, procedures and documentary requirements, as well as a list of authorised traders. On 2 September 2017, Brunei Darussalam launched an Authorised Economic Operator (AEO) programme, called the Sutera Lane Merchant Scheme (SLMS), in order to facilitate trade. A pre-launch workshop was held in May 2017 to ensure that the SLMS programme was aligned and compatible with international standards (Asia Customs & Trade, 2017[21]).

However, the country does not yet have a comprehensive and targeted programme in place to support the use of trade facilities by SMEs. Facilities tend to be created for all enterprises alike, and therefore may not address SME-specific barriers. The new SLMS programme, for instance, not only does not include any specific provisions for SMEs, but in fact imposes criteria that may hinder start-ups and SMEs from taking advantage of its benefits. For example, it stipulates that operators must have engaged in import and export activities for a minimum of three years and have a minimum trade value of BND 1 million one year before the date of application. Activities targeted at SMEs tend to take the form of ad hoc workshops. For example, a trade facilitation workshop targeting SMEs operating in the agro-food sector was held in July 2017 by the ASEAN-Korea Centre, in collaboration with MOFAT, DARe and MEMI. To solicit assistance in areas of need, SMEs can access relevant government bodies through DARe's Business Support Centre (BSC), as well as the businessBN online portal (http://business.gov.bn/).

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

Brunei Darussalam has ramped up policies and programmes over the past few years to enhance productivity, innovation and the adoption of new technologies, as reflected in its Dimension 1 score of 3.37, and there is potential to advance rapidly. However, it is still at an early stage of developing greening policies and programmes. While the country has a number of environmental policies in place, its Dimension 2 score of 2.04 reflects the fact that few of these policies or programmes specifically focus on the needs of SMEs and that few instruments are provided to support SMEs in greening their operations.

Productivity measures

The Ministry of Primary Resources and Tourism leads policy development and implementation of productivity enhancement programmes and policies. NDP10 emphasised productivity enhancement as a key focus. This is carried out through education and skills development in areas such as science and technology, engineering, security, economy, business, entrepreneurship, health and agro-food, including the societal, cultural, religious and environmental aspects. Research and innovation are being encouraged to increase productivity among businesses and to help attract FDI.

Consultations with the private sector on productivity enhancement policies are conducted regularly. However, invitation is limited to the ten highest valued companies for each sector or to companies that contribute 90% to industry value added. On the research side, the Centre for Strategic and Policy Studies (CSPS), Brunei Darussalam's leading think tank for policy analysis, was consulted in developing productivity policy. CSPS conducts several productivity forums with the private sector that involve SMEs. The government allotted 14.2% of its BND 700 million national development plan budget for productivity enhancement programmes. Included in the plan was a non-oil industrial development strategy that aimed to widen opportunities for SMEs. At the national level, while there have been estimates of total factor productivity, only labour productivity is officially being collected. The existing SME productivity data date back to 2010 and do not reflect the effect of more recent SME productivity enhancement programmes. Other statistics are focused on specific sectors such as tourism. However, there are plans to introduce other measurement methods to be used according to sector under each economic cluster (logistics, manufacturing, mining, etc.).

Business development services

The government has made considerable efforts regarding the provision of business development services (BDS) to SMEs. This is in line with NDP10, which refers to entrepreneurship and business development strategy under Point 32. At the time of this assessment, the EIDPMO (now MEMI) was the main policy-making body for BDS, with DARe in charge of implementing most activities. To date, DARe has established a dedicated one-stop shop, the BSC; the iCentre start-up incubation programme; the IBA; and the Start-up Bootcamp Acceleration Programme, which provides training and advice on business management, business linkage, networking and access to finance. The programmes have helped several companies to obtain finance from angel investors. Although still at an early stage and small in scale, the activities indicate a positive shift and government willingness to develop a new class of start-ups.

The country has also implemented business-plan competitions and links to private-sector initiatives and investors. One example is LiveWIRE Brunei, an organisation under Brunei Shell Petroleum that aims to develop local entrepreneurs.

Productive agglomerations and clusters enhancement

Cluster development involves several institutions and cluster development plans have been developed for several economic sectors. Brunei Darussalam has identified several priority industry-linked programmes within the IBA to cater to specific industries, such as food manufacturing and aquaculture.

Brunei Darussalam's score of 92% in ERIA FIL rate in 2014 is slightly above the ASEAN average. From 2011 to 2014, its FIL score increased by 74%, the second highest increase rise in the region. As a reflection of the country's efforts to attract foreign investors, 26 industrial sites have been identified since 2014, and nine of these sites are already in place. The industrial sites include the iCentre, a knowledge hub, a technology park and a bio-innovation corridor, among others. Incentives to support the industrial sites are limited to general business incentives such as start-up grants, financing, training programmes and the provision of industrial space and facilities. In terms of attracting foreign investment, it should be noted that Brunei Darussalam is the only ASEAN country where taxes are not levied on personal income, payroll, goods and services, and capital gains. The country offers an attractive 18.5% corporate income tax rate for

investors and corporations, one of the lowest in the region. Brunei Darussalam permits 100% foreign ownership of companies set up in the country. An FDI-SME linkage initiative exists, but on an ad hoc basis with no specific budget allocation and no monitoring process in place.

Technological innovation

Technological innovation in Brunei Darussalam is largely concentrated within major firms operating in the oil and gas sector. Although science, technology and innovation is one of NDP10's key themes, there are currently no dedicated innovation policies or programmes in place for MSMEs. The main body responsible for implementing innovation policy is the Brunei Research Council (BRC), an intergovernmental council that was re-established in 2011 with the mandate of promoting innovation policy research that could contribute to national development as a whole. The BRC is tasked with formulating policies to promote R&D, in accordance with the goals of Wawasan Brunei 2035. This includes the allocation of funding for national R&D activities through the BRC Grant Scheme. The Industrial Research Fund is also available for eligible MSMEs. The BRC's policy direction is set by its secretariat, which falls under the purview of the JPKE and which also administers the BRC's funds. The government has prioritised digital innovation in particular, and a National ICT White Paper has been developed, as well as a Digital Strategy Division within the EIDPMO (subsequently the Digital Nation Division within the MEMI).

On the intellectual property side, Brunei Darussalam fully complies with all international treaties and conventions. The Brunei Darussalam Intellectual Property Office (BruIPO) was set up on 1 June 2013 in an effort to restructure the national IP administration. Currently, BruIPO is responsible for the registration of patents, trademarks, industrial designs and protection of plant varieties.

Although initiatives exist to promote innovation, such as the Crown Prince Creative, Innovative Product and Technological Advancement Award (CIPTA), few have a particular focus on SMEs or would-be entrepreneurs. The country does not have a single portal for companies wishing to find out about initiatives to promote innovation.

The government funds infrastructure development and services. The BRC Fund was allocated BND 200 million under NDP10 to encourage R&D and innovation. This fund is used by local research institutions and agencies. It also funds joint industrial research projects between these bodies and FDI companies via the Brunei Research Incentive Scheme (BRISc), which is managed via BEDB. The iCentre and Academia Universiti Brunei Darussalam (UBD) also collaborate to commercialise innovations by the university's researchers.

The government has pushed for the creation of a country-wide infrastructure to promote innovation, though it is not clear how many SMEs could benefit from it. The Brunei Darussalam Bio Innovation Corridor and the Anggerek Desa Technology Park provide space for companies as well as some business support services. DARe provides co-working space for entrepreneurs at the iCentre, which also acts as an incubator for start-up companies and provides business development programmes.

Environmental policies targeting SMEs

Brunei Darussalam has environmental policies aimed at the economy in general, which may impact some SMEs, but the country lacks policies that specifically promote the

greening of SMEs. However, NDP10 does call for ensuring a clean and healthy environment and for supporting sustainable and environmentally friendly growth and development. It also calls for specific measures such as environmental assessments, pollution control, hazardous chemical waste control, solid waste management and air quality control.

Incentives and instruments for green SMEs

The government regulates pollution through its Pollution Control Guidelines (2002), which set limits on emissions, effluent and discharges from different industrial activities. It has made efforts to improve environmental performance by requiring the use of Best Available Technologies in some applications. However, the real-world impact on environmental performance is unclear, and specifically its impact on the environmental performance of SMEs. Environmental Impact Assessment (EIA) guidelines, which relate to the National Development Plan, set out the types of projects across different economic sectors that require EIAs.[15] However, these assessments are more likely to focus on large-scale projects than on those undertaken by SMEs. The government also encourages the use of environmental management systems through Environmental Protection and Management Order 2016, but this order does not specifically target SMEs.

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

Brunei Darussalam has taken substantial steps towards formulating and implementing a more entrepreneurship-oriented education system. To improve entrepreneurial skills, the country has managed to link its formal education system's entrepreneurship thrust with real businesses. Its score of 4.06 indicates that Brunei Darussalam is moving towards creating an ecosystem in which entrepreneurship will thrive. It performs less well on measures related to social and inclusive entrepreneurship, with an overall score of 2.33, but this is arguably due to the fact that the country provides substantial social support to its citizens, and that interventions may thus be less needed in this policy area.

Entrepreneurial education

Entrepreneurial competencies have been incorporated into Brunei Darussalam's national education system, known as the National Education System for the 21st Century (SPN21). This system integrates entrepreneurship as a general competency alongside citizenship skills, thinking skills and digital literacy.

Brunei Darussalam has both a broad framework for entrepreneurial education and a specific curriculum. Its framework, known as the National Entrepreneurship Agenda (NEA), was developed in 2014 by the Ministry of Education and the Universiti Brunei Darussalam (UBD). It is designed to support Wawasan Brunei 2035 by creating and supporting high-growth entrepreneurs who could drive job creation and economic growth in the country. It encompasses all levels of education, from kindergarten to the university level. One of the main initiatives under the NEA is Success Weekends, a programme for primary and secondary students under the Entrepreneurship Village initiative. Conducted over the course of a weekend, the programme exposes students to entrepreneurial challenges and games as well as to basic communication, teamwork and business skills. The programme, which is facilitated by established Bruneian entrepreneurs, also aims to nurture an entrepreneurial mindset among teachers.

Aside from programmes implemented under the SEA, Brunei Darussalam has a number of other programmes in place such as the Junior Achievement (JA) programme. This programme was officially launched in 2016[16] in primary and secondary schools as well as sixth form centres across the country. These programmes offer experiential learning in a variety of topics, including financial literacy, work readiness and entrepreneurship. In addition, a number of initiatives fall under the Brunei Darussalam Entrepreneurship Education Scheme (BEES). The BEES programme was launched in 2011 to develop and nurture enterprising attitudes and skills among students in secondary education. An upgraded version, BEES 2.0, was introduced in November 2016 (UDB, 2016[22]). Its three-year strategic programme has been implemented with a different theme each year: Entrepreneurial Mindset on Pitching in 2016; Entrepreneurial Mindset on Innovation in 2017; and Entrepreneurial Mindset on Sustainability in 2018. UBD has also developed and implemented a curriculum called GenNEXT, which seeks to overcome national concerns about unemployment by creating quality graduates with innovation and entrepreneurial skills.

Entrepreneurial skills

The NEA also has a form of entrepreneurial education designed to increase the public's skills and knowledge. Through its Community Incubation Programme, participants learn basic entrepreneurship concepts such as business strategies, business models and effective communication. The programme ends with a Venture Showcase event where participants present their business plans and ideas to a group of potential customers, investors and business partners. Through a link to the Success Weekend Programme for secondary level students, successful entrepreneurs from the Community Incubation Programme share their experiences in order to nurture the students' entrepreneurial mindset.

DARe's activities to promote and facilitate entrepreneurship include the IBA, the Start-up Bootcamp and the Micro Bootcamp Programme, which focuses on bringing early-stage businesses to the ideation stage. The Start-up Bootcamp includes a 100-Day Accelerator Programme, which focuses on supporting the development of high-growth, high-potential start-ups. In April 2017, Brunei Darussalam also commenced an apprenticeship programme called I-RDY to deal with the mismatch between qualifications of graduates and job requirements (Idris, 2017[23]). The programme assists fresh graduates for a maximum of three years through capacity building and allowances in order to improve their marketability and employability.

Social entrepreneurship

Social entrepreneurship is a relatively new concept in Brunei Darussalam, and there is still no formal definition of a social enterprise. However, the Legislative Council is currently exploring ways to promote entrepreneurship in general. A number of social entrepreneurs have been supported under broader entrepreneurship programmes. For instance "Tarbiyyah," which offers early-stage Islamic education, and the "Blood Code Application System," a solution for blood donation management, participated in DARe's Startup Bootcamp, during its first cycle between October 2016 and January 2017. In addition, the Pusat Bahagia (Special Education) centre, an initiative of the Community Development Department under the Ministry of Culture, Youth and Sports (MCYS), supports social entrepreneurship through a number of initiatives such as awareness-raising activities and capacity-building support, though these are limited to persons with disabilities and are organised on an ad hoc basis. Although small in scale, these activities have supported social entrepreneurs to become financially sustainable in the areas of

woodworking for furniture, bakery and cookery, tailoring and craftsmanship development.

Inclusive entrepreneurship

Brunei Darussalam has no dedicated strategy on the promotion of women's entrepreneurship, but elements promoting women's economic participation are highlighted as priority. The Special Committee on Women and Family Institution, which brings together several ministries, was established to recommend policies, legislation and action plans and to ensure close co-operation among relevant stakeholders from government and non-government organisations. The committee makes reference to empowering women to be more economically active and refers to entrepreneurial development for this target group. There is also a Women Business Council, which is a non-governmental organisation registered under the Registrar of Societies. Women can benefit from the training provided by DARe and other organisations, but there are very few dedicated initiatives apart from ad hoc capacity-building activities and microfinance lending.

The MCYS is the central body for policies related to youth, including entrepreneurship activities. The Youth Development Centre under MCYS promotes entrepreneurship through business start-up programmes such as the Youth Self-Reliant Programme (*Program Belia Berdikari*), and it also implements activities in partnership with initiatives such as LIVEWire Brunei and JA. DARe also conducts similar activities in this area. Its Micro Business Bootcamp aims to provide unemployed youths with the skills and drive to become entrepreneurs. Specifically, it provides participants with: *i)* a physical bootcamp and entrepreneurship training; *ii)* guidance and monitoring; and *iii)* funding to kick start their business.

Brunei Darussalam established a Special Committee on Persons with Disabilities and the Elderly in 2008 under the purview of the National Council on Social Issues. The committee has formulated a National Plan of Action on Persons with Disabilities and the Elderly to promote and protect their rights and to enhance their full participation and inclusive development in society. However, the plan does not have a specific focus on promotion of entrepreneurship among persons with disabilities (PWD). In terms of implementation, the Employment Training Centre for PWD provides mentoring support and training in areas such as access to finance. Under the Old Age and Disability Pensions Act (1954), PWD in Brunei Darussalam are ensured access to microcredit finance facilities without the need for collateral or a guarantor. The Pusat Bahagia (Special Education) centre also provides skills training and development for persons with disabilities. To date, it has helped a number of PWD entrepreneurs to become financially sustainable in the areas of woodworking for furniture, bakery and cookery, tailoring and craftsmanship development.

The way forward

Strengthening the institutional, regulatory and operational environment

Brunei Darussalam has made significant strides to improve the country's business environment and support the development of domestic enterprises, particularly MSMEs. Moving forward, more could be done to foster a more strategic, systematic and sequenced approach to MSME support and regulatory reform. For instance, the government could consider the following actions:

Institutional framework for SME policy

- **Develop an official MSME definition.** The formulation of a clear and robust MSME definition is the bedrock of MSME policy, as it defines the scope of all future policies and programmes. DARe could work with other stakeholders, both locally and potentially from other AMS, to create an apt MSME definition for the country. This may result in amendments to thresholds and could include an indicator of company value alongside employment. After elaboration, work will be needed to socialise the definition through the public administration.

Legislation, regulation and tax

- **Systematise the use of good regulatory practices.** Brunei Darussalam's current good regulatory practices could be more structured and systematic in the review and development of major laws and regulations affecting MSMEs. At present, RIAs do not consider the specific impacts of regulations on MSMEs.
- **Further streamline corporate income-tax filing procedures**. Corporate income tax can be paid online, but the time required to file this tax is rather high, taking 43 hours. Further streamlining would increase the ease of doing business in the country.

Facilitating SME access to finance

Brunei Darussalam's legal framework is very conducive to supplying credit, and its banks are well capitalised. Yet there are few targeted programmes to meet the financing needs of MSMEs, partially due to limited demand. To increase the range of instruments available to MSMEs, and the demand for them, Brunei Darussalam could:

- **Survey licensed banks to ascertain their willingness to lend to MSMEs.** Access-to-finance programmes for MSMEs mainly take the form of grants or loans that are co-managed between the government and one commercial bank. While some monitoring of repayment patterns is conducted, little monitoring and evaluation seems to be conducted on other metrics of performance, such as the additionality of such schemes. A survey might suggest that providing guarantees to a few licensed banks could ensure a more efficient allocation of credit and encourage competition.

Enhancing access to market and internationalisation

While Brunei Darussalam has shown commitment to improve its trade facilitation system and strategic framework to promote the internationalisation of local SMEs, stronger reforms might level up those initiatives in certain areas:

- **Integrate support for SMEs in trade facilitation system development.** Optimising the system's benefits for local SMEs is particularly important since Brunei Darussalam's AEO programme, the SLMS programme, imposes criteria such as minimum trade value that are potentially difficult for SMEs to comply with. Alternatively, the country could develop a special AEO programme for local SMEs to give them more help and support when trading across borders.
- **Develop a strategic policy to promote SME integration into GVCs.** Embedding GVC integration as a topic in business incubation and training sessions is not sufficient for assimilating local SMEs into GVCs. While such

capacity building is important, local SMEs might also need specific financial assistance or business linking mechanisms in order to establish and develop supply-chain relationships with larger domestic firms that export and with MNCs. Strategic actions, like embedding local SMEs in SEZs where MNCs are operating, or developing knowledge and technology transfer programmes that link SMEs and MNCs, should help SMEs to acquire the skills and business linkages necessary to participate in GVCs.

- **Develop mechanisms to broaden the outreach of DARe's programmes.** The Industry Business Academy and the Start-up Bootcamp programme offer holistic capacity building by leveraging SMEs' capacities to export. Spreading the programmes to reach as many local SMEs as possible, especially outside urban areas, is important to strengthen the programmes' effectiveness.

Boosting productivity, innovation and adoption of new technologies

Policies and programmes to boost productivity, innovation and the adoption of new technologies have been ramped up over recent years, but gaps remain in private-sector collaboration, targeting, and monitoring and evaluation. To build on previous work in this area, Brunei Darussalam could:

Productivity, technology and innovation

- **Further develop an ecosystem of players and dedicated instruments.** Brunei Darussalam could build on international practices and involve private consultants, especially for SMEs in the growth phase. Instruments like voucher schemes could be very useful for developing knowledge and helping companies to get customised support in the aim of enhancing productivity.
- **Collaborate more extensively with the private sector.** This could be of benefit when developing and implementing incentives for SMEs. Closer collaboration could be achieved by involving the private sector in the provision of services at technology park sites or through the co-creation of business support programmes. The private sector could also be further represented in consultative and co-ordination bodies.
- **Further develop monitoring and evaluation schemes.** Brunei Darussalam has started developing policies promoting innovation, productivity and BDS relatively recently. Promoting monitoring and evaluation could help give policy makers a better understanding of the impact of the programmes and measures. Dedicated SME-related key performance indicators would make it easier to see which incentives are used by SMEs, and by how many.

Environmental policies and SMEs

- **Further mainstream the greening of SMEs within existing policies.** Actions to support greener SMEs could be delineated from broader actions to support better environmental performance for the economy as a whole. Concrete policy with targets and timelines would be valuable.
- **Further develop instruments and incentives for greening.** Once policies are in place around SME greening, incentives and instruments of support can be

deployed. This includes making environmental management systems more accessible to SMEs.

- **Develop a central focal point to co-ordinate SME greening.** A central focal point would help to co-ordinate the introduction of new programmes and would provide SMEs with better understanding of the options available for support.

Stimulating entrepreneurship and human capital development

Entrepreneurial education and skills

Brunei Darussalam has implemented notable reforms for promoting entrepreneurial education and skills enhancement under the DARe initiatives. The country could consider the following actions to strengthen its reforms:

- **Install sound and transparent monitoring and mechanisms.** This is important as the country moves towards a stronger entrepreneurship ecosystem and develops a national entrepreneurial education system. Such mechanisms should include clear milestones for measuring the programmes' effectiveness in order to provide a strong basis for ongoing reform.
- **Engage more universities in the entrepreneurial learning network.** Universiti Brunei Darussalam has led the way in designing and implementing the country's entrepreneurial education system. Engaging more universities in the network would expand policy design and research in this area.
- **Develop a mechanism for feeding university research into policy design.** The government could develop a mechanism to embed background studies by universities in support of its policy design for entrepreneurial education. This would not just ensure greater research input into future policy design, but would also increase the universities' research capacities and reputations.

Social and inclusive entrepreneurship

- **Develop a clear definition or set of criteria for social enterprise.** The lack of a legal definition of a social enterprise could be a source of confusion and lead to misperceptions. Developing a clear definition or criteria would make it possible to avoid confusion and would simplify the task of raising awareness.
- **Explore collaboration with the private sector.** Brunei Darussalam has a number of well-developed enterprises that might be interested in supporting or investing in social enterprises or promoting entrepreneurship among selected target groups. By developing closer links with the private sector, it might also be possible to leverage government resources and develop a supporting ecosystem around the concept of inclusive entrepreneurship.
- **Further integrate the needs of the target groups into policies.** The government could consider developing strategies focused on women's entrepreneurship or entrepreneurial support for PWD like those it has deployed for youth. The specific needs of these groups, such as access to finance, specialised training facilities and delivery methods, should be analysed and integrated into the action plan.

Notes

[1] Oil and gas mining accounted for 73.9% of industry gross value added (GVA) in 2016, while the manufacture of liquefied natural gas and methanol accounted for 17.9%. The two accounted for 41.7% and 10.7% of overall GVA respectively. Government services, largely financed through oil revenue and investment earnings, accounted for 12.9% of overall GVA. Mineral fuels (SITC rev.4 product categories 32-35) accounted for 88% of total merchandise trade in 2016 (JPKE data, 2017).

[2] These contracts traditionally ran for 20 years, but when several expired in 2013, new contracts were renegotiated that run for ten years and are due to expire in 2023.

[3] A negative government balance has been avoided for some time: a run has not been seen since 1988-1999, with a negative government balance only posted in 2002 during the interim period (IMF data).

[4] These estimates are based on the APO's index of labour productivity per worker (base year= 2000). In 2015 Brunei Darussalam's estimated labour productivity per worker stood at 0.84 against this index. This compares to 1.28 in Singapore, 1.60 in Thailand and 2.40 in Lao PDR.

[5] And the rate is higher among women (19%) than men (15%).

[6] It ranked second in the world on this indicator ("ease of getting credit") in the World Bank's 2018 *Doing Business* report.

[7] Companies applying for a Foreign Worker License will now undergo inspection after issuance of the license instead of before, as was the case under the Labour Quota License. However the new license brings new employment rules, including the addition of a local-to-foreign-worker ratio.

[8] The last date for which data segmenting business activity by firm size is available.

[9] Data on the geographic spread of MSMEs in Brunei Darussalam was provided by CSPS, based on data from the Economic Census 2011.

[10] These factors may constrain the ability of local enterprises to scale, and residents may be more reliant on local (small) enterprises to provide them with goods and services.

[11] The AMBD has recently taken a number of actions to spur the growth of credit in Brunei Darussalam. These include: *i)* increasing financial institutions' (FIs) personal financing cap from 40% to 60%; *ii)* increasing FIs' total debt service ratio (TDSR) limit from 60% to 70% for instruments extended to purchase or construct immovable property such as residential buildings; *iii)* increasing the flexibility of TDSR limits for fully secured financing facilities secured by cash or fixed deposits; and *iv)* allowing FIs to set their own TDSR policy for individuals with net monthly income of BND 10 000 and above.

[12] Or 64.0% of total banking assets (data based on unaudited 2017 figures provided by AMBD).

[13] For instance, the creation of the country's credit registry in 2012 has allowed for subsequent liberalisation measures, such as the deregulation in May 2017 of lending interest rates and some deposit interest rates. The creation of the credit registry and other enhancements to the country's the financial system have enabled banks and other FIs to conduct more comprehensive credit risk management.

[14] Four sets of indicators from the 2017 OECD TFIs are used for the 2018 ASPI: Information Availability; Fees and Charges; Formalities-documents; and Formalities-procedures, with 2 being the highest possible score for each of the indicators. In 2017, Brunei Darussalam scored 1.15 for Information Availability, 1.9 for Fees and Charges, 1.5 for Formalities-documents, and 1.2 for Formalities-procedures indicators.

[15] The latest and most comprehensive list is included in Schedule 1 of the Environmental Protection and Management Order 2016. Activities listed here are required to submit a Written Notification in order to ensure mitigation measures and procedures to protect the environment are in place.

[16] But JA programmes have been piloted since 2012.

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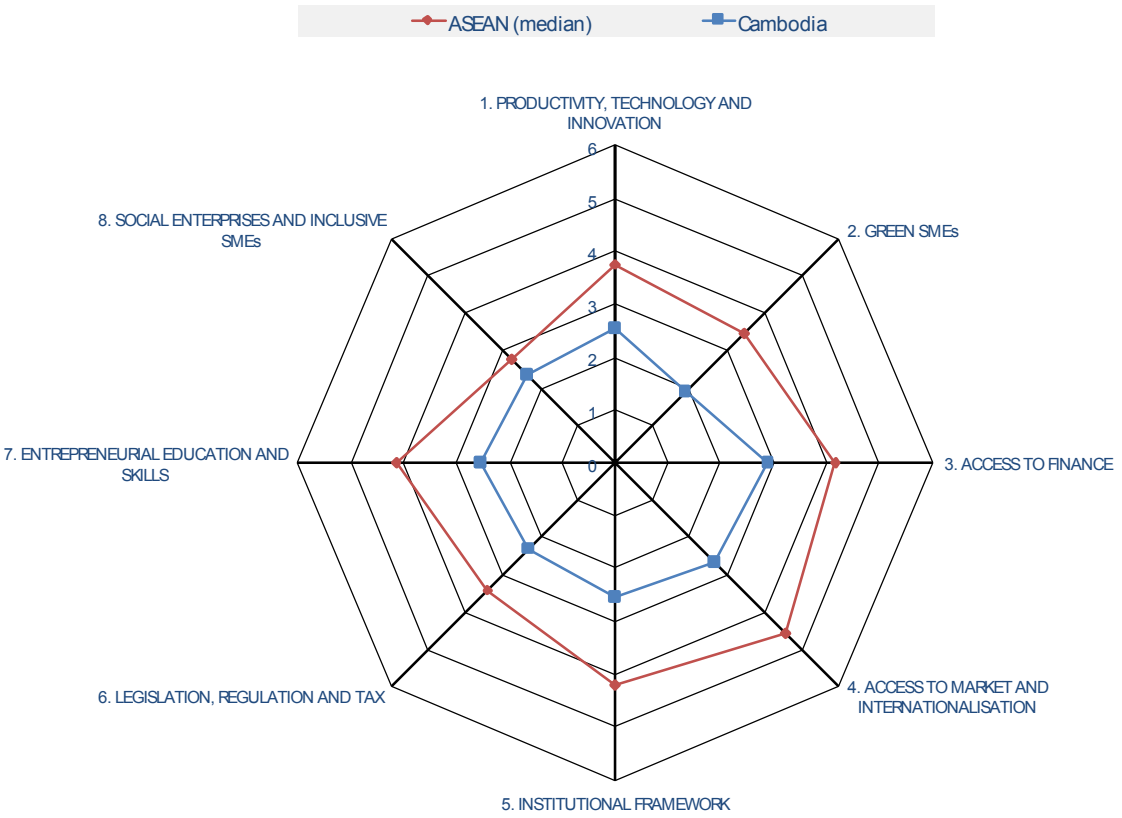
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Chapter 13. Cambodia

Cambodia's SME policy has principally focused on improving the legal and regulatory environment to support SME development. The country is at a relatively early phase in the development of targeted SME policies, but it has undergone a wave of long-term economic planning over recent years with the aim of accelerating diversification and maintaining robust economic growth. SME policy is a pillar of this. A policy priority is to increase SME integration into GVCs, particularly higher value-added activities.

Figure 13.1. 2018 SME policy index scores for Cambodia



Overview

Economic structure and development priorities

Economic structure

Cambodia is a lower middle-income country (it graduated in 2016) located in the Greater Mekong Subregion. It is the third smallest country with the fourth smallest population in ASEAN,[1] with a population of 15.2 million covering 181 035 km^2 (ASEC, 2016[1]). Cambodia is less richly endowed with natural resources than its neighbours, but Battambang Province (bordering Thailand) contains limited quantities of precious stones,[2] while the centre of the country contains deposits of manganese, phosphate and salt. Exploration activities have begun for copper, gold, iron ore and fossil fuels. Over 70% of the population currently reside in rural areas (World Bank, 2016a[2]),[3] but urbanisation is rapidly increasing. Agriculture was estimated to account for 43.2% of employment and 26.7% of value added in 2016 (ILO, 2016[3]; World Bank, 2016a[2]). Since around 1994, the garment industry has become an important part of the economy, accounting for around 70% of total merchandise exports and a quarter of total employment (World Bank, 2018[4]). Around 90% of workers in the garment industry are women.

In the early 1990s, the government of Cambodia followed the path adopted by many of its peers in Southeast Asia and began actively to seek foreign direct investment (FDI) in the

garment industry. It began to offer favourable investment conditions and tax incentives to foreign-owned garment manufacturers, which were drawn by the country's then quota-free access to US and EU markets, as well as its relatively low wage rates (ODI, 2005[5]). Garment producers from China, Hong Kong, Taiwan, Malaysia and Singapore began increasingly to produce for export in Cambodia. The country remains heavily dependent on the garment industry. Graduation into higher value-added activities is hindered by a lack of infrastructure and skills. Basic infrastructure is missing in some regions of Cambodia and only 19.6% of the population aged over 25 has some secondary education (UNDP, 2017[6]).

Table 13.1. Cambodia: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	7.3	7.4	7.1	7.0	6.9
Inflation	Percent, average	2.9	2.9	3.9	1.2	3.0
Government balance	Percent of GDP	-3.8	-2.1	-1.3	-1.6	-2.9
Current account balance	Percent of GDP	-8.3	-12.6	-9.9	-	-
Export of goods and services	Percent of GDP	58.0	61.5	62.3	61.7	61.3
Imports of goods and services	Percent of GDP	62.8	66.7	66.7	66.1	65.7
Net FDI (inflows)	Percent of GDP	10.3	8.7	10.3	9.4	-
External debt	Percent of GNI	47.2	48.9	50.0	54.6	-
Gross reserves	Percent of external debt	78.5	70.1	77.2	78.4	-
Domestic credit to the private sector	Percent of GDP	38.8	44.7	54.1	63.1	69.7
Unemployment	Percent of active population	0.2	0.3	0.1	0.2	0.3
GDP per capita	PPP (constant 2011 intl$)	2 807.0	2 966.2	3 124.3	3 291.0	3 462.8

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

Cambodia exhibits relatively sound macroeconomic fundamentals, with low unemployment and a broadly stable and moderate inflation rate. The country has implemented a number of programmes to bring public finances onto a more sustainable track.[4] Over the long term, sustained future growth will depend on the country's ability to broaden its industrial base. Other downside risks to growth over the medium term include rapid credit growth in the past few years, which has been particularly concentrated in the real estate sector. Despite a recent slowdown, this may have increased financial stability risks.

Reform priorities

The government's long-term vision, Cambodia Vision 2030, is for the country to become an upper middle-income economy by 2030. To achieve this goal, it has developed a number of long-term economic plans, of which the longest is the Industrial Development Policy (IDP) 2015-2025. The IDP aims to achieve the objectives of Cambodia Vision 2030 by developing a broader base for economic growth and upgrading the country's manufacturing capabilities from labour-intensive to skills-intensive activities by 2025. To accomplish this, it recognises a need to diversify away from textile and garment manufacturing by increasing the share of other industries in GDP and total exports.[5] It also recognises the need to enhance private domestic entrepreneurship.

The IDP stipulates strategies, approaches and priority sectors for industrial development. It identifies four pillars for increasing industrial development: *i)* FDI attraction; *ii)* SME modernisation and development; *iii)* an enhanced legal and business environment; and

iv) a more co-ordinated and strategic approach to skills development, industrial relations and territorial management and development. It aims to follow the development path adopted by many of its ASEAN peers by using FDI and integration into global value chains (GVCs) to build up and upgrade its industrial base. It stipulates that this can be achieved by focusing on economic corridors and economic poles[6] to link SMEs with GVCs; by enhancing spillovers and supporting infrastructure in industrial zones; by supporting social enterprises; and by increasing efforts to develop knowledge-based industries. It identifies a number of priority sectors, including electronic assembly, pharmaceuticals, furniture manufacturing, food processing, "future industries" such as in information and communications technology (ICT) and green technology, and industries that could enhance the integration of the agricultural, textile and tourism sectors into GVCs. It specifies that the following measures should be completed by 2018: *i)* improving the electricity supply in targeted industrial zones; *ii)* implementing a master plan for a multimodal transport and logistics system; *iii)* developing the labour market, specifically by strengthening industrial relations and skills development; and *iv)* developing and transforming Sihanouk Province into a model multi-purpose Special Economic Zone.

Another important strategic document is the Rectangular Strategy, which is currently in its third phase. This document is designed to chart the economic course of each new legislature of the National Assembly beginning in 2004. It is based around cross-cutting objectives, of which the four main pillars are: *i)* development of the agricultural sector; *ii)* development of physical infrastructure; *iii)* private-sector development and more and better jobs; and *iv)* better provision of basic health and education services. The current document outlines the economic priorities of the Fifth Legislature of the National Assembly (2013-2018). This third phase of the strategy specifies a focus on human capital development, as well as four priority areas for intervention: *i)* skills development, particularly in STEM subjects; *ii)* increased investment in transport infrastructure and trade facilitation measures; *iii)* modernisation of the agricultural sector; and *iv)* increasing the capacity and integrity of public institutions to improve public service delivery and the investment climate. The government develops a five-year roadmap to implement the principles of the Rectangular Strategy. The roadmap currently in force is the National Strategic Development Plan 2014-18 (and it is thus in its final year).

Private sector development and enterprise structure

Business environment trends

Cambodia has registered impressive GDP growth rates since the mid-1990s, reaching 7.6% annual growth on average. Firms and investors operating in the country benefit from a broadly stable macroeconomic environment and pro-business government, competitive investment incentives and a relatively young and low-cost labour pool. Cambodia is also party to a number of preferential regimes, such as the Generalised System of Preferences, as well as important bilateral and multilateral trade agreements. Over the past few years, the country has seen a construction boom and growth in tourism and non-textile exports such as machinery parts. Investment from China has been particularly important, especially in construction.

Cambodia has enacted a number of reforms to enhance its business environment in the past few years. It has significantly improved its legal and institutional framework for accessing finance, and it was ranked 20th on this pillar in the most recent *Doing Business* assessment (World Bank, 2017[7]). It has also enacted reforms to improve the reliability of

electricity and to decrease the time and number of procedures required to start a business (World Bank, 2016[8]; World Bank, 2017[7]).

Despite this impressive performance, firms and investors may face obstacles due to rather limited infrastructure[7] and workforce skills, the possibility of corruption in certain areas of the public administration and enforcement of contracts (World Bank, 2017[7]; WEF, 2017[9]; GAN, 2017[10]). Integrity issues may be particularly prevalent in land and customs administration, with facilitation payments often required to obtain licenses and permits (GAN, 2017[10]). Recent minimum-wage increases may moderate the cost competitiveness of garment manufacturers, who are already experiencing rising competition from neighbouring countries such as Myanmar.

SME sector

Cambodia counted 513 759 enterprises in 2014, according to the last economic census, of which 99.8% were MSMEs, mainly micro enterprises (97.6%) (NIS, 2015[11]).

SMEs provide a similar structural contribution to the economy as in OECD countries, accounting for around 71.7% of employment, with micro enterprises accounting for 58.3% of employment (NIS, 2015[11]). Information is not collected on their contribution to GDP or value added.

Micro enterprises in Cambodia tend to be new (61.7% are 1-5 years old) and engaged predominantly in wholesale and retail activities (60.7%), followed by manufacturing (14.0%) and accommodation and food service activities (10.9%). Small and medium-sized enterprises are predominantly found in education (33.7%) and manufacturing (13.5%) activities. Geographically, the highest concentrations of MSMEs are found in Phnom Penh (23.1%) and Siem Reap Province (18.5%), followed by Battambang Province (8.5%). MSMEs are more evenly spread across the territory and are engaged in different economic activities than large enterprises, of which 59.2% are based in Phnom Penh and 47.4% are engaged in manufacturing activities (NIS, 2015[11]). MSMEs are also more likely to be owned by Cambodian nationals: 47.4% of large enterprises are owned by foreigners, particularly Chinese nationals (who own 24.2% of large enterprises).

SME policy

Under the Khmer Rouge regime from 1975 to 1979, all private enterprise in Cambodia was prohibited. Over the course of the 1980s, private enterprise gradually began to recover, first with the revival of food processing activities (predominantly rice milling) by co-operatives in the early 1980s, and then with the recovery of basic manufacturing operations (to meet domestic demand) in the mid-1980s. Nationalised firms were sold or leased to the private sector from late 1989, and in 1991 the government introduced a comprehensive privatisation programme (Baily, 2008[12]).

By the late 1990s, the country's macroeconomic framework was largely stable, and the basic institutions and infrastructure of a market economy had been built. The number of registered manufacturing SMEs had grown from zero to 24 000 by this time (Baily, 2008[12]). Following the country's 2003 general election, the government began to develop a series of strategic documents and institutions to accelerate and guide the development of private enterprise, particularly SMEs.

In 2004 the government launched its Rectangular Strategy, outlining 13 pillars to promote and develop private enterprise in the country, and thereby economic growth, job creation and productivity enhancement. One pillar of this strategy concerns SME development.

In the same year, the government established an SME Development Framework (grounded in the Rectangular Strategy) and an SME Sub-Committee. The Framework identified three main barriers hindering the development of Cambodia's SMEs – a weak regulatory and legal framework, limited SME access to finance and a lack of SME support activities – as well as measures to address them. It was implemented over two phases: the first ran from 2005-2007, while the second, from 2008-2010, mainly focused on regulatory reform. Meanwhile, the creation of the SME Sub-Committee in 2004 provided a platform to increase the coherency of SME development measures. Until then, 25 government agencies had been developing their own SME development policies and instruments, decreasing coherence and increasing compliance costs for SMEs.

2018 ASPI results

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

Cambodia is in the early stage of developing SME policies. This policy area has been assigned to a dedicated body, but it has limited operational autonomy and limited resources. A dedicated SME strategy is not in place, although substantial strategic planning has been conducted on broader industrial development, which includes a component on SMEs. Cambodia's scores of 2.55 for institutional framework and 2.31 for legislation, regulation and tax reflect these findings.

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

The body responsible for formulating SME policy in Cambodia is the SME Sub-Committee (SCSME), which was established in 2004. The SCSME is chaired by the Minister of Industry and Handicraft (MIH) and includes representatives the Council for the Development of Cambodia; the Ministries of Labour and Vocational Training, Interior, Economy and Finance, Agriculture, Forestry and Fisheries, Tourism, Mines and Energy, Rural Development, Environment, and Women's Affairs; the General Department of Customs and Excise; the National Bank of Cambodia; and the Cambodia Import-Export Inspection and Fraud Repression Directorate General (Camcontrol) of the Ministry of Commerce. The committee is responsible for formulating SME policies and strategies, conducting dialogue with a wide range of stakeholders and co-ordinating funds from development assistance agencies and projects targeted at SME development.

The main body responsible for implementing SME policies and programmes is MIH. It has a dedicated unit for SME policy, the General Department of SMEs and Handicrafts. Its resources are rather limited, however, with MIH as a whole currently employing just 50 officials. But it does have a local presence, with offices in all 25 provinces of Cambodia.

The government does not currently have an SME development strategy in place, with objectives, concrete targets and instruments over the medium term. Instead, occasional interventions are guided by the goals of the country's industrial development strategy. However the government, via the Ministry of Industry and Handicraft, has started to develop a medium-term strategy called the SME Promotion and Development Policy.

Very little monitoring and evaluation currently takes place, save some reporting on the use of the department's budget to MIH, which then reports to the Council of Ministers and the prime minister. SME data is collected irregularly. The information was previously gathered by the Ministry of Planning with support from the Japan International

Co-operation Agency (JICA), but it aggregated small and medium enterprises and there have been concerns over its accuracy. Data are not collected on SME contribution to GDP or value added.

Scope of SME policy

Cambodia has a legal SME definition that was developed under the SME Development Framework in 2005. It disaggregates firms by size and includes criteria of both employment and value. It does not disaggregate enterprises by sector, which increases its ease of use. However, it is not used consistently by different government entities. The National Institute of Statistics (NIS), for example, aggregates small and medium-sized enterprises in data collection exercises.

Table 13.2. Cambodia's SME definition

Size classification	Indicator	Number
Micro	Assets (excl. land)	USD 50 000
	Employment	≤ 10
Small	Assets (excl. land)	USD 50 000 – 250 000
	Employment	11 - 50
Medium	Assets (excl. land)	USD 250 000 – 500 000
	Employment	51 - 100

Source: SMESC (2005).

High informality rates may exclude a large number of SMEs from policy interventions. There are few programmes in place to tackle informality, save some measures to streamline and enhance company registration procedures.

Development of legislation and regulatory policies affecting SMEs

Cambodia has not yet gone through a comprehensive regulatory review process. However, in the last ten years it has started to use some good practices to inform the development of regulations. In 2008, the Asian Development Bank (ADB) implemented a project to socialise the use of regulatory impact analysis (RIA). As part of this project, an RIA office was established in the Economic, Social and Cultural Council, the use of RIA was piloted in seven line ministries (2011-14) and a manual on the use of RIA was developed in 2014. The private sector is also consulted in the development of regulations at the draft stage via physical and virtual meetings. However, the transparency and representativeness of these consultations is rather limited: for instance, ongoing consultations are not listed online. Formal written guidance on how to conduct consultations is also unclear.

Company registration and ease of filing tax

Procedures to launch a business are somewhat burdensome in Cambodia despite involving a relatively small number of steps. In general, nine steps are required, taking 99 days and costing 51.3% of income per capita (World Bank, 2017[7]). None of these steps can be fully completed online, and an applicant must interact with seven government agencies throughout the process. More than 75 licenses may apply to SMEs in Cambodia, and they are issued by a large number of ministries.

To comply fully with tax filing regulations, a company must submit 40 payments per year, a process that takes 173 hours and amounts to 21.7% of total profits (World Bank, 2017[7]). Filing contributions for employee social security is a particular bottleneck, taking 84 hours.

E-governance facilities

Online platforms for filing tax have been available in Cambodia since 2017, but neither social security nor pension contributions can yet be filed online. Tax e-filing platforms are currently in an embryonic phase, with the e-payment platform of the General Department of Tax (GDT) only available for taxpayers who hold accounts with one of three banks: Vattanac, ACLEDA and Canadia. Furthermore, taxpayers are required to submit certain documents to the GDT in person or via direct mail. Enhancements to the platform were expected over the course of 2018. The country has also begun work to enhance the ease and security of digital transactions, with the government releasing a directive in December 2017 on the development of digital signatures (Sub-Decree 246). This directive is primarily designed to facilitate e-commerce, but could also be extended to e-governance. The main agency responsible for the development of e-governance platforms is the Ministry of Posts and Telecommunications.

Facilitating SME access to finance (Dimension 3)

Cambodia has a relatively underdeveloped financial sector according to global indicators, but it is demonstrating a noteworthy reform effort in this area. It is currently ranked 61st for financial market development by the World Economic Forum (WEF, 2017[9]) and 20th for ease of getting credit by the World Bank (World Bank, 2017[7]). The country receives high scores for its credit information reporting system and secured transaction framework,[8] but its overall score is diminished by a low performance on indicators of access to and regulation of equity instruments. Few SMEs have access to formal external finance, and a relatively limited range of products are available. When loans are extended, collateral requirements are very high,[9] averaging around 165.1% of the value of the loan in some surveys (World Bank, 2016[13]), and there are few measures in place to address this. The country also has a relatively high number of unbanked citizens: only 22% of those aged over 15 had a bank account in 2014 (World Bank, 2014[14]). Overall, the country has a higher level of financial intermediation than many of its income-group peers, which may be testament to its financial sector development efforts over the past six years. Domestic credit to the private sector, a proxy measure of financial intermediation, stood at 69.7% of GDP in 2016, up from 44.7% in 2013 (World Bank, 2016a[2]). Cambodia's score of 2.89 in this dimension reflects these findings.

Legal, regulatory and institutional framework

For debt financing, facilities to assess and hedge against credit risk are relatively advanced, particularly given Cambodia's income level. In 2012, the country set up its first credit reporting facility, the Credit Bureau Cambodia (CBC), and today it covers around 49.9% of the country's adult population (World Bank, 2017[7]). It provides at least two years of both positive and negative[10] data, it is online and in 2017 it started to provide credit scoring as a value-added service. The country also has an excellent secured transaction framework according to international assessment. In 2007 it passed the Law on Secured Transactions (No.0507/012/NS/RKM), which provides a unitary approach to the taking of security. It permits a broad range of collateral to be taken as security, and allows this to be notice based. At the same time, it established the Secured Transactions

Filing Office, a movable assets registry that is centralised and allows any interested third party to perform all registrations, amendments, cancellations and searches online. However, banks may be prevented from enforcing security interests in practice, and some are increasingly calling for measures to restrict changes in ownership and allow for creditors to repossess collateral (PPP, 2017[15]). This is partly due to the difficulty of enforcing contracts in Cambodia: procedures to resolve insolvency can take a year and a half and cost 103.4% of the claim value (World Bank, 2017[7]). A cadastre is in place, but a large share of land property is not formally registered and digitisation of the cadastre is still at an early stage.

For equity financing, the country has had a stock market in place since 2012, the Cambodia Stock Exchange (CSX), although it remains rather shallow and illiquid. There are currently only five firms listed, with around one new listing a year (bar 2013). The exchange is largely seen as having failed, with four of the five companies being state-owned[11] and a total market capitalisation of only around USD 196 million in March 2017 (OECD, 2017[16]) making it one of the smallest stock exchanges in the world. Reasons cited for the CSX's inability to scale and churn include an underestimation of the complexity of launching a stock exchange and issues with corporate governance in Cambodia, for instance weak financial reporting standards and limited information disclosure in English. In September 2015, it was announced that the CSX would be creating a new trading platform for SMEs, named the Growth Board, which would come with decreased listing requirements. To date, no SMEs have listed on this board. The government has also extended tax incentives to stimulate the growth of listing facilities in the country. Companies that listed on the CSX will receive a 10% reduction on profit tax and a 50% reduction on withholding taxes on interest and dividends for a period of three years from the date of listing.

Sources of external finance for MSMEs

The government of Cambodia has few instruments in place to stimulate bank lending to SMEs. Its main instrument, the government-owned Rural Development Bank, was created in 1998 to address the missing market. The government is now working on establishing an SME bank in the country. Alternative instruments to leverage the private sector, such as dedicated credit lines for SME lending, are not extended. There is no public (or private) credit guarantee scheme operating in the country, nor are there public programmes or institutions to support export financing.

Microfinance is one of the main sources of external financing for the country's MSMEs. A main institution is ACLEDA Bank, which was founded in 1993 as a national non-governmental organisation (NGO) for providing credit to micro and small enterprises. In 2000, ACLEDA was licensed as a specialised financial institution under the National Bank of Cambodia (NBC), and in 2003 it received a commercial banking license from the NBC, which allowed it to extend its services. It has become one of the largest commercial banks in Cambodia, with a network of 258 branches across the country as of 2015. ACLEDA is rated by Standard & Poor's. It is co-owned by Cambodian stakeholders and international development and commercial financial institutions, with Cambodian stakeholders retaining majority shares.[12] Including ACLEDA, there were 35 registered microfinance institutions (MFIs) and 32 registered microfinance operators in Cambodia as of 2016 (NBC, 2016), although many more are known to exist informally. The Cambodia Microfinance Association currently has 45 members, including 39 licensed microfinance institutions and six NGOs (rural credit operators), with a gross outstanding loan portfolio of around USD 2 billion and a borrower base of about 1.8 million accounts,

predominately located in Phnom Penh and large provincial towns. Attempts have been made to increase regulatory oversight of these institutions, for instance the Regulation on Registration and Licensing of Microfinance Institutions (2000), but many remain unregistered. This is partially due to the rapid growth of the sector: the size of microfinance loans in Cambodia grew at four times the income growth of the average borrower between 2004 and 2014 (Hutt, 2017[17]).

Asset-based instruments are rarely used by firms of any size in Cambodia, despite the country's conducive secured transaction framework. The use of leasing instruments is increasing, but they are mainly utilised to purchase consumer goods, particularly automobiles, and are not commonly used by SMEs to secure corporate credit.

Equity instruments are very scarce in Cambodia. There are no private equity and venture capital (PE/VC) firms based in the country, but start-ups can still access funds, particularly those focused on the Mekong region, such as the Mekong Angel Investors Network or various initiatives of the Mekong Business Initiative. A concrete regulatory framework to govern PE/VC instruments is missing. There are no government programmes in place to stimulate PE/VC financing, but this could be wise given the limited number of such firms needing it and the need to invest in more pressing areas.

Enhancing access to market and internationalisation (Dimension 4)

Cambodia is struggling to improve the business ecosystem in order to provide better support to its SMEs in the export market. The latest export data show that the contribution from SMEs to national exports is still less than 10%, according to the Federation of Associations for Small and Medium Enterprises of Cambodia (FASMEC) (Sokhorng, 2018[18]). Cambodian SMEs are viewed as uncompetitive against foreign goods in both domestic and international markets, partly due to lack of government support. But the government faces an obstacle to developing export and growth strategies because of the low rate of SME formalisation (Kotoski and Sokhorng, 2017[19]). With a score of 2.69 for this dimension, Cambodia is still at the early stage of developing policies to improve SME market access and internationalisation.

Export promotion

In endeavouring to pursue economic liberalisation and trade promotion, Cambodia has tried to mobilise technical assistance from various development partners under national trade strategies over the years. On 18 February 2014, the prime minister launched the Cambodia Trade Integration Strategy (CTIS) 2014-2018 and an accompanying Trade Sector-Wide Approach (SWAp) Roadmap 2014-2018 to accelerate trade sector development. The CTIS is the third generation of a Diagnostic Trade Strategy that was first introduced in 2001. The following year, the Department of International Co-operation under the Ministry of Commerce worked with the United Nations Development Programme (UNDP) to prepare a Medium-Term Plan for the Implementation of Cambodia's Trade SWAp. It was launched in 2016 to measure initial progress against the roadmap and identify where aid for trade might still be lacking. To develop domestic industry, the country also launched the Industrial Development Policy 2015-2025. SME expansion is among the IDP's policy measures and action plans, along with investment promotion, regulatory framework improvement and key-sector development.

Despite these efforts, specific policies to promote SME exports have not been defined. Trade support programmes have mainly focused on developing basic infrastructure for

trading, while many capacity-building initiatives are fragmented and not specifically aimed at helping local SMEs. During consultations with government officials, FASMEC recently highlighted the lack of support for SMEs, including in exporting (Sokhorng, 2017[20]).

While Cambodia has experienced increased liberalisation and exposure to foreign economies, local SMEs have trailed behind in terms of competitiveness, even in the domestic market. Many Cambodian SMEs cite a lack of knowledge and skills as the main barrier to expanding abroad. Other factors include non-compliance with certain quality standards and lack of access to finance. A recent study found that Cambodian SMEs were not using free trade agreements mainly due to a lack of knowledge and capacity for dealing with the complexity of foreign trading procedures (Thangavelu, Oum and Neak, 2017[21]). The government has stressed that SMEs need to register within the national system in for better delivery of assistance. The *Khmer Times* reported on 28 October 2016, quoting MIH data, that fewer than 40 000 SMEs had been registered out of an estimated 530 000 SMEs nationwide (Chan, 2016a[22]). This indicates that informality may be hampering SME policy development and trade support.

Integration into GVCs

To promote value-chain development and linkages between established foreign companies and local ones, the government established the Cambodia Special Economic Zone Board, which operates under the Council for the Development of Cambodia (CDC), the government agency in charge in providing incentives to stimulate investment in the country. Nineteen special economic zones (SEZs) were operating across the country as of May 2018, and 8 more were under construction. Under IDP 2015-2025, continuous development of industrial zones is aimed at promoting hubs for SMEs to enhance their competitiveness. The government sees SEZs as a means of establishing linkages between SMEs and multinational companies (MNCs). Through CTIS 2014-2018, Cambodia aims to foster opportunities to increase backward linkages for domestic SMEs in ten priority export sectors.[13]

Nevertheless, efforts to involve SMEs in the development of SEZs have been limited. FASMEC mentioned an absence of incentives for SMEs to move into SEZs (Chan, 2016b[23]). In 2016, it was reported that WorldBridge International Group had signed a memorandum of understanding with MIH to provide USD 25 million to develop an industrial park for SMEs in Kandal Province (Kotoski, 2016[24]). Called SME Eco Park, this would be the first SEZ for SMEs to be built in Cambodia. It is to be a hub for manufacturing and raw materials production, as well as providing packaging services and logistics support for SMEs. It remains unclear, however, whether there will be specific strategies for SMEs to help them integrate into the global production network and move up the value chain.

Scattered initiatives that aim to assimilate Cambodian SMEs into GVCs have emerged with support from foreign development partners. Capacity building on improving supply-chain linkages for Cambodian SMEs in the agriculture sector was conducted by the International Finance Corporation through the Cambodian Rice Project 2012-2015. Other activities include: identification of market opportunities through participation in international trade exhibitions; business matching with foreign rice merchants; improving product quality; and branding strategy. Meanwhile, the Business Alliance for Competitive SMEs, a partnership between the US Agency for International Development (USAID)

and the US-ASEAN Business Council, held a workshop in Phnom Penh to foster business linkages and knowledge transfers between MNCs and Cambodian SMEs.

Use of e-commerce

E-commerce is in the early phase of development in Cambodia. The country remains the only ASEAN member state with no e-commerce law. A draft law is currently under review but has not been made public. The country still operates under a law passed in 1996 that mainly deals with postal services (Gaudemar, 2016[25]). As of June 2017, Cambodia's first law on consumer protection was still being worked on by the Ministry of Commerce, with financial and technical assistance from the ADB, *Rouse Magazine* reported.

Despite limited legal and logistical infrastructure for e-commerce in Cambodia (UNCTAD, 2017[26]), e-commerce in Cambodia has begun to flourish, led predominantly by the private sector. With more Cambodians now having access to smartphones, popular social media platforms such as Facebook and Instagram are being used as digital marketplaces, according to Mango Tango Asia, a market research company (Sokunthea, 2017[27]). Several local online shopping sites have become popular, including Glad Market, Shop168, and MALL855. Several e-payment solutions have also emerged, such as E-commerce Payment Gateway by ACLEDA Bank. Logistic services provided by the private sector have also surfaced, such as Cambo Quick and Fado168, which connect Amazon.com's services with Cambodian consumers (McGrath, 2017[28]). Specific support for Cambodian SMEs to increase their use of e-commerce have not yet been clearly defined.

Quality standards

The Institute of Standards of Cambodia (ISC) is the body responsible for the preparation of national standards and guidelines for products, commodities, materials, services and operation. ISC, as a correspondent member of the International Organization for Standardization (ISO), is able to sell and adopt ISO standards nationally. In the 2016-2020 Medium Term Plan (MTP) for the Implementation of Cambodia's Trade SWAp, Cambodia's National Standards Council instructed the ISC to proceed with adoption and/or adjustment of the ASEAN harmonised standards within the shortest possible period.

Nevertheless, Cambodia is still at the early stage of helping local businesses to improve their product quality and deal with international quality standards. On 17 May 2016, the *Khmer Times* reported that many Cambodian businesses were still relying on laboratories in neighbouring countries like Viet Nam and Thailand for product inspection in order to comply with the Hazard Analysis Critical Control Point safety management system. This was despite improvements by the Industrial Laboratory Centre of Cambodia, which was seen by local businesses as lacking product coverage and test robustness. The 2016-2020 MTP noted that donors such as the ADB, the EU and others had provided resources for scaling up laboratory capacities, especially in Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT), yet only two government laboratories had achieved international certification, and for a very narrow set of parameters. The absence of international accreditation means that certificates issued by such labs have no value in export markets. This poses a problem for Cambodian businesses seeking to go global. The lack of support for SMEs on complying with quality standards has made them less competitive against imported goods even in the domestic market (Sokhorng, 2017[20]).

Although Cambodia has not designed specific initiatives to help SMEs comply with quality standards, foreign development partners and NGOs have taken scattered actions. For example, with the support of an ASEAN-German co-operation project called Standards in the Southeast Asian Food Trade, the General Directorate of Agriculture organised a public-private dialogue on 31 August 2017 to create a platform to foster the use of organic standards among farmers and retailers. Other initiatives by various partners embedded in capacity-building programmes for Cambodian SMEs have been less specific on quality-standards improvement.

Trade facilitation

Cambodia is taking steps to improve trade facilitation. According to the 2017 OECD Trade Facilitation Indicators (TFIs) used in the 2018 ASPI, Cambodia scored medium in indicators on fees and charges, information availability and formalities-procedures, and moderately low in formalities-documents.[14] A major reform in trade facilitation was the development in 2017 of a Cambodian National Single Window (CNSW) to streamline the country's customs procedures. However, as Cambodia is transitioning from manual to electronic procedures, the country's international trade procedures still involve manual tasks requiring submission of documents in multiple copies at various regulatory government agencies (Kunmakara, 2017[29]).

Although the CNSW is at the first stage, progress includes the development of a CNSW Blueprint with financial support from the World Bank and the completion of a Legal Gap Analysis carried out in 2014 under the ASEAN Single Window-ASEAN Connectivity through Trade and Investment (ASW-ACTI) project. Since October 2016, the US-ACTI project has assisted Cambodia by connecting the Automated System on Customs Data (ASYCUDA) of the General Department of Customs and Excise and the Certificates of Origin Automation System of the Ministry of Commerce to the ASEAN Single Window. The US-ACTI project has also helped Cambodia to join testing on the electronic exchange of Form D of the ASEAN Trade in Goods Agreement with other ASEAN Member States. Cambodia aims to complete the CNSW development process in 2018. These efforts are part of the initiative to expedite and digitalise customs procedures and cross-border trading.

Cambodia has also established a National Trade Repository as the source for all regulatory information for traders to import or export goods. It provides enquiry points for SPS under Camcontrol's Department of Technical Information and Public Relations, while the TBT enquiry point is under the ISC's Department of Information. However, the website enquiry points are not straightforward in directing visitors to the enquiry service.

Since Cambodia is still developing trade facilitation infrastructure and procedures, specific government programmes aimed at helping SMEs to deal with customs procedures have not been defined. There is, however, a Customs-Private Sector Partnership Mechanism in which the Cambodia Chamber of Commerce (CCC) acts as a co-chair. The mechanism, which provides a forum for the private sector to consult with customs, was officially launched on 26 January 2010 to enhance fair business and the investment climate.

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

Cambodia has made considerable efforts recently to develop a set of policies related to promotion of productivity, technology and innovation. Implementation remains the main

challenge. Very limited infrastructure is available for SMEs to get business development services (BDS) or support with innovation promotion. The country's score for Dimension 1 is 2.62, placing it at the early stage.

While Cambodia has developed a number of policies highlighting the importance of green growth for the country, very few mechanisms exist to support SMEs with greening. With a score of 1.88 for Dimension 2, Cambodia is still at an early stage of policy development focused on greening SMEs.

Productivity measures

The recently created Committee for Productivity in Cambodia is the lead policy development agency for productivity enhancement at the national level, and it covers both large firms and SMEs. It is chaired by the Minister of Economy and Finance and has 18 other members, representing government institutions (including the MIH and the Ministry of Commerce), the private sector and academia. The National Productivity Centre of Cambodia (NPCC) under MIH is the main implementation agency for productivity enhancement programmes and policies.

Policies on SME productivity are covered in the Rectangular Strategy, the IDP 2015–2025 and the new SME Development Strategy, which is still being developed. The National Science and Technology Plan 2014-2020 also has some elements on SME productivity, although it focuses more sharply on agricultural productivity. Consultations on productivity policy development are being conducted as part of the Government-Private Sector Forum. SME-specific productivity enhancement projects are fragmented and most are externally financed. The NPCC was allotted USD 100 000 from the government budget for the implementation of its programmes. While monitoring takes place, it is very limited. There are no official statistics on national and SME productivity, although the Asian Productivity Organisation includes Cambodian data on national level productivity.

Business development services

The Ministry of Industry and Handicraft is responsible for developing, regulating and implementing government policy on SMEs in the manufacturing sector and handicrafts. The strategic framework calls for improving SME access to BDS, but it does not have a detailed action plan, measurable targets, timeframe or expected impact.

Although BDS is seen as a strategic priority, Cambodia lacks BDS support infrastructure such as business support centres, incubators, accelerators or one-stop shops. There is also lack of experienced trainers who could provide support to SMEs. To date, SMEs have had access to BDS through donor-support programmes or limited services such as training or counselling by the National Productivity Centre, National Standard Institute and National Testing Laboratories. Donor-supported initiatives include the Seed Capital and Business Development programme by the Dutch Good Growth Fund, International Labour Organization (ILO) and others. The very few private initiatives include ImpactHub and Confluences Asia.

Getting reliable information is also a challenge for SMEs given the lack of a single portal, but this might be changing. In August 2017, a Business Information Centre (BIC) was launched in Phnom Penh by the Young Entrepreneurs Association of Cambodia (YEAC) in collaboration with the Cambodia Women Entrepreneurs Association, CCC. The BIC received technical support from the ADB and the Australian government-supported

Mekong Business Initiative. The BIC is expected to act as a one-stop resource for up-to-date information on business laws and regulations, opportunities and business support services through guides, toolkits and a database of financial support services.

Productive agglomerations and clusters enhancement

Several government strategies contain elements on the promotion of industrial clusters and SEZs: the IDP; the National Strategic Development Plan 2014-2018; the Rectangular Strategy; and the SME Development Policy. These strategies specifically mention SME promotion in the cluster zones, including the promotion of linkages with large enterprises. The Law on Special Economic Zones is currently being drafted by the CDC. There are several fiscal and some non-fiscal incentives for investing in SEZs.

Cambodia's score in the ERIA Foreign Investment Liberalisation (FIL) index has declined from 93.2% in 2011 to 91.6% in 2014. Nevertheless, its 2014 score is still above the ASEAN median. The agriculture and natural resources sector is more open than the manufacturing sector. There are currently 22 special economic and industrial zones across Cambodia, up from 9 in 2014. However, the country still lacks facilities to encourage networking among innovative companies, such as science/industrial parks, competitive clusters or technology centres. The IDP has some elements on monitoring for the overall plan, though not specific to industrial clusters.

Technological innovation

Cambodia's innovation performance is weak. There is very little expenditure on research and development (R&D), the number of researchers is low, publication levels are modest and patenting is extremely rare. Current policies focus on product diversification, trade expansion and efforts to increase FDI. There is little explicit focus on science or innovation policy, though general improvements to the business environment are likely to improve framework conditions for innovation. Cambodia currently has no stand-alone innovation strategy document. A number of broader strategic documents, such as the IDP, do reference innovation, however, and they specify measures to promote R&D for SMEs and to increase SME access to new technologies. The IDP also encourages technological innovation through an award scheme for priority sectors. Industrial innovation is a key focus in the Cambodia National Science and Technology Master Plan 2014-2020, particularly in the areas of agriculture, primary industries and ICT.

The main co-ordination structures relating to innovation promotion are the General Secretariat of the National Science and Technology Council (NSTC) and the National Committee on Science and Technology. But it is not clear whether they have an arbitration function, since the NSTC is under MIH but involves a number of stakeholders.

Cambodia's intellectual property (IP) laws are relatively more advanced than those of other ASEAN members, but enforcement is uneven and challenging. Cambodia's patent authority lacks sufficient funding and expertise to examine patent applications and has been collaborating with the IP offices of Singapore and Japan to grant patent protection to applicants who have already registered their patents in those countries.

A number of initiatives have taken place in the last five years, mainly with support from international donors. In 2013, the EU supported 56 companies through the Sustainable Product Innovation for Manufacturing SMEs programme in the fields of textiles, furniture, handicrafts and packaging. The Development Innovations project, funded by USAID from 2013-16, aimed to expand the role of technology in Cambodia's

development through support with prototyping budgets, consulting and workspace. Private initiatives such as Geeks in Cambodia organise regular events and innovation bootcamps that are starting to create awareness among SMEs, especially start-ups.

Although these small-scale initiatives exist, the country still lacks basic infrastructure to promote innovation. SMEs cannot benefit from incubators, science and technology parks or labs to develop and test their products. But there is a Technology Transfer Office under the Department of Techniques, Science and Technology.

Environmental policies targeting SMEs

Cambodia does not have national policies specifically supporting the growth of green SMEs, but it is taking ambitious steps to develop policies around greening the private sector and supporting green growth. The Cambodian National Strategic Development Plan includes green growth and climate change as horizontal issues for sectoral development (such as agriculture), and highlights the importance of SMEs. It is supported by other strategies such as the National Policy on Green Growth and the SME Strategic Development Framework.

Although these policies demonstrate that the government views green growth as an important issue and supporting SMEs as vital to economic growth, direct support for the greening of SMEs needs to be further developed. Some sectors already have more highly developed plans to support green growth of SMEs. For example, the National Energy Efficiency Action Plan targets energy efficiency in industrial SMEs. Although the vast majority of enterprises are SMEs, and therefore specifically targeting them may seem unnecessary, small and micro enterprises make up the majority and many are not registered with the government. Determining ways to reach those enterprises, whether through local governments or direct outreach, will be an important step in enhancing access to greening assistance for small and micro enterprises.

Incentives and instruments for green SMEs

Cambodia has not implemented regulatory incentives to complement its support schemes for greening industry. The country's environmental regulatory system is aimed at large projects. It requires environmental impact assessments for projects that are deemed likely to impact the environment, but it does not include incentives to encourage better environmental performance for SMEs, and it is unclear whether much attention is directed at promoting environmental compliance by SMEs. A new law governing environment and natural resources is being drafted to succeed a 1996 law.

There are numerous support schemes and financial incentives for greening in the private sector, but they do not target SMEs directly and there is little evidence that SMEs benefit from them. Programmes such as the Rural Electrification Fund and the National Biodigester Programme provide soft loans for specific technological adoption, but they do not target SMEs and are based on donor funding, so may have limited reach and longevity.

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

With its large youth population, Cambodia has started to recognise the importance of instilling entrepreneurial values through the education system and promoting entrepreneurial skills among young people. However, it is still in the development phase

of designing mechanisms and concrete strategies to deliver entrepreneurial education and training, despite having put the commitment in place. With a score of 2.54 in Dimension 7, Cambodia is on its way to entering the next policy development level.

Cambodia has put in place a number of strategies relevant for human capital development. But with a lack of relevant resources, it has been less successful in setting up implementation modalities. This is the main reason why the country scores 2.35 in Dimension 8, putting it in an early phase of policy development.

Entrepreneurial education

Cambodia has shown a notable commitment to integrate entrepreneurial elements into its education system. In response to the National Vision to launch Cambodia into the middle-income country group in 2030, the National Strategic Development Plan (NSDP) 2014-2018 emphasises the development of human resources with the quality and ability to support the country's competitiveness. The commitment set out in the NSDP is articulated into policy in the Education Strategic Plan (ESP) 2014-2018 of the Ministry of Education, Youth, and Sport (MoEYS). ESP 2014-2018 aims to develop the building of knowledge, competence, entrepreneurship, skills, creativity and innovation in all sectors, especially science and technology. It particularly focuses on strengthening dialogue between the private sector and educational institutions on skills gaps, as well as the development of technical skills for youth. It includes a set of outcome indicators on the implementation of educational milestones, including on entrepreneurship.

Nevertheless, ESP 2014-2018 emphasises entrepreneurial learning (EL) most strongly in the youth development area, and EL elements are not clearly defined at any stages of education. Under ESP 2014-2018, the government is to provide training on leadership and entrepreneurial skills for youth on a regular basis, where youth refers to people with Khmer nationality aged 15-30. But entrepreneurial education for youth has not been clearly defined in the school system. The concept of vocational and technical education is still relatively new, and there are neither clear guidelines nor an agenda for entrepreneurship education at the university level. Nevertheless, several Cambodian universities have started to introduce EL elements, such as entrepreneurship promotion programmes by the National University of Management, in partnership with the Cambodia International Education Support Foundation and Waseda University, Japan.

Entrepreneurial skills

The government is currently seeking to establish an Entrepreneurship Promotion Centre, which among other facilities would seek to foster entrepreneurial skills. Currently, Cambodia has a few programmes in this area targeted at young people. Youth embody great potential for Cambodia's future economic growth: almost 50% of the population is under the age of 25 (CIA, 2018[30]). Through the establishment of youth centres across the country, ESP 2014-2018 mandated MoEYS to facilitate short training courses on handicrafts, technology, agriculture and telecommunications, with the main focus on youth. The training was to include leadership and entrepreneurship to equip youth with capabilities to create and manage their own businesses. However, the implementing mechanism to deliver the entrepreneurship training has still to be developed.

Other activities by MoEYS to improve entrepreneurial skills are less apparent. But on 24 August 2017, ILO and MoEYS, supported by the ILO/Japan Fund for Building Social Safety Nets in Asia and the Pacific, won the Guinness World Record for the world's largest practical business seminar. The seminar, held to raise youth awareness on

entrepreneurship, took place in in Phnom Penh and was attended by 2 304 Cambodians aged 15 to 29 (Keam, 2017[31])

Many initiatives to nurture entrepreneurial skills have emerged from NGOs and the private sector. YEAC, launched in September 2009, aims to empower young entrepreneurs through training and conferences on entrepreneurship. Partnering with the Cambodia Women Entrepreneurs Association, the CCC and the Mekong Business Initiative, YEAC launched its ground-breaking Business Information Centre to facilitate and expedite the start-up process for new businesses by providing a one-stop resource for up-to-date information on business regulations and opportunities (Manet, 2017[32]). Meanwhile, the EZECOM internet service provider has an entrepreneurship programme called Hub Academy as the company's corporate social responsibility. Hub Academy provides a year-long entrepreneurship programme for 23 young Cambodians to support them towards becoming future business and community leaders.

Social entrepreneurship

Cambodia has the highest number of NGOs per capita in the world. But in recent years, funding has been targeted at the government's budget rather than civil society. This has put funding pressures on NGOs, many of which are seeking different funding strategies to allow them to pursue their missions and help Cambodia with its social needs.

Though there is no legal definition for a social enterprise in Cambodia, most institutions agree that social entrepreneurship applies the principles of entrepreneurship to finding sustainable solutions to social or environmental problems. The IDP states that the country's industrial development policy should focus in part on "providing support to social enterprises that promote child nourishment, development of knowledge, promotion of national identity, development of cultural heritage, assistance to orphans, disabled persons and elderly people, and sports equipment for young athletes." The law stipulates that charitable and charity-linked activities are tax exempt. All NGOs must be registered with the Ministry of Interior.

Social entrepreneurship in Cambodia focuses on rural development and depends heavily on participation from local communities. The Co-operative Association of Cambodia plays an important role in providing support to co-operatives. Private initiatives like ImpactHub offer business incubator support, training and support for NGOs wishing to convert their model into a social enterprise. Social Enterprise Cambodia operates a web platform that shares the work of social enterprises and enables them to connect. The Royal University of Phnom Penh is also involved in advocacy actions. Impact Hub Phnom Penh works in partnership with donor agencies (USAID, UNDP) to build up the country's social enterprises, which conform to conventional definitions.

Inclusive entrepreneurship

Cambodia has well-developed structural support for inclusive entrepreneurship targeting women, youth and persons with disabilities (PWD). As a result, it has performed consistently well on the planning and design block in this dimension. For women and youth, there are policies to promote entrepreneurship and a clear agency in charge. Entrepreneurship as a policy approach to social and labour-market inclusion for PWDs has yet to be formally explored. However, the government has focused on addressing PWD labour-market inclusion through legislative instruments touching upon employment practices, job placement services and enhancing employability through vocational training. The Government Sub-decree on Investments (No. 88/ANK/BK) promotes

employment through tax exemptions for foreign enterprises based on several factors, including the percentage of disabled workers.

Implementation activities for women and youth are relatively less developed by the government due to lack of funding, with many activities relying on the support of donors and associations. Cambodia has made progress in advancing women's entrepreneurship by putting in place Women's Development Centres with the aid of ADB. The centres reach low-income women in 14 provinces and provide market-access support through the Women's Business Council. YEAC plays a major role in addressing sectoral gaps left by government. Building on the government's considerable work in the area of entrepreneurial education, YEAC has taken the lead in advancing youth entrepreneurship by offering skills training, holding competitions, giving awards and intervening in the policy and regulatory environment. Inclusive entrepreneurship is not happening in silos and there is considerable co-ordination among various stakeholders for women and youth.

The way forward

Strengthening the institutional, regulatory and operational environment

Cambodia has carried out a wave of long-term economic development planning in recent years, but the institutional framework for SME policy is still rather underdeveloped, and laws and regulations are still burdensome. To enhance the institutional, regulatory and operational environment for SMEs, Cambodia could:

Institutional framework for SME policy

- **Institutionalise a regular economic census.** Cambodia could request technical assistance to enhance the quality of SME data collection. Access to reliable data on the enterprise population is a crucial element in designing and delivering targeted SME policies. To increase the accuracy of the data, Cambodia could seek technical assistance from international or bilateral agencies with demonstrated expertise.
- **Consider developing a targeted SME strategy.** Cambodia has developed a number of strategic economic plans, but a targeted SME strategy is still missing. This is a crucial element in ensuring a structured and sequenced set of programmes and policies to foster SME development, and should include quantitative targets.

Legislation, regulation and tax

- **Accelerate efforts to increase the ease of company registration.** Company registration is relatively burdensome in Cambodia, with a high number of licenses required. Steps could be taken to begin developing online registration platforms and streamlining the number of licenses required to operate a business.

Facilitating SME access to finance

Cambodia has developed a strong legal and institutional framework for supplying credit over the last six years. Yet few instruments are in place to increase the flow of credit to MSMEs, and gaps in regulation and credit information remain. To increase MSME access to credit, Cambodia could:

- **Extend CBC coverage to include data on firms.** Credit information has increased over recent years, but the CBC does not yet compile credit information on firms. It could continue and ramp up efforts to compile such data, which it is currently collecting from a sample of firms for testing.
- **Consider developing a credit guarantee scheme.** Credit guarantee schemes can be a market-friendly instrument to incentivise lending to SMEs. A diagnostic exercise could be completed to explore whether a credit guarantee scheme is desirable and feasible, as well as what form it should take.

Enhancing access to market and internationalisation

As Cambodia has undergone significant reforms to liberalise its economy, enhancing SME competitiveness is becoming more relevant to support SMEs in both domestic and international markets. To promote SME internationalisation, Cambodia could pursue the following actions:

- **Integrate SMEs into existing SEZs.** The aim is to establish business linkages between local SMEs and larger domestic companies or MNCs and to assimilate SMEs into GVCs. This can be promoted indirectly by improving foreign investment regulations to require MNCs and large companies operating in the SEZs to source from local SMEs, or more directly by incentivising local SMEs to establish businesses in the established SEZs and join the production network.
- **Embed specific support for SMEs in trade facilitation development.** Cambodia is still in the early phase of developing trade facilities and infrastructure. Specific support for SMEs will ensure that they may also enjoy the benefits from future improved facilities.
- **Develop a national agenda to support SME access to international markets.** This should include capacity building and assistance for SMEs to expand internationally. Cambodia's domestic market is too limited for local businesses to grow. Obstacles to competing in foreign markets include low product quality and lack of knowledge on foreign market opportunities, low capacities on international trade procedures and limited technological savvy. Improving the knowledge and skills of SMEs in those areas will greatly increase their opportunities to expand beyond domestic borders.

Boosting productivity, innovation and adoption of new technologies

To increase productivity, spur innovation and promote the adoption of new technologies and SME greening, Cambodia could pursue the following actions:

Productivity, technology and innovation

- **Place a stronger focus on implementation.** Cambodia has developed solid policy documents on productivity in most areas, often specifically focused on SMEs, but implementation modalities could be improved. Cambodia could invest in the development of infrastructure for BDS and innovation promotion in the form of business support centres, incubators and one-stop shops. This should include development of both the physical infrastructure and skilled personnel.
- **Spread awareness on the importance of improving productivity and innovation.** Although Cambodia has policies promoting innovation and

productivity, SMEs and would-be entrepreneurs are not always aware of the benefits. By developing role models and promoting national competitions, policy makers could help create demand for BDS and innovation-development activities. This could be done in partnership with the private sector and academic institutions.

- **Further develop the educational sector.** By developing education in science, engineering and entrepreneurship, the government could help create spillovers and product diversification for the manufacture of higher value-added goods.

Environmental policies and SMEs

- **Develop targeted action plans for environmental policies.** Environmental policies should be paired with action plans, targets and timelines to ensure that they have an impact. The government could consult with SMEs on green policy development to ensure that its approach takes account of the challenges and opportunities for specific sectors and makes SMEs aware of the options for greening.
- **Sharpen the focus of mechanisms and incentives on SMEs.** Support incentives should ensure that changes to the environmental regulatory structure take SMEs into account and provide incentives for compliance and good performance. The mechanisms should be monitored to ensure that support schemes and financial incentives for SMEs actually reach them and are appropriate to their needs.

Stimulating entrepreneurship and human capital development

As youth dominate Cambodia's demographic structure, including entrepreneurial knowledge and skills in the national education system and training agenda can help the country reap the benefits of having a young population. Specific attention can be given to the following actions:

Entrepreneurial education and skills

- **Develop a concrete entrepreneurship curriculum for every education level.** The commitment to nurture entrepreneurial spirit among youth will be set in the Education Strategic Plan 2019-2023. A concrete curriculum on entrepreneurship in schools would greatly help Cambodia to deliver and nurture entrepreneurial values, attitudes and skills among school children and equip them with the leadership and creative values that characterise entrepreneurship attitudes. The curriculum would also be a means of ensuring the quality of entrepreneurship education in schools and would serve as a monitoring and evaluation tool.
- **Develop a training-of-trainers mechanism.** This would help ensure the quality and supply of entrepreneurship educators in the country. As Cambodia has a plan to promote entrepreneurship values, especially among youth, it needs to equip itself with a good national training-of-trainers programme to support the plan.

Social and inclusive entrepreneurship

- **Develop a formal definition or set of criteria for social enterprise.** The lack of a legal definition is a source of confusion and can lead to misperceptions. A clear legal definition or criteria would make it possible to avoid these pitfalls. A

definition might also allow NGOs to move towards a revenue-generating model and government to collect some income from it. Clear criteria are needed in order not to allow traditional businesses to benefit from a special status to avoid paying taxes.

- **Explore collaboration with the private sector.** Cambodia does not have the funds necessary to tackle its social challenges. Exploring closer links and collaboration with the private sector could bring added value. By developing the right set of incentives (not limited to tax exemption), the government could promote the development of inclusive and responsible business models from which social and inclusive enterprises could benefit. This could boost the development of implementation activities driven by private actions in collaboration with the government.
- **Develop implementation instruments to support target groups.** Policy makers should put stronger emphasis on the implementation modalities of their strategies for social and inclusive entrepreneurship promotion. This can be done by developing relevant instruments that focus on the specific needs of the target groups, such as access to finance, business support services and the market. The government could explore the possible introduction of "social clauses" into public procurement to ensure that NGOs, social enterprises and targeted groups can more easily sell their products or services to the government.

Notes

[1] Cambodia has the smallest territory after Singapore and Brunei, and the smallest population after Brunei, Singapore and Lao PDR. It also has the fourth sparsest population, after Lao PDR, Brunei and Myanmar.

[2] Zircons, sapphires and rubies, notably.

[3] The share of the Cambodian population residing in rural areas was estimated to amount to 79.1% in 2016.

[4] For instance via the Public Financial Management Reform Programme (PFMRP), which was created in 2004 to cover a ten-year period, and the Debt Management Strategy 2015-2018.

[5] In particular, it aims for non-textiles to represent 15% of all merchandise exports by 2025.

[6] Those mentioned include Phnom Penh city, Sihanoukville and Koh Kong provinces, as well as those bordering neighbouring industrial centres such as Bangkok in Thailand and Ho Chi Minh in Viet Nam.

[7] Particularly transport infrastructure.

[8] Substantial steps were taken in this area between 2012 and 2014.

[9] Although not as high as in other CLM countries.

[10] And not more than ten years in the case of negative data.

[11] The first company to be listed on the exchange was the Phnom Penh Water Supply Authority, followed by Grand Twins International (Cambodia) PLC (a garments factory) in 2014, and the Phnom Penh Autonomous Port, the Phnom Penh SEZ PLC and the Sihanoukville Autonomous Port in 2015, 2016 and 2017 respectively.

[12] 51% of ACLEDA Plc. is owned by Cambodian stakeholders, while 49% is owned in equal shares by: COFIBRED; Sumitomo Mitsui Banking Corporation; ORIX Corporation; Triodos Microfinance Fund; Triodos Fair Share Fund; and Triodos Sustainable Finance Foundation.

[13] CTIS 2014-2018 includes a focus on ten export sectors identified as priority sectors by the government: garments, footwear, light manufacturing assembly based in SEZs, processed food, fisheries products, milled rice, cassava, rubber, tourism and high-value silk products.

[14] Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: *i)* Information availability; *ii)* Fees and charges; *iii)* Formalities-documents; and *iv)* Formalities-procedures, with 2 being the highest possible score for each of the indicators. In 2017, Cambodia scored 1.0 for information availability, 1.7 for fees and charges, 1.6 for formalities-documents, and 1.2 for formalities-procedures.

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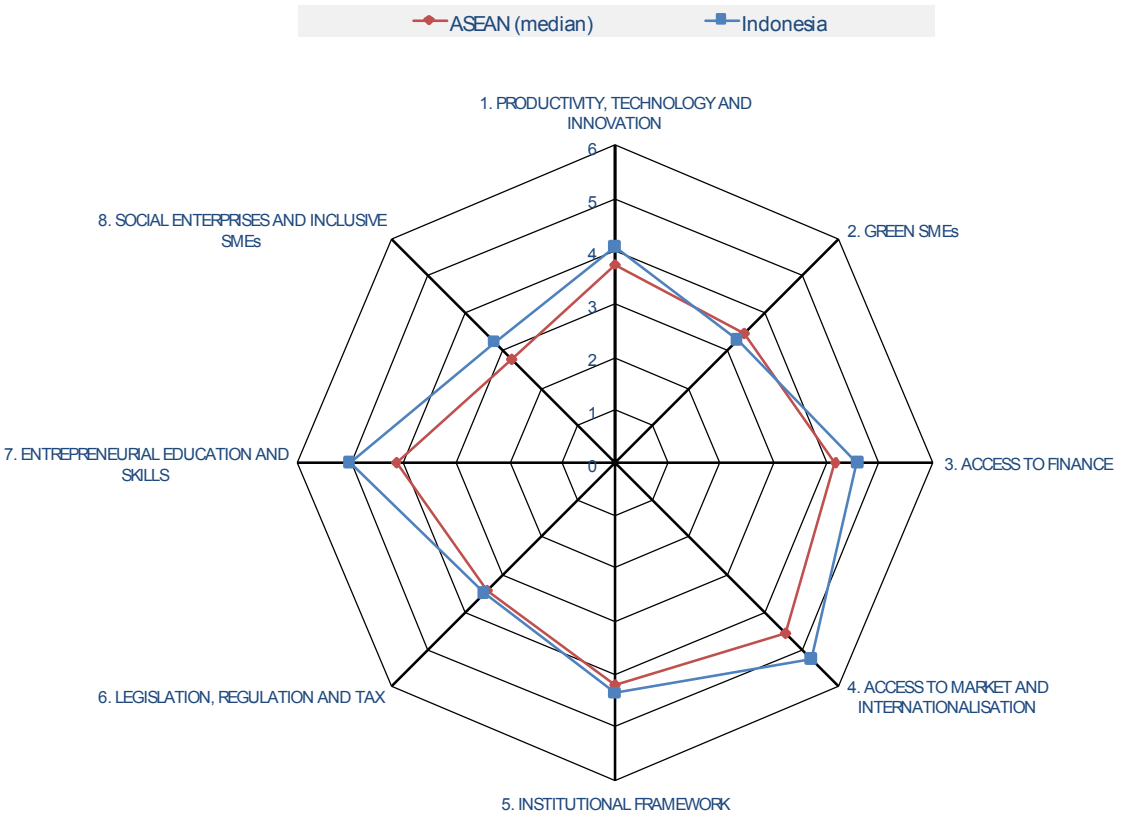
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Chapter 14. Indonesia

Indonesia has traditionally adopted a social SME policy. Its most significant SME development programme is a financing scheme that enables its lower-income citizens to access capital, and this operates with rather low entry requirements. Many SME policies and programmes in Indonesia are implemented by local government authorities.

Figure 14.1. SME policy index scores for Indonesia



Overview

Economic structure and development priorities

Economic structure

Indonesia is ASEAN's largest and most populous country, with a population of 258.7 million (ASEC, 2016[1]) and a total land area of 1 913 579 km^2. Richly endowed in natural resources, it is home to substantial deposits of metals and minerals such as tin, copper, gold and nickel; coal; substantial oil and gas reserves; and it is also a major global producer of agricultural commodities such as rubber, palm oil and grains. As one of the three littoral states of the Strait of Malacca, it holds a strategic position over one of the world's busiest shipping routes: by some estimates 40% of global trade passes through this channel every year. Largely due to these factors, it is the largest economy in ASEAN and the 16th largest economy globally, with a GDP of USD 932.3 billion in 2016 (World Bank, 2016a[2]), and it is the only country in Southeast Asia to sit within the G20.

With a GNI per capita (PPP) of Intl$ 11 240, the fifth highest in the region,[1] Indonesia is a lower middle-income economy. Economic growth has traditionally been driven by the country's substantial natural resources, which still account for around 60% of exports. There is a large market for its commodities. Indonesia is the 24th largest export economy in the world, and its products are mainly absorbed by other Asian economies. China received 12% of exports in 2016, followed by Japan (11%) and Singapore (8%) (MIT,

2016[3]). In particular, it is the world's largest producer of palm oil, and this is the country's biggest export product, accounting for 10.2% of total exports in 2016. Yet the resource sector's share of the economy has fallen since 2000 despite booming commodity prices.[2] Economic growth since 2000 has instead been driven by labour productivity enhancements, particularly in the sectors of wholesale and retail trade; transport equipment and apparatus manufacturing; and transport and telecommunications. The economy is principally geared towards the domestic market, with private consumption the largest component of GDP expenditure. Yet production remains largely concentrated in low technology activities despite demand for high technology goods. High technology exports accounted for only 5.8% of Indonesia's total manufactured exports in 2016, yet machines represent the largest category of its imports, accounting for 27% in 2016 (MIT, 2016[3]).

The country has been undergoing a comprehensive process of reform to open up and liberalise the economy since the collapse of the Suharto government in 1998[3]. It embarked upon this period of reform following a deep decline in output. Between 1998 and 2001 it enacted "big bang" decentralisation, which involved transferring most of the apparatus of government from the centre to the regions, implementing a new intergovernmental fiscal system and apportioning most of the public budget to regional governments. It has also established a strong macroeconomic framework since the Asian financial crisis in 1999, capping its annual budget deficit at 3%, and lowering its debt-to-GDP ratio from 100% in 1999 to 36.1% in 2015 (IMF, 2018[4]). Vulnerabilities remain from long-standing issues surrounding tax collection. The country's tax-to-GDP ratio is one the lowest in the region, standing at 11% in 2015, compared to an ASEAN average of 14%. The current presidency has committed to raising this ratio to 16% by 2019 (OECD, 2015[5]), and has begun to implement a number of measures in this area. Public expenditure has been moderated through a substantial reduction of fuel subsidies in 2015; the subsidies amounted to around 3% of GDP in 2014 (IEA, 2016[6]).

Table 14.1. Indonesia: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	6.0	5.6	5.0	4.8	5.0
Inflation	Percent, average	4.3	6.4	6.4	6.4	3.5
Government balance	Percent of GDP	-1.6	-2.2	-2.1	-2.5	-2.5
Current account balance	Percent of GDP	-2.7	-3.2	-3.1	-2.0	-1.8
Export of goods and services	Percent of GDP	24.6	23.9	23.6	21.1	19.1
Imports of goods and services	Percent of GDP	25.0	24.7	24.4	20.8	18.3
Net FDI (inflows)	Percent of GDP	2.3	2.6	2.8	2.3	0.4
External debt	Percent of GDP	28.3	30.0	34.0	37.0	N/A
Gross reserves	Percent of GDP	44.7	37.4	38.2	34.3	N/A
Domestic credit to the private sector	Percent of GDP	33.4	36.1	36.4	39.1	39.4
Unemployment	Percent of active population	6.1	6.2	5.9	6.0	5.6
GDP per capita	PPP (constant 2011 intl$)	9 283	9 673	10 031	10 385	10 765

Source: World Bank (2016) World Development Indicators; IMF (2017) World Economic Outlook.

The main challenges for the Indonesian government will be to address a complex regulatory environment, insufficient infrastructure, uneven subnational resource distribution, and poverty and unemployment. As an archipelago nation with one of the world's largest populations[4] spread over around 6 000 inhabited islands, Indonesia faces a more challenging development task than many other countries. It has taken huge strides in poverty reduction, cutting poverty rates[5] from 57.3% in 1990 to 6.8% by 2016. Yet

despite this impressive performance, around 17.6 million people in Indonesia remain poor, and the country continues to struggle with unemployment, particularly among young people. Though the rate has dropped in recent years, the share of those aged 15-24 classified as NEET (not in employment, education or training) was 21% in 2017 (ILO, 2017[7]), with a higher rate among women (27.5%, compared to 14.9% among men[6]). Achievement of the country's target GDP growth rate of 7% over 20 years[7] is also hindered by inadequate infrastructure, which raises the investment required to expand output. Indonesia's incremental capital-output ratio (ICOR)[8] is 5.7%, compared to a standard ratio of 3.0%, largely due to the lack of infrastructure,[9] which drives up logistics costs for producers. Investment is also stymied by FDI restrictions in many primary and service sectors, and the country remains more restrictive to foreign investors than the OECD average or other ASEAN peers.[10]

Reform priorities

The government of Indonesia engages in medium- and long-term development planning under Article 4 of Law No. 25/2004 on National Development Planning. It is currently 13 years into its first long-term plan under this law, the National Long-Term Development Plan (RPJPN 2005-2025). The plan aims to build on the development goals outlined in the country's 1945 constitution, which pledges to build a country that is developed and self-reliant, just and democratic, and peaceful and united. Its targets include reaching income per capita of approximately USD 6 000 (midway through the upper middle income threshold); reducing inequality; lowering poverty levels to under 5% of the total population; reaching food self-sufficiency; and guaranteeing that every household can access a stable and nutritious food supply. To achieve this, it aims to boost human resource development (particularly in STEM subjects); to enhance infrastructure; to encourage the expansion of a rule of law that is fair, consistent and non-discriminatory; to uphold state sovereignty; and to pursue a free and active foreign policy. It aims to transform the economy to realise an efficient mining and agricultural sector, a dynamic and competitive manufacturing industry, and a resilient service sector. Alongside this plan, the current presidency has outlined its own priorities, specifically 16 packages of deregulation measures that aim to make things much easier for businesses. Other flagship measures include the development of Indonesia's maritime resources and infrastructure, particularly electrical power generation capacity. The inclusion agenda is also in view.

Four medium-term strategies are envisaged under the long-term development plan. The country is currently implementing the third of these, the National Medium-Term Development Plan 2015-19. The medium-term plan is implemented through annual government work plans, which become the basis for drafting the annual government budget. The current medium-term plan focuses on increasing the competitiveness of Indonesia's commodity sector and boosting human resource development, particularly in advanced science and technology. It places particular emphasis on environmental measures, infrastructure development and reducing subnational disparities. The plan identifies challenges arising from a lack of investment, limited technology use, corruption, bureaucracy and subnational income and endowment disparities. To tackle these disparities, it aims to promote inclusive growth and labour-intensive investment, to provide more support for micro entrepreneurs, to develop social security for informal workers, to increase and widen access to basic services for the poor, to develop the agricultural sector and to stabilise inflation.

Private sector development and enterprise structure

Business environment trends

Indonesia's market size, burgeoning internet and mobile phone penetration and good record of macroeconomic stability have made it an attractive place to do business. In 2017, FDI investment in Indonesia reached USD 32.3 billion, excluding investments in the banking and oil and gas sectors, an increase of 8.5% over the previous year. The country also has an active start-up scene, and is home to four of Southeast Asia's seven unicorn start-ups.[11]

The central government has implemented a number of reforms to improve the business environment since the last assessment. FDI growth can be attributed in part to a set of economic policy packages implemented between September 2015 and November 2016, known collectively as Jokowi's Economic Package, after President Joko Widodo. This comprised 14 stimulus packages mainly focusing on deregulation, law enforcement and business certainty, interest rate tax cuts for exporters, energy tariff cuts for labour-intensive industries, tax incentives for investment in special economic zones and lowered tax rates on property acquired by local real estate investment trusts.

Private-sector activity continues to be hampered by limited infrastructure, corruption and issues surrounding bureaucratic efficiency as a result of big bang decentralisation (WEF, 2017[8]; World Bank, 2017a[9]). Steps could also be taken to improve basic health and education outcomes as well as labour market efficiency, which is affected by excessive redundancy costs, limited flexibility of wage determination and a limited representation of women in the labour force. The government has taken steps to address this constraint since the last assessment, for instance by passing Government Regulation No.78/2015 on Wages. This regulation introduced a new formula for provincial governments to calculate their local provincial minimum wage each year, with the intention of increasing clarity over annual minimum wage calculation in order to create a more certain business climate. The government is also seeking to attract more investment into infrastructure development by boosting government revenues and exploring new ways to tap into private and international financial institution (IFI) investment, such as blended finance.

Corruption remains prevalent in many areas, despite the best efforts of the Corruption Eradication Commission (KPK) and the Jokowi administration. Since 2015, the administration has been conducting a big push to bring public procurement and budgeting online, promoting e-governance as a key instrument to increase integrity. A number of other reforms have been enacted,[12] but the presidential administration and the KPK face an uphill battle, with graft common in the judiciary, the police and the customs administration – the latter being an important obstacle to trading across borders. The KPK has achieved a number of big wins,[13] but it also faces resource constraints, with lawmakers often threatening to cut funding. Promisingly, it has repaired relations with Indonesia's National Police and today the two share resources, with police officers on secondment constituting almost half of KPK's staff. The KPK and the Jokowi administration also benefit from the support of Indonesian citizens, with anti-corruption remaining a popular rallying point.

SME sector

The number of SMEs in Indonesia is relatively opaque given the fact that sole proprietors, including subsistence farmers, are included in official SME statistics. Based on this definition, around 57.9 million enterprises were estimated to be operating in Indonesia in

2016, of which 99% (or 57.2 million) are classified as micro enterprises. Alongside these micro enterprises, there were estimated to be 645 222 small enterprises, 106 medium-sized enterprises and 5 066 large enterprises active in the country. The number of large enterprises is relatively low given the size of the economy, contrasting with 7 156 large enterprises in Thailand and 13 813 in Malaysia (2016). By the country's definition, Indonesia appears to have a very high MSME density, with around 22.1 MSMEs per 100 people. The country also appears to have a high MSME density when a standardised OECD definition is applied (OECD, 2018[10]).

Micro firms appear to demonstrate a high structural contribution to the Indonesian economy, but this is mainly due to the sheer numbers included in official SME statistics. In 2016, these enterprises accounted for 89% of employment and 10% of GDP. Despite the very low number of large enterprises, they contribute the most to GDP, accounting for 39% in 2016. By removing enterprises in the agricultural sector, it might be possible to get a clearer idea of MSME numbers. In this analysis, MSMEs account for 61% of GDP and 87.8% of employment, with micro enterprises contributing 10% of GDP and 58.4% of employment. Meanwhile they account for only around 15.7% of non-oil and gas exports (BPS statistics, 2013).

As in other countries, Indonesia's MSMEs are concentrated in the wholesale and retail trade sector, which accounted for 46% of non-agricultural Indonesian MSMEs in 2016, followed by the manufacturing sector and hospitality and catering services, each representing 17% of the total. Geographically they are concentrated in Java, with the highest concentrations of non-agricultural MSMEs to be found in West Java (17%), East Java (17%) and Central Java (16%), representing 50% in total (BPS Statistics, 2015[11]).

SME policy

Indonesia has traditionally taken a welfare approach to SME policy, regarding it as a tool to promote equity rather than efficiency. This approach, which resulted in a largely nationalist and socialist approach to economic development, has its roots in Indonesia's colonial past and the needs that emerged after independence in 1949. In the period immediately following independence, economic policies largely focused on building up a national industrial economy around state-owned capital (i.e. state-owned enterprises, or SOEs). Measures to promote SME development predominantly focused on providing support to the country's ethnic population (*pribumi*), who were regarded as facing competitive disadvantages relative to the other segments of the population, such as the country's ethnic Chinese. Mohammad Hatta, one of the country's chief pro-independence revolutionaries and its first vice president, promoted the country's co-operative movement as a uniquely Indonesian tool for development, one that could pave a middle way between capitalism and socialism.[14]

Despite steps to pivot away from the statist policies pursued under Sukarno, this approach was maintained under Suharto's New Order reforms of 1966. It was based on the persistent notion that SMEs were mainly operated by *pribumi* (in contrast, for instance, to SOEs), and that the country's *pribumi* were an economically weak group in society (Wie, 2006[12]). Many measures to promote SME development under Suharto compounded this notion. For instance, under Article 50 of Indonesia's Competition Law, small-scale enterprises are exempted from the law's provisions based on an assumption that small-scale enterprises require protection from competition. Another example is the reservation scheme for small and micro firms, which excludes large and medium-sized enterprises from operating in certain sectors or subsectors unless they have established a partnership

with a small or micro firm. Current MSME financing programmes have their roots in subsidy and mandatory lending programmes implemented under Suharto.

A slight pivot can be observed around 2007/8, with the formulation of SME policies that promote efficiency alongside equity considerations. These policies include the Policy to Accelerate the Development of the Real Sector and Empowerment of Micro, Small and Medium Enterprises (Presidential Instruction No. 6/2007) and Law No. 9/2018 on MSMEs, which currently underpins MSME strategies. The policies were formulated as part of a broader push to stimulate private sector development, but still propose a number of policy exemptions for MSMEs.

2018 ASPI results

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

Indonesia retains a rather complex institutional, regulatory and operational environment for SME policy, which is perhaps not surprising in a country where policy makers must provide public services to a large and diffuse population. Its Dimension 5 score of 4.35 for SME policy framework reflects both the country's long history of conducting SME policy and the observation that its approach to SME policy could be more strategic and better defined. The strongly social orientation of the country's SME policy is understandable in a country with a more challenging developmental task than many other nations, but exploring new approaches, such as new organisational forms, and developing more robust mechanisms to assess policy and programme impact may be advisable over the long term. In the Dimension 6 area of legislation, regulation and tax, its score of 3.49 reflects the observation that Indonesia has been taking measures to reform regulations affecting the business environment in recent years, but that more could be done to ensure that this process is in the country's long-term strategic interest, to inculcate the use of good regulatory practices in the development of regulations and to streamline platforms for transacting with the public sector.

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

Indonesian law mandates the Ministry of Co-operatives and SMEs (MCSME) to co-ordinate SME policies, rather than an inter-ministerial council or committee. The MCSME has been in place since 2001, though the country has had a similar entity at the level of Directorate General in place for the past 50 years. As of 2014, MCSME had around 735 field staff spread over 33 provinces (populating 170 local units in total). It distributes funding to other implementation bodies, including local government agencies, and meets regularly with officials tasked with SME-related issues within the Ministry of National Development Planning (Bappenas), which is one of two ministries responsible for co-ordinating the country's economic policies as a whole.

Policy design and implementation is performed by sectoral ministries in consultation with MCSME. There appear to be few mechanisms in place to monitor and evaluate the efficacy of SME policies and programmes. This governance structure may lend limited independence and flexibility (for instance over staff pay and organisational form, including integration of the private sector into its governance structure), and implementation bodies may have a rather narrow mandate that is strongly social in nature.

Since 2005, Indonesia has had a five-year strategic plan for SME policy. The current plan covers 2015-19 and has an implementation budget of IDR 1 677 trillion (Indonesian

rupiah). It was developed at the same time as the SAP SMED and the country's National Medium-Term Development Plan (2015-2019), so its objectives are broadly aligned with the two. The plan seems to prioritise social policy over economic competitiveness objectives. This approach – viewing SMEs as a social group requiring assistance rather than a latent engine of economic growth – seems to have been pervasive among Indonesian policy makers since independence (Burger et al., 2015[13]). Mechanisms to monitor and evaluate implementation of the plan are limited. They mainly consist of reports to the Ministry of Finance on use of the budget and they rely on self-assessment. Surveys of participants and local implementers of SME development programmes suggest that many programmes are implemented without a thorough assessment of SME needs or full assurance of management quality (Burger et al., 2015[13]). Limited mechanisms to monitor and evaluate impact may compound this issue, resulting in an uneconomical use of public resources that persists over time.

Monitoring and evaluation of the strategy's implementation is mostly conducted internally and assesses use of the policy's budget rather than assessing impact. To inform MSME policies and their evaluation, statistics on the MSME population are available, but their coverage of sole proprietors, including in agriculture, inflates the population's number, making it difficult to ascertain a clear picture of the country's production structure. The data collection is generally conducted by the Central Board of Statistics through surveys and census.

Scope of SME policy

Indonesia has a legal SME definition that differentiates MSMEs by sales turnover and net assets. It does not include an employment criterion – generally a simpler criterion to capture, and thus used in countries that may face constraints in data collection. Perhaps for this reason, the legal SME definition is not used consistently throughout the public administration. The statistical agency BPS-Statistics exclusively uses an employment criterion, and the Financial Services Authority (OJK) also uses an alternative definition. The current legal definition is in the process of being amended; MCSME is implementing a memorandum of understanding with Bank Indonesia to include an employment criterion in the definition. The legal definition also does not clearly distinguish between cottage enterprises with little growth potential and SMEs, meaning that many government promotion policies are directed indiscriminately at an unmanageably large target group. Policy makers are aware of this constraint, but the welfare concerns of SME policy make this a politically sensitive topic in Indonesia.

Table 14.2. Indonesia's SME definition

Institution	Size classification	Indicator	Units
Official definition of the government of Indonesia	Micro	Sales turnover	= 300 mln (USD 22 542)
		Net assets	= 50 mln (USD 3 757)
	Small	Sales turnover	> 300 mln-2.5 bln (USD 22 542-187 857)
		Net assets	> 50 mln-500 mln (USD 3 757-37 570)
	Medium	Sales turnover	> 2.5 bln-50 bln (USD 187 857-3 757 139)
		Net assets	> 500 mln-10 bln (USD 37 570-751 428)
BPS-Statistics (manufacturing sector)	Micro	Employees	1-4
	Small	Employees	5-19
	Medium	Employees	20-99

Note: World Bank official exchange rate (2016 average): USD 1 = IDR 13 308.
Source: Law No.20/2008 on Micro, Small, and Medium Enterprises; BPS-Statistics.

In defining the scope of SME policy, some countries include informal enterprises while others exclude them. In Indonesia, both formal and informal enterprises are included, based on Law No. 20/2008 on MSMEs. Studies suggest that the country's informal economy is large. Estimates of total informal employment among the working population range from 51.9% to 72.5% (ILO, 2014[14]). Data suggest that informal workers are mainly in agriculture (50.6% in a surveyed sample), followed by the wholesale trade and hospitality sector (25.6%). These two sectors also employ the greatest share of workers informally compared to other sectors. According to the same survey, 88.4% of agricultural workers may be informal, followed by 67.3% of wholesale trade and hospitality workers. Informality is substantial in rural areas: 73.9% of rural workers may be informal, compared to 44.6% of urban workers (all data: BPS Statistics, 2015). Measures to reduce informality include the *Kredit Usaha Rakyat* (KUR) programme, which provides credit to MSMEs to informal enterprises (based on an understanding that limited finance is one of the main reasons for informality), and free business licenses for informal enterprises. However, this assistance may instead reduce incentives to formalise and may not be enough to increase productivity and growth.

Development of legislation and regulatory policies affecting SMEs

The process of developing and submitting new regulations and legislation is currently guided and governed by Law No. 12/2011 (on Making Rules). Public-private consultations are conducted, but not on a regular basis in the planning phase, and they generally take the form of formal consultations. SMEs are involved in this process, but only via associations and when they are directly affected by proposed regulation/legislation. There is no formal requirement that consultations take place, though a good practice handbook has been developed by Bappenas on how to conduct them. There is also no requirement to conduct regulatory impact analysis (RIA) in the development of new or the review of old regulations and legislation, though Bappenas has been attempting to socialise this practice since 2003. Currently RIA is used on an ad hoc basis, with no requirement to consider the potential impact on SMEs in the development of regulations and legislation. Rules that are introduced or reformed are listed on the website of the Ministry of Co-ordinating Economic Affairs, but the process does not appear to be accompanied by a proactive dissemination campaign to boost awareness of the rules, for instance via business associations.

Company registration and filing tax

Company registration and filing tax is rather burdensome in Indonesia. To be fully registered to operate, a limited liability company must complete more than ten procedures, taking more than 20 days and costing around 10.9% of income per capita. (World Bank, 2017a[9])[15] The long time required to establish a business is mainly due to a requirement to register with, or obtain licenses from, a number of different government agencies, including the Ministry of Law and Human Rights, the Ministry of Trade, the Ministry of Manpower, the *BPJS Ketenagakerjaan* (a social security programme for employees), the *BPJS Kesehatan* (the mandatory national health insurance scheme) and the Tax Office. For instance, it takes seven days each to register with the social security and national health programmes, and in Surabaya registration with the Ministry of Manpower takes around 14 days. While a few of these procedures can in theory be completed online, in practice most of them also necessitate visiting government offices or notary publics. This can leave space for unethical practices. Registration with the local Ministry of Manpower office in Surabaya, for instance, is theoretically free of charge, but

in practice an unofficial administrative fee may be negotiated, usually starting at IDR 100 000.

A proprietor requires three company numbers in order to operate, trade and pay tax as a registered company in Indonesia: the TDP (the company registration certificate); the SIUP (to trade); and the NPWP (the tax identification number). A requirement that the proprietor reapply for the SIUP and the TDP every five years was repealed in 2017. However, in the case of the TDP, an active enterprise must still file a notification letter with the Company Registration Office; this is free of charge. These reforms should be a positive development for SMEs, since the previous requirements constituted an additional compliance barrier and required the payment of additional administration fees. Online company registration is now available throughout Indonesia, but the SIUP and TDP can be obtained after online company registration only in Jakarta and Surabaya, meaning that in practice online company registration is not yet fully operational. In order to register online, a would-be proprietor must first buy a registration voucher from Bank Nasional Indonesia (BNI) for IDR 100 000 and then request a company name and enter the voucher number on the website of the Directorate General Administration of General Law of the Ministry of Law and Human Rights. A bar code is then issued that must be notarised within 60 days. The entire process costs around IDR 1.6 million – equivalent to a month's salary for minimum wage workers in some parts of Indonesia.[16]

E-governance facilities

Policy makers can enhance the ease of complying with regulations through the development of e-governance platforms. As in other countries, Indonesia is most advanced here in the area of tax. Online tax filing is possible through the website of the Tax Directorate General, and appears to be relatively well advanced. Pension and social security contributions can also be filed online, but both appear less advanced than the tax platform, and in the case of social security online filing is only available for the *Jaminan Hari Tua* scheme (a provident fund for private-sector workers). A unique identification number is available for online tax filing (the Electronic Filing Identification Number, or e-FIN), but there does not appear to be a unique identification number in place for other e-governance transactions. The Ministry of Communication and Information recently started to adapt its Management Information Integration and Data Exchange (MANTRA) software into a portal for e-government services in order to facilitate data exchange between different government institutions. A few federal and regional government institutions have started to use this application. BPS-Statistics regularly conducts surveys on public satisfaction with e-government services.

Facilitating SME access to finance (Dimension 3)

Indonesia has been ranked 37th globally of 137 countries for financial sector development (third in the region after Singapore and Malaysia) (WEF, 2017[8]) and 55th of 190 economies for ease of getting credit (World Bank, 2017a[9]). It benefits from a strong macroeconomic environment, but has a low level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at 39.1% of GDP in 2015. Many individuals and enterprises are unbanked in Indonesia. Only 35.9% of the population aged 15 or older had a bank account in 2014. The country's most substantial programme to catalyse SME financing is the KUR, which disbursed IDR 16.7 trillion (about USD 1.3 billion) over its first implementation period (2007-14), generating MSME loans worth around IDR 178.85 trillion (approximately USD 13.4 billion[17]).[18] The country's Dimension 3 score of 4.58 reflects the substantial work undertaken to increase

financial inclusion and the level of financial sector development in the country, but indicates that more can be done to strengthen the legal and institutional framework for extending finance, as well as monitoring and evaluating the performance of government schemes.

Legal, regulatory and institutional framework

Indonesia has mid-level framework conditions for supplying finance. Financial institutions are relatively able to assess and hedge against credit risk, and these conditions are rapidly improving. The country is currently developing a dual credit reporting system, spearheaded by OJK, the Financial Services Authority, following its incorporation in 2012. The dual system involves a new system, the Financial Information Service System (SLIK), and the existing system, which is based on a public credit registry and has been in place since 2006 (though a credit information facility has been in place since 1969). The credit registry, *Biro Informasi Kredit*, is managed by Bank Indonesia, and the OJK supplements this with a facility to encourage information exchange between banks, called the Debtor Information System (SID). This is now being supplemented by the new system, which from 2018 is managed by OJK directly. The registry currently covers less than 50% of the adult population and is not customised for MSMEs. It is hoped that the new SLIK facility, alongside the enactment of a new regulation to facilitate the establishment of private credit bureaus (Bank Indonesia Regulation No. 15/1/PBI/2013), will result in deeper and more accurate credit information coverage. Private credit bureaus are already arriving in Indonesia. The first, the Pefindo Biro Kredit, was established in 2015. These new bureaus offer to combine the data they extract from the SLIK with their proprietary algorithms to generate credit scores for individual borrowers. This should lower the costs for financial institutions of conducting credit assessment. In the World Bank's latest *Doing Business* report, credit registry coverage had increased, following the implementation of these two reforms, to 55.3% from 51.8% the previous year, and credit bureau coverage to 18.3% from 0% the previous year (World Bank, 2017a[9]).

In terms of the contracting environment, Indonesia has an adequately strong framework for creditor rights, scoring 6 out of 12 in *Doing Business* (World Bank, 2017a[9]). In terms of enforcement rules, practices complicate out-of-court debt resolution (for instance, auction houses insisting that banks can only liquidate collateral with a court order). Loopholes in the country's Bankruptcy Law also negatively affect creditor rights. For example, there is a clause whereby creditors can be prevented from enforcing their security interest for up to 270 days if the debtor obtains a debt moratorium, or 90 days if s/he is declared bankrupt. Both reduce the ability of Indonesian financial institutions to take security, and they push up collateral requirements for all firms. Policy makers and legislators are aware of the issue and are currently working to address it. In 2016, the Indonesian Supreme Court issued a circular that sought to clarify rules on the liquidation of collateral and out-of-court debt resolution procedures (Circular Letter No. 2/2016 regarding Enhancement of Efficiency and Transparency in Handling Bankruptcy and PKPU Cases in Court). There is also a lack of clarity over the perfection and priority of security interests. The law does not allow a firm to grant a non-possessory security right in the full breadth of its assets without requiring a specific description of the collateral, and secured creditors are not paid first when a firm defaults outside an insolvency procedure or when it is liquidated. The country does have an asset register in place for movable assets, and this is centralised, though it is not notice-based – a step that would increase the ease of registering, and registering interest in, a security. The country also

has a cadastre in place, with land ownership generally well covered and up to date. The system is only partially online, however, and more could be done to increase the cadastre's coverage of rural areas.

In terms of equity financing, the country's stock markets have further potential to grow. Stock market capitalisation stood at 42% of GDP in 2015, and there were two listed companies per 1 million people, compared to 87.3 in Singapore, for instance. The Indonesia Stock Exchange is currently developing a platform for small, high-growth firms called IDX Incubator, following approval by the OJK in 2017.

Sources of external finance for MSMEs

MSME lending is dominated by Bank Rakyat Indonesia (BRI), which accounted for 63% of all formal MSME lending in 2014. It has managed to dominate the market due to its long history and extensive network of branches that cover the breadth of the country, including rural villages. Its market position is strengthened by the fact that it is the biggest recipient of the KUR. Between 2009 and 2014, BRI disbursed 65% of the total KUR programme (World Bank, 2017b[15]). MSME loans accounted for around 17% of total outstanding commercial bank loans in 2017, though this is the dominant source of external finance for MSMEs. To stimulate bank lending to MSMEs, Indonesia has deployed two main policy tools: *i)* extension and expansion of the KUR (a repayment guarantee, which in its 2015 iteration also includes an interest rate subsidy component); and *ii)* a mandatory lending scheme, which has been in place since 2009 and instructs commercial banks to have allocated 20% of their total loan portfolio to MSME loans by 2018. The KUR combines a guarantee (previously 70%-80%, now to be negotiated between the scheme and partner banks) and an interest rate subsidy, capping interest rates on KUR-backed loans at 9%. Commentators have expressed concern that two elements of the new KUR programme – capped interest rates and the stipulation that enterprises can receive more than one KUR-backed loan – are likely substantially to increase the fiscal cost of the scheme for the government and to reduce its additionality over the long term (World Bank, 2017b[15]).

Table 14.3. Amendments to the KUR programme

Feature	KUR 2007-15	KUR 2015-
Loan size	Micro: up to IDR 20 mln Retail: IDR 20-500 mln Linkage: up to IDR 2 000 mln	Micro: up to IDR 25 mln Retail: IDR 25-500 mln
Maximum effective interest rate (pa.)	Micro: 22% Retail: 14%	Micro and Retail: 12% (2015); 9% (2016 onwards)
Maximum loan tern	Investment capital: 5 years Working capital: 3 years	Investment capital: 5 years Working capital: 4 years
Guarantee share	Pari-passu 70% (general) or 80% (for priority sectors – e.g. agriculture and industry) on the outstanding amount plus interest, for banks with NPL below 5%; no portfolio cap; claim trigger: loan classified non-performing	Negotiated and agreed between banks and CGCs (Permenko 8/2015, Art. 9 (2))
Guarantee fees	Stipulated by government and paid to CGCs 2007-09: 1.50% | 2010-14: 3.25% of guarantee	Negotiated and agreed between banks and CGCs, reportedly facilitated by KUR Committee, upfront 1.5% of loan amount
Interest rate subsidy	None	Micro: 10% of loan amount paid as subsidy Retail: 4.5% of loan amount paid as subsidy Interest rate subsidy calculated based on monthly outstanding amount and paid directly to bank, includes credit guarantee fee

Source: Co-ordinating Ministry for Economic Affairs of Indonesia, in World Bank (2017).

Collateral requirements appear to be high for MSME loans, ranging from 238.6% of the loan's value for small firms and 253.1% for medium-sized firms, according to Enterprise Survey data (World Bank, 2015[16]). Indonesia also has 21 separate credit guarantee schemes in place, of which the three biggest are Askrindo, Jamkrindo and Jamkrida. Askrindo and Jamkrindo operate at the national level and Jamkrida (a network of regional companies funded by provincial governments) at the provincial level. The two largest entities are Askrindo and Jamkrindo, in line with a regulation that a guarantee company can only operate nationwide if it has minimum capital of IDR 100 billion. As of Q4 2016, these two schemes held assets amounting to IDR 10.8 trillion and IDR 13.8 trillion respectively, and operated in all provinces of Indonesia. Both institutions have a strong capitalisation profile and strong business position, but exhibit an operating performance that is moderated by high claims from the KUR programme (Pefindo, 2016a[17]; Pefindo, 2016b[18]). Both provide KUR guarantees to eligible banks, but neither currently monitors nor evaluates the additionality of the programme. Both are state-owned companies, falling under the jurisdiction of the Ministry of State-Owned Enterprises, and the minister is responsible for appointing the governance and supervisory boards of both companies, a feature that may reduce their independence and market orientation. All three are regulated by the OJK under Law No. 1/2016 (regarding Guarantee), which superseded other previous laws.[19] The OJK is currently discussing the establishment of a Regional Credit Guarantee Company in four new cities: Medan, Manado, Jambi and Gorontalo.

Indonesia has an export financing scheme in place, which it provides through Indonesia Eximbank, a special financial institution established under Law No. 2/2009. It has a special facility in place that targets SMEs, the Export-Oriented People's Business Credit facility, which provides working capital and investment loans in both local and foreign currency. The scheme disbursed IDR 1 trillion (USD 75 million) in 2016.

Microfinance products are also available for MSMEs. There is a large but unknown number of microfinance institutions (MFIs) in Indonesia, with estimates varying from 40 000 to 600 000. They take the form of rural banks, or *Bank Perkreditan Rakyat* (BPR), estimated to number 1 643; co-operatives (188 181); and an unknown number of unlicensed BPRs, village-owned financial institutions (*Badan Kredit Desas*) and NGOs (KPMG, 2015[19]). The OJK has recently rolled out a series of measures aimed at increasing regulatory oversight of microfinance providers. In 2015 it enacted a Microfinance Law (Law No. 1/2013)[20] coupled with an institution-mapping exercise. The law introduces new licensing requirements, prohibits foreign ownership of MFIs, limits MFI activities (for instance, it disallows insurance activities, foreign exchange, guarantees and loans to other MFIs) and introduces capital requirements and financial reporting standards. Since its enactment, informal MFIs have entered the formal financial system. The OJK also issued "branchless banking" rules that aim to increase microfinancing through Indonesia's already extensive bank branch network. The new rules allow for simplified customer due diligence procedures at banks that fulfil certain criteria, aiming to reduce the volume of documentation required for obtaining an MSME loan. Both measures are expected to benefit commercial banks while disciplining smaller MFIs and wholesale MFI lending banks. Smaller MFIs will now need to obtain a license and become a legal corporation, which will impose costs. The Microfinance Law stipulates that MFIs serving villages and subdistricts must have minimum capital of IDR 50 million, while those operating at district levels must have a minimum of IDR 100 million – criteria that many MFIs will not meet (KPMG, 2015[19]).

A wide range of asset-based financing instruments are available in Indonesia. The volume of such products is relatively low, but it has been increasing over recent years due to high

growth in the broader economy and strong demand for transportation and infrastructure development. Leasing is the most commonly used asset-based instrument. In 2016, Indonesia counted 29 leasing and two factoring companies, and total factoring turnover amounted to EUR 682 million (compared to EUR 40.5 billion in Singapore), of which the majority (99.7%) was domestic (FCI, 2017[20]). Asset-based financing instruments are mostly extended by multifinance companies, and these activities are regulated by the OJK. Few MSMEs have access to asset-based financing.

Equity-based instruments, meanwhile, are growing rapidly. The country scores 17th on the Global Competitiveness Index (GCI) on venture capital availability (third in ASEAN and above many OECD countries) (WEF, 2017[8]), and for the last few years it has accounted for the second highest share of private equity/venture capital (PE/VC) deals in ASEAN, alongside Malaysia and after Singapore. Among equity-based instruments, venture capital dominates, and this is also the area with the strongest regulatory oversight. In 2015, the OJK passed a series of regulations to govern the industry that expanded the range of investment and exit options open to VC.[21] As of 2016, there were 65 venture capital funds operating in Indonesia, with deals between 2015 and 2016 amounting to around IDR 13 trillion. The greatest number of deals were in the seed stage (43%, or around 21), while the majority of value belonged to late-stage (debt/private equity) investments (40%, or around USD 1.2 billion). Between 2012 and August 2017, 96% of these investments were in e-commerce (58%) and transport (38%). The majority of VC investment in 2017 originated from China, with Chinese investors accounting for 94% of the USD 3 billion raised between January and August 2017, relative to 2% in 2016. This was mainly due to three big investments in three Indonesia companies: GoJek (a ride-hailing company) raised USD 1.2 billion from Tencent, Tokopedia (an online marketplace) raised USD 1.1 billion from the Alibaba Group, and Traveloka (an online travel company) raised USD 500 million from JD.com (AT Kearney, 2017[21]).

Enhancing access to market and internationalisation (Dimension 4)

Despite its large domestic market, Indonesia recognises the importance of exposing SMEs to larger potential trade partners and markets and has put considerable effort into promoting greater international market access and internationalisation for its SMEs. This is reflected in its high score of 5.25 for Dimension 4, indicating an advanced level of policy development.

Export promotion

Export promotion programmes in Indonesia, including those that support SMEs in particular, involve multiple ministries or agencies. Enhancing export promotion for SMEs is a goal of the Strategic Plan 2015-2019 of MCSME and the Co-ordinating Ministry of Economic Affairs. The Ministry of Trade, through the Directorate General for National Export Development (DGNED), acts as a main national export promotion agency, with several initiatives geared towards SMEs. Other entities that provide services to SMEs are the Ministry of Industry, the Export Funding Agency and business associations. They disseminate foreign-market intelligence and free trade orientation and facilitate the participation of SMEs in trade fairs, both domestic and international. The Ministry of Trade mandates that all export promotion programmes be based on citizen aspiration, and formal consultations with various stakeholders have been conducted in developing them.

Among DGNED initiatives are training sessions provided by the Centre for Export and Import Training, which aims to turn local SMEs into active exporters, and the Regional

Centre for Training Export Promotion, an export promotion office established in various provinces to reach SMEs throughout the country. Together with DGNED, MCSME also facilitates the participation of local SMEs in international trade fairs in order to expose them to opportunities to export. In 2017, MCSME facilitated the participation of 109 SMEs in international trade fairs, such as the Malaysia International Halal Showcase and Chibimart Summer in Italy (Trihendrawan, 2018[22]). DGNED also established the Indonesia Trade Promotion Centre (ITPC) and deployed trade attachés in major cities worldwide to promote the country's exports, especially from SMEs. Today, ITPCs are present in 19 cities in 18 countries. As a non-profit government agency, DGNED provides all of its services free of charge.

To better reach SMEs across the country, DGNED also conducts regular national activities involving the participation of SMEs from all provinces and districts. Notable activities include Designer Dispatch Service, an annual SME product design competition co-ordinated by the Indonesia Design Development Centre in which districts propose local SME products with innovative design carrying local heritage identity to compete at the national level. The best products are further developed by product design experts and promoted as export commodities. Meanwhile, decentralisation has given Indonesia's provinces and districts a certain autonomy to come up with, fund and implement their own development programmes, and many have introduced SME export support initiatives. For example, the Yogyakarta provincial government regularly holds Jogja Trade Expo, an annual export exhibition, to promote products from local export-oriented SMEs and to provide further financial and networking assistance for SMEs participating in the exhibition (Yulianingsih, 2015[23]). The central government (through implementing ministries) and local governments regularly monitor all programmes, and their annual reports are publicly available.

Integration to GVCs

Measures to promote integration into global value chains (GVCs) are relatively scarce in Indonesia, and the concept has only recently entered into the county's strategic planning documents. In MCSME's latest medium-term plan, one of the targets is to facilitate the integration of 6 000 co-operatives and SMEs into global supply chains.

Promoting SME integration into GVCs has mostly been initiated indirectly through foreign investment regulations. Presidential Decree No. 44/2016 (on Negative Investment List) identifies industries and sectors that are closed to foreign direct investment (FDI) unless in partnership with local SMEs. The government, through Law No. 25/2007 (on Capital Investment), also mandates investors to do business with SMEs. These regulations provide opportunities for SMEs to engage directly with multinational corporations (MNCs) and enter into GVCs. In addition, Government Regulation No. 17/ 2013 (on the Implementation of Law No. 20/2008 on SMEs) encourages large corporations to establish business linkages with SMEs and to promote technology and skills transfers. These regulations are implemented by various agencies.

Use of e-commerce

Indonesia has a clear legal framework on the promotion of e-commerce growth. Law No. 7/2014 (on Trade) regulates e-commerce practices, while the Bank of Indonesia's Regulation No. 11/12/2009 (on Electronic Money) and Regulation No. 18/40/PBI/2016 (on the Implementation of Transaction Payment Process) deal with e-payments. Consumer protection issues are covered by Law No. 8/1999, while specific protection

issues on payment systems are regulated by Bank of Indonesia's Regulation No. 16/1/PBI/2014.

Cross-ministerial initiatives to promote the use of e-commerce among SMEs include SMEs Go Online, a national programme under MCSME co-ordination that aims to facilitate the shift of 8 million SMEs towards the digital space by 2020. The programme, conducted with the Ministry of Communication and Information and provincial and district governments, targets SMEs in each district for help in using e-commerce platforms. MCSME has partnered with leading e-commerce companies such as Lazada, Shopee, Bukalapak and Tokopedia. In November 2017, *CNN Indonesia* reported, quoting the ministry, that the programme had helped 3.79 million SMEs to go online, or about 8% of all SMEs in Indonesia (Ayuwuragil, 2017[24]). To reach out to as many SMEs as possible across the country, MCSME has collaborated with local governments in implementing SMEs Go Online. For example, 206 000 local SMEs in Sidorajo district, East Java Province, were targeted to receive assistance under the programme in 2018, *KeuanganLSM.com* reported on 27 December 2017 (Yusuf, 2017[25]). Another key initiative is the Ministry of Communication and Information's One Million Domain Names programme, which provides free, ready-to-use websites for SMEs and public communities (e.g. schools or health care providers). The government is also designing an e-commerce roadmap, in close consultation with private providers.

Quality standards

Helping SMEs to improve quality standards is a target of MCSME's Strategic Plan 2015–2019. The ministry aims to help 10 000 SMEs meet various standards – ISO standards, Halal certification, Indonesian National Standards (SNI) – by 2019 in order to improve their competitiveness. Towards meeting this target, SMEs will get training and special discounts on the certification of their products or services. According to the ministry's 2015 performance report, a budget of almost IDR 12 billion was allocated, of which nearly 90% was used on 1 000 SMEs involved in quality standard programmes. Work on Indonesian quality standards mainly falls under domain of National Standards Agency (BSN), which develops national standards, and the Indonesian Food and Drugs Administration (BPOM), which regulates the manufacture and distribution of food and drugs. In developing national standards, BSN always refers to international standards and best practices, such as International Organisation for Standardisation (ISO) standards and the World Trade Organisation (WTO) code of good practice. BSN represents Indonesia as a member body in ISO, and it partners with various international organisations such as WTO and the American Society for Testing and Materials. Halal certification falls under the jurisdiction of the Indonesian Ulema Council through its division of food, drugs and cosmetic assessment.

Initiatives to assist Indonesia's SMEs with quality standards are multi-agency collaborations. BPOM provides training on food and cosmetics safety and free halal certification programmes for SMEs. Following the issuance of Minimum Service Standard regulations in 2010, particularly on education and health, more technical regulations were enacted by each ministry in charge of each type of service sector. For instance, the Tourism Ministry issued a law on quality certification in the tourism service.[22]

With education and health services mainly under the government's purview, service quality standards in other areas are handled by business associations and communities. For example, Indonesia Chartered Accountants develops accounting standards for

businesses, including specific standards for SMEs, in accordance with standards developed by International Financial Reporting Standards. BSN has developed specific quality management standards for SMEs in several sectors, such as construction and agriculture, to enhance SME competitiveness in key areas of economic development. Efforts to help SMEs comply with standards also have been decentralised to local governments. For example, the Central Java provincial government has established Quality Management Standard Clinics in co-operation with BSN to assist local SMEs in improving their management quality and getting SNI ISO 9001 certification, a national standard that adopts the ISO 9001 quality management system.

Trade facilitation

Indonesia received moderate scores in the 2017 OECD Trade Facilitation Indicators (TFI) covered in this 2018 ASPI.[23] It scored highest on information availability and formalities procedures. Several SME-specific initiatives to facilitate trading across borders have emerged. The *Kemudahan Import Tujuan Ekspor* (KITE) programme, through the Indonesian Customs Office, waives import duties and taxes for exporting SMEs. The Ministry of Finance also appointed a special unit at the Customs and Excise Office as the facility agent at regional levels to assist SMEs. The Indonesian National Single Window, Inatrade, handles enquiries and acts as a trade portal for traders. Furthermore, for SMEs that use the single window, the DGNED offers support in the form of training and assistance with export document preparation and submission.

Under a Ministry of Finance regulation (No. 227/PMK.04/2014), volume traded is not a criterion for Authorised Economic Operator (AEO)[24] status. This allows SMEs a greater chance to qualify as an AEO. However, the AEO programme has no other special treatment for SMEs. Activities that can help SMEs obtain AEO status are still mostly in the form of seminars and workshops conducted by the Directorate General of Custom and Excise. For example, a discussion session was held at the Jakarta International Logistic and Supply Expo (JILSE) Forum 2017. However, since an entity can qualify as an AEO only if it possesses several advanced management qualities (such as a trade system database that is auditable for customs purposes, a public accountant and a crisis management system), more concrete measures are needed for SMEs to be able to meet these requirements.

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

Indonesia has increased efforts to boost MSME productivity, innovation and the adoption of new technologies over recent years, including in the area of MSME greening. Despite this progress, Indonesia's innovation performance remains relatively weak compared to Southeast Asia's frontier economies. It has not yet developed a technology-intensive industry structure, and imports of high-technology products outweigh exports. Based on available data, Indonesia's gross expenditure on R&D (GERD) is less than 0.1% of GDP, and little private sector investment has come forward to fill the gap.[25] Limited inputs are reflected in the country's outputs: the number of patent applications and scientific and technical publications remains relatively small. Indonesia's Dimension 1 score of 4.14 indicates that while most requisite policies are in place, further implementation work may be required to realise the impact of these policies. The situation is similar with SME greening. Although plans are in place, more could be done to move forward with implementation and providing special incentives for SMEs. Indonesia's Dimension 2 score of 3.28 on SME greening puts it on a par with regional peers.

Productivity measures

Many Indonesian bodies are involved in productivity policy. Bappenas, the Ministry of National Planning, leads policy development for productivity enhancement among SMEs, while MCSME and the ministries of Labour and Industry lead the implementation of such policies and programmes. Meanwhile, the Directorate of Productivity Development (DPD) under the Ministry of Labour is responsible for overall national productivity. The DPD has productivity training centres in 22 provinces.

The MCSME Strategic Plan 2015-2019 includes elements on productivity enhancement, with an average growth target of 5%-7% each year until 2019. Elements for raising SME productivity are included in SME development programmes in areas such as production capacity; access to market and finance; human capital development; institutions; and business environment in general. There are also specific programmes on productivity enhancement for micro enterprises and co-operatives, including one on strengthening business systems and technology through 1 000 technopreneurs until 2019. Members of the National Productivity Board are consulted on the development of programmes and policies with representatives from 17 ministries, labour unions, employers' associations and universities. Public-private dialogues on productivity are conducted by the Ministry of Industry (MoI) every six months. Training sessions and workshops are often conducted with support from donors, including the Asian Productivity Organisation. Recently, there have been changes within the structure of the Ministry of Manpower and Transmigration (MPT) that negatively affected the performance of the DPD. Furthermore, recent budget cuts have affected the performance of productivity enhancement programmes. At the national level, the DPD monitors labour productivity by sector and geographical location annually in co-operation with the National Statistical Agency. However, data on other key performance indicators (KPIs), such as total factor productivity, are still limited. MCSME stands as the lead monitoring agency of its own SME productivity enhancement programmes.

Business development services

Indonesia has been providing business development services (BDS) to SMEs for over 15 years and it has a dedicated policy framework for this. Although MCSME is seen as a co-ordination body, BDS have been decentralised since early 2000 and vary across provinces. The MCSME Strategic Plan 2015-2019 covers BDS, with a range of programmes and initiatives.

The flagship initiative for BDS is implemented through centres for integrated commercial services, called PLUT (*Posit Layanan Usaha Terpadu*), which operate at the provincial level. In 2014-2016, a total of 192 850 companies received assistance from these centres. Currently there are 51 PLUT centres spread across 32 provinces. There is also a concept for developing PLUT at a national level. Generally each PLUT employs five to seven support staff who also provide capacity building on business management, access to finance, networking and accounting. The centres do not provide support with innovation or technology transfer, nor have they provided customised support. However, SMEs have access to mentoring services conducted by independently recruited consultants. Although customised BDS are currently available only in Sukabumi, in 2017 the government took a large-scale initiative to support SME scaling with BDS via independent certified consultants. A national competency standard for national BDS providers is being developed. There are several online information portals for SMEs, but there is no single-entry portal for the range of BDS services. On the positive side, a number of academic

institutions, in partnership with private or public institutions, have organised business plan companions across the country. There are also private initiatives, such as an initiative of KADIN Indonesia, the Indonesian Chamber of Commerce, to facilitate capacity building on online marketing and e-commerce for more than 2 300 SMEs.

Productive agglomerations and clusters enhancement

Both the MoI Strategic Plan 2015-2019 and the Research Centre for Science and Technology (*Puspiptek*) Strategic Plan 2015-2019 have elements on cluster promotion. Both plans are derived from the National Long-Term Plan 2005-2025. MoI allocated more than IDR 8.9 billion for cluster promotion programmes. Under a 2014 MoI regulation, all industrial sites are to allocate 2% of their land area for SMEs. In 2015, a government regulation stated that all industrial estates should allocate five hectares of their land for SMEs. While there are good initiatives for developing cluster policies in the country, they are limited by a lack of co-ordination among the responsible ministries.

Indonesia scored 84% in the 2014 Foreign Investment Liberalisation (FIL)[26] rate of the Economic Research Institute for ASEAN and East Asia (ERIA), the second lowest score in the region. However, this represented a big increase from 52% in 2011, and the third highest increase since 2011 among AMS. Investment liberalisation in Indonesia is largely autonomous, and progress in this domain reflects the country's appreciation of the critical role of FDI for total investment in and development of the economy (Intal Jr., 2015[26]).

There are currently 34 science parks in Indonesia – a big increase from 2014, when there were just six – and the government aims to establish 100 technoparks across the country by 2019 to boost productivity and competitiveness. Electronics is one focus sector, and there are also clusters in agroindustry; information and communications technology (ICT); manufacturing; and the marine, medical and pharmacy sectors. One of the biggest parks, in Pulogadung, Jakarta, has 691 SMEs, and an industrial park in Jakarta has reserved 10% of its land area for SMEs. Fiscal and non-fiscal incentives are provided to businesses in the cluster zones. In Special Economic Zones, the government provides generous incentives for pioneer industries, such as corporate tax exemption for up to 25 years. Holistic government programmes for cluster development include partnerships with donors. The Ministry of Youth and Sports provides grants for *Sentra Kewirausahaan Pemuda* (a kind of cluster for young entrepreneurs). Monitoring is conducted yearly by the different ministries involved. However, there is no independent evaluation of policies on the promotion of industrial clusters. There are some KPIs, such as the number of innovative products produced, the number of economic transactions in the clusters, etc., in addition to the number of SMEs in the clusters.

Technological innovation

A National Development Strategic Policy for Science and Technology emphasises the importance of R&D as a driver for Indonesia's future economic development. National innovation policy, although without specific reference to SMEs, is derived from the 2015-2019 National Development Plan; the responsible institution is the Ministry of Research, Technology and Higher Education, which promotes technological innovation in eight sectors: food, energy, health and medicine, information technology, transportation, defence, advanced materials and maritime. Under this ministry, the Directorate General of Innovation Strengthening is in charge in national innovation programmes, with three directorates: innovation systems, industrial innovation and technology-based entrepreneurship. MoI, meanwhile, focuses on the electrical, transportation machinery

and food processing sectors. Bappenas has a co-ordinating function, inviting relevant institutions for regular co-ordination meetings. Although the responsibilities between agencies are said to be clear, there is no official arbitration mechanism.

Regarding intellectual property (IP) rights, procedures are in place for registration and enforcement, and they are relatively efficient. Among positive changes, it is worth noting the creation in 2015 of an independent government agency, *Badan Ekonomi Kreatif* (Creative Economy Agency), which oversees 16 creative industry sectors. The Directorate of Intellectual Property launched a copyright e-filing system in 2015. Under the new Patent Law, an online system will be introduced for filing patent applications. Two new laws became effective in 2016: the Trademark Law and the Law on Marks and Geographical Indications.

The government has made a recent push to promote innovation. Its public spending on incubating tech-based businesses has nearly doubled, increasing from IDR 190 billion (USD 14.1 million) in 2015 to IDR 370 billion (USD 27.6 million) in 2016. Yet this amount is still very low given the country's size. Malaysia, for instance, has allocated MYR 200 million (Malaysian ringgit; USD 46 million) to incubate domestic start-ups, while Thailand recently announced that it would create a fund to incubate digital economy start-ups worth USD 147 million. In the budget for 2016, funds were also allocated for the establishment of 45 incubators. Under initiatives like MCSME's Start-up Incubator Programme (SIP), SMEs can find mentoring support from industry experts, as well as networking and funding opportunities and international exposure. Established across the country and mainly focused on digital start-ups, incubators also provide space and BDS. At the same time, Indonesia enjoys relatively active private-sector participation in the promotion of innovation, with a large number of private-led incubators and accelerators, such as Techbator, Indigo and Kolaborasi.

Environmental policies targeting SMEs

Through its Green Industry Development Plan, Indonesia has developed policies at a high level to support green growth in the private sector. Developed under the Ministry of Industry, the plan does not target SMEs specifically but its provisions are broadly relevant to them nonetheless. The plan is aimed at reducing industrial use of resources and enhancing competitiveness by improving efficiency and environmental performance. It envisions a green shift through investments in better technology and equipment, supported by different approaches. This includes the creation of green industry standards and an associated certification body; a national approach to informing industry about opportunities to become greener and promoting the benefits of a green shift across different sectors; and supporting research and development into green technology and technology transfer. SMEs were consulted through the Indonesian Employer Association, in part to inform them about the existence of the plan.

The plan is broad and introduces a number of different tools that the government is using to support green industry. The fact that it is hosted by the MoI, rather than the Ministry of Environment and Forestry (MoEF), is a strong indication of green mainstreaming. Shifting to green is presented to industry not as a cost of environmental compliance but as an opportunity to grow.

Incentives and instruments for green SMEs

Indonesia has no regulatory instruments in place to encourage the greening of SMEs. However, it does have financial support schemes and incentives across different

ministries. For instance, the Ministry of Finance has a tax and customs incentive for the use of renewable energy. Under the MoEF, the Centre of Forest Development Financing provides soft loans to micro and small enterprises, both directly and through intermediaries. It offers long payback periods (up to 16 years), grace periods and below-market interest rates. Under the MoI's Green Industry Development Plan, there are programmes to support enterprises in achieving ISO 14001 and other sustainability-related international certifications.

The MoI also provides Green Industry Awards for enterprises (including SMEs) that achieve certain standards of sustainability across the production process, including efficiency in material inputs, waste and emission reduction, and business management. The MoI is also progressively establishing Green Industry Standards for different product groups, from ceramics to milk powder. However, there seems to have been no assessment of how many small enterprises are accessing these incentives or achieving certification. Implementation of green plans at the federal level can be challenging in Indonesia due to the decentralised power structures.

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

Indonesia has emphasised the importance of nurturing entrepreneurial mindsets by integrating entrepreneurial learning into its education system. It has also promoted entrepreneurship skills through entrepreneurship programmes that especially target the lower-income population. Its efforts to promote entrepreneurial education and skills throughout the country are reflected in its Dimension 7 score of 4.52.

Indonesia has also developed policies to promote social and inclusive entrepreneurship. Its Dimension 8 score of 3.22 shows that, while a number of policies have been put in place and initiatives are being implemented, further initiatives could be welcome.

Entrepreneurial education

In the education sector, elements of entrepreneurial learning (EL) are clearly incorporated only in Indonesia's mandatory curriculum for vocational students at secondary levels. There is a required internship programme for vocational students in well-established state-owned and private companies that aims to link the market demand of businesses for skilled labour with vocational learners, but there is no specific government incentive scheme for private service providers that support EL. Non-vocational students do not have a detailed EL curriculum, although EL competency is one of the criteria for school principals in public schools from basic to secondary levels of education. Other initiatives at the secondary level include the expansion of a pilot project to transform public high schools into entrepreneurship-based schools. In 2016, there were 204 pilot high schools spread across the 34 provinces of Indonesia (Iwin, 2016[27]). A work programme by the Ministry of Education and Culture (MoEC) aims gradually to increase the number of entrepreneurship-based high schools, with 1 300 high schools targeted to have EL in 2018 (Atas, 2017[28]).

There is room for improvement at the university level, however. Indonesia still has neither a strategy nor a curriculum to promote EL in universities, although the idea of constructing a nationwide curriculum on entrepreneurship at the university level has been endorsed by the nation's vice president since 2010 (Wibowo, 2010[29]). What has been set in place to date is an EL module developed by the Higher Education Authority within MoEC in 2013 as a reference for universities that plan to integrate EL in any study

programme. There have also been fragmented initiatives to promote entrepreneurship and EL in universities. For example, the Centre for Entrepreneurship Development and Studies of Universitas Indonesia provides business incubation for students with entrepreneurship interests. Other reputable universities, such as Universitas Gadjah Mada and Institut Teknologi Bandung, have similar business incubation programmes for interested students, while Universitas Brawijaya introduced an entrepreneurship major in 2016 under its Bachelor Degree in Economic and Business programme, strengthening its reputation as a leading university in entrepreneurship education in Indonesia (Widyawati, 2016[30]). With these initial steps to integrate EL into university education, the government now needs a strong and continuous commitment to move forward.

Entrepreneurial skills

More than 100 entrepreneurial training sessions are conducted annually by various ministries, such as the Ministry of Research, Technology and Higher Education, the Ministry of Youth and Sport Affairs and the Ministry of Social Affairs, with entrepreneurial skills promotion often integrated into larger programmes for SMEs. One notable initiative is KUBE (*Kelompok Usaha Bersama*), which was implemented in 2007 under the Ministry of Social Affairs as a part of PKH (*Program Keluarga Harapan*), which seeks to empower lower-income groups by providing working capital and entrepreneurial training. This programme creates small groups of 10 households each so that members can collectively manage their respective small businesses and leverage their capacities. The KUBE-PKH programme not only improves the entrepreneurial skills of local micro entrepreneurs and small businesses, but also promotes poverty alleviation by reaching the less developed regions, remote areas and outer islands.

Other initiatives are executed by different ministries and government agencies. In 2016, MCSME established an internship programme for 500 new entrepreneurs in businesses in Bali, West Kalimantan and Central Sulawesi provinces (Hardum, 2016[31]). Around IDR 2.1 billion was allocated to run the programme. Meanwhile, since 2011, the government has implemented the National Movement of Entrepreneurship programme, or *Gerakan Kewirausahaan Nasional* (GKN), to generate more entrepreneurs in Indonesia. GKN, first co-ordinated by MoI, is now run by MCSME. With around 1 500 entrepreneurship coaches in 2017, MCSME aims to provide assistance and mentorship in entrepreneurship to micro entrepreneurs and small businesses across Indonesia (Sofia, 2017[32]).

Initiatives to increase entrepreneurial skills are also conducted by local governments within their autonomous authorities. For example, in 2017 the Jakarta provincial government, DKI Jakarta, launched the One District One Centre Entrepreneurship programme, which provides coherent entrepreneurship assistance and business coaching for micro entrepreneurs across the province, including in Kepulauan Seribu district, in order to reduce the provincial unemployment rate. DKI Jakarta allocated IDR 82 billion for the programme in its 2018 budget plan (Purba, 2017[33]). Within 100 days of its launch, 368 entrepreneurs had joined the programme (Nailufar, 2018[34]). Similarly, since 2015, West Java provincial government has conducted the *Pencetakan Seratus Ribu Wirausaha Baru* programme, which provides intensive mentoring and assistance in starting and running businesses to small business owners and aspiring entrepreneurs in the region. The programme provides specific assistance for different levels of business maturity, from cultivating business ideas to expanding the small business. However, different regions have varying resources and capacities for designing initiatives to nurture entrepreneurship skills among local SMEs and aspiring entrepreneurs, and may not yet be

able to design and implement coherent and relatively advanced programmes like those in Jakarta and West Java province.

Indonesia's initiatives to increase entrepreneurial skills could be boosted by improved policy design in the development of entrepreneurship programmes, particularly through use of more intensive background studies on the entrepreneurial skills of SMEs. Most government initiatives currently rely only on background studies done by the internal research division in each implementing ministry. It should be noted here that there are variations in the research capacities of such ministries or agencies.

Social entrepreneurship

The regulatory environment for social entrepreneurs has recently evolved under Bappenas, including regulatory assessment for mission-driven start-ups in National Legislation Planning (*Prioritas Prolegnas* 2015). While there is no official definition of a social enterprise, a definition is implied through the implementation of the KUBE programme. A new law on entrepreneurship is being drafted that may provide a clear definition, with social impact as one of the criteria. Co-operatives could also be considered social enterprises in some cases. The Ministry of Social Affairs (MoSA) is in charge of social enterprises, while the MCSME handles co-operatives.

On the implementation side, the government has been promoting various approaches. The most important, through the KUBE programme and e-Warong (a social protection cash transfer programme), mainly focus on empowering the poor to become socio-economically capable. Other programmes focus on leveraging the private activities of companies and NGOs. Indonesia enjoys a relatively large number of enablers – members of international networks supporting social enterprises, such as UnLtd, Ashoka, Endeavor Indonesia and the INOTEK incubator supported by the British Council. The Ministry of Youth and Sports has conducted a youth social entrepreneurship business-plan competition in co-operation with the University of Gadjah Mada since 2016. In part due to this diversified ecosystem, mainly in large urban areas, Indonesia is singled out by interviewed investors as one of the strongest potential markets for social finance. This perception is also driven by the country's demographic size, its increasing internet/mobile penetration and its agrarian/maritime potential. According to the Angel Investment Network Indonesia, most social enterprises are active in the agriculture, financial services (fintech), health care, education and fishery sectors. They are mainly young, and generally tap into the seed stage of development (UNDP, 2016[35]).

Inclusive entrepreneurship

Inclusive entrepreneurship in Indonesia is at a relatively early stage of policy development concerning two of the three target groups – women and persons with disabilities (PWD) – but at a more advanced stage concerning the third group, youth.

Although the country has no particular policy on women's entrepreneurship, a number of policies focus on women's labour force participation and encouraging entrepreneurship through co-operative activities. The Ministry for Women's Empowerment and Child Protection is the main body handling the development of women's entrepreneurship. Most of its activities have been conducted in urban centres, but it has also co-ordinated empowerment programmes in some 20 districts to help women establish co-operatives and it has organised training sessions and business competitions. The private sector plays an active role, especially the Indonesian Women Entrepreneurs Association, which supports a dedicated incubator for women entrepreneurs and conducts training and

mentoring support. The initiatives, which are of relatively low intensity for the scale of Indonesia, mainly focus on entrepreneurs who are just starting out. However, women have benefited from widely available microcredit initiatives across the country.

In relation to youth, Indonesia has developed a comprehensive national strategy, Youth Entrepreneurship Development (2015-2025), which is supported by universities and co-ordinated by the Ministry of Youth and Sports Affairs. Implementation is handled by the Agency for Youth Entrepreneurs Development, which has seven support schemes including training, partnership and financial support. The budget for youth entrepreneurship activities has been increasing and reached IDR 46 billion (USD 3 million) in 2017. Academia plays an active role though initiatives like the College Student Entrepreneurial Programme (IDR 10 billion), and several university incubators host early start-ups. The MCSME also conducted training activities in 2017 for some 500 young school drop-outs focused on improving their entrepreneurial potential. With youth entrepreneurship largely focused on tech and digital start-ups, substantial support is also available from private initiatives conducted by the Association of Young Entrepreneurs, and players such as IYE!, Bank Mandiri or PT Astra International.

The final target group, persons with disabilities, falls under the responsibility of MoSA, which has a mandate for PWD entrepreneurship training and assistance. But although there are scattered PWD support initiatives within MoSA, there is no overarching policy document and only a few initiatives are available. For example, the MCSME conducted an initiative for 35 people in 2014, while the Creative Economy Project has been operational since 2015 through 19 social welfare institutions for PWD. Initiatives run by NGOs, such as BisnisUKM.com, Tiara Handicraft or Klaten, conduct training focused on entrepreneurship for PWD. Yet the dedicated needs of this target group concerning access to finance, accessibility of training locations and access to business acumen skills have not been sufficiently integrated into SME-related policies.

The way forward

Strengthening the institutional, regulatory and operational environment

Indonesia has taken steps to reform the country's business environment over recent years, yet more could be done to promote a more strategic and co-ordinated approach to MSME policy and regulatory reform. Moving forward, Indonesia could:

Institutional framework for SME policy

- **Consider revising the country's SME definition.** Currently some opacity exists around the characteristics of the population covered by Indonesia's SME definition. This has resulted in an inflation of SME numbers and an unmanageably large target group. The formal definition could be extended to include an employment criterion, which is generally an easier data point to collect. A refined SME definition might increase the consistency of its use throughout the country's civil service.
- **Improve data gathering on SMEs.** Indonesia could consider establishing a shared database of the most relevant indicators on SMEs, collected from across the country and able to be accessed and receive inputs from a broad range of stakeholders.

Legislation, regulation and tax

- **Consider new measures to inculcate good regulatory practices (GRPs).** This could be pursued through the development of training modules and the implementation of a formal requirement to conduct GRPs in the development of major regulations, such as public-private consultation and RIA. Both should be incorporated taking into consideration their impact on SMEs.
- **Streamline company registration.** The large number of licenses and company identification numbers required to run a company is still rather burdensome. Indonesia could conduct a review of requirements that could be eliminated.

Facilitating SME access to finance

Indonesia has invested substantial public funds in MSME financing programmes in recent years, demonstrating considerable public commitment. Moving forward, more could be done to assess the financial performance and additionality of current schemes and to prioritise the development of the institutional, legal and regulatory framework for extending finance. For instance, Indonesia could:

- **Assess the performance of current schemes to stimulate bank lending.** This should be done before committing further public funds. Measures could be considered to enhance the operating performance of existing schemes and to boost their independence and market orientation, for instance by removing the ministerial right to appoint members of the credit guarantee scheme's governance and supervisory boards. Collateral requirements are almost as high for large enterprises as smaller ones.27 Therefore measures to improve the legal and institutional environment for the taking of security could be prioritised before the expansion of existing risk-sharing instruments.
- **Develop private equity/business angel regulation.** A strong regulatory framework for the venture capital industry is in place, but there is very little regulatory oversight of private equity and business angel activities.

Enhancing access to market and internationalisation

To better adjust to global trade dynamics, improvements could take place in some areas. Going forward, Indonesia could:

- **Develop support initiatives for SMEs to qualify as an AEO.** Qualifying as an AEO in Indonesia requires advanced management qualities, and SMEs might find difficult to comply with this criterion. Developing mechanisms to leverage SMEs' management qualities in accordance with the AEO programme's requirements will not only increase SMEs' opportunities to enjoy the programme's benefits but also improve their competitiveness through better management quality. Linking this initiative with national strategies to improve SME quality standards, and collaborating with the national standards agency, will scale up the action to realise more benefits for SMEs and cover a broader area of development.
- **Develop specific measures and strategies to assimilate SMEs to GVCs.** As global trade becomes more integrated, such integration is essential for a big economy like Indonesia. It has equally become increasingly relevant for Indonesia to design strategies specifically aimed at improving SME competitiveness and linkages with larger businesses, both domestic and MNCs, to integrate them into

regional and international value chains. Mechanisms provided in the Foreign Investment Law to encourage local sourcing and partnership should be complemented by rigid and regularly monitored KPIs, for example on how many SMEs are under partnership with MNCs and in what sector or regions, and what kind of technology transfers are being conducted. Specific capacity-building programmes should be developed to help SMEs venture into more complex production networks.

- **Ensure that national programmes reach the entire country.** More rigid guidelines and key indicators should be developed to ensure that national programmes on promoting SME internationalisation reach regions across Indonesia. This is a challenge given the country's size and archipelagic nature. Several national programmes lack clear outreach mechanisms. For example, the SMEs Go Online programme set targeted numbers of assisted SMEs but did not specify the target for each region. This is particularly important, as SMEs in different regions might possess very different initial capacities. Those in relatively underdeveloped areas or far from the capital might need such initiatives.

Boosting productivity, innovation and adoption of new technologies

To improve productivity, innovation and the adoption of new technologies and SME greening, Indonesia could:

Productivity, technology and innovation

- **Clarify the roles of institutions that promote productivity.** This is especially important in relation to implementation. The number of agencies involved in policy implementation could create confusion. Clearer understanding of each agency's role and mandate could improve co-ordination and make programmes more efficient.
- **Focus on growth enterprises.** Although a number of productivity initiatives and support structures focus on micro and small enterprises, few specifically target enterprises enjoying fast growth. By focusing more on these enterprises, Indonesia could benefit from higher growth.
- **Improve productivity monitoring and evaluation systems.** Although monitoring systems exist, few initiatives have gone through independent evaluations, which could help to define instrument-specific weak points and to improve the efficiency and impact of such measures. Monitoring mechanisms could integrate disaggregated indicators focused on SMEs to improve understanding of how specific initiatives have affected SMEs and their subgroups. Monitoring and evaluation could also help with the gathering of statistics, which are often lacking.
- **Further promote innovation.** Although a number of programmes exist, they appear to be mainly focused on collaboration between R&D institutions and the larger companies. Indonesia's current support structures are rather focused on product innovation research. More could be done to support other types of innovation (e.g. process, marketing and operational), to increase private-sector involvement and to develop mechanisms that help SMEs engage in innovation. One such mechanism could be innovation grants for early stage ideas, supported

at a later stage by innovation vouchers to help develop an SME proof of concept and business model.

Environmental policies and SMEs

- **Further mainstream environmental policies by also targeting SMEs.** The measures included in the Green Industry Development Plan could further be supported by a more detailed list of actions and targets specifically targeting SMEs. By integrating KPIs that also focus on SMEs, it might be possible to ensure that the green development plan is reaching smaller enterprises.
- **Further improve green awareness.** In Indonesia, as in other countries, SMEs are often not aware of the importance of greening and the advantages it could bring. Moreover, they are often unaware of the instruments available. Increasing awareness of the importance of greening and the incentives on offer, especially those targeted at SMEs, might make it possible to improve SME uptake of the instruments available.
- **Improve monitoring and evaluation.** Steps could be taken to strengthen the monitoring and evaluation of policy implementation. Assessing the specific needs of SMEs in relation to greening and translating these needs into indicators might make it easier to monitor whether these needs have been met. The impact of incentives also needs to be monitored and evaluated to ensure that the incentives are accessible to SMEs and being utilised.

Stimulating entrepreneurship and human capital development

Indonesia could prioritise the following actions to step up its level of entrepreneurship and human capital development:

Entrepreneurial education and skills

- **Develop entrepreneurial education programmes at primary education level.** To move entrepreneurial education forward and develop entrepreneurial attitudes and skills from an early age, Indonesia needs to consider introducing more concrete measures and curriculum on entrepreneurship at primary education level. Nurturing an entrepreneurial mindset is not an overnight process, making it important to instil entrepreneurship elements beginning in primary school. A national curriculum on entrepreneurship will help a large nation like Indonesia to manage and monitor its national entrepreneurial education. Neighbouring AMS like the Philippines and Brunei Darussalam have adopted this idea, integrating entrepreneurial education at the primary as well as the secondary level of education. Indonesia could follow their lead, taking valuable inputs for designing entrepreneurship measures and integrating them into its national education system.
- **Strengthen entrepreneurial education at university level.** Indonesia has mostly focused on fostering entrepreneurial education at secondary level. In the absence of a national agenda on integrating entrepreneurial education into higher education, only a few universities have introduced entrepreneurship programmes. A national programme to introduce an entrepreneurship degree or subjects in public universities would spread entrepreneurial education across the country and encourage universities to follow through with similar efforts.

- **Introduce entrepreneurship programmes nationwide.** Public programmes to develop entrepreneurial skills could support poverty reduction measures in Indonesia. However, programmes are currently fragmented. While there have been several national-level programmes on fostering entrepreneurship, efforts to nurture entrepreneurship and support local economies have mainly relied on autonomous initiatives from local governments. Given the substantial development gaps among regions in Indonesia, collaborative programmes between different regions would strengthen national entrepreneurship initiatives.

Social and inclusive entrepreneurship

- **Develop a clear definition or set of criteria for social enterprise.** This could be based on good practice examples in the region. Indonesia's lack of a legal definition of a social enterprise could be a source of confusion. Although social enterprises are often falsely perceived as charities, they are in fact profit-making businesses, but with a strong social and environmental purpose. A definition could also help with the establishment of a central registry for social enterprises.
- **Develop business skills programmes in partnership with private initiatives.** Indonesia enjoys a number of private initiatives supporting social and inclusive entrepreneurship and could build on this to provide a larger scope of support services that provide business acumen skills to targeted groups. Companies could be supported to establish new business models that capture value and impact. This could help to overcome the lack of compelling capacity-building programmes in Indonesia.
- **Further integrate the needs of the target groups into policies.** As with youth entrepreneurship, the government could consider developing strategies or action plans focused on women's entrepreneurship or entrepreneurial support for PWDs. Specific needs such as access to finance and specific training facilities as well as means of delivery should be analysed and integrated into the action plans. Consultations with stakeholders could help to identify the best approaches.

Notes

[1] If in 2016 it had met the current threshold for high-income status, its GNI would amount to current USD 3 294 billion (the fifth highest globally). In 2016 the World Bank's threshold for high-income status (using the Atlas method) was current USD 12 735.

[2] Mining and quarrying accounted for around 12.1% of the country's GDP in 2000, compared to 6.1% by 2014. Likewise oil and gas manufacturing as a share of total manufacturing decreased from 14.1% in 2000 to 5.9% by 2014 (BPS, 2017).

[3] This period is known in Indonesia as the Reformasi.

[4] With a population of 261 million people, Indonesia accounts for around 40% of the ASEAN population, and is the fourth most populous country in the world.

[5] Measured as the share of its population below the international poverty line (PPP USD 1.90 a day) (World Bank, 2016a[2]).

[6] This does not reflect unemployment rates among the working age population as a whole. The ILO-modelled estimate of the unemployment rate in Indonesia is 3.9% for women and 4.5% for men (2017).

[7] Indonesia would need to grow at a steady rate of 7% over the next 20 years to join the high-income bracket, yet it is currently projected to demonstrate a GDP growth rate of 5.4% over the next five years (2018-22).

[8] The ICOR is a measure of economic efficiency, indicating the increase in investment required to achieve a designated growth rate. In Indonesia's case, for instance, 5.7% of additional investment would be required to achieve a 1% increase in the GDP growth rate.

[9] Indonesia currently ranks 63rd in the Logistics Performance Index (World Bank, 2016[37]), for instance, and lowest on infrastructure indicators.

[10] Indonesia ranks 59 out of 63 economies in the OECD's FDI Restrictiveness Index (2016).

[11] As of 31 January 2018: Go-Jek, Traveloka, Tokopedia and Bukalapak.

[12] For instance the passage of Presidential Decree No. 13/2018 on beneficial ownership, which requires business entities, such as corporations, foundations and co-operatives, to submit the identities of their beneficial owners to the authorities.

[13] It has tried and convicted 119 members of parliament and 17 governors since it was first established in 2002 (as of July 2017).

[14] In The Co-operative Movement in Indonesia (1958), Hatta stated that "because the strength of a people economically weak can be brought about only through the co-operative movement, co-operatives are a condition sine qua non as a base for the people's economy." Co-operation, he argues, is the only way to eradicate the national "inferiority complex" and "bring the remnant of colonialism from the soul of our nation."

[15] Doing Business data covers Jakarta and Surabaya. In Jakarta, standard procedures to start a business take 22 days and cost on average 10.9% of income per capita, involving 11 procedures. In Surabaya the process costs the same, but takes around 27 days and involves 12 procedures.

[16] The effective monthly minimum wage in Yogyakarta, Central Java, Eastern Java and Western Java is IDR 1.5 million for 2018.

[17] Both calculated using World Bank official exchange rate (2016 average): USD 1 = IDR 13 308.

[18] Data provided by the Co-ordinating Ministry for Economic Affairs.

[19] Previous rules were a Presidential Regulation in 2008 and OJK Regulations in 2014.

[20] The new Microfinance Law builds on previous laws No.12/POJK.05/2014, No.13/POJK.05/2014 and No.14/POJK.05/2014, and has recently added Regulation No. 22/PMK.05/2017 on Ultra Micro Financing, issued by the Ministry of Finance.

[21] OJK regulations passed in 2015 included: Arrangement of Venture Capital Company Business (Reg. No. 35/POJK.05/2015); Licensing and Organisation of Venture Capital Companies (Reg. No. 34/POJK.05/2015); Good Corporate Governance for Venture Capital Companies (Reg. 36/POJK.05/2015); and Direct Inspection of Venture Capital Companies (Reg. 37/POJK.05/2015).

[22] Peraturan Menteri Pariwisata No. 1/2016.

[23] Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: i) Information availability; ii) Fees and charges; iii) Formalities–documents; and iv) Formalities–procedures, with 2 being the highest possible score for each of the indicators. In 2017, Indonesia scored 1.4 for Information Availability; 1.2 for Fees and Charges; 1.1 for Formalities–documents; and 1.3 for Formalities–procedures.

[24] The World Customs Organisation (WCO) defines AEO as a party involved in the international movement of goods in whatever function has been validated by, or on behalf of, a national customs administration as complying with the WCO or equivalent supply chain security standards (WCO, 2010[36]). Therefore, customs will trust and expedite procedures for an AEO.

[25] Most R&D in Indonesia is performed by public research organisations, and private sector companies engage in very little R&D.

[26] The ERIA Foreign Investment Liberalisation rate is equal to 60% of the foreign equity liberalisation rate and 40% of the liberalisation rate of other investment restrictions. Please refer to (Intal Jr., 2015[26]) for details on the methodology.

[27] Collateral requirements for large enterprises are around 228.3% the value of the loan, according to Enterprise Survey data (World Bank, 2015[16]).

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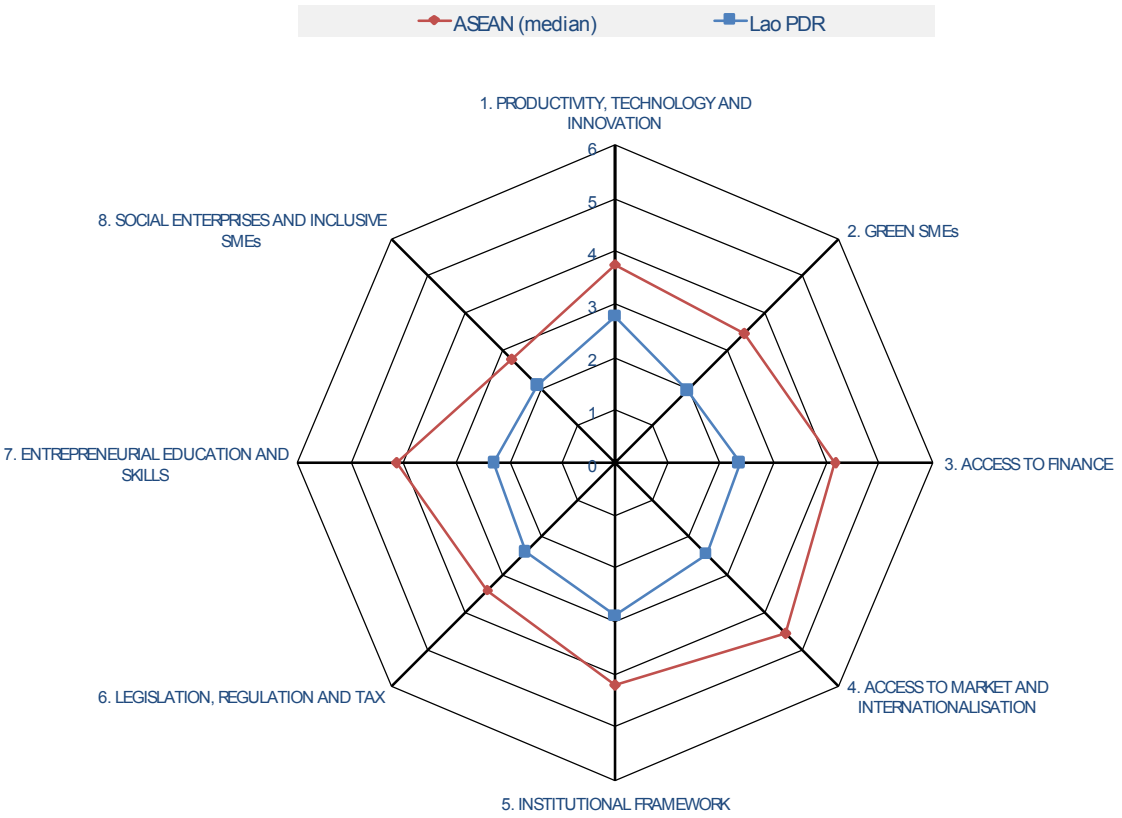
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Chapter 15. Lao PDR

Lao PDR has focused its SME policy on improving the legal and regulatory environment to support SME development. It has been developing targeted SME policies since the early 2000s and benefits from a relatively good institutional framework and a dedicated fund for SME development. It is increasingly interested in policies to enhance SME productivity and integration into GVCs, but these areas currently lack sufficient funding.

Figure 15.1. 2018 SME policy index scores for Lao PDR



Overview

Economic structure and development priorities

Economic structure

Lao PDR is a lower middle-income country located at the heart of the Greater Mekong Subregion. It has the lowest population density in ASEAN, with a population of 6.6 million spread over 236 800 km^2 (ASEC, 2016[1]). It is richly endowed with natural resources such as copper, gold, tin, gypsum, gemstones and timber, and these resources, particular copper, remain the primary driver of GDP and exports.[1] The economy remains highly agrarian, with 60.3% of the population living in rural areas[2] (World Bank, 2016a[2]) and agriculture accounting for around 71.4% of employment in 2016 (ILO, 2016[3]) and 24.8% of value added in 2014 (World Bank, 2016a[2]) (last available data). Since the early 1990s, Lao PDR has prioritised the development of an additional resource, electricity, through substantial investment in hydropower facilities, making use of its vast river network and access to the Mekong River Basin as well as its sparsely populated territory. Electricity now accounts for around 30% of exports recorded by customs (IHA, 2016[4]), and its hydropower is an important energy source for neighbouring Thailand, China and Viet Nam.

Lao PDR is currently one of the fastest growing countries in the world, sustaining a GDP growth rate above 5% almost every year since 1992.[3] However, much of this growth has been driven by booming copper prices and foreign direct investment (FDI) in hydropower and mining activities.[4] FDI inflows peaked in 2015 at USD 1.1 billion. To build up its industrial base, the government has prioritised the attraction of FDI and the development of Special Economic Zones (SEZs) since the early 2000s. Yet currently only two SEZs appear to be active,[5] and investments remains concentrated in low value-added activities outsourced from neighbouring countries. As a landlocked country with significant infrastructure gaps, Lao PDR is heavily dependent on its neighbours for trade, with China, Thailand and Viet Nam accounting for almost 90% of total trade in 2016 (MIT, 2016[5]). Yet it benefits from a young and active population, and this could be leveraged for future growth: around 53.9% of the population are aged 24 or under (World Bank, 2016a[2]), and in 2010 (latest available data) only 5.1% of young people were not in employment, education or training (NEET) (ILO, 2016[3]).

Table 15.1. Lao PDR: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	7.9	7.9	7.6	4.9*	7.9
Inflation	Percent, average	4.3	6.4	4.1	1.3	4.3
Government balance	Percent of GDP	-1.2	-5.8	-3.6	-3.9	-1.2
Current account balance	Percent of GDP	-4.4	-3.4	-10.0	-18.3	-4.4
Export of goods and services	Percent of GDP	38.9	37.1	40.4	36.0	38.9
Imports of goods and services	Percent of GDP	51.6	52.6	56.2	51.0	51.6
Net FDI (inflows)	Percent of GDP	3.1	3.8	7.8	8.7	3.1
External debt	Percent of GNI	93.3	89.3	95.9	-	93.3
Gross reserves	Percent of external debt	15.6	11.3	12.0	9.0	15.6
Domestic credit to the private sector	Percent of GDP	94.8	96.8	100.3	111.9	94.8
Unemployment	Percent of active population	-	-	-	-	-
GDP per capita	PPP (constant 2011 intl$)	1 285	1 371	1 450	1 531	1 285

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

Sustained growth over the long term is threatened by rather weak public finances, a persistent current account deficit and very high external debt. Lao PDR has run a negative government balance since at least 2000 and a negative current account balance every year since at least 1980, save the year 2000 (IMF, 2017[6]). Tax collection remains relatively weak, with taxes on income, profits and capital gains contributing a very low share of total tax revenue (9.4%). The recent slump in copper prices has exacerbated the budget deficit. There is also strong domestic demand for foreign-sourced consumer goods, with automobiles constituting one of the biggest merchandise imports (8.4%) in 2016 (MIT, 2016[5]).[6] Downside risks include slower external demand from China, Thailand and Viet Nam, which absorb the majority of Laotian exports,[7] and adverse weather conditions, with agriculture accounting for one-sixth of the total economy (IMF, 2018[7]).

Going forward, the government could continue its efforts to establish a broader base for growth. Lao PDR has an emerging eco-tourism industry, which currently accounts for around 85% of service exports and is becoming an important source of foreign receipts. SME development could also help: large enterprises are more likely to source externally (especially from Thailand), and therefore more competitive SMEs, including as input

suppliers, could help tackle the current account deficit while providing new sources of growth.

Reform priorities

The Lao PDR government's current economic development priorities were elaborated or revised by the National Assembly on 22 April 2016. This included two long-term plans: a 15-year strategy, known as Vision 2030, and a 10-year strategy, known as the National Strategy on Socio-Economic Development 2025 (2015-2025). The main objective of NSSD 2025 is to double per capita gross national income (GNI) by 2020, while the main objective of Vision 2030 is to quadruple per capita GNI by 2030. The ultimate goals of Vision 2030 are for Lao PDR to become an industrialised middle-income country with sound infrastructure; to enhance living standards, human development and social security provisions for its people; to reduce rural-urban income disparities and ensure a sustainable use of resources and conservation; and to have competitive enterprises that are integrated into regional and global production networks. NSSD 2025 proposes long-term strategies that support the objectives of Vision 2030.

Lao PDR's mid-term economic development priorities are outlined under the 8th National Socio-economic Development Plan (NSEDP), which covers the period 2016 to 2020. The main objective of this plan is to move Lao PDR out of the least-developed-country category by 2020.[8] In addition, it aims to reduce the poverty rate by around half,[9] to achieve sustainable human development and to ensure the sustainable use of natural resources. To achieve these objectives, it aims to achieve real GDP growth of not less than 7.5% per annum on average over the five year period. It envisions doing this by building up Lao PDR's industrial base (so that industry accounts for at least 32% of GDP and agriculture not more than 19%); reducing its external debt and moderating inflation; reducing regional disparities through a careful consideration of economic geography in planning economic development policies; enhancing education and skills (particularly in technical subjects and entrepreneurial competencies); and increasing the volume and results of official development assistance via enhanced co-operation. As a landlocked country, increased engagement with regional and international partners is a priority theme of the plan.

Private sector development and enterprise structure

Business environment trends

Despite an impressive economic growth rate over the past 25 years, private sector activity in Lao PDR continues to be hampered by relatively low education levels among the local workforce, cumbersome tax rates and regulations, a high cost of credit, limited infrastructure and rather high barriers to starting a business (WEF, 2017[8]; World Bank, 2017[9]). These conditions, coupled with a "deals-based" approach to business activity and the enforcement of regulations (World Bank, 2017[9]),[10] may discourage productive enterprise outside the primary resource sector, particularly for SMEs.

Medium-sized enterprises cite limited transportation infrastructure as a key constraint to doing business, while small enterprises cite tax rates (World Bank, 2016b[10]). The government has enacted reforms since the 2104 ASPI assessment in order to improve the business environment for domestic and foreign firms. These include changes to the country's tax regime, such as revision of excise taxes, better administration of value-added tax, improved methods of valuing imported vehicles for the purpose of calculating

import taxes and the elimination of tax exemptions for oil imports in public projects (IMF, 2017[11]). Lao PDR also has a preferential tax regime in place for SMEs that aims to reduce the administrative burden of filing taxes: enterprises with an annual revenue of less than LAK 12 million (Lao kip), which are exempt from value-added tax (VAT) payment, are not charged profit tax but instead must pay a lump-sum progressive tax rate of 3% to 7%, depending on revenue and the nature of their activity.

SME sector

A total of 178 557 registered enterprises were operating in Lao PDR as of 2013, of which around 75%, or 134 577, participated in the country's 2013 Economic Census. According to the census, around 99.8% of the participating units, or 124 567, were classified as SMEs. The majority of these were micro enterprises, with those employing five workers or less accounting for 86% of all enterprises. This, alongside data from other surveys (GIZ, 2014[12]), suggests that there may be a "missing middle" in the country's production structure, in common with many other emerging economies in Southeast Asia and beyond.[11] A missing middle may indicate that SMEs face significant barriers to expansion, and this could be compounded by the fact that Laotian enterprises have access only to a small domestic market for goods and services. Surveys suggest that very few private Laotian enterprises export (GIZ, 2014[12]).

Laotian SMEs provide a slightly higher structural contribution to employment than in OECD countries, accounting for around 82.2% of total private-sector employment, according to the 2013 census (LSB, 2013[13]). Data is not collected on contribution to GDP or value added.

Geographically, SMEs appear to be concentrated in the country's three most populous regions – Vientiane prefecture (which accounts for 12.9% of the population and 28.2% of MSMEs), Savannakhet province (15.2% of the population and 11.0% of MSMEs), and Champasak province (9.1% of the population and 9.2% of MSMEs) – with a significant skew towards the capital (LSB, 2013[13]). Small and micro enterprises tend to be concentrated in wholesale and retail trade (46.0% of small enterprises and 69.4% of micro enterprises), followed by manufacturing activities (19.4% and 11.2%) and accommodation and food services (17.5% and 11.2%). Medium-sized enterprises are most present in the same three activities, but are most highly concentrated in manufacturing (28.2%). Medium-sized enterprises also account for the highest number of establishments in mining and quarrying activities (43%) and electricity, gas, steam and air conditioning supply (47.1%), while large enterprises account for 4.7% and 11.0% of total establishments respectively in these sectors.

SME policy

Between 1975 and 1985, the government of Lao PDR adopted principles of central planning with the aim of achieving rapid socio-economic development. During this time, the country nationalised all industry and foreign trade and began the collectivisation of agriculture, with commercial activity by individual persons and private enterprises banned until 1979. This started to change following the introduction of the New Economic Mechanism in 1986, which began to move Lao PDR towards readopting the principles of a market economy. Reforms were begun in three areas: *i)* macroeconomic stabilisation; *ii)* price and market liberalisation; and *iii)* restructuring and privatisation of state-owned enterprises. In 1994, the Enterprise Law provided a legal foundation for private enterprise, including SMEs.

A push for SME development in particular occurred in 2004 with the Decree on the Promotion and Development of Small and Medium Sized Enterprises No. 42/PM. The SME Promotion and Development Committee (SMEPDC) and the SME Promotion and Development Office (SMEPDO) were created at the same time. The first dedicated SME development strategy[12] was elaborated in 2006, and a project on private-sector development, with a focus on SMEs, was begun with the Asian Development Bank (ADB) in 2007.

Many of Lao PDR's institutions and policies for SMEs have their roots in this project, which ran from 2007 to 2009, and particularly in its successor project, the Second Private Sector and Small and Medium-Sized Enterprises Development Programme (PSSEDP), which was implemented between 2009 and 2011. Under the first PSSEDP, a monitoring and evaluations unit was established within SMEPDO to assess implementation of its strategy, and monitoring reports were developed. Under the second PSSEDP, the country's Law on the Promotion of Small and Medium Sized Enterprises (SME Law) was developed and approved (2011), and efforts were made to streamline regulations and to socialise the use good regulatory practices among policy makers. Sub-programme 1 of the second PSSEDP (the general component, under which most of these activities took place) was attached with an ADB grant of USD 10 million and a loan of USD 5 million.

Since completion of these projects, the government of Lao PDR has increased its ownership of SME policy, which is increasingly becoming a priority for policy makers. Implementation of the strategy is partially funded through the central government budget. Development assistance agencies are still active in this area, of which the most dominant are perhaps the ADB, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the World Bank. Aside from horizontal activities, GIZ focuses its interventions on two priority sectors – coffee and tourism – where it believes Laotian SMEs could develop a comparative advantage.

2018 ASPI results

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

SME policies are at a relatively early stage in Lao PDR due to the fact that this has only recently become a policy priority for the national government. Yet the country has benefitted from and successfully co-operated with development assistance agencies[13] in this area since 2007, resulting in a more active and better structured SME policy than in the other CLM countries. The same holds true for measures to simplify the operational environment for SMEs, although substantial efforts will still be required in the areas of e-governance, company registration and filing tax. Lao PDR's scores of 2.89 for institutional framework and 2.40 for legislation, regulation and tax reflect these findings.

Framework for strategic planning, design and coordination of SME policy

The body responsible for formulating SME policy in Lao PDR is the Department of SME Promotion (DOSMEP), under the Ministry of Industry and Commerce (MIC). It succeeded SMEPDC, which had been established in 2004 and was chaired by the Minister of Industry and Commerce and comprised 26 members including 15 representatives of the private sector and 10 representatives of government institutions at vice minister or equivalent level. SMEPDC was responsible for overall co-ordination and formulation of SME development policies, as well as overall co-ordination of

development partner assistance and high-level stakeholder consultation. This committee was disbanded in 2011 following enactment of the SME Law, and its responsibilities were transferred to DOSMEP in a push to increase government ownership of the policy.

DOSMEP is responsible for drafting the country's SME strategy, co-ordinating with line ministries and reporting to the Central Committee. It employs 36 staff but does not yet have local offices in place. SME development policies are supported by the SME Promotion and Development Fund, which was set up in 2011 under the SME Law. This fund receives income from the national budget, international grants or loans, voluntary contributions and service fees. In 2017, the fund amounted to around USD 4 million.

Since 2006, SMEPDC and then DOSMEP have developed a mid-term (five-year) strategy for SME development. The current strategy, the Small and Medium Enterprises Development Plan, runs from 2016-2020. Its main objectives are to promote productivity and innovation, access to finance, business development services, access to markets, entrepreneurship, a favourable business environment and reducing custom and tax costs. These objectives echo the previous five-year strategy's objectives, save the last, which is new. It was developed in consultation with stakeholders including the private sector and government ministries. The strategy was developed in reference to the goals of the five-year Industry and Commerce Sector Development Plan (2016-2020), the 8th National Socio-Economic Development Plan (2016-2020) and the ASEAN Strategic Action Plan for SME Development (2016-2025), as well as the country's commitments under the Sustainable Development Goals. It contains concrete targets in each policy area covered. A budget of LAK 569 billion was assigned for implementation of the 2016 Small and Medium Enterprises Development Plan. Of this, 16.9% was projected to come from domestic sources (the government budget and the private sector) and 83.2% from development assistance agencies. The SME Development Plan was endorsed by a Prime Ministerial Decree on 18 January 2017.

An SME monitoring unit within DOSMEP specifies performance targets and monitors implementation of the strategy, although it faces capacity constraints. SME data are in principle collected every five years via an economic census, and every two years via an enterprise survey conducted by GIZ. The economic census is carried out by the Lao PDR Statistics Bureau, which employs a mixed approach due to capacity constraints (particularly budgetary) and a high rate of enterprise informality. Data on large enterprises are collected via a census, and a sample of informal enterprises is studied via a household survey. Data collected in the economic census therefore may not be fully representative, and the data from the last census (2013) are not yet available to the public. Data are not collected on SME contribution to GDP or value added.

Scope of SME policy

A legal SME definition was developed in 2011 under the SME Law. It disaggregates micro, small and medium-sized enterprises, and includes indicators of both value and employment to determine firm size. However, it applies different thresholds by sector, as well as two indicators of value (turnover and assets), which may reduce its ease of use. It is only necessary to use one of these indicators to classify firm size, and therefore the definition may not be used consistently through different government agencies, despite being gazetted in law. Its upper threshold in the employment criterion is also rather low (an upper threshold of 200 employees is typical across the OECD), but this is common in many smaller economies.

Table 15.2. Lao PDR's SME definition

Size classification	Indicator	Unit	Sector		
			Manufacturing	Trade	Services
Micro	Turnover	LAK mn.	⩽400	⩽400	⩽400
	Assets	LAK mn.	⩽100	⩽150	⩽200
	Employment	Persons	1-5	1-5	1-5
Small	Turnover	LAK mn.	⩽3000	⩽3000	⩽1500
	Assets	LAK mn.	⩽1000	⩽1000	⩽1000
	Employment	Persons	6-50	6-50	6-50
Medium	Turnover	LAK mn.	⩽4000	⩽6000	⩽4000
	Assets	LAK mn.	⩽4000	⩽4000	⩽6000
	Employment	Persons	51-99	51-99	51-99

High informality rates may exclude a large number of SMEs from policy interventions. Data from international sources on informality in Lao PDR are scarce, but DOSMEP's 2016 Small and Medium Enterprises Development Plan estimates that 86% of the country's enterprises are either micro enterprises that operate informally or family businesses without proper business registration. There are few programmes in place to tackle informality, save some measures to streamline and enhance company registration procedures.

Development of legislation and regulatory policies affecting SMEs

The development of laws and regulations in Lao PDR is governed by the Law on Making Legislation No. 19/2012. This law stipulates that draft laws will be circulated to a range of stakeholders including the private sector, complete with an explanatory note and an impact assessment, and that the Ministry of Justice will only consider laws submitted with these two documents attached. Lao PDR is still in an early phase of simplifying regulations that may impact small businesses and of applying good regulatory practices (GRPs). However, the country has a relatively embedded practice of public-private consultation, and has been developing tools and programmes to socialise the use of RIA among regulators since 2009.

Many activities to foster GRPs took place as part of the ADB's Second Private Sector and Small and Medium-Sized Enterprises Development Programme (2009-11). As part of this programme, an inter-ministerial RIA task force was established in 2009, headed by MIC. The task force drafted a national RIA strategy and a five-year action plan to institutionalise a regulatory review process across government. A pilot RIA programme and implementation unit were established within MIC. This unit developed a set of RIA guidelines and selected a set of legislations that would go through the RIA process between 2010 and 2011. To facilitate more systematic and active dialogue between government and the private sector, a number of provincial private–public dialogue forums were established.[14] Under this programme, both RIA and public-private consultations had a focus on SMEs.

Since completion of this project, the use of RIA has been continued and extended. However, the capacity to conduct a rigorous assessment remains rather low and in practice rarely includes consideration of SMEs. This move away from an SME focus is demonstrated by the decision in 2015 to transfer the RIA unit from the MIC to the Ministry of Justice. Impact assessments now consider broad economic impacts, social impacts and government impacts over a five-year horizon. Likewise, public-private

consultations generally take place through national chambers of commerce, and these consultations do not strategically select or strongly represent SME stakeholders.

Company registration and ease of filing tax

Launching a company is relatively burdensome in Lao PDR. Eight types of company are recognised in the company register, of which the most common is a sole proprietorship. Launching a company currently takes around 67 days, costs 3.4% of income per capita and involves eight procedures.[15] None of these steps can be fully completed online, and the applicant must interact with 11 different agencies (more if it is an agricultural company).[16] Registering to pay VAT is a particular bottleneck as it takes around three weeks (World Bank, 2017[9]). Measures could be taken to streamline this procedure. Currently the registration of domestic companies falls under the institutional mandate of the MIC's Enterprise Registration and Management Department. This department and the Tax Department (Ministry of Finance) currently use different company identification numbers, but there is a plan to consolidate these two numbers into one. First, however, the Tax Department must reform its information and communications technology (ICT) systems to be compatible with the Enterprise Registration Department; a project is ongoing to achieve this. Lao PDR currently has only two one-stop shops to consolidate business registration, both of which are in the capital. One is for domestic companies (within the MIC) and the other for foreign companies (within the Ministry of Planning and Investment).[17] Some Lao enterprises are known to the authorities but only partially registered. This is because enterprises can select to register with provincial district centres in lieu of the MIC, and these centres are then required to share this information with the ministry. Such centres are currently operating in 147 districts (all save one), but only 32 districts have sufficient ICT systems in place to synchronise this information with the ministry, and therefore only these centres can issue licenses.

Tax filing is also rather burdensome. To comply with tax filing regulations, a company must file 35 payments per year, taking 362 hours on average, although a relatively low rate of tax is applied by international standards, at 26.2% of total profits. Steps could be taken to streamline the payment of VAT, which currently takes 219 hours, or about 60% of the total time required to file tax.

E-governance facilities

E-governance platforms are at an early stage of development in Lao PDR. The country's Law on Electronic Transactions (2012) could be extended to the use of e-signature, though this may require further enhancements. Two institutions have undertaken activities to develop e-governance platforms, the Ministry of Science and Technology and the Ministry of Post and Communications, and this may limit their coherence. Financial support to develop e-governance platforms is being sought from development assistance agencies.

Facilitating SME access to finance (Dimension 3)

Lao PDR has a relatively underdeveloped financial sector according to global indicators. It is ranked 75th for financial market development by the World Economic Forum (WEF, 2017[8]) and 77th for ease of getting credit by the World Bank (World Bank, 2017[9]). The country receives higher scores than its mean for the legal rights index and affordability of financial services, but its overall score is substantially diminished by a low performance on indicators of access to and regulation of equity instruments, as well as bank soundness.

SMEs may find it difficult to access formal external finance and a relatively limited range of products are available. When loans are extended, collateral requirements are very high, averaging 275.9% of the value of the loan in some surveys (World Bank, 2016b[10]), and there are few measures in place to address this. Overall, the country has a low level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at only 20.9% of GDP in 2010, the last date for which data is available (World Bank, 2016a[2]). The country's Dimension 3 score of 2.36 reflects these findings.

Legal, regulatory and institutional framework

For debt financing, facilities to assess and hedge against credit risk are available but still in an early phase. A credit information registry, the Credit Information Bureau (CIB) of Bank of Lao PDR (BOL), was created in 2010, but it still covers only around 11.2% of the population (World Bank, 2017[9]).[18] The BOL is currently in talks with international financial institutions to reform its credit reporting system, for instance by allowing for the creation of private credit bureaus. Financial institutions also face limitations in utilising contracting elements such as securitisation to mitigate credit risk. The government has enacted a series of reforms to enhance its secured transaction framework, notably via the 2005 Law on Secured Transactions No. 06/NA, which permitted security over movable property, including intangible property (such as intellectual property) by way of a pledge,[19] and the 2011 Decree on the Implementation of the Secured Transaction Law No. 178/PM, which eliminated a requirement to register the asset with a notary and created an online movable assets registry, the Registry Office for Security Interests in Movable Property. However, issues remain with enforcement. In order to ensure full enforcement, it is still necessary to be notarised,[20] and effective debt resolution is hindered by the lack of a court system and the outdated Law on Bankruptcy of Enterprises. A cadastre is in place, but a large share of land property is not formally registered[21] and the vast majority of land rights are still transferred in informal markets (OECD, 2017[14]). Digitisation of the cadastre is at an early stage.

For equity financing, the country has had a stock market since 2012, the Lao Securities Exchange (LSX), but it remains relatively shallow and illiquid. Only five companies are currently listed on the LSX, with a combined market capitalisation of around USD 1.34 billion as of March 2017 (OECD, 2017[14]). The first company to be listed on the exchange was Electricité du Lao PDR-Generation Public Company, which accounts for more than 80% of the exchange's market capitalisation. Given the bourse's limited depth and turnover, it makes sense that a specialised SME platform has not yet been established. Consequently, no public programmes are in place to facilitate the listing of SMEs.

Sources of external finance for MSMEs

The government has a few instruments in place to stimulate bank lending to SMEs. One of its main instruments is the Lao Development Bank (LDB), a specialised government-owned development bank that was formed through merger in 2003 to address the missing market and that was transformed in 2008 to focus on SME lending. In addition, credit lines are provided for SME lending, and associated loans are extended with an interest rate cap. Through the SME Promotion and Development Fund (SPDF), the LDB can provide loans to SMEs at a capped interest rate of 9%-10% per annum. Between 2012 and 2018, this scheme provided loans worth LAK 52.7 billion to 128 SMEs. Between 2016 and 2018, the SPDF and the World Bank also co-financed a scheme to provide a credit line to three banks (ST Bank, Sacom Bank and the Lao-China Bank) for SME loans

capped at a low interest rate of 3%-4%. There is no public (or private) credit guarantee scheme operating in the country, although DOSMEP and the BOL are currently looking into developing one, perhaps financed through the SPDF. There is no government-sponsored export financing schemes.

One of the main sources of external financing for MSMEs is microfinance, provided through the country's wide network of village banks. These institutions were originally set up by NGOs and donor agencies after the country began to open up in the 1990s, and they have proliferated since then. Accurate data on the village banks are scarce. But according to estimates, members numbered around 430 000 (6% of the Laotian population) in 2011 and they held an aggregated loan portfolio of around USD 37 million (GIZ, 2012[15]). There are few programmes to increase regulatory oversight of these institutions or to support other financial institutions in providing microfinance products.

Leasing products are becoming increasingly available in Lao PDR, with the number of specialised leasing companies increasing from 9 in 2013 to 30 by 2017.[22] However, they are mainly used to purchase consumer goods, particularly automobiles, and are not commonly used by SMEs to secure corporate credit. Leasing companies are regulated by the BOL. Other asset-based instruments are available but they operate at a relatively low volume, partially due to difficulties in liquidating assets.

Equity instruments are very scarce in Lao PDR, but this is mainly due to a lack of viable business ideas and of founders able to pitch convincingly in English. There are no private equity/venture capital (PE/VC) firms based in the country, but start-ups can still access funds, particularly those focused on the Mekong region, such as the Mekong Angel Investors Network or various initiatives of the Mekong Business Initiative. There are no government programmes in place to stimulate PE/VC financing, but this is wise given the limited mass of such firms as well as the need to address more pressing issues. No regulatory framework for PE/VC financing is in place.

Enhancing access to market and internationalisation (Dimension 4)

With a score of 2.45 for this dimension, Lao PDR is still at an early stage of developing policies to improve SME market access and internationalisation. Since joining the World Trade Organization (WTO) on 2 February 2013, Lao PDR has conducted policy reforms to conform to WTO agreements and create a favourable environment for business operations and attracting investment. Particular emphasis has been given to reducing trade procedures and promoting transparency and predictability in importing and exporting goods. Nevertheless, support for SMEs needs to be strengthened in many areas of business internationalisation.

Export promotion

Lao PDR has shown increasing concern to promote the growth of SMEs, including by exporting their products. Through the 2011 SME Law,[23] the government encourages all sectors to support SME access to markets. Initiatives to promote SME exports have mainly been channelled through MIC, via DOSMEP, the Department of Import-Export and the Department of Trade Promotion.

Nevertheless, Lao PDR is still developing strategies to expand its SMEs' access to international markets and to enhance their competitiveness in export activities. Many export promotion initiatives for SMEs are still fragmented and rely on support from foreign donors. In February 2017, the country's first SME Service Centre was established

at the office of the Lao National Chamber of Commerce and Industry (LNCCI), at a cost of USD 100 000. The service centre provides SMEs with updates on market information and connectivity through seminars and training sessions, with support from a Lao-German co-operation project known as the Regional Economic Integration of Lao PDR into ASEAN, Trade and Entrepreneurship Development (RELATED). In December 2017, Germany's GIZ organised a review of implementation of the RELATED project. In another example of support activities, an Effective Export Marketing Workshop was conducted in October 2017 by the Hinrich Foundation, in partnership with World Wide Fund for Nature-Lao PDR, to improve the knowledge and practical skills of SMEs for promoting their products overseas (Keopaseuth, 2017[16]).

The government has also engaged SMEs in trade fairs to expose them to opportunities to gain greater market access and product awareness. For example, the MIC co-organises an annual Lao-Thai Trade Exhibition/Thailand Week in Vientiane with Thailand's Department of International Trade Promotion to display products from Lao and Thai SMEs. The 2015 exhibition was followed by short vocational training sessions run by experienced trainers from Thailand's Nong Khai Vocational College and designed to build the capabilities of Lao SMEs to develop their products. In September 2017, an Indonesian Trade and Tourism Fair was conducted in Vientiane as part of a set of events to mark the 60th anniversary of diplomatic relations between the two countries (KPL, 2017[17]). The event, which displayed SME products from both countries, featured a workshop on product packaging for Lao SMEs and a batik workshop to introduce Indonesian cultural heritage. Such exposure can help SMEs to expand their knowledge about overseas markets and establish business connections with overseas trading partners.

Integration to GVCs

Lao PDR articulated its commitment to facilitate SME integration into global value chains (GVCs) in its 2011 SME Law.[24] Under the law, SME integration into GVCs is to be achieved through foreign investment projects to encourage local materials sourcing and transfer of technology and skills to local SMEs, and through the development of business clustering. Specific strategies and actions to establish SME linkages with GVCs were not mentioned.

As of January 2016, the country had established three special economic zones (SEZs) and 10 specific economic zones and was preparing to develop another specific economic zone in Hadxaifong district near the Thai border (The Nation, 2016). In August 2017, the government invited a Chinese company, Guangdong Yellow River Industrial Group, to conduct a feasibility study on development of the Khonphapheng SEZ in Champasak province (Xin, 2017[18]). The Pakse-Japan SME SEZ is also in Champasak province, which borders on Thailand and Cambodia. Developed since 2015 by Nishimatsu Construction Co. Ltd. and Savan TVS Consultant Co. Ltd., it aims to provide business clustering for small businesses.

The government has so far focused on attracting large-scale investors to invest in the country's SEZs, mainly through tax exemption schemes, rather than defining ways to foster SME integration into GVCs through SEZ development. As of April 2017, 239 foreign companies had a presence in Lao SEZs, compared to 57 companies owned by Lao private entities and 22 joint ventures. The new Law on Investment Promotion,[25] enacted in 2016, does not specify any measures to promote SME linkages with larger companies and multinational corporations (MNCs) or technology and skills transfer from such companies to SMEs. In its 2017 Investment Policy Review on Lao PDR, the OECD

noted that SEZs had the potential to play a key role in transforming the economy and that measures should be taken to encourage linkages between MNCs and SMEs.

Initiatives with the potential to establish business linkages between Lao SMEs and MNCs have emerged with support from foreign donors. Some are aimed at attracting foreign SMEs to expand into Lao PDR and at promoting business matchmaking with Lao SMEs. In July 2016, for example, Thailand's Krungsri (Bank of Ayudhya PCL) organised a programme for Thai SMEs and entrepreneurs to do business in Lao PDR through a business matching event called "Krungsri Business Journey: The Opportunity in Lao PDR" (Krungsri, 2016[19]). In March 2017, an event called "The Lao PDR-China Roadshow for Bank of China SMEs Cross-Border Trade and Investment Conference" was held to present a Chinese service to enhance linkages between Lao SMEs and Chinese businesses. The event, held in Vientiane, was organised by SMEPDO, the LNCCI and Bank of China.

Use of e-commerce

E-commerce is still in an early development phase in Lao PDR, and the country does not yet have a full set of laws to regulate e-commerce activities. As of December 2016, Lao PDR had an estimated 1.5 million internet users, or about 22.1% of the total population, according to Internet World Stats. It has a Law on Electronic Transactions, but its Law on Consumer Protection does not yet cover e-commerce. More specific laws on e-commerce are under consideration.

Nevertheless, several initiatives have been taken to promote the use of e-commerce among Lao SMEs. A key initiative is Plaosme, an e-commerce platform launched in August 2017 to support Lao SMEs in their e-commerce and export capability. The platform was developed under the Lao SME Export and E-commerce Development (SEED) project by DOSMEP and the MIC's Department of Trade Promotion, in collaboration with the LNCCI. It offers a digital marketplace, business matching and access to trade associations across ASEAN, among other services. Although registration is free for Lao SMEs, many Plaosme services are not free of charge. Use of the programme is picking up steam, with the number of registered companies increasing from 48 in February 2018 to 118 in March 2018, according to the *Laotian Times*, which added that 72 of the registered companies were owned by women.

Another initiative to facilitate e-commerce is the e-payment service of Banque pour le Commerce Extérieur Lao (BCEL), a state-owned commercial bank. Since 2013, BCEL's e-payment service has been the only financial technology available in the country. In co-operation with CyberSource, a California-based e-commerce credit-card payment system, BCEL provides an online payment service that allows businesses to accept online payments at any time from anywhere around the globe. Lao PDR may soon enjoy another e-payment service: Thailand's currency exchange company, SuperRich, has confirmed that it is working on a digital platform for foreign exchange, cash transfers and payment services and that it is seeking approval from the Lao authorities (Fintech Singapore, 2017[4]).

Quality standards

Lao PDR is working to develop infrastructure to promote quality standards compliance. The Department of Standardisation and Metrology (DOSM) was established in 2011 under the Ministry of Science and Technology and is now a participating member of International Organisation for Standardisation (ISO). A technical agency called the Lao

National Accreditation Bureau (LNAB) is currently being formed within DOSM, according to the Lao Trade Portal. LNAB will participate in International Laboratory Accreditation Co-operation and the International Accreditation Forum. It will seek candidates to become certified accreditation assessors. Selected candidates will receive training and be certified in accordance with international requirements. The Lao Trade Portal also provides information on national standards.

As the national standardisation system is still being developed, initiatives to support SME compliance have not been defined. But capacity-building activities on quality standards development and compliance have emerged under the National Quality Infrastructure framework, part of the Trade and Private Sector Development Roadmap developed with support from the Enhanced Integrated Framework.[26] In May 2015, a one-day workshop for SMEs was held in Vientiane on quality management and how to help SMEs to generate more revenue, implement quality activities and improve product safety. DOSM staff have participated in other workshops on quality standards. On food safety standards, LNAB will establish a food administration and inspection system in co-operation with Nakhone Sup Group Sole Co. Ltd., a Lao private enterprise, under a memorandum of understanding (MoU) signed in February 2017 (Xinhua, 2017[20]).

Trade facilitation

Lao PDR, which is still in the development phase of trade facilitation, garnered low scores in the 2017 OECD Trade Facilitation Indicators (TFIs) used in this 2018 ASPI. Nevertheless, the country has moved forward with trade facilitation programmes. It established the Lao National Single Window (LNSW) under the Ministry of Finance, the MIC and the Lao Customs Department, and has worked to develop the LNSW and integrate it within the ASEAN Single Window (ASW) through the US-ASEAN Connectivity through Trade and Investment (US-ACTI) project. Lao PDR has also installed Asycuda, an automated customs management system, at 11 of its international border check points, such as the Thanaleng border post and the Namphao International border check point, with support from the World Bank and other donors. Asycuda is being developed to be rolled out to all border posts nationwide. An Authorised Economic Operator (AEO) programme is being implemented.

Lao PDR has established a National Committee on Trade Facilitation, which is chaired by the prime minister; the MIC serves as its secretariat. In 2017 the country adopted a Trade Facilitation Roadmap for 2017-2020. This Roadmap aims to reduce time and costs in business operation through one-stop inspection, improved LNSW service, the AEO programme and linkage of customs clearance with neighbouring countries. The roadmap has six strategies for facilitating trade: *i)* developing institutional mechanisms for effective co-ordination among line departments; *ii)* strengthening governance structure at the subnational level for improved communication, implementation and monitoring of trade facilitation measures; *iii)* cross-border co-operation and regional integration; *iv)* collaboration with the private sector; *v)* promoting simplification of procedures through a one-stop inspection service that has been initially implemented by the Trade Facilitation Secretariat; and *vi)* full implementation of the WTO's Trade Facilitation Agreement. Many of Lao PDR's trade facilitation programmes are financed under the multi-donor Second Trade Development Facility Project (TDF 2).

The Lao Trade Portal plays a key role in promoting transparency and predictability in cross-border trading. It is home to the National Trade Repository, which disseminates information on tariff nomenclature, rules of origin, non-tariff measures, administrative

rulings and national trade and customs laws and rules. It also serves as an enquiry point and a one-stop source on the basic steps of import and export procedures. Despite its progress on developing trade facilitation infrastructure, Lao PDR still lacks measures and initiatives specifically aimed at helping SMEs to deal with customs procedures. Integrating a support system for SMEs within the trade facilitation framework could facilitate SME growth beyond domestic borders and help Lao businesses to thrive in global trade.

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

Lao PDR is seeking to promote productivity and productive agglomerations, but the actions it has taken correspond to the resources currently available in the country. The economy suffers from low labour productivity and an inadequately educated workforce. This affects not only the quality of jobs but also the country's capacity to attract investment. While real wages have continuously risen over time, labour productivity has not improved, affecting firm-level competitiveness. Low productivity also affects the development of SMEs and hinders the creation of business linkages with foreign affiliates. Although some good initiatives are in place, more could be done in this area. Lao PDR's Dimension 1 score of 2.76 indicates that some policy work has taken place, but that further efforts, especially related to implementation, would be welcome.

Lao PDR has only recently started to develop policies related to the greening of SMEs, although this subject has traditionally been important in the country. With a Dimension 2 score of 1.94, the country is still at an early stage of policy development in this area.

Productivity measures

DOSMEP, under the MIC, is the main policy development and implementation agency for national productivity, including SMEs. DOSMEP also functions as the country's National Productivity Organisation, which co-ordinates with the Asian Productivity Organisation. Productivity growth is at the core of the 8th National Socio-economic Development Plan 2016-2020 as well as the SME Development Plan 2016-2020. DOSMEP co-operates with the Ministry of Science and Technology, Ministry of Education and Sport, the LNCCI, academic institutions and line ministries in the implementation of productivity-related programmes for SMEs. Private-sector consultations took place during the policy development process.

The government promotes SME productivity and innovation by seeking to make working methods more industrial and more creative. Policies include: enhancing the efficiency of production and service management; providing matching grants of up to 50% to support investment in technology transfer; training and dissemination of information on new innovations in production management, product design and development; and production and services improvement. DOSMEP provides training and consultancy to SMEs regarding productivity enhancement. In addition, it assists entrepreneurs to be trained abroad to improve the quality of products, but mainly in the agro-food sector. However, the budget for productivity enhancement programmes is limited and is mostly funded by donors, and existing programmes cover only a limited number of SMEs. Furthermore, there are no clear government key performance indicators (KPIs) on productivity.

Business development services

The government has a policy that specifically addresses business development services (BDS) for SMEs and would-be entrepreneurs, but there is no dedicated strategy. The SME Development Plan 2011-2015 had a specific focus on BDS. The new plan for 2016-2020 aims to increase the ratio of SMEs that have received BDS from 4.28% in 2013 to 30% in 2020. DOSMEP is the main policy-making body for BDS services.

In terms of implementation, DOSMEP has a government budget for BDS that is approved annually, but it is limited and donor funding plays an important role. The main programme, the Business Assistance Facility, offers advice on business growth plans and covers up to 50% of associated costs. At least 228 companies have benefitted from this programme. The Lao-India Entrepreneurship Development Centre has implemented a training course on New Enterprises Creation offering capacity building and support with business plan development, mainly for students. The government provides online information on the most relevant programmes and has developed a list of institutions and experts on the provision of support and services. A pilot SME Service Centre was established in 2017 in Vientiane by DOSMEP, the MIC, and the LNCCI, in co-operation with GIZ.

Productive agglomerations and clusters enhancement

The recently amended 2016 Investment Promotion Law provides the legal basis for the establishment and development of Special Economic Zones in Lao PDR. The SEZs consist of industrial zones primarily focusing on the ICT, services, trade and tourism sectors.

Lao PDR scored 85% in the 2014 ERIA FIL assessment, an increase of five percentage points since 2011. Despite improvements in foreign investment liberalisation, it is still below the ASEAN median. Lao PDR is one of three countries in ASEAN where the agriculture and natural resources sector is more open than the manufacturing sector. Currently, there are two active SEZs in the country. Few linkages between foreign affiliates and local firms currently exist, notably due to the type of FDI attracted and the lack of absorptive capacities of local SMEs (OECD, 2017[14]). Also, most companies currently operating in Lao PDR's SEZs are foreign-owned, and their links with local enterprises, including SMEs, could be further enhanced. Incentives for special economic zones and specific economic zones are in compliance with the Decree on the Establishment and Activities of respective zones (areas). They include corporate tax exemption from four to ten years for zone 1 in the agriculture, industry, handicraft and service sectors. There are also some non-fiscal incentives such as immigration benefits for foreign investors. Monitoring mechanisms are very limited and KPIs have not been developed.

Technological innovation

A specific innovation strategy is under development in Lao PDR. The country's current Science and Technology Strategy (2016-2025) mainly covers innovation-related issues and includes six action plans, including a Technology and Innovation Action Plan. This plan, which was developed by the Ministry of Science and Technology (MST), does not have a focus on SMEs. The Department of Intellectual Property at MST is a dedicated agency for technological innovation and plans to establish Technology Innovation Support Centres (TISCs). MST also has a goal to develop sustainable innovation infrastructure.

The Department of Technology and Innovation is the body responsible for implementation and co-ordination with relevant stakeholders. However, its resources are limited and its staff of only 44 covers the entire country. There are currently no government-funded programmes to support innovative SMEs. Only ad hoc activities have taken place, mainly in partnership with donors and focused on awareness raising and incubation support through donor assistance (GIZ). Some academic institutions promote technology transfer and are trying to develop curricula on the promotion of technologies. The only infrastructure in place for local SMEs is LIBIC, an information technology business incubation centre managed by the Faculty of Engineering at the National University of Lao PDR. The centre was set up with donor support (JICA). There is a plan to establish innovation demonstration centres in three regions.

The intellectual property rights (IPR) framework in Lao PDR is still under development, but matters are improving. A comprehensive intellectual property law has been in place since 2012 covering most areas of IPR. Protection and enforcement of IPR is still relatively weak. However, the law offers a fairly efficient system for registration of most major IPR. A recent advance was the enactment of an MST decision on the implementation of geographical indications under the Law on Intellectual Property.

Environmental policies targeting SMEs

Lao PDR is still developing environmental policies targeting SMEs. Several national plans – the National Socio-Economic Development Plan 2016-2020, the National Tourism Plan 2016-2020 and the Agriculture Plan – will impact SMEs, but they do not lay out environmental policies for them and do not include policies that specifically support the greening of SMEs. Other national plans, which focus on environmental sustainability, target larger enterprises and are less likely to impact SMEs. These include the Environment Protection Law, which sets standards for natural resource use and provides for the use of clean technology and good practices for waste generation and disposal, and the National Renewable Energy Strategy, which establishes targets for renewable energy.

Since mid-2017, the government has worked with the World Bank to conduct its First Programmatic Green Growth Development Policy Operation. The project supports the development of a national strategy for green growth and the mainstreaming of green growth principles across the national development strategy. The green growth plan that results from this project is an exciting opportunity to support the greening of SMEs.

Incentives and instruments for green SMEs

Lao PDR currently has no regulatory incentives to support the greening of SMEs and, as noted above, its approach to environmental regulation targets larger projects rather than SMEs. However, this may change as the country updates its approach to environmental regulation and support for green growth. In terms of financial incentives and support schemes, the government has provided some funding for enterprise greening, but this is not specifically targeted at SMEs. A number of projects have been developed through the SWITCH-Asia programme funded by the EU, including support for eco-labels in specific sectors, sustainable supply-chain management and cleaner production. Greening also plays a role in some donor-funded projects. Under the Lao PDR-World Bank Small and Medium Enterprise Access to Finance Project, for example, participant SMEs must fulfil certain environmental criteria prior to being granted a loan. Recently, the SME Promotion

and Development Fund signed an MoU with the Lao Viet Bank to provide loans to SMEs under this project, and again only environmentally friendly SMEs can participate.

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

Nearly 60% of Lao PDR's population is under 25 years old, according to a 2015 estimate by the United Nations Population Fund (UNFPA), making human capital development an important element to unlock the country's growth potential (UNFPA, 2015[21]). As the large majority of businesses in Lao PDR are SMEs, it is essential for the country to increase its commitment to invest in entrepreneurial education and skills promotion. Lao PDR relies heavily on donor support to promote entrepreneurship and is in a developing phase of elaborating its own support policies. This is reflected in its Dimension 7 score of 2.29. In Dimension 8 on social enterprises and inclusive SMEs, Lao PDR scores only 2.05, placing it at an early stage of policy development in this area as well.

Entrepreneurial education

Lao PDR has been developing its education system to improve integration of entrepreneurial learning (EL) elements, in recognition of the importance of nurturing entrepreneurial mindsets and skills from an early age. Developing quality human resources with high skills and professionalism to respond to the demand for entrepreneurs is a main objective of the latest Education and Sports Sector Development Plan (2016-2020) of the Ministry of Education and (MoES, 2015[22]). The plan aims to enhance lower secondary curricula to include adequate content on basic vocational and entrepreneurship by developing manuals and instructional materials. It encourages entrepreneurs to participate in aligning national curricula standards and the national education qualifications framework with business-world requirements. In addition, the latest SME Development Master Plan 2016-2020, developed with World Bank support, outlined New Entrepreneur Creation and Development as a key focus area.

Entrepreneurship education development has received support from multiple foreign donors. An example is the introduction of EL elements through the Know About Business (KAB) package. Developed with support from the International Labour Organisation (ILO) and adopted by Lao PDR's Ministry of Education and Sports in 2010, KAB has been rolled out through the national curriculum for upper secondary schools. In partnership with the Lao-India Entrepreneurship Development Centre (LIEDC), teacher training courses have been conducted to deliver the KAB package. The latest KAB training session, on 24-28 July 2017, was attended by 39 participants. It is difficult to determine how KAB has been implemented in schools, as monitoring and evaluation information has not been published. Other donors have supported vocational education. The Korea International Co-operation Agency provided grant aid amounting to USD 5 million to facilitate skills development via a 2017-2020 project to improve the Lao-Korea Skills Development Institute, while Lao-German co-operation programmes supported the development of Vocational Education and Training schools in Sayaboury and Houaphan in 2013.

In 2016, the ADB proposed the second Strengthening Higher Education Project (SHEP) to build on the achievements and lessons learned from the first SHEP in 2009 (ADB, 2009[23]). The project introduced innovative approaches to improving higher education in Lao PDR. The second SHEP, with a focus on entrepreneurship training, was to provide support to four public universities: Champasak University, National University of Lao

PDR (NUOL), Savannakhet University and Souphanouvong University. It aims to develop standards, curricula and instructional materials for entrepreneurship programmes and to train relevant administrative and academic staff by 2018. Laotian universities have shown increased awareness of developing EL on their campuses. A delegation from NUOL, a leading university in Vientiane and a partner of the Greater Mekong Sub-Region Academic and Research Network (GMSARN) and the ASEAN University Network (AUN), recently visited Kobe University in Japan to discuss entrepreneurial training and the possibility of future co-operation (Kobe University, 2017[24]).

Entrepreneurial skills

Despite rising awareness in Lao PDR of the importance of fostering entrepreneurship knowledge and skills, initiatives and activities have been fragmented, with heavy reliance on donor support and partnerships with foreign entities. One notable initiative to enhance Laotian entrepreneurial skills is through training courses and other capacity-building activities under LIEDC. Established under the India-ASEAN Fund and inaugurated in Vientiane in 2004, LIEDC has since trained Lao entrepreneurs to set up small and medium-scale businesses, with ILO support to ensure the training quality. Examples of capacity-building activities under LIEDC include New Enterprise Creation training in December 2017 and a three-month training course on entrepreneurship conducted in March 2017. However, the mechanisms for aspiring entrepreneurs to participate in the LIEDC training sessions are not clear. It is also not clear whether any incentives for participation, like training grants, have been introduced.

Other initiatives to increase skills among Laotian entrepreneurs are taking place under ASEAN-wide co-operation schemes. For example, the ASEAN SME Academy has sponsored capacity-building activities. The academy is a multi-stakeholder collaboration under the US-ASEAN Business Alliance, with support from the US Agency for International Development (USAID) and the US-ASEAN Business Council. In October 2016, a two-day training-of-trainers programme took place in Vientiane with representatives from the Young Entrepreneurs Association, LIEDC and other organisations. Another initiative is sponsored by the ASEAN Centre of Entrepreneurship (ACE) platform. The first start-up support services platform in ASEAN, ACE provides key services to help SMEs grow their business. The platform is supported by the Malaysian Global Innovation and Creativity Centre (MaGIC) and has operated throughout ASEAN. Support provided under ACE in Lao PDR includes co-working space and start-up assistance by Asiastar, business incubation services by the Lao IT Business Incubation Centre and a community for entrepreneurs by the Young Entrepreneurs Association of Lao PDR.

Social entrepreneurship

Social entrepreneurship is a relatively new concept in Lao PDR and there is no formal shared definition for social enterprise. The National University of Lao PDR has conducted studies covering the concept of social enterprise. Social development is covered by the 8th National Socio-economic Development Plan (2016–2020), but social enterprises are not mentioned directly. Decrees on the establishment of associations and international non-profit organisations were issued in 2009 and 2010 respectively, and more than 30 organisations have since registered with the Ministry of Home Affairs as an association or foundation. It is not clear which ministry would have a mandate to cover social enterprises in Lao PDR. The Ministry of Agriculture has a mandate to cover co-operatives.

Although government actions have not been identified yet, private initiatives have taken place. Several social enterprises are operating in the country, but they had to be registered as for-profit organisations. One example is Xaoban, a social enterprise in Vientiane that produces high-quality food products using local ingredients and, according to its website, supports local farmers and "socially marginalised people from across the country". The Participatory Development Training Centre (PADETC) provides capacity building for non-profit organisations to improve the skills of small businesses. PADETC manages a Small Grants Fund, supported by Oxfam Novib. Grants of USD 5 000 to USD 10 000 are available for institutional strengthening and programme support, especially in the areas of agriculture, education and youth development. Actions have also been taken by associations. For example, the Lao Business Women's Association organised a workshop on Women Social Entrepreneurship Development in 2015.

Inclusive entrepreneurship

Lao PDR has a number of policies for promoting women entrepreneurship. In 2006, it developed a National Strategy for the Advancement of Women 2011-15 (NSAW). The National Commission for the Advancement of Women in Lao PDR, which oversees the strategy, is the focal point for gender mainstreaming within the government. The Lao Women's Union, the main policy development body on women's entrepreneurship, has begun preparing NSAW for the 2016-2020 period. Few implementation activities have taken place, but there is a plan to establish a Women's Entrepreneurship Development Centre in Vientiane with the support of USAID. The centre is expected to provide a space for women to learn the skills they need to start and develop a business. It is being planned by the Lao Women's Union, the Lao Handicraft Association, the LNCCI, the Lao Business Women's Association and the Lao Microfinance Institution. Microcredit institutions are present in the country and are active with women entrepreneurs.

Lao PDR has identified the promotion of youth entrepreneurship as a policy priority under the country's SME Promotion Law and its SME Development Plans for 2011-15 and 2016-20. There are currently a few programmes in place, and the Lao Youth Union has been designated as the main policy co-ordination body. Initiatives are generally organised by LIEDC (under the Higher Education Department of the Ministry of Education and Sport), or by the Young Entrepreneurs Association of Lao PDR. These typically take the form of awareness-raising and capacity-building events, or the provision of mentorship support. A few years ago the government launched a pilot STEPS project (2011-13) with the World Bank, which focused on supporting 200 young entrepreneurs, mainly women, with a particular focus on career counselling.

The Ministry of Labour and Social Welfare is the main co-ordination body for developing policy for the promotion of entrepreneurship for persons with disabilities (PWD). Although there is no dedicated strategy, the Lao Disabled Women's Development Centre is relatively active and provides training to some 30 participants a year on issues including entrepreneurship. This work is based on the previous projects INCLUDE and WEDGE supported by the ILO.

The way forward

Strengthening the institutional, regulatory and operational environment

Lao PDR has a rather strong institutional framework for SME policy, particularly given its income level, but the operational environment for SMEs is still fairly burdensome. Going forward, Lao PDR could:

Institutional framework for SME policy

- **Enhance SME statistics.** Access to reliable data on Lao PDR's enterprise population will be a crucial element for designing and delivering targeted SME policies. To increase the accuracy of these statistics, Lao PDR could seek technical assistance from international or bilateral agencies with demonstrated expertise.
- **Consider reviewing the country's SME definition.** The fact that Lao PDR includes three criteria and three sectors in its SME definition decreases its ease of use and its likelihood of being applied consistently through the public administration. The government could consider setting up a working group to review and potentially update the definition, taking into account administrative capacity and the current structure of Laotian firms.
- **Consider re-establishing an SME policy committee.** SME policies are gaining high-level traction in Lao PDR, but awareness and co-ordination of targeted SME policies remain limited, partially due to capacity constraints. Lao PDR could use the current high-level interest in SME policy to re-establish an SME policy committee. This type of institution can play an important role in co-ordinating and sequencing policies, ensuring high-level and inter-ministerial engagement and co-ordinating interventions with development assistance agencies.

Legislation, regulation and tax

- **Send key officials to study the use of RIA in other AMS.** Lao PDR has taken significant steps to inculcate good practices in the process of developing regulations. More practical use of such methods could facilitate their increased adoption. This could be achieved by sending key officials to observe other AMS policy makers who have demonstrated expertise in this area. These officials could then train other regulators in Lao PDR on how to implement these practices.
- **Step up efforts to increase the ease of filing tax.** Only around 9.4% of total tax revenue in Lao PDR currently comes from taxes on income, profits and capital gains, and procedures to file tax are relatively complicated. In conjunction with efforts to streamline tax filing more broadly, Lao PDR could draft a roadmap for the development of an online tax-filing platform. However, such a roadmap should take into consideration the fact that only around 22% of the country's population currently have internet access, and therefore preliminary steps will be required before such a platform can operate at scale. Pilot steps could first be considered in urban centres.

Facilitating SME access to finance

Lao PDR has undertaken a number of reforms in this area over recent years, but credit information remains limited, movable assets are rarely accepted as a security and few government programmes are in place to stimulate MSME lending. To increase MSME access to credit, Lao PDR could:

- **Develop legislation to facilitate private credit bureaus.** Credit information coverage in Lao PDR is currently rather low. Private credit bureaus, which provide financial institutions with value-added services such as credit scoring, could encourage more banks to report credit information, thereby increasing coverage.
- **Consider developing a credit guarantee scheme.** Credit guarantee schemes can be a market-friendly instrument to encourage lending to SMEs. A diagnostic exercise could be completed to explore whether a credit guarantee scheme is desirable and feasible, as well as what form it should take.

Enhancing access to market and internationalisation

Despite progress in developing policies to help local businesses to go global, Lao PDR needs to define clearer mechanisms and support that is specifically designed to help SMEs unlock the potential benefits of utilising government programmes. Lao PDR could consider the following actions to expedite the progress of policy development in SME internationalisation:

- **Reduce or eliminate fees for SME capacity-building programmes.** Allocating budget to decrease the fees for such programmes would make it easier for SMEs to get the assistance they need. Lao PDR has started to develop capacity-building programmes for SMEs under its Plaosme initiative. Eliminating the fee to access those programmes could help a great deal, although a symbolic contribution could be beneficial to ensure the commitment of the SMEs to the training.
- **Develop clear strategies to integrate SMEs into GVCs.** Lao PDR is being progressive in attracting foreign investment into its growing SEZs. This provides an opportunity for the country to establish linkages between local SMEs and large companies and MNCs, if facilitated with laws and mechanisms to ensure the engagement of local SMEs in the SEZs.
- **Develop a programme to improve the quality of SME products.** This would help SMEs to become more competitive in foreign markets. The programme could cover international standards compliance and aspects of product quality improvement, such as branding and product innovation. Initiatives could take the form of intensive training and financial support for SMEs to increase their product quality.

Boosting productivity, innovation and adoption of new technologies

To increase productivity, boost innovation, promote the adoption of new technologies and support the greening of SMEs, Lao PDR could:

Productivity, technology and innovation

- **Further develop clear implementation plans with dedicated budgets.** These plans should promote productivity, the development of BDS and innovation. Although there are dedicated strategies, implementation often remains vague and covers few companies. With Lao PDR's low level of resources, activities focused on improving labour productivity and education of the workforce should be a priority.
- **Build on links with the private sector.** Lao PDR should take advantage of the presence of international companies to improve the skills of local SMEs. Policy measures could include: facilitating domestic companies' participation in SEZs, especially manufacturing; further promoting the concept of responsible business conduct as a way of bridging skills gaps; and increasing productivity through links to the foreign companies.
- **Increase awareness about the benefits of improved productivity and innovation.** Local SMEs are often not aware of the importance of innovation and how they can improve productivity. Information campaigns, awards and competitions could be a way forward. Involving the private sector and academia in developing such campaigns could be beneficial and help reach larger audiences.

Environmental policies and SMEs

- **Mainstream the greening of SMEs within existing policies.** Lao PDR's new green growth efforts should support the greening of SMEs. A horizontal approach will help all SMEs access support for more efficient and cleaner energy use. This would be preferable to a narrower focus on explicitly green industries.
- **Boost awareness of the advantages of greening.** The government could further increase awareness among SMEs of the advantages of greening and could disseminate information on any support mechanisms available.
- **Conduct feasibility analysis**. The government could build on good practice examples, such as those implemented through the SWITCH-Asia initiative, to determine which projects have worked so far and to fund them from the budget so that they have longevity and can reach a greater portion of SMEs.

Stimulating entrepreneurship and human capital development

Entrepreneurial education and skills

Lao PDR's young population could make an important contribution to the country's economic future. To tap into this potential, the country could develop more concrete measures to foster entrepreneurship in both the national education system and human-capital-related development plans. Several actions could be considered:

- **Use lessons learned from donor support to improve entrepreneurship strategy.** Lao PDR could utilise the initiatives and programmes that have been conducted with donor support to come up with improved national strategic plans and strategic programmes on entrepreneurship promotion. Identifying the stumbling blocks encountered during the implementation of donor programmes would help put Lao PDR in a better position to address those challenges in

formulating future strategic action plans and initiatives to nurture entrepreneurship.

- **Integrate monitoring and evaluation into entrepreneurship education.** This is important to ensure the effectiveness of future entrepreneurial education schemes. Lao PDR should incorporate sound monitoring and evaluation mechanisms into the policy framework in formulating initiatives on entrepreneurial education and training.
- **Strengthen entrepreneurial education in schools at all levels of education.** This would support Lao PDR in reaping the benefits of having a young workforce. Equipping young people with quality entrepreneurial skills would enhance SME competitiveness and foster the country's economic growth.

Social and inclusive entrepreneurship

- **Develop a clear definition or set of criteria for social enterprise.** The lack of a legal definition of a social enterprise sets the stage for confusion. It is important to clarify the definition or to set the criteria for identification as a social enterprise. It would be also beneficial to agree on which institution should hold the mandate for social enterprises, inclusive businesses and/or sustainable enterprises.
- **Develop policies integrating the specific needs of target groups.** The government might consider developing strategies to meet specific needs of target groups, such as access to finance and specific training facilities as well as means of delivery. These points should be analysed and integrated into the action plan. The strategies should be implemented with the government budget or donor assistance.
- **Explore increased collaboration with the private sector.** The government could consider collaborating with the private sector on social and inclusive entrepreneurship. Policy makers could enhance this collaboration by developing incentives and promoting responsible-business-conduct programmes that could help starting or would-be entrepreneurs get access to skills and business experience.

Notes

[1] Raw materials accounted for 47% of exported products (excluding electricity) in 2016 (World Bank, 2016b[25]).

[2] Although this is down from 90.4% in 1970, and urbanisation has accelerated since 2000.

[3] Save a blip in 1998, when GDP grew at a rate of 4% (a relatively small negative impact from the Asian Financial Crisis).

[4] FDI in hydropower facilities and mining accounted for around 50% of total FDI from 2006 to 2016, and Lao PDR's FDI stock now represents 41.0% of GDP (UNCTAD data, 2016).

[5] Namely the Savannakhet SEZ and the Golden Triangle SEZ.

[6] Although as a caveat, a substantial share of imports (around 14% of GDP) are FDI-related, and this reduces the amount of external borrowing required to finance the current account deficit.

[7] There has recently been a slowdown of timber exports to China and Viet Nam, for instance, from very high levels over the last two years.

[8] Or, it would have to reach GDP per capita of USD 3 190 by 2020.

[9] From 23.2% in 2012 to 10% by 2020.

[10] Rather than "rules-based".

[11] A 2013 survey by GIZ suggests that medium-sized enterprises in Lao PDR may account for only around 2.2% of all enterprises, while small enterprises account for only 4.2%. This compares to a typical distribution of around 5%-10% medium-sized enterprises and 20% small enterprises.

[12] The National SME Development Strategy (2006–2010).

[13] Of which the ADB and GIZ are perhaps the most active and institutionalised.

[14] Through these forums, issues such as local taxes, levies, and land rights were discussed.

[15] The company type used in this study (World Bank, 2017[9]) is the LLC, but required procedures are the same as for other types of company, just requiring different registration forms.

[16] Then it must obtain a license from the Ministry of Agriculture.

[17] There are plans to combine these two under a new entity within the Ministry of Planning and Investment.

[18] The CIB only started to receive credit information in 2010, following the introduction of a web-based service by the BOL.

[19] Although this decree uses the term "pledge", Laotian law also permits non-possessory security. Five main types are listed: i) a pledge of tangible items; ii) a pledge of documents; iii) a pledge of goods in a warehouse (where the inventory is transferable); iv) a pledge of intangible assets (such as intellectual property); and v) a pledge of future assets.

[20] Which takes three days and requires that a stringent set of formalities be followed.

[21] By some estimates, only 30% of land in Lao PDR is titled (OECD, 2017[14]).

[22] Bank of Lao data.

[23] Law on the Promotion of Small and Medium-Sized Enterprises, Article 21.

[24] Law on the Promotion of Small and Medium-Sized Enterprises, Articles 19 and 22.

[25] Lao PDR's Law on Investment Promotion (Amendment) No. 14/NA. Retrieved from http://www.investlaos.gov.la/images/IP_Law_2016_PDF/Investment_Promotion_Law_amended_2016_Unofficial_translated-English.pdf.

[26] The Enhanced Integrated Framework (EIF) is a multilateral partnership dedicated to assisting Least Developed Countries (LDCs). More information on EIF can be accessed at https://www.enhancedif.org.

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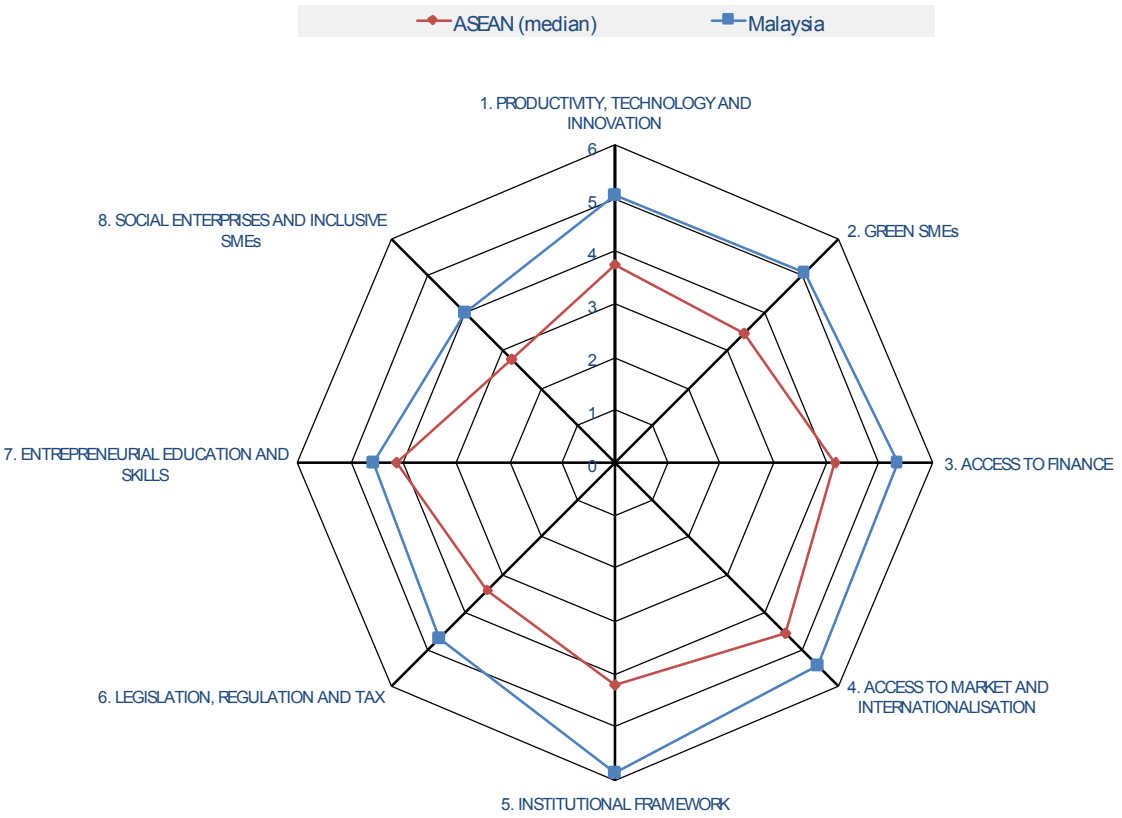
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Chapter 16. Malaysia

SME policy has recently become a pillar of Malaysia's push to achieve higher-income status. Accordingly, its main policy priority is productivity enhancement. It broadly adopts the "service delivery" approach to SME policy, providing services, particularly finance, to help SMEs increase their competitiveness.

Figure 16.1. 2018 SME policy index scores for Malaysia



Overview

Economic structure and development priorities

Economic structure

Malaysia, an upper middle-income country on the path towards high income graduation, is one of ASEAN's richest and most globally integrated economies.[1] It has the sixth largest population in ASEAN, standing at 31.7 million people in 2016 (ASEC, 2016[1]). It has the fourth greatest land mass and is rich in tin, petroleum, timber, copper, iron ore, natural gas and bauxite. Since the 1970s it has transformed from a mainly agricultural and mining-based economy to an economy based predominantly on industry (accounting for 36.8% of GDP and 27.5% of private-sector employment in 2016) and services (accounting for 56.2% of GDP and 61.1% of private-sector employment in 2016) (World Bank, 2016[2]; ILO, 2016[3]). The production of palm oil remains important for the Malaysian economy, accounting for 43.1% of agricultural GDP in 2016 (DOSM, 2017[4]).[2]

Like many economies in the region, Malaysia has followed a growth model that relies in part on international expansion. Over a 30-year period, the country's export base expanded by more than 20 percentage points, from less than 50% of GDP in 1980 to more than 70% by 2010. These exports have also become increasingly sophisticated. Following the collapse of rubber and tin prices in the early 1980s, Malaysia shifted its support for

the commodities sector to crude oil, natural gas and palm oil, and at the same time worked on diversifying the country away from commodities through development of its manufacturing industry. Its success in developing its electronics and electronic parts industry is particularly impressive, and this specialisation has facilitated the country's integration into regional and global value chains.[3] Today, machines and mineral products constitute the greatest share of goods exported by Malaysia, accounting for 42% and 15% of total exported goods respectively.[4] Its five most exported products in 2016 were integrated circuits (13.9%), refined petroleum (5.9%), palm oil (4.9%), semiconductor devices (4.3%) and computers (4.2%) (MIT, 2016[5]). The diversification process has also changed the composition of the country's trading relationships. Export to traditional partners, particularly European commodity importers, has steadily lost ground in favour of regional partnerships, particularly those in the ASEAN Economic Community and with China. Other ASEAN countries absorb 30% of Malaysian exports, of which half is absorbed by Singapore alone. China (13%), the United States (11%) and Japan (8.3%) are also important export partners (MIT, 2016[5]).

In conjunction with its strong growth performance, Malaysia scores well on poverty reduction and human development indicators. Today just 0.6% of the population lives below the poverty line, and the country ranks high on the UN's Human Development Index, at 59th globally and 3rd in ASEAN.[5] It counts a high adult literacy rate, with 93% of the country's population being literate in 2010 (UNESCO, 2016[6]). Its unemployment rate is also low, averaging 3% over 2012-2016. Unemployment is higher among young people. Around 11% of individuals aged 15-24 are not in employment, education or training (NEET) – 8% among males and 15% among females (ILO, 2016[3]).

Table 16.1. Malaysia: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	5.5	4.7	6.0	5.0	4.2
Inflation	Percent, average	1.7	2.1	3.2	2.1	2.1
Government balance	Percent of GDP	-3.8	-4.1	-2.7	-2.9	-3.0
Current account balance	Percent of GDP	5.2	3.5	4.4	3.0	3.0
Export of goods and services	Percent of GDP	79.3	75.6	73.8	70.6	67.2
Imports of goods and services	Percent of GDP	68.5	67.1	64.5	63.0	61.0
Net FDI (inflows)	Percent of GDP	2.8	3.5	3.1	3.7	4.6
External debt	Percent of GNI	64.0	60.4	60.2	66.3	69.6
Gross reserves	Percent of external debt	72.1	71.4	59.0	49.9	47.2
Domestic credit to the private sector	Percent of GDP	114.1	119.9	120.6	125.2	123.9
Unemployment	Percent of active population	3.0	3.1	2.9	3.1	3.4
GDP per capita	PPP (constant 2011 intl$)	22 707	23 414	24 460	25 312	25 660

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

Moving forward, Malaysia is now looking to join the high-income bracket by 2020. The outlook for this looks promising. The country continues to exhibit robust growth underpinned by solid macroeconomic fundamentals, and the World Bank forecasts that it should join the high-income bracket between 2020 and 2024 (World Bank, 2017[7]). Average annualised GDP growth of 5.3% (2012-2016) was achieved while maintaining a fiscal deficit below 3% of GDP and a stock of public debt at 54.9% of GDP (IMF estimates, 2017). Malaysia has continued to boost domestic consumption, and at the same

time it maintains a relatively strong external position. It holds a current account surplus of around 2.4% of GDP, adequate levels of foreign currency reserves (covering around six months of imports) and a strongly positive trade balance (equal to 25.3% of GDP in 2017) (IMF, 2017[8]). Intensifying measures to implement structural reforms in order to boost productivity and inclusiveness will increase the resilience of Malaysia's strong growth rate over the medium term (OECD, 2016[9]). The country also remains notably more vulnerable to a slowdown in global commodity prices than many of its income-group and regional peers. Despite marked success at diversifying its economy, 19.2% of exports were agricultural and mining goods in 2015, and 21.5% of government revenue was still oil-related (OECD, 2016[9]).

Reform priorities

Many of the country's long-term economic policies are geared towards Malaysia's goal of joining the high-income country bracket by 2020. These measures are outlined in the 11th Malaysia Plan (2016-2020), the country's main socio-economic strategic planning document and the final strategic document to fall under the country's Vision 2020 strategy launched in 1991. The plan identifies "six strategic thrusts" and "six game changers" for achieving the strategic thrusts (Table 16.2).

Table 16.2. Main objectives and strategies of the 11th Malaysia Plan (2016-2020)

Six strategic thrusts	Six game changers
• Enhancing inclusiveness towards an equitable society	• Unlocking productivity to accelerate sectoral growth
• Improving the well-being for all	• Increasing the percentage of middle-class society from 40% in 2016 to 45% by 2020
• Accelerating human capital development for an advanced nation	• Harnessing technical and vocational education and training (TVET) for a higher skilled workforce
• Pursuing green growth for sustainability and resilience	• Strengthening the environment for green growth
• Strengthening infrastructure to support economic expansion	• Unleashing innovation to generate new sources of revenue
• Re-engineering economic growth for greater prosperity	• Developing cities as a source of competitiveness

Source: 11th Malaysia Plan, 2016.

The plan aims to achieve average GDP growth of 5%-6% per year over 2016- 2020 in order to increase per capita income from its current position, USD 9 860 in 2016,[6] to the higher-income country threshold of USD 12 735 in 2016.[7] In addition it aims to increase:

- labour productivity to MYR 92 300 (Malaysian ringgit) in 2020, from MYR 77 100 in 2015
- GNI per capita to MYR 54 100 in 2020
- average monthly household income to MYR 10 540 in 2020, from MYR 6 141 in 2014
- the share of employee compensation in GDP to at least 40% in 2020, from 34.8% in 2015
- the Malaysian Well-being Index (MWI), an indicator of improvement in the well-being of the Malaysian people, by 1.7% per annum.

To achieve this, it places high priority on measures to increase total factor productivity (TFP), innovation and inclusion. In particular, it aims to accelerate TFP growth through education and training programmes and policies, and investment in key infrastructure and information and communications technology (ICT). It also commits to increasing private-sector investment in order to modernise key economic sectors, and it calls for the country's federal government to ensure the stability of its programmes, balancing its fiscal position by 2020 by strengthening its tax base and improving the decision-making process of fund allocation for proposed government programmes (11th Malaysia Plan, 2016). The plan builds on the country's New Economic Model (NEM), which was launched in early 2010, and the One Malaysia concept, which was introduced the same year. The NEM outlines a path for achieving Vision 2020 by encouraging public and private investment, particularly in infrastructure and the development of services, and for realising productivity gains through innovation and increased export sophistication.

Private sector development and enterprise structure

Business environment trends

Malaysia consistently scores as one of the region's top performers on business environment indicators. The country boasts world-class infrastructure, a multilingual workforce (with over half the population proficient in English) and a stable financial sector. Firms benefit from broadly low fixed operating costs (notably electricity and rental costs), and the government provides information to would-be investors on the costs of starting and running a business.[8] Malaysia is the region's third largest recipient of FDI, after Singapore and Viet Nam, absorbing 12% of the region's total.

A number of reforms have been implemented over recent years to enhance the business environment. To address swelling and outdated regulations, the country has been undergoing a comprehensive process of regulatory reform since 2006. One significant milestone of this process was the introduction of a new Companies Act in 2016, which superseded a previous version from 1965. The act introduced simplified rules over company incorporation; modernised rules on share capital management, restructuring and insolvency; reinforced the importance of audit and financial reporting; and introduced new rules for effective corporate governance. To facilitate economic transformation, Malaysia has embarked upon a number of big-ticket infrastructure development projects and has intensified its efforts to attract international investment.

Yet some constraints to doing business remain. These include issues with corruption, foreign currency regulations and difficulties accessing finance. While bribes and irregular payments in return for services are not generally widespread, they are used by some companies "to get things done". There are particular integrity risks surrounding public procurement, where connections and gifts have often played an important role in securing contracts. In addition, foreign currency restrictions apply to Malaysian residents, which may hinder exporters. Under these rules, no resident is able to buy, borrow, sell or lend foreign currency, or to make any payment in Malaysian ringgit to a non-resident. Many firms in Malaysia also report difficulties in accessing finance, though a range of public programmes have been implemented to address this. Finally, a number of taxes on enterprises were introduced in 2016 and 2017 that were designed to shore up public finances but proved unpopular. They included a goods and service tax and a withholding tax, the former of which was dismantled following the 2018 general election (honouring a campaign pledge).

SME sector

There are around 920 624 registered enterprises operating in Malaysia, of which 75.3% are micro enterprises, 20.9% are small, 2.2% are medium-sized and 1.5% are large. SMEs account for of 65.3% of employment and 36.6% of GDP.

Malaysian SMEs are principally found in the service sector (89.2% of all SMEs). Aside from services, 5.3% of SMEs operate in the manufacturing sector, 4.3% in the construction sector, and just 1.1% in the agricultural and 0.1% in the mining and quarrying sectors. Roughly 53.6% of registered SMEs are located in four of Malaysia's 13 provinces: Selangor (19.8%), WP Kuala Lumpur (14.7%), Johor (10.8%) and Perak (8.3%). Selangor is Malaysia's richest (measured by GDP) and most populated state, WP Kuala Lumpur is the second richest state, Johor is the second most populated and fourth richest state, and Perak is the fifth most populated and seventh richest state. Interestingly, Sarawak and Sabah account for a lower share of SMEs (6.7% and 6.2% respectively) than Perak, despite having a greater GDP and population. Rich in natural resources, both of these state economies are highly dependent on the export of primary commodities.

SME policy

SME policy in Malaysia has traditionally had both social and economic objectives. It first became noticeably present on the policy agenda in 1971 with the introduction of the New Economic Policy (NEP), which aimed to improve economic opportunities for the country's ethnic Malay (*Bumiputera*) population, as well as to engage in economic interventionism and to accelerate development through industrialisation. The intensity of SME policies increased after the development of Malaysia's Industrial Master Plans (IMPs), particularly IMP 2 (2000-05) and IMP3 (2006-20). These plans gave SME policy a greater role in boosting economic competitiveness and innovation, as well as economy-wide productivity. Via the SME Masterplan (2012-2020), which was launched in July 2012, SME policy thereafter became an important component in Malaysia's strategies to achieve high-income status by 2020.

2018 ASPI results

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

Malaysia has an advanced institutional framework for the development of SME policy, and this is reflected in its Dimension 5 score of 5.86. It has an SME agency, SME Corp. Malaysia, and an SME policy co-ordination body that is chaired by the country's prime minister. It produces annual action plans that are indexed to a longer-term strategy for SME development, the SME Masterplan (2012-2020), which is itself in line with the country's broader plan for socioeconomic development, Vision 2020. To frame its SME policies, Malaysia issued a revised SME definition on 1 January 2014 and undertook a periodic census of SMEs in 2005, 2011 and 2016.

In the area of legislation, regulation and tax, Malaysia's Dimension 6 score of 4.71 reflects the fact that the country has been conducting a programme of regulatory reform since 2007 as part of its efforts to reach high-income status through increased innovation and productivity. A Special Task Force to Facilitate Business (PEMUDAH) was set up that year as a platform to facilitate closer public-private dialogue and to illuminate and address any major policy barriers to doing business (MPC, 2016[10]). These efforts

intensified with the implementation of the 10th Malaysia Plan in 2011, and responsibility for regulatory reform was assigned to the Malaysia Productivity Corporation (MPC). Today the MPC acts as a secretariat for both PEMUDAH, which is responsible for reviewing and enhancing existing regulations, and the National Development Planning Committee (NDPC), which is responsible for socialising the use of good regulatory practices throughout the public administration. Malaysia's overall high performance on business environment indices reflects these reforms. On company registration and the payment of tax, however, Malaysia continues to score relatively low, largely due to the time required for these activities. Enhancing e-governance platforms could help to improve performance. Malaysia recently introduced platforms for the e-filing of tax and online payment of social security and pension contributions.

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

The elaboration of SME policy in Malaysia is handled by the National SME Development Council (NSDC). The NSDC was established in 2004, with meetings scheduled to take place at least twice a year, usually in June and December. The body is chaired by the prime minister; those attending include relevant ministers involved in SME development, the chief secretary to the government, the director-general of the country's Economic Planning Unit (EPU) and the governor of Bank Negara Malaysia (BNM). The NSDC plays a strategy, co-ordination and advocacy role in the development of SME policy. As indicated in Table 16.3, it is tasked with formulating broad policies and strategies for SME development; reviewing the roles and responsibilities of implementing ministries and agencies; playing a co-ordination role in the implementation of programmes, policies and action plans; overseeing engagement with the private sector; and advocating for the development of Bumiputera SMEs across all sectors of the economy (SME Corp., $2018_{[11]}$). Policies and programmes set by the NSDC are implemented by relevant ministries and agencies.

Table 16.3. Key actions of the NSDC since establishment (2004-present)

Year	Action	Purpose
2004	Set a common definition of SMEs	To systematise the scope of SME policy
2005	Established a periodic census of firms	To better monitor the development of the SME sector and SME development policies
2005	Developed the SME Development Framework	To provide a pan-government roadmap for the development of coherent SME policies and programmes
2006	Published the annual SME Integrated Plan of Action report	To report on activities conducted by implementing agencies and ministries over the past year, as well as their performance
2006	Launched the SMEinfo portal	To provide a one-stop platform for SMEs to obtain information on financing schemes and funds, government programmes and business advisory services
2008	Established the Central Co-ordinating Agency (CCA) (SME Corp. Malaysia)	The existing SME agency was rebranded and restructured to enhance its existing activities and assume the role of Secretariat to the NSDC
2011	Developed the SME Masterplan	To chart the mid- to long-term direction of SME policy, with the goal of reaching high-income status

Source: SME Corp. Malaysia.

SME Corp. Malaysia acts as secretariat for the NSDC. It has been operational since 2009 under the Ministry of International Trade and Industry (MITI). An earlier specialised SME agency, the Small and Medium Industries Development Corporation (SMIDEC), began operating under MITI in 1996. SMIDEC was rebranded and restructured as SME

Corp. upon expanding its functions to become the Central Co-ordinating Agency (CCA) for SME development, assuming the secretariat role of the NSDC which was previously held by Bank Negara Malaysia. At this time the agency established state-level branches to help implement SME policies and programmes, and today it employs more than 300 staff. SME Corp. supports the NSDC in policy elaboration, policy and programme implementation, and monitoring and evaluation. It also provides informational, advisory and business support programmes and services to SMEs through its SME Hub and state-level branches. It enhances policy coherence by including representatives of both the private sector and other government ministries and agencies on its governance board, though the latter are significantly more represented than the former.

The main strategic document is the SME Masterplan (2012-2020), which outlines the long-term strategy for SME policy in Malaysia. The Masterplan covers 32 initiatives including six High Impact Programmes (HIPS) and 26 supporting measures. It was developed with input from private-sector stakeholders and has measurable targets to be reached by 2020.

Scope of SME policy

Malaysia's SME definition was reviewed in 2013, and a new, simplified version came into effect in January 2014. The revised version distinguishes between micro, small and medium-sized enterprises. It maintains the same criteria as the previous version (employment and annual sales turnover), but with increased thresholds to reflect changes in the economy. Only full-time employees are counted. Under the definition, a firm is classified as an SME if it meets either of the criteria (employment or turnover). Its size category is determined by the smallest category it fits under either of the criteria. The definition distinguishes among sectors: *i)* manufacturing; and *ii)* services and others. Under the new definition, all SMEs must be registered entities with the Companies Commission of Malaysia (SSM) or other equivalent bodies, such as respective authorities in Sabah and Sarawak, and respective statutory bodies or professional service providers. Companies that cannot be classified as SMEs are those listed on the main board of the country's stock exchange and their subsidiaries, and subsidiaries of multinational corporations (MNCs), government-linked companies (GLCs) or state-owned enterprises. After elaborating the new definition, SME Corp. issued guidelines to all government agencies instructing them to use only this definition. It now appears to be used consistently among government agencies and financial institutions.

Table 16.4. Malaysia's SME definition

Size classification	Indicator	Sector	
		Manufacturing	Services and other sectors
Micro	Sales turnover	< MYR 300 000 (< USD 70 289)	< MYR 300 000 (< USD 70 289)
	Employment	< 5	< 5
Small	Sales turnover	MYR 300 000 < MYR 15 mln (USD 70 289 < USD 3.5 mln)	MYR 300 000 < MYR 3 mln (USD 70 289 < USD 702 897)
	Employment	5 to < 75	5 < 30
Medium	Sales turnover	MYR 15 mln ⩽ MYR 50 ml. (USD 3.5 mln ⩽ USD 11.7 mln)	MYR 3 mln ⩽ MYR 20 mln (USD 702 897 ⩽ USD 4.7 mln)
	Employment	75 to ⩽ 200	30 ⩽ 75

Source: SME Corp. Malaysia.

Malaysia has a residual informal economy that may be excluded from SME policies. Employment in the informal sector reached 1.4 million in 2015, an increase of 6% over the previous year, with non-agricultural employment in the informal sector standing at 11.4% in 2015, up from 11.2% in 2013 (DOSM, 2016[12]). Most non-agricultural informal employment is in the services sector, namely wholesale and retail trade and repair of motor vehicles and motorcycles (63%), followed by construction (20.6%) and manufacturing (15.9%). The government is committed to tackling the issue, and it conducts surveys on the topic. However, associated measures predominantly focus on improving the ease of business registration, mostly via the country's High-Impact Programme 1 (HIP 1) under the SME Masterplan. Other initiatives aimed at decreasing informality include measures to improve connectivity within East Malaysia and with Peninsular Malaysia; HIP 6, on inclusive innovation; measures to ease market access for SMEs in Sabah and Sarawak; and an initiative to review the country's tax regime in order to eliminate any elements that may reduce incentives for SME development.

Development of legislation and regulatory policies affecting SMEs

The government has been working since 2007 to inculcate good regulatory practices. In 2013, a circular entitled *National Policy on the Design and Implementation of Regulations* instructed all federal ministries and agencies to undertake good regulatory practices in the development of new and existing regulations. This included requirements to conduct public-private consultations (PPCs) in order to provide information on the development of business-related regulation; to undertake regulatory impact analysis; and to complete regulatory impact statements. Handbooks were issued to provide guidance to government officials on realising good regulatory practices, among them the *Best Practice Regulation Handbook*, which advises regulators to consider the impact of new regulations on SMEs, the number of SMEs that will be affected and whether the overall impact on SMEs will be proportional to the impact on other businesses or groups. Moving forward, policy makers could work to increase the transparency of these procedures. A list of ongoing PPCs is not currently available online. At present, policy makers pick the participants for such consultations and not all interested parties are able to participate, which may reduce their representativeness. The government is aware of this and is currently working to increase transparency, for instance by developing a single website to list PPCs. Records of PPC outcomes are kept by respective regulators, and more could be done to increase transparency here.

Company registration and ease of filing tax

Malaysia ranks relatively low globally on indices of the ease of starting a business and paying tax. In the World Bank's 2018 *Doing Business* report, it ranked 111th out of 190 countries on "starting a business" and 73rd out of 190 countries on the "ease of filing tax". This is largely due to the time needed to complete these transactions. According to *Doing Business*, the preparation, filing and payment of taxes takes 188 hours in Malaysia, while company registration takes 18 days for men and 19 days for women.

Still, the country has made considerable progress over the last 15 years. The Special Task Force to Facilitate Business (PEMUDAH), the entity responsible for reviewing existing business-related regulation, is also responsible for improving business licensing procedures. The Malaysian Administrative Modernisation and Management Planning Unit (MAMPU) is responsible for implementing HIP 1, on the integration of business registration and licensing. Malaysia has made progress on developing electronic platforms for registration and licensing. In 2016, the MalaysiaBiz Portal, an information

portal for business licensing, went live as a quick win of HIP 1, and it is expected to be operational by the end of 2020 as a single gateway for firms to register and apply for licenses. At the time of assessment, E-lodgement, a platform for the electronic filing of company and business statutory documents, had recently gone live.[9] Malaysian companies required multiple company identification numbers, which contributed to the time it took to register. E-lodgement has been subsequently discontinued as the Malaysia Corporate Identity Number (MyCoID) has been scaled up.[10] The MYCOID is a single company identification number which can be used to register and transact with different government agencies. It is issued upon incorporation by the Companies Commission of Malaysia (SSM). The authorities were working on further developing MYCOID, and expect this process to be complete by 2020.

E-governance facilities

One of the government's main paths for enhancing the ease of regulatory compliance is through the development of e-governance platforms, as described above. MAMPU is also responsible for the e-government flagship, which was launched in 1997. This programme identified seven priority e-government applications for development as part of a broader push to modernise and enhance public service delivery.[11]

Facilitating SME access to finance (Dimension 3)

Malaysia has a well-developed financial sector according to global indicators. It is ranked 16th for financial sector development by the World Economic Forum (WEF, 2017[13]) and 20th for ease of getting credit by the World Bank (World Bank, 2017[14]). The economy has a high level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at 123.9% of GDP in 2016, notably above the 80-100% mark beyond which finance may have a negative effect on economic growth (Berkes, Panizza and Arcand, 2012[15]). Financial institutions, in particular banks and development financial institutions, constitute the main source of SME financing. They provided 96% of financing facilities available to the sector in 2017 (SME Corp., 2017[16]). Financial institutions have also progressively increased their engagement with SMEs. The share of SME financing in total business financing grew from 43.8% in 2015 to 50.7% in 2017 (SME Corp., 2017[16]). Malaysia's Dimension 3 score of 5.35 reflects these findings.

This credit growth is partially the result of a concerted effort over the past 17 years to boost financial sector development, particularly as concerns SME financing. Bank Negara Malaysia (BNM),[12] the country's central bank, played a pivotal role in driving and implementing SME development policies from 2003 to 2010, until the establishment of SME Corp.[13] In building a comprehensive SME financing ecosystem, the BNM developed a number of initiatives and put in place key infrastructure such as the Credit Guarantee Corporation, a credit bureau and credit application support schemes for SMEs (Table 16.5).

Malaysia continues to allocate the bulk of its SME development budget to enhancing access to finance. In 2017, for instance, 88.3% of public funding for SME development went to SME financing programmes. At present, such programmes predominantly target the growth of innovative new sectors, financial inclusion and support for Bumiputera enterprise. This generally echoes the government's broader economic development priorities. SME financing programmes in 2017 aimed to reach 393 162 SME beneficiaries. (SME Corp., 2017[16]).

Table 16.5. BNM measures to enhance the financing ecosystem for SMEs, 2003-2010

Date established	Name	Description
2003	Small Debt Resolution Scheme (SDRS)	A platform to assist SMEs in resolving debt
2006	National Sustainable Microfinance Framework	A new regulatory framework for microfinance, and the development of a set of microfinance products
2008	Credit Bureau Malaysia	Malaysia's first private credit registry focusing on facilitating SMEs to obtain access to financing
2010	ABMPARTNER	Support scheme for SMEs in applying for credit

Legal, regulatory and institutional framework

Malaysia has strong framework conditions for supplying finance. Facilities to assess and hedge against credit risk are generally available and well functional. A dual credit reporting system has been in place since 2008, and it provides high credit information coverage[14] as well as value-added services such as credit scoring. The country has an SME-specialised credit bureau[15], Credit Bureau Malaysia (CBM).[16] Financial institutions can use contracting elements such as securitisation to mitigate credit risk. Clear rules over perfection and priority are generally in place, and both immovable and movable asset registers are functional and regularly updated. Malaysia has worked to improve the legal framework governing insolvency since the last assessment. Its bankruptcy law, enacted in 1967, has been amended; the new law took effect in October 2017. Going forward, financial institutions may still face lack of clarity in the secured transaction framework for lending to unincorporated entities, and this may particularly affect SMEs. The introduction of a Personal Property Security Act (PPSA), along the lines of those enacted in other common-law countries, could help to eliminate these uncertainties. The government has undertaken research and consultations to assess the feasibility of this reform. In addition, measures could be introduced to centralise the movable assets register and make it notice based, which would increase clarity over the ownership of collateralised assets and the order of priority in the event of insolvency.

In the area of equity financing, Malaysia has a relatively deep and liquid stock market. Stock market capitalisation amounted to 135% of nominal GDP by December 2017. In 1997, the MESDAQ Market was launched to attract listings of technology-based and high growth companies. In 2009 this was transformed into the ACE Market, an alternative market for emerging companies of all sizes and sectors to raise capital. Recognising the importance of SMEs to the economy, and in order to complement existing listing platforms with a more SME-friendly financing solution, Bursa Malaysia launched its Leading Entrepreneur Accelerator Platform, or LEAP Market, in July 2017. Given the higher risk involved, only experienced investors and high net-worth individuals or entities can invest in LEAP companies, and Malaysia's largest institutional investor funds have suggested they may abstain from investing in the market. Also, certain policies may discourage listing. They include, for example, a requirement that an enterprise be able to demonstrate 12.5% Bumiputera ownership in order to be eligible to list publically. This amount is down from 30% in 2008. Programmes are now being developed to encourage more firms to list on the LEAP Market. For instance, on 30 March 2018, the prime minister announced a budget of MYR 50 million to encourage at least 100 Bumiputera companies to list on the LEAP Market. This would finance a cash reimbursement to reduce the cost of listing for companies that successfully list between 2019 and 2024. Again, however, this specifically targets Bumiputera-owned firms.

Sources of external finance for MSMEs

Malaysia has a good range of financial products available to SMEs, the most common being credit-based loan products provided by banks. Collateral requirements are relatively low (54.6% of the loan), though interest rates increased 160 basis points between 2013 and 2015, standing at 7.4% in 2015 (OECD, 2017[17]).[17] Public programmes to encourage bank lending to SMEs mainly take the form of refinancing schemes and guarantees.[18] BNM has specialised funds for SME lending targeting new entrepreneurs, the primary agriculture sector; micro enterprises and firms without collateral. Guarantees are provided through Credit Guarantee Corporation Berhad (CGC) and the Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP). In addition to incentive schemes, Malaysia has also established a dedicated bank for SMEs, the SME Bank.

The CGC is the larger of Malaysia's two guarantee schemes. Since its creation in 1972, it has provided SMEs with around 441 598 financing packages, valued at over MYR 63.7 billion as of December 2017. It traditionally provided individual guarantees and since 2015 has also begun providing portfolio guarantees to speed up the approval and disbursement of guaranteed loans. The CGC provides advisory services for SMEs and assists them in building up a credit history. CBM, Malaysia's SME-oriented credit bureau, is a subsidiary of the CGC, which is itself a subsidiary of BNM, home of the country's public credit registry. The CGC has dedicated guarantee programmes for certain types of SMEs, such as women-owned entities, via BizMula-i and BizWanita-I, and Bumiputera-owned entities, via the BizJamin Bumi scheme. Both the CGC and SJPP are evaluated by BNM every two years, though neither has private-sector representatives on its governance board.

Microfinance has traditionally been accessed through Amanah Ikhtiar Malaysia, a non-governmental organisation (NGO) that was founded in 1987 and that provides microfinancing primarily to women for income-generating activities. By June 2016, this entity had provided 3.7 million loans amounting to MYR 15.7 billion (SME Corp., 2017[16]). Today microfinance is predominantly provided by commercial and development finance institutions, partially the result of a sustained effort by BNM to promote and support the extension of microfinance products. This effort has included the implementation of a comprehensive regulatory framework for microfinance by BNM (2006); the development of a range of microfinance products by BNM for disbursal by three state-owned banks (*Skim Pembiayaan Mikro*, since 2006); and the extension of a credit line for banks to provide loans of up to MYR 50 000 without collateral (the BNM's Fund for SMEs). Over the last ten years, 216 944 microenterprises have benefited from loans totalling MYR 3.5 billion that were provided by ten financial institutions under this scheme. Total financing outstanding from the scheme stood at MYR 931.9 million at the end of December 2017 (SME Corp., 2017[16]). Two public microfinance financial institutions have also been established: the Economic Fund for National Entrepreneurs (TEKUN), under the Ministry of Agriculture and Agro-based Industry, and Yayasan Usaha Maju, under the Ministry of Finance.

Asset-based loan products are also available in Malaysia, but they appear to be used at a lower scale than venture and growth capital products. In 2017, the volume of leasing and factoring finance, two of the most common types of asset-based financing, was MYR 1.28 billion, compared to MYR 2.45 billion for venture and growth capital.

High-growth firms can access private equity and venture capital (PE/VC) financing. As of 31 December 2016, 103 venture capital and six private equity firms were registered and operating in the country, and over that year they had invested in 376 companies, with new

investments totalling MYR 570 million, bringing total cumulative PE/VC investments in the country to MYR 2.9 billion in 2016.[19] The majority of venture capital investment in 2016 went to the life sciences sector – mainly to early-stage firms, which received 61% of total investment. The government is a key driver of the PE/VC industry in Malaysia, with 47.7% of venture capital funds coming from sovereign wealth funds and government investment companies (BNM, 2017[18]).[20] The government has also partnered with private investors to boost early stage financing. HIP 3, the SME Investment Programme, commits to co-fund early-stage debt, equity or hybrid investments in high-potential SMEs. In 2017, a total of MYR 20 million was allocated under the programme (SME Corp., 2017[16]).

Enhancing access to market and internationalisation (Dimension 4)

Malaysia has a strong and long-standing commitment to foster the internationalisation of its SMEs. It recognises the need to create opportunities for SMEs by exposing them to larger potential buyers and suppliers. Its continuous drive to help SMEs to go global is reflected in its high score of 5.4 for Dimension 4.

Export promotion

In Malaysia's SME Masterplan 2012–2020, expediting SMEs' exposure to the global market is one of the six High Impact Programmes. Although various ministries and government agencies collaborate to support SME export, it is the Malaysia External Trade Development Corporation (MATRADE) that acts as the country's main export promotion agency, particularly for manufactured and semi-manufactured products. MATRADE offers a wide range of assistance and programmes in collaboration with other government agencies. The agency undertakes market intelligence activities and makes its comprehensive database on international markets and existing Free Trade Agreements (FTAs) available on its website. SMEs may apply to the agency's Market Development Grant (MDG) programme for a reimbursable grant of up to MYR 200 000 for their participation in international trade fairs, trade missions or international conferences. To help Malaysian SMEs transition from domestic selling to exporting, MATRADE also conducts numerous training programmes, most of which are free of charge. Interested applicants may register online.

To address co-ordination issues among implementing agencies, MATRADE established an Integrated Centre for Export in 2015 that brings together MITI, the Ministry of Agriculture and Agro-based Industry, the Ministry of Health, SME Corp., the Royal Malaysian Customs Department, Export-Import (EXIM) Bank, and SME Bank. MATRADE issues an annual report on its performance as part of the monitoring and evaluation of its programmes.

Integration in GVCs

Various government initiatives support the integration of Malaysian SMEs into global value chains (GVCs). The Industrial Master Plan 3 (IMP) (2006–2020) includes a strategy for enhancing collaboration between Malaysian firms, including SMEs, and GLCs, MNCs based in Malaysia and Malaysian firms with overseas-based MNCs.

SME Corp. implements the Industrial Linkage Programme and the Vendor Development Programme to help local SMEs create linkages with and receive assistance from large companies and MNCs in major industries. The co-ordinating agency also runs the Business Linkage Programme, which creates opportunities through business matching

sessions during annual flagship events and other platforms. As of 31 December 2016, the programme had generated a total of MYR 714.7 million in potential sales through 481 sessions involving 443 SMEs.[21] Other programmes include industry-specific initiatives, like the Global Value Chain-SME for the Automotive Sector Project proposed by the Philippines and Malaysia at the APEC Automotive Dialogue session in Manila in 2015, and business matching sessions conducted by the Muda Agriculture Development Authority.

Use of E-commerce

Recognising the importance of a strong e-commerce basis for SME development in the future, Malaysia has set up a legal framework and policy interventions for e-commerce to grow. The Electronic Commerce Act 2006 serves as the legal framework for e-commerce; the Payment Systems Act 2003 provides regulations on e-payment; and the Consumer Protection (Electronic Trade Transactions) Regulations 2012 cover consumer protection issues. Malaysia established a National E-commerce Council comprising 25 agencies and ministries to design and implement a National E-commerce Strategic Roadmap, which was launched by the prime minister in 2016. Via the roadmap, Malaysia aims to double its e-commerce growth rate and reach a GDP contribution of MYR 211 billion by 2020.

In 2017, the government launched a Digital Free Trade Zone (DFTZ) through the Malaysia Digital Economy Corporation (MDEC) and Alibaba Group.[22] The DFTZ is expected to ease SMEs' transition as exporters and to position Malaysia as a regional hub for e-commerce logistics and the preferred gateway for global marketplaces in ASEAN. It provides an e-fulfilment hub to help SMEs export their goods and an e-services platform that offers SMEs market access to global customers and suppliers. A sum of MYR 83.5 million was allocated in 2018 for the construction of the first phase of development of a regional e-commerce and logistics hub in Aeropolis, attached to the Kuala Lumpur International Airport, as a part of the DFTZ initiative (MOF, 2017[19]). An additional MYR 100 million was earmarked to expand various programmes under the MDEC, such as *eLadang*, which aims to encourage farmers to tap into the latest smart farming technologies and big data analytics, and *eUsahawan*, which works to enhance new businesses' growth via online sales.

Quality standards

Malaysian initiatives to support SME compliance with quality standards are executed by various ministries and agencies. The National Standards Compliance Programme (NCSP), managed by the Department of Standards Malaysia, aims to bridge all initiatives and information on standards compliance. The NSCP's one-stop centre for SMEs is located at SME Corp.'s One-Referral Centre. Initiatives to help SMEs comply with standards include the Lean Production System (LPS) programme, run by MITI through the Malaysia Automotive Institute (MAI). It aims to help SME factories and workshops in the automotive sector to transition from traditional to LPS management in order to become world-class vendors. Another initiative is *Program Pembangunan Produk*, run by the Ministry of Domestic Trade, Co-operatives and Consumerism, which helps SMEs to improve the packaging and shelf life of their products in order to meet the standards of hypermarkets and supermarkets.

SIRIM Berhad, a leading certification body, runs initiatives in co-ordination with the Ministry of Science, Technology and Innovation (MOSTI), for example the GroomBig programme to help SMEs become competitive, resilient and sustainable, and a vendor

development programme to help SMEs in the automotive sector to become export-ready companies. Quality certification services in Malaysia are mainly provided under the Accreditation Body Certification scheme, which is under the purview of the Department of Standards Malaysia. Quality certification services are administered by non-governmental or non-profit accreditation bodies in some sectors, for example health care, which is certified by the Malaysian Society for Quality in Health, and the auditing of financial services, which is conducted by the Institute of Internal Auditors Malaysia.

Trade facilitation

Malaysia garnered a moderately high score in the OECD Trade Facilitation Indicators (TFI) of the 2018 ASPI.[23] This can be attributed in part to its initiatives and infrastructure for cross-border trading. In 2012, it launched a trade facilitation portal called myTRADELINK (http://www.mytradelink.gov.my/) to connect trading communities with the relevant government agencies and businesses involved in global trade and logistics and to serve as the country's national single window (NSW). It features a trade-related data repository that includes a directory of industry players and agencies, trade regulations, and permit-issuing agencies. Small and medium enterprises and other traders can use myTRADELINK to prepare, submit, apply for and get approval on all required trade documents online, eliminating the need for manual transactions. SMEs are given a special discount rate when using ePermit and e-Preferential Certificate of Origin services provided by myTRADELINK through the Dagang Net Technologies Sdn Bhd website (http://www.dagangnet.com). Related training for new users is also available. In line with the myTRADELINK initiative, the Royal Malaysian Customs Department launched a new customs online system in 2016 for declaration, payment and clearance. The system, called Ubiquitous Customs (uCustoms), is an upgraded NSW (Tamrin, 2017[20]) that will replace myTRADELINK once it is fully operational.

Other initiatives for facilitating SME cross-border trade have also emerged. In December 2107, MATRADE and China launched the China-ASEAN SME Trade Promotion Platform to facilitate Malaysian SME exports to China. Meanwhile, the new Digital Free Trade Zone frees Malaysian consumers from paying any duties on purchases of less than MYR 1 200 made via e-commerce companies in the zone; manufactured or semi-finished goods imported through the DFTZ will also be duty free. This provides SMEs with an indirect opportunity to grow by cutting the costs incurred from purchasing from abroad, but it also potentially creates tougher competition with larger firms that enjoy similar benefits, particularly in manufacturing sectors. Likewise, the Authorised Economic Operator (AEO) programme run by Malaysian customs has no specific allowances for SMEs, although volume traded is not a criterion for AEO qualification.

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

Malaysia has long recognised the importance of investing in innovation, as evidenced by overall gross expenditure (1.1% of GDP) and business spending (0.7% of GDP) on research and development (R&D), which is high for its income level. The country is seen as a strong performer in the region. However, its labour productivity growth in the past 15 years has been below that of regional competitors. It has also been held back by a declining share of skilled workers in the labour force and insufficient technology diffusion and innovation (OECD, 2016). Malaysian policy makers have put in place a number of policies specifically focused on the promotion of innovation and productivity, with a particular emphasis on SMEs. Its score of 5.06 ranks it as an advanced country in

Dimension 1; its policies on productivity and productive agglomerations and clusters appearing to be particularly advanced. In the area of SME greening, Malaysia's Dimension 2 score of 5.08 reflects the fact that it is among the pioneer countries in this area.

Productivity measures

The Malaysia Productivity Blueprint (MPB) specifies productivity enhancement strategies at the national, sector and enterprise levels. Drafted in line with the 11th Malaysia Plan 2016-2020, the MPB defines five key strategic thrusts for raising productivity: *i)* building the workforce of the future; *ii)* driving digitalisation and innovation; *iii)* making industry accountable for productivity; *iv)* forging a robust ecosystem; and *v)* securing a strong implementation mechanism. The strategy emphasises the role of SMEs in driving digitalisation and innovation to boost productivity. Likewise, the 11th Malaysia Plan specifies dynamic SMEs as a focus area for re-engineering economic growth. The National Productivity Council takes the leadership role and carries out strategic oversight of productivity enhancement programmes and policies at the national level for both large enterprises and SMEs. Advisory and policy support is carried out by the Economic Planning Unit under the Prime Minister's Department.

Execution of the MPB is funded through at least 89 programmes, with an allocation of MYR 9.5 billion for the 2017-2020 period. These programmes may be drawn on by firms in a new nexus of six productivity sectors launched in November 2017. It aims to boost productivity in the agro-food, ICT, machinery and equipment, private health care, professional services and tourism sectors. Monitoring is emphasised, especially at the initial stages as each sector builds capability and returns on investments. The Delivery Management Office (Malaysia Productivity Corporation and MITI) is responsible for co-ordinating, monitoring and evaluating the implementation of productivity strategies by both public- and private-sector players. Public-private dialogues on productivity are conducted on a regular basis. Key performance indicators (KPIs) on SME productivity, such as labour productivity, are regularly monitored, and total factor productivity is collected regularly at the national level.

Business development services

Both the SME Masterplan 2012-2020 and the 11th Malaysia Plan provide a strategic framework for business development services (BSD). SME Corp. formulates and co-ordinates the implementation of SME development programmes, but other agencies are also involved in the development and implementation of BDS, including the Malaysian Global Innovation and Creativity Centre (MaGIC) and the Malaysia Digital Economy Corporation (MDEC).

These institutions have put programmes in place to help SMEs gather information and obtain necessary skills and training. For example, through SME Corp.'s SME Hub, formerly known as One Referral Centre, SMEs can access relevant information online and offline, such as information on how and where to get support depending on their size, level of development and sector-specific needs. The SME Corp. portal provides opportunities for SMEs to communicate with their peers, meet the private-sector providers and find out about upcoming events. Co-financing mechanisms for BDS – services for logistics, travel, marketing, etc. – are available through SME Corp., the PUNB financial institution, the Facilitation Fund and the Malaysian Technology Development Corporation, with 60% typically provided by the agency in question and

40% by entrepreneurs. There is a plan to introduce a Business Development Voucher Programme that would provide matching grants to assist entrepreneurs in modernising their facilities, exploring new markets and improving their business processes. Two initiatives worth mentioning include the Global Acceleration and Innovation Network (GAIN) and the Digital Hub. The GAIN programme supported 150 tech SMEs with market access, funding capital, business and technical competencies, and leadership. The Digital Hub provides start-ups with high-speed broadband and fibre optic connectivity, funding (both private and government) and facilitation opportunities, and intellectual property (IP) protection.

Regular monitoring is in place through a monthly reporting mechanism. The government also uses annual and quarterly industry reporting.

Productive agglomerations and cluster enhancement

The 11th Malaysia Plan calls for industrial cluster promotion programmes, particularly for intensifying research, development and commercialisation efforts. Priority sectors include knowledge-based clusters; the automotive, aeronautics and petrochemical industries; tourism; palm-oil downstream processing; and energy-intensive industries including aluminium, steel and glass. A cluster-based approach that vertically integrates production, quality control, processing and marketing is being promoted to encourage participation of co-operatives and associations in agro-food and industrial commodities along the supply chain. Malaysia also has several science parks, including cybercity/cybercentres, digital hubs and start-up community centres.

Malaysia offers a wide range of tax incentives to promote investments by foreign and local investors in selected industry sectors or promoted areas, such as operational headquarters, international procurement centres, regional distribution centres and treasury management centres. A ten-year income tax exemption is granted to developers or managers in industrial parks or free zones. While tax incentives are available for a wide range of companies, participation in product R&D by local enterprises is generally low, even in Penang, the country's most developed technology cluster region. Initiatives that help SMEs move to cluster zones include rental of incubators, a technology and business incubation programme, and business matching with technology entrepreneurs. The Penang SME Centre and the Penang Science Council are examples of effective public-private co-operation. Public-private partnerships and other collaborative efforts have led to a number of spin-offs and the creation of new enterprises by former employees of multinational enterprises. Malaysia Digital Economy Corporation and SME Corp. regularly monitor their own cluster development programmes. Under HIP, a quarterly performance report is submitted to the NSDC. However, independent evaluation of the cluster programmes is still limited, and cluster KPIs are not SME specific.

Malaysia has the highest score among AMS in the 2014 FIL rate of the Economic Research Institution for ASEAN and East Asia (ERIA), at 94%, up from 83% in 2011. However, while more open in the manufacturing sector, Malaysia is more restrictive on land and natural resources.

Technological innovation

Malaysia has used a range of policy instruments to advance its science, technology and innovation (STI) capabilities and has invested much in education and research. However, the country lacks a stand-alone innovation policy, and there is a continued need to strengthen the innovation capabilities of Malaysian businesses – especially the smaller

firms, which are less inclined to undertake R&D or innovation. Malaysia's approach to innovation is embedded in strategic documents including the SME Masterplan 2012-2020 and the 11th Malaysia Plan. Ministries, agencies and advisory committees and councils are engaged in STI-related policy making, funding and implementation, each with its own strategic framework and policy instruments. Policy co-ordination on innovation is handled by an inter-governmental body, the National Innovation Council, while the National Innovation Agency Malaysia is a statutory body responsible for stimulating and developing the country's innovation ecosystem. Although efforts have been made to create a simplified architecture for STI governance, the multitude of institutional actors with overlapping responsibilities has made policy implementation a difficult task.

Malaysia's IP legal system is in line with international standards, and the country is a signatory of many international IP treaties. The agency dealing with voluntary copyright notification is the Intellectual Property Corporation of Malaysia.

Considerable effort has been devoted to attracting and supporting business R&D activities, particularly in the high and medium technology sectors. Measures to promote industrial R&D and innovation include fiscal incentives, support for consortia and clusters, public-private partnerships and the promotion of science-industry linkages and knowledge transfer. Recent initiatives to provide SMEs with external technological and managerial expertise recognise that collaboration with experienced academics or industrial experts is beneficial to SMEs, especially those with low innovation capabilities. Examples include Steinbeis Foundation Malaysia, a SIRIM-Fraunhofer partnership and the Ministry of Higher Education's Public-Private Research Network. SME Corp. oversees 29 programmes on innovation promotion and an innovation/technology commercialisation platform. This includes its InnoCERT certification programme aimed at fostering innovative enterprise by harnessing and intensifying home-grown innovations and R&D. The programme facilitates access to financial incentives and wider market opportunities and assists certified companies with business matching with international companies, MNCs and GLCs. The government offers financing schemes through HIP 6 for inclusive innovation, focused on three areas: *i)* innovators/entrepreneurs (up to MYR 200 000); *ii)* licensing (up to MYR 50 000); and *iii)* community enablement (up to MYR 50 000).

Public research institutes play an important role in Malaysia's innovation system through their applied research, technology transfer and information services. However, they have seen their R&D funding fluctuate widely, and their research and technology transfer capacity remains underdeveloped. The country offers a wide array of infrastructure for SMEs including science and technology parks, incubators and innovation centres. An example is Technology Park Malaysia, with more than 3 000 technology-driven companies using its space, equipment and infrastructure, and support services.

Monitoring is implemented on a yearly basis as part of the Annual SME Integrated Plan of Action report. The NSDC monitors national performance indicators that measure the performance of SME innovation policies. However, evaluation of the effectiveness of incentives and grant instruments focused on innovation is limited.

Environmental policies targeting SMEs

Malaysia is among the most advanced countries in ASEAN in terms of environmental policies targeting SMEs. Its policies are included in two national-level strategies: the 11th Malaysia Plan and the Malaysia Green Technology Plan (KeTTHA 2017), which helps operationalise the National Green Technology Policy (KeTTHA 2009). While targeted at

the economy as a whole, these strategies contain provisions specifically aimed at SMEs and set out actions and targets. The 11th Malaysia Plan's sixth strategic area, Pursuing Green Growth for Sustainability and Resilience, aims to develop a market for green products through public-sector green procurement, with a target of 20% of government procurement meeting green standards by 2020. The KeTTHA 2017 supports SMEs involved in green manufacturing, and sets targets for 2020, 2025 and 2030.

These policy goals are supported by different initiatives, notably the MyHIJAU SME & Entrepreneur Development Programme, which helps SMEs adopt green practices. The programme facilitates capacity building for SMEs to help them obtain green label certification. It provides an integrated approach to working with other bodies, such as green certification organisations and private-sector organisations like the SSM, and encourages the greening of corporate supply chains. The aim is to encourage greener practices by partnering a green procurement strategy with policies that support SME greening.

Incentives and instruments for green SMEs

Malaysia's financial incentives and support schemes for green SMEs include tax incentives on investments in green technology, funds for SMEs and entrepreneurs (the Small and Medium Industries 2 Fund and the New Entrepreneurs Fund), and the Green Technology Financing Scheme, a credit guarantee scheme to facilitate the uptake of energy-efficient technology by SMEs.

Malaysia also offers enterprises support for developing environmental management systems through the ISO 14001 and ISO 50001 standards, but these are complex systems that are aimed at larger enterprises and may be difficult for SMEs to achieve. In terms of regulatory incentives, more could be done to structure the regulatory system to address SMEs specifically in order to encourage them to reach or exceed compliant levels.

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

Malaysia has one of the most advanced policy frameworks in the region for the development of skills to boost entrepreneurial success and the promotion of entrepreneurship that is social and inclusive. Its Dimension 7 score, on policies to promote entrepreneurial education and skills is 4.58, compared to a regional median of 4.27. In Dimension 8 on policies to promote social and inclusive entrepreneurship it scores 4.00, compared to a regional median of 2.77. This indicates that policies have been put in place and that initiatives are currently being implemented. Its policies in these two areas are tailored to different demographic groups.

Entrepreneurial education

Under Malaysia's Education Blueprint 2013-2025, entrepreneurship values are integrated into leadership skills, one of six key attributes taught to students at all education levels. Entrepreneurship elements are included in the revised standard curriculum for the primary and secondary levels, along with creativity and innovation elements. Through its Junior Vocational Education programme, Malaysia has expanded vocational education to begin at the lower-secondary level, and it has also and strengthened its existing Vocational College programme at the upper secondary level. However, the national education blueprint does not clearly define how entrepreneurship is to be taught in formal education.

Nevertheless, Malaysia has put strong emphasis on fostering entrepreneurship in higher education and connecting it with existing businesses, especially SMEs. In 2008, SME Corp. and the Ministry of Higher Education initiated an SME-University Internship Programme to be adopted at all public universities. Malaysia also implements the ASEAN Consulting-based Learning for ASEAN SMEs programme at Universiti Kebangsaan Malaysia. Universities offer various degrees in entrepreneurship, for example bachelor and master degrees at the University of Malaysia Kelantan. Malaysia stands out as the only ASEAN country with a mechanism for monitoring entrepreneurial learning in universities. The monitoring is conducted through the Malaysian Qualification Agency.

Entrepreneurial skills

Malaysia has no specific mechanisms for conducting background studies on entrepreneurship skills among SMEs as a basis for policy design, other than SME Corp.'s annual report on the SME and Entrepreneurship Development Programme. Nonetheless, initiatives to promote entrepreneurial skills among SMEs are being executed by various ministries and government agencies. Examples include the INSKEN Business Scale Up Programme, run by the Prime Minister's Department, which aims to provide comprehensive training in entrepreneurial skills to scale up 500 companies, and the Young Entrepreneur Programme, offered by SME Bank Group, which provides young would-be entrepreneurs with basic skills for starting and growing a business. SME Corp.'s Bumiputera Youth Entrepreneurship programme (TUBE) is also a key national initiative for fostering entrepreneurial spirit among youth.

MaGIC is another notable initiative to nurture entrepreneurial skills among SMEs and new entrepreneurs. It aims to build a sustainable entrepreneurship ecosystem through training and incubator programmes designed for early-stage start-ups, small businesses and aspiring entrepreneurs. MaGIC programmes include the Pre-Accelerator Bootcamp for aspiring entrepreneurs and start-ups; the Corporate Entrepreneurship Responsibility programme to introduce quality business practices to entrepreneurs; and the Educ8 programme, which delivers innovation-based courses for entrepreneurs nationwide.

In promoting entrepreneurship, Malaysia pays special attention to vulnerable populations The National Dual Training System, implemented by the Department of Skills Development under the Ministry of Human Resources, was mandated in 2016 to register 4 000 apprentices in its training sessions for school leavers and the unemployed. The I-KIT programme, implemented by the Department for Women's Development under the Ministry of Women, Family and Community Development, aims to provide intensive skills training and entrepreneurship assistance to low-income single mothers. In 2016, MYR 750 000 was allocated for I-KIT. Further details on SME-related programmes for women, youth and persons with disabilities (PWD) are provided below under Dimension 8 on social enterprises and inclusive SMEs.

Social entrepreneurship

Social entrepreneurship has recently become a significant agenda item for enhancing socio-economic well-being in Malaysia. The country was recognised by the Thomson Reuters Foundation pool as one of the top ten countries for social entrepreneurs in 2016 (JOSTIP, 2017). An estimated 120 Malaysian enterprises currently self-identify as social enterprises and are registered with the SSM. This does not include organisations registered with the Registrar of Societies or Registrar of Co-operatives. Malaysia has no

formal definition of a social enterprise (SE), but there is a definition in the *SE 101 Guidebook* developed by MaGIC. As in other countries in the region, there is no specific legal structure for social enterprises, which can be incorporated as private limited companies, enterprises or associations.

Social entrepreneurship and social innovation were included in the 11th Malaysia Plan's list of game-changer approaches for the country. A dedicated Social Entrepreneurship Unit was set up at MaGIC in 2013 to promote development of the social enterprise sector. The unit, which developed a Social Enterprise Blueprint, has since been dissolved. MaGIC is considered the main institution for policy co-ordination and implementation. Other institutions also undertake activities relevant to social entrepreneurship, among them the National Innovation Agency (AIM) and the Institute for Youth Research.

Private initiatives and academia play a part in Malaysia's ecosystem for promoting social entrepreneurship. A fund of MYR 20 million was allocated for MaGIC to finance social enterprises, with a target of increasing their number to 1 000 by 2018. The government has developed a number of instruments in partnership with academia and private sector, including workshops, a social enterprise boot-camp and the Amplify Award, which grants growth funds. Through the Global Accelerator Programme and in partnership with the private sector (ImpactHub, MyHarapan, Scope Group), new social entrepreneurs can get access to skills development, market-access support and financial grants. AIM and MaGIC created an impact assessment toolkit, IDEA Mark, which offers preferential treatment in public procurement to companies that have been certified as impact-driven ventures. Several universities conduct research on social entrepreneurship issues, among them Universiti Putra Malaysia and the National University of Malaysia. At least two organisations provide seed funds to social enterprises: Scope Group (under the UnLtd Malaysia programme) and Social Enterprise Ventures (under MyHarapan, as investments). The Social Outcome Fund was launched in 2017 with MYR 3 million to finance social intervention projects by social purpose organisations.

Inclusive entrepreneurship

Inclusive entrepreneurship is at an intermediate stage of policy development in Malaysia. It is one of the few countries in ASEAN to offer a package of services for each of the target groups (women, youth and PWD), from business skills training to market access and special financing schemes. Barriers common to the target groups are being addressed to a degree. SME Corp. handles most implementation activities – a good-practice example of mainstreaming the concerns of disadvantaged groups into the general SME sphere. The ability to employ a multiple-stakeholder, co-ordinated approach stems from clear strategic documents and focal points for women, youth and PWD.

Support activities differ for each of the target groups. Policies for women tend to focus on subsistence entrepreneurship, those for youth on start-up and growth activities, and those for PWD on refining and expanding existing services. As women are reported to face few barriers to accessing the general SME support services offered by SME Corp., other support for women's entrepreneurship has taken a welfare approach. It focuses on business start-up activities aimed at providing a sustainable source of income to disadvantaged women, especially low-income women and single mothers. Examples are the I-KIT and I-KeuNITA programmes, led by the Ministry of Women's Development in co-ordination with relevant social ministries. Malaysia has placed great emphasis on cultivating youth entrepreneurs. This is evidenced by their mention in multiple strategic documents, as well as media promotion, and is underlined by the country's strong

performance in Dimension 7 on entrepreneurial education and skills. Start-up and growth support for youth entrepreneurs includes incubators like TUBE and export-market access under MATRADE. As for PWD, there is a strong desire to expand employment opportunities via entrepreneurship and economic empowerment programmes. Efforts have focused on taking existing financial assistance to PWD beyond start-up support, primarily by lending to businesses ready to scale up and by providing more disability-sensitive business assistance schemes.

The way forward

Strengthening the institutional, regulatory and operational environment

Malaysia has taken steps to strengthen the institutional, regulatory and operational environment for SMEs and SME policy in recent years, and it has now achieved a near-perfect score for its SME policy framework. Nevertheless, further steps could be taken to improve the legal and regulatory environment for SMEs. To build on previous work, Malaysia could:

Legislation, regulation and tax

- **Increase the transparency of public-private consultations.** Transparency is important to ensure that PPCs are representative and accountable, particularly for the amendment of key regulations. For key legislative and regulatory amendments, two rounds of consultation could be considered, similar to the procedures in Singapore. Under this process, the topic is discussed with the public prior to the development of a public consultation document that outlines the context for the proposed amendment, potential issues and focus areas for comment, as well as the options being considered. This document is then discussed with key stakeholders.
- **Further streamline the requirements for starting a business**. Malaysia has created relatively streamlined requirements for launching a business, but some bottlenecks remain. Registering for goods and services tax, for instance, currently takes 14 days. Easing these bottlenecks through further streamlining would be helpful.

Facilitating SME access to finance

Malaysia's SME policy commits a substantial share of funding to the development of SME financing, and the country possesses a well-developed financial sector. To further build on previous efforts, Malaysia could:

- **Implement reforms to enhance the secured transaction framework.** Financial institutions may continue to face uncertainties in the secured transaction framework for lending to unincorporated entities. The introduction of a PPSA regime could help to eliminate these uncertainties.

Enhancing access to market and internationalisation

Malaysia has advanced with initiatives to promote more seamless cross-border trading and help local SMEs to go global. This can be built upon through the following actions:

- **Better define trade facilitation support for SMEs.** There should be clear programmes specifically aimed at facilitating cross-border trading for SMEs to put them in a better position to compete with larger companies. Small and medium enterprises typically have less capability and resources to absorb information about and deal with foreign trading procedures. Merely disseminating information and guidelines for traders is not sufficient for expanding SMEs' capacities to go global. However, clearer definition of trade facilitation support should not be confused with protective measures towards SMEs, which could be counterproductive for growth.
- **Streamline trade facilitation to avoid inefficiencies.** The process of streamlining the various channels and initiatives on trade facilitation needs to be completed soon to avoid inefficiencies and economic costs arising from potential overlapping functions and unclear benefit mechanisms. Expediting the completion of DFTZ development has great potential to help the streamlining process. The integration into DFTZ of SME-specific packages on e-customs and e-commerce initiatives and the AEO programme can lever up its role of supporting SMEs in trading across borders.
- **Strengthen the monitoring and evaluation of GVC integration programmes.** Malaysia has a strong commitment to promote SME linkages with larger companies and MNCs. Enforcement of a stronger and more transparent monitoring and evaluation system for such programmes would allow the public to appreciate the notable growth in the number of SMEs involved in global production networks and to understand the government's contribution to the process. It could potentially drive both large companies/MNCs and SMEs to participate in government GVC integration programmes and, in turn, strengthen these programmes' spillover effects.
- **Integrate service quality certification into SME quality standards policies**. As service sectors continue to grow globally, it is important to embed service quality certification elements in policies in order to ensure that SMEs remain competitive domestically and internationally.

Boosting productivity, innovation and adoption of new technologies

Productivity, technology and innovation

- **Provide clear mandates for the agencies dealing with innovation.** A number of institutions deal with policy making, co-ordination and implementation of research, innovation promotion and SME support structures. Institutional governance deficiencies undermine the coherence of innovation policy and make it difficult for SMEs to understand which organisation they should consult in the first instance. Streamlining governance by providing a clear mandate for each agency dealing with innovation would be helpful.
- **Develop the infrastructure available for SMEs at the local level.** Malaysia's business support services tend to be concentrated in urban areas. To spread the benefits of such services throughout the country, measures could be taken to increase the number of local business support centres operating in rural areas. The aim would be to provide better access to information, expertise, equipment and even space, as well as support with company registration. These activities should

be aligned and in co-operation with both established and new organisations and initiatives (SME Corp, AIM, Steinbeis Foundation Malaysia, PPRN, SIRIM-Fraunhofer).

- **Further develop evaluation of initiatives to promote productivity.** Malaysia could reinforce its mechanisms for evaluating instruments and programmes that promote productivity by developing indicators that not only focus on outputs but also evaluate the impact of its policy measures (outcome). Ideally the evaluation mechanism would analyse the entire ecosystem to ensure that it does not have gaps. Independent evaluation of the existing policy instruments could help policy makers adjust the programmes to create higher impact at lower cost.

Environmental policies and SMEs

- **Provide a clear mandate for the greening of SMEs to a single agency**. Although Malaysia has embarked on an ambitious approach for greening its SMEs, policies are derived from different plans and responsibility is spread over different agencies. It could be beneficial to consolidate the various green policies under a broader policy for SME support, or to assign responsibility for coordinating these policies to a single government entity. The creation of a dedicated agency or department with a clear mandate could make this task easier.
- **Develop a monitoring and evaluation system**. Steps could be taken to strengthen the monitoring and evaluation of policy implementation in the area of SME greening. This could be done by integrating dedicated KPIs into the policy documents, by providing a clear timeline, and by ensuring regular monitoring of the KPIs.
- **Develop an environmental regulatory system to spur SME performance**. SMEs could be encouraged to improve their environmental performance through the creation of a rule-based system that targets higher risk activities and supports self-reporting.
- **Regularly monitor the results of government green procurement**. This would help both to ensure the effectiveness of green procurement initiatives and to identify areas where there are not yet options for procuring green products.

Stimulating entrepreneurship and human capital development

Malaysia has developed substantial initiatives to promote entrepreneurial skills. Those initiatives are channelled through various agencies' programmes and activities and can be enhanced through the following actions:

Entrepreneurial education and skills

- **Set up a one-stop information centre.** The centre should have a repository of all available programmes and assistance related to the promotion of entrepreneurial skills and should be able to direct interested participants to the appropriate implementing agencies. At present, several programmes offer similar benefits and have similar target groups. Information on the available initiatives from varied agencies should be collated and categorised by key characteristics and target groups. This would help SMEs or aspiring entrepreneurs better understand the

available programmes and determine which are most appropriate for their immediate needs and interests.

- **Strengthen programmes and assistance for the unemployed and school leavers.** For the sake of inclusion, these vulnerable groups should also be entitled to programmes that can help develop their entrepreneurial mindset and skills so that they can positively contribute to the economy.
- **Develop more concrete measures to deliver entrepreneurial learning in schools.** The current national education blueprint calls for every student to possess an entrepreneurial mindset, but the document has no clear guidelines on how to deliver lessons on entrepreneurship. Without such guidelines, it is up to schools decide on the depth and extent of their lessons on the topic. This makes it difficult to measure the effectiveness of entrepreneurial learning.

Social and inclusive entrepreneurship

- **Develop a clear definition or set of criteria for social enterprise.** The lack of a legal definition of a social enterprise has been a persistent source of confusion. Although social enterprises are often falsely perceived as charities, they are in fact profit-making businesses, but with a strong social and environmental purpose.
- **Clearly define the SE governance structure.** Malaysia's previous governance structure to promote social entrepreneurship has ceased to exist and no clear alternatives have been proposed. Any new policy documents should define clear responsibilities for social entrepreneurship policy development and policy implementation and should identify national priority areas.
- **Further promote collaboration with the private sector and academia.** Many relevant initiatives have been undertaken by private players and academia. In order to ensure better co-ordination and ways of collaboration, it might be beneficial to create a co-ordination council for social impact that would meet on a regular basis.
- **Further promote development of the impact finance sphere.** A side effect of Malaysia's speedy development and its transition to becoming a high-income nation is that funding of local NGOs from international donors has all but dried up. Through the development of a social impact finance ecosystem, social impact ventures could gain easier access to growth finance.

Notes

[1] Malaysia was one of the region's richest economies in 2016, with a GDP of USD 296 536 million, the fifth highest in the region (after Indonesia, Thailand, the Philippines and Singapore), and a GNI per capita (PPP) of Intl$ 26 960, the region's third highest (after Singapore and Brunei) (World Bank, 2016[2]). It was also the region's third most open economy in 2015 (after Singapore and Viet Nam), and the 19th most open economy in the world, with trade accounting for 134% of its GDP (World Bank data).

[2] Malaysia also produces the second highest volume of palm oil globally, after Indonesia.

[3] Primarily through the production of electronic components used in cell phones, computers and the automotive sector.

[4] In 2016.

[5] Being outranked only by Singapore and Brunei, and falling into the UNDP's "high human development" category.

[6] Measured in current USD, using the Atlas method.

[7] Thresholds are recalculated every year.

[8] On the official MIDA website, http://www.mida.gov.my/home/costs-of-doing-business/posts/.

[9] In 2017.

[10] MYCOID was initially launched in 2016.

[11] Electronic Procurement (eP); Project Monitoring System (PMS); Electronic Services Delivery (eServices); Human Resource Management Information System (HRMIS); Generic Office Environment (GOE); E-Syariah; and Electronic Labour Exchange (ELX).

[12] Bank Negara Malaysia is the country's central bank.

[13] Prior to 2003, the BNM also established the Credit Guarantee Corporation (in 1972), a credit guarantee scheme specifically targeted at SMEs, and its Fund for SMEs (in 1989), an initiative to ensure that the availability of funds at reasonable costs for targeted segments of SMEs (i.e. start-ups or those without collateral).

[14] Its credit bureaus cover 82.6% of the adult population, while its credit registry covers 63.6%.

[15] CBM is an SME-specialised credit bureau regulated under the Credit Reporting Act (2010).

[16] CBM was an SME-specialised credit bureau prior to the introduction of the country's Credit Reporting Act in 2010, after which it became Credit Bureau Malaysia.

[17] The interest rate spread between SMEs and large firms also increased, from 0.9 percentage points in 2012 to 3.0 percentage points in 2015 (OECD, 2017[17]).

[18] Malaysia also used to provide interest rate risk premium subsidies for SME loans. This programme was cancelled amid concerns that it could create market distortions.

[19] This represented an increase over the previous year. In 2015, 220 companies received investment (making the 2016 results a 71% increase year-on-year), new investments stood at MYR 365 million (making the 2016 results a 56.2% increase), and total cumulative PE/VC investments in the country stood at MYR 2.2 billion (increasing by 31.6% in 2016).

[20] The country's PE/VC industry has benefitted from large investments over recent years by Malaysian institutional investor funds, notably its sovereign wealth fund, Khazanah Nasional Berhad, and its pension fund, KWA, which have a combined total value approximating MYR 270 billion, or USD 67.4 billion.

[21] Information retrieved from Malaysian Global Innovation and Creativity Centre (MaGIC) Central website (http://central.mymagic.my/resource/frontend/view/772).

[22] Please visit https://mydftz.com for more information on Malaysia's DFTZ.

[23] Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: *i)* Information availability; *ii)* Fees and charges; *iii)* Formalities–documents; and *iv)* Formalities–procedures, with 2 being the highest possible score for each of the indicators. In 2017, Malaysia scored 1.25 for information availability, 1.5 for fees and charges, 1.63 for formalities–documents and 1.33 for formalities–procedures.

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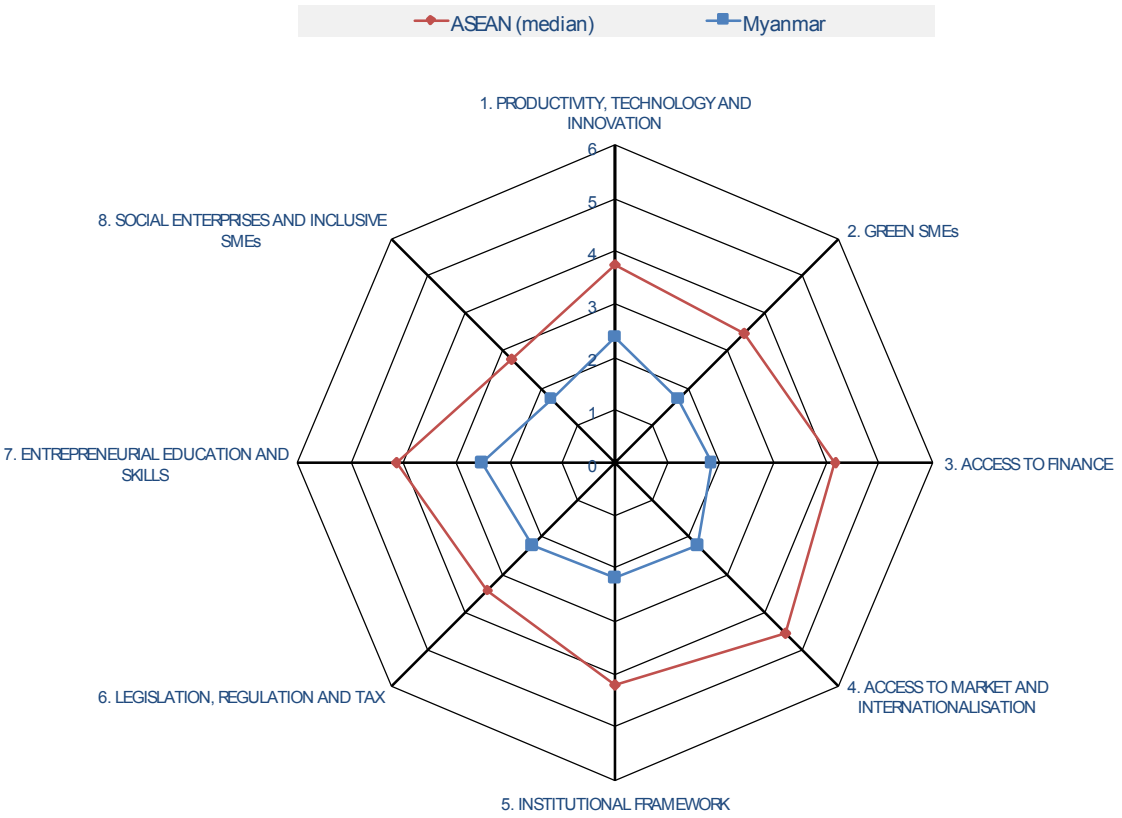
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Chapter 17. Myanmar

Myanmar is at an early stage of developing SME policies and has tended to prioritise interventions to enhance the legal and regulatory environment for SMEs. A number of significant steps were taken over the period 2014-2015, but reform appears to have stalled during the past couple of years. Very recently, however, new steps have been taken to enhance the institutional setting and SME access to finance. Going forward, Myanmar could continue to focus on developing its institutional framework for SME policy.

Figure 17.1. 2018 SME policy index scores for Myanmar



Overview

Economic structure and development priorities

Economic structure

Myanmar is a lower middle-income country located in the Greater Mekong Subregion. It has the second largest territory in ASEAN and a rather sparse population (although still the fifth largest), with 52.9 million people spread over 676 576 km^2 (ASEC, 2016[1]). It is richly endowed in natural resources such as precious stones (particularly rubies and jade), timber (notably teak), petroleum and natural gas. The economy remains highly agrarian, however, with 65.4% of the population living in rural areas[1] and agriculture accounting for 23.6% of employment and 25.5% of value added (ILO, 2016[2]; World Bank, 2016a[3]).

Between 1962 and 1988, Myanmar was a centrally planned and isolationist economy as it pursued the "Burmese Way to Socialism" under the Burma Socialist Programme Party. During this time, the industrial and service sectors were almost wholly under the control of the central planning office, and only agriculture was to some extent free, reflecting the fact that agriculture never collectivised in Myanmar. In 1988, the military government announced that the country would begin its transition to a market-oriented economy. The economic transition began during a period of turmoil in the late 1980s, when the country was still not free from conflict. Even at present, a significant proportion of the country

remains affected to varying degrees by conflict and associated tensions (an estimated 35.8% of townships, or 118 out of 330) (Asia Foundation, 2017[4]).

Since 2011, Myanmar has begun its transition to a civilian government. It has placed an emphasis on attracting foreign direct investment (FDI), particularly in infrastructure and investment to build up its industrial base. Between 2012 and 2015, Myanmar was one of the fastest growing economies in the world, with substantial FDI flowing into the country in 2014 and 2015. This was mainly concentrated in the telecommunications sector, drawn by Myanmar's significant market size, followed by manufacturing, hotels and construction. While Myanmar's success at attracting FDI in manufacturing has been more limited than in telecommunications, a number of foreign investment projects have recently begun in the sector, mainly in labour-intensive industries such as garments, footwear and electronic assembly. The country has established one special economic zone (SEZ) to date, the Thilawa SEZ located just outside Yangon, which has attracted export-oriented manufacturing FDI and has secured foreign capital to advance infrastructure developments. As a result of these efforts, Myanmar's industrial base has significantly increased over recent years.

Table 17.1. Myanmar: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	**2013**	**2014**	**2015**	**2016**
GDP growth	Percent, y-o-y	7.3	8.4	8.0	7.3	6.3
Inflation	Percent, average	2.8	5.7	5.1	10.0	7.0
Government balance	Percent of GDP	1.0	-1.4	-0.9	-4.4	-4.6
Current account balance	Percent of GDP	-4.0	-4.9	-3.3	-5.2	-6.6
Export of goods and services	Percent of GDP	11.5	19.6	20.1	20.8	-
Imports of goods and services	Percent of GDP	10.9	18.9	22.2	26.5	-
Net FDI (inflows)	Percent of GDP	2.2	3.7	3.3	6.5	-
External debt	Percent of GNI	10.6	12.6	10.1	-	-
Gross reserves	Percent of external debt	93.8	-	-	-	-
Domestic credit to the private sector	Percent of GDP	9.3	12.8	15.5	18.1	-
Unemployment	Percent of active population	4.0	4.0	4.0	4.0	4.0
GDP per capita	PPP (constant 2011 intl$)	1 068.6	1 149.0	1 230.3	1 308.7	-

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

On the macroeconomic front, downside risks to growth over the medium term include a current account deficit and a negative government balance. The country does have a fairly active export sector, but its exports tend to be concentrated in a few primary commodities such as petroleum gas (which accounted for 31% of merchandise exports in 2016) and primary agricultural goods (19%) (MIT, 2016[5]). It also predominantly exports to its neighbours, with China (40.6%) and Thailand (19.1%) the largest recipients in 2016 (MIT, 2016[5]). The government enacted a Public Debt Management Law in 2016 and it is currently attempting to cut spending. However, the country's budget deficit is expected to grow over the medium term (IMF, 2017[6]).

Challenges to socio-economic development over the long term include a low level of basic education and issues with health. These areas are improving but are still affected by a lack of infrastructure and the ongoing conflicts. In 2015, the government concluded a Nationwide Ceasefire Agreement with eight insurgency groups,[2] yet eight ongoing conflict areas remain. Malnutrition is high, with 35.1% of children under 5 reported as

malnourished, and the country has a relatively high rate of HIV exposure. A nontrivial share of people (6.5%) live at or below the international poverty line, on just USD 1.90 a day, and only 23.8% of the population have some secondary education. There are significant urban-rural disparities across the country, with only 44.5% of the rural population having access to electricity.[3]

Reform priorities

The government's long-term economic development priorities are elaborated under its National Comprehensive Development Plan (NCDP), which covers the period 2011 to 2030. Its principal objective is for Myanmar to be a market-oriented economy with a GDP of USD 180 billion and a GDP per capita of USD 3 000 by 2030 (the threshold to graduate from the category of least-developed countries), with a sound infrastructure and a strong industrial base.

The government also elaborates mid-term plans under the NCDP, with the current five-year plan (the second of its kind) running from 2016-20. This plan places particular emphasis on attracting investment, and also stresses industrial development, agricultural reform, reducing regional inequalities, increasing human development and developing more reliable, accurate and regular statistical data to inform public policy decisions.

Private sector development and enterprise structure

Business environment trends

Myanmar has posted impressive economic growth rates since its transition to a civilian government began in 2011, and it has successfully attracted FDI into a number of key sectors. However, it faces the challenging task of completing far-reaching reform of its institutions, legal frameworks and mentalities, as well as of upgrading infrastructure and health and primary education outcomes, while ethnic tensions persist in many parts of the country. In particular, private-sector activity is hampered by long and costly administrative procedures for starting a business, registering property, dealing with construction permits and trading across borders, as well as the difficulty of enforcing contracts (World Bank, 2017[7]). The government has undertaken important reforms to improve the business environment since the last assessment, for instance by slashing the time and cost required to start a business, adopting a regulation allowing for the establishment of credit bureaus and lowering stamp duty (and thereby the cost of registering property). It has also abolished export licence requirements for 166 categories of goods, and import licence requirements for 152 categories, cutting the time required to export general cargo products by 20% since 2013.

The country is expected to continue to attract FDI in infrastructure and consumer goods over the medium term, but recent tensions and reform fatigue have caused investment to drop off slightly, accelerating the need for reforms that could improve the business environment for SMEs.

SME sector

Data are scarce on the number of MSMEs in Myanmar. Around 127 000 enterprises are registered with various government agencies, of which 99.4% are counted as MSMEs. In addition, some 620 000 unregistered firms are estimated to be operating in the country (Bernhardt, De and Dickenson-Jones, 2016[8]). Of the registered firms, 4 749 enterprises

were registered with the Ministry of Industry (MOI) as of 2017, of which 87.1% were SMEs and a relatively high share (18.9%) were medium-sized enterprises.

Data on the structural contribution of SMEs to the economy are also scarce, but by some estimates they account for around 80% of employment.

SME policy

Most private enterprise was effectively banned in Myanmar from 1962 to the late 1980s.[4] In 1990, the Private Industrial Enterprise Law provided a legal basis for private enterprise, and it also stipulated a definition of an SME.

Few targeted SME policies were implemented between 1990 and 2010, save the creation of the Small and Medium Industrial Development Bank (SMIDB) in 1996. Following the 2012 elections, however, SME development was emphasised as a priority by the president at that time, U Thein Sein. The government set up a Central Committee for SME Development, enacted an SME Development Law and took steps to streamline company registration procedures. From the end of 2015 until recently, however, SME development policies appear to have taken a back seat. Over the past few months, there has been renewed momentum behind SME development, and the government is close to finalising an institutional structure for SME policy in Myanmar.

2018 ASPI results

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

Myanmar is currently at a very early stage of developing SME policies. The institutional framework for SME policy is rather fragmented, and there appears to be a degree of policy stagnation since the last assessment. The regulatory and operational environment remains relatively complex, and good regulatory practices are either not used or employed infrequently and require further work. Notable progress on company registration has been made over the past three years by the country's Directorate of Investment and Company Administration (DICA). Myanmar's scores of 2.17 for institutional framework and 2.23 for legislation, regulation and tax reflect these findings.

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

The body responsible for formulating SME policy in Myanmar is the Central Committee for SME Development (SME Committee). This body was established in 2013 to formulate SME policies, laws and strategies; to conduct dialogue with stakeholders; and to co-ordinate donor funds and projects targeted at SMEs. It is chaired by the country's president and has 27 members, mainly from the government, represented at minister or equivalent level.[5] The SME Committee is required by law to meet twice a year, but it has met only once since it was established. This is partly because its members are very senior officials who face competing demands on their time. In addition, there are relatively few mechanisms in place to translate high-level policy formulation into implementation, or to provide the committee with substantive input. To address this constraint, the government began to create a working committee for the SME Committee, but this was not a policy priority and therefore has moved at a relatively slow pace.

The main body responsible for implementing SME policies and programmes has been the SME Development Department within the MOI's Directorate of Industrial Supervision

and Inspection. It has faced limited resources, particularly for regional outreach. The creation of a dedicated SME agency to take over from the department has been under discussion, but it was put on hold pending the establishment of a working committee for the SME Committee. Over the past few months, however, these efforts have been ramped up, with the government finalising a new institutional architecture for SME policy. This includes the formation of an inter-ministerial SME agency under a working committee chaired by the country's vice president. The agency is to have a governing board chaired by the Ministry of Commerce, a secretariat under the MOI, a fund management committee chaired by the Ministry of Planning and Finance, and a monitoring and reporting committee under the MOI.

The government does not currently have a working strategy for SME development in place. Instead, a general policy for SME development was drafted in 2015, marking an improvement from the 2014 assessment. This policy calls for the creation of "regionally innovative and competitive SMEs across all sectors" that could enhance income generation and contribute to the country's overall socio-economic development. It has seven priority areas: *i)* human resources; *ii)* technology development and innovation; *iii)* financial resources; *iv)* infrastructure development; *v)* market access; *vi)* appropriate taxation and procedures; and *vii)* conducive business environment. It particularly emphasises increasing agricultural productivity and SME internationalisation, and enhancing SME data collection. An SME Master Plan is now being formulated.

Very little monitoring and evaluation of SME policies and programmes currently takes place in Myanmar. SME data are collected only from the company register, and this is the basis on which estimates of SMEs' contribution to employment and share of total enterprises are calculated (as a share of this population). An economic census has not been conducted due to budgetary constraints. Numbers are not provided on the SME contribution to GDP or value added.

Scope of SME policy

A legal SME definition was enacted in 2015 under the Small and Medium Enterprises Development Law following a long process of negotiation among various stakeholders.[6] This definition removed the "horsepower" criterion that had been used to measure firm size under the former Small Scale Industry Law (2011). However, it retains three metrics of firm size[7] as well as the use of six sectoral size thresholds, which may reduce its ease of use. Currently, the definition is not used consistently by government agencies, and even within the MOI at least one department is still using the country's previous definition. In addition, the employment measure counts only permanent employees, which may incentivise firms to hire staff on temporary contracts in order to stay eligible for support programmes.

The long-awaited Myanmar Companies Act is expected to establish a firmer basis for defining an enterprise in the country when it replaces its century-old predecessor. Enactment was due in August 2018. One of the new law's most significant reforms is a clause stipulating that a local company in which foreign investors invest up to 35% may still be classified as a domestic enterprise.[8]

Table 17.2. Myanmar's SME definition

Size classification	Indicator	Unit	Sector					
			Manufacturing	Labour-intensive manufacturing	Wholesale	Retail	Services	Other activities
Small	Fixed assets	MMK (mn.)	>500	>500	-	-	-	-
	Turnover	MMK (mn.)	-	-	>100	>50	>100	>50
	Employees	Persons	⩾ 50	⩾ 300	⩾ 30	⩾ 30	⩾ 30	⩾ 30
Medium	Fixed assets	MMK (mn.)	500 - 1000	500 - 1000	–	–	–	–
	Turnover	MMK (mn.)	–	–	100 - 300	50 - 100	100 - 200	50 - 100
	Employees	Persons	51 - 300	301 - 600	31 - 60	31 - 60	51 - 100	31 - 60

High informality rates may exclude a large number of SMEs from policy interventions. Relatively little data are available on the true size of the informal sector in Myanmar, but in 2016 it was estimated that around 57% of the total workforce was operating in "vulnerable employment," i.e. as own-account or contributing family workers (LO/FTF Council, 2016[9]). There are few programmes in place to tackle informality, save some measures to streamline and enhance company registration procedures.

Development of legislation and regulatory policies affecting SMEs

Myanmar has started relatively recently to use practices such as public-private consultations (PPCs) and regulatory impact analysis (RIA), and they are therefore not well developed. In 2012, the government started using PPCs, and now the practice tends to be used at least once in the process of developing regulations by most regulators. To facilitate this practice, Myanmar has made use of its strong Chamber of Commerce and Industry (CCI), which is the main private-sector representative in most PPCs. However, a passive selection of private-sector representatives by regulators may reduce the private sector "voice" in these discussions. Comprehensive materials are not prepared by regulators to inform the PPCs. As for RIA, it is at an earlier stage of development. Actions are being taken on a very small scale to socialise its use among regulators. In 2017, four people were trained on the use of RIA from national universities and two from government. RIA was conducted on changes to the land law and their potential impact on fisheries.

Myanmar has undertaken various measures to reform and improve the operational environment for businesses. However, the most comprehensive approach to identifying laws and regulations for potential reform is taken via a Legislative Review Committee, which approaches the task from a legal standpoint rather than an economic one, and which is responsible for reviewing a huge number of laws, and not just those concerning the business environment. The process appears to have slowed over recent years.

Company registration and ease of filing tax

Myanmar has significantly streamlined the requirements for launching a business since 2014. At that time, it took around 77 days to launch a business, costing 139.6% of income per capita and requiring the equivalent of 6 190.1% of income per capita in minimum capital, and it involved 15 procedures (World Bank, 2014a[10]). Today it takes 14 days, costs 40.1% of income per capita (still rather high), involves 12 steps and there is no

minimum capital requirement (World Bank, 2017[7]). DICA has implemented a significant number of reforms in this area since 2014. The reforms eliminate the minimum capital requirement for forming a business, lower incorporation fees, abolish a requirement to obtain separate temporary and permanent certificates of incorporation, and remove a requirement to submit a reference letter and a criminal history certificate in order to incorporate a company (World Bank, 2015[11]); (World Bank, 2016b[12]).

The time required to files taxes has increased, however, with new requirements introduced for at least three taxes and higher costs attached to at least two.[9] To comply fully with tax filing regulations, a company must now submit 31 payments a year, taking 282 hours (an increase from 240.5 hours in 2015) and amounting to 31.2% of total profits (a reduction from 34% in 2015).

E-governance facilities

E-governance platforms are not currently available in Myanmar. The country has started to look into the development of platforms for filing tax online. An Electronic Transactions Law was passed in 2004 that could be used to cover the use of e-signature to some extent, although it is very general in nature and further work may be required to develop a comprehensive legal framework. The main agency looking into the development of e-governance platforms is the Ministry of Communication.

Facilitating SME access to finance (Dimension 3)

Myanmar has a highly underdeveloped financial sector according to global indicators, ranking 177th out of 190 countries on the ease of getting credit in 2017[10] (World Bank, 2017[7]). After almost half a century of state control,[11] the country's banking sector is gradually being opened up. Few SMEs have access to formal external finance, and a relatively limited range of products are available. When loans are extended, collateral requirements are very high, averaging around 412.9% of the value of the loan in some surveys (World Bank, 2016c[13]), and there are few measures in place to address this. The country does not yet have a credit reporting system or a movable assets register in place. Myanmar also has a relatively high number of unbanked citizens: only 23% of those aged over 15 had a bank account in 2014 (World Bank, 2014b[14]). Overall, the country has a very low level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at only 22% of GDP in 2016 (World Bank, 2016a[3]). The country's Dimension 3 score of 1.83 reflects these findings.

Legal, regulatory and institutional framework

For debt financing, there are few facilities to support financial institutions in assessing and hedging against credit risk. Myanmar does not yet have a credit reporting system, although in March 2017 the government enacted a regulation allowing for the establishment of private credit bureaus. This facilitated the realisation of steps already taken by the private sector, namely a 2016 memorandum of understanding between the Myanmar Banks Association and NSP Holdings of Singapore to set up a credit bureau in the country. Financial institutions also face difficulties in using contracting elements such as securitisation to hedge against credit risk. The country does not yet have a movable assets register, nor does it have a comprehensive secured transaction framework with clear rules over perfection and priority of security interests. Different types of collateral are currently registered under different departments, and claims on assets are not regularly updated.[12] This compounds an already weak contracting environment: measures

to resolve insolvency can take more than three years and can cost 51.5% of the claim value. A cadastre is in place, but a large share of land property is not formally registered, partially due to the fact that certain areas of Myanmar are still controlled by rebel groups. Digitisation of the cadastre is at an early stage. Immovable property, particularly real estate, remains the dominant form of collateral used, given the absence of a secured transaction framework.

For equity financing, the country has had a stock market since the end of 2015, the Yangon Stock Exchange (YSX), but it remains relatively shallow and illiquid. Only five companies were listed as of March 2018, with a combined market capitalisation of around USD 590 million, and the majority are state-owned enterprises.[13] TMH Telecom, which listed in January 2018, was the first company on the YSX to raise fresh capital through an IPO (rather than floating existing shares). Given the bourse's limited depth and turnover, it makes sense that a specialised SME platform has not yet been established. Consequently, no public programmes are in place to facilitate listing of SMEs.

Sources of external finance for MSMEs

The government of Myanmar has few instruments in place to stimulate bank lending to SMEs. Its main instrument is the SMIDB, a specialised government-owned development bank created in 1996 to address the missing market. The bank currently has limited outreach, with only 11 branches operating over the entire country. Alternative instruments to bring in the private sector, such as dedicated credit lines for SME lending, are not extended. Myanmar does have a credit guarantee insurance scheme, which is jointly implemented by Myanmar Insurance, the Sumitomo Mitsui Banking Corporation and CB Bank. Around 300 loans have been extended under this scheme over the past two years. The government is currently drafting a new law to regulate credit guarantee schemes.

Microfinance is a main source of external financing for the country's MSMEs. In 2011, the government passed a Microfinance Law, which has significantly increased the number of microfinance institutions (MFIs) in Myanmar.[14] As of December 2015, there were more than 256 MFIs operating in the country. However, there are few government programmes in place to increase regulatory oversight of these activities or to support licensed banks or MFIs in providing microfinance products for MSMEs. Many MFIs operate in Yangon and other urban areas, and a requirement that at least 50% of an MFI's clients reside in rural areas is not strictly enforced. Moreover, over indebtedness of borrowers is not currently monitored. There is no credit reporting system in place for MFIs, and few share information with each other.

Asset-based instruments are rarely used by firms of any size in Myanmar, partially due to a limited legal and regulatory framework. The government is developing a law to govern leasing, with plans to enact it in 2018. In 2016, the Mitsubishi UFJ Financial Group became the first foreign leasing company to establish a representative office in Myanmar.

Equity instruments are very scarce in the country. A number of private equity/venture capital (PE/VC) firms are interested in the potential afforded by Myanmar's market, but few deals have yet been concluded. There are various funds operating in the Mekong region, such as the Mekong Angel Investors Network, and some of these are based in Myanmar. There are no government programmes in place to stimulate PE/VC financing, but this is perhaps wise given the limited mass of such firms as well as the need to address more pressing issues.

Enhancing access to market and internationalisation (Dimension 4)

Myanmar has shown notable commitment to promoting its national trade. However, it is still in the early phase of developing more strategic and concrete policies to help its local SMEs go international, as reflected in its score of 2.20 for this dimension.

Export promotion

Determined to foster export-led growth, Myanmar's Ministry of Commerce launched a National Export Strategy (NES) in 2015. Technical assistance in design and management was provided by the International Trade Centre in collaboration with Germany's GIZ, with financial support from the German Ministry of Economic Co-operation (BMZ). The NES provides a detailed five-year framework and targeted plan for effective resource allocation. Its seven priority sectors for export development are: *i)* textiles and garments; *ii)* forestry products; *iii)* beans, pulses and oilseeds; *iv)* rice; *v)* fisheries; *vi)* rubber; and *vii)* tourism. Strategic documents for each priority sector have been developed.

The country's trade promotion agency, the Myanmar Trade Promotion Organisation, was established under the Ministry of Commerce with support from the Republic of Korea. It aims to raise the profile of Myanmar exporters, including SMEs, in international markets. The agency has established at least 12 Myanmar Trade Centres across the country to provide trade information and promotion services, including facilitating participation in trade fairs, workshops and business matching. It also provides basic market information on its website, such as commodity prices, export and import statistics, and a foreign traders' directory. The accuracy of the statistics provided cannot be confirmed, however, as the source of the data is not displayed.

As an important part in NES implementation, several projects by donor partners have been conducted. For example, BMZ funded a project to strengthen quality infrastructure in Myanmar, with budget of EUR 800 000 for January 2015-December 2018. The ultimate beneficiaries of the project are SMEs with a focus on food and the agricultural sector, as the improved infrastructure will support SME competitiveness. Other projects aimed at helping small businesses under the national export strategy include an inclusive tourism programme, implemented by the International Trade Centre and focusing on Kayah State, which aims to ensure that local SMEs and communities benefit directly from tourism revenues. The project is funded by the Centre for the Promotion of Imports from developing countries with support from the Netherlands Ministry of Foreign Affairs. Another project focuses on textiles and garments, another NES priority sector. The Export Promotion Guide for Myanmar Garment Manufacturers was launched in 2015 under an EU-funded project called Myanmar SMART (SMEs for Environmental Accountability, Responsibility and Transparency). The project was designed to help Myanmar manufacturers export garments to European Union countries. Its second phase (2016-2019) is now being conducted with the aim of building capacity and increasing skills among local garment SMEs in order to enhance their exports.

Since NES does not specifically tackle SME export promotion, Myanmar has sought to draft an SME development strategy that focuses on specific sector development for local SMEs, which constitute the vast majority of enterprises in the country (Kyaw, 2017[15]). Several strategies have been considered by the government to promote SME exports, including a plan to give favourable consideration to export-oriented SMEs for accessing government loans. Another initiative seeks to enhance the participation of local SMEs in major trade fairs. In February 2018, the government launched a regional competition for SMEs displaying their products in SME trade fairs across the country. These trade fairs

are expected to reduce marketing costs and foster business linkages for local SMEs (Hnin, 2018[16]).

Integration to GVCs

Myanmar has not yet designed clear strategies to promote the integration of local SMEs into global value chains (GVCs). The country's garment sector is a case in point. The sector has been a destination for foreign investments, as it is seen to be the last low-cost production frontier for factory relocation and diversification in Southeast Asia (Tsui, 2016[17]). According to research in Yangon in 2016 by the Hong Kong Trade Development Council, export-oriented garment factories in Myanmar were primarily operating under a Cut-Make-Pack system, carrying out basic labour-intensive tasks in the garment supply chain of "cutting the fabric", "making the garment" and "packing the garment". They were not carrying out more sophisticated tasks like "developing the style", "purchasing raw materials" and "shipping the garments" due to a lack of technology and knowledge transfers from multinational companies (MNCs). This hampered them from moving their production higher up in the value chain.

A separate 2016 study named three main factors that impede the participation of Myanmar's SMEs in local, regional and international supply chains: lack of raw materials, scarcity of skilled labour and difficult access to finance. The study, which involved a survey of Myanmar's enterprises in processed food and apparel manufacturing, cited other factors such as lack of government support and political instability (Bernhardt, De and Dickenson-Jones, 2016[8]). It was conducted by the Centre for Economic and Social Development (CESD) Myanmar and was funded by ERIA and the Institute of Southeast Asian Studies-Yusof Ishak Institute. The survey also showed that Myanmar is still barely integrated into ASEAN business chains, with only 13% of respondent firms having any business relationship with companies in other AMS. Of those, small firms represented only a tiny minority.

In the absence of specific government intervention to integrate Myanmar's SMEs into the regional and global production network, several initiatives have emerged with support from foreign development partners. A project to supply capacity-building services and raw materials to small farmers and industries in the rubber sector was conducted with funding from the Swiss Agency for Development and Co-operation. In 2014, the United Nations Industrial Development Organisation (UNIDO) conducted a project to boost SME competitiveness by developing clusters and business linkages, which included providing policy advice to the MOI and the Ministry of Co-operatives. On 18 October 2016, Myanmar enacted a new Investment Law that offers improved incentives for investing in the appointed zones. However, there have been no clear guidelines on promoting the transfer of knowledge from larger companies to SMEs or business linkages that could foster SME integration into GVCs. The lack of support for SMEs in industrial zones has exposed them to direct competition from foreign businesses and products without equipping them with the necessary capacities to compete. For example, *The Myanmar Times* reported on 1 December 2017 that the number of SMEs in the Mandalay industry zone had dropped by half since 2010. Coming up with strategic intervention in this area might not only enhance opportunities for local SMEs to join GVCs and expand their businesses, but could also prevent them from being side-lined by foreign competitors in the domestic market.

Use of e-commerce

Myanmar has shown impressive growth in the number of internet users in recent years. According to a recent report by We Are Social, the country's digital population increased by 97% during 2017. Most new users are mobile users (Kanale, 2017[18]), and they tend to use the internet mainly for access to social media and entertainment (Hyne, 2017[19]). Myanmar's e-commerce ecosystem is still at the early stage of development. Many SMEs have no online market presence, and those that do usually use popular social media platforms like Facebook as an online marketplace.

Nevertheless, there has been an increasing appetite and need for online transactions in Myanmar. In 2017, the managing director of shop.com.mm, a leading online marketplace, said that more than half a million people per month were visiting the website for online shopping (Kyaw, 2017[15]). Myanmar's first business-to-business e-commerce marketplace, BaganMart.com, was launched in 2016 with the aim of helping SMEs to connect with suppliers, wholesalers and exporters in the building materials industry. E-payment platforms have also flourished in Myanmar to support online transactions. In 2015, the Myanmar Payment Union (MPU) was launched as the country's first national e-commerce payment platform (Digital News, 2015[20]). It was followed by others, like DICA's MyanPay and TrueMoney Myanmar of Ascend Group. In June 2017, a taxi service firm, Grab, agreed with an e-payment platform, Wave Money, to provide online payment for its taxi service in Yangon (Win, 2017[21]).

Despite the rapid growth of e-commerce, Myanmar is still at the early stage of developing a regulatory framework. A consumer protection law was enacted in 2014, but the country is still working to enact its first e-commerce law, and many e-commerce transactions remain unregulated (Ko, 2018[22]). However, Myanmar enacted a new financial institutions law in 2016 to regulate mobile banking and e-payments.

Quality standards

The development of quality standards is still at an early stage in Myanmar. The main institution responsible for standards is the Ministry of Education's Department of Research and Innovation (DRI), which represents the country in international fora such as the International Standardisation Organisation (ISO), where it is a correspondent member;[15] the International Electrotechnical Commission, where it an affiliate member; and the World Trade Organisation (WTO) Technical Barriers to Trade (TBT) Committee, where it is the country's enquiry point. In 2014, Myanmar enacted a law on standardisation that aims to support export promotion through improved quality standards, among other objectives. The National Standard Council was created under this law with the mandate of setting Myanmar's standards for imported and exported goods, among other functions.

Myanmar had relatively few standards in place as of 2016 (around 65 in total) and none of the country's trade agreements included a component on standards or technical regulations (Bernhardt, De and Dickenson-Jones, 2016[8]). Local SMEs may therefore lack incentives or know-how to improve the quality of their products and/or operations, putting them at a disadvantage in international trade. A number of development assistance agencies are implementing projects in this space. For instance, Standards Australia and SPRING Singapore participated in the ISO's Institutional Strengthening Project for Myanmar in 2015, building the country's capacity to participate in national and international standards development. The project shared the experiences of Singapore and Australia in standards development, and advised the government of Myanmar on how to

develop standards in reference to the WTO's TBT Agreement and Good Standardisation Practices. UNIDO implemented a project between 2015 and 2018 that sought to develop a national quality standards framework for Myanmar. The EUR 2.5 million project, conducted in collaboration with the Ministry of Education, the Ministry of Health and the Myanmar Food Processors and Exporters Association, was financed by the Norwegian Agency for Development Co-operation. Myanmar is also looking to promote the adoption of International Financial Reporting Standards among its SMEs, but no specific actions have yet been taken in this area.

Trade facilitation

According to the 2017 OECD Trade Facilitation Indicators (TFIs) used in this 2018 ASPI[16], Myanmar has room to improve trade facilitation in many areas, especially concerning formalities. However, the country has shown a strong commitment to simplifying its processes. Although many projects are still in a developing phase, Myanmar's Customs Department began implementing an electronic import-export clearance system in January 2017 in collaboration with the Japanese government. The Myanmar Automatic Cargo Clearance System (MACCS) and Myanmar Customs Intelligence System (MCIS) were first introduced in the Yangon area, including the Yangon Airport International Cargo Terminal and Thilawa Special Economic Zone, and will gradually serve an extensive border area (Tsui, 2016[17]). The country's National Single Window works in parallel with MACCS and MCIS to ease the flow of trade.

Myanmar has also improved its cross-border trading information through the Customs Department website, which lists basic export and import procedures, and the Myanmar National Trade Portal, which functions as a single point of cross-border trading information, with a Myanmar Trade Repository and an import-export guide embedded in its website. Information on tariff nomenclature, rules of origin, free trade agreements and a TBT Enquiry Point are available in Burmese and English. In December 2017, Myanmar launched a new Authorised Economic Operator (AEO) programme to enhance customs administration and international supply-chain security (Mizzima, 2017[23]). Specific support for SMEs has not yet been defined. Nevertheless, with the rapid development of basic trade facilities in the country, Myanmar is on its way to launching itself into the mid-stage of policy development in the trade facilitation area.

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

Myanmar is advancing in the provision of business development services (BDS) and initiatives to promote productivity, but resources are limited and further efforts are needed in the areas of policy design (particularly data collection) and implementation. It has also enacted a number of environmental policies, but none of these contains a specific provision for SMEs, and no incentives have been identified to support SME greening. Myanmar's scores of 2.38 for Dimension 1 and 1.72 for Dimension 2 place it at an early stage of policy development in these areas.

Productivity measures

The MOI is the main agency for the development and implementation of Myanmar's productivity enhancement policies. The 2015 SME Development Policy emphasises the improvement of SME productivity in the agriculture sector as the backbone of the country's economy. Strategic plans such as the 2016 Industrial Policy and the 2017

Myanmar Industrial Development Strategy also cover productivity enhancement. Consultations on policy development have been conducted with the private sector, mainly through Myanmar's Federation of Chambers of Commerce and Industry (UMFCCI). The budget for productivity enhancement programmes is limited and donors take an active role in policy implementation. Public-private dialogue on productivity is conducted every two months by UMFCCI with the MOI and the Japan Productivity Centre. The Ministry of Agriculture, Livestock and Irrigation is developing a strategy to boost productivity in the agricultural industry, with technical assistance from the Asian Development Bank (ADB), the UN Food and Agricultural Organization (FAO) and the Livelihoods and Food Security Trust Fund. Studies on capital investment programmes have been conducted, but implementation has taken place on a very small scale. Key performance indicators (KPIs) on productivity, specifically SME productivity, are very limited.

Business development services

There is political will to advance with the development of BDS, but actions remain general and do not have precise timelines or targets. A number of national policies cover BDS, including the SME Development Policy (2015), the Industrial Policy (2016) and the Myanmar Industrial Development Strategy (2017). Some targets relating to BDS have been set in regional five-year roadmaps, specifically in Chin State, Magway Region and Ayeyarwady Region. The MOI's SME Development Department and Directorate of Industrial Collaboration are the main bodies responsible for BDS policy development.

The SME Development Department is the main co-ordination body for policy implementation. The government has made an effort to promote the provision of BDS through various initiatives. At the regional level, information and basic support are provided through the regional offices of DICA and the Directorate of Industrial Supervision and Inspection. The SME Development Department also launched an SME Centre of Excellence, which has organised awareness-raising and training activities in Yangon with the support of department staffers and invited experts. Regional SME Development Centres act as one-stop shops to provide information and basic training, but access to counselling and advice on business management is very limited. UMFCCI runs a business training institute and provides business matching services. Donors play an important role, for example in the implementation of a BDS support trainer programme by GIZ, UNIDO and the International Labour Organization. The private sector has taken a much more prominent role in the provision of business development services over the past few years. Key players in this area include the Myanmar Leadership and Management Institute, the Strategy First Institute, Project Hub Yangon, Phandeeyar and Ideabox. Although the number of players has been increasing, which is a positive sign, the supply side of the business services market is very weak, with a very limited range of services, low capacity and limited outreach.

Productive agglomerations and clusters enhancement

Policies on the promotion of industrial zones (IZs) and special economic zones (SEZs) are stipulated in the Myanmar Industrial Policy 2016. The 2012 Industrial Zone Law and 2014 Special Economic Zones Law provide the legal framework on investments in such business agglomeration areas. Incentives for investing in SEZs include: corporate income tax exemptions (e.g. for the first five to seven years, depending on location and type of business), customs duty exemptions (e.g. on materials and equipment used during the construction period and for the first five years of commercial operation) and land lease

incentives (investors can lease land for up to 75 years). Other non-fiscal incentives, such as visa exemptions for foreign investors and experts, are still limited.

Myanmar scored 86.5% in the 2014 ERIA Foreign Investment Liberalisation rate, below the ASEAN median. It is also the only ASEAN country that has seen no improvement in its FIL score since 2011. FDI has declined in recent years, particularly in the real estate sector, and the number of industrial zones has grown only gradually. To date, more than 20 IZs and SEZs have been established in Yangon, with minimum infrastructure. Monitoring mechanisms and KPIs for the industrial clusters are also very limited.

Technological innovation

Surveys suggest that technology use and technological sophistication is quite low among Myanmar SMEs (World Bank, 2016c[13]), but precise data are scarce and difficult to obtain. The country does not have an innovation strategy in place, but some elements (with no focus on SMEs) are included in policy documents, such as the 2016 Industrial Policy and 2015 SME Development Policy. Myanmar has neither a defined action plan to promote innovation nor assigned targets. The 1994 Science and Technology Law serves as the legal basis for national science and technology policy, which is developed by the Committee on Science and Technology under the leadership of the prime minister (who chairs the committee).

The Ministry of Science and Technology (MOST) is the lead policy-making and policy implementation body for technological research and development. The DRI within MOST has been the lead implementation agency for technological research and development since 2015, when it replaced the Myanmar Scientific and Technological Research Department. The SME Development Committee within the MOI, is also involved in areas related to specific industries. There is no intergovernmental body to co-ordinate the various ministries and institutions involved in facilitating research and development (R&D).

Myanmar's legal framework for intellectual property (IP) rights is not yet up to international standards. The country is not a signatory to the Paris Convention for the Protection of Industrial Property or any other multilateral trademark treaty. IP registration is not yet available in the country. Copyrights from other countries are not recognised and there are no procedures for registering foreign copyrights in Myanmar.

There has been little action on the implementation side, given the limited government budget. DRI offers technical services such as sample analysis, issuance of certification, fine mechanics (fabrication, maintenance and repair of laboratory instruments), standards testing, technical information resources and maintenance and repair of processing equipment. Some 160 companies benefitted from the support of DTI and the SME Development Department over the last several years. There is also a donor-funded Business Innovation Facility, formed mainly to promote innovation in the garments sector from 2014-19. In addition, actions have been undertaken by ILO and UNIDO as well as private players such as Idealab. Infrastructure is limited to Myanmar ICT Park (Myanmar ICT Development Corporation Limited, or MICTDC) and several small-scale initiatives. MICTDC has promoted information and communications technology (ICT) development in Myanmar since 2002 and provides broadband connectivity, reliable power, human resources, promotion of ICT businesses at the local and global levels, and incubation for start-up ICT entrepreneurs.

Environmental policies targeting SMEs

Myanmar's approach to managing the environmental impact of economic growth is developing. The country continues to receive support from the international community on matters related to the greening of SMEs, but policies that directly target the greening of SMEs mainly occur on a sectoral basis.

Like many countries the region, Myanmar does not make specific mention of greening in its SME policies. However, it introduced an Environmental Conservation Law in 2012 and Environmental Conservation Rules in 2015, establishing a national framework for the basic principles of environmental conservation, sustainable development and natural resource use, and the promotion of public awareness. The Environmental Conservation Committee provides guidance to other branches of government on the implementation of conservation measures. It has been reformed multiple times, most recently in 2013. However, it does not specifically work with SMEs, and rather functions as an intragovernmental body.

Environmental governance in Myanmar is spread across different branches and levels of government. The Environmental Conservation Law is an important advance in terms of co-ordinating environmental governance, but it requires institutional capacity building (UNDP, 2016[24]). Myanmar is developing new environmental legislation, but it has yet to introduce an action plan or associated targets and a timeframe. The lead role on environmental governance is held by the Ministry of Environmental Conservation and Forestry (previously the Ministry of Forestry), but in practice governance is decentralised, involving different branches and levels, including municipal governments.

Incentives and instruments for green SMEs

Myanmar has not implemented significant regulatory or financial incentives to support the greening of SMEs. However, sectoral programmes sponsored by international partners have worked towards this goal. A major programme in this area is the EU-funded SMART Myanmar project, which aims to increase the competitiveness of SMEs in the garment sector through greening. Other donor-funded projects include an initiative to increase SME access to green finance in collaboration with the Central Bank of Myanmar, and an initiative to increase SME compliance with international environmental standards. The government of Denmark's country programme for Myanmar also includes components on SME greening.

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

Promotion of entrepreneurial education and skills in Myanmar has mainly relied on foreign development assistance and initiatives, as the government has not yet defined clear strategies in the area. The country's score of 2.38 for Dimension 7 indicates its early stage of policy development in nurturing entrepreneurial education and skills. Myanmar also has social needs that need to be addressed, and policy makers should ensure that development is inclusive of the target groups. The concept of social enterprise (SE) is very new in Myanmar, although increasingly popular, and there is a lack of consistency in terms of the definition and understanding. Inclusive entrepreneurship is also new: the government has a rich tradition of developing social policies, but they are not necessarily focused on entrepreneurship. Myanmar's score of 1.71 for Dimension 8 places it at an early stage of policy development in inclusive entrepreneurship.

Entrepreneurial education

Entrepreneurial learning (EL) has not yet been clearly integrated into Myanmar's education system. The newest National Education Strategic Plan (NESP) 2016-2021 did not set clear EL measures. However, it did set out a roadmap towards developing an industry-led and competency-based system for Technical and Vocational Education and Training (TVET) to train a skilled and competitive local workforce through enhanced co-operation between business entrepreneurs and TVET providers. To carry out the roadmap, Myanmar receives support from non-profit organisations such as Australia's Sustainable Skills, which shares expertise and best practices from the Australian TVET system. The Centre for Vocational Training (CVT) of Switzerland has also supported TVET in Myanmar by operating a prototype school in Yangon to provide youth with quality TVET from Swiss specialists and professionals. Vocational training by CVT covers specific skills in areas such as furniture work, metal casting and hotel services.

Myanmar has also received foreign assistance to promote entrepreneurial education at university level. One notable example is MOST's establishment of the Myanmar Institute of Information Technology (MIIT) in Mandalay as a National Centre of Excellence in information technology and related areas. Myanmar received development assistance from India's Ministry of External Affairs to set up and operate MIIT in its first years, as the institute was based on the education model of the International Institute of Information Technology in Bangalore. MIIT was established to promote university-industry linkages and foster entrepreneurship. Although the country is still at a very early stage of developing entrepreneurial education, the importance of including entrepreneurship in the education system has gained recognition.

Entrepreneurial skills

Myanmar has not yet defined a clear strategy to foster entrepreneurial skills in society. Nevertheless, several initiatives supported by foreign development partners have emerged. A notable example is a project by Entrepreneurship Development Network Asia (EDNA) Myanmar to educate close to 10 000 local entrepreneurs. The three-year project secured just over USD 2 million in funding and commenced in 2014. EDNA Myanmar also trains local mentors on entrepreneurship with a focus on business content, communicative knowledge and emancipatory knowledge. Under its training-of-trainers programme, trainees work with entrepreneurs over a period of six months, meeting weekly to study the teaching materials and monthly to network with local entrepreneurs.

Other entrepreneurship initiatives have been led by NGOs and communities based in Myanmar. For example, the Myanmar Business Executives Association initiated the establishment of a Business Capacity Building Centre to provide training and assistance on all aspects of business skills development. The association also provides social and community development activities and microfinance for small businesses. Another notable association is the Myanmar Young Entrepreneurs Association (MYEA). Established in 2012, MYEA provides incubators and mentorship on entrepreneurship and conducts seminars and workshops to foster entrepreneurial skills among youth. In 2018, MYEA organised a Myanmar Entrepreneurs Carnival at MIIT in Mandalay to strengthen business linkages among local entrepreneurs, especially from mature businesses to young entrepreneurs (Marn, 2018[25]). A number of development partners are also active in this area. For instance, UNIDO has recently initiated a project to enhance the financial literacy skills of entrepreneurs in Myanmar.

Social entrepreneurship

Myanmar does not have a formal definition of social enterprise, and SEs are not specifically mentioned in any of its national strategies. Since the concept is new, there is no dedicated government agency dealing with SEs. It is likely that the mandate could be given to either the Ministry of Social Welfare or the MOI. But while very few entities in Myanmar define themselves as social enterprises, awareness of the concept is growing among associations, NGOs and co-operatives. On the funding side, the social sector is characterised by a large and growing pool of domestic and foreign donors, a trend underlined by the perception that social activities targeting the poor do not go well with revenue generation. Many organisations have also simply never considered potential revenue generating opportunities (British Council, 2013[26]).

Although the SE concept is not clear, activities relating to the concept of inclusive business are taking place, mainly led by the private sector and donor community. For example, the DaNa Facility, a private-sector development programme launched in 2017 and funded by UK AID, focuses on the concept of promoting inclusive business. Private initiatives such as Project Hub Yangon, Hamsa Hub, KIVA and Sustainable Business Myanmar play a key role in creating networks, building knowledge and providing capacity building to SEs.

Inclusive entrepreneurship

Few inclusive policies have been designed targeting women, youth and persons with disabilities (PWD), and overall their scale is small and they are largely dependent on private or donor-led initiatives.

Nevertheless, several processes have begun that seek to address youth. One was initiated in 2012 by the Myanmar Youth Forum and is led by the newly formed National Youth Congress. The MYEA is taking an active role in empowering young entrepreneurs and assisting them in creating an entrepreneurship ecosystem. Among other things, MYEA organised the Tigers@Mekong Entrepreneurship Boot Camp and RISE Camp for Business Plan Development. However, a strategic approach is lacking in the country, with efforts conducted on an ad hoc basis and with limited outreach.

Myanmar's National Strategy and Action Plan for the Advancement of Women (2013-2022) makes no explicit reference to women's entrepreneurship. The Ministry of Social Welfare, Relief and Settlement is the relevant policy-making body. The Myanmar Women's Union supports women by providing information, capacity building and advocacy, but it has only a limited focus on women's entrepreneurship issues, although it is linked to a microfinance fund. The Myanmar Women Entrepreneurs Association is a pioneering organisation of feminist activists in Myanmar that aims to unite and support women entrepreneurs. The Myanmar Access to Rural Credit project also supports women entrepreneurs by providing access to financial services and capacity-building activities.

Myanmar ratified the Convention on the Rights of People with Disabilities in 2011. A law on the rights of PWD was adopted in June 2015, although there is little government focus on promotion of entrepreneurship activities. Among the few initiatives available, the Abilis Foundation helps PWD to implement their projects, including entrepreneurial activities.

The way forward

Strengthening the institutional, regulatory and operational environment

Myanmar is still at a very early stage of developing a comprehensive institutional framework for SME policy, and the operational environment for SMEs remains burdensome. Going forward, Myanmar could:

Institutional framework for SME policy

- **Consider reviewing the country's SME definition.** Myanmar's SME definition includes three criteria and covers six sectors. This decreases its ease of use and its likelihood of being applied consistently through the public administration. Moreover, its employment criterion is based on a count of permanent employees, which may incentivise firms to employ more temporary workers. The government could consider setting up a working group to review and potentially update the definition, taking into account administrative capacity and the current structure of Myanmar firms. This could take place following enactment of the new Company Act.
- **Enhance SME statistics.** Access to reliable data on Myanmar's enterprise population will be a crucial element in designing and delivering targeted SME policies. The fact that little data is available on the size and nature of the SME population is a critical barrier for policy makers. To finance and increase the accuracy of a first comprehensive economic census, Myanmar could consider seeking technical assistance from international or bilateral agencies with demonstrated expertise.

Legislation, regulation and tax

- **Start work to socialise the use of good regulatory practices.** Myanmar could consider adopting the approach used by Cambodia and Lao PDR on introducing good regulatory practices. Those countries successfully set up a policy framework for RIA, and training programmes on its use, by creating an RIA Office funded by ADB.

Facilitating SME access to finance

Myanmar has a very underdeveloped financial sector by global standards, with only a rudimentary legal, regulatory and informational framework in place to extend credit and few government programmes to support SME lending. Going forward, Myanmar could:

- **Consider linking MFIs to a credit reporting system when it is established.** Many microfinance institutions currently operate in Myanmar and they are well placed to provide credit to a large number of unbanked citizens. Credit information on potential clients would help MFIs to scale their operations and increase their sustainability.
- **Consider conducting a diagnostic exercise on credit guarantees.** Myanmar has recently begun to provide credit guarantees, but other models could be tested with different features. In addition, a number of important framework conditions for the extension of credit guarantees are currently missing or incomplete, such as a sound regulatory framework, effective insolvency procedures and strong financial

literacy and accounting skills. Credit guarantees can be a market-friendly tool and can reach a higher number of SMEs than traditional credit lines or other instruments, but they are also challenging to implement. A diagnostic exercise could be helpful to increase the sustainability of such schemes. The exercise should seek to identify priority framework gaps as well as appropriate models for Myanmar's context.

Enhancing access to market and internationalisation

As Myanmar continues to carry out reforms in many areas to enhance national trade, specific forms of support for SMEs need to be developed. The country could consider the following actions in order to promote its local SMEs to go global:

- **Develop a national capacity-building programme.** This would help local SMEs to improve their knowledge and skills in order to venture into international trade. A CESD survey in 2016 suggested that the lack of knowledge on foreign trading and market opportunities was the main obstacle hindering Myanmar's SMEs from competing beyond its borders. Capacity-building programmes could be delivered through the establishment of business centres or similar offices across the country, along with more frequent national-scale workshops and training for SMEs.
- **Develop technology upgrade programmes for SMEs.** Such programmes would acquaint SMEs with the latest technology, which could help them move into international trade and promote their integration into GVCs. Establishment of science parks and special industrial zones could allow SMEs to benefit from technology transfer from more advanced companies and promote their adoption of technology.
- **Develop a digital platform for SME networking.** SMEs, particularly those in rural areas, face significant connectivity constraints in Myanmar. Yet internet use is growing at a rapid pace in the country. A digital platform for SMEs to access new markets, both within and outside Myanmar, could be of significant value. However, auxiliary measures will be necessary to ensure SME access to such a platform. These measures could seek to increase investment in broadband infrastructure and competition among broadband providers in order to increase coverage and bring down prices. Training programmes may also be required.
- **Develop policies on quality standards that target SMEs.** SMEs face competition in local markets from imported goods of higher quality. Complying with international standards is also inevitable for any business wishing to penetrate foreign markets.
- **Integrate SME-specific support in trade facilitation development.** Myanmar has rapidly developed its trade facilitation system. Providing SMEs with assistance in accessing the improved trade facilities would boost their opportunities and competitiveness in trading across borders.

Boosting productivity, innovation and adoption of new technologies

To increase productivity, spur innovation and promote the adoption of new technologies and SME greening, Myanmar could consider the following actions:

Productivity, technology and innovation

- **Improve data collection and evaluation of SMEs**. This would help policy makers to monitor the implementation of SME productivity policies and get a better understanding of the current situation.
- **Further promote collaboration with the private sector**. Myanmar could benefit from closer collaboration with the private sector when developing and implementing initiatives for SMEs. Private BDS or tech-support organisations could be invited to participate in government-managed business development centres or to co-develop a common curriculum for BDS that could be rolled out across the country.
- **Develop links between local SMEs and companies present in SEZ and IZs**. Collaboration with local SMEs as suppliers or secondary suppliers could be supported through incentives and other promotional activities and by co-developing quality upgrading instruments. In this way, policy makers could help SMEs enter into regional and global value chains and improve their productivity in the long run.
- **Promote policies that facilitate investment and technology upgrades.** Few SMEs in Myanmar put effort and investment into innovation and acquisition of technology. The government could support this by strengthening the linkages between SMEs and innovation and technology agents and by expanding the network of technological and business incubators, as well as multinational companies active in these areas.

Environmental policies and SMEs

- **Develop dedicated provisions for SMEs in environmental policies**. Policies to support SME greening need to be delineated from policies supporting better environmental performance for the economy as a whole. Concrete policy with targets and timelines would be valuable.
- **Develop a co-ordination unit or function**. Government co-ordination should be strengthened in order to avoid duplication and increase programme uptake and policy impact. Currently, responsibility for planning and implementation of environmental policies is fragmented across government levels and branches.
- **Promote exchanges on good practice.** Myanmar could work with international organisations and regional peers to pinpoint the programmes and strategies that work best to support SME greening. It could then institutionalise their implementation within government policy. This includes projects such as SMART that focus on specific sectors but that may have lessons applicable to other sectors of the economy.
- **Promote implementation through capacity-building support exercises**. Because of Myanmar's relatively decentralised approach to environmental governance, capacity building could be carried out at different levels of government to ensure that officials are equipped to implement support structures for green SMEs.

Stimulating entrepreneurship and human capital development

The promotion of entrepreneurial education and skills has not yet been prioritised in Myanmar. Several actions could be considered to level up policy development on entrepreneurship:

Entrepreneurial education and skills

- **Introduce entrepreneurial learning in primary and secondary education.** Activities could include pilot projects to provide business simulation for students or projects to develop creative business ideas or nurture leadership and teamwork skills. Myanmar could call on its foreign development partners or on successful local entrepreneurs to collaborate in designing and implementing such entrepreneurship projects in the national education system.
- **Develop national programmes to improve entrepreneurial skills in society.** The programmes could cater to the needs of different business maturity levels and cover different areas of starting and running a business, such as obtaining financial assistance, designing and developing products, and management skills. They could also target specific population groups, especially vulnerable sectors such as school leavers, the low-income population and the unemployed.

Social and inclusive entrepreneurship

- **Improve awareness about social and inclusive entrepreneurship.** Lack of understanding of these new concepts can be a source of confusion and lead to misperceptions among policy makers. Increasing their awareness could lead them to consider the need to develop measures to promote these concepts in the country.
- **Explore collaboration with the private sector and academia**. A lack of resources makes it challenging for Myanmar's policy makers to develop a range of activities supporting social or inclusive entrepreneurship. Partnering with academia and the private sector could accelerate progress on supporting the target groups.

Consider promoting entrepreneurship among the target groups. One way for policy makers to empower women, youth and persons with disabilities is to integrate activities that promote entrepreneurship into policy.

Notes

[1] A relatively small decline from 77.2% in 1970 (World Bank, 2016a[3]).

[2] Namely the ABSDF, the Arakan Liberation Party, the Chin National Front, the DKBA-5, the Karen National Union, the KNU/KNLA Peace Council, the Pa-O National Liberation Army and the Restoration Council of Shan State.

[3] Or 51.1% of Myanmar's total population.

[4] In 1962 most private enterprises were nationalised, and the formation of new private enterprises was banned in 1963. The few remaining private enterprises were subject to strict trade and price

controls. After 1974 these policies were relaxed to some extent, but only informally. Transformative reforms only came after the formal abandonment of central planning from 1988.

[5] Only one member represents the private sector, the president of the Myanmar Federation of Chambers of Commerce and Industry, and a vast range of ministries are represented on the CSDC.

[6] The process took two years in total.

[7] An indicator of capital structure (fixed assets), financial performance (turnover) and employment, and all three must be applied to determine size.

[8] Under the 1914 Company Act, an enterprise would be classified as foreign owned following just 1% of foreign investment.

[9] Corporate tax became more complicated and the rate was increased, employer contributions and the ceiling for this were increased for social security payments, extra documentation requirements were introduced for commercial tax returns, and quarterly income tax filing and payment were introduced.

[10] Myanmar is not included in the World Economic Forum's 2017/18 *Global Competitiveness Index*, and thus this assessment of financial sector development has not been conducted.

[11] In 1963 all privately owned banks (10 local and 14 foreign) were nationalised and renamed People's Bank Numbers 1-24, and military officers were appointed as their general managers. In 1970 all banks were merged into one entity, which was renamed the Union of Burma Bank in 1972. In 1975 this bank was split into one Central Bank and three state-owned banks with specific areas of responsibility. In 1992 private bank licenses were issued for the first time, but licenses have only been issued to foreign banks since 2014.

[12] For instance automobiles, land and buildings.

[13] As of March 2018, the following companies were listed on the YSX: *i)* First Myanmar Investment (2016); *ii)* Myanmar Thilawa SEZ Holdings (2016); *iii)* Myanmar Citizens Bank (2016); *iv)* First Private Bank (2017); and *v)* TMH Telecom (2018).

[14] Myanmar is an attractive market for microfinancing on account of its estimated 33 million currently unbanked citizens.

[15] It has been a correspondent member since 2005.

[16] Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: *i)* Information availability; *ii)* Fees and charges; *iii)* Formalities-documents; and *iv)* Formalities-procedures, with 2 being the highest possible score for each of the indicators. In 2017, Myanmar scored 0.7 for information availability, 1.0 for fees and charges, 0.4 for formalities-documents, and 0.5 for formalities-procedures.

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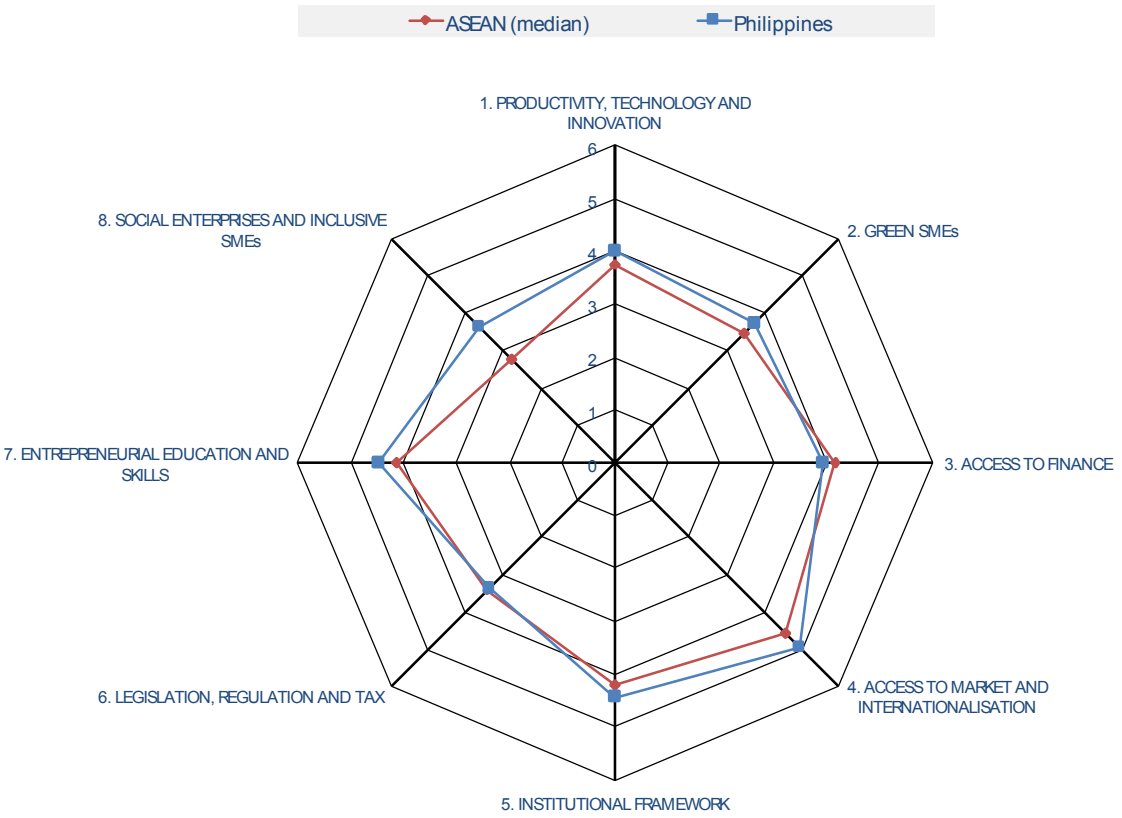
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Chapter 18. The Philippines

The Philippines has traditionally adopted a "service delivery" approach to SME policy, providing services to help SMEs increase their competitiveness. However the country also pursues a secondary objective, which sees SME policy as a tool to decrease poverty and regional inequalities as part of its goal of building a predominantly middle-class society by 2040. As such, the Negosyo Centres function as its main policy tool, but interventions currently focus on the provision of microfinance and the development of entrepreneurship.

Figure 18.1. 2018 SME policy index scores for the Philippines



Overview

Economic structure and development priorities

Economic structure

The Philippines is a lower middle-income country located in the western Pacific Ocean. It has ASEAN's second largest and densest population, with 103.2 million people residing on around 2 000 islands (ASEC, 2016[1]).[1] It is home to significant metal and mineral deposits, notably nickel, iron and copper, yet mining accounts for a relatively small share of GDP. Since the late 1970s the country has consolidated and grown its services sector, and today this sector accounts for around 59.5% of GDP and 37.8% of private sector employment (World Bank, 2017[2]; ILO, 2016[3]). It has developed a particular expertise in business process outsourcing (BPO) and tourism services. Since the 1970s it has also built up a strong industrial base, with a revealed comparative advantage in the production of electronics, particularly integrated circuits and semiconductors.

The Philippines has worked hard to reform its economy and revitalise growth since the EDSA revolution of 1986. It has managed to place its public finances on a more sustainable track, bringing down external debt from 98.8% of GNI in 1986 to 21.1% by 2016, and progressively building up its foreign reserves[2] (World Bank, 2016[4]). Capital account liberalisation in the early 1990s opened the country further to foreign trade and investment and brought a number of foreign companies to the Philippines. Growth in the

electronics industry was particularly notable, with employment in the industry growing almost fivefold over the 1990s, and exports tenfold. Today electronics account for around 20% of manufacturing gross value added and 52% of merchandise exports (PSA, 2016[5]; MIT, 2016[6]).[3] These liberalisation measures also drew more foreign service providers to the Philippines in the late 1990s, and today the BPO industry accounts for around 1.3 million jobs and around USD 25 billion in annual revenue, or approximately 7.3% of the country's GDP. Since the mid-2000s service exports have grown faster than goods, and this is largely attributable to growth in the BPO industry.

The Philippines' services sector is strengthened by high literacy rates, with 96.4% of the country's adult population literate in 2013 (last available data) (UNESCO, 2016[7]). Tourism contributes significantly to the economy, with the sector accounting for around 8.6% of GDP in 2016 (PSA, 2017[8]), and this constitutes an important source of foreign receipts. A great number of Filipinos also leave to find work abroad: a lack of jobs and rapid population growth in the 1970s and 1980s[4] led many Filipinos to seek jobs outside the country, and this trend has continued. Today the Philippines has one of the largest diasporas in the world, with around 10 million citizens living overseas. Their remittances provide an important contribution to the economy. Remittances accounted for 10.2% of GDP in 2016 and continue to help balance the country's current account.

Table 18.1. The Philippines: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	6.7	7.1	6.1	6.1	6.9
Inflation	Percent, average	3.2	3.0	4.1	1.4	1.8
Government balance	Percent of GDP	-0.3	0.2	0.9	0.6	-0.4
Current account balance	Percent of GDP	2.8	4.2	3.8	2.5	-0.3
Export of goods and services	Percent of GDP	30.8	28.0	28.9	28.4	28.0
Imports of goods and services	Percent of GDP	34.1	32.2	32.6	34.3	36.9
Net FDI (inflows)	Percent of GDP	1.3	1.4	2.0	1.9	2.6
External debt	Percent of GNI	23.0	20.0	22.3	22.8	21.1
Gross reserves	Percent of external debt	120.8	125.6	101.4	100.0	104.3
Domestic credit to the private sector	Percent of GDP	33.4	35.9	39.2	41.8	44.7
Unemployment	Percent of active population	7.0	7.1	6.6	6.3	5.5
GDP per capita	PPP (constant 2011 intl$)	5 988	6 306	6, 85	6 874	7 236

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

The Philippines sustained a growth rate above 6% from 2012 to 2016, with GDP increasing at an average annualised rate of 6.6%. It achieved this while maintaining a fiscal deficit below 1% of GDP, a current account close to zero and adequate levels of foreign currency reserves, at USD 81 billion, or 8.7 months of imports of goods and services (World Bank, 2016[4]; IMF, 2017a[9]). This growth is expected to remain buoyant over the medium term, driven by robust domestic demand, renewed demand for exports and fiscal impulse (IMF, 2017b[10]). Threats to the growth forecast include a risk of overheating fuelled by high credit growth and concentration, fiscal expansion and strong private investment (IMF, 2017b[10]).

Over the long term, the Philippines faces the challenging task of reducing high inequality and poverty levels, with 13.1% of the population currently living below the international

poverty line.[5] It also continues to struggle with rather high joblessness levels, with unemployment rates averaging 6.5% between 2012 and 2016.

Reform priorities

The Philippines' long-term economic vision, *AmBisyon Natin 2040*, or "Our Ambitions 2040", was elaborated in 2016 as an anchor for development planning over 25 years. It aims, by 2040, to create a predominantly middle-class, knowledge-based and caring society where all Filipino citizens can feel a sense of community as well as economic security and comfort, and to achieve the total eradication of poverty. This strategy seeks to achieve its goals in part via competitive enterprises that offer quality goods and services at affordable prices. In particular, the vision identifies the following priority sectors: *i)* housing and urban development; *ii)* manufacturing; *iii)* connectivity; *iv)* education services; *v)* tourism and allied services; *vi)* agriculture; *vii)* health and wellness services; and *viii)* financial services. It aims for all Filipinos to have the following foundational literacies in pursuit of the vision: *i)* reading; *ii)* numeracy; *iii)* scientific literacy; *iv)* digital literacy; *v)* economic and financial literacy; and *vi)* cultural and civic literacy.

Private sector development and enterprise structure

Business environment trends

Private sector activity is relatively robust in the Philippines. Firms benefit from a large market, a relatively stable macroeconomic environment and a strong pool of talent thanks to competitive higher education and training systems. The country is the region's fourth largest recipient of foreign direct investment (FDI) after Singapore, Viet Nam and Malaysia, absorbing 8% of the total.

However, firms continue to face a number of barriers to their activity, mainly due to a lack of infrastructure, rather weak institutions and relatively burdensome tax rates and regulations. Issues remain with government bureaucracy, and practices such as graft remain commonplace, particularly in public procurement (GAN, 2017[11]). The legal framework for tackling corrupt practices is complicated and poorly enforced, partially due to a lack of co-operation and co-ordination among law enforcement agencies.

A number of major initiatives to improve the business environment have been rolled out since the last assessment. One initiative of note is the Tax Reform for Acceleration and Inclusion (TRAIN) programme,[6] which aims to address the country's issues with both tax administration and infrastructure. This programme foresees progressive tax increases on a number of consumer goods and services such as fuels, cosmetic procedures, cigarettes and sweetened beverages, while at the same time lowering individual income tax requirements for lower-income earners. Lawmakers have said that 70% of the additional revenue raised by TRAIN will be invested in infrastructure development, while the remaining 30% will be used for the provision of social services.

SME sector

In 2016, there were 915 726 registered enterprises operating in the Philippines, of which 89.6% were micro-sized, 5% were small, 4% were medium-sized, and 0.4% were large. SMEs accounted for around 63.3% of employment and 36% of GDP in 2016. They also account for 25% of export revenue, and an estimated 60% of exporters are SMEs. They

are able to contribute to overseas sales through subcontracting arrangements with large firms or as suppliers to exporting companies.

SMEs in the Philippines are principally found in two sectors: wholesale and retail trade, and repair of motor vehicles and motorcycles (46.1% of all SMEs). Around 31.1% of SMEs operate in the accommodation and food service sector, 12.7% in the manufacturing sector, and just 0.99% and in the agriculture, forestry and fishing sector and 0.34% in the construction sector. Around half of all registered SMEs are located in three of the country's 18 regions: the National Capital Region (20.4%), Calabarzon (15.1%), and Central Luzon (11.3%). Not surprisingly, those regions are also the three richest (measured by GDP) and most populated. Calabarzon and Central Luzon are also geographically more interconnected with Manila, the country's capital.

SME policy

In the 1980s, the Philippines started to open up its domestic economy to international trade through the adoption of trade liberalisation programmes. In the 1990s, the trade reforms continued under the GATT-WTO commitment and the ASEAN Free Trade Area-Common Effective Preferential Tariff Scheme. During this time, government policy on SMEs focused on improving market access, expanding exports and increasing competitiveness.

One of the most crucial pieces of legislation in support of MSMEs was Republic Act (RA) 6977, also known as the Magna Carta for Small Enterprises, which was passed in 1991 to consolidate government programmes for the promotion and development of SMEs into a unified framework. Key provisions included the creation of the SME Development Council and the Small Business Guarantee and Finance Corp (SBGFC), and the allocation of credit resources by ordering all lending institutions to allocate at least 8% of their total loan portfolio to MSMEs (Hampel-Milagrosa, 2014[12]). Amendments to strengthen the original act were made in 1997 (RA 8289) and in 2008 (RA 9501), and the council was renamed the MSMED Council to include micro enterprises.

In 2001, the SBGFC was merged with the Guarantee Fund for Small and Medium Enterprises to form the Small Business Corporation (SBCorp), which today is the largest provider of SME financing in the Philippines (Aldaba, 2011[13]). In 2002, the government increased its use of SME policy as a tool for inclusion with the introduction of the Barangay Micro Business Enterprise Act (RA 9178), which aimed to support the creation and development of rural micro enterprises through incentives and benefit schemes (DTI, 2002). This push to reduce regional inequalities, particularly access to public services, was also extended in 2002 with the enactment of the Go Negosyo Act (RA 10644), which called for the establishment of business support centres, or *Negosyo*, in all provinces, cities and municipalities nationwide. The act also established a start-up fund for MSMEs and initiated the extension of services such as technology transfer, production and management training, and marketing assistance.

The Philippines' overall approach to SME policy has been to develop more competitive, innovative, resilient and regionally integrated enterprises. At the same time, it has also historically had a very strong "equity" approach, particularly spatially (as a tool to reduce poverty and regional inequalities). This approach can also be observed in ASEAN's other archipelago country, Indonesia.

2018 ASPI results

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

The Philippines has a long history of conducting SME policy and regulatory reform and has established many of the institutions required. However, it continues to face problems with implementing and co-ordinating certain policies and programmes. It has made a push to simplify regulations in recent years under Project Repeal, but SMEs still face a rather complex regulatory environment, particularly in the area of company registration. The country's scores of 4.44 for institutional framework and 3.36 for legislation, regulation and tax reflect these findings.

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

The body responsible for formulating SME policy is the MSMED Council. The council is headed by the secretary of Trade and Industry. Its members are the secretaries of Agriculture, Interior and Local Government, Science and Technology, and Tourism; the chairman of SBCorp; one representative of the MSME sector from each of the three administrative divisions of the Philippines (Luzon, Visayas and Mindanao); one representative of labour (nominated by accredited labour groups); and a representative of the private commercial banks. All members are appointed for three years and are assigned a relatively wide range of responsibilities. MSMED Councils have also been established at the provincial, regional and national levels.

The main body responsible for implementing SME policy is the Bureau of MSME Development within the Department of Trade and Industry (DTI). This bureau functions as the secretariat of the MSMED Council. It co-ordinates implementation of SME policies and programmes by government departments and agencies and is responsible for preparing briefing documents for the council, such as annual and mid-term development plans, the yearly report, periodic reports and position papers or background materials for discussion by the council. It is staffed by around 35 people and funded through an annual budget governed by the General Appropriations Act.

Every five years, the government develops a mid-term strategy for MSME development. The current five-year strategy, the MSME Development Plan 2017-2022, was developed in reference to the "industry and services" component of the Philippines Development Plan 2017-22, and integrates elements from the SAP SMED. Prior to implementation, the strategy must be approved by the president; due to a change in government, there was a gap of one year between the expiry of the previous strategy and beginning of the current one. The strategy is monitored over the mid-term and full-term, but monitoring and evaluation are conducted internally and mainly review the use of the policy's budget rather assessing its impact. The Philippine Statistics Authority (PSA) collects data on the number of SMEs and their contribution to employment, as well as their geographic and sectoral distribution. Data on SMEs' contribution to value added are also collected, although not regularly; the most recent figures are based on 2006 data.

Scope of SME policy

A legal SME definition was developed under Section 3 of the Magna Carta. It classifies firm size exclusively by fixed assets, is mono-sectoral and differentiates micro, small and medium-sized enterprises. It applies to all types of legal entities (i.e. sole proprietorship,

co-operative, partnership or corporation), and includes current loans in its calculation of asset value, but not the land on which the business operation is situated. The PSA uses a different definition that determines firm size by number of employees, and therefore the firms counted in its SME data-gathering exercise may not be the same firms receiving policy support.

Table 18.2. The Philippines SME definition

Size classification	Indicator	Value
Micro	Fixed assets	< 3 000 000 PHP
Small	Fixed assets	3 000 000 - 15 000 000 PHP
Medium	Fixed assets	15 000 001 - 100 000 000 PHP

High informality rates may exclude a large number of MSMEs from policy interventions. Under the Barangay Micro Business Enterprise Law, micro firms based in remote areas are permitted access to the following credit facilities without formalising: Land Bank of the Philippines; Development Bank of the Philippines; SBCorp; People's Credit and Finance Corporation; Quedan and Rural Credit Guarantee Corporation; and the Social Security System/Government Service Insurance System.

Development of legislation and regulatory policies affecting SMEs

The main body responsible for overseeing regulatory reform in the Philippines is the National Competitive Council, which was formed in 2006. In March 2016 it launched "Project Repeal: The Philippine Red Tape Challenge". Project Repeal is an inter-ministerial regulatory reform initiative aimed at repealing outdated rules and reducing the cost of doing business. The initiative initially involved eight government agencies, but today this has expanded to 86 line ministries. Around 4 837 regulations have been reviewed under this initiative to date. The National Economic and Development Authority (NEDA) is the oversight body for Project Repeal.

Good regulatory practices are increasingly being used in the development of regulations. The country has long conducted public-private consultations (PPCs), but they are becoming increasingly structured. These consultations remain relatively closed. Private-sector representatives mainly come from Chambers of Commerce and ongoing consultations are not listed online. A manual is currently being developed on good practices in conducting PPCs. Regulatory impact assessments have been piloted in the past,[7] and NEDA is stepping up efforts to socialise the practice among regulators. It has developed an RIA manual that it expected to publish in 2018. This process has been ongoing since 2014, however, with workshops conducted to train regulators on the use of RIA, and there is no clear sign of a strong push in the near future to increase its use.

Ease of company registration and filing tax

Launching a company is relatively burdensome in the Philippines.[8] The full process currently takes 28 days, costs 15.8% of income per capita and involves 16 procedures (World Bank, 2017[2]). None of these procedures can be fully completed online, and an applicant must interact with 12 agencies. A one-stop shop has been set up in Metro Manila,[9] but this does not address the Philippines' unique challenges of connectivity. More than five registration numbers are required to launch a business. The government has taken steps to make the process easier: a Joint Memorandum Circular was released in 2016 on measures to streamline business procedures, a manual was prepared on company

registration and the Negosyo Centres provide advice on starting a business. Digitisation has also begun. In 2015, the Securities and Exchange Commission (SEC) rolled out an Integrated Business Registration System through which a first-time applicant can receive an SEC registration number, a tax identification number (from the Bureau of Internal Revenue) and the electronic registration numbers of three social agencies: the Home Development Mutual Fund, PhilHealth and the Social Security Service.[10]

However, to comply with tax regulations, companies must file 20 payments per year, taking around 182 hours in total, and must pay around 42.9% of total profits (the highest tax rate in the region).

E-governance facilities

Online platforms for filing tax and social security contributions have been available in the Philippines since 2015, but the tax platform does not accept credit card payments and citizens cannot yet file pension contributions online. E-government platforms have not yet been consolidated into a single platform. Companies must file on the platform of each responsible agency individually, and government agencies cannot see each other's data. Furthermore, such services are not available throughout the country. In Cebu, for instance, the tax e-filing platform went live only in late 2017. Efforts to improve e-governance platforms are ongoing under the e-Government Masterplan (2017-22), driven by the Department of Information and Communications Technology (DICT).

Facilitating SME access to finance (Dimension 3)

The Philippines has a moderately developed financial sector according to global indicators. It is ranked 52nd for financial market development by the World Economic Forum (WEF, 2017[14]) and 142nd for ease of getting credit by the World Bank (World Bank, 2017[2]). The country scores well on indicators of bank soundness and regulation of its securities exchange, but relatively low on the legal and institutional framework for extending credit, as well as venture capital availability. Collateral requirements are high, averaging 114.5% of the value of the loan for small enterprises and 191.2% for medium-sized enterprises, though some measures are in place to address this. The country also has a relatively high number of unbanked citizens: only 31% of those aged over 15 had a bank account in 2014 (World Bank, 2014[15]). Overall, the country has a relatively low level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at 44.7% of GDP in 2016 (World Bank, 2016[4]). The country's score of 3.93 for Dimension 3 reflects these findings.

Legal, regulatory and institutional framework

The Philippines has very weak framework conditions for supplying finance. Facilities to assess and hedge against credit risk do not perform particularly well. The country has had a credit information reporting system in place since 2008,[11] but it is limited in both breadth and depth. It still only covers 8% of the adult population, and less than two years of historical data are distributed. Financial institutions may face difficulties in utilising contracting elements such as securitisation to mitigate credit risk. Secured transactions remain governed by the Chattel Mortgage Law of 1906, and the country's movable assets register remains a document-based system covered by the Registry of Deeds.[12] Some reform efforts have been taken. In 2015 the Credit Information Corporation (CIC) issued guidelines for credit bureaus, and in 2016 the SEC issued Memorandum Circular No. 3/2016 requiring all financial institutions to submit their five-year historical and

current credit data by a stipulated date. In 2016, the SEC also filed a Secured Transactions Act to establish clear rules over the creation, perfection and priority of security interests, and to facilitate the creation of a notice-based collateral registry. The Secured Transactions Act was passed by Congress in June 2018 and was awaiting signature.

The Philippines Stock Exchange (PSE) has existed in its current form since 1992. The exchange has been in operation since 1927,[13] yet it still has room to grow. Market capitalisation of domestic listed companies stood at 78.6% of GDP in 2016, and there were only 2.6 listed companies per 1 million people (compared to 87.3 in Singapore). The exchange earlier established a specialised board for SME listings, the Small and Medium Enterprise Board, to supplement its Main Board and Second Board. In 2013 it abolished this three-tier structure and created a new two-tier structure, with an SME Board and a Main Board, in an effort to create a more suitable offering for SMEs and boost investor protection. Although the new junior board has been in operation for five years, it still counts only four listed firms. The government is currently designing a capacity-building programme aimed at increasing the number of firms listed on the SME Board. Under a partnership between the PSE, the Philippines Chamber of Commerce and Industry, the Philippines Franchise Association and GoNegosyo, the programme will seek to identify SMEs that are eligible to list on the SME Board and provide them with targeted support.

Sources of external finance for MSMEs

The government deploys a wide range of instruments to stimulate bank lending to SMEs. Most notable perhaps is its mandatory lending scheme, which obliges all commercial banks to disburse 8% of their total loan portfolio to SMEs, primarily small enterprises.[14] To support lending, the government provides credit lines and interest rate subsidies to commercial banks, as well as credit guarantees. The largest credit guarantee scheme in the Philippines is SBCorp. Aside from providing guarantees, SBCorp offers direct and indirect lending, financial leasing, secondary mortgages, venture capital financing and the issuance of debt instruments for compliance with the mandatory lending scheme. To enhance the existing credit guarantee network, the Credit Surety Fund was created in 2008. This fund pools monetary contributions from a wide range of stakeholders, such as co-operatives, non-governmental organisations (NGOs) and local government units, and has served as a credit enhancement mechanism while reducing information asymmetries faced by banks.

Alongside schemes to stimulate commercial bank lending, two specialised public institutions provide finance for SMEs. The first, the Development Bank of the Philippines, is tasked with increasing SME access to credit, among other responsibilities. Its most notable programme is the Sustainable Enterprises for Economic Development scheme. The second such institution, the Philippines Export-Import Credit Agency, was established in 1977 to stimulate the growth of the country's manufacturing and service sectors, as well as SME development.

The Philippines has one of the deepest microfinance networks in ASEAN, and this is the main source of funding for many micro enterprises. The network was developed by NGOs beginning in the 1970s, and the central government has traditionally had very little information on the exact number of microfinance entities or how they are run. Over the past few years, the government has begun to roll out a programme to increase regulatory oversight of these institutions. In 2015, the Philippines enacted the Microfinance NGOs Act and created a Microfinance NGO Regulatory Council. The act stipulates the core

features and principles of a microfinance NGO and instructs such NGOs to develop financial, social and governance standards and systems to implement them. All microfinance NGOs are to file regular progress reports with the regulatory council, which in turn is to submit an annual report to the president of the Philippines and relevant committees (EIU, 2016[16]). Under the act, microcredit can now only be provided alongside either a financial literacy programme or a capital build-up or microsaving component. Financial reporting rules for co-operatives have been updated via the Co-operative Development Authority.

Asset-based financing is relatively widely practiced, led by big players such as BDO Leasing and Finance Inc. The main regulation governing asset-based financing, such as leasing and factoring, is the Financing Company Act of 1998. In 2014, the cost of leasing products was slightly increased when the Bureau of Internal Revenue issued new regulations redefining a leasing instrument as a type of loan, and thus subjecting it to the documentary stamps tax. This cost was transferred to the consumer, and may have made such products slightly less affordable for SMEs.

The use of crowdfunding instruments is still quite new in the Philippines, and the SEC drafted rules to regulate these activities only towards the end of 2017. The development of rules to govern crowdfunding is an important development for the country, though some wrinkles – such as a rather restrictive definition of crowdfunding, a low threshold for exemption and incomplete disclosure requirements – may still need to be ironed out.

Access to equity instruments such as private equity and venture capital is still relatively scarce, but the number and size of deals is increasing. One hundred deals were closed between 2012 and 2017, the fifth highest number in the region after Singapore, Indonesia, Malaysia and Thailand (CBI, 2017[17]). Philippine companies raised funds worth USD 18 million in 2017, the majority of which went to two fintech start-ups, PawnHero (which raised USD 9.7 million) and Coins.ph (which raised USD 5 million) (CBI, 2017[17]). Most PE/VC financing comes from funds based outside the Philippines. There currently do not appear to be any public programmes in place to stimulate PE/VC investment in the country, save the direct provision of venture capital financing via SBCorp. The SEC regulates PE/VC funds in the Philippines.

Enhancing access to market and internationalisation (Dimension 4)

The Philippines recognises the need to empower its SMEs to go global. Its score of 4.95 this dimension reflects this recognition as well as the intensity of policies and programmes in place to encourage SMEs to expand their businesses internationally.

Export promotion

The Philippines export promotion plan for SMEs is embedded in several interrelated strategic planning documents: the Philippines Development Plans for 2011-2016 and 2017-2022; the Philippines Export Development Plan (PEDP) 2015-2017; and the MSMED Plans for 2011-2016 and 2017-2022. The Export Development Council was created to oversee implementation of the PEDP and to co-ordinate the formulation and implementation of policy reforms and promotion strategies, while the DTI implements export promotion programmes for SMEs through its various agencies. The DTI's Export Marketing Bureau is the main implementing agency on export promotion, while the Bureau of Micro, Small and Medium Enterprise Development is mandated to initiate and roll out programmes that address specific SME needs in such areas as marketing, training and upgrade of SME centres. In addition, the Centre for International Trade Expositions

and Missions is in charge of supporting trade fairs and access to market services. Among its collaborations with other agencies that brought in SME participants were the 14th China-ASEAN Expo and the 26th Taipei International Food Show.

Other DTI programmes that champion SME internationalisation include the Philippines Export Competitiveness Programme (PECP), Doing Business in Free Trade Areas (DBFTA), the Regional Interactive Platform for Philippine Exporters (RIPPLES) and the Halal Export Industry Development and Promotion Programme. More than PHP 107 million (Philippine pesos) were allocated for export promotion programmes in fiscal 2017. Other key initiatives are undertaken in co-ordination with local government units (LGUs). One Town, One Product helps local SMEs to develop and market their products and access market intelligence information. The Negosyo Centres promote SME exports by providing information and related services on training, financing, marketing, etc. Established in co-ordination with LGUs and supervised by the MSMED Council, the centres are a salient feature of the Go Negosyo Act, which seeks to strengthen the growth of SMEs and entrepreneurship in the country.

Integration into GVCs

Initiatives to fortify SME linkages with global value chains (GVCs) are less apparent than efforts at export promotion, although the aim of strengthening ties between SMEs and regional and global production networks is included in the Philippines Development Plan 2017-2022 and the MSME Development Plan 2017-2022. The DTI is currently implementing a Business Matching programme[15] that promotes ties between international buyers and local exporters by disseminating the traders' directory online. Other schemes to integrate SMEs into GVCs are mostly embedded in export promotion programmes such as PECP and DBFTA. Small and medium enterprises can also connect with larger corporations through the Negosyo Centres. The Export Pathways Programme (EPP) promotes SME linkages with wider production networks. It utilises a value-chain approach, industry clustering and subcontracting to provide systematic export assistance for SMEs at every stage of an exporter's growth. The EPP initiative connects with other SME export development programmes, like the SME Roving Academy and RIPPLES, and provides strategic oversight to help SMEs go global.

The government has also taken steps at international venues to promote the integration of SMEs into GVCs. The Philippine-led Boracay Action Agenda to Globalise MSMEs received strong support when it was presented during the first Asia-Pacific Economic Co-operation Senior Officials' Meeting in Peru in 2016. The action agenda aims to mainstream MSMEs into GVCs (Lazo, 2016a[18]). In 2015, the Philippines and Malaysia proposed a project called "GVC-SME for the Automotive Sector". Under this project, the two nations identified common factors hindering their automotive SMEs from integrating into GVCs and proposed concrete measures to address these barriers in their work programmes for 2016-2018.

Use of e-commerce

The Philippine government's regulatory frameworks on e-commerce have been in existence since the 2000s. The Electronic Commerce Act of 2000 (RA 8792) and its implementing rules and regulations, together with the Access Devices Regulation Act of 1998 (RA 8484), serve as a legal framework on e-commerce, including e-payment issues. Meanwhile, the Consumer Act of the Philippines is being amended to include provisions on e-commerce. To promote the use of e-commerce specifically for SMEs, the MSMED

Council dedicated a task force that will: *i)* tap into Negosyo Centres to develop the e-commerce capacity of MSMEs; *ii)* improve MSME access to information on e-commerce; and *iii)* encourage MSMEs to engage in e-commerce through available online platforms or marketplaces. In 2009, the DTI institutionalised an e-commerce office to formulate policies and guidelines that support e-commerce and to conduct monitoring and evaluation of the implementation of e-commerce policies. The Philippine E-Commerce Roadmap 2016-2020, which aims to have e-commerce contribute 25% of GDP by 2020, was launched by the e-commerce office in 2016.

The Roadmap did not specify the concrete measures or implementing agencies mandated to promote e-commerce among SMEs. However, it is supported by other major initiatives, such as the National Broadband Plan, the National Retail Payment System, the Philippine Roadmap for Digital Start-ups and the Boracay Action Agenda to Globalise MSMEs. Efforts to improve SME access to e-commerce are executed through various agencies. The MSME Development Plan 2011-2016 assigns information technology (IT) appreciation and application to the Philippine Trade Training Centre (PTTC), which offers e-commerce courses such as "eSMEs on the Web: Training for the Development and Deployment of Websites for MSMEs" and "Doing Business on the Web: E-Commerce Made Easy for MSME Exporters". The SME Roving Academy also offers training related to IT. Other offerings for SMEs include OneSTore, established by the Department of Science and Technology (DOST) to serve as an online marketing hub for products made through the Small Enterprise Technology Upgrading Programme, and collaboration between the Negosyo Centres and the Philippine Long-Distance Telephone Company's Smart SME Nation to provide WiFi connectivity in the Negosyo Centres.

Quality standards

The DTI's Bureau of Product Standards (BPS) is the body that formulates Philippines National Standards and ensures that they comply with international standards, such as ISO 9000 (quality management), ISO 14000 (environmental management) and ISO 500001 (energy management). The BPS is also in charge of product certification schemes to ensure the quality and safety of all locally made and imported products. It provides technical assistance to industry and trade sectors to promote standards conformity. The DTI's regional and provincial offices monitor activities in the market to ensure that all products in circulation have been inspected. The DTI's Bureau of Trade Regulation and Consumer Protection handles complaints on consumer products.

Certification schemes in the Philippines are not under the sole purview of the BPS. The Department of Health's Food and Drug Administration is mandated to ensure the safety, efficacy and quality of health products.[16] The Department of Tourism implements an accreditation system for hotels and tourism establishments, while the Department of Agriculture and Fisheries provides certification for organic agriculture practitioners. The Bureau of Plant Industry and Bureau of Animal Industry cover certification of farms growing crops for human consumption and raising livestock.

Many efforts to support SME compliance with quality standards take the form of training. Examples include training programmes conducted by the PTTC on packaging and labelling of food and non-food products, and training and technical assistance on food safety from the Department of Agriculture (DA). The DA provides an organic certification subsidy to help SMEs meet the requirements of third-party organic agriculture certifications. Foreign donors also work with the Philippines on food quality standards. Under the Southeast Asian Food Trade project, the DA collaborated with

Germany's GIZ to allocate more than PHP 10 million as a subsidy for organic farming certification in 2017. While there is no monitoring mechanism in place with regard to the funds provided for quality standards, monitoring schemes do exist within local certification bodies, such as the DA's Bureau of Agriculture and Fisheries Standards.

Trade facilitation

In the 2017 OECD Trade Facilitation Indicators (TFI) used in the 2018 ASPI,[17] the Philippines received moderate scores in four indicators: information availability, fees and charges, formalities-documents and formalities-procedures. As of early 2018, the country was still developing TradeNet, the online platform for its National Single Window (NSW), which is due to be connected to the ASEAN Single Window. Initially expected to be rolled out by December 2017, the platform was rescheduled to go live in July 2018. TradeNet is a single online system that will connect 66 agencies and enable traders to apply for accreditation or permits online. It will facilitate trading for Filipino businesses through faster processing of import and export permits.

Although the MSMED Plan 2017-2020 laid out a vision of how to help SMEs deal with customs procedures, specific programmes on SME trade facilitation are not yet defined. Initiatives to support cross-border trade are often fragmented and embedded in broader programmes for SMEs. For example, training programmes under DBFTA might include sessions on both customs procedures and how to use free-trade agreements (FTAs). Another example is assistance for SME exporters by the Philippines International Trading Corporation in which SMEs are allowed to utilise common warehouses, facilitating their access to imported raw materials. Still another initiative that could indirectly support the foreign trade of SMEs is an October 2016 regulation by the Bureau of Customs that exempts goods with freight-on-board or free-carrier value of PHP 10 000 or less from duties and taxes.

The Philippines could further facilitate trade for SMEs by improving the information it provides on import and export procedures and the special allowances it offers to SMEs. In 2015, the DTI's Export Marketing Bureau published a Philippines Export Guidebook with step-by-step exportation procedures and other related information, but there is no specific programme that directly helps SMEs to familiarise themselves with basic information on trading across borders. The country's Authorised Economic Operator (AEO) programme not only lacks initiatives to help SMEs to qualify as AEOs, but actually hinders SMEs from attaining AEO status because it imposes a minimum authorised capital stock of PHP 100 million on traders applying for the status.

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

Policy makers in the Philippines have been developing strategies to make SMEs more innovative and to increase their productivity. Although a number of instruments are in place, especially advisory and support services, further policies and programmes could be beneficial. This is reflected in the country's score of 4.08 for Dimension 1, which places it at the mid-level stage of policy development. While the Philippines has developed a number of environmental policies and programmes, and these often include SMEs, there are relatively few dedicated incentives in place to support SME greening. This explains the country's score of 3.75 for Dimension 2, which again suggests that the Philippines is at the mid-level stage of policy development.

Productivity measures

An overarching plan to raise SME productivity is laid out under the MSMED Plan 2011-2016. In the Philippines Development Plan 2017-2022, enhancement of productivity, efficiency and resilience is noted as a desired sub-outcome under the main desired outcome: increased access to economic opportunities in industry and services for MSMEs, co-operatives and overseas Filipinos. Specific actions to improve productivity include increasing access to technology, implementing the MSMED Plan, assessing SME-related laws and encouraging entrepreneurship among households receiving remittances from overseas Filipinos. Regional consultations on productivity enhancement policies have been attended by the SME sector, business support organisations, NGOs, local government units, representatives of academia and civil society, and international development institutions. The private sector is represented by the Philippines Chamber of Commerce and Industry. The MSMED Council's medium-term evaluation report showed that of the 59 active provincial or city SME councils, only 35 were conducting meetings regularly.

The MSMED Council is the designated policy development agency for SME productivity policies and programmes. In practice, however, other government agencies, like the National Wages and Productivity Commission (NWPC), create their own productivity enhancement projects and programmes. Although the NWPC was designated as the portfolio manager for productivity and efficiency under the MSMED Plan, it does not co-ordinate actions with other agencies that implement productivity and efficiency programmes.

The budget allocated for productivity enhancement programmes is not specified in the MSMED Council's accomplishment report, while the NWPC has its own budget for its programmes. The commission provides training for improving SME productivity at three levels: basic (basic concepts on productivity, values, working conditions and basic business systems); intermediate (application of productivity technologies based on the need of enterprises for further improvement); and advanced (for deeply involved and innovative enterprises that are to be transformed into productivity champions). Other programmes include wage advisories on performance/productivity-based incentive schemes, the Productivity Olympics (a biennial national competition of best productivity practices among SMEs) and a Wage and Productivity Caravan. The Shared Services Facility (SSF) programme, a form of capital investment, aims to address gaps and bottlenecks in the value chain of priority industry clusters through provision of processing and/or manufacturing machinery, equipment, tools and related accessories for the common use of MSMEs. An assessment conducted by the Philippines Institute for Development Studies showed that the SSF project, which costs little to run, has had a substantial impact on jobs and productivity. The NWPC and the Regional Tripartite Wages and Productivity Board monitor information such as the number of productivity action plans initiated, the number of SMEs trained, the number of SMEs to have adopted performance/productivity incentive schemes and the number of SMEs benefitting from the full cycle of training and technical assistance. But in terms of direct productivity measurement, official statistics are still limited to labour productivity.

Business development services

The MSMED Plan 2011-2016 aimed to promote and strengthen MSMEs in all productive sectors of the economy, including areas related to business development services (BDS). The Go Negosyo Act of 2015 promotes the ease of doing business and access to services

for MSMEs, while BDS are also part of the Philippines Development Plan 2017-2022. DTI and the MSMED Council are the main policy-making bodies that cover BDS.

Most BDS activities are provided through programmes available on the DTI website. The main programme is the nationwide network of Negosyo Centres, which provide assistance with business registration, access to markets, digital marketing, provision of business information, and monitoring and evaluation. Another programme is the SME Roving Academy, which provides access to needs diagnosis and limited training for SMEs at the local level. The government does not provide monetary support or vouchers for BDS, but it offers non-financial support, such as advice from the staff of local centres, as well as facilities and information. The country offers a wide range of awards and business-plan competitions that are provided by the private and public sectors as well as academia. Overall, the Philippines enjoys a healthy SME ecosystem, with active private-sector actors not only in finance but also in BDS. They include IdeaSpace, a non-profit business incubator and accelerator, and Aspace. Private-sector initiatives often focus on selected areas, such as IT, process management and the tech industries. Public-sector intervention could cover a broader range.

Productive agglomerations and clusters enhancement

The Philippines Development Plan 2017-2022 includes an action plan for adopting a cluster-based industrial approach that aims to promote inter-firm co-operation and agglomeration and to build a strong and competitive regional economy. The legislative agenda calls for pursuing local economic development through co-operation among local government units and by strengthening participation in community development. This signals that the government is pursuing national-level policies that are intended to trickle down to the local level.

As of July 2016, the DTI's Philippines Economic Zone Authority (PEZA) listed a total of 358 special economic zones (SEZs) across the country. They include manufacturing economic zones, IT parks and centres, agro-industrial economic zones, tourism economic zones and medical tourism parks and centres. This marks a substantial increase over the 277 SEZs identified in 2014. The biggest increase was in the IT sector. PEZA offers financial incentives to registered economic zone enterprises, such as a 100% income tax holiday for up to four years for non-pioneer projects or six years for pioneer projects. Additional tax incentives include VAT zero-rating of local purchases of goods and services and exemption from expanded withholding tax. Other specific incentives are granted depending on the type of operations. For example, enterprises in agro-industrial economic zones can benefit from exemption from local government fees such as the mayor's permit or a business permit. Monitoring and evaluation of policies on cluster promotion are not well developed yet, and key performance indicators specifically intended for SMEs are also limited.

The Philippines scored 89% in the ERIA Foreign Investment Liberalisation Rate in 2014, which is about the average in ASEAN. The country has the most open manufacturing sector in ASEAN. However, constitutional provisions restrict foreigners to a minority position in the use of natural resources (including land), except in very special circumstances, such as a foreign firm having a technical and financial agreement with the Philippines government in mining (Intal Jr., 2015[19])

Technological innovation

Innovation strategies are embedded in the Philippines Development Plan 2017-2022 under various chapters. The plan lists targets for items like expenditure on research and development (R&D) and it provides a timeline, but it includes no specific reference to SMEs. The Philippines Innovation Act, which was approved in May 2017, recognises the importance of having an effective and efficient innovation ecosystem that addresses MSME development. Innovation for SMEs is integrated into a number of policy documents, for example the Philippines Roadmap for Digital Start-ups. This strategic plan for the start-up community aims to develop digital innovation and was drafted by the Department Information and Communication Technology (DICT). An Eleven-Point Agenda Strategy focusing on the expansion of science, technology and innovation assistance for MSMEs was developed by DOST. The Philippines Council for Industry, Energy and Emerging Technology Research and Development, under DOST, has been mandated to serve as the central agency for formulating policy and implementing strategies related to innovation. However, the Philippines Innovation Act foresees the establishment of a National Innovation Council.

The Intellectual Property Code (RA 8293) recognises that an effective intellectual property (IP) system is vital to attracting foreign investment, facilitating the transfer of technology and ensuring market access for products. The country aims to develop an IP legal framework that is compliant with international standards; it has already acceded to international agreements, conventions and protocols. The Intellectual Property Office oversees and enforces overall implementation of IP rights, trademarks and patents.

Agencies involved in implementing technological innovation programmes include DOST, DICT and DTI, among others. Although much information is available online, there is no single portal where companies can find guidance on the various support mechanisms available in the country. One such mechanism is the Invention-based Enterprise Development programme, which helps to develop and commercialise innovations. The Technology Innovation and Commercialisation programme aims to fast-track the transfer and commercialisation of research results via financial and technical assistance. The QBO Innovation Hub, working in collaboration with the private sector (IdeaSpace Foundation), aims to link up innovators, researchers, investors, academic institutions, start-up mentors, funders and enablers.

While innovation infrastructure is available in the Philippines, access can be challenging due to the archipelago's geography. In 2015, the country counted 23 innovation hubs. DOST's Technology Business Incubation programme pushes for innovation and entrepreneurship in the private sector and academic institutions. It provides support for the establishment of technology business incubators and innovation centres by higher education institutions and other organisations. The support covers the cost of capacity-building and training activities, operational expenditures and acquisition of necessary equipment. The country's science and technology parks include the UP Ayala Technopark. The Technology Application and Promotion Institute, DOST's technology transfer office, groups the technology transfer offices of several universities.

Environmental policies targeting SMEs

Environmental sustainability is a component of the MSMED Plan 2011-2016. It envisages environmentally friendly products, services and practices as part of the results framework of each of the plan's elements: business environment, access to finance, access to markets, and productivity and efficiency. Climate change is another of the

plan's thematic areas. The MSMED Plan 2017-2022, which was approved in April 2018, also includes the aim of making the country's MSMEs sustainable.

Other environmental plans that could impact SMEs are included the 2017 Investment Priorities Plan, the National Climate Change Action Plan and the National Framework for Physical Planning. The Philippines Development Plan 2017-2022 also lays out a Strategy Framework to Ensure Ecological Integrity, Clean and Healthy Environment, which calls for ensuring that economic growth in resource-based communities is made more sustainable through innovation, technological adaptation and the mainstreaming of ecosystem value into national and local development planning. The Greening the Philippines Manufacturing Industry Roadmap, under the Ministry of Industry, identifies specific sectors of the economy that can be made greener, including SMEs.

Incentives and instruments for green SMEs

The country has created regulatory incentives for enterprises to become greener through the Philippines Environment Partnership Program (PEPP). While open to all enterprises, it singles out SMEs. The PEPP was created in 2003 by the Environmental Management Bureau of the Department of Environment and Natural Resources to support industry self-regulation and reporting while improving environmental performance. It is a two-track programme. Track 2 is an assistance programme aimed at industry associations and individual companies, particularly SMEs, which are not yet compliant with environmental regulations but are committed to improving their performance. Successful applicants sign a legally binding Environment Consent Agreement with the Environmental Management Bureau that commits the company to attaining environmental compliance targets and implementing an environmental management plan. Track 1 gives recognition and incentives to enterprises that go beyond compliance in environmental performance. To qualify for Track 1, enterprises need to show that they have been consistently environmentally compliant for three years and have gone beyond compliance in some way. Valid actions include implementing an environmental management system, undertaking waste minimisation initiatives or engaging in community or social responsibility programmes. No SMEs have yet transitioned from Track 2 to Track 1.

The government has also tried to streamline the process for obtaining environmental certificates, with an increasing number available online. Sectoral approaches have been taken to help enterprises understand the procedures for different areas of environmental compliance. The National Ecolabelling Programme-Green Choice the Philippines, based on ISO 14024, gives third-party certification for clean manufacturers and the use of environmentally friendly products.

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

The Philippines is committed to incorporating entrepreneurial learning elements at all levels of education. It underscores the need to develop young entrepreneurs through the higher education system and entrepreneurship training. The country's Dimension 7 score of 4.48 reflects its well-developed policies on nurturing the entrepreneurial mindset and enhancing entrepreneurial skills. The Philippines has also developed policies to promote social and inclusive entrepreneurship, as reflected in its Dimension 8 score of 3.65.

Promotion of entrepreneurial education

The Philippines' newly adopted K-12 Basic Education programme[18] integrates entrepreneurship culture into the curriculum. Under the programme, entrepreneurial competency is expected to rise as students move from lower to higher levels of education. Students are first introduced to basic entrepreneurship concepts. By the time they reach Grade 6, they are expected to be able to demonstrate the ability to sell products based on demand in school and the community. The 2016-2021 period is referred to as the K-12 transition period, with education paradigms expected to shift towards learning that is more activity- and outcome-based.

Technical and Vocational Education and Training (TVET) is under the jurisdiction of the Technical Education and Skills Development Authority, as mandated by RA 7794 in 1994. TVET is designed to be part of tertiary education and is open to high school graduates, secondary school leavers and university undergraduates and graduates. Training delivery can be school-based or through community-based or enterprise-based programmes. It focuses on training to develop entrepreneurship skills in order to facilitate self-employment or apprenticeship within firms or industries. There are a rather large number of private TVET providers operating in the Philippines, as well as public providers. Public TVET providers include public schools, regional training centres, provincial training centres, specialised training centres and state universities and colleges offering non-degree skills training programmes.

Entrepreneurial learning is defined most clearly for the university level. In 2005, the Commission on Higher Education issued a memorandum converting university degrees with a major in entrepreneurship into a new Bachelor of Science in Entrepreneurship. The Philippines now has 288 higher education institutions offering degrees in entrepreneurship, and enrolment has steadily increased over the past five years, *The Philippine Star* reported on 25 October 2017. Collaboration between schools and the Negosyo Centres connects students with SMEs. Another initiative is the creation of a Fabrication Laboratory (FabLab) at universities, including the University of the Philippines in Cebu City, Eastern Visayas State University in Tacloban City and Zamboanga State Polytechnic College (Lazo, 2016b[20]). The FabLab serves as a small-scale workshop on digital fabrication where students learn about new prototyping technologies and software for designing and manufacturing products.

Entrepreneurial skills

The government recognises the need to strengthen outreach on entrepreneurship programmes throughout the country. Through the nationwide Negosyo Centres, aspiring entrepreneurs and SME owners and managers have access to entrepreneurial training and mentoring programmes. The Mentor ME programme aims to help SMEs scale up their businesses through weekly coaching on different areas of entrepreneurship, while the SME Roving Academy provides entrepreneurs with continuous learning on setting up and stepping up their operations and improving their competitiveness.

The University of the Philippines Institute for Small-Scale Industries has provided entrepreneurship training to support SME development since its establishment in 1966. It also conducts research on the entrepreneurial skills of SMEs, in partnership with DTI. The institute has an evaluation system that allows participants to rate the courses and training received and to give feedback. It also conducts curriculum reviews of its training programmes to stay up to date and relevant.

Entrepreneurship skills are also promoted through the One Town, One Product project, which integrates various stages in the development of a business. Chief executives of each city and municipality take the lead in identifying, developing and promoting a specific product or service that has a competitive advantage. The project offers SMEs a suite of services, including business counselling, marketing, and skills and entrepreneurial training.

Social entrepreneurship

The country's social enterprise (SE) sector has historically focused on poverty alleviation, with co-operatives, microfinance institutions and NGOs as key actors. However, a new generation of social enterprises is emerging with involvement of the business sector, leading to the creation of inclusive businesses and co-operatives. The Philippines is also seeing an increase in the number of intermediaries offering business-related services to ventures pursuing social goals. The handful of social enterprises that have successfully scaled up and achieved national impact include Gawad Kalinga, Human Nature and Rags2Riches. They have served as role models, with positive spillovers in the form of new entrants and business models in the social enterprise sector.

While social entrepreneurship is at an early stage of development from an institutional and structural perspective, the Philippines Development Plan 2017-2022 makes reference to social enterprises and calls for the passage of a social enterprise bill. A Senate bill, the Poverty Reduction through Social Entrepreneurship (PRESENT) Act, which provides a definition for social enterprise, was proposed in 2016. However, it has not yet been approved. Nonetheless, the Philippines has historically supported entities whose activities have the characteristics of social enterprises (JRI, 2016[21]); the concept has been in public discourse since the late 1990s.

No government social enterprise registry yet exists, but there is a privately run registry, ChooseSocial.PH. Institutions with a mandate to follow up on these enterprises include the Philippines Social Enterprise Network, Inc. (PhilSen) and the Institute for Social Entrepreneurship in Asia, based in the Philippines. The Co-operative Development Authority promotes the country's co-operatives, while the Philippines Board of Investments drafted a 2017 Investments Priorities Plan geared towards providing fiscal support to inclusive business projects that benefit SMEs.

Although the PRESENT Act proposes establishing a Social Enterprise Development Centre, no implementation body currently exists in the Philippines and there is no specific budget for social enterprises. Networks such as PhilSen, along with private actors like GKonomics and universities and donors like the British Council, are addressing gaps by delivering specialised entrepreneurial support. For example, PhilSen has developed a social enterprise quality index, a voluntary monitoring tool for SEs.

Inclusive entrepreneurship

Inclusive enterprises are at an intermediary stage of development in the Philippines, with considerable structural support and tailored support activities for each of the target groups. Policies and agencies that promote entrepreneurship among women, youth and persons with disabilities (PWD) have been established in line with the socio-economic and labour-market challenges outlined in the national development plan. The motivation to improve the entrepreneurial activities of the target groups has been clearly stated.

Women's entrepreneurship in particular is being significantly advanced. The Philippines is the region's strongest performer in this area, and on the national level entrepreneurship support is strongest for women among the target groups. Women's entrepreneurship is mentioned across several national strategies including the national MSMED Plan. The DTI has implemented a gender mainstreaming approach to entrepreneurship in co-ordination with the Philippines Commission on Women. Most government interventions in terms of implementation appear to take a welfare approach to women's entrepreneurship by engaging low-income women in micro-entrepreneurship activities.

Given the country's high level of youth unemployment, entrepreneurship has been identified as a strategy for improving youth labour-market inclusion in both the national development plan and the Philippines Youth Development Plan 2017-2022. A Youth Entrepreneurship Act was adopted in 2015. Efforts to foster youth entrepreneurship include entrepreneurial education, incubators run by universities and the private sector, awards and networks. In contrast, there are few activities to support PWD entrepreneurs specifically, although they may benefit from the Negosyo Centres. One good practice across the target groups concerns budget allocation. A set percentage of the SME agency's budget is earmarked for each group, ensuring that there are activities on a rolling basis. Currently 1% of the agency's budget is allocated for activities with PWD.

The way forward

Strengthening the institutional, regulatory and operational environment

The Philippines has a relatively extensive institutional architecture in place for SME policy, but may continue to face some issues with co-ordination and capacity. This also extends to the regulatory requirements affect SMEs, which must often interact with a number of government agencies to receive licenses and permits, as well as to meet operational requirements. Moving forward, the Philippines could:

Institutional framework for SME policy

- **Delegate more responsibilities to the MSMED Bureau.** The MSMED Council at DTI currently has a very broad portfolio, and this may limit its efficacy and ability to act strategically. Increasing the resources of the MSMED Bureau, which acts as the Council's secretariat, may result in interventions that are better implemented and co-ordinated.

Legislation, regulation and tax

- **Streamline the requirements for launching a company.** Company registration is still rather burdensome in the Philippines. Further steps could be taken to streamline registration requirements among different government agencies. This could facilitate the creation of a single registration number to operate a business, or at least reduce the number of registration numbers required.

Facilitating SME access to finance

The Philippines has a stable banking system and a number of policies and programmes in place to facilitate lending to MSMEs, but some of these initiatives may distort efficient credit allocation, and many lack mechanisms for a robust performance assessment.

Reforms to the legal and institutional environment for extending credit may also be required. Going forward, the Philippines could:

- **Consider removing the mandatory lending scheme.** The mandatory lending scheme can prevent banks from efficiently allocating credit. It appears that Filipino banks currently prefer to pay the fine for non-compliance or channel funds to firms that deliberately understate their assets in order to qualify as an SME (Aldaba, 2011[13]). The scheme's impact may thus be limited in any event.

Enhancing access to market and internationalisation

To strengthen its efforts to increase market access for SMEs and make them globally more competitive, the Philippines could consider the following actions:

- **Improve the trade facilitation system.** More seamless trading across borders would enhance the capacity of SMEs to access a broader market and go global. This would be of great benefit to the Philippines. Expediting the full-operational status of the National Single Window, together with trade facilitation support for SMEs, could make them more competitive in international trading. Support could include a special AEO programme or incentives for SMEs, as well as specific assistance for SMEs to comply with customs procedures and foreign trade regulations.
- **Strengthen initiatives to integrate SMEs into global value chains.** Linking SMEs with larger companies and MNCs is crucial to improving their competitiveness. Technology transfers and stronger demands to comply with quality standards can take place through such links with production networks. By developing more defined programmes specifically aimed at assimilating SMEs into GVCs, the Philippines would enhance their competitiveness in international trade.
- **Improve monitoring and evaluation of SME internationalisation.** Given that the country has adopted both a national-scale and a decentralised approach in promoting SMEs to go global, such as through the Negosyo Centres and the One Town, One Product programme, it is important to introduce more transparent and systematic monitoring of the programmes to ensure their effectiveness and quality. Monitoring and evaluation are also needed to reduce inequality in implementation of the programmes, especially among different regions in the country.

Boosting productivity, innovation and adoption of new technologies

The Philippines has programmes and policies in place to facilitate SME productivity enhancement and innovation, but it may continue to face issues with co-ordination and performance assessment. Moving forward, the Philippines could:

Productivity, technology and innovation

- **Monitor the implementation of MSME laws and action plans.** Policies have been developed to promote productivity, innovation and the establishment of clusters, but their implementation could be improved through better monitoring. Independent evaluation could help policy makers to gain better understanding of

issues and loopholes, and to identify areas where further improvement is needed in the legislative or policy cycle.

- **Streamline the roles of public institutions.** The Philippines has a sophisticated system of agencies and institutions that deal with a large array of areas. Clearly defining and streamlining the roles of institutions could make it easier not just to avoid duplication but also to save on expenditure.
- **Develop growth-stage support mechanisms.** Although the government has a fairly diversified system of instruments to support productivity and innovation, most are focused on early-stage ventures. By developing an offer of mechanisms focused on SMEs in their growth phase, the government could help leverage their development. Mechanisms could include voucher schemes or co-financing mechanisms for customised support of SMEs.
- **Boost awareness of the importance of innovation.** The government could consider further promoting public awareness about the advantages of BDS and innovation. Establishment of a single information portal for MSMEs could make it easier for them to learn about the initiatives on offer from various institutions and to identify those that are best for them, increasing their uptake of services.

Environmental policies and SMEs

- **Ensure better co-ordination of policies relating to SME greening.** A central unit tasked with co-ordinating action on the greening of SMEs could help to maximise synergies. It would also help to ensure that SMEs understand the full range of environmental policies that affect them. Co-ordination could also be accomplished through a regular working group or a consolidation of planning documents.
- **Analyse the uptake of greening programmes by SMEs.** The Environmental Management Bureau could consider evaluating why SMEs are not moving up from Track 2 to Track 1 of the PEPP and could develop strategies to support them. Evaluation of the Green Choice programme could also be conducted to assess SME participation and encourage greater uptake.

Stimulating entrepreneurship and human capital development

The Philippines sees its human capital as one of its core assets, and as a result it has developed relatively strong education and training systems, with policies and programmes in place to promote the inclusion of target groups, notably women. It has also shown a strong commitment to enhancing entrepreneurial skills and knowledge through key initiatives such as the One Town, One Product project. To build on previous achievements in this area, the Philippines could:

Entrepreneurial education and skills

- **Strengthen monitoring and evaluation of entrepreneurship initiatives.** This is important to ensure their effectiveness and to respond to implementation challenges. Publishing regular reports on such initiatives would also provide aspiring entrepreneurs and SMEs with key information on the programmes and could inspire them to participate, thus increasing the programmes' benefits and effectiveness.

- **Develop a national-scale training-of-trainers programme.** Ensuring a supply of quality educators on entrepreneurship and equipping schools with adequate teaching materials to support entrepreneurial education are essential to the success of the new K-12 curriculum. As the Philippines shifts towards more activity- and outcome-based learning with the new curriculum, strengthening training-of-trainers programmes would support the goal of nurturing the entrepreneurial mindsets of the future.

Social and inclusive entrepreneurship

- Develop a clear legal framework for social enterprises. The lack of a legal definition of a social enterprise could be a source of confusion, and the lack of legal frameworks and structural support may pose constraints to the development of the sector. Legal frameworks not only bring clarity and provide legitimacy, but also enable policy makers and private actors to support social enterprises. Strengthening the legal framework can bring needed foundational support to the policy ecosystem. Approval of the PRESENT Act would be a big step forward.
- Provide training on management skills and business acumen. A shortage of technical skills and financial resources constitute major barriers for social enterprises and inclusive entrepreneurs in the Philippines. By developing special support mechanisms and instruments – for example, on-line courses for PWD, or courses on the measurement of social impact – the government could address the needs of target groups and social enterprises. Developing dedicated instruments to promote entrepreneurship within the PWD target group, via the group's allocated budget, could be a good practice example for the other target groups.
- Strengthen the finance ecosystem. To build on the existing structures that provide microfinance, the government could consider developing instruments to address the seed phase of social enterprises and entrepreneurs representing the target groups. In the longer term, the development of an overall impact finance ecosystem and partnerships with private-sector players could be beneficial for developing instruments that support the growth phase of selected ventures.

Notes

[1] The Philippines is made up of an estimated 7 641 islands, only 2 000 of which are inhabited. The country's total territory amounts to around 300 000 km^2.

[2] Total reserves covered 104.3% of total external debt in 2016, compared to 9.3% in 1986 (World Bank, 2016[4]).

[3] The country's main markets for its merchandise goods are in Asia, including Japan (21%), other ASEAN countries (15%, with Singapore alone absorbing 6.7%), and China (11.3%). The United States is the Philippines' second-largest export market, absorbing 15.5% of the country's merchandise goods.

[4] As well as the liberalisation of immigration policies in many migrant-receiving countries.

[5] The international poverty line is the share of the population living on less than USD 1.90 a day. At the Philippines' national poverty line, 25% of the population remain in poverty.

[6] Signed into law on 19 December 2017.

[7] By DOT (the Department of Tourism) and DOLE (the Department of Labour and Employment).

[8] In sum, it receives the second lowest score on this indicator in the region (World Bank, 2017[2]).

[9] With eight Extension Offices: three each in Luzon and Mindanao and two in the Visayas.

[10] Through this service, the SEC transmits the details of SEC-approved registrants to three social agencies, which then issue respective ERNs for first-time registrants

[11] In 2008 the government passed the Credit Information System Act (CISA), creating a public corporation, the CIC, which is responsible for collecting, collating and disseminating information provided by private credit bureaus.

[12] And therefore third parties cannot conduct registrations, amendments, cancellations or searches online.

[13] The PSE was created following the merger of the Manila Stock Exchange and the Makati Stock Exchange.

[14] Under this scheme, banks must disburse 6% of their loan portfolio to small enterprises and 2% to medium-sized enterprises.

[15] Further information can be found at: http://businessmatching.dti.gov.ph/about-us.

[16] Through RA 9711 (on Food and Drug Administration) and RA 7394 (Consumer Act of the Philippines).

[17] Four sets of indicators from the 2017 OECD trade facilitation indicators are used in the 2018 ASPI: i) Information availability; ii) Fees and charges; iii) Formalities-documents; and iv) Formalities-procedures, with 2 the highest possible score for each of the indicators. In 2017, the Philippines scored 1 for information availability, formalities-documents, and formalities-procedures, and 1.4 for fees and charges.

[18] Comprehensive information on the Philippines K-12 Education system is available at http://k12the Philippines.com/.

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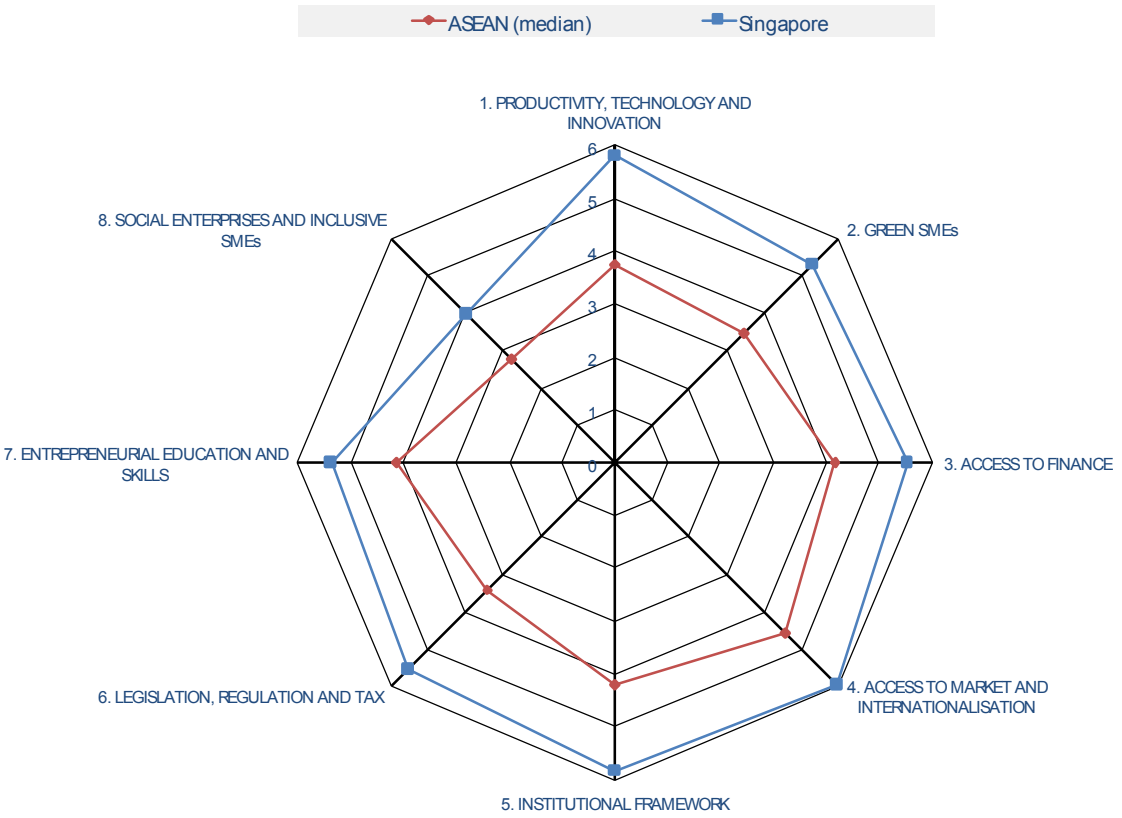
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Chapter 19. Singapore

Singapore began to implement a targeted SME policy following a recession in the late 1980s, and it intensified the policy after the Asian Financial Crisis. From the outset, the country has adopted a "service delivery" approach to SME policy, providing services to help SMEs increase their competitiveness. Its main policy priorities are productivity enhancement and internationalisation. It has recently started to identify a number of priority sectors for targeted support as part of an initiative to prepare its enterprises for future economic changes. It has a demonstrated expertise in the area of SME policy, and is a model for many countries globally.

Figure 19.1. 2018 SME policy index scores for Singapore



Overview

Economic structure and development priorities

Economic structure

Singapore is a highly developed, open city state located on the Strait of Malacca. It has the 7th highest GNI per capita measured in purchasing power parity globally, standing at around Intl$ 85 190 in 2016 (World Bank, 2016[1]). With a small land mass and few natural resources, Singapore has carefully cultivated its human capital since independence, and this has enabled the country to achieve strikingly rapid economic development. Its population is highly educated, with an adult literacy rate of 97.2% and with 54.2% of the population aged over 25 holding a post-secondary qualification (UNESCO, 2016[2]). Its economy is overwhelmingly service driven: services account for 71.3% of GDP (World Bank, 2016[1]). Leveraging on its sound macroeconomic fundamentals, location and highly educated population, Singapore has become a regional and global hub for financial services and oil trading and pricing, as well as biotechnology. It has also become highly populated: the country has the third highest population density globally, with 5.6 million people inhabiting 719 km^2 (World Bank, 2016[1]).

Traditionally an entrepôt economy, Singapore has managed to transform its productive structure from a concentration in simple labour-intensive manufacturing (textiles and garments) at the time of its independence[1] to skill- and capital-intensive electronic goods

and financial services by the 1980s and 1990s. It has achieved this through an active and considered process of FDI attraction and integration into global and regional value chains since the 1960s. Particular efforts were made to incentivise electronics companies to relocate their more labour-intensive operations to Singapore, and by 1969 eight major semiconductor companies had established factories in the country, mainly from the United States.[2] In tandem, the government embarked upon a corrective wage policy, raising wages in order to force low-skilled, labour-intensive industries either to upgrade or to relocate. To boost its savings rate, it made contributions obligatory to the country's Central Provident Fund (CPF), and this enabled the government to increase public investment significantly. Public funds were used to upgrade infrastructure, invest directly in manufacturing companies and develop education and skills. Foreign companies were supported to further Singapore's development goals more directly, for instance via subsidies to train local workers, with these tools becoming more popular after the country's "second industrial revolution" in 1979. The government also implemented a raft of measures to promote the country as a maritime centre. Between 1960 and 1985, direct exports by manufacturing firms grew at an annualised rate of 22.1% (Vue, 1989[3]), and by the mid-1980s, Singapore had managed to create a number of specialised, high value-added manufacturing niches, while increasing its diversification into services.

Today electronic products constitute the largest share of its merchandise exports, led by integrated circuits (5% of total merchandise exports), and followed by computers and computer parts (1.7%) and telecoms equipment (0.4%) (MIT, 2016[4]). It has also maintained its comparative advantage in refining petroleum, developed in the 1970s, which today accounts for around 16% of exports. It is measured as being the fourth most complex export economy in the world, and having a revealed comparative advantage in 165 products. It is tightly linked into regional and global value chains, with a diverse range of export partners, but its principal export partners are to be found in the Asia-Pacific region: China absorbs 14.5% of Singaporean exports; followed by Hong Kong (12.3%) and Malaysia (10.6%) (MIT, 2016[4]). Today Singapore is the 14th largest export economy in the world and the 3rd most open, with a positive trade balance of USD 55.4 billion, and the world's second busiest container port after Shanghai (WSC, 2016[5]).

Table 19.1. Singapore: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	**2013**	**2014**	**2015**	**2016**
GDP growth	Percent, y-o-y	3.9	5.0	3.6	1.9	2.0
Inflation	Percent, average	4.6	2.4	1.0	-0.5	-0.5
Government balance	Percent of GDP	7.9	6.6	5.5	3.7	3.3
Current account balance	Percent of GDP	17.4	16.9	19.7	18.1	19.0
Export of goods and services	Percent of GDP	195.4	192.4	192.1	176.5	172.1
Imports of goods and services	Percent of GDP	171.7	169.2	167.7	149.6	146.3
Net FDI (inflows)	Percent of GDP	19.8	22.0	22.4	22.3	25.0
External debt	Percent of GNI	-	-	-	-	-
Gross reserves	Percent of external debt	-	-	-	-	-
Domestic credit to the private sector	Percent of GDP	115.2	127.1	131.7	128.8	132.9
Unemployment	Percent of active population	1.9	2.0	1.9	1.9	2.1
GDP per capita	PPP (constant 2011 intl$)	76 285.6	78 896.6	80 903.5	81 741.1	82 621.5

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

The country continues to exhibit strong macroeconomic fundamentals, with stable prices and very low unemployment. The economy has shown steady and generally high GDP growth since 2002, bar a contraction in 2009 as a result of the global financial crisis (after which it recovered with a GDP growth rate of 15.2% in 2010). Over the past five years it has managed to maintain a positive current account balance and a balanced budget, despite sluggish growth in 2015 and 2016 (under 3% annually). It has also experienced a period of muted inflation, which slumped to its lowest rate in 30 years in 2015 but has begun to pick up due to energy and administrative price increases as well as a recovery of the housing market. Going forward, the Singaporean government has stressed the need to increase productivity growth, which lags behind rates observed in other high-income countries, and to reduce the country's dependency on foreign labour, as well to increase the contribution of Singaporean enterprises to the national economy.[3] The rate of young people not in education, employment or training (NEETs) is also rather high, standing at 18.8% in 2017 (ILO, 2016[6]), and the country has a declining fertility rate (on average 1.3 between 2000 and 2005, 1.2 between 2010 and 2015), which is one of the lowest in the world today (World Bank, 2016[1]).

Reform priorities

Singapore's economic priorities until 2020 were elaborated by the Economic Strategy Committee (ESC) following its last sitting in 2010. The committee identified three overarching objectives: *i)* to maintain competitiveness; *ii)* to upgrade jobs; and *iii)* to raise incomes. The committee noted that there was a need to achieve all three objectives through economic growth based on productivity enhancement rather than by increasing the size of the country's workforce through foreign labour. To achieve a target GDP growth rate of 3-5% per annum from 2009 to 2019, the ESC recommended that Singapore aimed to reach and sustain productivity growth of 2%-3% per annum, more than double the 1% achieved between 1998 and 2008.

To reach its goals, the ESC identified three strategies: *i)* to upgrade skills; *ii)* to support Singaporean companies to tap into the broader Asian market (as well as to attract more international mid-sized companies to Singapore); and *iii)* to make Singapore a distinctive global city. Recommendations were outlined to realise each strategy (Table 19.2).

Table 19.2. Strategic objectives of the Economic Strategic Committee (2010)

Priority area	Recommendations
1. Boost skills in every job	Develop a nationwide Continuing Education and Training (CET) system
	Develop broad-based and targeted sectoral programmes
	Enhance fiscal incentives for companies to innovate and improve efficiency
	Progressively increase foreign worker levies
2. Deepen capabilities of Singaporean companies to seize opportunities in Asia	Derive commercial value from R&D (increase R&D expenditure to 3.5% of GDP)
	Develop financing capabilities to take advantage of the opportunities in Asia
	Develop stronger alliances between large and small players to promote technology transfer, test-bedding and commercialisation
3. Transform Singapore into a global city	Develop creative and art clusters and provide opportunities for diverse talents to grow and develop
	Develop infrastructure necessary to provide the highest quality of life by developing a masterplan of a new waterfront city at Tanjong Pagar, and develop distinct eco-towns and residential precincts

Source: ESC (2010), https://www.mof.gov.sg/Portals/0/MOF%20For/Businesses/ESC%20-Recommendations/ESC%20Full%20Report.pdf.

Building on the work of the ESC, the Committee on the Future Economy (CFE) was convened in January 2016 to develop economic strategies for Singapore over the next decade. This was regarded as necessary given significant structural shifts in the global environment, such as sluggish economic and productivity growth worldwide, changing global value chains, heightened anti-globalisation sentiment in some economies and rapid technological change driving shorter innovation cycles, disrupting entire industries and displacing their workers. Amid these challenges, the CFE highlighted many opportunities for Singapore over the next decade. These are strongly supported by the country's close proximity to booming growth markets in Asia, and by competitive Singaporean enterprises in several growth sectors such as finance, hub services, logistics and urban solutions. The digital economy also presents opportunities to transform industries, while new technologies can help to raise productivity in sectors like advanced manufacturing.

In its recommendation, the CFE outlined a vision for Singaporeans of today to be pioneers for the next generation. In the future economy, Singapore citizens should have deep skills and be inspired to learn throughout their lives. Singapore businesses should be innovative and nimble. The city state should be vibrant, connected to the world and continually renewing itself, while the Singapore government should be co-ordinated, inclusive and responsive. To achieve this vision, the CFE identified seven mutually reinforcing strategies and proposed recommendations on their implementation (Table 19.3).

Table 19.3. Strategic objectives of the Committee on the Future Economy (CFE)

Strategies	Recommendations
Deepen and diversify international connections	Press on with trade liberalisation
	Set up a Global Innovation Alliance
	Deepen knowledge of markets
Acquire and utilise deep skills	Facilitate acquisition of deeper skills
	Strengthen utilisation of skills
Strengthen enterprise capabilities to innovate and scale up	Strengthen our innovation ecosystem
	Support enterprises to scale up
	Encourage private sector to provide more growth capital
Build strong digital capabilities	Help small and medium enterprises adopt digital technologies
	Build deep capabilities in analytics and cybersecurity
	Leverage data as an asset
Develop a vibrant and connected city of opportunity	Invest in our external connectivity
	Continue to plan boldly to rejuvenate the city
	Build partnerships for a vibrant city
	Develop exportable capabilities
Develop and implement Industry Transformation Maps (ITMs)	Tailor ITMs for each industry
	Maximise synergies across industries
Partner each other to enable innovation and growth	Encourage trade associations and chambers and unions to work together
	Create a regulatory environment to support innovation and risk-taking
	Use lead demand to develop promising industries
	Review and reshape Singapore's tax system
	Create a sustainable environment

Source: Report of the Committee on the Future Economy (2017), https://www.gov.sg/microsites/future-economy/the-cfe-report/overview.

In its report, the CFE aims for the Singaporean economy to expand by 2% to 3% a year on average, exceeding the performance of most advanced economies, and for this to be accompanied by sustainable wage growth and the creation of good jobs for Singaporeans. The CFE also called for tailored Industry Transformation Maps (ITMs) to guide the economic restructuring of 23 industry sectors in the five ensuing years. The ITMs are formed around four priority pillars: innovation; productivity; jobs redesign and upskilling; and internationalisation. They seek to identify and address industry shortfalls and needs through a process of interagency and public-private collaborations.

The Singaporean government accepted all recommendations by the CFE in March 2017. Implementation of the committee's recommendations was to be overseen by the Future Economy Council (FEC), which was formed to drive the growth and transformation of Singapore's economy for the future. The FEC is chaired by the Minister for Finance and comprises representatives of government, industry, unions and educational and training institutions.

Private sector development and enterprise structure

Business environment trends

Singapore remains one of the most market oriented and open economies in the world and hosts a vibrant private sector. It consistently scores high on global indices of country competitiveness, the business environment and public sector efficiency, and it has invested heavily in education and infrastructure over many years. As a result, it is an attractive location for many multinational corporations (MNCs), and absorbs a significant share of ASEAN FDI (55% in 2016) (ASEC, 2017[7]). Singapore is known as a global financial hub, and most FDI flows into financial and insurance services.[4]

While firms face few barriers to doing business, Singapore has come under increasing pressure from the private sector to reform its rather restrictive foreign manpower regulations. These regulations, initially introduced in 2009 to stymie burgeoning foreign manpower numbers, made it both more expensive and more difficult to hire foreign workers. The steps were designed to encourage employers to increase the productivity of Singaporeans rather than relying too heavily on a steady tap of foreign workers. The private sector is increasingly expressing concerns that this policy may prevent businesses from meeting a growing need for skills, for example in the tech sector. The 2018 budget announced a deferral of foreign-worker levy hikes for the marine and processing industries, but it contained few changes overall, including in key growth sectors. The issue is also a political one. The government has stated that it will review the policy over the long term, but that it is unlikely to change course in the near future.

SME sector

There are an estimated 220 100 enterprises operating in Singapore, of which 99% are MSMEs (Singstat, 2017[8]). Information is not publicly available on the precise disaggregation by firm size.

Singaporean MSMEs appear to demonstrate a structural contribution to the economy similar to MSMEs in other ASEAN and OECD countries. They accounted for 49% of nominal value added and 65% of employment in 2017.

SME policy

SME policies first comprehensively entered the policy agenda in 1986, and from the outset they were tied to the country's economic competitiveness objectives. The move followed the country's 1985 recession and a realisation among policy makers that they would need to build up indigenous productive capacity, moving away from the country's previous focus on MNCs and large government-linked companies as the main drivers for economic growth. This was signalled by the development of a landmark Economic Development Board (EDB) report, *Singapore Economy: New Directions*, which noted that SMEs accounted for 90% of the country's total business establishments, yet they lagged behind their foreign counterparts in terms of productivity, management skills, marketing and technology. It was decided that in order to augment resilience and growth in the Singaporean economy, these establishments would require targeted support to increase their competitiveness.

That year, a Small Business Unit was established within the EDB, and the following year the EDB established an SME Committee to formulate a Master Plan for SME development. The committee was comprised of six government agencies: the National Computer Board (NCB), National Productivity Board (NPB), Singapore Institute of Standards and Industrial Research (SISIR), Singapore Tourist Promotion Board (STPB), and the Trade Development Board (TDB). Its SME Master Plan of 1989 outlined five strategic thrusts for SME development around the concept of boosting SME productivity and internationalisation. A second push came in 1996, when units working on SME issues within the EDB were merged with the National Productivity Board. This new entity was named the Productivity and Standards Board (PSB) and was made responsible for SME policies, among other things. In the same year, SME First Stop was launched, as well as initiatives such as the SME Enterprise Development Growth and Expansion Programme. A third push came in 2001 with the launching of SME 21, the second SME Master Plan. It had three innovation-oriented strategic goals: grooming innovative, high-growth SMEs; developing productive SME sectors; and creating a knowledge-based, pro-enterprise environment. In 2002, the PSB was renamed Standards, Productivity, Innovation and Growth (SPRING).

2018 ASPI results

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

Singapore has an advanced institutional framework for the development of SME policy, and this is reflected in its Dimension 5 score of 5.85. Its public sector is highly adaptive and dynamic, and fosters co-ordination among different government bodies in both design and practice. All strategic plans are developed with key performance indicators (KPIs), and private-sector feedback is solicited on both the design of MSME policies and programmes and the operation of the MSME agency. The private-sector voice is institutionalised and selected to represent the country's broader development strategies. Similar observations hold for the development of the legal and regulatory environment for MSMEs, with the country achieving a Dimension 6 score of 5.52. Singapore has undergone a process of regulatory review and reform, with a consideration of MSMEs, and has developed simplified procedures and platforms for filing tax and social security forms, as well as company registration. Policies and programmes are constantly monitored, and the realisation of targets assessed.

Framework for strategic planning, design and coordination of SME policy

The main body responsible for elaborating SME policy in Singapore is the Ministry of Trade and Industry (MTI), which is responsible for formulating, leading and co-ordinating all enterprise development strategies, including strategies for start-ups and SMEs. MTI works closely on this with its statutory boards, such as SPRING and International Enterprise (IE) Singapore, and with other government agencies, such as the Info-communications Media Development Authority (IMDA), in consultation with industry representatives including SMEs, as well as representatives of academia and civil society. Enterprise development strategies can also be formulated through committees or task forces involving industry and trade associations, employers, trade unions and government agencies. These committees are tasked with reviewing and providing feedback or advice on enterprise development strategies, and include the Committee for the Future Economy and the Future Economy Council.

SPRING has been the main body responsible for the implementation of SME policy. It was formed in 2002 by the Standards, Productivity and Innovation Board Act (chapter 303A) as a statutory board under MTI to support the growth of Singaporean enterprises. Under this act, SPRING has full autonomy over staff hiring decisions as well as operational structure. As of 2017, it had around 400 staff and access to a core budget of SGD 2.3 billion (Singapore dollars) over five years (FY2016-FY2020), under the fifth tranche of the Enterprise Development Fund (EDF 5), which it shares with International Enterprise (IE) Singapore. At the end of 2017, it was announced that SPRING and IE Singapore would be merged to form Enterprise Singapore in order to help Singapore-based enterprises (both MSMEs and large enterprises) grow and expand overseas. (The merger took place on 1 April 2018; this report reflects the situation before the merger). Alongside EDF 5, which represented a 164% increase over EDF 4 (FY2011-FY2015), SPRING can also tap into other budgets, such as the Industry Transformation Programme (SGD 4.5 billion) and the "innovation and enterprise" component of the Research, Innovation and Enterprise 2020 Plan (RIE2020), which is apportioned SGD 3.3 billion). SPRING has a 17-member governance board, over half of whom are executives of leading companies based in Singapore. Alongside its SME development portfolio, SPRING is also the country's national standards body and national accreditation authority, as well as the lead agency tasked with implementing the country's industry transformation maps for retail, food manufacturing and food services.

Since Singapore is a city state, policy co-ordination can generally be met in a simpler and leaner way than is possible in larger territories. It achieves policy co-ordination by integrating complementary government bodies into its institutional structure: representatives of IE Singapore, the EDB, the Central Provident Fund Board and the Ministry of Defence all sit on SPRING's governance board. Policy co-ordination is also achieved through a requirement to report regularly to MTI, which houses the majority of agencies tasked with enterprise development. In turn, SPRING also participates in committees run by other government agencies that touch on topics that may concern SME development, such as the Land Planning Committee. A specialised committee for the development of SME policy was established in the country's gear-changing phase, as it formulated its two master plans for SME development in the late 1980s and early 2000s. A review of strategies for the SME sector was carried out in April 2012 by MTI, SPRING and IE Singapore, in close partnership with stakeholders from the SME community. Several strategies that were sharpened and enhanced through this review were integrated into Singapore's 2016-2020 SME development strategy. SME development strategies

have also been assessed at national policy review platforms, such as the ESC in 2010 and the Committee of the Future Economy in February 2017.

SPRING's SME development strategy for 2016-2020 featured three strategic thrusts: to enhance enterprise productivity, innovation and resilience; to create good jobs; and to develop trust in Singaporean products and services on the world stage. Alongside these horizontal aims, the strategy outlined five policy pillars that focused on developing competitive sectors and catalysing growth opportunities for targeted enterprises, chiefly through capability and business environment enhancement, human capital development, the strengthening of quality and business excellence standards, and the provision of conformance infrastructure. It was implemented using EDF 5, and was developed with a wide range of stakeholders.

Singapore collects data on its SME population to monitor changes in production structure and enterprise characteristics. It collects data on firms disaggregated by size in key sectors, but only aggregated data on the SME population is available to the public. These statistics were fed into the development of policies and programmes, as well as the monitoring and evaluation of their impact. Strategy design and implementation are evaluated in line with KPIs that were elaborated during the design phase. SME data are used as an input to assess impact.

Scope of SME policy

Singapore's current SME definition took effect in 2011 and was publicised via a press release distributed by SPRING. The new definition was elaborated following an observation that the country's production structure was changing, moving towards more asset-light industries (those possessing fewer fixed and more intangible assets). The definition's fixed assets criterion was replaced with sales turnover, and the threshold was determined based on a corporate transition matrix analysis and a longitudinal study of companies in Singapore. The study found that SGD 100 million seemed to be the point at which a company was significantly less likely to fall back down below turnover of SGD 100 million, and that after this point a company seemed to possess the skill and resources to sustain growth organically. The new definition is not a legal definition, but it is the dominant definition used by the government. SPRING is the body responsible for reviewing this definition, but any revisions must be approved by MTI. Firm size classification can be determined by either annual sales turnover or employment size.[5] The public definition does not distinguish micro, small and medium-sized enterprises, since most public support programmes are made available to all MSMEs and it is hoped that this will increase ease of use for firm owners looking to access support schemes. Parameters for this disaggregation have been determined, however, and they are used internally by government agencies and ministries to monitor and develop SME policies and programmes. To qualify for SME policies and programmes, an enterprise must be classified as an SME and be able to demonstrate a minimum of 30% local shareholding.

Table 19.4. Singapore's SME definition

Size classification	Indicator	Sector
		All
MSMEs	Sales turnover	= S$100 million
	Employment	= 200

Source: SPRING (2011).

Singapore's informal economy is negligible, and so there are very few enterprises that could be automatically excluded from SME policies and programmes. The informal economy in Singapore generally refers to flexible and secondary jobs that might not show up in business surveys, such as babysitters, freelance tutors or those earning an income from the "sharing economy." Own-account workers or primary freelancers account for around 180 000 workers in Singapore, or approximately 8% of the working population, but such activities are typically excluded from SME development policies in any case.

Development of legislation and regulatory policies affecting SMEs

Singapore adopts good regulatory practices in the development of legislation and regulatory policies, including those affecting SMEs. A process of business-oriented regulatory reform, concerned with the elimination of unnecessary or excessively onerous rules, has been ongoing for around 20 years. In 2000, the government established the Pro-Enterprise Panel (PEP), a forum in which firms can draw attention to rules and regulations that may be hindering their operations, and propose a review. The PEP is chaired by the head of civil service and its members consist of both public and private sector representatives.

MTI has also established a Research and Enterprise Division (RED), charged with creating an enabling business environment for Singaporean enterprises to form, compete and grow. RED's tasks include regularly reviewing the tax environment and financing landscape and integrated multi-agency government e-services so that enterprises do not face unnecessary barriers to growth. In this task it works closely with other government agencies such as IE Singapore, SPRING and the Agency for Science, Technology and Research (A*STAR), as well as other public and private stakeholders.

Singapore continues to adopt a risk management approach in designing regulation, focusing its resources on high-risk areas while reducing administrative burdens for in lower-risk areas (USAID, 2016[9]). Legislation and regulations are developed using a process of public-private consultation and impact analysis. The country invests rather highly in consultation, using tools such as focus groups, surveys, feedback forums and town hall meetings. The public is invited to provide anonymous feedback on proposed regulatory amendments to the implementing government body via the country's REACH platform. For key legislative amendments, a two-step consultation process is used comprising an initial round of general feedback from the public, followed by the development of public consultation documents that outline the context for the proposed amendment, potential issues and focus areas for comment, as well as the options being considered. These documents are distributed to key stakeholders for comment, and posted on the REACH platform (USAID, 2016[9]). The SME Committee of the Singapore Business Federation regularly participates in consultations, and a guidebook on conducting a good-practice public-private partnership was prepared by the Ministry of Finance in 2012 and is available online. Alongside this process, most agencies also attach features such as sunset clauses to new rules, enabling them to lapse automatically after a certain date. Proposed and current rules are regularly assessed for impact, and regulators can utilise a number of tools and learning materials, such as a Smart Regulation Checklist developed by the SRC, or training modules developed for civil servants on smart regulation and regulatory impact analysis (RIA).

Ease of company registration and filing tax

Starting a business in Singapore currently takes 2.5 days, costs 0.5% of per capita income on average and involves three procedures (World Bank, 2017[10]). To start a business, an individual must undertake the following steps: *i)* register online with the Accounting and Corporate Regulatory Authority (ACRA), complete a company name search and file the company's incorporation and tax number; *ii)* make a company seal (this has not been mandatory since 2017, but it remains commonly practiced); and *iii)* sign up for Employee Compensation Insurance at an insurance agency (pursuant to Section 23(1), chapter 354, of the Work Injury Compensation Act). Since 2007, firms can complete the full incorporation process through Bizfile, an electronic filing system. Bizfile+, a revamped version of this system launched in January 2016, can be accessed using a SingPass ID, a unique digital identity that can be used for accessing a broad range of government services online. Typically a user will submit a registration application via Bizfile, the application will be processed by the system and, if the application fulfils ACRA's registration criteria, an email will be generated to confirm registration and to issue a unique identification number. In 2017, this was streamlined from two processes to one. Guidance on how to complete company registration is available via ACRA's *"How To" Guide*, as well as via an online platform, the SME Portal, which provides policy and programme information to SMEs through each stage of their business cycle. Guidance can also be sought physically, via the country's SME Centres. In addition, some transactions can be completed via a mobile application, ACRA on the Go.

To improve the ease of obtaining licenses, the government has also rolled out a one-stop business licensing portal, LicenceOne, since 2014. Its features include an integrated application for multiple licences from different agencies and an integrated dashboard to check the status of applications. Currently more than 100 licences can be obtained on LicenceOne.

To comply with tax filing requirements, a standard limited liability company would typically have to file five payments a year, taking 64 hours and representing 20.3% of total profits. In 2017, Singapore increased the ease of filing tax by introducing improvements to the online system for filing corporate income tax and VAT returns. These two payments accounted for the bulk of time required to file tax, taking around 24 and 30 hours respectively. Singapore also increased the social security contribution rate charged to employers, and allowed the 30% rebate on vehicle tax to expire (World Bank, 2017[10]).

E-governance facilities

Singapore has been ranked 4th globally in the biennial United Nations *e-Government Survey* (UN, 2017[11]) and 1st globally in the annual *Global Information Technology Report* (WEF, 2016[12]). Since the 1990s, employers and citizens have been able to file social security contributions to the Central Provident Fund online, as well as tax via a portal of the Inland Revenue Authority of Singapore. Since 2003, citizens have been able to utilise their SingPass ID to conduct transactions with the government online. Since 2016, this has been extended to firms, which can now access a single corporate digital identity, CorpPass, to conduct online transactions with the government. CorpPass, developed in consultation with industry partners and pilot users, is owned by the Ministry of Finance and managed by the Government Technology Agency (GovTech). More than 200 government digital services, managed by about 60 government agencies, have required CorpPass as a login method since December 2017. In addition, firms can now

access public grants through online facilities such as the Business Grants Portal (BGP), launched in Q4 2016 as a one-stop shop for businesses to identify and apply for the right grant, with ten grants on offer by the end of 2017. To increase the ease of applying for a grant, a company's profile information is automatically filled into the application form, eliminating the need for companies to fill out multiple application forms. GovTech Singapore conducts an annual survey on satisfaction with digital government services, and various government sites feature a mechanism to solicit feedback from the public.

Facilitating SME access to finance (Dimension 3)

Singapore has a well-developed financial sector according to global indicators: it has been ranked 3rd for financial market development (WEF, 2017[13]) and 29th globally for the ease of getting credit (World Bank, 2017[10]). There is a very high level of financial intermediation in the economy, with domestic credit to the private sector, a proxy measure of this, standing at 132.9% in 2016. Financial institutions, in particular banks, constitute the main source of SME financing. The country's Dimension 3 score of 5.69 reflects its high level of financial market development and the relatively wide range of products available to SMEs, as well as the range of measures implemented by the government.

Legal, regulatory and institutional framework

Singapore has strong framework conditions for supplying finance. Facilities to assess and hedge against credit risk have been made available and functional. A credit reporting system has been put in place, and the task of providing credit information is fulfilled by a number of private credit bureaus, of which the largest is the Singapore Commercial Credit Bureau. Credit information covers around 67.8% of the adult population, and both positive and negative data are provided covering a period of at least two years.[6] Data on SMEs is also available. Since 2010, data has also been collected on firms and loan amounts below 1% of income per capita distributed, meaning that very small firms can also build up a credit history. Measures have recently been taken to enhance consumer protection. In 2016, the Parliament passed a law (the Credit Bureau Bill) making it obligatory for credit bureaus to be licensed and supervised by the Monetary Authority of Singapore (MAS) in order to guard the confidentiality, security and integrity of borrower data. Borrowers also have the right to access their data by law. As a value-added service, Singapore's credit bureaus also provide credit scoring for banks, lowering credit appraisal costs.

Financial institutions can also make use of contracting elements such as securitisation to mitigate credit risk. Clear rules over perfection and priority are generally in place, and both immovable and movable asset registers are functional and regularly updated. The movable assets register is managed by ACRA, while the cadastre is managed by the Singapore Land Authority (SLA). Singapore has undertaken steps to enhance its cadastre since the last assessment, first by introducing an online procedure for property transfers (2014), and then by introducing an independent mechanism to report errors on titles and maps (2017). Going forward, financial institutions may still face uncertainties in the secured transaction framework for lending to unincorporated entities, and this may particularly affect SMEs. In addition, steps could be taken to centralise the movable assets register and make it notice-based. These measures would increase clarity over the ownership of collateralised assets and the order of priority in the event of insolvency.

In terms of equity financing, Singapore has a stock market in place, and the capitalisation of its bourse, the SGX, reaches around 228% of GDP (World Bank, 2015[14]). The SGX has had a specialised platform for SME listing in place since 1987, when the SESDAQ was formed to meet the funding needs of SMEs, including high-tech start-ups. This board was replaced in 2008 by Catalist, a sponsor-required listing exchange,[7] which has sought to encourage more innovative start-ups to list by significantly decreasing administrative hurdles. Firms applying to list on Catalist can now complete the process in five to six weeks, compared to 12-17 weeks under the SESDAQ, and firms no longer have to demonstrate minimum indicators of accomplishments, profits or share capital requirements. As of December 2017, 200 companies were listed on Catalist (200 primary listings, with 1 IPO), with a combined market capitalisation of SGD 12.8 billion (SGX, 2017[15]), making it the largest junior board in ASEAN. To facilitate listing, government agencies occasionally partner with the SGX to deliver tailored programmes to targeted firms. However, Catalist still faces some issues in attracting mid-size firms to list, and it underperforms its predecessor SESDAQ here. Medium-sized firms may not meet the listing criteria for the SGX's main board, but they may also not need the special features that make Catalist attractive to small and innovative young firms (such as the requirement to obtain a sponsor). These features facilitate riskier financing, but tend to increase the cost of listing and may not be relevant for many medium-sized firms. Catalist's risk orientation has also excluded access to big-ticket investors such as the Central Provident Fund, which only allows its members to continue investing in firms that were formerly listed on SESDAQ if these companies had already qualified as CPF Investment Scheme investments. It is also rare for firms to graduate from Catalist to SGX's main board: only 17 firms had graduated by Q2 2016. Steps have been taken to bridge these gaps. The InvestorOne platform, which aims to raise the profile of Catalist-listed companies and increase its capitalisation, went live in 2017. This initiative is private-sector driven, the result of a partnership between SGX, through its Investor Education Fund, and two Catalist sponsors.

Sources of external finance for MSMEs

A wide range of financial products are available to Singapore's SMEs. The most common form is credit-based loan products provided by banks, and collateral requirements are relatively low. Policy makers tend to favour the extension of a credit line to incentivise SME financing. Credit lines are provided for a wide range of SME financing needs including working capital, equipment financing and factory financing. Sixteen financial institutions currently participate in loan schemes run by Enterprise Singapore (SPRING Singapore at the time of information gathering and validation), and around 10 000 loans (amounting to a total credit volume of around SGD 2 billion) are supported by this credit line each year. The government also supports SME financing through a number of risk-sharing instruments, which are sometimes targeted at specific sectors. In 2016, for instance, SPRING announced the reintroduction of the Bridging Loan for Marine & Offshore Engineering Companies to provide one-off financial support for companies in the sector in the context of an industry recession. The government also provides schemes to promote SME access to export financing, including the Loan Insurance Scheme (LIS/LIS+), the Trade Credit Insurance Scheme (TCIS), the Trade Facilitation Scheme (TFS), and the Internationalisation Finance Scheme (IFS). All four schemes are run by Enterprise Singapore (IE Singapore at the time of information gathering and validation) and are monitored by the Account-General's Department (AGD), which conducts internal and external evaluations of their impact. Approximately 240 international trade-related

loans (amounting to SGD 730 million) that were extended in 2017 were supported by these schemes.

Singapore was not scored for microfinance due to the small size of its territory and its high level of income per capita. Individuals and micro enterprises that cannot access standard bank loans because they own insufficient assets to collateralise and/or lack a credit history can make use of "micro loans" provided by financial institutions.

Equity instruments are widely available for viable firms in Singapore. The country is the primary recipient of private equity and venture capital (PE/VC) funding in ASEAN, with deals worth USD 3.2 billion in 2017 (EY, 2018[16]). The majority of deals took place within the technology and real estate sectors (EY, 2018[16]). Private equity is substantially more available than venture capital. In 2016, 90% of total PE/VC assets under management in Singapore were private equity assets, although VC investments have been increasing rapidly. The government has developed initiatives to catalyse the supply of venture capital, including measures to reduce regulatory and tax burdens, such as a tax exemption for VC funds, and the elimination of a requirement that VC managers have at least five years of experience to qualify for local registration (in 2017). Initiatives also include incentive programmes, such as StartupSG Equity, in which the government will co-invest in a start-up with an independent third-party investor. Another example is the Early Stage Venture Fund, in which the government would seed funds to selected VC firms that wish to invest in Singapore-based, early-stage tech start-ups. PE/VC and crowdfunding platforms are all regulated by the MAS under regulations on securities, futures and financial advisors, and all must obtain a capital markets service license to operate. The MAS is now working on developing its regulatory oversight of Fintech via a regulatory sandbox approach.

Enhancing access to market and internationalisation (Dimension 4)

Singapore stands out as a leader in promoting SME internationalisation in the region. With its limited domestic market, the country has long recognised the importance of accessing foreign markets and promoting local businesses to go global. Its score of 5.94 for this dimension reflects its advanced level of policy development.

Export promotion

IE Singapore was the main government agency for promoting international trade.[8] Quality market intelligence and export guides were easily accessible on its website. To help traders achieve sustainable export success, IE Singapore provided key information on matters from market selection to legalities. Comprehensive information on free trade agreements (FTAs) was also available. Traders could subscribe to detailed trade statistics published by IE Singapore through its Statlink initiative. To help traders identify key challenges and develop good export strategies, IE Singapore ran an iAdvisory Workshop on exporting that traders can attend by paying a fee. Traders could access other IE Singapore workshops, for example on export strategy and FTAs, and can receive in-market support from 35 overseas centres established by the agency.

IE Singapore also provided assistance to reduce financial costs and other burdens on businesses when they enter new markets abroad. This assistance has been particularly beneficial for SMEs. Through its Market Readiness Assistance Grant, for example, IE Singapore supported up to 70% of eligible costs from activities such as overseas market set-up, identification of business partners or overseas market promotion for SMEs with an annual turnover of less than SGD 100 million, based on the most recent audited report.

Likewise, its International Marketing Activities Programme supported up to 70% of eligible expenses for conducting overseas business missions and participating in international trade fairs. Meanwhile, Double Tax Deduction provided 200% tax deduction on eligible expenses for supported market expansion and investment development activities such as marketing and promotion. All of these services will continue to be provided by Enterprise Singapore, which was formed with the merger of IE Singapore and SPRING Singapore on 1 April 2018 and remains a statutory board under the Ministry of Trade and Industry.

Integration into GVCs

Integrating SMEs into global value chains (GVCs) is a key feature of many government initiatives to develop Singapore's industries and promote innovation. MTI and its statutory boards – the EDB, SPRING and IE Singapore – are the main government agencies that support SME growth by strengthening their integration into wider production networks. A key initiative is the Partnership for Capability Transformation (PACT), which is jointly administered by the EDB and SPRING Singapore. PACT was rolled out by the EDB in 2010, with government funding of SGD 250 million, to promote partnerships between original equipment manufacturers and their suppliers, including SMEs. In 2013, another SGD 55 million was allocated for PACT under the Enterprise Development Fund. Under the PACT initiative, SPRING worked with large companies to promote knowledge transfer to at least one SME, to support capability upgrading for a large company's new or existing suppliers and to develop and test innovation between a large company and at least one SME. Participating SMEs gained opportunities to develop linkages with larger companies and upgrade their ability to develop innovative products. PACT covered up to 70% of the funding of approved development projects.

PACT was enhanced in 2017 with a new SGD 80 million programme called Gov-PACT through which the government supports SMEs and start-ups in developing and testing innovations. Under the programme, participating government agencies identify needed innovations and seek partners through calls for proposals. Participating companies go through the different stages of product development from the idea stage to pilot runs with the support of the lead demand agency. The opportunity to supply solutions to the government will not only help SMEs and start-ups build their innovation capabilities, but will also allow them to establish a track record with the government, which can then serve as their reference customer for scaling up locally or expanding overseas.

The Local Enterprises and Association Development (LEAD) programme, jointly administered by SPRING and IE Singapore, also worked to promote SME integration into GVCs. LEAD's budget has been increased from SGD 90 million to SGD 100 million for the 2016-2020 period (MTI, 2017), with more trade associations and chambers (TACs) engaged under the programme. Under LEAD, TACs would take the lead in industry development to improve the overall capabilities of local SMEs and foster their internationalisation efforts. By 2017, more than 8 300 local SMEs were expected to have benefitted from projects led by TACs since May 2016. Through another initiative called Collaborative Industry Projects (CIP), TACs were encouraged to work together to develop solutions that could potentially help SMEs upgrade their capabilities to move up the value-chain and co-explore market opportunities. Both SPRING and IE Singapore had robust monitoring and evaluation mechanisms in place, but neither released associated reports publicly.

Use of e-commerce

Singapore's evolving digital landscape provides SMEs with abundant opportunities to grow and venture overseas. The country's new SMEs Go Digital programme, launched in April 2017, aims to help SMEs use digital technologies and strongly participate in the digital economy. It is an inclusive approach co-ordinated by Infocomm Media Development Authority (IMDA) Singapore. Under the programme, IMDA works with sector leaders to develop Industry Digital Plans (IDPs) that provide SMEs with step-by-step advice on the digital technologies to use at each stage of their growth. The IDPs help them to acquire advanced capabilities in cybersecurity, data protection and data analytics. IDPs for SMEs have been rolled out for the logistics and retail sectors, while IDPs for food services, wholesale trade, environmental services and security services are currently being developed. SMEs can participate in industry-led sector projects that can uplift entire sectors, where SGD 80 million has been allocated.

Under SMEs Go Digital, SMEs can purchase pre-approved digital solutions; by April 2018, around 100 such solutions had been made available. SMEs can also reach out to Singapore's SME Centres for advice on e-commerce, and those with more advanced digital needs can be referred to the SME Digital Tech Hub. IMDA performs regular monitoring and evaluation of the SMEs Go Digital programme to ensure its efficiency and effectiveness.

Initiatives to help SMEs better utilise e-commerce include programmes conducted in partnership with the private sector. An initiative called 99% SME aims to help SMEs accelerate their digitalisation. It was launched by Singapore Telecommunication (Singtel), Mediacorp and the Development Bank of Singapore (DBS) in partnership with Lazada. Through this initiative, SMEs are offered a free e-marketplace at the Lazada site, where they can reach a wider range of consumers (Lee, 2017[17]). Another example is a Collaborative Industry Project, which is conducted in collaboration with Stridec, a leading e-commerce consultancy. It aims to provide high-class e-commerce consultancy and training for SMEs at subsidised prices.

On the legal front, Singapore has equipped itself with regulations on e-commerce, e-payment and consumer protection. The Electronic Transactions Act (ETA) 2010 serves as the legal framework for e-commerce and e-payment issues, while the Personal Data Protection Act (2012) deals with consumer protection in digital transactions. Singapore's ETA closely follows the United Nations Convention on the Use of Electronic Communications in International Contracts, adopted by the General Assembly in 2005. Singapore was among the first countries to implement this convention.

Quality standards

Singapore recognises that robust quality standards and conformance infrastructure are important for building trust in its products and services and helping Singaporean enterprises to expand overseas. SPRING acted as the national standards and accreditation body and managed the National Standardisation Programme under the guidance of an industry-led Singapore Standards Council. Through the various industry-specific Standards Committees, SPRING worked with private sector industry experts and other government agencies to develop standards to meet industry needs or government policy objectives. Working closely with the Singapore Standards Council and other standards organisations, SPRING would invite the public to comment on draft standards before they were published. Firms can access available standards at the Singapore Standards eShop.

Firms can choose to use private certification services or those provided by the government. SPRING managed the Singapore Accreditation Council (SAC), the national authority for accreditation of conformity assessment bodies. The SAC's main function is to accredit testing, calibration, inspection and certification bodies. Its members include representatives of industry, purchasers and suppliers, government agencies, professional bodies, the national standards authority, certification bodies and consumer interest groups. With the merger of SPRING Singapore and IE Singapore, Enterprise Singapore takes on the role of the national standards and accreditation body.

The government provides specific initiatives to promote the adoption of quality standards by SMEs. Enterprise Singapore (SPRING Singapore at the time of information gathering and validation) offers two main types of such assistance. The first is a Capability Development Grant (CDG), which aims to help Singapore-based SMEs to grow and become more competitive in 10 capability development areas, including quality standards. The CDG helps SMEs defray costs incurred for steps that are necessary for the adoption of international or industry standards, like training, consultancy or professional services, and certification. The second type of assistance is an Innovation and Capability Voucher (ICV) scheme,[9] which aims to upgrade core business operations in several capability areas, including standards adoption. The ICV voucher was valued at SGD 5 000, and SMEs cam use this to meet certain quality standards. The Quality and Excellence Group in SPRING Singapore oversaw implementation of the programme at the national level.

Trade facilitation

Singapore has developed physical infrastructure and world-class logistics to facilitate trading. It achieved impressive scores in the 2017 OECD Trade Facilitation Indicators (TFI) covered in this 2018 ASPI. The country also ranked top in Asia in the World Bank's 2016 Logistics Performance Index. Improvement of its trade facilitation services is a continuing process. Singapore Customs and GovTech are currently developing the country's National Trade Platform (NTP), a one-stop, next-generation trade information management platform that will replace TradeNet, its current national single window. Traders already have access to customs procedures and guidance through various channels. The Singapore Customs website has made it easy for traders to navigate through customs procedures and learn how to comply with them. Such information can also be accessed through TradeNet and Enterprise Singapore (IE Singapore at the time of information gathering and validation). Following its ASEAN chairmanship in 2018, Singapore is looking forward to working closely with the other ASEAN member states to realise an ASEAN-wide Self-Certification regime and strengthen the ASEAN Single Window.

Training initiatives to promote trade facilitation include courses on customs procedures and the use of TradeNet, conducted by the Singapore Customs Academy, and clinics on the technical and administrative aspects of export operations, conducted by Enterprise Singapore (IE Singapore at the time of information gathering and validation) and Singapore Customs. Other initiatives include Mutual Recognition Arrangements (MRAs) by IMDA Singapore and partner countries to reduce technical barriers to trade in telecommunications equipment by allowing such equipment to be tested in the exporting country and assured acceptance in the importing country with minimal further regulatory action. The Secure Trade Partnership serves as Singapore's Authorised Economic Operator (AEO) programme, a voluntary certification programme administered by Singapore Customs that is open to all supply-chain stakeholders without volume-traded

criteria. In partnership with the Asian Development Bank (ADB) and Swiss Re Corporate Solutions, IE Singapore had also launched a new programme, the Trade Facilitation Scheme, to help traders safeguard their payments through risk sharing on credit guarantees against the risk of non-payment by overseas issuing banks. SMEs can also reach out to SME Centres for assistance in accessing and utilising the available trade facilitation schemes.

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

Singapore has highly advanced policies and programmes in place to boost productivity, innovation and the adoption of technology, including initiatives that encourage greening. The country's Dimension 1 score of 5.84 in the area of productivity, technology and innovation is the highest in the region. This reflects Singapore's creation of a highly competitive ecosystem and targeted support measures for SMEs. Its Dimension 2 score of 5.30 in the area of SME greening reflects Singapore's status as a regional pioneer in this area, with a wide array of incentives and policies to promote SME greening.

Productivity measures

The National Productivity and Continuing Education Council was formed in 2010 to intensify the government's efforts to boost skills and enterprise productivity. In line with boosting national productivity, the SGD 4.5 billion Industry Transformation Map (ITM) Programme, mentioned above, was launched in September 2016; all 23 ITMs have been launched since then and are now operational. Productivity centres and one-stop competency centres were also set up with the support of SPRING to help boost productivity among SMEs.

The Future Economy Council (FEC; formerly Council for Skills, Innovation and Productivity) takes overall responsibility for the policy development and implementation of ITMs. The council groups members from the government, industry, unions and educational and training institutions. It oversees the implementation of productivity enhancement programmes by different agencies that are leading industrial transformation projects in identified target sectors, for example SPRING in the food manufacturing, food services and retail clusters. One government agency assumes overall responsibility for each ITM and co-ordinates among agencies and with the tripartite partners, making for tight co-ordination and accountability within the government. The responsible agency monitors performance on the productivity indicators identified for each ITM. KPIs are regularly monitored at the national and industry levels, mainly on labour productivity and total factor productivity. Independent impact evaluation of the productivity enhancement programmes is conducted by external research firms.

Business development services (BDS)

Singapore's mature ecosystem for the provision of BDS integrates private sector partners, institutes of higher learning and trade and industry associations. Dedicated action plans for the provision of such services include defined targets, timeframes and milestones. SPRING was the agency responsible for helping enterprises grow and for building trust in Singapore's products and services. It worked with partners to help enterprises with financing, capability and management development, technology and innovation, and

access to markets. These services are expected to be covered by Enterprise Singapore, created by the merger of SPRING and IE Singapore.

SME-support initiatives developed by SPRING with partner organisations include the ICV, the CDG and the SME Centres. SPRING's budget of more than SGD 2.3 billion for FY2016 to FY2020 represented a significant increase from its budget of SGD 1.4 billion for FY2011 to FY2015. Its network of one-stop SME Centres offers services to SMEs including business diagnosis, advice on government schemes and capability workshops. Consultant quality was ensured through actions such as implementation of a SPRING-recognised certification for management consultants. For most SME support programmes that involve consultancy or engagement of experts, the government would provide grant support to defray part of the qualifying costs. In 2016, more than 30 000 SMEs benefitted from the SME Centres and more than 16 000 received support from other mechanisms. The existing ecosystem allows SMEs to receive support with BDS at different stages of their development and has been highly flexible, which would explain the significant uptake of services.

Productive agglomerations and clusters enhancement

There has been no single strategy for clusters development in Singapore, but industrial cluster policies are well covered under the Industry Transformation Programme, under which ITMs were developed for 23 industries under six clusters. Together, these 23 ITMs cover more than 80% of Singapore's GDP. ITMs identify cluster development and physical infrastructure necessities among their activities.

Singapore scored 92% in ERIA FIL rate, slightly above the ASEAN median and up from 89% in 2011. The country has been generally open to foreign investment, and this has brought significantly higher net FDI inflows compared to other AMS. JTC Corporation spearheads the planning, promotion and development of Singapore's dynamic industrial landscape. There are several industrial and science parks in Singapore with a focus on R&D and innovation-intensive activities, specifically in the fields of biomedical sciences, clean technologies and internet and digital media. A second phase of development has been planned to deepen electronics R&D and seed the growth of emerging sectors like consumer businesses and lifestyle. A cluster investment platform has also been put in place. The Ministry of Trade and Industry oversees the implementation of ITMs through the Future Economy Programme Office and policies for industrial land through the Resource Division. JTC releases an annual report on the status of its infrastructure projects. However, the KPIs for these projects are not SME specific.

Technological innovation

Singapore has developed a number of strategic policy documents focused on innovation and research that are relevant for SMEs. Through the Research, Innovation and Enterprise 2020 Plan, Singapore seeks to support and translate research, build up the innovation capacity of companies to drive economic growth and leverage science and technology to address national challenges. The Industry Transformation Programme developed for 23 sectors helps to tackle innovation at the industrial level. The SMEs Go Digital initiative, launched in April 2017, aims to help SMEs use digital technologies to build strong capabilities in technology application. SPRING used its CDG to support SME innovation initiatives such as product development projects, in-house R&D engineering centres and co-innovation projects with large companies through the PACT programme.

A*STAR partners with SMEs through a Gearing for Growth strategy, with the aim of increasing their absorptive capacity for R&D and innovation. Under this strategy, SMEs are supported during the R&D and innovation process through six key initiatives offered by A*STAR. Through the Growing Enterprises through Technology Upgrade (GET-Up) programme, A*STAR helps SMEs upgrade their technical capability through technology roadmapping, secondment of researchers and engineers to SMEs, as well as technical advice. Through the Tech Depot Hub, which was launched in April 2017, A*STAR partners with IMDA and SPRING to provide pre-approved technology solutions and funding support to SMEs through a centralised platform under SPRING's SME Portal. Through the Tech Access programme, A*STAR provides SMEs with advanced manufacturing equipment and/or facilities, as well as expertise. The aim is to enable learning, experimentation and prototyping, with the ultimate goal of facilitating advanced technology absorption in firms. A*STAR also makes it easier for SMEs to license their intellectual property (IP) through standardised and simplified licensing agreements, which could facilitate faster deal closure to accelerate time-to-market. In addition, it offers a royalty-free IP license that is co-developed by SMEs with A*STAR for 36 months (up from 18 months) under its Headstart Programme. Through the Model Factories initiative implemented by A*STAR-SIMTech and the Advanced Remanufacturing Technology Centre, SMEs can get more information on and experience in using advanced manufacturing technologies.

Designated agencies such as A*STAR, IMDA and SPRING (now Enterprise Singapore) have a clear mandate to promote innovation in SMEs. Since May 2017, the Future Economic Council (FEC) has acted as a co-ordinating committee on issues relating to innovation. It took over this function from the Council of Skills, Innovation and Productivity (CSIP). The FEC focuses on three key areas to support the growth and transformation of Singapore's economy: growing a vibrant and open economy that is connected to the world; strengthening local enterprises through industry-specific transformation initiatives to help them grow, innovate and scale up; and helping Singaporeans to acquire and utilise deep skills. The FEC also looks into a broader set of issues, such as strengthening the country's innovation ecosystem and diversifying Singapore's international connections.

Singapore has a set of tax incentives for young and small businesses. Information about support schemes is available via an online SME portal, and is also provided during regular events such as the Singapore Week of Innovation and Technology.

The country's IP legal framework is very comprehensive and generally considered to be one of the most developed and strong in Asia. It might be comparable with EU standards, as Singapore's legal system is based on the English common law system. The Intellectual Property Office of Singapore (IPOS) is an innovation agency that uses its IP networks and expertise to drive IP commercialisation for the country's future growth. IPOS provides comprehensive IP databases for patents, trademarks and designs. A number of initiatives exist to promote awareness and capacities relating to IP rights, such as IP Academy Singapore or IP business clinics.

The wide range of infrastructure available for technological innovation includes Centres of Innovation, incubators, technology and science parks (for example One-North, which focuses on biomedical sciences and ICT), and technology-transfer offices.

Initiatives to help SMEs at different stages of development are focused on selected sectors. SPRING had implemented dedicated programmes such as the Technology Adoption Programme (TAP) and Centres of Innovation (COIs), which would continue to

be administered by Enterprise Singapore. TAP is linked to sectors covered by ITMs and supports collaboration among public-sector research institutes, private-sector technology providers, institutes of higher learning, trade associations and chambers and private-sector integrators. It aims to identify and translate new technologies into ready-to-go solutions that address productivity challenges and give SMEs a competitive advantage. TAP helps ITM sectors to formulate and execute technology adoption roadmaps. COIs are set up in partnership with selected polytechnics and research institutes and act as one-stop centres providing laboratory facilities, technology consultancy and training courses, as well as assistance for SMEs to test and develop their technology projects. Each COI specialises in a different industry, including electronics, supply-chain management, environment and water, food, marine and offshore, materials and precision engineering industries.

Environmental policies targeting SMEs

The Sustainable Singapore Blueprint 2015 is a high-level plan for making the country more environmentally sustainable and for supporting the development of a green economy. Although it does not single out SMEs, it does set environmental performance targets for the city state as a whole. The most relevant targets for SME performance are in the resource sustainability section, which includes the proportion of buildings that have achieved BCA Green Mark Certification (a green building standard), the overall energy intensity improvement, domestic water consumption and the national recycling rate. However, these do not disaggregate between residential and commercial performance, so it is difficult to know how much of a difference will be made by SMEs.

The National Climate Change Secretariat, under the Prime Minister's Office, released Singapore's Climate Action Plan in July 2016. The plan outlines four strategies to achieve the country's pledge to reduce the intensity of emissions by 36% from 2005 levels by 2030, and to stabilise emissions with the aim of them peaking around 2030. These strategies are: *i)* improving energy and carbon efficiency; *ii)* reducing carbon emissions in power generation; *iii)* developing and deploying low-carbon technology; and *iv)* encouraging collective climate action. These strategies guide the government's design of policies and technologies to achieve its 2030 commitment, such as enhancements to the Energy Conservation Act in 2017 and the introduction of a carbon tax in 2019.

Incentives and instruments for green SMEs

Singapore has an array of support schemes and financial incentives to encourage SME greening. In 2007, the Public Utilities Board, Singapore's national water agency, launched the Water Efficiency Fund, which supports companies in adopting better water management by providing co-funding on projects that yield a minimum of 10% reduction in water consumption. The Energy Efficiency Promotion Centre provides a one-stop shop for enterprises, including SMEs, to gain information and signposting for different initiatives. The Energy Efficiency Fund (E2F) supports businesses in improving environmental performance through different measures. For example, for new facilities or expansions, the fund would support resource-efficient design with workshops and technical expertise and would cover up to 50% of the cost. For existing facilities, E2F would provide a grant of up to 50% of the cost of conducting an energy efficiency assessment. A grant of up to 30% of the cost is available for manufacturing enterprises that wish to adopt energy-efficient technologies. In addition, the Green Mark Scheme mentioned above encompasses a wide range of incentives for existing buildings, new buildings, prototype designs and retrofits.

The Financing Programme for Energy Efficiency Projects, run by the EDB, pairs enterprises that are struggling to allocate capital for energy efficiency projects with third-party financers who can provide capital to implement projects. The energy-saving profit is then shared between the enterprise and the financier. This has the benefit of not costing the enterprise anything upfront, making it more palatable.

Other initiatives, such as the Certified Energy Manager Programme Training Grant, provide specialised training to engineering professionals to help them develop the technical skills and competencies needed to manage and track energy use within the organisations they serve.

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

Singapore has put strong emphasis on nurturing entrepreneurial mindsets and keeping entrepreneurial learning (EL) relevant and connected with real-world business. It has successfully created an ecosystem in which the private sector takes the lead in providing more advanced entrepreneurship education. The score of 5.36 for Dimension 7 reflects its advanced level of policy development in this area, while its score of 3.96 for Dimension 8 indicates that a number of policies have been put in place and initiatives are currently being implemented.

Promotion of entrepreneurial education

Singapore's education system focuses on developing entrepreneurial mindsets, dispositions and skills through each child's total learning experiences in school. The 21st Century Competencies (21CC) framework, developed by the Ministry of Education (MOE), sets out the values, social and emotional competencies that would be relevant for all students as they enter the workforce as employers, employees or entrepreneurs. In the 21CC framework, the Desired Outcomes of Education (DOEs) also cover attributes in students that are required for entrepreneurial mindsets. This emphasis is in line with Singapore's SMEs Development Plan, skill development policies, national economic development plan and other strategic plans. In nurturing entrepreneurial mindsets at school, Singapore uses a learning-through-experience approach rather than compulsory subjects on entrepreneurship. It acknowledges diverse interests among students and offers EL as co-curricular activities at schools. Where there is a good fit, the development of entrepreneurial mindsets and skills is incorporated into the national curriculum for each subject or curricular area and across the respective levels of education, including the polytechnics and Institutes of Technical Education (ITE).

Starting from the secondary level, entrepreneurship programmes and activities are offered to interested students. A notable example is the Applied Learning Programme (ALP) in Business and Entrepreneurship. The ALP helps students to apply skills and knowledge learned in school in real-world settings in industries. The programme is currently implemented in eight secondary schools, and MOE would like to see ALP in all secondary schools to complement academic programmes. ALP has also been endorsed in primary schools. Since 2017, more than 80 of the country's 191 primary schools have adopted ALP, and MOE aims to have all primary schools adopt the programme by 2023 (Chia, 2018[18]).

Other programmes to promote EL include The Young Entrepreneurs Scheme for Schools (YES! Schools) by SPRING Singapore and the Junior Colleges programme. These programmes are monitored by schools and report annually to MOE. With this focused

and experience-based learning approach, a strong education mechanism is needed to ensure that the supply of experienced entrepreneurship trainers is adequate.

In higher education, Singapore's autonomous universities develop their own academic curricula on entrepreneurship. The Singapore University of Technology and Design is the only one offering a degree in entrepreneurship; the others offer entrepreneurship-related subjects and modules. Each university offers different programmes or activities to introduce entrepreneurship. For example, the National University of Singapore (NUS) conducts the NUS Enterprise Summer Programme for its undergraduate students, with site visits to selected companies and start-ups among other entrepreneurship-related activities. Polytechnics also develop their own programmes to foster entrepreneurship and expose students to real-world industries. At Ngee Ann Polytechnic, for example, students are offered mentoring from experienced entrepreneurs, a grant up to SGD 10 000 and a loan of up to SGD 50 000 to start their own business. The school also started a global entrepreneurship internship programme to facilitate a six-month internship with start-ups in Silicon Valley, Jakarta or Shanghai. The approach of granting autonomy to institutions of higher learning has enabled them to formulate their own strategies to adjust to the dynamics of demand for entrepreneurial knowledge and skills.

Entrepreneurial skills

Singapore's approach to entrepreneurial training is evolving. Many entrepreneurship education activities that were formerly initiated by the government have been transformed into private-led efforts. For example, the Action Community for Entrepreneurship, launched in 2003 by MTI as a national effort to foster innovation and entrepreneurship, was restructured in 2014 as a private-led initiative to continue the endeavour with government support. The Singapore Institute of Management, one of the leading providers of entrepreneurship and professional training, was founded as a spin-off of the EDB. Today, SIM has an entrepreneurship centre called Platform E that offers a comprehensive entrepreneurship ecosystem to produce entrepreneurial leaders.

Entrepreneurship training is also provided by numerous private institutions and universities. For example, the Singapore Institute of Technology's (SIT) Entrepreneurship Development Programme exposes its participants to entrepreneurship and is available to non-SIT students. Another example is Make the Change, a spin-off of a private design academy, Chatsworth Medi@rt Academy. Among its many programmes are the E-Entrepreneurship for Youth Programme, the Social Entrepreneurship Programme and the Social Entrepreneurship Mentorship.

Singapore's government has worked to create networks to channel the entrepreneurial talent developed by private institutions and universities. Through the SME Talent Programme, for example, SPRING helped local SMEs attract talented students from ITE, polytechnics and universities. IE Singapore, in partnership with local educational institutions, shared the costs incurred in sending talented Singaporeans on overseas internships. As most entrepreneurship activities and programmes are conducted by private providers, they are not monitored or evaluated by the government.

Social entrepreneurship

Singapore enjoys a sophisticated ecosystem for social entrepreneurship. Elements include various actors, specialised incubators and private-sector initiatives and foundations, such as Impact Investment Exchange Asia, ImpactHUB Singapore, Ashoka Singapore and DBS Foundation. Although there is no formal shared definition for social enterprise (SE),

there is a qualification framework (raiSE's social enterprise membership framework) with a definition and agreed defining characteristics of a social enterprise. The Ministry of Social and Family Development (MSF) and the National Council of Social Services handle policy making for SE development. A Social Enterprise Committee (SEC) was set up in 2006 under the Ministry of Community Development, Youth and Sports to provide recommendations on how to grow the SE sector and encourage social entrepreneurship.

A Social Enterprise Association and a Social Enterprise Development Centre (raiSE) serve as focal points for the sector. Other organisations include, for example, the Singapore National Co-operative Federation (SNCF), which focuses specifically on co-operatives. Set up in 2015 to develop the social enterprise sector, raiSE currently has some 420 members, who are verified yearly. The centre also organises the bi-annual President's Challenge Social Enterprise award, a national award to recognise outstanding social enterprises. Funding received from the government (SGD 30 million for 2015-20) and corporate donors would be administered by raiSE both as grants and as investment for qualified social enterprises. The centre has developed the Social Value Toolkit as a guide to help social enterprises to determine and measure their social value. It also has launched a number of initiatives: *i)* LeapForGood, a year-long programme comprising a series of workshops, consultation clinics and mentoring sessions; *ii)* VentureForGood, which provides grants to social enterprises; and *iii)* raiSEImpactFinance, which provides investment capital with a possible transfer into convertible loans.

Singapore is one of the few ASEAN countries to have a well-developed impact investing scene. The presence of specialised financial intermediaries and the use of fiscal measures could be viewed as an indicator of the maturity of the policy ecosystem for creating and supporting viable social ventures. Due in part to the country's well-developed financial market, it is a hub for regional impact investing intermediaries (for instance private entities such as Impact Investing Exchange Asia, commercial banks with social investment units and international consulting firms) and a platform for outreach to social enterprises in the region. In 2014, DBS Foundation set up a SGD 50 million fund to champion social entrepreneurship. However, while financial support for start-up social ventures has been relatively diverse and abundant, private investment focused on scale-up activities is rather limited.

Inclusive entrepreneurship

Singapore has few policies to promote entrepreneurship among women, youth or persons with disabilities (PWD). Its choice of employing a neutral policy stems from the consideration that women and youth face few barriers to entrepreneurship or accessing the traditional SME support services provided by SPRING that would merit national-level policy intervention. Given Singapore's strong social benefits system, entrepreneurship for PWD is not presented as a form of social protection as in other ASEAN countries, hence the lack of specific measures to encourage PWD to take up entrepreneurial activities. Nevertheless, the government has a number of initiatives to address the specific challenges faced by the target groups. The National Youth Council organises activities to promote entrepreneurship among youth helping to support Singapore's objective of being a start-up hub; there are government-backed SME loan schemes for women to improve access to finance; and PWD interested in entrepreneurship are offered training by the Disabled People's Association. Despite the lack of specific policies, the entrepreneurial activities of the target groups should be closely monitored in order to map potential barriers that may require policy intervention.

The way forward

Strengthening the institutional, regulatory and operational environment

Singapore has exemplary institutions for SME policy, and has achieved a world-leading regulatory and operational environment for SMEs.

Facilitating SME access to finance

Singapore is a global and regional hub for finance, and it continues to offer and experiment with a range of policies and programmes to increase access to financing for SMEs. To build on previous work, Singapore could:

- **Implement reforms to enhance the secured transaction framework.** Financial institutions may continue to face uncertainties in the secured transaction framework for lending to unincorporated entities. The introduction of a Personal Property Security Act (PPSA) regime might help to eliminate these uncertainties.
- **Continue testing the regulatory sandbox approach to financial technology.** Providing a space where innovations can be tested can help to facilitate innovators' access to finance and the development of appropriate rules to regulate them, but the concept itself is still very new. Regulators should continue to experiment with the approach and assess if it is right for Singapore.

Enhancing access to market and internationalisation

Singapore has shown a strong and continuing commitment to promoting the internationalisation of local businesses, with programmes to help SMEs to compete in the global market. Nonetheless, there are several actions Singapore could consider to level up its current policies on SME internationalisation:

- **Strengthen SME-specific initiatives in trade facilitation.** Singapore has high-quality infrastructure and trade facilitation schemes to promote seamless trading across borders that can be utilised by any traders. However, SMEs often find the cost of complying with customs procedures and other non-tariff measures burdensome due to their smaller trade volumes and capacities. Singapore could improve the effectiveness of its trade facilitation schemes through specific allowances or programmes to help SMEs better utilise the facilities on offer, for example through special AEO qualification schemes for SMEs.
- **Promote greater public access to reports on its programmes.** Singapore could strengthen the monitoring and evaluation of its trade facilitation programmes by developing a publicly accessible periodic report on key initiatives. This would extend its success in developing a policy framework for SMEs to go global. Better public access to Singapore's programme reports in this area could be particularly helpful for other AMS that are looking to develop their SME internationalisation policies in a similar direction. It would also keep the country's entrepreneurs informed, giving them better access to the government programmes that suit their current needs.

Boosting productivity, innovation and adoption of new technologies

Productivity, technology and innovation

- **Promote the exchange of information among programmes.** Singapore has committees and feedback mechanisms in place for its programmes for boosting SME productivity, technology use and innovation. However, the fact that its agencies and initiatives are relatively decentralised could make it difficult to ensure a continuous coherent approach. The development of dashboard systems could be beneficial.
- **Further promote the export potential of BDS providers.** Singapore enjoys a highly advanced BDS system, with experienced BDS providers. Given its limited local market and the demand for services abroad, Singapore could consider developing mechanisms for its BDS providers to collaborate with neighbouring countries and promote mechanisms and instruments for taking their services across borders.

Environmental policies and SMEs

- **Target SMEs in the regulatory approach to greening.** Singapore has a wide array of incentives and instruments for supporting enterprises to become greener. However, it might be beneficial to build incentives that are specifically targeted at SMEs into its environmental regulatory structure. This could encourage enterprises that otherwise may not be reached by financial support schemes to go beyond compliance.
- **Further improve the availability of data.** Resource sustainability measurements and targets could be disaggregated into commercial and residential categories, and from the commercial category into the size of enterprises. Without such targeted information, it is hard to know where improvements are occurring and how government policy should be adjusted to enhance impact.

Stimulating entrepreneurship and human capital development

Development of the country's human capital has been a lynchpin of Singapore's economic development strategy for the past 50 years. To build on this work, specifically in the area of stimulating entrepreneurship, Singapore could:

Entrepreneurial education and skills

- **Continue to strengthen EL at lower levels of education.** Singapore is on the right track in terms of embedding entrepreneurial learning in all levels of education. But while EL has been advancing at the higher level of education, it deserves more emphasis in primary and secondary education. Continuing to spread the Applied Learning Programme to more schools will increase the programme's effectiveness while expanding the number of beneficiaries.
- **Strengthen the training of entrepreneurship educators.** As the Applied Learning Programme spreads, more entrepreneurial educators will be needed. To support its commitment to promote entrepreneurial education in schools, Singapore could strengthen the training-for-trainers elements in its EL framework.

This will help to ensure that there are sufficient numbers of well-qualified educators.

Social and inclusive entrepreneurship

- **Improve political co-ordination on social entrepreneurship.** The government could further leverage the existence of the Social Enterprise Committee to ensure better policy co-ordination and to provide a more regular update of activities.
- **Further develop growth-phase activities for social and inclusive enterprises.** Singapore enjoys a vast array of instruments, but reports highlight the fact that most of them focus on seed-stage enterprises. More could be done to develop the scale-up phase of social enterprises, especially in developing financial instruments. Furthermore, and unlike in other countries, many Singaporean actors in social ventures are taking a regional approach and entering into overseas markets. This could be an argument for developing support mechanisms to promote the internationalisation of social ventures.
- **Further develop policies focused on women and youth.** Even though women and youth face few barriers to entrepreneurship in Singapore, dedicated policies and instruments for the target groups could be beneficial. Such policies could address their specific needs, such as access to finance and to specific training facilities.

Notes

[1] Singapore achieved independence as part of Malaysia in 1963, and became fully independent in 1965.

[2] The first semiconductor company to set up a plant in Singapore was Texas Instruments, which concluded a SGD 6 million deal in 1968, marking the beginning of Singapore's electronics industry. By 1969, seven major electronics firms had set up factories in Singapore, including SGS, Fairchild and National Semiconductor (Formal and Wojtera, 2013[21]).

[3] FDI was used as a motor to drive Singapore's economic development over the second half of the 20th century, and measures are now being taken to correct this skew. By 1985, wholly foreign-owned companies were producing 54.5% of the country's output and employing 41% of the workforce (Chia, 2018[18]). Foreign workers, meanwhile, have made up around 38% of Singapore's workforce for the past five years (2012-16) (MOM, 2017[19]).

[4] FDI in financial and insurance services accounted for around 49.8% of total FDI invested in Singapore in 2015 (Santander, 2018[20]).

[5] Generally, firms declare full-time employment size in their support scheme applications. The definition does not stipulate that part-time employees should also be counted.

[6] But not more than ten years of historical data is available in the case of negative data.

[7] And these sponsors, rather than the SGX, regulate the market (Catalist).

[8] Since 1 April 2018, SPRING and IE Singapore have merged to form Enterprise Singapore. Enterprise Singapore is the government agency which champions enterprise development and works with companies to build capabilities, innovate and internationalise.

[9] Since 1 Apr 2018, the ICV scheme has been subsumed under the Productivity Solutions Grant (PSG).

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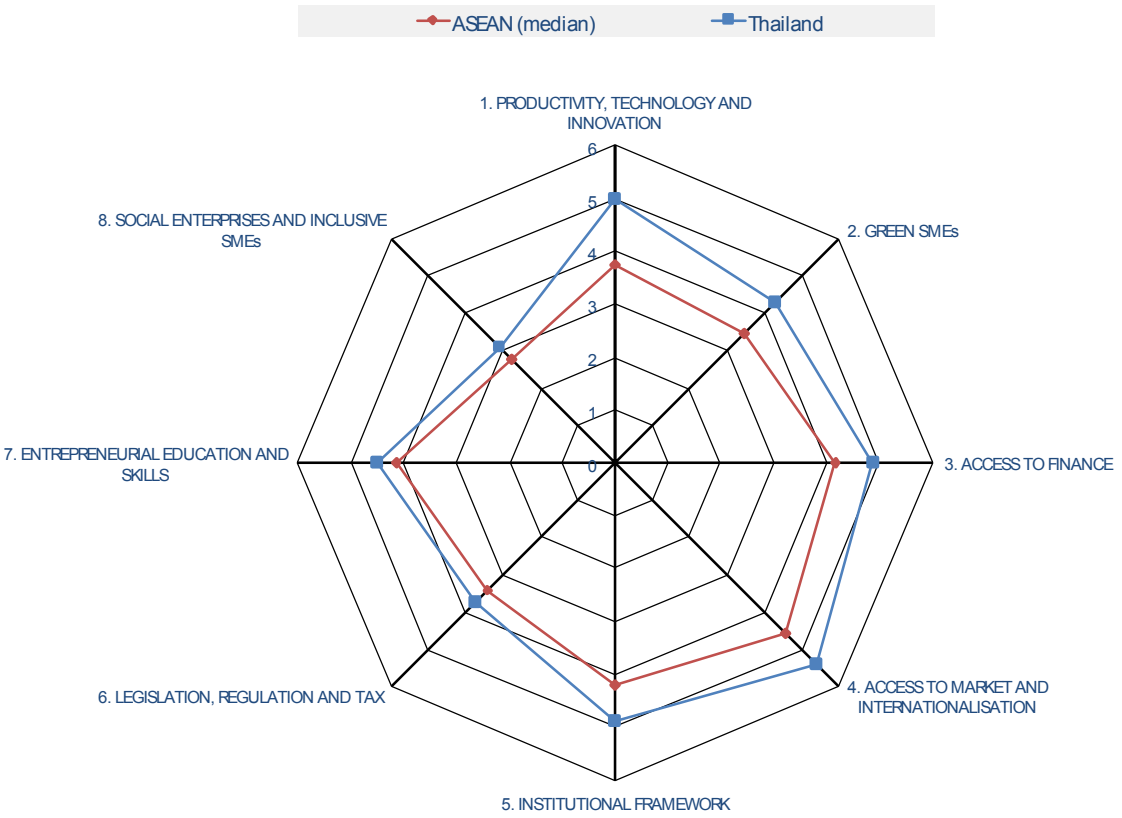
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Chapter 20. Thailand

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

Figure 20.1. 2018 SME policy index scores for Thailand



Overview

Economic structure and development priorities

Economic structure

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

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

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

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

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

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

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

Reform priorities

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

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

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

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

Private sector development and enterprise structure

Business environment trends

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

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

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

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

SME sector

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

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

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

SME policy

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

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

2018 ASPI results

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

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

The country is also at the intermediate stage of developing policies to enhance the legal, regulatory and operational environment for SMEs, with a score of 3.74. It has undergone a third push[4] for regulatory reform since 2014, when the country began to stabilise after a period of political instability. In that year, a review by the Law Reform Commission of the Office of the Council of State (OCS) found that many laws governing enterprise activity, particularly subordinate laws, were still based on an outdated licensing system and had been not assessed for regulatory impact. In 2015, the Royal Decree on Revision of Law and the Licensing Facilitation Act instituted mandatory review of all legislation and licenses. The country exhibits strong performance in some areas of regulatory reform, such as improving the ease of company registration. Other areas, such as the filing of tax, remain burdensome. More could be done to support the implementation of good regulatory practices in the development of regulations affecting businesses.

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

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

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

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

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

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

Scope of SME policy

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

Table 20.2. Thailand's SME definition

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

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

Development of legislation and regulatory policies affecting SMEs

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

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

Ease of company registration and filing tax

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

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

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

To start operating as a formal business, a company must usually complete five procedures: *i)* search for and reserve a company name online; *ii)* deposit paid-in capital in a bank; *iii)* pay registration fees, submit the full application along with the company's memorandum of association and obtain a tax identification number (TIN); *iv)* register to pay VAT; and *v)* register employees with the Social Security Office. All but the third stage are free of charge, and the first and fourth stages can be completed online. However, online VAT registration is not widespread and in practice is generally done in person at a regional office of the Revenue Department (there are 12 in total, three of which are in Bangkok). Some elements of stages three and five can be completed at a Single Point Service Centre, namely: application submission; receipt of the TIN; social security registration; and registration with the Workmen's Compensation Fund. All documents can be submitted and received in one window, with the full procedure (application and response) taking one day in total (World Bank, 2017[5]). Manuals on how to complete company registration are available at provincial offices of the DBD. To further streamline the process, the DBD recently signed a Memorandum of Understanding (MoU) with three government agencies[8] to provide a single identification number for company registration, TIN application, employee registration and the submission of work regulations where the company employs more than ten workers.

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

E-governance facilities

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

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

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

Facilitating SME access to finance (Dimension 3)

Thailand has a moderately high level of financial sector development according to global indices. It performs well on indicators of financial soundness and product availability, but may need to undertake additional steps to enhance the legal and institutional environment for getting credit, particularly in the area of creditor rights.[9] Some measures have been put in place to provide SMEs with an additional collateral, such as a guarantee scheme. The country's financial intermediation level is high, with domestic credit to the private sector amounting to 147.3% of GDP in 2016 and SME loans accounting for 34% of total bank loans extended by private banks, or USD 153 billion in 2017 (World Bank, 2016a[6]). Yet surveys suggest that a relatively high share of small enterprises (44.8%) have had loan applications rejected, in contrast to their larger peers[10] (World Bank, 2016b[7]). This may indicate a persistent financing gap or low creditworthiness, particularly for small and micro firms. Thailand's Dimension 3 score of 4.87 reflects these findings.

Legal, regulatory and institutional framework

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

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

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

Sources of external finance for MSMEs

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

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

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

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

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

Enhancing access to market and internationalisation (Dimension 4)

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

Export promotion

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

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

Integration into GVCs

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

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

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

Use of e-commerce

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

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

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

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

Quality standards

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

Trade facilitation

Thailand scored moderately well in the OECD Trade Facilitation Indicators (TFIs) covered in this 2018 ASPI[16]. The country has established basic infrastructure to facilitate trade across borders. The Thailand Customs Department, under the Ministry of Finance, provides information on its website on import-export requirements, tariffs and available free trade agreements (FTAs). Thai Customs also established a call centre, the Customs Care Centre, as an enquiry point for customs information. A separate website, the National Trade Repository, was established under the Ministry of Commerce as an information gateway on Thailand's trade in goods and services and e-commerce. To strengthen Thailand's competitiveness in international trade and facilitate matters for traders, the country established an e-customs system, the National Single Window (NSW), in 2014. As of December 2016, 26 government agencies had completed electric data integration under the NSW for customs formalities for goods or documents. Thailand has conducted training sessions and seminars on use of the NSW and Thai Customs services. However, specific initiatives to help SMEs deal with customs procedures and use trade facilitation services have not been defined.

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

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

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

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

Productivity measures

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

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

Business development services

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

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

Productive agglomerations and clusters enhancement

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

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

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

Technological innovation

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

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

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

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

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

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

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

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

Environmental policies targeting SMEs

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

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

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

Incentives and instruments for green SMEs

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

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

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

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

Entrepreneurial education

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

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

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

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

Entrepreneurial skills

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

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

Social entrepreneurship

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

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

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

Inclusive entrepreneurship

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

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

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

The way forward

Strengthening the institutional, regulatory and operational environment

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

Institutional framework for SME policy

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

Legislation, regulation and tax

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

Facilitating SME access to finance

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

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

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

Enhancing access to market and internationalisation

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

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

Boosting productivity, innovation and adoption of new technologies

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

Productivity, technology and innovation

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

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

Environmental policies and SMEs

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

Stimulating entrepreneurship and human capital development

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

Entrepreneurial education and skills

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

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

Social and inclusive entrepreneurship

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

Notes

[1] Up from 4% in 1996.

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

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

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

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

[6] Amounting to 20.4 million individuals.

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

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

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

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

[11] Under the Thai Civil and Commercial Code.

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

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

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

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

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

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

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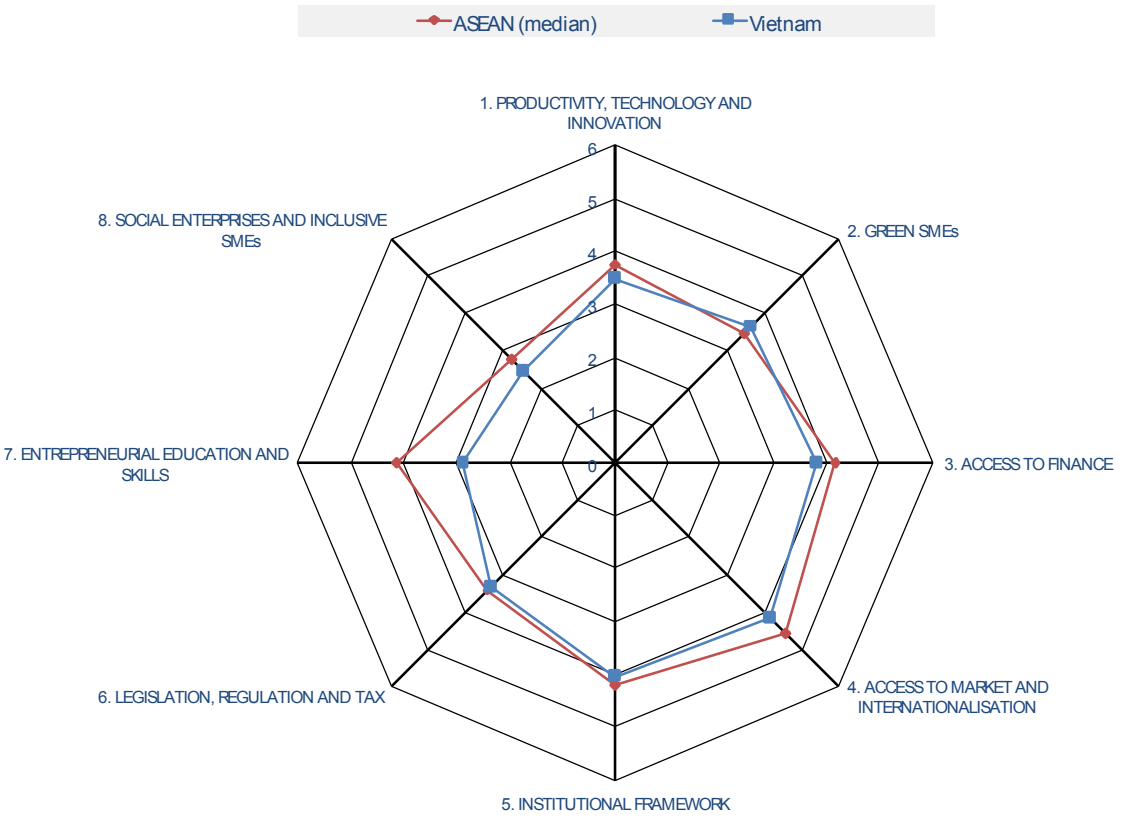
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Chapter 21. Viet Nam

Viet Nam's SME policy has its roots in the country's reforms of 1986, and subsequently in the Asian financial crisis, which drove policymakers to ramp up efforts to reduce dependency on FDI by establishing a broader base for growth. The country has traditionally focused on enhancing the legal, regulatory and operational framework for SMEs, but it is increasingly developing targeted measures to enhance productivity and innovation. However, at the same time, it is still focused on improving framework conditions in this area

Figure 21.1. 2018 SME policy index scores for Viet Nam



Overview

Economic structure and development priorities

Economic structure

Viet Nam is a lower middle-income country located in the Greater Mekong Subregion. It has the third largest population and fifth largest territory in ASEAN[1] with a population of 92.7 million covering 331 231 km^2 (ASEC, 2016[1]). It possesses a significant share of the world's bauxite reserves[2] as well as deposits of coal, manganese and offshore oil and gas. The economy remains largely rural and agrarian,[3] but the country is rapidly building up a strong manufacturing sector. This began with textile manufacturing, and Viet Nam is now quickly building up revealed comparative advantage in the production of electronics, benefitting from offshoring from China. Despite this impressive performance, Viet Nam shows signs of a dual economy, with non-FDI sectors demonstrating significantly lower productivity and state-owned enterprises (SOEs) continuing to constitute a drag on the economy. The country operates as a socialist market-oriented economy, and its economic policy is mainly set through five-year plans.

Since beginning its *Doi Moi* economic reforms in 1986, Viet Nam has successfully pursued an export-oriented, FDI-driven industrialisation strategy. Exports increased at an annualised rate of 18.6% between 2011 and 2015, and the country has a positive trade balance of USD 15.8 billion (MIT, 2016[2]). Machinery is the country's largest

merchandise export category,[4] with the largest product groups being broadcasting equipment (14% of total merchandise exports in 2016), integrated circuits (5.6%) and telephone components (4.6%). Textile footwear was the country's fourth largest product group (3.3% of total merchandise exports in 2016). Viet Nam principally exports to the United States (which absorbs 21% of Vietnamese merchandise exports), followed by China, Japan, South Korea and Germany (MIT, 2016[2]). Meanwhile, the country's foreign direct investment (FDI) stock reached around 53.19% of GDP in 2015 (World Bank, 2016[3]).

Despite this impressive performance, Viet Nam shows signs of a dual economy. Productivity is low in the non-domestic, non-FDI sector, averaging around 20% of productivity in the FDI sector. The country's exports are dominated by agricultural commodities and oil, and it runs a current account deficit amounting to around 8% of GDP (IMF, 2017a[4]). State-owned enterprises constitute a particular drag on the economy, and the development of other forms of domestic enterprise is impeded by a variety of factors, including credit misallocation. Credit to SOEs has come down since 2012, but 13.3% of total bank credit was still allocated to SOEs in 2016.

Table 21.1. Viet Nam: Main macroeconomic indicators, 2012-2016

Indicator	Unit of measurement	Year				
		2012	2013	2014	2015	2016
GDP growth	Percent, y-o-y	5.2	5.4	6.0	6.7	6.2
Inflation	Percent, average	9.1	6.6	4.1	0.9	2.7
Government balance	Percent of GDP	-6.9	-7.4	-6.3	-6.2[a]	-6.6[a]
Current account balance	Percent of GDP	6.0	4.5	4.9	-0.1	4.1
Export of goods and services	Percent of GDP	80.0	83.6	86.4	89.8	93.6
Imports of goods and services	Percent of GDP	76.5	81.5	83.1	89.0	91.1
Net FDI (inflows)	Percent of GDP	5.4	5.2	4.9	6.1	7.6
External debt	Percent of GNI	41.2	39.9	40.9	42.5	38.4
Gross reserves	Percent of external debt	41.5	39.6	47.2	36.3	46.0
Domestic credit to the private sector	Percent of GDP	94.8	96.8	100.3	111.9	115.0
Unemployment	Percent of active population	1.8	2.0	1.9	2.1	2.3
GDP per capita	PPP (constant 2011 intl$)	4 910	5 122	5 370	5 667	6 488

Note: a. IMF staff estimates.
Source: World Bank (2017) *World Development Indicators*; IMF (2017) *World Economic Outlook*.

Viet Nam is expected to sustain its strong growth rate over the medium term, underpinned by relatively strong macroeconomic fundamentals. It has managed to maintain a strong external position, reduce inflation to normal levels and achieve a low unemployment rate. Yet it continues to run a negative government balance, and it does not have sufficient reserves in place to cover its external debt. The country's recent graduation to middle-income status, meaning that it is no longer eligible for preferential loans, will test the sustainability of public finances and may exert further pressure on policy makers to take corrective measures, with further SOE reform likely to play a big role. The government is keenly aware of its limited fiscal space, and it is developing a broad reform agenda with this in mind (IMF, 2017b[5]). Downside risks may also emerge from rapid credit growth, which contributed to a period of high inflation between 2011 and 2012.

Going forward, Viet Nam should continue to leverage its young and educated workforce by further investing in education and skills. Only 0.6% of Vietnamese youth were

classified as NEET (not in education, employment or training) in 2016 (ILO, 2016[6]), and the country was ranked 12th globally for science and mathematics skills in the most recent PISA study (OECD, 2016[7]). This is partially attributable to investment in education (around 18.5% of government expenditure in 2013, last available data) (UNESCO, 2016[8]). Yet employers, particularly those in the most productive industries, often complain of skills shortages, and more could be done to invest in vocational training and skills. As noted above, successful SOE reform will also be critical to sustaining growth over the long term.

Reform priorities

Viet Nam's long-term economic development priorities are elaborated in its Socio-Economic Development Strategy, which covers the period 2011-20. The three main goals of this strategy are: *i)* to complete the transition to a socialist-oriented market economy by eliminating remaining barriers to fair competition; *ii)* to quickly develop a highly skilled workforce; and *iii)* to rapidly upgrade infrastructure, with an emphasis on the traffic system and big urban infrastructure. Viet Nam also aims to modernise the agricultural sector, for instance via the development of agricultural high-tech zones. By 2020, it would like to have reached an average GDP growth rate of 7-8% per annum, with productivity enhancement contributing at least 35% to this growth.

To realise the objectives of the ten-year strategy, Viet Nam has developed two mid-term plans. The current five-year Socio-Economic Development Plan 2016-2020 echoes many of the themes of the ten-year plan, highlighting the need for structural reforms, environmental sustainability, social equity and measures to address emerging threats to macroeconomic stability. Its main objective is to complete the country's transition to a socialist-oriented market economy while also developing the areas required to transform Viet Nam into a knowledge-based economy, notably in the area of skills and infrastructure. To achieve this, it aims to increase public-sector efficiency and integrity, to increase and enhance training in STEM subjects, to increase FDI in technology- and knowledge-intensive activities, to upgrade infrastructure (with special consideration of climate change and rising sea levels), to develop business clusters based on regional master plans and to provide more state support for innovative activities, for instance via the creation of start-up training centres, the provision of venture capital (VC) funding, and increased support for research and development (R&D) activities and the use of public-private partnerships (PPPs). It aims to reach a GDP of more than VND 30 600 trillion (Vietnamese dong)[5] in purchasing power parity by 2020, with 85% of output being generated by the industry and service sectors, 60% of the workforce employed in non-agricultural sectors and 65-70% of the workforce employed in skill-intensive activities.

Private sector development and enterprise structure

Business environment trends

Viet Nam performs relatively well among its regional peers on business environment indicators, and it is advancing quickly. It has maintained robust export growth over several decades and has managed to kick-start new industries through the successful attraction of FDI. It demonstrates strong health and primary education outcomes, and foreign investors are drawn to its political stability, relatively low wages and market size (CIEM, 2010[9]). The country is increasingly targeting higher-technology investments, and it has focused on enhancing the legal framework and infrastructure for such investments for about a decade.

Viet Nam is also undergoing a comprehensive process of business environment enhancement. Since the last assessment, it has improved its tax system by abolishing a mandatory carry-forward period for value-added tax (VAT) and by introducing an e-filing platform; it has eased cross-border trade by upgrading its automated cargo clearance system; it has adopted a new code of civil procedure and introduced a law on voluntary mediation to increase the ease of enforcing contracts; it has further facilitated access to credit by adopting a new civil code; and it has decreased electricity liabilities through the creation of an automatic energy management system (World Bank, 2017[10]). It has also increasingly digitised business registration procedures and decentralised licensing procedures, which has reduced processing times in some regions while increasing processing times in others (USDOS, 2017[11]).

Despite these enhancements to the business environment and growing market opportunities, enterprises continue to face constraints. These include burdensome bureaucratic procedures, technical skills gaps, a volatile financial sector, infrastructure gaps, inconsistencies or gaps in the legal framework, issues surrounding land administration and a rather high incidence of graft. They also include barriers arising from limited competition in some activities, as well as a general practice of relationship-based business transactions[6] (World Bank, 2017[10]). A relatively large share of employers report technical skills gaps, particularly among employees in technical, professional and managerial positions (Bodewig et al., 2013[12]). Credit growth in Viet Nam has been volatile since 2006, with credit spikes followed by sharp slowdowns (World Bank, 2016[3]). Land remains collectively owned. As it cannot be privately owned, it must instead be leased for a stipulated period. This, as well as the application of state ownership rights, has created legal uncertainty in some cases, and land disputes now make up 70-90% of all complaints and petitions (USDOS, 2016[13]). Corruption risks are perceived as particularly high in the areas of land administration, construction and public administration (GAN, 2017[14]).

SME sector

Around 442 486 enterprises were known to be operating in Viet Nam when the last official study was conducted in 2015, but the real figure is likely to be much larger. Of those enterprises studied, around 98% were MSMEs (GSO, 2015[15]), and 72.8%, or 322 236, were micro firms.[7] In common with many other emerging economies, there appeared to be a missing middle in the production structure, with only 1.7% (7 685) of enterprises being medium-sized, a smaller share than the number of large enterprises operating in Viet Nam (2.0%, or 8 812).

MSMEs demonstrate a similar structural contribution to the economy as in OECD countries, accounting for 64% of employment and 45% of GDP. According to customs data, around 14.1% of MSMEs export (VCY, 2016[16]).

SME policy

SME policies in Viet Nam have their roots in reforms to transform the country into a market-oriented economy that began in 1986.[8] Over the 20th century, private enterprise went through a long period of disruption due to ongoing wars with France and the United States (1945 to 1975), and was finally banned from 1976 to 1985 (Tran, Le and Nguyen, 2008[17]). Over this latter period, the economy was restructured around SOEs, which became the drivers of industrial activity and development, while the central government set prices and output targets, and made decisions on the distribution of inputs and outputs.

Following the 6th National Congress of the Communist Party of Viet Nam in 1986, it was decided to abandon the command economy in favour of a socialist-oriented market economy. A series of radical reforms followed, as agriculture was decollectivised, land rights established and most prices liberalised. Private enterprise was permitted from 1990 via the Law on Companies and Law on Private Enterprises, yet it was not fully embraced. Would-be entrepreneurs required a license to operate formally, and this license could be acquired only following months of deliberation, a huge amount of paperwork and a positive discretionary decision.

Instead, FDI was embraced as a motor to drive industrialisation. Between 1990 and 2000, FDI stocks increased from 25.5% to 66.1% of GDP (CIEM, 2010[9]). As a result, Viet Nam was badly affected by the Asian Financial Crisis of 1997, with annual net FDI inflows continuing to fall each year until 2000.[9] Between 2000 and 2002, a series of laws and institutions were established to provide a framework for targeted SME development policies, with the aim of establishing a broader and endogenous base for growth. The country's constitution was amended in 2001, which significantly liberalised regulatory constraints to setting up a business in Viet Nam. This was followed by a decree on support for SME development (No. 90/2001/ND-CP), which provided an SME definition and a legal basis for the establishment of a dedicated SME agency (the Agency for SME Development, or ASMED) and an SME Development Promotion Council.[10] These entities were founded in 2002 to elaborate, co-ordinate and implement SME policies. In 2005, Viet Nam's historic Enterprise Law was enacted, and in 2006, the country's first five-year plan for SME development was implemented. These were followed by a new government decree[11] on SME support in 2009. In 2017, the Law on Support for SMEs (SME Law) was passed, replacing all previous decrees on SME support.[12]

2018 ASPI results

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

Viet Nam began a big push in 2015 to enhance the institutional framework for SME policy making. The culmination of this process was the 2017 SME Law, which took effect on 1 January 2018. The law and an associated decree set out an updated SME definition as well as a set of targeted support measures for SMEs. The country has also been accelerating measures to enhance the regulatory and operational environment for SMEs over the past two years, building on the 2005 Law on Enterprises, but operational obstacles remain, particularly in the area of filing tax. The country's scores of 4.05 for institutional framework and 3.32 for legislation, regulation and tax reflect these findings.

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

The body responsible for formulating and co-ordinating SME policies and programmes is the SME Development Promotion Council. As chair of this council, the prime minister is directly responsible for leading and co-ordinating the country's SME strategy, with the support of related ministries.

The main body responsible for implementing SME policies and programmes is the SME Division under the Enterprise Development Agency (EDA), which falls under the institutional umbrella of the Ministry of Planning and Investment. The EDA was established in 2010 and is responsible for SME development as well as the reform and development of SOEs. It has operational autonomy and its operating expenses are funded

annually from the state budget. All members of its governance board are officials from the public sector.

Two five-year plans were elaborated for SME development between 2006 and 2015. They were followed by a resolution on supporting and developing enterprises by 2020 (No. 35/2016/NQ-CP) that was enacted in April 2016. The resolution focuses on private-sector development in general and outlines a more ambitious set of objectives than the previous two strategies. It aims to achieve considerable economic restructuring in order to increase the size of the private sector and its role in driving growth, to boost productivity and innovation, and to enable Vietnamese enterprises to compete on the world stage. The EDA implements yearly action plans that aim to meet the objectives of this resolution.

Policy monitoring and evaluation mechanisms are in place, but they mainly consider use of the budget rather than an assessment of impact, and they are exclusively conducted by the implementing agency. However, the private sector is invited to comment on implementation of the strategy twice a year at both the local and national levels. This often takes place via the Viet Nam Chamber of Commerce and Industry (VCCI). An economic census on the number of enterprises in Viet Nam, as well as their contribution to employment and GDP, is conducted annually by the General Statistics Office.

Scope of SME policy

The SME Law that took effect on 1 January 2018 set out the broad parameters for an enterprise to be defined as an MSME.[13] It was followed up in March 2018 with a decree providing a new legal SME definition for Viet Nam, as well as further details on the implementation of the SME Law.[14] The definition specifies the criteria and thresholds for determining firm size. It uses both an employment criterion[15] and an indicator of value to determine firm size, either total revenue or total capital, and it applies different thresholds by sector. When an enterprise is engaged in a number of sectors, the sector where it generates the highest revenue will be used, or if revenue cannot be determined, the sector where it employs the most staff will be used. It is too early to know whether the new definition will be used consistently throughout different government bodies.

Table 21.2. Viet Nam's SME definition

Size classification	Indicator	Sector	
		Agriculture, forestry and fishing Industry and construction	Trade and services
Micro	*either*		
	Total revenue	< VND 3 billion	< VND 10 billion
	or		
	Total capital	< VND 3 billion	< VND 3 billion
	Employees	≤ 10	≤ 10
Small	*either*		
	Total revenue	< VND 50 billion	< VND 100 billion
	or		
	Total capital	< VND 20 billion	< 50 billion
	Employees	11-100	11-50
Medium	*either*		
	Total revenue	≤ VND 300 billion (USD 13.2 million)	≤ VND 300 billion (USD 13.2 million)
	or		
	Total capital	≤ VND 100 billion (USD 4.4 million	≤ VND 100 billion (USD 4.4 million)
	Employees	101-200	51-100

High informality rates may exclude a large number of SMEs from policy interventions. The informal sector in Viet Nam is estimated to contribute 20% of GDP, and around 82% of jobs are defined as informal. Policy makers have only recently started to address this. The central government has set a target to have 1 million enterprises operating in the country by 2020, and formalisation of informal enterprises is at first glance a quick win to achieve this. Current measures to tackle the informal economy primarily focus on outreach activities, a light touch given the fact that the informal sector is largely disconnected from the broader economy and may never attain sufficient productivity to compete formally. Informal enterprises can access the People's Credit Funds.

Development of legislation and regulatory policies affecting SMEs

The development of regulations and legislation in Viet Nam is governed by the Law on the Promulgation of Legislative Documents.[16] This law includes instruction on when particular good regulatory practices should be conducted. Regulatory impact analysis (RIA) is to be conducted in the development of a range of legislative items such as draft laws, resolutions, decrees and circulars, while public-private consultations (PPCs) should be conducted in the development of all regulations. PPCs are relatively transparent but vary in their representability. All ongoing PPCs are listed on an online web portal. PPCs organised by the central government tend to involve a wide range of stakeholders, while those organised by local government tend to include a narrower range of guests. The VCCI often calls for exceptional consultations. Regulators have started to apply RIA only since 2009, and the practice is thus less developed than PPCs. There is no requirement to assess the impact on SMEs of new or revised regulations, and assessment is not uniformly applied. No handbook has been developed to guide policy makers on the use of RIA.

The government has stepped up efforts to streamline business regulation since promulgation of the resolution on supporting and developing enterprises by 2020. A core focus at the moment is the streamlining of licensing and permit procedures.

Company registration and ease of filing tax

Procedures to launch a company in Viet Nam could be simplified. It currently takes around 22 days and costs 6.5% of income per capita to launch a company, involving nine procedures (World Bank, 2017[10]).[17] None of these steps can be fully completed online, and the applicant must interact with seven agencies. In 2011, an Agency for Business Registration was set up to oversee company registration procedures and their enhancement. Business registration can be completed at one-stop-shops in each of Viet Nam's 63 provinces. Outside Hanoi, these facilities are located within the local offices of the Ministry of Planning and Investment. Support with registration can be obtained from the country's Business Registration Support Centres, and a guidebook is available online.

Procedures to file tax are relatively burdensome. To comply with regulations, a company must file 14 payments a year, taking 498 hours and amounting to 38.1% of total profits. The payment of VAT is particularly onerous, taking around 219 hours, or 44% of the total time required to file tax.

E-governance facilities

Platforms are available for online filing of tax and social security contributions, but not for pension contributions. More could be done to increase the security and usability of these platforms, for instance by creating a unique digital key and a legal framework to govern it. A draft law on electronic signature has been developed but it is not yet in place. This results in a rather fragmented system, with SMEs currently requested by one

institution to supply information that is already available in the databases of another public institution due to a lack of integration between systems. The government does not currently conduct surveys to assess user satisfaction.

Facilitating SME access to finance (Dimension 3)

Viet Nam has a moderately developed financial sector according to global indicators. It is ranked 71st for financial market development by the World Economic Forum (WEF, 2017[18]) and 29th for ease of getting credit by the World Bank (World Bank, 2017[10]). The country scores well on indicators of venture capital availability and its legal rights index, but its score is significantly diminished by relatively weak banks, a casualty of rapid credit growth over the past ten years. The real estate sector and state-owned enterprises absorb a disproportionate amount of credit.[18] Collateral requirements are high, averaging 216% of the value of the loan in some surveys (World Bank, 2015[19]), and this can be prohibitive for SMEs. Viet Nam has measures to address this constraint, but they do not work particularly well. Overall, the country has a high level of financial intermediation. Domestic credit to the private sector, a proxy measure of this, stood at 123.8% of GDP in 2016 (World Bank, 2016[3]). Viet Nam's Dimension 3 score of 3.81 reflects these findings.

Legal, regulatory and institutional framework

Viet Nam has moderate framework conditions for supplying finance. Facilities to assess and hedge against credit risk are available and functional. The country's credit reporting system, the Credit information Centre (CIC) under the State Bank of Viet Nam, has been in place since the late 1990s. Initially it provided very little credit information for commercial banks, covering just 2.7% of the adult population by 2007. But significant progress has been made over the last ten years, with the CIC holding credit information on around 51% of the adult population in 2017. In 2013,[19] the country adopted a dual credit reporting system, allowing private credit bureaus to operate in the country in order to increase the breadth and depth of credit information.[20] Today these private credit bureaus cover around 19.7% of the adult population (World Bank, 2017[10]). Viet Nam's credit reporting system now provides at least two years of both positive and negative[21] data online, and the CIC is considering collecting data from other service providers, such as utility companies, again to increase the breadth and depth of information. Meanwhile, financial institutions can also use contracting elements such as securitisation to mitigate credit risk. The 2005 Civil Code[22] expanded the range of assets that can be taken as security to include mortgages, pledges and security over future assets. In 2012, Viet Nam established a central online movable assets register to replace the old paper-based system; this allows third parties to perform registrations, amendments, cancellations and searches online. In 2014, the country reformed various enforcement procedures,[23] for instance by making it easier for a secured party to receive payment directly from a third party (STR, 2018[20]).

Viet Nam currently has two stock exchanges, the Ho Chi Minh Stock Exchange (HOSE), formed in 2000, and the Hanoi Stock Exchange (HNX), formed in 2005. The market capitalisation of these two exchanges is relatively low compared to Viet Nam's higher-income regional peers, at 24.9% of GDP in 2015, but it is impressive given the country's income level (World Bank, 2015[21]). To increase transparency and foreign investment, these bourses are being merged in a process expected to be completed by the end of 2018. Such processes can increase the scale and solidity of listing facilities, allowing them more room to develop specialised SME platforms. Viet Nam does not currently have a specialised platform for SMEs, but the HNX does have a secondary market on which

some SMEs can list. This was established in 2009 and is called UPCoM. At the time of writing, UPCoM counted 710 listed companies with a total market capitalisation of USD 27.4 billion, making it more than double the size of HNX's main board. The market enables enterprises of different sizes to access equity financing with no listing fees. Since 2017, HNX has begun to categorise UPCoM listed firms by size in order to improve monitoring and supervision of the market. Currently, 40 large, 291 medium and 379 small companies are listed. The HNX is looking to establish a platform for start-up firms, and this may accelerate after the merging of HNX and HOSE. There are currently no public programmes to support SME listing.

Sources of external finance for MSMEs

To stimulate bank lending to SMEs, the government mostly deploys credit lines and guarantees. The provision of credit lines for SME lending is governed by Article 6 of Circular No.35/2012/TT-BTC. Perhaps the most substantial credit line is the SME Development Fund. The fund was created in 2013 with an initial capital injection from the state budget of VND 2 trillion (around USD 100 million), and it received additional capital allocations over the first three years of its existence. It funds short- and medium-term loans to SMEs operating in the agriculture, forestry and fishery sectors; processing and manufacturing; and water supply, waste and wastewater management and treatment, under Article 5 of Circular No.13/2015/TT-BKHDT.[24] Three Vietnamese banks have access to this fund: the Joint-Stock Commercial Bank for Investment and Development of Viet Nam (BIDV), the country's the largest state-owned bank; the Joint-Stock Commercial Bank for Foreign Trade of Viet Nam (Vietcombank); and the Ho Chi Minh City Development Joint-Stock Commercial Bank (HDBank). To provide SMEs with an additional security, a network of credit guarantee funds (CGFs) has been in place since 2001. The funds are established and managed by the People's Committees of centrally affiliated cities and provinces, and today number up to 27. Partially due to funding constraints, the CGFs do not work well, which reduces banks' trust that the guarantee will be honoured. Under Decision 58/2013/QD-TTg, all CGFs are supposed to be established with at least VND 30 billion in charter capital, but since this is predominantly allocated from local government budgets few meet this requirement. In addition, guaranteed parties must still put up their own assets as collateral, which automatically prevents many SMEs from seeking guarantees. Only rudimentary monitoring and evaluation mechanisms are in place, and senior officials of provincial People's Committees play a central supervisory and governance role, which may reduce their independence.

Viet Nam also provides SME financing through the Viet Nam Development Bank (VDB), a specialised state-owned bank established in 2006. The VDB is responsible for implementing the government's investment and export credit policies, providing export finance and guaranteeing SME loans from commercial banks. The VDB is a legal entity with chartered capital of VND 15 trillion, and this is expected to increase to VND 30 trillion by 2020. In common with most public programmes and institutions established to increase access to financing, the Ministry of Finance is the main institution responsible for supervising the financial performance of the VDB.

A relatively deep microfinance network operates in Viet Nam. Between 1990 and 2004, around 57 NGOs and the country's Women's Union implemented microfinance schemes in more than 2 900 communes/wards (29%) and 36 provinces (57%) (VMWG, 2014[22]). In 2013, around 50 microfinance organisations were operating in the country, with a client base of around 10 million and an outstanding portfolio of USD 8.2 billion (VMWG, 2014[22]). Viet Nam has taken significant steps to enhance regulatory oversight

of the sector, such as the 2010 Law on Credit Institutions and a 2005 decree on the organisation and activities of microfinance institutions (MFIs). The decree (No. 28/2005/ND-CP) allowed MFIs to broaden the range of products they provide, and amendments in 2007 broadened the base from which MFIs could receive funds (by allowing them to accept both client deposits and funding from donors). However, regulatory gaps persist, and accurate data on the activities of many MFIs is missing.

A wide range of asset-based instruments is available, and the use of such instruments is rapidly increasing. The volume of factoring used in Viet Nam increased significantly in 2016 – at a rate of 96.4%, the strongest growth in Asia after Malaysia (FCI, 2017[23]). A total of four factoring companies were based in Viet Nam in 2016, and they generated a factoring volume of EUR 658 million (FCI, 2017[23]). Article 26 of Decree 39/2014/ND-CP on Leasing Companies was developed to govern leasing.

Equity instruments are increasingly being used in Viet Nam, and the country is beginning to leapfrog here. Ten PEVC deals were completed in Viet Nam in 2017 with a combined value of USD 0.4 billion (EY, 2018[24]). Deal activity is particularly strong in the consumer sector, with investor appetite buoyed by the country's rapidly expanding middle class. A regulatory framework for venture capital is being developed under a draft circular. There are currently no public programmes to catalyse venture capital, but this type of investment is growing at a relatively fast pace.

Enhancing access to market and internationalisation (Dimension 4)

Through an outward-looking policy reform, Viet Nam has become increasingly integrated in global trade and is now one of Southeast Asia's largest exporters. The country's score of 4.15 for this dimension reflects its mid-stage level of policy development. The score acknowledges Viet Nam's existing policies and initiatives to drive local SMEs to go global, while suggesting that there is room for improvement to support Vietnamese SMEs in scaling up their role in the country's exports.

Export promotion

Viet Nam has recognised the importance of conducting export promotion strategies. The Viet Nam Trade Promotion Agency (VIETRADE), under the Ministry of Industry and Trade, defines the country's export promotion efforts. It formulates policies and measures for business development and provides a wide spectrum of assistance. In promoting Vietnamese SMEs to go global, VIETRADE has received support from the Swiss Secretariat for Economic Affairs (SECO) since 2013 through a programme called "Decentralised Trade Support Services for Strengthening the International Competitiveness of Vietnamese Small and Medium-sized Enterprises". This programme, with a SECO contribution of around USD 3.3 million, was implemented by VIETRADE via elected provincial organisations for promoting and supporting trade. Its aim is to upgrade the contribution of SMEs to exports in a sustainable manner in key priority export sectors at the regional and provincial levels. The programme also aimed to assist with the establishment of a National Export Council to improve monitoring standards and evaluate the implementation of national export strategies.

Nevertheless, a 2014 assessment delivered by SECO noted that Vietnamese SMEs were trailing despite the country's rapid export growth (Anh, 2014[25]). The assessment was jointly conducted by Switzerland's Federal Department of Economic Affairs and Viet Nam's Trade Promotion Department. It found that limited understanding of foreign markets and international trade issues, along with limited market research and marketing skills, have impeded penetration of the international market by Viet Nam's SMEs. Viet

Nam was urged by SECO to create clear policies that support SMEs to play a larger role in the country's exports. More recently, Prime Minister Nguyen Xuan Phuc noted that difficulties faced by SMEs in accessing credit information and market promotion are barriers to their development. He made the comment at the 45th meeting of the APEC Small and Medium Enterprises Working Group in Ho Chi Minh City, the *Voice of Viet Nam* reported on 17 September 2017. The new SME Law is expected to increase government support for promoting SME development and market expansion.

Integration into GVCs

Viet Nam has set up a regulatory framework to encourage the development of linkages between SMEs and foreign enterprises. This is part of the country's initiatives to integrate local SMEs into global value chains (GVCs). The Prime Minister's Decision No. 1556/QD-TTg mandated the government to assist SMEs engaged in ancillary industries to participate in the production networks of multinational companies (MNCs). Moreover, the Prime Minister's Directive No. 32/2012/CT-TTg encourages the removal of barriers and an improvement in foreign investment policies, and calls for the development of a scheme prioritising the development of enterprises with high competitive advantages over the 2013-2020 period.

FDI has enjoyed preferential policies in Viet Nam. Many policy makers regard FDI as crucial for the country's economic growth, and this is supported by the fact that FDI companies in Viet Nam account for around 65-67% of national export turnover (Viet Nam News, 2015[4]). The number of Vietnamese SMEs that participate in GVCs is unclear, but estimates suggest that links between small firms and MNCs or larger exporting firms remain weak. This may be due to limited management skills and technology adoption. Many small firms are involved in low value-added assembling activities, and therefore a key challenge for Viet Nam will be to provide support to SMEs to upgrade their production capabilities and product value in order to participate in higher value-added activities.

Government initiatives to enhance SME integration into GVCs have been supplemented by development assistance projects. One notable initiative is a Japanese-funded project "Enhancing the Competitiveness of SMEs in the Southern Economic Corridor of the ASEAN Mekong Subregion", which is being implemented by the Mekong Institute over the period 2016-2018.[25] This project conducted a product value chain-mapping exercise in four provinces,[26] after which it developed SME clusters in each of these provinces and provided capacity-building activities[27] for participant SMEs. In addition, the World Bank and the Ministry of Industry and Trade published two reports in 2017 that contained recommendations for enhancing SME participation in GVCs (World Bank, 2017[26]; Hollweg, Smith and Taglioni, 2017[27]).

The private sector is also providing support for SME integration into GVCs. Viet Nam Supply Chain, a member of the Australian Chamber of Commerce in Viet Nam, has a programme in place that helps Vietnamese SMEs to evaluate their supply-chain presence and link up with industry professionals, and this service is provided free-of-charge. In 2017, the US-ASEAN Business Council, the VCCI and Coca-Cola Viet Nam held a symposium in Ho Chi Minh City that focused on increasing the supply-chain integration of SMEs through mentoring and training, with a particular focus on improving their competitiveness in the digital age.

Use of e-commerce

E-commerce accounts for around 2.8% of total retail sales and consumption services revenue in Viet Nam, and its use is rising quickly. In 2015, the use of e-commerce increased by 37% over the previous year, according to a report by the Viet Nam E-commerce and Information Technology Agency (VECITA) under the Ministry of Industry and Trade. Viet Nam has set up a regulatory framework to govern electronic transactions. The government issued Decree 101/2012/ND-CP on online payments in 2012 and Decree 52/2013/ND-CP on e-commerce in 2013. A 2011 law broadened the legal framework for consumer protection and set out additional responsibilities and obligations of traders and other third parties with respect to their consumers.

Viet Nam has recently conducted reforms to promote cashless transactions. Despite rapid development of the country's e-commerce market, cash payments are still estimated to make up around 65% of total sales (SBV, 2016[28]). In January 2017, the country announced a plan to reduce cash transactions to less than 10% of total market transactions and to improve electronic payment methods by 2020. On 30 December 2016, a scheme was approved that aims to promote and facilitate the use of non-cash payments from 2016 to 2020.[28] The scheme aims to enhance the country's infrastructure for electronic transactions, including the creation of an automatic payment centre by the State Bank of Viet Nam to connect consumers and businesses with commercial banks.

While the regulatory framework for e-payments is still being developed, Viet Nam has established a formal framework for e-commerce in general. Following the establishment of VECITA in 2013, the government set out an e-commerce development plan for the country for the period 2014 to 2020. Nevertheless, specific support for the use of e-commerce by SMEs has not been clearly defined. At a workshop on digital technology for SMEs, held in Hanoi on 2 June 2016, Google Viet Nam noted that only 20% of Vietnamese SMEs were using websites to promote their products and services, while about 70% of the websites were poorly built and hard to access using smartphones (Nhung, 2017[29]). Initiatives to increase SME capabilities in utilising e-commerce have been fragmented. In March 2017, a workshop titled New Trends in Online Business was organised by the Viet Nam E-Commerce Association, in collaboration with the Industry and Trade Department of Dong Nai Province, to train SMEs on promoting their products using e-commerce platforms. A new e-commerce platform to help SMEs in Viet Nam and neighbouring countries in the lower Mekong region was launched in February 2017 with support from the Asian Development Bank. Called the Kiu platform, it has an e-marketplace, a management tool for local SMEs and a shipping service that helps buyers arrange international shipping from the Mekong region.

Quality standards

Viet Nam's Law on Standards and Technical Regulations was adopted by the National Assembly in June 2006 and took effect in January 2007. It simplified standards and technical regulations into three levels: national and organisation standards, national technical regulations, and local technical regulations. The Directorate for Standards, Metrology and Quality (STAMEQ), under the Ministry of Science and Technology (MOST), advises the government and MOST on state management in the areas of its purview. STAMEQ represents Viet Nam in 14 international and regional organisations, including the International Organization for Standardization (ISO) and the World Trade Organization on Technical Barriers to Trade. The Standards and Quality Institute, a subsidiary of STAMEQ, is responsible for organising national technical committee

activities through which national standards are developed with the involvement of the concerned parties. A Bureau of Accreditations was established under STAMEQ in 1995.

Certification of service quality is provided by private certification bodies. Nevertheless, the government has made efforts to strengthen standardisation for the service sector. One such initiative includes Quality Standards for the Hospital Management of Acute Strokes, which was launched by the Ministry of Health as part of its efforts to increase access to high-quality hospital care in Viet Nam (IDSI, 2014[30]).

Clear support to help SMEs meet international quality standards is less apparent. A national programme[29] to improve the productivity and product quality of Vietnamese enterprises up to 2020 has been approved by the prime minister, but it appears to lack specific support measures for SMEs. Initiatives that could improve SME capacity to conform to quality standards have been blended with broader SME development programmes, such as training and assistance programmes provided by VIETRADE.

Trade facilitation

Viet Nam has made significant efforts to establish basic necessary infrastructure for facilitating seamless trade across borders. In the OECD Trade Facilitation Indicators used in this 2018 ASPI, Viet Nam scored moderately high in terms of information availability and fees and charges.[30] The country's customs service has developed its website to serve as a central point for basic cross-border trading information on matters such as tariffs and exchange rates. The new Viet Nam Trade Information Portal was launched in 2017 with support from the World Bank Group under its Country Partnership Framework. The portal is a web-based database system that provides all traders with easy access to Viet Nam's regulatory requirements for importing and exporting. The portal also provides an enquiry point for non-tariff measures and other matters related to trade.

Viet Nam has also recently established a National Single Window (NSW). In September 2015, it became the fifth ASEAN Member State to join the ASEAN Single Window, following Singapore, Indonesia, Malaysia and Thailand. Viet Nam's NSW is still in a developing phase, with several ministries not yet integrated into the system due to limited technical capacities, and programmes to support SMEs in using this facility have not yet been defined. Viet Nam also has an Authorised Economic Operator (AEO) programme in place, but this does not currently provide any specific incentives or allowances to promote SME participation. It imposes a minimum export turnover value threshold for enterprises to qualify as an AEO, and this, alongside other criteria,[31] may discriminate against SMEs. Government initiatives in this area have been supplemented by development assistance projects, such as the EU-funded Sustainable Freight Transport and Logistics in the Mekong Region project for SMEs.

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

Viet Nam has made impressive progress over the last decade in developing and implementing policies that promote productivity and innovation, and these initiatives cover large segments of the SME population. The country's score of 3.48 for Dimension 1 places it at a mid-stage of policy development, while its score of 3.63 for Dimension 2 on SME greening places it an early stage of policy development.

Productivity measures

The Viet Nam National Productivity Institute and the Directorate for Standards, Metrology and Quality are the main agencies responsible for developing policies for productivity enhancement in Viet Nam, including SME productivity. A steering committee for the implementation of productivity programmes is also in place, with MOST as a standing member. Consultations with the private sector and research centres on the development of productivity enhancement programmes take place on an ad hoc basis.

In 2011, Viet Nam launched the National Technology Innovation Programme, which will run until 2020 and provides support to enterprises, including SMEs, to upgrade their productivity and product quality. The 2017 SME Law also includes a component on SME productivity, with a particular focus on technology adoption, the acquisition of production facilities and good accounting practices. The government's objectives for 2010-2015 included raising total factor productivity by 30% and formulating 4 000 new national standards. At the same time it aimed to provide guidance on technological innovation to 40 000 businesses, for instance on the use of applied management systems, models and tools. Over the 2011-2013 period, this programme was financed with VND 134 billion from the central government's budget and VND 60 billion from the local private sector. Since no concrete key performance indicators (KPIs) were developed for the programme, it is not clear whether these objectives were achieved. No clear objectives have been set for the post-2015 programme, and no recent programme assessments have been conducted. However, the National Productivity Institute issues a yearly report, which includes data on labour productivity and total factor productivity in Viet Nam.

Business development services

The National Five-Year SME Development Plan (2011-2016) covered the development of business development services (BDS), including training, legal services and support with intellectual property (IP) registration. It contained action plans but no measurable targets, timeframe or expected impact. A new SME development plan is currently being drafted and is expected to include a component on the development of BDS. The Ministry of Planning and Investment (MPI) is the main body responsible for BDS policy development in Viet Nam, and it has a dedicated Business Development Department. The Agency for Enterprise Development is the main body responsible for SME development and BDS implementation. Currently there is no single online portal that provides all relevant information on BDS, but there is a plan to develop an SME-based enterprise portal in the near future.

Viet Nam has no one-stop shop for BDS at the national level, but BDS support is provided at the provincial and regional levels. Each of the country's 63 provinces has a specialised centre that implements government support programmes for local enterprises, including SMEs. These centres are managed by a provincial office of the Department of Planning and Investment or by the provincial People's Committee. They provide information, training and consultancy, business counselling and start-up support. They receive their budget from the MPI and most of their staff are paid by the government. The centres can deliver consultancy and/or training services themselves or contract this out to consultants or third-party service providers. Training programmes already implemented include "training and capacity building for SMEs" and "legal support to business." Some 12 000 SMEs received support over the 2012-14 period under the country's "support to market expansion for business and SMEs" programme.

In addition to these centres, the Agency for Enterprise Development has established three SME Technical Assistance Centres in the north, centre and south of Viet Nam. These centres provide information, training programmes, consultancy services and other BDS to Vietnamese enterprises.

Development partners are also supporting both public and private providers of BDS. The International Labour Organization (ILO), via its Sustaining Competitive and Responsible Enterprises Programme (SCORE), provides advice on the extension of business development services that could enable SMEs to upgrade their productivity and working conditions. It has also worked with key partners such as the VCCI, industry associations and Ho Chi Minh City's Department of Industry and Trade to assist more than 180 SMEs in upgrading their management and working condition practices.[32]

Productive agglomerations and clusters enhancement

A decree enacted in 2008 and revised in 2013 encourages the construction of industrial clusters and industrial parks for enterprises, including local SMEs. The decree sets out conditions for establishing and expanding industrial clusters, including export processing zones, industrial zones and economic zones. The 2017 SME Law also emphasises cluster development and includes measures to reduce rental prices for SMEs operating in industrial parks (excluding foreign-invested and state-owned SMEs). However, policies to promote linkages between different enterprises operating within such clusters remain limited.

Viet Nam scored 77% in the 2014 ERIA Foreign Investment Liberalisation index – the region's lowest score. It also has the lowest liberalisation rate in manufacturing, and it has one of the largest number of industries, compared to other AMS, that do not fall within the 70% threshold for the manufacturing industry (Intal Jr., 2015[31]). Viet Nam's science and technology parks are mainly located in Ho Chi Minh City and concentrated in the software industry, although their geographic range has expanded since 2014 to include coastal economic zones. As of September 2016, there were 325 industrial zones nationwide (220 of them operational) and 16 economic zones. The government planned to open three SEZs in 2017, located in key economic areas in the north, centre and south of Viet Nam, but the law that would permit the creation of this zones has been delayed,[33] and it is therefore unclear when these zones may be created. To promote domestic and foreign investment, the government provides incentives, including exemptions from or reductions of corporate income tax, VAT and import tariffs, and these are granted on a sectoral or location basis and are sometimes time-bound. Incentives used in the past have included a 50% income tax reduction for foreign and local employees working in economic zones, and a tax exemption for expenses incurred in the development of social infrastructure for economic or industrial zones.

Government measures to promote productive agglomeration and cluster enhancement have been supplemented by development assistance projects, such as an Italian-funded technical assistance project implemented by the MPI and the United Nations Industrial Development Organization (UNIDO). This project, known as SME Cluster Development, had a budget of EUR 3 million and aimed to promote partnerships between Vietnamese SMEs and Italian industry associations in three pilot industrial sectors

The performance of Viet Nam's industrial and economic zones remains hindered by a lack of cohesion among enterprises, especially in the manufacturing and processing industries. Production clusters remain relatively small in size, and close linkages between

firms are limited. In addition, few mechanisms are in place for robust monitoring of the performance of industrial cluster programmes and policies.

Technological innovation

Viet Nam's gross domestic expenditure on R&D (GERD) was about 0.4% of GDP in 2013. This is higher than most of its peers in the region, although still relatively low compared to the OECD average. The country has relatively recently advanced the legal basis for science, technology and innovation and established several new institutions engaged in steering and funding R&D. The National Technology Innovation Programme has a particular focus on SMEs. MOST is the leading agency in policy development related to innovation promotion. Various MOST agencies deal with innovation implementation, such as the State Agency for Technology Innovation (SATI) and the Viet Nam National Productivity Institute. The National Foundation for Science and Technology Development (NAFOSTED) offers financing and capital loans for scientific and technological projects proposed by organisations or individuals. Although these agencies are the core, each ministry and institution can also develop its own plan of action to promote innovation, a situation that could result in an approach that is not co-ordinated. The country does not have an intergovernmental body or committee for innovation policy co-ordination.

Viet Nam's IP legislation is relatively comprehensive. It covers most aspects of IP protection in line with international standards under TRIPS (the agreement on Trade-Related Aspects of Intellectual Property Rights) and its relevant implementing regulations. The Vietnamese authorities are working towards improving training for court officials, judges, customs authorities and other IP enforcement agencies. Patent applications are filed at the National Office of Intellectual Property. A 2011-2105 IP development programme focused on dedicated IP support for businesses and SMEs.

MOST's National Product Development Programme is the major initiative promoting technological innovation. It aims to use high-potential advanced technology to develop Viet Nam's commercial products. Its current focus is on expanding the quality of products to meet international standards in order to promote exports. Finland, Belgium and other countries have provided donor support. The Viet Nam-Finland Innovation Partnership Programme (IPP) supports sustainable economic growth in Viet Nam through increased production and export of innovative products and services. IPP provides both financial and soft support through training, workshops and hands-on coaching as well as access to networks of experts and investors. It has supported several dozen Vietnamese companies. NAFOSTED, established in 2013, promotes commercialisation of innovative ideas and new products. It has supported dozens of researchers and SMEs with a programme for implementing scientific research and technological innovation, including guarantees for bank loans. In 2017, SATI, MOST and the Technology Agency of the Czech Republic called for proposals, including from SMEs, for joint R&D projects.

Viet Nam has developed infrastructure to support SME innovation. The National Technology Innovation Programme has provided support to high-tech enterprises in specific industries, as well as for the construction and development of nurseries for about 40 high-tech business incubators and manufacturing facilities. As with BDS, support is also provided at the provincial level. Enterprises and SMEs in the provinces are supported by MOST's centres for technology application and innovation via innovation grants financed by the government or co-funded with the private sector.

Environmental policies targeting SMEs

Viet Nam does not have a specific policy that targets the greening of SMEs. However, SMEs are mentioned in the National Green Growth Strategy, and a number of policy tools support SME greening. No government agency works exclusively with SMEs on greening, but the Viet Nam Environment Administration (VEA), under the Ministry of Natural Resources and Environment, includes enterprises in its list of partners.

The National Green Growth Strategy has supported eco-labelling across a variety of products and has developed a process for certifying products that is free of charge. Through the Law on Environmental Protection (2014), the government has begun to promote green public procurement. Such policies create a market incentive for SMEs to adopt greener practices and achieve green certification, and may also increase the willingness of banks to provide them with credit. However, the sustainable procurement process in Viet Nam has illuminated the co-ordination challenges involved in introducing legislation that supports green SMEs. While the Law on Environmental Protection states that government agencies should prefer eco-friendly products and services that have been recognised with eco-labels, it does not set hard targets for the percentage of procurement that must be certified as green. At the same time, the Law on Procurement does not lay out environmental requirements as criteria for considering tenders (Huyen, 2016[32]).

Incentives and instruments for green SMEs

Viet Nam currently lacks regulatory incentives to support SME greening, but SMEs can tap into a number of financial programmes that support the adoption of green practices and technology. These include the Finance for Green Growth Fund, the National Technology Fund, the National Technology Innovation Programme and the SME Development Fund. The government has been using eco-taxes to support implementation of the green growth action plan. However, only the SME Development Fund is actually aimed at SMEs, and it does not have a particular focus on greening. The government reports that the other funds have had limited uptake from SMEs, potentially because the funds are relatively new and SMEs are not aware of their existence. Viet Nam also supports enterprises in achieving ISO 14001 certification, but the cost and complexity of this environmental management system make certification challenging for SMEs.

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

Viet Nam is still at an early stage of developing a policy framework for the promotion of entrepreneurial skills and education, as well as for inclusive and social SMEs. Entrepreneurial learning has been introduced only for secondary students, via fragmented donor-funded initiatives, and entrepreneurship elements are not yet assimilated into national curricula. The country has only recently launched a national programme to promote entrepreneurial skills among local start-ups. In the area of social enterprises and inclusive SMEs, Viet Nam is beginning to implement a number of initiatives, but they are at an early stage and lack sufficient resources. The country's scores of 2.87 for Dimension 7 and 2.43 for Dimension 8 reflect these findings.

Entrepreneurial education

Entrepreneurial learning (EL) is not yet an integrated part of Viet Nam's national education system. The country has not developed a national standard curriculum on entrepreneurship subjects, and EL elements are hard to discern at the primary education

level. Nevertheless, a few initiatives have emerged at higher levels of education. An example is the Young Entrepreneurs Adventure (YEA) camp, co-organised by Viet Nam Youth Entrepreneurs (an NGO) and Babson University of the United States. The YEA camp is a five-day mentoring session for high school students to nurture entrepreneurial mindsets and connect them with peers who share their interest in entrepreneurship, with an eye to their future and their service to the community.

Entrepreneurship elements are more clearly defined at the university level. Recognising the importance to embed EL in the national education system, the Ministry of Education and Training recently introduced a plan called "Supporting Student Entrepreneurship 2017-2020 with a Vision Towards 2025". The plan intends to equip university students with basic knowledge and skills on entrepreneurship, *Viet Nam News* reported on 10 April 2017. The aim is to make EL compulsory for every university student, regardless of major, since the government considers that entrepreneurship could thrive in all sectors.

Other university-level EL initiatives have received support from foreign donors. A Centre for Social Innovation and Entrepreneurship (CSIE) was established at the National Economics University in February 2017 in collaboration with British Council Viet Nam. CSIE serves as a research and incubating centre to support Viet Nam's entrepreneurship ecosystem from within an educational institution. Another EL initiative, Maker Innovation Space, was established at the University of Da Nang in 2017 through an ongoing partnership between Arizona State University and the United States Agency for International Development (USAID). The space provides discussion fora and incubation on entrepreneurship to help students forge creative ideas on doing business and developing innovative products. The Viet Nam-Finland IPP, mentioned above, held a training-of-trainers programme on entrepreneurship and innovation for 23 lecturers and staffers from 12 Vietnamese universities to promote the development of EL in universities (IPP Viet Nam, 2018[7]). IPP, jointly financed by the governments of Viet Nam and Finland, is in its second and final phase (2014-2018), with a budget of EUR 11 million to promote the development of entrepreneurship and a start-up ecosystem in Viet Nam (Rowan, 2016[33]).

Entrepreneurial skills

Viet Nam has started to take a more strategic approach to support for entrepreneurial skills. The government's efforts are administered by the National Agency for Technology Entrepreneurship and Commercialisation Development (NATEC) under MOST. A MOST project, called the National Programme to Support an Innovative Start-up Ecosystem in Viet Nam by the year 2025, was approved by the deputy prime minister with support from IPP on 18 May 2016. The project has set progressive and ambitious goal for 2020, including the completion of a main legal framework for a start-up ecosystem, implementation of an online portal for the National Innovative Start-up Ecosystem and support for about 800 start-ups. By 2025, the project is expected to have supported 2 000 start-up projects and 600 start-up enterprises.

Other initiatives to promote entrepreneurial skills have taken place in collaboration with foreign partners. Singapore and Viet Nam have promoted exchanges of knowledge and support for start-up development in both countries through a memorandum of understanding signed in November 2016 between Singapore's Action Community of Entrepreneurship (ACE) and Viet Nam's NATEC (FS, 2016[34]). The project provides workshops, networking events and support clinics, as well as venture capital for start-up development. In 2013, MOST collaborated with large private companies such as

Microsoft and Lotte to establish a Viet Nam Silicon Valley (VSV) for start-ups.[34] The project runs an intensive four-month programme called the VSV Accelerator Bootcamp that offers tailor-made mentorship and extensive business networking for small businesses in Viet Nam to improve their entrepreneurial skills.

Social entrepreneurship

Although the term social entrepreneurship was formalised only in 2015, social ventures were present in Viet Nam before then. Prior to 2010, most non-public social ventures depended on international development aid, but many have since evolved into more market-driven business entities. A number of Vietnamese NGOs have launched business activities to sustain their social missions, becoming a social-enterprise model in the country. In a study undertaken in 2011 there were estimated to be around 167 organisations that could be identified as social enterprises and another 2 000 that were deemed to have the potential to evolve into social enterprises (Pham, Nguyen and Nguyen, 2016[35]). Co-operatives are considered an early model of social enterprises in Viet Nam. The co-operatives law defines them as collective economic entities that are jointly owned and democratically controlled by at least seven volunteering members, and that co-operate in production, business, and job creation to meet the common needs of their members. The country counted 18 244 co-operatives in 2010, according to the Economic Committee of National Assembly and the United Nations Development Programme (Pham, Nguyen and Nguyen, 2016[35]).

A decree issued in 2015 (No. 96/2015/ND-CP) sets out policies to develop social enterprises. It calls on the state "to encourage and create conditions for organisations and individuals to establish social enterprises for the purpose of solving social and environmental issues in the interests of the community." A definition of a social enterprise exists that complies with conventional definitions, with a special clause for profit re-investment. Social enterprises are entitled to preferential conditions and assistance regarding business licenses and certificates. But while the country has a registry to track enterprises, it is not kept up to date (the latest information is from 2012). In addition, it is not clear which agency is mandated to co-ordinate activities related to social enterprises. Finally, although social enterprises are provided for under the law, they are missing from national strategies.

In terms of implementation, Viet Nam has no government-led awareness raising activities or allocated budget to promote and support of social enterprises. However, there are donor and private-led activities conducted by the British Council, the SPARK Centre for Social Entrepreneurship Development and Kiva, a microfunding organisation. On the local front, the Centre for Social Initiatives Promotion, a Vietnamese non-governmental, non-profit organisation, plays a leading role in supporting the emerging social entrepreneurship sector; the Central Institute for Economic Management leads research initiatives in the area of social entrepreneurship; and Thai Nguyen University created a Social Enterprise Education Project (2012-2014), in collaboration with Manchester Metropolitan University, to integrate social entrepreneurship into its curricula.

Inclusive entrepreneurship

Inclusive entrepreneurship, much like social entrepreneurship, is at an early stage of development from an overall perspective in Viet Nam. Initiatives to support the inclusion of women, youth and persons with disabilities (PWD) in the workforce have long existed in the country and there are number of policies in place, but implementation activities are

very small in scale. Efforts to advance youth entrepreneurship stand out in both policy and implementation compared to efforts aimed at women and PWDs.

Nonetheless, women represent an important segment for the government, given that women-owned SMEs have made significant contributions to job creation, and efforts are being made towards gender equality. Viet Nam, one of two countries in ASEAN to include women entrepreneurship in its MSME Development Plan, has developed strategies with clear objectives for women's entrepreneurship. The National Strategy on Gender Equality 2011-2020 has a target of raising the share of women-owned SMEs to 35% or higher by 2020. While participation is already considerable, as women reportedly own up to a quarter of SMEs, a key challenge will be to address the entrepreneurial quality gap in terms of performance. This will involve addressing barriers faced by women such as a lack of business skills, limited access to resources and markets, and network building. As interventions on women are mostly at the planning and design level, strategies can be moved forward via support activities carried out with the help of donors, associations and the private sector.

The stronger focus on youth in policy and implementation may be partly accounted for by demographic factors. Young people aged 15-24 comprise one-quarter of the population, presenting Viet Nam with unique socio-economic development opportunities as well as the labour-market challenge of creating enough jobs for youth and equipping them with the skills needed to contribute to growing economic sectors (OECD, 2017[36]). In recent years there has been a growing focus on building a start-up ecosystem and promoting youth entrepreneurship. A major development was the creation of the Youth Start-Up Programme 2016-2021, which mobilised VND 350 billion to develop start-up spirit and mobilise finance, personnel and infrastructure resources. The programme was entrusted to the Viet Nam Youth League as the lead implementer in co-ordination with other actors. This is a good practice example of youth empowerment and stakeholder involvement. Other initiatives include a television programme called "Start-Up Nation", produced in collaboration with the Ho Chi Minh Communist Youth Union to promote youth entrepreneurship, and start-up funds initiated by the private sector.

While not much is being done for PWD entrepreneurs, they do have access to below-market interest rates on loans and are guaranteed access to BDS (under Article 33 of the country's Law on Persons with Disabilities). The Ministry of Labour, Invalids and Social Affairs and the National Co-ordination Committee on Disabilities are the main policy-making body bodies in this area. While enterprises owned by PWD are entitled to support for general businesses and SMEs, there are no dedicated strategies or specific plans for supporting this PWD entrepreneurship. In a noteworthy private initiative, the YUP! School of Entrepreneurs provides free start-up training courses for PWD.

The way forward

Strengthening the institutional, regulatory and operational environment

The enactment of the new SME Law signals a strong government commitment to promoting private-sector development. Going forward, the government could consider the following steps:

Institutional framework for SME policy

- **Further involve the private sector in the SME policy-making process.** The governing board of the EDA is exclusively comprised of public-sector

representatives, and there is little private-sector involvement in the review of programme implementation. Viet Nam could consider selecting representatives of the private sector who are connected to key industries for the country to sit on the EDA governing board. Another option could be to create a working group to review SME policy and programmes and propose new initiatives or adjustments. This working group could be comprised of private-sector representatives of key industries, as well as representatives of the main public-sector stakeholders.

Legislation, regulation and tax

- **Consider measures to reduce the VAT burden on MSMEs.** The standard time required to file VAT in Viet Nam is particularly long, which may be especially onerous for MSMEs. The government could explore ways to streamline this process for MSMEs, for instance via VAT exemptions or specialised assistance programmes.

Facilitating SME access to finance

Viet Nam has a relatively broad range of policies and programmes in place to promote SME access to finance, and the country has a high level of financial intermediation. However, some gaps remain in the regulatory framework for the provision of finance, and monitoring and evaluation mechanisms for some schemes are limited. As a result, schemes may operate sub-optimally and access to finance can still be an issue. Moving forward, the country could:

- **Develop performance review for credit guarantee funds.** Viet Nam has developed a network of CGFs, but they are undercapitalised and do not perform very well. A review could be conducted on a fund-by-fund basis, starting with those that place the highest claim on public money. The review could assess the performance of these funds and propose reforms if adjustment is possible, or disbandment if it is not.

Enhancing access to market and internationalisation

Despite reforms undertaken to promote export growth, Viet Nam has not clearly emphasised its support for local SMEs in many areas of business internationalisation. It could consider the following actions to strengthen its promotion of SMEs in this area:

- **Increase capacity-building initiatives to boost trade facilitation.** While Viet Nam has built basic infrastructure to facilitate cross-border trading, several facilities (e.g. NSW) have not been fully developed due to a lack of technical capacities. Improving the technical capacities of government agencies will foster development of trade facilitation infrastructure. Capacity-building initiatives should also be provided to Vietnamese traders, especially SMEs, in order to optimise the use of trade facilities.
- **Introduce SME-specific support in trade facilitation.** Such support has not been available. Despite improvements in the availability of information, SMEs may be unable to access and use the information if they have limited capabilities in related areas, such as internet literacy and foreign-market orientation. Concrete measures to address the capacity issue would help SMEs to make better use of the country's trade facilitation infrastructure. Introducing specific assistance or a

special mechanism for SMEs to qualify as an AEO would help them enjoy the benefits of Viet Nam's trade facilitation development.

- **Develop SME-specific programmes on e-commerce and quality standards.** Measures to promote the adoption of e-commerce and quality standards in Viet Nam currently target all firms alike, and do not consider SME-specific constraints. SMEs make up the vast majority of enterprises in Viet Nam, but they may face prohibitive resource and knowledge constraints that hinder them from utilising e-commerce platforms or adopting quality standards. Targeted measures to increase their capacity here may have an important impact on the overall adoption of e-commerce and competitiveness of Vietnamese products.
- **Develop a strategic national programme for integrating SMEs into GVCs.** This would complement SME-GVC linkage programmes backed by donor support. Viet Nam could also develop a national-scale programme to assimilate local SMEs into GVCs to help them move up in the production network. Donor programmes could be used as a benchmark for designing the national initiative.

Boosting productivity, innovation and adoption of new technologies

Viet Nam is rapidly advancing a comprehensive framework for policies and programmes that promote productivity, innovation and technological adoption, and this includes those that target SMEs. To build on this impressive performance, it could:

Productivity, technology and innovation

- **Develop a co-ordination mechanism for innovation policy and implementation.** Viet Nam does not have a clear co-ordination mechanism, like an Innovation Council, or a clear mandate for one of its agencies to co-ordinate innovation policy. Establishing an intergovernmental body with arbitrage facility, or enhancing MOST's co-ordinating role at the strategic level, could contribute to better co-ordination of policies and ensure that SMEs benefit from the range of available instruments.
- **Develop customised mechanisms to support implementation.** While most current support mechanisms can benefit the majority of SMEs, they may fail to address the specific needs of developing companies. Developing flexible instruments such as BDS or innovation vouchers could allow SMEs to access a wider range of services.
- **Strengthen the information base.** Data are currently scarce, out of date or not internationally comparable. Improving the availability of data, especially R&D statistics and other relevant information, would make it easier for policy makers to analyse the situation and take decisions based on comparisons with other countries or regions.
- **Improve monitoring by setting clear targets and KPIs**. Evaluation needs to be pragmatic, timely, transparent and actionable. Targets and KPIs will help to identify the uptake and impact of measures and will improve implementation mechanisms in the long run.

Environmental policies and SMEs

- **Develop a co-ordinating mechanism on SME greening**. Action around the greening of SMEs is conducted by different public bodies and needs to be co-ordinated. If one law requires sustainability to be a factor in procurement, the legislation governing procurement needs be consistent with this. The VEA could act as a co-ordinating body to ensure that different government plans work together.
- **Develop closer links with the private sector.** Closer links with industry could be developed via industry associations that represent SMEs. This would help to ensure that SMEs are aware of the schemes and financial incentives that support greening, and would generate input to ensure that the programmes are accessible to SMEs.

Stimulating entrepreneurship and human capital development

Viet Nam is beginning to develop policies and programmes to promote entrepreneurial skills as well as inclusive and social enterprises, yet a more structured approach could increasingly be adopted. Going forward, Viet Nam could:

Entrepreneurial education

- **Develop a national curriculum on entrepreneurship in primary education.** EL has not yet been integrated into the education system for primary students, yet nurturing entrepreneurial mindsets is not a short-term endeavour. It is important for Viet Nam to introduce elements of EL for primary students in order to benefit from increasing numbers of quality young entrepreneurs in the future.
- **Make entrepreneurship programmes for SMEs more systematic.** Viet Nam could adopt a more systematic approach to realising its targets for scaling up local start-ups. Under the National Innovative Start-up Ecosystem programme, the country aims to support a large number of start-up enterprises in the coming years. In order to meet its objectives, Viet Nam should rely on strategic actions for SMEs rather than fragmented workshops and training sessions. A national-scale entrepreneurship programme would help Viet Nam to deliver entrepreneurship education and assistance for SMEs across the country. A sound and transparent monitoring and evaluation mechanism is also needed to ensure that the programmes are moving in the right direction for realising national milestones in start-up development.

Social and inclusive entrepreneurship

- **Strengthen support for social enterprises and the target groups.** The law makes clear the government's recognition of the social enterprise concept, as well as the entrepreneurship support to which women, youth and persons with disabilities are entitled. But policies to support the sector's development remain very modest. For example, social enterprises are allowed to mobilise and receive grants and donations, but they do not benefit from preferential treatment such as tax exemptions for their business activities. Moreover, the mechanism for social enterprises to receive government subsidies or preferential public contracts is not clear. To address these issues, the government could further develop

implementation mechanisms supporting social enterprises and entrepreneurship promotion activities for the target groups.

- **Clarify the mandate for implementing social entrepreneurship support.** The government appears to lack clarity on which institution is mandated to follow up on policy development and policy implementation in the area of social entrepreneurship. Clearly defining the mandate could help develop a strategy that responds to the fact that social enterprises are provided for under the law.
- **Explore possible collaboration with the private sector.** By developing the right set of incentives (not limited to tax exemption), the government could promote the development of models for inclusive businesses and responsible business conduct. This would not only benefit social and inclusive enterprises, but could also boost implementation activities driven by private actions in collaboration with the government, helping inclusive entrepreneurs to access new markets and GVCs.

Notes

[1] It has the third largest population after Indonesia and Philippines, and the fifth largest territory after Indonesia, Myanmar, Thailand and Malaysia.

[2] Viet Nam holds the world's third largest bauxite ore reserves, predominantly in its central highlands. Bauxite is an important ingredient in the production of aluminium.

[3] With 65.4% of the population living in rural areas and agriculture accounting for around 25.5% of value added (World Bank, 2016[3]).

[4] This category accounted for around 41% of the country's merchandise exports in 2016 (MIT, 2016[2]).

[5] Which amounts to around USD 1.37 trillion.

[6] Which may benefit some firms while penalising others (particularly new entrants).

[7] This data is from 2015, and therefore uses Viet Nam's former classification of firm size.

[8] Known as *kinh tế thị trường định hướng xã hội chủ nghĩa* in Vietnamese.

[9] With the biggest drop in 1998, when net FDI inflows (BoP, current USD) dropped by 24.7% (World Bank, 2016).

[10] This was reinforced by the Communist Party's Standing Committee Resolution No.14-NQ/TW of 2002, stipulating that "the private sector is a part of the economy".

[11] Decree No. 56/2009/ND-CP, which replaced Decree No. 90/2001/ND-CP.

[12] Under this law, Decree No. 39/2018/ND-CP was recently issued. It provides a new SME definition for Viet Nam, as well as further details on the implementation of the SME Law.

[13] Under Article 35 of the Law, an MSME is defined as an enterprise "whose average number of employees contributing to social insurance does not exceed 200 per year and that either have a total investment capital that is not more than VND 100 billion (about USD 4.4 million) or a previous year's total revenue of not more than VND 300 billion." Any micro or small enterprise that has been newly-identified as an enterprise and is engaged in agricultural, forestry, fishery, industry, construction, trade or service activities would also be defined as an MSME under the new law.

[14] Decree No. 39/2018/ND-CP.

[15] Only those contributing social insurance.

[16] No. 80/2015/QH13.

[17] The company type used in this study (World Bank, 2017[10]) is the LLC, but required procedures are the same as for other types of company, but with different registration forms.

[18] SOEs absorbed 13.3% of credit to the economy in 2016 (IMF, 2017b[5]).

[19] When the country's first credit bureau, the PCB, got its license.

[20] Private credit bureaus work alongside the registry, building on its data to provide credit scoring services.

[21] And not more than ten years in the case of negative data.

[22] And specifically Decree No. 163/2006/ND-CP and Decree No. 11/2012/ND-CP.

[23] Under Joint Circular 16/2014/TTLT-BTP-BTNMT.

[24] This circular (dated 2015) was issued by MPI and stipulates priority activities for the receipt of credit from the Development Fund for small and medium-sized enterprises.

[25] The project is funded through the Japan ASEAN Integration Fund.

[26] Namely Ca Mau, Can Tho, Kien Giang and Tay Ninh.

[27] These capacity-building activities included support with product development and marketing.

[28] Under Decision No. 2545/QD-TTg.

[29] Under Decision No. 712/QD-TTg.

[30] Four sets of indicators from the 2017 OECD TFIs are used in the 2018 ASPI: *i)* Information availability; *ii)* Fees and charges; *iii)* Formalities-documents; and *iv)* Formalities-procedures, with 2 being the highest possible score for each of the indicators. In 2017, Vietnam scored 1.6 for information availability, 1.7 for fees and charges, 1.1 for formalities-documents, and 1.4 for formalities-procedures.

[31] Such as the stipulation that qualifying enterprises must possess a relatively sophisticated internal management system.

[32] Specifically, this programme was implemented in collaboration with the Centre for Supporting Industries (CSID) under the HCMC Department of Industry and Trade, and was targeted at SMEs operating in the furniture and supportive industries. It aims to anticipate the fact that social compliance standards are increasingly becoming an export requirement for SMEs.

[33] In June 2018, the National Assembly of Viet Nam announced that it would not proceed with a vote on the draft Law on Special Administrative and Economic Zones. Instead the law was to be subject to further review and revision, and would be presented at the National Assembly's next meeting (the 6th session of the 14th NA). This is due to the perceived strategic importance of the law, and concerns over the impact that it would have on the country's sovereignty and security (Saigon Times, 2018[37]).

[34] For more information about the VSV program, please visit http://www.siliconvalley.com.vn/.

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Annex A. Methodology for the 2018 assessment

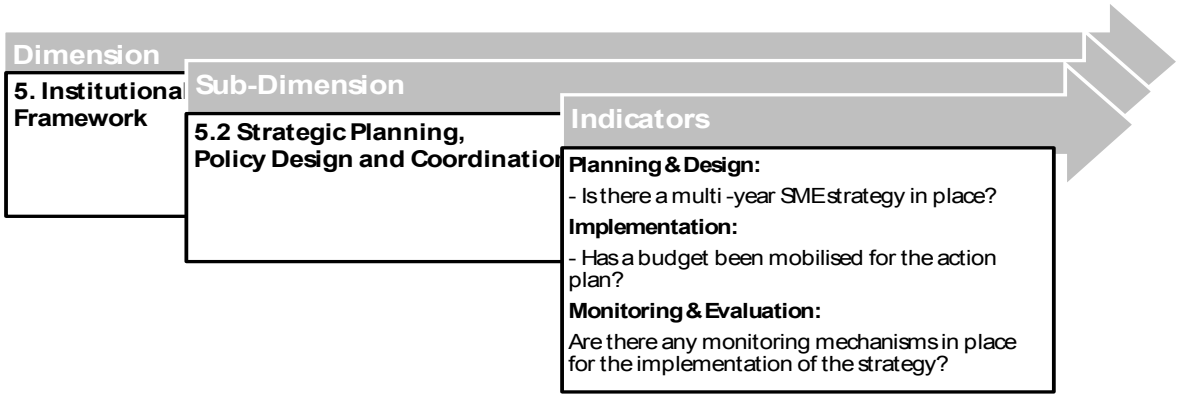
This section provides a detailed overview of the assessment methodology of the 2018 ASEAN SME Policy Index (ASPI), including an overview of how the SAP SMED 2016-2025 has been integrated into its assessment framework.

For the purpose of this publication and due to varied definitions of micro, small- and medium-sized enterprises across the region, the authors of this report typically use the collective terms "MSME" and "SME" synonymously, unless specified otherwise.

Overview of the 2018 assessment framework and scoring

The 2018 ASPI assessment grid comprises eight dimensions and 25 sub-dimensions. The sub-dimensions are further divided into thematic blocks, each with its own set of indicators. The thematic blocks are typically broken down into three components, representing different stages of the policy cycle: *Planning and Design*, *Implementation* and *Monitoring and Evaluation*. In a few sub-dimensions where this approach is not applicable, for example in relation to the SME definition or the availability of some financial instruments within the access to finance dimension, thematic blocks may differ (Figure A.1).

Figure A.1. Dimension, sub-dimension and indicator level examples



This approach – slicing scores to reflect different stages of the policy cycle – allows governments to identify and target stages where they face notable strengths or weaknesses.

The assessment framework comprises qualitative and quantitative indicators, which take the following forms:

- **Standard indicators**: These are indicators that determine the assessment score and are either binary or multiple choice indicators on qualitative policy measures

- **Core indicators**: Like standard indicators, these could be qualitative or quantitative, but due to their importance they are assigned greater weights
- **Open questions**: Open questions are included after the standard and core indicators for each sub-dimension in the assessment questionnaire. Open questions are not scored, but help to assess the overall policy context, thus informing the final score.

In the 2018 assessment, countries received graduated scores for each indicator to reflect the depth of policy development, implementation and monitoring. This was necessitated by significant regional disparities in institutional capacity (Box A.1). Scores were calculated based on weighted medians at the thematic block, sub-dimension (at times, also sub-sub-dimension) and dimension levels.

Box A.1. Innovations in the ASPI 2018 methodology

1. Given wide disparities in institutional capacity across ASEAN, the scoring system was honed to reflect the intensity of SME policies and programmes. Thus, instead of simply scoring a yes/no question as 1-yes and 0-no, the following levels were adopted for each indicator:
   - **0.0** = no activity
   - **0.33** = very little activity, significant limitations faced
   - **0.66** = an adequate level of activity, yet limitations remain
   - **1.0** = substantial activity, well-run, a case of good practice.
2. The scoring system introduces core indicators with higher weights in areas deemed crucial to enhance the SME policy environment in general or to realise the objectives of the SAP SMED in particular.
3. Overall results run on a scale of 1 to 6, compared to 0 to 5 in other regions.
4. A median is calculated at the regional level for each dimension and sub-dimension, rather than the mean, as is typical in other regions. This is to address substantial regional disparity.

Weights were applied at sub-dimension level and thematic block level in the same way for all AMS. Sub-dimension weights were assigned through a focus-group meeting in October 2017 of some 50 stakeholders, including policy makers from all ten AMS and representatives of academia, the private sector, ERIA and OECD. During this discussion, it was agreed how to assign the weights based on the importance of specific sub-dimensions for countries and the region. The most common thematic blocks – *Planning and Design*, *Implementation* and *Monitoring and Evaluation* – were assigned respective weights of 35%, 45% and 20% in order to emphasise the importance of policy implementation. This is supported by SME Policy Indices developed for other countries.

Development of the 2018 assessment framework

The development of the 2018 assessment framework was informed by two instruments: the generic OECD SME Policy Index methodology and the ASEAN SAP SMED 2016-2025. Pre-existing data collected by the OECD, ERIA and other international organisations have also been incorporated as a thematic block in a number of cases. The

framework was also developed in reference to the ERIA-OECD ASEAN SME Policy Index 2014.

The methodology for the report development was agreed upon by the ASEAN Coordinating Committee on Micro Small and Medium Enterprises (ACCMSME) and experts from the region. The methodology for this report was developed with the support of the ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam).

The OECD SME Policy Index methodology

The SME Policy Index is an analytical tool developed by the OECD, in co-operation with international partners, to map SME policies and programmes and to assess alignment with good practice over time. The index was developed for application in non-OECD partner countries within the context of the organisation's external partner programme. Since its first application in 2007, it has been applied in 32 economies and four regions worldwide.

The main objective of the index is to gather a comprehensive body of information on the policy inputs in each country, to harmonise this information and to transform what are largely qualitative inputs into quantitative indices that can be compared across time and across different economies and regions. By regularly repeating the assessment, typically every three to four years, participating economies can assess their progress in aligning to internationally-recognised good practice, in responding to the needs of their SME population and in converging towards a common set of objectives outlined at regional level.

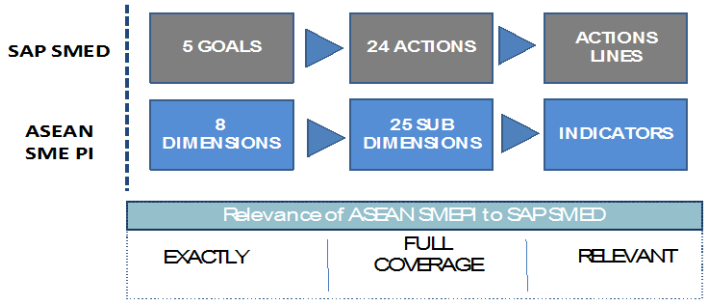
All SME Policy Index assessments share a common methodology. For each regional application, however, the methodology is adapted to reflect the regional priorities of the economies in question in order to anchor the assessment to the regional policy debate. The assessment is primarily conducted through a questionnaire (the "assessment grid"), which is developed by the OECD and partner organisations, and informed by expert and stakeholder feedback. The framework is comprised of "dimensions" (policy areas), which are further broken down into component "sub-dimensions."

A set of indicators is identified for each sub-dimension. Most of these are qualitative, but a number of indicators are quantitative, aimed at measuring the "intensity" of policy interventions. The results of the assessment are expressed as numerical indices (scores) on a scale of 0 to 5 – or, in the case of this 2018 ASEAN assessment, on a scale of 1 to 6 – and they are calculated at both sub-dimension and dimension level. To calculate these results, indicator scores are weighted based on perceived importance and relevance.

Integration of the 2016-2025 SAP SMED

The SAP SMED 2016-2025 specifies five strategic goals, 12 desired outcomes and 62 action lines for SME development in ASEAN. The 2018 assessment framework was developed in reference to the priorities identified in the SAP SMED in order to provide policymakers with an additional tool to monitor its implementation.

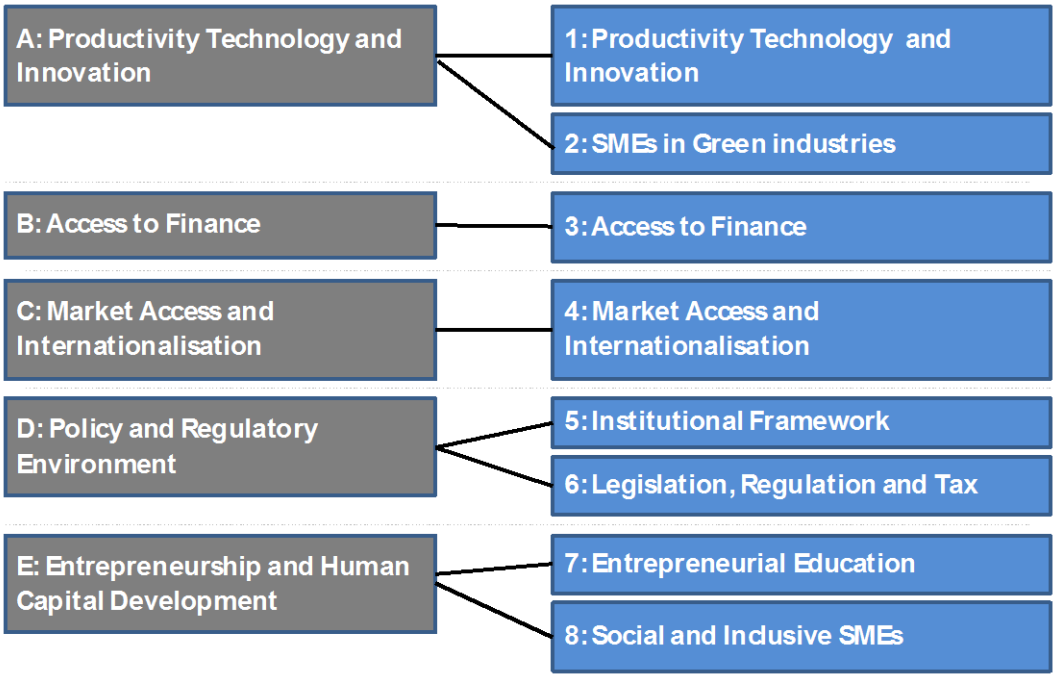
Figure A.2. Relevance of ASPI to SAP SMED



The 2018 assessment's dimensions and sub-dimensions are directly linked to the 2016-2025 SAP SMED's goals and actions, striving to integrate as many action lines as possible.

Figure A.2 and Figure A.3 illustrate the correspondence between the 2018 assessment and the 2016-2025 SAP SMED.

Figure A.3. Reference of SAP SMED goals to ASPI dimensions



Integration of pre-existing data from other sources

Some thematic blocks take the form of existing OECD, World Bank, and ERIA data (Table A.3). The data for some of these indicators were converted into 4-level (0.33.66) or 5-level (0.25.5.75) scales. The intervals for each level were determined based on two considerations: *i)* where the indicator had already been used in other OECD SME Policy Index assessments, this scaling system was duplicated (mainly taking the 5-level scale form); *ii)* where the indicator was used for the first time, a 4-level scale was applied. In

the latter case, the interval is determined by the standard deviation of the indicator across ASEAN.

Table A.3. ASPI indicators from supplementary data

Sub-dimension or sub-sub-dimension	Indicator(s)	Scale used	Data Source
1.3 Productive Agglomerations and Clusters Enhancement	ERIA FIL rate 2014, improvement in the foreign investment liberalization score from 2011 and 2014	Actual scores	ERIA foreign investment liberalisation rate (2011 and 2014). Please refer to Intal (2015).
3.1.1 Legal Regulatory Framework for Commercial Lending	All indicators in Thematic Block 2: Creditor Rights	Actual scores	World Bank *Doing Business* 2018. http://www.doingbusiness.org/data/exploretopics/getting-credit
3.1.3 Credit Information Bureau	All indicators in the sub-sub-dimension	Actual scores; 4-level scale for the coverage indicator	World Bank *Doing Business* 2018. http://www.doingbusiness.org/data/exploretopics/getting-credit
4.5 Trade Facilitation	All indicators in Thematic Block 1: OECD Trade Facilitation Indicators	4-level scale	OECD Trade Facilitation Indicators. https://sim.oecd.org/default.ashx?lang=En&ds=TFI&d1c=asean&cs=asean
6.3 Company Registration	All indicators under Thematic Block 1: Performance	5-level scale (OECD global methodology)	World Bank *Doing Business* 2018. http://www.doingbusiness.org/data/exploretopics/starting-a-business
6.4 Ease of Filing Tax	All indicators in the sub-dimension	4-level scale	World Bank *Doing Business* 2018. http://www.doingbusiness.org/data/exploretopics/paying-taxes

Source: International statistics of World Bank *Doing Business* 2018, OECD Trade Facilitation Indicators and ERIA Foreign Liberalisation Rate.

Wherever possible the 2018 assessment strove to supplement the framework's indicators with additional quantitative information such as the budget allocated, the number of participants in the activity and so on. Due to limited data or comparability, these indicators were often unscored, but were used to inform the scoring of other indicators as well as the assessment write-up.

On account of significant regional disparities, some sub-dimensions and/or indicators were regarded as being inapplicable for a number of ASEAN countries. In these cases, the country was not scored for the sub-dimension and/or indicator in question, and weights were adjusted proportionally. In particular:

- **Brunei Darussalam** and **Singapore** are not scored on sub-sub-dimension 3.2.2 (on the availability microfinance instruments) or sub-dimension 5.3 (on measures to tackle the informal economy), given their small territory and high income.
- **Singapore** is also not scored on the indicator pertaining to the presence of a credit guarantee scheme, given the country's high level of financial sector development and the fact that it provides alternative risk-sharing instruments.
- **Malaysia** is not scored on sub-dimension 5.3 (measures to tackle the informal economy), given the relatively marginal level of informality in the country.

The methodology has undergone significant alterations since the 2014 assessment, and therefore only limited comparisons with the previous assessment are possible. These changes have been indicated elsewhere in the report, and include the addition of new indicators, the incorporation of different dimensions and sub-dimensions, the application of new weights, a new graduated approach to scoring and the use of the median to calculate regional scores, rather than the mean that was used previously.

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SME Policy Index

ASEAN 2018

BOOSTING COMPETITIVENESS AND INCLUSIVE GROWTH

The *SME Policy Index* is a benchmarking tool for emerging economies to monitor and evaluate progress in policies that support small and medium-sized enterprises. The *ASEAN SME Policy Index 2018* is a joint effort between the Economic Research Institute for ASEAN and East-Asia (ERIA), the Organisation for Economic Co-operation and Development (OECD) and the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME). The report is the outcome of work conducted by the ten ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam).

Divided into eight policy dimensions, it builds on the previous edition of the *ASEAN SME Policy Index 2014*. The current edition presents an updated methodology which makes this document a powerful tool to assess the strengths and weaknesses that exist in policy design, implementation, and monitoring and evaluation for SMEs, and allows for a benchmarking of the level to which the ASEAN Strategic Action Plan for SME Development (SAP SMED) 2016-2025 has been implemented. Its objective is to enhance the capacity of policy makers to identify policy areas for future reform, as well as implement reforms in accordance with international good practices.

The report provides a regional perspective on recent developments in SME-related policies in Southeast Asia as well as in individual ASEAN Member States. Based on this analysis the report provides a menu of concrete policy options for the region and for the individual countries.

Consult this publication on line at ***https://doi.org/10.1787/9789264305328-en***.

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