

# Enabling Entrepreneurship & Developing SMEs

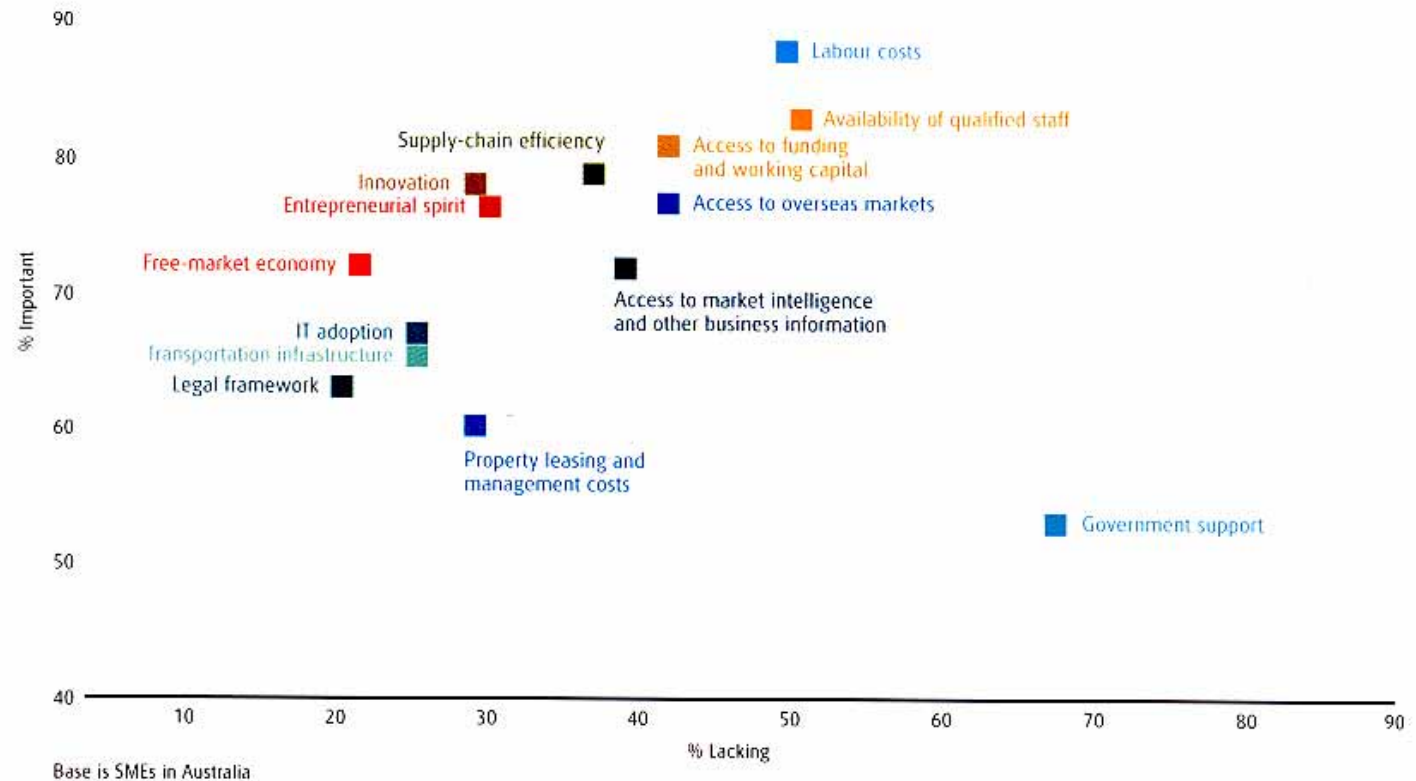
By  
George Abraham  
Chairman  
SME Development Committee  
CACCI  
01 Nov 2006  
Taipei, Taiwan

## Contributions and obstacles to SME competitiveness - Australia

How important are each of the following factors in contributing to SME competitiveness in Australia?

Which of the following factors do you consider to be lacking in Australia?

- Labour costs and availability the most important factors and biggest obstacles to competitiveness
- Access to funding and capital, supply-chain efficiency and access to overseas markets big hurdles as well
- Legal framework largely present



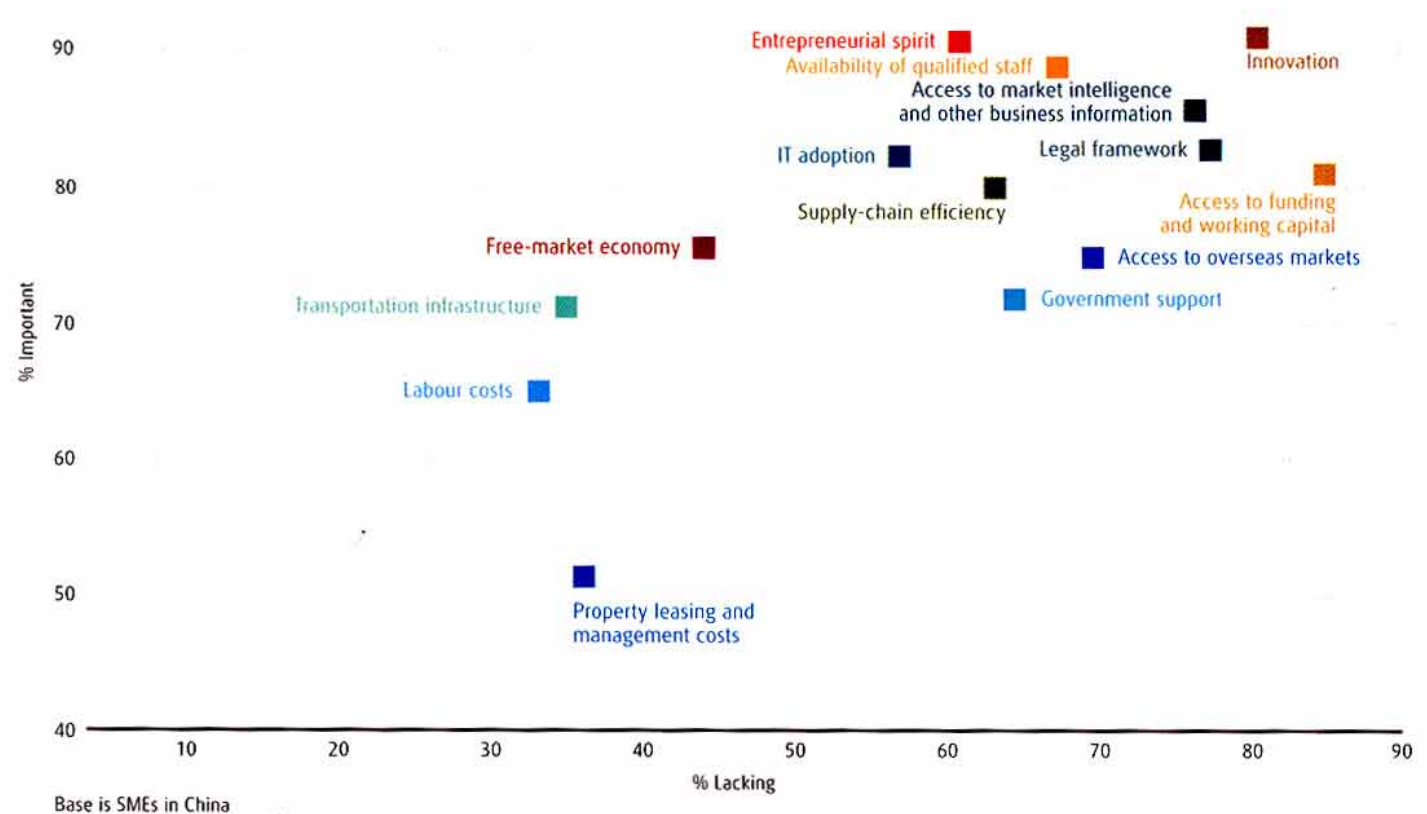
Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004

## Contributions and obstacles to SME competitiveness - China

How important are each of the following factors in contributing to SME competitiveness in China?

Which of the following factors do you consider to be lacking in China?

- Access to funding and working capital highly lacking
- Lack of innovation, legal framework and market intelligence also obstacles
- Labour costs not a problem, but availability of qualified staff an issue



Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004

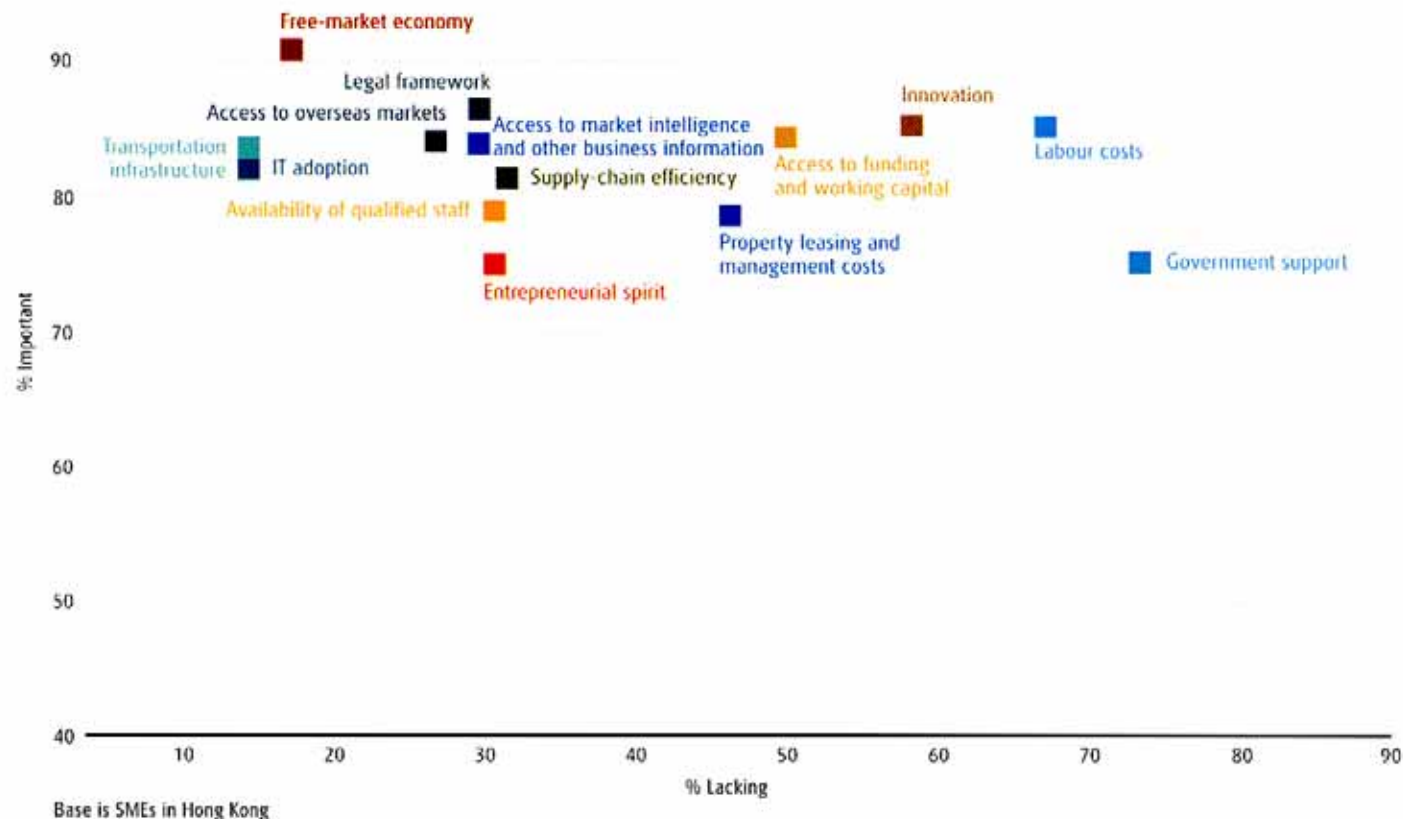
George Adelman, Chairman, CADC/SME Development Committee

## Contributions and obstacles to SME competitiveness - Hong Kong

How important are each of the following factors in contributing to SME competitiveness in Hong Kong?

Which of the following factors do you consider to be lacking in Hong Kong?

- Labour costs the biggest obstacle, government support most lacking
- Lack of innovation and access to capital also big problems
- Property leasing and management costs much more important than in other markets



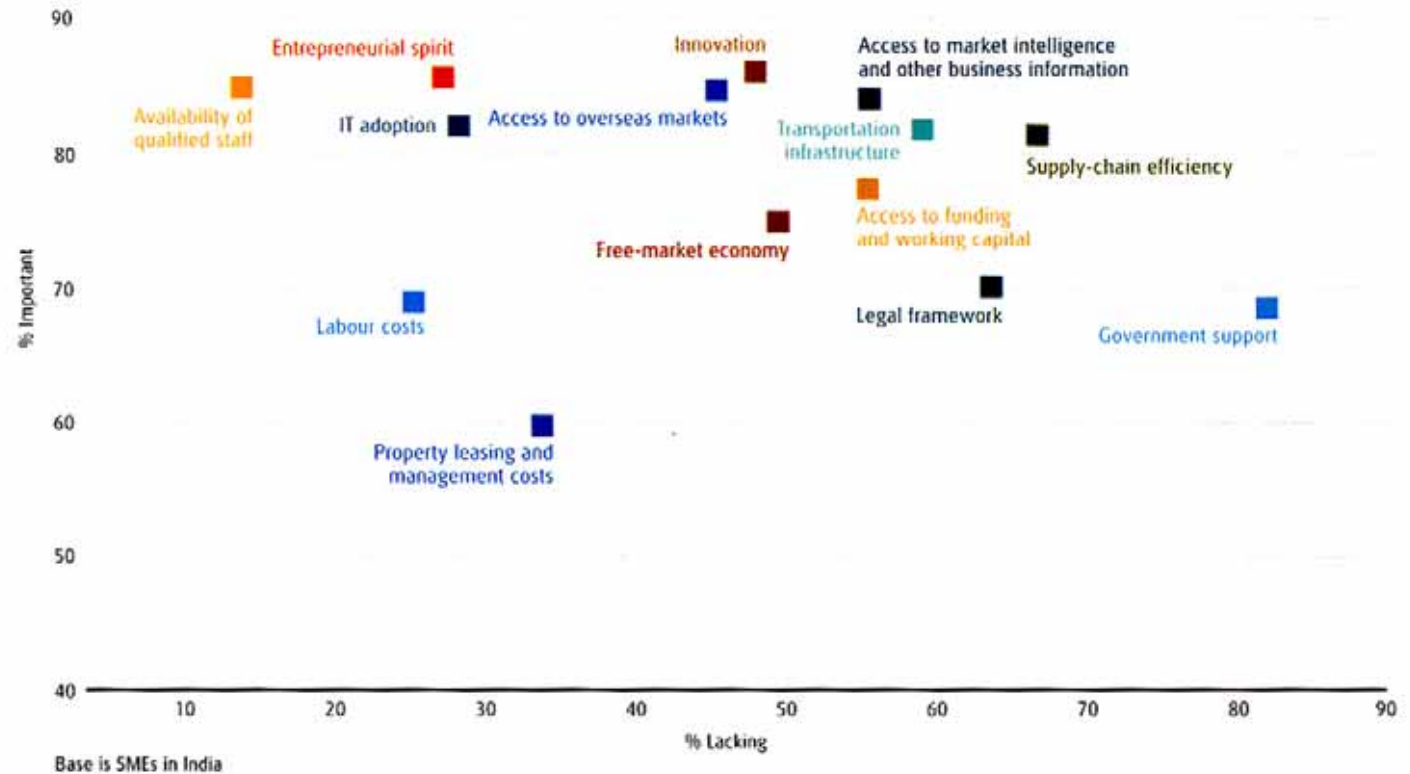
Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004  
 George Jordan, Chairman, CDO/SME Development Committee

## Contributions and obstacles to SME competitiveness - India

How important are each of the following factors in contributing to SME competitiveness in India?

Which of the following factors do you consider to be lacking in India?

- Infrastructure and supply chains the biggest problems
- Access to capital and information also big hurdles
- Government support and legal framework lacking



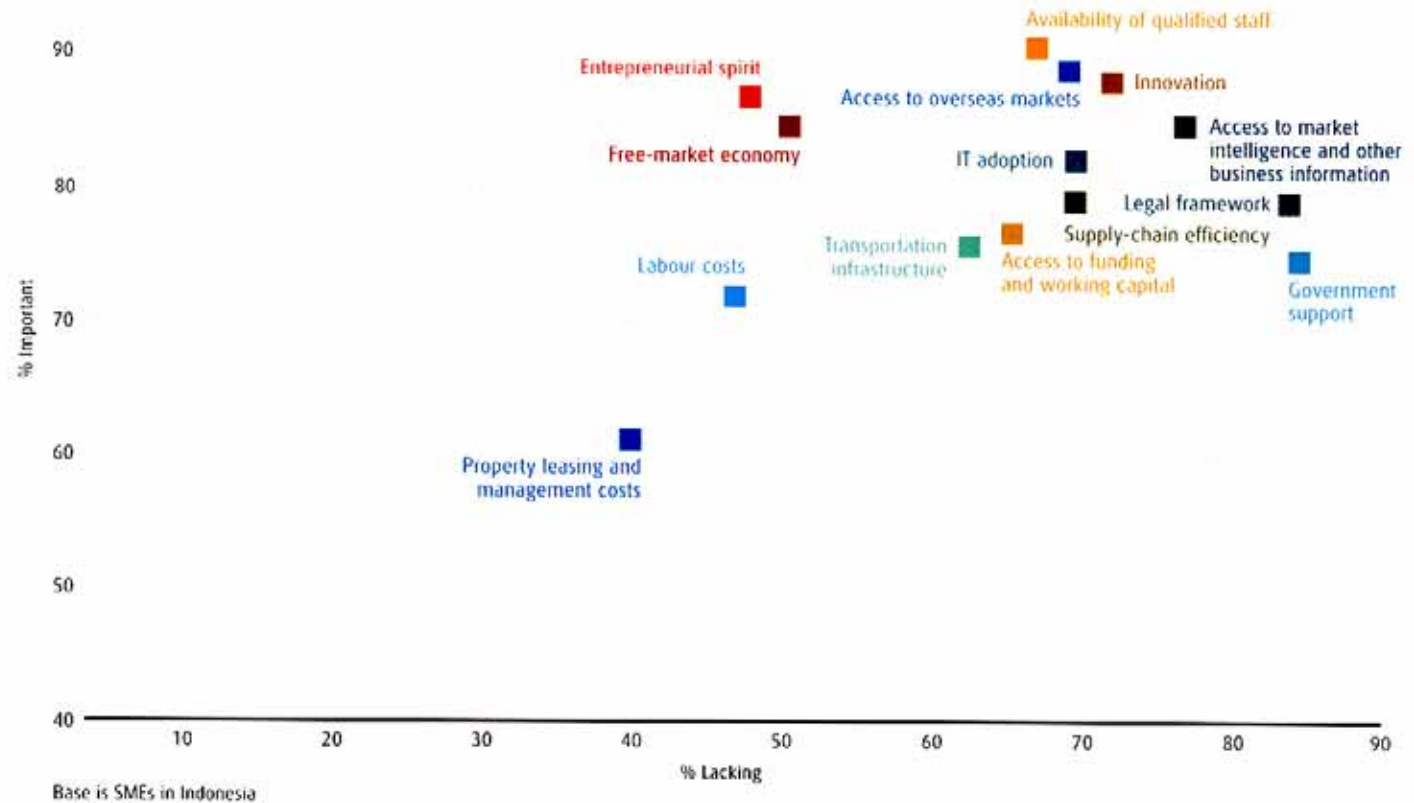
Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004  
 George Jordan, Chairman, C.D.C. SME Development Committee

## Contributions and obstacles to SME competitiveness - Indonesia

How important are each of the following factors in contributing to SME competitiveness in Indonesia?

Which of the following factors do you consider to be lacking in Indonesia?

- Access to overseas market and innovation the biggest obstacles
- Government support and legal framework highly lacking
- Property and labour costs the only non-factors



Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004

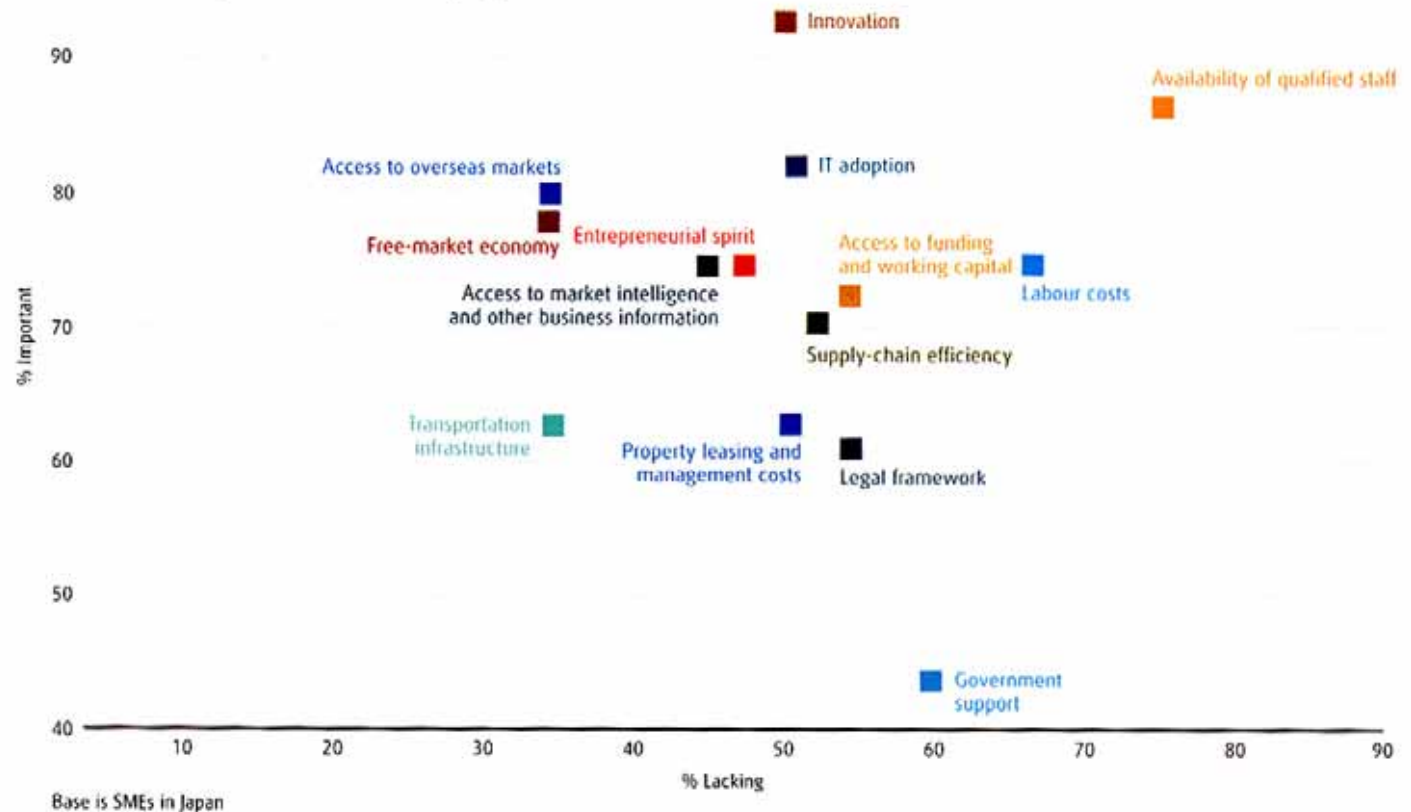
George Adnan, Chairman, CDO/SME Development Committee

## Contributions and obstacles to SME competitiveness - Japan

How important are each of the following factors in contributing to SME competitiveness in Japan?

Which of the following factors do you consider to be lacking in Japan?

- Availability of qualified staff a big obstacle, followed by labour costs
- Innovation highly important
- Government support both lacking and unimportant



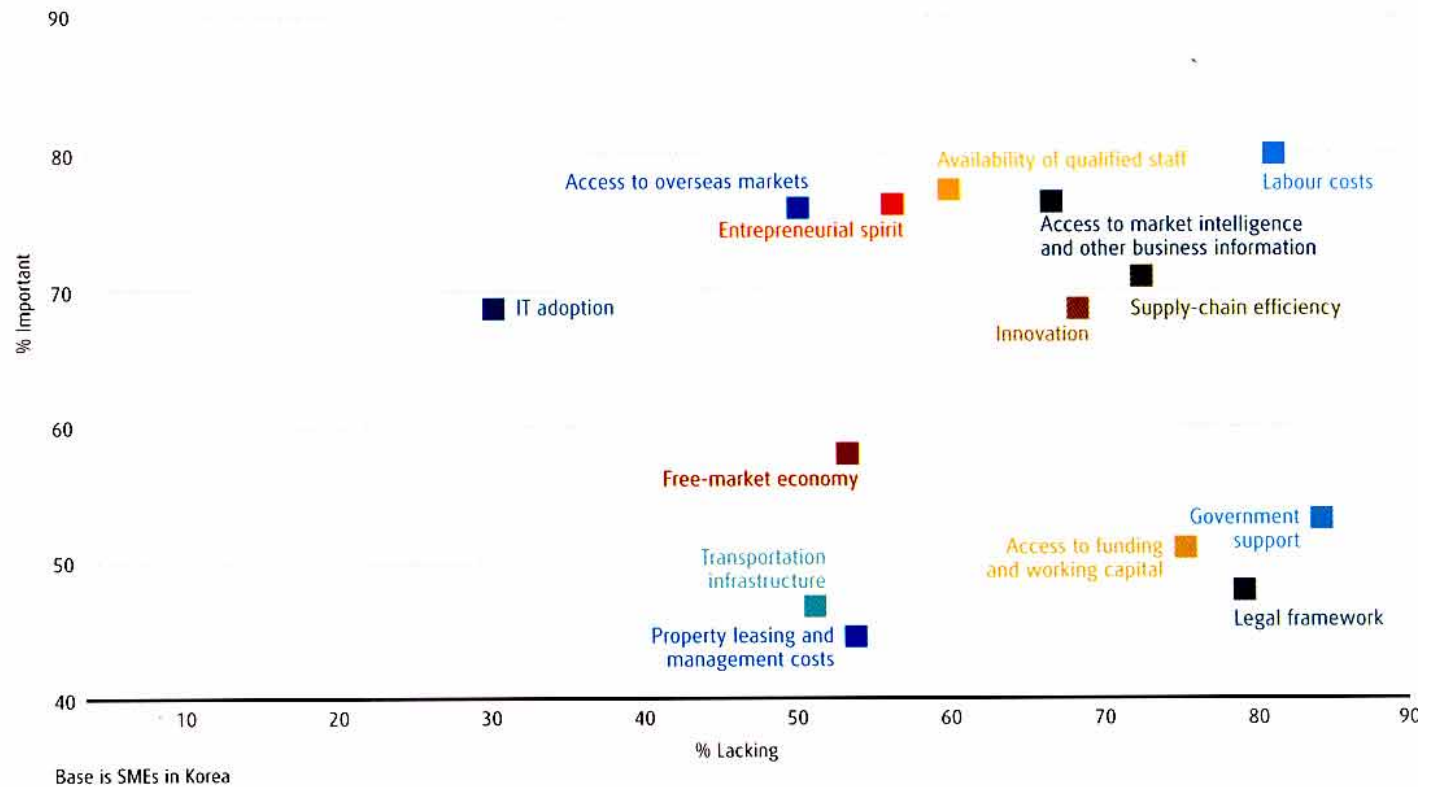
Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004  
 George Adelman, Chairman, C-DO/SME Development Committee

## Contributions and obstacles to SME competitiveness - Korea

How important are each of the following factors in contributing to SME competitiveness in Korea?

Which of the following factors do you consider to be lacking in Korea?

- Labour costs the biggest challenge
- Government support, legal framework and access to capital lacking
- Property leasing and management costs and transportation infrastructure unimportant

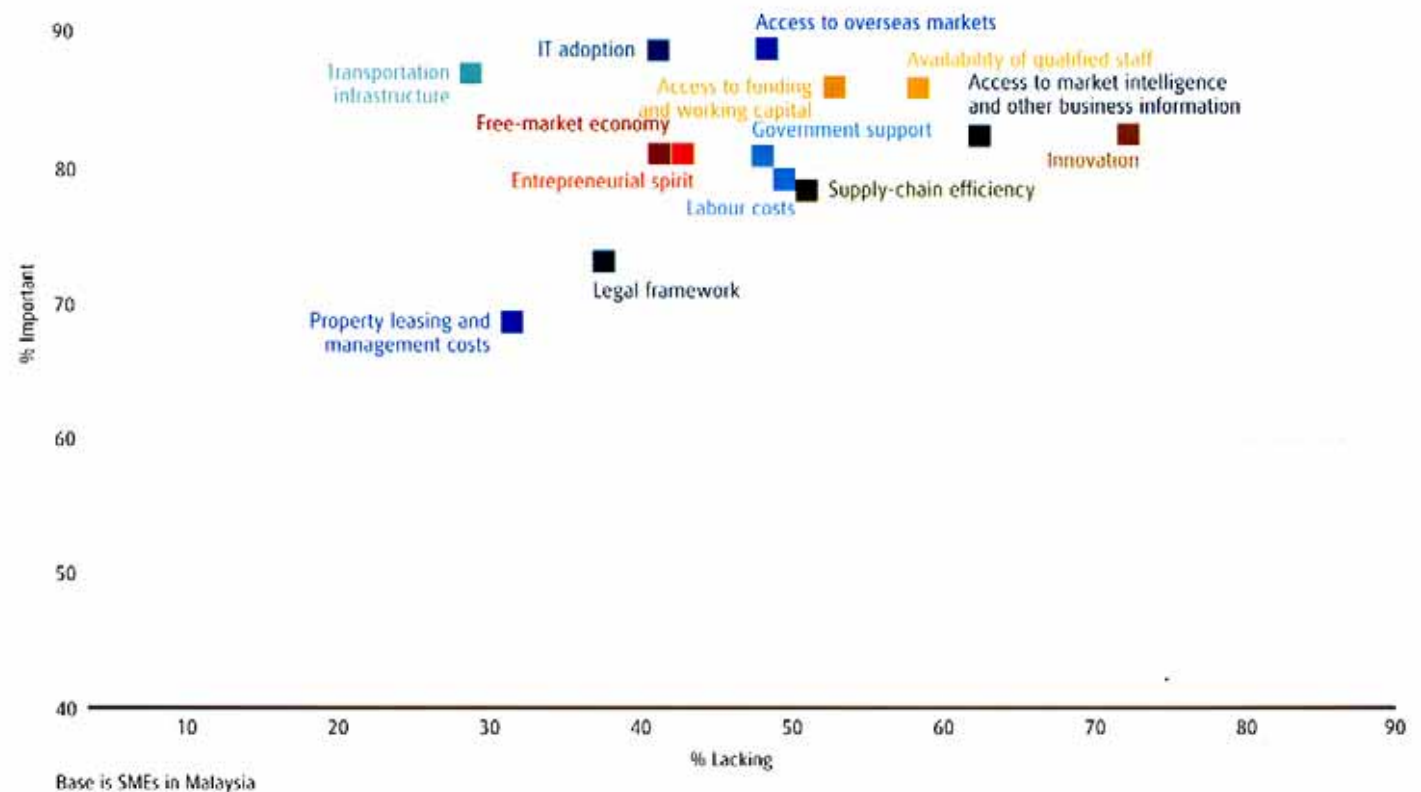


## Contributions and obstacles to SME competitiveness - Malaysia

How important are each of the following factors in contributing to SME competitiveness in Malaysia?

Which of the following factors do you consider to be lacking in Malaysia?

- Innovation a major hurdle
- Access to funding, availability of qualified staff and access to information also big issues
- Property leasing and management costs not a problem



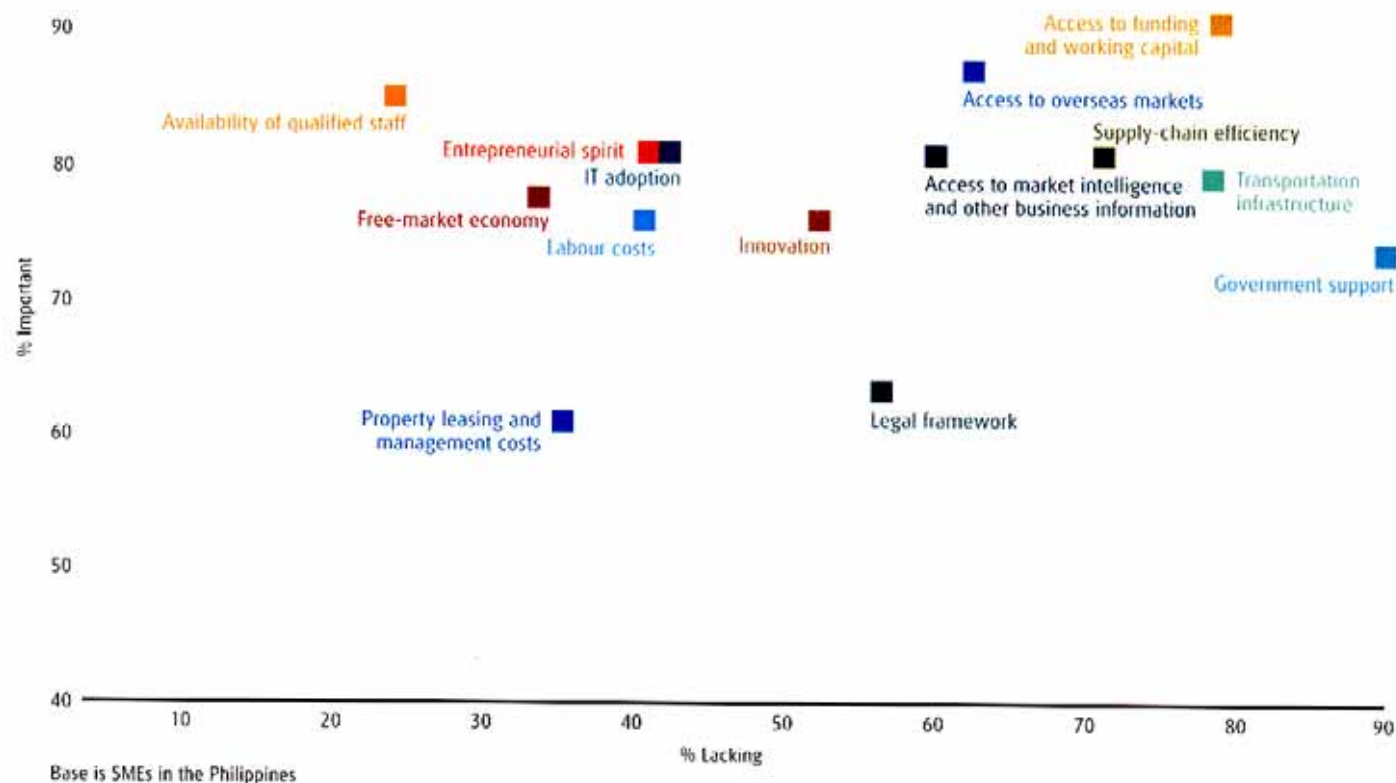
Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004  
 George Adnan, Chairman, CDO-SME Development Committee

## Contributions and obstacles to SME competitiveness - Philippines

How important are each of the following factors in contributing to SME competitiveness in the Philippines?

Which of the following factors do you consider to be lacking in the Philippines?

- Government support highly lacking
- Lack of access to funds and working capital a big obstacle
- Transportation infrastructure and supply-chain efficiency both challenges

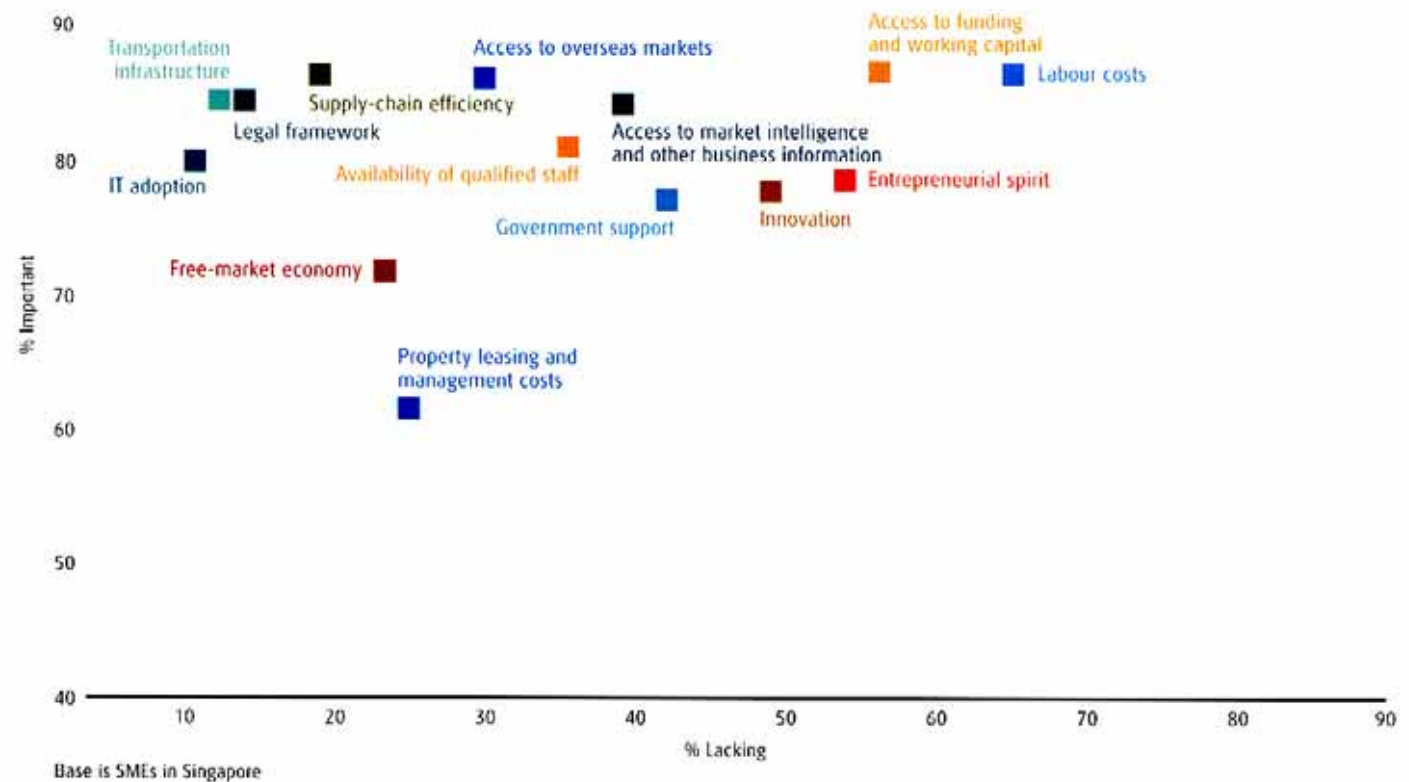


## Contributions and obstacles to SME competitiveness - Singapore

How important are each of the following factors in contributing to SME competitiveness in Singapore?

Which of the following factors do you consider to be lacking in Singapore?

- Labour costs a problem
- Access to capital and entrepreneurial spirit also lacking
- IT widely adopted



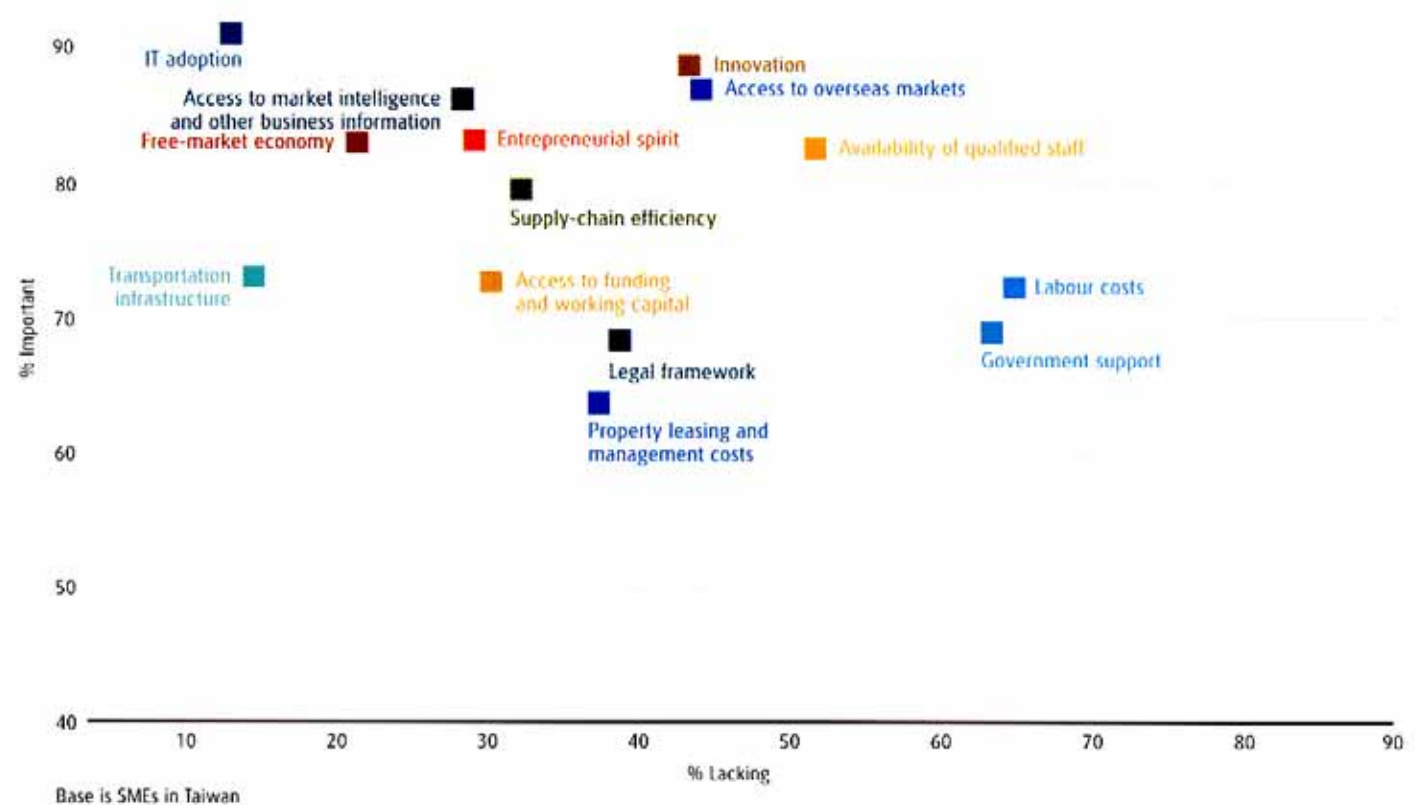
Source : UPS ASIA BUSINESS MONITOR SURVEY ON "SMEs" - SEPTEMBER 2004  
 George Johnson, Chairman, CDO/SME Development Committee

## Contributions and obstacles to SME competitiveness - Taiwan

How important are each of the following factors in contributing to SME competitiveness in Taiwan?

Which of the following factors do you consider to be lacking in Taiwan?

- Labour costs high, government support highly lacking
- Innovation and access to overseas markets very important
- IT adoption important, but common

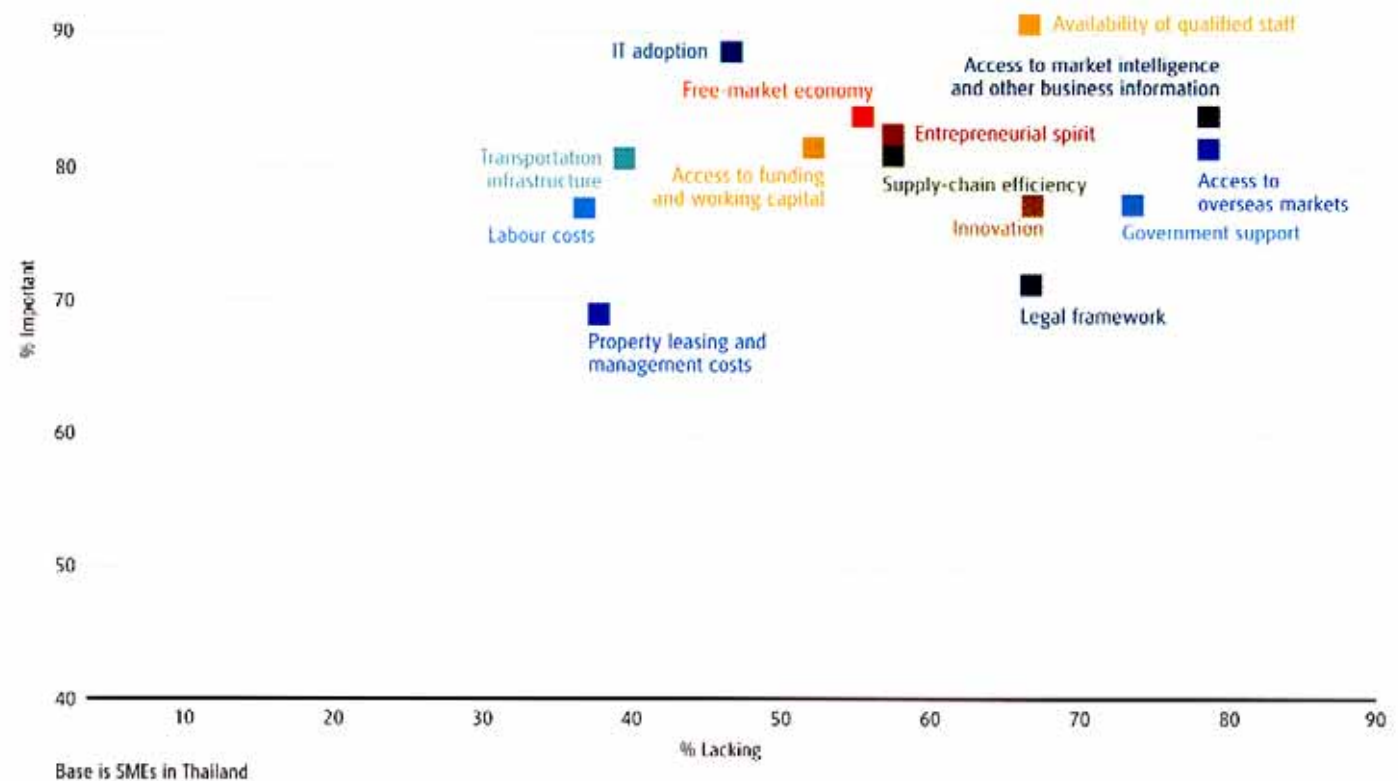


## Contributions and obstacles to SME competitiveness - Thailand

How important are each of the following factors in contributing to SME competitiveness in Thailand?

Which of the following factors do you consider to be lacking in Thailand?

- Availability of qualified staff and access to information and overseas markets big obstacles
- Government support, innovation and legal framework all lacking
- Property leasing and management costs not a concern



# Old vs New Economy

OLD	NEW
Focus on domestic markets	Focus on regional and global markets
Aversion to risk	Greater risk taking
Performance based on price strategies and cost savings	Mergers, collaborations and alliances for market dominance
Greater number of branches	Restructuring for efficiency and reduction of operating costs
Rigid management (older workers)	More flexible and dynamic (younger workers)

# Old vs New Economy

OLD	NEW
Interpersonal business dealings	E-business dealings
Tried and trusted methods	Enterprise, innovation, creativity and change for improvement
Top-heavy, centralized management	Flexible, decentralized management
Lifelong employment	Lifelong employability

# Old vs New Economy

OLD	NEW
Specialisation of tasks	Multi-tasking
Cash based remuneration	Incentive based remuneration
Reactive workforce, unwilling to accept change	Proactive workforce, willing to adapt to new challenges

# Challenges for SMEs

- Future shaped by globalisation & liberalisation issues
  - \*Market liberalisation
  - \*Increasing competition
  - \*New technologies
  - \*Business Operations

# Challenges for SMEs

- Need to resolve issues on technology & financial management
  - \* **Management**: lack of knowledge & entrepreneurial skill
  - \* **Market Access**: lack of quality system to tap new opportunities
  - \* **Collateral**: lack of assets or contribution limit the financing quantum
  - \* **Technology**: mostly rely on traditional production techniques
  - \* **Cash flow**: inadequate cash flow management
  - \* **Funding Access**: difficulty to get access to funding

# Financing for SMEs

## Small Business Loans

- Small amounts (shorter term)
- Loans for small (micro) business
- Non-collateral loans
- Mid- & long-term loans
- Loans for business start-ups

# Financing for SMEs contd.

## Policy Based Finance

- Direct lending & investment
- Entrust lending
- Credit guarantee
- Securitization

# Financing for SMEs contd.

## Organisations to play bridging role

- Asymmetric information
- Start-ups, Venture business
- Business Innovation
- Business in difficulty
- Enhance advisory capabilities of Financial Institutions for SMEs
- Develop computerised statistical reporting system

# Financing for SMEs contd.

## Policies & Developments to Enhance SMEs

- Re-define SMEs in various sectors for Targeted Development
- Establish a comprehensive national SME database
- Enhance management & publication of SME statistics
- Build capacity through coordinated training and HRD for SMEs

# Financing for SMEs contd.

## New Initiatives to Improve Access to Finance for SMEs

- Establish an SME Financial Institution
- New Trade Financing Arrangements for SMEs
- Expand role of SME units in local banks
- Allocation of Special Funds
- Small Debt Resolution Scheme

# Financing for SMEs contd.

## Publish data on SME role in:

- Forward & backward industrial linkages
- Provision of critical parts & components
- Enhancing and supporting export-led growth

# Financing for SMEs contd.

- Banks need to tackle credit availability:
  - Understand SMEs
  - Credit Access
  - Response
  - Collateral Demand
  - Funding Extension

# Financing for SMEs contd.

## ■ Banks need to:

- \* Build a customer-oriented culture
- \* Organise functions and processes to respond to needs of the market
- \* Focus on elements that build value for shareholders and SME clients
- \* Go beyond banking to handholding
- \* Diversify income sources and invest in allied undertakings that complement services to SMEs

# Financing for SMEs contd.

- **Banks need to:**
  - \* Help SME borrowers strengthen their operations and build their capacity to pay
  - \* Develop loan products suitable to their diverse financial needs
  - \* Keep loan documentation simple and understandable
  - \* Provide non-financial assistance & support

# Financing for SMEs contd.

- **Banks need to:**

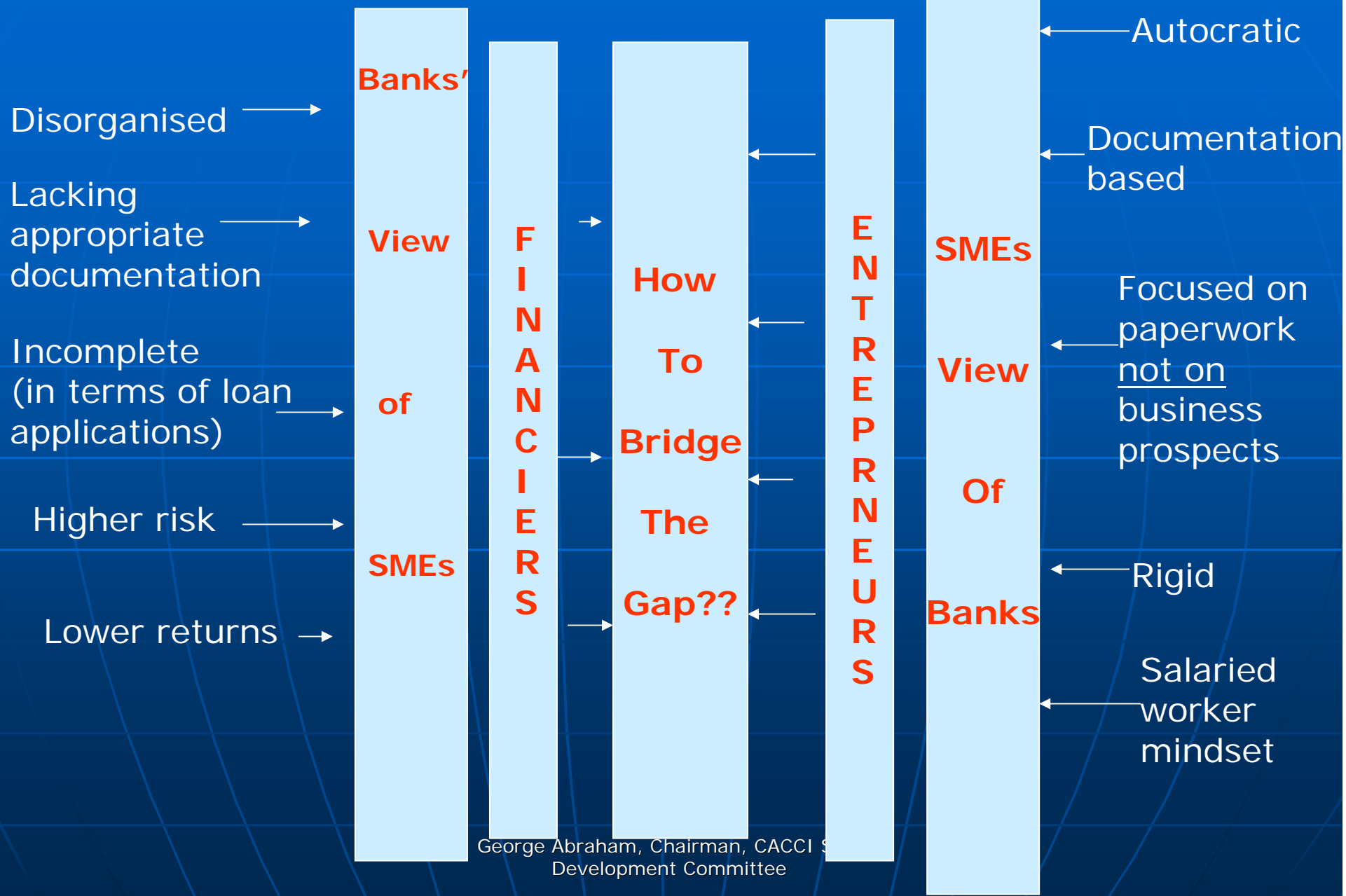
- \* Be flexible in setting amortisation schedules to match SME cash flows

- \* Put in place loan process improvements including credit scoring system

- \* Train lending officers in new approaches and global best practices

# Financing for SMEs contd.

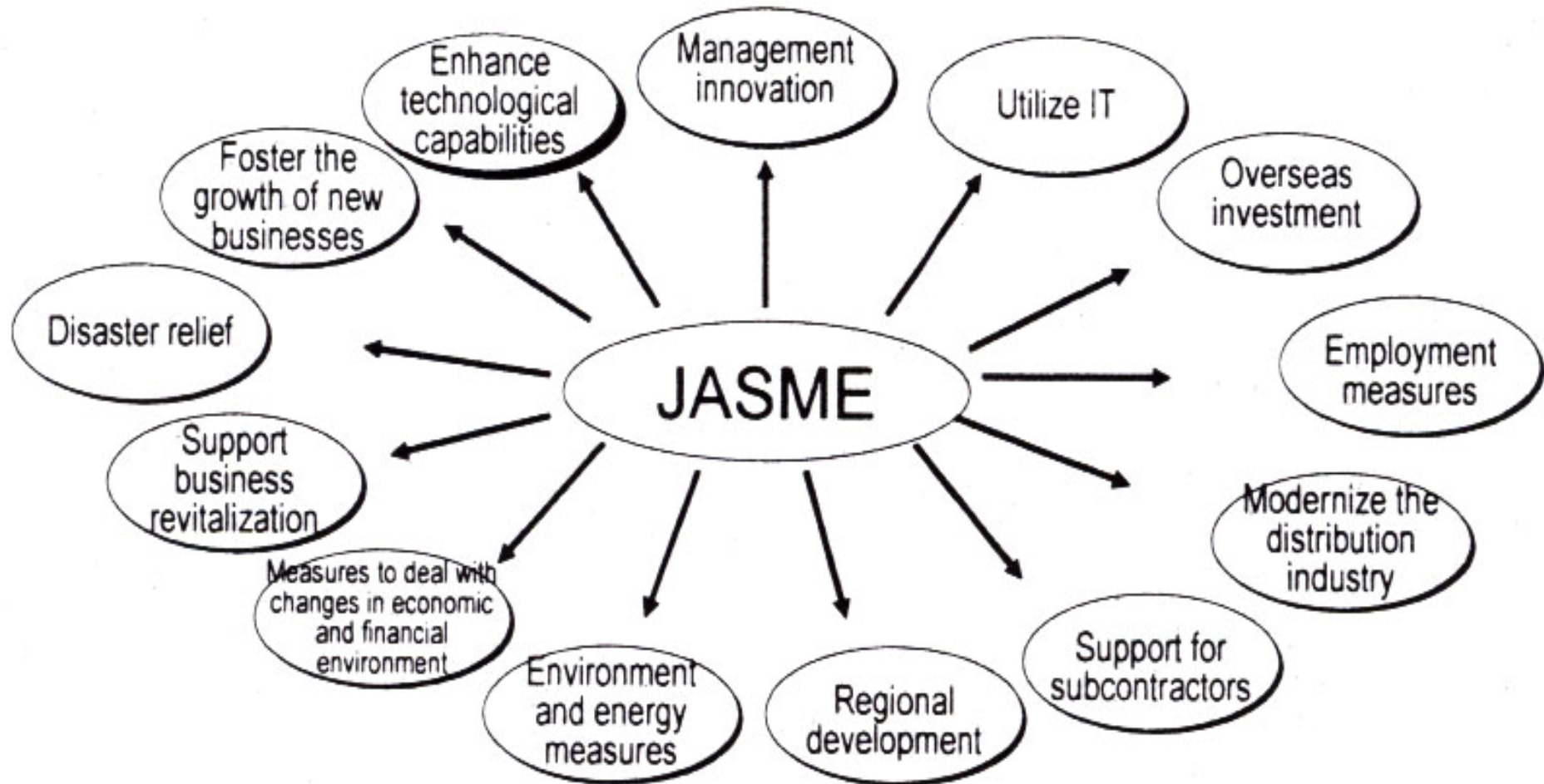
- **Consulting Services for SMEs**
  - \* Provide effective & useful information
  - \* Help find and nurture business opportunities through a client network
  - \* Provide appropriate advice as an expert in SME finance



---

# Loan Programs

## - Special-purpose Loans -



# Consulting Services



# Features of SME Finance

## ■ SME Financing Patterns

- SMEs with less than 20 employees usually have less than 20% of capital from equity, the rest would be from borrowings
- SMEs with more than 300 employees usually have less than 40% of capital from equity, the rest would be from borrowings

# Features of SME Finance

## ■ Terms of SME Financing

- SMEs unable to borrow even if they want to (usually loan is refused to reduced)
- The lesser the number of employees, the more difficult it is to obtain loans
- Smaller enterprises are charged higher short-term borrowing rates
- Security and guarantees are required by SMEs and most are personal guarantees by the directors

# Features of SME Finance

## ■ Asymmetry of Information in SME Finance

- Financial institutions earn income if principal and interest are paid over a long period by borrowers
- Therefore, accurate information on borrowers is crucial
- SME finance requires smaller loans compared to larger enterprises. It is therefore difficult to properly assess borrowers and monitor them after a loan has been made

# Features of SME Finance

- Rating analysis and information on SMEs is scarce, making it difficult to assess the borrowers' quality and behavior after lending
- Smooth SME Financing is therefore hindered (**Banks**: little information disclosed or unreliable financial statements or difficulty in assessing qualitative information)

# Features of SME Finance

- Solution: SMEs must use registered tax accountants for their financial information:
  - Accounts audited by public accountants
  - Be advised by certified public accountants
  - Attachment of documents by licensed tax accountants
  - Be advised by management consultants or SME business consultants
  - Publish accounting documents

**Disclosure leads to smooth financing**

# Features of SME Finance

- Action required of Banks to facilitate SME Finance
  - Consider SME financing as a scene of future activity and increase the proportion of business lending directed to SMEs
  - Reorientate views on lending to SMEs by:
    - Raising their loan investigation facilities
    - Reassessing relationships with SMEs
    - Developing new financing techniques

# Features of SME Finance

- Better understanding of SME positions:
  - “Normal” enterprises
  - Enterprises with more assets than liabilities making an ordinary loss
  - Enterprises with more liabilities than assets and making an ordinary profit
  - Enterprises with more liabilities than profits and making an ordinary loss

# Features of SME Finance

- Recognition by Banks that:
  - SMEs financial status according to their financial statements in any particular year improves and deteriorates
  - Currents financial status does not remain static and does not affect future rate of growth in sales
  - There is therefore a need to strengthen "ability" to "judge" an enterprise effectively not just on financial statements in order to limit losses and raise earnings

# Features of SME Finance

- Other forms of finance:
  - Inter-enterprise credit
    - Directors
    - Directors' Families
    - Employees
    - Co-operation with capital interest
    - Customers
    - Suppliers
    - Venture Capitalists

# Features of SME Finance

- Economies of scale by SME business collaboration activities
  - Joint R&D
  - Joint Purchasing
  - Joint Scales
  - Joint Production
  - Joint Logistics
  - Joint receipts of orders
  - Joint advertising
  - Joint introduction of IT
- Collaboration between enterprises, universities and government

# Entrepreneurship Development Requirements

- One Stop Agency for SMEs/Entrepreneurship
- Government (Stat Board offices) as partners of businesses
- Equity Financing programme to focus on non-technology related businesses
- A Trade Insurance programme
- Programmes to encourage more support from angel investors
- Short term teacher attachments with SMEs

# Workforce

- Employment of older workers
- Workfare Programmes (keeping a job & upgrading)
- Employers' attitude towards older workers – reskilling and retraining

# Competition Law

- Designated entrepreneurial areas for SMEs?
- Protection for small firms from large firms
- Linkages between large and small firms

# Research, Innovation & Enterprise

- Need to link research institutes in biotechnology, electronics, materials, infocomm, computing and manufacturing technology with SMEs
- Need to integrate and transform output of researchers and ideas of innovators into successful products and services that meet the needs of local, regional & global customers

# Tapping into China & India

- Helping SMEs become suppliers to manufacturers in these areas
- Helping SMEs tap into the high end consumption market from these areas
- Plans for tapping China & India markets should include SME related businesses linked to larger companies.  
(Eg: subcontracting)

# Support for Start-ups & Business Innovation

- Support for development of business incubator facilities across regions
- Establishment of business incubator facilities by government
- Establishment of university affiliated business incubator facilities

# Business Support by SME Support Centre

- Advisory services
- Provision of Experts
- Business Support Courses
- Support for start-ups and business innovation
- Provision of former employees of enterprise
- SME HRD network
- Promotion of industrial clusters

# ***CREATE A PRO ENTERPRISE BUSINESS ENVIRONMENT***

- Government should be an “enabler” by creating a climate for entrepreneurship
- “Competition law” could be introduced so that Large Companies (LCs) will not compete with SMEs in projects for government works worth less than an agreed fixed amount.
- LCs could work with SMEs to compete for projects overseas.

## ***CREATE A PRO ENTERPRISE BUSINESS ENVIRONMENT***

- LCs should use SMEs as sub contractors and build up SME expertise through such partnerships
- A fixed percentile of start up cost could be made tax deductible for SMEs that seek to go abroad
- A database could be created where the Government lists the services it wants to outsource for SMEs to access

# ***FOSTER ENTERPRISE DEVELOPMENT***

- Government assisted services can include:
  - Sector-wise database of SME information and problem-solving for reference
  - Assistance in disbursement of long term and emergency funds
  - Lending of expertise in the form of consultants to oversee the use of funds

# ***FOSTER ENTERPRISE DEVELOPMENT***

- Existing Ministries of Trade & Industry should include a department for Entrepreneurship
- Establish an Enterprise Development Board that will:
  - Focus on promoting & aiding entrepreneurship
  - Initiate SME policy-formulation & oversee implementation

## *Urgent Requirements for SMEs at National Levels*

- In-depth analysis required for assessing survival and development of SMEs
- Problems confronting SMEs could be collated through Chambers & Trade Associations to cover a broad spectrum

# *Promoting a Pro-Enterprise Spirit*

## ■ Mentoring Programme

- Chambers of commerce & retired businessmen to help start-ups & benchmarking
- Universities/Large companies to second expertise to budding entrepreneurs (Buddy System)
- More training for businesses to pick up technological know-how

# *Promoting a Pro-Enterprise Spirit*

- **Creation of Alliances and Networks**
  - Sharing of knowledge, resources, facilities & services by adopting an open mindset
  - Easy access to information on potential partnerships & networks
  - Match-making among businesses

# *Strengthening the Pro-Business Environment*

- Financial Support
- Marketing Effort
- Manpower Availability
- Government's Support

# *Strengthening the Pro-Business Environment*

## Financial Support:

- Tax incentives
- More flexible mortgage policies
- Access to low-cost financing
  - “SME Development Fund”
  - “SME Bank”
  - The Japan Finance Corporation for Small Business (JFS) as a model

# *Strengthening the Pro-Business Environment*

## Marketing Effort:

- Alliances & Networks
  - SMEs to develop chain of products & services for MNCs to reach customers effectively
  - MNCs to play nurturing role to SMEs
- E-Commerce
  - Training of SMEs in the use of internet as a global trading floor

# *Strengthening the Pro-Business Environment*

## Manpower Availability:

- Training of Managers
  - Upgrading of knowledge & skills for middle & top level management
  - Provide training opportunities to SME Managers/Entrepreneurs through visits and attachments in larger companies

# *Strengthening the Pro-Business Environment*

## Government's Support:

- Rules of Entry into Market
  - Allow entrepreneurship to flourish naturally
  - Simplification of procedures to start business
  - Flexibility & deeper understanding of SME needs
- Information for Businesses
  - Easy access to economic information relevant to SMEs

# Establishing a CACCI SME Foundation

- Mission: Enabling Entrepreneurship & Developing SMEs
- Vision: Garner the support of large companies to contribute to a fund to support SME activities

# Establishing a CACCI SME Foundation

Role: Resolve issues of management, technology and financial needs

- \* **Management**: address lack of knowledge & entrepreneurial skill
- \* **Market Access**: create quality systems to tap new opportunities
- \* **Collateral**: address lack of assets or contribution limit to the financing quantum
- \* **Technology**: move from traditional to modern production techniques
- \* **Cash flow**: create avenues for cash flow management
- \* **Funding Access**: create access to new sources funding
- \* **Business support**: creation of SME Support Centres

???

Thank You

George Abraham, Chairman, CACCI SME  
Development Committee