

EXECUTIVE SUMMARY

CHAPTER 1: OVERLL ECONOMIC SCENARIO

Global Economic Scenario

The global financial crisis, which started in the United States and rapidly spread to other major developed and developing economies of the world, has had a significant impact in terms of global economic slowdown. According to World Bank report on Global Economic Prospects, released in January 2010, Global GDP, which declined by 2.2 percent in 2009, was estimated to have grown by 2.7 percent in 2010 and further likely to improve to 3.2 percent in 2011. Rich countries will grow more slowly, by 1.8 percent in 2010, as fragile financial markets and anaemic private demand crimp job creation and investment, the report says. The proposed study has selected 8 countries (i.e. Brazil, China, Italy, Malaysia, Philippines, Republic of Korea, South Africa and Turkey) which account for almost one-fourth of world output, one-fifth of world trade and are making significant headway in the MSME sector growth.

It is observed that despite the somewhat strong financial fundamentals of these economies, the financial crisis in 2008 left these countries bruised, though the breadth and depth differed from country to country. The GDP growth decelerated in all these countries. While China was able to maintain the growth tempo in 2009 and 2010, countries like Brazil, Italy, and Turkey experienced negative growth.

BRAZIL

Brazil, a federal republic country, is the largest country in South America and the eighth largest in the world. It's a modern capitalist economy with good encouragement to private investment and limiting state control. But the public sector still plays an important role. The Brazilian economy is quite an advanced country with the service sector accounting for 66.8% of GDP, followed by the industrial sector at 29.7% (2007). Agriculture represents 3.5% of GDP (2008). Brazil's 74% of exports are manufactured or semi-manufactured goods. After record growth in 2007 and 2008, the onset of the global financial crisis hit Brazil in September 2008. The economic growth declined to 0.6 percent in 2009. The economic growth is estimated at 7.5% in 2010 and likely to be 4.1% in 2011.

CHINA

This spectacular growth of China is reflective of an astute economic planning, strong determination and transition from a communist system to a "socialist market economy". The story of success began shortly after the Communists took control in 1949 when the Chinese economic system changed from a command economic system to a mixed economy. Reforms were translated in terms of phasing out of collectivized agriculture, gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of the private sector, and opening to foreign trade and investment. China's leaders call their economic system "market socialism." improvement of efficiency of state economy establishing an effective

regulatory system based on financial and tax reforms balancing central and local budgets; investing in public services; improving efficiency of the financial sector; preventing financial crisis; nurturing world class big businesses; improving China's international competitiveness and the quality of foreign investments.

ITALY

Italy is a Parliamentary democratic republican country. Over the years, the Italian economy has developed into an industrial state, ranking as the world's seventh largest industrial economy. The 2008 global financial crisis had a serious impact on Italy's economy. The economy contracted by 5% in 2009. In March 2009, the government approved a program of public projects to boost investment in infrastructure. With the suitable Government measures and a rise in exports and investment driven by the global economic recovery nevertheless helped the economy grow by about 1% in 2010.

MALAYSIA

By 1990, the country had largely met the criteria for a Newly-Industrialized Country (NIC) status (30 percent of exports to consist of manufactured goods). The principle underlying these aims was that it would be achieved through the process of economic growth, i.e. the economy would get bigger (more investment, more jobs, etc.). The recent global economic crisis took its toll on Malaysian economy which contracted by 3.6 percent in 2009. The services sector was also not spared. The economic downturn affected labour demand, as reflected in higher retrenchments and lower vacancies. IMF has estimated its economic growth at 7.2% in 2010 and expected to be around 5.5 % in 2011. The driving force for Malaysia's GDP growth would be support from Asian countries, especially India and China.

PHILIPPINES

the Philippines economy is the world's 47th largest economy (as of 2008). The country posted a GDP growth rate of 7.1% in 2007, which slowed to 3.8% in 2008 as a result of the global financial crisis. However, the economy weathered the 2008-09 global recession better than its regional peers due to minimal exposure to troubled international securities, lower dependence on exports, relatively resilient domestic consumption, large remittances from four-to five-million overseas Filipino workers, and a growing business process outsourcing industry. Further, strong macroeconomic fundamentals combined with about 6.84 billion U.S. dollars stimulus package also supported recovery. Philippine GDP which declined by (-) 1.7% in 2009, improved substantially by 7.2% in 2010, spurred by consumer demand, a rebound in exports and investments, and fiscal spending on infrastructure.

REPUBLIC OF KOREA

South Korea's economy grew rapidly from the 1960s through the 1980s, with an average annual GDP growth rate of 8.4 percent during that period and further higher at 10.5% annually from 1982 to 1988. Two factors helped economic recovery in 1999: the growth of the U.S. economy, which is South Korea's largest export market, and large direct foreign investments, made possible by economic liberalization. Trade plays a major role in South Korea's export-oriented economy. Liberalization has sought to change South Korea's economy from one where the state directs and controls economic activities into one where

the private sector, including foreign enterprises, operate with minimum government regulation. Liberalization also resulted in the removal of government regulations that restrict the economic activities of domestic and foreign enterprises in favour of a less-regulated economic system. In 2004, South Korea joined the trillion dollar club of world economies, and currently is the 13th largest economy. As the global financial crisis of 2008 has led to a financial turmoil and economic decline in the G7 and European economies, Korea was also hit by the crisis. The South Korean GDP growth slowed to 0.2% in 2009. The government came up with a set of pre-emptive policies to prevent further economic worsening. The growth exceeded 6% in 2010. In 2011, the IMF expects Korean economy to register a growth of 4.5%.

SOUTH AFRICA

During the post apartheid period, the South African economy - a regular mixed market capitalistic economy has undergone several changes to cope with the rapidly changing global scenario. Today's South Africa is regarded as a middle-income, emerging market economy characterized by the two-tier economic system displaying features of both developing and developed nations of the world. As the 2008 global crisis engulfed South Africa, GDP contracted in the third and fourth quarters of 2008, officially plunging the economy into recession. South Africa's GDP grew by 3.7 percent in 2008 and is expected decline by 1.8 percent in 2009. The South African economy is expected to show a growth rate of 3.5% in 2011.

TURKEY

The Turkish economy started its reform process since 1980s with the objective of transforming its economy from a state-led to a market-oriented economy. Overall, the reform program included a reduced state role in the economy, a realistic exchange rate and monetary policy, cutbacks on subsidies and price controls, and encouragement of exports and foreign direct investment. Its economy is increasingly driven by its industry and service sectors, although its traditional agriculture sector still plays some role. Like many economies, Turkey has been affected by the global financial crisis. Turkey's GDP is estimated to decline by 6.5 percent in 2009. In 2009, the Turkish Government introduced various economic stimulus measures to reduce the impact of the financial crisis such as temporary tax cuts on automobiles, home appliances and housing. Turkey's financial markets and banking system also weathered the 2009 global financial crisis and did not suffer significant declines due to banking reforms implemented during the country's own financial crisis in 2001. According to the IMF's World Economic Outlook, Turkey's economy is expected to grow 8.2 percent in 2010 and 4.6% in 2011.

CHAPTER 2: MICRO, SMALL & MEDIUM ENTERPRISES – INTERNATIONAL SCENARIO

The Micro, Small and Medium Enterprises (MSME) Sector contributes significantly to the economic development in the countries worldwide, despite differences in their definitions. According to an OECD study (2010), there are an estimated 420 to 510 million MSMEs worldwide, of which 9 percent are formal MSMEs (typically registered businesses with 5-250 employees) and 80-95 percent are in emerging markets. The

MSMEs contribute a sizable share to formal GDP — 49 percent on average in high-income countries and 29 percent on average in low-income countries, respectively. The contribution of SMEs to employment and GDP in developing countries seems comparatively modest, but estimates suggest that the informal sector (which consists essentially of SMEs) accounts for up to 48 percent of the total labor force and 37 percent of GDP in developing countries.

The story of SME Finance is not much different, and Enterprise Surveys conducted by the World Bank in over 120 countries show that SMEs face more severe financing constraints than large firms, especially in lower income environments. Only 17 and 32 percent of small firms in low and middle-income countries, respectively, have a loan or line of credit. Large enterprises are generally much less constrained, even in low and middle-income countries.

The most common definitions used by regulators are based on the number of employees, sales and/or loan size. The most common among the three is the number-of-employees criterion. Sixty-eight countries provided information on the SME definition criteria used by the financial regulator. Fifty of them use the number-of-employees criterion, and 29 out of these 50 also use the other two criteria. A total of 41 regulators use maximum sales value criteria and 15 use maximum loan value criteria to define an SME.

BRAZIL

The small business sector is significantly larger in both Brazil and India than it is in Republic of Africa. Brazil's 16 million small (10.34 million) and micro enterprises (5.89 million) contribute about 20% of Brazil's GDP and employ 60 million people or 56% of the urban workforce in the formal sector, according to Brazil's small business support agency, Sebrae. The involvement of small firms is higher in commercial and service activities. Small and micro enterprises create the most jobs in Brazil. It is estimated that micro and small businesses were responsible for 71.3% of the jobs created, with micro-businesses of up to four employees contributing 48% of the total jobs and small businesses which employ between 20 and 99 employees being responsible for the creation of 13.8% of new positions.

CHINA

SMEs account for 99% of all business enterprises in the China. At present, the total value of industrial output for small and medium-sized enterprises accounts for 67.71% of the gross output value of all China's industrial enterprises. The taxes paid by small and medium-sized enterprises account for 58.72% of total taxes paid by all industrial enterprises. Additionally, small and medium-sized enterprises employ over 75% of the workforce in cities and towns.

ITALY

Italy is among the world leaders in the MSME cluster development model, and its SMEs are leading shoe manufacturer in the EU with a 40% world market share. The relative importance of MSMEs for the Italian economy exceeds by far the EU average, as illustrated by a considerably above-EU-average share of persons employed and value added accounted for by MSMEs. The contribution of Italian MSMEs to total value added and employment is 70.9% and 80.3% ,respectively, compared to EU average of 57.9%

of total value added and 67.1% of employment. The MSMEs in Italy constitutes 99.9% of the total enterprises in Italy.

MALAYSIA

MSMEs in Malaysia are mainly in the services sector, accounting for 87% or 474,706 of total business establishments. Employment generated by MSMEs was approximately 3.0 million workers (65.1 percent) of the total employment of 4.6 million engaged in the three main sectors. The services sector employed the largest number, 2.2 million, followed by the manufacturing sector, 740,438 and agriculture sector, 131,130. Full-time employees totaled 2.3 million workers (76.5 percent) while self-employed workers made up 16.7 percent and part-time workers, the remainder (6.8 percent). Women participation in the work force of MSMEs in 2003 was 36.8 percent of total employment.

PHILIPPINES

According to Department of Trade and Industry, as of 2006 count, there are 783,065 business enterprises operating in the Philippines. Of these, 99.7% (780,469) are micro, small, and medium enterprises (MSMEs) and the remaining 0.3% (2,596) are large enterprises. Of the total number of MSMEs, 92% (720,191) are micro enterprises, 7.3% (57,439) are small enterprises, and 0.4% (2,839) are medium enterprises. Combined employment generation of MSMEs accounts for nearly 69.4% of the total employment: micro (37.6%), small (24.9%), and medium (7.0%). On the other hand, large enterprises account for only 0.3% of the total number of establishments and generate 30.6% of total employment. MSMEs account for 25% of the country's total exports revenue.

REPUBLIC OF KOREA

In Republic of Korea, MSMEs account for 99.9% of all enterprises, 88.4% of all employees, 50.8% of value added in manufacturing and 48.7% in output produced in manufacturing. With continuous innovation in technology and management, innovative MSMEs (venture businesses, inno-biz and management-innovative businesses) have higher added value than ordinary businesses. Inno-biz means technologically innovative businesses. In 2008, exports by Korean MSMEs totaled US\$ 130.52 billion compared with exports of US\$ 118.77 billion in 2007. Major commodities of MSME exports are electronics and electrical, machinery, chemicals, textiles, steel and metal. Overseas investment by Korean MSMEs in 2009 totalled US\$ 5.7 billion against investment of US\$ 5.88 billion in 2008.

SOUTH AFRICA

In South Africa, there are close to 6 million small businesses in the country nearly 67% employ no more than the owner themselves. Small and micro enterprises contribute between 27% and 34% of South Africa's GDP. According to recent estimates by the Department of Trade and Industry (DTI), small businesses represent 98 % of the total number of firms. Small firms, overall, account for 35% of GDP. In South Africa between 1985 and 2005, 90% of all new jobs were created by small, micro and medium Firms. Micro enterprises represent between 1.2 and 2.8 million businesses, i.e. between 69% and 80% of all SMMEs.

TURKEY

SMEs play a very important role in the Turkish economy owing to their considerable share in the total number of enterprises and in total employment (particularly for employment and development outside major urban areas). SMEs reportedly account for 99 percent of all enterprises, for almost 80 percent of total employment, and are estimated to account for up to 40 percent of value added. The majority of SMEs are in the trade and manufacturing sectors, both of which have been hit by the drop in domestic and external demand.

CHAPTER 3: PUBLIC POLICIES, SYSTEMS AND PROGRAMMES

The 2008 global financial crisis affected the countries in different ways which evoked different policy measures from the Governments across-the-countries. In this regard, a study by the McKeever Institute of Economic Policy Analysis (MIEPA) on the basis of 34 quantitative parameters found that Brazil ranks first in terms robustness of its macro policies to address various internal and external issues followed by Philippines, S Africa, China, Malaysia and others

The macro-economic policies also underlined specific policy measures for the MSMEs in the respective countries. At the international level, a milestone in SME policy declarations was the adoption of Bologna Charter on SME Policies on June, 2000 by many European and other countries. As the global crisis engulfed many countries with its attendant adverse impact on the SME sector across the world, a high level meeting was held in Paris in 2010 to critically analyse how the SME sector was affected and what future action plan can be made to enable the SMEs to weather any future.

BRAZIL

The Brazilian government is actively involved in the overall growth of the MSME sector in the country. The first legal measure that established special treatment to micro and small enterprises was defined in 1984 by Law 7.256/84. Stable macroeconomic policies and well-designed structural policies in areas that impinge on SMEs, such as competition, international trade and investment, financial markets, labour markets and education; and, as regards to developing economies, embedding private sector SME strategies in broader development strategies and poverty reduction programmes;

The General Law for Micro and Small Enterprises, starting in 2007, is the first national public policy (valid for all states in Brazil) that determines the unified payment of federal, state and municipal taxes. Also, other benefits are included: micro and small businesses have a preference on government bids up to R\$80,000.00 (approximately US\$ 40,000.00) and do not have to pay export taxes. The Brazilian government on May 12, 2008 announced the country's new industrial policy having implications on the MSME sector, which includes a series of tax breaks for some economic sectors. The tax changes are designed to make eligible sectors more competitive and willing to invest in production and exports.

In Brazil, forty eight institutions from the government and 47 private entities are involved in the development of the MSME sector. The leading among them is the Brazilian Micro and Small Business Support Service (SEBRAE) which is a private non-profit organization, supporting the development of small sized business activity. The mission of SEBRAE is to promote the competitiveness and sustainable development of Micro and Small Business in Brazil; to increase SMEs share in GDP, raising their participation in internal and external markets; to increase SMEs and entrepreneurs' participation in networks, broadening entrepreneurship and cooperation culture; to promote social inclusion via entrepreneurship and to focus on local productive systems in the development of small businesses.

CHINA

In order to fast forward the SME sector growth, the Chinese government came out with a Law on SME Promotion in 2003 which provided the legal basis for government involvement in the promotion of the SME sector. Current national SME policy objectives in China are: To improve the environment for SME development and Seek to increase employment in SMEs, as well as their wider contribution to China's economic and social development. On September 22, 2009, China's State Council, the Cabinet, issued on a document to strengthen support for the development of the country's small-and medium-sized enterprises (SMEs). The broad measures are to deepen reforms in the country's monopoly industries, lowering the market access threshold for the SMEs and creating a more open and fair competition environment for SMEs. The other important measures were to expand channels for the SMEs to raise capital through encouraging banks to lend more to the SMEs, stepping up making policies to guide private capital to tap into the country's financial system, increase tax breaks to the small firms with an annual taxable income below 30,000 yuan (4392.4 U.S. dollars) from Jan. 1 to Dec. 31 of 2010, encourage the SMEs to improve their technological innovation capacities, enhance the product quality, and promote development in energy conservation and clean production

For purpose of supporting and promoting innovation in SMEs, the state carried out a new project on technological innovation. This also included the development, application and expansion of new technology and products by the SMEs. The state used funds for technological innovation for the SMEs characterized by science and technology in the form of lending support, lending interest subsidies as well as capital funds input, thus supporting the SMEs to implement innovative technological projects. One pertinent policy framework is on enterprise promotion, with strong reference to the SME sector. This overarching enterprises policy framework forms the basis of EU SME policy.

ITALY

The Government of Italy has been initiating a number of budgetary measures for faster growth of enterprises, including SMEs. Its overall SME development policy is guided by the EU Small Business Act (SBA), 2008. At the heart of the European SBA is the conviction that achieving the best possible framework conditions for SMEs depends first and foremost on society's recognition of entrepreneurs. As a key contribution to achieving an SME friendly environment, the perception of the role of entrepreneurs and risk-taking in the EU will therefore have to change: entrepreneurship and the associated willingness

to take risks should be applauded by political leaders and the media, and supported by administrations. Being SME-friendly should become mainstream policy which is manifested in the European Charter for Small Enterprises and the Modern SME policy.

With regard to the enterprise community, the reform involves the following: a 33% single rate of corporation tax; fiscal neutrality for surpluses; the abolition of the Dual Income Tax and the progressive elimination of the Regional Tax on Productive Activities. As a result of improved quality in customer service, enterprises, especially small enterprises, have increased their online access to the Income Tax Agency's Web site during the last couple of years.

MALAYSIA

The national SME strategy is focused on the development of high performance and resilient SMEs under three broad strategic thrusts, namely, strengthening the enabling infrastructure; enhancing the capacity and capability of SMEs; and enhancing access to financing. The Government took a major stride forward in June 2004 with the establishment of the National SME Development Council (NSDC) which represents 15 Government Ministries and 60 Agencies involved in supporting the development of SMEs. Among the initiatives announced include the formulation of targeted strategies for the development of SMEs across all sectors; the adoption of specific and standard definition for SMEs according to economic activity; the establishment and maintenance of a comprehensive National SME database and the expansion of development support programmes and facilities to enhance access to financing and accessibility of markets for export. The SME policies are oriented to promote the development of a modern and sophisticated SMEs in tandem with the strategic direction of the overall industrial development; and develop SMEs into an efficient and competitive sector, capable of producing high value-added and quality parts, components and finished products for the global market.

The Government of Malaysia introducing stimulus packages to revive demand as well as temporary tax measures to improve sales, cash flows and working capital with more focus on SME sector. As at end-July 2010, 65% of funds from the RM15.6 billion allocated to SMEs under the two stimulus packages introduced by the Government have been disbursed benefiting about 79,000 SMEs (end-2009: 53% to 56,000 SMEs).

The SME Master Plan (2011 – 2020) proposes bold measures for SMEs to make a quantum leap in GDP growth and for Malaysia to produce domestic, regional and global champions that can spearhead the growth in the economy. The SME measures encompass technology acquisition and development, Capacity Building for SMEs with Emphasis on Productivity and Quality Building, Improvement to Production and Business Processes, Export Readiness and Awareness on Opportunities in Overseas markets, Trade Facilitation and Market Development, Financial assistance and Business Advisory Support.

PHILIPPINES

The Magna Carta law provides the basic policies for SME promotion, indicates the definition of SMEs and directs the institutional framework for the SME promotion system. In order to give a special thrust on micro enterprise development, the Government came out with RA 9178, otherwise known as the “Barangay Micro Business Enterprises (BMBEs) Act of 2002” supports eligible micro-enterprises and the informal sector through incentives for local government registered barangay micro-enterprises, exemptions from income tax, reduction in local taxes, exemptions from payment of minimum wages, financial support from government financial institutions and technology assistance from government agencies.

Special incentives for enterprises, including SMEs, have been made available by legislation to promote business activities. These include: a.) exemption from corporate income taxes (4-8 years), national and local taxes, duties and taxes on machineries, spare parts, materials and supplies, tax credits for imports and import substitution of capital equipment and for breeding stock and genetic materials, b) exemption from value-added tax for certain export industries, excise taxes on locally produced products and lowered taxes on spirits made from indigenous materials, c) Incentives for preferred areas of investments included in the Investment Priorities Plan, d) Incentives for specified locations such as the Registered Economic Zones , Less Developed Areas, and those granted by local government units under the Local Government Code, e) Incentives for investors for tax and duty exemptions, loan assistance and technical support for starting-up and improved SME technologies. There is a provision of fiscal incentives to all registered Barangay Micro Business Enterprises (BMBEs).

REPUBLIC OF KOREA

The growth story of SME sector has been one of a transition from protection to promotion as supported by a number of SME promotion policies by the Korean government. If one studies the history of Korean SME sector development, one can discern 3 important growth factors: Stability from the SME-only business system, a collective private contract system, and SME product procurement system of public organizations. The government’s policies for promoting SMEs can be grouped into the following categories: Policy for assisting SMEs to adapt to the changing environment, domestic and international, through structural adjustment; Policy for stabilizing and strengthening SMEs management; and Policy for stimulating and assisting start-ups and local SMEs.

Various measures to implement these policies have been developed in the areas of : Financial and credit guarantee assistance; Tax concession or break; Designation of production items reserved exclusively for SMEs; Selection of promising SMEs for special assistance in technology development and export promotion; industrial estates for start-ups and local SMEs.

The government established the “Small and Medium Business Promotion Agency” (SMBPA) in 2006 to promote cooperation with and development of small and medium businesses. Also, the “Small Business Information System” was developed in July 2006 to suppose self-employed entrepreneurs.

SOUTH AFRICA

The South African government at the central and sub-national levels are actively involved in the promotion of Small Micro and Medium Enterprises (SMMEs). In 1995, the South African Government came out with a White paper by the Department of Trade and Industry (the lead department for SMME development) entitled: “A National Strategy for the Development of Small Business in South Africa (May 1995)”. There were ten key principles underlying the Government's national small business strategy in 1995:

- A joint vision for big, medium and small business in South Africa
- All the segments of the small business sector required attention
- Improving the efficiency and competitiveness of all small businesses
- Black advancement in through small business development—special emphasis was also placed on other marginalised or disadvantaged groups
- Sector focused and targeted use of public funds
- Restructuring of the institutional framework for small business support
- Department of Trade and Industry has ultimate responsibility for small business development
- Recognition of the critical roles that different stakeholders play in small business development

The National Small Business Act in 1996 was further amended in 2003. The amendment provided for the establishment of an Advisory Body to represent and promote the interests of small business as contemplated in the National Strategy for the Development and Promotion of Small Business in South Africa referred to in the definition of “National Small Business Support Strategy”.

Since the adoption of the Act in 1996, the Government has introduced a range of macro economic and sector specific reforms and development programmes that influence the capacity of small businesses to operate competitively in national and international markets. Based on various findings, the Government came out with The Integrated Small Business Development Strategy (ISBDS) for the period 2004-10 as a way forward for small business development in South Africa with the objectives to: increase the contribution of small business to the growth of the South African economy; create an enabling environment for small enterprises, which levels the playing field between big business and small business, reduces the disparities between urban and rural businesses, and is conducive to entrepreneurship; create sustainable long-term jobs for women and men in the small business sector; increase the competitiveness of the small businesses sector so that it is better able to take advantages of opportunities emerging in national, African and international markets and improve communication between government and the small business community

There are three strategic directions followed by the Integrated Small Business Development Strategy in pursuit of its vision and objectives, viz. enterprise promotion, creating an enabling environment and promoting competitiveness in the SMME sector

Black Business Supplier Development Programme (BBSDP) is a specific government policy to advance economic transformation and enhance the economic participation of black people in the South African economy. Broad Based Black Economic Empowerment will be leveraged to support shared growth.

TURKEY

The ratification in 2002 of the European Charter for Small Enterprises which established a international framework for conducting efficient SME policies. Turkey considers the Charter as the foundation for its long-term SME strategy in Improving the technological and innovative capacity of SMEs and Supporting e-commerce and technology-based enterprises.

The Turkish government developed a specific MSME policy and created SEGEM (Industrial Training and Development Centre) and KÜSGET (Small Industry Development Organisation), which, later on, were united under the umbrella of KOSGEB (Small and Medium Industry Development Organisation) in 1990, as a major instrument for the execution of the MSME policies. KOSGEB provides supports for SMEs mainly in the Consultancy and Training Supports; Technology Development and Innovation Supports; Information Technology Supports; Quality Improvement Supports; Market Research and Export Improvement Supports; Support for Improving International Cooperation; Regional Development Supports and Supports for Developing Entrepreneurship

Creating a business environment conducive to entrepreneurship and the development of innovative SMEs has been high on the European Union policy agenda, and stressed in the Lisbon European summit in 2000 as part of a broader strategy for economic growth. The Turkish government signed the European Charter for Small Enterprises in 2002 and agreed to take concrete steps to develop policies and programmes for SMEs in line with EU's. Turkey participates in the Multi-annual Programme for Enterprise and Entrepreneurship, in addition to the BEST (Business Environment Simplification Taskforce) Programme.

A range of policy initiatives in the 8th Five-year Development Plan (2001-05) aims to improve the productivity of Turkish SMEs and enhance their international competitiveness. Partnerships with foreign companies are also be encouraged in order to develop SMEs export capabilities. Reform of the tax system has involved a complete revision of tax policy. Generally the tax burden has been reduced through a decrease both in rates and in the number of tax bands. Business start-ups can benefit from tax exemptions amounting to 40%-60% depending on the number of workers employed. Value-added tax rates declined in Turkey by eight percentage points. KOSGEB offers a range of different support

measures aimed at enhancing the innovative capacities of small firms and supports R&D efforts through the Technological Development Centres.

CHAPTER 4: FINANCIAL SYSTEMS, POLICIES AND PROGRAMMES

It is a universal truth that the credit availability to MSMEs in timely and affordable rates is the lifeline of their survival and growth in an increasingly competitive world. If one considers various parameters of financial system and compares within 8 countries, it may be observed that Malaysia performs better than others in terms of access to finance, VC availability and affordability of financial services, except in case of availability of financial services where South Africa ranks much ahead. Similarly, in case of depth of credit information, Malaysia, Rep. of Korea and South Africa score equally highest marks. It is also surprising to observe that Korea which ranks 13 as against Malaysia's 30, has the most difficult environment in getting credit, despite a well-established credit guarantee system. Korea also performs unimpressively in other parameters like VC availability, affordability of financial services, etc. when compared with other countries.

BRAZIL

The Brazilian government established in 2004 a new policy for competitiveness, the Política Industrial, Tecnológica e de Comércio Exterior - (PITCE). The lines of directions involve both horizontal policies (for all sectors of the economy) and vertical ones (for four specific sectors considered strategic for the development of the economy and international insertion of the country: In general, the PITCE programs targeting SMEs have two important goals:

- (i) to improve the firm's access to credit lines, through the introduction of new regulations to make feasible the financing with lower interest rates and additional charges; besides the creation or reinforcement of guarantee funds, for the financing of production capacity and
- (ii) to increase the SMEs participation in the national exporting, through sectorized actions mainly related to segments of low technological intensity, aiming their modernization, increasing product values, penetration in new markets and foreign market training.

Providing equity / Venture capital to SMEs is equally a thrust area of Brazil. The federal government set up a program in 1996, managed by the Central Bank, which aimed at privatizing state-owned banks or transforming them into Investment Promotion Agencies (IPAs). Many of the IPAs in the state level in Brazil are originated from those banks, so they have the main function of providing credit for SMEs. There are also a number of venture capital institutions providing necessary equity support to SMEs.

In Brazil, the SMEs enter into Government purchasing programmes with guaranteed payment terms. To this end, some credit guarantees schemes have been established by public sector financial institutions mainly in the second half of the 1990s. In particular:

- FAMPE (Guarantee Fund for Micro and Small Businesses) – Established in 1996, FAMPE provides guarantees typically up to US\$40,000 (but in case of exporting firms and enterprises active in innovation and technology the limit is variable), on a maximum eight years term. Normally the guarantee can cover up to 50% of the value of the loan, but in some special cases the limit can be raised to 80%.
- FUNPROGER (Guarantee Fund for the Creation of Employment and Income) - an initiative for the financing of development plans of SMEs, cooperatives, individual professionals and informal businesses. Guarantees can cover up to 80% of the loan value.
- FGPC (Guarantee Fund for the Promotion of Competitiveness) – FGPC started operations in 1999. The funds are provided by the National Treasury and administered by BNDES. The scheme is designed for exporting firms which benefit from some specific BNDES' lines of credit. Guarantees can cover up to 70% or 80% of the loan value depending on the type of operation.

Besides the above, new type of credit guarantee schemes are emerging, i.e. the Credit Guarantee Societies, which are mutual credit guarantee organizations whose members are both lenders to and borrower from the Credit Guarantee Facility. This type of organization reduces the information asymmetries between the demand and the supply side of financing, therefore reducing the risk, and can evidently contribute to the mitigation of the moral hazard problem.

The Government of Brazil also provides consultants to companies based on local productive arrangements to help them solve management and technical challenges.

CHINA

The SME Promotion Law 2003 ensured greater access to finance and encouragement to venture capital investments in SMEs. This was facilitated to a great extent by the People's Bank of China's direction that the additional lending quota be directed towards SMEs, the agricultural sector and reconstruction work in the earthquake zone.

China freed its interest rates in 2004. Subsequently, China Banking Regulatory Commission (CBRC) promulgated "Guidelines on banks' lending to small enterprises" on July 29, 2005. Even if they may be intrusive in banks' management (for example, they require all banks to set up a separate business department to undertake small business lending, and to track separately in their accounts the cost and profit of the business), they represent an important milestone in several respects. First, the guidelines stress that achieving commercial sustainability must be a primary goal in undertaking the business, marking a clear departure from China's historically subsidy-oriented approach to promote small business finance. Further, the banks are to pay attention to assessing borrower repayment capacity in terms of available cash flow, with less emphasis on formal collateral, and adopting incentive-based compensation

for loan officers, with incentives to be based especially on performance in attracting new clients and in collecting loans. Interestingly, “zero risk” assessment and investigation of responsibility were eliminated in lending to small enterprises. Moreover, this guidance simplifies the examination procedure of credits to them, and encourages banks to lend to small enterprises which have a good credit reputation.

Further, the Chinese Government has established a special fund in 2008 to support the development of SME sector. It is reported that the resources to the fund would come from government’s budget and the activities would promote SMEs with technological progress.

The “six mechanisms” designed for small enterprise finance were well established and exercised by the SBUs, namely, risk pricing mechanism, independent accounting mechanism, efficient credit approval mechanism, incentive mechanism, professional staff training mechanism, and defaults information sharing mechanism. The SBUs were entitled to independent credit planning, independent human and financial resources, independent customer credit review and independent accounting practices. As a result, the small enterprise loans made by the SBUs of all banking institutions exceeded 60 percent of all small enterprise loans made by these institutions. Furthermore, the CBRC exercised differentiated regulatory policies for small enterprise finance. Firstly, favourable regulatory approval criteria were applied to small enterprise financing business. Secondly, the funding channels for small enterprise financing business were expanded to allow the issuance of special financial bonds. Thirdly, the off-site surveillance indicators were adjusted to encourage banking institutions’ engagement in small enterprise financing business. And fourthly, the regulatory tolerance of the NPL ratio of small enterprise financing business was appropriately adjusted.

In 2008, the CBRC announced the Policies on further improving the financial services to small enterprises while implementing differentiated credit policies, and required on maintaining the growth rate of loans to small enterprises no lower than the average growth of total loans, and the yearly growth volume no less than that of the previous year.

The government has moved to help SMEs get finance by differentiating the reserve requirement ratio for the Rural Credit Cooperative, the major lender to SMEs, and encouraging innovation in SME bond issuance. Agro-linked bills and bills issued, accepted, and held by county-level enterprises and small- and medium-sized financial institutions had rediscount priority over other bills. Further, bond types and issuers have been diversified. In November 2009, the collective bond of non-financial SMEs was launched on the inter-bank bond market. The collective bond as the first standardized financing product tailored to the needs of the SMEs provides them with a new channel for direct financing and diversifies their investment products on the inter-bank market. Moreover, financial leasing companies and automobile financing companies were permitted to issue financing bonds. This helps expand the scope of financial bond issuers while keeping risks under control.

According to the survey launched by the PBC, loans to SMEs have accounted for more than 50% in total credit assets in the past few years, roughly equivalent to the contribution of SMEs to GDP. In that spirit,

the People's Bank of China has been actively promoting the institutional innovation of joint-stock banks and the establishments of community banks, so that they can build up close relationship with local SMEs and provide sound financial services for them by simplifying processing procedures.

Recognizing the limited financial access by MSMEs, the Chinese government has created a network of credit guarantee agencies. In contrast to other countries, China does not have a centralized government institution providing credit guarantees to MSMEs. As a policy matter, the government decided to lift the upper limit of the SME Loan Guarantee Scheme. It is reported that the credit guarantee system includes a framework of 'one-body, two wings, four levels'. According to the plan, the prefectural credit guarantee institutions give guarantee in their regions. The provincial credit guarantee institutions grant re-guarantee for those credit guarantee institutions at lower levels, and supervise them along with People's Bank of China. They can also grant guarantee directly. National credit guarantee institutions have been established as guarantors of last resort and grant re-guarantee to the credit guarantee institutions at lower levels. The Government has also formulated relevant policies for the promotion of SME credit guarantee system, such as, exempting qualified credit guarantee agencies from the turnover tax, greatly driving their development, etc.

ITALY

Italy, as a member of European Union, abides by the European Central Bank's (ECB) prime objective of price stability. ECB is the central bank for Europe's single currency, the euro. The primary objective of the ECB's monetary policy is to maintain price stability. The ECB aims at inflation rates of below, but close to, 2% over the medium term. The euro area comprises the 17 European Union countries that have introduced the euro since 1999.

In January 2009, a re-financing of the Central Guarantee Fund for SMEs was put in place, and a State guarantee as a last-resort guarantee was provided to this Fund. A total of 70% of the resources was allocated directly to guarantees to banks against bank loans to SMEs, while 30% was devoted to back guarantee to the Loan Guarantee Consortiums (Confidi –Allocations for the 2009-2011 3-year period total € 450 million). The resources for the Central Guarantee Fund were further increased.

Other interventions concerned the Cassa Depositi e Prestiti and SACE, the export credit insurance agency. These measures were expected to increase the liquidity available to firms, especially to small- and medium-sized enterprises. The guarantee fund for these firms was also increased. In particular, the Cassa Depositi e Prestiti would be able to employ up to a maximum of €8 billion in resources derived from postal savings to provide credit to small- and medium-sized enterprises; For banks' depositors, already protected by the interbank deposit guarantee system, the further safeguard of the additional State guarantee has been provided. SACE would be able to provide guarantees to businesses on general government receivables.

The European Investment Fund (EIF) provides guarantee of 50% of credit risk. The EIF has the status of a Multilateral Development Bank under the European Union's solvency ratio directive. This means that financial institutions benefiting from an EIF guarantee under the scheme are allowed to allocate capital to the part of the loan covered by the EIF guarantee at the rate of 20% instead of 100%. This is, of course, a substantial advantage in addition to the lower risk and provisioning costs associated with the EIF guarantee.

The SMEs benefit from preferential financing terms, i.e. terms that are more favourable than those that the bank would normally charge a borrower of the same risk category in similar conditions, for environmentally friendly investments. Such preferential terms may take the form of a lower interest rate, improved access to financing or a waiver of charges such as commitment or cancellation fees.

Italy's credit guarantee institutions tend to form a multi-pillar and multi-layer system based on a mix of private and public funding. Three pillars of credit guarantee can be identified: a) the mutual guarantee institutions (MGI), that are associations of small entrepreneurs willing to mutually share their debt risk as a way to improve their access to credit market; b) the banks and other financial companies, that provide guarantee services to the enterprise sector; and c) the public funds, set up at State and Regional government levels, for the purpose of offering guarantees, i.e., insurance and/or reinsurance services, to institutions that lend to SMEs or to MGIs.

MALAYSIA

In Malaysia, the lending to priority sectors, such as, housing loans and credit to small-scale industries remained under the protection of Central Bank. In the more recent period, greater attention is being accorded to the development of small-and medium-sized enterprises (SMEs). To enhance the contribution of SMEs, Bank Negara Malaysia produced a comprehensive report on strategies for development of SMEs to the Government in 2002. In addition, various funds have been established by Bank Negara Malaysia to promote the development of selected sectors of the economy. Alternative modes of financing, such as, venture capital are being developed to support the development of new growth areas. Various schemes have been devised to assist SMEs at the start-up and early stage. There have been seven new schemes established in 2010 to assist SMEs, particularly in the services and agriculture sectors, as well as to promote entrepreneurship among micro enterprises and school leavers.

As a central coordinating agency, SME Corp. Malaysia is also tasked to ensure that financial assistance schemes by all relevant Ministries and Government Agencies across all economic sectors are monitored for its effectiveness in facilitating SMEs to progress up the value chain. SME Corp. Malaysia also promotes financial inclusion for SMEs especially micro enterprises.

The Government announced the RM1.5 billion Green Technology Financing Scheme (GTFS) in October 2009 to promote investments in Green Technology. The Government provides a guarantee of 60% on the financing amount via the Credit Guarantee Corporation Berhad (CGC), while the remaining 40% financing

risk is borne by the participating financial institutions. The Scheme came into effect on 1 January 2010 for a period of three years or until the Scheme limit of RM1.5 billion is reached. Malaysia Green Technology Corporation (formerly known as Pusat Tenaga Malaysia) has been tasked to conduct technical audits on applicants of the scheme which include green technology providers as well as users of green technology, to ascertain eligibility. Applicants who are eligible will be awarded a Green Technology certificate, which will then entitle them to apply for financing under the GTFS.

The Government also encourages banking institutions to establish advisory units to support SMEs also reinforced increased access to financing. The Bank Negara Malaysia has established a Small and Medium Enterprise Special Unit, which acts as a centre of assistance to viable SMEs in obtaining financing facilities. The Unit assists by providing information on the various sources of financing available to the SMEs and to facilitate SMEs in their loan application process apart from providing advisory services on other requirements.

The Bank also continues to actively reach out to support SMEs through the provision of financial planning and risk management services, and the promotion of financial literacy alongside similar initiatives by financial institutions. Public-private partnerships between The Association of Banks in Malaysia and Bank Negara Malaysia have also worked successfully to encourage improvements in customer service levels and the turn-around time taken to process SME financing applications. Another significant measure by CGC was to set up SME Credit Bureau, with the support of Dun & Bradstreet. This is the private sector initiative in collating and providing credit information on SMEs. In the public sector, there is already one such bureau called Centralised Credit Reference Information System or CCRIS that is managed by Bank Negara. Both these institutions were found to have facilitated and enhanced credit availability to the SME sector and also benefited the SMEs to a great extent. These initiatives have yielded tremendous payoffs to the national economy.

In 2005, Bank Negara embarked on a strategy to transform CGC beyond that as a provider of credit guarantees to enhance the contribution of the fast-growing SME sector to the national economy. CGC introduced a number of initiatives under its transformation plan, such as, widening the scope of guarantees to also cover financing by Islamic banks and development financial institutions, introducing a new guarantee scheme for start-up SMEs, participating in Malaysia's first synthetic securitisation of SME loans, introducing an equity financing arm, and introducing risk-based models for determining guarantee fees. More importantly, it is also being positioned to provide advisory services on financial and business development to SMEs. CGC is being now positioned to provide a wider range of credit enhancement products.

CTOS is an independent body that holds credit track and personal information about debtors in Malaysia via online system. It was established as a private limited company in 1988 to conduct a business of credit reference information services provider. Frequently it is also referred for leads and information about debtors' performance during loan or credit card processing.

PHILIPPINES

The Bangko Sentral ng Pilipinas (BSP, translated as Central Bank of the Philippines) is the central bank of the Republic of the Philippines. The importance given to the SME sector in Philippines is vindicated by the fact that under the Magna Carta, all lending institutions as defined under Bangko Sentral ng Pilipinas rules, whether public or private, have to set aside at least eight percent (8%) for micro and small enterprises and at least two percent (2%) for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter, and make it available for MSME credit. The Magna Carta also mentions that the Bangko Sentral ng Pilipinas shall establish an incentive program to encourage lending to micro, small and medium industries beyond the mandatory credit allocation to said enterprises, such as possible reduction in bank's reserve requirement.

The Government of Malaysia is implementing a program called SME Unified Lending Opportunities for National Growth (SULONG) where funds are lent out to SMEs in addition to the existing mandate. Interest rates are pegged at 9 per cent per annum (p.a.) for short-term loans, 11.25 per cent p.a. for medium-term loans and 12.75 per cent p.a. for long-term loans.

Guarantee Program - This product was designed to encourage financial institutions to lend to SMEs by providing a guarantee cover of up to a maximum of 90% on the loans of qualified entrepreneurs. Such a scheme is aimed at increasing the flow of funds from the formal lending institutions to the small and medium enterprise sector, especially those without collateral.

Rediscounting Facility for Small Enterprise Loans - It is a credit window where accredited financial institutions (AFIs) may negotiate their eligible SME loans/credit instruments with SBFIC. AFIs, which wish to avail of loans from the window, can rediscount their promissory notes by assigning/endorsing with recourse promissory notes in favour of the SBFIC together with its underlying securities.

Transactional Direct Financing Facility - This is a stop gap program which immediately addresses the credit needs of SMEs, particularly in the export sector. The program aims to assist SMEs at critical periods such as in the production of outstanding confirmed orders or the liquidation of receivables to finance ongoing production. Industrial Guarantee and Loan Fund (IGLF) - This may be availed by enterprises engaged in the manufacture or processing of products on a commercial scale as well as the delivery of services supportive of manufacturing activities. It also provides credit supplementation support through the extension of guarantee schemes to stimulate the flow of credit to SMEs. The facility may be used for the purchase of factory site for new and expansion project, construction of factory building, purchase of equipment and permanent working capital.

REPUBLIC OF KOREA

The Government of Korea has been taking a number of policy and institutional measures for enhancing credit flow to their SMEs. A number of financial safety net has been established by the Government of Korea to help small businesses to overcome the financing shortage, e.g. establishment of Korea Development Fund

(KDF), an advance market friendly financial institution with the objective of supporting promising SMEs, an SME Promotion Fund for restructuring sick enterprises and to nurture business start-ups, credit guarantee, set up the Micro-enterprise Assistance Center in 1999 as a professional organization dedicated to providing counseling, advice and information on the start-up and improvement of business, etc.

After recognizing the conventional market risks of competition if they did not adapt themselves, the government provided financial support for redevelopment of conventional markets in 1996, carrying out its “Small Store Modernizing Project” at the same time to strengthen support for small-scale retail businesses.

Bank lending to SMEs is characterized by “blue-chip” loan practices and loans backed by mortgages and certificates of credit guarantee. This environment presents financing bottlenecks that stifle micro-enterprises as well as promising SMEs with competitive technology and growth potential but weak financial structure.

Meanwhile, SMEs also face hurdles in the direct financing market due to low credit

It also is fostering excellent new and green technologies in next-generation growth sectors that are facing bottlenecks in access to mainstream financial markets. Furthermore, for active investment in new technology businesses, the government established a “Technology Credit Guarantee Fund (TCGF)” in 1989 that guaranteed debt repayments of companies that developed new technologies or commercialized new technologies. To expand credit guarantee support for SMEs that didn’t have enough collateral, but with remarkable technologies, the government introduced and operated a “Special Support System for Technology Credit Guarantee.”

The main forms of policy financing consist of policy capital loans, credit guarantees, on-lending, and aggregate ceiling lending, the scale of which has increased significantly in the wake of the global economic crisis that began in late 2008. Credit guarantees are channeled into early-stage venture companies and Inno-biz, since SMEs with high credit ratings can easily draw loans from banks. Due to the government’s emphasis on the efficient allocation rather than the size of credit guarantees, the amount of recent outstanding balance of credit guarantees is decreasing.

Today, the key players in the SME financing support system in Korea are the Small and Medium Business Corporation (SBC), which primarily facilitates investment and loans from start-up and promotion funds as well as credit guarantees, the Bank of Korea, which implements the aggregate credit ceiling system, and the Korea Policy Banking Corporation, which oversees the on-lending program. SBC’s role is to contribute to SMEs’ stable capital management and reduction of capital expenses as well as to supply funding for SMEs in a timely manner and minimize damage to SMEs when shocks occur due to non-economic factors, such as, natural disasters or sharp international raw material price hikes. The three implementing agencies respectively serve SMEs operating in different categories: KODIT supports non-technology-oriented SMEs – start-up firms, exporting firms and green-growth firms; KOTEC serves technology-oriented SMEs – venture firms, INNO-BIZ firms and green-growth firms; and KFRCGF supports regional micro businesses – small firms, self-managed micro firms and unregistered micro businesses.

Since the implementation of a local self-governing system, the government allowed for a foundation to guarantee local credit, which guaranteed the debt repayment of local SMEs by enacting the Act on Local Credit Guarantee Foundation in 2000.

The Korea Policy Banking Corporation (KPBC) suggests guidelines regarding SMEs targeted for support and supplies on-lending funds to financing institutions. The financing institutions then examine applicant SMEs and decide whether to provide loans or not, as well as the loan interest rate. KPBC provides credit and liquidation underwriting to ease the risk to the financing institutions.

In a fourth pillar of support, the Bank of Korea (BOK) ensures systematic support for SMEs under two key programs – the aggregate credit ceiling system and the mandatory minimum SME loan ratio system. In the aggregate credit ceiling system, the BOK allocates funds to 17 banks after determining aggregate credit ceilings quarterly based on the results of loans provided to SMEs by the banking institutions. In July 2007, the aggregate credit ceiling support provided by the BOK was 6.5 trillion won, but in response to the economic crisis, the central bank increased the ceiling sharply to 10 trillion won by March 2009. The BOK applies lower than prevailing market interest rates to its aggregate credit ceiling loans to achieve policy goals, including expansion of SME lending and balanced regional development; for example, the rate was lowered from 3.5% per annum in August 2008 to 1.75% in December 2008 and further to 1.25% in February 2009.

The second BOK program that assists SMEs is the mandatory minimum SME loan ratio system. The central bank encourages lending banks to provide more than an established ratio of loans from the won-currency finance fund to SMEs: for commercial banks the ratio is more than 45%, provincial banks over 60%, and domestic branches of foreign banks over 35%. Those banks that do not achieve these ratios are disadvantaged when the BOK allocates aggregate credit ceilings by having 50% of the amount not achieved cut from their respective aggregate credit ceilings.

To promote investment into venture companies, the government opened an investment mart in 1998 and provided benefits to cooperatives that invested into venture companies, allowing 20% of the amount invested to be deducted from general income. To facilitate the establishment of venture companies, the government allowed professors and researchers to have multiple duties after obtaining approval and participating in the management of start-ups. For effective support of venture companies, the government attracted foreign investment funds and established a Korea Venture Fund worth 100 billion won.

To facilitate establishing venture companies, the government increased the number of start-up instruction centers (Business Incubator) and expanded the facilities of these centers, providing operating cost support depending on the operation performances of these centers. The government revised the venture company confirmation process, so that confirmation that had been done by the Small and Medium Business Administration was transferred to the Technology Credit Guarantee Fund, Small and Medium Business Corporation, and venture capital companies.

- the Korea Fund of Funds (KFoF) was established in 2005. In contrast with the previous system, where the government directly chose the recipient companies as well as determined the amount of funds, the KFoF allows a fund manager to evaluate, select, and distribute capital to a number of funds.
- In 2004, the government introduced a **Network Loan system** to collect from large companies in a more timely manner. In January 2005, “Korea Enterprise Data” was established to provide credit information of SMEs to relevant data companies.

SOUTH AFRICA

The Report on ‘SMEs Access to Finances in South Africa (2002) by the Task Force of the Policy Board for Financial Services and Regulations stated that the following policies were in vogue for the SMME sector in South Africa:

- There were interest rate limitations for SME loans up to R 3,00,000
- all SME loans above R10 000 or with repayment terms above three years cannot gain the benefit of the favourable interest-rate environment created by the Exemption Notice.
- The establishment of a Small Firms Loan Guarantee Scheme.
- A range of interventions aimed at enabling innovative knowledge-based businesses to secure bank finance. These interventions include setting up a “Knowledge Bank” (i.e. a special fund created by issuing bonds to private-sector institutions, which in turn would be lent on to eligible businesses); a loan guarantee for bank lending to knowledge-based start-ups; and a “Challenge Fund” under which private-sector financiers could bid for government support for finance provided to knowledge-based firms.
- An Enterprise Investment Scheme, which involves tax relief on investments in SMEs to help overcome the problems small companies face with raising small amounts of equity finance.
- “Corporate venturing”, which is an umbrella term for the establishment of mutually beneficial relationships between companies commonly, though not exclusively, between a large and smaller company in the same line of business. There was a proposal on introducing a tax incentive to stimulate the accelerated development of corporate venturing in the UK.

Credit Guarantees

Khula Credit Guarantee provides a range of guarantee products to banks in the private sector whereby Khula will assume a portion of the risk associated with lending into the SMME sector. In order to raise capital to acquire assets or for working capital, banks may require applicants to provide guarantees to secure the loan. Khula will furnish these guarantees to approved applicants with three products:

Financial Support to Black People

The National Empowerment Fund (NEF) was established by the National Empowerment Fund Act No 105 of 1998, to promote and facilitate black economic equality and transformation. Its mandate and mission is to be a vehicle for Broad-based Black Economic Empowerment (BB-BEE). Its goals are to:

- Foster and support business ventures pioneered and run by black enterprises
- Improve the universal understanding of equity ownership among black people
- Contribute to the creation of employment opportunities
- Encourage the development of a competitive and effective equities inclusive of all South Africans

2. Imbewu Fund

This fund is designed to promote the creation of new businesses and provide expansion capital to early stage businesses. The iMbewu Fund aims to cultivate a culture of entrepreneurship by offering debt, quasi-equity and equity finance of up to R20m comprising:

- Entrepreneurship Finance
- Procurement Finance
- Franchise Finance
- Rural & Community Development Projects

Technology Innovation Agency (TIA)

A new umbrella body, launched in 2010, for funding innovation set up in 2009, includes the Tshumisano Trust which housed the technology transfer stations, the Innovation Fund, the Council for Scientific and Industrial Research (CSIR)'s Advanced Manufacturing Technology Strategy.

TURKEY

Venture capital and credit guarantee systems are the most important and commonly used systems in Turkey for increasing the SMEs' capability to access the finance. The credit guarantee funds help to provide collateral for the SMEs which have viable projects and need finance for their investments. Credit Guarantee Funds act as intermediary organization and make it possible for the SME'S with the inadequate collaterals to apply for bank credits.

Turkey has improved its ability to finance the SMEs in the last few years and the ratio of using bank finance for investment has increased from 18.7% in 2005 to 35.8% in 2008. Some of the important measures relating to SME credit are:

- SME Credit Support Mechanism: By Starting 2003, some amount of KOSGEB budget has been allocated to SMEs in low or zero interest rates by the intermediary banks. In other words, SME Credit Support System can be considered as an interest rate support on bank loans. In order to minimize the impact of the financial crisis on SMEs, Turkish government has taken some precautions. In this regard, KOSGEB has signed protocols with banks so as to provide financial credit at an agreed interest rate to eligible SMEs where eligibility rules are pre-determined by KOSGEB and the bank together. Hence the applying SME is analyzed in this respect by both KOSGEB and the bank. The interest cost of the credit is paid to bank by KOSGEB, where only the principal amount of the credit is paid back to the bank by the benefiting SME at a determined pay back period.

Credit Support Programme for Exporting Companies

- In order to support exporting SMEs, KOSGEB provides credit for exporting SMEs with “zero” interest rate to promote their export capacity and increase their competition level.

European Investment Banks

- Indirect Lending: Pushing banks to loan to SMEs through incentives and financial backing has also been proven to funnel credit to SMEs. The European Investment Bank (EIB), the EU’s long-term lending institution, opened up a 1.5 billion euro credit line in 2009 for Turkey’s banks to draw on and lend to Turkish SMEs.
- The government also provides support in the form of repayable subsidies directly to industrial SMEs participating in the IGEM and TEKMER centers operated by KOSGEB. These subsidies are mainly used for investment in equipment and technology. So long as these subsidies are repaid, their budgetary cost is limited to the interest cost of financing them until this occurs.

CHAPTER 5: LABOUR LAWS

An analysis of 8 countries under the study on various labour related parameters, as per Global Competitiveness Report 2011, reveals that Malaysia scores ahead in areas like good labour-employer relationship, rigidity in employment, very low hiring and firing practices and pay and productivity (table 5.1). China fares better with 2nd rank in hiring & firing practices and pay & productivity; 3rd rank in labour-employer relationship, wage flexibility and 4th rank in rigidity in employment. While Republic of Korea ranked last in good labour-employer relationship, Italy stood last in wage flexibility and pay & productivity, Brazil in employment rigidity and South Africa in hiring & firing practices.

BRAZIL

In the Brazilian system of employee – employers relationship, employment may be terminated, other than at the initiative of the employer, by the worker; for reasons unrelated to the wishes of the parties; through the operation of law; by mutual consent of the parties; upon the retirement or death of the worker; and on expiry of the contract period or completion of the task.

The employment relationship may be terminated by the employer for just cause which encompasses dishonesty; misconduct or bad behaviour; habitual engagement by the employee in commercial transactions on his or her own account or for another without his or her employer's permission, if this involves competition with the undertaking in which he or she is employed or is prejudicial to the performance of his or her work; a sentence passed on the employee by a criminal court without suspension of the execution of the penalty; idleness of the employee in the performance of his or her duties; habitual drunkenness or drunkenness while on duty; disclosure of a secret of the undertaking; breach of discipline or insubordination; desertion of post; any act detrimental to the honour or good repute of another which is committed during employment, or an assault under the same conditions, except in case of legitimate self-defence or defence of another; any act detrimental to the honour or good repute of, or an assault against, the employer or a superior, except in case of legitimate self-defence or defence of another; or habitual indulgence in games of chance. The Constitution also contains provisions on trade union immunity. It prohibits the dismissal of a unionized employee, except on account of a serious offence, from the moment he or she registers as a candidate for a leadership or representative position in the trade union and for one year thereafter.

The Law in Brazil established the Unemployment Guarantee Fund (FGTS), a welfare initiative intended as an alternative to the tenure system. The FGTS system required employers to deposit 8% (8.5% since September 2001) of each employee's formal monthly wage into an account managed by a state bank on behalf of the employee. Deposits are adjusted for inflation and an annual interest rate. Any employee unfairly dismissed under FGTS is entitled to withdraw a proportion of the FGTS balance accumulated while he or she was at the firm.

Pursuant to *sec. 643* of the CLL, disputes arising out of relations between employers and employees should be settled by the labour courts. The Labour Appeal Court, regional labour courts, and the conciliation and arbitration boards or the courts of ordinary jurisdiction have jurisdiction (*sec. 644*, CLL). Recourse to the labour courts is compulsory, without exemption, except for good and sufficient reason

CHINA

China has a sound labour protection system in the form of the Labour Law of the People's Republic of China, 1994 (the "Labour Law"), which came into effect in January 1995, and in 17 regulations pertaining to Labour Law promulgated in 1994. In China, security of employment is less of an issue under the traditional structure. Termination of "lifelong" employment was subject to the official approval of the State (the "iron rice bowl").

There are three types of termination of employment: termination on agreement, dismissal by the working unit (in the discourse of Chinese law, working unit means employer), and terminating the labour contract unilaterally by the employee. In China, the employer does not have the freedom to terminate employment at will. Dismissals unilaterally made by an employer can be categorized as "unfair dismissal", "summary dismissal", or disciplinary dismissal), "normal dismissal" and "economic dismissal". Under the law of land, a claim of unfair or illegal dismissal would be successful where the worker is dismissed for reasons of incapacity to work due to disease or injury suffered at work; where the worker is in receipt of medical treatment; or, in the case of a woman worker, during pregnancy or the puerperal or breast-feeding period. The dismissal is not a stigma in Chinese society because with the development of the Social Security system and social services, the impact of dismissal is not as severe as before.

Where the employee has been dismissed, the employer is required to provide economic compensation. However, no compensation is granted where the employee is dismissed for violation of labour discipline or where he or she neglects his or her duty or engages in malpractice. In the case of individual, dismissal only provides for some compensation, but no reinstatement, except in case of pregnancy. In the case of collective dismissals, a redundancy / severance payment is made at the rate of one month for each year of service.

As far as the avenues for redress is concerned a worker has the right to appeal his or her dismissal to arbitration, or take legal proceedings where arbitration is unsuccessful. The avenues for redress include consultation, mediation, arbitration and litigation.

ITALY

The constitution of Italy has broad principles to protect the interest of labour force. Labour law is concerned only with the private sector and is traditionally clearly distinguished from the law on public employment. The Law providing mandatory protection against dismissal does not cover domestic workers, executives and employees aged over 60 years who are entitled to an old-age pension but who have opted to work until age 65. A contract may be terminated if the company ceases doing business completely (not where the employer merely changes activity), by mutual consent, because of *force majeure* or the total incapacity of the employee, the withdrawal of one party without the consent of the other, or one party failing to fulfil the contract.

There are a number of provisions protecting individual categories of employees, which will render their dismissal automatically unfair; for example, dismissal on the grounds of political opinion, trade union membership, sex, race, language or religious affiliation will automatically be unfair, and members of workers' committees may not be dismissed or transferred for one year following the cessation of their duties on the committee without the authorization of the relevant regional trade union organization. Discriminatory dismissals are considered null and void. Reinstatement of these workers is mandated by law.

Employees are entitled to a severance payment for any termination of contract based on the formula of a year's salary divided by 13.5, plus 1.5 per cent for each year's service plus compensation for inflation. It is payable whenever an Italian employee leaves his or her job for whatever reason, and is based on length of service with the company. Instead of assessing it on the basis of the last wage multiplied by the years of service, the law provides that every year a certain amount of wages is set aside to be paid upon termination. In case of the termination of employment, the worker is entitled to receive from the employer, in addition to any other sum of money, a special allowance called seniority indemnity.

Employers employing more than 15 employees (or five in the agricultural sector) in each establishment, branch, office or autonomous department, and employers employing more than 60 workers, wherever located, are liable for reinstatement of the employees and payment of damages equal to a minimum of five months' pay. Alternatively, the employee can refuse reinstatement and request payment of damages equal to 15 months' pay. If the employer invites the employee to return to work and the employee does not take up the offer within 30 days, the contract is automatically terminated. Where there are fewer than 15 employees in each unit or fewer than 60 employees in total, the case cannot come before a magistrate unless conciliation has been requested beforehand according to the procedures laid down in collective agreements.

MALAYSIA

In Malaysia, termination can originate either from the employer or employee. When the employer terminates the contract, he has to give a notice. If an employee is absent for more than two consecutive working days, without leave or reasonable excuse, then his or her employment may be terminated. Dismissals on the grounds of misconduct, except in case of trade union activities, are possible without notice, but only after "due inquiry" by the employer. In addition, for retrenchments, there is statutory severance pay which must be paid. The courts have required employers to operate the "last on, first off" principle when retrenching employees. Domestic workers can be dismissed on 14 days' notice, or payment in lieu of notice, or without notice in the event of conduct "inconsistent with" the terms and conditions of their employment contract.

Compensation in case of termination is decided on the basis of : ten days' wages for each completed year of service of less than two years; 15 days' wages for each year of two to five years' service; and 20 days' wages for each year of service exceeding five years. These Regulations apply to employees with more than one year's service and, again, set out statutory minima only, which the parties are free to increase by agreement. They do not apply to dismissals for misconduct, after due inquiry; terminations upon the employee attaining retirement age; or voluntary terminations by the employee.

PHILLIPINES

The labour protection is very strongly mentioned in the constitution of Philippines. The Constitution affirms labour as a primary social and economic force and mandates the State to protect workers' rights and welfare. Workers have the right to security of tenure under the Constitution.

The Law recognises equality of rights between employer and employee. While the employer cannot force the employee to work against his or her will, neither can the employee compel the employer to continue giving him or her work if there is a lawful reason not to do so. Thus, the employer may terminate the services of an employee for just or authorized causes after following the procedure laid down by law, but the employer has the burden of proving the lawfulness of the employee's dismissal in the proper forum. Just causes are blameworthy acts on the part of the employee, such as, serious misconduct, wilful disobedience, gross and habitual neglect of duties, fraud or wilful breach of trust, commission of a crime and other analogous causes. Authorized causes are of two types – business reasons and disease. The business reasons are installation of labour-saving devices, redundancy, retrenchment and closure or cessation of operation. Before the employer can terminate on the ground of disease, he must obtain from a competent public health authority a certification that the employee's disease is of such a nature and at such a stage that it can no longer be cured within a period of six months even with medical attention.

Severance salary is required to be paid to the employee when there is termination of employment by the employer for an authorized cause, the amount of which depends on the cause. If the termination is due to the installation of labour-saving devices or redundancy, the separation pay is one month's pay for every year of service or one month pay, whichever is higher. If the termination is due to retrenchment to prevent losses, or closure or cessation of operation of the establishment not due to serious business losses, or due to disease, the separation pay is one-half month's pay for every year of service or one month pay, whichever is higher. However, there is no requirement for separation pay if the closure is due to serious business losses.

REPUBLIC OF KOREA

In case of South Korea, the term of a labour contract cannot exceed one year, except in cases where there is no term fixed or a term is fixed as necessary for the completion of a certain project. An employer may not hire a fixed-term employee for a period exceeding two years. However, if the employer hires fixed-term workers for more than two years, the fixed-term contract for employment will be considered as concluded for an indefinite duration. In regards to child Labour, the LSA prohibits the ability of the parent or guardian to enter into a Labour contract on behalf of a minor. The parent and guardian of a minor, or the Minister of Labour may terminate a Labour contract, if a Labour contract is deemed disadvantageous to the minor.

An employer must not dismiss, lay off, suspend, transfer a worker, or reduce wages, or take other punitive measures against a worker without justifiable reason. Moreover, an employer must not dismiss any worker during a period of temporary interruption of work due to medical treatment of an occupational injury or disease and within 30 days afterwards. If an employer wants to dismiss a worker for "managerial

needs”, there must sufficiently necessary grounds to do so, which can include, namely, transfer, acquisition, and merger of business which are aimed to avoid financial difficulties. The employers must not dismiss or discriminate against a worker on the grounds that the worker has joined, or intended to join a trade union or to establish a trade union, or has performed a justifiable act for the operation of a trade union.

In case of dismissal or termination, the employer has to make a severance pay to employees who have rendered services of more than one year. If a worker dies or retires, an employer has to pay the wages, compensations, and other money or valuables within 14 days after the cause for such payment has occurred; however, the period, under special circumstances, may be extended by the mutual agreement between the parties concerned.

SOUTH AFRICA

There are four sources of law that regulate the termination of the employment relationship in South Africa: the Constitution, legislation, the common law and collective agreements. The South African Constitution entrenches several fundamental rights concerning labour relations. These rights apply to legislation and to the common law. They are also capable of being made applicable to employers and employees in the private sector. The constitutional right to fair labour practices includes the right not to be unfairly dismissed. The Constitution requires the courts or arbitration tribunals to “consider international law” when interpreting the provisions of the Bill of Rights.

“Every employee has the right not to be unfairly dismissed”. According to the Law, any dismissal is unfair if it is based on an “automatically unfair reason”. A dismissal will also be unfair if it is not for a fair reason based on the employee’s conduct or capacity, or owing to the employer’s operational requirements, or if the correct procedures have not been followed. This is the case even if the dismissal complies with any notice period in a contract of employment or in legislation governing employment

The Law requires severance pay in the case of dismissal for economic reasons, unless the employer is exempted from this obligation by the Minister. A basic rate of at least one week’s wages per year of service is required, but only for dismissals for operational requirements. This rate, which accords with current industry norms, may be adjusted by the Minister from time to time. It may also be improved upon by collective agreement. Where a dispute over severance pay forms part of a dispute over unfair dismissal for economic operational reasons, it is determined as part of the latter dispute by the Labour Court

TURKEY

Contracts of employment in Turkey include indefinite period, fixed-term, temporary, part-time and full-time contracts, contracts in continual and transitory work, work on call, contracts based on a gang contract. The Turkish Law provides provisions regulating and preventing the use of temporary and fixed-term contracts: an employment contract for a definite period must not be concluded more than once,

except when there is an essential reason which may necessitate repeated (chain) contracts. Otherwise, the employment contract is deemed to have been made for an indefinite period from the beginning.

There are two kinds of termination of employment contract at the initiative of the employer in Turkish Employment Law. The first kind concerns the serving and respecting of a term of notice. The second kind is known as ‘termination without term of notice’ or ‘terminating (or breaking) the contract for just cause’. Termination that respects a term of notice is only applicable to employment contracts for an indefinite period, but termination without a term of notice (generally, for just cause) is applicable to contracts for a fixed-term, as well as to contracts for an indefinite period.

Under the Turkish Law, in the event of termination of the contract of employment of an employee with at least one year of service and covered by the employer for reasons other than those set forth as per (for malicious, immoral or dishonourable conduct or other similar behaviour); by the employee on ground of he contract by the employee for just cause”); or on account of compulsory military service; or for the purpose of qualifying for an old-age or disability insurance pension or a lump-sum payment from an insurance organization or a fund established by the constitution; or voluntary termination of the contract by a woman employee within one year from the date of her marriage, the employer must pay seniority severance pay equal to 30 days’ wages for each complete year of service or in proportion for any fraction thereof, effective from the date of employment and for the entire duration of the contract.

CHAPTER 6: EXIT POLICY

The Principles for Effective Insolvency and Creditor Rights Systems (the Principles) of the World Bank proposes that an effective system of solvency regime should respond to national needs and problems, that transparency, accountability, and predictability are fundamental to sound credit relationships and finally, legal and institutional mechanisms must align incentives and disincentives across a broad spectrum of market-based systems—commercial, corporate, financial, and social. A comparative analysis of doing business in countries, a study by the World Bank, reveals that Rep. of Korea has the most favourable exit environment for SMEs. Korean SME can close their business in quickest time within 1.5 years as against 4 years in Brazil. Similarly, the cost of exit is also lowest in Korea with maximum recovery of more than 80%. In contrast, the cost of litigation and exit is maximum in Philippines, coupled with lowest recovery.

BRAZIL

The New Bankruptcy Law" of Brazil which came into effect in June 2005, introduced six key changes in the liquidation procedure. First, labour credits are limited to Firms’ capital Structure to an amount equalling 150 times the minimum monthly wage. Second, secured credits are now given priority over tax credits. Third, unsecured credits are given priority above some of the tax credits. Fourth, the distressed firm may be sold (preferably as a whole) before the creditors’ list is constituted, which can speed up the process and increase the value of the bankruptcy estate. Fifth, tax, labour, and other liabilities are no longer transferred to the buyer of an asset sold in liquidation. Finally, any new credit extended during the

reorganization process is given first priority in the event of liquidation.

The principal innovation for debtors is the inclusion of an out-of-court restructuring process (recuperação extrajudicial), analogous to a "pre-packaged bankruptcy" under the U.S. Bankruptcy Code. By contrast, the bankruptcy stay, which typically provides a debtor with breathing room to reorganize by precluding creditors from exercising their remedies against the debtor, is one of the most important features for debtors in a judicial reorganization (recuperação judicial). A debtor can now receive a stay from the court against legal actions by almost all creditors, secured and unsecured, once the bankruptcy petition is accepted by the court.

In a judicial reorganization, secured creditors can begin enforcement proceedings after the 180-day bankruptcy stay is lifted. Although it is possible that delays may occur, it is noted that, based on the provisions in the New Bankruptcy Law and prior court precedents, secured creditors generally have access to the proceeds of their collateral within three years of the date that a filing for a judicial reorganization is accepted by the court.

In the event of a default, the creditor had the absolute right to repossess, if necessary, and dispose of the asset and use such proceeds to satisfy the debt and any expenses related to the sale. This concept was later expanded to include other types of collateral, such as credit rights or receivables (by means of a cessão fiduciária) in addition to personal property (by means of an alienação fiduciária).

CHINA

The new bankruptcy law of China applies to all legal entities, including foreign invested enterprises and joint ventures, though it does not apply to individuals. Debtors with foreign judgments against a bankrupt Chinese company may be able to collect on that judgment in the Chinese bankruptcy.

The most important difference between China's new and old bankruptcy laws is that the new law gives secured claims priority over employee, tax, and general claims,

The new Chinese law permits a single creditor to initiate an involuntary bankruptcy proceeding. The Chinese law specifically says that any creditor can initiate the proceeding, and such proceedings can be initiated against any legal entity. This provision could give creditors huge leverage. Notwithstanding the same, under a reorganization, a company is given protection from creditors while still being able to continue operating, if it can meet certain tests.

ITALY

The new bankruptcy law in Italy aims at creating a process similar to Chapter 11 in the United States, transferring the focus of proceedings from liquidation to corporate reorganization and restructuring. The law succeeded in this, imparting a new attitude toward insolvency and bankruptcy. Overall, Italy's bankruptcy reform had 6 main aspects. First, it redefined the scope of bankruptcy proceedings from

punishing the debtor to satisfying creditors. Second, it expanded the role and scope of the creditors' committee. Third, it modified the rules on executory contracts in bankruptcy. Fourth, it allowed the bankrupt business' operations to continue. Fifth, it introduced discharge from unpaid debt for natural persons. Sixth, it simplified the liquidation of the assets and the distribution of the proceeds among the creditors.

The central philosophy of Italy's bankruptcy law is on debt restructuring agreements that rescue the business instead of liquidating the debtor's assets. In Italy, Law allowed the debtor to file a debt restructuring agreement before the court—already agreed with creditors and without any prerequisites. Out-of-court restructuring agreements are the most likely proceeding, taking less time to complete and preserving the business. This framework strengthened the creditors' rights, stimulating the flow of credit to small and medium-size firms, thereby, preserving the value of the company.

The new law divided creditors into classes whose interests are homogeneous. The law also introduced the concept of discharge, that is, giving the debtors the ability to restart as consumers and entrepreneurs.

MALAYSIA

Malaysia has both voluntary and involuntary bankruptcies. Individuals may choose to file for bankruptcy. However, they are also forced into bankruptcy if they leave the country for an extended period of time while having outstanding debts, Or if they transfer their debts to a trustee or if they intentionally mislead one of their creditors.

The Act defines the steps involved in getting an individual out of bankruptcy as given below:

Step 1) A receiving order is issued that declares an individual bankrupt. In Malaysia, a debtor can become bankrupt through either a debtor's petition or a creditor's petition.

Step 2) There is a meeting of the bankrupt individual's creditors and his assets are examined by the court.

Step 3) The judge creates a plan by which the bankrupt individual or his trustee (someone who agrees to pay a bankrupt individual's debt) agrees to pay back a percentage of the debts over a period of time, as determined by the court and

Step 4) Upon completion of payment to the creditor, the bankrupt individual's bankruptcy is officially discharged.

PHILLIPINES

A debtor in Philippines is considered insolvent if he is “generally unable to pay its or his liabilities as they fall due in the ordinary course of business or has liabilities that are greater than its or his assets.” The law provides for restructuring / rehabilitation of sick / loss-making enterprises. The law also provides for the following modes of rehabilitating an insolvent corporate debtor:

- Court supervised rehabilitation proceedings
- a debtor files a petition with the court for the approval of a rehabilitation plan which has been previously agreed upon by the debtor and its creditors representing at least 2/3 or the debtor's total liabilities (and at least 67% and 75% of the debtor's secured and unsecured obligations, respectively).
- Out-of-court or informal restructuring agreement or rehabilitation plans. In this scenario, the debtor and creditors representing at least 85% of the debtor's total liabilities (and at least 67 % and 75 % of the debtor's secured and unsecured obligations, respectively) agree on a restructuring or rehabilitation plan.

Another notable improvement is that while court- supervised proceedings are pending, all taxes and fees due from the debtor to the national and local governments are considered waived. Similarly, the amount by which any indebtedness or obligation of the debtor is reduced or forgiven shall not be subject to any tax.

In case the debtors cannot be rehabilitated, the new legislation states that they must go into liquidation for an orderly settlement of debts and liabilities. Under the Act, shareholders will be able to recover value from collapsed listed companies much more speedily, thus improving lenders' confidence in the country. Furthermore, both [businesses](#) and individuals on the verge of bankruptcy can ask for a suspension of payments to their creditors. If their assets amount to less than their liabilities, they may also petition for a discharge from their debts.

REPUBLIC OF KOREA

The Law makes all forms of companies eligible for corporate rehabilitation. Either the insolvent company or its creditors may file for bankruptcy and once it is adjudicated, the court appoints a trustee to conduct the liquidation process. Unsecured creditors need court judgments against the debtor to recover their debts, whereas secured creditors do not need a court order. Informal corporate rescue processes involve joint management by creditor financial institutions under the Corporate Restructuring Promotion Act (CRPA). The South Korean courts can now cooperate and exchange information with foreign courts and insolvency representatives to facilitate the effective and smooth enforcement of cross-border proceedings.

SOUTH AFRICA

The Act aimed at covering the insolvency of all types of entities - private individuals, companies, close corporations, and partnerships.

A debtor or his/her agent may petition to the court for the debtor's bankruptcy or a creditor may petition. The Insolvency Act also provides for the bankruptcy of debtors who are members of a partnership or who are spouses.

TURKEY

The law governing Turkish Insolvency procedures is known as the Execution and Bankruptcy Law (the EBL) (*İcra İflas Kanunu*). The 2003 amendments introduced two mainly debtor friendly procedures called "postponement of bankruptcy" and "reorganization by way of abandonment of the debtor's assets" (Reorganization). In addition, the EBL was changed (with a view to giving something to creditors) to provide for quicker bankruptcy procedures (e.g. the execution court is required to rule on a debtor's objections within 7 days) and cutting back the debtor's rights under the old EBL (e.g. during the hearing that will be held following the debtor's objection, the debtor may not raise any additional objections). The 2004 changes introduced another new procedure called "restructuring of capital stock companies by way of conciliation" (Restructuring).

CHAPTER 7: MARKETING

The World Trade Organization (WTO) came out with an Agreement on Government Procurement or (GPA) based on certain key provisions like Guarantees of national treatment and non-discrimination for the goods, services and suppliers of parties; Minimum standards regarding national procurement processes; procurements are carried out in a transparent and competitive manner that does not discriminate against the suppliers of other parties. The GPA currently permits "offsets" on a restricted basis.

BRAZIL

Brazil is not a signatory of the WTO Agreement on Government Procurement (GPA). However, under the national law, all government tenders of up to R\$80,000 in value must be granted exclusively to small and micro enterprises and 25% of the contract value of those tenders with a value exceeding this threshold, must be reserved for MPEs. Added to this, under the law, 30% of subcontracts from large and medium businesses are to go to small and micro enterprises. Micro and small enterprises would also be favoured with an allowance for up to 10% difference in price between the small or micro enterprise's price and the medium or large firm's price.

In the State of Ceará in Brazil, the government uses "demand driven" procurement approach in which the State buys from SMEs, while at the same time providing technical assistance to all phases of the businesses involved in procurement. The State did not purchase from individual SMEs but through associations of small manufacturers.

CHINA

Government procurement is an important policy tools used by the Chinese government for promoting domestic MSMEs. China has formulated Government Procurement Law (2003) so as to enable the government support and the guidance to have legal basis and also enable most SMEs' development to have a legal foundation. According to the Government Procurement Law and other laws and regulations, efforts have been made to continuously raise the proportion of SME products and services in government procurement. China launched the Fund for SME International Market Development in 2000 to support SMEs to participate in overseas exhibitions and fairs. The China International SME Fair has been held annually since 2003, providing a platform for SMEs to develop market and strengthen trade and economic cooperation.

ITALY

Italy, being a member country of European Union (EU) is a party to the WTO Agreement on Government Procurement (GPA), which it implements through the EU Public Procurement Directive 2004/18. Hence, Italy complies with the EU's obligations under the GPA. Italy scores well above the EU-average in several indicators like the share of SMEs in public procurement contracts and the proportion of state aid devoted to SMEs. In fact, for state aid it ranks first within the EU (33% as opposed to 11% for the EU-average).

The Italian government supports the export promotion and marketing efforts of SMEs, by providing information, technical assistance and facilitating attendance to international trade-fairs and trade missions. Among the key thrusts of this policy are to seek, within EC rules, to reduce disadvantages of small-scale production, by assisting in the stabilisation or improvement of SMEs, position in foreign markets and in the internationalisation and development of foreign trade.

MALAYSIA

A large percentage of the government procurement is allocated to two particular types of providers through two sets of interlinked preferences: one set involving preferences for Bumiputera (the native Malays), and another set of preferences for other domestic providers. Under the law, 30% of the procurement activity is reserved for small and medium enterprises (SMEs) who have been involved in the vendor development program. Once the SMEs have established some procurement activity, new SMEs are introduced to the vendor development programme. For many years, the programme focused mainly on aiding the development of domestic SMEs, by concentrating preferences in lower-value contracts where SMEs could best compete.

Market Development Grant (MDG) and Brand Promotion Grant (BPG) are the two main assistance programmes offered by MATRADE to assist Small and Medium Enterprises (SMEs) to undertake activities for the development of export markets. For MDG, companies can obtain a 50% reimbursable

matching grant on the approved cost of eligible activities. As for BPG, SMEs that are developing and promoting a brand can apply for either: A 100% reimbursable grant, subject to maximum of RM1 million per company per brand, or A combination of 100% and 50% reimbursable grants, subject to a maximum of RM2 million per company per brand.

PHILLIPINES

The Magna Carta for MSMEs requires that the state shall support MSMEs by “assuring to them access to a fair share of governments contracts and related incentives and preferences”. According to the provisions in the Act, eligible MSMEs shall be entitled to a share of at least ten percent (10%) of total procurement value of goods and services supplied to the Government, its bureaus, offices and agencies annually.

The Law also includes provisions of assistance in marketing and distribution of products of MSMEs through various support measures including overseas marketing promotion and fiscal support. The Government provides assistance in marketing and distribution of products of MSMEs through local supply-demand information, industry and provincial profiles, overseas marketing promotion, domestic market linkaging and the establishment of common service facilities such as common and/or cooperative bonded warehouse, grains storage, agro-processing and drying facilities, ice plants, refrigerated storage, cooperative trucking facilities, etc. In addition, The MSMED Council provides Business Advisory Services to Philippines SMEs through professional managers, trained advisers and specialist from various organizations.

REPUBLIC OF KOREA

In South Korea, the public procurement system ushered in a paradigm shift from Promotion-Protection based policies to Competition-Cooperation oriented policies. A competitive bidding scheme has been introduced for SMEs in the government procurement system. Another aspect of the Government procurement policy in South Korea is that it is seen as a tool to promote technological innovation in the SMEs. Public institutions are required to purchase SMEs’ technological products that have been approved for performance by the government, thereby promoting technology development of SMEs.

After the Asian crisis in 1997, the government urged public organizations to buy 5% or more of their products from the SME sector so as to enable the sector to expand sales channels and stabilize management. In a bid to support sales, the government also fosters the enhancement of co-operation between large corporations and SMEs and supports procurement of SME products by public organisations, the development of joint brands by a number of producers, and the attainment of quality certification, all of which contribute to enhance product reputation. The government of South Korea’s e-procurement site has also been successful in reducing the time it takes to pay suppliers – from 14 days to just four hours.

For SMEs that intended to set up local subsidiaries overseas, the government put in place an “Export Incubator” in major overseas markets.

SOUTH AFRICA

The National Government of South Africa since 1994 has embarked on a number of interventions to address the problems of marketing of SMEs in South Africa. Some of these interventions are: (i) The Preferential Procurement Policy Framework Act, in 2000, (ii) Framework for Supply Chain Management 2003 and (iii) Black Economic Empowerment (BEE) Strategy, 2008. In essence, the enabling laws provide for procurement preferences of 10% or 20% of the points awarded on a variety of factors, such as, race, gender, differently-abled, factor-intensity of the industry, training programmes, labour conditions, environmental impact, firm size, location, intra-industry links and economic multiplier effects.

Subcontracting programmes are viewed as an effective means of involving SMEs in public procurement activities. In such programmes, the government awards a contract to a large firm with the requirement or goal that the large firms purchase a specified percentage of the value of its intermediate inputs from SMEs. Subcontractors account for more than 60% of the work in construction. The South African approach has been to integrate its subcontracting programme into its targeted procurement programme.

Under the BEE codes, businesses with an annual turnover of above R35 million can score 15 points on the BEE if they spent 3% of their net profit on enterprise development. For those businesses where the annual turnover is below R 35 million, the target is 2% of the net profit.

In order to promote exports, manufacturing companies in Malaysia qualify for: a tax exemption on the statutory income equivalent to 10% of the value of increased exports, provided that the goods exported attain at least 30% value-added; or a tax exemption on the statutory income equivalent to 15% of the value of increased exports, provided that the goods exported attain at least 50% value-added.

TURKEY

Under the Turkish law, a 15% price preference is granted to domestic tenderers, if it is concluded that the supplies are of domestic origin. The Govt. organisation KOSGEB assists SMEs in, inter alia, participation in domestic and international fairs, as well as in business trips abroad to promote exports (50% of the expenses are covered, up to YTL 10,000); creating their own brands; and in export promotion credits.

The Turkish government approach to the support of internationalization of SMEs involves providing marketing information about demand in foreign countries and a possible government role as a facilitator to help with strategic alliances or partnerships.

CHAPTER 9: PROMOTIONAL & DEVELOPMENTAL

POLICIES AND PROGRAMMES

Promotion and development (P & D) of the MSME sector goes beyond the realm of credit. It essentially caters to the non-credit demand of the sector, i.e. capacity building through skill upgradation, technology modernization and innovation, enterprise creation, market linkages, cluster development, information dissemination, policy advocacy and a host of such supportive capacity building requirements. These P & D activities have been duly recognized by many countries which have formulated various policies and programmes for the holistic development of their SME sector.

BRAZIL

The various policies which are introduced by the Brazilian Government so as to facilitate the development and growth of the MSMEs in Brazil are: One stop shop, less Redtapism, SMEs forum: bringing together the various stakeholders on the same platform, National prizes for entrepreneurial excellence, Government procurements of goods, SME general law, National Innovation law, Credit co-operative, Micro finance, Guarantee/ collateral.

Cluster Development

The promotion of industry clusters in Brazil is one of the foundations of the new economic and social development strategy of the Government. The cluster policy provides for the identification of certain geographic regions in the country where firms have already clustered and where the government could possibly form a cluster to channel support to MSMEs. The Permanent Group for productive chains and clusters (GTP-APL) also identifies 142 priority clusters. Support for clusters is divided into five areas: capacity building and governance, innovation, market access, productive capacity and finance.

SEBRAE tries to come up with measures which include stimulating and strengthening small Brazilian entrepreneurs, through the managerial capacity enhancement, investing a large part of its budget in technological solutions and professional qualification, improving production techniques, etc. SEBRAE's method of cluster support precludes the existence of at least 20 enterprises linked to one common specialised production and that these enterprises employ at least a total of 100 people. Some of the cluster development programmes in Brazil have gone beyond simply economic performance and now concentrate on the social aspects also.

A key lesson clusters development in Brazil is that the decision-making process must follow a bottom-up strategy with the participation of all cluster members. A second lesson is that the success of any effort in cluster development essentially stems from having a credible institution to lead the process which can

attract other support organisations to join in. The cluster must also be capable of effectively contributing to increase in exports or to competitively substitute imports, must have market potential, and be able to generate jobs and income.

Innovation & Technology

the Ministry of Science and Technology (MCT) launched in late 2007 its own Action Plan for Science, Technology and Innovation (STI) for the period from 2007 to 2010. The Plan's main innovation-related objectives are to: 1) structure the Brazilian Technological System (SIBRATEC), a network of networks of institutions to support technological development of firms throughout the national territory; 2) increase the share of researches in firms to 33.5% in 2010 (26.3% in 2005); and 3) increase to 24% in 2010 the share of innovative firms receiving government support (18.8% in 2005).

Over the last few years, the BNDES has intensified support for innovation and created an Innovative Capital and Technological Innovation credit lines for the same. BNDES is also focusing on equipping companies with the ability to innovate, offering support for innovation business strategies. It also supports investments aimed at establishing, expanding and modernizing production capacity needed to absorb the results from research and development or innovation. This credit line also supports research and development or innovation that offer proven market opportunities, including developing incremental innovations in products and/or processes. The BNDES financing measures for innovation are separated into four categories: 1) fixed and variable rates; 2) variable rates; 3) BNDES card; and 4) grants (non-reimbursable).

Measures to improve the regulatory framework knowledge transfer (contract research, licences, research and IPR issues in public/academic/non-profit institutes) are being pursued. Policy measures to promote R&D cooperation, particularly with research institutes as well as indirect support to business R&D (tax incentives) have grown and been refined recently. Another initiative is setting up of Business Incubator which is a system that is growing in Brazil, and some programmes exist in the state and national level. Among the largest sponsors of incubators are federal agencies (52%) and private organizations (48% of total). Brazilian companies that began operations under the wing of organizations like ANPROTEC showed a survival rate of 75% after their first three years of operation,

Enterprise and Skill Development

Brazil recognises that the holistic development of the SME sector includes enhancement in the absorptive capacity of the sector itself. SME policy, together with technology, FDI and educational policies are closely intertwined and regarded as parts of an indivisible system. Two core aspects that shape the absorptive capacities of the SME sectors are (1) the educational policy and (2) incentive systems and market-oriented intermediaries.

CHINA

The Government of China encourages incentives to the National SME Developmental Fund through taxation policies. Governmental agencies concerned actively create good conditions, provide necessary and corresponding information services, and according to the demand of SME development, make arrangement for necessary space and facility for SMEs in urban and rural development plans, so as to support the establishment of SMEs.

Cluster Development

China has also witnessed rapid growth of industrial clusters in accordance with the principles of socialization, specialization and market-orientation. Three important features of these clusters are: Small Products but Big Markets; Small Enterprises but Large-Scale Cooperation and Small Clusters but Great Achievements. The cluster economy is made up of professional towns and villages functioning as production hubs, with one or more towns focusing on one product. Some areas have set up large-scale specialized production and marketing, which shows great potential for success. This essentially illustrates the concept of “one village, one product” or “one town, one industry” as exemplified by provinces like Jiangsu, Zhejiang, and Guandong. The concentration of production of certain products in these areas has given rise to such catch phrases as Shengze textiles, Hengshan sewing machines, Ningbo costumes, Wenzhou shoes, Shaoxing synthetic textiles, Haining leather coats, Yiwu small commodities, Yongkang hardware, to name a few. Local government units provide an enabling environment through appropriate policies and regulations as well as vital infrastructure, which are all essential to business. Small enterprises located in the areas between Shanghai and Zhejiang enjoy the convenience of having these facilities, which allow them to do business with local and foreign enterprises.

Innovation and Technology

The State formulates policies to encourage SMEs to exploit new products, adopt advanced technology, production method and equipment according to the demand of market, in order to improve the quality of products and realize technological progress. The SME sponsored technological innovation programmes and special technological upgrading programmes for products of large enterprises can enjoy discounted loans policy. Government departments concerned provide policy support in terms of planning, space use, finance and promote the funding of all kinds of technological service agencies; set up productivity promotion centres and technology-enterprise nurturing foundations; provide SMEs with technology information, technology consultation and generalization service; provide SMEs with products research

service and technology exploration service; promote the utilization of technology; realize the upgrading of technology and products of SMEs. The State encourages SMEs to cooperate with research institutions, universities and polytechnics on technology cooperation, exploration and communication, accelerate the industrialization of the technical achievements, and actively develop SMEs based on technology.

A series of policies have been implemented, such as, encouraging R&D investment, accelerating commercialization of sci-tech achievements and government procurement of domestic innovation products. China has founded more than 500 technology incubators, out of which, over 130 incubators are in high-tech business, since opening its first incubator in 1987. All these developments have facilitated the commercialization of research results and the transfer of technologies.

To strive for an innovative society by 2020, the Chinese government has adopted various policy instruments to foster enterprise-centred innovation with special emphasis on indigenous innovation, which includes but is not limited to providing direct funding for in-house R&D. Within existing support measures, the five most important innovation instruments with leverage effects are the Hundred Talents Programme, Innovation Fund for Small Technology-based Firms, CHINEKA Programme, Knowledge Innovation Programme, Hong Kong Innovation and Technology Fund.

Established in June 1999, the Innovation Fund for Small Technology-based Firms (Innofund) is a special government fund in support of technological innovations for small tech-based firms. This fund provides finances and facilitates technology transfer for Chinese-based enterprises. The missions of Innofund include supporting innovation, facilitating transformation of R&D results, cultivating tech-based SMEs, channelling investment to tech-based SMEs and promoting the establishment of an effective investment mechanism for high-tech industries. Funding is provided in the format of grants, subsidised loans (including interest allowances) and other equity investments. Although open to all Chinese-based technological SMEs, funding priority is given to high-tech, new enterprises and start-ups founded by overseas returnees.

Enterprise and Skill Development

To encourage business start-up, China actively supports the development of training programmes, entrepreneurship mentoring, and service agencies handling administrative matters for SMEs. Intermediary service agencies are encouraged to provide business start-up services. With government support, a group of business start-up bases have been established.

The National SME Galaxy Training Project is a training project specially designed for SMEs and financed by state revenues under the Law of the People's Republic of China on Promotion of Small and Medium Enterprises. The major idea of the Project is to: improve the comprehensive quality of the extensive SME operators and managers, SME executives, employees in SMEs and employees in SME service institutions, fully exert the leading role of subsidies from national revenues, promote the accelerated development of SMEs and sharpen their market competition edge.

ITALY

Cluster development

Italy has been considered as the leader of cluster development. Although there is strong competition among firms, often there is also a high degree of cooperation among firms which is famously known as 'Competition by co-operation'. In this system, the production processes are divided into distinct phases with separate firms responsible for different phases. The SMEs form group together, or regroup, depending on the requirements of the market. The success mantra of Italian cluster development model is the enterprise level specialization that allows small firms to focus their resources (which are often extremely limited) on what they do best (core competencies). The Government also provides some subsidies to the clusters.

Innovation and Technology

In the area of innovation, the Government has some important measures, such as, tax credits to encourage R&D and business cooperation with research institutions, tax exemptions for high-growth enterprises and the launch of Industrial Innovation Projects. Three industrial innovation projects in the field of energy efficiency, sustainable mobility and new technologies for the 'made-in-Italy' sectors are already under way, whereas two other projects on cultural heritage and life-science technologies are at the infant stage. The most important innovation policy measures are the tax credit for R&D, industrial innovation projects for energy efficiency, sustainable mobility and 'made-in-Italy' sectors, the risk capital fund for SMEs, and the brain-return measure. In addition, the Fund for Technological Innovation (FIT) Scheme is running with a thematic focus, including chemical-REACH and start-ups. The most important non-financial innovation policy measures relate to intellectual property which started with the launch of the new Industrial Property code that simplified the procedures for obtaining or transferring industrial property rights. The patent and IP system has been further strengthened through the introduction of the anteriority search/novelty assessment (operative since 1 July 2008) left up to the European Patent Office (EPO).

Another initiative which was included in the e-government 2012 plan is the programme to 'Set up a business in one day', providing a single online point of contact for business to comply with the necessary requirements (registrations, modifications, authorizations, etc.) and the rise in the age of young entrepreneurs (up to 35 years old) together with the elimination of specific categories of beneficiaries, goals and types of intervention which would help to have better access to favourable credit conditions. The various support measures introduced during the period July 2008 – July 2009 are the following: Innovation policy framework category, Tax exemption on capital gains from start-ups, Support to innovative start-ups including gazelles, National Fund for Innovation Consultancy and financial incentives to the use of IPR, Risk capital fund for SMEs support to risk capital, Strengthening patents and

intellectual property, Measures to raise awareness and provide general information on IPR Incentives for the elimination or reduction of substances of very Direct support of business R&D (grants and loans)

In order to promote industrial research in Italy, the Italian Government came out with a programme, 'Startech', which is to facilitate contacts between researchers and commercial enterprises and to boost the setting up of new high-tech ventures.

Enterprise and Skill Development

Enterprise development training is provided to SMEs at the national and regional level mainly by industry associations. Further, entrepreneurship is promoted simultaneously with vocational training systems. An interesting initiative in Italy is the entrepreneur exchange programme under which new entrepreneurs work up to 6 months with an experienced entrepreneur in another EU country and vice versa. Further, mini-companies run by students at school develop on a small scale a real economic activity, or simulate in a realistic way the operations of firms. In addition, there is a programme called FASTER whose goal is to promote the mainstreaming in Europe of good practices for entrepreneurship education with a training course to support high-growth oriented entrepreneurs.

MALAYSIA

Cluster Development

One District, One Industry (Satu Daerah Satu Industri - SDSI) is one of the flagship programmes of cluster development in Malaysia. The main objective of the programme is to strengthen and also generate greater commercial activities as well as employment opportunities in the rural areas.

Technology Incubation

It is observed that the Govt. of Malaysia and its various Ministries are seriously engaged in the promotion of modern technology in the SME sector. The Government's Technology Development Cluster (TDC) programme is designed to strengthen linkages between universities/research institutions and industries which includes, among others, setting up of incubation centres. Measures towards more effective collaboration include: making R&D programmes of these research institutes and universities more market driven to meet specific needs of SMEs, with emphasis on innovation; and Upgrading resource and institutional capacities of these research institutes and universities to enable the provision of more effective advisory services and commercialization of more research findings.

The Cradle Investment Programme by Ministry of Finance (MOF) with an allocation of RM70 million is to commercialise technology ideas towards building a stronger innovation ecosystem. The Ministry of

International Trade and Industry (MITI) through SME Corporation Malaysia (SME Corp. Malaysia) implements the SME Competitive Rating for Enhancement (SCORE) which is a diagnostic tool to assess and rate the competitiveness of SMEs based on company performance and capabilities. SCORE also identifies areas for improvement and develop appropriate action plans to guide and provide specific assistance to SMEs.

Entrepreneurship and Skill Development

Various Ministries of Govt of Malaysia are promoting entrepreneurship and skill development programmes. Techno-preneur development is expanded to support science and technology-based SMEs, particularly Bumiputera SMEs, to benefit from home-grown technologies. Measures include the provision of appropriate infrastructure, transfer of technology and improve access to financing. The Government's focus in encouraging Bumiputera to choose entrepreneurship as their career pathway has led it to initiate a series of entrepreneur road-shows called "Gerak Usahawan" since 2005. Among activities organized under this programme include: exhibition, briefings on the facilities and services provided by the government, and information on business opportunities.

Various educational institutions conduct a number of entrepreneurship development programmes, such as, Development Programme for University Students; Entrepreneur Training for University Students;

Basic Course in Entrepreneurship for University Students and Student in Free Enterprise. Some of the highlighted programmes are: Entrepreneur's Development Training (EDT); Achievement Motivation Training (AMT – 7 days); Exposure to Business Management Training (BMRT – 14 days,) which covers efficiency, business management exposure, suitability of individuals to projects, and outstation assignments; On-the-Job Training (EDT 3 – 60 days); and Business Planning (EDT 3 – 4 days).

There also a number of Technical Entrepreneurs Programme (Technopreneurs) for SMEs. The objectives of this Programme are to: Gain positive feedback on local development facilities to ensure quality services at minimal costs; Act as catalyst to the spawning of new businesses and the creation of conducive business environment; and Provide opportunities to skilled Bumiputera youth to be involved in business. This programme has increased the number of Bumiputera entrepreneurs and indirectly expedited the achievement of the National Development Policy.

International Training Programmes are intended to provide participants with exposure and exchange of ideas on the best practices in productivity and quality implementation.

Skill Enhancement encompasses Courses, Seminars and Workshops for the Timber Industry; In-house Training for Management and Production Technology; Product Development.

Information Dissemination

In addition to the physical outreach programmes, Ministries and Agencies used the Internet as a medium to reach the business community and enhance their awareness on outreach programmes available. Some of the channels are: SMEinfo Portal: www.smeinfo.com.my; SME Corporation Malaysia: www.smecorp.gov.my; MATRADE Online: www.matrade.gov.my; Agribazaar: www.agribazaar.com.my; iGuarantee: www.iGuarantee.com.my; HRDF training portal: www.hrdf.com.my; Technopreneur Development Portal: www.technopreneurdevelopment.net.my.

Advisory Services: Advisory services assume a bigger role as SMEs seek assistance amidst the challenging environment faced during the global financial crisis. Assistance extended to SMEs include advisory services and consultancy to help these companies ride over the difficult period. These, among others, include the One Referral Centre (ORC) at SME Corp. Malaysia to provide assistance to SMEs on all areas and the Helpdesk at MATRADE HQ to provide advice on matters relating to export business.

PHILIPPINES

The SME promotion framework law is guided by three principles in setting the pace for small and medium enterprise development: Minimal set of rules and simplification of procedures and requirements; Participation of private sector in the implementation of SME policies and programmes and Coordination of government efforts. There are two main product development objectives: the first is to create and sustain competitive advantage through product and package design and development, as well as through technology intervention and the second objective is to create an awareness and understanding of product development, its processes, and the ways in which a company can use it to advantage.

Technology Incubation

Research and Development (R&D) Programme aims to develop innovative technologies, products and solutions that will address the requirements of the industry, education and government sectors using Information and Communications Technology, Electronics, and Bioinformatics as enabling technologies. Similarly, the Organizational Development Programme aims to enhance the organizational integrity, efficiency, and effectiveness of the Institute to ensure better adaptation to new technologies, opportunities and challenges. It comprises of three sub-programmes, namely: (1) Human Resource Development, (2) Process Development, and (3) Knowledge Management. There is also equally an important programme called Technology Transfer Programme which is geared towards effective utilization of R&D results, enterprise development and capability enhancement of industry and academe.

Enterprise Development

DOST-Academe Technology-based Enterprise Development Programme (DATBED) develops entrepreneurial competencies among students, young professionals including out-of-school youths in selected academic institutions and NGOs while at the same time creating income generating projects for the involved institutions. Under this, venture finance is provided to fund start-up projects prior to full

commercial loans from financial institutions to accelerate the initial commercialization of new technologies.

Another programme on technology promotions called Production of Technology Packages (TECHPACK) Programme is designed to provide financial assistance for the preparation of pre-feasibility studies, feasibility studies and business plans for selected technologies to establish not only the economic viability of adopting/using the technology, but perhaps more importantly, to guide Philippine scientists in their R&D efforts to further improve the technology. Some of the S & T and R & D related programmes are:

- Prototype Development Assistance Programme : Provides financial support for the fabrication of commercial prototypes in order to shorten the lag time between development and utilization of available technologies and invention.
- Pilot Plant Assistance Programme: Provides financial and technical assistance for the establishment and operation of pilot plants prior to full commercialization of the same.
- Investors' Forum Programme: Brings together government and private technology generators, investors, financial institutions and technology adaptors interested in starting or improving technology-based ventures.
- ISTIV Productivity Awareness Programme (ISTIV-PAP) is a values-driven human resource strategy for quality and productivity (Q&P) improvement that is rooted on the five ideal attributes of a productive individual. I stands for industrious, S for systematic, T for time-conscious, I for innovative, and V for strong value for work.
- SME Network and Cluster Development aims to develop cooperative linkages between and among business enterprises working in close proximity as industry clusters. These clusters cooperate to accomplish a joint development project to help them achieve collective efficiency and capture markets.
- Entrepinoy Training Workshops under which CSE provides enterprise enhancement assistance programmes and services to ensure the growth of entrepreneurs, especially Start Your Own Business Enterprise (SYOBE), Basic Marketing, Purchasing and Stock Control, Costing and Pricing, Record Keeping
Promotion for Micro Enterprises, Micro Enterprise Taxes, Enhance Your Business Enterprise, Intermediate Record Keeping, How to do a Marketing Plan
Personnel/Human Resource Management, Understanding the Financial Statements, Entrepreneurship 101 (weekly free seminar).
- Social Advocacy is a national advocacy programme to help bring the entrepreneurial drive of SMEs to a higher level—from being “survival” or “necessity” entrepreneurs to becoming “opportunity” and “innovation” entrepreneurs. The broad objective is to unshackle the Pilipino from the fear of failure, the fear of taking risks, various misconceptions and stigmas about business ownership and self-employment.

Providing Assistance to Women

This initiative recognizes the special role of women in development and supports women entrepreneurs who are engaged in manufacturing, processing, service and trading businesses. Under this programme, government financing institutions (GFIs) like the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) are mandated to provide assistance to: Non-governmental organizations (NGOs) engaged in developing women's enterprises to limit of P2M, provided the NGOs has an operating track record of a year; Existing women enterprises to the upper limit of P50,000; and Potential women entrepreneurs with sufficient training up to a limit of P25,000 each.

REPUBLIC OF SOUTH KOREA

The Korean government has implemented a number of promotional and developmental policy measures to help develop and strengthen SMEs. In this direction, the government has implemented human resource development, technology development and management consulting services to assist SMEs. Tax incentives are made available to individuals who invest in new ventures and venture capital firms are also given preferential treatment by the government. SMBA provides credit and non-credit support combining financing, marketing, technology, business start-up, micro-enterprises, etc. In this respect, SMBA has implemented various policy measures, especially relaxing regulations which include a simplified procedure regarding small-scale stock exchanges, corporate value assessment by certified institutions, a streamlined procedure regarding M&As and business transfer, tax benefits, etc.

Technology Incubation

The government promoted its "Industry based Technology Development Project" to support technology development of SMEs and assisted them in resolving technological difficulties in different regions by strengthening their tech support through regional industry testing centres. From 1990, "SMEs that Advanced Technologies" were selected so that they obtain technologies which would lead to upgraded technology levels. The government introduced a "Competition System among SMEs" in 1995 to support the sales channels of SMEs and induce proper competition among SMEs, having limited competition or competition among designated SMEs when the government or public organizations procured the same items. In addition, as part of its project to secure areas to sell products, the government started constructing its "Comprehensive Distribution Centre for SME Products" in 1996.

In order to support the technology innovation of SMEs, the government enacted the Act on SME Technology Innovation Promotion in 2001. Also, the government recognized that supporting technologically innovative SMEs was an urgent matter, so they set up Inno-Biz in 2001 and set a goal of identifying and supporting 5,000 technologically innovative SMEs, 1,000 each year from 2001 to 2005. For rapid commercialization of new technologies, the government established a "Korean Techno-mart"

in 1998, establishing Techno-Net, where SME technology-related information was loaded onto an “SME Technology Exchange” in the Small and Medium Business Corporation.

Entrepreneurship and Skill Development

The Government’s policies and programmes on entrepreneurship encompasses a number areas including organizing venture businessmen's special lectures on entrepreneurship at universities, conducting youth start-up education, accelerating start-up activities of professors, researchers and collegiate, spreading youth entrepreneurship and boost business start-up activities and improving the spin-off start-up system for executives and employees of large enterprises

The SMBA has established a 'commercial complex information system' to assist micro enterprises' start-up activities and their managerial stability, and is operating a five-stage start-up package programme aimed at linking education and funding to encourage start-up activities. The purpose of these measures is to enhance the success rate of start-ups. Some other programmes are:

Business Incubator (BI): Universities and research institutes in South Korea run a number of BIs that support would-be SME entrepreneurs. SMEs are provided with land, an expert consulting service, marketing education and other support.

Entrepreneur Graduate School: In order to foster start-up specialists through systematic and professional education, 5 universities, and colleges are running pilot programmes for entrepreneur graduate schools since 2004. These universities in Korea have launched a five-year pilot entrepreneurship programme, “Entrepreneur Graduate Schools”, to train “start-up specialists”.

Technology Transfer: Under the Transferred Technology Development Project, SMBA covers additional development costs required to commercialize the technologies owned by universities, research institutes and businesses. Due to sustained Govt. support, the technology transfer ratio from research institutes and universities has risen from 18.5% in 2004 to 20.7% in 2005.

Two unique entrepreneur-cum-skill development programmes in South Korea, viz. “Industrial Technology Training System for Foreigners” and “The Elderly Volunteer Group” were launched in 1993 to give working opportunities to retired people with special skills to support SMEs. This programme was intended to reduce the problem of shortage of labour in the “3D” (Dirty, Difficulty, Dangerous) fields.

Information Dissemination

The “SPi-1357” system was set up and operated by the Small and Medium Business Administration from January 2006 and provides SME policy information in real time on and off line. The customized policy information system (SPi: www.spi.go.kr) is a consolidated database which is categorized into 9 areas including funds, technology, HR, sales channels, exports, information progress status, SMEs, and venture.

Policy information from 234 institutions such as government ministries and guaranteeing institutions is also available.

SOUTH AFRICA

South Africa has a wide range of promotional and developmental programmes for their SMMEs which are largely incentive / grant based. These programmes are in the areas of research and development, business and marketing support, exports and support for setting up manufacturing, tourism and co-operatives.

Cluster Development

The Draft Regional Industrial Development Strategy proposes the establishment of special economic zones (SEZ) – industrial parks, logistics parks, industrial estates and innovation hubs – and other measures, such as, promoting regional growth coalitions and support for industrial clustering among firms, in order to foster regional industrial development. The strategy also proposes the establishment of a Systemic Competitiveness Support Facility or “Thematic Fund” to support innovative regional development initiatives. A component of the fund will be a support facility for innovative start-ups. Efforts are also made to ensure that these measures benefit small enterprises as much as possible.

Technology and Innovation

The Technology Innovation Agency (TIA or the Agency) was established in terms of the TIA Act, 2008 (Act No. 26 of 2008), with the objective of “Stimulating and intensifying technological innovation in order to improve economic growth and the quality of life of all South Africans by developing and exploiting technological innovations”. Towards this end, the TIA provides funding and other support to persons developing and commercialising technologies, including fledgling, small and medium sized enterprises, large private companies as well as public institutions such as science councils and higher education research institutions.

The SEDA Technology Programme is a growing network of incubators and technology support centres with a current footprint across all provinces. Its primary focus area is to ‘Enhance Competitiveness And Capabilities Of Small Enterprises Through Co-ordinated Services’.

Tshumisano Trust, a small business support agency of the Department of Science & Technology (DST), has established technology stations across the country. The sector-focused stations, located at universities of technology, facilitate technology transfer between these educational institutions and small enterprises. One of the technology station programme’s critical contributions is to expose students at the stations’ home institutions to small enterprises, thus helping to foster a culture of entrepreneurship.

Entrepreneurship and Skill Development

The entrepreneurship and skill development activities have been broadly constructed under the 2004-2014 programme called AsgiSA, wherein responses range from medium-term educational interventions to raise the level of skills in areas needed by the economy to immediate measures to acquire the skills needed for the implementation of AsgiSA projects. The programme aimed at achieving high levels of literacy and numeracy in the lowest grades, besides doubling Maths and Science high school graduates to 50 000 by 2008 and ushering an upgraded career guidance programme along with a huge upgrading of the Further Education and Training colleges.

The National Productivity Institute (NPI), a Ministry of Labour agency, supports small enterprises to enhance their productive capacity through its Productive Capacity Building Programme. The NPI also works in partnership with SEDA to train small enterprises and service providers in productivity concepts, such as, entrepreneurship, life skills, economics and productivity improvement.

d) Mentorship

Mentorship is a structured one-to-one relationship or partnership that focuses on the needs of the mentored participant or entrepreneur, requiring a supportive relationship sustained over a period of time, usually between a novice and expert. Mentors and entrepreneurs launch their relationship by participating together in a programme orientation to increase their mentoring knowledge, hone their communication skills and establish the parameters of their mentoring relationship. In addition, the Umsobomvu Youth Fund (UYF), an agency dedicated to youth development, is implementing the country's first business-development services voucher programme to assist young entrepreneurs to access quality business development services. The fund also offers entrepreneurship training for scholars and out-of-school youth.

Support for women-owned enterprises

The Government has initiated various measures to increase women entrepreneurship and to support women in business. These include: Sawen (South African Women Entrepreneurs' Network), a DTI-initiated national networking forum for individuals and organizations committed to the promotion and advancement of women entrepreneurs. Business linkages between SA women entrepreneurs and their counterparts in other parts of the world have also been facilitated. Second is Technology for Women in Business (TWIB) which is a DTI initiative that supports the advancement of women in business through the application of science and technology in their ventures. This is aimed at overcoming constraints to enterprise innovation and growth, as well as fostering local and global competitiveness.

Skills development measures

Various sector-specific education and training authorities (Setas) are implementing small business skills-development programmes, with the aim of enabling the participating learners to learn the skills and receive the support necessary to start and successfully manage their own businesses. Similarly, several

NGOs have been implementing curricular and non-curricular enterprise education programmes over many years, in various parts of the country. Also, some major banks sponsor financial-literacy programmes, mostly targeting high-school learners. Also, in South Africa, an increasing number of universities across the country are establishing centres of Entrepreneurship or small business, and entrepreneurship constitutes part of the Master of Business Administration (MBA) curriculum in certain universities.

TURKEY

Turkey has been providing various SME-centric promotional and developmental support towards enhancing productivity and competitiveness through spurring R&D spending, innovation and the diffusion of ICT. In a broader sense, these programmes are oriented towards stronger international integration and reduction regional imbalances.

Cluster Development

Turkey has extensive experience with building clusters of smaller enterprises in specific industries. Various support services are provided for cluster development with the caveat that the existing clusters should be evaluated to identify their strengths and weaknesses before carrying out the expansion.

Technology and Innovations

The 9th Development Plan covering the period 2007-2013 focuses on stronger R&D spending and innovation as indispensable structural tools to bolster the business sector. The plan envisages the upgradation and expansion of the R&D infrastructure. The Plan also intends to complete the building of Technology Development Zones (TDZs) and to create Technology Transfer Centres. All of the enterprises in the Technology Development Zones are in SME scale and it is seen that these businesses operate in the IT, defence and electronic industries in particular.

Accordingly, the SME Strategy and Action Plan (2007-2009), covering the first three-year segment of the 9th Development Plan, focuses on lending support to new, innovative and competitive enterprises, correcting past programme failures and a more stringent monitoring of policy outcomes. The plan singles out several priority areas, including entrepreneurship development, firm creation, integration of SMEs into international markets and national and international networks, improvement of the business environment, diversification of financial instruments and expansion of technological and innovative capacity. The main observations under the Plan are: annual growth rate of 5.6% achieved during 2008-10, 1.4 million new jobs created, GERD/GDP increased from 0.67% in 2002 to 2% in 2013, share of privately financed R&D raised to 60% by 2013, number of full-time equivalent R&D personnel increased to 80 000 in 2013 (from 23 995 in 2002), mobile telephone subscriber penetration rate raised from 64% to 90% between 2006-13, broadband subscriber penetration rate increased from 3.5% to 20% in the 2006-13 period and Internet user penetration rate raised to 20% from 2006 to 60% in 2013.

Entrepreneurship and Skill Development

Highlights of entrepreneurship and SME policy over the past few years included: The five-year National Convergence Programme to the EU *acquis* (2001-05). Aimed at improving SMEs' efficiency and competitiveness, the plan promoted the diffusion of best practices to upgrade product quality and innovation and technology capacity through modern management techniques, new financial instruments and partnerships with universities and foreign companies. The plan also called for better service delivery to SMEs creating and expanding support units (*service stations*). Secondly, The Urgent Action Plan adopted by the High Planning Council in November 2003. The implementation of this plan, prepared in the context of EU pre-accession, is one of the priorities of the SME Charter of the 2003 Turkish National Programme for the adoption of the EU *acquis*.

KOSGEB's Centre for Entrepreneurship seeks to stimulate entrepreneurs' use of the Internet, inviting them to enter e-commerce. KOSGEB's programme for business start-ups offers two types of training: General educational services supplied through KOSGEB's facilities dealing with basic managerial and technical issues and Specialized training provided by professional organizations (public or private) for entrepreneurial activities not covered by KOSGEB's courses. KOSGEB covers up to 100% of the cost for general education services and up to 80% and EUR 3 500 per firm for specialized training.

Chapter I:

Overall Economic Scenario

Global Economic Scenario

The global financial crisis, which started in the United States and rapidly spread to other major developed and developing economies of the world, has had a significant impact in terms of global economic slowdown. However, with improved policy reforms and rebounded market sentiments, the economies have started to expand again and conditions have started to improve. Emerging and developing economies are generally further ahead on the road to recovery, led by resurgence in Asia. According to World Bank report on Global Economic Prospects, released in January 2010, Global GDP, which declined by 2.2 percent in 2009, was estimated to have grown by 2.7 percent in 2010 and further likely to improve to 3.2 percent in 2011. Developing countries will as usual see higher growth rates, at a combined 5.2 percent this year, but will be plagued by shortages of financing and investment that will handicap their progress. Rich countries will grow more slowly, by 1.8 percent in 2010, as fragile financial markets and anaemic private demand crimp job creation and investment, the report says. World trade volumes, which fell by a staggering 14.4 percent in 2009, are projected to expand by 4.3 and 6.2 percent in 2010 and in 2011, respectively.

While a global scenario is important to understand the behaviour of world trade and economic trend, it is also equally important to understand and analyse the economic behaviour at some important country level. The proposed study has selected 8 countries (i.e. Brazil, China, Italy, Malaysia, Philippines, Republic of Korea, South Africa and Turkey) which account for almost one-fourth of world output, one-fifth of world trade and are making significant headway in the MSME sector growth. These countries positioning vis-à-vis global level parameters is given in Table 1.1.

Table 1.1: Select Economic Indicators of 8 countries

Indicators	Brazil	China	Italy	Malaysia	Philippines	Rep of South Korea	South Africa	Turkey
GDP Ranking (PPP)	8	2	11	30	34	13	26	17
Total GDP (PPP)	2.194	9.872	1.782	0.4164	0.353	1.467	0.527	0.958
Share in World Total Output (%)	2.95	13.26	2.39	0.56	0.47	1.97	0.71	1.29
Population (million) Est 2011	203	1337	61	28.7	102	49	48.7	79
GDP per Capita (PPP) (USD)	10900	7400	30700	14700	3500	30200	10700	12300
Savings (% of GDP)	15	54	16	31	40	30	15	13
Investment (% of GDP)	18.5	47.8	19.7	20.1	16	28.7	19.9	18
Share in World Trade	1.17	7.31	3.51	1.07	0.33	2.67	0.54	1.01
Forex Reserve (USD billion)	290	2622	159	104	62	274	45	78
Global Competitiveness Index	58	27	48	26	85	22	54	61

It is observed that despite the somewhat strong financial fundamentals of these economies, the financial crisis in 2008 left these countries bruised, though the breadth and depth differed from country to country (Table 1.2). The GDP growth decelerated in all these countries. While China was able to maintain the growth tempo in 2009 and 2010, countries like Brazil, Italy, and Turkey experienced negative growth.

Table 1.2: Economic Indicators of Select Countries

Indicators	Brazil	China	Italy	Malaysia	Philippines	Rep of South Korea	South Africa	Turkey
GDP growth -2008	5.1	9	-1.3	4.7	3.7	2.3	3.7	0.7
GDP growth - 2009	-0.2	9.1	-5.1	-1.7	1.1	0.2	-1.8	-4.7
GDP growth - 2010	7.5	10.3	1.1	7.1	7.3	6.1	3	7.3

*IMF Staff Estimates, World Economic Outlook 2009 Database, #The Economist Intelligence Unit Forecast/Estimate, In case of India: Exports and Imports figures are for the period April-March of the corresponding year

Sources: Press Releases by NBSC (China), Weekly Statistical Supplements by RBI (India), FDI Statistics by DIPP (India), IMF: World Economic Outlook Database (October 2009), Key Development Data Statistics by World Bank, Economic Indicators by Central Bank of Brazil, Statistics South Africa, CIA-The World Factbook, World Investment Report (2009), The Central Bank of the Russian Federation, Federal State Statistics Service (Russia)

The 2008 global crisis also tested the level of resilience of the countries in terms of their policy strategies and recovery rate from the crisis. The policy measures have also helped the countries in improving their ranking in various parameters as given in Table 1.3.

Table 1.3: Rankings of 8 countries on various macro parameters

	Parameters	Brazil	China	Malaysia	Philippines	Italy	South Africa	South Korea	Turkey
1	Starting a business	128	151	113	156		75	60	63
2	Procedures (member)	15	14	9	15		6	8	6
3	Time (day)	120	38	17	38		22	14	6
4	Burden of Govt regulation	139	21	17	126	133	94	108	81
5	Burden of custom procedure	122	46	32	129	69	55	47	96
6	Dealing with construction permits	112	181	108	156		52	22	137
7	Registering property	122	38	60	102		91	74	38
8	Trading across borders	114	50	173	61		149	8	76
9	Enforcing contracts	98	15	121	118		85	5	26
10	Country credit rating	46	32	40	75	25	51	37	66

Source1: The Global Competitiveness Report 2010-11, World Economic Reform

Source 2: Doing Business Report, 2011, World Bank

The subsequent paragraphs discuss the economic philosophy under which these countries have evolved and now operate to understand their recent growth trend and policy frame, particularly, for the MSME sector.

BRAZIL

Brazil, a federal republic country, is the largest country in South America and the eighth largest in the world. It's a modern capitalist economy with good encouragement to private investment and limiting state control. But the public sector still plays an important role. Thus, it can be fairly described as a mixed economy that includes characteristics of market-based capitalism, as well as socialist planning. The capitalistic philosophy is manifested in terms of a floating exchange rate, inflation targeting and a compressed fiscal policy. Brazil is a member of diverse economic organizations, such as, Mercosul, Union

of South American Nations (USAN), G8+5, G20 and the Cairns Group¹. It is more popularly known being in the BRIC group (Brazil, Russia, India and China).

The Brazilian economy is quite an advanced country with the service sector accounting for 66.8% of GDP, followed by the industrial sector at 29.7% (2007). Agriculture represents 3.5% of GDP (2008). Its developed industrial infrastructure manufactures a range of sophisticated products from submarines to aircraft and is involved in space research: the country possesses a satellite launching centre and was the only country in the Southern Hemisphere to integrate the team responsible for the construction of the International Space Station (ISS). It is also a pioneer in many fields, including ethanol production. Brazilian labour force is estimated at 100.77 million of which 10% is occupied in agriculture, 19% in the industry sector and 71% in the service sector. Brazil's 74% of exports are manufactured or semi-manufactured goods.

After record growth in 2007 and 2008, the onset of the global financial crisis hit Brazil in September 2008. It experienced two quarters of recession, as global demand for Brazil's commodity-based exports dwindled and external credit dried up. Brazil's problems stem from international factors – a lack of credit

¹ **Mercosur or Mercosul** is an economic and political agreement among Argentina, Brazil, Paraguay and Uruguay. Founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, people, and currency.

The **Union of South American Nations** is an intergovernmental union integrating two existing customs unions: Mercosur and the Andean Community of Nations (CAN) (e.g. , a customs union comprising the South American countries of Bolivia, Colombia, Ecuador and Peru.) as part of a continuing process of South American integration. It is modeled on the European Union.

The **G8+5** group of leaders consists of the heads of government from the G8 nations (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States), plus the heads of government of the five leading emerging economies (Brazil, China, India, Mexico and South Africa).

The G-20 is a forum for cooperation and consultation on matters pertaining to the international financial system. It studies, reviews, and promotes discussion among key industrial and emerging market countries of policy issues pertaining to the promotion of international financial stability, and seeks to address issues that go beyond the responsibilities of any one organization. The countries are: Argentina,

Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States, European Union.

The **Cairns Group** is an interest group of 19 agricultural exporting countries, composed of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, and Uruguay.

and collapsing demand abroad for exports of its meat, iron ore, and airplanes. The stock market had plummeted nearly 50 percent by April 2009 since peaking in August 2008. The country's currency, the real, has lost about a third of its value versus the dollar, making imports much more expensive for retailers. The economic growth declined to 0.6 percent in 2009. However, prudent monetary and fiscal policy measures shielded Brazil from the worst of the global financial crisis of 2008. In fact, Brazil was one of the first emerging markets to begin a recovery. Consumer and investor confidence revived and GDP growth returned to positive in the second quarter, 2009. The economic growth is estimated at 7.5% in 2010 and likely to be 4.1% in 2011.

CHINA

In 2010, China became the world's second largest economy after the USA, with its GDP valued at \$5.87 trillion, surpassing Japan's \$5.47 trillion. China considered as the world's factory, accounts for around 8% of the total manufacturing output in the world. It is the largest trading nation in the world and the largest exporter and second largest importer of goods.

This spectacular growth of China is reflective of an astute economic planning, strong determination and transition from a communist system to a "socialist market economy". The story of success began shortly after the Communists took control in 1949 when the Chinese economic system changed from a command economic system to a mixed economy.

However, it was in 1978 when China made a big push major economic reform and changed from a closed, centrally planned system to a more market-oriented one. Reforms were translated in terms of phasing out of collectivized agriculture, gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of the private sector, and opening to foreign trade and investment. The reforms process was accelerated during the '80s.

The decade of 1990s marked the onset of a "socialist market economy."² Following the Chinese Communist Party's Third Plenum, held in October 2003, Chinese legislators unveiled several proposed amendments to the state constitution. One of the most significant was a proposal to provide protection for private property rights. Other areas of emphasis include rebalancing income distribution between urban and rural regions and maintaining economic growth while protecting the environment and improving social equity. The Fifth Plenum in October 2005 approved the 11th Five-Year Economic Program aimed at building a "harmonious society" through more balanced wealth distribution and improved education, medical care, and social security. China's leaders call their economic system "market socialism." It has also been called "state capitalism" and a "market-oriented mixed economy under one-party rule."

In 2007, China's New Economic Policy Initiatives were formulated from the 17 th National Congress of the Chinese Communist Party in that year. The new target set by the 17 th Congress was to quadruple per capita GDP from its 2000 level (\$1,000) to 2020 (\$4,000). Some of the important developmental objectives were:

² The statement was made by Deng Xiaoping, in the 14th Party Congress in 1992.

Building an innovative state investment in research and in human capital; Structural change and upgrading of industries; Augmenting domestic consumption; balancing the development of agriculture, industry and services; Comprehensive rural Development; Higher efficiency in use of energy natural resources; better economic and industrial structure to reduce pollution and environmental degradation; Balancing regional development; More incentives for backward areas; establishment of clusters of cities as engines of growth, particularly in the poor regions; Building a comprehensive economic system and a modern market system Ownership diversification, while keeping dominance of state ownership; improvement of efficiency of state economy establishing an effective regulatory system based on financial and tax reforms balancing central and local budgets; investing in public services; improving efficiency of the financial sector; preventing financial crisis; compensating uses of ecosystem services Improving the quality of an open economy Continuing open policy; nurturing world class big businesses; improving China's international competitiveness and the quality of foreign investments.

Crisis Measures

The principal contents of these policies (discussed in details in Chapter 3) are to boost the domestic demand, sustain the economic growth, promote the employment and maintain social stability. Their major features are economic restructuring, nurturing innovation and deepening reforms, with its foundation as strengthening social security and promoting social welfare. While ushered into 2010, one can see that these policies gradually produce desirable effects and play an important role for the steady recovery of Chinese economy.

The 2008–2009 Chinese economic stimulus plan was a RMB¥ 4 trillion (US\$ 586 billion) stimulus package announced by the central government of the People's Republic of China on 9 November 2008 as an attempt to minimize the impact of the global financial crisis. The crisis funds were invested in key areas such as housing, rural infrastructure, transportation, health and education, environment, industry, disaster rebuilding, income-building, tax cuts, and finance. At present, a socialist market economy system is well on the way to being established in China, and the basic role played by the market has been improved in the sphere of resources allocation.

ITALY

Italy is a Parliamentary democratic republican country. In addition to the provinces, the constitution provides for 20 regions with limited governing powers. The establishment of regional governments throughout Italy has brought some decentralization to the national governmental machinery and recent governments have devolved further powers to the regions.

Over the years, the Italian economy has developed into an industrial state, ranking as the world's seventh largest industrial economy. Italy belongs to the Group of Eight (G-8) industrialized nations; it is a member of the European Union (EU) and the Organization for Economic Cooperation and Development (OECD). Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south.

The 2008 global financial crisis had a serious impact on Italy's economy. The economy contracted by 5% in 2009. In order to give much-needed boost to the sagging economy, the Italian government adopted a series of measures to combat the global financial crisis. The measures include granting state aid to troubled banks, also through buying stakes in the banks, guaranteeing new bank loans, increasing the amount of liquidity in the market and making it easier for banks to lend money to each other at lower rates. In March 2009, the government approved a program of public projects to boost investment in infrastructure. The government has also helped families pay their mortgages and buy durable goods. A tax amnesty program implemented in late 2009 to repatriate untaxed assets held abroad has netted the federal government more than \$135 billion.

With the suitable Government measures and a rise in exports and investment driven by the global economic recovery nevertheless helped the economy grow by about 1% in 2010. The IMF has estimated that Italy will clock a growth rate of 1.0% in 2011 and 1.3% in 2012. However, its fiscal deficit - just 1.5% of GDP in 2007 - exceeded 5% in 2009 and 2010, much above the EU stipulated ceiling.

MALAYSIA

Malaysia is generally regarded as one of the most successful non-western countries to have achieved a relatively smooth transition to modern economic growth over the last century or so. Since about 1960, the economy has benefited from extensive restructuring with sustained growth of exports from both the primary and secondary sectors, thus gaining a double impetus. By 1990, the country had largely met the criteria for a Newly-Industrialized Country (NIC) status (30 percent of exports to consist of manufactured goods). The industrial output of Malaysia is ranked 32nd in the world.

During 1970-90, the Malaysian Govt came out with New Economic Plan (NEP) with the objective of restructuring the Malaysian economy with the following aims at:

- redistributing corporate equity so that the *bumiputera* (natives of Malaysia) share would rise from around 2 percent to 30 percent. The share of other Malaysians would increase marginally from 35 to 40 percent, while that of foreigners would fall from 63 percent to 30 percent.
- eliminating the close link between race and economic function (a legacy of the colonial era) and restructure employment so that that the bumiputera share in each sector would reflect more accurately their proportion of the total population (roughly 55 percent). In 1970 this group had about two-thirds of jobs in the primary sector where incomes were generally lowest, but only 30 percent in the secondary sector. In high-income middle class occupations (e.g. professions, management), the share was only 13 percent.
- eradicating poverty irrespective of race. In 1970 just under half of all households in Peninsular Malaysia had incomes below the official poverty line. Malays accounted for about 75 percent of these.

The principle underlying these aims was that it would be achieved through the process of economic growth, i.e. the economy would get bigger (more investment, more jobs, etc.). While the primary sector

would continue to receive developmental aid under the successive Five Year Plans, the main emphasis was a switch to export-oriented industrialization (EOI) with Malaysia seeking a share in global markets for manufactured goods.

The NEP was followed in 1991 by the New Development Policy (NDP), which emphasized assistance only to "Bumiputera with potential, commitment and good track records" (Malaysian Government, 1991), rather than the previous blanket measures to redistribute wealth and employment. In turn, the NDP was part of a longer-term program known as Vision 2020. The aim here is to turn Malaysia into a fully industrialized country and to quadruple per capita income by the year 2020. This will require the country to continue ascending the technological "ladder" from low- to high-tech types of industrial production, with a corresponding increase in the intensity of capital investment and greater retention of value-added (i.e. the value added to raw materials in the production process) by Malaysian producers.

The recent global economic crisis took its toll on Malaysian economy which contracted by 3.6 percent in 2009. Malaysia's exports recorded double-digit declines in the final quarter of 2008 and the first quarter of 2009. The services sector was also not spared. The economic downturn affected labour demand, as reflected in higher retrenchments and lower vacancies.

The adverse impact was, however, buffeted to some extent by the central bank's healthy foreign exchange reserves and its well-developed regulatory regime with exposure to riskier financial instruments. Further, the Malaysian government announced various measures to address the impact, including introductions of strategies to stimulate and facilitate investment, trade and further liberalization of manufacturing related services.

In January 2009, the government announced a fiscal stimulus package of RM 7 billion (US \$1.96 billion or 1 per cent of the GDP) to promote strategic industries, small-scale projects, such as, village roads and school repairs, and education and skill training programmes. In March 2009, the government unveiled a second and much larger stimulus package of RM 60 billion (US \$16.2 billion or 8.6 per cent of the GDP) which was implemented over 2009 and 2010. IMF has estimated its economic growth at 7.2% in 2010 and expected to be around 5.5 % in 2011. The driving force for Malaysia's GDP growth would be support from Asian countries, especially India and China.

PHILIPPINES

The Philippines, having achieved independence in 1946, has a representative republican democracy modelled on the U.S. system. The 1987 constitution re-established a presidential system of government with a bicameral legislature and an independent judiciary. The economic system adopted is a mixed economy type.

Over the years, the Philippines has undergone a transformation from being an agriculture based country to that of a newly industrialized country. The economy is now largely dependent on the services and manufacturing sector. In 2008, the contribution of agriculture to GDP was at 14.7%, of industry at 31.6%, and of services at 53.7%.

Presently, the Philippines economy is the world's 47th largest economy (as of 2008). The country posted a GDP growth rate of 7.1% in 2007, which slowed to 3.8% in 2008 as a result of the global financial crisis. However, the economy weathered the 2008-09 global recession better than its regional peers due to minimal exposure to troubled international securities, lower dependence on exports, relatively resilient

domestic consumption, large remittances from four-to five-million overseas Filipino workers, and a growing business process outsourcing industry. Further, strong macroeconomic fundamentals combined with about 6.84 billion U.S. dollars stimulus package also supported recovery. Philippine GDP which declined by (-) 1.7% in 2009, improved substantially by 7.2% in 2010, spurred by consumer demand, a rebound in exports and investments, and fiscal spending on infrastructure.

REPUBLIC OF KOREA

Republic of Korea (South Korea) regained its independence in 1945. Around that time, GDP per capita was comparable with levels in the poorer countries of Africa and Asia. South Korea opted for a free-enterprise economy at the time of independence with a focus on the outward-looking growth strategy of export promotion and ultimately emerged as one of the most advanced industrialised nations on the strength of technology modernisation and innovations. The essence of export promotion growth strategy was to promote exports of light manufactured goods in which Korea possessed comparative advantage. The government utilized various macroeconomic mechanisms at its disposal in implementing this strategy, such as, maintaining high interest rates to mobilize domestic savings and enacting the Foreign Capital Promotion Act to encourage the inflow of foreign investment. The government also carried out a currency reform, strengthened financial institutions, and introduced flexible economic planning. These measures helped South Korea to achieve an incredible record of growth and global integration to become a high-tech industrialized economy.

Under the comprehensive policy theme of *segyejima* (globalization), the government took an active role in participating in international economic activities through the Uruguay Round of trade talks, through it launching of the World Trade Organization, and through its membership in the Asia-Pacific Economic Cooperation. The government's effort culminated in Korea's accession to the OECD in 1996, which seemed to signal Korea's entry into the rank of advanced countries.

South Korea's economy grew rapidly from the 1960s through the 1980s, with an average annual GDP growth rate of 8.4 percent during that period and further higher at 10.5% annually from 1982 to 1988. The trade surplus began in 1986 and the amount of current account surplus reached \$14.2 billion in 1988. Throughout the decade, the economy generated about 2.8 million new jobs, and the unemployment rate sank to the unprecedented level of 2.5 % in 1988. However, the Korean economy made a remarkable comeback subsequently. With increased investment and export, economic growth rate increased from 3% in 1992 to 8.9% in 1995. The GNP per capita surpassed the US\$10,000 mark in 1995, and in 1996, the unemployment rate recorded the unprecedented low level of 2%. With such high economic growth, inflation remained relatively stable at a 4% level throughout the 1990s. Korea's rapid development was driven by very high rates of savings and investment and a strong emphasis on education, which boosted the number of young people enrolled in universities to among the highest levels in the world. The story of South Korea's economic success was described as the East Asian miracle.

But the Asian financial crisis of 1997-98 exposed some weaknesses in South Korea's development model including high debt/equity ratios and massive short-term foreign borrowing. GDP contracted by 6.7% in 1998 which pushed the unemployment rate to 6.8 percent, a large increase from the 1997 rate of 2.6 percent. Inflation jumped from 4.5 percent in 1997 to 7.8 percent in 1998. Two factors helped economic

recovery in 1999: the growth of the U.S. economy, which is South Korea's largest export market, and large direct foreign investments, made possible by economic liberalization. The latter rose to US\$8.9 billion in 1998 and soon soared to US\$15.5 billion, exceeding the total foreign investment over the previous 35 years. South Korea's GDP grew by 10.7 percent in 1999 and by 8% in 2000. The unemployment rate came down to 3.7 percent in May 2000 and inflation rate down to 0.8 percent in 1999.

Trade plays a major role in South Korea's export-oriented economy. In 1999, exports accounted for 45 percent of GDP, a phenomenal increase from the 1970s when it accounted for about 6 percent on average. Liberalization has sought to change South Korea's economy from one where the state directs and controls economic activities into one where the private sector, including foreign enterprises, operate with minimum government regulation. This required the nation to embark on a program of privatization designed to minimize the role of the public sector in the economy. Liberalization also resulted in the removal of government regulations that restrict the economic activities of domestic and foreign enterprises in favour of a less-regulated economic system. Liberalization also involved the restructuring of financial institutions and big corporations, most of which had long survived on heavy borrowing from public and private financial institutions, including foreign banks.

By and large, the reform of the financial system has been more successful than that of big corporations known as *chaebols* (conglomerates). The financial system's reform justified the closure or merger of many non-viable private and public banks that formerly survived on government assistance, as well as the privatization of most public banks. The government's tight control on fiscal and monetary activities were loosened in order to facilitate domestic and foreign private investments. In 1998, a Foreign Investment Protection Act was ratified to encourage and to ensure the safety of foreign investments. However, the 1998 corporate reform program called the "Big Deal" was so far, less successful. The program aimed at turning the weak chaebols into strong corporations capable of offsetting the destructive impact of the financial crisis so that they might grow and compete with large foreign corporations inside and outside the South Korean market. To that end, the South Korean government tried to reduce excessive competition between big corporations and to encourage their merger to create viable enterprises. It also sought to encourage them to eliminate economic activities that were not of crucial significance to their main operations.

In 2004, South Korea joined the trillion dollar club of world economies, and currently is the 13th largest economy. Growth moderated to about 4-5% annually between 2003 and 2007. As the global financial crisis of 2008 has led to a financial turmoil and economic decline in the G7 and European economies, Korea was also hit by the crisis. The Korean economy shrank 3.4% year over year in the fourth quarter of 2008, and the benchmark stock index lost almost 41% of its value for 2008. The South Korean GDP growth slowed to 0.2% in 2009. The government came up with a set of pre-emptive policies to prevent further economic worsening. The government launched various schemes, including job creation schemes, expansionary fiscal spending, corporate restructuring and welfare enhancement for low income earners. In the third quarter of 2009, the economy began to recover, in large part due to export growth, low interest rates, and an expansionary fiscal policy. In the third quarter of 2009, the economy began to

recover, in large part due to export growth, low interest rates, and an expansionary fiscal policy, and growth exceeded 6% in 2010. In 2011, the IMF expects Korean economy to register a growth of 4.5%.

SOUTH AFRICA

South Africa had a turbulent socio-economic history ridden with the conflict of apartheid till the end of the Twentieth century. The system of apartheid was abolished finally in 1994 with the majority elected government came into power. During the post apartheid period, the South African economy - a regular mixed market capitalistic economy has undergone several changes to cope with the rapidly changing global scenario. Today's South Africa is regarded as a middle-income, emerging market economy characterized by the two-tier economic system displaying features of both developing and developed nations of the world.

A regional comparison of South African economy reveals that it is the economic powerhouse of Africa, with a gross domestic product (GDP) four times that of its southern African neighbours and comprising around 25% of the entire continent's GDP. The country leads the continent in industrial output (40% of total output) and mineral production (45%) and generates most of Africa's electricity (over 50%). Its major strengths include its physical and economic infrastructure, natural mineral and metal resources, a growing manufacturing sector, and strong growth potential in the tourism, higher value-added manufacturing and service industries.

The modern South Africa is founded on 'Accelerated and Shared Growth Initiative for South Africa (AsgiSA)', launched in February 2006, to remove various constraints including:

- Infrastructure investment
- Second-economy initiatives
- Skills and education
- Industrial policies and sector strategies
- Macroeconomic policy
- Governance interventions.

As the 2008 global crisis engulfed South Africa, GDP contracted in the third and fourth quarters of 2008, officially plunging the economy into recession. This contraction continued into the first and second quarters of 2009, with GDP growth at -6.4% and -3% respectively. The automobile industry (a large employer and the main contributor to international trade tax revenues) was down over 30% year-on-year; indeed, overall job creation is slowed down and jobs were shed in some sectors. Mining production also fell, as global commodity prices declined. Consumer expenditure declined credit extension to the private sector slowed down, and housing prices dropped. South Africa's GDP grew by 3.7 percent in 2008 and is expected decline by 1.8 percent in 2009

In August 2009, the Government took the following major steps to see the country through the global economic crisis. These include:

- A R2,4-billion worker layoff training scheme
- R6 billion in support for struggling firms
- Measures to root out customs fraud
- Debt-restructuring help for consumers.

The new growth path is intended to address unemployment, inequality and poverty in a strategy that is principally reliant on creating a significant increase in the number of new jobs in the economy, mainly in the private sector. South Africa's GDP grew by 3.2% in the fourth quarter of 2009. The combination of a recovery in consumer demand, ongoing robust public sector spending, an end to the cycle of destocking, moderate export gains and the 2010 FIFA World Cup, could combine to generate a surprisingly robust acceleration in growth during the middle quarters of 2010, ending the year with an overall growth of over 3%. The South African economy is expected to show a growth rate of 3.5% in 2011.

TURKEY

When Turkey achieved independence in 1923, it chose to be a unitary centralized state, with a dual prime ministerial and presidential political executive. The economic growth model was relying primarily inward looking and import-substitution industrialization, with a commanding public sector. But by the time of 1980s, when the world economy was growing on the strength of competition, the Turkish economy was tottering with inefficiency in the public sector reaching commanding heights. The public sector enterprises recorded tremendous losses and were a significant drain on the government budget. Excessive reliance on import substitution deemphasized exports, resulting in chronic trade deficits and balance of payments crises that necessitated strong liberalisation and proclivity towards capitalistic competitiveness. The Turkish economy started its reform process since 1980s with the objective of transforming its economy from a state-led to a market-oriented economy. The reform measures encompassed the social, political, legal and economic spheres. But at the same time, the government control remains on the main utilities services and some big companies and banks in the market. In nut sell, one can call Turkey mainly as a mixed economic country.

In line with the shift to an outward-oriented development strategy since 1980s, the Turkey's policy makers began to revamp the country's industrial policy. The new policy set forth four related goals for industry: upgrading the role of market signals in decision making, increasing manufacturing exports, enlarging the private share in manufacturing, and reforming the SEEs to reduce inefficiency. In the early 1990s, a fifth goal was added: privatization of public-sector entities.

Overall, the reform program included a reduced state role in the economy, a realistic exchange rate and monetary policy, cutbacks on subsidies and price controls, and encouragement of exports and foreign direct investment. During its early years, the liberalization program achieved considerable success in reducing external deficits and restoring economic growth.

Its economy is increasingly driven by its industry and service sectors, although its traditional agriculture sector still plays some role. An aggressive privatization program has reduced state involvement in basic industry, banking, transport, and communication, and an emerging cadre of middle-class entrepreneurs is adding a dynamism to the economy.

Like many economies, Turkey has been affected by the global financial crisis. Turkey's GDP is estimated to decline by 6.5 percent in 2009. In 2009, the Turkish Government introduced various economic stimulus measures to reduce the impact of the financial crisis such as temporary tax cuts on automobiles, home appliances and housing. Turkey's financial markets and banking system also weathered the 2009 global financial crisis and did not suffer significant declines due to banking reforms implemented during the country's own financial crisis in 2001. According to the IMF's World Economic Outlook, Turkey's economy is expected to grow 8.2 percent in 2010 and 4.6% in 2011. Further, economic and judicial reforms and prospective EU membership are expected to boost Turkey's attractiveness to foreign investors.

Chapter II:

MICRO SSMALL & MMEDIUM EENTERPRISES – ***INTERNATIONAL SCENARIO***

Despite difference in definition, the Micro, Small and Medium Enterprises (MSME)¹ Sector is significantly contributing to economic development in the countries across the world. In high-income countries MSMEs has contributed 49 per cent on average to formal GDP, whereas for low-income countries the figure is 29 per cent on average.

In developing countries the informal sector, essentially made up of SMEs, accounts for up to 48 per cent of the total labour force and 37 per cent of GDP. The corresponding figures for developed countries are much lower, at 25 per cent of the total labour force and 16 per cent for the GDP.

In OECD countries, SMEs (with less than 250 employees) employ two-thirds of the formal work force (Beck *et al.*, 2008b; Dietrich, 2010). On the basis of country-level data, Ayyagari *et al.*, on average, SMEs account for approximately 60 percent of employment in the manufacturing sector. According to SME Performance Review (EC, 2009), in the period starting from 2002 till 2008, the number of jobs in SMEs increased at an average annual rate of 1.9 percent, while the number of jobs in large enterprises increased by only 0.8 percent. Within the same period 9.4 million jobs (in absolutes numbers) were created in the SME sector in EU-27.

According to an OECD study (2010), there are an estimated 420 to 510 million MSMEs worldwide, of which 9 percent are formal MSMEs (typically registered businesses with 5-250 employees) and 80-95 percent are in emerging markets.

Apart from catering to the employment needs and contributing to the economy significantly, it is often argued that SMEs display a higher commitment in encouraging innovation than larger firms. In developed countries, in order to compete with large-scale mass producers SMEs commonly follow “niche strategies,” comprising high product quality, flexibility, and responsiveness to customer needs (see, for example, Hallberg, 2000, and Snodgrass and Biggs, 1996).

1. In this book, the terms SME and MSME are used interchangeably throughout except for specific reference and in case of China which uses the concept of small and medium enterprise (SMEs). The term ‘MSME’ is gaining international currency and it is used by the World Bank, the EU and many other countries including 7 countries studied in this book.

Despite their importance most SMEs struggle and face higher barriers to secure external financing than large firms, which eventually limits their growth and development. As per the Financial Access 2010 (CGAP and WBG, 2010), the second in a series of annual reports by CGAP and the World Bank Group (WBG), the global SME lending volume was estimated at \$10 trillion in 2009, roughly two-thirds of the current size of the US economy. Seventy per cent of this volume is in high-income OECD countries.

Box 2.1: Economic Importance of SMEs

- **Share of Firms and Employment Generation:** E.g. in Ecuador in 1980, SMEs accounted for 99% of firms and 55% of employment. Also in 1986, in Bangladesh, enterprises with fewer than 100 workers accounted for 99% of enterprises and 58% of employment.
- **Labour Intensive:** Little et al. (1987) and Snodgrass and Biggs (1996) have indicated that SMEs tend to be more labour intensive as their operations are more labour demanding than large firms.
- **Job Creation:** SMEs are important for employment growth in job creation. While the job creation capacity of SMEs is higher than large firms, so too are gross destruction rates. This is because SMEs exhibit high birthrates and high death rate.
- **Innovativeness:** SMEs are said to be more innovative than large firms. In developed countries for instance, Snodgrass and Biggs (1996), Hallberg (2000) have noted that SMEs often follow “niche strategies”, using high product quality, feasibility, and responsiveness to customer needs and mass producers.
- **Wages and Benefits:** Though large firms pay higher wages and fringe benefits, etc., in LDCs, SMEs have lower productivity and hence pay lower wages and non-wage benefits, compared to large firms. However, as industrialization proceeds, the divergence in labour productivity and wage rates between SMEs and large firms narrows. The USA is cited as a place where this development has taken place.
- **Social, Political and Equity Contributions:** SMEs contribute to transformation of traditional or indigenous industry; stimulation of indigenous entrepreneurship and technology, and redistribution of income and wealth, more equitably. On the political front promotion of SMEs could be geared towards addressing the needs of some political constituencies.

Enterprise Surveys conducted by the World Bank in over 120 countries shows that SMEs face more severe financing constraints than large firms, especially in lower income environments. In low and middle-income countries only 17 and 32 per cent of small firms have a loan or line of credit, respectively. In high-income countries this ratio is over 50 per cent. Medium-sized enterprises are also constrained in lower-income settings, but to a lesser degree.

Large enterprises are relatively the least constrained, even in low and middle-income countries. On average, in low-income countries the likelihood of a small firm having access to a bank loan is less than half of what it is for a medium-sized firm, and is about a third of what it is for a larger firm.

In emerging markets approximately 45–55 per cent of formal SMEs (11–17 million) in emerging markets are un-served (i.e., they need credit but do not have access), 21–24 percent (5–7 million) are underserved (i.e., they have access to some credit but identify financing as a constraint), and 16–20 percent (4–6 million) do not need credit. A size based study of the magnitude of the credit gap between formal, small and medium enterprises in emerging markets shows that about 18–22 per cent of formal medium enterprises are un-served compared to 49–59 percent of very small enterprises. Moreover, financial access also differs significantly by regions. Access to credit for SMEs is a particularly daunting challenge in Asia and Africa.

It is interesting to observe that the level of SME credit is not consistently and robustly correlated to the SME definition criteria used world over. A World Bank study, “Small and Medium Enterprises, A Cross-Country Analysis with a New Data Set” by Oya Pinar Ardic, Nataliya Mylenko and Valentina Saltane (2009) did not find statistically significant correlations between the value of SME financing and the maximum number of employees used as a criterion to define SME. This gives an opportunity to examine the differences in SME definitions in different countries.

According to the Financial Access 2010 survey, for regulators the most common definitions for SMEs are based on the number of employees, sales and/or loan size and, even within this the number-of-employees emerges as the most common criterion. Out of sixty-eight countries which provided information on the SME definition criteria used by the financial regulator for this survey, fifty used the number-of-employees criterion. Twenty nine out of these fifty also used the other two criteria. A total of forty one regulators used maximum sales value criteria and fifteen used maximum loan value criteria to define an SME.

The book has studied eight countries in terms of their overall MSME sector. An overview of these countries’ MSME definition is given in Annexure 2.1. Employment emerges as a mandatory criterion for defining MSMEs in these countries. Comparison of the definition in the select countries shows that apart from being defined as micro, small or medium, enterprises are also defined under a fourth category, as small enterprises in Republic of Africa and small businesses in Republic of Korea. The MSME definition varies across various industry sectors and are based on employment, turnover and gross assets in case of China and Republic of Africa.

The criteria used by World Bank to classify SMEs find similarity with criteria used around the world. To qualify as a micro, small, or medium enterprise (often abbreviated MSME) under this World Bank classification, a firm must meet two of three maximum requirements for employees, assets, or annual sales (Table 2.1).

**Table 2.1: World Bank definitions of MSMEs
(Enterprises must meet at least 2 of 3 characteristics)**

Firm size			Loan size proxies	
Employees	Assets	Annual sales		
Micro	<10	<\$100,000	Micro	<\$10,000
Small	<50	<\$3 million	Small	<\$100,000
Medium	<300	<\$15 million	Medium	<\$1 million (<\$2 million for some advanced countries)

Source: Ayyagari, Beck, and Demirgüç-Kunt (2005)

IFC's Global Financial Markets Department uses loan size as a proxy criterion for client reporting purposes, since some banks are unable to report according to MSME firm size. Many banks currently serving SMEs do in fact use annual sales figures, and average bank-reported maximum thresholds (\$16 million, Table 2.2) are remarkably similar to the World Bank classifications (\$15 million, Table 2.1).

Table 2.2: Average sales ranges for bank definition of SMEs	
Firm size	Minimum sales Maximum sales
Small	\$200,000 \$4 million
Medium	\$2 million \$16 million

Source: Beck, Demirgüç-Kunt, and Martínez Pería (2008)

Table 2.3: The European Union definition of SMEs

Firm Size	Headcount	Turnover	or Balance Sheet Total
Micro	< 10	≤€2 million	≤€ 2 million
Small	< 50	≤€10 million	≤€ 10 million
Medium	< 250	≤€50 million	≤€ 43 million

Source: European Commission Recommendation 96/280/EC, October 2010

Notwithstanding the difference in definitions the basic philosophy if SME remains the same remains the same in different countries, – the lower end of the spectrum of economic activities. The following sections present the definitional criteria used in the select 8 countries under this study.

BRAZIL

In Brazil, we observe usage of different criteria and thresholds for defining MSMEs for disparate purposes of legal and fiscal nature and international trade. Number of employees, as defined by the Ministry of Industrial Development and External Trade is the most widely used criterion. Micro firms consist up to 19 employees for the industrial field and up to 9 employees for the service providers; small firms have 20 to 99 employees in the industrial field and from 10 to 49 for service providers; medium firms keep 100 to 499 employees in the industrial field and from 50 to 99 for service providers. Brazilian Institute of Geography and Statistics (IBGE) and the Institute for the Support of Micro and Small Firm (SEBRAE) have adopted this classification.

Brazil's development Bank, Banco Nacional de Desenvolvimento Econômico e Social (the BNDES), or National Bank for Economic and Social Development uses an alternative classification based on sales volume. Apart from using an employee based definition SEBRAE also uses a different definition for size according to sales. It follows the definition of Law 9841 of 10/5/99, in which a firm is classified as micro if its sales are lower than R\$244,000; small if its sales are equal or greater than R\$244,000 and lower than R\$1,200,000; and medium or large if its sales are equal or greater than R\$1,200,000.

The simplified system of taxation - which is simply put a law of a strictly tax, adopts a different criterion to frame micro and small business. Limits as prescribed in the Provisional Measure 275/05 are:

- Micro enterprise: annual gross revenue equal to or less than R \$ 240,000.00 (two hundred and forty thousand reais);
- Small Businesses: annual revenue of more than R \$ 240,000.00 (two hundred and forty thousand reais) and less than or equal to \$ 2,400,000.00 (two million four hundred thousand reais).

The small business sector is significantly large in Brazil. Small firms have a higher involvement in commercial and service activities in Brazil. Majority of these enterprises are located in the east and northeast regions of Brazil.

According to Brazil's business support agency, Sebrae, country's 16 million small and micro enterprises contribute about 20 per cent of the GDP and employ 60 million people (56 per cent of the urban workforce) in the formal sector. Out of these 16 million small and micro enterprises, 5.89 million

registered small and micro enterprises fell in the formal sector and 10.34 million in the informal sector in 2008.

Micro and small enterprises also create the most jobs in Brazil. Over a longer time horizon, studies have shown that between 1995 and 2000, 96% of new jobs in Brazil were created by enterprises with fewer than 100 employees. The result is that 1.4 million jobs were added in this period (an increase of 26%), while large businesses in comparison created less than 30 000 new places (an increase of only 0.3%). Brazil's state-owned Development Bank, BNDES, expects that 2.2 million jobs (up from 995 000 in 2009) will be created in the formal sector in 2010 and that 52.3% of these will be created by small and micro firms. In May 2010 micro and small businesses were responsible for 71.3% of the 298 041 jobs created that month, with micro-businesses of up to four employees contributing 48% of the total jobs created that month and small businesses which employ between 20 and 99 employees being responsible for the creation of 13.8% of new positions. (Minister of Labour's Cadastro Geral de Empregados e Desempregados (2010)).

The export performance of the MSMEs has also reached a new high. Exports reached a record high of U.S. \$ 2.1 billion in 2007, up 12.4% from the previous year. The cumulative growth rate has remained consistent at 11.4% p.a. over the last five years. Manufactured products accounted for 81.7% of its exports in 2007, while the commodities and semi-manufactured goods accounted for 11.7% and 4.6% of sales, respectively.

CHINA

In China, SME definition is in accordance with the SME Promotion Law of 2003, Applicable to industrial sectors (including mining, manufacturing, power, gas and water utilities), construction, transportation and posts, wholesale and retail, and hotels and restaurants; the major elements considered in defining an SME cover payrolls, revenue and total assets of the enterprises, (Table 2.4).

Table 2.4: SME Definition in China

<i>Category of Industries</i>	<i>Definition</i>
Small (Industrial)	<300 employees, or annual revenue <30 million RMB, or assets <40 million.
Medium (Industrial)	300-2000 employees, annual revenue 30 million – 300 million RMB, assets < 400 million RMB. All other industrial units with lesser levels, classified as small enterprises.
Medium sized enterprises in Construction	600-3000 employees, with annual revenue 30 to 300 million RMB, and assets 40 to 400 million RMB. All other units with lesser values, classifies as small enterprises.

<i>Category of Industries</i>	<i>Definition</i>
Medium sized enterprises in Retail Trade	100-500 employees, or with annual revenue 10 to 150 million RMB. All other units with lesser values, classifies as small enterprises.
Medium sized enterprises in Whole Sale Sector Trade	100-200 employees or with annual revenue 30 to 300 million RMB. All other units with lesser values, classifies as small enterprises.
Medium sized enterprises in Transport Sector	500-3000 employees, or with annual revenue 30 to 300 million RMB. All other units with lesser values, classifies as small enterprises.
Medium sized enterprises in Delivery Services Sector	400 to 1000 employees, or with annual revenue 30 to 300 million RMB. All other units with lesser values, classifies as small enterprises.
Medium sized enterprises Hotels & Restaurants	400-800 employees, or with annual revenue > 30 but less than 150 million RMB. All other units with lesser values, classifies as small enterprises.

Source: Comparative Study of SME between Taiwan and China Mainland (2009), LI Xiling, College of management, Beijing Union University, P.R. China, 100101

Disclosed at the 2008 China Non-Public Economic Development Forum on November 11, the Vice chairman of the National People's Congress Standing Committee, revealed that the number of small and medium-sized enterprises in China has already exceeded 42 million (around 38 million were small enterprises).

SMEs account for 99 per cent of all business enterprises in the PRC. They are a major driving force for China's economic growth. Small and medium-sized enterprises accounts for 67.71 per cent of the total industrial output of China. The taxes paid by small and medium-sized enterprises account for 58.72 per cent of total taxes paid by all industrial enterprises. Additionally, small and medium-sized enterprises employ over 75 per cent of the workforce in cities and towns. The SMEs are also the major force behind technological innovation, generating 65per cent of China's patents, over 75 per cent of its technological innovations and over 80 per cent of new developed products.

In 2008, SMEs accounted for 58.5 per cent of the PRC's gross domestic product (GDP), 74.7 per cent of industrial new value added, 58.9 per cent of sales, 46.2 per cent of tax revenue, and, 62.3 per cent of the total export values.

Chinese SMEs are mainly concentrated in the manufacturing, wholesale and, retail sector accounting for 45.4 per cent, 35.6 per cent and 94 per cent of the sales revenue, respectively.³

ITALY

According to the European Commission SME Definition User Guide, in Italy micro, small and medium-sized enterprises consist of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro.

Small enterprises employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro. Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro (Table 2.5).

Italy has 3,818,745 MSMEs, which is equivalent to 99.9 per cent of the total enterprises in Italy. Further breakdown is represented as 94.6 per cent (3,615,729) micro enterprises, 4.8 per cent (183,662) small enterprises and 0.5 per cent (19,354) medium enterprises.

Table 2.5: MSME Definition in Italy and Turkey

Type of Enterprise	Headcount	Annual Turnover	Annual Balance Sheet Total
Medium	<250	<= € 50 Million	<= € 43 Million
Small	<50	<= € 10 Million	<= € 10 Million
Micro	<10	<= € 2 Million	<= € 2 Million

In Italy MSMEs are found in cluster "distretti industriali" or industrial districts. These industrial districts are inter-connected firms in a particular geographical concentrated location, specialized suppliers, service providers and firms in related/associated industries, all working in tandem with one scope- *Success*. All of these firms work in the same geographical area and contribute to a system which produces goods that are characteristic of the district. Cooperation, commonality, competition are the features of how clusters work in Italy.

Italy is among the world leaders in the MSME cluster development model. Italian SMEs are leading shoe manufacturer in the EU with a 40 per cent world market share. The relative importance of MSMEs for the Italian economy exceeds by far the EU average, as illustrated by a considerably above-EU-average share of persons employed and value added accounted for by MSMEs. The contribution of Italian MSMEs to total value added and employment is 70.9 per cent and 80.3 per cent respectively, compared to

³ P S Deodhar and Chunmei Rao, "SMEs in China", India China Economic and Cultural Council, 2009

EU average of 57.9 per cent of total value added and 67.1 per cent of employment. It should be noted, that this elevated importance is mainly due to the micro enterprises, while medium enterprises are, in fact, underrepresented vis-à-vis the EU average⁴.

Italian MSMEs are renowned for producing world class products, may it be eye glass frames or high fashion designing, textiles and garments, gems and jewellery, leather products (shoes & hand bags in particular), granite, ceramics, glass metallurgical industry, soaps & cosmetics, transportation, machine tools, engineering goods, food processing industry, drugs and chemicals, domestic appliances, auto components etc. The above-said sectors present a very articulated structure of different niches and segments of specialization, in many of which the Italian firms may boast very high shares and a leadership position the global market.

According to a study by Prof. Humphery and Schmitz (University of Sussex), titled "Principles for Promoting Clusters and Networks of SME's", the Italian SME's have been successful due to:

- Sectoral specialization
- Predominance of small and medium level firms
- Close inter-firm collaboration
- Inter-firm competition based on innovation
- Presence of a socio-cultural identity which facilitates trust
- Active self-help organizations
- Supportive regional and municipal government
- External economies (skilled labour, cost reduction, learning)
- Proximity economies (face-to-face contact, information exchange)
- Synergy elements (imitation, interaction & co-operation)

MALAYSIA

Malaysian MSMEs can be grouped into the three categories of Micro, Small, or Medium on basis of either the numbers of people a business employs or on the total sales or revenue generated by a business in a year. The definitions apply to agriculture, manufacturing and manufacturing-related services and the services sector (Table 2.6 and 2.7).

Table 2.6: MSME Definition in Malaysia (On basis of Number of Employees)

	Primary Agriculture	Manufacturing (including Agro-Based) & MRS*	Services Sector (including ICT**)
<i>Micro</i>	Less than 5 employees	Less than 5 employees	Less than 5 employees
<i>Small</i>	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees

⁴ *SME Fact Sheet-Italy, European Commission , 2009*

<i>Medium</i>	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees
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*MRS: Manufacturing-Related Services, ** ICT: Information and Communications Technology

Table 2.7: MSME Definition in Malaysia (On basis of Annual Sales Turnover)

	Primary Agriculture	Manufacturing (including Agro-Based) & MRS*	Services Sector (including ICT**)
<i>Micro</i>	Less than RM200,000	Less than RM250,000	Less than RM200,000
<i>Small</i>	Between RM200,000 & less than RM1 million	Between RM250,000 & less than RM10 million	Between RM200,000 & less than RM1 million
<i>Medium</i>	Between RM1 million & RM5 million	Between RM10 million & RM25 million	Between RM1 million & RM5 million

*MRS: Manufacturing-Related Services, ** ICT: Information and Communications Technology

Based on the Census on Establishment and Enterprises 2005 conducted by the Department of Statistics Malaysia (DOSM), SMEs in Malaysia are mainly in the services sector, accounting for 87 per cent or 474,706 of total business establishments. Most of these businesses are involved in the distributive trade which includes wholesale and retail, as well as hotels and restaurants. The manufacturing sector, meanwhile accounts for 7 per cent of total SMEs or a total of 39,373 businesses, of which more than half are in the three key subsectors, namely textiles and apparels, metal products and food and beverages (F&B). This is followed by the agriculture sector which constitutes another 6 per cent of SMEs or representing 34,188 businesses. Most SMEs in the agriculture sector are involved in crop plantation, horticulture and fishing.

In addition, value added products from MSMEs are expected to be worth RM 120 billion — or 50 per cent of total production — in the manufacturing sector by 2020. The target is to raise the contribution of MSMEs to GDP from 32 per cent in 2005 to 37 per cent in 2010, exports from 19 per cent to 22 per cent and employment to 57 per cent in 2010.

Malaysian MSMEs are a vital component of the country's economic development as they provide employment for about 56 per cent of the total workforce. Employment generated by them is approximately 3.0 million workers (65.1 per cent) of the total employment of 4.6 million engaged in the three main sectors. The services sector employs the largest number, 2.2 million, followed by the 740,438 people in the manufacturing sector, and 131,130 people in the agriculture sector. The MSMEs have 76.5 per cent full-time workers, 16.7 per cent self-employed workers and, 6.8 per cent part-time workers. Women participation in the work force of MSMEs in 2003 was 1,121,687 or 36.8 percent of total employment. Specifically, the involvement of women entrepreneurs in MSMEs, by using working proprietors and active business partners as a proxy, indicated 30.3 percent participation.

PHILIPPINES

In Philippines MSMEs are defined as any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

Micro: not more than P3,000,000

Small: P3,000,001 – P15,000,000

Medium: P15,000,001 – P100,000,000

According to the Republic Act No. 6977, commonly known as the Magna Carta for Small Enterprises, to qualify for assistance, counselling, incentives and promotion under this Act, businesses falling under the above definition must be:

- a) Duly registered with the appropriate agencies as presently provided by law: Provided, That in the case of micro enterprises as defined herein, registration with the office of the municipal or city treasurer shall be deemed sufficient compliance with this requirement;
- b) One hundred percent (100%) owned, capitalized by Filipino citizens, whether single proprietorship or partnership. If the enterprise is a juridical entity, at least sixty percent (60%) of its capital or outstanding stocks must be owned by Filipino citizens;
- c) A business activity within the major sectors of the economy, namely: industry, trade, services, including the practice of one's profession, the operation of tourism-related establishments, and agri-business, which for purposes of this Act refers to any business activity involving, the manufacturing, processing, and/or production of agricultural produce; and
- d) It must not be a branch, subsidiary or division of a large scale enterprise.

According to Department of Trade and Industry, as of 2006 count, there are 783,065 business enterprises operating in the Philippines. Of these, 99.7 per cent (780,469) were micro, small, and medium enterprises (MSMEs) and the remaining 0.3 per cent (2,596) were large enterprises. Further categorizing, out of total number of MSMEs, 92 per cent (720,191) were micro enterprises, 7.3 per cent (57,439) were small enterprises, and 0.4 per cent (2,839) were medium enterprises.

Together the MSME sector in Philippines accounts for about 99.7 per cent of the registered businesses in the country. Around 30 per cent of the total sales and value added in the manufacturing also come from

the MSMEs⁵. They also account for 25 per cent of the country's total exports revenue. It is estimated that 60 per cent of all exporters in the country belong to the MSME category.

MSMEs generate 69.5 per cent employment in Philippines. Out of this figure micro enterprise contributes 37.6 per cent, small enterprises contributed 24.9 per cent, and medium enterprises contributed 7.0% per cent. On the other hand, large enterprises account for only 0.3% of the total number of establishments and generate 30.6% of total employment.

Majority of the MSMEs in operation in 2006, were in the wholesale and retail trade industries with 391,215 business establishments; followed by manufacturing with 116,361; hotels and restaurants with 97,926; real estate, renting, and business activities with 45,293; and other community, social, and personal services with 44,658. These industries accounted for about 89.1 per cent of the total number of MSME establishments. Top 5 sub-industries in the manufacturing sector in terms of MSME establishments in 2006:

- Food products and beverages, 55,007 establishments
- Wearing apparel, 15,623 establishments
- Fabricated metal products except machinery and equipment, 12,986 establishments
- Furniture, 7,188 establishments
- Other non-metallic mineral products, 5,143 establishments

These sub-industries accounted for 82.4 per cent of the total number of MSMEs in the manufacturing sector.

REPUBLIC OF KOREA

Article 2 of the Framework Act on SMEs, Article 3 of the Enforcement Decree Act for Micro-enterprises, and, Article 2 of the Act of Special Measures on Assisting Small Business and Micro-enterprises defines the MSMEs in South Korea. The definition varies across sectors, as given in Table 2.8.

Table 2.8: SME Definition in Republic of Korea

Sector	SMEs		Small Businesses	Micro-enterprises
	No. of workers	Capital and Sales	No. of workers	
Manufacturing	Less than 300	Capital worth \$8M or	Less than 50	Less than 10

⁵ MSME Statistics, Department of Trade and Industry, Philippines

Sector	SMEs		Small Businesses	Micro-enterprises
	No. of workers	Capital and Sales	No. of workers	
		less		
Mining, construction and transportation	Less than 300	Capital worth \$3M or less	Less than 50	Less than 10
Large general retail stores, hotel, recreational condominium operation, communications, information processing and other computer-related industries, engineering service, hospital and broadcasting	Less than 300	Sales worth \$30M or less	Less than 10	Less than 5
Seed and seedling production, fishing, electrical, gas and waterworks, medical and orthopaedic products, wholesales, fuel and related products wholesales, mail order sale, door-to-door sale, tour agency, warehouses and transportation-related service, professional, science and technology service, business support service, movie, amusement and theme park operation	Less than 200	Sales worth \$20M or less	Less than 10	Less than 5
Wholesale and product intermediation, machinery equipment rent for industrial use, R&D for natural science, public performance, news provision, botanical garden, zoo and natural parks, waste water treatment, waste disposal and cleaning related service	Less than 100	Sales \$10M or less	Less than 10	Less than 5
Other sectors	Less than 50	Sales worth \$5M or less	Less than 10	Less than 5

Playing a pivotal role in the Korean national economy these MSMEs account for 99.9 per cent (3 million MSMEs) of all enterprises, 88.4 per cent of all employees, 50.8 per cent of value added in manufacturing and 48.7 per cent of output produced in manufacturing⁶. Every day in Korea, new start-ups are launched. Annually, the pattern of 1 million business start-ups and 0.8 million closures is repeated. Bolstered by

⁶ National Statistics Office, Korea, 2007

continuous innovation in technology and management, MSMEs in Korea (venture businesses, inno-biz and management-innovative businesses) have higher added value than ordinary businesses.

28.4 per cent of these enterprises are in wholesale and retail sector, 20 per cent in accommodation and restaurants, 11.3 per cent in transportation, 11.1 per cent in manufacturing, 9.3 per cent in repair and other individual services, 3.3 per cent in real estate & rental and, 3.1 per cent in construction.

In 2008, Korean MSMEs exported commodities worth US\$ 130.52 billion compared. Major commodities of exports were electronics & electrical, machinery, chemicals, textiles, steel and, metal.

SOUTH AFRICA

In South Africa, according to the National Small Businesses Act 1996 (amended in 2003), 'small business' means a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in Table 2.9 opposite the smallest relevant size of the enterprise. The SMMEs are defined on basis of employment, total turnover and gross assets value, with minimum and maximum limits varying across industries.

Table 2.9: MSME Definition in Republic of Africa

Sector or subsector	Size of enterprise	Total full-time employment	Total turnover	Total gross asset value
Agriculture	Medium	100	R5m	R5
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R5m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m

Sector or subsector	Size of enterprise	Total full-time employment	Total turnover	Total gross asset value
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, accommodation and other Trade	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Transport, Storage and Communications	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very Small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

Source: Schedule 1 to the National Small Business Act of 1996, as revised by the National Small Business Amendment Bill of March 2003

Due to lack of official data figures on the number of small businesses in South Africa remain sketchy. Finscope's 2010 South Africa Small Business Survey estimates that there are close to 6 million small businesses in the country. Nearly 67 per cent of these employ no more than the owner themselves. In total, 300 000 businesses, or 6 per cent of all entrepreneurs, employ five or more people. A further 1.5 million or 27 per cent employ one to four people. Merely 17 per cent of small businesses are registered businesses.

According to Department of Trade and Industry (DTI) estimate, small businesses represent 98 per cent of the total number of firms. Small businesses employ 50-60 per cent of the labour force within the formal sector and in the informal and self-employed sectors they engage up to 75 per cent of the work force. Between 1985 and 2005, 90 per cent of all new jobs were created by small, micro and medium Firms (Finscope Small Business Survey Report, 2006).

Wholesale/retail, construction and transport are the three largest and fastest growing small business sectors. 43 per cent of the businesses are involved in trade, retail, and hotel & restaurants sectors, 12 per cent in agriculture and forestry, 11.1 per cent in social and personal services, 10 per cent in manufacturing, 9.1 per cent in construction, 6.9 per cent in financial and business services and 5.2 per cent in transport, storage and communications. The contribution of small and micro enterprises to South Africa's GDP is between 27 per cent and 34 per cent.

TURKEY

In case of Turkey, according to the European Commission MSME definition user guide, the category of micro, small and medium-sized enterprises consists of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro. Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro. Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro (Table 2.10).

Table 2.10: MSME Definition in Italy and Turkey

Type of Enterprise	Headcount	Annual Turnover	Annual Balance Sheet Total
Medium	<250	<= € 50 Million	<= € 43 Million
Small	<50	<= € 10 Million	<= € 10 Million
Micro	<10	<= € 2 Million	<= € 2 Million

Owing to their considerable share in the total number of enterprises and in total employment-particularly for employment and development outside major urban areas- SMEs play a very important role in the Turkish economy. They account for 99 per cent of all enterprises, almost 80 per cent of total employment, and are also estimated to account for up to 40 percent of value added. The majority of

SMEs operate within the trade and manufacturing sectors, both of which have been hit by the drop in domestic and external demand. [Document of The World Bank No: 54492-TR, May 12, 2010]

Annexure 2.1

Definition of MSMEs in Brazil, China, Italy and Malaysia

	Brazil	Brazil	China	Italy	Malaysia	Malaysia
Size of Enterprise	Industry	Trade and Services	Varies across Industry	All	Manufacturing (including Agro-Based) & MRS*	Services, Primary Agriculture and ICT*
Governing Law			SME Promotion Law	European Commission SME definition user guide		
Definition Criteria	Employment	Employment	Employment, Revenue and Total Assets	Employment, and Annual Turnover OR Annual Balance Sheet Total	Sales Turnover OR Employment	Sales Turnover OR Employment
Micro	< = 19 employees	< = 9 employees	NA	Employment < 10, and Annual Turnover <= € 2 Million OR Total Sales Turnover <= € 2 Million	Sales Turnover < RM250,000 OR Full-time Employees < 5	Sales Turnover < RM200,000 OR Full-time Employees < 5
<i>Small</i>	19 < Employees < 100	9 < Employees < 50	Employment < 300, Annual Revenue < RMB30 Million, Assets < RMB40 Million	Employment < 50, and Annual Turnover <= € 10 Million OR Total Sales Turnover <= € 10 Million	RM 2,50,000 < Sales Turnover < RM 10 Million OR 5 < Full-time Employees < 50	RM 2,00,000 < Sales Turnover < RM 1 Million OR 5 < Full-time Employees < 19

	Brazil	Brazil	China	Italy	Malaysia	Malaysia
Size of Enterprise	Industry	Trade and Services	Varies across Industry	All	Manufacturing (including Agro-Based) & MRS*	Services, Primary Agriculture and ICT*
<i>Medium</i>	99 < Employees < 500	49 < Employees < 100	Employment < 2000, Annual Revenue < RMB300 Million, Assets < RMB400 Million	Employment < 250, and Annual Turnover <= € 50 Million OR Total Sales Turnover <= € 43 Million	RM 10 Million < Sales Turnover < RM 25 Million OR 51 < Full-time Employees < 150	RM 1 Million < Sales Turnover < RM 5 Million OR 20 < Full-time Employees < 50

Annexure 2.1 (contd.)

Definition of MSMEs in Philippines, Republic of Africa, Republic of Korea and Turkey

Size of Enterprise	Philippines	Republic of Africa	Republic of Korea	Turkey
Type of Industry	All	Varies across Industry	Manufacturing	All
Governing Law	Defined by SMED Council	National Small Businesses Act 1996	Article 2 of Framework Act on SMEs and Article 3 of Enforcement Decree of the Act	European Commission SME definition user guide
Definition Criteria	Employment or Total Assets	Employment, Total Turnover and Total Gross Assets	Employment, Capital and Sales	Employment, and Annual Turnover or Annual Balance Sheet Total
Micro	Total Assets < P3,000,000 OR Employees < 9	Employment fewer than 5, Annual Turnover Less than R150,000 and Total Assets Less than R100,000	Less than 10 Employees	Employment < 10, and Annual Turnover <= € 2 Million OR Total Sales Turnover <= € 2 Million
Very Small/ Small Businesses	NA	Employment fewer than 10 to 20, Annual Turnover Less than R200,000 to R500,000 and Total Assets Less than R150,000 to R500,000	Small Businesses have Less than 50 Employees	NA
Small	P3,000,00 < Total Assets < P15,000,000 OR 10 < Employees < 100	Employment fewer than 50, Annual Turnover Less than R2 Million to R25 Million and Total Assets Less than R2 Million to R4.5 Million	Less than 300 workers and Capital worth \$8M or less	Employment < 50, and Annual Turnover <= € 10 Million OR Total Sales Turnover <= € 10 Million
Medium	P15,000,000 < Total Assets < P100,000,000	Employment fewer than 100 to 200, Annual		Employment < 250, and Annual Turnover <= € 50 Million OR Total Sales

Size of Enterprise	Philippines	Republic of Africa	Republic of Korea	Turkey
Type of Industry	All	Varies across Industry	Manufacturing	All
	OR 100 < Employees < 200	Turnover Less than R4 Million to R50 Million and Total Assets Less than R2 Million to R18 Million		Turnover <= € 43 Million

Chapter III:

PUBLIC POLICIES, SYSTEMS AND PROGRAMMES

SMEs account for significant national growth worldwide and therefore are on the top priority of policy makers as discussed in the chapters above. In different countries SMEs are treated differently as far as Policy environment is concerned. This is how lessons from different countries become important for understanding one another's experiences. An attempt has been made in this chapter to present some of the international best SME policies, besides country-wise SME policies and programmes.

The SME sector has been receiving priority attention of the policy makers world-wide because of the sector's significant contributions their economic growth as discussed in Chapters. It is observed that while protection is given in some countries, others try to promote the sector by creating an enabling policy environment. Though the SME policies are different in different countries, there are still many lessons to learn from one another's experiences. An attempt has been made in this chapter to present some of the international best SME policies, besides country-wise SME policies and programmes.

Global Policy Developments on SMEs

The Foremost instrument on SME Policy declaration is the Bologna Charter on SME Policies which was adopted on June, 2000 by many European and other countries (See Box 3.1 and details in Annexure 3.1).

The Bologna Charter has been revised in 2004, where Ministers of a large number of countries assembled in Istanbul in 2004 to review the Bologna Charter on SMEs and make suggestions for further growth of the SME sector (Highlights in Box 3.2 and details in Annexure 3.2). Again after two years in 2006, the Ministers met again in Athens to declare further action plan to boost the international trade of SME products (Highlights in Box 3.3 and details in Annexure 3.3)

Box 3.1: The Bologna Charter on SME Policies (2000)

The key elements of Charter that would help the holistic growth of SMEs are as follows:

- A regulatory environment which does not impose undue burdens on SMEs and is conducive to entrepreneurship, innovation and growth through, *inter alia*: promoting good governance and greater accountability in public administration; pursuing a fair and transparent competition policy, and implementing effective anti-corruption measures; and fostering the implementation of transparent, stable and non-discriminatory tax regimes.
 - Education and human resource management policies that: foster an innovative and entrepreneurial culture, including continuous training and lifelong learning; encourage mobility of human resources; and reduce skill disparities by improving the match between education and labour market demand.
 - Effective access to financial services, particularly to seed, working and development capital, including innovative financial instruments to reduce the risks and transaction costs of lending to SMEs.
 - An environment that supports the development and diffusion of new technologies for and by SMEs to take advantage of the knowledge-based economy.
 - Strengthening public-private partnerships and political and social dialogue involving territorial and institutional actors as a tool for exchange of information, utilisation of knowledge and elaboration of policy.
 - Ensuring the cost-effectiveness of SME policies and their consistency with other national policies, as well as with existing international programmes
- Effective access to financial services, particularly to seed, working and development capital, including innovative financial instruments to reduce the risks and transaction costs of lending to SMEs.
 - SME access to national and global innovation networks be facilitated and their participation in public R&D programmes and procurement contracts encouraged.
 - Partnerships involving private actors, NGOs and different levels and sectors of public administration in local cluster and networking development strategies be facilitated.
 - The private sector lead cluster initiatives, with the public sector playing a catalytic role according to national and local priorities (e.g., *inter alia*, facilitating private investment with public incentives, facilitating seed funding and monitoring the results of network initiatives).

- Greater awareness among SMEs of the benefits of the Information Society and of integrating Internet use and electronic commerce in their business strategies be fostered by: i) encouraging the dissemination of information on opportunities and obstacles related to electronic commerce; ii) removing paper-based legal barriers to commercial electronic transactions and administrative impediments to the creation and development of new firms; iii) fostering a competitive market for high-quality network infrastructure; and iv) making use of the Internet in public administrations' interactions with SMEs and promoting electronic public procurement initiatives that provide equal access to SMEs.
 - Co-ordination between governments, and regional and international organisations as regards industrial development programmes and initiatives aimed at supporting the growth of SMEs in transition and developing economies be improved.
 - To work together and within international organisations to improve the complementarity of bilateral and multilateral initiatives to foster global SME partnerships and enhance the availability of financial and non-financial instruments to promote SME development.
- SMEs' ability to manage innovation be improved by: facilitating the hiring and training of qualified personnel; diffusing an innovation culture; disseminating technological and market information and providing related assistance (e.g. through improvements in relevant labour market mechanisms, and linkages between enterprises and education systems, and between industry and public and university research).
- Financial barriers to innovation in SMEs be reduced by: i) facilitating the development of market mechanisms for equity financing, and related services, especially for innovative start-ups; ii) promoting risk-sharing programmes and measures, including financial support and tax incentives to R&D and innovation; and iii) supporting initiatives which facilitate "partnerships for innovation" between entrepreneurs, public agencies and financiers.
- SME access to national and global innovation networks be facilitated and their participation in public R&D programmes and procurement contracts encouraged.

Box 3.2: The Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs (2004)

The key features of the Declaration are follows:

- The need to improve access to financing for SMEs on reasonable terms. While SMEs' financing requirements differ at each stage of their development, policies should aim to ensure that markets can provide financing for credit-worthy SMEs and that innovative SMEs with good growth prospects have access to appropriately structured risk capital at all stages of their development.
- The need to reduce barriers to SME access to global markets. Policies should aim to encourage the smooth, cross-border growth of SMEs including in some instances through the promotion of business linkages between large enterprises and SMEs.
- Encouraging the development of websites that provide opportunities for SMEs, at minimal cost, to present the products or services that they wish to offer to international markets.
- Encouraging all forms of appropriate co-operation and networking amongst SMEs, or between SMEs and larger firms, so that the experience of firms already engaging with foreign markets can be shared by SMEs seeking to access to those markets.
- Addressing the shortage of people with the skills to advise SMEs on accessing international markets;
- Developing a robust and comparable statistical base on which SME policy can be developed. The development of better data and statistical information both on international markets and on the population of SMEs that regularly access international markets.
- Developing high quality, transparent and efficient business regulation.
- Involving business and non-government organisations more effectively in the development and delivery of policy and programmes aimed at assisting SMEs to access international markets.
- Collation and assessment of good practice in member economies for government support programmes to assist SMEs to internationalise, including a review of the evidence on the practices and experiences of SMEs who are internationalising

successfully.

Box 3.3: The Athens Action Plan for Removing Barriers to SME Access to International Markets (2006)

The key features of the Action Plan are follows:

- Actively removing non-tariff barriers to international trade (e.g. through mutual recognition of product standards and business and occupational licensing, efficient legal systems, improved customs procedures, facilitating business travel).
- Concluding outstanding trade negotiations leading to open markets, reduced trade barriers and contributing to a stable and transparent business environment.
- Providing a simplified, transparent and non-discriminatory domestic business regulatory environment (e.g allowing equal access to government contracts for both foreign and domestic suppliers in authorised sectors).
- Promoting clear and accessible public consultation mechanisms to facilitate SME participation in the trade policy process.
- Encouraging regulatory co-operation among governments to reduce trade-related compliance costs.
- Ensuring high quality policy frameworks for encouraging private investments are in place.

In addition to the series of the developments illustrated above the agenda of increasing SME exports was further taken forward in 2007 by taking measures to strengthen the process of ancillarisation and supply chain management (Highlights in Box 3.4 and details in Annexure 3.4)

Box 3.4: The OECD Tokyo Action Statement for Strengthening the Role of SMEs in Global Value Chains (2007)

The Tokyo Statement envisages the following:

- Promoting business linkages between MNEs and SMEs through identifying and matching potential partners while ensuring diversification of partners to avoid becoming dependent on one partner. Helping SMEs to develop their negotiating capacities and skills with MNEs through institutional support (awareness building) and training measures.
- Promoting the capacity for innovation by local SMEs through:
 - Supporting training and capacity building via skill development programmes and business development service programmes so that SMEs can acquire the specific technical skills and business services required to partner with MNEs.
 - Promoting partnerships between SMEs and organisations overseas that can develop or transfer world-leading technology, products, processes or management practices.
 - Encouraging broader ICT uptake for promoting SME innovation capacity through marketing and organisational assistance to implement new ICT systems.
 - Promoting enhanced intellectual asset-based management by SMEs and developing systems to value intellectual assets adequately, for instance by facilitating SME marketing of their intellectual assets, when appropriate, in order to maximise their investments in them.
 - Creating and promoting online IP marketplaces where SMEs can showcase their IP offering easily and inexpensively.
 - Facilitating the filing of patents by SMEs.
 - Providing SMEs with the legal means to appropriately protect their IP rights in international markets.
 - Encouraging SMEs participation in negotiations for IP rights in the establishment of treaties or international agreements.
- Facilitating the adoption of product quality and process standards through:
 - Promoting the adoption of harmonised standards by MNEs in procurement procedures and the diffusion of that information to SMEs.

The Paris Meeting to analyse the impact of global economic meltdown, on SMEs was held in Paris in 2010 to critically analyse how the SME sector was affected and what future action plan can be made to enable the SMEs to weather any future crisis (Highlights in Box 3.5 and details in Annexure 3.5)

Box 3.5: ECD WPSMEE “BOLOGNA +10” High level Meeting on “SMEs and Entrepreneurship: Lessons from the Global Crisis and the Way Forward to Job Creation and Growth” (2010)

The lessons learned include the following:

- Identify cost-effective ways to strengthen financial markets for SMEs seeking to export and participate in global value chains, for example by providing export credit guarantees to private finance providers and increasing the investment readiness of SMEs.
- Support SME participation in global value chains and tackle the problem of identifying foreign market and collaboration opportunities
- Streamline and simplify administration and regulations affecting new firm creation and SMEs.
- Enhance entrepreneurship skills by shifting the emphasis from business management skills to strategic skills for growth-oriented entrepreneurship Increase the participation of SMEs in international collaborative research programmes.
- .
- Adapt the intellectual property rights system to the needs of SMEs and entrepreneurs.
- Improve SME intellectual asset management by training SME managers on the value and mechanisms of intellectual asset management.
- .
- Use public procurement to accelerate the demand for innovation from new and small firms.
- Encourage exchange of experiences at international level regarding policy successes, failures and best practices.
- Enhance access to venture capital markets is key to the entry of new firms, particularly high-growth ones, in the emerging green markets.

For SMEs to have holistic development the support of macroeconomic policies is quintessential. It is increasingly felt that while the countries have been making, modifying and strengthening their SME policies, the holistic effectiveness of these SME policies will be fully realised when backed by strong prudential macro economic policies. In this regard, the McKeever Institute of Economic Policy Analysis (MIEPA) has assessed the ranking of countries on the basis of their macro economic policies, both domestic and external. Even though it is a private institute's ranking, but considering the exhaustive list of 34 parameters and a research-based policy analysis, it is felt relevant to mention the macro economic policy ranking of 8 countries under this study. An understanding of the these countries' policy ranking will set a background of further analysis of country-wise SME policies and programmes initiated over the years. MIEPA has analysed the policy parameters under six broad categories, viz. Group 1: Critical Internal Policies including Freedom from internal control, Freedom of speech, Effective, fair police force, Private property, Commercial banks, Communication systems, Transportation, Education and Social Mobility; Group 2: Critical External Policies including Freedom from outside control, Foreign currency transactions and Border control; Group 3: Important Internal Policies which include Use of a single currency as money throughout a country, Cultural, language homogeneity, Political effectiveness, Institutional stability, Honest government, Common laws, Central bank, Domestic budget management, Government debt, Economic statistics, Protection of public health and safety, High wage policies, Environmental protection; Group 4: Important External Policies including Strong army, Foreign trade impact, Protection of foreign currency earning enterprises, Management of foreign currency budget; Group 5: Beneficial Internal Policies that include Layers of collective action, Pro business climate and Government enterprises, and Group 6: beneficial External Policies based on International security agreements and Protection of domestic enterprises from government mandated costs (Annexure 3.11).

On the basis of various quantitative scale for these 34 parameters, it was found that Brazil ranks first in terms robustness of its macro policies to address various internal and external issues followed by Philippines, S Africa, China, Malaysia and others (Table attached with Annexure 3.11). Against this backdrop, the chapter presents various SME policies and programmes in each of the 8 countries under the study.

Country Scenario

Having looked at the international policy developments on SMEs, the position of SME development and its Policies is analyzed below-

BRAZIL

In Brazil, the Constitution is supportive of SMEs. The Brazilian Constitution identifies MSME as the priority sector. The Brazilian government is actively involved in the overall growth of the MSME sector in the country. The Brazilian Constitution establishes "the distinguished treatment for micro and

small companies that were created under the Brazilian law and have the headquarters and administration in the country (article 170, IX). The first legal measure that established special treatment to micro and small enterprises was defined in 1984 by Law 7.256/84. It institutionalized the "*Estatuto da Microempresa*", concerning the administrative, fiscal and social security system and labour rights.

Reflecting its commitment towards the growth and promotion of the MSME sector, Brazil is a signatory to the Istanbul Declaration and endorsed Bologna Conference, 2000. According to Obadan and Agba (2006), in the Istanbul declaration, which exists in three parts, the Brazilian government pledges to embark on policies that will strengthen the position of the SMEs. Thus the MSME policy planks in Brazil are:

- (a) Policies and institutional framework that contribute to a business environment that is conducive to entrepreneurship and facilitates entry, growth, transfer of ownership and smooth exit of enterprises. These should be coherent at international, national, regional and local levels and should include:
 - Enabling regulatory frameworks, which are developed taking into account the needs of SMEs and facilitating their integration into the formal sector; tax systems that entail low compliance costs; the transparent and equitable application of rules and legislation; simple and transparent license and permit systems; efficient bankruptcy rights; procedures; understandable and coherent product standards in world markets; clearly defined property rights; fair and reasonably priced dispute settlement procedures; and light, predictable administrative procedures;
 - Stable macroeconomic policies and well-designed structural policies in areas that impinge on SMEs, such as competition, international trade and investment, financial markets, labour markets and education; and, as regards to developing economies, embedding private sector SME strategies in broader development strategies and poverty reduction programmes;
 - Laws and systems of governance that support the development and diffusion of new technologies in ways that enable and encourage SMEs to take full advantage of them, notably by strengthening the science-innovation interface; ensuring that intellectual property rights systems are coherent, easy to understand and used effectively; and promoting access to and use of quality information and communication infrastructure and promoting enhanced security and trust in the digital economy;
- (b) SME assistance and development programmes which are clearly in terms of their rationale, objectives and beneficiaries. These policies and programmes should be:
 - Cost-effective and designed to encourage activity that would otherwise not have taken place and help SMEs overcome the effects of market failures, without unduly distorting market structures or creating barriers to competition.
 - Based on sound research, empirical evidence, public-private sector dialogue and partnerships, and evaluation regularly for effectiveness and efficiency;

- Designed to provide support to large groups of SMEs, including micro enterprises, for example by helping them to: improve their management skills; obtain finance on reasonable terms; increase their capacity to compete for government procurement; have access to timely advice and information; enhance their ability to take full advantage of information and communication technologies; and improve linkages with other SMEs and large firms to encourage the emergence and development of innovative clusters.
- (c) Policies that contribute to mobilizing human resources in order to promote entrepreneurship. This involves:
- Promoting the diffusion of training programmes and lifelong learning opportunities by stimulating market provision or such services and, where the need exists, providing hands-on focused courses funded by the public sector;
 - Promoting women's entrepreneurship through the elimination of barriers to enterprise creation and growth, such as impediments to the right to hold property or to sign contracts, where such impediments exist, and by taking into account at the design stage the impact of SME-related policies on women's entrepreneurship;
 - Developing a culture that encourages entrepreneurship and recognizes entrepreneurial success. The integration of entrepreneurship at all levels of the formal education system can facilitate this. Formal education should be complemented by learning-by-doing activities and other practical workshops. This objective requires paying particular attention to teacher training programmes;
 - Mobilising disadvantaged groups. One way to pursue this objective is to develop policies and programmes which provide business support services targeted to these groups and disseminate information to those wanting to start and grow a business (OECD, 2004).

The national policy on SMEs in Brazil is contained as the General Law for Micro and Small Enterprises, starting in 2007, is the first national public policy (valid for all states in Brazil) that determines the unified payment of federal, state and municipal taxes. Nine different taxes are combined in a single payment, whose value is determined based on total revenues and activity sector. Also, other benefits are included: micro and small businesses have a preference on government bids up to R\$80,000.00 (approximately US\$ 40,000.00) and do not have to pay export taxes. With this law in practice, it is expected that the time to open a new company decreases from 152 days to 15 days on average, as already happens in some cities.

Brazil's New Government Policy and its impact on SMEs

The Brazilian government on May 12, 2008 announced the country's new industrial policy having implications on the MSME sector, which includes a series of tax breaks for some economic sectors. The tax changes are designed to make eligible sectors more competitive and willing to invest in production and exports. The new industrial package has four main goals:

- increase capital investments from 17.6 percent of the country's GDP in 2007 to 21 percent in 2010;
- increase investments in R&D from 0.51 percent of GDP in 2007 to 0.65 percent in 2010;
- increase the number of micro- and small-business companies that export goods and services by more than 10 percent (in 2006 they totaled 11,792, according to the government); and
- increase Brazilian exports in general to make the country's participation in world trade increase from 1.18 percent in 2007 to 1.25 percent in 2010. xports.

Among the most important PDP tax measures are:

- reduction of the time period for the use of P.I.S. (Program for Social Integration) and COFINS (Contribution for the Financing of Social Security) credits on investments in capital goods; under the current rules, P.I.S. and COFINS paid by the taxpayer on those acquisitions may be recovered within 24 months (in special circumstances); the change would shorten that term to 12 months;
- reduction from 20 percent to as low as 10 percent of the employer payroll tax paid by software and information technology (IT) companies; the reduction would depend on the participation of export income in the company's gross income;
- extension until 2010 of the accelerated depreciation rate for some machinery, equipment, devices, and instruments purchased by corporate taxpayers; and a tax credit of 25 percent of that depreciation to be used against the 9 percent social contribution on net income (CSL);
- reduction of some software and IT companies' social contribution on payroll to as low as zero; the reduction will also depend on the participation of export income in the company's gross income;
- double deduction, for corporate income tax and CSL, of some training expenses for software and IT companies
- reduction to zero of the 0.38 percent financial transactions tax levied on financing granted to the private sector by BNDES and other public credit entities (the Special Agency for Industrial Financing and the Study and Projects Financing Agency of the Ministry of Science and Technology);
- exemption from federal excise tax, P.I.S., and COFINS for production of parts used by Brazilian shipyards;
- ;
- additional deduction of research and development expenses for technology companies;
- suspension of P.I.S. and COFINS in purchases of materials used in manufacturing of goods to be exported under the drawback regime;
- reduction to zero of withholding tax on payments abroad for logistics services connected to Brazilian exports; and
- reduction to zero of withholding tax on payments abroad for commercial promotion of Brazilian products.

With the onset of the global financial crisis in 2008, the MSME sector in Brazil started getting adversely affected, especially those with high export orientation. In order to give a fillip to the sagging economy, as also boost the MSME sector, the Brazilian Government came out with a number of policy initiatives effective from 2009 as given below:

-Fiscal policy of Brazil, 2009:

- Public investment capacity will be expanded by 20,000 million reales (US\$ 9.2 billion approx.) in 2009;
- Injection of over 100,000 million reales (US\$ 46 billion approx.) to keep up consumption rates;
- Ministries will have to anticipate expenses and ensure a parallel budget of at least 26,000 million reales (US\$ 12 billion approx.);
- The productive sectors most badly affected by the crisis may enjoy new tax reductions and a broader offer of resources;
- The growth acceleration programme will be endowed with 21,000 million reales (US\$ 9.7 billion) secured in the budget for next year;
- The government shall spend 14,500 million reales (US\$ 6.7 billion approx.) reserved for the sovereign fund for projects to maintain aggregate demand;
- Federal state-owned companies will have to free up at least 40,000 million reales (US\$ 18,5 billion approx.) in investments to aid domestic companies supplying inputs and raw materials;
- The government will implement an advertising campaign to stimulate the population to consume;
- The federal government and some states, such as Sao Paulo, have provided for longer terms for the monthly payment of taxes and have decreased the pressure on the cash flow availability of the companies.

-Foreign exchange and foreign trade policies

- Use of foreign exchange reserves to finance exports by means of the auctioning of the purchase of securities from banks financing foreign trade;
- Resources for the bank loan coverage programme for exporters (COBEX) are increased by US\$ 50 million.

- Sectoral policies

- Agriculture: support to the agricultural sector in the amount of 14,800 million reales (US \$ 6.8 billion approx.);
- Increased resources to be allocated by the banks to the agricultural sector, by 5,500 million reales (US\$ 2.5 billion approx.);
- Increased aliquot on the compulsory deposit on rural savings between 65% and 70%, or 2,500 million reales (US\$ 1.15 billion approx.);

- Use of foreign exchange reserves to finance the rural sector by means of trading companies;
- Use of the constitutional fund resources in the amount of 500 million reales (US\$ 210 million approx.);
- Aid to agricultural cooperatives in the amount of 1,000 million reales (US\$ 420 million approx.).

In Brazil, the Combined Tax and Contribution Payment System for Micro and Small-Sized Enterprises (*Sistema Integrado de Pagamento de Impostos e Contribuições das Microempresas e das Empresas de Pequeno Porte* or *SIMPLES*) is applicable, as its name indicates, to micro and small-sized enterprises. With the passing of Simples Federal (the country's new tax for small business through Lei Geral in 2007) it was possible that small businesses with a turnover up to R\$ 3.6m to be taxed less and be prioritised government procurement of up to R\$80 000, among other advantages.

In addition, the law specifies a series of sectors and taxpayers that will not be subject to this regime regardless of their compliance with the specified turnover volume requirements.

The so-called Presumptive Income Regime (Regime de Tributação com Base no Lucro Presumido) is a simplified corporate income tax system that applies to companies whose annual turnover is not greater than R\$ 24,000,000 (US\$ 10,293,802).

In the Brazilian SIMPLES, taxpayers meet their tax obligations by means of a single regular (monthly) payment that integrates the corporate income tax (Imposto de Renda Pessoa Jurídica or IRPJ), the contributions for both the social integration program and the social security funding (Programa de Integração Social/Contribuição para o Financiamento da Seguridade Social or PIS/COFINS), the social contribution on net profits (Contribuição Social sobre o Lucro Líquido or CSLL), the tax on industrial goods (Imposto sobre Produtos Industrializados or IPI), and the social security contribution. VAT is not included, as it is administered by the federal states, but it may be integrated as well by way of an agreement; however, this has not yet happened.

For SIMPLES, a monthly payment is made, with progressive rates being applied according to the income level. The tax amount payable is calculated by applying to the monthly income the tax rate relevant to the accumulated income earned up to the current month. Under the Presumptive Income Regime, an 8% flat tax rate is levied on gross income, although special rates are applied for certain activities. Payment of this tax is made on a quarterly basis.

Taxpayers within these regimes are exempted from the obligation to keep books for tax purposes, and are only required to keep in proper condition their cash and inventory journals. Legal entities registered under the SIMPLES must set up a clearly visible identification sign indicating they are subject to this tax regime, and file a simplified annual tax return. For its part, Brazil imposes a series of massive electronic controls upon these taxpayers via data matches.

A recent addition is the Empreendedor Individual (Individual entrepreneur) law, approved in 2008, which aims to help informal one-man-show entrepreneurs (who do not have a share in any other business and who have an annual income of up to R\$36 000) to formalise and to therefore have access to social benefits such as pension and medical aid and workman's compensation. To simplify the registration of these types of entrepreneurs wanting to benefit from the law, the Ministry of Development Industry and Commerce (MDIC), which oversees the development of small businesses, launched an internet portal in 2009 where entrepreneurs looking to formalise can sign up. The law also reduces the number of steps and pieces of information (41 to seven) an entrepreneur is required to follow to register and offers them lower taxation.

One of the measurable goals is to ensure that by 2011, 65.42% of all jobs in the formal sector are created by small, medium and micro enterprises. In 2008 the Brazilian government exceeded this target, with a figure of 65.21%. The projection for 2011 is to reach a target of 68.24%. Another goal is to increase the percentage of micro and small enterprises involved in exporting, with a goal to have 8.58% of all small and micro firms exporting by 2011.

Developmental Institutions:

The Ministry of Development, Industry and Foreign Trade (MDIC) has the main responsibility in the country to coordinate the competitiveness' policies to assist companies in general, although in practice other ministries, such as those of finance, science and technology, national integration and others, share such duties. The Permanent Forum of Micro-enterprises and Small Businesses, created in 2000 and strengthened in 2007 with the Estatuto Nacional da Microempresa e da Empresa de Pequeno Porte, is coordinated by MDIC, and has the role to guide and assist the formulation and coordination of the national policies that promote development for micro and small businesses. Forty eight institutions from the government and 47 entities that represent the interests of small business in Brazil participate in the forum.

Agencies such as The Pernambuco Economic Development Agency (AD Diper) and Minas Gerais Industrial Development Institute (INDI) are joint institutions from the private sector and the State Government, and have the role of being business convergence centres, assisting companies in the use of state fiscal incentive instruments, choosing the right location for the project etc. Others, such the Development Agency of Rio Grande do Sul (Pólo-RS) are private, non-profit organizations, that aggregate a representative group of companies.

Brazilian Micro and Small Business Support Service – (SEBRAE): SEBRAE is a private non-profit organization, supporting the development of small sized business activity. It is a result of the union of both public and private sectors and the country's main fostering and research entities: the institution has been created by law and represents a common political decision by the Government and the business community for cooperation towards common objectives SEBRAE works in cooperation with the

Brazilian Government, being the Ministry of Development, Industry and Trade part of the National Deliberative Council.

Mission

The mission of SEBRAE is to promote the competitiveness and sustainable development of Micro and Small Business in Brazil.

The strategic objectives are:

- to increase SMEs share in GDP, raising their participation in internal and external markets;
- to increase SMEs and entrepreneurs' participation in networks, broadening entrepreneurship and cooperation culture;
- to promote social inclusion via entrepreneurship;
- to focus on local productive systems in the development of small businesses.

Through its Innovation and Technology Unit, it facilitates technology access to SMEs, providing them with technical solutions, enhancing their innovative capacity and giving added value to their products and services.

CHINA

China presents a huge canvas of issues to be understood in the SME Sector. In the last two decades of the twentieth century, the Chinese economic system changed from a command economy, which dated from shortly after the Communists took control in 1949, to a mixed economy.

An Overview of Economic Reforms

China's economy since the 1970s has changed from a closed, centrally planned system to a more market-oriented one that plays a major role in the global economy.

Since 1978, China has reformed and opened its economy. The Chinese leadership has adopted a more pragmatic perspective on many political and socioeconomic problems, and has reduced the role of ideology in economic policy. China's ongoing economic transformation has had a profound impact not only on China but on the world. The market-oriented reforms China has implemented over the past 2 decades have unleashed individual initiative and entrepreneurship. The result has been the largest reduction of poverty and one of the fastest increases in income levels ever seen. China today is the second largest economy in the world. It has sustained average economic growth of over 9.5% for the past 26 years.

In the 1980s, China tried to combine central planning with market-oriented reforms to increase productivity, living standards, and technological quality without exacerbating inflation, unemployment, and budget deficits. China pursued agricultural reforms, dismantling the commune system and introducing a household-based system that provided peasants greater decision-making in agricultural activities. The government also encouraged non-agricultural activities such as village enterprises in rural areas, and promoted more self-management for state-owned enterprises, increased competition in the marketplace, and facilitated direct contact between Chinese and foreign trading enterprises. China also relied more upon foreign financing and-imports.

In order to fast forward the SME sector growth, the Chinese government came out with a Law on SME Promotion in 2003 (Annexure 3.6) which provided the legal basis for government involvement in the promotion of the SME sector. Current national SME policy objectives in China are:

- To improve the environment for SME development and Seek to increase employment in SMEs, as well as their wider contribution to China's economic and social development.

Since 2005, the prudent fiscal approach consisted of policies such as an increase in the amount of government spending in an effort to stimulate economic growth, the severe slashing in the amount of treasury bonds issued, and a decreased amount of funding in infrastructure projects. Originally, policies in the recent past had called for increased funding in infrastructure, but now that area of the economy was considered back on track, and a balance is needed within this area of the economy. The policies in 2005 have called for an increased amount of funding devoted to rural areas and a much more dramatic approach to funding the agricultural sector. There has been a substantial increase in the funding for agriculture and policies have been established that give preferential treatment for grain production and rural construction. Added support for the termination of agriculture taxes is also apparent along with government subsidies to grain planters. Other important factors that contribute to the new approach of a prudent fiscal policy include the central government's offer to give fiscal support for the reformation of State Owned Enterprises and the reform of the taxation system. There has also been evidence of government support to small and medium sized privately owned companies. The reason for the support is an extended effort to establish an environment in which competition is viewed in fairer terms. Increases in defense spending are also apparent in China's new approach to fiscal policy.

China's leaders call their economic system "market socialism." It has also been called "state capitalism" and a "market-oriented mixed economy under one-party rule."

In November 2008, the Chinese government launched moderately relaxed monetary policies and proactive fiscal policies, and put into force many measures to expand domestic demand and secure economic growth. An economic stimulus package was initiated to allocate 4 trillion RMB for investment and promote fast and stable economic growth. This round of proactive fiscal policies, featuring Chinese characteristics, succeeds in coping with both the external impact from the global financial crisis as well as

the internal major contradictions and difficulties. To sum up, the principal content of these policies is to boost the domestic demand, sustain the economic growth, promote the employment and maintain social stability.

- In 2010 China became the world's largest exporter. Reforms began with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of the private sector, and opening to foreign trade and investment. China generally has implemented reforms in a gradualist fashion. In recent years, China has renewed its support for state-owned enterprises in sectors it considers important to "economic security," explicitly looking to foster globally competitive national champions.

Their major features are economic restructuring, nurturing innovation and deepening reforms, with its foundation as strengthening social security and promoting social welfare (see Table 3.1). While ushered into 2010, one can see that these policies gradually produce desirable effects and play an important role for the steady recovery of Chinese economy.

Table 3.1: Priorities of China's Economic Stimulus Package

Four Focuses	1.	Increase the government investment by a large margin, which in total will reach the sum of 4 trillion RMB is from the central government and structural tax reduction is implemented to stimulate
	2.	Implement the plan to adjust and reinvigorate ten key industries, aiming to enhance the overall com
	3.	Forge ahead independent scientific and technological innovation to support a sustainable de
	4.	Substantially enhance the level of social security and encourage rural and urban employment to
	1.	Improve the macro-economic management and stick to the guideline of flexible but prudent co relaxed monetary policies.
	2.	Actively boost the domestic demand, particularly consumption demand. Put more emphasis on t
	3.	Strengthen the fundamental role of agriculture. Promote the stable agricultural development
	4.	Speed up the transformation of growth pattern through forceful strategic adjustment of the econo

Seven Components	5.	Keep on advancing reform and opening-up to build a mechanism for sustainable and scientific
	6.	Make an energetic effort to promoting social development and improving people's living standards
	7.	Improve government governance to scale up the social management capacity.
Seven annual development targets	1.	8% : GDP grows at around 8%
	2.	9 million : Create over 9 million new jobs in urban area.
	3.	4.6% : Control the registered unemployment rate within 4.6%
	4.	4% : Control the CPI growth rate at around 4%
	5.	950 billion : The national fiscal deficit registers 950 billion <i>yuan</i> , including 200 billion of local b
	6.	5 trillion : Issue over 5 trillion <i>yuan</i> of new loans
	7.	550 billion : 550 billion of tax-reduction for companies and individuals

Source: China's Fiscal Policies during the Post-Crisis Era, *JLA Kang, LIU Wei*(Research Institute for Fiscal Science, Ministry of Finance, P.R. China)

A. Increase public investments

The central government devoted 1.18 trillion yuan for this plan (104 billion in the 4th quarter of 2008, 487.5 billion for 2009 and 588.5 billion for 2010). The rest of investment came from local governments and bank loans. The money was marked for affordable housing projects, rural projects on water, electricity, road, gas, housing, major infrastructure construction projects, social projects of health care and education, energy conservation and emission reduction projects, environment-friendly projects, independent innovation and industrial restructuring, and post-earthquake reconstruction of Wenchuan Earthquake.

B. Encourage consumption

Since consumption is the final demand, another focus of Chinese economic stimulus package is to encourage consumption with multiple measures, including more tax-reduction on enterprises and individuals, encouraging "home appliance, agricultural machine, car and motorcycle to countryside"

projects (“building–material to the countryside” is expected in 2010); substantially enlarging durable consumer market such as houses and cars as well as agricultural consumption credit market; pushing ahead health care reform to ease the medical burdens on residents; actively improving the social security system and implementing the pilots of rural pension system; enhancing rural and urban minimum living allowance to relieve their worries about the future and thus raising the marginal consumption; bettering the living conditions of teachers in primary and high schools; increasing the basic pension of retired people.

C. Support the export

While devoting great efforts to boosting the domestic demand, the government has been trying to support the export and then encourage the foreign demand. It has increased the export refund rate and provided differential refund rate for different products in different industries.

D. Implement structural tax cut as well as tax and fee reform

Chinese government announced to unify the income tax of both Chinese and foreign capital enterprises and decrease the stamp duty of share purchases in 2008. Then in 2009 it continued to launch a series of tax and fee reforms to implement the structural tax cut and ease the taxation burden on enterprises and individuals. For instance, it comprehensively transforms production-oriented VAT into consumption-oriented one, moderately decreases the tax and fee on house sales, and reduces the purchase tax of small passenger cars. Take the VAT transformation reform for example. It cuts the enterprise tax by over 120 billion yuan. It is estimated that such a large-scale campaign of structural tax cut and administration fee reduction will ease the burden of around 500 billion yuan for enterprises and individuals.

E. Significantly raise the levels of fiscal deficit and government debt

Under the pressure of economic down-turn, almost all the countries will enlarge the financial deficit to stimulate the economic growth and China is of no exception. In order to fill the fiscal gap due to declining revenue and growing government expense, the central government arranged 750 billion yuan of fiscal deficit, up by 570 billion from a year earlier. In addition, it was the first time that the State Council permitted local governments to issue 200-billion-yuan worth of bond through the Ministry of Finance and under the provincial budget management. The national fiscal deficit totalled 950 billion, an unprecedented figure since the founding of PRC, which reflects China’s energetic efforts of mitigating the cyclical downturn. On the other hand, China kept decreasing its fiscal deficit over the past years and thus has relatively large room for expansionary policies. Despite the huge increase of annual deficit in 2009, the deficit-to-GDP ratio and debt-to-GDP ratio are controlled under 3% and 20% respectively---these two indicators are designed by EU and universally acknowledged in the world.

On September 22, 2009, China's State Council, the Cabinet, issued on a document to strengthen support for the development of the country's small-and medium-sized enterprises (SMEs). According to the document, the government will;

- encourage the SMEs to improve their technological innovation capacities, enhance the product quality, and promote development in energy conservation and clean production. For this, the government earmarked 9.5 billion yuan (1.4 billion U.S. dollars) in 2009, nearly doubling the 4.9 billion yuan last year, to help the SMEs innovate technology and explore market.
- grant a one-year reprieve on social security fund to the SMEs in operational difficulty amid the global financial crisis, in a bid to reduce financial burdens and protect the interests of the SMEs.
- deepen reforms in the country's monopoly industries, lowering the market access threshold for the SMEs and creating a more open and fair competition environment for SMEs, said the document.
- optimize its procurement mechanism, raising the purchase proportion of commodities, engineering and services from the SMEs.
- increase tax breaks to the small firms with an annual taxable income below 30,000 yuan (4392.4 U.S. dollars) from Jan. 1 to Dec. 31 of 2010.
- expand channels for the SMEs to raise capital through encouraging banks to lend more to the SMEs, stepping up making policies to guide private capital to tap into the country's financial system.

Box 3.6: Crisis Measures

The 2008–2009 Chinese economic stimulus plan is a RMB¥ 4 trillion (US\$ 586 billion) stimulus package announced by the central government of the People's Republic of China on 9 November 2008 as an attempt to minimize the impact of the global financial crisis on the world's second largest economy. The stimulus package will be invested in key areas such as housing, rural infrastructure, transportation, health and education, environment, industry, disaster rebuilding, income-building, tax cuts, and finance.¹

2008

As of November 15, 2008, Beijing standard time, it was revealed that the central government would only provide 1.2 trillion yuan of funds. The rest of the funds will be reallocated from the budget of provincial and local governments.

Chinese banking officials were reportedly considering establishing a fund worth between 600 billion and 800 billion yuan to purchase domestic shares listed on the Shanghai Stock Exchange, particularly those in the Shanghai Composite, in the event the Shanghai Index fell to 1,500 points.

2009

On March 6, 2009, China's National Development and Reform Commission announced a revision of the stimulus and published a breakdown of how the funds would be distributed.

Public infrastructure development took up the biggest portion – 1.5-trillion yuan, or nearly 38% of the total package. The projects lined up include railway, road, irrigation, and airport construction.

The second largest allocation – one trillion yuan – went to reconstruction works in regions hit by the 8-magnitude Sichuan earthquake last May; that was followed by funding for social welfare plans, including the construction of low-cost housing, rehabilitation of slums, and other social safety net projects.

Rural development and technology advancement programs shared the same amount of allocation – at 370 billion yuan each. Rural projects in the pipeline included building public amenities, resettling nomads, supporting agriculture works, and providing safe drinking water.

Technology advancement mainly targeted at upgrading the Chinese industrial sector, gearing towards high-end production to move away from the current export-oriented and labor-intensive mode of growth. This was in line with the government's latest Blueprint for revitalizing 10 selected industries.

To ensure sustainable development, the Chinese government also allocated some 210 billion yuan, or 5.3% of the stimulus package for promoting energy saving and gas emission cuts, and environmental engineering projects.

Finally, 150 billion yuan was allocated for educational, cultural and family planning purposes.

One year later, these programs seem to have been even more successful than expected, so that on November 4, 2009, the World Bank group enhanced its "prognosis" of the Chinese BIP, by +1.2 %, to a value of +8.4 %.

2010

China's economic growth was sustained by the economic stimulus and in addition, assisted neighboring countries with the economic recovery in 2010. Chinese economic growth was around 10 percent even as its European and North American economies were slowing. The stimulus provided funds for infrastructure projects and housing developments. Some were used to assist local governments to lend money to state-owned companies to develop housing estates, roads and bridges. This will drive employment in areas of manufacturing, steel, cement and other sectors of the economy.

Current goals of China's fiscal policy include combating domestic inflation, decreasing the issuance of long-term government treasury bonds, and expanding government spending on agriculture, education, public health, and social security. Another very important goal of the current fiscal policy is to minimize

the income gap between rural and urban Chinese. Efforts to combat this include improving income distribution policies and adjusting taxation to support the construction of an energy-efficient and environment friendly Chinese society.

Encouraging City Employment Tax Policies

Newly established labour employment service enterprises in cities and towns, if the number of job creation at the current year accounts for over 60% in its total number of employees, the state permits them enjoy 3 years' tax exemption; after 3 years of tax-emption expiry, if the number of job creation at the current year accounts for the share of 30% or above of their original total number of employees, the state permits them to enjoy half tax rates for another 2 years.

For newly set up service enterprises and newly established retail enterprises, if they employ annually laid-off workers that reaches a share of 30% and above of its total number of employees and signed labour contracts of 3 years with them, the state permits them to be free from city construction tax, annexed education fee as well as income tax for 3 years. As for those enterprises that had signed labour contract of over 3 years in spite of newly recruited number of laid-off workers constituting less than 30% of its workforce, they can enjoy income tax cut for 3 years to the extent of twice that of the recruited ratio; current service-type enterprises (except state restricted industries), if they follow the above norms are also eligible for income tax exemption for 3 years.

Small Business Income Tax Policies

Under the tax system introduced in 1994, the state stipulated that enterprises with profit under 30,000 Yuan were levied a tax rate of only 18% as against the norm of 33%; enterprises with profit under 100,000 Yuan and above 30,000 Yuan were levied tax rate of 27%. The Value Added Tax paid by the small commercial enterprises with its annual sale value under 1.8 million Yuan had been reduced from the 6% in past to 4% currently, especially for township and village small enterprises; they can further cut 10% of levied tax after the tax reduction for supporting their social spending.

Every individual business engaging laid-off workers, except state restricted industries, is exempt of various administrative fees such as registration and license fees as well as management fee, etc. for 3 years.

Hi-tech Enterprises Tax Policies

Enterprises located in the state level Hi-tech industrial development zones, can be exempted from income tax for 2 years at the time of starting operations, followed by a tax rate of 15% afterwards.

Service & Industrial Tax Policies

For purpose of supporting and promoting innovation in SMEs, the state carried out a new project on technological innovation. This also included the development, application and expansion of new technology and products by the SMEs. The state used funds for technological innovation for the SMEs characterized by science and technology in the form of lending support, lending interest subsidies as well as capital funds input, thus supporting the SMEs to implement innovative technological projects. As a

part of such promotion China created innovation funds at city and provincial level. At present, there are 28 provinces where the local innovative funds were set up and the total corpus of those funds has reached 1.38 billion Yuan. Since these funds were established about 4 years ago, central fiscal department has appropriated 2.8 billion Yuan in all, with these funds supporting over 3700 SME projects with each project requiring 747,000 Yuan on an average.

For those newly established enterprises such as transportation, telecommunication, consultation, information technology industries can be exempted from income tax in the first year, in the second year they can enjoy reduced tax rates at half. Furthermore, the state is still implementing preferential tax policies in different degrees to those enterprises such as economic entities set up by universities and colleges, and some newly setup enterprises located in the poor and backward regions, as well as welfare enterprises for the disabled's employment.

ITALY

Italy is a member of European Union (EU) (Box 3.7). Hence, its macro economic policies are guided by EU policies. These policies cover almost all aspects of Italy's governance, ranging from agriculture to enterprise development, employment, external trade and foreign and security policies. One pertinent policy framework is on enterprise promotion, with strong reference to the SME sector (Box 3.8). This overarching enterprises policy framework forms the basis of EU SME policy.

Box 3.7: About EU

The European Union (EU) is a unique economic and political partnership between 27 European countries with the motto of "United in Diversity". The primary objectives of EU are economic co-operation and price stability. Since then, the union has developed into a huge single market with the euro as its common currency.

Box 3.8: EU Policy on Enterprise Promotion

Competitiveness and Innovation

EU enterprise policy facilitates greater competitiveness and the creation of jobs. It pays particular attention to the needs of manufacturing industry and of small and medium-sized enterprises.

Stimulating growth in the knowledge-based and innovative industries that will drive the EU economy and create jobs requires a sound industrial fabric and the means to harness emerging technologies. Recent decades have seen rapid growth of the service sector, but manufacturing remains the bedrock of the European economy, accounting for three quarters of all EU exports.

Cutting-edge technology is vital to business and industry.

‘Think small first’

Two thirds of all jobs in the EU are in SMEs. Ninety-nine per cent of all businesses in the EU are SMEs. Hence the Commission’s watchword in its enterprise policy: ‘think small first’ (Annexure 3.7).

There are special programmes and funding to promote entrepreneurship and skills, improve SMEs’ access to markets and improve growth potential (by boosting their capacity for research and innovation). SMEs are, for example, the primary focus of a Competitiveness and Innovation Framework Programme (CIP) with €3.6 billion over the period 2007-2013. The CIP in particular funds investments in energy efficiency and renewable energy sources, environmental technologies, and information and communication technology.

SMEs also receive special attention in the EU’s main programme for funding scientific research, known as FP7. The EU is a major source of funding for academic and industrial research and development through this programme, which has more than €7bn to spend each year.

SMEs can turn for information and advice to the Enterprise Europe Network, some 500 one-stop shops across the EU providing advice on doing business, and part-funded by the EU.

Reducing the paperwork for business is high on the EU’s agenda.

Creating the right environment

The focus of EU enterprise policy is on creating the right environment for investment in competitiveness and innovation, an environment in which strategically important sectors like aerospace and biotechnology, but also more traditional industries, such as textiles and the automotive sector, can prosper by being at the cutting-edge of technology.

Innovation requires critical mass, however. In practice, education and research institutions often lack the links to business which will make the difference between a good idea in a laboratory and a world-beating product. The European Institute of Innovation and Technology is being set up to help bridge that gap by creating “Knowledge and Innovation Communities” – highly integrated public-private networks of universities, research organisations and businesses, including small and medium-sized enterprises (SMEs).

Getting the basics right

One of the fundamentals to the success of these policies is making sure that the internal market is working. The internal market, particularly the free movement of goods across frontiers, means all businesses have access to more potential customers, while facing greater competition. Lower prices and greater choice for consumers – and additional economic growth – are the result.

Single market legislation must constantly be fine-tuned, however, to keep up with technological progress. Member countries tempted to backslide into protecting their domestic industries must be kept up to the mark if all EU businesses are to continue to be treated equally.

There is still more to be done to fully integrate the market in key business support services, such as communications, transport, and power and gas supply. Competition and lower prices in these services feed through into lower prices when goods come to market.

Cutting the ‘red tape’

Finally, the right balance must be struck between the need for rules to keep markets open, provide protection for consumers and maintain high environmental and social standards on the one hand, and the administrative burden (‘red tape’) that goes with them on the other hand. That balance is currently not right and the European Commission plans to cut red tape for business by 25% by 2012.

A system known as REACH – Registration, Evaluation, and Authorisation of Chemicals – is an example of how complex administrative procedures can be streamlined when 27 countries pool their efforts. The EU is building a single database of registered chemicals as a tool which is efficient both for business and for policymakers committed to protecting the environment.

Social and environmental values

The emphasis on jobs and growth does not mean that social and environmental issues have taken a back seat. The EU is equally steadfast in its promotion of responsible entrepreneurship, including skills development, respect for social and human rights, and more rational use of natural resources.

The Government of Italy has been initiating a number of budgetary measures for faster growth of enterprises, including SMEs. Its overall SME development policy is guided by the EU Small Business Act, 2008 (Annexure 3.7). At the heart of the European SBA is the conviction that achieving the best possible framework conditions for SMEs depends first and foremost on society's recognition of entrepreneurs. The general climate in society should lead individuals to consider the option of starting their own business as attractive, and acknowledge that SMEs contribute substantially to employment growth and economic prosperity. As a key contribution to achieving an SME friendly environment, the perception of the role of entrepreneurs and risk-taking in the EU will therefore have to change: entrepreneurship and the associated willingness to take risks should be applauded by political leaders and the media, and supported by administrations. Being SME-friendly should become mainstream policy, based on the conviction that rules must respect the majority of those who will use them: the "Think Small First" principle.

This is why the "Small Business Act" aims to improve the overall policy approach to entrepreneurship, to irreversibly anchor the "Think Small First" principle in policy making from regulation to public service, and to promote SMEs' growth by helping them tackle the remaining problems which hamper their development. The SBA builds on the Commission's and Member States' policy achievements, creates a new policy framework which integrates the existing enterprise policy instruments, and builds in particular on the European Charter for Small Enterprises and the Modern SME policy (highlights in Box 3.9).

Box 3.9: Ten Principles of SME Development by EU

- I. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded;
- II. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance;
- III. Design rules according to the "Think Small First" principle
- IV. Make public administrations responsive to SMEs' needs
- V. Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs;
- VI. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions;
- VII. Help SMEs to benefit more from the opportunities offered by the Single Market;
- VIII. Promote the upgrading of skills in SMEs and all forms of innovation;
- IX. Enable SMEs to turn environmental challenges into opportunities;
- X. Encourage and support SMEs to benefit from the growth of markets

The UEAPME, the European association representing Crafts and SMEs at European level, has brought a futuristic SME policy framework for 2010-14 as guidance for the EU countries (Annexure 3.8). The highlights are given in the Box 3.10.

Box 3.10: SME and Craft Policy

Craft and SMEs have to be compensated for market failures to strengthen their capacity for innovation and to improve their competitiveness

Crafts and SMEs have a specific approach towards Corporate Social Responsibility

Access to finance for Crafts and SMEs needs public support and better regulations

The future Framework Programmes for R&D must be better adapted to the needs of SMEs to dedicate 15% of the overall budget to SMEs ;

The essential role of Crafts and SMEs at regional level has to be supported by facilitating the access for Crafts and SMEs to structural funds and promoting the use of programmes financed with European means.

Craft and SMEs need better access to internal and external markets. Internal Market must be accompanied by a balanced consumer protection regulation. If an SME receives an anti-dumping complaint in third markets, the Commission should assist SMEs (with consultancy, financial support...) in defending themselves against this complaint. SMEs otherwise risk losing foreign markets, even if the complaint is not justified.

Craft and SMEs need a climate change and environmental protection policy that respects the needs of smaller enterprises

Craft and SMEs need more flexible labour market regulations and skilled workforce in line with the needs of a knowledge and services society

The valuable and irreplaceable role of representative SME organisations in all policies towards Crafts and SMEs has to be fully recognised and supported by the European Institutions.

Asks all partners in the European Social Dialogue to strengthen the role of Crafts and SMEs and their employees also in the national, sectoral and regional social dialogue institutions.

Strengthening the voice of Crafts and SMEs in the European standard setting process.

Different types of standards play an increasing role within the internal market and at global level.

The Commission should continue the financial support to support access to standards and participation in standard setting processes for Crafts and SMEs

Laws enacted in 2001 and 2002 introduced a series of tax incentives in favor of entrepreneurs who reinvest profits in their own enterprise. The 2001 Finance Act introduced a lower tax rate for start-ups and self-employed workers. The reduced rate of tax replaces 10% of the IRPEF during the first year of activity and the following two years, and accounting obligations have been radically simplified. Tax assistance is also provided by the local services of the Revenue Department, accessible on line.

The tax exemption for reinvested profit is a particularly important measure for small and craft enterprises, which generally dispose of little cash flow. A number of reforms have been implemented, simplifying tax returns and using new tools for resolving contentious issues for tax-payers.

A 2003 Ministerial Decree allows for an enterprise, in case of non-payment of tax, and in case of clear financial difficulties, to pay the amount due in monthly instalments, during sixty months.

The taxation regime was simplified in 2003 by reducing the number of taxes to five. With regard to the enterprise community, the reform involves the following: a 33% single rate of corporation tax; fiscal neutrality for surpluses; the abolition of the Dual Income Tax and the progressive elimination of the Regional Tax on Productive Activities. The reform envisages the establishment of different integrated tax concession systems for each of the community arrangements (R&D, SMEs, Aids and Regional Purposes, etc.). A specific Integrated Aid Package targets specific and simplified procedures for SMEs. As a result of improved quality in customer service, enterprises, especially small enterprises, have increased their online access to the Income Tax Agency's Web site during the last couple of years.

Some of the measures during and post-crisis were significant for the SME sector. Salient fiscal measures since the onset of the present century are given below.

The response to the crisis has consisted primarily in three decree laws, which together appropriated €25 billion of resources for the three years 2009-11. In November 2008 a first package was approved. In addition to several tax reliefs for firms, the package introduced transfer payments to low-income households (known as the family bonus, which supplemented the social card scheme launched during the previous summer); automatic income stabilizers were strengthened for the two years 2009-10 (a measure funded with national and EU funds on the basis of a State-Regions agreement); there were increases in the allocations for investment in public works and in investment grants to the State Railways group (in part to offset previous cutbacks), in conjunction with the adoption of new procedures to speed up the realization of projects included within the National Strategic Reference Framework.

A second measure issued last February dealt mainly with incentives for the purchase of cars. At the beginning of July a third decree law introduced tax incentives for investment in machinery between July 2009 and June 2010, through the exclusion from firms' income of half the expenditure.

Tax benefits for new investment had already been introduced in 1994 and 2001. Unlike the more recent measure, these envisaged the exclusion from firms' income of half the investment in equipment and capital goods made over and above the average for the previous five years (in 2001 it was possible to exclude the year in which most investment was made from the calculation of the average). Only investment in machinery included in division 28 of the ATECO (Classification of economic activities) classification qualifies for the new incentive, while previously property and cars were also included. July's measure also raised the limits set on the deductibility of credit write-downs and allocations to risk provisions for banks. Firms benefited from the introduction of accelerated depreciation for technologically advanced goods; the details of the intervention will be defined in a decree to be issued before the end of the year.

The decree law also introduced a series of measures designed to curb the cost of bank commissions, reduce the cost of energy for firms and households, and ensure greater timeliness in the general government payments system. Moreover, the decree law further expanded automatic income stabilizers for the two years 2009-10.

In the first quarter of this year, the number of hours worked fell by 3.8 per cent compared with the previous year, a more pronounced decline than that in employment (1 per cent), partly the effect of the slowdown in productive activity and widespread recourse to the Wage Supplementation Fund, which more than tripled overall compared with the first three months of 2008. The number of hours of wage supplementation authorized increased further in the second quarter, by 60 per cent on the previous period. Among those worst hit by the crisis were temporary workers, whose fixed-term or collaboration contracts were not renewed. According to Istat's survey of the labour force, in the first quarter of 2009 the number of fixed-term, collaboration or project workers was about 260,000 lower than a year earlier, against a slight rise in the number of permanent employees.

Finally, the draft mid-year budget revision increases the resources available for general government with the objective of reducing delays in payments to firms. Compared with the budget presented last September allocations on a cash basis increased by €18 billion;

New tax benefits were granted to enterprises, with an allocation amounting to ca. 2,900 million Euro for the 2009-2011 period. The benefits included:

- Tax exemption for productivity contracts aimed at boosting labour productivity;
- Deduction of 10% of the regional tax from company income tax and personal income tax;
- Payment of VAT at the time of actual receipt of sale payment.

Introduced accelerated depreciation possibilities either on all categories of assets or on specific ones thereby reducing taxable income.

Budgetary policy for 2009-13

For the first time, together with the Economic and Financial Planning Document the Government has specified budgetary measures that were expected to provide a framework of greater certainty for economic agents and allow budgetary policy to focus on structural reform and measures to stimulate economic growth.

The budget measures consist of four provisions: 1) Decree Law 112 of 25 June 2008, containing measures that will already go into force in the second half of this year to stabilize the public finances; 2) a bill introducing rules that complete the correction needed to achieve the objectives by 2011; 3) a draft enabling act on fiscal federalism; and 4) a draft enabling act for the creation of a local government autonomy code and containing the legal arrangements for Rome as national capital.

The June decree law

The June decree law aims to reduce net borrowing with respect to the current legislation projection by €9.8 billion in 2009, €17 billion in 2010 and €30.6 billion in 2011. In 2009 the budget correction will consist mainly of revenue increases, which will account for about two thirds of the correction with

respect to the figures on a current legislation basis. In the two subsequent years the planned adjustment consists entirely of reductions in expenditure. The revenue measures are aimed in particular at certain high-profit industries. On the expenditure side the measures consist mainly of spending limits; the definition of the means for complying with the limits is left to future provisions. Further, compliance with some of them will depend crucially on measures to increase the effectiveness and efficiency of public structures, which the Government intends to present in a separate bill.

The revenue measures are expected to bring additional receipts of more than €7 billion per year starting in 2009, part of which will be offset by the revenue reductions caused by the measures to curb expenditure. The tax increases will involve banks, insurance companies, the energy industry and cooperatives. For banks and insurance companies a limit is set on the deductibility of interest payments, while deductions on account of credit write-downs, allocations to risk provisions and insurance company claim reserves are revised. The entry into force of the new rules on VAT exemption for ancillary services provided by banking groups, which would have increased taxes in 2008, is postponed to 2009. Energy companies are subject to a corporate income surtax of 5.5 per cent and to a substitute tax on the accrued capital gains on their stocks of petroleum products. Extraction royalties are increased. Turning to cooperatives, the withholding tax on interest paid to members is increased, as is the taxable portion of net yearly profit for consumer cooperatives.

The favourable treatment of stock options is abrogated, and a capital tax on so-called "family-owned" real estate investment funds is introduced. Under certain conditions the capital gains from the sale of shares reinvested in start-up companies may be exempted. Tax assessments are to be stepped up, with an extraordinary audit plan and rules to combat VAT fraud. In order to simplify taxpayers' obligations, some notification requirements are eliminated and some of the rules introduced in the past two years to combat evasion are made less stringent. Specifically, the obligation to transmit the list of suppliers and customers is abolished, as is the requirement that professionals have a current account dedicated to their professional activity and that the payments for their services be traceable. The publication of the revised sector studies is moved forward. In addition, the maximum limit for payments in cash and negotiable cheques is moved back up to €12,500 and the obligation to include the tax code of the endorser on endorsed cheques is abrogated.

MALAYSIA

The national SME strategy is focused on the development of high performance and resilient SMEs under three broad strategic thrusts, namely, strengthening the enabling infrastructure; enhancing the capacity and capability of SMEs; and enhancing access to financing. The Government took a major stride forward in June 2004 with the establishment of the National SME Development Council which represents 15 Government Ministries and 60 Agencies involved in supporting the development of SMEs. The Council, chaired by the Prime Minister and supported by Bank Negara Malaysia as the Secretariat, provides the highest level policy direction of the programmes to support the SMEs, and ensures the effective implementation and coordination of these programmes. Among the initiatives announced include the

formulation of targeted strategies for the development of SMEs across all sectors; the adoption of specific and standard definition for SMEs according to economic activity; the establishment and maintenance of a comprehensive National SME database and the expansion of development support programmes and facilities to enhance access to financing and accessibility of markets for export. The Council has established a Central Coordinating Agency in 1996 to spearhead SME development. The Small and Medium Industries Development Corporation (SMIDEC), which has been chosen to assume the role of the Central Coordinating Agency, has been re-branded as *SME Corporation Malaysia* (SME Corp. Malaysia). SME Corp. Malaysia is expected to serve as a central reference point for all SME matters. As the Secretariat to the Council, SME Corp. Malaysia will coordinate, monitor and undertake impact study on SME policies and programmes across all economic sectors. The objectives and functions of SME Corp. are given below.

Functions of SME Corp

The corporation performs the following functions to the SMEs, namely:

- (i) To promote and coordinate the development of SMEs in Malaysia through:
 - Promotional activities;
 - Establishment of Regional Offices;
 - Related studies; and
 - Collation of information into a comprehensive database;
- (ii) To provide technical and advisory support services in collaboration with other related agencies involved in SMEs development through:
 - SME Development Programmes
 - SME Information and Advisory Centre
 - SME Expert Advisory Panel (SEAP)
 - Headstart 500 Programme
- (iii) To forge industrial linkages between SMEs and large companies/Multinational Corporations (MNCs) through the:
 - Industrial Linkage Programme; and
 - Global Supplier Programme.
- (iv) To complement, coordinate and monitor financial assistance schemes provided to SMEs through:
 - Soft loans;
 - Grants; and
 - Other financial assistance such as venture capital and equity financing.
- (v) To collaborate with other local and international SME related agencies to develop SMEs through programmes such as:
 - Participation in international and regional cooperation meetings and for a;
 - Skills enhancement programmes for employees of SMEs;
 - Attachment programmes for employees of SMEs; and
 - Placement of foreign experts in selected SMEs.

Objectives of SME Corp.

The enabling law setting up the corporation envisaged that it will;

- (i) coordinate the over all development of local SMEs in the manufacturing and manufacturing related services;
- (ii) promote the development of a modern and sophisticated SMEs in tandem with the strategic direction of the overall industrial development; and
- (iii) develop SMEs into an efficient and competitive sector, capable of producing high value-added and quality parts, components and finished products for the global market.

Ministry of Entrepreneur Development (MOED)

The year 1995 saw the establishment of the Ministry of Entrepreneur Development. This ministry serves to build bumiputera entrepreneurship as well as acts as a coordinating body for entrepreneurship matters. It functions as an information and resource centre and provides training, financial assistance and subsidised business premises for qualified entrepreneurs.

The Malaysian Government's commitment to, and concern for, the development of SMEs can be seen more pronounced in the 8th, 9th and 10th Malaysian Plan as discussed below:

During the 8th Malaysia Plan (8MP) (2001–2005) emphasised the development of SMEs in the manufacturing sector, and in particular the development of a competitive Bumiputra Commercial and Industrial Community (BCIC). Funding to address critical issues in promoting and developing SMEs was made available through agencies like Malaysia External Trade Development Corporation (MATRADE), Malaysia Technology Development Corporation (MTDC), Small and Medium Industries Development Corporation (SMIDEC) and Standards and Industrial Research Institute of Malaysia (SIRIM) Berhad. SMEs were encouraged to invest in R&D, upgrade their technology and improve their marketing and distribution channels.

The 9th Malaysia Plan (9MP) (2006-2010) places more emphasis on training and preparing budding entrepreneurs. This is in line with the government's focus on developing human capital to generate a knowledge-driven economy and sustain economic growth. Measures are underway to instill entrepreneurial spirit and provide entrepreneurial training at various levels of education from high school levels to universities and graduate school levels. MARA is also shifting its focus from vocational training to entrepreneurial training. Its target under the 9MP is to produce 11,000 entrepreneurs covering 28 fields

of business, with particular potential seen in beauty care, reflexology and automotive repair. Also included in the five- year plan is increased funding for the promotion of franchise business in Malaysia.

The 9MP also intensifies efforts at stimulating enterprise creation, with a special entrepreneurship programme established for unemployed graduates. Overall, the government hopes to educate the population on entrepreneurship, instill an entrepreneurship culture and change public perception of entrepreneurship into seeing it as a viable alternative to salaried employment

In January 2009, the framework for the formation of a dedicated SMEs Central Coordinating Agency (SMEs Agency) was finalised. This SMEs Agency represents a major structural enhancement to the SMEs development agenda. The SMEs Agency is a one-stop agency that will undertake the overall coordination of SMEs policy formulation and assessment of the performance of SMEs development programmes across all sectors. Ministries and agencies involved in SMEs development will continue to oversee the SMEs policy formulation and programme implementation in accordance with their respective mandates. The SMEs Agency will serve as the central point of information, reference and advisory services for SMEs across all sectors and will also assume the role of Secretariat to the National SME Development Council, which has been undertaken by Bank Negara Malaysia since 2004.

Crisis Measures

- Introducing stimulus packages to revive demand as well as temporary tax measures to improve sales, cash flows and working capital;
- Enhancing SMEs' access to liquidity especially to bank lending by implementing or extending existing guarantee schemes for loans to SMEs; and
- Helping SMEs maintain the investment level and capacity to respond to possible surge in consumer demand when the economy recovers.

As at end-July 2010, 65% of funds from the RM15.6 billion allocated to SMEs under the two stimulus packages introduced by the Government have been disbursed benefiting about 79,000 SMEs (end-2009: 53% to 56,000 SMEs).

To gauge of the crisis measures on the SME sector, the SME Corporation Malaysia (SME Corp. Malaysia) had undertaken a series of surveys. As per the available information, the latest survey was held for the first quarter 2010 which showed that the recovery of Malaysian SMEs from the global financial crisis was firmly established.

New SME Policies

The New Economic Model unveiled on 30 March 2010 consists of a raft of economic measures that would propel Malaysia into becoming a fully developed nation by year 2020, based on the three guiding principles; high income, sustainability and inclusiveness. Given the fact that SMEs represent 99% of total business establishments in the country, SMEs are destined to play a significant role in building the

nation's economy under the New Economic Model. The push towards transforming Malaysia into a high-income and knowledge-based economy necessitates that SMEs embrace greater knowledge, innovation, technology and creativity, which are important elements that will help to drive greater productivity, efficiency, competitiveness and profitability.

To achieve this aspiration, SME development policies and initiatives will need to be re-aligned to reflect the eight strategic reform initiatives outlined in the New Economic Model as follows:

Table 3.3: Strategies under the New Economic Model: Measures for SMEs

SRI1: Re-energising the Private sector	<ul style="list-style-type: none"> • Promote SME growth in innovative and technologically advanced areas • Remove barriers and costs to doing business • Facilitate timely access to funding • More support and assistance for SMEs, especially micro enterprises • Creating regional champions • Creating ecosystem for entrepreneurship and innovation
SRI2: Developing a Quality workforce and Reducing Dependency on Foreign Labour	<ul style="list-style-type: none"> • Upgrading of skills through education and training • Establish a labour safety-net for displaced workers • Formalise international quality standards and certification of skills • Reduce dependency on foreign labour through levy system
SRI3: Creating a Competitive Domestic Economy	<ul style="list-style-type: none"> • Building entrepreneurship through initiatives to support micro enterprises and start-ups • Remove markets distortions through phasing out of price controls and subsidies • Social safety net for bottom 40% of households and Transformation Fund for distressed firms
SR4: Strengthening the Public Sector	<ul style="list-style-type: none"> • Enhance delivery of Government services • Social safety net for bottom 40% of households and Transformation Fund for distressed firms • Use results-based budgeting and strengthen public finance management i.e. implementation of goods and Services Tax (GST)
SR5: Transparent and Market-friendly Affirmative Action	<ul style="list-style-type: none"> • Reduce income disparity by focusing on bottom 40% of households and business owners

	<ul style="list-style-type: none"> • Promote equal and fair access to business opportunities including setting up of Equal Opportunities Commission • Social Safety net for bottom 40% of households and transformation Fund for distressed firms
SR6: Building the knowledge Base Infrastructure	<ul style="list-style-type: none"> • Create and ecosystem for entrepreneurship through easing of entry and exit of firms as well as revamping seed and venture capital funds for budding entrepreneurs • Promote environment for innovation through incentives, funding and establishment of innovation enabling institutions
SR7: Enhancing the Sources of Growth	<ul style="list-style-type: none"> • E&E-focus on new niche areas i.e. R&D and design • Agriculture-high value incentives i.e. large scale, high yields and new technologies • Services-promote new areas i.e. tourism (medical tourism, edu-tourism, eco-tourism), Islamic finance, green technology, biotechnology and creative industries • Support innovative SMEs by changing credit assessment from conventional lending to partial guarantees
SR8: Ensuring Sustainability of Growth	<ul style="list-style-type: none"> • Support green technology investment through venture capital funds • Credit assessment by banks for “green investment” using non-collateral based criteria

The New Economic Model (NEM) is based on the three guiding principles of high income, inclusiveness and sustainability. The high income principle aims to achieve a quantum leap in per capita income from the existing USD7,000 to USD15,000 – 20,000 by 2020, while sustainability refers to meeting present needs without compromising on the future generation. Ensuring that all communities are able to fully benefit from the wealth of the country is covered under the third principle which is inclusiveness. The NEM will focus on developing strategies and action plans for the 12 National Key Economic Areas (NKEAs) that have potential to generate high income.

This transformation process and shift towards a knowledge-driven economy demands high productivity being achieved through the use of skills and innovation, improved coordination, stronger branding and compliance with international standards and intellectual property rights. Emphasis will be on new

technology, innovation and creativity. To achieve this transformation, the NEM has outlined a series of eight strategic reform initiatives as given below;

- energising the private sector to lead growth;
- Developing a quality workforce and reducing dependency on foreign labour;
- Creating a competitive domestic economy;
- Strengthening the public sector;
- Putting in place transparent and market-friendly affirmative action;
- Building knowledge base infrastructure;
- Enhancing the sources of growth; and
- Ensuring sustainability of growth.

The strategies under the New Economic Model are embodied in the Tenth Malaysia Plan (2011-15). Despite the challenges faced by SMEs during the 9MP period (2006 - 2010), value added of SMEs grew at a faster pace than the overall economic growth, resulting in the increase in SME contribution to GDP from 29% in 2005 to 31.2% in 2009. Under the 10MP, the Government is committed to further unlock the growth potential of SMEs to create domestic players that can eventually become regional and global champions. Towards this end, specific series of action will be introduced:

Figure 3.1: Strategies under the Tenth Malaysia Plan

Achieving NEM: High income and high-productivity economy

Developing SMES as the Engine of growth and Innovation



Support SMEs at early stage and those that have potential to become global players		Encourage collaboration between foreign and local SMEs particularly in modern technology
Access to financing <ul style="list-style-type: none"> • RM3 bil for working Capital Guarantee Scheme of which half for Bumiputera entrepreneurs • RM500 mil Mudharabah 	Green Lane for Procurement <ul style="list-style-type: none"> • For SMEs that have penetrated international markets, obtained recognition in terms of quality and innovation 	Bumiputera Development Agenda: New Approach <ul style="list-style-type: none"> • Areas of equity and property ownership, skills and entrepreneurship • Establishment of a high-level

Innovation Fund <ul style="list-style-type: none"> • Increase financial resources of SME Bank and Agro Bank • Adequate financial allocation to SME Corp. Malaysia • AIM and TEKUN micro-credit facilities to estate workers 		Council
	Skills Upgrading <ul style="list-style-type: none"> • Expand the scope of the SRDF and SME Corp. Malaysia grants • Skill training for school drop-outs • Enhancement of technical education and vocation training • RM500 million for Skills Development Fund Corporation 	Social Justice Policy <ul style="list-style-type: none"> • Raise the income and quality of life of the bottom 40% household • Reduce price controls and subsidies in stages
		Labour Market Efficiency <ul style="list-style-type: none"> • Establishment of Talent Corporation\ • Streamline foreign worker employment policy

SME Masterplan (2011-2020)

The Masterplan was one of the major outcomes of the 10th NSDC Meeting which aims to elevate the role of SME as the key source of endogenous growth in the economy. The Masterplan would propose bold measures for SMEs to make a quantum leap in GDP growth and for Malaysia to produce domestic, regional and global champions that can spearhead the growth in the economy.

It may be observed that the Government of Malaysia has been taking a number of suitable measures for the allround development of the SME sector. Thus, in Malaysia, an enabling environment and system has been put in place for the promotion and development of the SME sector (Figure 3.)

Figure 3.2. : Enabling Environment for SMEs Development in Malaysia

Monitoring and coordination of SME Development Programmes by SME Development Council

- Secretariat Central Bank

Technology Acquisition and Development

- Malaysian Technology Development Corporation (MTDC)
- Multimedia Development Corporation
- Ministry of Science, Technology and Environment
- SMIDC

Trade Facilitation and Market Development

- Ministry of International Trade and Industry
- MATRADE
- Farmers Association Marketing Authority

Feedback Mechanism

- Trade and Industry Associations
- Chambers of Commerce
- SME Association
- Ministries / Agencies

Capacity Building for SMEs with Emphasis on Productivity and Quality Building , Improvement to Production and Business Processes, Export Readiness and Awareness on Opportunities in Overseas markets

- Small and Medium Industries Development Corporation (SMIDEC)
- Malaysia External Trade Development Corporation (MATRADE)
- Majlis Amanah Rakyat (MARA)
- Ministry of Entrepreneur and Co-operative Development
- Ministry of Agriculture
- Construction Industry Development Board

Special Window of Assistance for Women

- SMIDEC
- MATRADE
- MTDC

Enabling Environment for SME Development

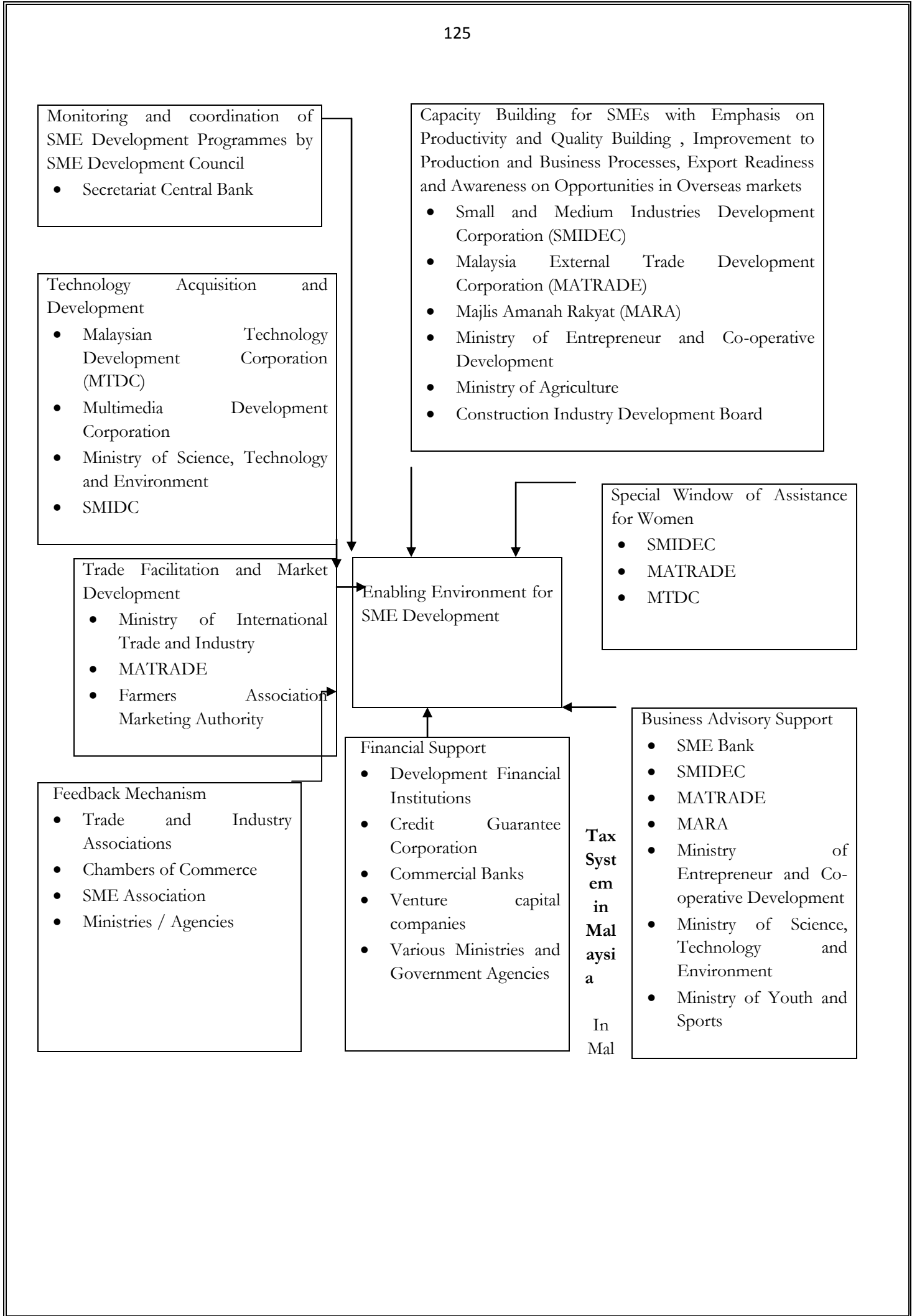
Financial Support

- Development Financial Institutions
- Credit Guarantee Corporation
- Commercial Banks
- Venture capital companies
- Various Ministries and Government Agencies

Business Advisory Support

- SME Bank
- SMIDEC
- MATRADE
- MARA
- Ministry of Entrepreneur and Co-operative Development
- Ministry of Science, Technology and Environment
- Ministry of Youth and Sports

Tax System in Malaysia
In Mal



aysia, tax incentives, both direct and indirect, are provided for in the Promotion of Investments Act 1986, Income Tax Act 1967, Customs Act 1967, Sales Tax Act 1972, Excise Act 1976 and Free Zones Act 1990. These Acts cover investments in the manufacturing, agriculture, tourism (including hotel) and approved services sectors as well as R&D, training and environmental protection activities. The direct tax incentives grant partial or total relief from income tax payment for a specified period, while indirect tax incentives come in the form of exemptions from import duty, sales tax and excise duty.

Effective from the year of assessment 2004, small and medium-scale companies with a paid-up capital of RM2.5 million and below are eligible for a reduced corporate tax of 20% on the chargeable income of up to RM500,000. The tax rate on the remaining chargeable income is maintained at 28%. Dividends distributed will be given a tax credit of 20% in the hands of the shareholders.

To encourage large companies to participate in an Industrial Linkage Programme (ILP), expenditure incurred in training of employees, product development and testing, and factory auditing to ensure the quality of vendors' products, will be allowed as a deduction in the computation of income tax.

Pioneer Status

A company granted Pioneer Status enjoys a five year partial exemption from the payment of income tax. It pays tax on 30% of its statutory income*, with the exemption period commencing from its Production Day (defined as the day its production level reaches 30% of its capacity). Accumulated losses and unabsorbed capital allowances incurred during the pioneer period by companies whose pioneer status will expire on and after 1 October 2005 are allowed to be carried forward and deducted against post-pioneer income of a business relating to the same promoted activity or promoted product.

To encourage investment in the promoted areas i.e. the States of Sabah and Sarawak and the designated "Eastern Corridor" of Peninsular Malaysia, applications received from companies located in these areas will enjoy a 100% tax exemption on their statutory income during their five year exemption period. All project applications received by 31 December 2010 will be eligible for this enhanced incentive.

Reinvestment Allowance

The RA is given at the rate of 60% on the qualifying capital expenditure incurred by the company, and can be offset against 70% of its statutory income for the year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised.

A company can offset the RA against 100% of its statutory income for the year of assessment if:

- the company undertakes reinvestment projects in the promoted areas i.e. the States of Sabah, Sarawak and the designated "Eastern Corridor" of Peninsular Malaysia; or
- the company attains a productivity level exceeding the level determined by the Ministry of Finance.

The RA will be given for a period of 15 consecutive years beginning from the year the first reinvestment is made. Companies can only claim the RA upon the completion of the qualifying project

Investment Tax Allowance

An alternative to Pioneer Status a company granted ITA gets an allowance of 60% on its qualifying capital expenditure (such as factory, plant, machinery or other equipment used for the approved project)

incurred within five years from the date on which the first qualifying capital expenditure is incurred. The company can offset this allowance against 70% of its statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised. The remaining 30% of its statutory income will be taxed at the prevailing company tax rate.

For companies in Eastern Corridor, an allowance of 100% on the qualifying capital expenditure incurred within a period of five years. The allowance can be utilized to offset against 100% of the statutory income for each year of assessment. All project applications received by 31 December 2010 will be eligible for this enhanced incentive.

Infrastructure Allowance

Companies in the States of Sabah and Sarawak and the designated "Eastern Corridor" of Peninsular Malaysia are also eligible for an Infrastructure Allowance of 100%. Companies eligible are those engaged in manufacturing, agriculture, hotel, tourism or other industrial / commercial activities and which incur qualifying capital expenditure on infrastructure such as the reconstruction, extension and improvement of any permanent structure including bridges, jetties, ports and roads.

These companies can offset the allowance against 85% of their statutory income in the year of assessment. The remaining statutory income will be taxed at the prevailing company tax rate. Any unutilised allowance can be carried forward to subsequent years until fully utilised.

Claims should be submitted to the IRB.

Tax Incentives for Mergers and Acquisitions of Listed Companies

To encourage public listed companies to expand and compete globally, stamp duty and real property gain tax (RPGT) exemptions are given on M&A undertaken by companies listed in Bursa Malaysia. This exemption is given to M&A approved by the Securities Commission from 1 October 2005 to 31 December 2007 and such M&A should be completed not later than 31 December 2008.

Claims should be submitted to the IRB.

Deduction of Audit Fees

To reduce the cost of doing business and enhance corporate compliance, expenses incurred on audit fees by companies are deemed as allowable expenses for deduction in the computation of income tax. The incentive is effective from the year of assessment 2006.

Claims should be submitted to the IRB.

Incentive for Acquiring Proprietary Rights

Capital expenditure incurred in acquiring patents, designs, models, plans, trademarks or brands and other similar rights from foreigners qualify as a deduction in the computation of income tax. This deduction is given in the form of an annual deduction of 20% over a period of five years.

Claims should be submitted to the IRB.

Incentive for Acquiring a Foreign-Owned Company

A Malaysian-owned company that acquires a foreign-owned company abroad to acquire high technology for production within the country or to gain new export markets for local products, will be granted a deduction equivalent to the acquisition costs for five years. This incentive applies to project applications received by MIDA from 21 September 2002.

Incentive for Outsourcing Manufacturing Activities

To reduce the cost of doing business and enhance competitiveness, owners of Malaysian brands with at least 60% Malaysian equity ownership who outsource manufacturing activities are eligible for:

- i. import duty and sales tax exemptions on raw materials and components used in the manufacturing of finished products by their contract manufacturers locally or abroad;
- ii. import duty and sales tax exemptions on semi-finished goods from their contract manufacturers abroad, to be used by their local contract manufacturer to manufacture the finished products.

Applications received from 11 September 2004 are eligible for this incentive.

Exemption from Import Duty and Sales Tax on Machinery and Equipment

It is the policy of the government not to impose taxes on machinery and equipment used directly in the manufacturing process and not produced locally. No taxes are therefore imposed on most categories of machinery and equipment. In cases where the imported machinery and equipment are taxable but are not available locally, full exemption is given on import duty and sales taxes. For locally purchased machinery and equipment, full exemption is given on sales tax.

Exemption from Import Duty on Raw Materials/Components

Full exemption from import duty can be considered for raw materials/components, regardless of whether the finished products are meant for the export or domestic market. With regard to products for the export market, full exemption from import duty on raw materials/components is normally granted, provided the raw materials/components are not produced locally or, where they are produced locally, are not of acceptable quality and price.

As for products for the domestic market, full exemption from import duty on raw materials/components that are not produced locally can be considered. Full exemption can also be considered if the finished product made from dutiable raw materials/components is not subject to any import duty. Hotel and tourism projects qualify for full exemption of import duty and sales tax on identified imported materials/equipment and exemption of sales tax on identified locally purchased equipment.

Applications should be submitted to the Ministry of Finance.

Exemption from Import Duty and Sales Tax on Spares and Consumables

Manufacturing companies qualify for import duty and sales tax exemptions on spares and consumables that are not produced locally. Exemption is selective and based on the following:

- the company's level of exports should be at least 80% of its production, or the spares and consumables have limited demand and do not have potential for domestic production; or

- the import duty on such items exceeds 5%.

Sales Tax Exemption

Manufacturers licensed under the Sales Tax Act 1972 qualify for sales tax exemption on the inputs for their manufacturing operations. Manufacturers with an annual sales turnover of less than RM100,000 are exempted from licensing and are thus exempted from paying sales tax on their output. However, these manufacturers can opt to be licensed and obtain sales tax exemption on their inputs instead.

Certain categories of goods are exempted from sales tax at both the input and output stages. These include all goods (inclusive of packaging materials) used in the manufacture of controlled articles, pharmaceutical products, milk products, batik fabrics, perfumes, beauty or make-up preparations, photographic cameras, wristwatches, pens, computers and computer peripherals, parts and accessories, carton boxes/cases, products in the printing industry, agricultural or horticultural sprayers, plywood, re-treaded tyres, uninterruptible power systems, machinery, and manufactured goods for export.

Applications can be made to the Royal Customs Department.

Import Duty Exemption on Imported Medical Devices for Purpose of Kitting

To encourage local manufacturers of medical devices to kit their products to add value as well as to enhance their competitiveness, full import duty exemption is given on medical devices that are imported for the purpose of kitting or producing complete procedural sets, provided these medical devices are not manufactured locally.

Applications received from 11 September 2004 are eligible for this incentive.

Drawback on Import Duty, Sales Tax and Excise Duty

Under Section 99 of the Customs Act 1967, Section 29 of the Sales Tax Act 1972 and Section 19 Excise Act 1976, a drawback on import duty, sales tax and excise duty that have been paid may be claimed by a manufacturer if the parts, raw materials or packaging materials are used in the manufacture of goods for export within a year based on conditions stipulated in the Acts.

Excise duties are imposed on a selected range of goods manufactured in Malaysia. Goods which are subject to excise duties include intoxicating liquor, cigarettes containing tobacco, motor vehicles, playing cards and mahjong tiles. The movement of goods from the principal customs area or licensed premises (for goods subject to excise duty) for use in the manufacture of other products by a factory in a free zone (FZ) or licensed manufacturing warehouse (LMW) or the islands of Langkawi, Labuan and Tioman is considered as exports from Malaysia.

Applications should be made to the nearest Royal Customs Department office where its factory is located.

Industrial Building Allowance

An Industrial Building Allowance (IBA) is granted to companies incurring capital expenditure on the construction or purchase of a building that is used for specific purposes, including manufacturing, agriculture, mining, infrastructure facilities, research, Approved Service Projects and hotels that are registered with the Ministry of Culture, Arts and Tourism. Such companies are eligible for an initial allowance of 10% and an annual allowance of 3%. As such, the expenditure can be written off in 30 years. Claims should be submitted to IRB.

Industrial Building Allowance for Buildings in Multimedia Super Corridor (MSC)

To encourage the construction of more buildings in Cyberjaya for use by MSC status companies, IBA for a period of 10 years will be given to owners of new buildings occupied by MSC status companies in Cyberjaya. Such new buildings include completed buildings but are yet to be occupied by MSC status companies. Claims should be submitted to the IRB.

PHILIPPINES

The statutory foundation for SME development in the Philippines is set by the Magna Carta for Small Enterprises (Republic Act No. RA 6977 was approved on 22 January 22 1991, RA 8289 on 6 May 1997, and RA 9501 on May 23, 2008). Recognizing that MSMEs have the potential for more employment generation and economic growth and therefore can help provide self-sufficient industrial foundation for the country, it is the declared the policy of the State to promote, support, strengthen and encourage the growth and development of MSMEs in all productive sectors of the economy particularly rural/agri-based enterprises. To this end, the State recognizes the specific needs of the MSMEs and undertakes to promote entrepreneurship, support entrepreneurs, encourage the establishment of SMEs and ensure their continuing viability and growth and thereby attain countryside industrialization.

The Magna Carta law provides the basic policies for SME promotion, indicates the definition of SMEs and directs the institutional framework for the SME promotion system. Among its provisions are the creation of the SMED Council and the Small Business Guarantee and Finance Corporation; the stipulation of a mandatory lending quota for financial institutions of their funds for lending to small enterprises and to medium enterprises and the setting up of four guiding principles for SME development – minimum set of rules and simplification of procedures and requirements, encouragement of private sector participation, coordination of government efforts for coherence of objectives and decentralization. While the highlights of the Carta are given in the Box 3.11, the details are given at Annexure 3.9.

Box 3.11: Important Features of Magna Carta

- Provide courses and development programs, training, advice, consultation on business conceptualization and feasibility, financing, management, capacity building, human resources, marketing, and such other services to support the needs of MSMEs;
- To extend all forms of financial assistance to eligible MSMEs.
- Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises.
- Assuring to them access to a fair share of government contracts and related incentives and preferences;
- Complementing and supplementing financing programs for MSMEs and doing away with stringent and burdensome collateral requirements that small entrepreneurs invariably find extreme difficulty complying with;
- Instituting safeguards for the protection and stability of the credit delivery system;
- Raising government efficiency and effectiveness in providing assistance to MSMEs throughout the country, at the least cost;
- Promoting linkages between large and small enterprises, and by encouraging the establishment of common service facilities;
- Making the private sector a partner in the task of building up MSMEs through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and
- Assuring a balanced and sustainable development through the establishment of a feedback and evaluation mechanism that will monitor the economic contributions as well as bottlenecks and environmental effects of the development of MSMEs.”

In order to give a special thrust on micro enterprise development, the Government came out with RA 9178, otherwise known as the “Barangay Micro Business Enterprises (BMBEs) Act of 2002” supports eligible micro-enterprises and the informal sector through incentives for local government registered barangay micro-enterprises, exemptions from income tax, reduction in local taxes, exemptions from payment of minimum wages, financial support from government financial institutions and technology assistance from government agencies (Box 3. 12).

Special incentives for enterprises, including SMEs, have been made available by legislation to promote business activities. These include: a.) exemption from corporate income taxes (4-8 years), national and local taxes, duties and taxes on machineries, spare parts, materials and supplies, tax credits for imports and import substitution of capital equipment and for breeding stock and genetic materials, b) exemption from value-added tax for certain export industries, excise taxes on locally produced products and lowered taxes on spirits made from indigenous materials, c) Incentives for preferred areas of investments included in the Investment Priorities Plan, d) Incentives for specified locations such as the Registered Economic Zones , Less Developed Areas, and those granted by local government units under the Local Government Code, e) Incentives for investors for tax and duty exemptions, loan assistance and technical support for starting-up and improved SME technologies.

Provision of fiscal incentives to all registered Barangay Micro Business Enterprises (BMBEs)

- (a) Exemption from payment of income tax for income arising from the operations of the enterprise (The LGUs are encouraged to reduce the amount of local taxes, fees and charges imposed or to exempt the BMBEs from local taxes, fees and charges.)

Incentives Provided under RA 7844

Provision of fiscal incentives to direct and indirect exporters including export traders

- (a) Exemption from advance payment of customs duties and taxes;
- (b) Duty free importation of machinery and equipment, raw material inputs and packages;
- (c) Tax credit for imported inputs and raw materials primarily used in the production and packaging of export goods which are not readily available locally;
- (d) A tax credit of 25 per cent of the duties paid on raw materials and capital equipment and/or spare parts. The credit is available to exporters of non-traditional products who use or substitute similar locally produced inputs;
- (e) A tax incentive.

Incentives Provided under RA 7916 and RA 7227

Export-oriented enterprises are also eligible to apply for incentives when locating in the Philippine Economic Zone Authority (PEZA), Clark Special Economic Zone Authority (CSEZ) and the Subic Special Economic and Freeport Zone (SEEFZ).

- (a) Corporate income tax exemption from four to eight years;
- (b) Exemption from duties and taxes on imported capital equipment, spare parts, materials and supplies;
- (c) Exemption from national and local taxes;
- (d) Tax credit from import substitution;
- (e) Tax credit on domestic capital equipment;
- (f) Tax-free and duty-free importation of breeding stocks and genetic materials;
- (g) Tax credit on domestic breeding stocks and genetic materials;

Incentives Provided under RA 7916

Registered Economic Zone: Incentives in the form of export tax exemptions, income tax deductions due to operational losses, including loan and other financial credit assistance are provided. Registered zone enterprises are likewise entitled to prior allocation of foreign currencies by the Bangko Sentralng Pilipinas (BSP), or by any of its authorized agent banks.

Incentive Provided under RA 7844

Less developed Areas: Income tax holidays, tax credit for exporters with increased revenues, additional tax credits for exporters of non-traditional products, additional deduction for necessary and major infrastructure works

Additional deduction from taxable income of 100% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availing as against the previous year is observed.

Incentives Provided under E.O. 226

Investors may be given certain benefits and incentives provided he invests in preferred areas of investment found in the Investment Priorities Plan (IPP)

- (a) Exemption from wharfage dues and export tax, duty impost and fees;
- (b) Additional deduction for labour expense (ADLE)
- (c) Additional deduction for necessary and major infrastructure works (This privilege is not granted to mining and forestry-related projects)

Incentives Provided under RA 8424

Excise tax on exported goods that are locally produced or manufactured may be credited or refunded upon submission of the proof of actual exportation and upon receipt of the corresponding foreign exchange payment.

Excise taxes on distilled spirits impose a lower tax on products made from materials that are indigenously available (e.g. coconut, palm, sugarcane)

Box 3.12 : REPUBLIC ACT NO. 9178
AN ACT TO PROMOTE THE ESTABLISHMENT OF BARANGAY
MICRO BUSINESS ENTERPRISES (BMBEs), PROVIDING INCENTIVES
AND BENEFITS THEREFOR, AND FOR OTHER PURPOSES

INCENTIVES AND BENEFITS

Exemption from Taxes and Fees. – All BMBEs shall be exempt from income tax for income arising from the operations of the enterprise.

The LGUs are encouraged either to reduce the amount of local taxes, fees and charges imposed or to exempt the BMBEs from local taxes, fees and charges.

Exemption from the Coverage of the Minimum Wage Law. – The BMBEs shall be exempt from the coverage of the Minimum Wage Law:

Provided, That all employees covered under this Act shall be entitled to the same benefits given to any regular employee such as social security and healthcare benefits.

Credit Delivery. – Upon the approval of this Act, the Land Bank of the Philippines (LBP), the Development Bank of the Philippines (DBP), the Small Business Guarantee and Finance Corporation (SBGFC), and the People's Credit and Finance Corporation (PCFC) shall set up a special credit window that will service the financing needs of BMBEs registered under this Act consistent with the Bangko Sentral ng Pilipinas (BSP) policies, rules and regulations. The Government Service Insurance System (GSIS) and Social Security System (SSS) shall likewise set up a special credit window that will serve the financing needs of their respective members who wish to establish a BMBE. The concerned financial institutions (FIs) are encouraged to wholesale the funds to accredited private financial institutions including community-based organizations such as credit, cooperatives, non-government organizations (NGOs) and people's organizations, which will in turn, directly provide credit support to BMBEs.

To minimize the risks in lending to the BBEs, the SBGFC and the Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) under the Department of Agriculture, in case of agribusiness activities, shall set up a special guarantee window to provide the necessary credit guarantee to BMBEs under their respective guarantee programs.

Technology Transfer, Production and Management Training, and Marketing Assistance. – A BMBE Development Fund shall be set up with an endowment of Three Hundred Million Pesos (P300, 000,000.00) from the Philippine Amusement and Gaming Corporation (PAGCOR) and shall be administered by the SMED Council.

Trade and Investment Promotion. – The data gathered from business registration shall be made accessible

to and shall be utilized by BMBE Publication.indd 11 10/07/2009 04:14:19 private sector organizations and non-government organizations for purposes of business matching, trade and investment promotion. **INFORMATION DISSEMINATION** The Philippine Information Agency (PIA), in coordination with the Department of Labor and Employment (DOLE), the DILG and the DTI, shall ensure the proper and adequate information dissemination of the contents and benefits of this Act to the general public especially to its intended beneficiaries specifically in the barangay level.

PENALTY

Any person who shall willfully violate any provision of this Act or who shall in any manner commit any act to defeat any provision of this Act shall, upon conviction, be punished by a fine of not less than Twenty five Thousand Pesos (P25,000.00) but not more than Fifty Thousand Pesos (P50,000.00) and suffer imprisonment of not less than six (6) months but not more than two (2) years.

In case of non-compliance with the provisions of Section 9 of the Act, the BSP shall impose administrative sanctions and other penalties on the concerned government financial institutions, including a fine of not less than Five Hundred Thousand Pesos (P500,000.00)

Institutional Set-up

At the national level, the SMED Council formulates SME promotion policies and provides guidance on implementing SME programs. It is a multi-agency group of 8 representatives concerned government agencies and 4 representatives from the private sector. The government agencies represented are- the National Economic Development Authority, Departments of Trade and Industry, Labor and Employment, Science and Technology, Agriculture, Environment and Natural Resources, the Small Business Guarantee and Finance Corporation (SBGFC) and the Monetary Board of the Bangko Sentral ng Pilipinas (Central Bank). The private sector members represent the country's three major geographic areas of Luzon, Visayas and Mindanao and the private banking sector. The Secretary of the Department of Trade and Industry (DTI) is the chairperson of the SMED Council and DTI's Bureau of Micro, Small and Medium Enterprises Development (BMSMED) serves as secretariat.

The Department of Trade and Industry is responsible for developing and regulating business enterprises (other government agencies are involved in specific cases i.e. At the local level, the regional and provincial offices of DTI provide services to SMEs. Other government line agencies also implement programs catering to SMEs. These are the Department of Science and Technology, Department of Labor and Employment, Department of Agriculture, Department of Environment and Natural Resources, the Department of Interior and Local Government and the local government units. SME private sector entities consist of the chambers of commerce, professional organizations, business sector organizations, and various associations of micro, small and medium enterprises, cooperatives and other non-governmental organizations.

Securities and Exchange Commission, local governments, etc.). There is an SME core group at DTI which coordinates all SME services.

This group is composed of the BSMED (initiates and coordinates specific SME policies, programs and projects), the SBGFC (financing services), the Philippine Trade Training Center (development and implementation of SME training and learning activities), the Product Development and Design Center of the Philippines (product development initiatives and design programs) and the Cottage Industry Technology Center (technologies).

Industrial Support Services Expansion Program (ISSEP)

Meant to promote the construction, expansion or modernization of plant and related services including land improvements related to these. It finances the acquisition of raw materials, equipment and parts, and environment-related projects on stand-alone basis or part of plant construction or expansion. Target sectors are manufacturing like food, textile, wood, industrial machinery, chemicals and nonmanufacturing sector like computer software, transport services and communication.

Comprehensive Program to Enhance Technology enterprises (COMPETE)

COMPETE aims to spur private R & D initiatives, particularly among small and medium-scale enterprises (SMEs); to enhance public and private sector participation in S & T activities; and to upgrade the facilities and technical competence of government, academic and private sector institutions involved in S&T activities

Integrated Program on Cleaner Production Technologies

This Program aims to promote sustainable development and strengthen the competitiveness of the Philippine industries, particularly SMEs, by providing technical information and assistance in adopting cleaner production technologies that include waste minimization and pollution prevention techniques.

The Program is DOST's response to the MTPDP's objective of promoting environmental sustainability through the adoption of environment-friendly technologies and practices in agriculture and industry and the development and transfer of appropriate technologies for solid waste management as well as water and air pollution control.

Establishment of a Packaging R & D Center

The Department will establish a national packaging R & D center that will provide, among others, a common service facility for the use of industry. Through the Center, the Department will offer testing and related services for industry; conduct training programs and information dissemination campaigns; facilitate technology transfer to industry; and develop and maintain regional industry networks on packaging technology and services, particularly for SMEs.

Expansion of Regional Metrology Centers

The Department will implement a National Metrology Program to develop the pyramidal metrology infrastructure of the country and upgrade the capabilities of public and private calibration laboratories in

the regions to match the requirements of the various users establishment of a metrology training center; and d) the development and adoption of a laboratory proficiency evaluation program.

The Program responds to the MTPDP's call for product standardization, higher quality and competitiveness of local products, and better protection of the consumers.

S & T Intervention Program for the Poor, Vulnerable and Disabled

This Program aims to provide the poor and the disadvantaged sectors of the civil society access to DOST generated/sourced technologies and science-based approaches to resource management to meet the minimum basic needs and to facilitate technology based-livelihood opportunities through the efficient and effective delivery of S & T services.

REPUBLIC OF KOREA

Republic of Korea is one of the few countries where SME sector grew steadily and strongly since the last 50 years. The growth story of SME sector has been one of a transition from protection to promotion as supported by a number of SME promotion policies by the Korean government (Box 3.13). If one studies the history of Korean SME sector development, one can discern 3 important growth factors: Stability from the SME-only business system, a collective private contract system, and SME product procurement system of public organizations. The government's policies for promoting SMEs can be grouped into the following categories:

- Policy for assisting SMEs to adapt to the changing environment, domestic and international, through structural adjustment;
- Policy for stabilizing and strengthening SMEs management; and
- Policy for stimulating and assisting start-ups and local SMEs.

Various measures to implement these policies have been developed. Some of them include:

- Financial and credit guarantee assistance;
- Tax concession or break;
- Designation of production items reserved exclusively for SMEs;
- Protection of subcontracting relationship with large-scale enterprise;
- Selection of promising SMEs for special assistance in technology development and export promotion;
- Industrial estates for start-ups and local SMEs; and
- Technical and managerial assistance.

Box 3.13: Policy Milestones in SME sector in Korea

- SME Corporation Act (1961)
- Framework Act for SMEs (1966)
- Industry Promotion Agency (1973)
- SME Systematization Promotion Act (1975)
- SME Promotion Act (1978)

- Small & Medium Business Corporation (1979)
- SME Product Procurement Act (1981)
- System for Promising SMEs (1982)
- SME Start-up Support Act (1986)
- Regional SME Act (1994)
- Setting-up of Small & Medium Business Administration (1996)
- Special Measures on Venture Business Support (1997)
- Presidential Commission on SMEs (1998)
- SME Technology Innovation Promotion Act (2001)
- Special Act on Employee Support for SMEs (2003)

Chronological Policy Developments

On the basis of SME Cooperative Act enacted in 1961, local unions and a federation for SME were established.

In 1962, the Korea Federation of Small and Medium Business was founded for the systematization of SMEs.

By utilizing surplus labor in agricultural and rural areas productively, the government initiated “Household Industry Centers” in 1965 in a bid to facilitate regional society development.

From 1965, a “Measure to Nurture Special Industries in Regions” was implemented to support collective funds for businesses by designating specialized items such as sweaters and wigs and contacting the collectives involved.

In order to systematically support SMEs, the government enacted the Framework Act on SMEs in 1966. The act set basic directions of measures stipulated in each decree to nurture SMEs; moreover, it regulated the size of SMEs that were subject to SME policies. The “size of the SMEs” stipulated in the Framework Act on SMEs is 200 or fewer employees or 50 million won or less in total assets in the case of manufacturing, mining, and transporting industries and 20 or fewer employees or 10 million won or less in total assets in the case of commercial and other services industries.

In an attempt to enhance efficiency in industries and nurture SMEs at the same time by promoting the business division between large companies and SMEs, the government announced a facilitating plan as part of a scheme to develop the machine industry in 1969 and selected businesses that were to be subject to systematization in 1970, suggesting a standard by which to designate companies that produced items in selected business areas. The 1st objective of the SME modernization policy was to enhance productivity and overcome the structural gap between large companies and SMEs. To this end, the government

established an “SME Technology Instructing Center” in 1967, which trained engineers and gave overall guidelines to upgrade the technology used by SMEs.

The government drew up a “Policy to Create a Sideline Business Zone for Farmers” in 1968 in a bid to increase farmers’ income by utilizing surplus labor and established 26 industrial complexes by designating “Districts for Regional Industry Development Facilitation” in 1969 mainly in small-and medium sized regional cities.

Also, the government put in place an “SME Policy Deliberation Committee” in 1967 based on the Framework Act on SMEs as a new SME administrative body and the committee served as a central body to mediate SME policies in a comprehensive manner with holistic views.

For modernization of SMEs, the government, in 1972, classified SMEs by original SME type, professional subsidiary type, and large company type, and drew up SME development guidelines according to each type. In 1975, funds were swiftly provided by the government to support the replacement of dilapidated facilities of small textile companies. After 1976, it was determined to target 100 machine factories, which were the original SME type, every year based on the 5 year economic development plan.

In order to bolster the progress of the heavy and chemical industries in Korea, parts needed to be supplied smoothly. As a result, appropriateness and fairness of contract-based businesses as well as systematization were required. The systematization between companies was facilitated for long-term and stable contract-based businesses between assembling companies and parts companies, and order in such contract-based businesses needed to be established. Finally, the SME Systematization Promotion Act₁ was enacted in 1975 for this purpose.

Efforts were made by the government to increase the ratio of foreign exchange earnings through local product development made from traditional skills and goods that meeting foreign tastes. In 1972, 188 companies were designated through the “Guidelines to Designate and Support Indigenous Item Producing Companies.” After 1976, exports of SMEs were further promoted through the systematization of general trading companies and SMEs.

The “Industry Promotion Agency” was inaugurated in 1973 under the Ministry of Commerce to carry out industry standardization, quality management of industrial products and facilitation of industry development.

Meanwhile, the government expanded the scope of SMEs in 1976 to catch up with the growing size of SMEs and to facilitate investment in modernizing SME facilities. For manufacturing, mining, and transporting industries, the scope was expanded to 300 or fewer employees or 500 million won or less total assets (it was 200 or less employees or 50 million won or less total assets before). When it comes to the construction industry, the limit was increased to 50 or fewer employees or 500 million won or less

total assets. In the case of commercial or other service industries, the ceiling was raised to 20 or fewer employees or 50 million won or less total assets.

In order to execute SME modernization policies systematically, the government enacted the SME Promotion Act in 1978. It was allowed to establish an “SME Promotion Fund” in 1979 to prepare funds that were needed to pursue modernization, cooperation, management and technology guidelines pursuant to the act. The fund was mobilized through government’s contributions and loans. For the efficient promotion of SMEs, modernization, cooperative businesses, operation management of the SME promotion fund, management diagnosis, technology guide, information provision, and training and education, the government founded the “Small and Medium Business Corporation” in 1979.

In Korea, the SME systematization policy was fully launched in 1976 after the SME Systematization Promotion Act was enacted. In 1977, specific industries and items were designated and announced with the support of funds.

In an effort to protect SMEs, the government attempted to block the advancement of large companies into business areas traditionally occupied by SMEs in 1978. As a result, the entry of large companies into SME business areas was blocked from 1979 based on designation of “Special Industries for SMEs” which were judged to be businesses desirable only for SMEs for equal development of the nation’s economy.

In 1982, industries that needed support were designated as “Priority Industries for SMEs” and received funds for facility modernizing from the SME promotion fund. The Small and Medium Business Corporation opened an “SME Training Institute” in 1982 in Ansan, Gyeonggi province, to train SMEs effectively through various technologies and management skills.

The “Priority Industries for SMEs” designated in 1979 by the government to protect the business areas occupied by SMEs were changed to “Businesses only for SMEs” in 1982. Using this as a turning point, the government implemented a full scale system of businesses only for SMEs thus preventing large companies from moving into these areas.

The “System for Promising SMEs” had been implemented from 1983 in order to strengthen competitiveness by identifying and supporting promising SMEs that showed self-sufficiency.

In an attempt to support SME start ups, the government enacted the SME Starting-up Support Act in 1986 which included simplified start-up procedures in addition to financial and tax support available to starting-up SMEs.

In 1983, the Fishing and Agrarian Village Income Development Act was enacted to promote the development of regional economies in these villages. Based on this act, districts to promote industries in fishing and agrarian villages (agrarian and industrial complexes) were created. Along with this, the “Folk

Handicraft Industry” was targeted in the same year to promote the exports of these goods, to use surplus labor and to increase incomes in agricultural villages.

With regard to the SME system that had been used since 1983, a graduation system was introduced in 1988. In other words, promising SMEs that were judged to be self-sufficient after a certain period of support would then be “graduated” from the system, and many promising SMEs would be identified and supported for their continuous growth and development.

From 1990, the “Business Transfer Project from Large Companies to SMEs” was promoted so that those businesses judged to be carried out by SMEs and not by large companies, could be transferred to SMEs.

For the protection of SME business areas, the government implemented a system of businesses strictly for SMEs. Since then the number of designated businesses increased to 237 in 1989. In order to prevent inefficiency that might be caused by long-term protection, the “System to Cancel the Designation for SMEs” was adopted.

In an effort to revitalize the stagnant economy in the early 1990s and to strengthen the competitiveness of SMEs, the government promoted its “Project to Improve the SME Structure.” For the successful implementation of this project, the government promised to provide 1 trillion won every year from 1993 to 1997.

For systematic implementation of regional SME support policies, the government enacted the Act for Balanced Regional Development and Support of Regional SMEs in 1994. With this act as a turning point, efforts were made to support SMEs by mobilizing funds to support SMEs in specific regions, designating and supporting SMEs in special support zones, putting in place comprehensive support centers for SMEs in districts and cities, promoting special industries in regions, etc. To contribute to the balanced national development through sound management and restructuring as well as free production activities of small companies, the government enacted its Special Measures to Support Small Businesses in 1997.

For practical support for SMEs and implementation of SME policies, the government launched its “Small and Medium Business Administration” in February, 1996. The establishment of the administration opened a new chapter in the history of SME support systems, making it possible to support SMEs quickly and closely through regional organizations (regional SME administrations).

Meanwhile, the government introduced more qualitative criteria (actual separation between ownership and management) in 1995 to those SMEs which had only had quantitative criteria, and expanded the scope of small companies (50 or fewer employees in manufacturing, 30 or fewer employees in construction, and 10 or fewer employees in the wholesale, retail businesses, and other service industries).

In 1998, the Government of Korea has established a Presidential Commission on Small and Medium Business, which will be responsible for coordinating SME policy and playing a central role in

administering regulations related to SME sector, in close cooperation with SMBA. The objective of the Presidential Commission is to create efficient and effective policies to foster the SME sector in Korea. The Presidential Commission comprises Vice-Ministers from SME-related ministries as well as experts from the SME sector. The Commission mandates, reviews and evaluates the SME policies and reports directly to the President.

In 2000, an “SME Information Management System (IMS)” was introduced to promote the development of SMEs and to ensure efficient implementation of SME information projects, a “Center for Information Development of SMEs” was established in 2002.

From 2002, the government started its “Project to resolve Reasons of Avoiding Duties on the Field of SMEs” to improve the working environment in SMEs. Also, the government established and operated an “SME Personnel Information Network,” a virtual meeting place for SMEs and job seekers.

The government established and operated “Small Businessman Supporting Centers” to provide counseling and information on how to start up a small business or how to improve management, and in 2000, enacted the Special Law on Supporting Small Businesses and Small Businessmen.

The government set up the Act on Supporting Women in Businesses in 1999. This act included government support for women entrepreneurs, equal business opportunities, assistance to women starting up companies, procurement of products made by female-managed businesses, preferential treatment toward female entrepreneurs for funding, establishment of the Korean Women Entrepreneurs Association and support center for female entrepreneurs.

The government passed the Act to Promote SME Business Conversion in 2006 to support SMEs’ business conversion. Also, the “Cooperation Foundation between Large Companies and SMEs” was established in December 2004 to strengthen companies’ competitiveness through cooperation between large companies and SMEs.

In 2006, the Act to Promote cooperation between large companies and SMEs was enacted to lay the groundwork for growth of these companies and to enhance their competitiveness.

In January 2007, the government abolished the collective private contract system and businesses designated only for SMEs, that had been in place from the early 1980s to protect SME business areas.

In an effort to enhance the competitiveness of SMEs by upgrading the HR structure and supply of employees, the government enacted the Special Act on Supporting Employees for SMEs in 2003 and, in response, SMEs promoted a “Program to Support Customized Personnel” from 2005 to address the shortage of technicians and engineers.

The government established the “Small and Medium Business Promotion Agency” in 2006 to promote cooperation with and development of small and medium businesses. Also, the “Small Business Information System” was developed in July 2006 to suppose self-employed entrepreneurs.

To support female entrepreneurs, the government constructed female business centers in 14 regions nationwide from 2003 to provide start up instruction, education on business areas suited for women, and to support start-ups by low-income female applicants.

In 2005, the Act to Promote Business Activities of the Disabled was enacted to raise the economic and social status of the disabled through facilitated start-up and business activities.

Institutional framework for promotional policies

Only a few of the Korean institutes cater to the needs of SMEs on an exclusive basis. These include:

- The Korean Federation of Small Business (KFSB) - It plays a vital role in influencing the decision making process in terms of government policies and programmes related to the promotion and development of SMEs. It also provides guidance services in various matters.
- The Industrial Bank of Korean (IBK) – It selects, as special assistance targets, SMEs with high growth potential and provides them with comprehensive guidance including finance, technical guidance, information and marketing services. It also helps enhance the commercialization of new technology, the introduction of advanced technology, improvement of productivity and quality, etc. in cooperation with specialized R&D institutions.
- The Citizens National Bank (CNB) – It was founded as a government investment banking institution with the aim of providing adequate financing for small ‘scale’ enterprises which were virtually denied access to the services of the IBK. The CNB also provides guidance services to its client firms and helps would-be entrepreneurs start-up businesses and assists them with guidance services to grow.
- The Korean Credit Guarantee Fund (KCGF) – Its main function is to extend credit support by means of guarantees to sound SMEs yet suffering from lack of collateral so that needed funds might be more readily available.
- The Small and Medium Industry Promotion Corporation (SMIPC) – SMIPC is the principal organization carrying out various promotional measures set forth by the government. Its main functions can be grouped into:
 - Promotion of modernization programme and cooperative programme;
 - Provision of extension and training services
 - Collection, processing and dissemination of information, and
 - Operation and management of the promotional fund.

The SMIPC helps SMEs strengthen their competitive edge by promoting plant and equipment modernization along with upgrading managerial skills with financial assistance for these.

The SMIPC also provides comprehensive services as required by the enterprises participating in modernization programme. These services include technical assistance, management consulting, training and information services.

- Korea Trade Promoting Corporation (KOTRA) – It has been engaged in overseas market research, computerization of trade information and promotion of export and import activities of Korea's SMEs.
- Direct responsibilities for policy formulation and execution of SMEs promotion are placed under the jurisdiction of the Ministry of Trade and Industry (MTI). The Bureau of Small and Medium Enterprises of the MTI is exclusively responsible for promoting the development of SMEs.
- The Korean Institute of Industry and Technology Information collects industrial and technical information resources, constructs databases, conducts research and acts as a consultant through its on-line database.

Korea applies a comprehensive set of tax incentives for venture businesses and new startups. Income and corporate taxes are reduced by 50% for 6 years. Assets acquired for new businesses are exempt from local acquisition and registration taxes for the first 2 years. Property taxes are reduced by 50% for the first 5 years. Stock option gains made by employees of venture businesses and start-ups are excluded from the income tax base; up to a maximum of KRW 30 million provided they are exercised within 3 years.

The Korea Small Business Innovation Research Programme (KOSBIR) encourages public institutes to devote a considerable share (5%) of their investment in technology development to SMEs. Through KOSBIR, the amount of investment received by SMEs reached KRW 550 billion in 2002, making a considerable contribution to technology development in SMEs.

The SMBA encourages technology development through collaboration among SMEs, universities and government research centres, based on the recognition that 75% of highly-skilled workers are either with universities or with government supported research institutes. In addition, the SMBA is pursuing projects for overseas technology co-operation, such as technology transfer, joint technology development and the introduction of technology experts to the country. By promoting overseas co-operation, the SMBA hopes to identify innovative businesses, or INNO-BIZ, that have world-class technology, and promote them as the driving force of 21st century Korea. The Technology Exchange will also contribute to the strengthening of competitiveness of SMEs by extending loans needed for technology commercialisation at low-interest rates.

The principal objectives of government policy in this respect are to:

- Develop a plan for promoting SME technological innovation and launch a committee, working jointly with related government ministries.
- Establish a strategic technology support system applicable to each stage of the growth process so as to maximise the effects of support.

- Establish a system of public-private co-operation through consortia comprising industry, academic, and research institutions.
- Develop programmes to promote start-ups, and to commercialise new technologies.
- Extend the SME technology support system by providing the necessary manpower and information.

One government goal is to improve SMEs' adoption of ICT; 30 000 SMEs are being assisted in this field. Enhancing managerial capacity for the adoption of ICT technologies is an important facet of this goal, and the government expects that a more strategic support system for SMEs and more self-reliance among SME managers will help realise this goal.

Also to help SMES improve their technological capabilities, various programs have been developed, some of them involving the collaboration of government, academia, and research organizations. The principal funds that are dedicated to this objective are:

Information Promotion Fund

The Information Promotion Fund (IPF) which supports information and communications technology (ICT)-related projects and start-ups, and is involved in establishing limited partnerships. IPF invested KRW 126.2 billion in 22 limited partnerships that generated KRW 369.5 billion in funds for ICT venture businesses between 1998 and 2001. These partnerships are required to invest at least 40% of funds in firms that have been in existence for less than three years.

The Science and Technology Fund

STF is aimed to invest KRW 50 billion in 2001 in technology intensive start-ups. The Korea Technology Credit Guarantee Fund (KTCGF) provides (up to 100%) guarantees on venture capital investments.

Cultural Industry Promotion Fund (CIPF) & Film Promotion Fund (FPF)

CIPF & FPF also support limited partnerships, providing venture capital mainly for start-ups in digital content and film sector projects. In 2001, CIPF planned to invest KRW 10 billion in digital 10 billion in digital content projects, and the FPF planned to invest KRW 10 billion in film projects.

New technology purchasing assurance

In an effort to help commercialize new technologies, public authorities including the Defence Ministry, KEPCO (Korea Electric Power Corporation), KOGAS (Korea Gas Corporation) are commissioning SMEs to develop a new technology with the assurance that they will purchase the technology-applied product for a certain period of time. As of 2004, 35 technology development projects are in progress under this programme. It is anticipated that an increasing number of public institutions will participate in this programme in the future.

SOUTH AFRICA

The South African government at the central and sub-national levels are actively involved in the promotion of Small Micro and Medium Enterprises (SMMEs). In 1995, the South African Government came out with a White paper by the Department of Trade and Industry (the lead department for SMME development) entitled: “A National Strategy for the Development of Small Business in South Africa (May 1995)”. A year later, the National Small Business Act was passed by Parliament, which provided for the institutions to implement this strategy. There were ten key principles underlying the Government's national small business strategy in 1995:

- A joint vision for big, medium and small business in South Africa
- All the segments of the small business sector required attention
- Improving the efficiency and competitiveness of all small businesses
- Attention must be given to both the supply and demand side of small business activities
- Black advancement in through small business development—special emphasis was also placed on other marginalised or disadvantaged groups
- Prioritisation of support programmes and the skilful matching of different resources
- Sector focused and targeted use of public funds
- Restructuring of the institutional framework for small business support
- Department of Trade and Industry has ultimate responsibility for small business development
- Recognition of the critical roles that different stakeholders play in small business development

The National Small Business Act in 1996 was further amended in 2003. The amendment provided for the establishment of an Advisory Body to represent and promote the interests of small business as contemplated in the National Strategy for the Development and Promotion of Small Business in South Africa referred to in the definition of “National Small Business Support Strategy”.

Since the adoption of the Act in 1996, the Government has introduced a range of macro economic and sector specific reforms and development programmes that influence the capacity of small businesses to operate competitively in national and international markets. There has also been a significant body of knowledge and experience compiled since this time, which has improved the understanding of the small business sector and the roles Government and other stakeholders can perform in supporting, facilitating and regulating the development of the sector. Some of these experiences and lessons were captured in a review of the Government's strategy in 2001, which was undertaken by the Department of Trade and Industry. Based on various findings, the Government came out with The Integrated Small Business Development Strategy (ISBDS) for the period 2004-10 as a way forward for small business development in South Africa. The ISBDS shall pursue the following objectives:

- Increase the contribution of small business to the growth of the South African economy

- Create an enabling environment for small enterprises, which levels the playing field between big business and small business, reduces the disparities between urban and rural businesses, and is conducive to entrepreneurship
- Create sustainable long-term jobs for women and men in the small business sector
- Ensure previously disadvantaged individuals, women, people with disabilities, and young women and men are equitably represented in the small business sector
- Increase the competitiveness of the small businesses sector so that it is better able to take advantages of opportunities emerging in national, African and international markets
- Improve communication between government and the small business community

There are three strategic directions followed by the Integrated Small Business Development Strategy in pursuit of its vision and objectives, viz. enterprise promotion, creating an enabling environment and promoting competitiveness in the SMME sector as outlined below.

Unlocking potential through better business environments

The Government should make laws and regulations to protect small business customers, workers, and trading partners. Thus, business regulations need to be carefully designed and enforced, as do labour regulations and other policies, programmes and incentive schemes related to markets (e.g., improving access to publicsector procurement contracts, consumer markets, corporate procurement, and export markets). This will be done through the following actions:

- **Small business-sensitive regulations:** Government is committed to overcoming the hurdles to non-racial competition and a better understanding the impact the legal and regulatory framework has on small businesses and the capacity of the small business sector to generate new, good quality jobs. Government will intensify its assessment of the legal and regulatory environment. This necessitated establishment of the Small Business Advisory Council (Box 3.14) to monitor and review legal and regulatory issues affecting the small business sector.
- **Improving labour relations in small business:** While balancing the need for laws and regulations that protect small business workers with the desire to reduce the compliance costs incurred by business, Government identifies small business concerns and constraints in relation to labour through regular monitoring, research and consultation. It will initiate processes to simplify compliance procedures so that small business owner-managers are able to understand their labour obligations and comply with these in an efficient and cost-sensitive manner.
- **Access to markets:** Government has been taking steps to improve the access small businesses have to domestic and foreign markets by improving access to public and corporate procurement contracts, promoting small business participation in foreign trade programmes and strengthening market opportunities in high-growth sectors.
- **Increasing the effectiveness of incentives:** The Government's current range of financial incentives designed to help create opportunities for profitable business are to be regularly reviewed and monitored by the Department of Trade and Industry (DTI) in association with the newly created Small Business Advisory Council.

1 Promoting entrepreneurship

ISBDS focuses on entrepreneurship by recognising that many entrepreneurs and entrepreneurial activities can be found across South Africa.

Within this strategic direction, the Government ensures that there is a policy framework and business environment established that is conducive to entrepreneurship. This is done through the following actions:

- National entrepreneurship promotion campaign: Government to design a national entrepreneurship promotion campaign to bring to public attention the substantial resource that entrepreneurs offer South Africa, to recognise and celebrate entrepreneurs, as well as to encourage others to adopt enterprising attitudes. The aim of the national entrepreneurship promotion campaign is to raise awareness amongst all South Africans regarding the possibilities and opportunities for undertaking new initiatives.
- Creating an inter-ministerial response to the development of entrepreneurs: Government to mobilise its relevant departments, development agencies as well as provincial and local authorities, and the private sector, to provide integrated support to the development of entrepreneurs. This is achieved through the launch of a well-focussed Entrepreneurship Programme.
- Better access to information and advice: Because entrepreneurs need access to relevant information and advice, the Government attempts to enhance the design and delivery of package these supports to better address the needs, capacities and development opportunities of the target groups identified in the ISBDS.
- Strengthening business associations: Government has the mandate to establish a Chamber Development Programme to maximise the potential of chambers of commerce in contributing to economic development by broadening the participation of small business owners and managers in local and provincial chambers. This would provide entrepreneurs with a venue for sharing ideas, needs and opportunities, as well as platform for representation at local, provincial and national levels.
- Expanding franchise opportunities: Government continues to work through the adoption of a national Franchising Strategy for Small Business Development that promotes the contribution of franchising to job creation, income generation and the economic empowerment of historically disadvantaged entrepreneurs.

3 Promoting more competitive small businesses

The Government is committed to building the capacity of the small business sector to respond to new market opportunities by making the small business sector more competitive. This will be done through the following actions:

- Technology transfer and incubation: Government to build upon the successes achieved by the piloted Manufacturing Advice Centre, the Godisa Trust and other initiatives that integrate technology transfer processes with business support programmes.
- Infrastructure facilities: Government to undertake a research and monitoring programme to assess the cost of inadequate infrastructure on the performance of the small business sector, so that Government departments and parastatal organisations responsible for infrastructure development can become more aware of the demand for small business infrastructure and its impact on national social and economic development.
- Access to appropriate skills: Government to improve the coordination and quality of business skills development so that it is more responsive to demand, business-oriented, and competitively focussed. Skills development through the Sector Education Training Authorities and the use of specialised learnerships will be more comprehensively promoted.
- Access to finance: Government to continue to pursue innovative schemes to mobilise more savings funds to small businesses. This includes the establishment of an APEX Fund for micro enterprises and the design of industry-specific small business financing schemes.
- Increasing research capacities and improving the dissemination of results: Government to continue to co-fund prioritised research and create alliances and improve coordination among research agencies working in the small business sector within South Africa, as well as internationally.

Box 3. 14: Role of Advisory Body

The National Small Business Advisory Council advises the Minister on:

- (a) strategies to address identified market failures affecting the
- (b) he impact of current and new legislation on small business;
- (c) national standards pertaining to small business development
- (d) measures to ensure the creation of physical business infrastructure
- (e) the development of skills in all aspects of running a business;
- (f) steps to be taken to create access for small business into value
- (g) constraints affecting the viability of the small business
- (h) methods to liaise with the small business community to
- (i) methods to monitor and influence the provision of support services to the small business sector; and
- (j) any other matter that the Minister may deem appropriate.”.

The Government went further steps ahead by announcing ‘Accelerated and Shared Growth Initiative for South Africa (AsgiSA)’ for the period 2004-14 (Box 3.15). A further key small business initiative will be to pursue decisions made by Cabinet on the regulatory environment for small businesses.

Box 3.15: Decisions on the small business regulatory environment

- That the Minister of Labour will lead a review of labour laws, including their impact on small businesses;
- That the reforms in tax administration affecting small businesses will continue
- That the DTI and the Department of Provincial and Local Government (DPLG) will prepare recommendations on how to improve the regulatory environment for small businesses in municipalities
- That sector departments will review the impact of their laws and regulations on small businesses

Broad-Based Black Economic Empowerment (B-BBEE)

B-BBEE is a specific government policy to advance economic transformation and enhance the economic participation of black people in the South African economy. The vision of the BEE Unit is to work towards ensuring, through equity and empowerment policies and strategic interventions, that the South African economy is restructured, to enable the meaningful participation of black people, women and rural or under-developed communities in the mainstream economy, in a manner that has a positive impact on employment, income redistribution, structural re-adjustment and economic growth.

The Department of Trade and Industry's (DTI) growth strategy includes a focus on broadening participation, equity and access to redress for all economic citizens, particularly those previously marginalised. The Black Economic Empowerment (BEE) Act, No. 53 of 2003, facilitates DTI's work in this area by establishing a legislative framework for the promotion of BEE; empowering the Minister to issue Codes of Good Practice and publishing Transformation Charters; establishing the BEE Advisory Council; and making provision for matters connected therewith.

In order to further the growth of black people, the AsgiSA has certain action plan within it (Box 3.16). Broad Based Black Economic Empowerment will be leveraged to support shared growth.

Box 3.16: AsgiSA Leveraging components of BBBEE

- Provisions for access to finance for women and youths
- Funding commitments for housing and small business loans
- Skills development commitments
- Social responsibility commitments

- Other commitments to enterprise development
- BBBEE charters will be assessed from time to time to establish how broad-based their impact has been

There are several other interventions designed to support small businesses. The National African Chamber of Commerce has committed to establish 100 000 new small and medium enterprises per year, and government will support these efforts.

The B-BBEE Codes of Good Practice emerged in February 2007 as an implementation framework for the B-BBEE policy and legislation. After the implementation thereof, institutional mechanisms were established for the monitoring and evaluation of B-BBEE in the entire economy (Box 3.17).

Within the Economic Sectors and Employment Cluster of government departments, additional interventions are being undertaken by DTI to transform the economy and address structural imbalances focusing on, amongst other aspects, the effective implementation of B-BBEE, especially as regards the impact on workers, youth, women and the disabled.

The Government provides certain benefits to BEE enterprises like being qualified as Exempted Micro Enterprises (EMEs) in terms of the Broad-Based Black Economic Empowerment Act, if the annual total revenue is of R5 million or less.

Black Business Supplier Development Programme (BBSDP)

The Enterprise Organization (TEO) has the mandate to stimulate and facilitate the development of sustainable, competitive enterprises by black people by efficiently providing effective and accessible supply-side measures such as cash, cost sharing grants and tax allowances. The main aim of the incentive schemes are to promote investment, enterprise development, competitiveness and export opportunities for local and foreign enterprises. Below is a summary of the schemes which may apply to your small business.

The BBSDP is a 90:10 cost-sharing grant, which offers support to black-owned enterprises in South Africa. The DTI contributes 90% of the cost of a project and the approved applicant 10%. The scheme aims to provide such companies with access to business development services that assists them to improve their core competencies, upgrade managerial capabilities and restructure their processes to become more competitive:

- To fast track existing SMMEs that exhibit good potential for growth into the mainstream economy;
- To grow black-owned enterprises by fostering linkages between black SMMEs, corporate and public sector enterprises

- To complement current affirmative procurement and outsourcing initiatives of corporate and public sector enterprises
- To enhance the capacity of grant recipient enterprises to successfully compete for corporate and public sector tenders and outsourcing opportunities

BOX 3.17: B-BBEE ADVOCACY AND INSTITUTIONAL SUPPORT

B-BBEE ADVISORY COUNCIL

The B-BBEE Advisory Council is responsible for:

- Conducting research or initiating research on B-BBEE, and reporting on transformation across all sectors of the South African economy;
- Requesting information from organs of state or private bodies on areas of interest with respect to B-BBEE;
- Publishing reports on BEE advocacy and implementation;
- Establishing sub-committees to deal with specific matters pertaining to B-BBEE, as and when required;
- Co-opting experts to serve on or advise sub-committees;
- Investigating and addressing complaints reported on BEE-related matters;
- Giving orders and rulings on BEE-related matters to which the Codes do not refer or adequately address;
- Summoning individual citizens to appear before the Council on BEE-related matters;
- Acting as mediator between sector councils and local and international stakeholders;
- Developing the B-BBEE Codes of Good Practice, strategy and legislation; and
- Monitoring and evaluating the implementation of B-BBEE.

B-BBEE MARKETING AND COMMUNICATION

B-BBEE Marketing and Communication is responsible for:

- Promoting and advocating B-BBEE to all stakeholders in the local and international markets;
- Educating all three tiers of government, state-owned entities, public entities, government agencies and all supply chain managers in the public sector on the significance and monitoring of BEE;
- Consultation with private sector stakeholders on various issues of transformation;
- Communication of B-BBEE to the South African public via media, written documentation and one-on-one engagements; and
- Drafting and distribution of print and electronic materials that seek to educate and generate a better understanding of transformation by all. Provides a platform where the public can obtain

documents on B-BBEE.

B-BBEE IT PORTAL

The B-BBEE IT Portal provides the following services:

- Centralised, government-endorsed and standardised B-BBEE information resource;
- Publicly accessible B-BBEE documentation, interpretive guidelines, educational scorecard simulators and other useful information;
- Free registration of companies' BEE scorecards and certificates on the IT Portal;
- Facilitation of an Exempted Micro Enterprise (EME) BEE Certificate, by providing a standardised template as proof of BEE status;
- Secure access to a free, customised B-BBEE Toolkit, with an online self-assessment calculator, and submission of verified credentials;
- Answers to 'frequently asked questions' on B-BBEE and the opportunity for companies to pose their own questions relevant to their specific circumstances;
- Easy-to-use functionality for increased B-BBEE compliance (including EMEs with a turnover under R5m per annum);
- Listing of companies' BEE profiles (at a marginal fee to cover third-party costs) on the dti National Registry - for business opportunities and marketing purposes;
- Marketing of companies on the B-BBEE Opportunities Network, which can be freely searched by procurement/transformation managers to source procurement/trading partners;
- Rating of entities and access to Verification Agencies;
- Optimised flow of BEE information from the public and private sectors to the dti;
- Optimised flow of information between entities and their current or potential suppliers, clients or trading partners;
- Sharing and networking of B-BBEE opportunities; and
- Reporting of B-BBEE fronting practices (window-dressing) and much, much more.

PROCUREMENT, TRANSFORMATION AND VERIFICATION

The Procurement, Transformation and Verification Sub-Directorate is responsible for creating an enabling environment for the implementation of B-BBEE by:

- Undertaking advocacy, communication and marketing activities of B-BBEE, through stakeholder engagement and partnerships;
- Alignment of the Preferential Procurement Policy from organs of state exempted from the Preferential Procurement Policy Framework Act (PPPFA) to B-BBEE;
- Strengthening B-BBEE through amendment of PPPFA to advance the objectives of B-BBEE;

Harmonising verification practices and ensuring consistent technical competence

PARTNERSHIPS

The BEE Unit seeks to facilitate the participation and interaction of stakeholders in different sectors, in order to advance B-BBEE objectives and the re-integration of black people in sector economies. It does this by providing guidance on the development and gazetting of Sector Transformation Charters and Sector Codes, as well as other strategies and plans.

The Partnerships sub-directorate is responsible for:

- Providing guidance on the development and gazetting of Sector Transformation Charters, development of transformation strategies and plans, and aligning these to the B-BBEE Codes and Act;
- Ensuring that there is strategic positioning of B-BBEE at sector level, by providing advisory participation in sector councils;
- Facilitating public education and awareness initiatives about the role of charters and B-BBEE in general; and
- Monitoring and evaluating the implementation of Sector Charters and B-BBEE in general, across all sectors of the economy.

EQUITY EQUIVALENT SECRETARIAT

The Equity Equivalent Secretariat is responsible for:

- Analysing valuation methodologies and business plans from multinational companies;
- Managing and processing applications for exemptions from multinational companies;
- Assisting with developing strategies for implementing specific elements of the scorecard within the Employment Equity Programme;
- Handling all queries and concerns from all relevant stakeholders (public, private, external and local);
- Collating and disseminating information to all relevant stakeholders with respect to the Equity Equivalent Programme;
- Providing secretariat support to the Equity Equivalent Committee;
- Analysing multinational company structures and vetting (scrutinising) Equity Equivalent proposals to determine commercial viability and sustainability against the set criteria;
- Developing and conducting presentations to foreign offices, embassies, high commissions, chambers and international clients; and

Assisting in the monitoring and evaluation of implemented programmes.

2008 Crisis Response

The Government, after judging the impact of 2008 crisis, undertook a number of measures, based on certain broad principles:

The first principle was that the risk of unfairly placing the burden of the downturn on the poor and the vulnerable must be avoided.

The second principle was to ensure that all activities that are aimed at strengthening the capacity of the economy to grow and create decent jobs in the future, are protected and supported as far as possible

The third principle was to maintain the planned high levels of investment in public sector infrastructure and to encourage the private sector to maintain and improve wherever possible their levels of fixed direct investment and continue with corporate social investment programmes.

The fourth principle was that the interventions must be timely, tailored and targeted as is appropriate.

The fifth guiding principle was to put in place a bold intervention in the form of a broad stimulus package, that has economic and social components

Measures

S. Africa Government announced a major public investments programme of approximately R787bn over the three financial years to March 2012. This public investment programme would include expanding and improving the road and rail networks, public transport, and port operations, dams, water and sanitation infrastructure, housing construction including low-income housing and publicly owned rental stock, information and communications technology and energy generation capacity as well as education and health infrastructure, and in the process create additional decent work opportunities whilst meeting the basic needs of the society. Activities would include maintenance of current infrastructure using labour intensive approaches wherever possible. This programme would be spread across both urban and rural areas. Rural development would include programmes to create employment, alleviate poverty, and improve access to health and education.

Counter-cyclical measures were introduced with the prime objectives to stave off a recession and job losses. In this context, fiscal and monetary measures are being used aggressively where required to address the crisis. Significant resources are provided for industrial policy interventions together with strong, robust use of accepted trade measures, to ensure that the crisis does not cause job losses in the real economy.

Sector specific strategies are being implemented to address vulnerable sectors, such as clothing, textiles and footwear, mining and the auto and capital equipment sectors, with focussed use of a combination of trade, industrial and social policy measures to prevent job losses and regain jobs and productive capacity lost in the recent past, and to promote employment creation.

Retaining and increasing employment was the strong pillar of crisis policy response. The Government resolved to have R10 billion National Employment Initiative with combination of measures on public employment, private sector initiatives as well as training.

A number of social interventions are introduced to address the jobs challenge through developing effective social plans at industry and company level and Unemployment Insurance in order to ensure that job losses are avoided, workers are retrained and communities are cushioned from the effects of the economic crisis.

Institutional Support System

The Act provided the foundation for the establishment of the institutions listed in the table below, and the transformation of others, to support small businesses. In addition to the listed institutions, there are also NGOs, donors and private sector organisations (e.g. the programme by the Banking Council of SA) who support SMMEs. The Black Economic Empowerment Commission, an initiative of black business, also highlighted the importance of SMME development for broad based black empowerment.

Table 3.4: Select Initiatives for Black People

Institution	Services	Target
Centre for Small Business Promotion	This is a Chief directorate in the D'TI, responsible for policy and coordination of support programmes for SMMEs. It also mobilises funds and supervises the establishment of new institutions.	
Khula	Provides access to finance through: <ul style="list-style-type: none"> • Khula Credit Guarantee Scheme – provide guarantee products to banks. • Other institutions and NGOs, referred to as Retail Finance Intermediaries (RFIs) which borrow from Khula to make loans to SMMEs 	Mainly targets very small, small and medium enterprises, with two small programmes for the survivalist and micro sector.

	<ul style="list-style-type: none"> • Khula-Start: access to micro credit in rural areas 	
NAMAC	<p>Two key programmes</p> <ul style="list-style-type: none"> • Manufacturing advisory centres (MACs), providing support for small scale manufacturing businesses. • Business Referral and Information Network (BRAIN) – information and a help line. 	<p>The MACs are mainly for small and medium, more formal businesses.</p> <p>BRAIN for the entire spectrum of SMMEs.</p>
Provincial SMME desks	<p>To provide a one-stop information centre to SMMEs and developing enabling government policy to support SMMEs in each province. Activities of the SMME desks include (though not in all provinces):</p> <ul style="list-style-type: none"> • Keeping data bases of SMMEs in the province • Developing SMME orientated procurement and sub-contracting policies for provincial government • Targeted support programmes for HDIs, women, contractors, tourism entrepreneurs, small/micro manufacturers, etc 	
Land Bank	Finance agricultural businesses	From small to large scale farmers.
Industrial Development Corporation	Supports and funds various industrial development programmes.	Predominantly large scale projects, but some small to medium enterprises. Has a specific BEE mandate.
National Empowerment Corporation	Funded by government, it provides funding for black economic empowerment ventures	Large, but also small and medium enterprises.

The Small Enterprise Development Agency (SEDA) is an agency of the South African Department of Trade and Industry (the DTI). SEDA was established in December 2004, through the National Small Business Amendment Act, Act 29 of 2004. It is mandated to implement government's small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government.

SEDA's mission is to develop, support and promote small enterprises throughout the country, ensuring their growth and sustainability in co-ordination and partnership with various role players, including global partners, who make international best practices available to local entrepreneurs. SEDA provides business development and support services for small enterprises through its national network in partnership with other role players in the small enterprise support. SEDA also implements programmes targeted to business development in areas prioritised by the Government. The main service delivery point are SEDA branches where entrepreneurs receive information, advice and referrals, tender information, business skills training, export training, trade information, company audits and assessments, technical support, business coaching and mentoring, market access and business linkages and co-operative enterprise development. Enterprise information centres were established to give information, advice and counselling, referrals, tender advice and information and basic business planning.

There are in addition, professional associations engaged in the promotion of SMEs. There is, for instance, the South African Entrepreneurship and Small Business Association (SAESBA), established about two decades ago. Among other issues, the SAESBA is preoccupied with (i) stimulation of academic research for entrepreneurship and small business development and (ii) facilitation of communication between academics and entrepreneurs. Apart from this association, it has a government own agency on which is in the forefront of promoting SMEs.

(b) The Regulatory Framework for SMMEs in South Africa

As the habitat is to the living organism so too is the business environment to the business entity. In recognition of this crucial role of the environment, the South African Government in the period 2001 – 2002, undertook a comprehensive review of certain rules and regulations that impact on SMMEs. This was in reaction to the recommendations of the National Small Business Regulatory Review on the importance of a friendly regulatory environment. Due to the detailed nature of the laws and regulations, we summarise these under the broad headings of the law and the main objectives:-

Law/Regulation Objective

1. Finance

- (a) Financial Institutions Act * To consolidate the laws relating to the investment, safe custody, and administration of funds and trust property by financial institutions;
- (b) Financial Intelligence Centre Act * To combat organized crime and money laundering, etc.

* Establishes intelligence centre to assist in the identification through access to records of people in money laundering.

2. Taxation

(i) Budget Speech 2002 * Tax incentives for investment and a more generous tax regime for SMMEs.

* Increase in the threshold for companies to qualify for SMMEs benefits.

* A simplified approach to calculating VAT obligations especially for SMMEs.

(ii) Capital Gains Tax Income Tax Act amended to incorporate capital gains tax

(iii) Amendment Income Tax Act Provides for deductions in respect of certain plant and machinery by SMMEs.

* Deductions in respect of cost of plant and machinery.

* Brought into use for the first time on or after April, 2001.

*In use in manufacturing

There are laws in such diverse areas as labour relations, conditions of employment, key aspects of good practice on disability in the workplace, etc. as well as business trade. Suffice it to note that in respect of the SMMEs , the laws are geared towards facilitating a conducive environment for their growth and development.

A reduced rate on normal tax for incorporated SMEs was introduced for the first time in 2001. Since then regular adjustments to the monetary thresholds have been made. This relief is only available to SMEs that meet the definition of a *Small Business Corporation* as contained in section 12E (4) (a) of the Income Tax Act.

Table 1: Tax rates for SBCs for the year of assessment ending 28 February 2009

Taxable income	Rates of tax on taxable income (%)
R0 – R46 000	0%
R46 001 – R300 000	10%
R300 001 and above	28%

Source: SARS (2008a:2).

Enhanced relief for incorporated SMEs in respect of depreciation

In terms of section 12E(1A) of the Income Tax Act, 50% of the cost of machinery, plant, implements, utensils, articles, aircraft or ships, other than plant and machinery that is used in the process of manufacturing, is permissible as a deduction in the year of assessment during which that asset is taken into use for the first time; thereafter 30% of that cost is deductible in the year immediately succeeding the year of assessment and, finally, 20% of that cost is deductible in the year thereafter (on or after 1 April 2005).

Relief in respect of capital gains tax for incorporated and non-incorporated SMEs

In terms of paragraph 57 of the Eighth Schedule of the Income Tax Act the capital gain on the disposal of the assets of a small business should be disregarded if:

- it is a disposal by a natural person;
- who is trading as a sole proprietor, of an active business asset of a small business;

- who is a partner in a partnership on withdrawal from the partnership, of an interest in the active business assets of a partnership, which qualifies as a small business, to the extent of that partner's interest in the partnership; or
- who is a shareholder or member (natural person) of a company or close corporation, of the entire direct interest in a company, comprising at least 10% of the equity of the company, to the extent that the interest relates to active business assets of the company, which must qualify as a small business;
- the asset, interest in the partnership or interest in the company should have been held for a continuous period of five years prior to the disposal;
- the natural person has attained the age of 55 years or the disposal is a consequence of ill health, other infirmity, superannuation or death;
- all the capital gains should be realised within a period of 24 months after the date of the first disposal; and
- the total capital gain that is disregarded may not exceed R750 000 over the lifetime of the natural person.

A natural person who operates more than one small business is obliged to include all qualifying disposals for each such small business when determining the capital gain that is to be disregarded. For these purposes, the assets of a small business are limited to a cumulative total of R5 000 000, in terms of the market value of the assets.

The 2006 small business tax amnesty

In February 2006, the Minister of Finance announced a once-off tax amnesty for SMEs that have a turnover of less than R10 million for the 2006 year of assessment. The amnesty commenced on 1 August 2006 and was scheduled to end on 31 May 2007

In order to qualify for the granting of tax amnesty, the following requirements were to be fulfilled (SAICA, 2006:1):

- the small business should be an individual, unlisted company, close corporation, trust, co-operative or the insolvent estate or deceased estate of an individual;
- the individual or entity should have carried on a business;
- the gross income or turnover of the business (or businesses, if the individual or entity carried on more than one business) during the 2006 year of assessment should not be more than R10 million;
- in the case of a company or close corporation, all the shares or members' interests should have been held directly by individuals throughout the 2006 year of assessment; or
- in the case of a trust, all the beneficiaries of the trust should have been natural persons throughout the 2006 year of assessment

The Small Retailers VAT package

In order to use the Small Retailers VAT package, the taxpayer should submit an application to become an approved vendor. The vendor should fulfil the following requirements (SARS, 2007a:41):

- the vendor should supply both standard-rated and zero-rated goods from the same premises;
- the vendor should not have adequate point-of-sale equipment (electronic scanning systems, touch screen registers or product-specific cash registers); and
- taxable supplies should not exceed R1 million in any 12 month period.

The sum of all zero-rated purchases for the tax period is calculated and an industry markup percentage is applied to calculate the total zero-rated sales. The vendor is required to calculate the daily gross takings for the same tax period and thereafter deduct the total zero-rated sales from it to determine the total of the standard-rated sales. The tax fraction is then applied to the total of the standard-rated sales to determine the VAT due on sales.

Skills Development Levy (SDL)

An employer must pay SDL if the employer pays annual salaries, wages and other remuneration in excess of R500 000. Employers with an annual payroll of R500 000 or less (whether registered for employees tax purposes with SARS or not) are exempt from this levy.

This levy (currently 1%) is used for the funding of education and training of employees. It is calculated as a percentage of a leviable amount, which is more or less equal to the earnings of the employees.

The application form to register for SDL is the same form that is used to register for employees' tax (EMP101). The monthly return for SDL is combined with the monthly return for employees' tax, which means that the same terms and conditions apply.

Environmental Levy

An environmental levy is charged on certain plastic carrier bags and grocery bags at a rate of 3 cents per bag. Plastic bags used for immediate wrapping/packaging, refuse bags and refuse bin liners are excluded from paying this levy.

Apart from the payment of this specific Environmental Levy per quarterly excise account, VAT is also levied on these bags, calculated on a value that includes the amount of the levy.

Manufacturers of such bags must license their premises as manufacturing warehouses with the local Controller of Customs and Excise and submit quarterly excise accounts to such Controller.

Regional Service Council Registration

With the exception of specialised enterprises, such as liquor stores and arms dealers, businesses no longer need a license to trade in South Africa. They are, however, required to register with the Regional Services Council (RSC) in the area in which they operate. Once registered, the business is charged services levies based on its total bill for salaries and wages, as well as on gross sales. Returns and payments must be lodged on a monthly or annual basis as determined by the RSC.

Environmental Levy

An environmental levy is charged on certain plastic carrier bags and grocery bags at a rate of 3 cents per bag. Plastic bags used for immediate wrapping/packaging, refuse bags and refuse bin liners are excluded from paying this levy.

Apart from the payment of this specific Environmental Levy per quarterly excise account, VAT is also levied on these bags, calculated on a value that includes the amount of the levy.

Manufacturers of such bags must license their premises as manufacturing warehouses with the local Controller of Customs and Excise and submit quarterly excise accounts to such Controller.

National Manufacturing Advice Centre (NAMAC)

NAMAC is a more recent addition to the national set of small enterprise support agencies, having been piloted by the CSIR and the NPI. Through its decentralised set of local centres, it has succeeded in bridging effectively the gap between national, provincial and local support efforts.

TURKEY

The SME policies in Turkey have been shaped over the past few years by a number of factors, including:

The creation in 1996 of the Customs Union with the European Union. As a result, Turkish industry became increasingly exposed to international competition, while SME support programs began to be designed within a framework of international co-operation. Turkey became a member of European Union at the Helsinki Summit in December 1999, wherein also Millennium Declaration was adopted which gave priority to the following areas in the enlargement of the EU:

- Increasing scientific and research activities and production of technology,
- Improving, renewing and spreading vocational training,
- Developing and supporting SMEs,
- Placing emphasis on regional development

- The ratification in 2002 of the European Charter for Small Enterprises which established a international framework for conducting efficient SME policies. By adopting the EU-Charter for SMEs, Turkey pledged to take concrete steps to conceive programs and projects in all important SME policy areas, including on-line access, access to finance and access to education and training for entrepreneurs. Turkey considers the Charter as the foundation for its long-term SME strategy (medium-term to long-term enterprise (SME) development strategy). The EU SME Charter included the following ten main areas:
 - Education and training for entrepreneurship,
 - Developing cheaper and faster processes for business start-up,
 - Better legislation and regulation,
 - Training to provide qualified personnel,
 - Improving on-line access,
 - Benefiting More out of the Single Market,
 - Improving taxation and financial issues,
 - Improving the technological and innovative capacity of SMEs,
 - Supporting e-commerce and technology-based enterprises,
 - More effective and stronger representation of SMEs on national and international platforms.

By endorsing this Charter, Turkey has committed with all her institutions and bodies to take concrete steps in the ten above-mentioned areas, to develop programmes and projects, and to allocate the required resources. In 2004, Turkey came out with another set of SME policy (Annexure 3.10), the highlights of which are given in Box 3.18.

Box 3. 18 :SME Strategy & Action Plan, Turkey, 2004

- Programmes will be developed in all educational levels for teaching entrepreneurial skills in order to foster the entrepreneurial spirit. Sectoral training programmes shall be held in order to enable SME employees to take active role in the institutional decision-making process. Legislative regulations shall be made in order to create professional standards and the system of testing and certification.
- The legislation pertaining to process of establishing businesses shall be simplified so as to reduce bureaucracy. Employment-generating activities by entrepreneurs shall be encouraged and the budget allocated for programmes geared towards the employment of skilled labour shall be increased.
- Education and training institutions shall offer training according to professional standards in order to meet SME demand for skilled labour; the quality of existing training programmes shall be upgraded and their capacity shall be increased.
- Informative activities via Internet shall be improved in order to promote public services for SMEs to ensure to expand communication between SMEs and government agencies.
- Strategic planning towards exporting will be realised by identifying areas for potential competitiveness. Pertaining to the state aids on investments, within the frame of tax incentives, the process of transformation to the system without incentive certificate shall be monitored and improved.
- Strategies shall be developed and projects shall be prepared for fostering SMEs' capacity for technology and innovation.
- The variety of SME support services shall be increased and their quality shall be raised to catch up with international standards.
- Institutions and organisations representing SMEs shall play a larger role in developing SME policies and programmes.

Therefore, the EU SME Charter is in a way Turkey's long-term SME strategy document and homework. Various EU SME policy charters are given in Annexures. Keeping the above in view, the following paragraphs mention some of the important SME policies and measures adopted by the Turkish Government.

During 2002-03, when there were macro economic imbalances with Lira depreciating and the cost of imported raw material rising, many SMEs suffered in their businesses. Moreover, with Govt's direction on subsidised credit, many state banks incurred losses from subsidized credits. In that scenario, the Govt made a provision that was the loss of income to arise from the subsidized credits extended by Ziraat Bank Inc. and Halk Bank of Turkey Inc. to tradesmen, artisans, young entrepreneurs and female entrepreneurs would be paid as advance payment from the budget and that state banks could not be given any duty that would cause them to incur duty losses, was put into effect.

In this period, supports for SMEs in the areas of infrastructure, financing, guarantees, R&D, training, consulting, marketing and promotions were continued. At the same time, with the aim of having small and medium sized industrialists produce in modern and healthy conditions and of taking environmental pollution under control, establishment of Small Industrial Estates (SIE) and Organized Industrial Zones (OIZ) is being promoted by the General Directorate of Small Arts, Industrial Zones and Estates under the Ministry of Industry and Trade.

In accordance with the Law of Establishment³) No. 3143, the Ministry provides special loans with low interest rates and long terms for cooperatives of small industrialists within limits determined according to the degree of regional development. These credits are given for the entirety of infrastructure construction and up to 70% of superstructure construction. Ministry also provides credit facilities for the infrastructure construction of OIZs where small and medium sized industries are located.

The Turkish government developed a specific MSME policy and created SEGEM (Industrial Training and Development Centre) and KÜSGET (Small Industry Development Organisation), which, later on, were united under the umbrella of KOSGEB (Small and Medium Industry Development Organisation) in 1990, as a major instrument for the execution of the MSME policies. Over the years, KOSGEB emerged as one of the major organizations executing the SME policy in Turkey. KOSGEB provides supports for SMEs mainly in the following topics:

- Consultancy and Training Supports
- Technology Development and Innovation Supports
- Information Technology Supports

- Quality Improvement Supports
- Market Research and Export Improvement Supports
- Support for Improving International Cooperation
- Regional Development Supports
- Supports for Developing Entrepreneurship

Through the choices Turkey has made in recent years to begin a process of international integration geared towards Europe, it has embarked upon a variety of economic policies and medium- and long-term economic strategies that affect SMEs either directly or indirectly because of their prominent position in the economy. This process began in the 1960s and was reinforced by the general opening of the Turkish economy in the 1980s.

A very important step was the creation of the Customs Union with the European Union in 1996 which strongly intensified the influence of international competition on Turkish industry, especially SMEs. The first SME Action Plan was introduced at that time, but it was not implemented owing to lack of funding. Following the acceptance of Turkey's application for membership in the European Union, the policy of support for SMEs was coordinated with that of the EU in order to enable Turkish SMEs, *inter alia*, to sustain competition with their counterparts in the EU and in other applicant countries. Creating a business environment conducive to entrepreneurship and the development of innovative SMEs has been high on the European Union policy agenda, and stressed in the Lisbon European summit in 2000 as part of a broader strategy for economic growth. The Turkish government signed the European Charter for Small Enterprises in 2002 and agreed to take concrete steps to develop policies and programmes for SMEs in line with EU's. Turkey participates in the Multi-annual Programme for Enterprise and Entrepreneurship, in addition to the BEST (Business Environment Simplification Taskforce) Programme. Along these lines, the Turkish government also adopted the *Bologna Charter* in 2000, together with other OECD countries and non-OECD economies, to promote bilateral and multilateral initiatives to foster global SME partner-ships.

A range of policy initiatives in the 8th Five-year Development Plan (2001-05) aims to improve the productivity of Turkish SMEs and enhance their international competitiveness. Based on international best practices, the plan calls for raising product quality and enhancing the innovation and technology capacity of small business through collaboration with universities, introduction of new financing instruments, such as, risk capital, modern management techniques, etc. Partnerships with foreign companies are also be encouraged in order to develop SMEs export capabilities. A new approach to improve and expand service delivery to SMEs is put in place to create joint centers at local level, synergy

focal points, between KOSGEB and the Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey (TOBB).

Recent Turkish measures considered to have an important impact on SMEs include the establishment of the Competition Council which would protect SMEs from unfair competition practices on the part of large firms. Reform of the tax system has involved a complete revision of tax policy. According to the new system, the calculation and payment of tax can be made on a three-monthly basis representing a significant improvement on the former method, which was based on the previous year's income. Twenty per cent of taxes due can be deferred for up to three years without interest, when R&D expenditures of equivalent amounts are made. Generally the tax burden has been reduced through a decrease both in rates and in the number of tax bands. Business start-ups can benefit from tax exemptions amounting to 40%-60% depending on the number of workers employed. Also, measures have been taken to remove those factors contributing to the numbers of undeclared workers.

When the Turkish economy was subjected to the 2008 global financial crisis, the Government announced the following measures on 13 March 2009 in order to ease the effects of the global financial crisis. Accordingly, it was adopted that:

- consumption tax applied to durable goods and automobiles to be lowered for a period of 3 months,
- value added tax (Vat) applied to real estates to be lowered to 8 percent from 18 percent for a period of 3 months,
- an additional subsidy of TL 75 million to be extended to SMEs,
- resource utilization support fund to be cut by 5 percentage points,
- capital of Eximbank to be increased,
- discounted night tariff for pricing the use off electricity in industry sector that applied to weekdays only to be extended to cover also weekends and other public holidays.

Government reduced the rate of Vat received from the sale of offices and other workplaces to 8 percent, the public fee in real estate purchases to 0.5 percent from 1.5 percent, the rate of Vat imposed on furniture, certain industrial and work machines used particularly by SMEs, information technology products and office furniture to 8 percent from 18 percent to be effective for a period of three months. The content of the Vat reduction to 8 percent from 18 percent as adopted by the Government as effective until 30 June 2009 has been widened by addition of some side products.

Value-added tax rates declined in Turkey by eight percentage points. Typical state aid programs are tax allowances, deferrals and exemptions depending on the location and type of investment, VAT refunds for locally purchased machinery (an additional 10% repayment for special sectors), customs exemptions on imported machinery and raw materials, VAT deferral on imported machinery and equipment, and special credits.

KOSGEB offers a range of different support measures aimed at enhancing the innovative capacities of small firms and supports R&D efforts through the Technological Development Centres. Schemes include

- i) support for production sites for innovative firms with new production processes and new products;
- ii) support for supplies and equipment providing up to USD 25 000 per firm as a soft loan;
- iii) support for participation in domestic fairs in the case of exhibition and commercialization of prototype production;
- iv) support for attending international exhibitions;
- v) support for the supply of software and publications;
- vi) support for publication of R&D results;
- vii) support for promotion costs; subsidy for hiring specialised personnel;
- viii) training grants;
- ix) assistance provided towards costs of patent applications and protection, and industrial design;\
- x) support for the preparation of electronic commerce Web sites.

A firm may avail of a total of USD 35 000 in grants under the measures listed above.

The Technology Development Foundation of Turkey (TTGV), established in 1991, provides soft loans with longer repayment terms to all companies for their innovation activities, and for the training and consultancy needs of SMEs. TTGV contributes up to 50% of the total project budget, up to a maximum of USD 2 million. TTGV has supported 244 projects by private sector firms and has secured a national industrial R&D volume of USD 200 million. TTGV also provided assistance to beneficiary firm with their patent application. TTGV acts as a catalyst in the establishment of technology parks in Turkey and has responsibility for the establishment of technoparks intended for the creation and development of new businesses that are expected to show good results of R&D work undertaken in universities and research centres; increase the technological infrastructure and income level in the regions where they are located; create employment opportunities for highly skilled employees; and attract foreign investors.

TUBITAK (The Scientific and Technical Research Council of Turkey) launched the R&D Incentives Programme for private companies and TUBITAK also launched the University-Industry Joint Research Centre scheme in order to foster university-industry relations. The R&D Assistance Programme is being carried out by TUBITAK and the Undersecretariat of Foreign Trade. TUBITAK performs a review to determine whether applicant projects can be classified as a R&D project.

KOSGEB established a number of laboratory facilities to carry out quality tests and analyses on products being introduced to the market, used usually by the metal and foundry sector. KOSGEB uses laboratory facilities in universities to test products from other sectors thereby promoting linkages and agreements between industrialists and universities. Support is provided for small enterprises in manufacturing (up to 50 employees) and medium enterprises (51 to 150 employees) with rates of assistance varying by enterprise size. In addition, firms bearing the certificates: (TSE, TSEK, and ISO 9000) receive preferential treatment and may benefit from higher rates of support.

TUBITAK Marmara Research Centre (MRC) Technopark started out as a technology incubator in 1992 to enable the start and growth of high technology companies, in an environment suitable for the accumulation and transfer of knowledge and technology.

THE BOLOGNA CHARTER ON SME POLICIES

(adopted on 15 June 2000)

Ministers and Representatives of governments of Algeria, Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Morocco, Netherlands, New Zealand, Norway, Philippines, Poland, Portugal, Romania, Russian Federation, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Tunisia, Turkey, United Kingdom, United States and Vietnam, participating in the Bologna Conference:

RECOGNISING the increasing importance of small and medium-sized enterprises (SMEs) in economic growth, job creation, regional and local development, and social cohesion, also through the role played by women and young entrepreneurs;

RECOGNISING that entrepreneurship and a dynamic SME sector are important for restructuring economies and for combating poverty;

RECOGNISING that globalisation, the acceleration of technological change and innovation create opportunities for SMEs but also involve transition costs and new challenges and that globalisation should lead to higher living standards for all and that its benefits should be accessible to all on an equitable basis;

RECOGNISING that SME policies need to be tailored to the circumstances and priorities of individual countries and sectors, while contributing to sustainable development and social progress;

WELCOMED the work on SMEs by the OECD and other international institutions and encouraged continued multilateral exchange of experience and best practice policies with a view to strengthening partnership and co-operation among SMEs in OECD and non-OECD countries. In this perspective, this first Conference of Ministers responsible for SMEs and Industry Ministers, jointly organised by the OECD and Italy, is a major opportunity to identify public and private sector actions to help SMEs develop their local strengths while capturing the benefits of globalisation and trade liberalisation.

ACKNOWLEDGED that SME competitiveness would benefit from:

A regulatory environment which does not impose undue burdens on SMEs and is conducive to entrepreneurship, innovation and growth through, *inter alia*: promoting good governance and greater accountability in public administration; pursuing a fair and transparent competition policy, and implementing effective anti-corruption measures; and fostering the implementation of transparent, stable and non-discriminatory tax regimes.

Education and human resource management policies that: foster an innovative and entrepreneurial culture, including continuous training and lifelong learning; encourage mobility of human resources; and reduce skill disparities by improving the match between education and labour market demand.

Effective access to financial services, particularly to seed, working and development capital, including innovative financial instruments to reduce the risks and transaction costs of lending to SMEs.

An environment that supports the development and diffusion of new technologies for and by SMEs to take advantage of the knowledge-based economy.

Strengthening public-private partnerships and political and social dialogue involving territorial and institutional actors as a tool for exchange of information, utilisation of knowledge and elaboration of policy.

Ensuring the cost-effectiveness of SME policies and their consistency with other national policies, as well as with existing international programmes.

RECOGNISING the vital contribution of innovation to SME competitiveness, the central role played by SMEs in national innovation systems, and the importance of improved access to information, financing and networking in facilitating the innovation process, RECOMMENDED that in developing SME policies, the following be considered:

SMEs' ability to manage innovation be improved by: facilitating the hiring and training of qualified personnel; diffusing an innovation culture; disseminating technological and market information and providing related assistance (e.g. through improvements in relevant labour market mechanisms, and linkages between enterprises and education systems, and between industry and public and university research).

Financial barriers to innovation in SMEs be reduced by: i) facilitating the development of market mechanisms for equity financing, and related services, especially for innovative start-ups; ii) promoting risk-sharing programmes and measures, including financial support and tax incentives to R&D and innovation; and iii) supporting initiatives which facilitate "partnerships for innovation" between entrepreneurs, public agencies and financiers.

SME access to national and global innovation networks be facilitated and their participation in public R&D programmes and procurement contracts encouraged.

RECOGNISING that, in a number of countries, clusters (2) and networking can stimulate innovative and competitive SMEs, RECOMMENDED that in developing SME policies, the following be considered:

Partnerships involving private actors, NGOs and different levels and sectors of public administration in local cluster and networking development strategies be facilitated.

The private sector lead cluster initiatives, with the public sector playing a catalytic role according to national and local priorities (e.g., *interalia*, facilitating private investment with public incentives, facilitating seed funding and monitoring the results of network initiatives).

Public and private sector bodies foster the growth of clusters (existing and embryonic) by: improving their access to accommodation and efficient communications and transport infrastructures; facilitating local specialisation in university/industry linkages; disseminating targeted information, including on locational advantages and investment attractiveness; promoting suppliers' networks, technical support services, learning circles and other collaborative undertakings.

RECOGNISING that electronic commerce creates opportunities and challenges for SMEs, RECOMMENDED that in developing SME policies, the following be considered:

Full account be taken of SME perspectives in the drafting of guidelines, rules and regulatory initiatives and instruments related to information and communication technologies (ICTs) and electronic commerce, taking into particular consideration the conclusions of the OECD Ministerial Conference on Electronic Commerce held in Ottawa in October 1998.

Greater awareness among SMEs of the benefits of the Information Society and of integrating Internet use and electronic commerce in their business strategies be fostered by: i) encouraging the dissemination of information on opportunities and obstacles related to electronic commerce; ii) removing paper-based legal barriers to commercial electronic transactions and administrative impediments to the creation and development of new firms; iii) fostering a competitive market for high-quality network infrastructure; and iv) making use of the Internet in public administrations' interactions with SMEs and promoting electronic public procurement initiatives that provide equal access to SMEs.

SMEs' participation in electronic commerce be enhanced by: i) fostering an environment conducive to business-led initiatives to promote the use of ICTs and electronic commerce (e.g. resource and demonstration centres, training initiatives, pilot projects); ii) encouraging the development of effective and user-friendly frameworks for certification, authentication, transaction security systems, privacy, and consumer protection and, more generally, providing an attractive business environment for electronic commerce in areas such as trade, competition, intellectual property rights (IPRs), standards, and taxation; and iii) enabling SMEs to work within a clear, consistent and predictable legal framework for electronic commerce, which allows access to "out-of-court" dispute resolution mechanisms, without imposing undue costs or burdens.

With regard to enhancing the competitiveness of SMEs in transition economies and developing countries in the global economy and their partnership with SMEs of OECD countries, RECOMMENDED that in developing SME policies, the following be considered:

Co-ordination between governments, and regional and international organisations as regards industrial development programmes and initiatives aimed at supporting the growth of SMEs in transition and developing economies be improved.

Support and financial services, including those carried out by intermediaries (e.g. self-help organisations, business associations, technical assistance centres, etc.), be promoted in ways that foster international co-operation and partnership among SMEs and provide improved access to information, financial and technological resources and new markets.

SME policies in developing and transition economies promote the long-term development of the sector and encourage networking. Policy and institutional mechanisms favouring large, often state-owned enterprises over SMEs, notably in sectors not characterised by economies of scale or other conditions of "natural monopoly", should be removed.

FUTURE ACTIONS

Ministers and Representatives of governments of countries participating in the Bologna Conference:

AGREED to work together and within international organisations to improve the complementarity of bilateral and multilateral initiatives to foster global SME partnerships and enhance the availability of financial and non-financial instruments to promote SME development.

AGREED on the usefulness of benchmarking the effectiveness of SME policies, regulatory environment and performance, based on data and statistics collected at national and sub-national level, including on electronic commerce.

TOOK NOTE, with interest, of the Italian proposal for an International Network for SMEs (INSME) and the Italian initiative to promote it. They WELCOMED Italy's offer to carry out a feasibility study, including a need assessment, to define its possible design and development, which could also benefit from support by interested countries and private sector inputs. Ministers and the OECD will be kept informed on the results of the feasibility study [see the Conference document entitled: Italian Proposal for an "International Network for SMEs (INSME)"].

AGREED on the importance of building on the achievements of the Bologna Conference and of pursuing the policy dialogue among OECD Member and non-member countries, and LOOKED FORWARD to the possibility of holding a second Conference of Ministers responsible for SMEs and Industry Ministers to assess the impact on SMEs of new developments relating to globalisation.

Notes:

1. Including the European Community
 2. Clusters can be characterised as production networks of strongly interdependent firms (including specialised suppliers) linked to each other in value-adding production chain. In some cases, clusters also encompass alliances with universities, research institutes, knowledge-intensive business services, bridging institutions (brokers, consultants) and customers. [OECD (1999), Boosting Innovation: The Cluster Approach]
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Annexure 3.2

The Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs by Ministers and Representatives of governments participating in the OECD conference held in ISTANBUL on 3-5 June 2004(1), (hereafter the Ministers),

WELCOMING the second Conference of Ministers responsible for SMEs, jointly organized by the OECD and Turkey in ISTANBUL in June 2004, which has provided a major opportunity to extend the policy dialogue on enhancing entrepreneurship and SME innovation as drivers of growth in a global economy;

WELCOMING the participation of the business community through the Business Symposium,

NOTING the recommendations endorsed at the Symposium, and **CONFIRMING** that these recommendations have been taken into account in the framing of this Declaration [See the Conference document containing the recommendations of the Business Symposium on “SMEs Competing in a Knowledge Economy”];

HIGHLIGHTING the benefits of exchanging views and experiences with regard to: strengthening entrepreneurship and SME innovation; policy tools for supporting innovation using an interdisciplinary approach; and ways to take advantage of international markets and to contribute to development; and

RECOGNISING that an important theme cutting across this discussion is the need to build a culture of evaluation in which programmes and policies are systematically reviewed in order to strengthen and improve those that should be retained;

I. REAFFIRM the need to support the development of the best set of public policies that will foster the creation and rapid growth of innovative SMEs. This requires:

- a) **Policies and an institutional framework that contribute to a business environment** that is conducive to entrepreneurship and facilitates entry, growth, transfer of ownership and smooth exit of enterprises. These should be coherent at international, national, regional and local levels and should include:

Stable macroeconomic policies and well-designed structural policies in areas that impinge on SMEs, such as competition, international trade and investment, financial markets, labour markets and education; and, as regards to developing economies, embedding private sector SME strategies in broader development strategies and poverty reduction programmes;

Enabling regulatory frameworks, which are developed taking into account the needs of SMEs and facilitating their integration into the formal sector; tax systems that entail low compliance costs; the transparent and equitable application of rules and legislation; simple and transparent licence and permit systems; efficient bankruptcy laws and procedures; understandable and coherent product standards in world markets; clearly defined property rights; fair and reasonably priced dispute settlement procedures; and light, predictable administrative procedures;

Laws and systems of governance that support the development and diffusion of new technologies in ways that enable and encourage SMEs to take full advantage of them, notably by strengthening the science-innovation interface; ensuring that intellectual property rights systems are coherent, easy to understand and used effectively; and promoting access to and use of quality information and communication infrastructure and promoting enhanced security and trust in the digital economy;

b) SME assistance and development programmes which are clear in terms of their rationale, objectives and beneficiaries. These policies and programmes should be:

Based on sound research, empirical evidence, public-private dialogue and partnerships, and evaluated regularly for effectiveness and efficiency;

Cost-effective and designed to encourage activity that would otherwise not have taken place and help SMEs overcome the effects of market failures, without unduly distorting market structures or creating barriers to competition;

Designed to provide support to large groups of SMEs, including micro-enterprises, for example by helping them to: improve their management skills; obtain finance on reasonable terms; increase their capacity to compete for government procurement; have access to timely advice and information; enhance their ability to take full advantage of information and communication technologies; and improve linkages with other SMEs and large firms to encourage the emergence and development of innovative clusters;

c) Policies that contribute to rganizati human resources in order to promote entrepreneurship. This involves:

Developing a culture that encourages entrepreneurship and rganizati entrepreneurial success. The integration of entrepreneurship at all levels of the formal education system can facilitate this. Formal education should be complemented by learning-by-doing activities and other practical workshops. This objective requires paying particular attention to teacher training programmes;

Promoting the diffusion of training programmes and lifelong learning opportunities by stimulating market provision of such services and, where the need exists, providing hands-on focused courses funded by the public sector;

Promoting women's entrepreneurship through the elimination of barriers to enterprise creation and growth, such as impediments to the right to hold property or to sign contracts, where such impediments exist, and by taking into account at the design stage the impact of SME-related policies on women's entrepreneurship;

Mobilising disadvantaged groups. One way to pursue this objective is to develop policies and programmes which provide business support services targeted to these groups and disseminate information to those wanting to start and grow a business;

II. RECOGNISE that, while priorities in terms of specific elements of SME policies vary greatly among participants due to their differing stages of development, political contexts and institutional arrangements, several key themes stand out as being of particular importance:

a) The need to reduce barriers to SME access to global markets. Policies should aim to encourage the smooth, cross-border growth of SMEs including in some instances through the promotion of business linkages between large enterprises and SMEs. This can be achieved by reducing administrative and legal burdens, by facilitating compliance by internationally active SMEs with multiple sets of rules and requirements (in areas such as intellectual property rights, product standards, financial market regulations and customs procedures), by promoting organization—as appropriate—of rules and requirements in order to reduce the cost of such compliance, and by fostering—to the fullest possible extent—the development of alternative dispute resolution mechanisms;

b) The need to improve access to financing for SMEs on reasonable terms. While SMEs' financing requirements differ at each stage of their development, policies should aim to ensure that markets can provide financing for credit-worthy SMEs and that innovative SMEs with good growth prospects have access to appropriately structured risk capital at all stages of their development. Policies should also contribute to increasing the managerial and technical expertise of those intermediaries whose role is to evaluate and monitor companies with a view to matching expanding small firms with investors;

c) The need to develop a strong “evaluation culture” in ministries and agencies responsible for SME policies and programmes. Evaluation provides a means of ensuring that SME programmes remain cost-effective and adapt to changing conditions in a dynamic world. Ideally, evaluation would be mandated and budgeted for when programmes are designed, would be carried out by independent but informed evaluators, and would generate recommendations for improving and strengthening those programmes that should be retained;

d) The need to strengthen the factual and analytical basis for policy making so that policy makers can make decisions in an informed manner based on empirical evidence. This requires both reliable and internationally comparable data and statistics on which analytical work can be based as well as cross-country comparative studies and longitudinal analyses which can assess the impact of economic forces and developments on SMEs over time. The lack of an empirical foundation is particularly marked in the area of women's entrepreneurship;

III. TAKE NOTE with interest of the “**Regional Emerging Markets Technology Transfer Network – REMTECH**”, initiated by Turkey, which aims at integrating and promoting technology-oriented SMEs at global level in various strategic sectors, and **WELCOME** the intention to implement a pilot project in the field of automotive components, with the goal of developing technology transfers among clusters of organization innovative SMEs in this market at the global and sub-regional levels;

IV. COMMIT to:

- Working co-operatively to achieve progress in reducing barriers to SMEs’ access to international markets;
- Considering SME needs, including for simplified, streamlined and integrated administrative processes, when formulating new legislation, regulations and product standards;
- Assessing the effects of organization on SMEs and in particular examine issues related to SME access to financing and to support for innovation;
- Recognising and building on SMEs’ role as engine for growth, employment and poverty alleviation, particularly in developing countries;

V. ACKNOWLEDGING that the OECD offers a global perspective and should organization on its access to sources of information and inspiration from around the globe, identifying good and innovative practices in areas of well-established interest to encourage the development of SME and entrepreneurship policies and initiatives that work, **INVITE** the OECD to consider:

- Strengthening its peer-review processes for specific thematic issues and policies affecting SMEs, and of the SME sector as a whole. Peer reviews would be carried out on a voluntary basis;
- Developing a robust and comparable statistical base on which SME policy can be developed. *The action plan emerging from the Istanbul Conference Special Workshop on SME Statistics* provides a good basis for this work;
- Enabling a better understanding of *international value chains* and the way in which SMEs can benefit from them;
- Identifying ways in which unnecessary *barriers to SMEs’ access to international markets* can be removed, in collaboration with interested countries and other relevant international organization and fora;
- Proactively disseminating the work it has carried out on best practices for *the evaluation of SME policies and programmes*, for example by working with OECD members and interested non-member economies and organization to develop and test a handbook of best practices for evaluation of SME policies and programmes;
- Organising focused thematic workshops and conferences involving interested OECD members, non-member economies and international organization with a view to making concrete progress in specific areas identified for analysis and policy action. One such

conference could be focused on *financing SMEs* at all stages of their development, with a particular emphasis on innovative SMEs;

Proactively disseminating OECD activities related to the development of *women's entrepreneurship*. This could be undertaken through the organization of meetings and seminars, as well as training workshops, to enable the exchange, transfer and diffusion of best practices amongst member and non-member economies. The OECD-Istanbul Private Sector Development Centre can play a particular role in this regard.

Annexure 3.3

THE ATHENS ACTION PLAN FOR REMOVING BARRIERS TO SME ACCESS TO INTERNATIONAL MARKETS

Adopted at the OECD-APEC Global Conference in Athens, on 8 November 2006.. In order to open up greater opportunities for international trade and investment, governments should consider the following actions:

- (a) Concluding outstanding trade negotiations leading to open markets, reduced trade barriers and contributing to a stable and transparent business environment.
 - (b) Actively removing non-tariff barriers to international trade (e.g. through mutual recognition of product standards and business and occupational licensing, efficient legal systems, improved customs procedures, facilitating business travel).
 - (c) Promoting clear and accessible public consultation mechanisms to facilitate SME participation in the trade policy process.
 - (d) Encouraging regulatory co-operation among governments to reduce trade-related compliance costs.
 - (e) Providing a simplified, transparent and non-discriminatory domestic business regulatory environment (e.g allowing equal access to government contracts for both foreign and domestic suppliers in authorised sectors).
 - (f) Ensuring high quality policy frameworks for encouraging private investments are in place.
19. *Priority areas for proactive government support would be:*
- (a) *Better support and facilitation for SMEs that are intent on entering international markets, for example:*
 - Informed and up-to-date advice on market opportunities;
 - Addressing the shortage of people with the skills to advise SMEs on accessing international markets; and
 - Specific training and advisory support, for example funding for the development of marketing plans, for access to market experts, for advice on supply-chain management and IP protection and for technical support in establishing franchises or joint ventures and creating cross-border alliances.
 - b) Better, and better targeted, support for SMEs *already operating abroad*. This includes in-market facilitation and also facilitation by the government and government agencies of the SME's home

economy, such as support for attending trade fairs, and provision of skilled and informed foreign representatives.

- c) The development of better data and statistical information both on international markets and on the population of SMEs that regularly access international markets.
20. In the provision of that support, governments should ensure the effective alignment, integration and efficient delivery of all policies and programmes, including trade policy, customs and security procedures, SME-targeted support and business regulation. The efficient integration of support services for SMEs is considered good practice, particularly when efforts have been made to ensure the information is accessible for SMEs.
21. *Policies and programmes that have been utilised successfully by governments wishing to assist SMEs to more effectively enter new international markets, have included:*
- a) Encouraging the formation of clusters of (and other forms of co-operation and collaborative action for) SMEs interested in sharing information among themselves on how better to pursue international opportunities in specific product areas or markets or in entering the same market or wishing to offer complementary products or services to international markets.
 - b) Encouraging all forms of appropriate co-operation and networking amongst SMEs, or between SMEs and larger firms, so that the experience of firms already engaging with foreign markets can be shared by SMEs seeking to access to those markets. Depending on the circumstances, governments could consider providing incentives (amongst other things appropriate financial incentives) to initiatives that encourage greater co-operation between SMEs and multinational enterprises (MNEs).
 - c) Disseminating information on initiatives to facilitate SME access to international markets, such as the Business and Industry Advisory Committee to the OECD (BIAC) Initiative. This initiative involves the creation of a SME web portal that provides access to publicly available information about trade rules and market support in a variety of economies, and that identifies BIAC member multinational enterprises that are willing to co-operate with SMEs⁴.
 - d) Supporting forums in which government officials (or other institutions, such as chambers of commerce or professional organisations) can diffuse, collate and publish best policy practice on:
 - Assisting SMEs to be ready to access international markets.
 - Developing high quality, transparent and efficient business regulation.
 - Providing up-to-date information on markets to assist SMEs.
 - Encouraging and enforcing responsible international business conduct.
 - Providing support (e.g. legal documentation) that can be used to establish relationships with clients or partners in international markets.
 - Developing sufficient people with the expertise to advise and support SMEs wishing to enter international markets.
 - The development of diagnostic tools to assess the capabilities of firms wanting to enter new markets.
 - Supporting SMEs domestically and in-market to assist them to become established in new international markets.
 - Providing effective in-market government representation.

- Assisting deserving SMEs to gain access to appropriate financial instruments for funding internationalisation.
 - The use of e-commerce as a tool for overcoming distance to markets, for reducing the cost of compliance with government regulations, and for encouraging the uptake of efficient business practices.
- e) Encouraging the development of websites that provide opportunities for SMEs, at minimal cost, to present the products or services that they wish to offer to international markets.
- f) Providing programmes to assist SMEs to access the finance needed to fund potentially successful entries into new markets and, where necessary, develop or create additional financial instruments, such as innovation funds, for financing the internationalisation of SMEs.
- g) Involving business and non-government organisations more effectively in the development and delivery of policy and programmes aimed at assisting SMEs to access international markets. Nevertheless, it is not meant to serve as a platform for the exchange of confidential information: should companies recognise between them that there may be some additional business opportunities, this would be undertaken at their own discretion and not in the context of this BIAC-OECD initiative. In any case, it will not replace or override member countries existing similar initiatives.
- h) Utilizing and communicating more effectively (including making better use of resources in the private sector such as business associations, chambers, trade associations, etc.) the full range of government and non-government support that is available for SMEs seeking to access international markets and ensure that the activities of the various government agencies supporting SMEs are fully integrated. For their part, the business international organisations have to play an active role in promoting simplified tools for SMEs, for example issuing letters of credit.
22. In devising such programmes, governments should take into account that a multifaceted approach targeted at the generic problem faced by SMEs entering international markets (e.g. business capability) may more quickly produce benefits for SMEs. They should also consider how barriers to internationalisation reinforce each other, so they can develop more effective support programmes.
23. Governments should establish evaluation frameworks for their programmes and keep constantly under review the support schemes they provide for SMEs about to or already engaged in internationalisation. The research carried out for this Conference suggests that in undertaking such reviews, governments could consider the following framework:
- **sustaining** current programmes addressing those barriers identified as important by both governments and SMEs;
 - **reconsidering** those programmes aimed at addressing barriers which are reported as important by governments but of little importance by SMEs; and,
 - **increasing** levels of support to address barriers reported as important by SMEs but of little importance by governments. Alternatively, governments could devise their own framework for programme evaluation.

RECOMMENDATIONS FOR FURTHER WORK BY OECD AND APEC

(in partnership with other international institutions)

24. Participants called upon the OECD and APEC to continue their co-operation (in partnership with other international institutions), in order to further develop work on removing barriers to SME access to international markets and assist policy makers to promote SME internationalisation and competitiveness.

Building on the valuable work of the *OECD Working Party on SMEs and Entrepreneurship* (in close cooperation with the *Working Party of the Trade Committee* and the *Investment Committee*) and the *APEC SME Working Group*, Participants invited the OECD and APEC to further develop the following areas (subject to the availability of resources):

- i. Collation and assessment of good practice in member economies for government support programmes to assist SMEs to internationalise, including a review of the evidence on the practices and experiences of SMEs who are internationalising successfully.
- ii. Collation and assessment of best practice in developing key performance indicators and other methodologies to evaluate and monitor the effectiveness of support programmes for the internationalisation of SMEs.
- iii. The improvement of the data and statistical information available for better understanding the issues faced by SMEs accessing international markets, and consequently, for factual and analytically-based policy development.
- iv. Continue the current work investigating the benefits accruing to SMEs involved in global supply chains.

THE OECD TOKYO ACTION STATEMENT FOR STRENGTHENING THE ROLE OF SMEs IN GLOBAL VALUE CHAINS

(adopted at the OECD Global Conference in Tokyo, on 1 June 2007)

i) Policies for a conducive entrepreneurial business environment

As highlighted in the *Istanbul Ministerial Declaration*, an enabling business environment is a necessary condition for promoting SME integration into the global market. That environment depends on *stable macroeconomic policies and well-designed structural policies* associated with competition, international trade and investment, financial markets, labour markets and education, including human resources capacity building for internationalisation. *The transparent and equitable application of laws and regulations* together with *light, low cost and predictable administrative procedures* represent a second critical pillar, encompassing the licensing and permit system, tax system, property rights law, standard compliance certification procedures, efficient dispute settlement procedures and bankruptcy law.

ii) Targeted support programmes

In designing targeted programmes, OECD member and non-member economies are advised to give consideration to the reasons for market failure in relation to existing market mechanisms and to include consideration of complementarity and displacement when formally evaluating government assistance programmes. The categories of support that may be appropriate include:

□ **Raising awareness of the opportunities for participating in global value chains through:**

- *Facilitating access to accurate information on market opportunities for subcontracting and on potential foreign partners* through market reports and data bases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges.
- *Encouraging SMEs to call in external consultants* for the implementation of feasibility studies and market research in order to support FDIs.
- *Encouraging SME investment* by facilitating companies' efforts to expand their business globally through information services and other means.
 1. Which builds on the outcome of the first OECD Conference for Ministers responsible for SMEs on "*Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies*", held in Bologna on 13-15 June 2000, the second on "*Promoting Entrepreneurship and Innovative SMEs in a Global Economy*" in Istanbul on 3-5 June 2004, the *Hanoi Declaration on Strengthening SME Competitiveness for Trade and Investment* issued on 29 September 2006, and the *Athens Action Plan for Removing Barriers to SME Access to International Markets* on 8 November 2006.
 2. Examples of specific country/economy, company and international institutions support programmes are provided for consideration in the Annex.
 3. *Facilitating information flows* (including information sharing about needs between upstream and downstream partners) throughout the entire GVC and in particular encouraging MNEs to share their road-map in terms of future product and process development with their SME partners.

□ **Increasing participation in global value chains through collective action and co-operation by:**

- *Supporting the establishment and development of industry groupings* (i.e. clusters) on regional, cross-regional, or cross-border levels.
- *Facilitating SME consortia jointly to bid, produce and market*, particularly in relation to government procurement programmes.
- *Promoting clusters and networks* to improve SME participation in GVCs through fostering and strengthening links at the local level among universities, research institutions, laboratories and SMEs including for example, funding co-operative research programmes.
- *Targeting support for clusters in selected technologies*, particularly where there is substantial potential in knowledge-intensive and export-oriented market segments and for supporting R&D for continuous innovation.
- *Promoting business linkages between MNEs and SMEs* through identifying and matching potential partners while ensuring diversification of partners to avoid becoming dependent on one partner. Helping SMEs to develop their negotiating capacities and skills with MNEs through institutional support (awareness building) and training measures.
- *Encouraging MNEs to adopt transparent selection criteria when consolidating their supplier networks*, providing SMEs fair warning of such consolidation practices and allowing them reasonable time to adapt their offerings.
- *Facilitating supplier development programmes, where SMEs are coached and mentored in key areas* such as design and production engineering (this may include sending in technical teams to advise on upgrading).

□ **Promoting the capacity for innovation by local SMEs through:**

- *Supporting training and capacity building via skill development programmes and business development service programmes* so that SMEs can acquire the specific technical skills and business services required to partner with MNEs.
- *Establishing logistic technology centres as demonstration and testing facilities* to accelerate the rollout of supply-chain management technologies and processes including the use of electronic tags for creating a seamless distribution network.
- *Facilitating the technological upgrading of products and processes* through providing access to information on world best technologies and processes and support to procure them.
- *Promoting partnerships between SMEs and organisations overseas* that can develop or transfer world-leading technology, products, processes or management practices.
- *Encouraging broader ICT uptake for promoting SME innovation capacity* through marketing and organisational assistance to implement new ICT systems.

□ **Enhancing SMEs' value obtained from intellectual assets and intellectual property (IP) through:**

- *Promoting enhanced intellectual asset-based management by SMEs and developing systems to value intellectual assets adequately*, for instance by facilitating SME marketing of their intellectual assets, when appropriate, in order to maximise their investments in them.
- *Raising awareness about the nature of IP rights* and how they benefit SMEs.

- *Creating and promoting online IP marketplaces* where SMEs can showcase their IP offering easily and inexpensively.
 - *Facilitating the filing of patents by SMEs.*
 - *Providing guidance, financial and legal instruments for SMEs* to acquire or adopt intellectual assets and IP rights developed in universities and research centres.
 - *Preparing guidelines to encourage fair transactions and fair treatment by MNEs of IP developed by SMEs*, for example through business codes of practice, including in the OECD Guidelines for MNEs.
 - *Providing SMEs with the legal means* to appropriately protect their IP rights in international markets.
 - *Encouraging SMEs participation in negotiations for IP rights* in the establishment of treaties or international agreements.
- **Facilitating the adoption of product quality and process standards through:**
- *Providing information and professional training* to implement product quality standards required for exports.
 - *Encouraging SME participation in the standard-setting process* through the provision of information on standardisation and accreditation activities.
 - *Promoting the adoption of harmonised standards by MNEs* in procurement procedures and the diffusion of that information to SMEs.
 - *Ensuring that national certification systems do not impose excessive burdens on SMEs for compliance procedures* and that group certification for SMEs in the same geographic region is promoted to lower costs while ensuring that there is trust in the control mechanisms as well as promoting labelling initiatives to give added, low cost assurance.

OECD WPSMEE “BOLOGNA +10” HIGH-LEVEL MEETING ON

“SMEs and Entrepreneurship: Lessons from the Global Crisis and the Way Forward to Job Creation and Growth” 17-18 November 2010, OECD (Paris)

Proposed Recommendations Policies and Programmes

The above discussion and evidence point to a number of policy priorities for supporting SME innovation and innovative entrepreneurship for weathering the crisis, recovering jobs and activity and driving long-run sustainable growth. In the crisis context, the budgets of many governments have become highly constrained. This must be recognized in policy approaches that have in mind the achievement of value for money in the outputs that can be expected from given public investments.

Create a conducive entrepreneurial business environment

□□ **Ensure stable macroeconomic and framework conditions.** Stable and predictable regulations, institutions and policies are important to enabling healthy SME and entrepreneurship activity.

□□ **Streamline and simplify administration and regulations affecting new firm creation and SMEs.** Take account of the impact of regulations and administration on SMEs and new firm creation. Establish one-stop shops for regulatory information and transactions and introduce „sunset“ legislation to minimize the burden on small businesses of legal requirements designed for past circumstances.

□□ **Reduce tax and social security compliance burdens and secure fair tax and social security treatment for new firms and SMEs.** Ensure that effective tax rates do not distort the market by discriminating unfairly against new firms and SMEs. Introduce simplified compliance mechanisms for SMEs and new firms.

Facilitate SME organizations zation

□□ **Increase the participation of SMEs in international collaborative research programmes.** Promote greater SME involvement in publicly-supported collaborative research partnerships that connect science to innovation, such as by simplifying application procedures, disseminating information on opportunities and encouraging funding of partnerships including SMEs.

□□ **Address financial barriers to rganizations zation.** Identify cost-effective ways to strengthen financial markets for SMEs seeking to export and participate in global value chains, for example by providing export credit guarantees to private finance providers and increasing the investment readiness of SMEs.

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□□ **Segment existing support on the basis of the type of SME addressed.** Increase the effectiveness and efficiency of existing SME innovation policies by increasing the targeting of approaches to those categories of SMEs that are experiencing particular types of market failures and have been shown to benefit, whilst limiting deadweight, for example by distinguishing between firms that are new to international activity, those that are more experienced but stable international SMEs, and those that are seeking to grow their international businesses from a good base.

□□ **Support SME participation in global value chains.** Identify cost-effective ways of facilitating SME participation in global value chains for innovation and export promotion, for example by overcoming

information and coordination barriers to collective action among SMEs and facilitating linkages between foreign direct investment ventures and local suppliers for SME upgrading.

Tackle the problem of identifying foreign market and collaboration opportunities. Provide brokerage and information to assist SMEs to locate and analyse opportunities and contact potential overseas customers and partners.

Improve SME intellectual asset management

Enhance SME awareness of the possibilities to protect their intellectual assets. Increase awareness of the range of property protection including patents, trademarks, industrial designs, utility models, trade secrets, copyright and related rights, plant varieties and non-original databases. Train SME managers on the value and mechanisms of intellectual asset management.

Facilitate appropriate advice and consultancy on intellectual asset management to SMEs and new firms. Support the development of a market for professional services for intellectual assets management and intellectual property use.

Adapt the intellectual property rights system to the needs of SMEs and entrepreneurs. Introduce differentiated systems that distinguish between SMEs and larger firms, reflecting the different capacities to defray fixed costs against expected benefits. Address filing issues, for example by an application system which is accessible at the local level and creating a fast-track filing system for SMEs. Address enforcement issues by establishing specialist intellectual property courts and judges and instituting careful use of mandatory arbitration and alternative dispute resolution. Address cross-border issues by adopting common patent models, organizations rules and providing support services for protection in foreign markets.

Enhance entrepreneurship skills

Smartly scale up entrepreneurship education in higher, vocational and school education. Increase the number of participating institutions and Schools where there is evidence of success. Shift the emphasis from business management skills to strategic skills for growth-oriented entrepreneurship. Introduce interactive teaching methods that incorporate practical experience.

Embed teaching of an entrepreneurship mindset in school curricula. Accompany this with relevant teacher training and teaching materials designed for entrepreneurship.

Increase the exploitation of opportunities from public research and procurement for SMEs and entrepreneurship

Facilitate academic spin-offs. Offer seed funding, pre-competitive research and proof-of-concept support and advice and training for enterprise creation by academics.

Stimulate collaboration activities involving universities and research organizations and SMEs and entrepreneurs. Strengthen knowledge transfer infrastructures such business incubators and science parks, collaborative research programmes, technology-bridging institutions and university-industry labour mobility. Promote the development of clusters and connections within local innovation systems. Increase the innovation absorption capacities of SMEs and the motivations of research organizations to engage in knowledge transfer to enterprise.

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Use public procurement to accelerate the demand for innovation from new and small firms. The innovation readiness of SMEs and entrepreneurs and their ability to bring forward new innovation

can be increased by well-targeted public procurement programmes, in particular pre-commercial procurement.

Strengthen mechanisms for international review and information exchange on SME and entrepreneurship policies

□□ **Strengthen the evaluation of SME and entrepreneurship policies.** Use robust methodologies for impact assessment capable of estimating the counterfactual together with methods that can throw light on the processes through which policy works and the quality of programme management.

□□ **Encourage exchange of experiences at international level regarding policy successes, failures and best practices.** Develop a regular programme of peer review assessments of national government policies.

Further Work by the OECD

□□ Assess the policy requirements to ensure that new and young firms can take advantage of technological and commercial opportunities to develop, grow and create jobs. This should take into account, in particular, the evolving global competitive scenario and the rapidly increasing role of emerging countries for international trade, value creation and global growth.

□□ Develop further the program of peer review of SME and Entrepreneurship Issues and Policies at national and local levels to assist governments in policy design, implementation and evaluation to enhance SMEs' and entrepreneurs' performance.

□□ Address the knowledge gap that exists on (a) what are the crucial entrepreneurship skills, (b) what constitutes good practice in effective entrepreneurship skills policies, including for women's entrepreneurship, and (c) what roles should be played by governments at the national and local level, and d) how coordination across levels could be improved. This also demand developing indicators that measure *changes* in entrepreneurship skills and support evaluation of policies in a fast changing environment.

For Green Growth Strategy

Proposed Recommendations

Policies and Programmes

Provide information and knowledge of the needs ahead

Increasing SMEs' and entrepreneurs' awareness and connecting them to knowledge networks is crucial for favouring adaptation to or anticipation of green-led changes, as well as for enhancing their active role in the low-carbon economy, as producers, users, integrators of skills and technologies, innovators and trainers. Local ecosystems of firms, institutions and organizations constitute important players for the implementation of strategies that better link the different stakeholders at the local level.

Reduce uncertainty

Taking action to put green growth on an even playing field with conventional growth, by designing consistent and predictable regulation and by providing clear market signals, is essential to establish the market certainty needed by firms to plan long-term investments in sustainable practices and eco-innovation, as well as for providing incentives for new entrants.

Enhance access to finance

Access to appropriate types of financing structures and facilities are especially required to allow SMEs and entrepreneurs to respond to the investment needs implied by the transition to a green, low-carbon economy and to take advantage of the opportunities provided by innovation. Enhancing venture capital markets is key to the entry of new firms, particularly high-growth ones, in the emerging green markets.

On Financing

Proposed Recommendations

Policies and Programmes

- The world economy is gradually emerging from the financial crisis and recession of 2008-09 into a period of economic restructuring and financial reform. Therefore, emergency policies to support SMEs access to finance that were introduced to address the unique market failures during the crisis should be reviewed in detail to determine whether such policies are still justified.
- As part of that review, programmes in which the state guarantees very high shares of loans need to be carefully re-considered.
- Inasmuch as smaller firms are regaining access to markets at a relatively slow pace, there is a credible case that emergency measures targeted to smaller firms should be withdrawn comparatively slowly.
- Due to the special needs of smaller enterprises, policy makers will want to consider whether certain policy instruments, notably credit mediation, that were first introduced in the crisis have a longer term relevance for SME finance.
- Inasmuch as many analysts have concluded that Mutual Guarantee Societies³ (MGSs) have been effective in enlarging SME access to finance while promoting effective monitoring and risk sharing, policy makers may also want to analyse which policies would enable MGSs to play a more active role in the future.
- Governments should explore the possibilities to foster the development alternative financing techniques (*e.g.* equity, hybrid instruments and convertible debt) in order to enable SMEs to strengthen their capital structures.

China's Law on Promotion for SMEs

Law of the People's Republic of China on Promotion of Small and Medium-sized Enterprises (Adopted at the 28th Meeting of the Standing Committee of the Ninth National People's Congress on June 29, 2002 and promulgated by Order No. 69 of the President of the People's Republic of China on June 29, 2002)

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Chapter I General Provisions

Article 1 This Law is enacted for the purpose of improving the business environment for small and medium-sized enterprises, promoting their sound development, creating more job opportunities in both urban and rural areas, and giving play to the important role of such enterprises in national economic and social development.

Article 2 For purposes of this Law, small and medium-sized enterprises refer to the different forms of enterprises under different ownerships that are established within the territory of the People's Republic of China according to law, that help to meet the social needs and create more job opportunities, that comply with the industrial policies of the State and that are small and medium-sized in production and business operation.

The criteria for determining small and medium-sized enterprises shall be laid down by the department under the State Council in charge of work in respect of enterprises, on the basis of the number of employees, volume of sale, total assets, etc. of an enterprise and in light of the characteristics of different trades and shall be submitted to the State Council for approval.

Article 3 With regard to small and medium-sized enterprises, the State applies the principles of active support, strong guidance, perfect service, lawful standardization and guaranteed rights and interests, in order to create a favorable environment for their establishment and development.

Article 4 The State Council shall be responsible for formulating policies regarding small and medium-sized enterprises and make overall planning for their development.

The department under the State Council in charge of work in respect of enterprises shall arrange for the implementation of the State policies and plans concerning the small and medium-sized enterprises, making all-round coordination and providing guidance and services in the work regarding such enterprises throughout the country.

The related departments under the State Council shall, according to the policies and overall planning of the State for small and medium-sized enterprises and within the scope of their respective functions and responsibilities, provide guidance and services to such enterprises.

Local people's governments at or above the county level, the administrative departments under them in charge of work in respect of enterprises and other departments concerned shall, within the scope of their respective functions and responsibilities, provide guidance and services to small and medium-sized enterprises located within their respective administrative areas.

Article 5 The department under the State Council in charge of work in respect of enterprises shall, according to the industrial policies of the State and in light of the characteristics of the small and medium-sized enterprises and the conditions of their development, determine the key ones for support by formulating a catalogue of small and medium-sized enterprises to be provided with guidance for their industrial development or by other means, in order to encourage the development of all such enterprises.

Article 6 The State protects the lawful investments made by small and medium-sized enterprises and their investors, as well as the legitimate profits earned from the investments. No unit or individual may infringe upon the property and lawful rights and interests of such enterprises.

No unit may, in violation of laws and regulations, charge fees to or impose fines on small and medium-sized enterprises, nor collect money or things of value from them. The enterprises shall have the right to refuse to make the payment and the right to report and accuse violations of the provisions mentioned above.

Article 7 Administrative departments shall safeguard the lawful rights and interests of small and medium-sized enterprises, protect their right to participate in fair competition and transaction according to law, and they may not discriminate against the enterprises or add unequal conditions to their transactions.

Article 8 small and medium-sized enterprises shall observe State laws and regulations governing occupational safety, occupational health, social security, resources, environment protection, product quality, public finance, taxation, finance, etc., and manage business according to law, and they may not infringe upon the lawful rights and interests of their employees or impair public interests. **Article 9** small and medium-sized enterprises shall observe professional ethics, abide by the principle of good faith, work hard to raise their business level and increase the ability to develop themselves.

Chapter II Funding

Article 10 In the budget of the Central Government there shall be a heading for small and medium-sized enterprises, under which to arrange special funds for supporting the development of such enterprises.

Local people's governments shall, in light of actual conditions, provide financial support to small and medium-sized enterprises.

Article 11 The special funds provided by the State for supporting the development of small and medium-sized enterprises shall be used to promote the establishment of a service system for such enterprises, to carry out work in their support, to supplement their funds for development and to support their development in other areas.

Article 12 The State establishes development funds for small and medium-sized enterprises, which are composed of the following:

1. the special funds arranged in the budget of the Central Government for

- supporting the said enterprises;
- 2. profits yielded by the funds;
- 3. donation; and
- 4. others.

The State encourages donations to the development funds for small and medium-sized enterprises through taxation policies.

Article 13 The State development funds for small and medium-sized enterprises shall be used to support the following fields of endeavor:

1. instructions on and services for establishment of enterprises;
2. establishment of a credit guaranty system for the enterprises;
3. technological innovation;
4. encouragement for their specialization and their cooperation with large enterprises;
5. personnel training and information consultancy, etc. provided by the service institutions for the enterprises;
6. creation of international market;
7. cleaner production; and
8. others.

The administrative measures for establishment and use of the development funds for small and medium-sized enterprises shall be formulated separately by the State Council.

Article 14 The People's Bank of China shall give better guidance in credit policies and help improve the financing environment for small and medium-sized enterprises.

The People's Bank of China shall give more vigorous support to small and medium-sized financial institutions and encourage commercial banks to readjust their credit structure and provide greater credit support to small and medium-sized enterprises.

Article 15 All financial institutions shall provide financial support to small and medium-sized enterprises, make efforts to improve financial service, change their style of service, enhance their awareness of the importance of service and improve service quality.

All commercial banks and credit cooperatives shall improve credit management, expand the areas of services and develop financial products that are suited to the development of small and medium-sized enterprises, readjust their credit structure, and provide the enterprises with such services as loans, balancing of accounts, financial consultancy and investment management.

State policy-oriented financial institutions shall, within their business scope, provide financial services to small and medium-sized enterprises.

Article 16 The State takes measures to broaden the channels of direct financing for small and medium-sized enterprises and gives them active guidance in their efforts to create conditions for direct financing through various ways as permitted by laws and administrative regulations.

Article 17 The State, through taxation policies, encourages various kinds of risk investment institutions established according to law to increase investment in small and medium-sized enterprises.

Article 18 The State promotes the development of the credit system for small and medium-sized enterprises by establishing a collection and assessment system of credit information, in order to socialize the inquiry about and the exchange and sharing of credit information concerning such enterprises.

Article 19 People's governments at or above the county level and related departments shall promote and arrange for the establishment of a credit guaranty system for small and medium-sized enterprises, encourage credit guaranty for them and create conditions for their financing.

The administrative measures for credit guaranty for small and medium-sized enterprises shall be formulated separately by the State Council.

Article 20 The State encourages all kinds of guaranty institutions to provide credit guaranty to small and medium-sized enterprises.

Article 21 The State encourages small and medium-sized enterprises to enter into different forms of mutual-help financing guaranty according to law.

Chapter III Support for Establishment of Enterprises

Article 22 The government departments concerned shall actively create conditions to provide necessary and suitable information and consultancy and, when working out plans for urban and rural construction, make rational arrangements for the necessary places and facilities to meet the needs for the development of small and medium-sized enterprises and support the establishment of such enterprises.

Where unemployed or disabled establish small and medium-sized enterprises, the local government shall actively support them, provide conveniences and better guidance.

The government departments concerned shall take measures to broaden channels for the small and medium-sized enterprises to employ graduates of colleges and specialized secondary schools.

Article 23 The State supports and encourages, through relevant taxation policies, the establishment and development of small and medium-sized enterprises.

Article 24 With regard to the small and medium-sized enterprises that are established by unemployed persons or that employ laid-off workers in the year of their establishment, the number of whom reaches the percentage fixed by the State, the ones that use new and high technologies and conform to State policies

for supporting and encouraging the development of such enterprises the ones that are established in minority ethnic areas and poverty-stricken areas, and the ones that provide jobs to disabled persons, the number of whom reaches the percentage fixed by the State, the State reduces the rate of tax or exempts them from income tax during a certain period of time, and adopts preferential taxation policies.

Article 25 Local people's governments shall, in light of actual conditions, provide persons who establish enterprises with policy consultancy and information services concerning industrial and commercial administration, public finance, taxation, financing, labor, employment, social security, etc.

Article 26 Government departments in charge of enterprise registration shall, in compliance with the statutory requirements and procedures, handle registration for the small and medium-sized enterprises established, increase their work efficiency and provide conveniences to the registrants. They may not impose preconditions for registration of enterprises beyond the provisions of laws and administrative regulations; and they may not collect fees beyond the ones or rates specified by laws and administrative regulations.

Article 27 The State encourages small and medium-sized enterprises, in accordance with the State policies for the use of foreign funds, to introduce foreign investment and advanced technology and management expertise and to establish Chinese-foreign equity joint ventures and contractual joint ventures.

Article 28 The State encourages individuals and legal persons, in accordance with law, to take part in the establishment of small and medium-sized enterprises by investing their industrial property right, nonpatented technology, etc.

Chapter IV Technological Innovation

Article 29 The State formulates policies to encourage small and medium-sized enterprises to develop new products and to adopt advanced technology, manufacturing technique and equipment to meet market needs and to improve product quality and make technological progress.

When launching projects for technological innovation and projects for technological updating in support of the products of large enterprises, small and medium-sized enterprises may enjoy the policy of discount interest on loans.

Article 30 The government departments concerned shall give policy-related support to small and medium-sized enterprises in terms of planning, land use and finance, promote the establishment of different kinds of technical service institutions and establish centers for advancing the productive forces and bases for creating science- and technology-oriented enterprises, in order to provide small and medium-sized enterprises with services relating to technological information, consultancy and transferring and services for the development of products and technologies, and to help promote the transformation of scientific and technological achievements and upgrade the technology and product of the enterprises.

Article 31 The State encourages technological cooperation, development and exchange between small and medium-sized enterprises on the one hand and research institutions and institutions of higher education on the other, in order to promote the industrialization of scientific and technological achievements and actively develop small and medium-sized enterprises that make use of scientific and technological achievements.

Chapter V Market Development

Article 32 The State encourages and supports large enterprises to establish, on the basis of resources allocation by the market, stable relations of cooperation with small and medium-sized enterprise in respect of the supply of raw and semi-processed materials, production, marketing, and technological development and updating, in order to help promote the development of small and medium-sized enterprises.

Article 33 The State gives guidance to, promotes and regulates the restructuring of the assets of small and medium-sized enterprises through merge, purchase, etc., in order to optimize the allocation of resources.

Article 34 When purchasing goods or service, the government shall give first priority to small and medium-sized enterprises.

Article 35 The government departments and institutions concerned shall provide guidance and assistance to small and medium-sized enterprises to stimulate the export of their products and promote their economic and technological cooperation and exchange with other countries.

The policy-oriented financial institutions of the State concerned shall, by means of providing loans for import and export, export credit insurance, etc., support small and medium-sized enterprises in their efforts to develop market abroad.

Article 36 The State formulates policies to encourage qualified small and medium-sized enterprises to invest abroad, participate in international trade and develop international market.

Article 37 The State encourages the service institutions for small and medium-sized enterprises to hold exhibitions and fairs for their products and to conduct information consultancy activities.

Chapter VI Public Services

Article 38 The State encourages all sectors of the society to establish and improve the service system for small and medium-sized enterprises and to provide them with services.

Article 39 The government shall, in light of actual needs, support the institutions established in the service of small and medium-sized enterprises and see that they provide top-notch services to the enterprises.

The service institutions for small and medium-sized enterprises shall make full use of computer networks and other advanced technologies to gradually establish and improve the information service system opening to the entire community.

The service institutions for small and medium-sized enterprises shall contact the various kinds of public intermediary agencies and encourage them to serve such enterprises.

Article 40 The State encourages the various kinds of public intermediary agencies to provide the small and medium-sized enterprises with such services as instructions on establishment of enterprises, business consulting, information consultancy, marketing, investment, financing, credit guaranty, property right transaction, technological support, bringing in of talents, personnel training, cooperation with other countries, exhibitions, fairs and legal advice.

Article 41 The State encourages related institutions and institutions of higher education to train managerial, technical and other personnel for small and medium-sized enterprises, in order to help raise the enterprises' level of marketing, management and technology.

Article 42 The self-regulating trade organizations shall actively serve the small and medium-sized enterprises.

Article 43 The self-regulating organizations in charge of the self-restricting and self serving small and medium-sized enterprises shall safeguard the legitimate rights and interests of the enterprises, express their suggestions and requirements, and serve them in market development and increase of their management ability.

Chapter VII Supplementary Provisions

Article 44 The provinces, autonomous regions and municipalities directly under the Central Government may, in light of the conditions of the local small and medium-sized enterprises, formulate measures for implementation of this Law.

Article 45 This Law shall go into effect as of January 1, 2003.

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

“Think Small First”

A “Small Business Act” for Europe (2008)

A set of 10 principles to guide the conception and implementation of policies both at EU and Member State level. These principles outlined in detail in chapter 4 are essential to bring added value at EU level, create a level playing field for SMEs and improve the legal and administrative environment throughout the EU:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the “Think Small First” principle
4. Make public administrations responsive to SMEs’ needs
5. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs
6. Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

Principle 1. To translate this principle into practice, the Commission:

- is promoting entrepreneurial culture and facilitating exchanges of best practice in enterprise education
- will launch a “European SME Week” in 2009 — an umbrella for many campaign-type events that will take place throughout Europe
- is launching the “Erasmus for Young Entrepreneurs” initiative in 2008, which aims to promote exchanges of experience and training by giving nascent entrepreneurs the possibility to learn from experienced host entrepreneurs and improve their language skills

- will establish an EU network of female entrepreneur ambassadors, promote mentoring schemes to inspire women to set up their own businesses and promote entrepreneurship among women graduates.

the Member States are invited to:

- stimulate innovative and entrepreneurial mindsets among young people by introducing entrepreneurship as a key competence in school curricula, particularly in general secondary education, and ensure that it is correctly reflected in teaching material
- ensure that the importance of entrepreneurship is correctly reflected in teacher training
- step up cooperation with the business community in order to develop systematic strategies for entrepreneurship education at all levels
- ensure that taxation (in particular gift tax, taxation of dividends and wealth tax) does not unduly hamper the transfer of businesses
- put in place schemes for matching transferable businesses with potential new owners
- provide mentoring and support for business transfers
- provide mentoring and support for female entrepreneurs
- provide mentoring and support for immigrants who wish to become entrepreneurs.

Principle 2. The Member States should ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.

To translate this principle into practice, the Commission:

- will continue to promote a second chance policy by facilitating exchanges of best practice between Member States

the Member States are invited to:

- promote a positive attitude in society towards giving entrepreneurs a fresh start, for example through public information campaigns
- aim to complete all legal procedures to wind up the business in the case of non-fraudulent bankruptcy within a year
- ensure that re-starters are treated on an equal footing with new start-ups, including in support schemes.

Principle 3. The EU and Member States should design rules according to the “Think Small First” principle by taking into account SMEs’ characteristics when designing legislation, and simplify the existing regulatory environment.

To translate this principle into practice:

To make future regulation fit with the “Think Small First” principle, the Commission:

- is strengthening the assessment of the respect of the Protocol on the application of the principles of subsidiarity and proportionality in forthcoming legislative and administrative initiatives

- will, wherever practical, use common commencement dates for regulations and decisions affecting business and publish an annual statement of such legislation entering into force

the Commission will, and the Member States are invited to:

- ensure that policy results are delivered while minimising costs and burdens for business, including by using a smart mix of tools such as mutual recognition and self- or coregulation, to achieve policy outcomes
- rigorously assess the impact of forthcoming legislative and administrative initiatives on SMEs (“SME test”) and take relevant results into account when designing proposals
- consult stakeholders, including SME organisations for at least 8 weeks prior to making any legislative or administrative proposal that has an impact on businesses
- use specific measures for small and micro-enterprises, such as derogations, transition periods and exemptions, in particular from information or reporting requirements, and other tailor-made approaches, wherever appropriate, and

the Member States are invited to:

- consider the usefulness of introducing common commencement dates and annual statements of legislation entering into force
- make use of flexibility provisions aimed at SMEs when implementing EU legislation and avoid “gold-plating”

To improve the regulatory environment in view of the “Think Small First” principle, the Commission:

- will come forward with all the proposals to reduce the administrative burden on business which are necessary to achieve the EU reduction target of 25% by 2012
- will complete by the end of 2008 a complete screening of the *acquis* and include the results in the updated simplification rolling programme to be presented in early 2009.

Particular attention will be paid to identifying proposals where legislation could be simplified for the benefit of SMEs, including in particular company law, and

the Member States are invited to:

- adopt targets of comparable ambition to the commitment to cut administrative burdens by 25% by 2012 at EU level, where this has not yet been done, and implement them
- ensure swift adoption of the proposals relating to the reduction of the administrative burden in Community legislation
- adopt the Commission proposal which would permit Member States to increase the threshold for VAT registration to €100 000.

Principle 4. *The EU and Member States* should make public administrations responsive to SME needs, making life as simple as possible for SMEs, notably by promoting e-government and one-stop-shop solutions.

To translate this principle into practice:

the Member States are invited to:

- reduce the level of fees requested by the Member States' administrations for registering a business, taking inspiration from EU best performers
- continue to work to reduce the time required to set up a business to less than one week, where this has not yet been achieved
- accelerate the start of SMEs' commercial operations by reducing and simplifying business licences and permits. More specifically, Member States could set a maximum deadline of 1 month for granting these licences and permits, except in cases justified by serious risks to people or the environment
- refrain from asking SMEs for information which is already available within the administration, unless it needs to be updated
- make sure that a micro-business is not asked to participate in a statistical survey under the responsibility of the state, regional or local statistical office more than once every three years, provided that the needs for statistical and other types of information do not require otherwise
- establish a contact point to which stakeholders can communicate rules or procedures which are considered to be disproportionate and/or unnecessarily hinder SME activities
- ensure full and timely implementation of the Services Directive, including the setting up of points of single contact, through which businesses can obtain all relevant information and complete all necessary procedures and formalities by electronic means.

Principle 5. *The EU and the Member States* should adapt public policy tools to SME needs.

They should make use of the Code of Best Practice providing guidance to contracting authorities on how they may apply the EC public procurement framework in a way that facilitates SMEs' participation in public procurement procedures.

To address the market failures that SMEs face throughout their lifecycle they should make better use of the possibilities offered by Community State Aid rules to support start-ups and provide incentives for SMEs.

To translate this principle into practice:

the Commission:

- will present a voluntary Code of Best Practice for contracting authorities, to trigger further change in the purchasing culture. It will provide guidance on how to reduce bureaucracy, improve transparency and information and ensure a level playing field for SMEs
- is further facilitating access to information on procurement opportunities by complementing the existing EU websites dedicated to public procurement with a series of initiatives such as optional publication of contract notices for below-threshold procurement, an online tool to find business partners, and increased transparency of public procurement requirements
- will publish a Vademecum on State Aid for SMEs to increase awareness of the existing support options

the Member States are invited to:

- set up electronic portals to widen access to information on public procurement opportunities below the EU thresholds
- encourage their contracting authorities to subdivide contracts into lots where it is appropriate and to make sub-contracting opportunities more visible
- remind their contracting authorities of their obligation to avoid disproportionate qualification and financial requirements
- encourage constructive dialogue and mutual understanding between SMEs and large buyers through activities such as information, training, monitoring and exchange of good practice
- refocus State Aid policy to better address SMEs' needs, including the design of better targeted measures.

Principle 6. *The EU and Member States should facilitate SMEs' access to finance, in particular to risk capital, micro-credit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions.*

To translate this principle into practice:**the Commission:**

- will evaluate options for introducing a private placement regime destined to facilitate cross-border investment in order to strengthen European venture capital markets
- is offering assistance to Member States to develop high quality investment readiness programmes

the Member States are invited to:

- develop financing programmes that address the funding gap between €100 000 and €1 million, in particular with instruments combining features of debt and equity, while respecting State Aid rules
- tackle the regulatory and tax obstacles that prevent venture capital funds operating in the Single Market from investing on the same terms as domestic funds
- ensure that the taxation of corporate profits encourages investment
- make full use of funding available in cohesion policy programmes and the European Agricultural Fund for Rural Development, in support of SMEs.

Principle 7. *The EU and Member States should encourage SMEs to benefit more from the opportunities offered by the Single Market, in particular through improving the governance of and information on Single Market policy, enabling SMEs' interests to be better represented in the development of standards and facilitating SMEs' access to patents and trade marks.*

To translate this principle into practice, the Commission:

- will ensure that SMEs benefit from existing market opening policies by gathering information on the operation of the Single Market through greater use of market and sector monitoring so that market failures are identified and can be addressed where the economic benefits are greatest

- is presenting an action plan in 2008 to promote the use of interoperable electronic signatures and electronic authentication and will launch actions involving all relevant stakeholders in the second quarter of 2009 to help SMEs participate in global supply chains
- is increasing EU financial support (to €1 million in 2008 and € 2.1 million from 2009) to promote SMEs' participation and defence of their interests in standardisation and to improve SMEs' information on, and use of, European standards
- will make the Community Trade Mark system more accessible, in particular by significantly reducing Community Trade Mark fees as part of a comprehensive solution to the financial perspectives of the Office of Harmonization for the Internal Market (OHIM)
- will work towards removing the fragmentation of consumer protection rules to make cross border trade easier for SMEs, including through minimizing administrative burdens.

the European standards bodies are invited to:

- reconsider, in close cooperation with the Member States and the Commission, their business model in order to reduce the cost of access to standards, starting with standards developed in support of EU legislation and policies
- set up one or more "SME Helpdesks", coordinated with representatives of SME associations
- systematically publish abstracts of European standards, including lists of normative references, with unrestricted access and in different languages.

the Member States are invited to:

- ensure correct application of the mutual recognition principle
- reinforce the SOLVIT15 problem-solving system to ensure that problems with the exercise of Single Market rights can be resolved informally, speedily and pragmatically
- encourage National Standards Bodies to reconsider their business model in order to reduce the cost of access to standards
- ensure that the composition of the standardisation committees is fair
- invite National Standards Bodies, together with European Standards Organisations, to carry out promotion and information campaigns to encourage SMEs to make better use of standards and provide feedback on their content
- provide SMEs with advisory services including support to defend themselves against unfair commercial practices.

Principle 8. *The EU and Member States* should promote the upgrading of skills in SMEs and all forms of innovation.

They should encourage investment in research by SMEs and their participation in R&D support programmes, transnational research, clustering and active intellectual property management by SMEs.

To translate this principle into practice:

the Commission:

- will further extend a scheme to promote the mobility of apprentices as part of the Leonardo Da Vinci Programme for 2010

- is supporting the development by stakeholders of an online e-Skills and Career Portal in 2008 that will enable firms to self-assess their e-skills needs and find out how to develop the careers and qualifications of their staff and will publish in 2008 an online e-Business Guide, which will help SMEs to self-diagnose their e-business needs
- \will continue efforts through simplification, better information and higher financing rates to optimise SME-participation in the 7th RTD Framework Programme (FP7).
- is encouraging the growth of SMEs, by ensuring that an SME participating in a FP7 project can keep the benefit of SME treatment for the whole duration of that project, even if it exceeds the SME ceilings during that period
- will simplify State Aid rules for Member States to support research, development and innovation, notably through the General Block Exemption Regulation
- is boosting the emergence of high growth enterprises by supporting the research and innovation capacity of SMEs, mainly through increased coordination of national programmes and initiatives
- will, in consultation with Member States, develop a cluster strategy including initiatives to encourage transnational cluster cooperation, facilitating clusters' access to new markets and taking measures to encourage greater participation of SMEs in innovative clusters
- will seek to support SME participation in knowledge transfer, partly through the launching of a pilot project to help fund the commercialisation of intellectual property
- will encourage an active participation of SMEs in the framework of the activities carried out by the European Institute of Innovation and Technology (EIT), to enable them to benefit from the knowledge transfers fostered by the EIT.

the Member States are invited to:

- encourage the efforts of SMEs to internationalise and become high growth enterprises including through participation in innovative clusters
- promote the development of SMEs' competences in the research and innovation field by means of, e.g. simplified access to public research infrastructure, use of R&D services, recruitment of skilled employees and training, as allowed for in the new Community Framework for State Aid for research, development and innovation
- open up national research programmes where this is of mutual benefit to SMEs from other Member States and contribute to SMEs' access to trans-national research activities, e.g. through joint programming
- ensure in their implementation of the Cohesion Policy programme an easy access of SMEs to funding related to entrepreneurship, innovation and knowledge
- support the development of an electronic identity for businesses, to enable e-invoicing and e-government transactions
- encourage business, in particular SMEs and other stakeholders, including procurement authorities, to participate in actions contributing to the speedy implementation of the Lead Market Initiative.

Principle 9 *The EU and Member States* should enable SMEs to turn environmental challenges into opportunities.

They should provide more information, expertise and financial incentives for full exploitation of the opportunities for new “green” markets and increased energy efficiency, partly through the implementation of environmental management systems in SMEs.

To translate this principle into practice:

the Commission:

- is facilitating SMEs’ access to the Eco-Audit and Management Scheme (EMAS) through lighter environmental procedures, reduced fees, and the option of cluster registration
- will finance a network of environment and energy efficiency experts in the Enterprise Europe Network providing advice on eco-efficient operations, markets potential and funding opportunities for more efficient operations in particular for SMEs
- is developing new forms of support for innovative start-ups and SMEs in the field of ecoinnovation, with a view to facilitating market access, technology transfer, use of standards and access to finance, in line with existing State Aid provisions

the Member States are invited to:

- provide incentives for eco-efficient businesses and products (e.g. tax incentive schemes and prioritising subsidies for funding sustainable business) in line with the Community Guidelines on State Aid for Environmental Protection and make use of the simplified approach to environmental aid for SMEs developed in the GBER
- make full use of the around €2.5 billion allocated in Cohesion Policy programmes for the support of eco-friendly products and processes in SMEs.

Principle 10. *The EU and Member States* should support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through market-specific support and business training activities.

To translate this principle into practice:

the Commission:

- has established Market Access Teams in key export markets bringing together Member States’ trade councillors and EU business organisations, which will help to improve SMEs’ information on trade barriers markets outside the EU
- will actively seek the opening up of third countries markets, in particular in developed and advanced developing economies, through WTO negotiations and bilateral agreements
- will in particular seek the opening up of non-EU countries’ procurement markets, which should lead to mutual and reciprocal benefits, through its bilateral and multilateral negotiations (WTO Government Procurement Agreement), in particular with fast-growing countries
- will promote trade facilitation both in the context of the WTO and in bilateral negotiations

- will continue to facilitate EU SMEs' access to the markets of candidate and other neighbourhood countries, in particular through the *Enterprise Europe Network* and by promoting the "Think Small First" principle in these countries, including through exchanges of good practice based on the European Charter for Small Enterprises and the SBA\
- intends to establish European Business Centres in 2009 in selected markets, starting with the fast-growing economies of India and China
- intends to launch a 'Gateway to China' scheme, focusing on establishing an Executive Training Programme in China to enable European SMEs to be more competitive in the Chinese market by 2010.

the Member States are invited to:

- encourage coaching of SMEs by large companies in order to bring them to international markets.

**European Craft and SME policy agenda from 2010 to 2014:
Towards Growth, Prosperity and Stability**

A significant number of SMEs complain that they have difficulties to get access to finance and report plans to reduce investments and employment due to financial restrictions. Moreover, there is still a lack of confidence in the financial system.

To tackle these challenges UEAPME proposes:

A far-reaching reregulation of the financial sector, which aims to stabilise the financial markets and guarantees efficient supervision at all levels, without endangering access to finance for Crafts and SMEs.

Financial institutions, which are “too big to fail”, have to be down-sized by splitting their different activities into independent business entities or must be regulated to an extent that will avoid a similar crisis in future.

Joint efforts to develop new support instruments for access to finance for SMEs, which are able to carry risk better than traditional credits and loans.

Any national rescue or recovery plans involving public money as well as the provision of funds from European Institutions (including EIB/EIF) must include rules, which ensure that support measures for SMEs are reaching their addressees and are not used to restructure bank balance sheets or lending portfolios.

Crafts and SMEs in more or less all economic sectors are now affected by the real economy crisis and public interventions are still needed to avoid a further decrease in economic activities.

To tackle these challenges UEAPME proposes:

There is a high risk that the continuing increase in unemployment rates all over Europe will have a negative impact on private consumption. Therefore, the recovery programmes at European and national level must continue in order to avoid the appearance of a “W-shaped” recession.

Recovery programmes have to support structural reforms and strengthen future growth and should not be used to protect uncompetitive structures and overcapacities. Therefore, such programmes have to focus on investments in innovation, qualification and infrastructure, which contribute to an increase in potential output in the future.

Due to budget restrictions recovery programmes should focus more on mobilising private demand (investment and consumption) than public spending and should aim on reducing private saving by re-establishing confidence in the banking system as well as in consistent fiscal and social policies.

Recovery programmes must be open and must support all enterprises, including the smaller.

At the same time, the European Union and the Member States have to agree now on exit strategies including realistic consolidation paths for public households, in order to stabilise market expectations and avoid unnecessary inflationary pressure.

Furthermore, the European Commission must re-establish State aid discipline to ensure the proper functioning of the internal market and to avoid subsidy races at the expenses of taxpayers in Europe.

Economic actors have lost confidence in the public sector to implement and enforce public regulations in an efficient and effective way

Market economies rely on efficient and effective regulations, which ensure fair competition and a reliable legal framework. One of the fundamental obligations of public regulations in a market economy is to avoid structures, processes and behaviours which undermine competition and/or could lead to suboptimal economic results at the expense of others and finally of the whole economy. As a consequence of the current crisis many economic actors and especially SMEs have lost confidence in the capacity of public entities at European and national level to provide such regulations to the necessary extent.

To tackle these challenges UEAPME proposes:

All economic regulators have to be fully and effectively independent from any company under their remit. This must also include independence as regards access to qualified information about the respective economic sectors and must rule out any personal, economic or functional interrelation between the regulator and regulated entity.

Policymakers and regulators have to accept that large economic entities can and may also fail and should not be rescued at the expenses of other actors, just because of pretended “systemic risks”.

While decisions of regulators on concrete cases must be taken independently by the regulator, political decisions on regulatory affairs must be based on proper consultation of all relevant stakeholders, including Crafts and SMEs.

The economic and financial crisis and the ongoing demographic changes endanger the stability and the sustainability of Europe’s Social Models

UEAPME is committed to the general principles of the so-called “social market economy”, in which economic progress is achieved within a system of market competition on one side and social welfare on the other, while both are connected and interdependent. Although there are significant differences in how these principles are implemented in the various Member States, all systems face similar problems, accentuated by the current crisis, which endanger the stability of social protection systems and their financial sustainability.

The substantial hike in unemployment throughout the current crisis, which will further increase during the next months and is likely to stay at this high level for some years, will also enlarge the financial resources necessary to stabilise the system. Furthermore, the last years have shown rising income differences within our economies, which have led low income households or low qualified persons to request more redistribution. Finally, in a mid-term perspective, Europe’s social systems will be hit by the consequences of demographic change with an increase of old-age dependency rate within the social systems.

All these challenges will increase the pressure for additional financial resources for the social systems, which already now weigh heavily on labour costs and endanger the competitiveness of labour in the European Union, especially of low qualified labour and labour-intensive enterprises. Therefore, the future of the existing social models can only be sustained if social systems become more targeted and efficient. This requires that any misuse of the systems is avoided, a fair balance between social rights and obligations is ensured and the systems are properly managed. At the same time tax systems (tax structure and tax levels) must be analyzed as regards their impacts on economic growth and income distribution.

To tackle these challenges UEAPME proposes in the framework of open coordination to encourage:

- reforms of unemployment schemes aiming to activate unemployed persons by training and incentives to re-enter the labour markets;
- social contribution systems, which are not only based on labour costs, especially for social benefits not directly related to employment;
- fair balances between social rights and obligations, in order to avoid misuse of social benefits;
- the provision of minimum social security levels at national level for self-employed persons and small entrepreneurs, in order to strengthen entrepreneurship and risk taking behaviour;
- reforms aiming for better targeted social systems and ensuring an (cost)efficient management of social security institutions.

Crafts and SMEs suffer from unfair competition in many areas

Fair competition is not only a cornerstone of market economies, but also a precondition for the acceptance of free markets by the different market players. This is especially true for SMEs, which have by nature to face more competitors than large enterprises. Furthermore, only level playing fields between

all companies or between private companies and other market players can create a positive competitive environment, which is a key for innovation and growth as well as for the creation of jobs and welfare. Although this general commitment to the principle of market economies is well accepted throughout Europe, Crafts and SMEs complain about unfair competition especially in three areas:

Many SMEs complain about environmental and social dumping by third-country competitors and need better protection of their intellectual property rights.

While accepting globalisation as important driver for welfare and social cohesion at a general level and recognising the role that comparative advantages play to foster world trade, SMEs see comparative advantages created by regulators or international agreements, such as different environmental or social standards, as an unfair and unacceptable distortion of competition. Furthermore, more and more SMEs complain about too expensive and inefficient or non-existing protection of their intellectual property rights, especially in cases of counterfeiting and product piracy.

To tackle these challenges UEAPME proposes:

International agreements, irrespective of whether they are multinational (WTO or post Kyoto) or, at second best, bilateral agreements between the EU and third countries, should also tackle economic and social aspects and include certain minimum standards for environmental and social protection or at least instruments, which can avoid significant imbalances stemming from such unpaired regulations.

The European institutions and the national administrations have to enforce their own regulations against counterfeiting and product piracy within the internal market and against third-country providers. This is a precondition to ensure public support for free markets in a mid-term perspective.

Crafts and SMEs providing labour intensive services at local level face unfair competition from the shadow economy and undeclared work.

The shadow economy and undeclared work, which are already significant phenomena in many European countries and are growing throughout the current crisis, have not only dramatic negative effects on both tax revenues and social budgets, but they are also unfair competitors for legally acting companies in these economic sectors, especially for smaller enterprises active in the construction and in personal services sectors.

To tackle these challenges UEAPME proposes:

the reduction of fiscal incentives from the taxation or the social contribution system in favour of undeclared work, by using the possibilities for reduced VAT rates for labour-intensive services or instruments such as vouchers or tax deductibility in the area of income taxation and social contribution systems;

a simplification of both the creation of legal enterprises as well as the legal employment by small enterprises;

to strengthen the enforcement of existing regulations, in order to make unlawful behaviour less attractive;

to improve international cooperation between regulators to prevent cross-border illegal activities.

Crafts and SMEs suffer from unfair competition from public companies, which offer (cross-) subsidised services.

Due to budget restraints more and more public companies and organisations offer next to their traditional purposes – the provision of services of general (economic) interest – also market services, which are often cross-subsidised and create unfair competition for private competitors.

To tackle these challenges UEAPME proposes:

Any provider of services of public interest, irrespective of whether it is a public or a private company, needs a clear definition of its public service obligation as well as an effective and transparent unbundling between its public service provision and any private economic activity;

The enforcement of European competition and State aid regulations by national courts should be strengthened and business associations should get the right to complain on behalf or in support of their members and with their approval against misuse of these regulations.

Crafts and SMEs need the “Think Small First” approach for all regulations in order to avoid unnecessary bureaucratic burdens and compliance costs

Regulators at European and national level must keep in mind that any regulations for businesses creates relatively higher compliance and administrative costs the smaller a business is. Especially regulations that are designed at the first place for - or even worse: together with – large enterprises, do not respect the specific reality and needs of smaller enterprises. Consequently, the “Think Small First Principle” has been developed and all European Institutions have committed themselves to use this principle to create a regulatory environment for businesses, which respects the reality and needs of small enterprises from the beginning.

Furthermore, in order to ensure the functioning of the single market, there is a need for a coherent set of rules, which allow market access for all companies and create a level playing field for all market participants. This means that in principle all regulations, regardless if they are about technical standards, the protection of consumer, environment, health or safety, have to cover all enterprises irrespective of their size and should focus in their scope at the needs of SMEs.

At a first glance these arguments may look like a contradiction, but the differences in the consequence and impact of activities carried out by small enterprises compared to large companies, allow differentiating as regards requirements for compliance and administration, in order to balance the costs and benefits of regulations in a proportionate way and to ensure a level playing field between all sizes of companies.

Such a level playing field would not be provided if small enterprises would be fully exempted from European regulations. This could lead to a second class of enterprises, which are not obliged to fulfil the agreed European minimum standards, with all the consequences for their competitiveness. Furthermore, total exemption of such standards may also be used as an argument to exclude SMEs and their

representatives from the standard setting process or the legislative process for new regulations. Moreover, small enterprises may be forced by main contractors or public procurers to fulfil these standards at a later stage.

To tackle these challenges UEAPME proposes:

The application of the “Think Small First Principle” to any new regulation affecting small enterprises at all levels. This must include a proper consultation of representative Craft and SME associations, independent impact assessments (SME test) and the respect of the “only once” principle.

Respecting the proportionality principle, when it comes to compliance and administrative requirements, without excluding small enterprises fully from regulations relevant for access to the internal market. This principle means that legislative or political provisions should focus on the needs of SMEs and the impact of their activities compared to large enterprises and be limited to the absolutely necessary. This is especially the case for reporting, record keeping, documentations, publications, information (statistics) and similar requirements.

A new and encompassing better regulation initiative at European level, which covers all existing European legislations and regulations relevant for Craft and SMEs.

All European programmes should in principle be open for SMEs and SME organisations, which also means the different programmes have to be made better accessible for SMEs, which includes a reduction of red tape and faster reimbursement.

Furthermore, the existing programmes targeted to SMEs have to be screened in order to better respond to the needs of SMEs.

Craft and SMEs have to be compensated for market failures to strengthen their capacity for innovation and to improve their competitiveness

Although Crafts and SMEs are quite heterogeneous, similar problems as regards different forms of market failures can be observed for most of them:

Due to asymmetric information smaller companies have difficulties with access to finance. The market is not providing sufficient offers for credits and loans as well as for risk capital, because the costs for risk mitigation and the management of investments are too high in relation to potential profit margins.

Positive external effects of investments in training, R&D or environmental protection, which are relatively higher the smaller a company is, are not compensated by the market, which results in a structural underinvestment in these areas and leads for the whole society to an activity and welfare level below the optimum.

Crafts and SMEs are in general rather sceptical about the provision of State aid, acknowledging that any State aid has to be paid by taxpayers and that State aid to a very large extent is directed towards large enterprises. Despite of this scepticism, we understand that a compensation of market failures is justified, if it fosters innovation, competitiveness and growth and increases the overall welfare of a society. However, UEAPME also expects a strict application of existing State aid rules, in order to avoid distortion of competition and any inefficient use of tax payer's money.

To tackle these challenges UEAPME proposes:

to convince policy actors at all level to use the new framework for State aid to compensate Crafts and SMEs for existing market failures, especially in the areas of access to finance and new technologies, investments in R&D, innovation, training and environmental protection.

to ensure State aid discipline by a consequent application of the existing State aid regulation to avoid any overcompensation, protection of inefficient economic structures and free riding.

A European Craft and SME policy for Growth, Prosperity and Stability

This chapter presents concrete policy proposals and demands at European level, which are needed to explore the potential of Crafts and SMEs to growth, create jobs and provide stability. These proposals aim to make the policy orientations given in chapter two operational and will be the basis for our lobbying activities towards the European Commission and the European Parliament for the new legislative period.

Towards an entrepreneurial society

In order to promote entrepreneurship, society in general has to be made aware of the issue. It is necessary to restore the image of the entrepreneur, which is mainly dominated by prejudices and disadvantages, and to raise understanding of the advantages of entrepreneurship. School curricula and the media play an essential role in creating and communicating a more realistic and dynamic image of an entrepreneur and its important role in the social-economic framework.

Entrepreneurial education is the key to an entrepreneurial society

The development of the teaching of entrepreneurship is of the utmost importance. Europe does not need only future entrepreneurs, but also employees and public administrations with the spirit of initiative and creativity.

Therefore, UEAPME proposes:

to integrate Entrepreneurship and the spirit of initiative into all programmes of education and training from the youngest age. This subject should also be integrated in school curricula, especially with a focus on SMEs (start-ups, entrepreneurship). A European programme to foster this action is still lacking.

to encourage and motivate highly educated people to set up their own enterprise. Although well-trained people are the ones most able to set up and develop high potential ventures (50% of all high potential ventures are set up by people with a university or post-graduate degree) surveys indicate that becoming entrepreneur is not a natural career choice for them.

Entrepreneurial behaviour needs an entrepreneurial and supportive environment

The appearance of entrepreneurial behaviour needs the right regulatory framework and the necessary support structures. Therefore, public authorities and policymakers at European, national, regional and local levels have an important role to play in order to create the right environment.

Therefore UEAPME proposes,

that any entrepreneurship policy has to build on the principles agreed on in the European Charter for Small enterprises and on the excellent Green Paper on Entrepreneurship.

to combine incentives to create enterprises by unemployed people always with preparatory phases, in-depth training and advisory services.

a particular focus should be put on female entrepreneurship, which still need to be further promoted and on migrants, who are very dynamic and ready to create new activities as self-employed and small entrepreneurs, but who are still facing a number of specific difficulties.

Crafts and SMEs have a specific approach towards Corporate Social Responsibility

Corporate Social Responsibility has to start from the daily reality of SMEs. It should give concrete answers to questions, problems and difficulties that the entrepreneur encounters in the daily management of a company, instead of being a threat and a burden.

Therefore UEAPME proposes:

to continue awareness raising activities among SMEs;

to support SMEs with concrete tools and individual advice on how to implement and apply the CSR principles, especially in the area of green and social procurement.

The heterogeneity within the Craft and SME sector has to be respected

Policymakers must understand that the world of Crafts and SMEs, especially in Europe, is extremely varied in terms of scope, size and nature of their activities. Crafts and SMEs are in a range from craft-type enterprises, many of which are active in the so-called “proximity economy” but also as innovation drivers, to fast-growing, international high-tech start-ups, and everything in between.

Therefore, UEAPME expects that the principles and instruments of the internal market and the regulatory environment for enterprises also respect this variety and cater to the needs and the reality of all Crafts and SMEs.

Craft and SMEs need a regulatory environment supportive to innovation and business creation and which increases their competitiveness

Access to finance for Crafts and SMEs needs public support and better regulations

The European market is not able to finance SMEs in a sufficient way. Market failures in the risk capital and in the credit and loan market prevent SMEs, especially start-ups, business transfers and innovative companies, from getting the necessary financial means. Both result in lower economic growth and less employment in Europe. Due to their high leverage and multiplier effects, risk sharing models (i.e. mutual and public guarantee schemes) have proven to be the most effective instruments to compensate for such market failures.

Therefore UEAPME asks the European Institutions:

not to endanger SME and retail loans, when re-regulating financial markets and financial supervision.

to reduce the pro-cyclical effects of Basel II and IFRS on the provision of credit and loans in the upcoming review of capital requirements for financial institutions.

to improve the market for equity capital by removing of negative tax incentives for both side of the market, the investors and the companies.

to target the financial support instruments in the next generation of European support programmes for enterprises more towards risk-carrying instruments like mezzanine finance and venture capital for smaller companies.

A simple and inexpensive European patent system is precondition to improve the capacity to innovate

The European Commission and the Council are working on the creation of a Community patent and a unified jurisdiction for patent related disputes. An enhanced patent system in Europe is very important to boost growth through innovation and helping SMEs to face the economic crisis and international competition.

Therefore, UEAPME encourage the European Institutions:

to overcome the current obstacles in creating a community patent and find a compromise that provides Crafts and SMEs with an affordable and easily accessible patent system.

to create a unified jurisdiction for patent disputes.

The future Framework Programmes for R&D must be better adapted to the needs of SMEs

Since 1997 the budget allocated towards enterprises within the Framework Programmes for R&D (FP) has dropped from 37% to 26%, which means in practice a budget cut of one billion Euros per year for

enterprises. Furthermore, in the current programme (FP7), 80% of the budget foreseen for Crafts and SMEs is dedicated to thematic programmes (which are less in demand from and difficult to access for SMEs) and only 20% to the very much demanded SME specific programmes, where only one out of 10 projects can be financed due to financial constraints.

Therefore, UEAPME asks the European Institutions:

to allocate in the next programme (FP8) at least 33% of the budget to enterprises;

to dedicate 15% of the overall budget to SMEs (in FP7 the 15% for SMEs cover only the thematic programmes);

to ensure a more demand-driven distribution of the “SME budget” between “thematic programmes” and “SME specific programmes”;

The essential role of Crafts and SMEs at regional level has to be supported

The importance of Crafts and SMEs for the stability and the development of territories in economic and social terms is widely recognised but insufficiently reflected at national and regional level.

Therefore, UEAPME asks to ensure the success of territorial cohesion by::

creating a real dialogue between policymakers and the “real economy” (economic and social partners) at all levels in order to allow an efficient multilevel governance by using the principle of “horizontal subsidiarity”;

by training regional policy actors in public private partnerships and entrepreneurial culture;

by promoting the full implementation of the “Think Small First” principles also a regional and local level;

by facilitating the access for Crafts and SMEs to structural funds and promoting the use of programmes financed with European means.

Craft and SMEs need better access to internal and external markets

The remaining barriers within the internal market have to be removed

For SMEs, especially in the service sector, the Internal Market is still not a reality. High administrative burden for cross-border operations and missing European standards hold back small enterprises from profiting from a larger market. Lower growth rates and missed employment opportunities are the result.

Therefore, UEAPME asks the European Institutions:

to observe carefully the implementation of the services directive and to ensure that open markets for services become a reality for all business in Europe.

to guarantee a level playing field: more has to be done to ensure that all directives are correctly and on time implemented as well as enforced.

to increase the pressure on the banking industry to improve the market uptake for the new payment instruments in the framework of Single Euro Payment Area (SEPA) by providing solutions in line with their costumers needs.

to elaborate and adopt a new proposal for an “One-Stop-Shop” for VAT compliance, which allows all cross border services providers to declare VAT in their home country.

to continue the work on a common base for corporate taxes with the perspective to use the possibility of enhanced co-operation, because some Member States will not support this initiative.

Internal Market must be accompanied by a balanced consumer protection regulation

In the advanced stage of the Internal Market the consumer acquis requires more harmonised rules, which includes the establishment of legally balanced systems between SMEs and consumers. While drafting legislative proposals the European Commission has to take into consideration that SMEs, facing the lack of human and financial sources, are often in the weaker position towards consumers. Through responsible consumers’ behaviour the need for several burdensome regulations for SMEs, e.g. long period for right of withdrawal, could be avoided. These approaches should be applied also in the proposal for a Directive on Consumer Rights, as this text will have long time effects. 14

Therefore UEAPME calls for:

a more intensive SME involvement in the European Commission’s consumer policy. The consumer legislation cannot be treated separately from SMEs issues, as there is a daily personal contact between the two parties.

an effective ex-ante impact assessment taking into account the specific situation of SMEs.

a more active consumer education concerning their obligations and improving the picture of a responsible consumer .

the establishment of provisions that encourage Crafts and SMEs to more active participation in the Internal Market and avoid additional burdens for these enterprises.

improving the already existing methods of legal protection instead of introducing inexperienced systems.

Furthermore, in respect of the competitiveness of the Craft and SME sector the European Commission has to consider the **misleading directory companies** as a serious fraud and as a priority by public

prosecutors. It is more than necessary to find an adequate remedy to victims, especially for SMEs at European level.

For this reason UEAPME asks the European Commission in line with the European Parliament resolution of 16 December 2008 on misleading directory companies to address the problem and start to prepare and carry out the review of the affected legislations, e.g. Directive 2006/114/EC.

Europe must enhance its bargaining position vis-à-vis its trading partners

In the area of industrial and commercial goods as well as services, the internal market of the EU is one of the most open and most transparent markets of the world. That is why it is obvious and comprehensible that the bargaining position of the EU vis-à-vis its trading partners must be an offensive one, so as to create comparable market access conditions for European firms on foreign markets. However, there are sensible sectors in Europe which are in danger even after accomplished restructuring, especially due to external causes. They notably suffer from different competition conditions (different norms and standards, non-respect of intellectual property rights, illegal subsidies, etc.). In such emergency situations it should be possible to take temporary “protective” measures.

The existing trade defense instruments such as anti-subsidy and anti-dumping need to be better adapted to SMEs.

Anti-dumping complaints require such an amount of bureaucratic procedures and costs that SMEs cannot afford to file such complaints themselves. The result is that trade defense instruments do not protect SMEs at all.

SMEs need systematic support of the EU Commission in preparing and filing complaints. Queries by the EU Commission must be reduced to a few pages, and the deadlines for responding must be extended. Representation by lawyers cannot be afforded by SMEs. Additional transparency of procedures is also lacking.

If an SME receives an anti-dumping complaint in third markets, the Commission should assist SMEs (with consultancy, financial support...) in defending themselves against this complaint. SMEs otherwise risk losing foreign markets, even if the complaint is not justified. Only large enterprises are able to defend themselves at the moment.

To solve the problems SME encounter in the field of multilateral commercial relations, the European Commission should offer mediation with third country authorities, which may lead to the creation of a “SOLVIT” like system in a midterm perspective.

Europe’s Trade Defence system must be reviewed and must take into account the “think small first” principle.

The fight against counterfeiting has to be intensified.

The customs services of some EU member states are lagging behind in the fight against counterfeiting. There is an apparent absence of political will to tackle the problem.

Public-Private Partnership in this field have proven their utility in some member states and should be promoted.

In addition, the EU permanent representations could be used to inform about evolution and trends in the field of counterfeiting.

Craft and SMEs need help to access foreign markets

Only 8% of SMEs are involved in export, although many SMEs are involved in “indirect export” activities. This shows that there is a clear need to help European SMEs to access foreign markets. UEAPME also stresses the need to put forward concrete actions to increase the access of European companies to non-EU markets:

First of all they need better access to information and qualified advice when considering going international.

More efficient export tools are necessary as the existing tools are not fully exploited by SMEs. A clear example is the Market Access Database (MADB), which is too complex for small companies. Besides, SMEs need to report quickly and efficiently on the trade barriers they face. Therefore, a new and user-friendly complaint register should be put in place as soon as possible.

The organisation of general and sector specific transnational cooperation events to find the right partners is a strategic tool in order to help SMEs to succeed in foreign trade. This could be achieved by a re-uptake of an INTERPRISE-type programme and by the organisation and implementation of transnational cooperation events.

Progress must be made in bilateral and multilateral trade negotiations for further reducing tariff and non-tariff, tax and regulatory barriers to trade. Especially protection against unfair competition should be strengthened.

Craft and SMEs need a climate change and environmental protection policy that respects the needs of smaller enterprises

The different instruments selected at EU level to achieve the sustainability objectives as regards climate change and environmental protection in the next years should be based on a transparent, cost/effective method, which avoids new layers of bureaucracy and excessive burdens for companies, particularly for SMEs, compared to the EU competitors. At the same time, though, in order to be successful, these instruments should take account of SMEs’ structures, strong points and weaknesses, allowing them to play an active role in the implementation of the EU strategy.

In this context, UEAPME highlights the following priorities for European policies:

Legislative instruments should be used only when really necessary and their quality has to be improved on the basis of the “less and better legislation” principle. This is due to the fact that any new legislation increases red tape and financial burdens particularly on micro and small enterprises. If legislation is necessary, any provision has to be based on reliable data and statistics and has to avoid target setting merely based on ideology (as often happens, for example, in the framework of the EU waste policy).

In case of legislation, which involves deep, structural changes for companies impacted upon (i.e. Energy Using Products Directive), specific measures, such as sectoral guidelines, thresholds and longer and/or staged implementation periods, has to be foreseen to avoid SMEs being placed out of the market.

Most micro and small businesses are still not aware of the existing and, particularly, of the upcoming legislation in the area of climate and environmental protection. Therefore, especially micro-businesses also need a permanent, affordable reference point at local level guiding them through different complicated processes such as understanding and implementing legislation, applying for the right subsidies, making the right investments, for instance to reduce their energy consumption. That is why the European Institutions should strengthen the implementation of the Environmental Compliance Assistance Programme (ECAP) profiting of its revision in 2010 in order to provide up-to-date information and targeted technical assistance to SMEs in co-operation with their organisations.

Many SMEs do not have the capacity to apply eco-innovation to their products and processes and need support, in order to turn the challenges deriving from climate change into opportunities. Therefore, the European Institutions should, again, enlarge the scope and strengthen the implementation of ECAP, address the Environmental Technology Action Plan (ETAP) more towards the needs and the structure of SMEs and foresee specific support for SMEs in the different EU funds and programmes.

There are cases of real best practices at national level responding to SMEs’ needs and enabling them to make progress towards sustainability. For instance, it is proven that Energy Service Companies (ESCO) using energy performance contracts with third party financing are a very valid instrument to help SMEs improve their energy efficiency. While micro-generation in the form of combined heat and power (fuelled with renewables, whenever possible) and integrated with district heating and cooling systems, can contribute to clean, safe and reliable energy supply. Therefore, the dissemination and the support of these practices in framework programmes aiming at enhancing energy efficiency and sustainability should become a priority.

Craft and SMEs need more flexible labour market regulations and skilled workforce in line with the needs of a knowledge and services society

A knowledge and services-based society require modern labour market policies based on the flexicurity principles able to tackle the current short and long term challenges companies and workers are facing. Flexible labour law and contractual arrangements combined with efficient active labour market policies, improved employability of the workforce through adequate lifelong learning policies, and efficient and sustainable social protection systems are key to ensure a smooth functioning of the labour market, social inclusion and the adaptability of enterprises and workers. Higher flexibility would also increase the productivity and competitiveness of SMEs in Europe.

UEAPME proposes the following measures at EU level:

An improved working time legislation (revision of the working time directive) which fully respects the health and safety of workers but at the same time takes into account the evolution of the working environment, new working methods and new types of jobs and the functioning of SMEs

A reinforced access to continuous training and adequate lifelong learning measures, to the validation of informal and non-formal acquired competences and to guidance for all throughout professional life to combat unemployment, maintain workers' employability and facilitate Crafts and SMEs' adaptation to fierce competition and trades evolution. Moreover, SMEs need the support of public authorities to set up and/or finance such measures. Furthermore, suitable training offer for SMEs should be available in order to fill in the requirement of new skill needs notably in the field of new jobs related to climate change policy.

Maximising the potential of the EURES network and services towards SMEs to better match job offers and availability of workers

Strengthening efficiency and quality of education and training systems to better prepare young people to fast changing labour market needs and enhance their employability, valorising the work-based-training education and fostering learning mobility of young people notably those in vocational education and training including apprentices.

Specific measures to supporting graduates from schools or universities, who experience more difficulties to find a job because of the crisis, by using the ESF for internships and apprenticeships.

Reform of social protection systems and notably unemployment schemes by introducing rights and obligations in a balanced manner in order to ensure their sustainability.

Work/life balance policies applied to the revision of the maternity leave directive that facilitate the better integration of women on the labour markets but also take into account the specific problems of micro and small companies concerning the practical implementation of flexible working arrangements as foreseen in the parental leave agreement Occupational health and safety legislation which effectively protects workers from new risks but does not add unnecessary heavy burdens on SMEs as currently

provided for in the revision of the electromagnetic field directive or the topic of musculoskeletal disorders.

Making active ageing a reality in Europe represents a major challenge for our economy. Increasing the senior workers' employment level is crucial to face the shrinking of the workforce. It requires an holistic approach including the elimination of incentives to leave the labour market early, substantial efforts for bridging the gap between the formal and the real retirement age (gradual retirement schemes combined with part time work, flexible forms of work) and the support for employers to hire and keep older workers (wages linked to productivity, up-skill of the workforce, lifelong learning policies, full abandon of early retirement schemes).

Policymakers have to listen better to the voice of Craft and SMEs

The valuable and irreplaceable role of representative SME organisations in all policies towards Crafts and SMEs has to be fully recognised and supported by the European Institutions. Instead of creating parallel networks, the European institutions should focus on the representative organisations for consultation, disseminating information and awareness rising.

Full implementation of the Think Small First principles at all levels is a precondition for any effective Craft and SME policy

The „Think Small First“ principle recommended by the Small Business Act should be systematically applied across all institutions throughout the life-cycle of EU legislative negotiations.

Therefore UEAPME reiterates the need for:

a systematic consultation of the representative business organisations in all policy fields, as the main source of stakeholder consultation (min 12 weeks). Internet consultation and the business test panels should only be used to obtain additional input.

the participation of representative SME organisations in every advisory committee at regional, national or European level on issues that can have an impact on SMEs, including an official representation at Commissions' delegations in international missions and in international dialogue instruments (e.g. EU-China dialogue).

implementing a real “Think Small first Approach”, meaning that measures and legislation should be conceived from the point of view of small enterprises, taken as the rule, not as the exception. Furthermore, all measures to simplify existing legislation and administrative procedures should also use this “Think Small First” approach.

the application of the proportionality principle as a basic rule, whenever SME policy is concerned. This principle means that legislative or political provisions should focus on the needs of SMEs and be limited

to the absolutely necessary. Should there be a special need for a different treatment of large enterprises, this can be solved by additional regulations.

The specificities of Crafts and SMEs must be recognised also in the social dialogue

In the European Union Crafts and SMEs provide two thirds of all jobs in the private sector. Although UEAPME is participating as an independent and fully recognised employers' organisation since more than 10 years in the European Social Dialogue, neither the European Institutions nor the other European Social Partners have fully taken into account the fact that SME employers are by far the largest employers group in Europe.

Therefore, UEAPME as the employer organisation for Crafts and SMEs in Europe:

asks the European Institutions to ensure an adequate representation of SMEs in all meetings in the framework of the European Social and Macroeconomic Dialogue.

underlines the need of a more proportionate representation of Crafts and SMEs in the employers' delegations at all meetings in the framework of the European Social and Macroeconomic Dialogue.

invites the European Trade Unions to consider the specific needs and realities of Crafts and SMEs as regards labour market regulations and institutions and to apply a think small first approach also in social dialogue negotiations.

asks all partners in the European Social Dialogue to strengthen the role of Crafts and SMEs and their employees also in the national, sectoral and regional social dialogue institutions.

Strengthening the voice of Crafts and SMEs in the European standard setting process

Different types of standards play an increasing role within the internal market and at global level. Crafts and SMEs have significant problems due to their limited resources as regards access to standards and the participation in standard setting processes. Although this problem has been recognised by the European institutions and support for SMEs has been provided, SMEs are still facing unfair competition and competitive disadvantages compared to large multinational enterprises.

Therefore, UEAPME asks to:

review the remaining "New Approach Directives" on the base of the "Think Small First" principles like the simplified CE procedures for unique products and small series production;

review the Directive 98/34 on standardisation systems with the aim to include the principles of openness, consensus, transparency, fairness, balanced representation of all stakeholders;

monitor the implementation of SME friendly measures in standardisation at national and European level such as abstracts of standards, simplification of standards, lower prices for clusters of standards, support for SME participation through better information and financial means;

continue the financial support for NORMAPME as body which supports access to standards and participation in standard setting processes for Crafts and SMEs

fund the training of SME experts in standardisation, working within SME organizations.

A systematic, specific, real and independent impact assessments for Crafts and SMEs is needed

An effective impact assessment (IA) must be published together with all consultation documents and it should assess the costs and benefits of the different political and technical options. IA and consultation of stakeholders are two different things, but there is of course an interaction between the two.

At the moment IAs are not transparent enough and cannot be properly impartial since the Commission assesses the impact of its own proposals in house, especially if it does so relying on data coming from interested parties. The preparation of a proper evidence base to support the EU decision making process must be managed more independently.

Today, data collection for SMEs is totally inadequate. SME associations do not have the financial, personnel and organisational resources to provide data on future legislation impact. Therefore, the data collection for SMEs should be financed by the legislators and different specifications for SME in an IA study have to be analysed.

For effective impact assessments on SMEs (SME Test), UEAPME recommends:

the use of large statistical samples of SMEs to get a realistic picture from the very heterogeneous Craft and SME sector in Europe;

the creation of an institutional platform by the European Commission, which ensures the involvement of SME organisations in the design, the implementation and the interpretation of the results of SME tests;

the participation of SME organisations in establishing representative lists out of which the samples are drawn and the preparation of the SME questionnaires;

the selection of consultants for the implementation of IAs based on strict criteria to avoid bias, conflict of interest or direct advantage deriving from the results;

that SME questionnaires always contain a concise explanation of the nature and anticipated impacts of the future legislation;

that the language of questionnaires should be the national language of the country and it should not contain academic or specialist jargon;

that specific impacts for small and micro enterprises should be taken into account such as quality of family life of the entrepreneur, added administrative burden, technical capacity of compliance, cost of compliance, technical problems with reuse and recycling of materials;

that questionnaires should be filled out by professional and specialised interviewers, not directly by the entrepreneur

that the data should be made available to the SME associations during the report drafting stage for study and comment.

AN ACT TO PROMOTE ENTREPRENEURSHIP BY STRENGTHENING DEVELOPMENT AND ASSISTANCE PROGRAMS TO MICRO, SMALL AND MEDIUM SCALE ENTERPRISES, AMENDING FOR THE PURPOSE [REPUBLIC ACT NO. 6977](#), AS AMENDED, OTHERWISE KNOWN AS THE “MAGNA CARTA FOR SMALL ENTERPRISES” AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. Section 1 of [Republic Act No. 6977](#), as amended, is hereby further amended to read as follows:

“SECTION 1. Title. – This Act shall be known as the ‘Magna Carta for Micro, Small and Medium Enterprises (SMEs)’”.

SEC. 2. Section 2 of the same Act is hereby amended to read as follows:

“SEC. 2. Declaration of Policy. – Recognizing that MSMEs have the potential for more employment generation and economic growth and therefore can help provide self-sufficient industrial foundation for the country, it is hereby declared the policy of the State to promote, support, strengthen and encourage the growth and development of MSMEs in all productive sectors of the economy particularly rural/agri-based enterprises. To this end, the State shall recognize the specific needs of the MSMEs and shall undertake to promote entrepreneurship, support entrepreneurs, encourage the establishment of SMEs and ensure their continuing viability and growth and thereby attain countryside industrialization by:

“a) intensifying and expanding programs for training in entrepreneurship and for skills development for labor;

“b) facilitating their access to sources of funds;

“c) assuring to them access to a fair share of government contracts and related incentives and preferences;

“d) complementing and supplementing financing programs for MSMEs and doing away with stringent and burdensome collateral requirements that small entrepreneurs invariably find extreme difficulty complying with;

“e) instituting safeguards for the protection and stability of the credit delivery system;

“f) raising government efficiency and effectiveness in providing assistance to MSMEs throughout the country, at the least cost;

“g) promoting linkages between large and small enterprises, and by encouraging the establishment of common service facilities;

“h) making the private sector a partner in the task of building up MSMEs through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and

“i) assuring a balanced and sustainable development through the establishment of a feedback and evaluation mechanism that will monitor the economic contributions as well as bottlenecks and environmental effects of the development of MSMEs.”

SEC. 3. Section 3 of the same Act, as amended, is hereby further amended to read as follows:

“SEC. 3. Micro, Small and Medium Enterprises (MSMEs) as Beneficiaries. – MSMEs shall be defined as any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity’s office, plant and equipment are situated, must have value falling under the following categories:

micro: not more than P3,000,000

small: P3,000,001 – P15,000,000

medium: P15,000,001 – P100,000,000

“The above definitions shall be subject to review and adjustment by the Micro, Small and Medium Enterprises Development (MSMED) Council under Section 6 of this Act or upon recommendation of sectoral organizations concerned, taking into account inflation and other economic indicators. The Council may use other variables such as number of employees, equity capital and assets size.

“The Council shall ensure that notwithstanding the plans and programs set for MSMEs as a whole, there shall be set and implemented other plans and programs varied and distinct from each other, according to the specific needs of each sector, encouraging MSMEs to graduate from the category to the next or even higher category.”

SEC. 4. Section 4 of the same Act, as amended, is hereby further amended to read as follows:

“SEC. 4. Eligibility for Government Assistance. – To qualify for assistance, counseling, incentives and promotion under this Act, businesses falling under the above definition must be:

“a) duly registered with the appropriate agencies as presently provided by law: Provided, That in the case of micro enterprises as defined herein, registration with the office of the municipal or city treasurer shall be deemed sufficient compliance with this requirement;

“b) one hundred percent (100%) owned, capitalized by Filipino citizens, whether single proprietorship or partnership. If the enterprise is a juridical entity, at least sixty percent (60%) of its capital or outstanding stocks must be owned by Filipino citizens;

“c) a business activity within the major sectors of the economy, namely: industry, trade, services, including the practice of one’s profession, the operation of tourism-related establishments, and agri-business, which for purposes of this Act refers to any business activity involving, the manufacturing, processing, and/or production of agricultural produce; and

“d) it must not be a branch, subsidiary or division of a large scale enterprise.

“However, this requirement shall not preclude MSMEs from accepting subcontracts and entering into franchise partnership with large enterprises or from joining in cooperative activities with other MSMEs.

“Programs of the Small Business Corporation (SB Corporation) as provided in subsequent provisions of this Act shall be exclusively delivered and directed to bonafide MSMEs.

“Any MSME, its directors, officers or agents, found to have committed fraud or misrepresentation for the purpose of availing the benefits under this Act shall be immediately disqualified as a beneficiary, without prejudice to any administrative, criminal or civil liability under existing laws.

“Eligible MSMEs shall be entitled to a share of at least ten percent (10%) of total procurement value of goods and services supplied to the Government, its bureaus, offices and agencies annually.

“The Department of Budget and Management shall monitor the compliance of government agencies on the required procurement for MSMEs and submit its report to the MSMED Council on a semestral basis and to the Congress of the Philippines, through its appropriate committees on a yearly basis.”

SEC. 5. Section 5 of the same Act, as amended, is hereby further amended to read as follows:

“SEC. 5. Guiding Principles. – To set the pace for MSME development, the State shall be guided by the following principles:

“x x x

“c) Coordination of government efforts. Government efforts shall be coordinated to achieve coherence in objectives. All appropriate offices, particularly those under the Departments of Trade and Industry, Finance, Budget and Management, Agriculture, Agrarian Reform, Environment and Natural Resources, Labor and Employment, Transportation and Communications, Public Works and Highways, Science and Technology, Interior and Local Government and Tourism as well as the National Economic and Development Authority, Philippine Information Agency and the Bangko Sentral ng Pilipinas, through

their national, regional and provincial offices shall, to the best of their efforts and in coordination with local government units, provide the necessary support and assistance to MSMEs.

“x x x.”

SEC. 6. A new section, numbered Section 6 is hereby inserted after Section 5 of the same Act, to read as follows:

“SEC. 6. Micro, Small and Medium Enterprises Development Plan (MSMEDP). – The President shall approve a six-year micro, small and medium enterprises development plan prepared by the Department of Trade and Industry (DTI) which shall form part of the Medium Term Philippine Development Plan (MTPDP). It shall be formulated in consultation with the private sector, validated and updated semestraly. Such plan shall include a component on a micro credit financing scheme.”

SEC. 7. Section 6 of the same Act is hereby renumbered as Section 7 and further amended to read as follows:

“SEC. 7. Micro, Small and Medium Enterprise Development (MSMED) Council. – The existing Small and Medium Enterprise Development Council, which was created by Republic Act No. 6977, as amended by Republic Act No. 8289, shall be strengthened to effectively support the growth and development of MSMEs throughout the country, and to carry out the policy declared in this Act and shall now be known as the Micro, Small and Medium Enterprise Development (MSMED) Council. The Council shall be attached to the Department of Trade and Industry and shall be constituted within sixty (60) days after the approval of this Act.”

“x x x.”

SEC. 8. Section 7 of the same Act, as amended, is hereby renumbered as Section 7-A and further amended to read as follows:

“SEC. 7-A. Composition. – The Council shall be headed by the Secretary of Trade and Industry as Chairman, and may elect from among themselves a Vice-chairman to preside over the Council meetings in the absence of the Chairman. The members shall be the following:

“a) Secretary of Agriculture;

“b) Secretary of the Interior and Local Government;

“c) Secretary of Science and Technology;

“d) Secretary of Tourism;

“e) Chairman of Small Business Corporation;

“f) Three (3) representatives from the MSME sector to represent Luzon, Visayas and Mindanao;

“g) One representative from the labor sector, to be nominated by accredited labor groups; and

“h) A representative from the private banking sector: to serve alternately among the Chamber of Thrift Banks; the Rural Bankers’ Association of the Philippines (RBAP); and the Bankers’ Association of the Philippines (BAP).

“All members of the Council so appointed, except for the ex officio members, shall serve for a term of three (3) years. The person so appointed to replace a member who has resigned, died, or been removed for cause shall serve only for the unexpired portion of the term.

“The private sector members of the Council shall receive per diem of Two thousand pesos (P2,000) per meeting, for a maximum of twenty-four (24) meetings per year, which per diem may be adjusted by the MSMED Council as appropriate.

“The Council may call upon the participation of any national or local government agency, association of local government officials or private sector organization in its deliberations especially when such agency or private sector organization is directly or indirectly concerned with and/or affecting the growth and development of MSMEs in any particular area or manner.

“The Council may create an Executive Committee of five (5) members elected by the Council from among themselves or their designated permanent representatives, with at least two (2) members representing the private sector, and with authority to act for and on behalf of the Council during intervals of council meetings, and within the specific authority granted by the Council.”

SEC. 9. Section 8 of the same Act, as amended, is hereby renumbered as Section 7-B and further amended to read as follows:

“SEC. 7-B. Powers and Functions. – The MSMED Council shall have the following powers, duties and functions:

“a) To help establish the needed environment and opportunities conducive to the growth and development of the MSME sector;

“b) To recommend to the President and the Congress all policy matters affecting MSMEs;

“c) To coordinate and integrate various government and private sector activities relating to SME development;

“d) To review existing policies of government agencies that would affect the growth and development of MSMEs and recommend changes to the President and Congress through the Committee on Economic Affairs of the Senate and the Committee on Small Business and Entrepreneurship Development of the House of Representatives, whenever deemed necessary. This shall include efforts to simplify rules and regulations, as well as review of the applicability and relevance of procedural and documentary requirements in the registration, financing, and other activities relevant to MSMEs the result shall be included in the annual report to be submitted to Congress;

“e) To monitor and determine the progress of various agencies geared towards the development of the sector. This shall include overseeing, in coordination with local government units and the Department of Interior and Local Government as well as private sector groups/associations, the development among MSMEs;

“f) To promulgate implementing guidelines, programs, and operating principles as may be deemed proper and necessary in the light of government policies and objectives of this Act;

“g) To provide the appropriate policy and coordinative framework in assisting relevant government agencies, in coordination with the NEDA and the Coordinating Council for the Philippine Assistance Program, as may be necessary, in the tapping of local and foreign funds for MSME development;

“h) To promote the productivity and viability of MSMEs by way of directing and/or assisting relevant government agencies and institutions at the national, regional and provincial levels towards the:

“1) Provision of business training courses, technical training for technicians and skilled laborers and continuing skills upgrading programs;

“2) Provision of labor-management guidance, assistance and improvement of the working conditions of employees in MSMEs;

“3) Provision of guidance and assistance regarding product quality/product development and product diversification;

“4) Provision of guidance and assistance for the adoption of improved production techniques and commercialization of appropriate technologies for the product development and for increased utilization of indigenous raw materials;

“5) Provision of assistance in marketing and distribution of products of MSMEs through local supply-demand information, industry and provincial profiles, overseas marketing promotion, domestic market

linkaging and the establishment of common service facilities such as common and/or cooperative bonded warehouse, grains storage, agro-processing and drying facilities, ice plants, refrigerated storage, cooperative trucking facilities, etc;

“6) Intensification of assistance and guidance to enable greater access to credit through a simplified multi-agency financing program: to encourage development of other modes of financing such as leasing and venture capital activities: to provide effective credit guarantee systems, and encourage the formation of credit guarantee associations, including setting up of credit records and information systems and to decentralize loan approval mechanisms;

“7) Provision of concessional interest rates, lower financing fees, which may include incentives for prompt credit payments, arrangements tying amortizations to business cash flows, effective substitution of government guarantee cover on loans for the borrower’s lack of collateral;

“8) Provision of bankruptcy preventive measures through the setting up of a mutual relief system for distressed enterprises, and the establishment of measures such as insurance against extraordinary disasters;

“9) Intensification of information dissemination campaigns and entrepreneurship education activities;

“10) Availment of and easier access to tax credits and other tax and duty incentives as provided by the Omnibus Investment Code and other laws;

“11) Provision of support for product experimentation and research and development activities as well as access to information on commercialized technologies; and

“12) Through appropriate government agencies:

“a) Provide more infrastructure facilities and public utilities to support operations of MSMEs;

“b) Establish, operate, and administer a small business incubation program in coordination with academic institutions, Department of Science and Technology and other appropriate government entities that will provide space for start-up and expanding firms, shared use of equipment and work areas, daily management support services essential to high-quality commercial operations, technical assistance and other services to develop innovative and deserving MSMEs;

“c) Conduct a nationwide information campaign with the Philippine Information Agency that shall inform the public of all programs and services, government and nongovernment, available to MSMEs;

“d) Provide local and international network and linkages for MSME development;

“e) Compile and integrate statistical databank on Philippine MSMEs;

“f) Set-up new MSME centers and revitalize already established MSME centers to provide MSMEs in the regions easier access to services such as, but not limited to, the following:

“i. Accept and act on all registration applications of MSMEs;

“ii. Streamline registration process and facilitate speedy registration for the establishment of business enterprises in the country;

“iii. Provide all information and referral services it shall deem necessary or essential to the development and promotion of MSMEs;

“iv. Conduct other programs or projects for entrepreneurial development in their respective areas; and

“v. Provide courses and development programs, training, advice, consultation on business conceptualization and feasibility, financing, management, capacity building, human resources, marketing, and such other services to support the needs of MSMEs;

“g) To submit to the President and the Congress through the Oversight Committee as defined under this Act, a yearly report on the status of MSMEs in the country, including the progress and impact of all relevant government policies, programs and legislation as well as private sector activities;

“h) To coordinate, monitor and assess the implementation of the MSMEDP, and when necessary, institute appropriate adjustments thereon in the light of changing conditions in both domestic and international environment; and

“i) Generally, to exercise all powers and functions necessary for the objectives and purposes of this Act.”

SEC. 10. Section 9 of the same Act, as amended, is hereby renumbered as Section 8 and amended to read as follows:

“SEC. 8. Designation of the Bureau of Micro, Small and Medium Enterprise Deuelopment as Cguncil Secretariat. – The Bureau of Small and Medium Business Development (BSMBD) hereinafter referred to as the Bureau of Micro, Small and Medium Enterprise Development (BMSMED) is hereby designated to act as the Council Secretariat and shall have the following duties and functions:

“x x x”

SEC. 11. A new section is hereby inserbd after Section 9 of the same Act, as amended, and numbered as Section 9 to read as follows:

“SEC. 9. Appropriations. – To finance its activities and operational expenses, the Council shall have a separate annual appropriation as provided by the Department of Trade and Industry (DTI) which shall be provided in the General Appropriations Act starting in the fiscal year immediately following the approval of this Act. The Council may also accept contributions from the private sector.”

SEC.12. Section 10 of the same Act, as amended, is hereby further amended to read as follows:

“SEC. 10. Rationalization of Existing MSME Programs and Agencies. – The MSMED Council shall conduct continuing review of government programs for MSMEs and submit to Congress and the President a report thereon together with its policy recommendations.”

SEC. 13. Section 11 of the same Act, as amended, is hereby further amended to read as follows:

“SEC. 11. Creation of Small Business Guarantee and Finance Corporation. – There is hereby created a body corporate to be known as the Small Business Guarantee and Finance Corporation, hereinafter referred to as the Small Business Corporation (SB Corporation), which shall be charged with the primary responsibility of implementing comprehensive policies and programs to assist MSMEs in all areas, including but not limited to finance and information services, training and marketing.”

SEC. 14. A new sub-section is inserted after Section 11 of the same Act, as amended, to read as follows:

“SEC. 11-A. Composition of the Board of Directors and its Powers. – The SB Corporation corporate powers shall be vested on a Board of Directors composed of eleven (11) members which shall include the following:

- “a) The Secretary of Trade and Industry;
- “b) The Secretary of Finance;
- “c) A private sector representative to be appointed by the President upon recommendation of the MSMED Council;
- “d) Seven (7) representatives of the SB Corporation common stock shareholders who shall be elected based on proportional distribution, in accordance with Section 24 of the Corporation Code; and
- “e) The president of the SB Corporation as ex-officio member and to serve as vice chairman of the Board.

“The President shall appoint the chairman of the Board from among its members.

“All members of the Board so appointed, except for the ex-officio members, shall serve for a term of three (3) years without reappointment. The person so appointed to replace a member who has resigned, died, or been removed for cause shall serve only for the unexpired portion of the term.

“The Board of Directors shall have, among others, the following specific powers and authorities:

“a) Formulate policies necessary to carry out effectively the provisions of this charter and to prescribe, amend and repeal bylaws, rules and regulations for the effective operations of the small business corporation;

“b) Establish such branches, agencies and subsidiaries as may be deemed necessary and convenient;

“c) Compromise or release, in whole or in part, any claim or liability whatsoever for or against the SB Corporation, including interest, penalties, fees and/or other charges in accordance to its own by-laws and Bangko Sentral ng Pilipinas rules;

“d) Fix the features of non-voting preferred shares which shall be printed on the stock certificates evidencing the same;

“e) Exercise all such other powers as may be necessary or incidental to carry out the SB Corporation’s purposes; and

“f) Notwithstanding the provisions of Republic Act No. 6768 and Compensation Circular No. 10, Series of 1989 issued by the Department of Budget and Management, the Board shall have the authority to provide for the organizational structure and staffing pattern of SB Corporation and to extend to the employees and personnel thereof salaries, allowances and fringe benefits similar to those extended to and currently enjoyed by employees and personnel of other government financial institutions.”

SEC. 15. A new sub-section is hereby inserted after Section 11 of the same Act, as amended, to read as follows:

“SEC. 11-B. Corporate Structure and Powers. – The SB Corporation shall:

“a) be administratively attached to the Department of Trade and Industry and shall be under the policy and program supervision of the MSMED Council:

“b) have its principal offices in Metro Manila and whenever necessary, establish branch office in the provinces; and

“c) exercise all the general powers expressly conferred by law upon corporations under the Corporation Code, including those powers that are incidental or necessary to the attainment of the objective of this Act.

“For this purpose, the SB Corporation subject to compliance with the rules and regulations to be issued by the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission, shall have the following functions and duties:

- “a) Source and adopt development initiatives for globally competitive MSMEs in finance and business technologies;
- “b) To extend all forms of financial assistance to eligible MSMEs. SB Corporation may also engage in wholesale lending. The SB Corporation shall be given two (2) years from the effectivity of this Act to comply with this requirement;
- “c) Guarantee loans obtained by qualified MSMEs under such terms and conditions adopted by the SB Corporation Board of Directors;
- “d) Hold, purchase, lease or otherwise acquire and own real and personal property, introduce necessary improvements thereon and to sell, mortgage, encumber or otherwise dispose of the same as may be necessary in the normal course of business;
- “e) Formulate means and methods of accepting alternative collaterals and implementing alternative loan evaluation models;
- “f) Apply for, receive and accept grants and donations from sources within and outside the country; and
- “g) Hold, own, purchase, acquire, sell, mortgage, dispose or otherwise invest or re-invest in stocks, bonds, treasury bills, debentures, securities and similar forms of indebtedness of the government, its agencies and instrumentalities or any government financial institution.”

SEC. 16. Section 12 of the same Act, as amended, is hereby further amended to read as follows:

“SEC. 12. Capitalization and Funding of the SB Corporation. – The SB Corporation shall have an authorized capital stock of Ten billion pesos (P10,000,000,000.00). The initial capital of One billion pesos (P1,000,000,000.00) shall be established from a pool of funds to be contributed in the form of equity investments in common stock by the Land Bank of the Philippines (LBP), the Development Bank of the Philippines (DBP), in the amount of Two hundred million pesos (P200,000,000.00) each. The Social Security System (SSS) and the Government Service Insurance System (GSIS) shall also set aside Two hundred million pesos (P200,000,000.00) each for the SB Corporation. Authorized capital stock of the small business corporation shall be divided into 80,000,000 common shares and 20,000,000 preferred shares with a par value of One hundred pesos (P100.00) per share: Provided, That the common shares which have been issued, including those issued against the assets of the KKK Guaranty Fund consolidated under the small business corporation by virtue of Executive Order No. 233, Series of 2000 and Executive Order No. 19, Series of 2001 and including those already subscribed, shall form part of the capitalization of the corporation: Provided, further, That holders of preferred shares issued under Republic Act No. 6977, as amended, shall have the option to convert the same into common shares. Additional equity funding shall come from trust placements of excess and unused funds of existing government agencies, bilateral and multilateral official development assistance funds, subscriptions from

government owned or controlled corporations, and investments of private financial institutions and corporations: Provided, finally, That any investment from the private sector shall only be in the form of preferred shares.

“To allow for capital build-up, SB Corporation shall be given a five (5) year grace period on dividend commitments beginning on the date of effectivity of this amendment. Thereafter, it may only declare as dividend not more than thirty percent (30%) of its net income and the rest withheld as retained earnings.”

SEC. 17. New sections are hereby inserted after Section 12 of the same Act, as amended, to read as follows:

“SEC. 13. The SB Corporation shall be subject to the supervision and examination of the Bangko Sentral ng Pilipinas taking into consideration its developmental objectives.”

“SEC. 14. Venture Capital and Micro Finance Trust Fund. – The SB Corporation may set aside an amount of money to encourage the setting up of a venture capital and micro finance trust fund for the purpose of promoting business opportunities available to MSME sector. The Venture Capital Fund shall be used mainly for venture capitalfinance especially in technology-oriented industries. The micro finance trust fund shall be used to provide collateral-free fixed and working capital loans to micro and small enterprises run by those emerging out of poverty.”

SEC. 18. Section 13 of the same Act, as amended, is hereby renumbered as Section 15, and further amended to read as follows:

“SEC. 15. Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises. – For the period of ten (10) years from the date of the effectivity of this amendatory Act, all lending ’ institutions as defined under Bangko Sentral ng Pilipinas rules, whether public or private, shall set aside at least eight percent (8%) for micro and small enterprises and at least two percent (2%)for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter, and make it available for MSME credit as herein contemplated.

“Compliance of this provision shall be:

“a) actual extension of loans to eligible MSMEs: or

“b actual subscription of preferred shares of stock of the SB Corporation; or

“c) wholesale lending to Participating Financial Institutions (PFIS) for on-lending to MSMEs; or

“d) purchase discount of MSMEs receivables; or

“e) loans granted to export, import, and domestic traders subject to compliance with Section 3 of this Act; or

“f) subscribe/purchase of liability instruments as may be offered by the SB Corporation.

“The Bangko Sentral ng Pilipinas shall formulate rules for the effective implementation of this provision: Provided, That the purchase of government notes, securities and other negotiable instruments shall not be deemed compliance with the foregoing provisions: Provided, further, That the Bangko Sentral ng Pilipinas shall establish an incentive program to encourage lending to micro, small and medium industries beyond the mandatory credit allocation to said enterprises, such as possible reduction in bank’s reserve requirement.

“The MSMED Council shall set up the appropriate systems to monitor all loan applications of MSMEs in order to account for the absorptive capacity of the MSME sector.

“The Bangko Sentral ng Pilipinas shall furnish to the MSMED Council on a quarterly basis comprehensive reports on the banks’ compliance, noncompliance and penalties of the above provisions on the mandatory credit allocation for MSMEs.

“Lending institutions which are not qualified to acquire or hold lands of the public domain in the Philippines shall be permitted to bid and take part in sales of mortgaged real property in case of judicial or extra-judicial foreclosure, as well as avail of receivership, enforcement and other proceedings, solely upon default of a borrower, and for a period not exceeding five (5) years from actual possession: Provided, That in no event shall title to the property be transferred to such lending institution. If the lending institution is the winning bidder, it may, during said five (5) year period, transfer its rights to a qualified Philippine national, without prejudice to a borrower’s rights under applicable laws.”

SEC. 19. New sections to be numbered as Sections 16, 17, and 18 are hereby inserted after Section 13 of the same Act, as amended, to read as follows:

“SEC. 16. Micro, Small, and Medium Enterprise Week. – In order to institute continuing awareness of the primacy of small business in nation-building and in people empowerment, and to celebrate and espouse the firm commitment of the State in the promotion, growth and development of small business, the second week of July of every year shall be declared as the “Micro, Small, and Medium Enterprise Development Week. The MSMED Council, the Department of Trade and Industry, and the SB Corporation shall be jointly responsible in organizing activities for the event.”

“SEC. 17. Presidential Awards for Outstanding MSME. – Presidential awards for outstanding MSMEs and good MSME practices, consisting of rewards in cash or in kind shall be granted to one hundred percent (100%) Filipino-owned companies and development partners during the MSME development week.”

“SEC.18. Congressional Oversight Committee. – To monitor and oversee the implementation of this Act, there shall be a Congressional Oversight Committee on Micro, Small and Medium Enterprise Development (COC-MSMED) composed of the chairpersons of the Senate Committee on Economic Affairs and the House Committee on Small Business and Entrepreneurship Development as Chairperson and co-chairperson, respectively; five (6) members of each of the Senate and House of Representatives to include the chairpersons of the Senate committees on Trade and Commerce; and Banks, Financial Institutions and Currencies; and the chairpersons of the House committees on Trade and Industry, Banks and Financial Intermediaries, and Appropriations: Provided, That two (2) of the five Senators and two (2) of the five House Members shall be nominated by the respective minority leaders of the Senate and the House of Representatives.

“The COC-MSMED shall set the guidelines and overall framework for the monitoring of the implementation of this Act and shall adopt its internal rules of procedure. The Secretariat of the COC-MSMED shall be drawn from the existing personnel of the Senate and House of Representatives committees comprising the COC-MSMED.”

SEC.20. Section 14 of the same Act, as amended, on Penal Clause is hereby renumbered as Section 19, and further amended, to read as follows:

“x x x”

“Penalties on noncompliance shall be directed to the development of the MSME sector. Ninety percent (90%) of the penalties collected should go to the MSMED Council Fund, while the remaining ten percent (10%) should be given to the BSP to cover for administrative expenses.”

SEC. 21. A new section is hereby inserted after Section 14 of the same Act, to read as follows:

“SEC. 20. Implementing Rules and Regulations. – The Department of Trade and Industry, through the Bureau of Micro, Small and Medium Business Development and in consultation with other concerned government agencies, nongovernment; organizations and private sector involved in the promotion of MSMEs, shall formulate the Implementing Rules and Regulations (IRR) necessary to implement the provisions of this Act within ninety (90) days from the approval of this Act. The IRR issued pursuant to this Section shall take effect thirty (30) days after publication in a national newspaper of general circulation.”

SEC. 22. Separability Clause. – The provisions of the Act are hereby declared to be separable. If any provision of this Act shall be held unconstitutional, the remainder of the Act not otherwise affected shall remain in full force and effect.

SEC. 23. Repealing Clause. – All laws, executive orders, rules and regulations, or parts thereof, inconsistent herewith are hereby repealed or modified accordingly.

SEC. 24. Effectivity Clause. – This Act shall take effect within fifteen (15) days from its publication in at least two (2) national newspapers of general circulation.

SME Strategy & Action Plan, Turkey, 2004**EDUCATION AND TRAINING FOR ENTREPRENEURSHIP**

Programmes will be developed in all educational levels for teaching entrepreneurial skills in order to foster the entrepreneurial spirit. In the implementation of training and educational programmes for SMEs, activities of the public and private sectors shall be effectively coordinated while the service capacity of professional organisations shall be strengthened and the IT infrastructure for distance learning shall be set up especially for those SMEs with fewer workers. Training programmes shall be held at the managerial level in order to establish organisational culture in the SMEs. Sectoral training programmes shall be held in order to enable SME employees to take active role in the institutional decision-making process. Informative programmes will be organised in order to establish the concept of human resources management system in SMEs. Legislative regulations shall be made in order to create professional standards and the system of testing and certification.

A legislative regulation which will require all entrepreneurs starting-up businesses to document their related vocational training shall be made. Cooperation of vocational high schools and universities with entrepreneurs and industrialists in less developed regions shall be develop in order to ensure that they build production bases and organisational structures scientific and suitable for specific market conditions. SMEs shall be informed about best practices in the developed and developing countries in order to realisation of successful ideas and applications as soon as possible.

SMEs shall be informed about project and technology management. Joint programmes shall be developed in order to ensure that SMEs make use of the information capacity of universities and large firms. The relations between producer and supplier industries shall be strengthened and projects developing the training level of staff working for the supplier industry shall be supported.

DEVELOPMENT OF CHEAPER AND FASTER PROCESSESS FOR BUSINESS START-UPS

The legislation pertaining to process of establishing businesses shall be simplified so as to reduce bureaucracy. Coordinated training programmes shall be held by professional and service organisations in order to inform SMEs in the processes of business start-up. For this purpose, information offices shall be set up and the cooperation among existing offices shall be further strengthened.

Entrepreneurs shall be informed about the investment environment starting from the beginning of the establishment phase, sector-based development plans and market research shall be prepared and submitted to the attention of entrepreneurs, and SMEs shall be kept informed so as to ensure that they act in line with the concept of strategic planning starting from the establishment phase.

Employment-generating activities by entrepreneurs shall be encouraged and the budget allocated for programmes geared towards the employment of skilled labour shall be increased.

ENACTMENT OF BETTER LAWS AND LEGISLATION

The necessary legal adjustment/adjustments shall be made in order to introduce an SME definition that complies with the EU Recommendation. Once the definition of an SME is harmonised with the EU definition, the statistical system shall also be developed with due consideration of the EUROSTAT

norms. The new system will be able to generate data that are appropriate for the policies and programmes determined within the scope of the new definition and thus statistics on SMEs will be monitored on a continuous and renewable database.

Regulations that have an adverse effect on SME activities shall be reviewed and the efforts for improving the investment environment shall be completed. Amendments shall be made to pieces of legislation that need to be simplified and/or developed.

Coordination among institutions which make and implement SME policies shall be improved, policies and programmes shall be continuously monitored according to rational criteria and be updated, institutions and bodies shall be evaluated in the light of performance criteria to be developed according to the sectors they serve. In order to ensure that SMEs work within conditions of a free market economy, public services delivered in the same sectors together with private business shall be assessed and it shall be prevented from creating unfair

Competition environment.

Non-governmental organisations pertaining to SMEs shall be supported and training and informative activities shall be organised in order to grant these organisations a more active role in the planning and implementation phase. Mechanisms that will provide support for enterprises suffering from financial problems that are likely to survive if they are restructured shall be created. Legislation on execution, bankruptcy and liquidation procedures shall be improved.

The legislation on state aid to SMEs shall be improved by taking regional development maps to be created into consideration. Bureaucratic procedures on applications for state aid shall be simplified. Legislation shall be prepared in order to prevent splitting of companies and to encourage mergers.

TRAINING TO PROVIDE QUALIFIED PERSONNEL

Education and training institutions shall offer training according to professional standards in order to meet SME demand for skilled labour; the quality of existing training programmes shall be upgraded and their capacity shall be increased. Training programmes shall be developed in order to establish the concept of life-long education and training so as to develop the skills of the active work force in line with the market demand shaped by growing and changing products and production processes.

IMPROVING ON-LINE ACCESS AND TRANSACTIONS VIA THE INTERNET

Informative activities via Internet shall be improved in order to promote public services for SMEs to ensure to expand communication between SMEs and government agencies. In order to increase the effectiveness of this processes, special informatory efforts to explain the benefits to be obtained by SMEs by using the Internet shall be made, thus use of computer and the Internet shall be spread out. Efforts shall be made in order to develop on-line transaction facilities on the Internet.

OPENING UP TO NEW MARKETS

Strategic planning towards exporting will be realised with the participation of the private sector in order to protect SMEs from the negative impact of globalisation, to release from sectoral and regional dependencies and to identify areas for potential competitiveness. The legislation of export incentives shall be renewed according to the long-term strategy providing coordination of all relevant bodies.

SMEs shall be informed for channelling them to exporting. Sectoral export organisations shall be expanded. The sectoral foreign trade company model shall be improved according to international best practices. Additional support shall be provided in order to increase the efficacy of this implementation.

The quality of products and production process shall be improved in order to make SMEs more competitive in international markets, while also informing them about international standards. Local and national brands shall be supported in order to make them competitive in all foreign markets. Measures shall be taken in order to decrease the cost of energy, employment and communication inputs for export companies by decreasing tax rates in these fields. The resource structure of Eximbank shall be strengthened; bureaucratic procedures shall be reduced and simplified. Especially measures to lessen the credit guarantee problem shall be taken.

IMPROVEMENTS TO BE MADE IN TAXATION AND FINANCIAL MATTERS

Pertaining to the state aids on investments, within the frame of tax incentives, the process of transformation to the system without incentive certificate shall be monitored and improved. Studies shall be made with the aim of revising special-purpose tax supports and the cash support system as based on region, scale and horizontal assistance in accordance with the foreseen regulations in the EU and other international agreements. Regional differences in state aid for investments shall be redetermined according to the concluded Nomenclature of Territorial Units for Statistics (NUTS) within the framework of EU harmonisation efforts. Incentives shall be reviewed for sub-regions, provinces and where there are relevant, special regions with problems requiring support. Plants closed down due to the crisis or lack of capital or those operating with low capacity shall be regained into the economy and provisions shall be made for realisation of new investments. A new approach (The Anatolian Approach) shall be developed in order to solve SMEs' problems with banks.

Efforts shall be made in order to simplify tax legislation pertaining to SMEs. Banks shall be encouraged to give SME credits. Special credit programmes for young and female entrepreneurs shall be made more effective and widespread. Efforts shall be made in order to bring those with feasible projects together with capital holders. SMEs shall be supported with modern financial instruments and by modern institutions in a well functioning environment complete with capital markets and money markets. Search on financing applications such as venture capital, finance investment partnerships and real estate investment partnerships shall be expanded and funds that can constitute a resource for such implementations shall be mobilised.

SMEs shall be informed about financing services; informative programmes shall be prepared with cooperation of finance organisations, professional bodies and public service companies. An information system on finance shall be created. KGF's resources shall be increased and efforts shall be made in order to increase the fund multiplier for a more effective use of collateral responsibility fund.

The required work shall be undertaken in order to ensure that KGF operates in cooperation with more banks. The founding of new credit guarantee organisations shall be supported. Steps shall be taken in order to ensure that resources acquired through international cooperation programmes are used for realising pilot projects for modern finance practices.

DEVELOPMENT OF TECHNOLOGICAL AND INNOVATION CAPACITY OF SMEs

Strategies shall be developed and projects shall be prepared for fostering SMEs' capacity for technology and innovation within the scope of the Community's 6th R&D Framework Programme. Services geared towards the dissemination of know-how in Turkey shall be strengthened. Capacity for know-how transfer and consultancy shall be developed. Increase in the capacities in engineering, technology transfer, R&D, design and of service producers all other related to technology shall be provided. Their trade links with the client (e.g. manufacturing) SMEs shall be strengthened. Through developing market-making policies, efforts regarding setting up intermediary organisations to increase this interaction shall be made. In the process of developing market mechanism between producers of

technological services and small and medium sized industry, efforts shall be made to promote the creation of R&D capacities either inside of companies or as separate service companies and setting up of contracted research organisations, in line with the arising demand in required areas, in order to strengthen the capacity for generation of technology of the country.

In this context, cooperation between universities and industry shall be supported, SMEs shall be led towards R&D activities and meeting of SMEs with universities in the techno parks shall be ensured. Establishment of Technology Development Zones shall be supported. Training, consultancy, and R&D supports related to the creation of quality awareness and the development of techno-infrastructure in line with the dissemination of the harmonisation of SMEs with the Technical Legislation, their acquisition of the CE mark and making use of metrology, standardisation, testing and quality systems (MSTQ) shall be increased. Efforts regarding development of private quality and certification systems shall be made. The creation of local and regional clusters and communication networks shall be promoted. Fieldwork studies shall be carried out in order to provide a basis for these implementations. Efforts shall be made to disseminate technology through developing cooperation among companies. Information networks among companies shall be strengthened and active participation of all enterprises to take part in these systems shall be ensured. With the aim of supporting organisation of SIEs within cluster approach, analysis of existing conditions on sectoral basis and field studies shall be carried out. Pilot projects shall be conducted in the SIEs to be determined as a result of these activities.

The legislation on crediting of construction of SIEs shall be revised and completion of constructions on time shall be ensured. Modelling studies shall be made in order to strengthen the existing practises in a way that supports the establishment of business clusters and to increase the capacity of cooperation.

INFORMING SMEs ABOUT BEST PRACTICES VIA THE INTERNET AND DEVELOPMENT OF HIGH LEVEL SME SUPPORT

The variety of SME support services shall be increased and their quality shall be raised to catch up with international standards. The interaction between the SMEs and service providers shall be increased. The number of service provider contact offices shall be increased in order to match supply and demand more easily and to ensure that supply is shaped according to the needs of the sector. The structure of action programmes shall be made more flexible. SMEs shall be informed about successful SME activities on a national or international level also by making use of information and communication technologies. SMEs will be facilitated to benefit from the experience of successful companies

Informative activities about the positive impact of institutionalisation on company operations shall be executed. Management and organisational models shall be created and promoted for SMEs active in

different sectors. The level of communication among regions shall be enhanced in order to make possible the spread of best practices. Public and private sector institutions and organisations shall be informed about policies and programmes implemented in other countries in order to support SMEs. Efforts shall be undertaken in order to develop their own activities following the examples of successful countries. Turkey will take active part in relevant international activities.

The number of KOSGEB service centres shall be increased according to an organisation programme. Current service centres shall employ an adequate number of staff. The service quality of these centres shall be enhanced to have standard practices and they will be assessed according to various performance criteria.

The KOSGEB action programme shall be enriched by developing special support programmes for different regions and sectors. The applications of common facility laboratories and workshops shall be spread. Budget allocated for employment support shall be expanded and the scope and sustainability of this service shall be increased.

The revenue sources of KOSGEB shall be better programmed in order to ensure that the organisation reaches to a regular income structure. The organisation shall be granted a financial capacity that will enable the provision of services across its target group. The required institutional capacity shall be created in order to develop high-level SME support services.

Consulting services for SMEs shall be standardised. Training activities shall be held for independent consultancy firms and actions will be taken for accreditation of these firms while their services shall be continuously supervised.

In rendering support services, cooperation with professional organisations shall be observed. Training and information activities shall be carried out in order to delegate the delivery of support to professional organisations.

Special SME support projects shall be developed with due consideration of local potentials within the framework of regional development projects. The promotion of all sorts of support directed at the SMEs will be expanded and SMEs shall be informed about the use of international resources. The establishment of small industrial specialty estates shall be encouraged and the setting up of sectoral foreign trade companies in these estates shall be supported. The required infrastructure for transferring the population employed in agricultural into industry shall be planned; in less developed regions, the construction of infrastructure shall be phased in order to complete them in the shortest time possible. It will continue to give the OIZs and SIEs in these regions credits with lower interest rates and longer terms.

Likewise, agricultural cooperatives and unions having the character of SMEs that have been set up by entrepreneurial producers in the countryside shall continue to be supported in order to create and further develop rural industry.

MORE EFFECTIVE REPRESENTATION OF SMEs ON NATIONAL AND INTERNATIONAL PLATFORMS

Institutions and organisations representing SMEs shall play a larger role in developing SME policies and programmes. Apart from developing SMEspecific policies and programmes, efforts shall also be made to ensure that due attention is paid to the SME dimension in all policies and programmes.

Institutional capacity-building activities shall be supported in professional bodies and non-governmental organisations representing SMEs in order to increase their communication with their members. The cooperation level among such organisations shall try to be raised by bringing them together through projects to be funded by national and international sources. Therefore, a process of common opinion building shall be fostered whereby SMEs shall be represented in a better and stronger manner.

LEGAL AND INSTITUTIONAL ARRANGEMENTS

The legal and institutional arrangements required in order to reach the above mentioned objectives are listed below:

- Steps will be taken in order to amend Law No. 507 on Craftsmen and Small Artisans in line with current needs.
- Law No.3624 on the Establishment of Small and Medium Industry Development Organisation shall be amended according to current needs.
- Actions will be taken in order to amend the Chambers of Commerce and Industry and Commercial Exchanges Law No. 5590 according to current needs.
- Legislative regulations shall be made about the SME definition. Food legislation shall be harmonised with the EU acquisition.
- Legislation regarding the formation of a testing and certification system about professional standards shall be prepared
- Legislation shall be prepared requiring those who open up new businesses to document their vocational training in the relevant field.

Annexure 3.11

The McKeever Institute of Economic Policy Analysis (MIEPA) Policy Analysis and Prescriptions

GROUP 1: CRITICAL INTERNAL POLICIES

Economic policies in Group 1 are policies critical to the well-being and security of the nation-state. The policies in this group are a government's first priority.

Freedom from internal control

Citizens are free from positive or pro-active control by government agencies. They are free to move about and engage in any activity that is not prohibited for good reason. This freedom provides the maximum opportunity to create new enterprises and wealth. Unfree citizens must obtain permission before undertaking any wealth creating activity. Countries wherein citizens are free to move about at their own discretion receive high marks.

Freedom of speech

Citizens are able to express themselves freely without censorship or restriction. This freedom provides potential entrepreneurs with maximum exposure to possible opportunities. High marks to countries with no restrictions on speech or other communication.

Effective, fair police force

Citizens and enterprise managers need freedom from fear of criminals; freedom from fear of crime encourages maximum new enterprise creation.

A police force perceived as fair by all members of a community allows all members to share a sense of responsibility for the society's future. Minority citizens will be more likely to start new enterprises if they feel they will be treated equally. Countries receive high marks when the police force is efficient and fair.

Private property

Laws that protect private property in conformance with local practices so that titles are nationally recognized, instead of extra-legal titles that are recognized locally only, create incentives for individuals to establish wealth creating ventures, producing benefits for the entire economy. Countries where property owning citizens and foreigners alike have clear and court protected rights receive high scores, provided that all property (real, personal and intellectual) is protected.

Commercial banks

Commercial banks which lend money to enterprises and in which most citizens leave their cash deposits facilitate commercial activity and employment. Countries receive high marks when the commercial banking system is sound and actively finances business operations while limiting its activities in financial, non-business activities.

Communication systems

An extensive network of communication facilities - telephone, TV, radio, FAX, newspapers, magazines, computer networks and so forth - facilitates the introduction of new ideas and business opportunities into a country. High scores are received when communication facilities are ubiquitous.

Transportation

Good transportation facilitates the movement of merchandise and people, thereby improving the commercial activity of the country. All means are included: roads, rail, air, and ship. All markets of the country should be available by at least two transportation means. Countries receive high marks when all markets and population centers are easily accessible to passenger and freight transportation.

Education

Both the quality and quantity of education is critical to wealth creation. All the schools and universities in a country should prepare students to compete with students from other countries as well as other students within the country. Most children should receive an education sufficient to enable them to function in a modern economy. Countries with high literacy rates, high percentages of children enrolled in secondary schools and at University and whose Universities are world renowned for excellence receive high marks.

Social Mobility

The ability of each individual person in any group in society to advance in earning capacity is critical to wealth creation; barriers to such advancement reduce the society's capacity to create wealth. Jobs in all public sectors must be earned by ability and not given to cronies. Additionally, the education system should provide access by all persons to the tools needed by individuals from deprived backgrounds to join the more elite classes.

GROUP 2: CRITICAL EXTERNAL POLICIES

Economic policies in Group 2 are as critical to a country's well-being as the policies in Group 1. An effective sovereign government manages its external policies as well as it manages its internal policies.

Freedom from outside control

Citizens of any country should be free from control by any citizen or agency of any other country. Countries wherein citizens are subject only to the laws of the home country receive high marks.

Foreign currency transactions

Effective national governments require that only the domestic currency is used as money in the home country. All foreign currencies must be converted to domestic currency to conduct business. This creates a single currency and enables the government's fiscal and monetary policies to be effective. Countries in which all transactions are conducted in the official, national currency receive high scores.

Border control

Effective governments have strong borders. The national government decides which persons and goods shall enter and which shall not. Failure to control a country's borders leaves the wealth creating process inside the country open to any disruption from outside trends. Countries with effective control of smuggling in both directions get high scores.

GROUP 3: IMPORTANT INTERNAL POLICIES

Policies in this group are almost as important to national security as are policies from the first group.

Currency

Use of a single currency as money throughout a country encourages commerce within the country. Use of currencies issued by a variety of banks or other domestic bodies discourages commerce. Use of a single currency allows the economic policies of the sovereign government to have predictable effects. The difficulties are more severe when one or more of the currencies preferred for commerce are foreign currencies. Countries receive high marks when the only currency issued in the country is the official, government approved currency.

Cultural, language homogeneity

More wealth is created among a population that shares common values, language and customs. Introducing minority cultural groups increases the difficulty of conducting commerce and raises the possibility of armed conflict. When minority groups remain relatively small compared to the majority culture, wealth creation can continue. The likelihood of problems increases when the cultural differences are severe and when the various cultural groups are nearly equal in size. High scores go to countries with cultural and language homogeneity.

There is absolutely no justification here for any forced uniformity such as "ethnic cleansing." Any such action is morally reprehensible on its face. Countries with minority conflicts that remain peaceful create more wealth than countries where ethnic conflicts become violent.

Political effectiveness

Good governments recognize and solve problems. This improves the business climate when it extends to all parts of the country, rather than remaining localized in the major population centers. Countries wherein rural areas are governed as well as urban areas create more wealth. High scores accrue to countries wherein the political process does solve problems.

Institutional stability

Countries wherein most organizations remain stable for many years create more wealth than those countries where institutions change frequently. Countries with stable governments, courts, schools, law enforcement and businesses receive high scores.

Honest government

Good governments attract leaders who truly wish to help their subjects while poor governments contain functionaries who use their office for profit. Government leaders who work to limit or eliminate corruption create high scores for their country.

Common laws

Good governments have the same set of non-conflicting laws, justice and dispute resolution throughout the population. Also, the administration and implementation of the legal system is uniform in all parts of the country and for all parts of the population. High scores result when the legal system is effective and when it is equally fair in all parts of the country.

Central bank

Central banks are required to manage the commercial banks in the country and the currency of the country. These banks should be independent of political control and charged with producing the most good for the economy in the long term. A country receives a high score when the central bank manages the country's commercial banks and monetary policy effectively and the central bank is independent of political control.

Domestic budget management

Good governments spend as much money as they collect in taxes. Continuing or increasing budget deficits indicate a weak government that caters to special interests. A balanced domestic budget results in a high score for the country. However, if a country attempts to reach zero inflation, it is likely that wealth creation will be reduced; while inflation must be controlled, wise countries recognize that zero inflation is impossible to achieve and allow limited inflation as an incentive to job creation.

Government debt

Good governments manage their debt to avoid any negative effect on economic growth. Debt paid to foreigners is more of a drain on the economy than debt paid to citizens. It is possible to manage debt to achieve a high credit rating while still producing a negative force on the economy. Countries with total government debt as a low percentage of GDP receive a high score. A country is considered excessively indebted when the present value of its debt service exceeds 50 percent of its GNP.

NOTE: Debt produces a negative effect on the economy because debt service payments take money from wealth creating activities. This is true even if the borrowed principal produces wealth because the total repayment stream will be in excess of the borrowed principal. While inflation reduces the economic cost of borrowed money, inflation creates severe negative effects on the economy and borrowing to finance budget deficits increases inflation.

Economic statistics

Accurate and plentiful statistics produce increased awareness of business opportunities. Poor statistics increase risk and reduce investment. High scores go to countries where plentiful statistics are published, provided that independent observers rate them as accurate.

Protection of public health and safety

Good management of waste, food inspection, infectious disease and other public health issues increases wealth in a country. Countries receive high scores when their public health statistics for indicators like infant mortality and tuberculosis approach the highest world wide standards as collected by the UN.

High wage policies

Countries that encourage high wages have larger domestic markets. Obviously, countries with high wage policies must protect domestic workers from low wage foreign competition or the positive effects of the high wage policies will be destroyed. Countries receive high scores when most of the working people can afford to buy consumer goods beyond basic living necessities.

Environmental protection

Countries that protect their natural environment from harm preserve the value of their resources. Countries which resolve conflicts between resource preservation and resource development receive credit for sound policy making. Countries receive high scores when they protect clean air, water and forests with effective regulation.

GROUP 4: IMPORTANT EXTERNAL POLICIES

This group of external policies shares a high level of importance with the previous group.

Strong army

The national armed forces should be strong enough to protect the country from armed attack by likely hostile neighbors as well as from attack by revolutionaries or bandits within its borders. Small countries do not require armed forces to protect them from large countries; they rely on defence agreements with protector states instead of diverting massive funds to military uses. Countries which have sufficient armed force to protect the nation's borders from attack receive high scores, provided that the cost of the forces is below one-third of the domestic budget.

Foreign trade impact

Well managed countries rely on foreign markets for a manageable share of their economic output. If trade accounts for a majority of the nation's economy, the country is vulnerable to outside forces. On the other hand, if trade accounts for almost none of the country's economy then it is likely that the country will create more wealth for its citizens by increasing foreign trade. Countries where the total of imports and exports (foreign trade) is about one-third of the GDP receive high scores.

Protection of foreign currency earning enterprises

Well managed governments realize that export earnings help the economy and protect such enterprises to a reasonable extent. High scores accrue to countries which encourage and protect exporting industries from foreign competition.

Management of foreign currency budget

Well managed countries recognize that foreign currency surpluses and deficits have multiplied effects on the economy because of the fractional reserve banking system; these countries do not accumulate large surpluses or deficits of foreign currencies. Either imbalance reduces the economy's strength. Countries receive high scores when the combined balance of payments for goods, services and real capital transfers is close to zero.

GROUP 5: BENEFICIAL INTERNAL POLICIES

These policies benefit wealth creation and national security although they are not essential.

Layers of collective action

Countries with a wide variety of collective enterprises develop a tradition of accomplishment and leadership. Elected school boards, city councils and volunteer groups give many people an emotional stake in the country's future and also provide a steady supply of seasoned managers. Countries wherein there are many locally elected bodies that are not dependent on the central government for funding or appointed officials receive high scores.

Pro business climate

If the society places a high value on business, then more people will consider enterprise leadership as a career and more businesses will be created. When business persons enjoy high social status and encouragement from the government the country receives a high score.

Government enterprises

Government owned businesses can contribute to the well being of a country, provided that they are self-supporting. However, some governments establish and maintain enterprises for other reasons; these enterprises destroy wealth when they require government subsidies to continue. If the treasury pays few such subsidies, the country receives a high score.

GROUP 6: BENEFICIAL EXTERNAL POLICIES

These policies benefit any country.

International security agreements

Mutual aid treaties and other agreements that increase a country's ability to counter an armed threat help a country's security. Countries which enter such treaties to protect their domestic security from attack receive high marks when the treaties are effective.

Protection of domestic enterprises from government mandated costs

When any country imposes costs on its domestic enterprises that are not uniformly imposed by other countries, such as environmental taxes or worker safety regulations, those companies will be at a cost disadvantage in the home market. Countries should protect domestic companies from government imposed cost disadvantages. Countries which impose tariffs to neutralize these costs receive high scores.

Table 3.5: Comparative standing of countries in their SME Policies

Sl. No	Policy Parameters	Brazil	China	Italy	Malaysia	Philippines	Republic of Korea	South Africa	Turkey
1	Freedom from internal control	5	3.5	4.5	4.7	4.0	5.0	5.0	2.9
2	Freedom of speech	2.0	3.0	4.5	5.0	3.0	4.5	3.0	2.3
3	Effective fair police force	1.0	2.0	4.0	3.5	1.0	5.0	0.5	2.5
4	Private property	5.0	4.0	5.0	4.3	4.5	5.0	3.0	3.9
5	Commercial Banks	3.0	5.0	4.5	5.0	4.0	5.0	3.0	3.4
6	Communication Systems	4.0	4.5	4.1	5.0	4.0	5.0	4.0	3.2

7	Transportation	3.0	4.2	4.7	5.0	4.0	5.0	4.5	4.1
8	Education	1.0	4.0	3.8	3.7	2.0	4.0	4.5	2.2
9	Social Mobility	1.0	4.0	3.5	3.5	1.0	3.5	5.0	2.4
10	Freedom from outside control	2.0	5.0	4.0	4.7	5.0	4.5	2.0	4.0
11	Foreign currency transactions	5.0	5.0	5.0	4.0	5.0	4.5	2.5	3.3
12	Border control	1.0	4.0	3.4	3.7	1.0	5.0	1.0	3.0
13	Currency	2.0	5.0	5.0	5.0	4.0	5.0	5.0	3.9
14	Cultural language homogeneity	5.0	4.5	4.0	3.7	2.0	5.0	3.0	3.7
15	Political effectiveness	1.0	4.5	3.0	3.7	3.0	5.0	3.0	2.0
16	Constitutional strategy	1.0	4.5	2.8	3.7	4.0	4.0	4.5	3.1
17	Honest Government	1.0	2.5	2.0	3.0	1.0	3.5	2.0	2.6
18	Common laws	1.0	3.5	4.8	4.7	1.5	5.0	1.0	2.4
19	Central Bank	3.0	2.8	4.5	4.0	1.5	5.0	2.0	2.5
20	Domestic budget mgmt	1.0	4.0	4.7	4.3	1.5	3.5	1.0	2.9
21	Grant Debt	3.0	4.0	1.8	4.0	1.5	4.0	2.0	1.8
22	Economic statistics	3.0	3.0	2.5	4.7	4.0	5.0	4.5	2.1
23	Protection of public wealth and safety	2.0	2.0	4.5	4.1	2.0	4.5	3.0	2.1
24	High wage policies	1.0	2.5	3.5	3.7	1.0	3.5	3.0	2.1
25	Environmental protection	2.0	2.5	4.8	4.7	1.0	4.5	5.0	2.1
26	Strong army	1.0	4.5	3.5	3.5	1.5	4.5	1.0	4.3
27	Foreign trade impact	3.0	2.5	3.0	3.6	5.0	4.0	2.5	3.6
28	Protection of foreign currency earning	3.0	3.0	4.6	4.5	4.5	4.5	4.0	3.2

	enterprises								
29	Management of foreign currency budget	3.0	4.0	3.0	3.5	2.0	4.5	4.0	2.3
30	Layers of collective achievements	1.0	2.5	5.0	4.5	4.5	4.5	4.0	2.2
31	Pro Business Climate	3.0	4.0	4.2	4.5	4.5	4.5	2.0	3.0
32	Govt. Enterprises	1.0	3.5	4.0	2.0	1.0	3.5	1.0	2.4
33	International security agreements	5.0	4.5	5.0	3.5	4.0	5.0	5.0	4.0
34	Protection of domestic enterprise from govt. mandated cost	1.0	4.0	3.0	4.5	4.5	5.0	4.0	2.5
Overall Ranking		80.0	126.0	134.2	139.5	97	135.5	97.9	
		47.7%	93.6%	78.7%	81.3%	56%	89.6%	57.0%	

Rating Scale: 5.0 = Perfect Facilitation of Wealth Creation; 4.0 = Midway between Perfect and Neutral; 3.0 = Neutral Effect on Wealth Creation; 2.0 = Midway between Neutral and Obstructionist; 1.0 = Perfectly Obstructionist to Wealth Creation

Chapter IV:

FINANCIAL SYSTEMS, POLICIES AND PROGRAMMES

Credit availability to MSMEs in timely and affordable rates is of foremost importance for their survival and growth in the current competitive market. It is also understood that there exists significant differences in managing credit, credit delivery channels and institutional systems.

Among 8 countries, Malaysia performs better than others in terms of access to finance, VC availability and affordability of financial services, except in case of availability of financial services where South Africa is ahead (Table 2.1). Simultaneously, for depth of credit information, Malaysia, Rep. of Korea and South Africa score equally highest scores. Surprisingly, It is observed that Korea which ranks 13 as against Malaysia's 30, has the most difficult environment in getting credit, despite a well-established credit guarantee system. Korea also performs unimpressively in other parameters like VC availability, affordability of financial services, etc. when compared with other countries. In view of the same, country wise specific financial parameters are presented in various chapters.

Table 2.1: Ranking of Select Financial Parameters of 8 countries

No	Parameters	Brazil	China	Italy	Malaysia	Phillipines	South Africa	South Korea	Turkey
1	Ease of access to loans	65	51	113	10	55	41	118	77
2	Venture capital availability	60	27	104	8	75	39	98	99
3	Availability of financial services	27	71	82	24	49	7	98	52

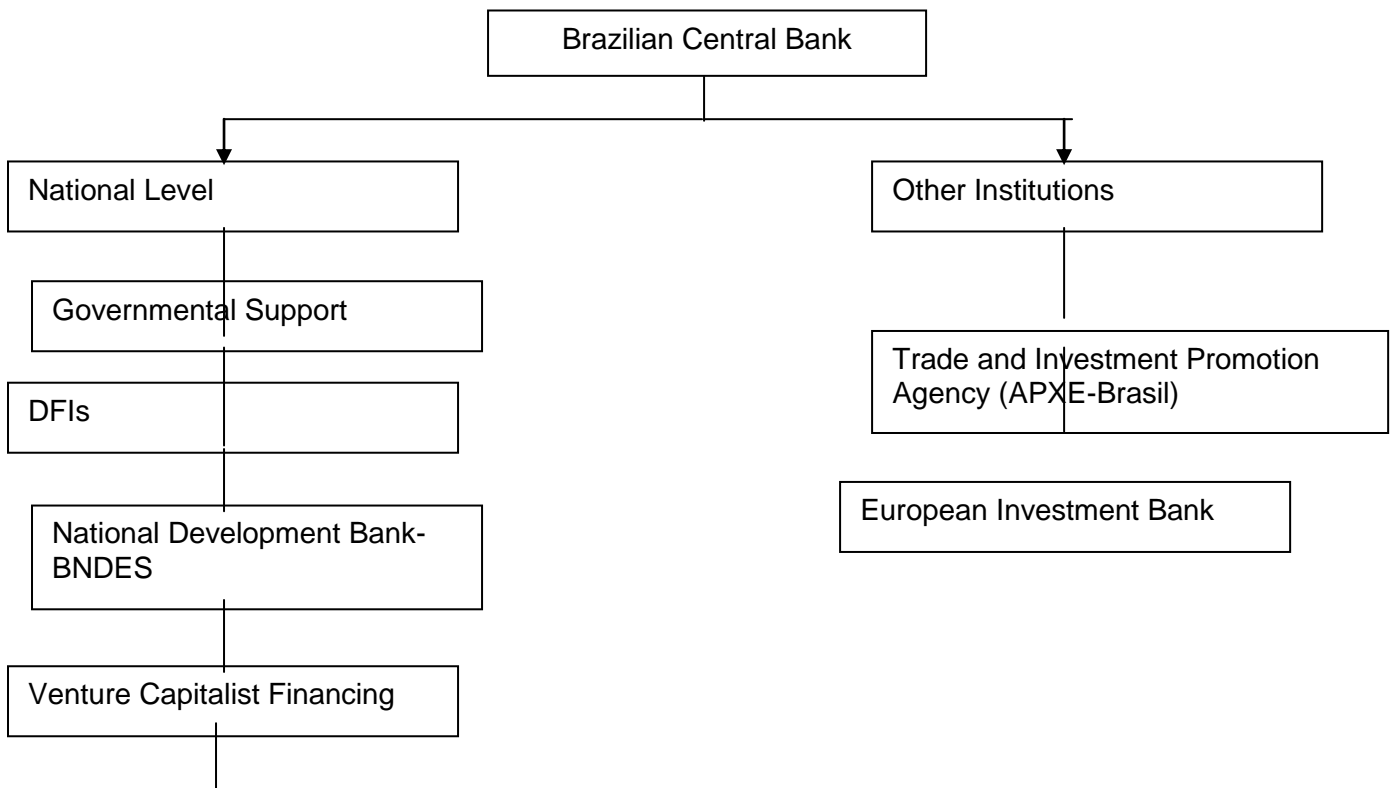
4	Affordability of financial services	52	44	106	15	37	43	82	40
5	Depth of credit information index (0-6)	5	4		6	3	6	6	5

Source1: the Global Competitiveness Report 2010-11, World Economic Reform
Source 2: Doing Business Report, 2011, World Bank

BRAZIL

Financial system of Brazil is relatively developed and diversified. The banking industry consists of 134 institutions, operating altogether more than 50,000 facilities across the country. Credit delivery system to MSMEs in Brazil includes the number of organizations working in the same direction as shown in Chart 4.1.

Chart 4.1: Financial Support Institutions in Brazil



SABRAE

In case of Brazil, the operating interest rate instrument is its overnight lending rate, called Sistema Especial de Liquidação e Custódia (SELIC) rate. The Brazilian Central Bank (BCB) is [Brazil's](#) highest monetary authority. The BCB has followed a cautious interest rate policy. The BCB has been successfully implementing an inflation targeting framework for monetary policy, with a view to anchoring price expectations to a gradually declining inflation path. This interest rate policy has contributed—along with the improving trend of the fiscal and external accounts—to strengthening the exchange rate.

Interest rate targeting

There are specific restrictions imposed on: (i) the amount of credit concessions to state companies (CMN Res. 2444, of 19th November 1997), and (ii) interest rates charged by the banks on loans to the agricultural sector (CMN Res. 2398, of 25th June 1997), currently a variable long-term interest rate based on yields of long-term government bonds (TJLP – Taxa de Juros de Longo Prazo), plus a fixed spread of 90/0 per year for Treasury funds, as well as fixed interest rates for controlled resources that banks are obliged to put aside for agricultural financing.

As of September 2008, wherein the impact of the crisis was strong on Brazil economy, specially with regard to reduction in liquidity, the Government and the Brazilian Central Bank came out with a number of policy measures (As shown in box 4.1). It is appealing to note that the public sector began working anti-cyclically. The implementation of this policy, assisted by monetary stimulus due to lower basic interest rate, stimulated reactivation of aggregate demand early in the second quarter of 2009. Industrial activity reacted vigorously throughout the year, thanks, especially, to tax incentives for automobile production and household white goods.

Between September and December 2008, credit from State-owned banks grew 12.9%, while that of private banks rose only 3.2%. as a result, State-owned banks were responsible for 68% of the net variation of credit operations over 4th Quarter of 2008. The existence of public banks has been a differential in this specific crisis, to such a degree that the States have become more efficient in offsetting the recoil of private institutions. State owned banks maintained a growth pattern, presenting a more robust expansion

(12%), particularly for enterprises (14%). By seeking to sustain credit levels in the economy, State-owned banks are fulfilling their roles as development promotion agencies.

Government Support

The federal government set up a program in 1996, managed by the Central Bank, which aimed at privatizing state-owned banks or transforming them into Investment Promotion Agencies (IPAs). Many of the IPAs in the state level in Brazil are originated from those banks, so they have the main function of providing credit for SMEs, such as, the investment promotion agency in the states of Goiás (GoiásFomento), Rio Grande do Norte (AGN) and Mato Grosso (MT Fomento). Those are in line with the role of some IPAs surveyed by UNCTAD (2006b), that help facilitate SMEs' access to resources that they would otherwise have difficulty accessing, or, where legally permissible, working with banks to secure guarantees for suppliers in obtaining loan financing.

Table 4.2 – Main categories of IPAs (or development institutions with investment promotion functions) in Brazil

<p>National system of institutions</p> <p>Investment Promotion Agency (APEX-Brasil) Investment and Technology Transfer Promotion System for Companies</p>	<p>IPAs originated from state development banks</p> <p>Agência de Fomento de Goiás (GoiásFomento) Agência de Fomento do Rio Grande</p>
<p>IPAs composed by government and private organizations</p> <p>Pernambuco Economic Development Agency (AD Diper) Minas Gerais Industrial Development (MGID)</p>	<p>Private, non-profit organizations</p> <p>Development Agency of Rio Grande do Sul (Pólo-RS)</p>

For supporting existing small businesses and new start ups MDIC launched a Programme Enterprising Brazil, or Programa Brasil Empreendedor (PBE) in 1999. Since 1999, it has made available more than R\$3 billion for investment in small and medium-sized enterprises. Support is dispensed through Banco do Brasil, as well as through Sebrae, BNDES and a number of other state banks to business owners that work together in focus groups of 25 firms with similar interests.

The other initiatives related to PBE are given below:

- The Fundo de Aval às Micro e Pequenas Empresas (Fampe or Credit guarantee fund for micro and small businesses): formed from resources drawn from Sebrae's budget has been in operation since 1995 and aims to guarantee credit to small businesses. In August 2010, the fund which guarantees loans principally through Banco do Brasil, (which is disbursing over 99% of all guarantees) had given out R\$3.6 billion to 143 544 micro and small businesses
- Criatec programme: A venture capital fund created by development bank BNDES in 2007. It aims to invest R\$100 million in about 50 small innovative companies, with investments each of between R\$1.5 million and R\$3.5 million. In 2008 Criatec invested a total of R\$15.4 million in 11 businesses, with an average investment of R\$1.4 million in each enterprise.
- Programme First Innovative business (Prime): launched in 2009, provides grants of about \$R120 000 to start-ups, selected by 17 incubators acting as agents, focused on innovation. Between 2009 and 2011, and through three rounds of finance, it hopes to reach about 5 000 entrepreneurs with R\$650 million in grants, with a total of R\$1bn including additional capital and credit. Finep also has a 0% interest funding programme to stimulate firm growth in early stages, which successful new enterprises can also request loans from – up to R\$120 000 in 100 installments without interest. In all, 140 were supported through the grant at the end of its 2009 funding cycle.
- Inovar Project: a venture capital fund and information network, hosted by the Brazilian government's innovation agency, Finep (Financiadora de Estudos e Projetos – Research and Projects Financing). FINEP (Research and Projects Financing), is a publicly owned company which falls under the Ministry of Science and Technology and was founded in 1967. Its mandate includes supporting small enterprises with funding to access innovation. The first funding Inovar I kicked off in 2000 and a second one was recently launched in 2008. So far, 52

businesses have benefited – 50 of which are SMEs. Most of the companies (19) are in the IT sector.

The Brazilian government established in 2004 a new policy for competitiveness, the Política Industrial, Tecnológica e de Comércio Exterior - (PITCE). The lines of directions involve both horizontal policies (for all sectors of the economy) and vertical ones (for four specific sectors considered strategic for the development of the economy and international insertion of the country: pharmaceutical, software, capital goods and semiconductors). Those are capital-intensive sectors structured by large enterprises, rather than labour force sectors.

In general, the PITCE programs targeting SMEs have two important goals:

- (i) To increase the SMEs participation in the national exporting
- (ii) To improve the firm's access to credit lines

There have been initiatives by the Brazilian Central Bank to push leading banks to increase lending to SMEs, and provided credit lines to the agricultural sector. It has helped the SMEs through Government purchasing programmes with guaranteed payment terms. Nacional Financiera (NAFIN) is supporting SME accounts payable, and facilitates the ability of SMEs to raise finance. Banco do Brasil has a target of 3.8 million small and micro businesses by 2011 with loans. Till 2008, it had handed out 1.6 million loans to medium, small and micro firms, slightly below the target set of 1.8 million. But it exceeded the R\$25.9-billion target for finance handed out, disbursing R\$31.8 billion in 2008.

Lead Banking

Brazilian Economic and Social Development Bank (BNDES) leads the Brazilian financial sector and is the main financing agent for development in Brazil. Originally set up in 1952, it was named as the Brazilian Economic Development Bank (BNDE) with the aim of developing and carrying out national economic development policies. In 1982, BNDE was renamed as BNDES to reflect its commitment to sustainable finance. Prior to this, BNDE was converted into a state-owned company under private law, according to Law 5662, of June 21, 1971, which resulted in more flexibility to raise and invest funds, besides less political interference.

Principles

The following principles guide the operations of the BNDES:

- promotion of development in an integrated conception that includes economic, social and environmental aspects;
- respect for human rights as well as combating and opposing all practices that involve any kind of discrimination or violation of rights;
- ethics and transparency as the pillars of relations with all stakeholders, ensuring dialogue and accounting for its decisions and efforts;
- proactive operations aligned with Brazilian standards and public policies, while respecting international norms of behavior.

Guidelines

BNDES' operations are primarily guided by social and environmental responsibility, together with other instruments. They refer to the strategic and operational efforts of the Bank and its stakeholders, as well as the impacts on society and the environment. These are:

- to strengthen public policies related to sustainability as well as social and environmental responsibility;
- to continuously develop and improve financial products, methodologies and other tools that incorporate social and environmental criteria while contributing, in particular, to local and regional sustainable development;
- to strengthen the approach to social and environmental responsibility in planning, management and operational processes;
- to induce and recognize the best practices in social and environmental responsibility of its suppliers, customers, accredited financial institutions and other partners, contributing to the advancement of sustainability in Brazilian society;
- to continuously develop and refine methodologies as well as other tools for monitoring and evaluating social and environmental impacts in addition to results generated by the Bank itself and by the financially supported efforts;

- to guarantee that the standard of corporate communication reflects the importance of social and environmental efforts and the BNDES' commitment to sharing responsibilities with transparency and dialogue;
- to continuously enhance knowledge and disseminate the culture of sustainability as well as social and environmental responsibility;
- to develop partnerships and share experiences with other organizations in order to foster social and environmental responsibility and to strengthen transparency and dialogue among stakeholders while reinforcing citizen participation in public management;
- to adopt policies that set great store by employees and promote their personal and professional development, with emphasis on social and environmental commitment and human rights;
- to implement the most recent sustainability requirements in their facilities and administrative efforts, contributing to the preservation of the environment.

BNDES has played a fundamental role in stimulating the expansion of industry and infrastructure in the country since its foundation, in 1952. In any supported undertaking, from the analysis phase up to the monitoring, the BNDES emphasizes three factors it considers strategic: innovation, local development and socio-environmental development. Over a period of time, its operations have evolved in accordance with the Brazilian socio-economic challenges, and now they include support for exports, technological innovation, sustainable socio-environmental development and the modernization of public administration.

The credit granting criteria for the SME include:

- (1) Sufficient expected cash flows to cover debt service,
- (2) Assignment of future project revenues to financing guarantors,
- (3) At least 20% of the borrower's equity.

Businesses have to comply with the established debt service coverage covenants which typically should not be less than 1.3:1. The company's size also influences the terms and conditions of business credit. For example, the limits for the working capital portion of the project vary by the size of the business. The total BNDES exposure should not exceed 75% of a total borrower's assets. BNDES limits the working capital portion of the financing to 70% of fixed assets for micro enterprises, and to 40% for SME. The

length of the loan repayment term for working capital loans is typically less than that for fixed asset financing. The interest rates charged on business loans in Brazil depend on the size of the firm.

One of the fast emerging facet of banking in Brazil is Sustainability and BNDES takes a leadership role in this direction by encouraging the best social environmental practices The Bank has been leading the way in the country when it introduced the social and environmental approach through initiatives like creation of a division to work specifically on supporting social projects at the start of the 1980s, and with the signing of the Green Protocol in 1995 which was revamped in 2008 as New Green Protocol - an initiative as outlined in the Intentions Protocol for Social – environmental Responsibility. This concept was ratified in its 2009-2014 Corporate Planning, which considers social-environmental responsibility a priority. Under this initiative, the BNDES is committed to develop relevant instruments for establishing sectorial policies by identifying the activity's social-environmental risks and impacts, social-environmental mapping of the sector while defining criteria and directives for project support. Since February 2009, a BNDES team has been dedicated to elaborating 18 guides, which is expected to be completed by 2010. The global aim is to have 52 guides published by the end of December 2012.

BNDES focussed on developing a BNDES card in 2004 which is exclusively aimed at providing financing for micro, small and medium-sized companies. Clients receive pre-approved rotating credit that may reach up to R\$ 1 million to purchase products listed in the Card's operations portal. Financing is provided at a pre-established rate (determined on a monthly basis by the BNDES) and interest rate is the lowest on the market. Till 2009, some 247,370 cards have been issued, with a total credit limit of R\$ 9.1 billion.

During the 1980s, the Bank encouraged Brazilian companies to compete with imported products on the domestic market, as well as stimulating exports. In the 1990s, it was responsible for the administrative, financial and technical support of the Brazilian Privatization Program, assisting in the sale of large State-owned Brazilian companies, which began in 1991.

In the 1990s, the BNDES emphasized its role in regional decentralization through heavier investment in less developed regions in Brazil, as well as support for exports of micro, small and medium-sized companies. The environmental issue gained importance with the classification of the environmental risk of projects.

Credit Guarantee Practices in Brazil

There have been credit guarantees schemes established by public sector financial institutions primarily in late 1990s. Some of the schemes include:

- FAMPE (Guarantee Fund for Micro and Small Businesses) – Established in 1996 and managed by SEBRAE, the guarantee can cover up to 50% of the value of the loan, but in some special cases the limit can be raised to 80%. FAMPE provides guarantees typically up to US\$40,000 (but in case of exporting firms and enterprises active in innovation and technology the limit is variable), on a maximum eight years term. There are four financial institutions, which partner with FAMPE, namely *Banco da Amazônia*, *Banco do Brasil*, *Caixa Econômica Federal* and *Agência de Fomento de Goiás*. These entities act in practice as the Fund's agents as the decision to ask for FAMPE's guarantees is up to them.
- FUNPROGER (Guarantee Fund for the Creation of Employment and Income) – FUNPROGER has been designed to support the implementation of the PROGER Program—an initiative for the financing of development plans of SMEs, cooperatives, individual professionals and informal businesses. Guarantees can cover up to 80% of the loan value. It was created in 1999 by the Ministry of Work and Employment with resources from the Fund for Workers' Protection, it is currently managed by the Banco do Brasil.
- FGPC (Guarantee Fund for the Promotion of Competitiveness) – FGPC started operations in 1999. The scheme is designed for exporting firms which benefit from some specific BNDES' lines of credit. The funds are provided by the National Treasury and administered by BNDES. Guarantees can cover up to 70% or 80% of the loan value depending on the type of operation.

The Brazilian Development Bank (BNDES) has accredited financial agents which are responsible for analysis of credit approval and guarantees. Usually these agents are the local banks where the borrowers already established some form of banking relationship. BNDES or the certified financial agents follow the standard credit granting practices, such as an adequate guarantee and satisfactory credit history.

The role of venture capitalists in the financing of high-growth SMEs:

BNDES was the first governmental body to get involved in the Brazilian PE/VC industry. In 1991, BNDES launched the Contec Program to invest up to US\$ 2 million in technology-based SMEs with less than US\$ 15 million in revenues. A total of 46 investments were made, totaling US\$ 100 million. Close to 70% of it was directed to telecommunications, electronics, consumer goods, ecological services, ecological products and biotechnology.

For a long period, BNDES followed different guidelines that kept itself away from the PE/VC industry. But in August 2006, BNDES resumed its program for the creation and development of new PE/VC funds. In the new program, the bank wishes to deploy approximately US\$ 130 million to nine funds (two funds for later-stage investment and seven funds for innovative SMEs). The bank has also launched a similar program to foster the creation of a seed capital fund with US\$ 40 million that will operate nationwide through local fund managers.

Trade and Investment Promotion Agency (APEX-Brasil): APEX-Brasil is primarily looking for the development of export strategies, the execution of Brazilian Export Promotion Strategy and the strengthening of relevant institutions. APEX-Brasil is a private and independent agency linked to MDIC whose main goal is to increase the number of Brazilian firms, mainly MSMEs, that export and to enhance the value of their exports through the diversification of markets and export products. To this end, financial support is provided, market analyses are made, products with export potential are identified, design and innovation are stimulated, the development of brands is promoted, business meetings in Brazil and abroad are supported and foreign trade capabilities are built up. APEX-Brasil particularly supports SMEs in achieving and maintaining a competitive edge in the global market. Some of the major activities in this context are:

- Financial and technical support for SMEs through sectoral Projects, in the following areas:
 - Market research;
 - Development of promotional material;
 - Participation in trade fairs;
 - Other actions related to exports promotion.
- Organization of SME participation in trade missions, as well as in international exhibitions, round tables and events in cooperation with retail stores;
 - Business intelligence;
 - Distribution centres ;
 - Attraction of investments.

European Investment Bank: for the upgrade and extension of the company's gas distribution network and operations in the São Paulo metropolitan area, The European Investment Bank (EIB) signed a loan of EUR 100 million with Companhia de Gás de São Paulo (Comgás). The EIB is offering loan in view of the current lending mandate for Asia and Latin America (ALA IV) to finance operations that contribute to climate change mitigation or to support the presence of the European Union (EU) in those regions through Foreign Direct Investment and the transfer of technology and know-how.

Governmental and DFI support:

- The Inter- American Development Bank (IDB), through its Inter-American Investment Corporation and Multilateral Investment Fund (MIF), has supported the creation of new VC funds with both technical assistance interventions and direct investment in selected funds.
- The International Finance Corporation and the International Bank for Reconstruction and Development, members of the World Bank Group, have acted in similar ways, but mostly in vehicles that aim at businesses in more advanced stages of business development.
- The Overseas Private Investment Corporation, an independent U.S. government agency, has taken a more generalist approach, by investing in vehicles that operate simultaneously in several Latin American countries.
- The Netherlands Development Finance Company (FMO) and the Commonwealth Development Corporation (CDC), a UK government-owned fund of funds, have acted as investors in PE/VC funds in Brazil.

CHINA

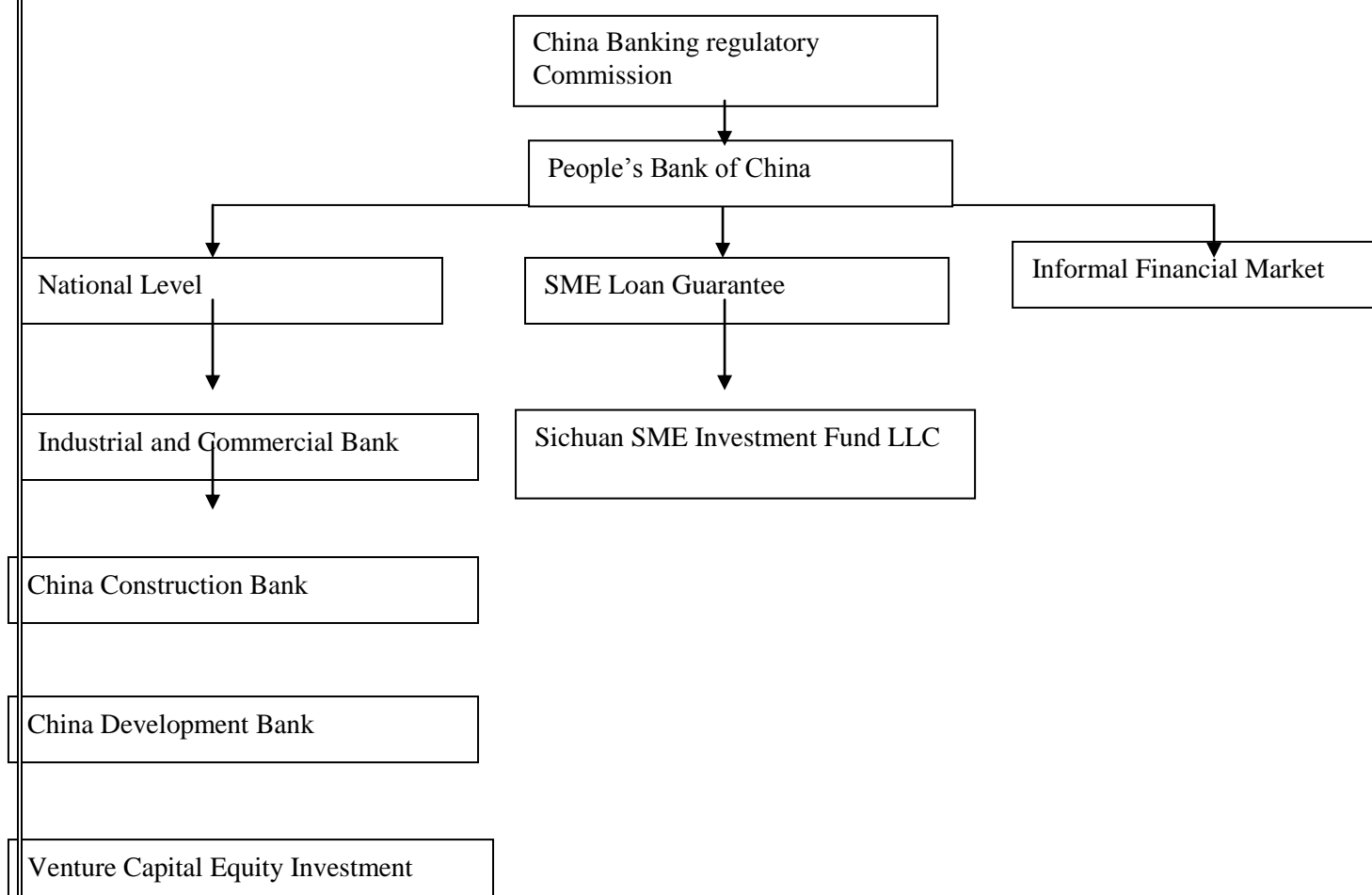
The SME Promotion Law which was enacted in 2002 by the Chinese Government was made effective from 2003. The law emphasizes on fair treatment and level playing field for SMEs. The Law also ensured greater access to finance and encouragement to venture capital investments in SMEs. This policy direction of providing credit to SMEs is being effectively carried out by a strong financial system, comprising China Banking Regulatory Commission (CBRC) and People's Bank of China (PBC) – its

central bank – at the helms (Chart 4.2). Some of the leading banks in China are Industrial and Commercial Bank, China Construction Bank, China Development Bank, etc.

Lending to China's small and medium-sized enterprises (SMEs) rose faster than loans to large enterprises during the last few years. In 2009, lending to SMEs by banking institutions increased by 3.4 trillion Yuan, representing a growth of 30.1 percent year on year and an acceleration of 16.6 percentage points. In particular, lending to small-sized enterprises grew 41.4 percent year on year, 34.2 percentage points higher than at the beginning of 2009. Similarly, in 2010, outstanding loans to small enterprises by banks and financial institutions jumped 29.3 percent year on year to 7.55 trillion Yuan, while loans to medium-sized enterprises stood at 10.13 trillion Yuan, up 17.8 percent.

All the major banks in China, such as China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, and Bank of Communications, with strong networks across the country, and having strong capital foundation, are playing an important role to support the SMEs in the country. Financial institutions continued to strengthen credit support to small- and medium-sized enterprises (SMEs).

Chart 4.2: China's Financial Support Institutions for MSME Sectors





Post freedom of interest rates in 2004, CBRC promulgated “Guidelines on banks’ lending to small enterprises” (policy banks, commercial banks, rural credit cooperatives mainly, and urban credit cooperatives which have lending businesses to small enterprises) on July 29, 2005. These guidelines make sure that the commercial banks change their inclination towards lending to small enterprises in order to accelerate their development. Even if they may be intrusive in banks’ management (for example, they require all banks to set up a separate business department to undertake small business lending, and to track separately in their accounts the cost and profit of the business), they represent an important milestone in several respects.

In October 2006, CBRC issued another regulation. “zero risk” assessment and investigation of responsibility were eliminated in lending to small enterprises. Moreover, this guidance simplifies the examination procedure of credits to them, and encourages banks to lend to small enterprises which have a good credit reputation.

Further, the Chinese Government has established a special fund in 2008 to support the development of SME sector (Box 4.1). It is reported that the resources to the fund would come from government's budget and the activities would promote SMEs with technological progress.

Box 4.1: Special Fund for SME in 2008

- Special funds allocated for this year for the development of small- and medium- sized enterprises (SMEs) are open for applications to promote restructuring, technological innovation, market exploration and brand building.
- The funds are also for promoting the development of credit guarantee institutions and for helping SMEs in areas hit by the massive earthquake in May, as well as SMEs in some difficult industries such as textiles.
- The capital is to be used mainly in fixed-asset investment, subsidies for credit guarantee services for SMEs and subsidies for those attending the China International Small and Medium Enterprises Fair.
- In the fixed-asset investment category, SMEs can apply the funds for:
 - Structural adjustment. Crucial is the adoption of new products, new technology and craft, and the promotion of industrial upgrades, industrial transfer and technological innovation in saving energy and cutting emissions.
 - Services for industrial clusters. The keys are technology innovation in providing technology, testing services and centralized pollution treatment to SMEs.
 - Construction projects in regions and industries experiencing difficulties. The keys are in comprehensive exploitation of resources and reconstruction projects in the regions worst hit by the May earthquake. The keys also include technology innovation of textile SMEs with propriety brands and substantial export potential.
- Projects for creating jobs, with the focus on labor-intensive and agricultural produce processing and innovation in enterprises serving the manufacturing sector.
- The sum of free subsidies should not exceed 6 percent of the fixed-asset investment or the entire capital invested by the enterprise itself.
- As for credit guarantee services for SMEs, subsidies will go to the institutions actively providing such services and to the types of services with relatively low rates charged.
- The subsidy for each project in the category should not exceed the sum of 1 percent of a single credit guarantee project valued under 3 million Yuan and 0.5 percent of a single credit guarantee project valued under 8 million Yuan in 2007.
- In the above services, if the charging rate is 30 percent lower than banks' basic lending rate, the credit guarantee institution will receive additional subsidy no higher than 0.5 percent of the contract value. Any subsidy for each enterprise should not exceed 3 million Yuan.
- Finally, those attending the China International Small and Medium Enterprises Fair,

excluding those from Hong Kong, Macao and Taiwan, will receive subsidies for the cost of booths.

- Each SME attending the fair will receive 3,000 Yuan for renting each standard booth. Those from the 51 counties worst hit by earthquake, will receive an additional 3,800 Yuan for renting each standard booth.
- SMEs applying for the fund should submit documents in both electronic and paper forms.

The CBRC has also set up a working team on SME financial services under a department that supervises and oversees the performance of State-owned banks. The Commission has promulgated the Guidance on Bank Loans to SMEs in 2010 (Box 4.2) and commercial banks are making efforts to probe the way. Specifically, banking institutions were required to maintain the growth rate of lending to small enterprises no lower than the average growth of their total loans, while the yearly growth volume of loans no less than that of the previous year.

Box 4.2: Guidance on bank loans by CBRC in 2011

The main policies include:

- Giving priority to receive and review the financial services market access application by small-scale enterprises; banks are encouraged to set up separate branches specializing in providing financial services to SMEs
- Giving priority to banks-issued financial bonds that are designated to SMEs lending
- Applying a lower risk weighting for loans no more than RMB5mn when calculating the capital adequacy ratio
- Loans to small enterprises no more than RMB5mn are excluded from the calculation of the bank's loan to deposit ratio
- Applying differentiated standards to non-performing-loan ratios for SMEs and increasing the tolerance level of SMEs' NPL ratios

Banks were instructed to set up specialised business units (SBUs) for supporting SMEs. It was encouraging to note that by the end of 2010, 109 commercial banks have set up such units.

The “six mechanisms” designed for small enterprise finance were well established and exercised by the SBUs, namely,

- Risk pricing mechanism,
- Independent accounting mechanism,
- Efficient credit approval mechanism,
- Incentive mechanism,
- Professional staff training mechanism,
- Defaults information sharing mechanism.

The SBUs were entitled to independent credit planning, independent human and financial resources, independent customer credit review and independent accounting practices. As a result, the small enterprise loans made by the SBUs of all banking institutions exceeded 60 percent of all small enterprise loans made by these institutions.

In 2010, the CBRC took various initiatives to enhance the public knowledge of small enterprise finance, such as, organizing banking institutions to participate in the Seventh China International SMEs Expo, co-sponsoring with several local governments thematic forums and seminars on the promotion of small enterprise finance, and cooperating with mainstream media to deliver featured reports. Thus, over the years, CBRC has taken a number of credit-related measures for the SME sector (Box 4.3).

Box 4.3 :Measures so far by CBRC

The CBRC made it clear that alleviation of the funding difficulty of small enterprises was a long-term strategic task for banking institutions, who should regard it as a part of their social responsibility as well as an effective means of contributing to economic development and social harmony.

- **In 2005**, the CBRC issued the *Guidelines on Banks' Lending to Small Enterprises*, explicitly stating the requirements for banks to carry out small enterprise financing business under market principles.

- **In 2006**, the CBRC issued the *Guidelines on Due Diligence of Commercial Banks in Lending to Small Enterprises (Tentative)*, which provided regulatory guidance on banks' policies and procedures with respect to small enterprise financing business, as well as the guidance on risk identification and resolution. In addition, the CBRC issued the *Guidance on the Set-up of Default Information Reporting of Small Enterprise Finance*, which intended to enhance the defaults information sharing among banking institutions in the same region so as to help them fend off the default risks associated with small enterprise financing business.
- **In 2007**, the CBRC issued the *Guidelines on Banks' Credit Business to Small Enterprises*, which expanded the scope of credit business to cover all types of credit extension activities, adjusted the regulatory review and approval policies, and encouraged more diversified and flexible business approaches and guarantee methods.
- **In 2008**, the CBRC announced the *Policies on further improving the financial services to small enterprises* while implementing differentiated credit policies, and required on maintaining the growth rate of loans to small enterprises no lower than the average growth of total loans, and the yearly growth volume no less than that of the previous year. In addition, the CBRC issued the *Guidance on the set-up of the SBUs by banking institutions*, with an aim to enhancing the professionalism and strength of financial services to small enterprises.
- **In 2009**, the CBRC issued two joint guidance with the Ministry of Science and Technology on extending credit support to high-tech SMEs, and on inviting high-tech experts to participate in high-tech SMEs' credit review and approval. The two documents signified enhanced credit support to high-tech SMEs.
- **In 2010**, the CBRC issued the *Provisional Rules Governing Credit Guarantee Companies*, which provided regulatory requirements on the market entry and risk control of credit guarantee industry, as part of the efforts to improve the guarantee for credit business to small enterprises. Moreover, the CBRC, together with the PBoC, the CSRC and the CIRC, issued the *Regulatory Opinions on Further Improving Financial Services for Small- and Medium-sized Enterprises*, which encouraged broadened financial channels for small enterprises.

As per the the Measures for Development of Special Fund Supervision in Medium and Small Enterprises issued by Ministry of Finance, National Development and Reform Commission in Sept. of 2006, the SMEs development special fund should be arranged by the central finance to support the specialized development, cooperation with large enterprise, technical progress and development environment improvement for SMEs (Box 4.4).

Box 4.4: Highlights of Special Fund Supervision in SMEs

- Offer China's SMEs free financial aid and loan repayment subsidies of up to 2 million Yuan (US\$250,000) per project.
- Promote the development of SMEs, help them make technological progress, make it easier for them to cooperate with large firms and improve the overall development environment.
- Self-financed projects, including fixed assets projects or projects aimed at bettering an SME's development environment, are eligible for free financial aid.
- Fixed-asset construction projects usually financed by bank loans can apply for interest repayment subsidies for a maximum of two years.
- Applicants for funds must be independent legal entities with a history of sound financial

Role of PBC

People's Bank of China (PBC) which the monetary authority in China manages the banking system . Maintaining the stability of the value of the currency and thereby promote economic growth are the prime objectives of the monetary policy. The monetary policy instruments applied by the PBC include reserve requirement ratio, central bank base interest rate, rediscounting, central bank lending, open market operation and other policy instruments specified by the State Council.

The PBC further promoted the RMB exchange rate regime reform, improved foreign exchange administration, and pressed ahead steadily with the reform of financial enterprises, so as to contribute to the stable and healthy development of the economy. Moreover, the PBC advances the market-based interest rate reform and the reform of the RMB exchange rate regime to promote the healthy development of the financial market. Closely monitoring and analyzing global and domestic economic and financial developments as well as liquidity movements in the banking system, and in line with its relatively easy monetary policy stance, the PBC conducted open market operations in a flexible manner during the second quarter of 2010, which helped maintain liquidity in the banking system at a reasonably adequate level and stabilize market expectations.

The PBC continued to improve window guidance on financial institutions in the first half of 2010.

- The PBC guided financial institutions to increase lending to key industries and projects under construction, to support companies' efforts for energy savings, emission reductions, technological upgrading, and elimination of inefficient capacity, and to improve financial services to small enterprises.
- Secondly, at the financial sector, an intended support measure for SMEs was the establishment of a ceiling on interest rates for loans to SMEs. This had a perverse effect as it decreased the incentives of banks to lend to SMEs (Wako 2004). In December 2000, the People's Bank of China raised the ceiling on interest rate for SME loans.
- Thirdly, the PBC encouraged innovation in rural financial products and services across the country so as to improve rural financial services. It took measures to adjust and optimize the credit structure and increased the agro-linked credit supply.
- Fourthly, the PBC encouraged financial institutions to update their evaluation systems and properly pace credit extensions to avoid sharp lending fluctuations between months and quarters.

PBC adopted liquidity enhancing measures after the 2008 global financial crisis and one such significant measure was that the Ministry of Finance (MOF) for the first time issued municipal bonds on behalf of local governments, with a total value of 200 billion Yuan in 2009. Depository trust and clearing of bonds have been standardized to protect the legitimate rights and interests of investors and to avoid relevant risks. Meanwhile, the minimum bond issuance requirement of 500 million Yuan was lifted, providing a more enabling policy environment for SMEs' micro financing via bond issuances.

Further, bond types and issuers have been diversified. In November 2009, the collective bond of non-financial SMEs was launched on the inter-bank bond market. The collective bond as the first standardized financing product tailored to the needs of the SMEs provides them with a new channel for direct financing and diversifies their investment products on the inter-bank market. Moreover, financial leasing companies and automobile financing companies were permitted to issue financing bonds. This helps expand the scope of financial bond issuers while keeping risks under control.

In the area of SME finance, a series of policies have been issued by the People's Bank of China and China Banking Regulatory Commission to guide and encourage financial institutions of the banking sector to improve financing services for SMEs, and accelerate the innovation of financial products and services for SMEs in accordance with the Act on Promoting Small and Medium-sized Enterprises which was implemented on January 1, 2003. This Act aims at capital support, support from business, technology innovation, market development and social services for small and medium-sized enterprises. As per this Act and other policies of the state, progress has been made in providing quality financial services for SMEs. According to the survey launched by the PBC, loans to SMEs have accounted for more than 50% in total credit assets in the past few years, roughly equivalent to the contribution of SMEs to GDP.

In that spirit, the People's Bank of China has been actively promoting the institutional innovation of joint-stock banks and the establishments of community banks, so that they can build up close relationship with local SMEs and provide sound financial services for them by simplifying processing procedures. Meanwhile, commercial banks are encouraged to improve credit management and develop new products oriented towards SMEs including loan approval, credit rating, collateral, guarantee, pricing and loan management.

On June 21, 2010, the People's Bank of China, jointly with the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission, released the Opinions on Further Improving Financial Services to Small- and Medium-sized Enterprises (PBC Document [2010] No. 193). The Opinions seek to enhance reforms and innovations of the SME credit management system, improve the multi-layered financial organization system for SME financial services, expand the financing channels in line with the characteristics of the SMEs, develop a credit-enhancing system for SMEs, and support efforts by SMEs to go abroad by a variety of means (Annexure 4.1).

It is also important to note that besides the national government, the provincial governments also issue guidance or opinions on SME development. For example, the Jiangxi Provincial Government introduced 'to further promote the development of SMEs on the implementation of views' (hereinafter referred to as 'Opinions'), from the ease financing difficulties, increased tax support, and promote technological progress and structural adjustment policies put forward 24 measures (Annexure 4.2).

Credit Guarantee

Recognizing the limited financial access by MSMEs, the Chinese government has created a network of credit guarantee agencies. In contrast to other countries, China does not have a centralized government institution providing credit guarantees to MSMEs. As a policy matter, the government decided to lift the upper limit of the SME Loan Guarantee Scheme.

It is reported that the credit guarantee system includes a framework of 'one-body, two wings, four levels'. According to the plan, the prefectural credit guarantee institutions give guarantee in their regions. The provincial credit guarantee institutions grant re-guarantee for those credit guarantee institutions at lower levels, and supervise them along with People's Bank of China. They can also grant guarantee directly. National credit guarantee institutions have been established as guarantors of last resort and grant re-guarantee to the credit guarantee institutions at lower levels.

In 1992 Shanghai and Chongqing became first two cities to implement Credit Guarantee Schemes (CGSs), initially consisting of mutual guarantee funds (MGFs). In 1994, the first commercial guarantee companies (CGCs) were established in Sichuan and Guangdong. After 1999, CGAs have been established at provincial and municipal levels under government sponsorship.

For the purpose of promotion of SME credit guarantee system, the Government has also formulated relevant policies such as, exempting qualified credit guarantee agencies from the turnover tax, greatly driving their development, etc.

Following the measures introduced in August 2000, the SME credit guarantee industry has developed rapidly to encourage further development of the credit guarantee system. From 203 in 2000, the number of guarantee organizations is reported to have increased to 4800 at the end of 2010. Operating at either the provincial level or the city level, about two thirds of these companies are privately owned, while others are either fully or partly owned by local governments. In 2010, the total amount of capital provided for these companies amounted to 850 billion Yuan. Around a quarter of this amount was provided by local governments. The amount of SME loans guaranteed by the credit guarantee companies has increased rapidly since 2000. The guarantee business for Chinese SMEs reached 1 trillion Yuan in 2009. The Chinese Government is working seriously to ease the financing bottleneck of Chinese SMEs,

Though guarantee companies in China provide different types of guarantees such as credit guarantees for SMEs, housing mortgage guarantees and, export finance guarantees; credit guarantees for SMEs remains the most important line of business. Despite of rapid expansion which the credit guarantee industry has experienced, most guarantee companies reportedly suffer from insufficient funds and accumulating losses. In order to overcome these problems, a National Fund for Development of Credit Guarantees for Private Enterprises (NCG), has been established by the National Development and Reform Commission in China to facilitate credit to the SME sector. This was executed with the Technical Assistance of Asian Development Bank (Box 4.5). According to the plan, NCG's business will be to support credit guarantee companies through equity investment, loans, co-guarantees and re-guarantees. It is expected to attract funding from loans and grants from international donors and capital contributions by private enterprises, and its.

Box 4.5: National Fund for Development of Credit Guarantees for Private Enterprises (NCG).

A. Description. The objective of NCG was to improve the ability of small-medium enterprises (SMEs) to access financial services by overcoming the perception that private businesses are not creditworthy due to their short business track records and lack of quality assets for collateral. This perception influenced lender behavior: even when there is excess liquidity in the banking system (for example, during the government led stimulus response to the global financial crisis), the banking sector is unwilling to lend to private enterprises, unless the loans are guaranteed by third parties. The bulk of private enterprises, and the focus of the TA, are SMEs. The TA provided support to the EA to establish the NCG.

B. Expected Impact, Outcome and Outputs. The intended impact of the TA was to improve access to financial services and financial resources by SMEs. The envisaged outcome was the effective use of the NCG in achieving the impact described. The expected outputs of this TA included: (i) the establishment of an effective and sustainable mechanism for the use of foreign and private sector capital for private enterprises; (ii) improved administration and operational efficiency of NCG; and (iii) prudent risk management standard for NCG.

C. Evaluation of Outputs and Achievement of Outcome. NDRC (EA) was satisfied with the TA. The EA reported that the TA output has helped them develop the roles of NCG based on domestic and foreign guarantee agencies for SMEs. The studies covered topics such as NCG fund's size, capital sources, management structure, corporate governance, supervision, risk control, exit mechanism and performance evaluation. The EA used the study results in their reports to the SC and development of the NCG, particularly for improvement of the regulatory framework for the credit guarantee market, and better supervision of credit guarantee providers.

Significant progress was made in the creation of the NCG. Technical reports were prepared covering all aspects of NCG operation, including analysis of legal environment, governance of the NCG, risk assessment and control, development of the custodian system, and the legal entity for the NCG. The output addressing improved administration and operational efficiency together with prudent risk management standards for the NCG was accomplished through technical documents on internal controls and risk management. On March 8, 2010, the China Banking Regulatory Commission, together with several government agencies, established the *Provisional Measure for the Administration of Financial*

Guaranty Companies” to provide regulatory oversight and supervision for the industry. This will ensure that there are standards and guidelines for a more effective credit guarantee system.

The output for the establishment of an effective and sustainable mechanism for use of foreign and private sector capital for SMEs was achieved. The NDRC received approval from the State Council in May 2009 to form the NCG through a joint venture between foreign investors and local financial institutions. The operating business plan for the NCG was prepared through inputs from the TA. Currently the NCG is slated to be established and registered by end-2010. The NCG staff has been successful in seeking equity investments from domestic as well as international investors. It is interesting to note that there are investors from the manufacturing industries: the NCG will benefit their suppliers, which are predominantly SMEs. While the outputs were satisfactory in terms of quality of technical information delivered, which was the intent of the TA, the challenge will lie in operationalizing and implementing these plans for the actual establishment of the NCG.

D. Major Lessons. The key lesson from this TA is the need to be flexible in order to respond to unexpected exogenous events which impact implementation schedules. This explains in part the need to extend the TA closing date. It also explains why TA resources were not fully expended: a general proposal on NCG was formulated and submitted to the State Council in August 2007. Approval of the proposal by the State Council was expected in early 2008, but the State Council deferred its endorsement due to ongoing institutional reforms and natural disasters during 2008 such as the floodings in the south and earthquake in Sichuan. Additionally, the financial crisis occurred and led to request for additional analysis from the State Council. As a consequence, some proposed activities originally envisioned were not completed. The TA was implemented during an exceptionally eventful period and could have benefited from additional time to use the remaining funds to initiate establishment for the NCG such as legal documentation for company registration and subsequently operationalizing for the NCG.

Financial Institutions

Industrial and Commercial Bank of China

On September 2005, China’s biggest bank, the Industrial and Commercial Bank of China (ICBC) introduced ten measures on lending to small enterprises. These measures are favourable for small enterprises which work for big and medium sized enterprises and which can put their acceptable and negotiable properties in pledge, or those which work in international trade and are related to big and medium sized enterprises. The ratings of the banks pose no concern. In 2005, ICBC was also named “small enterprises’ lending bank” by CBRC.

China Construction Bank

On August 2005, China Construction Bank (CCB) and Zhejiang province government reached an agreement, entitled “cooperation for supporting SMEs’ development.” From September 1, 2005, the credits with amount less than 5 million Yuan were granted directly by the sub-branches in cities. SMEs could now obtain credits with mortgage or guarantee only in one week.

China Development Bank

Acting as one of the three policy banks, China Development Bank (CDB) makes great efforts to facilitate SME financing. In 2005, a new business department was created in CDB to provide lines of credits and technical assistance to medium and small sized commercial banks (partner banks), interested in establishing new lending departments specializing in Micro, Small and Medium Enterprises finance. CDB imports international expertise on lending to micro and small enterprises through its cooperation with World Bank and Kreditanstalt für Wiederaufbau Bankengruppe (KfW), Germany. CDB intends to eventually serve as an anchor to the necessary and planned build-up of similar expertise among a new cadre of Chinese bank managers and lending officers, leveraging upon best practices in small-scale lending that have increasingly been adopted around the world over the last decade. Loans sizes are intended to be quite small relative to what is typically referred to as SME lending in China. CDB is targeting loan sizes from as low as 100 Yuans to a maximum of 500 000 Yuans. Baotou commercial bank (one city in Nei Mongol province) and Taizhou commercial bank (one city in Zhejiang province) have been chosen by the CDB as two experimental units for application of its program heading small enterprises’ financing and their commercial continuous development. Training of the newly recruited officers and generation of broader management capacity is being carried out with foreign assistance to roll out the business throughout the branch networks of these partner banks. To be engaged with partner banks in all provinces is the CDB’s stated goal. Up to the end of 2010, the outstanding loans for small and medium-sized enterprises, middle- and low-income housing, students, and the development of new rural communities recorded strong growth, amounting to US\$118.6 billion and accounting for about 20 per cent of its total outstanding RMB loans. Credit recover rate (principal and interests included) has always been 100 per cent. Apart from directly lending to SMEs, CDB also supports credit guarantee institutions (at all level and with different ownership structure). It enhances the guarantee capability of these institutions indirectly leading commercial financial institutions to increase their lending to SMEs.

China’s informal financial markets

Difficulties of SMEs and farmers in obtaining credits from the formal sector have driven growth in informal finance in recent years. The first nationwide survey on informal finance in 20 provinces conducted by the Central University of Finance and Economics in 2003, revealed the size of informal financial sector to be between 740-830 billion Yuans. This was equivalent to 31-35 per cent of the corporate borrowing from formal banking sector or 5.5-6.2 per cent of GDP that year. Informal finance is particularly important in rural areas, where it supplies the bulk of credits to farmers. Informal lending can be channelled through various sources: lending by individual money lenders, enterprise mutual lending networks, pawnshops or underground financial organizations such as ROSCA (Rotating Savings and Credit Association), etc. Therefore between northeast and south there is variation between customers and the type of lending. In the south (defined as the south area of the Yangtze River), where the informal finance serves mainly for the dynamic private economy, qianzhong, yinbei or other informal financial institutions are active. However, in the northeast, duifeng is the most common form as the private economy is less developed. Duifeng is the re-lending by the enterprises which can obtain credits easily to those which have difficulty of access to credits but which have potential and are in the rising cycle, so mainly by State Owned Enterprises (SOEs) to members of firm associations. The member pays interest with a rate 1-2 times higher than banks' lending rate on the amount borrowed and 10% of credit as association fee which is a way to address the risk of non-repayment. Members can borrow only once or twice a year, the amount is 0.5-2 million Yuans and most loans are for 3 months or 6 months.

Sichuan SME Investment Fund LLC (SSIF):

The SEAF Sichuan SME Investment Fund LLC (SSIF or the Sichuan Fund), which invests in small and medium-sized enterprises (SMEs) in China's Sichuan Province and neighboring provinces, is SEAF's newest fund to be established, and is one of the first investment funds in China. SEAF leverages the experience gained through the Sichuan Fund to explore new regional initiatives in Asia. Investments are made in combination with a management training and technical assistance component in order to enhance the business performance of the Fund's investments and to help meet its developmental objectives. The Fund actively assists its portfolio companies in implementing appropriate improvements in management techniques and practices, especially relating to financial control, cost accounting, quality control, and marketing. In addition, the Fund Manager's investment officers are actively engaged in implementing business strategy and in following-up with advice rendered by outside experts. Business support programs are sponsored not only by the Fund, but also by other international and local agencies.

Venture Capital Equity Investments:

In order to broaden the financing channels for SMEs, it picked Shenzhen Junsan Capital out of 52 agencies with cooperation intention to register and establish Zhongfa-Junsan (Beijing) Investment Management Corporation with the Beijing side after May, 2008, when the China Association of Small and Medium-sized Enterprises initiated the China SME Venture Capital Fund. With an ultimate objective of RMB 3 billion and a first-phase objective of RMB 1 billion, various events were organized to raise money by the management company of China SME Venture Capital Fund. The fund was privately raised in the form of limited partnership with duration of five plus two years. The minimum subscription of the fund is RMB 50 million.

Micro-Loans of China Development Bank to SMEs

Except for the direct loan support by China Development Bank, it supports the development of the credit guarantee companies of all levels and kinds, so as to indirectly guide the commercial financial institutions to increase the financing to SMEs. At the end of 2004, China Development Bank took the first step to introduce the internationally advanced micro-loan operation philosophy to issue loans for SMEs and individually-owned business.

Specialized SMEs Loan by China Zhejiang Bank

The China Zhejiang Bank has been paying great attention to the strategic decision and risk management mode innovation. It is oriented towards specialized SMEs loan to develop customized various loan products for SMEs. It has also been found that the bank decentralizes the loan approval limits and strengthens the vertical risk management mode as well as adopts flexible loan interest rate appraisal and effective incentive system.

Integrated power between bank & enterprise—a new financing mode for SMEs

In Deyang city of Sichuan province, led by the administrative commission of Deyang economic & technological development zone, the financial bureau and the city commercial bank & the enterprises in the zone established membership enterprise, Deyang Economic & Technological Development Zone Huigao Credit Guarantee Co., Ltd. on Jan. 10, 2008. This company has material difference from the

traditional guarantee companies, offering guarantee for SMEs loan not out of making profits. The city government provided great support to the company, and the zone financial bureau also invested guarantee fund and offered financial discount for the credit-abiding SMEs, what's more, the bureau takes special fund as the risk compensation for the guarantee loans. Except that, the city commercial bank offered corresponding loan preference policies.

Supply-Chain financing diversifying SMEs financing modes

China Construction Bank Shenzhen Branch announced to push series of financial products on “supply-chain financing” with “entire flow” idea on March, 12 of 2008. It's a financing mode that offers flexible financial products and services for the core enterprises, upstream and downstream enterprise based on the good grasp of the supply-chain management level and core enterprise' strength. All the operation from the loan application to the capital into the account can be done online. The SMEs can apply for legal person's account overdraft to acquire the circular using right of credit capital as that of the personal credit card. The online enterprises on E-business transactions can ask for customized series of loan services. For the supply-chain financing, the Bank doesn't only pay attention to the scale, fixed asset, financial index and assess the single enterprise's condition. It focuses on the transaction objective and partner, the industrial chain's stability and the objective enterprise's market position and supply-chain management level, as well as the health cash flow, single transaction and the transaction background, process and record.

SME Exchange Platform

To break through the financing bottleneck and widen the direct financing channels for SMEs, the related departments have begun to push system-transforming and listing & cultivation project. 138 enterprises have been listed on the SME board, of total IPO financing amount of 40.4 billion with average of 293 million as of June 13, 2007. The Government has also opened the SMEs Board on Shenzhen Stock Exchange and set up Share Transfer System of Securities Companies in Zhongguancun, Beijing.

The first SMEs pool bond issued online, Zhongguancun high-tech SMEs pool bond (“07Zhongguancun”Bond) by Shenzhen Stock Exchange on Dec. 25, 2007 was enthusiastically chased by the investors on the issuing date. Even it's a new face to most institutions or individual investors, the investors still scramble for it due to annual interest rate of 6.68%, 1.28% higher than the 5.40% of the 3-

year fixed deposit. The issue of pool bond has widened the direct financing channels for SMEs except for the bank loan and SME board IPO.

Future Monetary Policy Stance

First, the PBC will strengthen liquidity management and guide money and credit to grow at a proper pace. In view of the economic and financial developments and changes in foreign exchange flows, the PBC will deploy a wide range of monetary policy tools and carefully arrange the mix and terms of the policy tools and manage the intensity of monetary policy operations to enhance liquidity management, so that liquidity in the banking system will grow at a reasonable level and money and credit will grow properly, to satisfy credit demand for economic development and to create a sound monetary environment for keeping the general price level basically stable and for managing inflation expectations. It is necessary to guide financial institutions to properly pace the provision of loans around the year in line with the macroeconomic management policies and the needs of economic development.

Second, the PBC will step up financial support to promote transformation of the development pattern and economic restructuring. It will continue to implement differentiated credit policies and to improve the credit structure. Specifically, the PBC will enhance credit policies to support the weak links in the economy, employment, and education and emission reductions, phasing out the outdated capacity, emerging industries of strategic importance, and industrial relocation; continue to work hard in providing financial services to university graduates working as village leaders, earthquake and disaster relief efforts, poverty alleviation, and so forth; address the financing difficulties facing the agricultural sector and small enterprises; effectively solve the difficulties of SMEs in accessing loans; ensure that loans to key projects are granted; and rein in lending to high energy-consuming and polluting industries and industries with overcapacity. Efforts will be made to speed up innovation of rural financial products and services and actively explore new approaches for supporting agriculture with financial services so as to satisfy the demands of agriculture, rural areas, and farmers for multi-layered and diversified financial services. Measures will be adopted to implement differentiated mortgage policies to promote the healthy and stable development of the real estate market. Measures will be adopted to improve risk warnings to financial institutions and enhance management of risks of loans extended to local financing platforms. Moreover, establishment and improvements in the macro-prudential management framework will be explored and, taking advantage of a framework that works against the wind, raising capital restrictions and liquidity

requirements for systemically important banks so as to maintain the soundness of the financial system, prevent systemic risks, and improve the sustainability of financial support to economic development.

Third, the PBC will steadily advance the market-based interest rate reform and improve the RMB exchange rate regime. It will press ahead with the establishment of a benchmark interest rate system on the money market to improve the pricing ability and strengthen the role of the price leverage. The PBC will, in accordance with the principles of reforming the RMB exchange rate regime, further improve the RMB exchange rate regime based on market supply and demand with reference to a basket of currencies. The exchange rate floating bands will remain the same as previously announced in the inter-bank foreign exchange market so as to keep the RMB exchange rate basically stable and at an adaptive and equilibrium level. The PBC will promote the development of the foreign exchange market and introduce more tools for managing exchange-rate risks. It will steadily advance the pilot program for RMB settlement of cross-border trade transactions to facilitate trade and investment and will support the going-global initiative. It will deepen the reform of the foreign exchange administration system to promote balanced capital flows. It will also regulate 55 cross-border capital flows and step up monitoring and management of irregular and abnormal fund flows.

Fourth, the PBC will promote the healthy development of the financial market. The PBC will continue to deepen the reform of financial institutions, speed up the establishment of a modern financial enterprise system, and improve the system for organizations providing financial services. Efforts will be made to accelerate innovation of financial products and to strengthen the building of market infrastructure. It will broaden the channels for enterprises to access direct financing, accelerate the development of the bond market, and actively and prudently promote the opening-up of the inter-bank bond market. In addition, it will be necessary to strengthen the coordination among fiscal, industrial, and monetary policies, with a focus on promoting reform and economic restructuring, so as to enhance the endogenous growth dynamics in the economy. Continued efforts should be made to reform the fiscal and tax systems, to relax further restrictions over investments and financing, to improve the income distribution structure, to strengthen the dynamism of the private sector, and to increase the disposable income of households. The market mechanism should be improved as well so that the market fully plays a fundamental role in resource allocations.

ITALY

European Central Bank (ECB) is the central bank for Europe's single currency, the euro. The ECB aims at inflation rates of below, but close to, 2% over the medium term. The euro area comprises the 17 European Union countries that have introduced the euro since 1999. The primary objective of the ECB's monetary policy is to maintain price stability. Italy, as a member of European Union, abides by the European Central Bank's (ECB) prime objective of price stability.

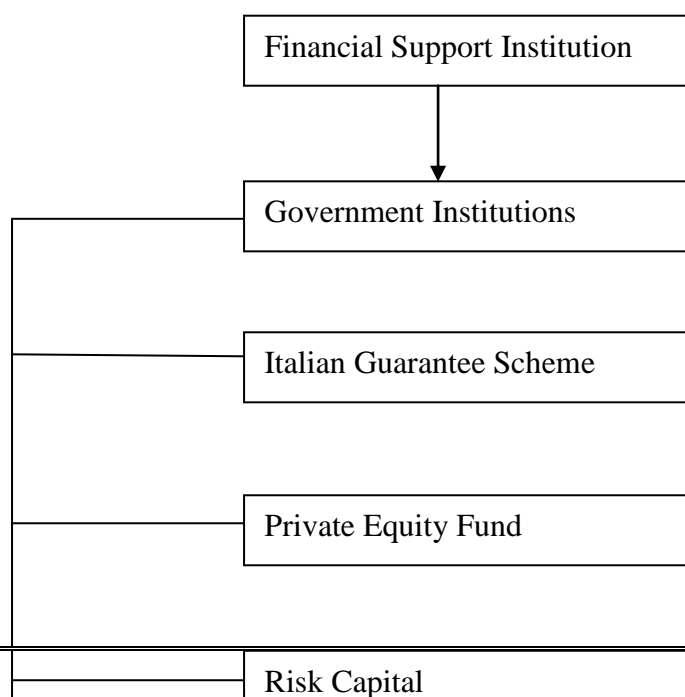
Box 4.6: Role of European Central Bank

- **Defining Eurosystem policies**
- **Deciding, coordinating and monitoring the monetary policy operations**
- **Adopting legal acts**
- **Authorising the issuance of banknotes**
- **Interventions on the foreign exchange markets**
- **The operation of payment systems and the oversight of payment and other financial market infrastructures**
- **International and European cooperation**

- **Statutory reports**
- **Monitoring financial risks**
- **Fulfilling advisory functions for Union institutions and national authorities**
- **Running the IT systems**
- **Strategic and tactical management of the ECB's foreign reserves**

It may thus be stated that while ECB is at the monetary policy head, the Bank of Italy enjoys the operational flexibility in carrying out the monetary policy mandate. The Bank of Italy transmits its monetary policy through a developed financial system comprising banks, credit guarantee institutions, PE funds, European Investment Bank, etc. (Chart 4.3).

Chart 4.3: Italy's Financial Support Institutions for MSME Sectors:



The financial crisis of 2008 affected the Italian SMEs in terms of decrease in demand for their products, working capital and payments delays, insolvencies and exits, and eventual decline in the demand for credit. The Government and the Bank of Italy undertook several measures in the areas of export promotion, alleviating export capital shortage, easing tax payments, creation and extension of loan and guarantee schemes, strengthening pro-investment measures and strengthening capital base and private equity / venture capital for SMEs.

Some of the measures included:

- **Anti Crisis Export Promotion Plan:** An anti-crisis export promotion plan was introduced, with an overall allocation of 185 million euro in 2009, managed by the Institute for Foreign Trade (ICE). Internationalisation support services provided by ICE to Italian companies was expected

to benefit from up to a 50% discount on fees, and special payment conditions aimed at small companies was made available.

- **Re- Financing of the Central Guarantee Fund:** In January 2009, a re-financing of the Central Guarantee Fund for SMEs was put in place, and a State guarantee as a last-resort guarantee was provided to this Fund. A total of 70% of the resources was allocated directly to guarantees to banks against bank loans to SMEs, while 30% was devoted to back guarantee to the Loan Guarantee Consortiums (Confidi –Allocations for the 2009-2011 3-year period total € 450 million). The resources for the Central Guarantee Fund were further increased.
- **Measures to increase the Liquidity available for SMEs:** Other interventions concerned the Cassa Depositi e Prestiti and SACE, the export credit insurance agency. These measures were expected to increase the liquidity available to firms, especially to small- and medium-sized enterprises. The guarantee fund for these firms was also increased. In particular, the Cassa Depositi e Prestiti would be able to employ up to a maximum of €8 billion in resources derived from postal savings to provide credit to small- and medium-sized enterprises; For banks' depositors, already protected by the interbank deposit guarantee system, the further safeguard of the additional State guarantee has been provided. SACE would be able to provide guarantees to businesses on general government receivables.

The crisis combating measures by the ECB along with the Govt and Bank of Italy yielded positive results in EU countries as the liquidity problem for SMEs eased and access to finance improved.

Financial Institutions

Italian Guarantee Scheme:

The EU has sponsored a Growth and Environment (G&E) Scheme, which is managed by the European Investment Fund (EIF) to promote sustainability by supporting environmentally friendly investments of small and medium-sized enterprises (SMEs) in the European Union. Apart from the criterion of environmental eligibility, the main parameters of the scheme are:

- loans must be to SMEs with not more than 100 employees
- Individual loan amounts can be for up to 11 million.

Under the Scheme, EIF provides guarantee of 50% of credit risk. The EIF has the status of a Multilateral Development Bank under the European Union's solvency ratio directive. This means that financial institutions benefiting from an EIF guarantee under the scheme are allowed to allocate capital to the part of the loan covered by the EIF guarantee at the rate of 20% instead of 100%. This is, of course, a substantial advantage in addition to the lower risk and provisioning costs associated with the EIF guarantee.

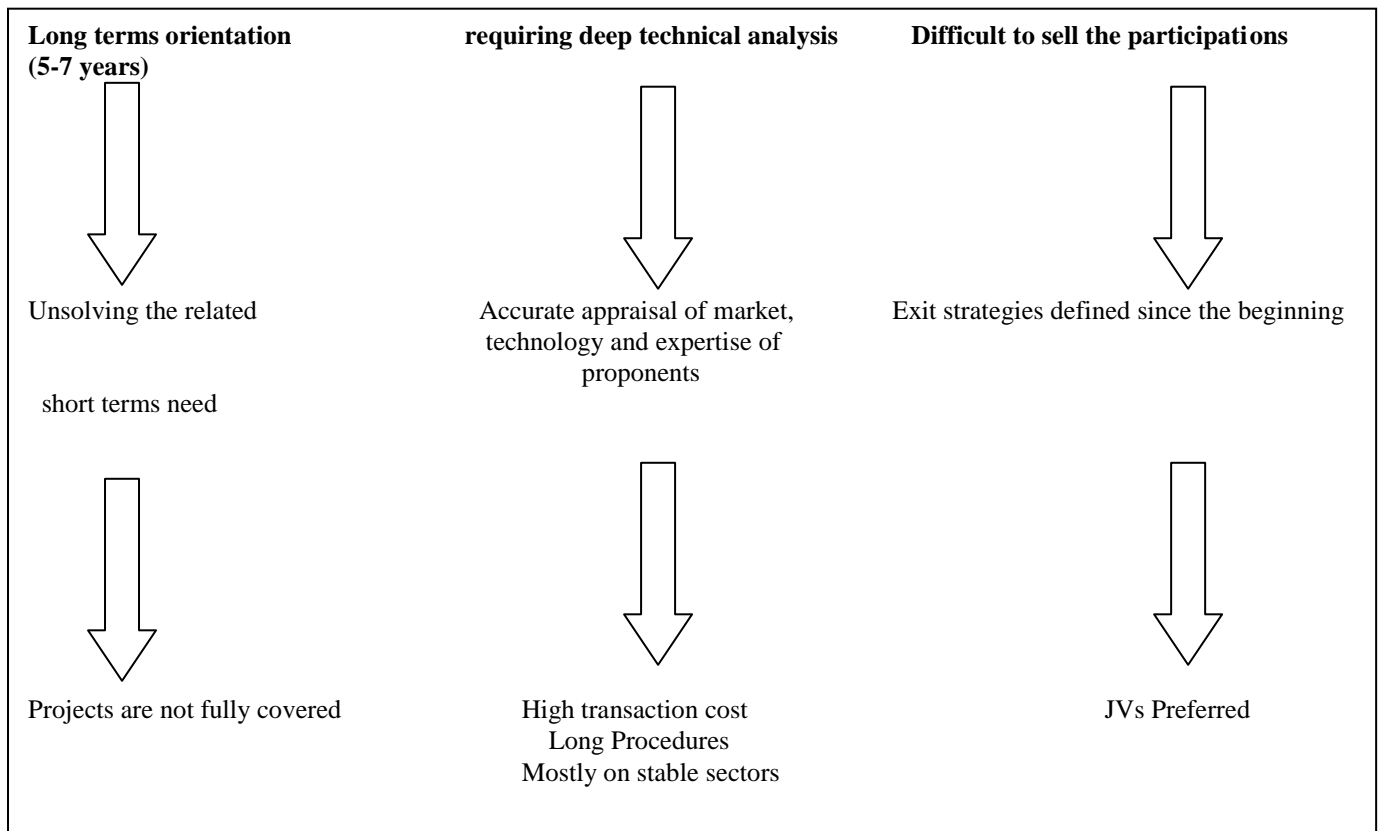
Under the G&E Scheme, SMEs benefit from preferential financing terms, i.e. terms that are more favourable than those that the bank would normally charge a borrower of the same risk category in similar conditions, for environmentally friendly investments. Such preferential terms may take the form of a lower interest rate, improved access to financing or a waiver of charges such as commitment or cancellation fees.

The SME guarantee facility (SMEG) provides guarantees to encourage financial institutions to make more debt finance available to SMEs by reducing their exposure to risk. SMEG provides co-, counter- and direct guarantees to financial intermediaries providing loans, mezzanine finance and equity to SMEs. SMEG covers:

- Guarantees for debt financing via loans or leasing: the goal is to support SMEs with growth potential. The aim is to reduce SMEs' difficulties in accessing finance either due to the perceived higher risk or to the lack of sufficient collateral.
- Guarantees for micro credit: guarantees for loans of up to € 25 000 to micro-enterprises with up to 9 employees, particularly for entrepreneurs starting a business. Financial intermediaries may also receive some support to partially offset the high administrative costs of micro loans.
- Guarantees to cover equity and quasi-equity investments in SMEs: they guarantee investments providing seed capital, capital in the start-up phase, mezzanine financing or risk capital operations to support businesses with up to 249 employees. The aim is to reduce particular difficulties encountered by SMEs with a weak financial structure, or those arising from business transfers.

- Guarantees to support securitisation structures: guarantees can also be provided to support securitisation structures to assist financial intermediaries in mobilising debt finance for SMEs. The financial intermediary is obliged to use a significant part of the freed resources for new SME financing.

Private Equity Funds: Private equity funds are temporary equity participations of capital partners into private companies. The experience in the developing countries shows that they can be participated by international donors but upon very restrictive rules. Usually, they work on the long term fixed assets and, differently from the guarantee funds, address a single shot opportunity of significant profitable potential. Even if there are many cases of successful implementation of such models, some constraints are related to the areas exits.



- (GIF2) - EIF can invest 7.5-15% by the total funds raised of the intermediary venture capital fund.
- The EIF can invest, exceptionally, up to 50% in GIF1 and up to 25% in GIF2 for new funds likely to have a particularly strong catalytic role. In both cases, the maximum commitment for a single fund cannot exceed €30m and the funds have to make investment decisions based on normal commercial criteria. A part (more than € 160 million) of the overall budget of this facility is specifically earmarked for the support of eco-innovation oriented investment funds.
- The European Investment Bank (EIB) has signed an agreement with Banca Agrileasing, a member of the Istituto centrale delle Casse rurali e artigiane (ICCREA) Group, for a loan totalling EUR 327m for Italian small and medium-sized enterprises (SMEs).
- Projects of up to EUR 12.5m promoted by industrial and services SMEs throughout Italy are eligible for financing.
- The EIB funds are been advanced to the beneficiary SMEs via Banca Agrileasing, which distributes its products either directly or through its extensive network of cooperative banks (Banche di Credito Cooperativo - BCC).

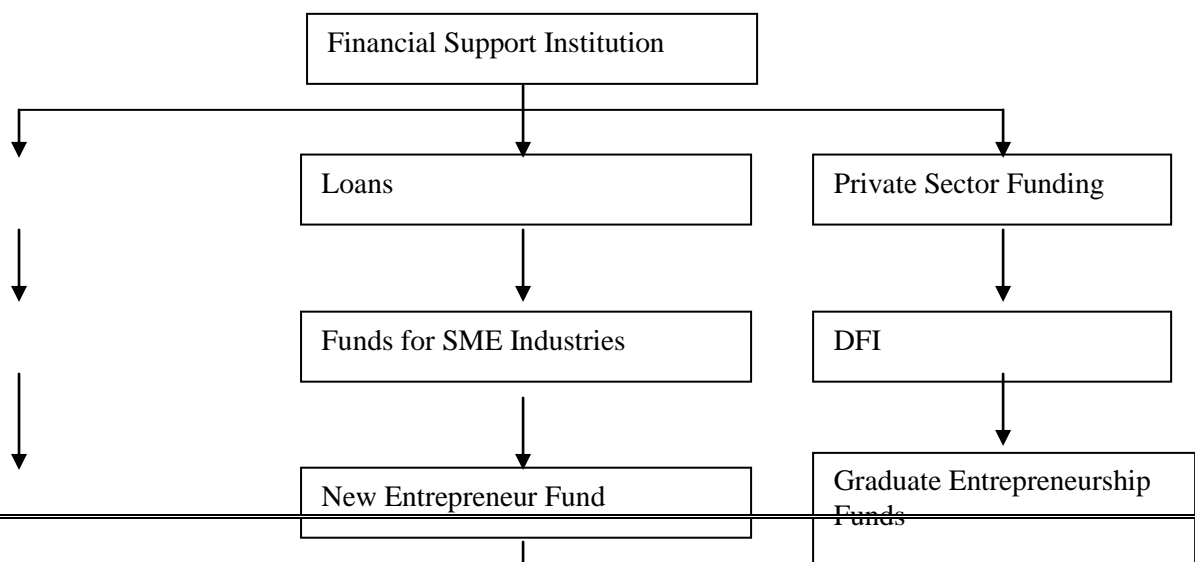
UBI Banca:

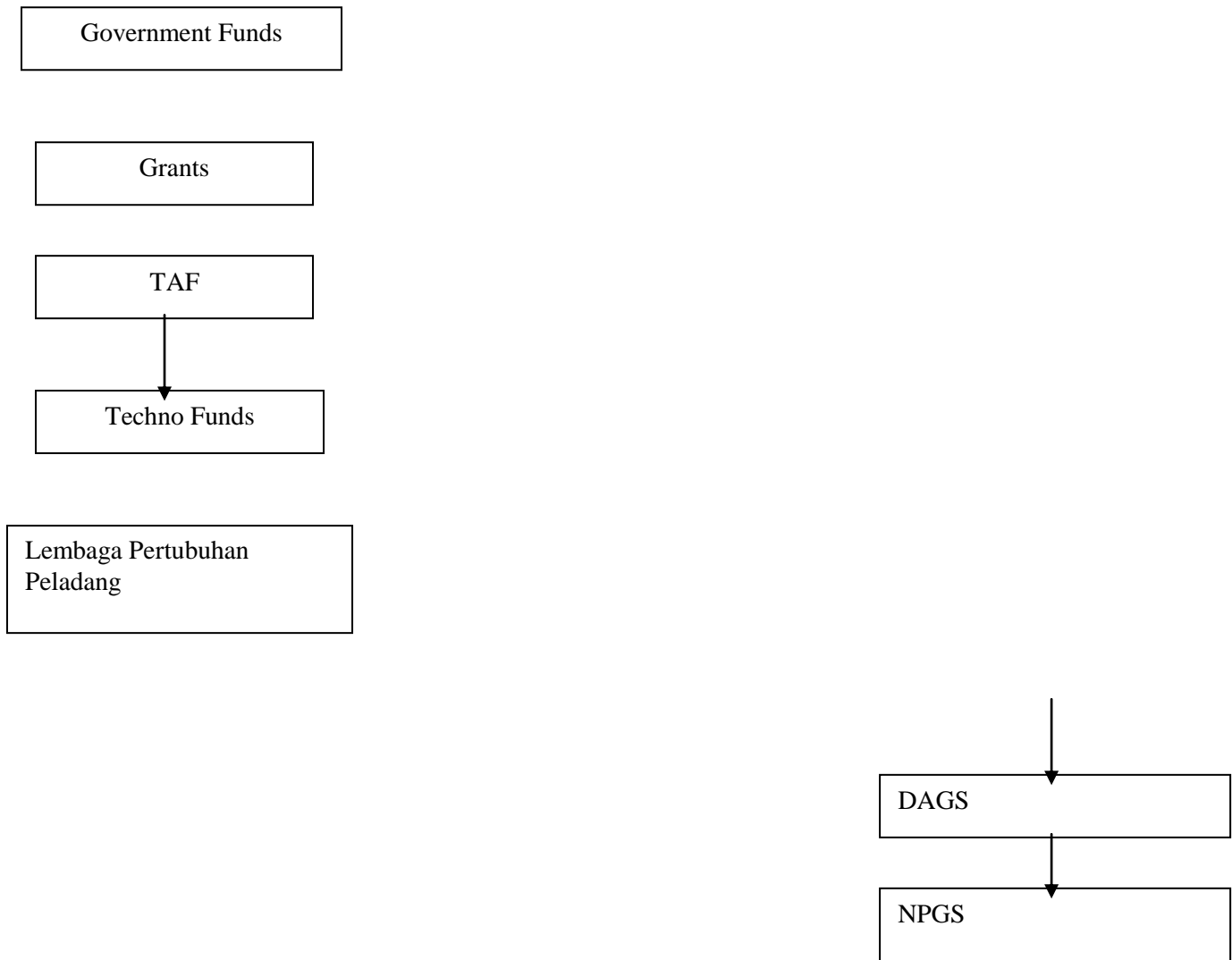
- The European Investment Bank (EIB) has signed a EUR 250 million finance contract with the UBI Banca group targeting small and medium-sized Italian businesses (SMEs).
- The transaction technically consists of subscription by the EIB of a covered bond issued by UBI. This EUR 250 million funding constitutes the first tranche an already approved EUR 500 million EIB loan to UBI Banca earmarked entirely for SMEs.
- SME projects mainly in the industry, services and tourism sectors will be eligible for loans of up to EUR 12.5 million.
- The funds will be distributed to all members of the UBI group: Banca Popolare di Bergamo, Banca Regionale Europea, Banco di Brescia, Ubi Leasing, Banca Popolare Commercio e Industria, Banca Carime, Banca di Valle Camonica and Banco di San Giorgio.

MALAYSIA

At the helms of the Malaysian Financial Systems is the Bank Negara Malaysia (BNM) which is the central bank and monetary authority of the country. The monetary policy is implemented and credit delivered through a financial system comprising banks, Islamic Banks, Development Finance Institutions, Investment Banks, Insurance Companies, Reinsurance Companies, Insurance Intermediaries, Venture Capital / Private Equity, etc.

Chart 4.5: Financial Support Institutions for MSME Sectors of Malaysia





Since the establishment of the Bank Negara in 1959, the objective of monetary policy in Malaysia has been adjusted in tandem with domestic economic development. During the pre-liberalisation period (from 1959 when Bank Negara – the central bank – was set up till 1978 when interest rate was liberalised), the management aim of monetary policy was to set up a sound financial infrastructure and control inflationary pressure. Thus, the role of monetary policy was limited to merely a complementarity to fiscal policy. However, the stance of monetary policy was shifted to promote the high sustainable rate of output growth, consistent with domestic price and exchange rate stability. This was necessary because of number of reforms initiated since 1978, such as, deregulation of domestic interest rates, removal of restriction on

capital inflows increasing resort to sales & purchases of government and central bank securities (since 1987), removal of the Base lending rate (1991), etc. In the recent period, there has been a greater reliance on interest rate and money supply target as well as on credit and exchange rate. Greater emphasis has also been placed on indirect market-based instruments, such as, open market operations in influencing the domestic monetary conditions rather than the credit controls.

Since 1978, credit rationing had also been abolished but lending to priority sectors, such as housing loans and credit to small-scale industries remained under the protection of Central Bank. In the more recent period, greater attention is being accorded to the development of small-and medium-sized enterprises (SMEs). To enhance the contribution of SMEs, Bank Negara Malaysia produced a comprehensive report on strategies for development of SMEs to the Government in 2002. In addition, various funds have been established by Bank Negara Malaysia to promote the development of selected sectors of the economy. Alternative modes of financing, such as, venture capital are being developed to support the development of new growth areas.

In 2009, monetary policy was confronted with the heightened risk to growth arising from the global economic and financial crisis. In early 2009, the economy was severely affected by the steep decline in exports and private investment activity, following the contraction in global demand. With inflation decelerating, Bank Negara Malaysia frontloaded its monetary policy stimulus by reducing its Overnight Policy Rate (OPR) by a total of 150 basis points between November 2008 and February 2009 to 2.00 percent to cushion the economy from a rapidly weakening global economy. Additionally, to ensure greater transmission from the policy rate to retail lending rates, the statutory reserve requirement (SRR) was also concurrently reduced by 300 basis points.

In 2008 and 2009, the Government had undertaken a comprehensive approach to assist businesses which include introducing stimulus measures, specifically for SMEs amounting to RM15.6 billion or equivalent to 2% of GDP to weather the impact of the global financial crisis. Bulk of the measures was focused on enhancing access to financing for SMEs. As at end-June 2010, 80% of the funds have been approved, and 65% of these funds have been disbursed benefiting about 79,000 SMEs (end-2009: 53% disbursed to 56,000 SMEs) which helped support the early recovery of the economy.

New Programmes and Financial Facilities in 2010

It has been observed through various surveys that the SMEs in Malaysia still depend to a large extent on non-bank sources. Through the findings it was realized that there is need to allocate the funds for programs for SMEs. There have been seven new schemes established in 2010 to assist SMEs, particularly in the services and agriculture sectors, as well as to promote entrepreneurship among micro enterprises and school leavers. Some important SME financing programmes of Govt. of Malaysia are given in Annexure 4.3. In view of the same, the Government has allocated a total of RM5.9 billion for 39 programmes to be implemented in 2010 to further enhance access to financing for SMEs for working capital and business expansion locally and globally, as well as to assist SMEs at the start-up and early stage.

The Government of Malaysia has resolved that all the soft loans and grants would be continuously rationalised in a move to enhance its effectiveness, with the intention to be gradually phased out and replaced with soft loans or reward-based schemes. The more sustainable financing schemes would promote good credit culture and enhance financial discipline among SMEs as well as to expand its utilisation to more SMEs besides preparing the borrowers to move towards a market based scheme in future. As a Central Coordinating Agency, SME Corp. Malaysia is also tasked to ensure that financial assistance schemes by all relevant Ministries and Government Agencies across all economic sectors are monitored for its effectiveness in facilitating SMEs to progress up the value chain. SME Corp. Malaysia also promotes financial inclusion for SMEs especially microenterprises.

New Financing Schemes Introduced in 2010

The Government announced the RM1.5 billion Green Technology Financing Scheme (GTFS) in October 2009 to promote investments in Green Technology. The Government provides a guarantee of 60% on the financing amount via the Credit Guarantee Corporation Berhad (CGC), while the remaining 40% financing risk is borne by the participating financial institutions. The Scheme came into effect on 1 January 2010 for a period of three years or until the Scheme limit of RM1.5 billion is reached. Malaysia Green Technology Corporation (formerly known as Pusat Tenaga Malaysia) has been tasked to conduct technical audits on applicants of the scheme which include green technology providers as well as users of green technology, to ascertain eligibility. Applicants who are eligible will be awarded a Green Technology certificate, which will then entitle them to apply for financing under the GTFS. As at 9 July 2010, 33

projects have been awarded the Green Technology certification, with potential financing amounting to RM957 million. Four projects have been granted financing under GTFS, with total financing amount of RM108.3 million.

The Bank Negara Malaysia and the Government implemented several measures to ensure the continued flow of financing to the various segments of the economy, including the SME sector, such as, setting up of several special funds for the SMEs. By 2008, the country's central finance has established six special funds to support SMEs, such as the SME technology innovation fund, SME international market development funds, an agricultural science and technology application fund, SME service system special subsidy fund, SME development special funds and the special subsidy fund for the SME platform services system (Box 4.10). Consequently, loans to the SMEs extended by the banking system and DFIs, excluding companies that have graduated from the definition of SME, increased by 5.1% in 2009. The easing of monetary policy was complemented by other measures designed to reach specific sectors of the economy, including the SME sector. At the end of 2008, SME loans outstanding accounted for 44% of total business loans of the banking system and development finance institutions (DFIs)- a substantial increase from 30% in 1999.

Box 4.10: Bank Negara Malaysia (BNM) SME Special Funds

Five special funds for SMEs include:

- Fund for Small and Medium Industries 2;
- New Entrepreneurs Fund 2;
- Fund for Food;
- Rehabilitation Fund for Small Businesses; and
- Bumiputera Entrepreneurs Project Fund.

To strengthen the financial infrastructure for SMEs, Bank Negara Malaysia has implemented wide ranging measures. The restructuring and consolidation of the banking sector following the Asian financial crisis as well as the financial reforms and capacity building efforts taken over the years, including enhancing corporate governance and strengthening risk management practices, had strengthened their capacity to provide more diversified financial services to SMEs. The deregulation of the financial sector including the new interest rate framework allowed for flexible pricing to reflect the risks and it also promoted increased

competition in the financial system. Encouraging banking institutions to establish advisory units to support SMEs also reinforced increased access to financing.

Various crises related monetary measures have had positive impact on SMEs in Malaysia. An SME survey conducted for the first quarter 2010 revealed that the SMEs are mainly dependent on external sources of financing namely from banks and development financial institutions (74%) and the rest from shareholders/business owners' funds (30%), retained earnings (22%), borrowings from relatives or friends (19%) and grants. Amidst the various challenges faced by SMEs in the last 6 months including tight cash flow position, less than half of the respondents (47%) requested for new or additional external financing. About two-thirds of the respondents (67%) who sought external financing had succeeded in obtaining financing, while 14% were rejected and another 19% of the applications were still being processed.

The Bank Negara Malaysia has established a Small and Medium Enterprise Special Unit, which acts as a centre of assistance to viable SMEs in obtaining financing facilities. The Unit assists by providing information on the various sources of financing available to the SMEs and to facilitate SMEs in their loan application process apart from providing advisory services on other requirements.

Bank Negara Malaysia is a significant entity which manages funds to micro enterprises through the Pembiayaan Mikro scheme. Currently, nine financial institutions participate in this micro financing scheme. The Pembiayaan Mikro scheme has benefited more than 40,000 micro enterprises since the time it was introduced in the year 2006. Under the Pembiayaan Mikro scheme, micro enterprises with viable businesses can obtain micro financing up to RM 50,000 for working capital or for capital expenditure. Micro financing under this scheme requires no collateral, minimal documentation and provides for quick approval and disbursement. Bank Negara Malaysia has also launched a RM 200 million Micro Enterprise Fund to increase access to micro financing for micro enterprises with viable businesses. Bank Negara Malaysia has also started certain new trade finance products namely, Multi Currency Trade Finance (MCTF) and Indirect Exporter Financing Scheme (IEFS), under both conventional and Islamic financing to the small and medium enterprises (SMEs). These new trade finance products have been introduced to encourage greater SMEs participation in the export markets, especially in the non-traditional markets, as well as trade with members of the Organization of Islamic Conference (OIC).

The Bank also continues to actively reach out to support SMEs through the provision of financial planning and risk management services, and the promotion of financial literacy alongside similar initiatives by financial institutions. Public-private partnerships between The Association of Banks in Malaysia and Bank Negara Malaysia have also worked successfully to encourage improvements in customer service levels and the turn-around time taken to process SME financing applications. These initiatives have yielded tremendous payoffs to the national economy. It is observed that the central bank of Malaysia has been very active in helping MSMEs in accessing credit.

Islamic Banking

Malaysia remains at the front position of Islamic finance. There was exemption offered on the fees received in respect of Islamic fund management activities and for the Employees Provident Fund to channel RM7 billion to be managed by Islamic fund management companies (IFMCs The 2008 Budget also provided income tax exemption on fees). In July 2008, three leading financial institutions were given approval to establish IFMCs in Malaysia. The IFMCs will play a key role in the internationalisation of Malaysia's ICM.

Apart from these, there were several other initiatives taken in 2008 to enhance and strengthen the domestic ICM. Some of these measures include:

- Establishing an International Advisory Committee to provide strategic guidance and international perspectives for the ICM and organising the semi-annual International Islamic Capital Market Forum
- A platform for scholarly exchange of ideas and views to enhance awareness and understanding of Islamic finance.
- ICM Visiting Scholar Programme introduced, whereby internationally renowned scholars will be attached with University Malaya to promote and enhance research in the ICM
- Project to compile syariah rulings worldwide as a source of reference.

The Islamic banking system remained well-capitalised with the RWCR at 15.1% as at end-June 2008 (end-

2007: 15.6%), after taking into account the implementation of the revised capital adequacy framework for Islamic Banks in January 2008. The framework specifies the standardised approach to capital computations, while reflecting the differences in the underlying contracts and incorporating specific elements peculiar to Islamic banking such as the capital requirements for inventory risks as well as the treatment of profit sharing investment accounts. Although net income from financing and securities increased 20.5%, pre-tax profits, however, declined 12.6% to RM904.3 million in the first six months of 2008 (January – June 2007: RM1,034.9 million), due to higher operating expenses and lower non-financing income. The quality of financing improved further with net non-performing financing (net NPLs under conventional banking) declining 12.7% to RM2.5 billion and accounting for 2.6% of total financing as at end- June 2008 (end-2007: RM2.9 billion; 3.3%).

Credit Guarantee

In 2005, Bank Negara embarked on a strategy to transform CGC beyond that as a provider of credit guarantees to enhance the contribution of the fast-growing SME sector to the national economy. CGC introduced a number of initiatives under its transformation plan, such as, widening the scope of guarantees to also cover financing by Islamic banks and development financial institutions, introducing a new guarantee scheme for start-up SMEs, participating in Malaysia's first synthetic securitisation of SME loans, introducing an equity financing arm, and introducing risk-based models for determining guarantee fees. More importantly, it is also being positioned to provide advisory services on financial and business development to SMEs. CGC is being now positioned to provide a wider range of credit enhancement products. Some of the credit guarantee scheme are discussed below.

Direct Access Guarantee Scheme (DAGS)

Eligibility Criteria: all Malaysian owned, controlled and registered businesses (with the exception of cooperatives), with annual sales turnover not exceeding RM25 million or full time workers of 150 or less; the company should be Malaysian owned and controlled private limited companies registered under the Companies Act 1965; no adverse record with CGC or other Financial Institutions or listed under Biro Maklumat Cek, Bank Negara Malaysia; all legal business activities under "Sdn Bhd", partnership or sole proprietorship; a start-up company may apply provided a satisfactory and reasonable cash flow indicating repayment capacity of about 1.5 times; and franchise businesses can apply under this scheme.

Submission of Loan Guarantee Applications: All loan guarantee applications are to be submitted directly to CGC using a standard application form accompanied by the necessary documents as per normal loan processing requirement.

Loan Amount and Guarantee Coverage: For loan amount ranging between RM50,000 to RM 2.0 million, the guarantee cover is up to 100% and shall be valid up to the maturity date of the loan with a maximum tenure of five years.

Credit Facilities Covered

- 1) term Loans/fixed Loan;
- 2) overdrafts; yearly review;
- 3) trade lines; yearly review; and
- 4) any other credit facilities determined by CGC from time to time.

Costs of Borrowing

- 1) the lending rate is between 1.00% to 1.75%+BLR; and
- 2) the guarantee fee is between 0.75% and 1.50% per annum based on the guarantee coverage to be charged to the borrower. CGC will charge a processing fee of RM 300 on each successful application and an annual renewal fee of RM150.

Participating Institutions: A panel of financial institutions assigned by CGC.

➤ **Small Entrepreneurs Guarantee Scheme**

Eligibility Criteria: all Malaysian owned and controlled companies registered under the Companies Act 1965, the Co-operative Societies Act 1993, and entrepreneurs registered with the Companies Commission of Malaysia, or any other authoritative body; a borrower can only have one loan under one CGC guarantee at any one time; a borrower should not have any adverse record in respect of borrowing from any other financial institution or any Government agencies; and franchise businesses can also apply under this scheme.

Credit Facilities Covered

- 1) term loans; and
- 2) overdrafts.

Interest Rate: the interest rate charged by the Financial Institution will not exceed BLR + 1.5%.

Credit Tenure

- the tenure of the guarantee cover shall be for a maximum of five years

Guarantee Cover

- the guarantee cover shall be between 80 % and 100% Guarantee Fee

- the guarantee fee is 1.25% per annum based on the guarantee cover, and is payable annually in advance

Participating Institution

- all commercial banks and finance companies

➤ New Principal Guarantee Scheme (NPGS)

Eligibility Criteria: Malaysian-controlled or Malaysian-owned businesses; a company with annual sales turnover not exceeding RM25 million, or with full time employees not exceeding 150; borrower must have a good credit record and is not listed under Biro Maklumat Cek, Bank Negara Malaysia; and franchise businesses can also apply under this scheme.

Maximum Loan Limit

- loan of up to RM 10 million

Credit Facilities Covered

- Term Loans;
- Overdraft;
- Letter of Credit;
- Trust Receipt;
- Export Credit Refinancing (ECR);
- Bills Purchased;
- Bankers Acceptances;
- Shipping/Performance/Bank guarantee;
- Hire Purchase; and
- Leasing.

Interest Rate

- The lending institutions are free to quote their interest rate under this scheme.

Guarantee Coverage

- The CGC guarantee coverage ranges from between 30% to 90% subject to the following:
- Unsecured Portion - Up to 80% (a maximum cover of RM2.5 million); and
- Secured Portion - Up to 90% (no capping imposed on secured portion).

Guarantee Fee

- Unsecured Portion - 1.25%; and
- Secured Portion - 1.00%.

Participating Institutions

- All commercial banks & finance companies.

Box 4.11: Special Credit Guarantee facilities to overcome Crisis

Special Guarantee Schemes

Among the most effective measures introduced during the period were the guarantee schemes.

- **SME Assistance Guarantee Scheme (SME AGS – RM2 billion):**

BNM established the scheme in February 2009 to assist viable SMEs, which were adversely impacted by the global crisis, to continue to have access to financing from the financial institutions and at a reasonable cost. The take-up rate was overwhelming as the allocation was fully utilised by December 2009, benefiting 9,298 SMEs in various sectors. Eligible SMEs could obtain financing of up to RM500,000 per company with the support of 80% guarantee cover provided by Credit Guarantee Corporation Malaysia Berhad (CGC) at no cost.

- **Working Capital Guarantee Scheme (WCGS – RM7 billion):**

The Financing Guarantee Scheme was introduced together with the Industry Restructuring Scheme in March 2009 as part of the second stimulus package. The schemes were administered through a Government-owned special purpose vehicle, Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP), a company managed by Prokhas Sdn Bhd (Prokhas). The WCGS which was aimed at providing working capital to companies with shareholders equity of below RM20 million provided up to a maximum loan amount of RM10 million and repayment period of up to five years. The Government guaranteed 80% of the financing, while the remaining 20% is by financial institutions. Due to the overwhelming response, the Government allocated an additional RM2 billion from the RM5 billion Industry Restructuring Financing Guarantee Scheme to WCGS to total RM7 billion. The WCGS which was closed for new applications as of October 2009 has benefited some 5,300 companies with a total of RM5.9 billion in loans disbursed as at 1 July 2010. Under the Tenth Malaysia Plan (10MP), the Government has increased an additional allocation of RM3 billion to the WCGS, which will be effective as of 1 January 2011.

- **Industry Restructuring Financing Guarantee Scheme (IRFGS – RM3 billion):**

The IRFGS was to enable SMEs to retool their activity to move up the value chain and to encourage usage of green technology. Under IRFGS, the Government provides guarantee ranging from 50% to 80% on the financing facility granted by the participating financial institution, depending on the size of the shareholders' funds of a company. The IRFGS will remain open until end-2010 or until fully utilised before that. The maximum loan amount for the IRFGS is RM50 million to be repaid within a period of 10 years. As at 1 July 2010, 228 companies have benefited with RM945.6 million worth of loans approved.

Credit Information

Another significant measure by CGC was to set up SME Credit Bureau, with the support of Dun & Bradstreet. This is the private sector initiative in collating and providing credit information on SMEs. In

the public sector, there is already one such bureau called Centralised Credit Reference Information System or CCRIS that is managed by Bank Negara. Both these institutions were found to have facilitated and enhanced credit availability to the SME sector and also benefited the SMEs to a great extent (Box 4.12).

Box 4.12 : Benefits of credit information system

Firstly, the Bureau assists the SMEs to build track records. One of the key factors in credit evaluation is the historical conduct of accounts. SMEs that have no previous banking history would not have the “reputational collateral” that would otherwise give them easier access to financing. The SME Credit Bureau will be able to address this information gap by collecting and disseminating information from a wider base, including trade credit data that captures the dealings between SMEs and their suppliers. In this manner, SMEs which have no financial relationships with banks, but which have strong credit standing among their trade creditors and suppliers, will be rewarded through favourable ratings that can be used to support financing applications when the need arises.

Secondly, SMEs with good track records will not only enjoy a wider acceptance from banks, they will also be able to access financing on more favourable terms, and obtain faster decisions on their financing applications. This is because the Bureau acts as a one-stop center for banks to obtain consolidated information on SMEs.

Thirdly, the Bureau includes and takes into account both positive and negative information on SMEs. Certain third party information that financial institutions use in the evaluation of credit applications only provides negative information on the business conducts. Examples are information on bankruptcy and legal suits, which are sometimes not updated and may result in a biased assessment of creditworthiness. By collecting and disseminating both positive and negative information, the SME Credit Bureau will benefit SME loan applicants by providing a more balanced view of SMEs’ credit standings. In an objective rating process, credit bureaus typically accord greater weight to the more recent credit information or behavior. Negative records in the past can thus be mitigated by more current and consistent good track records.

Lastly and perhaps of most value to SMEs, is the insights that SMEs would gain from a better understanding of their financial deficiencies which lead to rejections of financing applications by financial institutions. This can be deduced from the analysis provided through the Bureau ratings and reports. The credit reports would also serve as a convenient tool for SMEs to carry out a self-evaluation to identify areas that need improvement and initiate adequate remedial actions to increase their competitiveness. SMEs are thereby empowered to improve their own profile, with correspondingly enhanced prospects for the SME sector as a whole.

CTOS – Credit Tip-Off Services

CTOS is an independent body that holds credit track and personal information about debtors in Malaysia via online system. It was established as a private limited company in 1988 to conduct a business of credit

reference information services provider. Frequently it is also referred for leads and information about debtors' performance during loan or credit card processing.

Banking and financial institutions in Malaysia regard CTOS as a successful Malaysian version of Dun & Bradstreet (D&B), a US-based credit risk information services with databases networked globally. CTOS is used by anyone who allows payment on credit terms. In short anybody who extends credit i.e. allows payment on credit terms such as suppliers is a CTOS customer. Banks are however its prime customer.

CTOS database is only accessible to approved subscribers, i.e. having reason to check on a particular person or company - usually because of a need in their normal course of their business. Core users of CTOS system are bankers, financiers, traders, securities firms, insurance companies, credit and charge card companies and legal firms. In general, any business that exposes itself to financial risks particularly through the extension of credit facilities will find CTOS system useful.

CTOS services are designed to operate as an electronic archive of published information which are already available in the public domain. That is, it is an archive of public records. CTOS collected its information from factual but publicly available sources including Government Gazettes, the Companies Commission of Malaysia (CCM), Insolvency Department and from information published in the Malaysian newspapers.

Like all Credit Reference Agencies (CRA) around the world, CTOS provides key businesses, including commercial firms, banks and finance institutions, with factual public information to assist them in making informed business risk decisions. It provides information to customers as a part of their decision-making process. The final decision depends entirely on the credit grantors strategies, policies and risk appetites.

CTOS does not rank, rate or give opinions as to the credit worthiness, integrity, character of the subject being inquired. It merely provides information that are historical that credit grantors want in their bid to know more about their customers better, past track record, etc. For example, when an SME apply for loans, credit cards, hire purchase or leasing facilities, etc in Malaysia, the chances are the credit grantor will make an enquiry in the CTOS system for information leads.

The banks and financial institutions regard credit reference information from CTOS as valuable because it

complements CCRIS basic credit reference information. They say that although information provided by CTOS are public information yet it provides good background history of individuals, in particular, information regarding legal matters which CCRIS has ignored. Bank Negara Malaysia regards CTOS as a harmless private information provider which is assisting financial institutions to mitigate risk. Therefore BNM prefers not to interfere with the CTOS operations because it has not negatively affected the credit reference information in the market.

Information Services Sdn Bhd (BRIS)

BRIS Information Services Sdn Bhd (BRIS) is Malaysia's oldest private and independent credit registry. Its shareholders include Basis Holdings Sdn Bhd who has more than 23 years of experience in the provision of credit information, DP Information Network Pte Ltd (DP Info) Singapore most established information and rating bureau has been in operation in Singapore for more than 25 years, and Rating Agency Malaysia Bhd (RAM) the premier rating agency in Malaysia.

BRIS conducts credit assessment and approval on credit applications, add credit section/comments and recommended approval for merchants ranging from SMEs to global multinationals. BRIS ensures credit approval and administration is in compliance with prevailing credit policies and guidelines. In this process it liaises with various parties to consider various risks in approval. BRIS also conduct regular reviews and monitor portfolio quality on an ongoing basis and recommend rating and collateral actions, make recommendations on how to improve the quality of portfolio. BRIS also prepares comprehensive credit reporting, portfolio database management, manage post approval recording/monitoring and general risk portfolio management and assist in streamlining process and look for improvement in effective credit risk controls

Credit Counselling

Realising the importance of financial education amongst the Malaysia citizens, a Credit Counselling and Debt Management Agency was established in April 2006 to provide free credit counselling, education and debt restructuring services to consumers. In a short span of time, the number of people who sought the services of

CCDMA has grown tremendously from 6,800 individuals in 2006 to --- in 2007. Since January 2007 to June 2008, individuals with credit card related debts accounted for 78% of the total number of individuals enrolled under the debt management programme, involving debts of RM249 million.

The CCDMA also continued to contribute towards improving financial education, especially for youths. In this regard, CCDMA has developed a module on Personal Financial Education to be taught in universities. The objective is to prepare graduates to face the challenges of managing their finances wisely at the start of their career. In addition, CCDMA will continue to collaborate with the National Service Training Department to provide personal financial education for trainees.

Financial Advisory Services: The Government and the commercial banks have established advisory services for individuals to seek information and assistance on credit issues. BNM successfully resolved 92% of 531 cases related to access to financing by SMEs in 2009, of which 49% were resolved in favour of SMEs following the Central Bank's facilitation and intervention.

In addition, SMEs could also seek assistance from the "One Referral Centre" at SME Corp. Malaysia including its state office nationwide. Business coaches and counselors have been able to provide the various business advisory services in addition to providing information on Government funds, programmes and incentives available for SMEs.

Technology Financing

Malaysian Technology Development Corporation finances the commercialization of R&D by SMEs, especially the components associated with feasibility study or cost of technology. Bank Negara Malaysia provides concessional financing (maximum of RM 5 million) to enable eligible SMEs to undertake expansion in production facilities. Under the Strategic Industry Programme, SMR Bank of Malaysia provides concessional finances (maximum of RM 2.5 million) for undertaking wholesale and distribution activities.

Role of SME Bank:

In the private banking sector, SME Bank plays a dominant role in SME credit schemes and programmes. Some of the Special finance programmes instituted by SME Bank to facilitate the SME sector are given below:

SME Start-Up

The SME Start-Up offers financing and/or business development support for entrepreneurs to commercialise their product or service including ICT and agro-based activities and is specially targeted towards businesses with market-viable products or services ready for domestic and/or international commercialization.

Start-ups and new businesses in Manufacturing and Manufacturing- Related Services and priority growth sectors/industries as outlined in the Ninth Malaysia Plan

Special Scheme For Rural Economic Development

Special programme in rural areas to encourage entrepreneurship in which the SME Bank would collaborate with the Ministry of Rural Regional Development. Amongst the various programmes is the Homestay Special Programme that involves 'bed & breakfast' concept in rural areas.

Batik and Craft Entrepreneurs Programme

Financing programme in batik and batik-related industries, as well as related handicraft industries.

Vendor Entrepreneurial Programme

Programme to develop Bumiputera entrepreneurs to become vendors in certain industries by matching them with an anchor company. The Bank together with Ministry of Entrepreneurs and Cooperative Development (MECD) works with the vendor to support smaller SMEs under umbrella program funding and advisory.

Graduate Entrepreneurs Scheme

Special programme with MECD to encourage graduates to be an entrepreneur and be involved in a business field as an alternative career.

Incubator Graduate Entrepreneurs Program (PIUS)

2 incubators were set-up in Johor and Shah Alam as an attachment program with bigger companies for graduates under the Graduate Entrepreneurs Program.

Kompleks Kilang SME Bank

Kompleks Kilang SME Bank is an integrated entrepreneurship development approach that provides financing facilities, factory space rental, and entrepreneurship training as well as service advisory help and financial. Apart from that, the scheme also focuses on: -

- Suitable project selection with the innovative business concept.
- Selection of talented and committed candidates.

Government Fundings

1. Grants: To provide greater financial accessibilities, the Government through its agencies offers various grants and incentives to the SMEs. Partial matching grants are provided to finance product and process improvement quality certification and management system improvements, market development, skills upgrading, factory audit and acquisition of strategic technology. Assistance is given in the form of a matching grant where 50% of the approved project cost is borne by the Government and the remainder by the applicant. For enterprises in the manufacturing sector incorporated under the Registration of Business Ordinance 1956, assistance is given up to 80% of the approved cost. However, these businesses need to convert to Sdn. Bhd. companies, before 31 May 2009. The maximum grant allocated per application is RM 40000.

2. Technology Acquisition Fund (TAF): The objectives of TAF are as follows:

- to promote technology upgrading through the introduction and utilisation of technologies in the manufacturing and physical development of existing and new products or processes;
- to enhance the competitiveness level of Malaysian companies to compete globally; and
- to increase wealth creation and technology content of Malaysian companies via acquisition of foreign technology.

The quantum of funding approved under TAF is up to a maximum of 50% or RM 2000000 whichever is lower depending on the merits of each application.

3. Techno Fund has the following objectives:

- stimulate the growth and successful innovation of Malaysian medium and large enterprises by increasing the level of R&D and its commercialisation;
- increase capability and capacity of Malaysian Government Research Institutes (GRI) and Institutions of Higher Learning (IHL) to undertake market driven R&D and to commercialise the R&D findings through spin-offs/licensing;

- enhance global competitiveness and R&D culture among Malaysian medium and large enterprises;
 - increase contribution to Malaysia's GDP through economic wealth creation and exports; and
 - foster greater collaboration between Malaysian enterprises and GRI/IHL.
4. **Grant for Small & Medium Enterprise** - Lembaga Pertubuhan Peladang: Lembaga Pertubuhan Peladang was established in 1973. The board is primarily responsible for the economic development of farmers and SMEs in the country.

Objectives

- implementing agricultural production projects, especially in the area of systematic food production;
- promote the growth of small and medium enterprises (SMEs);
- utilize marketing as the core activities for the board;
- promote schemes for savings and loans;
- encourage farmers to grow into entrepreneurs; and
- improve the effectiveness of the management of the Board and the Pertubuhan Peladang.

Scope of Financing

- Construction of buildings and premises for businesses;
- Supply of machineries and equipment; and
- Payments for consultancy services.

Loans

Fund for Small And Medium Industries: The objective of this fund is to ensure eligible SMEs in both the export and domestic-oriented sectors have access to financing at reasonable cost.

Maximum financing rate

- 4% to 6% per annum

Maximum tenure

- 5 years

Minimum financing

- RM 50000

Maximum financing

- RM5 million

Participating financial institutions / Implementing Ministry / Agency

- All commercial banks and Islamic banks;
- Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank);
- Malaysian Industrial Development Finance Berhad; and
- Bank Pertanian Malaysia

The Entrepreneurs Fund: The objective of this fund is to promote the growth of small and medium-sized Bumiputera enterprises by ensuring that they have access to financing at reasonable cost.

Maximum financing rate

- 4% to 6% per annum

Maximum tenure

- 5 years

Maximum financing

- RM5 million

Participating financial institutions / Implementing Ministry / Agency

- All commercial banks and Islamic banks;
- Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank); and
- Malaysian Industrial Development Finance Berhad.

Eligibility Criteria

- business enterprise based on the definition of SMEs;
- maximum shareholders' funds not exceeding RM2 million;
- shareholding by Public Listed Companies and Government-Link Companies (if any) should not exceed 20%;
- wholly-owned Bumiputera institutions residing in Malaysia incorporated under the Companies Act 1965, the Co-operative Societies Act 1993, the Societies Act 1966, and registered with the Companies Commission of Malaysia or any other authoritative bodies
- not more than 7 years in operation. However, participating financial institution may consider cases of SMEs who have been in operation for more than seven years; or
- small and medium sized Bumiputera enterprises participating under the vendor development programmes of the Ministry of Entrepreneur Development, or Ministry of Finance, with of legal 70% Bumiputera equity and management control.

Rehabilitation Fund for Small Businesses: The objective of this fund is to assist viable SMEs that are constrained by non performing loans (NPL)

- through Small Debt Restructuring Scheme (SDRS) by facilitating their request
- restructuring and arranging for new financing, if necessary. Scheme Mechanism
- Under SDRS, the Small Debt Resolution Committee (SDRC) has been established to undertake an independent assessment on the viability of SMEs after their applications for debt restructuring, together with request for new financing have been declined by participating financial institutions.

Maximum financing rate

- 5% per annum

Maximum tenure

- 5 years

Maximum financing

- RM1.5 million per customer

Participating financial institutions / Implementing Ministry / Agency

- All commercial banks, finance companies and Islamic banks;
- Bank Pembangunan Malaysia Berhad; and
- Bank Perusahaan Kecil dan Sederhana Malaysia Berhad (SME Bank).

New Trade Finance Products for SMEs: Effective 16th of January 2006, the banking system started offering new trade finance products namely, Multi Currency Trade Finance (MCTF) and Indirect Exporter Financing Scheme (IEFS), under both conventional and Islamic financing to the small and medium enterprises (SMEs). The MCTF provides financing to Malaysian direct exporters in Ringgit and major foreign currencies in the form of pre- and post-shipment financing. The IEFS provides Ringgit financing to indirect exporters without recourse, whereby the participating banks will discount their trade invoices arising from the supply of goods and services to direct exporters. These new trade finance products were introduced to encourage greater SMEs' participation in the export markets, especially in the non-traditional markets as well as trade with members of the Organisation of Islamic Conference (OIC). These products benefit the SMEs by lowering financing costs, without collateral requirements. Under the arrangements, the SMEs can obtain financing from

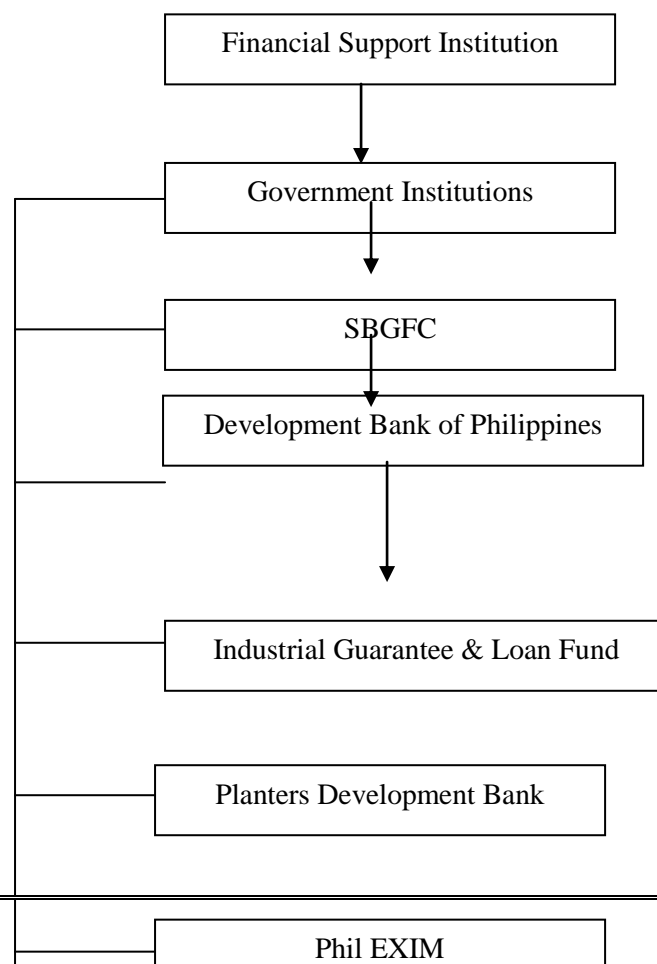
the participating banks, with the credit risks being shared between the banks and Export-Import Bank of Malaysia Berhad (EXIM Bank).

Soft Loan for Small and Medium Enterprises: This scheme is to assist existing as well as new start-up companies in project, fixed assets and working capital financing. Loan Amount minimum: RM 50000. The maximum amount depends on the following Project Financing – RM 5 million (including preoperational expenses of up to RM 250000); Fixed Assets Financing – RM 2.5 million; and Working Capital Financing – RM 1 million.

PHILIPPINES

The Bangko Sentral ng Pilipinas (BSP, translated as Central Bank of the Philippines) is the central bank of the Republic of the Philippines. The broad framework of the Financial system support to the SME sector in Philippines is given in the Chart 4.6.

Chart 4.6: Financial Support Institutions for MSME Sectors in Philippines





The importance given to the SME sector in Philippines is vindicated by the fact that under the Magna Carta, all lending ' institutions as defined under Bangko Sentral ng Pilipinas rules, whether public or private, have to set aside at least eight percent (8%) for micro and small enterprises and at least two percent (2%) for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter, and make it available for MSME credit. Compliance of this provision shall be:

- a) actual extension of loans to eligible MSMEs; or
- b) actual subscription of preferred shares of stock of the SB Corporation; or
- c) wholesale lending to Participating Financial Institutions (PFIS) for on-lending to MSMEs; or
- d) purchase discount of MSMEs receivables; or

e) loans granted to export, import, and domestic traders subject to compliance with Section 3 of this Act; or

f) subscribe/purchase of liability instruments as may be offered by the SB Corporation.

The Carta also stipulated that “The Bangko Sentral ng Pilipinas shall formulate rules for the effective implementation of this provision: Provided, That the purchase of government notes, securities and other negotiable instruments shall not be deemed compliance with the foregoing provisions: Provided, further, That the Bangko Sentral ng Pilipinas shall establish an incentive program to encourage lending to micro, small and medium industries beyond the mandatory credit allocation to said enterprises, such as possible reduction in bank’s reserve requirement.

The MSMED Council shall set up the appropriate systems to monitor all loan applications of MSMEs in order to account for the absorptive capacity of the MSME sector. The Bangko Sentral ng Pilipinas shall furnish to the MSMED Council on a quarterly basis comprehensive reports on the banks’ compliance, non-compliance and penalties of the above provisions on the mandatory credit allocation for MSMEs.

Because of the Magna Carta, a number of initiatives have been taken in Malaysia in providing finance to MSMEs (Annexure 4.4). These financing measures, some of the important ones discussed below, have positive effect on credit flow to the MSME sector in Malaysia. In 1991, the credit to SMEs amounted to P17 billion. By December 2007, or 16 years later, total loans extended to SMEs have reached P352 billion. This is roughly 21 times more than the 1991 total. As a whole, the banking sector has consistently exceeded the mandatory credit allocation for SMEs under the Magna Carta for Small Enterprises.

The Government of Malaysia is implementing a program called SME Unified Lending Opportunities for National Growth (SULONG) where funds are lent out to SMEs in addition to the existing mandate. Under the SULONG Programme, the FIs apply simplified and standardized lending procedures and guidelines (e.g., standardized application procedures, requirements, fees and interest rates) to provide SMEs with greater access to capital. Interest rates are pegged at 9 per cent per annum (p.a.) for short-term loans, 11.25 per cent p.a. for medium-term loans and 12.75 per cent p.a. for long-term loans. More than PHP 35.3 billion (US\$ 640 million) in loans have been re-leased to some 368,000 SMEs nation-wide since the launch of the Programme in February 2003.

Other Financial Support System

1. **Small Business Guarantee Fund Corporation (SBGFC):**

Guarantee Program - This product was designed to encourage financial institutions to lend to SMEs by providing a guarantee cover of up to a maximum of 90% on the loans of qualified entrepreneurs. Such a scheme is aimed at increasing the flow of funds from the formal lending institutions to the small and medium enterprise sector, especially those without collateral. The guarantee works as a collateral substitute or as a collateral supplement.

SME Force - SME Financing for Organizationally competent and Excellent Franchise Businesses is a franchise development financing facility that will be implemented with the participation of the franchisors' organizations. Coupled with the "Captains of Industry", it is used as a strategy to develop backward and forward linkages among and between leading businesses and SMEs in the domestic economy.

- **First Light** - A financing program for the best business ideas that contribute to the development of the five (5) priority industries. The best ideas are competitively chosen from proposals endorsed by DTI through its regional/provincial offices.
- **Guide** - Guarantee Incubation for DTI Endorsed Enterprises is a P100 million direct lending facility of the Small Business Guarantee and Finance Corporation (SBGFC).
- **Small Enterprise Financing Facility (SEFF)** - SEFF was established to supplement the financial system's resources for small and medium enterprise development financing. Under the SEFF, accredited financial institutions (AFIs) which are in need of funds for small and medium enterprise financing may approach the SBGFC and apply for accreditation as lending conduits. Prospective SME borrowers may then directly apply to any of the AFIs under the SEFF. With SEFF, the SBGFC finances up to a maximum of 90% of the project cost, with the AFIs co-financing at least the remaining 10%.
- **Rediscounting Facility for Small Enterprise Loans** - It is a credit window where accredited financial institutions (AFIs) may negotiate their eligible SME loans/credit

instruments with SBGFC. AFIs, which wish to avail of loans from the window, can rediscount their promissory notes by assigning/endorsing with recourse promissory notes in favor of the SBGFC together with its underlying securities.

- **Transactional Direct Financing Facility** - This is a stop gap program which immediately addresses the credit needs of SMEs, particularly in the export sector. Here, SBGFC coordinates with a network of industry associations to determine specific problem areas wherein SBGFC could directly intervene. SBGFC provides direct financing on a per transaction basis. The program aims to assist SMEs at critical periods such as in the production of outstanding confirmed orders or the liquidation of receivables to finance ongoing production. A variant of this facility was later launched to assist SMEs with requirements of longer-term maturities up to a year for business expansion and other working capital/fixed asset requirements.
2. **Development Bank of the Philippines (DBP): Industrial Support Services Expansion Program (ISSEP)** - promotes the construction, expansion or modernization of plant and related services, including land improvements related to these. It finances the acquisition of raw materials, equipment and parts, and environment-related projects on standalone basis or part of plant construction or expansion. Target sectors are manufacturing like food, textile, wood, industrial machinery, chemicals and nonmanufacturing sector like computer software, transport services and communication.
- **Industrial Guarantee and Loan Fund (IGLF)** - This may be availed by enterprises engaged in the manufacture or processing of products on a commercial scale as well as the delivery of services supportive of manufacturing activities. It also provides credit supplementation support through the extension of guarantee schemes to stimulate the flow of credit to SMEs. The facility may be used for the purchase of factory site for new and expansion project, construction of factory building, purchase of equipment and permanent working capital.
3. **PhilEXIM** : PhilEXIM plays a vital role in helping Philippine exporters gain access to international markets and become globally competitive. To assist small, medium and large exporters, as well as priority sectors, PhilEXIM has various financing products which address

credit-related problems, such as, limited resources, lack of collateral and limited access to facilities and other forms of trade financing.

4. Guarantees

- Preshipment Export Finance Guarantee Program (PEFG): Guarantee coverage on preshipment working capital loans extended by participating financial institutions (PFI) to collateral-deficient but viable small and medium exporters (SMEs).
- Postshipment Export Risk Guarantee (PERG): Guarantee coverage on export bill purchases arising from export transactions under PEFG and other receivable financing extended by PFIs.
- Term Loan Guarantee Program (TLGP): Guarantee coverage on medium and long term loans of up to P50 million, extended by PFIs to medium and large exporters, and to small exporters with PEFG and PERG accounts for asset acquisition, expansion and production modernization, and related expenditures.
- General Facility Program (GFP): Guarantee coverage on domestic and foreign loans of medium and large exporters and other domestic enterprises to finance any export promotion activities, import substitution industries and other government priority projects.
- Omnibus Line under the General Facility Program (OL-GFP): Guarantee coverage on short-term loans of up to P300 million granted by banks to large, direct and indirect exporters, with disbursements against letters of credit (L/Cs), confirmed purchase orders (CPOs) and confirmed sales contracts (CSCs).

5. **Venture Capital:** The emergence of venture capital (VC) firms is a recent phenomenon in Philippines. Most of the existing funds were established after the East Asian financial crisis of 1997. These are mainly foreign invested equity schemes headquartered in the Philippines that operate on a regional or global scale. In some cases, the ties with strategic investors based in the US (typically in Silicon Valley) are particularly strong, and investees are mostly suppliers of US companies. More generally, the potential for a regional or global scale of operations appears to be a prerequisite for securing an investment from most of these VCs. Most VC investments have been made in the manufacturing of hardware components (semiconductors) and assembling. VCs

also have funded some relatively large BPOs, such as contact centers and 3D animation studios—software developers are seldom considered. Overall, the number of deals financed thus far by VCs appears to be moderate in number of which a minority are domestic enterprises. Typically, amounts invested exceed the US\$1.0 million mark, with only a handful of deals around US\$500,000. As a result, the impact of VC financing on the ICT sector is limited to a few relatively large business.

Planters' Development Bank (PDB) and foreign firm Aureos Capital are in the business of providing venture capital to be used to prop up small and medium enterprises (SMEs) in the Philippines. PDB is a private development bank ranked among the top five leading thrift and savings bank in the Philippines and specializes in SME lending. Aureos Capital, on the other hand, is a foreign private equity fund management company with funding support from the Norwegian Investment Fund for Developing Countries (Norfund) and CDC Development Partners, a government institution for private sector investments. Aureos Capital has, in fact, already established an \$80-million capital equity fund for the ASEAN, of which \$20 million is earmarked for the proposed Philippine fund. Aureos Capital is an international manager of private equity funds, and a market-leading risk capital investor in emerging markets. It has over \$300 million of committed capital focused mainly on SMEs. It has over 50 fund investors including European developmental financial institutions, local financial institutions, international development banks and international private institutions. Of the total \$25-million SME venture fund, \$5 million is supposed to come from the PDB and the balance representing the capital share of Aureos Capital. The target sectors for the fund are SMEs that are export-oriented, local pharmaceuticals, customer contact centers, and graphic designing with information and communications technology (ICT).

6. **Micro Lending Government Scheme:** In Philippines, the microfinance sector is rapidly expanding. There are currently around 190 institutions active in this area, most of which are rural and cooperative banks. The overall number of borrowers is about one half million.

REPUBLIC OF KOREA

The Government of Korea has been taking a number of policy and institutional measures for enhancing credit flow to their SMEs. A number of financial safety net has been established by the Government of Korea to help small businesses to overcome the financing shortage, e.g. establishment of Korea Development Fund (KDF), an advance market friendly financial institution with the objective of supporting promising SMEs, an SME Promotion Fund for restructuring sick enterprises and to nurture business start-ups, credit guarantee, set up the Micro-enterprise Assistance Center in 1999 as a professional organization dedicated to providing counseling, advice and information on the start-up and improvement of business, etc (Box 4.13).

Box 4.13: Financial support System Developments

- Establishment of Financial Institutions
- Established the Industrial Bank of Korea for SMEs (1961)
- Established Kookmin Bank (1963)
 - Dedicated to mid-and low-income earners and to supporting SMEs and small self-employed businessmen
- Mandatory Ratio of SME Loans(1965) : Loans extended to SMEs (30+%) à induced financial support from commercial banks for SMEs
- Credit Guarantee Fund (1976) : Guaranteed SME debts Technology Credit

Financial Support Systems

- Development Policies for Korean SMEs - Mandatory Ratio of SME Loans increased : commercial banks ((30+% to 35+% (1980) and 45+%(1992)), local banks: 55% to 80+% in 1986
- SME SME Mutual-aid Project (1982) - Prevented bankruptcy from default à SME Mutual-aid Project Fund and initiated SME aid project support (Korean Federation of Small and Medium Business).

SME policy financing began to take shape in the 1960s and 70s when Korea turned to large enterprises and the heavy and chemical industries to lead the national economy with export-oriented policies. The first concerted effort towards focussed credit flow to SMEs was initiated in 1963, when the government established the Kookmin Bank, dedicated to people in the mid-and low-income brackets in an effort to expand financial support for SMEs.

In 1965, the government initiated a set number of mandatory loans extended to SMEs (30% of the total loan amount) to indicate more loans from commercial banks to SMEs.

In order to further encourage banks to provide more credit to SME sector, the government enacted the SME Credit Insurance Act in 1967 to support SMEs financially and established a “Committee for SME Financing” to encourage commercial banks to guide loans extended to SMEs, and instructed commercial banks to put in place a division dedicated to SME support.

In 1969, a “Commercial Paper Discount System” was introduced to discount commercial papers that SMEs received from large companies as proceeds.

As financial resources were concentrated with large companies due to the implementation of policies toward the heavy and chemical industries in the 1970s, the Bank of Korea took measures to increase available capital to SMEs, such as, strengthening the criteria in applying the ratio of loans tended to SMEs and adjusting the mandatory SME loan ratio of regional banks upward(30% → 40%). In addition, by guaranteeing the debts of SMEs that suffered from lack of funds due to insufficient collateral, the government made it easier for SMEs to mobilize funds based on a “Korea Credit Guarantee Fund” established in 1976 as a special corporation.

The Bank of Korea raised the mandatory ratio of loans extended to SMEs in 1980 (commercial banks: 30% → 35%, regional banks: 40% → 55%) as more funds were needed to enhance the productivity of SMEs and increase exports. Also, SMEs were allowed to tap into funds from the Korea Credit Guarantee Fund when they borrowed money from secondary financial institutions (such as insurance companies).

The government increased the mandatory ratio of loans extended to SMEs from regional banks (55% or more → 80% or more) in 1986 to expand the loans available to SMEs. In addition, for effective financing of SMEs through direct financing, the government permitted SMEs in 1984 to issue corporate bonds with payment guarantees up to 200% of capital. Along with this, the government established the “Fund for SME Mutual-aid Projects” in 1982 to prevent bankruptcy and promote mutual SME businesses. In 1984, the Korea Federation of Small and Medium Business initiated its support for the SME mutual-aid projects fund.

Furthermore, for active investment in new technology businesses, the government established a “Technology Credit Guarantee Fund (TCGF)” in 1989 that guaranteed debt repayments of companies that developed new technologies or commercialized new technologies.

To expand funds for SMEs, the government raised the ratio of mandatory loans extended to SMEs from commercial banks in 1992 (35% → 45%). In addition, a “Aggregate Credit ceiling system” was introduced by the Bank of Korea in 1994 to increase the amount of loans to SMEs. Under the total limit system, the Bank of Korea supported financial institutions that extended loans to SMEs with low interest rates within on the basis of the institutions’ loan performance. Meanwhile, the government introduced an “Insurance System for Bills” in 1997 to prevent increased bankruptcy of insolvency by paper profits of SMEs, which might be caused by the defaults of other companies.

In 1997, the government enacted The act on Special Measures for the promotion of Venture business only for 10 years. Those venture companies in the act were defined as “companies invested in by venture capitals,” “a company with large amount of investment in R&D as a percentage of sales (5% of more of sales invested into R&D),” and “a company with patents or new technologies.” The government opened the KOSDAQ, a stock market dedicated to SMEs and venture companies, in 1996 to mobilize funds directly.

To expand credit guarantee support for SMEs that didn’t have enough collateral, but with remarkable technologies, the government introduced and operated a “Special Support System for Technology Credit Guarantee.”

After recognizing the conventional market risks of competition if they did not adapt themselves, the government provided financial support for redevelopment of conventional markets in 1996, carrying out its “Small Store Modernizing Project” at the same time to strengthen support for small-scale retail businesses.

Since the 1998 foreign exchange crisis, bank lending to SMEs has increased steadily, affected by shrunken lending to major conglomerates and stiffer regulations on household loans. As of May 2010, outstanding bank loans to SMEs totaled 448.2 trillion won, accounting for 46.6% of aggregate won-currency lending.

Bank lending to SMEs is characterized by “blue-chip” loan practices and loans backed by mortgages and certificates of credit guarantee. This environment presents financing bottlenecks that stifle micro-enterprises as well as promising SMEs with competitive technology and growth potential but weak financial structure.

Meanwhile, SMEs also face hurdles in the direct financing market due to low credit ratings. In fact, SME capital formation from the direct financing market in the first six months of 2010 was just 1.7 trillion won, about 8% of that of large corporations. Signs point to a recovery in angel investment this year, but it is projected to remain significantly lower than in 2006 and 2007.

To compensate for the shrunken lending environment stemming from business fluctuation as well as the global financial crisis, policy financing supports business start-ups and areas where market failure have cropped up. It also is fostering excellent new and green technologies in next-generation growth sectors that are facing bottlenecks in access to mainstream financial markets.

The main forms of policy financing consist of policy capital loans, credit guarantees, on-lending, and aggregate ceiling lending, the scale of which has increased significantly in the wake of the global economic crisis that began in late 2008.

Today, the key players in the SME financing support system in Korea are the Small and Medium Business Corporation (SBC), which primarily facilitates investment and loans from start-up and promotion funds as well as credit guarantees, the Bank of Korea, which implements the aggregate credit ceiling system, and the Korea Policy Banking Corporation, which oversees the on-lending program.

The support for policy loan funds from SBC consists of the supply of long-term-low-interest funds to SMEs, which are avoided by private banks due to weak credit and collateral despite their technological and business viability. SBC has revamped its corporate evaluation system to focus on technological and business viability, including future marketability and growth potential, rather than on financial status, while strengthening complementary functions related to market-failure areas.

SBC offers access to two types of loan, direct loan and proxy loan. Under its direct loan program, the corporation performs all of the related procedures, receipt of loan applications, loan examination and post-loan management. Under the proxy loan system, it conducts the preliminary loan examination while banks carry out the final loan examination, loan, and post-loan management functions. In 2009, 46.3% of SBC's loan activities were of the direct loan type involving 2.2 trillion won, while 53.6% were of the proxy type involving 2.6 trillion won.

SBC's role is to contribute to SMEs' stable capital management and reduction of capital expenses as well as to supply funding for SMEs in a timely manner and minimize damage to SMEs when shocks occur due to non-economic factors, such as, natural disasters or sharp international raw material price hikes.

A second program in place to facilitate SMEs' access to financing is the credit guarantee support system, which provides guarantees for SMEs that are experiencing difficulties in obtaining loans from private banks due to a lack of collateral. The implementing agencies for this program are the Korea Credit Guarantee Fund (KODIT), Korea Technology Finance Corporation (KOTEC) and the Korea Federation of Regional Credit Guarantee Funds (KFRCGF).

The three implementing agencies respectively serve SMEs operating in different categories: KODIT supports non-technology-oriented SMEs – start-up firms, exporting firms and green-growth firms; KOTEC serves technology-oriented SMEs – venture firms, INNO-BIZ firms and green-growth firms; and KFRCGF supports regional micro businesses – small firms, self-managed micro firms and unregistered micro businesses.

The basic procedure for obtaining credit guarantee support starts with the enterprise that requires funds submitting an application to one of the guarantee agencies for consultation on guarantee. The agency will then contact the enterprise to collect data, conduct a credit inquiry and examine the guarantee request. After satisfying the agency's requirements, the agency will issue a guarantee certificate to a banking or other supporting financial institution, which will in turn provide the loan to the applying enterprise.

With expanded policy financing through the credit guarantee program, as well as other sources, SMEs were able to overcome the recent financial crisis at an early date, as the guarantees facilitated loans to reduce SME market failure, while contributing to the reinforcement of the national economy.

Since the implementation of a local self-governing system, the government allowed for a foundation to guarantee local credit, which guaranteed the debt repayment of local SMEs by enacting the Act on Local Credit Guarantee Foundation in 2000.

However, of late, it has been observed that there was an excessive supply of credit guarantees to SMEs with relatively high credit ratings. For these reasons, the Korean government does not seem to be tending to increase the size of credit guarantees indefinitely. After a technology assessment by KIBO, credit guarantees are channeled into early-stage venture companies and Inno-biz, since SMEs with high credit ratings can easily draw loans from banks. Due to the government's emphasis on the efficient allocation rather than the size of credit guarantees, the amount of recent outstanding balance of credit guarantees is decreasing.

The third program designed to increase SME access to financing is support through on-lending, or re-lending, which refers to funds that are recorded as a deposit to a supporting financial institution but the original lending bank and the contractual borrower (the supporting financial institution) agree that the loan proceeds will be made available to third-party SMEs.

Under this program, the Korea Policy Banking Corporation (KPBC) suggests guidelines regarding SMEs targeted for support and supplies on-lending funds to financing institutions. The financing institutions then examine applicant SMEs and decide whether to provide loans or not, as well as the loan interest rate. KPBC provides credit and liquidation underwriting to ease the risk to the financing institutions.

In a fourth pillar of support, the Bank of Korea (BOK) ensures systematic support for SMEs under two key programs – the aggregate credit ceiling system and the mandatory minimum SME loan ratio system.

In the aggregate credit ceiling system, the BOK allocates funds to 17 banks after determining aggregate credit ceilings quarterly based on the results of loans provided to SMEs by the banking institutions. In July 2007, the aggregate credit ceiling support provided by the BOK was 6.5 trillion won, but in response to the economic crisis, the central bank increased the ceiling sharply to 10 trillion won by March 2009.

The BOK applies lower than prevailing market interest rates to its aggregate credit ceiling loans to achieve policy goals, including expansion of SME lending and balanced regional development; for example, the rate was lowered from 3.5% per annum in August 2008 to 1.75% in December 2008 and further to 1.25% in February 2009.

The positive effects of the aggregate credit ceiling system have been to accelerate banking institutions' selective financial support for SMEs, reduce SME loan-related expenses with the application of preferential interest rates and increase banking institutions' issuance of loan products. However, while still positive, the system offers lower economic benefit to SMEs during times of low market interest rates like at present.

The second BOK program that assists SMEs is the mandatory minimum SME loan ratio system. The central bank encourages lending banks to provide more than an established ratio of loans from the won-currency finance fund to SMEs: for commercial banks the ratio is more than 45%, provincial banks over 60%, and domestic branches of foreign banks over 35%. Those banks that do not achieve these ratios are disadvantaged when the BOK allocates aggregate credit ceilings by having 50% of the amount not achieved cut from their respective aggregate credit ceilings.

Venture Capital

To promote investment into venture companies, the government opened an investment mart in 1998 and provided benefits to cooperatives that invested into venture companies, allowing 20% of the amount invested to be deducted from general income. To facilitate the establishment of venture companies, the government allowed professors and researchers to have multiple duties after obtaining approval and participating in the management of start-ups. For effective support of venture companies, the government attracted foreign investment funds and established a Korea Venture Fund worth 100 billion won.

To facilitate establishing venture companies, the government increased the number of start-up instruction centers (Business Incubator) and expanded the facilities of these centers, providing operating cost support depending on the operation performances of these centers. The government revised the venture company confirmation process, so that confirmation that had been done by the Small and Medium Business

Administration was transferred to the Technology Credit Guarantee Fund, Small and Medium Business Corporation, and venture capital companies.

The government opened an “off-board stock market” in 1987 to give more opportunities for SMEs to mobilize funds through direct financing. This off-board market was a so-called unlisted stock market, which was a prior stage market for listing on the exchange.

Role of SMBA

The Small & Medium Business Administration (SMBA) augments and supplements the foregoing programs by providing additional support to facilitate SMEs access to financing. Two of these programs are related to bond issuance by SMEs.

First, SMBA supervises a system that insures SME sales bonds. SMEs may purchase insurance from the Credit Guarantee Fund for the supply of goods or services with sales bond to purchasing enterprises, thus protecting the rights of the purchasing enterprise and instilling confidence in the SME.

Second, as SMEs face difficulties in issuing non-guaranteed corporate bonds in the financial market based on their own credit rating as 99.3% of the issuing enterprises have a credit rating lower than BB (speculative rating), SMBA assists by issuing asset backed securities (ABS). Between 2000 and 2009, SMBA provided about 2.75 trillion won in funds for 1,053 SMEs, including 152 billion won for 64 SMEs in 2009.

Going forward, SMBA intends to continue to develop SME financing support programs. It will work to maintain an optimum level of liquidity supply, in connection with expanded policy financing, to support the growth and development of promising enterprises. In the meantime, SMBA also will strengthen its technological viability appraisal system to provide access to financing for those enterprises that possess excellent technology and business success potential but which lack sufficient financial and collateral capacity.

In addition, SMBA will sustain its efforts in smoothing the way for SMEs to raise capital in the direct finance market and in helping micro-enterprises stand on their own feet by developing an appropriate financing support system.

Further SMBA had established a dedicated micro-business development office on Dec. 28, 2005, a professional institution- Micro-enterprise Promotion Agency in April 2006, and also strengthened the function of the micro-enterprise assistance center.

The SMBA has established a 'commercial complex information system' to assist micro-enterprises' start-up activities and their managerial stability, and is operating a five-stage start-up package program aimed at linking education and funding to encourage start-up activities. The purpose of these measures is to enhance the success rate of start-ups.

Other Institutional Support:

- **External Financing for SME:** Most SMEs turn to debt financing at an early stage. Banks are the main lenders. Bank loans accounted for 79.7 per cent of total external financing at the end of 1999. Borrowings from non-bank financial institutions and corporate bonds recorded 7.5 per cent and 3.9 per cent, respectively, at the end of 1999. Borrowings from the private curb market declined to 0.6 per cent.
- **Policy Funds for SME:** Policy-related loans for SMEs are supplied from government policy funds, primarily through the specialized bank. Some are Facility funds and technology development funds accounted for 57.2 and 18.1 per cent, respectively of the policy funds. The maturity of facility funds and technology development funds is eight years. The provision of long-term loans helped SMEs to modernize production facilities and develop a new product or process.
- **SME Financing through Stocks and Bonds:** Generally speaking, SMEs' funding from capital markets in Korea is currently not active. Since 2001, the total amount of large companies and SMEs' funding through stock and bond markets has decreased. Large firms especially did not actively issue stocks or bonds over this same period. Despite of the downward trend of large companies' funding through capital markets, SMEs' funding size takes only 12.7% of the total size.

Table 4.1: SME funding through Stocks and Bond in Korea (In Billion won)

Year	2004	2005	2006	2007

Equity	Large Companies	6508	3775	3714	10806
	SME's	1771	2988	2785	4184
	Total	8279	6763	6499	14990
Corporate Bonds	Large Companies	26109	21903	16963	19670
	SME's	98	225	197	669
	Total	26207	22155	17160	20339

Source: Financial Supervisory service

- **Korea Fund of Fund:** The Korean government used to directly invest in venture investment funds before the government's "Fostering Venture Companies" drive was announced in 2004. The government was worried about diminishing venture capital investment, and realized that many venture funds were dissolved from 2004 to 2005. In addition, the government's investment resources were quite decentralized, with various government bodies administering different parts of the process. The government needed a stable and unified source of venture investment. As a result, the Korea Fund of Funds (KFoF) was established in 2005. In contrast with the previous system, where the government directly chose the recipient companies as well as determined the amount of funds, the KFoF allows a fund manager to evaluate, select, and distribute capital to a number of funds.
- In 2004, the government introduced a **Network Loan system** to collect from large companies in a more timely manner. In January 2005, "Korea Enterprise Data" was established to provide credit information of SMEs to relevant data companies.

SOUTH AFRICA

The Government of South Africa decided in 2001 to promote small business "by creating clusters of ministers, where each department is now expected to bring input into the document in terms of what they are doing for small business and how they are providing support". In terms of this cluster approach, the

various government departments have to work more closely together in future in order to promote SMEs.

Two government departments play a pivotal role in SME development, namely the Department of Trade and Industry and the National Treasury. In this context it has to be emphasised that the Micro Finance Regulatory Council (MFRC) reports to the Minister of Trade and Industry. As the financial backbone of Government, the National Treasury obviously plays an important role in SME finance (*inter alia* through its fiscal policy). Other important role players are the regulators of financial institutions, i.e. the Financial Services Board and the South African Reserve Bank (SARB), which have to ensure *inter alia* that SMEs have reasonable access to finance. Lastly, the Competition Commission has to ensure that the various players compete on a level playing field. Effective co-operation between different government departments is critical to ensure that public policy addresses any market failures, without introducing new distortions or different obstacles.

The Report on 'SMEs Access to Finances in South Africa (2002) by the Task Force of the Policy Board for Financial Services and Regulations stated that the following policies were in vogue for the SMME sector in South Africa:

- There were interest rate limitations for SME loans up to R 3,00,000
- all SME loans above R10 000 or with repayment terms above three years cannot gain the benefit of the favourable interest-rate environment created by the Exemption Notice.
- The establishment of a Small Firms Loan Guarantee Scheme.
- A range of interventions aimed at enabling innovative knowledge-based businesses to secure bank finance. These interventions include setting up a "Knowledge Bank" (i.e. a special fund created by issuing bonds to private-sector institutions, which in turn would be lent on to eligible businesses); a loan guarantee for bank lending to knowledge-based start-ups; and a "Challenge Fund" under which private-sector financiers could bid for government support for finance provided to knowledge-based firms.
- An Enterprise Investment Scheme, which involves tax relief on investments in SMEs to help overcome the problems small companies face with raising small amounts of equity finance.

- “Corporate venturing”, which is an umbrella term for the establishment of mutually beneficial relationships between companies commonly, though not exclusively, between a large and smaller company in the same line of business. There was a proposal on introducing a tax incentive to stimulate the accelerated development of corporate venturing in the UK.
- Venture Capital Trusts (VCTs) which were established to encourage individuals to invest via VCT investment trusts in a portfolio of smaller, higher risk trading companies.
- Establishment of a network of Regional Venture Capital Funds (RVCFs), by supplementing private finance with public resources for investments in the range £100 000 to £500 000, where market failure is frequent.

The South African Reserve Bank (SARB), as the monetary authority, has been mainly following the inflation targeting and maintaining financial stability. The impact of the banking crisis on South African financial institutions has been limited as only one or two institutions with a strong international presence had, through companies in their groups, some exposure to the securitised assets markets. In South Africa, liquidity has remained adequate and inter-bank lending has continued without any disruption. The South African Reserve Bank followed other central banks by reducing the key benchmark repurchase agreement rate by 550 basis points between 2007 and 2010. But this reflected more the reduction in inflation pressures and expectations than concerns about financial stability (South African Reserve Bank, 2009).

The fact that South Africa has very little exposure to the structured asset markets has contributed to maintaining acceptable levels of credit quality and adequate levels of liquidity in the domestic financial system. In addition, sound internal risk management processes, adequate levels of capital and quality supervision added to the soundness of the South African financial system (Naidoo,2010). Moreover, the introduction of the Credit Act and exchange control measures did play a role in limiting the exposure of South African banks to toxic assets and prevented them from extending loans to sub-prime borrowers.

In the post-crisis period, the Govt.’s main concern was to increase employment, especially in the SME sector.

- In an effort by government to address youth unemployment, initiatives are in progress to improve information services to help young people access jobs and training opportunities. These reforms will be supported through a subsidy to employers that will lower the cost of

employing young people without work experience. Under consideration is a cash reimbursement to employers for a two-year period, operating through the South African Revenue Service's (SARS) payroll tax system, and subject to minimum labour standards, with a view to raising employment of young school-leavers by a further 500 000 by 2013.

In April 2011 the 2010/11 Industrial Policy Action Plan, which builds on the National Industrial Policy Framework, was reviewed and new focus areas were identified.

- A loan facility of R2 billion was launched between the Industrial Development Corporation (IDC) and the Unemployment Insurance Fund (UIF), aimed at creating and sustaining jobs.
- The Congress of South African Trade Unions (Cosatu) tabled a policy document entitled A Growth Path Towards Full Employment which emphasises job creation, among other suggested interventions, through the Extended Public Works Programme with a particular focus on youth employment creation.
- Cabinet unveiled its New Growth Path initiative which aims to accelerate economic growth, create five million jobs, reduce the unemployment rate from 25 per cent to 15 per cent over the next ten years and alleviate poverty. The private sector is expected to play a pivotal role in the attainment of these goals as infrastructure development is targeted in a number of sectors, including agriculture, manufacturing and tourism. In his October 2010 Medium Term Budget Policy Statement (MTBPS), the Minister of Finance elaborated further on the New Growth Path.
- Following the presentation of the New Growth Path, the President of the Republic announced in his 2011 State of the Nation Address the creation of a jobs fund to the value of R9 billion to assist industries in financing job creation, in order to meet the objectives outlined in the policy document. In addition, the IDC has set aside an amount of R20 billion to assist business enterprises with a high potential for employment creation in expanding their operations.

Access to loans for starting or expanding SMMEs

Over the years, the Government has been taking steps to create an enabling environment for entrepreneurs and small businesses to access finances. As a result, a developed financial infrastructure has evolved which provides different types of financial assistance to SMMEs (Table 4.3). Further, in the Medium Term Expenditure Framework, government has committed to establish an Apex Fund which

would lend directly to micro enterprises, and has voted R10 billion to recapitalise the existing institutions like Khula.

Table 4. 3 : Institutions providing finances to SMMEs in South Africa	
National	<ul style="list-style-type: none"> • Contractors Finance Corporation • Business Partners (formerly the SBDC) • Commercial Banks • Community Projects Funds - CPF-SP • Development Bank of South Africa • Industrial Development Corporation - (IDC) • International Tourism Marketing Assistance Scheme - (ITMAS) • Khula Credit Guarantee Scheme • Khula Micro Credit Outlets • Khula Retail Financial Intermediaries (RFIs) • Khula Thuso Mentorship Scheme • Land Bank • Sizanani Scheme • Zimele
E Cape	<ul style="list-style-type: none"> • Business Finance Promotion Agency (Khula RFI) • Community Entrepreneurial and Business Initiative • Eastern Cape Development Corporation • FNB Momentum Umsobomvu Progress Fund • Marang Financial Services
Free State	<ul style="list-style-type: none"> • Free State Development Corporation • Remmogo Business Finance
Gauteng	<ul style="list-style-type: none"> • African Contractors • Anglo Platinum Corporation • Artpac Lending Services • Basani Business Development Services • FNB Momentum UYF Progress Fund • Khethani Business Finance • Land Bank Marketing Department • http://www.brain.org.za/FINANCING/financingprovgaut.html#landbank#landbankMarang Financial Services • Sankofa Financial Services • The Nations Trust • Tusk Construction Support

KZN	<ul style="list-style-type: none"> • FINCA • FNB Momentum UYF Progress Fund • Ithala Development Finance Corporation • Khethani Business Finance (Khula RFI) • KwaZulu-Natal Development Foundation • Marang Financial Services
Limpopo	<ul style="list-style-type: none"> • African Contractors • Anglo Platinum Corporation • Artpac Lending Services • Basani Business Development Services • FNB Momentum UYF Progress Fund • Khethani Business Finance • Land Bank Marketing Department • http://www.brain.org.za/FINANCING/financingprovgaut.html#landbank#landbankMarang Financial Services • Sankofa Financial Services • The Nations Trust • Tusk Construction Support
Mpumalanga	<p>Beehive Entrepreneurial Development Centre Ekukhanyeni Finance Facility (Khula Micro Credit Outlet) Emerging Entrepreneurs Finance Service Centre Marang Financial Services Middleburg Micro Credit Outlet Mpumalanga Economic Empowerment Corporation - (M.E.E.C) Siyakhula Micro Business Finance (Khula Micro Credit Outlet)</p>
Northern Cape	Remmogo Business Finance (Khula RFI)
W Cape	<p>FNB Momentum UYF Progress Fund Khethani Business Finance (Khula RFI) Landelike Ontwikkelings Maatskapy Nations Trust (Khula RFI)</p> <ul style="list-style-type: none"> • New Business Finance

A brief description of some of the important channels of financial support to SMMEs in S. Africa is given in the following paras.

The Department of Trade and Industry has been given the primary responsibility to formulate, coordinate and monitor the national policies related to small and micro businesses. The support for small and micro

businesses is a shared responsibility between government, both on national and local level and non-governmental organizations namely:

- Khula Enterprise Finance Limited (Ltd) to provide financial support to the underserved market of between R10 000 and R250 000
- The South African Micro-Finance Apex Fund for micro-finance of R10 000
- The National Empowerment Fund for financing Broad-Based Black Economic Empowerment transactions.
- The Seda for non-financial support

Khula Enterprise Finance Ltd (Khula)

Khula is dedicated to the development and sustainability of small business enterprises in South Africa. The government's small business finance organisation was set up in 1996 to help fund small businesses. It has various schemes to assist business owners, such as a credit guarantee scheme, a reverse factoring facility, a land-reform facility and a network of retail financial intermediaries to which it advances to, which then lend this onto business owners. The company is a wholesale finance institution which operates across the public and private sectors, through a network of channels to supply much-needed funding to small business. Khula's channels include South Africa's leading commercial banks, retail financial institutions, specialist funds and joint ventures in which Khula itself is a participant. Its primary aim is to bridge the "funding gap" in the SME market not addressed by commercial financial institutions. Khula's range of product offerings include:

- **The Credit Indemnity Scheme**

The Khula Credit Indemnity Scheme was established to give access to finance to people who wish to start or expand small to medium sized businesses, but do not have sufficient collateral / security to support facilities provided by participating banks. The scheme covers facilities from R10 000 to R3 million.

- **Khula SME Fund**

This fund was established to provide early-stage and expansion capital to SMEs, to reach out to SMEs in rural and peri-urban areas and to promote Black Economic Empowerment.

KhulaStart

KhulaStart is an intervention strategy by Khula Enterprise Finance Limited whose objective is to promote greater access to micro credit in rural areas. It is a group-lending scheme for the lower end of the microenterprise market. It targets historically disadvantaged communities, particularly women in rural areas and informal sectors. KhulaStart is based on a United Nations Development Program (UNDP) initiative called MicroStart and has been adapted to suit the conditions prevailing within rural South Africa.

Credit Guarantees

Khula Credit Guarantee provides a range of guarantee products to banks in the private sector whereby Khula will assume a portion of the risk associated with lending into the SMME sector (Box 4.14). In order to raise capital to acquire assets or for working capital, banks may require applicants to provide guarantees to secure the loan. Khula will furnish these guarantees to approved applicants with three products:

Individual, Institutional and Portfolio Guarantees. Loans of between R60 000 and R600 000 can be guaranteed through this scheme.

Box 4.14: Khula's Credit & non-credit activities

Khula has:

- The Khula Equity fund – risk capital for SMEs
- The Thuso Mentorship programme – help in preparing business plans and mentoring
- The Khula Credit Guarantee fund – helping businesses with no recourse to basic fund and lack of collateral (www.khula.org.za).

Further it has the:

- Khula Credit indemnity Scheme to share the finance risk with banks enabling SMEs to access funding from a participating bank or other financial institution;
- Khula Land Reform Empowerment facility funded by the DLA 43 and EU to facilitate land transfer and economic participation by black people in economically viable land based agricultural enterprises and eco-tourism;
- Khula Mentorship Programme to act as a risk mitigator and facilitator of access to finance for SMEs offering both preloan and post loan mentorship services;
- The non-bank: RFIs which are independent organizations or companies accredited by Khula to lend money directly to SMEs;
- Khula Joint Ventures e.g.:
- Business partners-Khula Start up Fund to enable entrepreneurs to establish new enterprises as well as early phase business expansion;
- Anglo-Khula Mining Fund with Anglo American and Khula Enterprise Finance providing seed capital to assist junior mining projects at pre-feasibility and pre commissioning stages;
- Khula-Shoprite Checkers Joint Venture granting OK Foods franchise concession to successful SME applicants consisting of training, mentoring and outfitting the business;
- Enablis-Khula Loan Fund is a partnership between Enablis Entrepreneurial Network Khula Enterprise Finance Limited and FNB Enterprise Solutions and provides 90% guarantees for loans to ICT businesses.

The Khula Technology Transfer fund facilitates access to local and international technology in Gauteng, North West Province and the Free State. A similar fund exists in the Eastern and Western Cape, Mpumalanga, Limpopo and Kwa Zulu Natal (South Africa Business Guidebook, 2002/2003).

Khula, in collaboration with the June and Andrew Mlangeni Foundation brought about the establishment of an SMME Support Programme (SSP) aimed at a number of outcomes:

- increasing the number of sustainable SMMEs;
- increasing the number of decent jobs;
- improving total entrepreneurial activity amongst South Africans;
- increasing the achievement of B-BBEE goals; and
- improving SMME access to products and services to those previously denied entry, such as those in rural and peri-urban areas, women-owned enterprises, youth and people with disabilities.

The SSP will implement four key activities:

- Recognition of Programmes (Award Programme) - aimed at encouraging public and private

organisations contribute towards the objectives of the SSP. The following category of programmes will be evaluated for

recognition: finance; business development support programmes (e.g. mentoring, training, business advisory); enterprise development programmes; procurement programmes; and employee / skills development programmes.

- Fundraising Programme - will support the fundraising efforts of non-government organisations working in the focal areas covered by SSP. In addition, the Foundation will raise funding which will be distributed to these organisations.
- Finance and Non-Financial Support Programme - will conceptualise programmes that are aimed at filling a specific niche or gap in the market. The SSP will not compete with or displace any existing programmes but will rather partner to strengthen those programmes.
- Knowledge Management – SSP will establish a knowledge management resource in the SMME support field which will enable sharing of best practices and will also support capacity-building for practitioners in the public and private sector.

SA Micro Finance Apex Fund (Samaf)

The South African Micro Apex Fund (**samaf**) is a wholesale funding institution formally established in April 2006. It is a trading entity and is governed by the Public Finance Management Act (PFMA) of 1999.

samaf is mandated to facilitate the provision of affordable access to finance by micro small and survivalist business for the purpose of growing their own income and asset base. The primary purpose of samaf is to reduce poverty and unemployment and also to extend financial services to reach deeper and broader into the rural and peri-urban areas. Further to this, samaf wants to build a network of self-sufficient and sustainable micro-finance institutions.

Mandate

The mandate is to contribute to government's poverty reduction goals by acting as a catalyst for the development of an effective micro-finance sector through:

- support for the establishment of sustainable microfinance institutions that can reach deeper and broader to the enterprising poor;
- facilitating the establishment of an enabling environment for effective financial intermediation and creation of working markets for the enterprising poor; and
- Building a strong, effective and efficient apex fund.

samaf also provides capacity building incentive to FSC's and MFI's to build their institutional capacity to ensure that requisite skills, systems and infrastructure is in place for them to operate effectively. Capacity building is subdivided into the following elements.

Training funds:

This is aimed at providing training and skills improvement to the Board; Management and staff of the FSC's and MFI's to assist in managing the loan portfolio effectively and efficiently. Training is provided in areas such as cooperate governance, financial management and loan delinquency management.

Working Capital:

Qualifying financial intermediaries would also receive once off working capital. This is aimed at assisting institutions to purchase items such as office furnisher, computers and other essential items to improve appearance of institutions.

Subsidising Operational Cost

Samaf subsidises the operational costs to the FI's in order to help them cover some of their establishment costs and to promote their sustainability. This subsidy should also help the institutions which are still struggling after set up before they reach break-even point and sustainability.

Management Information System

The MIS fund is aimed at helping and supporting the institutions to acquire modern MIS to provide accurate and reliable information. This is very critical to ensure that amongst others correct profile of each client and performance of their loans is kept and used as a monitoring tool by the intermediary.

Savings Mobilisation

This product is aimed at assisting and supporting the intermediaries to grow their savings book for on-lending activities. This is also the contribution to the government's objective of promoting a culture of savings amongst South Africans.

Financial Support to Black People

The National Empowerment Fund (NEF) was established by the National Empowerment Fund Act No 105 of 1998, to promote and facilitate black economic equality and transformation. Its mandate and mission is to be a vehicle for Broad-based Black Economic Empowerment (BB-BEE). Its goals are to:

- Foster and support business ventures pioneered and run by black enterprises
- Improve the universal understanding of equity ownership among black people
- Contribute to the creation of employment opportunities
- Encourage the development of a competitive and effective equities inclusive of all South Africans
- Encourage and promote savings, investments and meaningful participation by black people
- Provide black people with opportunity of, directly or indirectly, acquiring shares or interest in private business enterprises
- State allocated investment (SAIs) that are being restructured or in private business enterprises
- Generally employ the schemes, businesses and enterprises necessary to achieve the objectives of the NEF Act

The NEF's products and service offerings include:

1. Non-financial Support in the form of:

a) **A Pre-Investment Business Support Unit** that assists with funding advice, business planning and general assistance to ensure that applications are of sufficient quality to complete all steps in the application process

b) **A Post-Investments Business Support Unit** set up to monitor clients for risk and provide information and advice when needed. Although start-ups are inherently higher risk, the rewards for success are jobs and increased capital for further start-ups.

c) **A Legal Services Unit** that provides legal services to the entire NEF and drafts legal agreements, assists with due diligence reviews and registers necessary documents.

2. Imbewu Fund

This fund is designed to promote the creation of new businesses and provide expansion capital to early stage businesses. The iMbewu Fund aims to cultivate a culture of entrepreneurship by offering debt, quasi-equity and equity finance of up to R20m comprising:

- Entrepreneurship Finance
- Procurement Finance
- Franchise Finance
- Rural & Community Development Projects

3. Corporate Fund

This fund is designed to improve access to BEE capital and has three products, Acquisition Finance, Project finance and Expansion Finance. These products provide capital to Black owned and managed enterprises, black entrepreneurs who are buying equity shares in established white owned enterprises, project finance and BEE businesses that are or with to be listed on the JSE.

Funding ranges from R5m to R100m and details of the three products are provided below:

- a. Acquisition Finance
- b. Project Finance
- c. Expansion Capital
- d. Capital Markets
- e. Liquidity & Warehousing
- f. Strategic Projects Finance

Other Channels

Industrial Development Corporation (IDC)

The government's development finance institution was set up in 1940, and the funding of small businesses forms a large part of its mandate.

Commercial Banks

There are over 30 registered banks in SA through which entrepreneurs can acquire start-up or expansion funding, as well as through the government and public and private enterprises, each with its own requirements to qualify for the funding with a business plan as the standard requirement for all these institutions. The activities of select banks are given below:

Standard Bank:

The bank offers an SME business mortgage, which gives SMEs an opportunity to buy residential properties that can be used for business purposes. Through its joint venture with a GSM cellular network provider, Standard Bank also supports SMEs who prefer to conduct financial transactions via mobile banking. Some specific non-credit support are:

- A package on planning and financing an SME;
- Booklet on SMEs entitled "A business of your own";
- SME Business Plan and loan application
- SME Call line;
- Public Liability and Personal Accident Insurance for SMEs
- SME Autobank card;
- Business deposits via the ATM;
- Owner Loan Protection plan.

First National Bank offers:

- SME Investments programme providing for early stage venture capital from R250 000 to R1 million (in partnership with the Small business Project);
- FNB's small business support focusing on finance mainly to franchisees and smaller amounts to non franchisees;
- Export Finance Scheme providing working capital charged at prime overdraft rates;

- Business plan guideline, business/technical assistance; specialized trade services. FNB has the Momentum UYF progress fund with loan amounts of R100 000 to R5 million for minority equity participation and R100 000 to R20 million for BEE deals.

WIZZIT Bank: A pioneer in the field of mobile banking, also offers unique support to SMEs. WIZZIT does not require a bank account, and is structured so that SMEs can conduct personal and business transactions directly between individual cell phones, and receive debit cards to access cash at ATMs or make direct payments to retailers.

NedEnterprise offers:

- One-stop full service relationship banking
- Financial loans from R50 000 to R1,5 million with entrepreneur contributing at least 25% consisting of either income generating assets and/or cash
- There is flexibility when assessing applications.

Technology Innovation Agency (TIA)

A new umbrella body, launched in 2010, for funding innovation set up in 2009, includes the Tshumisano Trust which housed the technology transfer stations, the Innovation Fund, the Council for Scientific and Industrial Research (CSIR)'s Advanced Manufacturing Technology Strategy.

The Export Credit Insurance Corporation (ECIC) of South Africa is engaged in underwriting the credits and investments outside the country, and thereby, support the SMEs in their internationalization efforts.

Business Partners Limited

Business Partners Limited was formed in 1998 from the Small Business Development Corporation (SBDC) to focus on small and medium enterprises with funding needs from R150 000 to R15 million (South Africa Business Guidebook, 2002/2003). They provide finances for start-ups, expansions, take-overs, management buyouts, management buy-ins and leveraged buyouts. They are known for their personalized service, industry knowledge, expertise and networks, fair and equitable rates and access to further finance (Nieman, Hough & Nieuwenhuysen 2003). They are one of the more successful SMME support organizations.

SMME Mentoring

In South Africa the following mentorship schemes exist:

The Khula Mentorship Programme: Khula provides both pre and post loan mentorship to small and medium size enterprises. The actual provision of mentorship services is done by independent mentors/business advisors that are skilled in their respective areas of specialisation.

ABSA Bank offers mentors to SME owners who can provide guidance as small businesses mature. Through this program, SMEs learn how to create a business plan, fill out a business loan application, and find supporting data. SMEs that have obtained credit can receive monthly monitoring visits from a new enterprise banker or mentor who can review the borrower's progress and provide guidance, as needed. ABSA also has begun to upgrade its credit risk management systems, including a review of SME strategies and policies to better serve its clients.

Local Business Service Centre (LBSC)

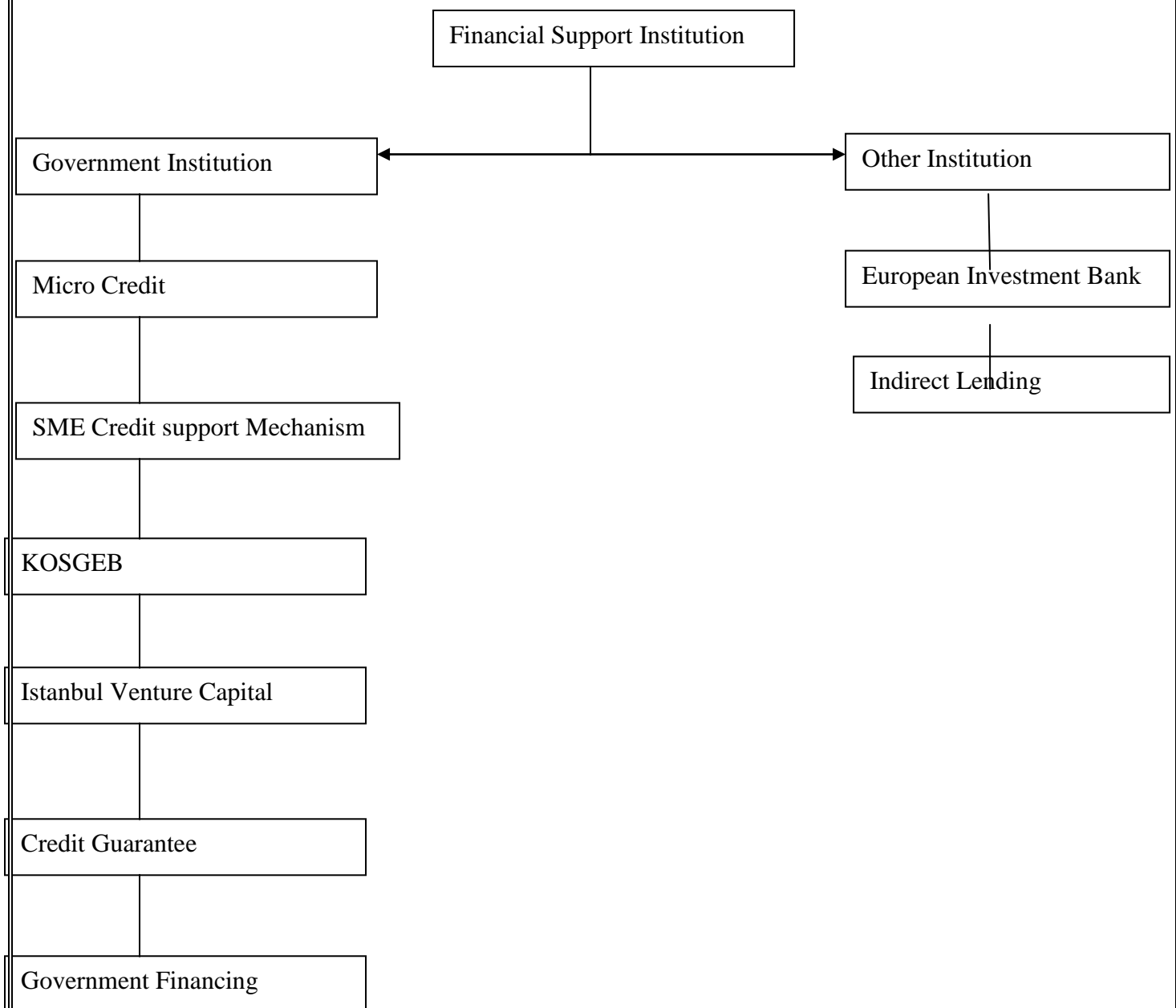
It is a partnership between government, local communities and the private sector. At national level it is focusing on job creation, wealth creation and transformation and empowerment. Its core services are information, training, counseling and advisory services and networking and linkage. At local level it focuses on increasing access of locals to SMME support services and opportunities for participation in local development and increasing the flow of resources (money and expertise) into the local community.

TURKEY

The [Central Bank of the Republic of Turkey](#) (Türkiye Cumhuriyet Merkez Bankası) was founded in 1930, as a privileged joint-stock company. At present, the Turkish banking sector is among the strongest and most expansive in [East Europe](#), the [Middle East](#) and [Central Asia](#). The Turkish financial system is based upon a universal banking system, which legally enables commercial banks to operate in all financial markets. More than 34% of the assets in the Turkish banking sector are concentrated in the Agricultural Bank (Ziraat Bankası), Housing Bank (Yapı Kredi Bankası), Isbank (Türkiye İş Bankası) and Akbank. The

five big state-owned banks were restructured in 2001. Political involvement was minimized and loaning policies were changed. There are also numerous [international banks](#), which have branches in Turkey. A number of Arabian trading banks, which practice an [Islamic banking](#), are also present in the country. Venture capital and credit guarantee systems are the most important and commonly used systems, for increasing the SME's capability to access the finance. The credit guarantee funds help to provide collateral for the SMEs which have viable projects and need finance for their investments. Credit Guarantee Funds act as intermediary organization and make it possible for the SME'S with the inadequate collaterals to apply for bank credits. The Credit Guarantee Funds also increase the number of customers for the banks and minimize their risks. This does not simply mean an increase of the number of firms who become eligible to obtain bank credits, but also means an increase in the number of medium or long term credits available for SME's and an increase in the limits of credits provided for them. The financial system supporting Turkey is given in Chart no. 4.7.

Chart 4.7: Turkey's Financial Support Institutions for MSME Sectors



Access to finance is increasingly being recognized as one of the most important factors for the growth of SMEs in Turkey. Increased access to finance can help firms fund the necessary investments and improve their innovative capacities. According to the preliminary findings of World Bank Investment Climate Study 2009, Turkey has improved its ability to finance the SMEs in the last few years and the ratio of using bank finance for investment has increased from 18.7% in 2005 to 35.8% in 2008.

Since the global economic crisis in 2008, a series of measures were adopted by the authorities and organizations to ease the negative effects of the global crisis on Turkey. Within this framework the Central Bank took the following measures:

- resumed its activities as an intermediary in the foreign exchange deposit market until the removal of uncertainties in international markets (9 October 2008);
- raised its transaction limits by twofold to USD 10.8 billion (23 October 2008) and extended the lending maturity to 1 month from 1 week in the foreign exchange deposit market (21 November 2008);
- adopted a strategy to use foreign exchange reserves to primarily support the foreign exchange liquidity need of the banking system. The reserve requirement ratio was unchanged at 6 percent in TL liabilities, but it was lowered to 9 percent from 11 percent in foreign exchange liabilities (28 November 2008). With this measure, the Bank provided an additional liquidity of USD 2.5 billion to the banking system;

- increased the exports rediscount credit limit by USD 500 million to USD 1 billion in order to contain the effects of the global crisis on industry sectors. Additionally, the rules and principles applicable to the exports rediscount loan limit were rearranged for rendering the use of these loans easier. Therefore, the condition that sets forth assignment of the reserves for letters of credit to the Central Bank was repealed.

Financial Support System for Turkish SMEs

1. Micro Credit : Access to microfinance services helps decrease vulnerability by enabling people to take advantage of economic opportunities that allow them to diversify and increase their sources of income. Supply of microfinance services in Turkey is very limited, both in terms of the numbers of people served and the range of services offered. The primary suppliers of microfinance services currently are the state-owned banks, Halk Bank and Ziraat Bank. The legacy of directed and subsidized credit programs, however, has rationed the delivery of credit through these channels, and resulted in supply-driven products and services that do not respond well to the financial service needs of clients. In contrast to most early stage microfinance sectors, NGOs are virtually absent from the market in Turkey. Several are experimenting with microcredit delivery at this time, such as the Grameen Bank initiative in Diyarbakır and Maya Enterprise for Microfinance. There is no clear policy for facilitating the access of the un-banked majority to the population as well as small business to the formal financial sector. There is a continued lack of clarity in government policies regarding microfinance and there is no common understanding on microfinance among government, NGOs and private sector. Microfinance types of activities are usually used in Turkey as a tool for government incentives or a tool for income generating activities. Currently, poor clients and informal sector businesses, especially women, are unable to access loans through the formal sector (Burrirt, 2003). Although there is no explicit regulation in the field of microfinance applications, there is a tendency in Turkey to provide new microcredit opportunities mostly with the initiatives of the international organizations like UNDP and World Bank to improve access to credit as an effective means for increasing the poor's income. One of the most recent projects is the Altın Bilezik Golden Bracelet project which is supported by the Young Businessmen Association of Turkey (GYİAD), Turkish Economy Bank (TEB) and United Nations Development Program (UNDP). The aim of the project is to provide microcredit for young entrepreneurs between the ages of 18 and 35. The project is unique in that it specifically targets youth. The (Golden Bracelet) project aims to provide \$ 10 million credit for 500 young entrepreneurs within the next three years. Women entrepreneurs, vocational high school and college graduates will have a priority in the project. TEB will provide the

funding and the supervision of the project, while UNDP will provide technical staff and GYİAD educational support.

2. **SME Credit Support Mechanism:** By Starting 2003, some amount of KOSGEB budget has been allocated to SMEs in low or zero interest rates by the intermediary banks. In other words, SME Credit Support System can be considered as an interest rate support on bank loans. In order to minimize the impact of the financial crisis on SMEs, Turkish government has taken some precautions. In this regard, KOSGEB has signed protocols with banks so as to provide financial credit at an agreed interest rate to eligible SMEs where eligibility rules are pre-determined by KOSGEB and the bank together. Hence the applying SME is analyzed in this respect by both KOSGEB and the bank. The interest cost of the credit is paid to bank by KOSGEB, where only the principal amount of the credit is paid back to the bank by the benefiting SME at a determined pay back period. In order to benefit from any credit support programme, SMEs have to be registered in the KOSGEB database with Beneficiary Statement form and SME Declaration before the application as it is mentioned for the supports under KOSGEB Support Regulation. Availability of the application is evaluated by the relevant bank and KOSGEB service unit, and then the SME is notified about the result. After approval of the application, the SME can benefit from the programme.

KOSGEB offers a number of credit programs on various are given below;

Credit Support Programme for Exporting Companies

In order to support exporting SMEs, KOSGEB provides credit for exporting SMEs with “zero” interest rate to promote their export capacity and increase their competition level. The total amount of credit volume is 650 million US Dollars and the interest cost of this credit is paid by KOSGEB. The upper limit of credit for each enterprise is 100.000 USD and SMEs registered in the KOSGEB database can benefit from this support scheme. The interest cost support is grant and repayment of only the principle part of the credit is made by the benefiting enterprise according to a determined plan by KOSGEB. The maturity of this credit support programme is 6 months and the total amount is paid in one single payment at the end of 6 months.

Credit Support Programme for Craftsman and Artisans

In order to overcome the liquidity problems in the domestic market and so as to meet the financial requirements of the manufacturing craftsman and artisans, a credit support programme with “zero” interest rate has been developed by KOSGEB. In this programme woman entrepreneurs have priority. The interest cost support is grant and repayment of only the principle part of the credit is made by the benefiting enterprise according to a determined plan by KOSGEB. The prerequisite of this programme is being a registered member of The Confederation of Turkish Tradesmen and Craftsmen (TESK). The maturity of this credit support programme is 18 months. There is no payment for the first 6 months and in the following period repayments is made in each 3 months in equal amounts.

Credit Support for SME Machinery Equipment and Investment

In order to increase the competitiveness and the created added value and so as to help SMEs to keep up with the international standards, KOSGEB provides credit interest support for medium to high technology level SMEs and medium to low technology level SMEs, i.e. conventional SMEs.

- 3. European Investment Banks:** The EIB, as the European Union’s Bank is the long-standing, solid partner of Turkey (with over 40 years of operations) offering broad experience with public and private investments in all key sectors. In 2009, the EIB provided total lending of EUR 2.6 billion, which is well above the non-crisis level of EUR 2 billion per year. The Bank reinforced its activity in terms of the three pillars that have been set as strategic objectives: (i) financing of infrastructure, both at national level and in favour of local authorities, (ii) supporting SMEs through credit lines with a number of banking partners, and (iii) financing of the corporate sector, especially in favour of energy and renewables as well as foreign direct investment.

In 2009, the Bank’s activity in Turkey was weighted in favour of SMEs. The Bank acted boldly with a total of EUR 1.5 billion to ease SME funding constraints in the country during the crisis. This action was made possible through the close cooperation and synergy that the Bank established with its Turkish financial intermediaries.

Continued support to major economic infrastructure, mainly in transport and energy, was another EIB priority during the crisis period, targeting growth leverage and increased quality of life for people. In 2009, EIB extended EUR 293 million in favour of the country’s main railway transport

corridor between Ankara and Istanbul. This new loan brought total EIB funding for this flagship High Speed Railway Line project to EUR 850 million. The Bank provided a total of EUR 460 million in support of energy projects, demonstrating strong backing for the country's energy development potential and needs. The lending targeted critical sub-sectors including electricity distribution, energy efficiency and renewable energy. The Bank received the distinction of being nominated European Onshore Wind Project Finance Magazine Deal of the Year for a wind-park project in Turkey. The EIB also supported the strengthening of the country's knowledge economy, in particular investments in R&D, education and training by providing a loan of EUR 335 million to the Turkish Higher Education Council to finance public sector research.

4. **Istanbul Venture Capital Initiative:** Istanbul Venture Capital Initiative (iVCI) is a dedicated Turkish fund-of-funds advised by EIF acting in support of the development of risk capital in Turkey. First closing took place in November 2007 with cornerstone investors the SME Development Institute of Turkey (KOSGEB), the Technology Foundation of Turkey (TIGV), the public Development Bank of Turkey (TKB) and EIF. After final closing in early 2009, iVCI has a total of EUR 160m under management. The initial main objective is to serve as catalyst for the development of risk capital in Turkey. Since the fund's first closing, there has been a strong pipeline of investment proposals and EIF is currently screening them and undertaking the due diligence process to identify suitable investment possibilities. On 31st March 2009 Garanti Bank, Turkey's second largest private bank, joined iVCI, becoming the first private Turkish institutional investor of reference in this programme.
5. **Indirect Lending:** Pushing banks to loan to SMEs through incentives and financial backing has also been proven to funnel credit to SMEs. The European Investment Bank (EIB), the EU's long-term lending institution, opened up a 1.5 billion euro credit line in 2009 for Turkey's banks to draw on and lend to Turkish SMEs. Although the EIB is scaling back its SME lending operations and instead shifting focus toward renewable energy investments in 2010, the sheer volume of the credit line they opened in 2009 has helped slow the shrinking of SME loans available in the market. An alternative approach to propping up bank lending is guarantees, which cover for some of the losses that banks may incur. This instrument, therefore, makes banks more willing to lend during uncertain times. Jose Romano, the head of the Turkish operations of the European Investment Fund (EIF), an EU agency specifically focused on financing SMEs through indirect means, speaking to Sunday's Zaman, stated that the EIF is picking up operations in Turkey through the Competitiveness and Innovation

Program (CIP) -- a half billion euro program for credit guarantees through the EU and the accession countries -- by providing such guarantees to private banks.

6. **Credit Guarantee in Turkey:** In 2007, AFD granted more than €250 million in subsidized credit to SMEs in developing countries. It selectively provides subsidized credit lines to public or private financial institutions that, in turn, serve clients who are excluded from the traditional banking system or who have experienced exogenous shocks that may jeopardize their future activities. This funding also aims to encourage SMEs, especially in emerging countries, to become more aware of their environmental and social responsibilities. Since 2006, AFD has provided two grants to Turkey amounting to €130 million and aimed, in partnership with banks, at financing investments and providing 288 recipient businesses with training in social and environmental issues. In order to have a sustainable impact on SME financing, AFD disseminate to financial representatives best practices regarding risk evaluation and client follow-up for very small businesses and SMEs. The Ariz Fund, which provides investment risk insurance, was introduced by AFD. It offers a 50% guarantee to banks supporting SMEs in 15 countries, mostly in sub-Saharan Africa. Grants from the Ariz Fund have increased by 70% over the last 2 years, reaching almost €15 million for 50 applicants in 2007. More than 100 companies have made use of these funds to develop their business.
7. **Government Financial Support to SME:** It is based on the presumption that capital markets cannot serve the needs of smaller enterprises without government intervention. The inability to provide smaller firms with access to credit is primarily due to the effects of the fiscal policy that has resulted in recent years in severe budget deficits, expansion of the money supply and inflation. In this situation, banks have chosen to invest primarily in government debt which pays high real rates of return. The loanable funds available after investing in government debt go primarily to larger businesses. Turkish officials estimate that less than 5% of loanable funds are made available to industrial SMEs. To expand the amount of credit available to SMEs, the Treasury has made funds available to several banks. KOSGEB has signed protocols with two public banks, Vakıfbank and Halk Bank, to supply soft loans to SMEs in order to resolve their short-term cash-flow problems. The loans are accorded by banks, but the enterprises' applications are approved by KOSGEB. Under these protocols, 1 605 enterprises received a total of EUR 70 million, which is though a small share of overall bank loans. The government also provides support in the form of repayable subsidies directly to industrial SMEs participating in the IGEM and TEKMER centers operated by KOSGEB. These subsidies are mainly used for investment in equipment and technology. So long as these

subsidies are repaid, their budgetary cost is limited to the interest cost of financing them until this occurs.

The government provides extensive loans for the establishment of small industrial estates (SSIE) or organised industrial zones. Roughly two-thirds of the industrial estates are privately funded, but the government continues to provide funds for new ones, despite what appears to be significant excess capacity in many existing estates. The government may believe that demand for space in such estates will increase rapidly, particularly if Turkey is admitted to the European Union. Building large industrial estates requires both money and time. The government's support may seek to ensure that delays in this area do not become a constraint on more rapid growth.

"State Council on further promotion of SME development, a number of opinions"

SMEs are the economic and social development of China's important efforts to promote the development of SMEs is to maintain stable and rapid development of the national economy an important basis for the relationship between people's livelihood and social stability is a major strategic task. By the international financial crisis, since the second half of SME production and management difficulties. The central authorities promptly introduced relevant policies and measures to increase taxation, credit and other support efforts to improve the business environment for SMEs, the SME production and operation of the positive changes, but the development of the situation remains grim. Main problems: financing difficulties, security problems remain difficult to prominence, in part to support the policy have not yet put in place heavy burden on enterprises, the market demand is insufficient, excess capacity, economic efficiency dropped drastically increase losses and so on. Need to take a more active and effective policies and measures to help SMEs overcome difficulties, changes in mode of development, to achieve sound and rapid development. Replies to further promote the development of SMEs to make the following observations:

(A) improve the legal system of the SME policy. The implementation of policies and measures to support SME development, SME development is not conducive to clean-up laws and regulations. Deepen the reform of monopoly industries, expanding the scope of market access and reduce the access threshold, and further to create an open and fair market environment. Accelerate the development of the financing of security management practices, revise the "General Rules on Loans", revise the Standard for SMEs draw a clear support policies for small businesses.

(B) improve the government 2009

to support SMEs in the system. Development of SMEs in government procurement to support the development of specific measures to improve SME procurement of goods, works and services ratio. To further enhance the transparency of government procurement information release and improve the government's public service outsourcing system for small and medium enterprises to create more opportunities for participation.

(C) enhance the protection of the rights and interests of small and medium enterprises. Organize the relevant laws and policies for small and medium enterprises, especially financial, fiscal and taxation policies to implement the supervision and inspection, news media and society to play a supervisory role, to enhance policy effectiveness evaluation. Adhere to administration according to law, protect the legitimate rights and interests of SMEs and their employees.

(D) building of a harmonious labor relations. Take effective measures to increase support for labor-intensive small and medium enterprises, encourage small and medium enterprises do not layoffs, less redundancy, stability, and increase employment. Difficult for SMEs to absorb in seeking employment, the signing of labor contracts and pay social insurance premiums, and in the corresponding period for the basic old-age insurance subsidies, subsidies for basic medical insurance, unemployment insurance benefits. A greater impact on the financial crisis, the difficulties of small and medium enterprises will be phased hold over social insurance premiums or reduce the rate of policy implementation period is extended to the end of 2010, given a certain period in accordance with the provisions of social insurance subsidies or job subsidies, job training subsidies, etc. . SMEs with employees on wages, working hours, work quotas in consultation with a qualified, may apply to the local human resources to the social security departments for the implementation of a comprehensive calculation of working hours and irregular working day.

(V) full implementation of support for small enterprise development, financial policies. Improve the small enterprise credit evaluation system to improve the efficiency of small business loans write-offs and

establish a mechanism to improve credit personnel due diligence exemption. Encourage the establishment of small business loan risk compensation fund, for financial institutions issue loans to small businesses by giving a modest incremental subsidies for small businesses to give a moderate risk of non-performing loan-loss compensation.

(Vi) to strengthen and improve financial services for SMEs. State-owned commercial banks and joint-stock banks were required to establish small enterprises financial services franchise organizations, improve the SME credit business system, and gradually improve the long-term loans to SMEs in the size and weight. To improve the efficiency of loan approval, innovative financial products and service mode. Improve the property and loan collateral mortgage system finds ways to take personal property, accounts receivable, warehouse receipts, equity and intellectual property rights pledge, etc., to ease SME loan arrived in the problem of insufficient collateral. For commercial banks to develop SME credit-oriented supervision of the implementation of different policies. Establish and improve the financial service system for SMEs. Expedite the study was launched to encourage private capital to participate in the establishment of village banks, lending companies, financial institutions, joint-stock approach; active support of private capital to invest in shares of the way, involved in restructuring the rural credit cooperatives, rural commercial (cooperative) banks, urban credit cooperatives into city commercial restructuring banks and city commercial banks to increase capital. Support and regulate the development of micro-loan companies, and encourage qualified companies to village micro-credit bank.

(Vii) further widen financing channels for SMEs. Speed up the construction of the GEM, improve the SME market incubation mechanism to expand the scale of small and medium enterprises market and increase direct financing. Improve the venture capital and financial leasing policies and to develop venture capital and financial leasing companies. Encouraging relevant departments and local governments to guide the establishment of venture capital funds, to guide the establishment of social capital primarily to support SMEs venture investment enterprises and actively develop equity investment funds. Serve as a financing lease, pawn, trust and other financing methods in SME financing role. Steadily expanding collection of bonds and short-term financing of SMEs Issuing scale, actively foster and standardize the

development of property rights trading market for small and medium enterprises property rights and equity trading services.

(Viii) improve the SME credit guarantee system. The establishment including the central, local governments and enterprises funded jointly set up a multi-level SME finance guarantee funds and guarantee agencies. At all levels must intensify support for the integrated use of capital injections, risk compensation and incentive grants and other means to improve the security agencies to guarantee the ability of the SMEs. Implement the right qualified SME credit guarantee institutions exempt from sales tax reserve fund to extract and pre-tax net loss of compensatory policies. Land and resources, housing, urban and rural construction, finance, industry and commerce for small and medium enterprises and guarantee agencies in and out of quality collateral registration, does the right to transfer to provide quality services. To strengthen financial supervision of guarantee institutions to guide the development of its specifications. To encourage the insurance institutions to be actively developing insurance products for SMEs.

(Ix) credit information services play a role in SME financing. Promote the construction of credit system for SMEs to establish and perfect the mechanism of SME credit information collection and evaluation system to improve the financing of SMEs credit rating. Improve personal and business credit information system for SME financing to provide convenient and fast inquiry service. To build trustworthy benefits, promises punishment credit restraint mechanism, enhance credit awareness of SMEs.

(x) Increase support for financial resources. Gradually expand from the central budget to support the size of special funds for the development of SMEs, focusing on support for SMEs technological innovation, restructuring, energy-saving emission reduction, market development, expand employment and improve public services for SMEs. Accelerate the establishment of a national SME development fund, to play a guiding role of financial resources to drive social capital to support the development of

SMEs. Local governments should increase support for SMEs.

(xi) to implement and improve the preferential taxation policies. State use tax policies to promote SME development, and specific policies by the Ministry of Finance and Administration of Taxation jointly with relevant departments to study and formulate. To effectively cope with the international financial crisis, support the development of SMEs, since January 1, 2010 to December 31, 2010, for years taxable income is below 3 million (including 3 million) of small low-profit enterprises, their the reduced rate of 50% of the income included in taxable income, according to 20% of the rate of pay enterprise income tax. SME investment projects encouraged by the state, in addition to "domestic investment projects are not duty-free imports directory" listed in the commodities, the necessary equipment imported for personal use and in accordance with the contract of technology import of equipment and spare parts, spare parts exempted from import duties . SMEs to pay urban land use tax is indeed difficult, according to the relevant provisions of the provincial taxation department or the provincial people's government proposes to waive the tax to apply. SMEs have particular difficulties can not be scheduled because of the tax may lawfully apply for an extension to pay within three months.

(xii) to further reduce the social burden of SMEs. Any failure to approve the provisions of powers and procedures of administrative service fees and government funds the project, are abolished. A comprehensive rectification charges related to small and medium enterprises, focusing on administrative licensing and compulsory access to the intermediary service charges, with monopolistic service charges can be avoided, they can be cut is reduced, can ease the congestion. Strictly enforce the system of notification of charges, open pre-examination and approval projects, procedures and fees, prohibited local governments and departments go beyond the establishment of administrative fees are not allowed to be administrative charges to operate and service charges. Further regulate the behaviour of Directors received, the full implementation of a registration card payment system for small and medium enterprises to set up various levels of government burden on SMEs reporting telephone. A sound monitoring system at all levels of government burden on SMEs to seriously investigate and deal with arbitrary charges and fines and all kinds of behaviour assessed. Any department or unit shall be financed by mandatory for

SMEs to purchase products, receive specified services by means of profit. Strictly enforce tax collection and management laws and regulations, violation of the regulations shall not be taxed or assessed taxes in advance of SMEs.

(xiii) Support for SMEs to enhance their technological innovation capability and product quality. Support for SMEs to increase R & D to develop advanced and applicable technologies, processes and equipment, develop marketable new products, improve product quality. Study, and research alliances and resource integration, strengthening intellectual property protection, with emphasis on light industry, textiles, electronics and other industries to promote brand building, guidance and support small and medium enterprises to create their own brands. Support for China time-honored traditional advantages of SMEs to apply for trademark registration to protect trademark rights, encourage the excavation, protection, transformation characteristics of the traditional folk craft, enhance special industries.

(xiv) Support for small and medium enterprises to speed up technological transformation. Accordance with the focus on industrial restructuring and revitalization of the planning requirements, support for SMEs to adopt new technologies, new processes, new equipment, new materials for technological transformation. Technological transformation of the central budget for special investment in technical transformation funds to arrange for small and medium enterprises, local governments should also set aside special funds for technical transformation of SMEs. SMEs, because of fixed assets due to technological advances required to accelerated depreciation, and can shorten the depreciation period or adopt the provisions of accelerated depreciation methods.

(xv) to promote energy-efficient emission reduction and cleaner production for SMEs. The promotion of key energy-saving emission reduction technologies and efficient energy-saving environmental protection products, equipment, promotion and application of the small and medium enterprises. In accordance with the requirements of the development of circular economy to encourage the recycling of resources among small and medium enterprises. Encouraged to provide SMEs with professional services contract energy management, energy-saving equipment leasing and other services. The market mechanism into full play the role of integrated use of financial, environmental, land, industrial policy and other means

in accordance with the law eliminated the backward technology, small and medium enterprises, technology, equipment and products to prevent off-site transfer of backward production capacity. Strict control of excess capacity and the "two high a capital" blind development of the industry. Right into the environmental protection, energy saving corporate income tax preferential directory investment projects, according to the requirements to grant preferential corporate income tax.

(xvi) increase the level of cooperation of enterprises. To encourage SMEs and large enterprises to develop various forms of economic and technological cooperation, to establish a stable supply, production, sales and other synergies. Encourage large enterprises through specialized division of labor, services, outsourcing, order of production, etc., to strengthen the cooperation with SMEs and actively to provide SMEs with technical, personnel, equipment, financial support, timely payment for goods and services.

(xvii) to guide the development of SMEs to gather. In accordance with a rational layout and distinctive characteristics, land-intensive, ecological environmental protection principles, support the nurturing of a number of key industry cluster model. Strengthening the industrial cluster environment, improving industrial agglomeration conditions, improve the service functions, strengthen the leading backbone enterprises to extend the industrial chain, to improve the level of specialization and cooperation. Encourage the eastern region of advanced SMEs through acquisition, merger, reorganization, joint venture and other forms, with the central and western regions to strengthen cooperation in small and medium enterprises to achieve an orderly transfer of industries.

(Xviii) accelerate the development of producer services. Encourage and support SMEs in science and technology research and development, industrial design, technical consulting, information services, modern logistics and other production service industry sectors. Actively promote small and medium enterprises in software development, service outsourcing, web animation, advertising creative, e-commerce and other new areas of expansion, expansion of employment channels, to cultivate new economic growth point.

(xix) support and guide SMEs to actively explore the domestic market. Support for eligible SMEs to participate in home appliances, agricultural machinery, auto go to the countryside and home appliances, car "trade-in" and other businesses. Special funds for SMEs, technological innovation, capital and other key support for sales channels should be stable, market share of SMEs. Financial assistance to reduce the standard fee for an exhibit by way of support for SMEs to participate in various exhibitions and trade shows. Support the establishment of SME product technology exhibition center, run the China International SME Fair and other exhibitions and trade shows. To encourage telecommunications, network operators, enterprises and the news media to actively release of market information to help SMEs to promote products and market development.

(xx) Support for SMEs to develop international markets. Further implementation of the export tax rebate policy to support the study and improve the stability and external demand, promoting foreign trade and the development of relevant policies and measures to stabilize and develop the international market. Give full play to open up international markets for SMEs financing and the role of export credit insurance to increase preferential export credit support for SMEs. Encourage and support small and medium enterprises qualified to carry out overseas mergers and acquisitions and other investment operations, the acquisition of technology and brand, driven products and services.

(xxi) support for SMEs to improve their ability to open up the market. Guide for SMEs to strengthen market analysis and forecasting, seize market opportunities, enhance the quality, brand and marketing awareness, improve service, improve market competitiveness. Upgrading and improvement of commercial circulation, promote chain management, franchising and other modern management methods and a new trend of marketing and to help and encourage SMEs to adopt e-commerce, reduce marketing costs. Support for catering, tourism, leisure, home, property, community service and other industries to expand services, innovation and service practices, and facilitate the expansion of consumption.

(xxii) accelerate the service system for SMEs. Strengthen the overall planning, comprehensive service network and service facilities, and actively nurture small and medium enterprises at all levels of an integrated service agencies. Through the qualification, the business delegate, awards, etc., play a Federation of Industry and industry associations (chambers of commerce), and the role of integrated service organization and leading professional services sector. Establish and improve mechanisms for financial assistance, support services of information, training, technology, entrepreneurship, quality inspection, business management and other services.

(xxiii) to speed up construction of infrastructure of public services for SMEs. Through the guidance of social investment funds support a variety of ways, focusing on light industry, textiles, electronics information and other areas of the building of a number of product research and development, inspection and testing, technology promotion and other public service platform. Bases to support small business entrepreneurs to improve entrepreneurship and development environment. Encourage colleges and universities, research institutes, enterprise technology centers are open scientific and technological resources to carry out common research of key technologies, improve service level of SMEs. Improve the information services network for SMEs to accelerate the development of policy, interpretation, technology promotion, personnel exchanges, business training and marketing and other key information services.

(xxiv) improve the government services to SMEs. Deepening the reform of administrative examination and approval system, a comprehensive clean-up and further reduced, the consolidation of administrative examination and approval matters, to achieve approval of the content, standards and procedures for the open and standardized. Investment, industry and commerce, taxation, quality inspection, environmental protection and other departments to streamline procedures, reduce time, improve efficiency, for small and medium enterprises set up production operations to provide convenient services. Local governments in the formulation and implementation of land use planning and annual plans, to co-ordinate investment projects of SMEs consider the demand for land for land targets reasonable arrangements.

(xxv) to guide and support small and medium enterprises to strengthen management. Support the nurturing of SMEs management consulting organizations, to carry out management consulting activities. Strengthen basic management guide for SMEs, strengthening marketing and risk management, improve its management structure, promoting management innovation, enhance the management level. SMEs urged hard inner strength, cost efficiency and strict compliance with safety, environmental protection, quality, health, labour protection laws and regulations, honest and trustworthy management, to fullfil their social responsibilities.

(xxvi) vigorously carry out various types of personnel training for SMEs. Galaxy training for the implementation of SME projects, increase financial support for efforts to give full play to industry associations (chambers of commerce), ,the role of SMEs, training institutions, widespread adoption of network technology and other means to carry out policies and regulations, business management, marketing, professional skills, customer service and other types of training. Attach great importance to the training of enterprise managers, in three years, growth option 1 million SMEs, the implementation of comprehensive training for its managers.

(xxvii) to accelerate SME informatization. Continue to implement the small and medium enterprises to promote information technology projects to accelerate small and medium enterprises in key areas of information technology pilot projects, to guide SMEs to use information technology to improve research and development, management, manufacturing, and service levels, improve marketing and after-sales service capabilities. Encourage the information technology, enterprise development and construction industry application platform for SMEs to provide information technology hardware and software tools, project outsourcing, industrial design and other social services.

(xxviii) to strengthen guidance and coordination. The establishment of the State Council Leading Group for the development of SMEs, strengthening small and medium enterprises co-ordinating the work of the planning, organization and leadership and policy coordination, the leading group office in the

Ministry of Industry and Information Technology. Can work around the need to establish the appropriate organizational structure and working mechanisms.

(xxix) the establishment of SME statistical monitoring system. Statistics departments should establish and improve the classification of small and medium enterprises statistics, monitoring, analysis and dissemination system for small enterprises to strengthen the statistical analysis. Departments must be promptly released to the public development planning, industrial policy, industry dynamics and other information, and gradually establish SME market monitoring, risk prevention and early warning mechanisms.

To promote the healthy development of SMEs is a long-term strategic task and is also currently maintain growth, expand domestic demand, adjusting structure, promoting development, and benefit people's livelihood urgent task. All localities and departments should further enhance understanding, unity of thinking, in light of reality, as soon as possible to develop specific methods of carrying out the present observations, and effectively implement them.

Jiangxi's 24 Measures to Boost SME Innovation (Opinions)

'Opinions' to support efforts to alleviate the financing problems of SMEs as an important starting point for, respectively, from the sound system for small and medium property mortgages and loans collateral finds way to broaden the financing channels improve the credit guarantee system, and introduced a specific policy measures.

SME credit guarantee system in the perfect, the 'Opinions', at all levels must increase support for the establishment of financial investment and enterprise formation of multi-level co-financing guarantee institutions for SMEs, integrated use of capital injections, risk compensation and awards grants and other means to improve the security agencies to guarantee the financing of small and medium capacity. Meet the conditions of small and medium enterprises, credit guarantee institutions to implement the exemption from business tax, reserve pre-tax net loss of extraction and compensation policies; qualify for tax exemption on SME credit guarantee agencies operating income by government departments in charge after , the 3-year business tax exemption.

In order to further broaden the financing channels for SMEs, 'opinions' to strengthen meet the listing requirements, good growth market for SMEs counseling, and encourage qualified domestic and international capital market for SMEs using the direct market financing; improve the venture capital and financial leasing policies and to develop venture capital and financial leasing companies; encouraging relevant departments and local governments to set up venture capital fund of funds, guiding the establishment of social funds to support SMEs, the major venture capital companies, and actively develop equity funds.

Continue to implement preferential policies to reduce the tax burden on corporate social 'Opinions' and gradually expand the provincial budget for special funds to support small and medium scale development,

focus on supporting SMEs innovation, restructuring, energy saving , marketing, brand building, training, expanding employment, improving public services for SMEs.

In tax incentives, the provision this year January 1 to December 31, the amount of annual taxable income below 30,000 Yuan (including 3 million) of the small profit, the reduced rate of 50% of their income included in taxable income by 20% enterprise income tax rates; SMEs have particular difficulties not because of the tax schedule may be to apply for an extension in the 3 months to pay; this year, small and medium industrial enterprises continued to enjoy growth, employment-based difficult business tax incentives.

To further reduce the social burden of SMEs, 'Suggestions,' who according to the specified authority and procedures approved by the administrative fees and government funds the project, were abolished; comprehensive rectification charges related to SMEs, focus on access to administrative licensing and enforcement intermediary service charges, with monopolistic service charges; severely punished arbitrary charges, fines and various apportionments, any department or unit may force small and medium enterprises through to purchase products, receive designated services means to profit.

To promote energy conservation to promote technological progress and structural adjustment 'Opinions' made in support of SMEs in adopting new technologies, new processes, new equipment, new materials for technological innovation, enhance competitiveness of SMEs; Jiangxi Province, the central budget and special funds for SMEs technological transformation projects to be selected, all implemented in SMEs; SMEs because of fixed assets due to technical advances required to accelerate the depreciation, the depreciation period may be shortened or requirement to take accelerated depreciation method.

Promote small and medium energy saving and clean production, promote energy conservation and cleaner production for SMEs to achieve significant results in the industrial park, priority for inclusion in the pilot zone of ecological industrial parks. Guide for SMEs based Industrial Park to speed up clustering, support for SMEs to the park, community focus; provincial financial arrangements for cluster

development of industries in a special fund used to support key industries around the industrial park, leading industry to industry supporting SME .

Promote the service system to support business bases

'Opinions' to promote SME service system, and actively nurture SMEs integrated services at all levels, built in 5 years, 100 provincial, municipal, County, class multi-service platform for SMEs; to support small enterprises to start bases in 2012, the province into 100 embryonic supporting services and capabilities of small business incubation business base; to speed up infrastructure construction, public services, SMEs, to encourage institutions of higher learning , research institutes, technology center open scientific and technological resources to carry out common key technologies, and improve service level of SMEs, in 5 years by leading social investment funds support a variety of ways, focusing on light industry, textiles, electronics Construction of 100 fields of information product development, inspection, extension and other public service platform.

SME Financing Programmes of Govt. of Malaysia

Ministry OF Agriculture and Agro-Based Industry (MOA)	
Micro Credit Scheme	<ul style="list-style-type: none"> • Asssit small entrepreneurs to expand existing agriculture projects
Skim Belia Tani-i/Skim Belia Niaga	<ul style="list-style-type: none"> • Provide financing to youths for start-up and business expansion under the Youth Economic Group Trust Fund
Fund for Food (3F)	<ul style="list-style-type: none"> • Increase food production in the country and reduce food import
Financing Scheme for Bumiputera Trade & Industry Community	<ul style="list-style-type: none"> • Promote and develop Bumiputera entrepreneurs in agriculture sector
Development of Bumiputera Entrepreneurs through Bumiputera Commercial and Industrial Community (BCIC)	<ul style="list-style-type: none"> • Develop competitive and viable Bumiputra entrepreneurs
Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN)	<ul style="list-style-type: none"> • Provide micro-credit financing, information, business opportunities and advisory to Bumiputra entrepreneurs
Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC)	
PNS Franchise Financing Scheme	<ul style="list-style-type: none"> • Develop and promote Middle-level Bumiputera Entrepreneurs in franchise businesses and provide financial assistance for start-up and business expansion
PNS Pre-Franchise/ Franchisor Financing Scheme	<ul style="list-style-type: none"> • Assist new Bumiputera franchisors by providing financial assistance to potential franchisors and master franchisees
Ministry of Energy, Green Technology and Water (MEGTW)	
Green Technology Financing Scheme (GTFS)	<ul style="list-style-type: none"> • Promotion of green technology industry
Ministry of Finance (MOF)	
Malaysian Kitchen Financing Facility	<ul style="list-style-type: none"> • Provide financing for Malaysian entrepreneurs to set up or expand existing Malaysian restaurants overseas
Tourism Infrastructure Fund	<ul style="list-style-type: none"> • Support the Government's efforts to develop and promote the tourism industry
Initiative Financing Scheme	<ul style="list-style-type: none"> • Reduce poverty rate in Malaysia by providing financing to poor households for them to undertake viable economic activities
Creative Industry Fund	<ul style="list-style-type: none"> • Provide financing to the creative industry players in relation to production, asset requisition and other related activities for Commercialisation
Ar-Rahnu Micro Programme	<ul style="list-style-type: none"> • Provide access to micro credit facility to communities, especially in the lower income group for working capital purposes
ICT, Biotechnology and Technology Development Project Financing	<ul style="list-style-type: none"> • Provide syariah-based project financing facility which is innovative and flexible to local companies in the ICT, biotechnology and technology sectors

Non-ICT Fund	<ul style="list-style-type: none"> • Provide financing for start-ups and expansion projects in life sciences and biotechnology, green technology, waste-to-wealth technology and high precision manufacturing
Ministry of Rural and Regional Development (MRRD)	
Rural Economy Assistance Scheme	<ul style="list-style-type: none"> • Increase the number of rural entrepreneurs by providing the necessary production machines and equipment
Rural Economy Funding Scheme (SPED)	<ul style="list-style-type: none"> • Provide financial assistance to rural entrepreneurs in the manufacturing, agriculture and rural tourism sectors
MARA Business Financing Scheme	<ul style="list-style-type: none"> • Provide loan assistance to Bumiputera entrepreneurs to increase working capital or business start-ups
Ministry of International Trade and Industry (MITI)	
Soft Loan for SMEs (SLSME)	<ul style="list-style-type: none"> • Assist existing as well as new start-up companies in project, fixed assets and working capital financing
Soft Loan Scheme for Automation and Modernisation	<ul style="list-style-type: none"> • Encourage industries to modernise and automate their manufacturing processes and upgrade production capacity and capabilities
Soft Loan Scheme for Automotive Development (SLSAD)	<ul style="list-style-type: none"> • Assist the SMEs in tooling acquisition, development and production, productivity improvements and export enhancement
Special Loan Scheme for International Branding	<ul style="list-style-type: none"> • Provide financing for SMEs to enhance the competitiveness of Malaysian-made products or services in the international market
Soft loan Scheme for Services Capacity Development (SLSCD)	<ul style="list-style-type: none"> • Enhance the business value added, productivity and Effectiveness
Public Transport Development Fund (TPPA)	<ul style="list-style-type: none"> • Promote the development of public transportation and related-industries
Ministry of Industrial Development Sabah (MID Sabah)	
Financing Scheme for Technical School Leavers and Workshop Owners	<ul style="list-style-type: none"> • Assist technical school leavers and workshop owners to purchase machine and equipment to start business
Financing Scheme for SMEs to Purchase Machines and Equipment	<ul style="list-style-type: none"> • Assist SMEs to acquire machines and equipments to improve their productivity and product quality
Sabah Bumiputera Entrepreneur Financing Scheme (SPUBS)	<ul style="list-style-type: none"> • Provide financing facilities to Bumiputera entrepreneurs to start or expand existing businesses
Sabah Woman Entrepreneur Financing Scheme	<ul style="list-style-type: none"> • Provide financing facilities to women entrepreneurs to start or expand existing businesses
Bank Negara Malaysia (BNM)	
Outreach and Awareness Programmes for SMEs and Micro Enterprises	<ul style="list-style-type: none"> • Enhance access to financing by SMEs through outreach and awareness programmes
Advisory Services for SMEs	Provide information and advisory services to SMEs on available financing products/facilities via the banking system as well as funds and guarantee schemes provided by the Government and BNM
Fund for Small and Medium Industries 2 (FSMI2)	<ul style="list-style-type: none"> • Ensure eligible SMEs have access to financing at a reasonable cost

Micro Enterprise Fund (MEF)	<ul style="list-style-type: none">• Provide continuous access to financing for micro enterprises
Bumiputera Entrepreneur Project Fund-i (BEPF-i)	<ul style="list-style-type: none">• Provide financing to Bumiputera entrepreneurs who obtain contracts from the Government
New Entrepreneur Fund 2 (NEF2)	<ul style="list-style-type: none">• Promote the growth of Bumiputera SMEs by ensuring that they have access to financing at reasonable cost

Select SME Financing programmes in Philippines

ASIATRUST DEVELOPMENT BANK

Program Title: TERM LOAN

Program Objective: To provide financing assistance to small and medium enterprises (SMEs) for their more permanent working capital requirements such as acquisition of equipment or other fixed assets, construction of buildings for expansion purposes and others. Loan Purposes:

- Permanent Working Capital
- Acquisition of Fixed Assets
- Renovation/Expansion

CHECK/ RECEIVABLES DISCOUNTING LINE

Program Objective: To address gaps in the cash flow of small and medium enterprises (SMEs) by turning their receivables and post-dated checks from their customers into cash through discounting these at the Bank.

- Check Discounting – involves discounting of third party post-dated checks.
- Receivables Discounting – involves discounting of different types of receivables like purchase orders or sales contract.
- Eligible Borrowers:
- Loan Purpose: Discount receivables for working capital.

DEPARTMENT OF SCIENCE AND TECHNOLOGY (DOST)

Program Title: SMALL ENTERPRISE TECHNOLOGY

UPGRADING PROGRAM (SET-UP)

SET-UP is a nationwide strategy to encourage and assist SMEs to adopt technological innovations to improve their operations and thus boost their productivity and competitiveness. The program enables firms to address their technical problems through technology transfer and technological interventions to improve productivity through better product quality, human resources development, cost minimization and waste management, and other operation related activities.

Program Objectives/Targets:

SET-UP hopes to assist SMEs improve their productivity and competitiveness through:

- Infusion of new/advanced technologies to improve operations of SMEs;
- Manpower training, technical assistance and consultancy services;
- Design of functional packages;
- Assistance in the establishment of product standards including testing;
- Database management system; and,
- Provision of limited funds for technology acquisition.

DEVELOPMENT BANK OF THE PHILIPPINES (DBP)

Head Office: Sen. Gil J. Puyat Ave. cor. Makati Avenue, Makati City

Program Title: DBP LENDING PROGRAM FOR SMALL AND MEDIUM ENTERPRISES

Program Objective: To provide the small and medium enterprises access to market, finance and technical assistance to effectively encourage the growth and development of the sector throughout the country.

Loan Purposes:

- Construction, expansion or modernization of new & existing capacities
- Acquisition of machinery/equipment, new technology including spare-parts, components & software packages
- Investment to enhance research & development including training that would improve & strengthen competitiveness of products
- Short term working capital
- Permanent working capital for stocks of raw materials, supplies & other requirements needed

ONE TOWN ONE PRODUCT (OTOP) CREDIT FACILITY

Program Objectives:

- To support the National government's poverty alleviation efforts in terms of job and income generation;
- To sustain DBP's developmental mandate by encouraging entrepreneurship in the countryside using locally available raw materials and inherent human resources, skills and talents, thus, spurring economic activity and job opportunities in each locality;
- To reaffirm the Bank's commitment to be a catalyst for countryside development by empowering the country's MSMEs through the provision of easy access to credit and technical assistance.

Loan Purposes:

- All project-related expenditures;
- For LGUs, funding may be for common service facilities (including but not limited to, farm to road networks, markets, pasalubong centers, OTOP display centers, terminals, warehousing facilities, machineries and equipment, etc.) for the benefit of the OTOP entrepreneurs, in the locality. LGUs may use loan proceeds for re-lending to DTI-assisted OTOP entrepreneurs.

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- To sustain DBP's developmental mandate by encouraging entrepreneurship in the countryside using locally available raw materials and inherent human resources, skills and talents, thus, spurring economic activity and job opportunities in each locality;
- To reaffirm the Bank's commitment to be a catalyst for countryside development by empowering the country's MSMEs through the provision of easy access to credit and technical assistance.

Loan Purposes:

- All project-related expenditures;
- For LGUs, funding may be for common service facilities (including but not limited to, farm to road networks, markets, pasalubong centers, OTOP display centers, terminals, warehousing facilities, machineries and equipment, etc.) for the benefit of the OTOP entrepreneurs, in the locality. LGUs may use loan proceeds for re-lending to DTI-assisted OTOP entrepreneurs.

OFW i-Net NEGOSYO PROGRAM

Program Objective: To provide livelihood opportunities for the families of OFWs in the Philippines

NEGOSYO CREDIT PROGRAM FOR GOVERNMENT EMPLOYEES “Puhunang Pangnegosyo Para sa Kawani ng Gobyerno”

Program Objectives:

- To provide government employees thru their cooperatives and/or employee associations, access to GFIs/GOCCs *negosyo* funds to finance alternative livelihood projects which the employee and/or his family wish to engage in;
- To support government thrust of providing income augmenting *negosyo* projects to government employees.

CLEANER PUBLIC TRANSPORT FINANCING PROGRAM

Program Objectives:

- To support the objective of Republic Act 8749 (Clean Air Act) by providing financial assistance to the public transport sector to comply with the government requirements in the implementation of the R.A.
- To help uplift the health condition of the workers in the public transport sector, commuters and other residences of the metropolitan areas.
- To help the national government in cleaning the environment and save the resources that is being spent to arrest health caused by pollution.

Loan Purpose:

- DBP to Borrower-Conduit - for re-lending to Transport Operators (jeepneys/tricycles)
- Borrower-Conduit to Sub-Borrower:
- Acquisition of brand new vehicle (at least EURO 2 compliant)
- Conversion of 2-stroke to 4-stroke engine of tricycles
- Retrofitting of Engine
- Diesel Particulate Trap for buses and jeepneys
- Installation of catalytic converter
- Use of alternative fuels (CNG, LPG, bio-fuels)

DBP FINANCIAL ASSISTANCE TO OVERSEAS PLACEMENT AGENCIES (For Borrower-Conduit)

Program Objective: To provide financial assistance to Overseas Placement Agencies (OPAs) on the recruitment training and business development activities for a more efficient deployment of Overseas Filipino Workers thus enhancing their image in the eyes of the OFWs in particular and the public in general.

ENVIRONMENTAL DEVELOPMENT PROGRAM

Program Goal: The Environmental Development Program (EDP) is based on the principle of sustainable development, that is, environmental protection and socio-economic development are complementary and enhance one another. The goal of the program is to make a significant contribution in environmental protection and enhancement and in the sustainable development and utilization of natural resources in line with the government's policy thrusts.

Program Objectives: EDP caters to the environmental financing needs of both government and private sectors in:

- Improving the quality of the environment in ways that also assist industries to achieve production efficiency and competitiveness as well as regulatory compliance.
- Enabling local government units to manage environment and natural resources in ways that increases their income and their capability to respond to the needs of their constituents; and
- Developing and managing natural resources sustainability in ways that provides communities with basic needs including potable water, sanitation services, waste management and reliable and affordable electricity; and opportunities to alternative livelihood and enterprise development.

Program Components:

- Credit Programs – to finance investment requirements
- Clean Development Mechanism (CDM) – to assist CDM eligible projects in securing carbon credits which can be utilized as additional fund to accelerate loan amortization payment and/or security for the loan.
- Technical Assistance – to assist borrowers in project preparation and for capacity improvement of bank staff in program management.

**SUSTAINABLE WASTE MANAGEMENT
ECO-ENTERPRISE PROGRAM (SWEEP)**

Program Objective: To provide technical and business development support and financial services to stimulate and accelerate the development of viable and ecologically sound entrepreneurial activities in the waste management sector.

Eligible Borrowers:

- Non-Government Organizations (NGOs), People's Organizations (POs), Cooperatives, Federations, Unions, Industry Associations
- Private Individual/Single Proprietor
- Private Corporations

**SUSTAINABLE PARTNERSHIP FOR
ECO-ENTERPRISE DEVELOPMENT (SPEED)**

Program Objectives:

- To harness the entrepreneurial capacities of the marginalized sector through direct and effective delivery of financial and enterprise development services that are appropriate to community-based enterprises, development organizations and individual private social entrepreneurs.
- To provide assistance to those emerging enterprises that promote eco-enterprise principles and at present not covered by services within the Foundation's sub-sector-specific programs.

FUND FOR A SUSTAINABLE CIVIL SOCIETY (FSCS)

Program Objectives: To generate and mobilize resources:

- Towards enabling civil society organizations to engage in sustainable livelihood and eco-enterprise development projects or activities with the active participation/and for the benefit of the poor and marginalized sectors in rural and urban communities; and,

- To support building the capacity initiative of poor communities and consolidate the infrastructure of CSOs (sectoral or multisectoral) based on solidarity that would lead to planned actions that could influence policies or larger events focused on asset reform, development financing, environment protection and promotion of gender equity.

Eligible Borrowers:

- Philippine-based and Philippine-managed Non-Governmental Organizations (NGOs), People's Organizations and Cooperatives that are duly registered with recognized or official accreditation bodies and have sound reputation among colleague-organizations in their respective regions of origins.

LAND BANK OF THE PHILIPPINES (LBP)

Program Title: EASY PONDONG PANG-ASENSO (EPPA)

Program Objective: A lending program that is specifically packaged to address the financing needs of small entrepreneurs. The program accommodates new/start-up and existing projects with easy collateral requirements and simpler documentation procedures.

Eligible Projects:

- Manufacturing;
- Agri-business and agro-processing (except farm level production); and,
- Services (including trading and merchandising).

ACCELERATING CHANGE IN THE COUNTRYSIDE THRU EQUITY SHARING STRATEGY (ACCESS)

Program Objective: To catalyze countryside development by promoting livelihood and rural employment, and by priming up local agri-related and off-farm economic projects to raise productivity and income in priority areas of the country.

Program Components:

- Equity Investment
- Provision of Professional Management Team
- Technology Transfer and Marketing Assistance
- Equity Divestment

Eligible Partners:

- Cooperatives/Federations;
- Farmers and Fisherfolk;
- Non-Government Organizations (NGOs);
- Private Entrepreneurs;
- Local Government Units (LGUs); and
- Other interested investors.
- Partners should have no adverse CI/BI reports.

Eligibility Requirements:

- Agri-related and off-farm economic projects;
- Located outside National Capital Region (NCR) and Metro Cebu; however, projects located inside the mentioned areas may be considered if raw materials are sourced from outside the said places.
- IRR of at least 12%
- At least four stockholders (including Landbank)

Equity Investment Features:

Loan Amount: Minimum of P1.0 Million; LBP Equity investment shall neither exceed P20.0 Million nor 35% of the total subscribed capital stock or 35% of total voting stock in a single enterprise, whichever is lower; provided that the total government equity shall not exceed 49% and foreign equity shall not exceed 40%. Investment shall be in Preferred Shares with voting power.

Dividend Rate: Entitled to cumulative dividends (including undeclared/ unpaid dividends for the prior year/s), Dividend Rate based on 91-day T-Bill rate computed at the end of the calendar year

Divestment:

- Shall be sold or redeemed at par value within a period of 15 years based on a schedule formulated by the Board of Directors considering the cash flow of the project.
- The corporation shall establish a sinking fund to ensure the redemption of Landbank shares.

RETAIL COUNTRYSIDE FUND (RCF I AND II)

PROGRAMS

Program Objective: A credit facility from World Bank made available in Pesos or US Dollars to private investment enterprises whose viable operations benefit the countryside. Proceeds of the loan fund will be directly relent to qualified sub-borrowers of LANDBANK through its commercial banking lending units (LUs).

Eligible Sub-Borrowers:

- Sole Proprietorship
- Partnership
- Corporation (at least 70% Filipino-owned)
- Cooperative/Association

RENEWABLE ENERGY for WISER and ACCELERATED RESOURCES DEVELOPMENT (REWARD)

Program Objectives:

- To support the national government's call to develop renewable and alternative fuel/energy sources; and,
- To provide financial assistance to entities that are engaged in renewable energy projects.

Eligible Projects:

Renewable energy projects such as, but not limited to the following:

- Biofuels projects
- Biomass-based projects
- Hydropower projects
- Wind projects (power and non-power)
- Geothermal projects
- Solar photovoltaic
- Solar water heaters
- Co-generation projects

Loan Purposes:

- Project Feasibility Studies Preparation/Engineering Design
- Working Capital
- Fixed Asset Investment

COUNTRYSIDE LOAN FUND PROGRAMS (CLF I, II, and III)

Program Objectives: A wholesale credit facility from World Bank made available to Participating Financial Institutions (PFIs) for on-lending to eligible private investment enterprises:

- To provide financial support to the rural economies to emerge stronger from the financial crisis and resume sustained rapid economic growth in the near term;
- To support the government in its effort to alleviate rural poverty by accelerating private investments in the countryside to boost productivity, generate employment, and raise income;
- To provide further assistance through additional short, medium, and long term financial resources for viable investments in the rural areas; and
- To generate foreign exchange awareness or savings to improve the country's balance of payment position.

Eligible Projects:

- Agriculture and agri-related activity;
- Food and agro-processing venture;
- Manufacturing activity that generates employment/export;
- Product distribution activity/Trading;
- Service-oriented project that supports economic activity;
- Environmental protection project;
- Tourism-related project; and
- Property development project:
- CLF I & II – Industrial Estate Development.
- CLF I, II, & III – Socialized and Low Cost Housing Projects, Commercial Building for lease with a gross/total floor area of not more than 15,000 sqm., including parking and other areas.

DEVELOPMENT ADVOCACY (DevAd) PROGRAM

Program Objectives: DevAd Program is an innovative lending program for enterprises with viable and sustainable projects, but lacking in collateral or do not have a track record.

Eligibility Criteria:

- Accounts that could not comply with LBP's lending criteria but with viable projects
- Make use of credit enhancement instruments such as market contracts, post-dated checks and guarantee
- Make use of purchase orders or receivables financing

SMALL AND MEDIUM ENTERPRISE CREDIT PROGRAM (SMEC)

Program Objectives:

- To provide loans to SMEs through its accredited Intermediary Financial Institutions (IFIs) such as Thrift Banks, Rural Banks, Microfinance Institutions and Cooperatives as conduit for lending; and,
- To provide business support to IFIs and enhance their lending capabilities to improve SMEs productivity and competitiveness.

Loan Purposes: To finance investments of new and expansion of existing businesses for:

- acquisition of fixed assets such as land, building, machinery and equipment;
- payment for related services such as equipment installation, testing and start-up; and,
- working capital

TERM LOAN GUARANTEE PROGRAM

Program Objectives:

- To assist exporters to increase their productive capacity and gain a stronger foothold in the international market through access to term financing for the purpose of upgrading their plant facilities.

Loans Eligible for Guarantee Coverage:

- Loans for the purchase of machineries and equipment;
- Plant/building acquisition, construction, improvement/expansion;
- Acquisition of land to be used as project site (but not to exceed 50% of the loan); and,
- Permanent working capital loan.

DECENTRALIZED ENERGY SYSTEMS (DES) PROJECT – END-USERS FINANCING PROGRAM

Program Objectives: To provide financial assistance to projects or entities, which aims to use and/or utilize any decentralized energy systems (DES) technology and system. DES-supported technologies include the following:

- Photovoltaics

- Biogas Systems
- Briquetted Solid Fuel
- Biomass-Fired Dryers/Ovens
- Wind Energy Conversion Systems
- Solar Water Heaters
- Micro/Mini Hydro, and
- Energy Conservation Technologies.

Eligible Borrowers: A single proprietorship owned by a Filipino and duly registered with the Department of Trade and Industry or a partnership/corporation with major Filipino shareholdings and duly registered with the Securities and Exchange Commission (SEC).

Loan Purpose:

- Purchase of DES-supported technologies and systems

FINANCING FOR INFORMATION TECHNOLOGY BUILD-UP (Credit Line for MSME IT-Capability)

Program Objective: A direct lending facility of Small Business Corporation intended to help micro, small and medium enterprises develop some degree of IT capability in terms of simple hardware facilities, software solutions, website development, and training and tutorial packages.

Loan Scheme: The loan shall be through a rediscounting scheme using IT providers as the conduit and primary borrower. IT provider refers to distributors of ready-made IT packages such as hardware and software.

Chapter V:

LABOUR LAWS

As the economy progresses and the society matures, safety, health and environment (SHE) issues have started occupying important places in the relationship between employers and employees. Further, modern age shuns any form of exploitation and desires an environment of equal treatment, opportunities and level playing field. Child labour is also an important factor to reckon with. Ideally underage children should be attending schools and after good education and training, they are expected to emerge as productive agents of an economy. The hours that an employee works are an important part of the general labor laws. It is imperative to ensure that employees are not overworked and that they are receiving proper compensation for their services. Employers should also ensure that all employees are being treated fairly and receiving proper compensation for their efforts. Keeping these factors into consideration, the governments world over have been formulating various types of labour laws, designed to protect employees while they work for their income. Having these laws in effect has created smoother operations in many areas of business. The subsequent paras highlight labour laws in eight countries which are expected to act as guide-posts to various governments in future.

An analysis of 8 countries under the study on various labour related parameters, as per Global Competitiveness Report 2011, reveals that Malaysia scores ahead in areas like good labour-employer relationship, rigidity in employment, very low hiring and firing practices and pay and productivity (table 5.1). China fares better with 2nd rank in hiring & firing practices and pay & productivity; 3rd rank in labour-employer relationship, wage flexibility and 4th rank in rigidity in employment. While Republic of Korea ranked last in good labour-employer relationship, Italy stood last in wage flexibility and pay & productivity; Brazil in employment rigidity and South Africa in hiring & firing practices.

		Brazil	China	Italy	Malaysia	Phillipines	South Africa	South Korea	Turkey
1	Cooperation in	90	58	121	16	56	132	138	119

Table 5.1: Ranking of 8 countries on labour related parameters

	labour-employer relation								
2	Flexibility in wage	116	56	130	44	96	131	38	55
3	Rigidity of employment	114	78	90	18	75	86	90	56
4	Hiring & firing practices	131	62	129	50	116	135	115	63
5	Redundancy cost	80	114	20	100	114	44	114	120
6	Pay & productivity	85	15	124	6	82	112	24	71

Note:

Source : The Global Competitiveness Report 2010-11, World Economic Reform

BRAZIL

The Constitution of the Federal Republic of Brazil (FC) of 1988 is the primary source of labour law. Chapter II, which deals with social rights, contains comprehensive provisions on the rights of workers (*art. 7*), security of tenure (*art. 7(1)*) and protection against arbitrary dismissal.

The source of labour law on termination of employment is to be found in the Consolidation of Labour Laws (CLL), adopted in Legislative Decree No. 5452 of 1 May 1943. It contains standards of substantive and procedural law on termination of employment. An additional source of labour law dealing with compensatory indemnification for termination of employment by the employer is Act No. 8036 of 11 May 1990, which establishes the Guarantee Fund for Length of Service (see below).

The decisions of the labour courts and arbitration awards (art. 114, FC), international treaties and case law supplement these sources of law. Case law is a subsidiary source when it is compatible with the fundamental principles of labour law (sec. 8, CLL).

Scope of legislation

Public employees of the Federal Union, the states and counties, staff working in these administrative bodies, and employees of parastatal administrative bodies subject to special conditions of service which put them in the same category as public employees, are excluded from the scope of application of the CLL (*sec. 7(c) and (d)*, CLL)

Persons employed in the banking and cinematography industries, the telephone services, musicians, railway workers, crews of vessels of the national merchant marine and vessels engaged in river and lake navigation, workers employed in cold storage, stevedoring and dockers' services, miners, journalists, teachers, chemists, women workers and young persons are subject to special labour protection rules (*Part III*, CLL).

Contracts of employment

An individual contract of employment is a tacit or express agreement respecting the employment relationship (*sec. 442*, CLL). Such contracts may be concluded either orally or in writing, for a specified or unspecified period. A contract for a specified period is a contract in which duration is fixed in advance or which depends upon the performance of specified services or on the occurrence of a particular event, the approximate date of which can be foreseen. Contracts for a specified period are valid only if they govern services whose nature or transitional character justifies the fixing of their duration in advance, transitional activities carried out by the undertaking, and contracts of a probationary nature (*sec. 443*, CLL).

Contracts concluded on a probationary basis may not exceed 90 days (*sec. 445*, CLL). The first year of a contract for an unspecified period is deemed to be a trial period and compensation for termination of employment is not payable until it has been completed (*sec. 478*, CLL).

Termination of employment

The CLL does not stipulate the conditions for the termination of the employment contract (other than at the employer's initiative), but it does refer to such conditions in the provisions governing compensation. Employment may be terminated, other than at the initiative of the employer, as follows:

- by the worker;
- for reasons unrelated to the wishes of the parties;
- through the operation of law;
- by mutual consent of the parties;
- upon the retirement or death of the worker; and
- on expiry of the contract period or completion of the task.

Termination of employment by the worker includes resignation. In this regard, the law provides that if the worker has been employed for more than one year, the letter of resignation or the attestation releasing the worker from the employment contract, signed by the worker, will be valid only when it is submitted with the support of the competent trade union or presented to the competent authority of the Ministry of Labour (*sec. 477(1)*, CLL).

Resignation for valid reasons is also permitted and a worker is entitled to consider his or her contract cancelled and claim the compensation due in the following cases (*sec. 483*, CLL):

- if he or she is required to perform services which are beyond his or her powers or are prohibited by law, contrary to morality or not covered by the contract;
- if he or she is treated with excessive severity by the employer or his or her superiors;
- if he or she runs an obvious risk of serious injury;
- if the employer fails to fulfill his or her contractual obligations;
- if the employer or his or her representative commits any act detrimental to the honour and good repute of the employee or a member of the employee's family;
- if the employer or his or her representative assaults the employee, except in case of legitimate self-defence or defence of another; or
- if the employer reduces the work of an employee who is paid at piece or task rates in such a manner as to affect materially the amount of the wages earned.

In the situations envisaged by the fourth and seventh grounds above, the employee may request cancellation of the contract and payment of the corresponding compensation, whether or not he or she continues to work in the undertaking until the final ruling has been handed down.

In addition, the employee is entitled to suspend work or cancel the contract if he or she has to perform any statutory duty that is incompatible with the continuation of the employment. In the case of an individually owned undertaking, the employee is entitled to cancel the contract of employment in the event of the death of the employer.

Dismissal

The employment relationship may be terminated by the employer for just cause (*sec. 482, CLL*). The following constitute situations sufficient to establish just cause :

- dishonesty;
- misconduct or bad behaviour;
- habitual engagement by the employee in commercial transactions on his or her own account or for another without his or her employer's permission, if this involves competition with the undertaking in which he or she is employed or is prejudicial to the performance of his or her work;
- a sentence passed on the employee by a criminal court without suspension of the execution of the penalty;
- idleness of the employee in the performance of his or her duties;
- habitual drunkenness or drunkenness while on duty;
- disclosure of a secret of the undertaking;
- breach of discipline or insubordination;
- desertion of post;
- any act detrimental to the honour or good repute of another which is committed during employment, or an assault under the same conditions, except in case of legitimate self-defence or defence of another;
- any act detrimental to the honour or good repute of, or an assault against, the employer or a superior, except in case of legitimate self-defence or defence of another; or

- habitual indulgence in games of chance.

If it is established by an administrative inquiry that the employee is guilty of acts which are detrimental to national security, such proof would also constitute valid grounds for the dismissal of the employee.

Further, the law prescribes the following series of situations as grounds for the employer to terminate a contract:

- abusive acts committed by strikers during a strike action, depending on the nature of any prejudice caused as regards the rights of others (*art. 9(2)*, FC). In this sense, mere participation in a strike action does not constitute serious misconduct, but active participation in a strike which is recognized as illegal, or in violent or restraining acts which impede the access of others to the workplace, is a valid reason for dismissal.
- in the case of banking employees, the persistent failure to pay debts which are lawfully due (*sec. 508*, CLL); and
- the unjustified refusal of the employee to obey the employer's policies on occupational safety and health and on the use of personal protective equipment against harmful substances, supplied by the employer, which are measures taken to safeguard the health of the worker himself or herself (*sec. 158*, CLL).

The Constitution also contains provisions on trade union immunity. It prohibits the dismissal of a unionized employee, except on account of a serious offence, from the moment he or she registers as a candidate for a leadership or representative position in the trade union and for one year thereafter (*art. 8(VIII)*, FC).

Federal employment law provisions also protect workers' representatives on the Internal Accident Prevention Commission (CIPA) may not be arbitrarily dismissed (*sec. 165*, CLL). This is also enshrined in the Constitution, which prohibits arbitrary or unjustified dismissal of employees elected to the position of a director of the CIPA, from the date of registration as a candidate until one year after the end of his or her term of office (*art. 10(IIa)*, FC, Transitional Provisions).

Similarly, the Constitution protects pregnant workers from the date the pregnancy is confirmed until five months after confinement, and declares dismissals on the grounds of pregnancy null and void (*art. 10(IIa)*,

FC, Transitional Provisions). Moreover, the fact that a woman marries or becomes pregnant is not regarded as a legitimate reason for the termination of her contract of employment (*sec. 391*, CLL). By the same token, a pregnant woman is entitled to terminate the contract of employment if it is proved by a medical certificate that the work she performs is prejudicial to her condition (*sec. 394*, CLL).

Security of employment is guaranteed through reinstatement to employees who, because of an employment accident or occupational disease, were obliged to suspend the employment relationship (Act No. 8213 of 24 July 1991).

Notice and prior procedural safeguards

Pursuant to *sec. 487* of the CLL, a party who wishes to cancel the contract without lawful cause is bound to give notice to the other party of his or her intention as follows:

- eight days in advance if wages are paid weekly or at shorter intervals;
- thirty days in advance if wages are paid fortnightly or monthly, or if the employee's length of service in the undertaking exceeds 12 months;

If the employer fails to give due notice, the employee is entitled to his or her wages for the period of notice, and that period is always deemed to be included in the period of employment. If the employee fails to give due notice, the employer is entitled to deduct the amount of wages corresponding to the period of notice. In the case of wages paid at piece rates, the calculation for the purposes of these two instances is to be based on the average of the wages for the last 12 months of employment.

If the contract is cancelled by the employer during the notice period, the employee's normal hours of work must be reduced by two hours a day during the period of notice, without any reduction in wages. A worker who decides to continue working normal working hours is also allowed to be absent from work for one to seven days depending on the case (see *sec. 487(I) and (II)*, CLL (see above)).

After the submission of notice, termination of the contract will take effect upon expiry of the term of notice. However, if the party which gave notice reconsiders his or her decision before the expiry of the term of notice, the other party is entitled to either accept or reject the withdrawal of the notice. If the

withdrawal is accepted, or if work continues to be performed after the expiry of the term of notice, the contract continues in operation as if notice had not been given (*sec. 489, CLL*).

If, during the period of notice given to the employee, the employer commits any action justifying immediate cancellation of the contract, he or she is obliged to pay the wages for the period of notice, without prejudice to any compensation which may otherwise be due (*sec. 490, CLL*). An employee who, during the period of notice, commits any action deemed by law to be a lawful ground for the cancellation of the contract forfeits the right to wages for the remainder of the period of notice (*sec. 491, CLL*).

Severance pay

Job security provisions, in the form of severance pay, existed in Brazil well before its new 1988 Constitution. Since the early 1940's, workers with less than ten years and more than one year of tenure were, upon dismissal, entitled to the equivalent of one monthly wage per year worked at the firm in severance payment. Workers with more than ten years could only be dismissed for "just cause" or after a severance payment of two month's wages per year on the job. In 1966, Law 5107/66 established the Unemployment Guarantee Fund (FGTS), a welfare initiative intended as an alternative to the tenure system (sec. 9, Decree No. 1382). It has since become compulsory. The FGTS system required employers to deposit 8% (8.5% since September 2001) of each employee's formal monthly wage into an account managed by a state bank on behalf of the employee. Deposits are adjusted for inflation and an annual interest rate.

Any employee unfairly dismissed under FGTS is entitled to withdraw a proportion of the FGTS balance accumulated while he or she was at the firm. Originally fixed at 10%, the 1988 Constitution increased the penalty amount to 40% of the balance (art. 7(I), FC). Legislation passed in 2001 increased the fine for unjustified dismissals to 50% of the FGTS balance, with the extra 10% paid by the firm directly to the government (not the worker) (Complementary Law 110). This holds even where the termination is indirect (constructive), produced by mutual fault, through force majeure, or if the normal expiry of the contract is confirmed (including in the case of temporary workers). The employer is obliged to pay even if the worker has not collected wages (sec. 9, Decree No. 1382). All payments are made without prejudice to any legal proceedings that may follow dismissal and respecting the minimum limit of 60 per cent of the compensation prescribed by the CLL (sec. 14(2), Act No. 8036).

For those workers who had acquired the right of security of tenure after ten years of service *before* the adoption of the Constitution in 1988 the CLL is still applicable and prohibits dismissal except on account of a serious offence or force majeure (sec. 492, CLL, and sec. 14, Act No. 8036 of 11 May 1990), as well as providing other guarantees for security of employment prescribed by law.

Non-permanent employees who have not chosen to participate in the FTGS remain governed by the provisions of the CLL, under the following terms (*secs. 477, 478 and 497, CLL, and sec. 14(1), Act No. 8036*):

- compensation is based on the highest remuneration which the employee has received in the undertaking (*sec. 477, CLL*);
- compensation for the cancellation of a contract of indeterminate duration must be equal to one month's remuneration for each year of actual service or any fraction of a year exceeding six months;
- if the wages are paid by the day, compensation is calculated on the basis of 30 days;
- if the wages are paid by the hour, compensation is calculated on the basis of 240 hours a month;
- if the worker is paid by commission or entitled to a supplement, compensation is calculated on the basis of the average amount of the commission or percentage received during the last 12 months of employment;
- if the worker is employed at piece rates or by the job, compensation is calculated on the basis of the average time usually spent by the person concerned in the performance of his or her task, according to the work which would be done in 30 days (*sec. 478, CLL*); and,
- in the case of contracts for which a time limit has been fixed, if the employer dismisses the worker without a valid reason, he or she is obliged to pay the worker, by way of compensation, a sum equal to half the remuneration to which he or she would have been entitled on the expiry of the contract. For the purpose of the application of the legislative provisions, the variable or uncertain part of the wages is to be calculated in the manner prescribed for the calculation of the compensation payable for the cancellation of a contract of indeterminate duration (*sec. 479, CLL*).

Avenues for redress

Pursuant to *sec. 643* of the CLL, disputes arising out of relations between employers and employees should be settled by the labour courts. The Labour Appeal Court, regional labour courts, and the

conciliation and arbitration boards or the courts of ordinary jurisdiction have jurisdiction (*sec. 644, CLL*). Recourse to the labour courts is compulsory, without exemption, except for good and sufficient reason (*sec. 645, CLL*). The conciliation and arbitration boards are competent to judge and settle (among others) disputes in which the recognition of the security of tenure of the employee is claimed and disputes relating to compensation for the cancellation of a contract of employment (*sec. 652, CLL*).

The regional courts, on the other hand, are responsible for conducting conciliation proceedings and handing down judgement in the last instance on appeals against decisions of the conciliation and arbitration boards and the ordinary courts dealing with labour matters (*sec. 678(1)(c), CLL*).

In terms of remedies, if both parties are to blame for the act which brought about the termination of employment, the labour court may reduce the compensation to half the amount which would otherwise be due (*sec. 484, CLL*).

CHINA

The relevant law on termination of employment in China is contained primarily in the Labour Law of the People's Republic of China, 1994 (the "Labour Law"), which came into effect in January 1995, and in 17 regulations pertaining to Labour Law promulgated in 1994. Twelve years after the promulgation of the Labour Law in 2006, a bill of Labor Contract Law, which has a separate chapter and more detailed provisions for termination of the employment contract, was brought before the National People's Congress. However, at the time of writing of this study, it has not passed yet. The most important of these regulations as regards termination of employment are the Circular of the Ministry of Labour on the Provisions on Personnel Reduction due to Economic Reasons in Enterprises (No. 447) and the Circular of the Ministry of Labour on the Measures of Economic Compensation for the Violation and Revocation of Labour Contracts (No. 481).

In addition, some provisions applicable to employment termination were contained in the Provisional Rules on Dismissal of Workers Violating Labour Discipline in State-Owned Enterprises, 1986 ("the Rules"). However, in 2001, this Rule was invalidated by the Decision of State Council on Abolishing some Administrative Regulations and Rules Promulgated before the End of 2000, (No. 319, Oct. 6,

2001). The reason for its abolition is that it has been replaced by the Labor Law and Unemployment Insurance Regulation.

In addition to law and administrative regulation, the local people's congress and the governments of provinces, autonomous regions and municipalities may (and most of them do) issue detailed measures and rules for the implementation of the Labour Law. Such detailed measures are promulgated based on the Labour Law, with changes and specific details made in light of local conditions. Thus, in practice when dealing with labour or employment matters in China, reference should always be made to the administrative regulations and local regulations in addition to the Labour Law.

Although China is not a case law country, the judicial interpretation of the Supreme Court plays a de facto role of law and has binding effect on courts at every level. In case of termination of employment, the judicial Interpretation of the Supreme Court on Application of Laws in Trial of Labour Dispute Cases (1) and (2) are concerned.

The enactment of the Labour Law heralded a new dawn for industrial relations in China and must be viewed within the context of increasing economic and political change. Since the 1970s, new policies have been introduced promoting economic reform and efficiency, which in general means relinquishing governmental control and increasing privatization of industry and foreign investment. The impetus away from communist-type State control of employment has brought with it significant and new problems for industrial relations and security of employment as private employers gain increased autonomy in the workplace. The new initiative is a radical change from the previous traditional framework which was based on the premise that the economic system was run as a single, large State enterprise.

Scope of legislation

The Labour Law applies to all categories of employees (except public servants, employees of institutions and social entities (who are treated in accordance with public servant regulations), agricultural workers, those actively serving in the army, family nurses, and apprentices of a self-employed person) and enterprises. The Rules apply only to employees of the State and act as a supplement to the Labour Law. Although this study focuses on the examination of principles of dismissal in relation to the private sector, consideration of employment in the State sector is relevant in the case of China because of the tradition of all employment being considered as State employment.

Contracts of employment

There are three types of firms in the traditional industrial structure, the largest group being state-owned enterprises. Under the traditional industrial scheme there are two categories of employment: permanent (or lifelong) employment and temporary employment, with the former comprising the overwhelming majority of employment relationships. Clearly, therefore, security of employment is less of an issue under the traditional structure. Termination of "lifelong" employment was subject to the official approval of the State (the "iron rice bowl").

The new policies have placed severe constraints on the ability of the traditional labour system to protect workers' rights and have created the need for new labour legislation to cope with these changes, particularly in relation to the power to dismiss workers. A central feature of this radical change has been the creation of a contract system whereby workers are engaged for an indeterminate period of at least one year under written contracts. However, there are no minimum requirements for the duration of labour contract as regards the probationary period. It is provided that if the duration of the labor contract is less than six months, the probationary period shall be no more than fifteen days.

In some instances, however, the concept of permanent employment still applies, even in firms where some workers are employed under written contracts. It is provided that the employer has the obligation to conclude an indefinite-term labor contract with an employee if he/she has been working in the same employing unit for ten years or more; provided, however, that the parties concerned agree to extend the term of the labor contract and the employee concerned asks to do so (Sec. 20, Labour Law). Probationary periods are permitted up to six months (Sec. 21, Labour Law).

Termination of employment

There are three types of termination of employment: termination on agreement, dismissal by the working unit (in the discourse of Chinese law, working unit means employer), and terminating the labor contract unilaterally by the employee.

Employees must also give 30 days' notice before leaving (*sec. 31*, Labour Law). However, if there is any one of the following circumstances, the employee may notify the employer at any time to revoke the labor contract: (1) within the probation period; (2) where the employing unit forces the laborer to work by resorting to violence, intimidation or illegal restriction of personal freedom; or (3) failure on the part of the employing unit to pay labor remuneration or to provide working conditions as agreed upon in the labor contract (*sec. 32*, Labour Law).

If the employee breaches the labour contract by illegally terminating employment, he or she shall compensate the enterprise for economic loss resulted from this breach (*Sec 102*, Labour Law).

Dismissal

Dismissals unilaterally made by an employer can be categorized as "unfair dismissal" (*Sec. 29*), "summary dismissal" (*Sec. 25*, or disciplinary dismissal), "normal dismissal" (*Sec 26*) and "economic dismissal" (*Sec. 27*).

Although there is no broad principle requiring that all dismissals be effected for a valid or just reason, and the term "unfair dismissal" is not specifically mentioned, the employer does not have the freedom to terminate employment at will in all circumstances. The law has created specific categories of dismissals which will be considered to be invalid. Thus, under *sec. 29* of the Labour Law, a claim of unfair or illegal dismissal would be successful where the worker is dismissed:

- for reasons of incapacity to work due to disease or injury suffered at work;
- where the worker is in receipt of medical treatment; or,
- in the case of a woman worker, during pregnancy or the puerperal or breast-feeding period.

In addition, it should be pointed out that the Labour Law is open-ended because under *sec. 29* it envisages "other circumstances stipulated by laws, administrative rules and regulations". As this is very recent legislation, it is reasonable to assume that other categories of "unfair dismissals" will be created in the future in accordance with this section and in light of the declaratory principles of the law, which state that the aim is "to protect the legitimate rights and interests of labourers, ... and promote economic development and social progress" (*sec. 1*, Labour Law). The concept of the right to work is also specifically mentioned under *sec. 4* of the Labour Law, but this appears to be merely declaratory.

The list of automatically illegal reasons for dismissal under *sec. 29* is very brief and excludes reasons such as trade union membership and subject matters in respect of which it would be discriminatory to dismiss.

As regards dismissal on grounds of membership in a trade union, it is prohibited by the Trade Union Law, Sec 52, and the remedies for this unfair dismissal may include reinstatement.

Nevertheless, in relation to the latter, the broad principle enshrined under *sec. 12*, which prohibits discriminatory practices in employment on the basis of ethnicity, race, sex or religious belief, can, in accordance with the fundamental principles of the law, be read as prohibiting dismissals which are discriminatory.

Certain categories of dismissal are explicitly stated to be fair under Chinese law. Such dismissals may be effected without notice in some instances.

Dismissal without notice, akin to the concept of "summary dismissal" under the common law, is provided for under *sec. 25* of the Labour Law. This is restricted to serious violations of "labour discipline", or the rules and regulations of the employing unit, or causing "great losses to the employing unit due to serious dereliction of duty or engagement in malpractice for selfish ends". Where the worker is being investigated in connection with a crime, he or she may also be dismissed without notice.

Probationary employment may be terminated where the employee fails to fulfill the required standards for work.

Sec. 27 of the Labour Law also makes provision for collective dismissals in redundancy situations. The grounds for such dismissals are narrowly defined. The employer may make a reduction in the workforce where the employing unit "comes to the brink of bankruptcy or runs into difficulties in production and management, and if reduction of its personnel becomes really necessary".

A limited attempt is made to alleviate the negative consequences of dismissal from employment. In the case of redundancy situations, priority for re-employment must be given to redundant employees where the employing unit recruits personnel up to six months after the redundancy. Further, employees who have been dismissed or disabled due to work-related injury or disease are entitled to social insurance benefits.

Notice and prior procedural safeguards

It is compulsory that notice be given for certain categories of dismissals. This is merely a procedural safeguard and does not affect the employer's right to dismiss the employee in such circumstances. Notice is required where the worker is:

- unable to continue his or her original work after illness or injury not suffered at work;
- not qualified for the required work; or
- unable to reach agreement with his or her employer on the modification of the labour contract when its objective conditions have changed.

The notice period for such categories of dismissal is 30 days (*sec. 26, Labour Law*).

Also important, in practice, are the serious social restraints on dismissal. For workers in State enterprises, their work unit provides a variety of services, and dismissal involves much more than the loss of a job. However, with the development of the Social Security system and social services, the impact of dismissal is not as severe as before.

There is a requirement that the appropriate trade union and workers be consulted and their opinions sought on proposed collective dismissals. Further, the labour administrative department must be informed although there is no need for prior authorization. A notice period of 30 days is required for consultation in relation to redundancy.

In case of individual dismissal, the Trade Union Law provides that the enterprises shall first inform the union (Sec. 21).

Several provisions provide regulations on: payment of compensation where the worker is unqualified for the position, where the employing unit breaks a labour contract, or in the event of personnel reduction.

The 1994 Circular on Personnel Reduction reinforces the provisions of the Labour Law and reiterates that reduction of personnel is only permissible when the employer is on the brink of bankruptcy or deep into difficulties in production and management. This Circular also requires employers to explain the situation to the trade union and workers 30 days in advance, and consult on a plan of personnel

reduction. Certain employees may not be retrenched, including victims of occupational accidents, pregnant employees or workers on sick leave.

Severance pay

Where the employee has been dismissed for economic reasons or in accordance with the provisions of *sec. 26* (see above), the employer is required to provide economic compensation. This is also the case where the employee's contract is terminated by agreement under *sec. 24*. No compensation is granted where the employee is dismissed for violation of labour discipline or where he or she neglects his or her duty or engages in malpractice.

Remedies for individual dismissal must be in the form of damages as there is no provision for reinstatement. However, as mentioned before, *Sec. 52* of the Trade Union law provides for reinstatement. In cases of dismissal during the period of pregnancy, the judgment of reinstatement is common.

In the case of collective dismissals, a redundancy payment is made. Since the law allows compensation for dismissals due to agreement and for frustration of the contract, it may be more accurate to describe this type of compensation as a severance payment. The basic rate of economic compensation is one month for each year of service.

Avenues for redress

Under *sec. 30* of the Labour Law, a worker has the right to appeal his or her dismissal to arbitration, or take legal proceedings where arbitration is unsuccessful (*sec. 77*). The avenues for redress include consultation, mediation, arbitration and litigation.

Similar provisions are also found under *sec. 5* of the Rules in relation to State employees. Arbitration is effected by means of labour dispute arbitration committees, comprised of representatives from the labour administrative department, the trade union and the employing unit, which have the power to make arbitration awards or binding decisions. The committee is obliged to follow the principles of legality,

fairness and promptness. However, the employee retains the right to bring a case to the People's Court at any stage of the proceeding. Where the employee wishes to appeal to the People's Court against a decision from the arbitration committee, he or she must do so within 15 days.

ITALY

Within the broad principle of protecting freedom of enterprise, as protected by the Italian Constitution, a body of protective legislation and legally enforceable collective agreements has evolved which gives considerable protection against dismissal to employees.

Contracts of employment for manual and white-collar workers are regulated mainly by the Italian Civil Code (CC) as amended by several pieces of legislation relevant to employment affairs. The most important on dismissal are: Act 604 (15 July 1966) on Individual Dismissals as amended by Act 108 (11 September 1990) and Act 300 (20 May 1970) on Workers' Protection (often referred to as the Workers' Statute) as amended by Act 108. For collective dismissals, Act 223 (23 July 1991) is also an important statute. For managerial employees the most important provisions are laid down in their national collective agreements.

Collective agreements are of considerable importance in Italy and almost all employees except for those employed in very small businesses are covered by collective agreements. Industry-wide agreements concluded between the main trade union confederations and the relevant employers' associations for a particular sector are binding on all employers and all manual and white-collar employees in that sector irrespective of whether they have been directly or indirectly involved in the drawing up and ratification of that agreement. The onus is on the employer to comply with the terms and conditions of the agreement and with any procedures and provisions relating to termination of the contract of employment which may improve upon basic statutory minima.

Even inter-union agreements drawn up in the form of recommendations or codes of practice without the ratification of the employers may have relevance in practice and in law. For example, the inter-union agreement of 5 May 1966 on collective dismissal, until recent changes in the law, was seen by the courts as a standard of practice for employers.

Scope of legislation

The CC and Acts 300/1970 and 604/66 cover manual and white-collar workers. Labour law is concerned only with the private sector, and is traditionally clearly distinguished from the law on public employment.

Act 108/1990 providing mandatory protection against dismissal does not cover domestic workers, executives and employees aged over 60 years who are entitled to an old-age pension but who have opted to work until age 65.

Concerning remedies, the employee is entitled to payment of damages but also reinstatement in his or her job. Act 108 also extends these remedies to workers in non-commercial organizations employing more than 15 people (or more than five if operating in the agricultural sector) in the same production unit or same locality, and provides arbitration for workers in establishments of fewer than 15 employees. Finally, the remedies were extended by Act 108 to those employees in any enterprise (commercial or not) with 60 or more employees.

Contracts of employment

The basic definition of employment contracts, laid down in the CC (*sec. 2094*), refers to a subordinate employee as being a worker who has engaged himself or herself to cooperate for remuneration in an enterprise by working manually or intellectually under the direction of the entrepreneur.

By law, any contract of employment which is not permanent and full-time is considered to be special. Special employment contracts are regulated by appropriate legislation and are permissible either as part of a job-creation scheme or because they are inherent in the nature of the work involved. Other special employment contracts apply to domestic work and work undertaken by building caretakers. The main types of special contracts of employment are as follows: apprenticeships, part-time, solidarity contracts (these are intended to assist in maintaining employment during periods of business difficulties), “work-training” contracts, fixed-term contracts and contracts for managers (*dirigenti*).

Fixed-term contracts are considered an exception to indefinite employment and the contract of employment is considered indefinite except in cases specified by legislation (Act 230 of 1962). The permitted cases of fixed-term work include seasonal work, replacement of ill employees or employees on

maternity leave, and extraordinary or occasional work. In addition, following recent legislation, collective agreements may provide for further permitted cases (Act 56 of 1987). However, legislation still provides for maximum durations of fixed-term contracts, and limits the situations in which they can be used. Until recently, a breach of legislative requirements on fixed-term contracts led to employers typically being required to employ the employee indefinitely. Recently, however, Act 196 of 1997 has limited this sanction to ongoing violations. If employment continues for ten days beyond the expiry date, the employer is liable to pay 20 per cent extra remuneration; for 20 days beyond the expiry date, 40 per cent extra; and only then is the contract required to be converted into an indefinite one. A fixed-term contract will also be deemed to be indefinite if the employee is rehired after less than either ten or 20 days from its expiry (ten days for contracts of less than six months' duration; 20 days for contracts of six months' duration or more).

Act 196 of 1997 also deals with the restriction on temporary work and regulates temporary work agencies. The use of temporary work is permitted, but only in limited instances, such as the replacement of absent workers and where permitted by collective agreements. The Act also identifies a number of cases in which temporary work is prohibited, including in dangerous work, to replace strikers, and in firms shedding labour where the employees hold the same qualifications as those to be recruited on a temporary basis.

“Work-training” contracts are also permitted for young workers who also receive training, for a duration of up to two years.

Probationary periods must be specified in writing. Service under probation is added to the employee's length of service once the contract is made permanent. Probationary periods can last between 12 days and six months, depending on job grade.

Termination of employment

The different ways in which a labour contract can come to an end are enumerated and regulated in part by the general law of contract and in part by specific provisions of labour law. The application of the general principles of the civil law to the labour contract has been progressively reduced as a consequence of the emergence of more detailed special provisions. The basic trend of these provisions is to promote the stability of employment in favour of the employee, restricting in various ways the possible grounds for dismissal.

An individual fixed-term contract may be terminated when the contract expires or when the tasks for which the contract was drawn up are completed. An indefinite contract may also be terminated if the company ceases doing business completely (not where the employer merely changes activity), by mutual consent, because of *force majeure* or the total incapacity of the employee, the withdrawal of one party without the consent of the other, or one party failing to fulfil the contract.

If withdrawal from the contract is due to the employee's resignation, then there are no legal restrictions, although most collective agreements stipulate periods of notice and that notice must be given in writing. However, any employee may resign with immediate effect in the circumstances specified in *sec. 2110* of the CC (such as non-payment of wages or social security contributions, closure of the enterprise, failure to be included within the category or grade corresponding to the work effectively being undertaken, refusal to grant holidays, the unilateral changing of the employee's duties with a corresponding reduction in wages, offences by the employer against the duty to safeguard the physical and psychological well-being of the employee under *sec. 2087* of the CC).

Dismissal

Limitations on the employer's freedom to dismiss were introduced by Act 604 (1966) for companies employing more than 35 people and extended to all organizations by Act 108 in 1990.

As far as fixed-term contracts are concerned, termination is automatic at the end of the specified duration or at the completion of the specified task (*sec. 2*, Act 230). Nevertheless, the employer may terminate the contract earlier for "just cause" (*sec. 2119*, CC).

Termination of a contract of indefinite duration by the employer (*sec. 1*, Act 604), on the other hand, is only possible for a "justified reason" and provided that the notice period is respected (*sec. 2118*, CC); or without notice for a just cause (*sec. 2119*, CC). Collective agreements frequently list the grounds for dismissal. Termination without grounds is limited to trial periods, domestic workers, employees who have reached retirement age and directors. For all dismissals an employer must make a severance payment (*trattamento di fine rapporto*).

Neither Act 604 nor Act 108 contain very precise definitions of just cause or justified motive. However, there is a body of case law which helps to clarify these concepts. "Just cause", in broad terms, requires

very grave conduct which, when evaluated both subjectively and objectively, constitutes a serious and irremediable breach of the contract of employment (*sec. 2119, CC*). Whether such a breach has occurred would normally have to be determined ultimately by a court, taking all relevant factors into account.

Justified reason is defined as the obvious failure of the employee to fulfil contractual obligations; or reasons inherent in the production process, the organization of work or the smooth running of the undertaking (*sec. 3, Act 604*).

Any dismissal will be deemed automatically unfair unless it is for just cause or justified motive, and the correct procedures have been followed. The burden of proof lies with the employer.

There are a number of provisions protecting individual categories of employees, which will render their dismissal automatically unfair; for example, dismissal on the grounds of political opinion, trade union membership, sex, race, language or religious affiliation will automatically be unfair, and members of workers' committees may not be dismissed or transferred for one year following the cessation of their duties on the committee without the authorization of the relevant regional trade union organization. Discriminatory dismissals (*sec. 3, Act 108*) are considered null and void. Reinstatement of these workers is mandated by law. This law also applies to directors and domestic workers. Dismissal on the grounds of pregnancy, if the dismissal takes place between the conception and the end of the female employee's statutory period of absence on confinement leave or unpaid leave, until the child reaches one year of age, is specifically prohibited. Dismissal on the grounds of marriage is also prohibited. Protection against unfair dismissal of managerial employees is regulated by collective agreements.

Act 223/1991 on collective dismissals applies to all employees except managers in firms employing more than 15 people (five employees in the agricultural sector). All dismissals in firms of fewer than 15 employees are regulated by the law on individual dismissals even if they take place together. A collective dismissal is defined as a change in employment levels caused by a reduction in, or change of, activity involving five or more employees in a single unit of production over a period of 120 days or five employees in several units belonging to a single employer within a province. The law also covers job losses in firms which cease doing business entirely.

Notice and prior procedural safeguards

There are no specific procedures for termination on the grounds of just cause, and notice is not required. Dismissal for justified motive, however, must be in writing. The employer must wait for five days, during which the employee has the right to be heard, before dismissal. The employee is entitled to ask the reason for dismissal within 15 days and the employer must reply within seven days. In cases of disciplinary dismissal, the conciliation procedures laid down in *sec. 7* of the Workers' Statute must be followed. The section states that an employee can request, via his or her trade union, that his or her case be heard by a conciliation and arbitration tribunal. Failure to observe the correct procedures renders the termination null and void.

According to *sec. 2118* of the CC, either party may terminate a contract of unspecified duration by giving the required notice as specified by existing regulations or customs and practice or according to the principles of equity (see however the reference to the need for a "justified reason" above). Either party failing to give the required notice becomes liable for a payment equal to the remuneration which would have been paid during the period of notice. The employer must also make such a payment in lieu of notice in cases where the employee dies in service. The length of periods of notice is governed largely by collective agreements at the national industry level and varies according to the sector, category of employee and length of service.

The notice period runs from the first day of the month following that in which the notice is received by the employee.

To initiate redundancy procedures, companies must inform employee representatives and the appropriate industry union in writing of their intention. Where there are no local representatives, the company must notify full-time officials in the relevant union(s). The company must also notify the labour authorities. Within seven days of union representatives being informed, the parties must conduct a joint examination on the reason for the surplus labour and proposed dismissal, and the possibility of redeployment, use of solidarity contracts or the introduction of flexible working time to forestall dismissals.

These discussions may last for up to 45 days from the receipt of the initial communication by the employee representatives. The period may be halved if fewer than ten jobs are at risk. If no agreement can be reached, the labour authorities will attempt conciliation. Following the attempts to mitigate dismissals,

the company and the employee representatives will move to conclude an agreement on measures for those faced with redundancy. This procedure has two elements: (a) an order of priority in the choice of workers; and (b) an obligation to rehire the discharged workers if the employer intends to fill the same jobs within one year. Dismissal may only occur as a last resort. However, the employer's economic grounds, if genuine and objective, may not be reviewed.

Severance pay

The use of the indemnity has been made flexible to some extent. Act 233 provides that a maximum of 70 per cent of the indemnity acquired can be requested in advance given certain conditions (e.g. minimum eight years of seniority, no prior requests) for certain expenditures and purchase of initial residence.

Since 1977, a scheme of severance pay has existed by law. It is partially protected against inflation. Employees are entitled to a severance payment for any termination of contract based on the formula of a year's salary divided by 13.5, plus 1.5 per cent for each year's service plus compensation for inflation. It is payable whenever an Italian employee leaves his or her job for whatever reason, and is based on length of service with the company. Instead of assessing it on the basis of the last wage multiplied by the years of service, Act 233 provides that every year a certain amount of wages is set aside to be paid upon termination.

At the termination of employment, whatever the method used to effect it, the worker is entitled to receive from the employer, in addition to any other sum of money, a special allowance called seniority indemnity. This indemnity is peculiar to Italian law and has undergone long evolution.

Avenues for redress

An employee wishing to contest a dismissal must do so in writing within 60 days of receiving notice of dismissal (Act 604). Act 108/1990 empowers the judge to order reinstatement in cases of unjustified, discriminatory or formally vitiated dismissal. Discriminatory dismissals because of union activity or affiliation can also be attacked through the special procedure of *sec. 28* of Act 300 of 1970.

Employers employing more than 15 employees (or five in the agricultural sector) in each establishment, branch, office or autonomous department, and employers employing more than 60 workers, wherever

located, are liable for reinstatement of the employees and payment of damages equal to a minimum of five months' pay. Alternatively, the employee can refuse reinstatement and request payment of damages equal to 15 months' pay. If the employer invites the employee to return to work and the employee does not take up the offer within 30 days, the contract is automatically terminated.

Where there are fewer than 15 employees in each unit or fewer than 60 employees in total, the case cannot come before a magistrate unless conciliation has been requested beforehand according to the procedures laid down in collective agreements or in *secs. 410 and 411 of the Code of Civil Procedure*.

Should attempts at conciliation fail, either party can request within 20 days that the matter be referred to arbitration. If the matter is still unresolved and the court finds the dismissal unlawful, the employer must reinstate the employee within three days or pay damages: a minimum of two-and-a-half months' pay up to a maximum of 14 months' pay. In these cases, the employer can choose between reinstatement and compensation.

Under the Workers' Statute any employer who refuses to comply with a magistrate's reinstatement order must continue to pay the employee his or her full remuneration until the employer complies. If the unfair dismissal is in connection with the employee's trade union duties, the employer is liable to pay an additional day's pay for every day of non-compliance. The employer may immediately lodge an appeal against the decision to reinstate.

MALAYSIA

The central pieces of legislation governing the termination of employment in Malaysia are the Employment Act, 1955 (as amended) (EA), the Industrial Relations Act, 1967 (as amended) (IRA), and the Employment (Termination and Lay-Off Benefits) Regulations, 1980 (as amended). In addition, the common law, as developed by Industrial and Appeal Courts, is an important source of law. Collective agreements and individual contracts of service may also be additional sources of regulation.

Scope of legislation

The EA applies to all employees, irrespective of their occupation, who are paid less than a specified rate (First Schedule, EA, as amended by the EA Amendment Act, 1980). In 1955, the EA's scope of

application was limited to the West Malaysia. In 2000, it was extended to the Federal Territory of Labuan (sec. 1, EA).

The IRA applies to all “workmen” and defines “workman” widely, to include any person employed by an employer under a contract of employment, including apprentices (sec. 2, IRA).

The Employment (Termination and Lay-off Benefits) Regulations apply to all employees with at least one year of service, except outworkers (*secs. 3 and 7* of the Regulations).

Contracts of employment

The EA defines the contract of employment as “contract of service, which means any agreement, whether oral or in writing, whereby one person agrees to employ another as an employee and that other agrees to serve his/her employer as an employee and includes an apprenticeship contract” (sec. 2(1), EA). In each written contract of employment, a clause must be included setting out the manner in which such a contract may be terminated by either party (sec. 10(2), EA).

Fixed-term contracts are permitted in Malaysia, and must be in writing, if concluded for a period exceeding one month (sec. 10 (1), EA). In addition, the courts have been in charge of examining the non-renewal of contracts to ascertain if the reasons for non-renewal are genuine, in order to prevent employers from circumventing the applicable statutory protections.

In relation to probationary employees, case law has established that an employee continues as a probationer even after the expiry of the probation period, until the appointment is confirmed. A termination within the probation period will not be set aside, unless the probationer can show the employer acted with malice.

Termination of employment

Subject to the limitations discussed above, fixed-term contracts will terminate on the expiry of the term (*sec. 11*, EA).

Contracts of employment may also terminate through the employee giving notice (*sec. 12*, EA). Employees may terminate the contract without notice if they are ill-treated or exposed to a risk of disease or injury that they did not contract to undertake (*sec. 14(3)*, EA). The Malaysian courts also recognize the concept of constructive dismissal and will treat a resignation as a dismissal if the resignation is involuntary or under threat of dismissal.

Retirements are not considered dismissals for the purposes of statutory redundancy benefits (*sec. 4(1)(a)*, Employment Termination and Lay-Off Regulations, 1980).

Dismissal

Each party to a contract of employment may at any time terminate such employment by giving notice to the other party (*sec. 12(1)*, EA).

While the relevant statutes do not set out a detailed prohibition against unfair dismissal, the courts have used the existence of the statutory remedy of reinstatement to develop a principle against dismissals, unless they are based on a “just cause”.

Dismissals are possible for operational reasons, provided the requisite notice periods are complied with (*sec. 12(3)*, EA, as amended). The courts have refused to interfere with the employer’s prerogative to retrench workers, provided the retrenchment decision is bona fide and not taken to victimize the employee.

If an employee is absent for more than two consecutive working days, without leave or reasonable excuse, then his or her employment may be terminated (*sec. 15*, EA, as amended).

The courts have required employers to operate the “last on, first off” principle when retrenching employees, unless there are sound and valid reasons for departing from this principle. In addition, for retrenchments, there is statutory severance pay which must be paid (see below).

Dismissals on the grounds of misconduct are possible without notice, but only after “due inquiry” by the employer (*sec. 14*, EA).

Pursuant to the IRA, it is unlawful to dismiss an employee for trade union membership or activities (*sec. 5(1)(d)*, IRA).

Notice and prior procedural safeguards

Statutory notice periods, applicable to all dismissals, including those for operational reasons, but except dismissals for misconduct, are as follows (*sec. 12(2)*, EA, as amended):

- four weeks for employees with less than two years of service;
- six weeks for employees with two to five years of service; and
- eight weeks for employees with more than five years of service.

These provisions are merely statutory minima, and it is open to employers and employees to agree on greater periods of notice, which must be determined in writing in the contract of employment.

Either employers or employees may make a payment in lieu of notice (*sec. 13*, EA, as amended).

In case of misconduct, employees are entitled to receive due inquiry before being dismissed. However, the courts have held that any defect in an internal inquiry held by the employer can be “cured” by the court, provided there is a substantial reason for the dismissal.

Domestic workers are governed by separate provisions of the EA (*sec. 57*, EA): domestic workers can be dismissed on 14 days’ notice, or payment in lieu of notice, or without notice in the event of conduct “inconsistent with” the terms and conditions of their employment contract.

Severance pay

The Employment (Termination and Lay-Off Benefits) Regulations, 1980, provide for statutory severance pay in the event of terminations for operational reasons or performance, on the following scale (*sec. 6(1)*):

- ten days’ wages for each completed year of service of less than two years;

- 15 days' wages for each year of two to five years' service; and
- 20 days' wages for each year of service exceeding five years.

These Regulations apply to employees with more than one year's service (*sec. 3(1)*) and, again, set out statutory minima only, which the parties are free to increase by agreement. They do not apply to:

- dismissals for misconduct, after due inquiry;
- terminations upon the employee attaining retirement age; or
- voluntary terminations by the employee (*sec. 4*).

Avenues for redress

An employee covered by the IRA may complain to the Industrial Relations Department and seek reinstatement if his or her dismissal is not for a "just cause" (*sec. 20(1)*, IRA, as amended). The Industrial Relations Department then may attempt to settle the dispute, including by conciliation. If no settlement is possible, the Department will report the matter to the Minister, who may refer the matter to the Industrial Court. The Industrial Court may award either reinstatement or compensation (including one month's wages for every year of service). In practice, the Court has not often awarded reinstatement and has stated it will not order reinstatement if this would not be in the interests of industrial peace in the establishment. There is a limited right of reference to the High Court for questions of law which arise during proceedings in the Industrial Court, if the Industrial Court elects to refer the question. The decision of the High Court on any question of law so referred is final and binding.

Alternatively, an employee can proceed in the civil courts in an action for wrongful dismissal.

Employees may also seek unpaid wages or notice payments in the Labour Court, and retain the right to bring proceedings, such as for breach of contract or wrongful dismissal, in the civil courts.

PHILLIPINES

There is a hierarchy of sources of law concerning termination of employment in the Philippines. *Art. 2 (18)* of the Constitution affirms labour as a primary social and economic force and mandates the State to protect workers' rights and welfare. Workers have the right to security of tenure under *art. 13 (3)* of the

Constitution. Pursuant to these guiding principles, Book Six of the 1974 Labour Code (LC), as amended, sets out specific provisions governing termination of employment (*arts. 278-287, LC*). Moreover, there are Rules and Policy Instructions for implementing the provisions of the LC on questions of termination of employment. The Civil Code (CC) is also applicable in certain situations.

Scope of legislation

The provisions of the LC governing termination of employment apply to all private sector employees, whether employed by a profit-making enterprise or not (*art. 278, LC*). The Civil Service Law, rules and regulations, however, cover those employed in the public sector.

Security of tenure (*art. 279, LC*) – the right not to be removed from a job without valid cause and procedure – extends to regular (permanent) and non-regular (temporary) employment, managerial and rank and file employees alike. Probationary employees also enjoy security of tenure.

Contracts of employment

Contracts of employment are imbued with public interest. There are four tests to ascertain the existence of an employer-employee relationship:

- Manner of selection and engagement;
- Payment of wages;
- Presence or absence of the power of dismissal; and
- Presence or absence of the power of control.

Of the four tests, the last one – control by the employer of the means, methods and manner by which the work is performed by the employee – is the most important.

Art. 280 of the LC provides for the following categories of employment:

- Project - where the employment has been fixed for a specific project or undertaking, the completion or termination of which has been determined at the time of the engagement of the employee;

- Seasonal - where the work or services to be performed is seasonal in nature and the employment is for the duration of the season; and
- Casual - where the employment is not covered by the foregoing, provided that an employee who has rendered at least one year of service, whether continuous or broken, shall be considered regular with respect to the activity in which he or she is employed and his or her employment shall continue while the activity exists.

Another category of employment recognized in jurisprudence is “term” or “fixed-period employment.” This is based on *art. 1193* of the CC, which states that obligations with a resolutive period take effect at once, but terminate upon arrival of the *day certain* – understood to be a day that must necessarily come. The decisive determinant in “term employment” should not be the activities that the employee is called upon to perform, but the *day certain* agreed upon by the parties for the commencement and termination of the employment relationship.

Stipulations in employment contracts providing for “term employment” or “fixed-period employment” are valid when the period has been agreed upon knowingly and voluntarily by the parties, without force, duress or improper pressure exerted on the employee, and when such stipulations were not designed to circumvent the laws on security of tenure.

Probationary employment is not necessarily a category of employment. It pertains to a period of time. Under *art. 281* of the LC, probationary employment shall not exceed six (6) months. An employee who is allowed to work after a probationary period shall be considered a regular employee. A probationary employee is, for a given period of time, under observation and evaluation to determine whether or not he or she is qualified for permanent employment. During the probationary period, the employer is given the opportunity to observe the skills, competence and attitude of the employee while the latter seeks to prove to the employer that he or she has the qualifications to meet the reasonable standards for permanent employment.

Termination of employment

Under *art. 3 (18)* of the Constitution, no involuntary servitude in any form shall exist except as punishment for a crime whereof the party shall have been duly convicted. In view of the prohibition on involuntary servitude, an employee is given the right to resign under *art. 285* of the LC. The provision

recognizes two kinds of resignation – without cause and with cause. If the resignation is without cause, the employee is required to give a 30-day advance written notice to the employer, to enable the employer to look for a replacement to prevent work disruption. If the employee fails to give a written notice, he or she runs the risk of incurring liability for damages. The same provision also indicates the just causes for resignation (with cause) –

- Serious insult to the honor and person of the employee;
- Inhuman and unbearable treatment;
- Crime committed against the person of the employee or any of the immediate members of the employee's family; and
- Other analogous causes.

In this second type of resignation, the employee need not serve a written notice.

Forced resignation is not allowed and is considered “constructive” dismissal – a dismissal in disguise.

Employee retirement is either voluntary or compulsory under *art. 287* of the LC.

Dismissal

An equality of rights exists between employer and employee. While the employer cannot force the employee to work against his or her will, neither can the employee compel the employer to continue giving him or her work if there is a lawful reason not to do so. Thus, the employer may terminate the services of an employee for just or authorized causes after following the procedure laid down by law, but the employer has the burden of proving the lawfulness of the employee's dismissal in the proper forum.

Just causes are blameworthy acts on the part of the employee such as serious misconduct, willful disobedience, gross and habitual neglect of duties, fraud or willful breach of trust, commission of a crime and other analogous causes (*art. 282, LC*).

Authorized causes are of two types – business reasons and disease. The business reasons are installation of labour-saving devices, redundancy, retrenchment and closure or cessation of operation (*art. 283, LC*). Before the employer can terminate on the ground of disease, he must obtain from a competent public

health authority a certification that the employee's disease is of such a nature and at such a stage that it can no longer be cured within a period of six months even with medical attention (*art. 284, LC; Implementing Rules of Book VI, LC*).

Those hired on a temporary basis, that is, for a "term" or "fixed period" are not regular employees, but are "contractual employees." Consequently, there is no illegal dismissal when their services are terminated by reason of the expiration of their contracts. Lack of notice of termination is of no consequence, because a contract for employment for a definite period terminates by its own term at the end of such period.

An illegal strike can be cause for termination of employment.

Employment is not deemed terminated when there is a bona fide suspension of the operations of a business or undertaking for a period not exceeding six (6) months, or when the employee fulfills a military or civic duty (*art. 286, LC*).

Under the Corporation Code (*sec. 80*), the surviving or consolidated entity in a merger or consolidation automatically assumes all rights and obligations, assets and liabilities of the combining entities. This includes obligations or liabilities under valid agreements, like labour contracts. The surviving or consolidated entity must, therefore, recognize the security of tenure and length of service of the workers of the merging or consolidating corporations. By the fact of merger or consolidation, a succession of employment rights and obligations occurs.

Notice and prior procedural safeguards

As stated above, dismissals based on just causes contemplate acts or omissions attributable to the employee while dismissals based on authorized causes involve grounds – business or health – allowing the employer to terminate. A termination for an authorized cause requires payment of separation pay. When the termination of employment is declared illegal, reinstatement and full backwages are mandated under *art. 279* of the LC. If reinstatement is no longer possible where the dismissal was unjust, separation pay may be granted.

Procedurally, (1) if the dismissal is based on a just cause under *art. 282* of the LC, the employer must give the employee two written notices and a hearing or opportunity to be heard before terminating the employment, that is, a notice specifying the grounds for which dismissal is sought and, after hearing or opportunity to be heard, a notice of the decision to dismiss; and (2) if the dismissal is based on authorized causes under *arts. 283* and *284* of the LC, the employer must give the employee and the Department of Labour and Employment written notices 30 days prior to the effectivity of the separation.

Severance pay

As already noted, separation pay is required to be paid to the employee when there is termination of employment by the employer for an authorized cause, the amount of which depends on the cause. If the termination is due to the installation of labour-saving devices or redundancy, the separation pay is one month's pay for every year of service or one month pay, whichever is higher (*art. 283, LC*). If the termination is due to retrenchment to prevent losses, or closure or cessation of operation of the establishment not due to serious business losses, or due to disease, the separation pay is one-half month's pay for every year of service or one month pay, whichever is higher (*arts. 283 and 284, LC*). However, there is no requirement for separation pay if the closure is due to serious business losses.

Avenues for redress

From the foregoing, four possible situations may be derived: (1) the dismissal is for a just cause under *art. 282* of the LC, or for an authorized cause – business reason under *art. 283* or health reason under *art. 284* – and due process was observed; (2) the dismissal is without just or authorized cause but due process was observed; (3) and there no process; (4) for a not observed.

In the first situation, the dismissal is undoubtedly valid and the employer will not incur any liability, save for separation pay when the dismissal is for an authorized cause.

In the second and third situations, where the dismissals are illegal, *art. 279* of the LC mandates that the employee is entitled to reinstatement without loss of seniority rights and other privileges and full backwages, inclusive of allowances, and other benefits or their monetary equivalent computed from the time the compensation was not paid up to the time of actual reinstatement.

In the fourth situation, the dismissal should be upheld. While the procedural infirmity cannot be cured, it should not invalidate the dismissal. However, the employer should be held liable for nominal damages for non-compliance with the procedural requirements of due process. If the dismissal is for an authorized cause, the employee is also entitled to separation pay.

Compulsory arbitration of illegal dismissal cases is conducted by the Labour Arbiters of the National Labour Relations Commission and their decisions are appealable to the Commission (*arts. 217 and 218, LC*).

In view of the stated preference for voluntary modes of settling labour disputes under *art. 13 (3)* of the Constitution and *art. 211* of the LC, voluntary arbitration of illegal dismissals is recognized on the basis of mutual agreement between the parties (*art. 262, LC*).

Compulsory arbitration is both the process of settlement of labour disputes by a government agency which has the authority to investigate and issue an award binding on all the parties, as well as a mode of arbitration where the parties are compelled to accept the resolution of their dispute through arbitration by a third party.

While a voluntary arbitrator is not part of the labour department, he or she renders arbitration services provided for under labour laws. Generally, the voluntary arbitrator is expected to decide only questions that are expressly delineated by the submission agreement. However, since arbitration is the final resort for the adjudication of disputes, the arbitrator can assume that he or she has the power to make a final settlement. Thus, assuming that the submission agreement empowers the arbitrator to decide whether an employee was discharged for just cause, the arbitrator can reasonably assume that his or her powers extend beyond giving a mere yes-or-no answer and include the authority to reinstate with or without back pay.

REPUBLIC OF KOREA

Termination of employment in the Republic of Korea is governed by:

- the Labour Standards Act (LSA), most recently amended in 2003;

- the Enforcement Decree of the Labour Standards Act (EDLSA) also amended in 2003, the Equal Employment Act (EEA), amended in 2001;
- the Trade Union and Labour Relations Adjustment Act (TULRAA), amended in 2001; and
- the Act on the Protection of Fixed-Term and Part-Time Employees (APE), adopted in 2006.

Scope of legislation

The LSA applies to all businesses and workplaces in which more than 5 workers are ordinarily employed. With respect to those enterprises with less than 4 workers, some of the provisions of the LSA apply as prescribed by a Presidential Decree. The LSA, however, excludes any business or workplace, which employs only relatives working together, and to a worker who is hired for domestic work (*art. 10, LSA*). In addition, the APE also applies to State and local government agencies regardless of the number of workers employed (*art. 3(3), APE*).

Contracts of employment

The term of a labour contract cannot exceed one year, except in cases where there is no term fixed or a term is fixed as necessary for the completion of a certain project (*art. 23, LSA*).

An employer may not hire a fixed-term employee for a period exceeding two years, except where (*art. 4, APE*):

- The period needed to complete a project or particular task is defined;
- There is a need to fill a vacancy in case of a worker's temporary suspension from duty or dispatch until the worker returns to work;
- The period needed for a worker to complete schoolwork or vocational training is defined; or
- A job requires professional knowledge and skills or is offered as part of the government's welfare or unemployment measures prescribed by a Presidential Decree.

However, if the employer hires fixed-term workers for more than two years, the fixed-term contract for employment will be considered as concluded for an indefinite duration (*art. 4, APE*). If an employer intends to make a Labour contract without a fixed term, he/she must make efforts to preferentially hire

fixed-term employees who are engaged in the same or similar kinds of jobs in the enterprise concerned (*art. 5, APE*).

An employer must not give discriminatory treatments against fixed-term employees on the ground of their employment status compared with other workers engaged in the same or similar jobs under a Labour contract without a fixed-term in the enterprise. Similarly, an employer must not give discriminatory treatments against part-time workers on the ground of their employment status compared with full-time workers who are engaged in the same or similar kinds of jobs in the enterprise (*art. 8, APE*).

In regards to child Labour, the LSA prohibits the ability of the parent or guardian to enter into a Labour contract on behalf of a minor. The parent and guardian of a minor, or the Minister of Labour may terminate a Labour contract, if a Labour contract is deemed disadvantageous to the minor (*art. 65, LSA*).

Termination of employment

The contract of employment can be terminated, not at the initiative of the employer, in certain circumstances, including by the expiry of a fixed-term contract (*art. 4, APE*).

If the conditions of employment are found to be inconsistent with the actual conditions, the worker concerned must be entitled to claim damages resulting from the breach of the conditions of employment or may terminate the contract at their discretion (*art. 26(1), LSA*).

Dismissal

An employer must not dismiss, lay off, suspend, transfer a worker, or reduce wages, or take other punitive measures against a worker without justifiable reason (*art. 30(1), LSA*).

Moreover, an employer must not dismiss any worker during a period of temporary interruption of work due to medical treatment of an occupational injury or disease and within 30 days afterwards (*art. 30(2), LSA*).

If an employer wants to dismiss a worker for “managerial needs”, there must sufficiently necessary grounds to do so, which can include, namely, transfer, acquisition, and merger of business which are aimed to avoid financial difficulties (*art. 31(1), LSA*).

There are several anti-discrimination and other provisions that seek to limit a hostile work environment and unfair dismissal. An employer must not discriminate against men or women in training, deployment and promotion (*art. 10*, EEA). Moreover, an employer must not take unfavorable measures such as dismissal, or other disadvantageous measures against a worker who was sexually harassed at work (*art. 14(3)*, EEA).

The employer must not also dismiss any female worker before and after childbirth during a period of temporary interruption of work as provided (*art. 30(2)*, LSA). Moreover, the employer must neither dismiss and give unfavorable treatment to a worker on account of taking childcare leave, nor dismiss the concerned worker during the childcare leave period (*art. 19(3)*, EEA).

In accordance with the TULRAA, employers must not dismiss or discriminate against a worker on the grounds that the worker has joined, or intended to join a trade union or to establish a trade union, or has performed a justifiable act for the operation of a trade union (*art. 81(1)*, TULRAA). Moreover, employers must not dismiss or discriminate against a worker on the grounds that the worker has taken part in justifiable collective activities, or has reported the violation of the provisions of this article by the employer to the Labour Relations Commission, or has testified about such violations or has presented evidences to administrative authorities (*art. 81(5)*, TULRAA).

Notice and prior procedural safeguards

An employer must give an advance notice to a worker at least thirty days before dismissal (*art. 32*, LSA). If the notice is not given thirty days before the dismissal, normal wages for more than thirty days must be paid to the worker, except in cases prescribed by the Ordinance of the Ministry of Labour, where it is impossible to continue a business because of natural disaster, calamity, or other unavoidable causes, or where a worker has caused considerable difficulties or damage to the enterprise (*art. 32*, LSA).

In addition to a notice requirement, in case of dismissals for “managerial needs” (economic reasons), the employer must send, 30 days in advance, a report to the Minister of Labour, which includes:

- the reason of dismissal; the number of workers to be dismissed;
- issues discussed with worker representatives; and
- dismissal schedule.

In endeavouring to avert dismissals and in establishing criteria for dismissal on economic grounds, the employer must have sincere consultation with the trade union, provided the trade union has been formed by the consent of the majority of employees, or with those who represent the majority of employees where the trade union does not represent the majority of employees. In this regard, notice is to be given to the union or workers' representative 60 days prior to dismissal day (*art. 31(3)*, LSA).

All these procedural requirements for collective dismissals for economic reasons apply depending of the size of the enterprise and the number of expected redundancies:

- more than 10 dismissals in an enterprise ordinarily employing less than 99 workers;
- more than 10% of workers to dismiss in an enterprise ordinarily employing more than 100, but not exceeding 999 workers; and
- more than 100 workers to dismiss in an enterprise ordinarily employing more than 1,000 workers (*art. 9-2*, EDLSA).

However, advance notice rules do not apply to workers who have been employed (*art. 35*, LSA):

- On a daily basis for less than three consecutive months;
- For a fixed period not exceeding two months;
- As a monthly-paid worker for less than six months;
- For seasonal work for a fixed period not exceeding six months; and
- As a worker in a probationary period.

An employer must make every effort to avoid dismissal of workers for “managerial needs” and as such must only select workers to be dismissed by establishing rational and fair standards of dismissal, which include non-discrimination based on gender (*art. 31(2)*, LSA).

When an employer who dismissed workers due to “managerial needs”, and intends to recruit workers within 2 years from the day of dismissal, he/she must make efforts to rehire those workers originally dismissed, if such workers desire, taking, in particular, into account the previous position of these workers (*art. 31(2)*, LSA).

Severance pay

An employer has to establish a severance pay system whereby an average wage of more than 30 days is paid to a worker for each year he/she has been employed as a severance pay when the worker retires. However, if the worker was employed for less than one year, this does not apply. Moreover, an employer may, at the request of the worker, pay severance pay in advance for the period of continuous employment of the worker concerned by adjusting the balances of remunerations before his/her retirement (*art. 34, LSA*).

If a worker dies or retires, an employer has to pay the wages, compensations, and other money or valuables within 14 days after the cause for such payment has occurred; however, the period, under special circumstances, may be extended by the mutual agreement between the parties concerned (*art. 36, LSA*).

Avenues for redress

In case of a dismissal by the employer without justifiable reason, the worker may request a remedy for it to the Labour Relations Commission, which hears matters, namely, relating to termination of employment contracts.

For such disputes, the Labour Relations Commission will conduct a necessary investigation and inquiry into related parties without delay. If, for example, a fixed-term worker or a part-time worker receives discriminatory treatments, he/she can apply for a redress to the Labour Relations Commission (*art. 10, APE*). Moreover, if a worker is dismissed, laid off, suspended, transferred, or subject to other punitive actions or has his/her salary reduced by an employer without justifiable reason, the worker may request a remedy for it to the Labour Relations Commission (*art. 81(5), TULRAA*). Finally, in case of unfair Labour practices, such as dismissal or discrimination, either a worker or trade union may make an application for remedy to the Labour Relations Commission (*art. 82(2), TULRAA*).

In conducting the inquiry, the Labour Relations Commission will give sufficient opportunities for the parties to present evidence and cross-examine the witness (*art. 10, APE & art. 83, TULRAA*). However, such an application for remedy from unfair Labour practices, discriminatory treatments, or unfair

dismissal must be made within three months from the date when such actions have been committed, or from the date of termination in cases where such activities continue (*art. 82(2)*, TULRAA & *art. 9*, APE).

An employer guilty of violating the law prohibiting trade union discrimination may be liable for a fine or imprisonment for not more than two years (*sec. 90*, TULRAA).

SOUTH AFRICA

There are four sources of law that regulate the termination of the employment relationship in South Africa: the Constitution, legislation, the common law and collective agreements.

Art. 23 of the South African Constitution entrenches several fundamental rights concerning labour relations. These rights apply to legislation and to the common law. They are also capable of being made applicable to employers and employees in the private sector.

The constitutional right to fair labour practices includes the right not to be unfairly dismissed. *Art. 39(1)* of the Constitution requires the courts or arbitration tribunals to “consider international law” when interpreting the provisions of the Bill of Rights. The courts have had recourse to the ILO Termination of Employment Convention, 1982 (No. 158), and Recommendation, 1982 (No. 166), when interpreting the right not to be unfairly dismissed.

Two pieces of legislation apply to the termination of employment: the Labour Relations Act (LRA) (No. 66 of 1995) and the Basic Conditions of Employment Act (No. 75 of 1997) (BCEA).

The constitutional right not to be unfairly dismissed is given effect to by Chapter VIII of the LRA, which provides a remedy for unfair dismissal. Schedule 8 of the LRA contains a “Code of Good Practice: Dismissal”. The Labour Courts and the Commission for Conciliation and Arbitration must take this Code into account when determining the fairness of a dismissal.

The BCEA sets minimum terms and conditions of employment including the notice of termination and the payment of a severance allowance.

In South African common law, a contract of employment is regarded as a species of lease. Accordingly, the common law rules on the cancellation of contracts of lease apply to termination of employment contracts.

Collective agreements are also a source of law regulating the individual employment relationship. The LRA provides a framework within which one or more trade unions and one or more employers or their organizations can collectively bargain to determine terms and conditions of employment. These agreements often include pre-dismissal procedures, periods of notice and post-dismissal procedures. Collective agreements may provide alternative procedures for processing unfair dismissal disputes.

Scope of legislation

The LRA which deals with the right not to be unfairly dismissed (sec. 185, LRA), applies to all employers and employees in both the public and the private sectors, with the exception of members of the defence force and the State intelligence agencies (sec. 2, LRA).

An “employee” is defined as “any person, excluding an independent contractor, who works for another person or for the State and who receives, or is entitled to receive, any remuneration” (*sec. 213*, LRA). Section 200A of the LRA sets out the ‘presumption as to who is an employee.’ This is a guideline to assist in determining who is an employee. This presumption does not apply to persons earning more than a certain amount determined periodically by the Minister of Labour (sec. 6 (3), BCEA).

The scope of the BCEA, which deals with the minimum period of notice and severance pay, is similarly limited except that there is an additional general limitation of scope (regarding unpaid volunteers working for charitable organizations) and several specific limitations in respect of merchant seamen (only the provisions on severance pay apply). Moreover, the BCEA does not apply to persons undergoing vocational training to the extent their terms and conditions are regulated by other laws, and employees who work less than 24 hours a month are not covered by the notice and severance pay provisions (*sec. 36*, BCEA).

The consequence of limiting the scope of the LRA means that there is no statutory remedy for an unfair dismissal of an employee falling within the excluded categories. However, because *art. 23(1)* of the

Constitution entrenches the right to fair labour practices for “everyone”, the unfair dismissal of such an employee may found a constitutional claim.

Contracts of employment

The validity of a contract of employment is governed by common law rules of contract. There must be an intention to contract, i.e. to create obligations. But the fact that parties intend to enter into a contract does not mean that the contract is valid. The parties must have contractual capacity. The performance undertaken must be possible at the time of contracting. The contract itself, its performance and purpose must be lawful. Finally, there must be compliance with any constitutive formalities.

The contractual arrangements between the parties are, to an increasing extent, in the formal sector, being embodied in written documents. In most cases, however, this is not a legal requirement. Thus a contract of employment may be concluded orally or in writing; and expressly or by implication. However, certain limited classes of contracts of employment must be in writing, such as contracts of apprenticeship and articles of clerkship. The BCEA requires employers (except those who employ fewer than five employees and employees who work for less than 24 hours a month or are domestic workers) to produce written particulars of certain terms and conditions of employment (*sec. 29*). However, an unwritten contract is still valid.

The BCEA lays down a wide range of minimum standards (e.g. dealing with hours of work, overtime, leave, sick leave, work on Sundays and public holidays). However, the parties to a contract of employment have the freedom to agree to terms and conditions of employment which are more favourable than those laid down by legislation. They are also generally free to agree on matters which are not regulated by statute.

A contract of employment may be concluded for a definite or an indefinite period, and it can provide for full- or part-time work as well as temporary work. However, under the LRA an employer who fails to renew a fixed-term contract, when a “reasonable expectation” that it will be renewed is held by the employee, is deemed to have dismissed the employee.

The provisions of the BCEA are deemed to be included in all contracts of employment unless the terms of other laws, or the contract itself are more favourable (*sec. 4*). Moreover, the Minister of Labour may

make a “sectoral determination” setting different minimum standards for specific sectors (*sec. 55*), and may deem categories of persons to be employees (*sec. 83*).

Termination of employment

The different ways in which a labour contract can come to an end are enumerated and regulated in part by the general law of contract (common law principles) and in part by specific statutory provisions of labour law. When a contract is entered into for a fixed period of time, it will automatically come to an end when the contract period expires. The parties to the contract can also agree on the automatic termination of the employment contract on the occurrence of a future event: for example, when the task or project for which the employee has been employed is completed. As a general rule, a contract of employment can also be terminated by mutual agreement of the parties. Moreover, the death (but not the illness) of the employee will lead to the end of the contract. However, in terms of common law, the death of an employer will not necessarily lead to the contract’s termination. A contract may also terminate by operation of law.

There is today a plethora of case law providing guidelines of circumstances in which dismissal would be considered an appropriate sanction.

Dismissal

“Every employee has the right not to be unfairly dismissed” (*sec. 185*, LRA). The LRA in section 186(1) defines dismissal and distinguishes between “automatically unfair dismissals” and “unfair dismissals” in sections 187 and 188. According to this legislation, any dismissal is unfair if it is based on an “automatically unfair reason”. A dismissal will also be unfair if it is not for a fair reason based on the employee’s conduct or capacity, or owing to the employer’s operational requirements, or if the correct procedures have not been followed. This is the case even if the dismissal complies with any notice period in a contract of employment or in legislation governing employment (*sec. 188* of the LRA and *sec. 2(1)* of the Code of Good Practice, Schedule 8 of the LRA).

Automatically unfair dismissals

In regard to automatically unfair dismissals, the question of fairness is decided irrespective of whether the employer has lawfully terminated the contract of employment at common law. *Sec. 187* of the LRA lists the automatically unfair reasons as follows:

- dismissal based on membership in a union or a workplace forum, or participation in lawful union activities or workplace forum activities;
- an employer's request that a person seeking employment shall not be or become a member of any trade union or workplace forum, or would have to give up such membership;
- dismissal based on participation in a strike in conformity with the LRA or the intention to participate in such a strike or to support it;
- dismissal based on the employee exercising a right under the LRA, or participating in any labour proceedings;
- an employer compelling an employee to accept a demand concerning a matter of mutual interest between the employer and employee;
- dismissal based on race, colour, ethnic or social origin, gender, marital status, family responsibilities, sexual orientation, religion, conscience, belief, political opinion, or disability, unless the reason for dismissal is based on an inherent requirement of the particular job;
- pregnancy or maternity; or
- dismissal based on age, unless the employee has reached the normal or agreed retirement age for employees in that capacity.

Unfair dismissals

Sec. 188 of the LRA stipulates that a dismissal is unfair where the employer fails to prove that the dismissal was effected for a fair reason. Fair reasons may be:

- connected with the employee's conduct;
- connected with the employee's capacity; (e.g. poor work performance, incompatibility) or
- based on the employer's operational requirements.

Substantive and procedural fairness

Dismissal must be for a fair reason (substantive fairness) and in compliance with a fair procedure (procedural fairness), which includes taking account of the Code of Good Practice. Participation in an illegal strike may also constitute a fair reason for dismissal. For a dismissal for operational requirements to be deemed a fair dismissal, the employer must, among other things, consult the affected employee and offer the employee a reasonable alternative to dismissal.

Sec. 189 of the LRA regulates dismissals on the grounds of the operational requirements of a business. Dismissals for economic, technological, structural or similar reasons are commonly collective dismissals.

Another principle that is applied in determining the fairness of a dismissal in South African law is that of consistency. This entails determining whether the employer has consistently applied the same standard in dealing with misconduct or breaches of his/her company code. Unjustified inconsistency on the part of the employer renders an employee's dismissal substantively unfair.

Notice and prior procedural safeguards

An employer seeking to dismiss an employee must observe the minimum *notice periods* as prescribed, *inter alia*, by *sec. 37* of the BCEA. According to this section, a party wishing to terminate a contract of employment must, during the first four weeks of employment, give the other party one week's notice. For employment of more than four weeks, but less than a year, two weeks' notice is required. For employment of more than a year (or more than four weeks for farm or domestic workers), the notice period is four weeks. An employer may make a payment in lieu of notice, but a contractual notice period required of an employee may not be longer than the period to be given to an employee. Collective agreements, but not individual contracts, may provide shorter notice periods than those stipulated by the BCEA.

Notice of termination may not be given while an employee is absent on leave, including sick leave; usually, it must be given in writing, except if an employee is illiterate. On termination of a contract of employment, the employer must furnish the employee with a certificate of service.

The Code of Good Practice appended to the LRA deals with some of the key aspects of individual dismissals for reasons related to “conduct” and “capacity” (*sec. 1* of the Code). Termination of employment due to operational requirements, if they involve collective dismissals, is not regulated by the Code (*sec. 7* of the Code).

Although special reference is made to probationary employees with regard to terminations on the grounds of “capacity”, the Code of Good Practice does not distinguish between temporary, casual or managerial employees.

The legislation provides consultation rights for trade unions, workplace forums and employees’ representatives when collective dismissals are contemplated. An employer is obliged to disclose in writing all relevant information for the purpose of consultation (e.g. reasons for dismissal, number of employees affected, period during which the proposed dismissals are to occur, proposed method of selecting employees for dismissal, assistance which may be rendered by the employer to the employees, possibilities of future employment and other alternatives to dismissals). The employer must also allow employees to respond, and in turn reply to the response of the workers’ representatives to these issues. If selection criteria for the dismissals have not been agreed to by the parties, the employer must follow fair and objective criteria. The employer’s failure to comply with these procedural requirements renders any dismissal unfair (*sec. 189, LRA*).

As far as misconduct is concerned, the Code of Good Practice demands that disciplinary rules should be adopted according to the size and nature of the employer’s business and should promote certainty and consistency. These rules should be clearly formulated and made available to all employees (*sec. 3(1)* of the Code).

In deciding on the imposition of a disciplinary penalty, all relevant facts should be taken into account, including the employee’s disciplinary record, length of service and personal circumstances. However, the procedure does not necessarily have to take on a formal nature (*sec. 4(1)* of the Code). In any case, the employee has to be informed of the allegations against him or her and has to be given a chance to respond (where necessary, with the assistance of trade union or employees’ representatives) (*sec. 4* of the Code).

Sec. 3(4) of the Code states that generally it is not appropriate to dismiss an employee for a first offence. For a first infringement, the employee should receive a written warning (for more serious infringements, a final warning). Dismissal should be saved for cases of serious misconduct or repeated infringements of disciplinary rules which make a continued employment relationship intolerable. Gross dishonesty or wilful damage to property, wilful endangering of other persons, physical assault, and gross insubordination are examples of serious misconduct.

Disciplinary proceedings against a trade union representative should not be instituted without first informing and consulting the union (*sec. 4(2)* of the Code).

As far as incapacity is concerned, the legislation distinguishes between poor work performance, on the one hand, and ill health and injury, on the other.

With regard to poor work performance, the legislation further distinguishes between probationary employees and employees not on probation. A probationer should be given the proper instruction, training or counselling that he or she requires in order to render satisfactory service (*sec. 8(1)* of the Code). Dismissal during the probationary period should be preceded by an opportunity for the employee to state a case in response and to be assisted by a trade union representative or fellow employee (*sec. 8(1)* of the Code). After probation, an employee should not be dismissed for incapacity unless the employer has given the employee appropriate instruction, training or counselling, and, after a reasonable period of time for improvement, the employee continues to perform unsatisfactorily (*sec. 8(2)* of the Code). The procedure leading to dismissal should include an investigation to establish the reasons for the unsatisfactory performance and the employer should consider any available alternatives to dismissal (*sec. 8(3)* of the Code).

With regard to incapacity due to ill health or injury, the investigation conducted by the employer should establish the extent of the incapacity and the prognosis, and consider counselling or rehabilitation. The employer should also consider any available alternatives to dismissal (*sec. 10* of the Code).

Severance pay

The LRA requires severance pay in the case of dismissal for economic reasons (*sec. 196*), unless the employer is exempted from this obligation by the Minister. A basic rate of at least one week's wages per

year of service is required by both the LRA and BCEA (*sec. 41*) but only for dismissals for operational requirements. This rate, which accords with current industry norms, may be adjusted by the Minister from time to time. It may also be improved on by collective agreement. Where a dispute over severance pay forms part of a dispute over unfair dismissal for economic operational reasons, it is determined as part of the latter dispute by the Labour Court (*sec. 196*, LRA).

Avenues for redress

The LRA establishes an independent, tripartite Commission for Conciliation, Mediation and Arbitration and a Labour Court (Chapter VII of the LRA). *Sec. 191* of the LRA states that if there is a dispute about the fairness of a dismissal, the employee may refer the dispute in writing within 30 days of the date of the dismissal to a special bargaining council or to the Commission, if no council has jurisdiction. If the council or the Commission does not succeed in resolving the dispute through conciliation, it is referred to arbitration. No appeal is available against an arbitration award (*sec. 143*, LRA).

Automatically unfair dismissals should be referred to the Labour Court. The Director of the Commission may also refer other dismissals to the Labour Court where:

- the dismissal is for discriminatory reasons;
- it is a very complex case;
- there are conflicting arbitration awards that have to be resolved;
- it is in the public interest; or
- a question of law is involved.

The Labour Court also has jurisdiction with regard to disputes concerning dismissal as a consequence of operational requirements.

In any proceedings concerning any dismissal, the employee must establish the existence of dismissal and the employer must prove that the dismissal is fair (*sec. 192*, LRA).

In the case of dismissals adjudicated by the Labour Court, an appeal against the decision of the Court is possible. Appeals from the Labour Court will be heard by the Labour Appeal Court. However, no appeal to the Appellate Division of the Supreme Court of South Africa is possible.

Common law claims for breach of contract in the ordinary civil courts are also possible.

The primary remedy envisaged by *sec. 193* of the LRA in cases of unfair dismissal is reinstatement or re-employment. Urgent interim relief (including temporary reinstatement) may also be available.

Alternatively, the Labour Court or the arbitrator may order the employer to pay compensation to the employee (*sec. 194* of the LRA deals with the limits on compensation for dismissals that are not automatically unfair, or not for operational requirements; the maximum amount is the equivalent of 12 months' pay). *Sec. 195* states that such an order or award of compensation is in addition to, and not a substitute for, any other amount to which the employee is entitled in terms of any law, collective agreement or contract of employment.

TURKEY

The Employment Act (EA) No. 4857 of 2003, the Trade Unions Act of 1983 and the Obligations Act of 1926 are the sources of employment legislation in relation to termination of employment for employees falling within their scope.

In addition, collective agreements in unionized workplaces and international conventions which are ratified by Turkey may afford protection in relation to dismissal to some extent.

Civil servants and employees with an administrative employment contract are subject to different regulations and are not covered in this Digest. In Turkey, civil servants enjoy considerable job security.

Scope of legislation

The scope of the EA does not include all employees and all undertakings. Are excluded from its coverage (Art. 4 EA):

- Sea and air transport activities;

- Establishments and enterprises employing a minimum of 50 employees (50 included) where agricultural and forestry work is carried out;
- Any construction work related to agriculture which falls within the scope of family economy;
- Works and handicrafts performed in the home without any outside help by members of the family or close relatives up to 3rd degree (3rd degree included);
- Domestic services;
- Apprentices;
- Sportsmen;
- Those undergoing rehabilitation;
- Establishments employing three or fewer employees and falling within the definition given in Art. 2 of the Tradesmen and Small Handicrafts Act.

Most of these groups are covered by the Obligations Act, which does not provide job security.

On the other hand, the EA excludes (Art. 18) from the job security provisions those employees who are in the scope of the EA but employed for less than six months, employees holding managerial positions and also employees in small undertakings (up to 30 workers).

Contracts of employment

Contracts of employment in Turkey include indefinite period, fixed-term, temporary, part-time and full-time contracts, contracts in continual and transitory work, work on call, contracts based on a gang contract.

The Turkish EA provides provisions regulating and preventing the use of temporary and fixed-term contracts (Art. 11 EA): an employment contract for a definite period must not be concluded more than once, except when there is an essential reason which may necessitate repeated (chain) contracts. Otherwise, the employment contract is deemed to have been made for an indefinite period from the beginning.

Termination of employment

The contract of employment can be terminated, without initiative of the employer or employee in certain circumstances, including by the expiry of a fixed-term contract; mutual consent of the parties; the death of the employee; and the death of the employer if it has been concluded *intuitu personae* of the employer.

Dismissal

There are two kinds of termination of employment contract at the initiative of the employer in Turkish Employment Law. The first kind concerns the serving and respecting of a term of notice. The second kind is known as 'termination without term of notice' or 'terminating (or breaking) the contract for just cause'. Termination that respects a term of notice is only applicable to employment contracts for an indefinite period, but termination without a term of notice (generally, for just cause) is applicable to contracts for a fixed-term, as well as to contracts for an indefinite period.

Termination by Means of Respecting a Term of Notice

Art.17 of the EA provides that an employment contract made for an indefinite period may be terminated by the employer or employee if one party gives notice to the other. The length of notice increases with the duration of employment. The notice periods can be increased if both parties agree to it. The employer may terminate the employment contract by paying in advance the wages corresponding to the term of notice. Termination of this kind is possible either without having to present any valid/reasonable cause or with a valid/reasonable cause:

Termination without having to present any valid/reasonable cause

According to Art.17 of the EA the employer, after respecting a term of notice, can terminate the employment contract of an employee who is outside of the scope of the job security provisions without having to present any valid/reasonable cause. Termination of this sort is lawful provided the terms of notice are respected.

Irregular termination

In cases where there is a failure to comply with the requirements for giving notice or payment in lieu of such notice, the defaulting party must pay compensation equal to the wages relating to the terms of notice.

Abusive Termination

In cases where employment contracts of employees who fall outside the scope of job security provisions of the EA have been ended by the abusive exercise of the right to terminate (for example where dismissal is due to filing a grievance, or sex or maternity), the employee shall be paid compensation amounting to three times the wages for the term of notice. The Trade Unions Act (Art. 31) imposes a heavier compensation for the abusive dismissal of an employee who engages in union activities.

Discriminatory Dismissal

According to Art. 5 of the EA, except for biological reasons or reasons related to the nature of the job, the employer must not make any discrimination, either directly or indirectly, against an employee in the termination of his/her employment contract due to the employee's sex or maternity. If the employer violates the above provision, the employee may demand compensation up his/her four months' wages plus other claims of which he/she has been deprived. Art. 31 of the Trade Unions Act is reserved. The burden of proof in regard to the violation of the above-stated provisions by the employer rests on the employee. However, if the employee shows a strong likelihood of such a violation, the burden of proof that the alleged violation has not materialized shall rest on the employer. The arrangements in the EA (Art. 5) cover all the employees in the scope of the EA.

Termination with a valid/reasonable cause

Art. 18 of the EA states that an employer employing at least thirty employees will have to present a valid cause when laying off an employee who has worked at least six months at a particular workplace and who has an indefinite-term contract with the employer. Under this provision, the employment of an employee can only be ended for a valid reason concerning the capacity or conduct of the employee or based on the operational requirements of the undertaking, establishment or service. Art. 19 makes clear that an employee shall not be dismissed, for reasons related to the employee's conduct or performance, before

being provided with an opportunity to defend him/herself against the allegations made, unless the employer cannot reasonably be expected to provide this opportunity.

Invalid Termination

In cases where employment contracts of employees who are in the scope of job security provisions of the EA have been ended without a valid reason or no reason, the employees shall be reinstated or paid compensation. The EA provides greater safeguards against discrimination in respect of employment. Termination based on discrimination and temporary absence from work because of illness or injury, which is referred to in the EA Art. 18 are not valid. The burden of proving that a valid reason exists for the termination rests on the employer. If the court finds the termination of employment not valid, it will order the reinstatement of the employee. According to the EA, the employer must reinstate the employee within a month and with back pay corresponding to up to four months' wages which the employee may have received. If the employer fails to reinstate the employee, he/she will have to pay compensation which is determined by the court.

Discriminatory Dismissal

The arrangements in the EA Art. 5 (see above “**c. Discriminatory Dismissal**”) cover all the employees in the scope of the EA.

Collective Dismissal

According to the EA (Art. 29), the employer has a right of collective terminations for reasons of an economic, technological, structural or similar nature necessitated by the requirements of the enterprise, the establishment or activity.

A collective dismissal occurs when:

- in establishments employing between 20 and 100 employees, a minimum of 10 employees; and
- in establishments employing between 101 and 300 employees, a minimum of 10 per cent of employees; and
- in establishments employing between 301 and more employees, a minimum of 30 employees,

are to be terminated on the same date or at different dates within one month.

In case the employer intends to employ employees for a work with the same qualifications within six months from the finalization of mass dismissal, he/she has to call back the laid-off workers whose qualifications are suitable, giving them priority over other applicants.

Terminating the Employment Contract without Respecting a Term of Notice (Breaking the Contract for Just Cause)

'Breaking' can be defined as 'the act by which the employer or the employee unilaterally and immediately terminates the individual employment contract for just cause. The reasons for breaking the contract for just cause are in three groups for the employee and four groups for the employer (EA Arts 24, 25), namely, reasons of health; immoral or dishonourable conduct or other similar behaviour and force majeure. There is also a fourth group for the employer which is the employee being under arrest or under custody. The employer is entitled to break the employment contract, whether for a definite or indefinite period, before its expiry or without the prescribed notice periods in the above cases:

Illegal breaking of the contract

Although a labour court may rule that the reasons given to claim a just cause do not justify the breaking of a particular contract, the employment contract is considered as terminated on the day of its breaking.

According to the EA, employees outside of the scope of the job security provisions are not entitled to reinstatement and their only remedy is compensation. It is the injured party who must prove that the contract was unjustly broken. Compensation is the same as that for irregular termination, namely payment relating to the term of notice which should have been respected in order to terminate the contract for an indefinite period. Concerning a contract for a definite period or for work that is precisely identified, unjustified termination before the end of the period or before the work is finished entitles the injured party to receive compensation equal to the payment for the remainder of the period, or for the time to finish the work. And as previously remarked, the EA makes reinstatement possible for the employees within the scope of the job security provisions if a contract is ended without a just cause.

Notice and prior procedural safeguards

The requirement for prior notice (see above “Termination by Means of Respecting a Term of Notice”) or payment in lieu of such notice has been established by the EA. Art.19 provides that the notice of termination (from two to eight weeks depending on the length of service) for employees, who are covered by job security provisions, shall be given by the employer in written form involving the reason for termination which must be specified in clear and precise terms.

In the case of a collective dismissal, the employer shall provide the union shop-stewards, the relevant regional directorate of labour and the Public Employment Office with written information at least 30 days prior to the intended lay-off. The said written communication shall include the reason for the contemplated layoff, the number and groups to be affected by the lay-off as well as the length of time the procedure of terminations is likely to take. Consultations with union shop-stewards shall deal with measures to be taken to avert or to reduce the terminations as well as measures to mitigate or minimize their adverse effects on the employees concerned.

As for other procedural requirements, see above “Invalid Termination”. Also collective agreements may contain grievance procedures and other mechanisms ensuring that employees and their union are informed of the reasons for the pending dismissal and are given the opportunity to defend any allegations made against them by the employer.

Severance pay

Under the EA transitional Art. 14, in the event of termination of the contract of employment of an employee with at least one year of service and covered by this Act by the employer for reasons other than those set forth in section 17/II of this Act (for malicious, immoral or dishonorable conduct or other similar behavior); by the employee under the provisions of section 16 of this Act (The breaking of the contract by the employee for just cause”); or on account of compulsory military service; or for the purpose of qualifying for an old-age or disability insurance pension or a lump-sum payment from an insurance organization or a fund established by an Act; or in the event of the death of the employee; or voluntary termination of the contract by a woman employee within one year from the date of her marriage, the employer must pay seniority severance pay equal to 30 days’ wages for each complete year

of service or in proportion for any fraction thereof, effective from the date of employment and for the entire duration of the contract.

Avenues for redress

The EA allows an employee to appeal against dismissal to a labor court. The primary remedy in the employment law is compensation and rarely reinstatement (see above “Irregular termination”; “Abusive Termination”; “Discriminatory Dismissal”, “Invalid Termination”; “Illegal breaking of the contract”). An employer who infringes the provisions of EA and Trade Unions Act is also liable to major fines.

Chapter VI:

EXIT POLICY

In a natural economic growth trend of an economy, there have empirically proven cycles of economic upswings and downswings. It is but natural that during the period of economic downswing (deflation, depression, etc), enterprises, especially micro and small units are generally adversely affected. Many a times, the units may close down. According to PM's Task Force Report on MSMEs (2010), the MSMEs are particularly vulnerable to fluctuation in the business environment. Even minor business disruptions can cause firms with otherwise bright and innovative ideas to lose their bearings and be driven to insolvency. Therefore, there is a need to deal with the insolvency of MSMEs in a manner that would enable viable enterprises weather temporary credit disruptions, while allowing unviable entities to close down speedily, liberating various economic resources –financial or human for alternative deployment in the economy. This requires a comprehensive and sensitive treatment of the problem of insolvency in the MSME sector. It is advocated that the Government should have enabling insolvency policy framework to facilitate closing down of the sick units, so that they can smoothly exit from the economy.

According to Peng, Yamakawa and Lee (2009), there are six dimensions of entrepreneur-friendliness: (1) the availability of a reorganization bankruptcy option, (2) the time spent on bankruptcy procedures, (3) the cost of bankruptcy procedures, (4) the opportunity to have a fresh start in liquidation bankruptcy, (5) the opportunity to have an automatic stay of assets during reorganization bankruptcy, and (6) the opportunity for entrepreneurs and managers to remain on the job after filing for bankruptcy.

Bankruptcy regimes feed into such an effective financial system, insofar as they regulate the efficient exiting of the market, and make the resolution of multiple creditors' conflicting claims more orderly, resulting in more extensive opportunities for recovery by both the bankrupt entity and its creditors. Many countries have significant legal gaps such that insolvency frameworks are unable to deal with SMEs effectively. SMEs can be divided into two broad categories: corporates and non-corporates. Under most

legal systems, corporates effectively limit the liability of shareholders to the amounts of their capital contributions to the business and, absent fraud or other mitigating circumstances do not extend that liability to the ordinary debts of the business. Non-corporates, by contrast, do not possess a distinct legal identity from their shareholders and, as such, the debts of the business are the debts of the individual shareholders. Although the trend in insolvency reform has been towards the creation of a single, unified insolvency act that deals with all legal forms, most countries have not undertaken such reforms.

In many common law countries that inherited the English legal framework, insolvency provisions are contained in the companies acts. The cumulative effect is that most legal systems either have severely outdated insolvency law provisions or have modern insolvency frameworks contained in companies acts that either do not apply to non-corporates and or contain outdated or nonexistent personal insolvency provisions. For non-corporate SMEs, the absence of a personal or “merchant”⁶² insolvency framework leaves the SME exposed on at least three critical fronts. First, SMEs that are fundamentally viable but find themselves in short-term liquidity crises

have no safety valve for business distress. Where the legal framework is absent, the SME cannot seek temporary protection from its creditors, cannot propose a plan of reorganization, and cannot compromise debts in order to achieve greater returns to all creditors. Admittedly, the reorganization of an SME might be a rare event in most developed economies. However, this underscores the second problem, which is the absence of an efficient, orderly, and transparent liquidation process to repay creditors and return productive assets into the economy as quickly as possible.

Third, and perhaps more importantly, where the legal framework is absent, individual owners of SMEs cannot obtain discharge from the SMEs’ debt. It is impossible to overstate the importance of this element. When an SME fails, its outstanding obligations will be the obligations of the individual entrepreneur, in perpetuity, unless specifically forgiven by creditors. This has created innumerable social problems in countries that have seen a dramatic increase in credit to individuals.⁶³ The absence of these effective exit mechanisms inhibits entrepreneurship, limits the entry of SMEs into the market, and imperils the ability of creditors to be repaid. Not only are productive SME assets locked in a legal limbo for a longer period of time, delaying creditor repayment, but the absence of a debt discharge effectively inhibits the entrepreneur from re-entering the marketplace. Studies have tested the hypothesis that personal bankruptcy regimes stimulate entrepreneurship. They demonstrate that bankruptcy laws have the most statistically and economically significant effect on levels of self-employment across countries, and

that more “forgiving” bankruptcy systems increase the supply of entrepreneurs.

The World Bank, in 2005, came out with the Principles for Effective Insolvency and Creditor Rights Systems (the Principles) are a distillation of international best practice on design aspects of these insolvency systems. The Principles have been designed to be sufficiently flexible to apply as a benchmark to all country systems and to embody several fundamentally important propositions. First, effective systems respond to national needs and problems. As such, these systems must be rooted in the country’s broader cultural, economic, legal, and social context. Second, transparency, accountability, and predictability are fundamental to sound credit relationships. Capital and credit, in their myriad forms, are the lifeblood of modern commerce. Investment and the availability of credit are predicated on both perceptions of risk and the reality of risks. Competition in credit delivery is handicapped by lack of access to accurate information on credit risk and by unpredictable legal mechanisms for debt enforcement, recovery, and restructuring. Third, legal and institutional mechanisms must align incentives and disincentives across a broad spectrum of market-based systems—commercial, corporate, financial, and social. This calls for an integrated approach to reform, taking into account a wide range of laws and policies in the design of insolvency and creditor rights systems.

The present chapter makes an attempt to compare various exit / bankruptcy related parameter among the 8 countries as given below in Table 6.1. It is observed that Rep. of Korea has the most favourable exit environment for SMEs. Korean SME can close their business in quickest time within 1.5 years as against 4 years in Brazil. Similarly, the cost of exit is also lowest in Korea with maximum recovery of more than 80%. In contrast, the cost of litigation and exit is maximum in Philippines, coupled with lowest recovery.

Table 6.1: Cost of closing business in 8 countries

	Parameters	Brazil	China	Italy	Malaysia	Philippines	Republic of Korea	South Africa	Turkey
1	Closing business ^a	132	68		55	153	13	74	115

2	Time (years)	4.0	1.7		2.-3	5-7	1.5	2.0	3.3
3	Cost (1-7 estate)	12	22		15	38	4	18	15
4	Recovery rate (cents or a dollar)	17.1	36.4		39.8	4.5	81.7	34.4	21.1

BRAZIL

The former legal framework for corporate insolvency in Brazil was very fragmented, with the core of legislation for bankruptcy proceedings enacted in 1945. Despite providing both liquidation and reorganization mechanisms to prevent or reduce the liquidation of enterprises, in practice, the insolvency process was ineffective at maximizing asset values and protecting creditor rights in liquidation. The bankruptcy priority rule specified the following priority order: first, labor claims; second, tax claims; third, secured creditors' claims; and finally, unsecured creditors' claims (including trade credit). The process of disposing of assets was also slow and highly ineffective, because of court and procedural inefficiency, lack of transparency, and the so-called *problema da sucessão*, whereby tax, labor, and other liabilities were transferred to the buyer of a liquidated asset sold in liquidation, which deteriorated the market value of an insolvent company's assets.

The Government of Brazil has been making efforts to revise the old bankruptcy laws. Finally, on February 9, 2005, the Government enacted the *Nova Lei de Falências e Recuperação de Empresas*, Law No. 11101 (the "New Bankruptcy Law") which came into effect in June 2005. The new liquidation procedure introduced six key changes. First, labor credits are limited Firms' capital Structure to an amount equaling 150 times the minimum monthly wage[1]. Second, secured credits are now given priority over tax credits. Third, unsecured credits are given priority above some of the tax credits. Fourth, the distressed firm may be sold (preferably as a whole) before the creditors' list is constituted, which can speed up the process and increase the value of the bankruptcy estate. Fifth, tax, labor, and other liabilities are no longer

transferred to the buyer of an asset sold in liquidation. Finally, any new credit extended during the reorganization process is given first priority in the event of liquidation.

The first two changes have had a direct impact on secured creditors' priority. Since under the former bankruptcy law, secured creditors came after all labor and tax claims, the priority given to secured creditors has increased significantly. The third one has increased unsecured creditors' priority. The fourth, fifth, and sixth changes, in turn, are expected to increase the value of firms in bankruptcy and as a consequence the amount recovered by creditors. The more creditors expect to receive in the insolvency state, the less they will require firms to pay in the solvency state, thus reducing the cost of capital. Brazil's new reorganization procedure was inspired by Chapter 11 in the US bankruptcy code. Whereas the previous law did not permit any renegotiation between the interested parties and only a few parties were entitled to recover their assets, now managers make a sweeping proposal for recuperation that must either be accepted by workers, secured creditors and unsecured creditors (including trade creditors) or the distressed firm will be liquidated. Creditors play a more significant role in the procedure than previously, including negotiating and voting for the reorganization plan. Some of the important features of this law, as per the Standard & Poors, are discussed in greater details in the subsequent paras:

Out-of-court restructuring

The New Bankruptcy Law introduces several significant changes that would permit debtors greater flexibility in restructuring their debt and reorganizing their businesses. The principal innovation for debtors is the inclusion of an out-of-court restructuring process (*recuperação extrajudicial*), analogous to a "pre-packaged bankruptcy" under the U.S. Bankruptcy Code. The advantage of such a procedure for the debtor is that it can negotiate a reorganization plan with many of its largest creditors outside of a formal court proceeding, and have that plan be approved by the court to apply to all of the debtor's creditors that are subject to the plan, including non-consenting creditors, provided that the plan is viable and approved by a requisite number of creditors. In addition to the ability to "cram down" dissenting creditors, this procedure provides debtors with a cost-effective alternative to reorganize while retaining control over their businesses without any supervision by a court, a trustee, or a creditor committee.

Judicial reorganization

By contrast, the bankruptcy stay, which typically provides a debtor with breathing room to reorganize by precluding creditors from exercising their remedies against the debtor, is one of the most important

features for debtors in a judicial reorganization (*recuperação judicial*), another major procedural innovation in the New Bankruptcy Law. The *recuperação judicial* is a Chapter 11-like reorganization proceeding that takes the place of and improves upon the preventive concordata proceeding under the previous bankruptcy regime.

A debtor can now receive a stay from the court against legal actions by almost all creditors, secured and unsecured, once the bankruptcy petition is accepted by the court. This is a significant protection for debtors and is similar to the automatic bankruptcy stay in Chapter 11 reorganizations in the U.S. The inherent limitations in the concordata proceeding, which included rigid and formalistic requirements for reorganization plans, made them generally ineffective and invariably resulted in liquidation (*falência*) proceedings.

The New Bankruptcy Law provides for creditor committees in a judicial reorganization proceeding, although they are not mandatory. The rules for committee voting at the general meeting of creditors permit debtors to cram down dissenting creditors, but also provide creditors with important veto rights. On the one hand, debtors need only two of three classes of creditors, classified as either representing labor, secured, or all other creditors, to approve a reorganization plan by a majority vote to have that plan confirmed by the court. On the other hand, the debtor must receive at least one-third of the votes from the class that rejects the plan and must ensure that the plan does not discriminate against that class vis-à-vis the consenting classes. The voting rules also appear to give significant rights to lower-salaried employees since the voting in the class representing labor is determined by the number of individual votes at the general creditors meeting, regardless of the value of their claim. For secured and all other creditors, approval of a reorganization plan requires both a majority of individual votes at the general creditors meeting and a majority based on the total amount of the claims of the class.

Debtor-in possession (DIP) financing

The New Bankruptcy Law also includes a third significant innovation that should benefit debtors and may lead to more successful reorganizations in Brazil. Borrowing from the successful experience in the U.S. with DIP financing, creditors in Brazil will now also enjoy a super priority preference for any post-bankruptcy petition financing that is extended to debtors. Under the New Bankruptcy Law, creditors to

Brazilian reorganizing entities will have an incentive to provide financing to debtors since they will have a prior claim against the assets in the debtor's bankruptcy estate in relation to pre-petition debt and a greater likelihood of recoveries on their debt in the event of a liquidation. Debtors will have greater flexibility to reorganize in Brazil under a judicial reorganization to the extent that creditors provide such post-petition financing.

Creditors secured by pledges

For creditors of Brazilian companies, the New Bankruptcy Law includes a number of significant changes that are likely to improve their chances of recovering on their debts in a bankruptcy. Secured creditors, in particular, have typically seen little, if any, recoveries in a liquidation under the previous bankruptcy law. This outcome was primarily due to the fact that a secured creditor was not entitled to the direct proceeds from the sale of collateral securing its debt. All collateral proceeds were pooled together with the assets of the debtor and distributed to creditors of the bankrupt entity according to their ranking in a priority of claims.

Liquidation: Debtors will have greater flexibility to reorganize in Brazil under a judicial reorganization to the extent that creditors provide such post-petition financing.

The recoveries of secured creditors may be further enhanced by related provisions in the New Bankruptcy Law and the Supplementary Law 118 dated Feb. 9, 2005, which amend the tax code, involving the elimination of successor liabilities when assets are sold from a debtor's estate. In liquidations, in particular, the bankruptcy estate and, by extension its creditors, should benefit from higher resale values of assets in judicial sales since tax, labor, and social security claims remain as liabilities of the debtor and are no longer passed on to the purchasers. This is also true for sales made under judicial reorganizations; although succession risk related to labor claims is not eliminated in such sales.

Secured creditors should also benefit from more timely access to collateral in the context of a reorganization. In a judicial reorganization, secured creditors can begin enforcement proceedings after the 180-day bankruptcy stay is lifted. The timing of the enforcement will depend on the efficacy of the courts, location of the assets, and type of assets being sold. It is common for enforcement proceedings to take up

to one year in Brazil. Moreover, debtors are expected to emerge from judicial reorganization proceedings two years following the confirmation of a reorganization plan (with such confirmation occurring within the 180-day statutory period). Although it is possible that delays may occur, Standard & Poor's believes that, based on the provisions in the New Bankruptcy Law and prior court precedents, secured creditors generally should have access to the proceeds of their collateral within three years of the date that a filing for a judicial reorganization is accepted by the court. The time periods are less certain for liquidation proceedings, however, and will only be determined over time in the courts.

Fiduciary assignment and hybrid securitizations

A novel provision in the New Bankruptcy Law exempts certain specific classes of creditors from reorganization and liquidation proceedings. Specifically, creditors that have taken collateral for their loan by fiduciary assignment and financial lessors and certain real estate creditors are not subject to the bankruptcy stay that affects all other secured and unsecured debt.

The legal concept of a fiduciary assignment in Brazil originated under Decree Law 911 of 1965 in which title to collateral would pass to a financial institution creditor at the time of the issuance of a loan and the collateral would be held in trust by the financial institution as a fiduciary trustee until the loan was repaid, at which time the collateral would be returned to the debtor. The actual possession of the collateral could be held by the debtor under certain circumstances. In the event of a default, the creditor had the absolute right to repossess, if necessary, and dispose of the asset and use such proceeds to satisfy the debt and any expenses related to the sale. The debtor maintained a residual right to excess proceeds, if any. This concept was later expanded by the New Civil Code (Law No. 10,406 dated Jan. 10, 2002) and by Law No. 10,931 dated Aug. 2, 2004, to include other types of collateral, such as credit rights or receivables (by means of a *cessão fiduciária*) in addition to personal property (by means of an *alienação fiduciária*). The New Bankruptcy Law confirmed special treatment for these types of secured transactions under a bankruptcy scenario. The only limitation on the exemption from the bankruptcy stay appears to be that such exempt creditors are not permitted to "remove or sell from the debtor's establishment any capital goods essential to its business." However, once the bankruptcy stay is lifted following the 180-day period, this limitation is no longer relevant.

Future flow securitizations and fiduciary assignments In some cases, it may also be possible to rate securitizations of future receivables by means of a fiduciary assignment higher than the rating of the

debtor, although the law may be somewhat less clear on this issue. The ratings of future flow securitizations are generally linked to the local currency rating of the originator of the receivables because the payments by the obligors to the trustee with respect to the receivables, which are used to pay principal and interest on the bonds, depend on the continued operation and performance of the originator. Until now, a fundamental element of the structure of all Brazilian future flow securitizations, both cross-border and domestic, has involved a true sale of receivables by an originator to a bankruptcy-remote special-purpose entity that issues the debt to investors.

Standard & Poor's has rated future flows with true sale structures higher than the originator's rating based on an analysis of performance risk, other analytical factors, and in reliance upon the 'bilateral contract' exception under the previous Brazilian bankruptcy law. Under this exception, bilateral contracts, which require performance on the part of both the debtor and a counterparty, are not terminated by a concordata proceeding. Export contracts and receivables purchase agreements, which are the contractual basis upon which future receivables are sold in many future flow transactions, are considered bilateral contracts under the previous bankruptcy law. The New Bankruptcy Law appears to continue this treatment for bilateral contracts in a judicial reorganization proceeding.

CHINA

China introduced its first bankruptcy law in 1986, which applied only to state-owned enterprises (SOEs). The new The Enterprise Bankruptcy Law went into effect June 1, 2007. The new law applies to all legal entities, including foreign invested enterprises and JVs, though it does not apply to individuals. While the said law is given as an Annexure 6.1, the highlights are given in following paras:

The law utilizes an administrator who will act much like [bankruptcy trustees](#) do in U.S. bankruptcy proceedings. The administrator's role is to help the creditors and to assist in assuring the bankruptcy runs smoothly. The law provides for clear provisions on who may serve as an administrator and it is expected most administrators will come from the ranks of lawyers, accountants.

The new law not only bolsters and clarifies the liquidation provisions of the 1986 law, it also has added reorganization as a legal alternative. Under a reorganization, a company is given protection from creditors while still being able to continue operating. Part of the reorganization section (Article 87)

introduces a 'cram down' procedure similar to that of the U.S. system. This means that a bankruptcy debtor may be able to force confirmation of its plan over the objections of dissenting classes if it can meet certain tests.

The most important difference between China's new and old bankruptcy laws is that the new law gives secured claims priority over employee, tax, and general claims, unlike the old law which gave workers (it was communism, remember) first claim to the debtor's assets. The new law is more in line with most developed commercial countries in that employee claims now take precedence only over unsecured creditors.

The new law applies to Chinese companies operating overseas and it applies to foreign companies operating in China. It also accounts for the extraterritorial effect of Chinese bankruptcy judgments and it permits enforcement of foreign judgments from countries that act reciprocally towards Chinese judgments. In other words, debtors with foreign judgments against a bankrupt Chinese company may be able to collect on that judgment in the Chinese bankruptcy.

The new Chinese law permits a single creditor to initiate an involuntary bankruptcy proceeding. The Chinese law specifically says that any creditor can initiate the proceeding, and such proceedings can be initiated against any legal entity. This provision could give creditors huge leverage.

ITALY

The Bankruptcy Law of Italy underwent a reform process which culminated in July 2006 when the new Bankruptcy Law came into effect. Reform came progressively by slowly adopting various laws and decrees in piecemeal.

On 1 December 2003 Marzano Law 347 on extraordinary administration was enacted. Law 39 passed on 18 February 2004, amending the Marzano Law.

On 14 May 2005 Law 80 on judicial composition with creditors converted into law Decree 35, passed in March 2005. On 9 January 2006 the comprehensive reform Law 5 was passed, going into force on 6 July 2006. The latest reform, Law 169, passed on 12 September 2007 and took effect on 1 January 2008..

The new law aimed at creating a process similar to Chapter 11 in the United States, transferring the focus

of proceedings from liquidation to corporate reorganization and restructuring. The law succeeded in this, imparting a new attitude toward insolvency and bankruptcy.

Italy's comprehensive bankruptcy reform had 6 main aspects. First, it redefined the scope of bankruptcy proceedings from punishing the debtor to satisfying creditors. Second, it expanded the role and scope of the creditors' committee. Third, it modified the rules on executory contracts in bankruptcy. Fourth, it allowed the bankrupt business' operations to continue. Fifth, it introduced discharge from unpaid debt for natural persons. Sixth, it simplified the liquidation of the assets and the distribution of the proceeds among the creditors.

The new regime provided for 3 types of proceedings to implement the changes, aimed at saving troubled companies by preserving the business:

Controlled administration A 2-year moratorium granted to the debtor, with business activities under the supervision of the court and the court-appointed receiver. The controlled administration of companies was later abolished by law no 5/2006. Composition with creditors (concordato preventivo) A settlement between the debtor and creditors that requires court approval. Extraordinary administration An administratively driven restructuring procedure that aims to satisfy creditors' claims while safeguarding the business.

Thus, the emphasis shifted to debt restructuring agreements that rescue the business instead of liquidating the debtor's assets.

Out-of-court restructuring agreements are the most likely proceeding, taking less time to complete and preserving the business. This framework strengthened creditors' rights, stimulating the flow of credit to small and medium-size firms.

With the new laws the process no longer takes up 7 years, as before, and it preserves the value of the company. Doing Business estimates that creditors are repaid in less than 2 years, with the recovery rate at €0.62 cents per Euro owed—almost double the €0.38 in 2002, according to the Italian Bankers Association. Although the new law provided Italy with an efficient insolvency system, more can be done to implement the law effectively.

It gave distressed firms tools to overcome the crisis, either through out-of-court agreements or through a

formal rescue procedure (*concordato preventivo*, a settlement between the debtor and creditors requiring court approval). Claw-back provisions, perceived as creating an obstacle to out-of-court restructurings, were also made less severe. The administrator can no longer annul transactions essential to continuing operations that occurred between 6 months and a year before the company declared bankruptcy. On 14 May 2005 Law 80 converted Decree 35/2005 into law and mandated the government to overhaul the 1942 Bankruptcy Act.

For the first time in Italy, Law 80/2005 allowed the debtor to file a debt restructuring agreement before the court—already agreed with creditors and without any prerequisites. Before, the debtor could file a petition for composition only when it could guarantee payment of 100% of the secured claims and 40% of the unsecured claims.

Now, debt restructuring procedures are concluded within the framework of composition with creditors, complemented by an expert report on the feasibility Closing a business CASE STUDY: ITALY 100 of the agreement. The creditors then vote on the composition. Secured creditors do not participate because they are expected to be paid in full. The composition needs the approval of the majority of claims admitted to vote. When there are several classes of creditors, all classes vote separately and each approves the composition by majority. The court approves the proposal if the majority of classes approve and if the court believes that the nonconforming classes will be no worse off than in any alternative—similar to the “cram-down deal” in United States law.

Law 80/2005 tackled many impediments to successful reorganization under the old regime. Under the old laws the 40 different creditor priorities and their privileges delayed the process. The new law divided creditors into classes whose

interests are homogeneous. The law also introduced the concept of discharge—

that is, giving debtors the ability to restart as consumers and entrepreneurs. Informal, out-of-court debt restructuring agreements are now possible, similar to the pre-packaged reorganization procedure in the United States. And under Law 80/2005 a debtor in crisis but not yet in insolvency is entitled to request composition with creditors.

Law 80/2005 also reduced the “look back” period (suspect period) to a year where it was 2 years and to 6 months where it was a year. But the most significant change was providing a detailed list of transactions that cannot be subject to claw-back actions. For example, payments for goods or services rendered and payments of debts incurred to carry on ordinary company business are enforceable.

That gives the company the chance to continue operating.

These provisions are working well on the ground. Most important, the number of bankruptcy cases is down. About 85–90% of companies in financial distress now enter an informal workout with creditors, without court involvement. 2 The out-of-court restructuring agreements must be achieved within 6 months from filing—shortening the proceedings and preserving operations.

If the debtor is declared insolvent, out-of-court restructuring agreements are resistant to any avoidance action—the agreement is exempted from being revoked by the administrator—as long as an expert assesses the restructuring plan as feasible.

MALAYSIA

The Malaysian Bankruptcy Act 1967 was amended in the year 2003 and came into force on 1 October 2003. The salient features of the ACT with all amendments up to 2006 are given in Annexure 6.2. Malaysia has both voluntary and involuntary bankruptcies. Individuals may choose to file for bankruptcy. However, they are also forced into bankruptcy if they leave the country for an extended period of time while having outstanding debts, if they transfer their debts to a trustee or if they intentionally mislead one of their creditors.

The Act defines the role of the bankruptcy court and the steps involved in getting an individual out of bankruptcy:

Step 1) A receiving order is issued that declares an individual bankrupt. In Malaysia, a debtor can become bankrupt through either a debtor's petition or a creditor's petition. There is a summary administration available for small bankruptcies. A debtor can also avail himself/herself of a composition or a scheme as an alternative to bankruptcy. The Official Assignee administers all personal insolvency administrations.

A debtor who wishes to file a bankruptcy in Malaysia must prove that he is insolvent and be more than RM30,000 in debt. Once these facts are proven by mandate, the debtor may begin the process of bankruptcy. He will need to relinquish all of his operating reports and cash flow reports to the director who is investigating his case. Once all fact finding is completed, the debtor will be able to finalize the filing of his petition for bankruptcy

Once a bankruptcy is filed, a debtor is held to several restrictions. He may not leave the country while in an active bankruptcy without express sanction of the official assignee of the court. He must report assets and

funds that come into his possession that are in excess of RM5,000. He will be required to submit an accounting of his finances at least once every six months. He also will need the written permission of the official assignee to enter into any business transactions or manage any businesses or trade.

The Government of Malaysia grants bankruptcies based on insolvency, which is identified as a debtor's lack of ability to pay off his debts. This is different than many other countries in that they will allow an individual to file some form of bankruptcy regardless of his debt-to-income ratio. Malaysia measures every debtor's case individually for insolvency.

Step 2) There is a meeting of the bankrupt individual's creditors and his assets are examined by the court.

Step 3) The judge creates a plan by which the bankrupt individual or his trustee (someone who agrees to pay a bankrupt individual's debt) agrees to pay back a percentage of the debts over a period of time, as determined by the court. The following insolvency procedures are available under the Companies Act 1965:

- Pt 7 Arrangements and Reconstructions
- Pt 8 Receivers and Managers
- Pt 10 Winding Up.

Winding-up can be a court procedure or a voluntary procedure (under the control of members for a solvent company or under the control of creditors for an insolvent company).

Private practitioners can be appointed by, in windings-up, for instance, the Official Receiver can act as a liquidator and is a default liquidator if no other liquidator is acting

Once a bankruptcy is filed, creditors are identified and lay their claims on the amount that they are owed. The claim process revolves around judgments from the assignee that the court has appointed in the case. Much like American bankruptcies, there are three main claim types in Malaysian bankruptcies: ordinary creditors, preferential creditors and secured creditors. All creditors are required to obtain a judgment for the amount that they are owed.

Step 4) Upon completion of payment to the creditor, the bankrupt individual's bankruptcy is officially discharged.

PHILLIPINES

The Financial Rehabilitation and Insolvency Act (FRIA) was passed into [law](#) by the Philippine Congress in early 2010. While the salient features of the Act is given at Annexure 6.3, it is observed that under the FRIA, a debtor is considered insolvent if its is “generally unable to pay its or his liabilities as they fall due in the ordinary course of business or ahs liabilities that are greater than its or his assets.”

The FRIA provides for the following modes of rehabilitating an insolvent corporate debtor:

- Court supervised rehabilitation proceedings- these may be commenced by either the debtor (or a group of affiliated debtors) or by creditors representing a specified minimum amount of claims. The court conducts the rehabilitation proceedings, appoints a receiver and determines which claims against the debtor are valid, with the goal of putting a rehabilitation plan in place. A plan must be approved by the debtor and creditors representing more than 50% of the claims of each class of creditors. The rehabilitation plan must be agreed upon and the court must approve such plan, within one year from the date of commencement of the proceedings. If the plan is not finalized or the court does not approve the plan within such period, the matter will proceed to liquidation of the debtor. All claims against the debtor are suspended while rehabilitation proceedings are pending in court.
- Pre-negotiated rehabilitation- in these proceedings, a debtor files a petition with the court for the approval of a rehabilitation plan which has been previously agreed upon by the debtor and its creditors representing at least 2/3 or the debtor's total liabilities (and at least 67% and 75% of the debtor's secured and unsecured obligations, respectively).the court is required to approve the plan with 120 days from the date the petition is filed, failing which, the plan shall be deemed approved. The court may also order that the matter proceed to the liquidation of the debtor if it finds that the plan is not meritorious or the parties acted in bad faith. All claims against the debtor are suspended while rehabilitation proceedings are pending in court.

- Out-of-court or informal restructuring agreement or rehabilitation plans- in this scenario, the debtor and creditors representing at least 85% of the debtor's total liabilities (and at least 67 % and 75 % of the debtor's secured and unsecured obligations, respectively) agree on a restructuring or rehabilitation plan. As long as these thresholds are met, the plan is binding on the parties (and on the debtor's other creditors) even without court approval. A standstill period may be enforced during the negotiations , provided that such standstill is approved by creditors representing more than 50% of the debtor's total liabilities. The standstill period may not, however, exceed 120 days.

One change introduced by the FRIA is the option granted to the debtor to choose which of its contracts it wishes to confirm, by delivering written notice of confirmation to the relevant counterparties. Any contract that is not so confirmed by the debtor within a period of 90 days from the commencement of the rehabilitation proceedings shall be considered terminated. Damages arising therefrom will be considered a claim arising prior to the commencement of the proceedings.

Another notable change is that while court- supervised proceedings are pending; all taxes and fees due from the debtor to the national and local governments shall be considered waived. Similarly, the amount by which any indebtedness or obligation of the debtor is reduced or forgiven shall not be subject to any tax.

In case the debtors cannot be rehabilitated, the new legislation states that they must go into liquidation for an orderly settlement of debts and liabilities

Under the Act, shareholders will be able to recover value from collapsed listed companies much more speedily, thus improving lender confidence in the country. Furthermore, both [businesses](#) and individuals on the verge of bankruptcy can ask for a suspension of payments to their creditors. If their assets amount to less than their liabilities, they may also petition for a discharge from their debts.

REPUBLIC OF KOREA

The South Korean principles on bankruptcy were adopted from the German legal system, whereas the principles on rehabilitation are largely modeled on the U.S. federal law. The 2006 Act on Rehabilitation and Bankruptcy of Debtors, also known as the Unified Insolvency Law, consolidates the Corporate

Reorganization Act, the Composition Act, the Bankruptcy Act, and the Act on Rehabilitation of Individual Debtors, to establish more systematic procedures for the rehabilitation and liquidation of insolvent companies and individuals. The Financial Services Commission (FSC) and the Financial Supervisory Services (FSS) in December 2008, also introduced a new corporate restructuring scheme which would allow creditor financial institutions to implement restructuring processes in a more expedited and systematic manner. The details are given in Annexure 6.4.

The Law makes all forms of companies eligible for corporate rehabilitation. Either the insolvent company or its creditors may file for bankruptcy and once it is adjudicated, the court appoints a trustee to conduct the liquidation process. Unsecured creditors need court judgments against the debtor to recover their debts, whereas secured creditors do not need a court order. Informal corporate rescue processes involve joint management by creditor financial institutions under the Corporate Restructuring Promotion Act (CRPA). In the formal process, the Unified Insolvency Law provides for an interim period between filing and commencement of proceedings when the company's assets may be preserved for rehabilitation and distribution. The debtor may also, during this time, apply for a comprehensive temporary stay order to prevent creditors from exercising their rights. As for the shortcoming in previous legislation regarding recognition of foreign insolvency proceedings, Seo et al. note that the Uniform Insolvency Act has removed it by setting out procedures to recognize such proceedings. The South Korean courts can now cooperate and exchange information with foreign courts and insolvency representatives to facilitate the effective and smooth enforcement of cross-border proceedings.

SOUTH AFRICA

South Africa has adopted the UNCITRAL Model Law on cross-border insolvency as the Cross-Border Insolvency Act 42 of 2000 which came into effect on November 23, 2003. The Act aimed at covering the insolvency of all types of entities - private individuals, companies, close corporations, and partnerships. The Act recognizes the need:

- to strengthen cooperation between the courts and other competent authorities of the Republic of South Africa and those of foreign states involved in cases of cross-border insolvency;
- for greater legal certainty for trade and investment;
- for fair and efficient administration of cross-border insolvencies that protects the interests of all creditors and other interested persons, including the debtor;

- for protection and maximization of the value of the debtor's assets;
- for the facilitation of the rescue of financially troubled businesses, thereby protecting investment and preserving employment,

Bankruptcy proceedings of individuals are currently provided for in the Insolvency Act 1936. A debtor or his/her agent may petition to the court for the debtor's bankruptcy or a creditor may petition. Creditors vote for the trustee. The Master of the Court or a magistrate presides at the meeting. The trustee must provide security for the proper performance of his or her duties and the cost of the provision of this security is a cost of the administration. Remuneration of the trustee is taxed by the Master. A debtor can also offer a composition to his\her creditors. The Insolvency Act also provides for the bankruptcy of debtors who are members of a partnership or who are spouses. Liquidation (members' voluntary, creditors' voluntary and court windings up) of companies and close corporations and judicial management of companies are available in the law of South Africa.

The South African insolvency system is supervised by the Court and the Master of the High Court. The Master of the High Court supervises the administration of insolvent estates.

TURKEY

The law governing Turkish Insolvency procedures known as the Execution and Bankruptcy Law (the **EBL**) (*İcra İflas Kanunu*) The 2003 amendments introduced two mainly debtor friendly procedures called "postponement of bankruptcy" and "reorganization by way of abandonment of the debtor's assets" (**Reorganization**). In addition, the EBL was changed (with a view to giving something to creditors) to provide for quicker bankruptcy procedures (e.g. the execution court is required to rule on a debtor's objections within 7 days) and cutting back the debtor's rights under the old EBL (e.g. during the hearing that will be held following the debtor's objection, the debtor may not raise any additional objections). The 2004 changes introduced another new procedure called "restructuring of capital stock companies by way of conciliation" (**Restructuring**). Some of the important features of EBL are given below:

Postponement of bankruptcy (*İflas'ın Ertelenmesi*)

Under this procedure, a corporate debtor is given the opportunity to persuade the court that it will be able to improve its financial situation and for that reason, no bankruptcy order should be made now but should be deferred depending on whether it cures its financial problems in the future. If the court is so persuaded, it has the power to postpone the debtor's bankruptcy for a specified period of time. The EBL provides that if the debts of the corporate debtor are greater than the value of its assets, the officers of the company are obliged to apply to the court for a declaration of bankruptcy. This mirrors similar legal requirements in other countries, e.g. Germany and Switzerland. However, under the new EBL, when the debtor's officers apply to the court, they may also lodge with the court a development project (*Iyileştirme Projesi*). The project is the debtor's attempt to persuade the court that its financial position will improve over a specified period and will usually deal with matters such as how the debtor is to improve revenue and how it will cut costs. If the court is persuaded that the project is feasible and genuine, it may postpone the bankruptcy for up to a year. The court at the same time will appoint a trustee (*Kayyım*) who will have certain powers set out in the court order (e.g. the right to manage the company, the right to suspend certain transactions of the company).

Once the court has entered an order to postpone the bankruptcy, a moratorium is in place protecting the company from enforcement proceedings. However, enforcement proceedings in relation to secured debts can still be commenced and continued by secured creditors (e.g. payment orders can be sent, notifications can be delivered, price assessment in relation to the secured asset can be made). These secured assets however, cannot be sold.

At the end of the postponement period, either the company's financial position will have improved in accordance with the development project, in which case the court will rescind its order for the postponement of the bankruptcy, or if the situation has not improved, the court can enter an order of bankruptcy although it has the power to extend the postponement of the bankruptcy up to a maximum of four years.

Reorganisation by way of abandonment of the debtor's assets (*Malvarlığinin*

***Terki Suretiyle Konkordato*)**

This is a new procedure introducing a type of voluntary arrangement into Turkish Law. Under this procedure, the debtor will earmark some or all of its assets for its creditors and propose that those assets are sold and then distributed to creditors in accordance with their entitlements. This procedure allows the

company to continue trading with the remainder of its assets free of its historical debt burden. In principle, secured creditors are permitted to enforce their security notwithstanding Reorganisation.

A debtor wishing to make use of the procedure of Reorganization or a creditor having the right to institute bankruptcy proceedings may apply to the competent execution court, supplying to the execution court its reorganization project (*Konkordato Projesi*). If the execution court determines that the project is likely to be successful it will order a creditor's meeting to be convened to decide whether they accept the reorganization project. If the creditors approve the project with the required quorum (at least one-half of all the creditors and whose debts amount in value to at least two-thirds of the total recorded debts) then the project will be submitted to the court for approval. If the court determines that the funds that can be generated for the creditors by way of Reorganization will exceed the funds that can be generated for them by way of bankruptcy, it will approve the project.

Restructuring of capital stock companies by way of conciliation (*Sermaye Sirketlerinin Uzlaşma Yoluyla Yeniden Yapılandırılması*)

A debtor company facing financial difficulty has the right to apply to the court for approval of a restructuring project previously approved by the required quorum of creditors affected by it (at least one-half of the creditors affected by the project in number and whose debts amount in value to at least two-thirds of the total affected debts). The court will not enter a bankruptcy order if it accepts the restructuring proposal. Once approved by the creditors and the court, the proposal becomes binding. However, creditors have the right to apply to the court for relief if the debtor does not fulfil its obligations under the project. The court has a right to declare the debtor bankrupt following any noncompliance. Whilst Reorganization targets a quick recovery for the debtor by realizing a part of its assets, restructuring is geared towards a longer recovery period for the debtor to restore its financial health.

Consequently, whereas in the case of Restructuring the approval procedure is more burdensome, given the nature of the quorum required, in the case of restructuring the approval procedure is less complicated and a lower quorum has to be satisfied. Under a Restructuring, the debtor remain at risk of becoming bankrupt for as long as the restructuring continues, which may take a number of years.

Unless there is a specific provision in the reorganization project to the contrary, Reorganization, however, is completed when the assets or parts of the assets of the debtor are realised for the benefit of creditors and consequently the debtor remains at the risk of bankruptcy for a much shorter period of time. Restructuring is only available for companies and co-operatives with the exception of banks and insurance companies. Reorganization however is available for all persons who could enter bankruptcy.

Annexure 6.2**BANKRUPTCY ACT 1967****(With Amendments up to January 1, 2006)**

3. (1) A debtor commits an act of bankruptcy in each of the following cases:

- (a) if in Malaysia or elsewhere he makes a conveyance or assignment of his property to a trustee or trustees for the benefit of his creditors generally;
- (b) if in Malaysia or elsewhere he makes a fraudulent conveyance, gift, delivery or transfer of his property or of any part thereof;
- (c) if in Malaysia or elsewhere he makes any conveyance or transfer of his property or of any part thereof, or creates any charge thereon which would under this or any other written law for the time being in force be void as a fraudulent preference if he were adjudged bankrupt;
- (d) if with intent to defeat or delay his creditors he does any of the following things:
 - (i) departs out of Malaysia or being out of Malaysia remains out of Malaysia;
 - (ii) departs from his dwelling-house or otherwise absents himself, or begins to keep house or closes his place of business; or
 - (iii) submits collusively or fraudulently to an adverse judgment or order for the payment of money;
- (e) if execution issued against him has been levied by seizure of his property under process in an action or in any civil proceeding in the High Court, Sessions Court or Magistrates Court where the judgment, including costs, is for an amount of *one thousand ringed or more;
- (f) if he files in the court a declaration of his inability to pay his debts or presents a bankruptcy petition against himself;
- (g) if he gives notice to any of his creditors that he has suspended or that he is about to suspend payment of his debts;
- (h) if he makes to any two or more of his creditors, not being partners, an offer of composition with his creditors or a proposal for a scheme of arrangement of his affairs, and such offer or proposal is not followed by the registration within fourteen days thereafter of a deed of arrangement with his creditors, in accordance with the rules for the time being in force for the registration of deeds of arrangement under this Act;

- (i) if a creditor has obtained a final judgment or final order against him for any amount and execution thereon not having been stayed has served on him in Malaysia, or by leave of the court elsewhere, a bankruptcy notice under this Act requiring him to pay the judgment debt or sum ordered to be paid in accordance with the terms of the judgment or order with interest quantified up to the date of issue of the bankruptcy notice, or to secure or compound for it to the satisfaction of the creditor or the court; and he does not within seven days after service of the notice in case the service is effected in Malaysia, and in case the service is effected elsewhere then within the time limited in that behalf by the order giving leave to effect the service, either comply with the requirements of the notice or satisfy the court that he has a counterclaim, set off or cross demand which equals or exceeds the amount of the judgment debt or sum ordered to be paid and which he could not set up in the action in which the judgment was obtained or in the proceedings in which the order was obtained:

Provided that for the purposes of this paragraph and of section 5 any person who is for the time being entitled to enforce a final judgment or final order shall be deemed to be a creditor who has obtained a final judgment or final order;

- (j) if the officer charged with the execution of a writ of attachment or other process makes a return that the debtor was possessed of no property liable to seizure; and for the purposes of this paragraph the date when the writ is lodged with the officer shall be deemed to be the date of the act of bankruptcy.

- (3) The word “debtor” in this Act shall be deemed to include any person who at the time when the act of bankruptcy was done or suffered by him—

- (a) was personally present in Malaysia;
- (b) ordinarily resided or had a place of residence in Malaysia;
- (c) was carrying on business in Malaysia either personally or by means of an agent; or
- (d) was a member of a firm or partnership which carried on business in Malaysia.

- (4) Subject to the conditions hereinafter specified, if a debtor has committed an act of bankruptcy, the Court may on a bankruptcy petition being presented, either by a creditor or by the debtor make an order for the protection of the estate, which order is in this Act called a receiving order.

Conditions on which creditor may petition 5.

- (1) A creditor shall not be entitled to present a bankruptcy petition against a debtor unless—
 - (a) the debt owing by the debtor to the petitioning creditor, or if two or more creditors join in the petition the aggregate amount of debts owing to the several petitioning creditors, amounts to *thirty thousand ringgit;
 - (b) the debt is a liquidated sum payable either immediately or at some certain future time;
 - (c) the act of bankruptcy on which the petition is grounded has occurred within six months before the presentation of the petition; and
 - (d) the debtor is domiciled in Malaysia or in any State or within one year before the date of the presentation of the petition has ordinarily resided or had a dwelling house or place of business in Malaysia or has carried on business in Malaysia personally or by means of an agent or is or has been within the same period a member of a firm or partnership which has carried on business in Malaysia by means of a partner or partners or an agent or manager.
 - (2) If the petitioning creditor is a secured creditor he must in his petition either state that he is willing to give up his security for the benefit of the creditors in the event of the debtor being adjudged bankrupt or give an estimate of the value of his security. In the latter case he may to the extent of the balance of the debt due to him, after deducting the value so estimated, be admitted as a petitioning creditor in the same manner as if he were an unsecured creditor.
 - (3) A petitioning creditor shall not be entitled to commence any bankruptcy action against a social guarantor unless he proves to the satisfaction of the court that he has exhausted all avenues to recover debts owed to him by the debtor.
10. (1) The court may, if it thinks it advisable for the protection of the estate, at any time after the presentation of a bankruptcy petition and before a receiving order is made, appoint the Director General of Insolvency to be interim receiver of the property of the debtor or of any part thereof, and direct him to take immediate possession thereof or of any part thereof, including all books of account and other papers and documents belonging to the debtor and relating to his business.
- (2) The court may at any time after the presentation of a bankruptcy petition stay any action, execution or other legal process against the property or person of the debtor.

Service of order staying proceedings 14.

If in any case where a receiving order has been made on a bankruptcy petition it appears to the court, upon an application by the Director General of Insolvency or any creditor or other person interested,

that a majority of the creditors in number and value are resident in the Republic of Singapore, and that from the situation of the property of the debtor or for other causes his estate and effects ought to be distributed among the creditors under the bankruptcy or insolvency laws of that country, the court, after such inquiry as it seems fit, may rescind the receiving order and stay all proceedings on or dismiss the petition upon such terms, if any, as it thinks fit.

Adjudication of bankruptcy

24. (1) At the time of making a receiving order the court shall adjudge the debtor bankrupt unless the debtor can show to the satisfaction of the court that he is in a position to offer a composition or make a scheme of arrangement satisfactory to his creditors; provided that when a receiving order is made against a firm in the firm's name the court shall not adjudge any person bankrupt as a member of the firm unless such person is proved to the satisfaction of the court to be a partner by his own admission or by evidence on oath.
- (2) The court may at any time, on the application of the debtor himself, by petition in writing, unstamped, to be forthwith filed, adjudge him bankrupt and at the same time make a receiving order against him, and such application may be made without notice.
- (3) Where a receiving order is made against a debtor, if the creditors at the first meeting or any adjournment thereof resolve by ordinary resolution that the debtor be adjudged bankrupt or pass no resolution, or if the creditors do not meet, or if a composition or scheme is not accepted or approved in pursuance of this Act within fourteen days after the conclusion of the examination of the debtor or such further time as the court allows, the court shall adjudge the debtor bankrupt.
- (4) When a debtor is adjudged bankrupt his property shall become divisible among his creditors and shall vest in the Director General of Insolvency.
- (5) Notice of every order adjudging a debtor bankrupt, stating the name, address and description of the bankrupt and the date of the adjudication, shall be published in the Gazette and advertised in a local paper as prescribed, and the date of the order shall for the purposes of this Act be the date of the adjudication.

Duties of debtor as to discovery and realization of property

27. (1) Every debtor against whom a receiving order is made shall, unless prevented by sickness or other sufficient cause, attend the first meeting of his creditors and any subsequent meeting of his

creditors which the Director General of Insolvency requires him to attend, and shall submit to such examination and give such information as the meeting requires.

- (2) He shall give such inventory of his property, such list of his creditors and debtors and of the debts due to and from them respectively, submit to such examination in respect of his property or his creditors, wait at such times and places on the Director General of Insolvency, execute such powers of attorney, conveyances, deeds and instruments, and generally do all such acts and things in relation to his property and the distribution of the proceeds amongst his creditors as are reasonably required by the Director General of Insolvency, or are prescribed or directed by the court by any special order or orders made in reference to any particular case or made on the occasion of any special application by the Director General of Insolvency or any creditor or person interested.
- (3) He shall, if adjudged bankrupt, aid to the utmost of his power in the realization of his property, and the distribution of the proceeds among his creditors, and amongst other things shall, if required by the Director General of Insolvency so to do, answer all such questions and shall submit to such medical examination and do all such other things as are necessary for the purpose of effecting an insurance on his life.
- (4) If a debtor wilfully fails to perform the duties imposed on him by this section or to deliver up possession of any part of his property which is divisible amongst his creditors under this Act, and which is for the time being in his possession or under his control, to the Director General of Insolvency or to any person authorized by the court to take possession of it, he shall, in addition to any other punishment to which he may be subject, be guilty of a contempt of court and may be punished accordingly.

Discharge of bankrupt by order of court

33. (1) A bankrupt may at any time after being adjudged bankrupt apply to the court for an order of discharge, and the court shall appoint a day for hearing the application.
- (2) (Deleted by Act A827).
- (3) On the hearing of the application the court shall take into consideration a report of the Director General of Insolvency as to the bankrupt's conduct and affairs, including a report as to the bankrupt's conduct during the proceedings under his bankruptcy, and may either grant or refuse an absolute order of discharge, or

suspend the operation order of discharge subject to any conditions with respect to any earnings or income which may afterwards become due to the bankrupt, or with respect to his after-acquired property.

- (4) In all cases where it is proved to the satisfaction of the court that the bankrupt has committed any offence under this Act
- or
- under any written law repealed by this Act or under section 421, 422, 423 or 424 of the Penal Code [Act 574] the court shall unless for special reasons it otherwise determines either refuse the discharge or suspend the operation of the order until a dividend of not less than fifty per centum has been paid to the creditors, and on proof of any of the facts mentioned in subsection (6) the court shall either—
- (a) refuse the order; or
 - (b) suspend the operation of the order for a specified time; or
 - (c) suspend the operation of the order until a dividend of not less than fifty per centum has been paid to the creditors; or
 - (d) grant an order of discharge subject to such conditions as aforesaid.

The powers of suspending and attaching conditions to a bankrupt's discharge may be exercised concurrently.

- (5) If at any time after the expiration of two years from the date of any order made under this section the bankrupt satisfies the court that there is no reasonable probability of his being in a position to comply with the terms of such order, the court may modify the terms of the order or any subsequent order in such manner and upon such conditions as it thinks fit.
- (6) The facts hereinbefore referred to are—
- (a) that the bankrupt has omitted to keep such books of account as sufficiently disclose his business transactions and financial position within the three years immediately preceding his bankruptcy, or within such shorter period immediately preceding that event as the court deems reasonable in the circumstances;
 - (b) that the bankrupt has continued to trade after knowing or having reason to believe himself to be insolvent;
 - (c) that the bankrupt has contracted any debt provable in the bankruptcy without having at the time of contracting it any reasonable ground of expectation, proof whereof shall lie on him, of being able to pay it;

- (d) that the bankrupt has failed to account satisfactorily for any loss of assets or for any deficiency of assets to meet his liabilities;
 - (e) that the bankrupt has brought on or contributed to his bankruptcy by rash and hazardous speculations or extravagance in living, or by recklessness, or gambling or want of reasonable care and attention to his business and affairs;
 - (f) that the bankrupt has delayed or put any of his creditors to unnecessary expense by a frivolous or vexatious defence to any action or other legal proceedings properly brought or instituted against him;
 - (g) that the bankrupt has brought on or contributed to his bankruptcy by incurring unjustifiable expense in bringing any frivolous or vexatious action;
 - (h) that the bankrupt has within three months preceding the date of the receiving order, when unable to pay his debts as they become due, given an undue preference to any of his creditors;
 - (i) that the bankrupt has within three months preceding the date of the receiving order incurred liabilities with a view to making his assets equal to an amount of fifty ringgit per centum of the amount of his unsecured liabilities;
 - (j) that the bankrupt has in Malaysia or elsewhere on any previous occasion been adjudged bankrupt or made a composition or arrangement with his creditors;
 - (k) that the bankrupt has been guilty of any fraud or fraudulent breach of trust;
 - (l) that the bankrupt has within three months immediately preceding the date of the receiving order sent goods out of Malaysia under circumstances which afford reasonable grounds for believing that the transaction was not a bona fide commercial transaction;
 - (m) that the bankrupt's assets are not of a value equal to fifty ringgit per centum of the amount of his unsecured liabilities, unless he satisfies the court that the fact that the assets are not of a value equal to fifty ringgit per centum of his unsecured liabilities has arisen from circumstances for or in respect of which he cannot justly be held blameable.
- (7) For the purposes of this section a bankrupt's assets shall be deemed of a value equal to fifty ringgit per centum of the amount of his unsecured liabilities when the court is satisfied that the property of the bankrupt has realized or is likely to realize or with due care in realization might have realized an amount equal to fifty ringgit per centum of the amount of his unsecured liabilities and a report by the Director General of Insolvency shall be prima facie evidence of the amount of such liabilities.

- (8) For the purposes of this section the report of the Director General of Insolvency shall be prima facie evidence of the statements therein contained.
- (9) Notice of the appointment by the court of the day for hearing the application for discharge shall be published as prescribed and sent fourteen days at least before the day so appointed to each creditor who has proved, and the court shall hear the Director General of Insolvency, and may also hear any creditor. At the hearing the court may put such questions to the debtor and receive such evidence as it thinks fit.
- (10) The court may, as one of the conditions referred to in this section, require the bankrupt to consent to judgment being entered against him by the Director General of Insolvency for any balance, or part of the balance, of the debts provable under the bankruptcy which is not satisfied at the date of his discharge; but in such case execution shall not be issued on the judgment without leave of the court, which leave may be given on proof that the bankrupt has since his discharge acquired property or income available for payment of his debts.
- (11) (Deleted by Act A1035).
- (12) For the purposes of this section the following presumptions shall be made—
- (a) if at any time after the expiration of six months from the date of the adjudication the Director General of Insolvency reports to the court that the value of the assets which have been realized, together with the estimated value of the assets which are realizable, is insufficient to pay a dividend of fifty ringgit per centum on the debts proved in the bankruptcy, it shall be presumed, until the contrary is proved, that the bankrupt has continued to trade after knowing or having reason to believe himself to be insolvent;
 - (b) in determining whether a bankrupt was, or knew, or had reason to believe himself to be insolvent at any particular date, every debt owing to him by any person resident out of the jurisdiction, which debt had been at such date due for more than twelve months, shall be excluded from the computation of the value of the assets, and for the purpose of such computation shall be deemed not to be an asset;
 - (c) a bankrupt shall be deemed to have continued to trade after knowing or having reason to believe himself to be insolvent if, having continued to trade after he was in fact insolvent, he—
 - (i) is unable to satisfy the court that he had reasonable ground for believing himself to be solvent; or

- (ii) fails without reasonable excuse, proof whereof shall lie on him, to produce a proper balance sheet for each of the three years immediately preceding the bankruptcy, every such balance sheet being made within a reasonable time after the expiration of the year to which it relates, and showing the true state of his affairs at the end of such year;
- (d) any preference given by the bankrupt to any creditor within the three months immediately preceding the date of the receiving order shall, until the contrary is proved, be deemed to be undue.

Discharge of bankrupt by Certificate of Director General of Insolvency

- 33A.(1) The Director General of Insolvency may, in his discretion but subject to section 33B, issue a certificate discharging a bankrupt from bankruptcy.
- (2) The Director General of Insolvency shall not issue a certificate discharging a bankrupt from bankruptcy under subsection (1) unless a period of five years has lapsed since the date the receiving order and the order by which he was adjudged bankrupt were made.
 - (3) Notice of every discharge under subsection (1) shall be given by the Director General of Insolvency to the Registrar and the Director General of Insolvency shall advertise the notice in a local newspaper as prescribed.
 - (4) The Director General of Insolvency shall, upon the application of any interested person, issue a copy of the certificate of discharge to the applicant upon payment of the prescribed fee.
- Objection by creditor to discharge of bankrupt under section 33A

- 33B. (1) Before issuing a certificate of discharge under section 33A, the Director General of Insolvency shall serve on each creditor who has filed a proof of debt a notice of his intention to issue the certificate.
- (2) A creditor who has been served with a notice under subsection (1) and who wishes to object to the issuance of a certificate discharging the bankrupt shall, within twenty-one days from the date of service of the notice, furnish a notice of the objection stating the grounds of his objection.
 - (3) A creditor who does not furnish a notice of his objection and the grounds of his objection in accordance with subsection (2) shall be deemed to have no objection to the discharge.

- (4) A creditor who has furnished a notice of his objection and the grounds of his objection in accordance with subsection (2) may, within twenty-one days of being informed by the Director General of Insolvency that his objection has been rejected, make an application to the court for an order prohibiting the Director General of Insolvency from issuing a certificate of discharge.
- (5) Every application under subsection (4) shall be served on the Director General of Insolvency and on the bankrupt and the court shall hear the Director General of Insolvency and the bankrupt before making an order on the application.
- (6) On an application made under subsection (4), the court may, if it thinks it just and expedient—
 - (a) dismiss the application;
 - (b) make an order that for a period not exceeding two years a certificate of discharge shall not be issued by the Director General of Insolvency.

Effect of discharge

- 35. (1) Subject to this section and any condition imposed by the court under section 33, where a bankrupt is discharged, the discharge shall release him from all his debts provable in the bankruptcy but shall have no effect—
 - (a) on the functions (so far as they remain to be carried out) of the Director General of Insolvency; or
 - (b) on the operation, for the purposes of the carrying out those functions, of the provisions of this Act.
- (2) A discharge shall not release the bankrupt from—
 - (a) any debt, due to the Government of Malaysia or of any State;
 - (b) any debt with which the bankrupt may be chargeable at the suit of—
 - (i) the Government of Malaysia or of any State or any other person for any offence under any written law relating to any branch of the public revenue;
 - or
 - (ii) any other public officer on a bail bond entered into for the appearance of any person prosecuted for any such offence; or
 - (c) any provable debt which he incurred in respect of, or forbearance in respect of which was secured by means of, any fraud or fraudulent breach of trust to which he was party; or
 - (d) any liability in respect of a fine imposed for an offence.

- (3) A bankrupt may be discharged from any of the debts excepted under subsection (2) by a certificate in writing of the Minister of Finance in the case of a debt due to the Government of Malaysia or the Menteri Besar or Chief Minister of any State in the case of a debt due to the State or of the Attorney General in the case of such bail bond as is referred to in subsection (2).
- (4) An order of discharge or a certificate of discharge shall be conclusive evidence of the bankruptcy and of the validity of the proceedings therein, and in any proceedings that are instituted against a bankrupt who has obtained an order of discharge or a certificate of discharge in respect of any debt from which he is released by the order or certificate the bankrupt may plead that the cause of action occurred before his discharge.
- (5) A discharge shall not release any person other than the bankrupt from any liability (whether as partner or co-trustee of the bankrupt or otherwise) from which the bankrupt is released by the discharge, or from any liability as surety for the bankrupt or as a person in nature of such a surety.

Discharged bankrupt to give assistance

- 35(A) A discharged bankrupt shall, notwithstanding his discharge, give such assistance as the Director General of Insolvency requires in the realization and distribution of such of his property as is vested in the Director General of Insolvency, and if the discharged bankrupt fails to do so—
- (a) he shall be guilty of an offence and shall be liable on conviction to a fine not exceeding five thousand ringgit or to imprisonment for a term not exceeding six months or to both; and
 - (b) the court may, if it thinks fit, revoke his discharge, but without prejudice to the validity of any sale, disposition or payment duly made, or thing duly done subsequent to the discharge, but before its revocation.

Consequences of refusal of discharge

38. (1) Where a bankrupt has not obtained his discharge—
- (a) the bankrupt shall be incompetent to maintain any action (other than an action for damages in respect of an injury to his person) without the previous sanction of the Director General of Insolvency;
 - (b) the bankrupt shall once in every six months render to the Director General of Insolvency an account of all moneys and property which have come to his hands for his own use

during the preceding six months, and shall pay and make over to the Director General of Insolvency so much of the same moneys and property as have not been expended in the necessary expenses of maintenance of himself and his family;

- (ba) notwithstanding paragraph (b), the bankrupt shall immediately report to the Director General of Insolvency the receipt of any moneys, property or proceeds in any form from property the value of which exceeds five hundred ringgit and which moneys, property or proceeds do not form part of his usual income and the bankrupt shall, as soon as may be required by the Director General of Insolvency, pay or make over such moneys, property or proceeds to the Director General of Insolvency;
- (bb) the bankrupt shall immediately inform the Director General of Insolvency if there is any change of his home address;
- (c) the bankrupt shall not leave Malaysia without the previous permission of the Director General of Insolvency or of the court;
- (d) the bankrupt shall not, except with the previous permission of the Director General of Insolvency or of the court, enter into or carry on any business either alone or in partnership, or become a director of any company or otherwise directly or indirectly take part in the management of any company;
- (e) the bankrupt shall not, except with the previous permission of the Director General of Insolvency or of the court, engage in the management or control of any business carried on by or on behalf of, or be in the employment of, any of the following persons, namely—
 - (i) his spouse;
 - (ii) a lineal ancestor or a lineal descendant of his or a spouse of such ancestor or descendant; or
 - (iii) a sibling of his or a spouse of such sibling.

(1A) In granting permission under paragraph (c), (d) or (e) of subsection (1), the Director General of Insolvency or the court may impose such conditions as he or it may think fit.

(2) A bankrupt who makes default in performing or observing this section or a condition imposed pursuant to subsection (1A) shall be deemed guilty of a contempt of court, and shall be punished accordingly on the application of the Director General of Insolvency.

Power to prevent bankrupt from leaving Malaysia

- 38A. (1) The Director General of Insolvency may by notice issued to any immigration officer request that a bankrupt be prevented from leaving Malaysia.
- (2) Subject to any order issued or made under any written law relating to banishment or immigration, an immigration officer who receives a notice under subsection (1) in respect of any bankrupt shall take or cause to be taken all such measures as may be necessary to give effect to it.
- (3) An immigration officer shall be empowered to seize and deliver to the Director General of Insolvency any passport or travel document belonging to any bankrupt who is attempting to leave Malaysia without the previous permission of the Director General of Insolvency.
- (4) For the purposes of this section, “immigration officer” means any person appointed under section 3 of the Immigration Act 1959 [Act 155].

SMALL BANKRUPTCIES

Summary administration in small cases¹⁰⁶: In any case where a receiving order has been made and the Director General of Insolvency reports to the court that the assets (after deducting any sums paid to secured creditors in respect of their securities) are unlikely to exceed ten thousand ringgit in value the court may make an order that the debtor’s estate be administered in a summary manner, and thereupon this Act shall be subject to the following modifications:

- (a) no appeal shall lie from any order of the court except by order of the court;
- (b) if during or at the conclusion of the public examination of the debtor it appears to the court that the debtor does not intend to propose a composition or scheme or that for any reason a composition or scheme ought not to be sanctioned the court may, without further process, adjudge the debtor bankrupt;
- (c) the estate where practicable shall be distributed in a single dividend;
- (d) such other modifications may be made in this Act as may be prescribed by rules made by the Minister with the view of saving expense and simplifying procedure; but nothing in this section shall permit the modification of this Act relating to the examination or discharge of the debtor.

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Wage-earner

107. (1) In this part “wage-earner” means a person who is or has been employed on a salary or wage of an amount not exceeding five hundred ringgit per mensem excluding any temporary allowance and whose other income, if any, exclusive of any pension he may receive, does not exceed fifty ringgit per mensem and does not arise from any trade or business in the management of which he takes any part.
- (2) If on examination of a judgment debtor in the High Court or in a Sessions Court or Magistrates Court it appears to such Court—
- (i) that the debtor is a wage-earner; and
 - (ii) that he is indebted to more than one creditor; and
 - (iii) that none of his debts or other liabilities was contracted in any trade or business in the management of which the debtor took part; and
 - (iv) that his liabilities exceed the probable amount of his income during the ensuing six months, such Court shall, unless cause to the contrary be shown, instead of making any order for the payment of the judgment debt or for the committal of the debtor, order the debtor to attend before the Director General of Insolvency and also report the matter to the Director General of Insolvency.

No public examination in small cases

108. (1) In any case where a receiving order has been made and the Director General of Insolvency reports to the court that the debtor is a wage-earner and that none of his debts appears to have been contracted in any trade or business in the management of which the debtor took part, the court may make an order that the debtor’s estate be administered in a summary way and paragraphs 106(a), (c) and (d) shall apply in addition to the following modifications:
- (a) there shall be no public examination unless the court shall by order direct the debtor to attend for a public examination; and
 - (b) (Deleted by Act A827);
 - (c) subsection 43(5) shall not apply.

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- (2) The report furnished to the court under subsection (1) shall be prima facie evidence of the statements contained therein.

PART VII

FRAUDULENT DEBTORS AND CREDITORS

Punishment of fraudulent debtors

109. (1) Any person who has been adjudged bankrupt or in respect of whose estate a receiving order has been made under this Act shall in each of the cases following be punished with imprisonment, which may extend to two years, or with fine or with both:

- (a) if he does not to the best of his knowledge and belief fully and truly discover to the Director General of Insolvency all his property, and how, and to whom, and for what consideration, and when he disposed of any part thereof, except such part as has been disposed of in the ordinary way of his trade, if any, or laid out in the ordinary expenses of his family, unless he proves that he had no intent to defraud;
 - (b) if he does not deliver up to the Director General of Insolvency or as he directs all such part of his property as is in his custody or under his control, and which he is required by law to deliver up, unless he proves that he had no intent to defraud;
 - (c) if he does not deliver up to the Director General of Insolvency or as he directs all books, documents, papers and writings in his custody or under his control relating to his property or affairs, unless he proves that he had no intent to defraud;
 - (d) if after the presentation of a bankruptcy petition by or against him or within twelve months next before such presentation he conceals any part of his property to the value of one hundred ringgit or upwards or conceals any debt due to or from him, unless he satisfies the court that he had no intent to defraud;
 - (e) if after the presentation of a bankruptcy petition by or against him or within twelve months next before such presentation he fraudulently removes any part of his property of the value of one hundred ringgit or upwards;
- 88 Laws of Malaysia ACT 360
- (f) if he makes any material omission in any statement relating to his affairs, unless he proves that he had no intent to defraud;
 - (g) if, knowing, or believing, or having reason to believe, that a false debt has been proved by any person under the bankruptcy, he fails for the period of one month to inform the Director General of Insolvency thereof;
 - (h) if after the presentation of a bankruptcy petition by or against him he prevents the production of any book, document, paper or writing affecting or relating to his

property or affairs, unless he proves that he had no intent to conceal the state of his affairs or to defeat the law;

- (i) if after the presentation of a bankruptcy petition by or against him or within twelve months next before such presentation or service he conceals, destroys, mutilates or falsifies or is privy to the concealment, destruction, mutilation or falsification of any book or document affecting or relating to his property or affairs, unless he proves that he had no intent to conceal the state of his affairs or to defeat the law;
- (j) if after presentation of a bankruptcy petition by or against him or within twelve months next before such presentation or service he makes or is privy to the making of any false entry in any book or document affecting or relating to his property or affairs, unless he proves that he had no intent to conceal the state of his affairs or to defeat the law;
- (k) if after the presentation of a bankruptcy petition by or against him or within twelve months next before such presentation or service he fraudulently parts with, alters or makes any omission in, or is privy to the fraudulently parting with, altering or making any omission in, any document affecting or relating to his property or affairs;
- (l) if after the presentation of a bankruptcy petition by or against him, or at any meeting of his creditors within twelve months next before the presentation thereof, he attempts to account for any part of his property by fictitious losses or expenses;
- (m) if being an undischarged bankrupt—
 - (i) either alone or jointly with any other person he obtains credit to the extent of *one thousand ringgit or upwards, unless he proves that before obtaining the credit he informed the person giving the credit that he was an undischarged bankrupt; or
*NOTE—Previously “one hundred ringgit”—see the ankrupcty (Amendment) Act 2003 [Act A1197].
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 - (ii) either alone or jointly with any other person he engages in any trade or business or enters into any contract in furtherance of any trade or business, unless he proves that before engaging in the trade or business or before entering into the contract he informed the person with whom he engages in the trade or business

or with whom he entered into the contract that he was an undischarged bankrupt;

- (n) if within twelve months next before the presentation of a bankruptcy petition by or against him or after the presentation of a bankruptcy petition and before the making of a receiving order, he by any false representation or other fraud has obtained any property on credit and has not paid for the same;
- (o) if within twelve months next before the presentation of a bankruptcy petition by or against him or after the presentation of a bankruptcy petition and before the making of a receiving order, he obtains, under the false pretence of carrying on business and if a trader of dealing in the ordinary way of his trade, any property on credit and has not paid for the same, unless he proves that he had no intent to defraud;
- (p) if within twelve months next before the presentation of a bankruptcy petition by or against him or after the presentation of a bankruptcy petition and before the making of a receiving order he pawns, pledges or disposes of or sends out of Malaysia any property which he has obtained on credit and not paid for unless in the case of a trader he proves that such pawning, pledging, disposal of or sending out of Malaysia is in the ordinary way of his trade and that in any case he had no intent to defraud;
- (q) if he is guilty of any false representation or other fraud for the purpose of obtaining the consent of his creditors or any of them to any agreement with reference to his affairs or his bankruptcy;
- (r) if having been engaged in any trade or business, and having outstanding at the date of the receiving order any debt contracted in the course and for the purposes of such trade or business—
 - (i) he has, within two years prior to the presentation of the bankruptcy petition, materially contributed to or increased the extent of his insolvency by 90 Laws of Malaysia ACT 360 gambling or by rash and hazardous speculation, and such gambling or speculation is unconnected with his trade or business;
 - (ii) he has, between the date of the presentation of the petition and the date of the receiving order, lost any part of his estate by such gambling or rash and hazardous speculation; or

- (iii) on being required by the Director General of Insolvency at any time, or in the course of this public examination by the court, to account for the loss of any substantial part of his estate incurred within a period of a year next preceding the date of the presentation of the bankruptcy petition, or between that date and the date of the receiving order, he fails to give a satisfactory explanation of the manner in which such loss was incurred: Provided that, in determining for the purpose of this paragraph whether any speculation was rash and hazardous, the financial position of the accused person at the time when he entered into the speculation shall be taken into consideration.
- (2) A person who has sent out of Malaysia any property which he has obtained on credit and not paid for shall, until the contrary is proved, be deemed to have disposed of the same otherwise than in the ordinary way of his trade, if such property not having been paid or accounted for at the date of the receiving order by the person to whom the same was sent, such last-mentioned person cannot be found, or does not pay or account for the same within a reasonable time after being called upon so to do by the Director General of Insolvency.
- (3) Where any person pawns, pledges or disposes of any property in circumstances which amount to an offence under paragraph (1)(p), every person who takes in pawn or pledge or otherwise receives the property knowing it to be pawned, pledged or disposed of in such circumstances shall be guilty of an offence and shall be liable on conviction to be punished with imprisonment which may extend to two years or with fine or with both.
- (4) (Deleted by Act A1197).
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Annexure 6.3Financial Rehabilitation and Insolvency Act of 2010, Philippines

Section 3. Nature of Proceedings. - The proceedings under this Act shall be in rem. Jurisdiction over all persons affected by the proceedings shall be considered as acquired upon publication of the notice of the commencement of the proceedings in any newspaper of general circulation in the Philippines in the manner prescribed by the rules of procedure to be promulgated by the Supreme Court.

The proceedings shall be conducted in a summary and non-adversarial manner consistent with the declared policies of this Act and in accordance with the rules of procedure that the Supreme Court may promulgate.

Section 5. Exclusions. - The term debtor does not include banks, insurance companies, pre-need companies, and national and local government agencies or units.

X x x.

Provided, That government financial institutions other than banks and government-owned or controlled corporations shall be covered by this Act, unless their specific charter provides otherwise.

Section 7. Substantive and Procedural Consolidation. - Each juridical entity shall be considered as a separate entity under the proceedings in this Act. Under these proceedings, the assets and liabilities of a debtor may not be commingled or aggregated with those of another, unless the latter is a related enterprise that is owned or controlled directly or indirectly by the same interests: Provided, however, That the commingling or aggregation of assets and liabilities of the debtor with those of a related enterprise may only be allowed where.

- (a) There was commingling in fact of assets and liabilities of the debtor and the related enterprise prior to the commencement of the proceedings.
- (b) the debtor and the related enterprise have common creditors and it will be more convenient to treat them together rather than separately.
- (c) the related enterprise voluntarily accedes to join the debtor as party petitioner and to commingle its assets and liabilities with the debtor's; and,
- (d) The consolidation of assets and liabilities of the debtor and the related enterprise is beneficial to all concerned and promotes the objectives of rehabilitation.

Provided, finally, That nothing in this section shall prevent the court from joining other entities affiliated with the debtor as parties pursuant to the rules of procedure as may be promulgated by the Supreme Court.

Section 10. Liability of Individual Debtor, Owner of a Sole Proprietorship, Partners in a Partnership, or Directors and Officers. - Individual debtor, owner of a sole proprietorship, partners in a partnership, or directors and officers of a debtor shall be liable for double the value of the property sold, embezzled or disposed of or double the amount of the transaction involved, whichever is higher to be recovered for benefit of the debtor and the creditors, if they, having notice of the commencement of the proceedings, or having reason to believe that proceedings are about to be commenced, or in contemplation of the proceedings, willfully commit the following acts.

- (a) Dispose or cause to be disposed of any property of the debtor other than in the ordinary course of business or authorize or approve any transaction in fraud of creditors or in a manner grossly disadvantageous to the debtor and/or creditors; or,
- (b) Conceal or authorize or approve the concealment, from the creditors, or embezzles or misappropriates, any property of the debtor.

The court shall determine the extent of the liability of an owner, partner, director or officer under this section. In this connection, in case of partnerships and corporations, the court shall consider the amount of the shareholding or partnership or equity interest of such partner, director or officer, the degree of control of such partner, director or officer over the debtor, and the extent of the involvement of such partner, director or debtor in the actual management of the operations of the debtor.

CHAPTER II.

COURT-SUPERVISED REHABILITATION.

(A) Initiation Proceedings.

(1) Voluntary Proceedings.

Section 12. Petition to Initiate Voluntary Proceedings by Debtor. - When approved by the owner in case of a sole proprietorship, or by a majority of the partners in case of a partnership, or in case of a corporation, by a majority vote of the board of directors or trustees and authorized by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, or in case of nonstock corporation, by the vote of at least two-thirds (2/3) of the members, in a stockholder's or member's meeting duly called for the purpose, an insolvent debtor may initiate voluntary proceedings under this Act by filing a petition for rehabilitation with the court and on the grounds hereinafter specifically provided..

The petition shall be verified to establish the insolvency of the debtor and the viability of its rehabilitation, and include, whether as an attachment or as part of the body of the petition, as a minimum the following.

- (a) Identification of the debtor, its principal activities and its addresses.
- (b) Statement of the fact of and the cause of the debtor's insolvency or inability to pay its obligations as they become due.
- (c) The specific relief sought pursuant to this Act.
- (d) The grounds upon which the petition is based.
- (e) Other information that may be required under this Act depending on the form of relief requested.
- (f) Schedule of the debtor's debts and liabilities including a list of creditors with their addresses, amounts of claims and collaterals, or securities, if any.

- (g) An inventory of all its assets including receivables and claims against third parties.
- (h) A Rehabilitation Plan.
- (i) The names of at least three (3) nominees to the position of rehabilitation receiver; and
- (j) Other documents required to be filed with the petition pursuant to this Act and the rules of procedure as may be promulgated by the Supreme Court.

A group of debtors may jointly file a petition for rehabilitation under this Act when one or more of its members foresee the impossibility of meeting debts when they respectively fall due, and the financial distress would likely adversely affect the financial condition and/or operations of the other members of the group and/or the participation of the other members of the group is essential under the terms and conditions of the proposed Rehabilitation Plan.

(2) Involuntary Proceedings.

Section 13. Circumstances Necessary to Initiate Involuntary Proceedings. - Any creditor or group of creditors with a claim of, or the aggregate of whose claims is, at least One Million Pesos (Php1,000,000.00) or at least twenty-five percent (25%) of the subscribed capital stock or partners' contributions, whichever is higher, may initiate involuntary proceedings against the debtor by filing a petition for rehabilitation with the court if.

- (a) there is no genuine issue of fact on law on the claim/s of the petitioner/s, and that the due and demandable payments thereon have not been made for at least sixty (60) days or that the debtor has failed generally to meet its liabilities as they fall due; or,
- (b) a creditor, other than the petitioner/s, has initiated foreclosure proceedings against the debtor that will prevent the debtor from paying its debts as they become due or will render it insolvent.

Section 14. Petition to Initiate Involuntary Proceedings. - The creditor/s' petition for rehabilitation shall be verified to establish the substantial likelihood that the debtor may be rehabilitated, and include,

- (a) identification of the debtor its principal activities and its address,
- (b) the circumstances sufficient to support a petition to initiate involuntary rehabilitation proceedings under Section 13 of this Act,
- (c) the specific relief sought under this Act,

- (d) a Rehabilitation Plan,
- (e) the names of at least three (3) nominees to the position of rehabilitation receiver;
- (f) other information that may be required under this Act depending on the form of relief requested,
&
- (g) other documents required to be filed with the petition pursuant to this Act and the rules of procedure as may be promulgated by the Supreme Court,

(B) Action on the Petition and Commencement of Proceedings,

Section 15. Action on the Petition. - If the court finds the petition for rehabilitation to be sufficient in form and substance, it shall, within five (5) working days from the filing of the petition, issue a Commencement Order. If, within the same period, the court finds the petition deficient in form or substance, the court may, in its discretion, give the petitioner/s a reasonable period of time within which to amend or supplement the petition, or to submit such documents as may be necessary or proper to put the petition in proper order. In such case, the five (5) working days provided above for the issuance of the Commencement Order shall be reckoned from the date of the filing of the amended or supplemental petition or the submission of such documents.

Section 16. Commencement of Proceedings and Issuance of a Commencement Order. - The rehabilitation proceedings shall commence upon the issuance of the Commencement Order, which shall,

- (a) identify the debtor, its principal business or activity/ies and its principal place of business;
- (b) summarize the ground/s for initiating the proceedings,
- (c) state the relief sought under this Act and any requirement or procedure particular to the relief sought.
- (d) state the legal effects of the Commencement Order, including those mentioned in Section 17 hereof.
- (e) declare that the debtor is under rehabilitation;
- (f) direct the publication of the Commencement Order in a newspaper of general circulation in the Philippines once a week for at least two (2) consecutive weeks, with the first publication to be made within seven (7) days from the time of its issuance.

- (g) If the petitioner is the debtor direct the service by personal delivery of a copy of the petition on each creditor holding at least ten percent (10%) of the total liabilities of the debtor as determined from the schedule attached to the petition within five (5) days; if the petitioner/s is/are creditor/s, direct the service by personal delivery of a copy of the petition on the debtor within five (5) days,
- (h) appoint a rehabilitation receiver who may or not be from among the nominees of the petitioner/s and who shall exercise such powers and duties defined in this Act as well as the procedural rules that the Supreme Court will promulgate.
- (i) summarize the requirements and deadlines for creditors to establish their claims against the debtor and direct all creditors to their claims with the court at least five (5) days before the initial hearing.
- (j) direct Bureau of internal Revenue (BIR) to file and serve on the debtor its comment on or opposition to the petition or its claim/s against the debtor under such procedures as the Supreme Court provide.
- (k) prohibit the debtor's suppliers of goods or services from withholding the supply of goods and services in the ordinary course of business for as long as the debtor makes payments for the services or goods supplied after the issuance of the Commencement Order.

- (l) authorize the payment of administrative expenses as they become due.
- (m) set the case for initial hearing, which shall not be more than forty (40) days from the date of filing of the petition for the purpose of determining whether there is substantial likelihood for the debtor to be rehabilitated,
- (n) make available copies of the petition and rehabilitation plan for examination and copying by any interested party.
- (o) indicate the location or locations at which documents regarding the debtor and the proceedings under Act may be reviewed and copied,
 - (p) state that any creditor or debtor who is not the petitioner, may submit the name or nominate any other qualified person to the position of rehabilitation receiver at least five (5) days before the initial hearing,
- (q) include s Stay or Suspension Order which shall,
 - (1) suspend all actions or proceedings, in court or otherwise, for the enforcement of claims against the debtor.
 - (2) suspend all actions to enforce any judgment, attachment or other provisional remedies against the debtor.

- (3) prohibit the debtor from selling, encumbering, transferring or disposing in any manner any of its properties except in the ordinary course of business,&
- (4) prohibit the debtor from making any payment of its liabilities outstanding as of the commencement date except as may be provided herein.

Section 17. Effects of the Commencement Order. - Unless otherwise provided for in this Act, the court's issuance of a Commencement Order shall, in addition to the effects of a Stay or Suspension Order described in Section 16 hereof.

- (a) vest the rehabilitation with all the powers and functions provided for this Act, such as the right to review and obtain records to which the debtor's management and directors have access, including bank accounts or whatever nature of the debtor subject to the approval by the court of the performance bond filed by the rehabilitation receiver,
- (b) prohibit or otherwise serve as the legal basis rendering null and void the results of any extrajudicial activity or process to seize property, sell encumbered property, or otherwise attempt to collection or enforce a claim against the debtor after commencement date unless otherwise allowed in this Act, subject to the provisions of Section 50 hereof.
- (c) serve as the legal basis for rendering null and void any setoff after the commencement date of any debt owed to the debtor by any of the debtor's creditors,
- (d) serve as the legal basis for rendering null and void the perfection of any lien against the debtor's property after the commencement date; and,
- (e) consolidate the resolution of all legal proceedings by and against the debtor to the court Provided. However, That the court may allow the continuation of cases on other courts where the debtor had initiated the suit.

Attempts to seek legal of other resource against the debtor outside these proceedings shall be sufficient to support a finding of indirect contempt of court.

Section 18. Exceptions to the Stay or Suspension Order. - The Stay or Suspension Order shall not apply.

- (a) to cases already pending appeal in the Supreme Court as of commencement date Provided, That any final and executory judgment arising from such appeal shall be referred to the court for appropriate action.

- (b) subject to the discretion of the court, to cases pending or filed at a specialized court or quasi-judicial agency which, upon determination by the court is capable of resolving the claim more quickly, fairly and efficiently than the court: Provided, That any final and executory judgment of such court or agency shall be referred to the court and shall be treated as a non-disputed claim.
- (c) to the enforcement of claims against sureties and other persons solidarily liable with the debtor, and third party or accommodation mortgagors as well as issuers of letters of credit, unless the property subject of the third party or accommodation mortgage is necessary for the rehabilitation of the debtor as determined by the court upon recommendation by the rehabilitation receiver.
- (d) to any form of action of customers or clients of a securities market participant to recover or otherwise claim moneys and securities entrusted to the latter in the ordinary course of the latter's business as well as any action of such securities market participant or the appropriate regulatory agency or self-regulatory organization to pay or settle such claims or liabilities.
- (e) to the actions of a licensed broker or dealer to sell pledged securities of a debtor pursuant to a securities pledge or margin agreement for the settlement of securities transactions in accordance with the provisions of the Securities Regulation Code and its implementing rules and regulations.
- (f) the clearing and settlement of financial transactions through the facilities of a clearing agency or similar entities duly authorized, registered and/or recognized by the appropriate regulatory agency like the Bangko Sentral ng Pilipinas (BSP) and the SEC as well as any form of actions of such agencies or entities to reimburse themselves for any transactions settled for the debtor and,
- (g) any criminal action against individual debtor or owner, partner, director or officer of a debtor shall not be affected by any proceeding commended under this Act.

Section 21. Effectivity and Duration of Commencement Order. - Unless lifted by the court, the Commencement Order shall be for the effective for the duration of the rehabilitation proceedings for as long as there is a substantial likelihood that the debtor will be successfully rehabilitated. In determining whether there is substantial likelihood for the debtor to be successfully rehabilitated, the court shall ensure that the following minimum requirements are met.

- (a) The proposed Rehabilitation Plan submitted complies with the minimum contents prescribed by this Act.
- (b) There is sufficient monitoring by the rehabilitation receiver of the debtor's business for the protection of creditors.

- (c) The debtor has met with its creditors to the extent reasonably possible in attempts to reach consensus on the proposed Rehabilitation Plan.
- (d) The rehabilitation receiver submits a report, based on preliminary evaluation, stating that the underlying assumptions and the goals stated in the petitioner's.

Rehabilitation Plan are realistic reasonable and reasonable or if not, there is, in any case, a substantial likelihood for the debtor to be successfully rehabilitated because, among others:.

- (1) there are sufficient assets with/which to rehabilitate the debtor.
 - (2) there is sufficient cash flow to maintain the operations of the debtor.
 - (3) the debtor's, partners, stockholders, directors and officers have been acting in good faith and which due diligence.
 - (4) the petition is not s sham filing intended only to delay the enforcement of the rights of the creditor's or of any group of creditors; and,
 - (5) the debtor would likely be able to pursue a viable Rehabilitation Plan.
- (e) The petition, the Rehabilitation Plan and the attachments thereto do not contain any materially false or misleading statement.
 - (f) If the petitioner is the debtor, that the debtor has met with its creditor/s representing at least three-fourths (3/4) of its total obligations to the extent reasonably possible and made a good faith effort to reach a consensus on the proposed Rehabilitation Plan if the petitioner/s is/are a creditor or group of creditors, that/ the petitioner/s has/have met with the debtor and made a good faith effort to reach a consensus on the proposed Rehabilitation Plan; and,
 - (g) The debtor has not committed acts misrepresentation or in fraud of its creditor/s or a group of creditors.

Section 22. Action at the Initial Hearing. - At the initial hearing, the court shall:

- (a) determine the creditors who have made timely and proper filing of their notice of claims,

- (b) hear and determine any objection to the qualifications of the appointment of the rehabilitation receiver and, if necessary appoint a new one in accordance with this Act.
- (c) direct the creditors to comment on the petition and the Rehabilitation Plan, and to submit the same to the court and to the rehabilitation receiver within a period of not more than twenty (20) days; &
- (d) direct the rehabilitation receiver to evaluate the financial condition of the debtor and to prepare and submit to the court within forty (40) days from initial hearing the report provided in Section 24 hereof,

Section 23. Effect of Failure to File Notice of Claim. - A creditor whose claim is not listed in the schedule of debts and liabilities and who fails to file a notice of claim in accordance with the Commencement Order but subsequently files a belated claim shall not be entitled to participate in the rehabilitation proceedings but shall be entitled to receive distributions arising therefrom.

Section 24. Report of the Rehabilitation Receiver. - Within forty (40) days from the initial hearing and with or without the comments of the creditors or any of them, the rehabilitation receiver shall submit a report to the court stating his preliminary findings and recommendations on whether.

- (a) the debtor is insolvent and if so, the causes thereof and any unlawful or irregular act or acts committed by the owner/s of a sole proprietorship partners of a partnership or directors or officers of a corporation in contemplation of the insolvency of the debtor or which may have contributed to the insolvency of the debtor.
- (b) the underlying assumptions, the financial goals and the procedures to accomplish such goals as stated in the petitioner's Rehabilitation Plan are realistic, feasible and reasonable.
- (c) there is a substantial likelihood for the debtor to be successfully rehabilitated.
- (d) the petition should be dismissed and,
- (e) the debtor should be dissolved and/or liquidated.

Section 25. Giving Due Course to or Dismissal of Petition, or Conversion of Proceedings. - Within

ten (10) days from receipt of the report of the rehabilitation receiver mentioned in Section 24 hereof the court may.

- (a) give due course to the petition upon a finding that
 - (1) the debtor is insolvent and
 - (2) there is a substantial likelihood for the debtor to be successfully rehabilitated
 - (3) dismiss the petition upon a finding that
- (b) The debtor shall comply with the provisions of the Rehabilitation Plan and shall take all actions necessary to carry out the Plan.
- (c) Payments shall be made to the creditors in accordance with the provisions of the rehabilitation Plan.
- (d) Contracts and other arrangements between the debtor and its creditors shall be interpreted as continuing to apply to the extent that they do not conflict with the provisions of the Rehabilitation Plan.
- (e) Any compromises on amounts or rescheduling of timing of payments by the debtor shall be binding on creditors regardless of whether or not the Plan is successfully implement; and
- (f) Claims arising after approval of the Plan that are otherwise not treated by the Plan are not subject to any Suspension Order.

The Order confirming the Plan shall comply with Rules 36 of the Rules of Court: Provided, however, That the court may maintain jurisdiction over the case in order to resolve claims against the debtor that remain contested and allegations that the debtor has breached the Plan.

Section 72. Period for Confirmation of the Rehabilitation Plan. - The court shall have a maximum period of one (1) year from the date of the filing of the petition to confirm a Rehabilitation Plan.

If no Rehabilitation Plan is confirmed within the said period, the proceedings may upon motion or motu proprio, be converted into one for the liquidation of the debtor .

Section 73. Accounting Discharge of Rehabilitation Receiver. - Upon the confirmation of the Rehabilitation Plan, the rehabilitation receiver shall provide a final report and accounting to the court. Unless the Rehabilitation Plan specifically requires and describes the role of the rehabilitation receiver

after the approval of the Rehabilitation Plan, the court shall discharge the rehabilitation receiver of his duties.

(j) Termination of Proceedings.

Section 74. Termination of Proceedings. - The rehabilitation proceedings under Chapter II shall, upon motion by any stakeholder or the rehabilitation receiver be terminated by order of the court either declaring a successful implementation of the Rehabilitation Plan or a failure of rehabilitation.

There is failure of rehabilitation in the following cases.

- (a) Dismissal of the petition by the court.
- (b) The debtor fails to submit a Rehabilitation Plan,
- (c) Under the Rehabilitation Plan submitted by the debtor, there is no substantial likelihood that the debtor can be rehabilitated within a reasonable period.
- (d) The Rehabilitation Plan or its amendment is approved by the court but in the implementation thereof, the debtor fails to perform its obligations thereunder or there is a failure to realize the objectives, targets or goals set forth therein, including the timelines and conditions for the settlement of the obligations due to the creditors and other claimants.
- (e) The commission of fraud in securing the approval of the Rehabilitation Plan or its amendment; and
- (f) Other analogous circumstances as may be defined by the rules of procedure.

Upon a breach of, or upon a failure of the Rehabilitation Plan the court, upon motion by an affected party may,

- (1) Issue an order directing that the breach be cured within a specified period of time, falling which the proceedings may be converted to a liquidation,
- (2) Issue an order converting the proceedings to a liquidation,

- (3) Allow the debtor or rehabilitation receiver to submit amendments to the Rehabilitation Plan, the approval of which shall be governed by the same requirements for the approval of a Rehabilitation Plan under this subchapter,
- (4) Issue any other order to remedy the breach consistent with the present regulation, other applicable law and the best interests of the creditors; or
- (5) Enforce the applicable provisions of the Rehabilitation Plan through a writ of execution.

Section 75. Effects of Termination. - Termination of the proceedings shall result in the following.

- (a) The discharge of the rehabilitation receiver subject to his submission of a final Accounting and,
- (b) The lifting of the Stay Order and any other court order holding in abeyance any action for the enforcement of a claim against the debtor.

Provided, however, That if the termination of proceedings is due to failure of rehabilitation or dismissal of the petition for reasons other than technical grounds, the proceedings shall be immediately converted to liquidation as provided in Section 92 of this Act.

CHAPTER III.

PRE-NEGOTIATED REHABILITATION.

Section 76. Petition by Debtor. - An insolvent debtor, by itself or jointly with any of its creditors, may file a verified petition with the court for the approval of a pre-negotiated Rehabilitation Plan which has been endorsed or approved by creditors holding at least two-thirds (2/3) of the total liabilities of the debtor, including secured creditors holding more than fifty percent (50%) of the total secured claims of the debtor and unsecured creditors holding more than fifty percent (50%) of the total unsecured claims of the debtor. The petition shall include as a minimum.

- (a) a schedule of the debtor's debts and liabilities,
- (b) an inventory of the debtor's assets.

- (c) the pre-negotiated Rehabilitation Plan, including the names of at least three (3) qualified nominees for rehabilitation receiver, and
- (d) a summary of disputed claims against the debtor and a report on the provisioning of funds to account for appropriate payments should any such claims be ruled valid or their amounts adjusted.

Section 77. Issuance of Order. - Within five (5) working days, and after determination that the petition is sufficient in form and substance, the court shall issue an Order which shall;

- (a) identify the debtor, its principal business of activity/ies and its principal place of business,
- (b) declare that the debtor is under rehabilitation,
- (c) summarize the ground./s for the filing of the petition,
- (d) direct the publication of the Order in a newspaper of general circulation in the Philippines once a week for at least two (2) consecutive weeks, with the first publication to be made within seven (7) days from the time of its issuance,
- (e) direct the service by personal delivery of a copy of the petition on each creditor who is not a petitioner holding at least ten percent (10%) of the total liabilities of the debtor, as determined in the schedule attached to the petition, within three (3) days
- (f) state that copies of the petition and the Rehabilitation Plan are available for examination and copying by any interested party,
- (g) state that creditors and other interested parties opposing the petition or Rehabilitation Plan may file their objections or comments thereto within a period of not later than twenty (20) days from the second publication of the order,
- (h) appoint a rehabilitation receiver, if provided for in the Plan; and
- (i) include a Suspension or Stay Order as described in this Act.

Section 78. Approval of the Plan. - Within ten (10) days from the date of the second publication of the Order, the court shall approve the Rehabilitation Plan unless a creditor or other interested party submits an objection to it in accordance with the next succeeding section.

Section 79. Objection to the Petition or Rehabilitation Plan. - Any creditor or other interested party may submit to the court a verified objection to the petition or the Rehabilitation

Plan not later than eight (8) days from the date of the second publication of the Order mentioned in Section 77 hereof. The objections shall be limited to the following:

- (a) The allegations in the petition or the Rehabilitation Plan or the attachments thereto are materially false or misleading,
 - (b) The majority of any class of creditors do not in fact support the Rehabilitation Plan,
 - (c) The Rehabilitation Plan fails to accurately account for a claim against the debtor and the claim is not categorically declared as a contested claim, or
 - (e) The support of the creditors, or any of them was induced by fraud.
- Copies of any objection to the petition of the Rehabilitation Plan shall be served on the debtor, the rehabilitation receiver (if applicable), the secured creditor with the largest claim and who supports the Rehabilitation Plan, and the unsecured creditor with the largest claim and who supports the Rehabilitation Plan.

Section 80. Hearing on the Objections. - After receipt of an objection, the court shall set the same for hearing. The date of the hearing shall be no earlier than twenty (20) days and no later than thirty (30) days from the date of the second publication of the Order mentioned in Section 77 hereof. If the court finds merit in the objection, it shall direct the debtor, when feasible to cure the defect within a reasonable period. If the court determines that the debtor or creditors supporting the Rehabilitation Plan acted in bad faith, or that the objection is non-curable, the court may order the conversion of the proceedings into liquidation. A finding by the court that the objection has no substantial merit, or that the same has been cured shall be deemed an approval of the Rehabilitation Plan.

Section 81. Period for Approval of Rehabilitation Plan. - The court shall have a maximum period of one hundred twenty (120) days from the date of the filing of the petition to approve the Rehabilitation Plan. If the court fails to act within the said period, the Rehabilitation Plan shall be deemed approved.

Section 82. Effect of Approval. - Approval of a Plan under this chapter shall have the same legal effect as confirmation of a Plan under Chapter II of this Act.

CHAPTER IV.

OUT-OF-COURT OR INFORMAL RESTRUCTURING AGREEMENTS OR REHABILITATION PLANS.

Section 83. Out-of-Court or Informal Restructuring Agreements and Rehabilitation Plans. - An out-of-court or informal restructuring agreement or Rehabilitation Plan that meets the minimum requirements prescribed in this chapter is hereby recognized as consistent with the objectives of this Act.

Section 84. Minimum Requirements of Out-of-Court or Informal Restructuring Agreements and Rehabilitation Plans. - For an out-of-court or informal restructuring/workout agreement or Rehabilitation Plan to qualify under this chapter, it must meet the following minimum requirements:

- (a) The debtor must agree to the out-of-court or informal restructuring/workout agreement or Rehabilitation Plan.
- (b) It must be approved by creditors representing at least sixty-seven (67%) of the secured obligations of the debtor;
- (c) It must be approved by creditors representing at least seventy-five percent (75%) of the unsecured obligations of the debtor, and
- (d) It must be approved by creditors holding at least eighty-five percent (85%) of the total liabilities, secured and unsecured, of the debtor.

Section 85. Standstill Period. - A standstill period that may be agreed upon by the parties pending negotiation and finalization of the out-of-court or informal restructuring/workout agreement or Rehabilitation Plan contemplated herein shall be effective and enforceable not only against the contracting parties but also against the other creditors: Provided, That

- (a) such agreement is approved by creditors representing more than fifty percent (50%) of the total liabilities of the debtor,
- (b) notice thereof is publishing in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks; and (c) the standstill period does not exceed one hundred twenty (120) days from the date of effectivity. The notice must invite creditors to participate in the negotiation for out-of-court rehabilitation or restructuring agreement and notify them that said

agreement will be binding on all creditors if the required majority votes prescribed in Section 84 of this Act are met.

Section 86. Cram Down Effect. - A restructuring/workout agreement or Rehabilitation Plan that is approved pursuant to an informal workout framework referred to in this chapter shall have the same legal effect as confirmation of a Plan under Section 69 hereof. The notice of the Rehabilitation Plan or restructuring agreement or Plan shall be published once a week for at least three (3) consecutive weeks in a newspaper of general circulation in the Philippines. The Rehabilitation Plan or restructuring agreement shall take effect upon the lapse of fifteen (15) days from the date of the last publication of the notice thereof.

Section 87. Amendment or Modification. - Any amendment of an out-of-court restructuring/workout agreement or Rehabilitation Plan must be made in accordance with the terms of the agreement and with due notice on all creditors.

Section 88. Effect of Court Action or Other Proceedings. - Any court action or other proceedings arising from, or relating to, the out-of-court or informal restructuring/workout agreement or Rehabilitation Plan shall not stay its implementation, unless the relevant party is able to secure a temporary restraining order or injunctive relief from the Court of Appeals.

Section 89. Court Assistance. - The insolvent debtor and/or creditor may seek court assistance for the execution or implementation of a Rehabilitation Plan under this Chapter, under such rules of procedure as may be promulgated by the Supreme Court.

CHAPTER V

LIQUIDATION OF INSOLVENT JURIDICAL DEBTORS

Section 90. Voluntary Liquidation. - An insolvent debtor may apply for liquidation by filing a petition for liquidation with the court. The petition shall be verified, shall establish the insolvency of the debtor and shall contain, whether as an attachment or as part of the body of the petition,

- (a) a schedule of the debtor's debts and liabilities including a list of creditors with their

- addresses, amounts of claims and collaterals, or securities, if any;
- (b) an inventory of all its assets including receivables and claims against third parties; and
- (c) the names of at least three (3) nominees to the position of liquidator.

At any time during the pendency of court-supervised or pre-negotiated rehabilitation proceedings, the debtor may also initiate liquidation proceedings by filing a motion in the same court where the rehabilitation proceedings are pending to convert the rehabilitation proceedings into liquidation proceedings. The motion shall be verified, shall contain or set forth the same matters required in the preceding paragraph, and state that the debtor is seeking immediate dissolution and termination of its corporate existence.

If the petition or the motion, as the case may be, is sufficient in form and substance, the court shall issue a Liquidation Order mentioned in Section 112 hereof. Section 91. Involuntary Liquidation. - Three (3) or more creditors the aggregate of whose claims is at least either One million pesos (Php1,000,000.00) or at least twenty-five percent (25%) of the subscribed capital stock or partner's contributions of the debtor, whichever is higher, may apply for and seek the liquidation of an insolvent debtor by filing a petition for liquidation of the debtor with the court.

The petition shall show that,

- (a) there is no genuine issue of fact or law on the claims/s of the petitioner/s, and that the due and demandable payments thereon have not been made for at least one hundred eighty (180) days or that the debtor has failed generally to meet its liabilities as they fall due and
- (b) there is no substantial likelihood that the debtor may be rehabilitated.

At any time during the pendency of or after a rehabilitation court-supervised or pre-negotiated rehabilitation proceedings, three (3) or more creditors whose claims is at least either One million pesos (Php1,000,000.00) or at least twenty-five percent (25%) of the subscribed capital or partner's contributions of the debtor, whichever is higher, may also initiate liquidation proceedings by filing a motion in the same court where the rehabilitation proceedings are pending to convert the rehabilitation proceedings into liquidation proceedings. The motion shall be verified, shall contain or set forth the same matters required in the preceding paragraph, and state that the movants are seeking the immediate liquidation of the debtor.

If the petition or motion is sufficient in form and substance, the court shall issue an Order:

- (1) directing the publication of the petition or motion in a newspaper of general circulation once a week for two (2) consecutive weeks; and
- (2) directing the debtor and all creditors who are not the petitioners to file their comment on the petition or motion within fifteen (15) days from the date of last publication.

If, after considering the comments filed, the court determines that the petition or motion is meritorious, it shall issue the Liquidation Order mentioned in Section 112 hereof.

Section 92. Conversion by the Court into Liquidation Proceedings. - During the pendency of court-supervised or pre-negotiated rehabilitation proceedings, the court may order the conversion of rehabilitation proceedings to liquidation proceedings pursuant to (a) Section 25(c) of this Act; or (b) Section 72 of this Act; or (c) Section 75 of this Act; or (d) Section 90 of this Act; or at any other time upon the recommendation of the rehabilitation receiver that the rehabilitation of the debtor is not feasible. Thereupon, the court shall issue the Liquidation Order mentioned in Section 112 hereof.

Section 93. Powers of the Securities and Exchange Commission (SEC). - The provisions of this chapter shall not affect the regulatory powers of the SEC under Section 6 of Presidential Decree No. 902-A, as amended, with respect to any dissolution and liquidation proceeding initiated and heard before it.

CHAPTER VI

INSOLVENCY OF INDIVIDUAL DEBTORS

(A) Suspension of Payments.

Section 94. Petition. - An individual debtor who, possessing sufficient property to cover all his debts but foreseeing the impossibility of meeting them when they respectively fall due, may file a verified petition that he be declared in the state of suspension of payments by the court of the province or city in which he has resides for six (6) months prior to the filing of his petition. He shall attach to his petition, as a minimum:

- (a) a schedule of debts and liabilities,
- (b) an inventory of assets; and
- (c) a proposed agreement with his creditors.

Section 95. Action on the Petition. - If the court finds the petition sufficient in form and substance, it shall, within five (5) working days from the filing of the petition, issue an Order:

- (a) calling a meeting of all the creditors named in the schedule of debts and liabilities at such time not less than fifteen (15) days nor more than forty (40) days from the date of such Order and designating the date, time and place of the meeting,
- (b) directing such creditors to prepare and present written evidence of their claims before the scheduled creditors' meeting,
- (c) directing the publication of the said order in a newspaper of general circulation published in the province or city in which the petition is filed once a week for two (2) consecutive weeks, with the first publication to be made within seven (7) days from the time of the issuance of the Order,
- (d) directing the clerk of court to cause the sending of a copy of the Order by registered mail, postage prepaid, to all creditors named in the schedule of debts and liabilities,
- (e) forbidding the individual debtor from selling, transferring, encumbering or disposing in any manner of his property, except those used in the ordinary operations of commerce or of industry in which the petitioning individual debtor is engaged so long as the proceedings relative to the suspension of payments are pending;
- (f) prohibiting the individual debtor from making any payment outside of the necessary or legitimate expenses of his business or industry, so long as the proceedings relative to the suspension of payments are pending; and
- (g) appointing a commissioner to preside over the creditors' meeting.

Section 96. Actions Suspended. - Upon motion filed by the individual debtor, the court may issue an order suspending any pending execution against the individual debtor. Provide, That properties held as security by secured creditors shall not be the subject of such suspension order. The suspension order shall lapse when three (3) months shall have passed without the proposed agreement being accepted by the creditors or as soon as such agreement is denied. No creditor shall sue or institute proceedings to collect his claim from the debtor from the time of the filing of the petition for suspension of payments and for as long as proceedings remain pending except,

- (a) those creditors having claims for personal labor, maintenance, expense of last illness and funeral of the wife or children of the debtor incurred in the sixty (60) days immediately prior to the filing of the petition; and
- (b) secured creditors.

Section 97. Creditors' Meeting. - The presence of creditors holding claims amounting to at least three-fifths (3/5) of the liabilities shall be necessary for holding a meeting. The commissioner appointed by the court shall preside over the meeting and the clerk of court shall act as the secretary thereof, subject to the following rules:

- (a) The clerk shall record the creditors present and amount of their respective claims,
- (b) The commissioner shall examine the written evidence of the claims. If the creditors present hold at least three-fifths (3/5) of the liabilities of the individual debtor, the commissioner shall declare the meeting open for business,
- (c) The creditors and individual debtor shall discuss the propositions in the proposed agreement and put them to a vote,
- (d) To form a majority, it is necessary,
 - (1) that two-thirds (2/3) of the creditors voting unite upon the same proposition and
 - (2) that the claims represented by said majority vote amount to at least three-fifths (3/5) of the total liabilities of the debtor mentioned in the petition;
- (e) After the result of the voting has been announced, all protests made against the majority vote shall be drawn up, and the commissioner and the individual debtor together with all creditors taking part in the voting shall sign the affirmed propositions. No creditor who incurred his credit within ninety (90) days prior to the filing of the petition shall be entitled to vote.

Section 98. Persons Who May Refrain From Voting. - Creditors who are unaffected by the Suspension Order may refrain from attending the meeting and from voting therein. Such persons shall not be bound by any agreement determined upon at such meeting, but if they should join in the voting they shall be bound in the same manner as are the other creditors.

Section 99. Rejection of the Proposed Agreement. - The proposed agreement shall be deemed rejected if the number of creditors required for holding a meeting do not attend thereat, or if the two (2) majorities mentioned in Section 97 hereof are not in favor thereof. In such instances, the proceeding shall be terminated without recourse and the parties concerned shall be at liberty to enforce the rights which may correspond to them.

Section 100. Objections. - If the proposal of the individual debtor, or any amendment thereof made during the creditors' meeting, is approved by the majority of creditors in accordance with Section 97 hereof, any creditor who attended the meeting and who dissented from and protested against the vote of the majority may file an objection with the court within ten (10) days from the date of the last creditors' meeting. The causes for which objection may be made to the decision made by the majority during the meeting shall be: (a) defects in the call for the meeting, in the holding thereof and in the deliberations had thereat which prejudice the rights of the creditors; (b) fraudulent connivance between one or more creditors and the individual debtor to vote in favor of the proposed agreement; or (c) fraudulent conveyance of claims for the purpose of obtaining a majority. The court shall hear and pass upon such objection as soon as possible and in a summary manner. In case the decision of the majority of creditors to approve the individual debtor's proposal or any amendment thereof made during the creditors' meeting is annulled by the court, the court shall declare the proceedings terminated and the creditors shall be at liberty to exercise the rights which may correspond to them.

Section 101. Effects of Approval of Proposed Agreement. - If the decision of the majority of the creditors to approve the proposed agreement or any amendment thereof made during the creditors' meeting is upheld by the court, or when no opposition or objection to said decision has been presented,

the court shall order that the agreement be carried out and all parties bound thereby to comply with its terms.

The court may also issue all orders which may be necessary or proper to enforce the agreement on motion of any affected party. The Order confirming the approval of the proposed agreement or any amendment thereof made during the creditors' meeting shall be binding upon all creditors whose claims are included in the schedule of debts and liabilities submitted by the individual debtor and who were properly summoned, but not upon: (a) those creditors having claims for personal labor, maintenance, expenses of last illness and funeral of the wife or children of the debtor incurred in the sixty (60) days immediately prior to the filing of the petition; and (b) secured creditors who failed to attend the meeting or refrained from voting therein.

Section 102. Failure of Individual Debtor to Perform Agreement. - If the individual debtor fails, wholly or in part, to perform the agreement decided upon at the meeting of the creditors, all the rights which the creditors had against the individual debtor before the agreement shall revert in them. In such case the individual debtor may be made subject to the insolvency proceedings in the manner established by _____ this _____ Act.

(B) Voluntary Liquidation.

Section 103. Application. - An individual debtor whose properties are not sufficient to cover his liabilities, and owing debts exceeding Five hundred thousand pesos (Php500,000.00), may apply to be discharged from his debts and liabilities by filing a verified petition with the court of the province or city in which he has resided for six (6) months prior to the filing of such petition. He shall attach to his petition a schedule of debts and liabilities and an inventory of assets. The filing of such petition shall be an _____ act _____ of _____ insolvency.

Section 104. Liquidation Order. - If the court finds the petition sufficient in form and substance it shall, within five (5) working days issue the Liquidation Order mentioned in Section 112 hereof.

(C) In voluntary Liquidation.

Section 105. Petition; Acts of Insolvency. - Any creditor or group of creditors with a claim of, or with claims aggregating at least Five hundred thousand pesos (Php500, 000.00) may file a verified petition for liquidation with the court of the province or city in which the individual debtor resides.

The following shall be considered acts of insolvency, and the petition for liquidation shall set forth or allege at least one of such acts,

- (a) That such person is about to depart or has departed from the Republic of the Philippines, with intent to defraud his creditors,
- (b) That being absent from the Republic of the Philippines, with intent to defraud his creditors, he remains absent
- (c) That he conceals himself to avoid the service of legal process for the purpose of hindering or delaying the liquidation or of defrauding his creditors;
- (d) That he conceals, or is removing, any of his property to avoid its being attached or taken on legal process,
- (e) That he has suffered his property to remain under attachment or legal process for three (3) days for the purpose of hindering or delaying the liquidation or of defrauding his creditors,
- (f) That he has confessed or offered to allow judgment in favor of any creditor or claimant for the purpose of hindering or delaying the liquidation or of defrauding any creditors or claimant,
- (g) That he has willfully suffered judgment to be taken against him by default for the purpose of hindering or delaying the liquidation or of defrauding his creditors;
- (h) That he has suffered or procured his property to be taken on legal process with intent to give a preference to one or more of his creditors and thereby hinder or delay the liquidation or defraud any one of his creditors;
- (i) That he has made any assignment, gift, sale, conveyance or transfer of his estate, property, rights or credits with intent to hinder or delay the liquidation or defraud his creditors;
- (j) That he has, in contemplation of insolvency, made any payment, gift, grant, sale, conveyance or transfer of his estate, property, rights or credits;
- (k) That being a merchant or tradesman, he has generally defaulted in the payment of his current obligations for a period of thirty (30) days;

- (l) That for a period of thirty (30) days, he has failed, after demand, to pay any moneys deposited with him or received by him in a fiduciary; and
- (m) That an execution having been issued against him on final judgment for money, he shall have been found to be without sufficient property subject to execution to satisfy the judgment.

The petitioning creditor/s shall post a bond in such as the court shall direct, conditioned that if the petition for liquidation is dismissed by the court, or withdrawn by the petitioner, or if the debtor shall not be declared an insolvent the petitioners will pay to the debtor all costs, expenses, damages occasioned by the proceedings and attorney's fees.

Section 106. Order to Individual Debtor to Show Cause. - Upon the filing of such creditors' petition, the court shall issue an Order requiring the individual debtor to show cause, at a time and place to be fixed by the said court, why he should not be adjudged an insolvent. Upon good cause shown, the court may issue an Order forbidding the individual debtor from making payments of any of his debts, and transferring any property belonging to him. However, nothing contained herein shall affect or impair the rights of a secured creditor to enforce his lien in accordance with its terms.

Section 107. Default. - If the individual debtor shall default or if, after trial, the issues are found in favor of the petitioning creditors the court shall issue the Liquidation Order mentioned in Section 112 hereof.

Section 108. Absent Individual Debtor. - In all cases where the individual debtor resides out of the Republic of the Philippines; or has departed therefrom; or cannot, after due diligence, be found therein; or conceals himself to avoid service of the Order to show cause, or any other preliminary process or orders in the matter, then the petitioning creditors, upon submitting the affidavits requisite to procure an Order of publication, and presenting a bond in double the amount of the aggregate sum of their claims against the individual debtor, shall be entitled to an Order of the court directing the sheriff of the province or city in which the matter is pending to take into his custody a sufficient amount of property of the individual debtor to satisfy the demands of the petitioning creditors and the costs of the proceedings. Upon receiving such Order of the court to take into custody of the property of the individual debtor, it shall be the duty of the sheriff to take possession of the property and effects of the individual debtor, not exempt from execution, to an extent sufficient to cover the amount provided for and to prepare within

three (3) days from the time of taking such possession, a complete inventory of all the property so taken, and to return it to the court as soon as completed.

The time for taking the inventory and making return thereof may be extended for good cause shown to the court. The sheriff shall also prepare a schedule of the names and residences of the creditors, and the amount due each, from the books of the debtor, or from such other papers or data of the individual debtor available as may come to his possession, and shall file such schedule or list of creditors and inventory with the clerk of court.

Section 109. All Property Taken to be Held for All Creditors; Appeal Bonds; Exemptions to Sureties.

- In all cases where property is taken into custody by the sheriff, if it does not embrace all the property and effects of the debtor not exempt from execution, any other creditor or creditors of the individual debtor, upon giving bond to be approved by the court in double the amount of their claims, singly or jointly, shall be entitled to similar orders and to like action, by the sheriff; until all claims be provided for, if there be sufficient property or effects. All property taken into custody by the sheriff by virtue of the giving of any such bonds shall be held by him for the benefit of all creditors of the individual debtor whose claims shall be duly proved as provided in this Act. The bonds provided for in this section and the preceding section to procure the order for custody of the property and effects of the individual debtor shall be conditioned that if, upon final hearing of the petition in insolvency, the court shall find in favor of the petitioners, such bonds and all of them shall be void; if the decision be in favor of the individual debtor, the proceedings shall be dismissed, and the individual debtor, his heirs, administrators, executors or assigns shall be entitled to recover such sum of money as shall be sufficient to cover the damages sustained by him, not to exceed the amount of the respective bonds. Such damages shall be fixed and allowed by the court. If either the petitioners or the debtor shall appeal from the decision of the court, upon final hearing of the petition, the appellant shall be required to give bond to the successful party in a sum double the amount of the value of the property in controversy, and for the costs of the proceedings.

Any person interested in the estate may take exception to the sufficiency of the sureties on such bond or bonds. When excepted to the petitioner's sureties, upon notice to the person excepting of not less than two (2) nor more than five (5) days, must justify as to their sufficiency; and upon failure to justify, or if others in their place fail to justify at the time and place appointed the judge shall issue an Order vacating the order to take the property of the individual debtor into the custody of the sheriff, or denying the

appeal, as the case may be.

Section 110. Sale Under Execution. - If, in any case, proper affidavits and bonds are presented to the court or a judge thereof, asking for and obtaining an Order of publication and an Order for the custody of the property of the individual debtor and thereafter the petitioners shall make it appear satisfactorily to the court or a judge thereof that the interest of the parties to the proceedings will be subserved by a sale thereof, the court may order such property to be sold in the same manner as property is sold under execution, the proceeds to be deposited in the court to abide by the result of the proceedings.

CHAPTER VII

PROVISIONS COMMON TO LIQUIDATION IN INSOLVENCY OF INDIVIDUAL AND JURIDICAL DEBTORS

(A) The Liquidation Order.

Section 112. Liquidation Order. - The Liquidation Order shall:

- (a) declare the debtor insolvent,
- (b) order the liquidation of the debtor and, in the case of a juridical debtor, declare it as dissolved,
- (c) order the sheriff to take possession and control of all the property of the debtor, except those that may be exempt from execution;
- (d) order the publication of the petition or motion in a newspaper of general circulation once a week for two (2) consecutive weeks;
- (e) direct payments of any claims and conveyance of any property due the debtor to the liquidator;
- (f) prohibit payments by the debtor and the transfer of any property by the debtor;
- (g) direct all creditors to file their claims with the liquidator within the period set by the rules of procedure;
- (h) authorize the payment of administrative expenses as they become due;

- (i) state that the debtor and creditors who are not petitioner/s may submit the names of other nominees to the position of liquidator; and
- (j) set the case for hearing for the election and appointment of the liquidator, which date shall not be less than thirty (30) days nor more than forty-five (45) days from the date of the last publication.

Section 113. Effects of the Liquidation Order. - Upon the issuance of the Liquidation Order:

- (a) the juridical debtor shall be deemed dissolved and its corporate or juridical existence terminated,
- (b) legal title to and control of all the assets of the debtor, except those that may be exempt from execution, shall be deemed vested in the liquidator or, pending his election or appointment, with the court
- (c) all contracts of the debtor shall be deemed terminated and/or breached, unless the liquidator, within ninety (90) days from the date of his assumption of office, declares otherwise and the contracting party agrees,
- (d) no separate action for the collection of an unsecured claim shall be allowed.

Such actions already pending will be transferred to the Liquidator for him to accept and settle or contest. If the liquidator contests or disputes the claim, the court shall allow, hear and resolve such contest except when the case is already on appeal. In such a case, the suit may proceed to judgment, and any final and executor judgment therein for a claim against the debtor shall be filed and allowed in court; and

- (e) no foreclosure proceeding shall be allowed for a period of one hundred eighty (180) days.

Section 114. Rights of Secured Creditors. - The Liquidation Order shall not affect the right of a secured creditor to enforce his lien in accordance with the applicable contract or law. A secured creditor may,

- (a) waive his right under the security or lien, prove his claim in the liquidation proceedings and share in the distribution of the assets of the debtor, or
- (b) maintain his rights under the security or lien,
If the secured creditor maintains his rights under the security or lien,
 - (1) the value of the property may be fixed in a manner agreed upon by the creditor and the

liquidator. When the value of the property is less than the claim it secures, the liquidator may convey the property to the secured creditor and the latter will be admitted in the liquidation proceedings as a creditor for the balance. If its value exceeds the claim secured, the liquidator may convey the property to the creditor and waive the debtor's right of redemption upon receiving the excess from the creditor,

- (2) the liquidator may sell the property and satisfy the secured creditor's entire claim from the proceeds of the sale, or
- (3) the secure creditor may enforce the lien or foreclose on the property pursuant to applicable laws.

(B) The Liquidator.

Section 115. Election of Liquidator. - Only creditors who have filed their claims within the period set by the court, and whose claims are not barred by the statute of limitations, will be allowed to vote in the election of the liquidator. A secured creditor will not be allowed to vote, unless:

- (a) he waives his security or lien, or
- (b) has the value of the property subject of his security or lien fixed by agreement with the liquidator, and is admitted for the balance of his claim.

The creditors entitled to vote will elect the liquidator in open court. The nominee receiving the highest number of votes cast in terms of amount of claims, and who is qualified pursuant to Section 118 hereof, shall be appointed as the liquidator.

Section 116. Court-Appointed Liquidator. - The court may appoint the liquidator if,

- (a) on the date set for the election of the liquidator, the creditors do not attend,
- (b) the creditors who attend, fail or refuse to elect a liquidator,
- (c) after being elected, the liquidator fails to qualify, or
- (d) a vacancy occurs for any reason whatsoever, In any of the cases provided herein, the court may instead set another hearing of the election of the liquidator.

Provided further, That nothing in this section shall be construed to prevent a rehabilitation receiver, who was administering the debtor prior to the commencement of the liquidation, from being appointed as a liquidator.

Section 119. Powers, Duties and Responsibilities of the Liquidator. - The liquidator shall be deemed an officer of the court with the principal duty of preserving and maximizing the value and recovering the assets of the debtor, with the end of liquidating them and discharging to the extent possible all the claims against the debtor. The powers, duties and responsibilities of the liquidator shall include, but not limited to:

- (a) to sue and recover all the assets, debts and claims, belonging or due to the debtor,
- (b) to take possession of all the property of the debtor except property exempt by law from execution,
- (c) to sell, with the approval of the court, any property of the debtor which has come into his possession or control,
- (d) to redeem all mortgages and pledges, and so satisfy any judgement which may be an encumbrance on any property sold by him,
- (e) to settle all accounts between the debtor and his creditors, subject to the approval of the court,
- (f) to recover any property or its value, fraudulently conveyed by the debtor,
- (g) to recommend to the court the creation of a creditors' committee which will assist him in the discharge of the functions and which shall have powers as the court deems just, reasonable and necessary, and
- (h) upon approval of the court, to engage such professional as may be necessary and reasonable to assist him in the discharge of his duties.

In addition to the rights and duties of a rehabilitation receiver, the liquidator, shall have the right and duty to take all reasonable steps to manage and dispose of the debtor's assets with a view towards maximizing the proceedings therefrom, to pay creditors and stockholders, and to terminate the debtor's legal existence. Other duties of the liquidator in accordance with this section may be established by procedural rules.

A liquidator shall be subject to removal pursuant to procedures for removing a rehabilitation receiver.

(C) Determination of Claims

Section 123. Registry of Claims. - Within twenty (20) days from his assumption into office the liquidator shall prepare a preliminary registry of claims of secured and unsecured creditors. Secured creditors who have waived their security or lien, or have fixed the value of the property subject of their security or lien by agreement with the liquidator and is admitted as a creditor for the balance, shall be considered as unsecured creditors. The liquidator shall make the registry available for public inspection and provide publication notice to creditors, individual debtors owner/s of the sole proprietorship-debtor, the partners of the partnership-debtor and shareholders or members of the corporation-debtor, on where and when they may inspect it. All claims must be duly proven before being paid.

Section 124. Right of Set-off. - If the debtor and creditor are mutually debtor and creditor of each other one debt shall be set off against the other, and only the balance, if any shall be allowed in the liquidation proceedings.

Section 125. - Opposition or Challenge to Claims. - Within thirty (30) days from the expiration of the period for filing of applications for recognition of claims, creditors, individual debtors, owner/s of the sole proprietorship-debtor, partners of the partnership-debtor and shareholders or members of the corporation -debtor and other interested parties may submit a challenge to claim or claims to the court, serving a certified copy on the liquidator and the creditor holding the challenged claim. Upon the expiration of the (30) day period, the rehabilitation receiver shall submit to the court the registry of claims containing the undisputed claims that have not been subject to challenge. Such claims shall become final upon the filling of the register and may be subsequently set aside only on grounds of fraud, accident, mistake or inexcusable neglect.

Section 126. Submission of Disputed to the Court. - The liquidator shall resolve disputed claims and submit his findings thereon to the court for final approval. The liquidator may disallow claims.

(D) Avoidance Proceedings.

Section 127. Rescission or Nullity of Certain Transactions. - Any transaction occurring prior to the issuance of the Liquidation Order or, in case of the conversion of the rehabilitation proceedings prior to the commencement date, entered into by the debtor or involving its assets, may be rescinded or declared null and void on the ground that the same was executed with intent to defraud a creditor or creditors or which constitute undue preference of creditors. The presumptions set forth in Section 58 hereof shall apply.

Section 128. Actions for Rescission or Nullity. –

- (a) The liquidator or, with his conformity, a creditor may initiate and prosecute any action to rescind, or declare null and void any transaction described in the immediately preceding paragraph. If the liquidator does not consent to the filing or prosecution of such action, any creditor may seek leave of the court to commence said action.
- (b) if leave of court is granted under subsection (a) hereof, the liquidator shall assign and transfer to the creditor all rights, title and interest in the chose in action or subject matter of the proceeding, including any document in support thereof.
- (c) Any benefit derived from a proceeding taken pursuant to subsection (a) hereof, to the extent of his claim and the costs, belongs exclusively to the creditor instituting the proceeding, and the surplus, if any, belongs to the estate.
- (d) Where, before an order is made under subsection (a) hereof, the liquidator signifies to the court his readiness to institute the proceeding for the benefit of the creditors, the order shall fix the time within which he shall do so and, in that case the benefit derived from the proceedings, if instituted within the time limits so fixed, belongs to the estate.

(E) The Liquidation Plan.

Section 129. The Liquidation Plan. - Within three (3) months from his assumption into office, the Liquidator shall submit a Liquidation Plan to the court. The Liquidation Plan shall, as a minimum

enumerate all the assets of the debtor and a schedule of liquidation of the assets and payment of the claims.

Section 130. Exempt Property to be Set Apart. - It shall be the duty of the court, upon petition and after hearing, to exempt and set apart, for the use and benefit of the said insolvent, such real and personal property as is by law exempt from execution, and also a homestead; but no such petition shall be heard as aforesaid until it is first proved that notice of the hearing of the application therefor has been duly given by the clerk, by causing such notice to be posted in at least three (3) public places in the province or city at least ten (10) days prior to the time of such hearing, which notice shall set forth the name of the said insolvent debtor, and the time and place appointed for the hearing of such application, and shall briefly indicate the homestead sought to be exempted or the property sought to be set aside; and the decree must show that such proof was made to the satisfaction of the court, and shall be conclusive evidence of that fact.

Section 131. Sale of Assets in Liquidation. - The liquidator may sell the unencumbered assets of the debtor and convert the same into money. The sale shall be made at public auction. However, a private sale may be allowed with the approval of the court if; (a) the goods to be sold are of a perishable nature, or are liable to quickly deteriorate in value, or are disproportionately expensive to keep or maintain; or (b) the private sale is for the best interest of the debtor and his creditors.

With the approval of the court, unencumbered property of the debtor may also be conveyed to a creditor in satisfaction of his claim or part thereof.

Section 132. manner of Implementing the Liquidation Plan. - The Liquidator shall implement the Liquidation Plan as approved by the court. Payments shall be made to the creditors only in accordance with the provisions of the Plan.

Section 133. Concurrence and Preference of Credits. - The Liquidation Plan and its Implementation shall ensure that the concurrence and preference of credits as enumerated in the Civil Code of the Philippines and other relevant laws shall be observed, unless a preferred creditor voluntarily waives his

preferred right. For purposes of this chapter, credits for services rendered by employees or laborers to the debtor shall enjoy first preference under Article 2244 of the Civil Code, unless the claims constitute legal liens under Article 2241 and 2242 thereof.

Section 134. Order Removing the Debtor from the List of Registered Entities at the Securities and Exchange Commission. - Upon determining that the liquidation has been completed according to this Act and applicable law, the court shall issue an Order approving the report and ordering the SEC to remove the debtor from the registry of legal entities.

Section 135. Termination of Proceedings. - Upon receipt of evidence showing that the debtor has been removed from the registry of legal entities at the SEC. The court shall issue an Order terminating the proceedings.

(F) Liquidation of a Securities Market Participant.

Section 136. Liquidation of a Securities Market Participant. - The foregoing provisions of this chapter shall be without prejudice to the power of a regulatory agency or self-regulatory organization to liquidate trade-related claims of clients or customers of a securities market participant which, for purposes of investor protection, are hereby deemed to have absolute priority over other claims of whatever nature or kind insofar as trade-related assets are concerned. For purposes of this section, trade-related assets include cash, securities, trading right and other owned and used by the securities market participant in the ordinary course of this business.

CHAPTER VIII

PROCEEDINGS ANCILLARY TO OTHER INSOLVENCY OR REHABILITATION PROCEEDINGS

(B) Cross-Border Insolvency Proceedings.

Section 139. Adoption of Uncitral Model Law on Cross-Border Insolvency. - Subject to the provision of Section 136 hereof and the rules of procedure that may be adopted by the Supreme Court, the Model Law on Cross-Border Insolvency of the United Nations Center for International Trade and Development is hereby adopted as part of this Act.

Section 140. Initiation of Proceedings. - The court shall set a hearing in connection with an insolvency or rehabilitation proceeding taking place in a foreign jurisdiction, upon the submission of a petition by the representative of the foreign entity that is the subject of the foreign proceeding.

Section 141. Provision of Relief. - The court may issue orders,

- (a) suspending any action to enforce claims against the entity or otherwise seize or foreclose on property of the foreign entity located in the Philippines,
- (b) requiring the surrender property of the foreign entity to the foreign representative,
- (c) providing other necessary relief.

Section 142. Factors in Granting Relief. - In determining whether to grant relief under this subchapter, the court shall consider,

- (a) the protection of creditors in the Philippines and the inconvenience in pursuing their claim in a foreign proceeding,
- (b) the just treatment of all creditors through resort to a unified insolvency or rehabilitation proceedings,
- (c) whether other jurisdictions have given recognition to the foreign proceeding;
- (d) the extent that the foreign proceeding recognizes the rights of creditors and other interested parties in a manner substantially in accordance with the manner prescribed in this Act; and
- (e) the extent that the foreign proceeding has recognized and shown deference to proceedings under this Act and previous legislation.

CHAPTER X

MISCELLANEOUS PROVISIONS

Section 145. Penalties. - An owner, partner, director, officer or other employee of the debtor who commits any one of the following acts shall, upon conviction thereof, be punished by a fine of not more than One million pesos (Php 1, 000,000.00) and imprisonment for not less than three(3) months nor more than five (5) years for each offense;

- (a) if he shall, having notice of the commencement of the proceedings, or having reason to believe that proceedings are about to be commenced, or in contemplation of the proceedings hide or conceal, or destroy or cause to be destroyed or hidden any property belonging to the debtor or if he shall hide, destroy, alter, mutilate or falsify, or cause to be hidden, destroyed, altered, mutilated or falsified, any book, deed, document or writing relating thereto; if he shall, with intent to defraud the creditors of the debtor, make any payment sale, assignment, transfer or conveyance of any property belonging to the debtor
- (b) if he shall, having knowledge or belief of any person having proved a false or fictitious claim against the debtor, fail to disclose the same to the rehabilitation receiver or liquidator within one

(1) month after coming to said knowledge or belief; or if he shall attempt to account for any of the debtors property by fictitious losses or expense or

- (c) if he shall knowingly violate a prohibition or knowingly fail to undertake an obligation established by this Act.

Annexure 6.4**Korean Act on Rehabilitation and Bankruptcy of Debtors,
also known as the Unified Insolvency Law, 2006.**Legal framework and the effectiveness of court processes/legal remedies

A creditor must first obtain a court judgment against the debtor in connection with the unsecured debt. Upon the creditor's petition for enforcement of the judgment, the court will order that the debtor's assets be attached and disposed of –

- (a) Normally through a public auction, the sale proceeds, net of expenses, are then distributed to the creditor. If necessary, the creditor may file a petition for preliminary attachment prior to filing a formal lawsuit.
- (b) A secured creditor need not obtain a court judgment. Depending on the nature of the security and the terms and conditions of the security agreement, the creditor can either enforce its security rights directly or petition the court to proceed with enforcement.
- (c) Under the bankruptcy chapter of the Unified Insolvency Law, an insolvent debtor company or its creditors may file an application for bankruptcy. Upon an adjudication of bankruptcy, the court will appoint a trustee to conduct the liquidation process.
- (d) Formal corporate rescues are governed by the corporate rehabilitation chapter of the Unified Insolvency Law. Previously, under the Corporate Reorganisation Act, only joint stock companies were eligible for corporate reorganisation. Under the Unified Insolvency Law, however, all forms of companies are now eligible for corporate rehabilitation. An application for corporate rehabilitation may be filed if:
 - the company cannot pay its debts as they fall due without a significant impact on business continuity; or

- there is a fear that the company will enter into bankruptcy.

Companies typically file for corporate rehabilitation on a voluntary basis. However, in the case of limited liability companies and joint stock companies, creditors with claims amounting to at least 10 per cent of the company's paid-up capital may apply for corporate rehabilitation. For other types of company, creditors with claims amounting to at least KRW50 million may file a petition for corporate rehabilitation. Shareholders owning at least 10 per cent of the company's total issued and outstanding shares, or equity holders owning at least 10 per cent of the company's total equity, may also apply for corporate rehabilitation. The court will appoint a receiver to manage the company under court supervision and in accordance with the rehabilitation plan. A creditors' council, consisting of the major creditors, is also set up, unless the debtor is a small to medium-sized company. The creditors' council adjusts the creditors' interests and conveys the creditors' opinions to the court. The company's debts are restructured or rescheduled in accordance with the rehabilitation plan.

- (e) Informal corporate rescue processes Joint management by creditor financial institutions under the Corporate Restructuring Promotion Act is used as a typical out-of-court restructuring method. Any insolvent company owing over KRW50 billion to creditor financial institutions is subject to the Corporate Restructuring Promotion Act. The act defines 'creditor financial institutions' as all local financial institutions, and most branches of foreign financial institutions, in the Republic of Korea.

In other cases a debtor company may seek a 'private composition' – that is, an out-of-court debt rescheduling in accordance with one or more private individual agreements with creditors.

Formal processes to effect a liquidation of the company's assets

The formal process to effect a liquidation of an insolvent company is through bankruptcy proceedings. Where the court recognises that there are proceeds appropriate for distribution, it must distribute these to the creditors in accordance with the priority of claims as listed in the distribution list, which is established through the filing and examination of claims.

The effect on debt collection and thenforcement of security of:

(a) An adjudication of corporate bankruptcy/liquidation?

Upon an adjudication of bankruptcy, the debtor's assets are transferred to the bankruptcy estate. The trustee conducts the liquidation of the bankruptcy estate, which is subject to creditors' security rights. No unsecured creditor may individually enforce its claims, but security rights are unaffected and secured creditors can enforce their rights individually.

(b) The commencement of a formal corporate rescue process?

The Unified Insolvency Law provides for an interim period between filing and the commencement of proceedings. During this time the company's assets may be preserved for rehabilitation and distribution under a rehabilitation plan. The court must issue a decision on whether to grant a provisional preservation order within two weeks of the filing date, and a decision on whether to commence rehabilitation proceedings within one month of the filing date. Upon the commencement of rehabilitation proceedings, both secured and unsecured creditors are prevented from individually enforcing claims that arose prior to the date of commencement. Claims arising after the commencement of proceedings are not stayed.

Under the Corporate Reorganisation Act, in the period between filing the application for reorganisation and the commencement of proceedings, the debtor could only file an application for an ordinary temporary stay in order to prevent creditors from enforcing their rights. An ordinary temporary stay against specific enforcement procedures would then be ordered on a case-by-case basis. The Unified Insolvency Law has now introduced the concept of a comprehensive temporary stay. This allows the court to order a comprehensive temporary stay which prohibits all creditors, both secured and unsecured, from exercising their claims or enforcing their rights against the debtor's assets. A comprehensive temporary stay will be ordered if the court has reason to believe that an ordinary temporary stay order will not adequately fulfil the purposes of the rehabilitation, and if preservation orders have been or are being placed on the debtor's major assets. The court may also exempt specific creditors from the scope of a comprehensive temporary stay if there are reasonable grounds to believe that the order would cause damage to those creditors.

(c) The initiation of an informal corporate rescue process?

Joint management by creditor financial institutions is the process formerly known as a ‘workout’ in the Republic of Korea. Where a company shows signs of insolvency, the main creditor bank will convene a meeting of the council of creditor financial institutions and notify the other creditor financial institutions accordingly. If the council resolves to commence joint management, its members are temporarily prevented from individually enforcing their claims. The period of this temporary stay may not exceed two months (or four months if due diligence is necessary), from the date of commencement of joint management. During this

period, the debtor and the council will consult on, finalise and officially adopt the corporate restructuring plans. These normally involve debt reschedulings, including stays on claim enforcement, write-offs and debt-for-equity swaps. Debt collection and the enforcement of security are also subject to the restructuring plans. Limitations on debt collection apply to both secured and unsecured creditors on an equitable basis. Outside of the joint management procedure, secured creditors cannot exercise their security rights over the debtor’s property; however, this restriction applies only to creditors which are members of the council. Other secured creditors are free to enforce their claims by exercising their claims or enforcing their rights over the debtor’s assets, unless they voluntarily decide to participate in the joint management. In private compositions, debt collection and the enforcement of security are subject to individual agreements between the debtor and its creditors.

Relevance of Jurisdiction

Previously, Korean law did not recognize insolvency proceedings commenced in a foreign jurisdiction. The Korean insolvency legislation provided that insolvency proceedings commenced in a foreign country would have no effect on assets located in the Republic of Korea. Even if foreign insolvency laws allowed a foreign insolvency administrator to administer assets in the Republic of Korea, the administrator was not deemed to have authority to act in the Republic of Korea on behalf of the corporate debtor unless he or she obtained the approval of the competent Korean court.

Under the Unified Insolvency Law, representatives in foreign insolvency proceedings may now seek assistance from the Korean courts. The Korean courts will cooperate and exchange information with the

foreign court and the foreign insolvency representative to facilitate the fair and smooth enforcement of cross-border insolvency proceedings.

Among other things, the Unified Insolvency Law sets out the procedures for the recognition of foreign insolvency proceedings. If the debtor has an office or address in the jurisdiction where the insolvency proceedings are opened, the foreign insolvency representative may file an application for recognition, together with supporting documents, with the Korean court. The Korean court must issue its decision within one month of the date of filing of the application. The Korean court will deny an application for recognition if:

- the court fees are not paid;
- the required documentation is not submitted or is insufficient to prove the claims; or
- recognition would constitute a manifest breach of public order or morality.

In addition, the Korean court may appoint a cross-border insolvency administrator to manage the debtor's assets in the Republic of Korea. The court may also order any other measures it deems necessary to preserve the debtor's assets and to protect the creditors' rights and interests. Following a decision for the recognition of foreign insolvency proceedings, the foreign insolvency representative may participate in, or file a petition for the commencement of, insolvency proceedings in the Republic of Korea. The court-appointed cross-border insolvency administrator has the exclusive authority to implement the proceedings and to manage and dispose of the debtor's property. The administrator must obtain the approval of the Korean court to dispose of, convert or distribute the debtor's assets, or to transfer those assets outside the Republic of Korea.

Personal Liability

The directors and officers of a debtor company do not generally have personal liability with respect to pre-bankruptcy trade or claims. However, under the Commercial Act, directors and officers are liable for losses and damage to the company caused by their violation of laws or the company's articles of incorporation, or by negligence in performing their duties. Also, if the directors or officers failed to perform their duties in bad faith, or were grossly negligent in their duties, they will be liable for losses and damage which their actions cause to any third party.

In addition, the Unified Insolvency Law provides that the directors or officers of a debtor company will be subject to criminal penalties where they:

- conceal, destroy or dispose of the company's assets in order to benefit themselves or any other third parties, or to harm creditors; or
- falsely increase the company's debt burden.

These provisions have been enforced in the Republic of Korea under the insolvency laws.

Out-of court restructuring

There are two realistic approaches to out-of-court restructuring: joint management under the Corporate Restructuring Promotion Act and private composition. Private composition is usually used where there are only a few creditors. The procedure allows for greater flexibility and autonomy in rehabilitating the debtor, but it may lack enforceability and some creditors may not participate in the process. This in turn can lead to the problem of 'free riding': while creditors that participate in the private composition and accept the debt restructuring will suffer some losses, those creditors that do not participate will still hold their claims in full. If the company is rehabilitated, non-participating creditors will be fully repaid and will thus benefit from the losses suffered by the participating creditors. The introduction of the Corporate Restructuring Promotion Act has largely solved the problem of free riding. For example, all creditor financial institutions, as defined in the act, must belong to the council of creditor financial institutions. If creditors with voting rights corresponding to at least threequarters of the total voting rights in the council consent to the proposed restructuring plan, then all members of the council – including dissenters – will be bound by the resolutions, except in certain cases as set forth in section 7.4.

Effect adjudication of corporate bankruptcy/liquidation

Upon an adjudication of bankruptcy, the debtor continues to exist for the purpose of liquidation only. Normal business operations are wound up. The existing management and controlling shareholders are precluded from managing the debtor, and the court-appointed trustee conducts the liquidation process.

In principle, shares owned by controlling shareholders are extinguished without consideration. One or more receivers will be appointed upon the official commencement of rehabilitation proceedings.

Previously, it was customary under the Corporate Reorganisation Act that, upon the commencement of corporate reorganisation proceedings, the existing management and controlling shareholders were precluded from managing the company. In contrast, however, the Unified Insolvency Law provides that, in principle, the existing management shall be appointed as the receiver in the rehabilitation proceedings, so that its know-how and expertise may be utilised. However, the court may appoint external receivers and replace the existing management where there is good cause to do so. Examples of such good cause include where:

- the existing management was responsible for serious circumstances which led to the company's insolvency;
- the creditors' council requests the appointment of outside receivers for justifiable reasons; or
- the court considers that the appointment of external receivers is necessary for the debtor's rehabilitation.

Typically, the existing management will be held responsible for the insolvency where it embezzled or concealed company assets, or is materially responsible for mismanagement. Bae, Kim & Lee and PricewaterhouseCoopers Republic of Korea The Asia-Pacific Restructuring and Insolvency Guide 2006 103

The initiation of an informal corporate rescue process

In an informal corporate rescue process, the existing management and controlling shareholders generally continue to manage the debtor company. However, creditors' representatives generally assume supervisory roles, particularly in connection with the company's financial affairs. Creditors' representatives are sometimes appointed as company officers.

Financial issues

The principal sources of funding for Korean companies undergoing formal or informal restructuring are their existing finance providers – mainly domestic banks. Because the risks involved in lending to such financially troubled companies are relatively higher than anticipated, only a few investors or lenders that are not risk averse will consider injecting new capital into them. Therefore, in many instances there is often no alternative but to have the company seek debtor-in-possession financing in a workout or undergo formal insolvency proceedings such as corporate rehabilitation. Where a workout (including joint

management) is approved by a super-majority of the members (with the consent of creditors representing more than three-quarters of claims) of the council of creditor financial institutions, all members with claims against the company may be required to provide it with working capital in the form of new loans in proportion to their respective claims, regardless of whether they approved or rejected the proposed workout plan. Approval of a workout plan may also allow the company to raise capital outside of the council – possibly through strategic or financial investors which are interested in acquiring management control of the company. In rare cases, a company can also raise funds by selling off its assets with the consent of secured creditors.

In reality, however, claims against the company are often sold to the council of creditor financial institutions from creditors unwilling to bear further risks of involvement in the workout process. In such situations the burden of providing financing falls almost entirely upon the members of the council. To alleviate this burden, the council frequently sells off debt owed by companies undergoing insolvency proceedings to the Korea Asset Management Corporation, a government funded organisation, which in turn sells them to domestic or foreign investors. This may lead to a transfer of control from the incumbent management to those investors, which can lead to more intense structural reforms of the company.

Secured creditors may exercise their rights without being affected by the bankruptcy proceedings. Claims against the bankruptcy estate – such as claims arising after the adjudication of bankruptcy, employee salaries, severance pay and certain taxes and costs – will have priority over bankruptcy (unsecured) claims. The payment order is as follows:

- secured creditors;
- creditors with claims against the bankruptcy estate; and
- creditors with bankruptcy (unsecured) claims.

The Civil Act contains a general provision invalidating ‘fraudulent conveyance’ transactions (ie, dispositions of property for no or unfairly low consideration). The Unified Insolvency Law contains largely identical provisions. However, the number of fraudulent conveyance transactions subject to invalidation under the Unified Insolvency Law is greater than that under the Civil Act. For example, debt

repayments to unsecured creditors or disposals of property for this purpose, in and of themselves, will not be invalidated under the Civil Act. However, such activities which violate the principle of equal distribution among unsecured creditors, and which were performed within a certain period of time prior to the adjudication of bankruptcy or after the filing of the application for bankruptcy or corporate rehabilitation, may be invalidated under the Unified Insolvency Law. The creation of new security rights over the debtor's assets is restricted by any preservation order, as well as by the statutory provisions on the invalidation of fraudulent conveyance transactions Bae, Kim & Lee and PricewaterhouseCoopers Republic of Korea The Asia-Pacific Restructuring and Insolvency Guide 2006 105 under the Unified Insolvency Law.

If a rehabilitation plan is duly adopted at the meeting of interested parties and approved by the court, it becomes binding on all secured and unsecured creditors, including dissenting creditors. In joint management under the Corporate Restructuring Promotion Act, any resolution passed by the council of creditor financial institutions is binding on all members of the council, including dissenting members. If a creditor financial institution dissented to the resolution to commence joint management or to the debt restructuring plan, and does not wish to be bound by the Corporate Restructuring Promotion Act, it is entitled to demand that other members buy out its claims against the debtor. The remaining consenting creditors usually buy out, or cause the debtor to buy out, the claims held by the dissenting creditor at a price equal to the liquidation value of the claims. In a private composition, a debt rescheduling plan is binding only on those creditors that individually agreed to the plan.

In formal rescue procedures and bankruptcy proceedings, virtually no action can be taken by unsecured creditors that are dissatisfied with the procedure; this is also true for secured creditors in corporate rehabilitation proceedings. Secured creditors in bankruptcy proceedings may participate in the proceedings as unsecured creditors to the extent of their outstanding claims that have not been satisfied through the enforcement of their security rights.

Chapter VII:

MARKETING

Support to MSME sector through government procurement has become a universal procedure as of today. Government being the single largest procurer is at a prime position to help the MSMEs find a market for their products. However, many affirm government procurement becomes a professional procurement, especially for MSMEs, which is often considered discriminatory against national and international vendors. Realizing the detrimental effects of such professional discriminatory procurement, the World Trade Organization (WTO) came out with an Agreement on Government Procurement or (GPA) in 1994. As of 2008, 40 WTO members are party to the agreement including Italy and South Korea.

Some of the key provisions of the agreement includes-

- Guarantees of national treatment and non-discrimination for the goods, services and suppliers of parties to the Agreement with respect to procurement of covered goods, services and construction services as set out in each party's schedules and subject to various exceptions and exclusions that are noted therein;
- Minimum standards regarding national procurement processes, which are intended to ensure that the parties' covered procurements are carried out in a transparent and competitive manner that does not discriminate against the suppliers of other parties. Aspects of the procurement process that are addressed include: (1) the use of technical specifications; (2) allowable tendering procedures; (3) qualification of suppliers; (4) invitations to participate in intended procurements; (5) selection procedures; (6) time-limits for tendering and delivery; (7) tender documentation; (8)

submission, receipt and opening of tenders, and the awarding of contracts; (9) negotiations by entities with suppliers; and (10) the use of limited tendering;

Additional requirements regarding transparency of procurement-related information (e.g. relevant statutes and regulations);

The GPA currently permits "offsets" on a restricted basis. The GPA defines offsets as "measures used to encourage local development or improve the balance-of-payments accounts by means of domestic content, licensing of technology, investment requirements, counter-trade or similar requirements." In general, it is illustrated that the GPA may be interpreted as antagonistic to SME public procurement programmes. The present study attempts to present various marketing support measures given to SMEs in 8 countries, besides touching upon government procurement programmes.

BRAZIL

Brazil is not a signatory of the WTO Agreement on Government Procurement (GPA). However, under articles 42 to 49 of Lei Geral, all government tenders of up to R\$80 000 in value must be granted exclusively to small and micro enterprises and 25% of the contract value of those tenders with a value exceeding this threshold, must be reserved for MPEs. Added to this, under the law, 30% of subcontracts from large and medium businesses are to go to small and micro enterprises. Micro and small enterprises would also be favoured with an allowance for up to 10% difference in price between the small or micro enterprise's price and the medium or large firm's price. Government purchases from small and micro firms for the first quarter of 2010 compared to the first quarter of 2009 were up by 57%, according to data supplied by the ministry's small business forum (Forum Permanente). Added to this, the number of suppliers registered with the federal government increased from 1,85488 to 2,10,327 enterprises. In 2009, purchases from micro enterprises made up R\$9 billion, while those of small enterprises made up R5.5 billion. It is very important to note that over half of the purchases from small and micro firms were conducted electronically (R\$11.1 billion of the R\$20.4 billion total).

Except the small value purchase by public sector from SMEs, Brazil has an open competition process for major government procurements. Price is to be the overriding factor in selecting suppliers under Brazilian

law. By law, the Brazilian government may not make a distinction between domestic and foreign-owned companies during the tendering process. However, when two equally qualified vendors are considered, the law's implementing regulations provide for a preference to Brazilian goods and services.

In Brazil, locally manufactured telecommunications and informatics products receive preferential treatment in government procurement and foreign firms may only bid to provide technical services if there are no qualified Brazilian firms. In addition, there is 65% to 75% local-content condition required from companies seeking to secure concessional funding from the country's influential development bank, BNDES.

In the State of Ceará in Brazil, the government uses "demand driven" procurement approach in which the State buys from SMEs, while at the same time providing technical assistance to all phases of the businesses involved in procurement. The State did not purchase from individual SMEs but through associations of small manufacturers. Technical assistance was provided to the firms by Brazil's Small Business Assistance Service (SEBRAE), which was paid a commission on the value of the contracts by the State. SEBRAE also supports projects for MSMEs and also works with Brazilian clusters to built expert capabilities, providing training and consultancy.

Another organization, viz. APEX-Brazil also gives strong support to SMEs in achieving and maintaining a competitive edge in the global market. The agency works in partnership with other public and private organizations. Most of the activities are developed in partnership with the private sector. According to rules of the agency, its projects must be carried out only with non-profit organizations, and not directly with the firms. The major activities of APEX-Brazil in the support of the internationalization of Brazilian SMEs include –

- Financial and technical support for SMEs through sectoral Projects, in the following areas market research, development of promotional material and participation in trade fairs.
- Organization of SME participation in trade missions, as well as in international exhibitions, round tables and events in cooperation with retail stores

- Business Intelligence
- Distribution centres
- Attraction of investments

Brazil has almost of its exporters as SME Exporters. Accordingly, there are certain important programmes to help SME exporters as given below:

- International Business Generation Program

Under the authority of Banco do Brasil, the programme facilitates external business generation to medium sized enterprises and training of agency staff in order to assist companies in their search for business and partners and the international marketing of products and services

- Primeiros Exportações:

MDIC's Primeiros Exportações is an export-ready support programme set up in 2000.

CHINA

Government procurement is one of the three policy tools used by the Chinese government for promoting domestic MSMEs. The other two policy tools which makes up the triumvirate of a comprehensive support tool for MSMEs are - fund support and the tax revenue drive. China has formulated Government Procurement Law (2003) so as to enable the government support and the guidance to have legal basis and also enable most SMEs' development to have a legal foundation.

The Government Procurement Law (GPL) entered into force in 2003. According to it - when carrying out government procurement; domestic goods, construction and services should be procured except in the following circumstances:

- The goods, construction or services which it is necessary to procure cannot be obtained in China or cannot be obtained on reasonable commercial terms in China.

- Procurement is effected for use outside of China.
- Other laws or administrative regulations contain different stipulations

The law stipulates that open tendering should be the primary method of government procurement, although other options of government procurement are still available viz. competitive negotiations, single-source procurement, tendering by invitation, and request for quotations.

Price Preference in Government Procurement

The GPL states that a domestic firm shall receive preference in procurement if its offer is not “unreasonably” higher than the price offered by its foreign counterpart. Further, the draft regulations defined “unreasonable commercial terms” to mean that the price of domestic goods, projects, or services is at least 20 percent higher than those of non-domestic completion.

Preference for Indigenous Innovation Products

The GPL also gives preference in government procurement to national indigenous innovative products (NIIP). This policy is intended to stimulate the development and sale of homegrown concepts and technologies. In 2006, China introduced the Medium- and Long-Term National Plan for Science and Technology Development (2006-20), a national policy that directs PRC agencies and provincial governments to buy products listed in certain procurement catalogues. The catalogues include only qualified indigenous innovation products, with few exceptions

- China launched the Fund for SME International Market Development in 2000 to support SMEs to participate *in overseas exhibitions and fairs*. The China International SME Fair has been held annually since 2003, providing a platform for SMEs to develop market and strengthen trade and economic cooperation.
- According to the Government Procurement Law and other laws and regulations, efforts have been made to continuously raise the proportion of SME products and services in government procurement.

ITALY

Italy, being a member country of European Union (EU) is a party to the WTO Agreement on Government Procurement (GPA), which it implements through the EU Public Procurement Directive 2004/18. Hence, Italy complies with the EU's obligations under the GPA.

Within the framework of the "Small Business Act" for Europe, the European Commission has proposed a Code of best practices in opening public procurements to SMEs. This helps public authorities, including those in Italy, to develop 'strategies', 'programmes' or 'action plans' with the specific aim of facilitating SMEs' access to public contracts. The current package of directives on public procurement is designed to reduce the administrative burden and costs related to tendering, make procurement systems more transparent and easier for SMEs (in particular) to access, and to encourage the use of information technology systems (e-procurement) to simplify the process.

In Italy, Procurement authority is widely dispersed, with over 22,000 contracting agencies at the national, regional, and local level, including municipalities, hospitals, and universities. Italy scores well above the EU-average in several indicators like the share of SMEs in public procurement contracts and the proportion of state aid devoted to SMEs. In fact, for state aid it ranks first within the EU (33% as opposed to 11% for the EU-average).

The current package of directives on public procurement is designed to reduce the administrative burden and costs related to tendering, make procurement systems more transparent and easier for SMEs (in particular) to access, and to encourage the use of information technology systems (e-procurement) to simplify the process. To optimise the use of the possibilities given by the directives by the Member States and respectively their public buyers, within the framework of the "Small Business Act" for Europe, the European Commission proposed a Code of best practices in opening public procurements to SMEs, taken both from Member States and elsewhere. The Code, therefore, helps public authorities to develop 'strategies', 'programmes' or 'action plans' with the specific aim of facilitating SMEs' access to public contracts. It also encourages Member States to learn from each other as they implement the new rules under the public procurement directives.

Some of the important measures advocated by EU for internationalization of SME trade are;

i. Access to markets

A Single Market for goods and services is one of the main drivers of Europe's economy. It relies largely on the opportunities available for businesses to market goods and to provide or access services in the EU. It is the EU's central mission to secure increased market integration and to remove obstacles to the free movement of goods, services and capital and to the freedom of establishment.

ii. Supporting the internationalization of SMEs

In view of the low level of internationalization of European SMEs, the Commission launched a project on "Supporting the internationalization of SMEs" to understand the barriers that impede greater SME involvement on international operations and the drivers that foster the process. With the help of an expert group, the project examined national and regional policies to support the internationalization of SMEs both inside the Single Market and outside the EU with a goal to provide recommendations on how public policies could support SMEs' efforts to achieve international growth and have a more international orientation.

iii. Raw Materials

To secure and improve access to raw materials for the EU, the following policies are adopted.

- ensure access to raw materials from international markets under the same conditions as other industrial competitors;
- set the right framework conditions within the EU in order to foster sustainable supply from European sources; and
- boost overall resource efficiency and promote recycling to reduce the EU's consumption of primary raw materials and decrease the relative import dependence.

Other Export Promotion Measures by Italian Govt.

The Italian government supports the export promotion and marketing efforts of SMEs, by providing information, technical assistance and facilitating attendance to international trade-fairs and trade missions . Unioncamere, Italy's national Chamber, coordinates the provision of information resources such as the exchange of best practices and other promotional and awareness activities.

Italy also follows a sub-national approach of promoting SME internationalization. The Italian Government tends to distinguish between Northern, Central and Southern Italy, with firms from the South normally receiving soft loans for export activities. Among the key thrusts of this policy are to seek, within EC rules, to reduce disadvantages of small-scale production, by assisting in the stabilisation or

improvement of SMEs, position in foreign markets and in the internationalisation and development of foreign trade.

Box 7.1: Example for a good practice in SME policy

To illustrate the efforts of the Government to promote SMEs, the statistical information of the fact sheet is enriched by an example of a good practise in SME policy -as singled out in the European Commission´s Communication on “Think small first – A Small Business Act” for Europe”: Title of the Project: Joining together to compete on world markets (Sprint)

The purpose of the project is to provide small businesses with access to national funding for long-term plans to expand their business abroad. This measure aims at small businesses in the Emilia-Romagna region that are looking to expand their business abroad and have applied to SIMEST (the institution that promotes Italian businesses abroad). With SIMEST guarantees covering some of the funding, the regional fund acts as co-guarantor, supplementing the SIMEST coverage. Firms can access the guarantees provided by the fund by applying to credit consortia and craft cooperatives. Along with the main organizer Sprint, these provide information and assistance with applications.

Export Finance Support

(i) Law 83, 1989 provides financing for SME export consortia.

Beneficiaries: In order to be eligible for these subsidies, the consortia must

- include at least 8 firms
- conduct business activity
- have subscribed capital of at least 2,500,000 lire.

Types of incentives: annual financial contributions: tax credits.

Responsible institutions: Ministry of Foreign Trade

(ii) Law 317, 1991 Art. 14: Special fund at Medio credito Centrale that provides interest account contributions for export under Law 394, 1981. It aims for the stimulus for participation and competitiveness of products from selected sectors and establishment of goals to increase the export volume and value and the generation of new jobs. It also consists of lines of credit to the

export and import of goods and services with similar conditions to the international market which favours the MSMEs.

Guarantee Fund for the Promotion of Competitiveness

Created in 1997 under authority of BNDES, consists of guarantee funds and aval for feasibility of export credit concessions by accredited agencies for investments in production and exporting of goods and services of the MSMEs.

Export Promotion Agency (APEX)

A joint effort of Sebrae, Foreign Trade Chamber/ Ministry of Trade and Industry Development Ministry of Foreign Affairs. Created in 1998, aims at the search of new markets for products and services of small enterprises, through: specialized staff training in foreign trade, market researches, business roundtables, commercial information, participation in events and seminars. It acts through integrated sector programs, horizontal and individual projects.

Export Aval Fund

Created in 1999 by APEX, Sebrae & BNDES, it consists of guarantee funds and aval for feasibility of export credit concessions for micro and small firms, operated by seven financing agents in the country.

BNDES-Exim

Under BNDES this acts as a financing line aimed at the production and trade of goods for exporting in the MSMEs. This is operated by accredited financial institutions.

In recent years, the system of support for the internationalization of Italian enterprises have undergone thorough re-organizational process. In 2004, a law decree was approved, giving an annual reference framework to agencies and public institutions operating in the field of enterprise internationalization and support to exports.

The Department for Internationalization of the Ministry of Productive Activities was tasked with the definition and management of general promotional policies, in compliance with new institutional guidelines, and support of internationalization initiatives. It's main task includes the pinpointing of annual

“Guidelines for the promotional activity”; as well as the management of internationalization financial tools with a view to supporting concrete projects and integrating different initiatives for projects in favour of enterprises, with particular focus on SMEs.

MALAYSIA

The government of Malaysia has put in place certain rules, which govern government procurement by all federal, state and local governmental entities. These rules delegate some authority to procuring entities at various stages of the process which is considerable. In 2003, roughly \$26 billion was spent by Malaysian government entities on procurement. A large percentage of this total was allocated to two particular types of providers through two sets of interlinked preferences: one set involving preferences for Bumiputera (the native Malays), and another set of preferences for other domestic providers. Various programmes of Govt of Malaysia for promoting marketing of SME products are given in Annexure 7.1

Bumiputera preferences have developed into a complex arrangement of set-asides and price preferences that vary in form and size depending on a number of factors. The Finance Ministry exercises a broad grant of rule-making authority, through Treasury regulations in two basic forms: Arahan Perbendaharaan, Treasury Instructions (TIs), and Surat Pekeliling Perbendaharaan, Treasury Circular Letters (TCLs). The system established by TCL No. 4/1995 roughly divides into five categories:

- (1) generally applicable preferences for Bumiputera suppliers of goods and services,
- (2) generally applicable preferences for Bumiputera producers of goods;
- (3) generally applicable preferences for Bumiputera works providers;
- (4) special preferences for Bumiputera providers administered by the Finance Ministry and/or state financial officials; and
- (5) special preferences for members of the Malay Chamber of Commerce of Malaysia (MCCM).

The latter establishes that, all other things being equal between the bid of a Bumiputera tenderer, who is a MCCM member, and the bid of a Bumiputera tenderer, who is not, the member should be awarded the contract over the non-member. While TCL No. 4/1995 provides specific details in regard to the first three categories, the fourth is stated in only the most general of terms.

Preferences for other domestic providers, on the other hand, consist of relatively straightforward set-asides, operating in most cases to limit procurement to domestic sources unless one is not available. 30% of the procurement activity is reserved for small and medium enterprises (SMEs) who have been involved in the vendor development program. Once the SMEs have established some procurement activity, new SMEs are introduced to the vendor development programme. For many years, the programme focused mainly on aiding the development of domestic SMEs, by concentrating preferences in lower-value contracts where SMEs could best compete.

The organisation which is very active in SME marketing is called Malaysian External

Trade Development Corporation (MATRADE), functioning as a focal point for Malaysian exporters and foreign importers to source for trade-related information. By providing market intelligence and relevant advice, MATRADE assists Malaysian exporters to better position their products and services in the highly competitive global markets. This guidance facilitates smoother and more efficient international trade. To assist in the search for and development of overseas markets for Malaysian products and services, MATRADE has an international network of 38 overseas offices located in the major commercial cities around the world.

Market Development Grant (MDG) and Brand Promotion Grant (BPG) are the two main assistance programmes offered by MATRADE to assist Small and Medium Enterprises (SMEs) to undertake activities for the development of export markets. For MDG, companies can obtain a 50% reimbursable matching grant on the approved cost of eligible activities.

As for BPG, SMEs that are developing and promoting a brand can apply for either:

- A 100% reimbursable grant, subject to maximum of RM1 million per company per brand, or
- A combination of 100% and 50% reimbursable grants, subject to a maximum of RM2 million per company per brand.

Another assistance programme offered by MATRADE is the Services Export Fund (SEF), which is a scheme to provide assistance in the form of reimbursable grants to Malaysian Service Providers (MSPs) for undertaking activities to venture into the international market through tendering or negotiating for

international projects, conducting pre-feasibility or feasibility studies for international projects, and export promotion activities.

Box 7.2: Select Marketing Programmes in 2009 and 2010

In 2009

To enhance the marketability and presence of products and services by Malaysian SMEs, the Government spent RM235.4 million in 2009 towards marketing and promotional initiatives. A total of 18 programmes were organised throughout the year benefiting a total of 17,364 SMEs. Majority of these programmes were carried out by MITI and among the programmes with significant outcomes were:

- Export promotion activities and seminars: The activities undertaken by Malaysian External Trade Development Corporation (MATRADE) benefited some 10,000 SMEs in enhancing knowledge and facilitating exports;
- One District One Industry (SDSI) Showcase: The showcase attracted a total of 565 exhibitors and generated sales amounting to RM1.02 million and recorded a contract value of RM21.9 million. A total of 705 business matching sessions were also organised;
- SMIDEX 2009: The programme organised by SME Corp. Malaysia to promote products and services of SMEs attracted participation of 333 exhibitors and 9,032 trade visitors. Meanwhile, the Business Matching Sessions organised during the event managed to generate potential sales of RM150 million; and National SME Development Council;
- Malaysia Kitchen Programme: The programme by MATRADE promoted a total of 461 restaurants operating abroad with a total expenditure of RM21.4 million aimed at increasing patronage to Malaysian restaurants by 30%.

In addition, the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC) undertook various promotional activities in collaboration with the hypermarkets/ supermarkets locally and abroad in 2009 through its Produk Malaysia Citarasa Kita (PMCK), Taste of Malaysia and business matching programmes. Eight programmes were devoted to promoting PMCK which attracted the participation of 266 SMEs generating sales in excess of RM3.7 million. In July 2009, MDTCC also organised the Franchise International Malaysia Exhibition that attracted 90 exhibitors and 110 booths, made up of local and foreign franchisors. The exhibition received 7,843 visitors and successfully generated potential sales amounting to RM340 million.

Meanwhile, the Federal Agriculture Marketing Authority (FAMA) undertook aggressive marketing efforts for agriculture and agro-based products with the total products marketed directly by FAMA and SMEs assisted by FAMA nationwide amounting to RM 1.1 billion in the year 2009.

The Farmers Market provided 364 outlets for 17,298 entrepreneurs who managed to market agriculture and agro-based products valued at RM490 million in the year 2009 (2008: 322 outlets for 14,905 entrepreneurs with sales value of

RM438 million). Meanwhile, the number of Agrobazaar K-Shoppe had doubled to 50 outlets in 2009, from 25 outlets in the previous year.

To ensure that the agricultural produce was marketed effectively, 320 entrepreneurs participated in 392 FAMA Fresh Fruits Stall programmes generating an increase in sales of 52% to RM198 million in 2009 (2008: RM130 million). Overall in the year 2009, FAMA successfully took part and represented in 23 trade and consumer exhibitions in 14 countries abroad which involved the participation of 88 local entrepreneurs.

Product Development During the year, the Government intensified efforts to help local SMEs further develop their products and services to ensure that local offerings remain competitive, relevant and meet with the constantly evolving

consumer expectations. In 2009, eight programmes were organised with a financial commitment of RM125.90 million benefiting more than 1,800 SMEs.

Among the key programmes implemented were:

Best Practices Management Programme: The programme focused on sales improvement (5%), productivity and operational cost reduction (10%) and delivery time improvement (85%); and **Matching Grant for Product and Process Improvement:** The programme undertaken by MITI via SME Corp. Malaysia extended RM43.1 million to 422 SMEs which recorded between 20% and 30% increase in productivity.

In 2010

The Branding Innovation Centre (BIC) which is an initiative under the SME Brand Development Programme was established by SME Corp. Malaysia in collaboration with Lim Kok Wing University of Creative Technology (LUCT). The objective of the BIC to provide awareness on the importance of

branding and packaging and provide training on branding and packaging to SMEs across the country. One of the activities under BIC is the Branding and Packaging Mobile Gallery which aims to reach out to rural SMEs to provide awareness on the importance of branding and packaging. The Gallery comprises a bus which has been refurbished and fitted with packaging samples and materials;

PHILLIPINES

Philippines is not a signatory to the WTO Agreement on Government Procurement. However, Section 2 of the Magna Carta for Micro, Small and Medium Enterprises (2008) requires that the state shall support MSMEs by “assuring to them access to a fair share of governments contracts and related incentives and preferences”. According to the provisions in the Act, eligible MSMEs shall be entitled to a share of at least ten percent (10%) of total procurement value of goods and services supplied to the Government, its bureaus, offices and agencies annually. And the Department of Budget and Management is tasked with the monitoring of government agencies on the required procurement for MSMEs and submit its report to the MSMED Council on a semestral basis and to the Congress of the Philippines, through its appropriate committees on a yearly basis.

In addition, the Government Procurement Policy Board (GPPB) of the Philippines was established in 2002 by virtue of Section 63 of Republic Act 9184 (R.A. 9184), otherwise known as the Government Procurement Reform Act, as the central agency of Government tasked to perform the following duties and responsibilities. The Implementing Rules and Regulations Part A (IRR-A) of R.A. 9184 provides a more detailed set of duties and responsibilities of the GPPB.

The Magna Carta for Micro, Small and Medium Enterprises (2008) includes provisions of assistance in marketing and distribution of products of MSMEs through various support measures including overseas marketing promotion and fiscal support.

Fiscal Measures for Exports

Under RA 7844, Provision of fiscal incentives to direct and indirect exporters including export traders;

- (a) Exemption from advance payment of customs duties and taxes;
- (b) Duty free importation of machinery and equipment, raw material inputs and packages;
- (c) Tax credit for imported inputs and raw materials primarily used in the production and packaging of export goods which are not readily available locally;
- (d) A tax credit of 25 per cent of the duties paid on raw materials and capital equipment and/or spare parts. The credit is available to exporters of non-traditional products who use or substitute similar locally produced inputs;
- (e) A tax incentive

In addition, by the provisions of RA 7916 and RA 7227; Export-oriented enterprises are also eligible to apply for incentives when locating in the Philippine Economic Zone Authority (PEZA), Clark Special Economic Zone Authority (CSEZ) and the Subic Special Economic and Freeport Zone (SEEFZ).

- Exemption from duties and taxes on imported capital equipment, spare parts, materials and supplies;
- Exemption from national and local taxes;
- Tax credit from import substitution;
- Tax credit on domestic capital equipment;
- Tax-free and duty-free importation of breeding stocks and genetic materials;

- Tax credit on domestic breeding stocks and genetic materials.

Institutional Support

It is observed that over the years, a wide institutional framework has developed in Philippines to boost the marketing of SME product and also capacity of of SMEs in the areas of marketing. Some such salient programmes are given below:

In Philippines, the MSMED Council is at the forefront of promoting SME exports. MSMED council in Philippines provides assistance in marketing and distribution of products of MSMEs through local supply-demand information, industry and provincial profiles, overseas marketing promotion, domestic market linkaging and the establishment of common service facilities such as common and/or cooperative bonded warehouse, grains storage, agro-processing and drying facilities, ice plants, refrigerated storage, cooperative trucking facilities, etc. In addition, The MSMED Council provides Business Advisory Services to Philippines SMEs through professional managers, trained advisers and specialist from various organizations. Some of the areas of advisory includes –

- Assist in identifying and removing potential barriers to continued growth.
- Direct entrepreneurs to key marketing and export resources and help firms become export-ready.
- Help export-ready firms increase or diversity exports by identifying international market opportunities.

Bureau of Domestic Trade (BDT) develops, strengthens and promotes the domestic market for MSMEs. It ensures the rational, economical and steady flow of raw materials to production centers and increases domestic trade through effective marketing and efficient distribution of finished goods.

Programs and Services:

1. Information Build-up

- Builds and maintains databases of information on domestic trade to facilitate commodity flow and supports market development services;
 - Manages and maintains databases of local suppliers of raw materials and finished products, and large institutional buyers; and,
 - Publishes the following:
 - **Trade Associations Directory:** an annual publication listing the trade associations and its member companies in the Philippines. It is a useful tool in stimulating linkages and collaboration among suppliers, buyers, contractors and subcontractors of domestic products and services.
 - **Philippine Food Product Catalogue:** featuring manufacturers and exporters of the Philippines offering a wide array of products on the following sectors: snack foods, baked products, processes fruits and vegetables, wines and beverages, sauces and condiments, processed meat products, frozen/processed marine products, organic and natural products. It also includes profiles in the Philippine food industries, regional and provincial food products and delicacies and the One Town, One Product (OTOP) Philippines.
 - **Philippine Raw Materials Catalogue:** showcases a variety of indigenous raw materials used in various product sectors e.g. wearables, gifts, holiday decors, furniture and furnishings, and loomweaving.
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- **Directory of Philippine Raw Material Suppliers:** a database of indigenous raw material suppliers which serves as a tool to link these suppliers with manufacturers, subcontractors, and exporters e.g. abaca, raffia, sinamay and pandan, mahogany and falcatta, prawn and seaweeds, mango and banana.
 - **Source Book for Food Manufacturing:** is published to help SMEs in the food sector to look for sources of raw materials, supplies, equipment and services for their operation. Finished and semi-finished products and components are also included.
 - **Guidebooks:** a series of publications intended to help SMEs market their products to large and institutional buyers. Contents include process and requirements on how to penetrate these markets.

2. Market Development

- Develops, expands, and strengthens trade linkages between indigenous raw material suppliers, local manufacturers and traders;
- Provides market matching services;
- Identifies new uses of raw materials and semi-processed products; and
- Promotes business alliances to expand SME markets.

3. Market Promotion

- Disseminates buyers/suppliers' directories, raw material and product catalogues, and other promotional materials; and,
- Conducts marketing events (except trade fairs) such as in-store displays, showcases, and domestic buying and selling missions.

4. Ensuring Efficiency in Marketing and Distribution of SME Products

- Promotes market consolidation;
- Conducts commodity flow studies;
- Maps local marketing and distribution channels and advocates improvements in the local distribution systems; and,
- Assists buyers/sellers in determining the most efficient distribution channels.

Bureau of Export Trade Promotion (BETP) is the export promotion arm of the DTI. It provides frontline assistance, information, and specialized consultancy services to all exporters (both potential and established) as well as the public in general. As the lead agency tasked to develop, promote, and expand export trade, the BETP seeks to enable Philippine exporters to compete with world-class products and services in the international market.

Programs and Services:

1. Frontline Services

- **Trade Information and Assistance Group**

The Export Trade Facilitation Division, serves as the customer/exporter relations personnel of the BETP for all export trade-related inquiries. This frontline team provides real, immediate, and substantial assistance to existing and potential exporters.

- **EXPONET**

To minimize the uncertainties of getting started in the export business, the Export Assistance Network (EXPONET) provides assistance on all export-related matters including export procedures and documentation, trade complaints, and others.

- **Business Matching Center**

Foreign buyers and local exporters find commonality through this special information service. The center receives inquiries regularly and directly from international importers and the Philippine Foreign Trade Posts abroad. These inquiries are made available to legitimate local exporters for free.

- **On-Line Trade Information System**

Tradeline Philippines (<http://tradelinephil.dti.gov.ph>), provides trade information through an interactive on-line system. Among other things, this unique service contains export and import statistics, exporters' directory, product and market profiles, and other valuable industry links.

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- **International Trade Resource Center**

A wealth of trade information is available in this specialized library. Ideal for businessmen and the academe, the center holds a comprehensive collection of printed and electronic materials such as books and journals on international trade with emphasis on product and market information.

- **Communications Division**

BETP clients, particularly members of Business Selling Missions for dispatch to various target markets, may seek the creative and technical assistance of this group for the preparation of promotional materials in print or electronic format. Also available for sale are copies of the *Exporters Manual* and *Handy Guide to Export*.

- **Export Trade Complaints Committee**

Should disputes arise between local suppliers/exporters and foreign buyers, complaint cases may be filed with the BETP through the Export Trade Complaints Committee. BETP has a pool of personnel who trained with the Makati Regional Trial Court and the Supreme Court of the Philippines to mediate on export-related complaints.

2. Specialized Consultancy Services

- **Market Consultancy**

Through the Market Strategy and Consultancy Group, exporters who intend to penetrate specific markets such as the Americas, Europe, ASEAN, Asia, Australia, and the Middle East may seek the

expertise of Country Desk Officers. These officers assist in formulating marketing strategies and provide exporters with updated information and other valuable tools to increase export sales in identified markets.

Bureau of International Trade Relations (BITR) pushes for the greater access of Philippine products into foreign markets through bilateral, multilateral, or regional negotiations.

Programs and Services:

1. Consultation Services

Holds consultations concerning tariff and non-tariff barriers of specific countries that affect Philippine exports.

2. Information Dissemination

Provides information on trade opportunities under preferential arrangements in the Generalized System of Preferences (GSP) granted by some developed countries like the United States, the European Union, Japan, and those countries involved in the ASEAN Free Trade Agreement (AFTA) Common Effective Preferential Tariff (CEPT).

3. Trade Negotiation

Negotiates equal, if not preferential, terms of access for Philippine products in foreign markets.

4. Market Access

Seeks the resolution of market access problems.

Centre for International Trade Exposition and Mission (CITEM) helps exporters develop their core competencies in the areas of marketing, promotion, and capability-building.

Programs and Services:

1. Trade Fairs

- Organizes international trade fairs in Manila such as e-Services Philippines, Manila F.A.M.E. International (April & October), International Food Exhibition (IFEX) Philippines, Bio Search, Industry Link, and National Trade Fair.
- Organizes international trade fair participation in major markets for priority products.

2. Trade Missions/Other Promotional Activities

- Organizes outbound trade missions in emerging markets for priority products.
- Organizes inbound trade missions for locally-organized trade fairs.
- Undertakes other consumer-level promotion such as in-store promotions, food festivals, special exhibitions, and special product display.

3. Business Matching

- Undertakes an internet-based promotional program through its Catalog Online Program (www.citem.com.ph/catalogonline). The program is a virtual showroom that aims to forge link between exporters and buyers worldwide.

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- Handles trade inquiries and business matching activities through CITEM's Trade Opportunity Program (CTOP).

4. Technical and Export Marketing Assistance

Coordinates industry development programs such as:

- Transformation Project
- Promotion of Design Services
- Organic Industry Development Program
- Partner Region Program
- Merchandise and Design Consultancy Program

5. Information Services

Provides information services through internet and library facilities.

6. Awards for Excellence

Administers the biennial Golden Shell Awards for outstanding exporters in the fields of manufacturing, marketing, and design.

Foreign Trade Services Corp (FTSC) promotes the export of Philippine products and services in the world market, encourages inward foreign investments through various support activities, as well as undertakes commercial intelligence work.

Programs and Services:

1. Trade Promotion

- Explores and develops the potential of Philippine products and services in overseas markets and facilitates the matching of Philippine exporters and buyers in different markets abroad.
- Identifies trade or business opportunities and provides direct support to overseas trade and investment promotional programs organized by both the government and the private sectors.
- Conducts trade promotion activities such as in-store promotions, catalogue shows and campaigns among foreign businessmen, organizes buying missions to the Philippines, promotes business contacts and encourages networking with foreign buyers and trade organizations.

2. Investment Promotion

- Identifies potential and prospective investors (including potential Overseas Filipino Investors) and provides them investment advice and counseling.
- Organizes investment missions to the Philippines and conducts investment opportunities seminars and/or briefings to host country's businessmen, and members of trade/industry associations and chambers of commerce.

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3. Commercial Intelligence

- Gathers and monitors the commercial, industrial and general economic conditions affecting Philippine products in export markets.
- Conducts market research for specific Philippine products and monitor developments and changes in host countries' trade rules and regulations.
- Provides commercial intelligence to government and industry sectors, including SMEs in the regions.

4. Trade Negotiations

- Participates in bilateral and multilateral trade and economic negotiations including Free Trade Agreements (FTAs).
- Identifies issues in host countries affecting Philippine trade and investment interests and recommends courses of action to remedy the same.

5. Services to Overseas Filipinos

- Provides information and advice to potential Overseas Filipino Investors in host countries.

2004 – 2010 Market development Plan

In the Philippine, the main focus of export promotion is on brokerage supports that link SME exporters and foreign buyers. Some of the export – facilitation measures undertaken by the Philippines according to the SMED Development Plan 2004-2010 includes –

1. Export assistance networks

(a) Export Assistance Network (EXPONET) – serves as a trade facilitation office that provides real and immediate assistance to existing and potential exporters. Below are its services:

- Export Trade Information Dissemination
- Export Procedures and Documentation
- Buyer Linkages
- Export Financing and Incentives and Raw Material Sourcing
- Tax and Duty-Free Importation of Raw Materials for Reexport
- Institutional Linkages
- Handling of Export Trade Complaints
- Exporters Accreditation

(b) SME Centers

SME Centers are “one-stop-shops” located in various parts of the country that provide information, advisory and consulting services in the following areas: productivity, improvement,

technology upgrading, market information, product and market development, trade promotion, credit, financing and entrepreneurial development.

2. Establishment of the Philippine trade centers which shall house the trade promotion offices and shall serve as permanent exhibit sites of the country's export products.
3. Development, expansion and strengthening of trade linkages among and between the local manufacturing and trade sectors.
4. Development of SME databases which provides easy access to buyers and suppliers.
5. Availability of information on basics of importing, customs and tariff rates, import liberalization program and import monitoring of sensitive and liberalized commodities.

REPUBLIC OF KOREA

Republic of Korea has been a part of the WTO Agreement on Government Procurement (GPA) since its inception. Meanwhile, the policy of the South Korean government towards MSME development has undergone a paradigm shift from Promotion-Protection based policies to Competition-Cooperation oriented policies. A competitive bidding scheme has been introduced for SMEs in the government procurement system replacing the previous process where a contract was awarded in the past to an SME association under a single tendering scheme.

Another aspect of the Government procurement policy in South Korea is that it is seen as a tool to promote technological innovation in the SMEs. Public institutions are required to purchase SMEs' technological products that have been approved for performance by the government, thereby promoting technology development of SMEs.

In 1981, the stage was set for the government and public organizations to procure items produced by SMEs based on the enacted SME Product Procurement Promotion Act. As a result, it was stipulated that from 1981, the government and public organizations sign collective private agreements first with SME cooperatives to procure items. To develop SMEs in specific regions, the government designated "SMEs dedicated to Crafted Product Production" in 1980. The designated SMEs were able to benefit from fund support, management and technology guides. Also, the government worked to develop and commercialize locally crafted products by holding a national product competition.

In 1984, an unfair trade increased resulted from expanded from subcontracted businesses, the Act on Fair Trade based on Subcontracting was enacted to establish an order in trading through subcontracts.

Sound management and technology development were encouraged further through the “Public Organizations’ Prior Procurement of SME Products” introduced in 1990 that supported sales channels.

After the Asian crisis in 1997, the government urged public organizations to buy SME products to expand sales channels and stabilize management. In a bid to support sales, the government constructed an SME products distribution center(SME department store) in December 1999 so that around 10,000 products made by SMEs could be promoted directly at the center. Since 1999, the government promoted its “Professor/Researcher Start-up Support System” and “Laboratory System Start Up” for universities and research centers.

For SMEs that intended to set up local subsidiaries overseas, the government put in place an “Export Incubator” in major overseas markets.

In 2004, the government legislated to include a set ratio of products from SMEs in their procurements be over certain ratios when public organizations submitted their procurement plans, and from 2005, the government urged public organizations to establish SME product procurement targets and requested to have 5% or more of their products come from SME technologies.

The new Small and Medium Business Administration (SMBA) Policy 2010 intends increase purchase targets of public organizations and stimulate domestic demand for SME products & services. In addition, the National Defence and Electricity Company and others in the public sector have given assurance that they will purchase SME products through internal procurement.

The government also fosters the enhancement of co-operation between large corporations and SMEs and supports procurement of SME products by public organisations, the development of joint brands by a number of producers, and the attainment of quality certification, all of which contribute to enhance product reputation.

South Korea has been successful in getting more small businesses into public procurement because it has developed e-procurement systems which has the effect of bringing down bidding costs, therefore making tendering more accessible to all. The government of South Korea's e-procurement site has also been successful in reducing the time it takes to pay suppliers – from 14 days to just four hours.

Also, the government enacted a Special Act on Supporting Conventional Markets and Commercial Districts, which is effective only from October 2004 to October 2014. The act pursues balanced growth of the distribution industry.

Export Promotion

As part of its effort to promote exports, the government supported miscellaneous businesses. It was relatively easy to move into exporting markets in these miscellaneous businesses since it was labour-intensive and required just simple technologies. In particular, the business had excellent foreign exchange earning capacity because most of the raw materials needed for that business were found in the domestic market, also, with respect to increasing jobs, the business was important in that it absorbed surplus labour from agricultural areas and potential labour in areas surrounding metropolitan areas.

The government decided to focus on mid-sized companies that had exported less than 8 million dollars annually, but would be able to increase the amounts to around 10 million dollars within 3 to 4 years based on the support from government. From 1985 to 1987, 1,000 mid-sized export companies were identified and supported.

For protection from unfair businesses with consigning companies and to ensure fair business practices on subcontracts, the government put in place a “Center to Report SME's Troubles in Doing Business” in 1996. In addition, the government examined the status of businesses on subcontracts and ordered large companies whose unfair business activities were reported and took corrective actions, raising awareness on fair trade by announcing the cases.

When the government launched its policies to promote exports in the early sixties, it established the Korea Trade Investment Promotion Agency (KOTRA) in 1962, which dedicated itself to exploring overseas markets and supporting the exports activities of SMEs. Besides, SMEs that were capable, of exporting items were selected and developed, while businesses that had contributed more to the trade

balance and job creation were designated as “Special industries for SME export” and supported from 1966.

The export promotion policy for SMEs could be divided into financing, information and consulting, and brokerage supports. The focus in Korea is on information and consulting services that enable SMEs to participate in the global market.

Box 7.3; Supporting export and sales channels

KOTRA” established in 1962 to explore overseas markets

Development Policies for Korean SMEs - Designated “special” industries for SME exports (1966)

Supported businesses that created jobs and exports with a comparative edge

SME Product Procurement Promotion Act (1981)

Procured SME products based on collective private agreements

SME Products General Distribution Center (SME department store, 1999) constructed

- Direct and indirect support of expanding sales channels of 10,000 SMEs yearly

The government strives to revitalize traditional markets by holding national market fairs and regional product expos, and by promoting best practices of traditional markets. As a self-help organization, the Market Merchant Association runs a joint purchasing/sales and online shopping-mall business to reduce transaction costs. It has also established an information network between production markets with regional specialties and consumption markets in cities.

Korea’s SMBA supports SMEs by dispatching their trade missions to overseas exhibitions, which are the most effective tool in conducting export marketing activities. The SMBA selects unemployed or SME employees capable of communicating in foreign languages and dispatches them to overseas markets to foster them as trade professionals. They are dispatched to overseas trade centers, companies run by Korean businessmen, or overseas branches after taking three to eight weeks of training courses on overseas trade.

In addition to these, the SMBA Policy 2010 intends to expand the global outreach of Korean SMEs through the following policy measures.

Facilitate overseas advance of SMEs & venture companies

- Support conversion of domestic demand companies into export enterprises
- Identify promising export companies and nurture them into small but strong global enterprises,
- Grow SME-type localized & promising export items into world-class products
- Advance strategically into newly emerging markets and FTA-partner countries

Enhance domestic SME position through international cooperation activities.

Take the lead in accompanied cooperation at SME-related international organizations Export SME policies to developing countries in Asia, etc.

- Upgrade the status of domestic events, Technology Innovation Expo, Start-up Contest, etc. and operate them as international business venues

Efforts are being made to enhance competitiveness in SMEs' overseas marketing activities. By organising a training programme for marketing experts, SMBA is helping small businesses to open and expand markets abroad and is launching venture-supporting networks in major cities to foster their advancement in the global market. For those small businesses with high quality products but with a low level of recognition, the Korean government has awarded a Good Quality (GQ) brand to boost their sales.

SOUTH AFRICA

The concept of preferential procurement in South Africa stems from the Constitution of the Republic of South Africa. Section 217(2) of the Constitution provides for preferential policies in the allocation of contracts, while Section 217(3) requires that national legislation must prescribe a framework within which procurement policy must be implemented. Government purchases are made through competitive tenders for goods, services, and construction.

The National Government of South Africa since 1994 has embarked on a number of interventions on addressing the problems of marketing of SMEs in South Africa. Some of these interventions are: (i) The Preferential Procurement Policy Framework Act, in 2000, (ii) Framework for Supply Chain Management 2003 and (iii) Black Economic Empowerment (BEE) Strategy, 2008 whose highlights are given in Chapter 3.

The Preferential Procurement Policy (2000) of the National Government is being implemented at various Provincial Governments level. The development of the preferential procurement policy marks the consolidation of a number of Provincial Tender Board initiatives to reform procurement and to address the historical imbalances in economic participation. The policy at provincial Government level has been drawn up within the context of the initiatives taken by National Treasury and subsequently in accordance with the Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and its regulations promulgated on 10th August 2001. In essence, the enabling legislation provides for procurement preferences of 10% or 20% of the points awarded on a variety of factors, such as race, gender, differently-abled, factor-intensity of the industry, training programmes, labour conditions, environmental impact, firm size, location, intra-industry links and economic multiplier effects.

In South Africa, the Constitution limits the choice of implementation of preferential procurement policies to only the 'tender-adjudication' criteria.⁷

Subcontracting programmes are viewed as an effective means of involving SMEs in public procurement activities. In such programmes, the government awards a contract to a large firm with the requirement or goal that the large firm purchase a specified percentage of the value of its intermediate inputs from SMEs. subcontractors account for more than 60% of the work in construction. The South African approach has been to integrate its subcontracting programme into its targeted procurement programme.

Framework for Supply chain Management, 2003

⁷ Contracting authorities give a weighting to policy objectives along with the usual commercial criteria, such as price and quality, at the award stage, i.e. a preference in the form of tender adjudication points is provided. (Manchidi & Harmond, 2002)

To ensure uniformity in the application of the supply chain process National Treasury is in the process of issuing practice notes which deal with specific issues relating to Supply Chain Management. The practice notes include, among others, standardised bidding documents, directives for the appointment of consultants and a code of conduct applicable to all Supply Chain Management practitioners. This framework and the ensuing practice notes will be applicable to all national and provincial departments, constitutional institutions and public entities listed in schedules 3A and 3C of the PFMA. The provincial treasuries are empowered to issue further practice notes to provincial departments and entities which should not be in conflict with those issued by the National Treasury.

The National Treasury will continue to facilitate the arrangement of transversal period contracts for the procurement of goods / services required by more than one client department, provided that the arrangement of such contracts is both cost-effective and in the national interest.

Policy outcomes that determine the success of Government's procurement reforms will be monitored by the various treasuries and regular reports in this regard will be forwarded to the relevant executive authorities.

The amendment to Regulations issued in terms of the State Tender Board Act, 1968, (Act No. 86 of 1968) now allows national departments to procure goods and services either through the State Tender Board or alternatively in terms of the Public Finance Management Act, No. 1 of 1999 (as amended by Act 29 of 1999) (PFMA).

The promulgated amendment is in line with the intention of the PFMA which empowers accounting officers to manage their departments and accept full responsibility and accountability for all expenditures incurred by their departments.

The promulgation of the above-mentioned Regulations allows national departments an option to arrange their ad hoc tenders through the State Tender Board, or alternatively in terms of the PFMA. This "dual system" will be available to accounting officers at national level until such time that the State Tender Board Act is repealed.

At provincial level the various tender board acts will also be ultimately repealed and the various provincial tender boards will be dismantled. In some provinces this phased process has already commenced and certain provincial tender boards have already been dismantled.

Black Economic Empowerment (BEE), 2008

The BEE codes, which came into effect in 2008, awards points to businesses based on 7 elements: the percentage of black ownership, black management, black staff trained, procurement from black suppliers, business or financial assistance to black small businesses and corporate social investment. Under the BEE codes, businesses with an annual turnover of above R35 million can score 15 points on the BEE if they spent 3% of their net profit on enterprise development. For those businesses, with annual turnover of R35 million or below, the target is 2% of the net profit.

In line with its mandate for the retail rather than the wholesale model of service provision, the Small Enterprise Development Agency (seda) is spreading its presence countrywide through branch offices and a network of independent partners, with a view to increasing access to business development services. Provincial government agencies, such as, the Gauteng Enterprise Propeller (GEP) in Gauteng, Limpopo Business Support Agency (Libsa) in Limpopo, and the Western Cape's Red Door continue to provide a range of business-development services to small enterprises at provincial level strengthening partnerships with Seda. Many municipalities also offer small business support under their local economic development agencies, or dedicated small business and co-operative programmes within their LED divisions and public-private partnership-based business-incubation centres.

The Dti and the National Treasury will also devise a mechanism to increase the proportion of public procurement of goods and services that goes to small enterprises. This will lead to the establishment of a National Procurement Programme targeting small business, including co-operative enterprises that cluster micro-enterprises into viable supplier groups. The programme mechanisms will seek to establish an integrated support framework linking preferential procurement with skills development, enterprise development and certain elements of corporate social investment (grant programmes). This initiative will also provide government with a strategic response in the implementation of specific elements of the B-BBEE Codes of Good Practice.

The Export Market and Investment Assistance (Emia): This scheme assists businesses to attend trade fairs or to conduct trade visits by refunding a significant portion of their air fare, accommodation, transport of samples and marketing material.

In 2008 / 09 a total of 1 276 businesses benefited from R110.9 million in funding through the scheme. This is down from the 1 332 assisted in the 2008/2009 year, when R106.4 million was disbursed in funding. Emia supported 779 projects in 2009/10.

Export Promotion

South Africa has taken a sub-national or sectoral approach to promoting SME internationalization. South Africa's Department of Trade and Industry (DTI) focuses on promoting sectors that have exhibited the greatest growth potential and market prospects, including agro-processing, chemicals, pharmaceuticals and biotechnology, information and communications technology and electronics, textiles, clothing, leather and footwear.

Fiscal Support to Exports

Tax Exemption on the Value of Increased Exports

To promote exports, manufacturing companies in Malaysia qualify for:

- a tax exemption on the statutory income equivalent to 10% of the value of increased exports, provided that the goods exported attain at least 30% value-added; or
- a tax exemption on the statutory income equivalent to 15% of the value of increased exports, provided that the goods exported attain at least 50% value-added.

Claims should be submitted to the IRB.

To further encourage the export of Malaysian goods, a locally-owned manufacturing company with Malaysian equity of at least 60% is eligible for:

- a tax exemption on the statutory income equivalent to 30% of the value of increased exports, provided the company achieves a significant increase in exports;
- a tax exemption on the statutory income equivalent to 50% of the value of increased exports, provided the company succeeds in penetrating new markets; and

- a full tax exemption on the value of increased exports, provided the company achieves the highest increase in export in its category.

These incentives are effective from the year of assessment 2003.

Double Deduction for the Promotion of Exports Certain expenses incurred by resident companies in seeking opportunities to export Malaysian manufactured and agricultural products and services, qualify for double deduction.

The eligible expenses are those incurred in:

- overseas advertising, publicity and public relations work;
- supplying samples abroad, including delivery costs;
- undertaking export market research;
- preparing tenders for supply of goods overseas;
- supplying of technical information abroad;
- preparing exhibits and participation costs in trade/industrial exhibitions, virtual tradeshow and trade portals and fares for overseas travel by company employees for business;
- accommodation expenses up to RM300 per day and sustenance expenses up to RM150 per day for company representatives who travel overseas for business;
- maintaining sales offices and warehouses overseas to promote exports;
- hiring professional to design packaging for exports, subject to the company using local professional services;
- undertaking feasibility studies for overseas projects identified for the purpose of tenders;
- participating in trade or industrial exhibitions in the country or overseas;
- participating in exhibitions held in Malaysian Permanent Trade and Exhibition Centres overseas.

With effect from the year of assessment 2003, partnerships and sole proprietorships registered with the Companies Commission of Malaysia are also eligible for the above incentive. To qualify, they must provide the following professional services:

- legal;
- accounting (including taxation and management consultancy);
- architectural (including town planning and landscaping);
- engineering and integrated engineering (including valuation and quantity

- surveying);
- medical and dental

For pioneer companies, the deduction is accumulated and allowed against the post pioneer income.

Single Deduction for the Promotion of Exports

Certain expenses incurred by resident companies in looking for opportunities to export Malaysian manufactured and agricultural products and services qualify for single deduction. The eligible expenses are those incurred in:

- registration of patents, trademarks and product licensing overseas; and
- hotel accommodation for a maximum of three nights in providing hospitality to potential importers invited to Malaysia.

Double Deduction on Export Credit Insurance Premiums

Premium payments on export credit insurance qualify for double deduction.

Special Industrial Building Allowance for Warehouses

An annual allowance of 10% of qualifying capital expenditure is given for buildings used as warehouses for storing goods for export and re-export.

Double Deduction on Freight Charges

Manufacturers who ship their goods from Sabah or Sarawak to any port in Peninsular Malaysia qualify for double deduction on freight charges.

Incentive for the Implementation of Rosetta Net

Rosetta Net is an open Internet-based common business messaging standard for supply chain management link-ups with global suppliers. To encourage local small and medium-scale companies to adopt Rosetta Net in order to become more competitive in the global market, the expenditure and contributions incurred by companies in the management and operation of Rosetta Net Malaysia and in assisting local small and medium-scale companies to adopt Rosetta Net are eligible for income tax deduction. The eligible expenditure and contributions are those on equipment (computers and servers) and salaries for full-time employees seconded to Rosetta Net Malaysia; contribution of software, sharing

of software and programming, as well as the training of the staff of local small and medium-scale companies to use Rosetta Net.

Claims should be submitted to the IRB.

Sector Specific Assistance Scheme (SSAS)

The SASS is a reimbursable 80:20 cost-sharing grant scheme whereby financial support is granted to Export Councils, Joint Action Groups and Industry Associations. The scheme comprises Project Funding and Generic Funding. The SSAS aims to achieve the DTI's overall objective to:

- Develop an industry sector as a whole.
- Develop new export markets.
- Stimulate job creation.
- Broaden the export base.
- Propose solutions to factors inhibiting export growth.
- Promote broader participation of black owned SMMEs to the economy
- Export development costs such as market research, consultancy fees and other expenses
- Export promotion costs such as consultancy fees and other expenses
- Product development costs such as consultancy fees and other expenses
- Company development costs such as consultancy fees and expenses towards installing or improving Quality Management Systems
- Service development such as consultancy fees and other expenses
- Advertising and publicity (international).

Role of DTI in Exports

The Export Promotion Schemes of the DTI consist of financial assistance for entrepreneurs to personally explore potential export markets and to overcome liquidity problems because of delayed payments for exports and/or the fluctuating exchange rate. Short-Term Export Finance Guarantee Facility through which the Credit Guarantee Insurance Corporation (CGIC) can provide pre- and post-shipment export finance guarantees for SMMEs; and Export Marketing and Investment Assistance

Scheme (EMIA) which provides funding of primary market research, outward selling and inward buying trade missions and assistance to take part in exhibitions.

The DTI operates regional offices around the world, providing market intelligence and identifying opportunities for South African companies. Sector specialists also offer advice on export processes and procedures. The DTI's sector specialists have a clear understanding of, and access to, the various industries, and are able to provide advice on all current export processes and procedures. The DTI also promotes the formation of sector-specific export councils in partnership with South African industry. These assist exporters in reaching their targets, and specifically enable small businesses in any sector to access DTI support structure.

TURKEY

Since June 1996, Turkey has participated as an observer in the WTO Committee on Government Procurement. Turkey's public tender law established an independent board to oversee public tenders. The Government procurement regime in Turkey comprises:

- (i) Public Procurement Law (PPL) No. 4734 of 2002, as amended;
- (ii) Public Procurement Contracts Law No. 4735 of 2002, as amended;
- (iii) Regulation on Implementation of Services Procurements;
- (iv) Regulation on Implementation of Goods Procurements;
- (v) Regulation on Implementation of Works Procurements;
- (vi) Regulation on Implementation of Consultancy Services Procurements; and
- (vii) Regulation on Administrative Applications against Procurements.

Under Article 63 of the PPL, a 15% price preference is granted to domestic tenderers, if the PPA, the MIT, and other relevant departments conclude that the supplies are of domestic origin. However, this provision is not applicable to domestic bidders in joint-ventures with foreign tenderers. The PPL (Article 53) established the Public Procurement Authority (PPA) as an administratively and financially autonomous body with a link to the Ministry of Finance.

Export promotion

KOSGEB assists SMEs in, inter alia, participation in domestic and international fairs, as well as in business trips abroad to promote exports (50% of the expenses are covered, up to YTL 10,000); creating their own brands; and in export promotion credits. KOSGEB also provides SMEs with business matching models, a mechanism through which local and foreign SMEs are brought together in a common database, and business matching opportunities are assessed by a qualified operator company. The Export Promotion Centre (IGEME) remains the main public organization for export promotion in Turkey. IGEME acts as an intermediary in establishing business contacts between foreign importers and Turkish exporters.

The Turkish government approach to the support of internationalization of SMEs involves providing marketing information about demand in foreign countries and a possible government role as a facilitator to help with strategic alliances or partnerships. The government is attempting to provide this information on a sectoral basis. In addition, Turkey emphasizes quality of products and quality of production processes so that more Turkish products meet international standards. A good example is the increasing interest of Turkish firms in achieving EU-ISO quality standards.

By identifying SMEs that had the potential for exports but suffered from difficulties due to a weak management foundation, the government closely supported them for 2 years based on the “Project to Promote Exports of SMEs” which was initiated and expanded from 1993.

The Electronic Commerce Support Programme was established by KOSGEB to help SMEs open up to the global market place through the use of information technologies, and ultimately to assist their internationalization. The main goals of the programme are to increase foreign trade, assist SMEs in the operation of electronic commerce, and contribute to the abolition of the technical and legislative barriers to SME electronic commerce, follow-up on developments in electronic commerce regulations, and contribute to the national legislation regarding electronic commerce. In practice, the programme increases the use of information technologies in SMEs, assists SMEs in the use of the Internet, familiarizes SMEs with the idea of Internet and the global marketplace, and contributes to the changes affecting product distribution channels and marketing. The Electronic Commerce Support Programme is composed of four phases: i) development of the trade information system model; ii) supports for using

Internet and information technologies iii) KOBI-NET SMEs information network; iv) establishment of a centre (30 Internet cafes) to develop and promote electronic commerce services.

Research services and export promotion programmes administered by the Market:

Research and Export Promotion Centre are designed to increase SME exports. In 1994 the Turkish Eximbank started the Export Credit Programme for SMEs to meet SME exporting needs, in particular, manufacturers employing fewer than 150 workers. SME export credits are now provided under the framework of the Pre-Transportation Exportation Credit. SMEs have priority in making use of these credits as well as other short-term credit programmes of the Eximbank. Interest rates are determined in light of developments in Turkish economy and the mediator banks are allowed to add a maximum of three points on this interest rate as commission. Nevertheless, SMEs cite a number of problems they experience in relation to the Turkish Eximbank Credits which may be insufficient for their needs and are generally costly. Modifications are now being made in the credit application principles, the framework legislation and banking procedures. The share of SMEs making use of the credits is around 64%. Seminar programmes on financing exports are organized by the Trade and Industry Chambers and Export Promotion Centres (IGEME) in many regions and provinces. Foreign Trade Companies (FTCs) constitute a new approach for encouraging direct export by SMEs. Sectoral Foreign Trade Organizations (SFTOs) have a legal status similar to private companies. In these SFTOs, groups of SMEs (minimum ten) working in the same branch of manufacturing industry are requested to co-operate under a professional management system and are allocated export revenue targets to be reached annually if they are to be allowed to claim support for the following year. SME participation at both domestic and international fairs is also supported.

Annexure 7.1

SME Marketing Initiatives of Govt. of Malaysia

Ministry of Agriculture and Agro-Based Industry (MOA)	
Branding, Promotion and Marketing	<ul style="list-style-type: none"> • Provide comprehensive marketing service throughout the value chain from downstream to upstream activities • Enhance product image in terms of branding, design, packaging, graphic and labeling to be more competitive. • Increase awareness of consumers on pineapple-based products and provide the opportunity for entrepreneurs to venture into pineapple products processing industry
Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC)	
Taste of Malaysia	<ul style="list-style-type: none"> • Promote and market SME products via hypermarkets abroad
Produk Malaysia Citarasa Kita	<ul style="list-style-type: none"> • Promote and market SME products via local and foreign hypermarkets in Malaysia
Franchise Development Programme	<ul style="list-style-type: none"> • Develop competent franchisors for the franchise industry
Business Matching Programme	<ul style="list-style-type: none"> • Assist SMEs to access and list their products in the local and foreign hypermarkets and supermarkets in Malaysia
Ministry of Finance (MOF)	
Community Mall in Batu Kawan	<ul style="list-style-type: none"> • Provide premises to develop entrepreneurs in the retail sector
SME Halal Industry Park in Penang Science Park	<ul style="list-style-type: none"> • Provide manufacturing facility to assist small and medium Manufacturers
Cottage Retail shop	<ul style="list-style-type: none"> • Provide business premises in cottage area
Ministry of International Trade and Industry (MITI)	
Capacity Development Programme	<ul style="list-style-type: none"> • Enhance and develop capacity of SMEs human resource in productivity and quality subject matters
System Development and Quality Certification	<ul style="list-style-type: none"> • Enhance quality management systems of SMEs through quality certification scheme recognised locally and

	internationally
Industry Excellence Award	<ul style="list-style-type: none"> • Assist SMEs to inculcate the culture of excellence in their Operations
Organisational Excellence Development Programme: Model Company	<ul style="list-style-type: none"> • Further develop SMEs for expansion into local and global markets
Best Practices Programme	<ul style="list-style-type: none"> • Identify and share benchmarks and best practices with SMEs
Strategic Productivity and Performance Measurement Programme	<ul style="list-style-type: none"> • Encourage adoption of best practices among SMEs through benchmarking activities
Management Information System and ICT Application Programme	<ul style="list-style-type: none"> • Enhance application of ICT among SMEs through continuous improvement and facilitate them to be more competitive
MATRADE Briefing and Consultation Session	<ul style="list-style-type: none"> • Cultivate export culture among SMEs and encourage those particularly outside the Klang Valley to utilise the services offered by MATRADE
Women Exporters Development Programme (WEDP)	<ul style="list-style-type: none"> • Provide export assistance programmes for women-owned Companies
Market Development Grant (MDG)	<ul style="list-style-type: none"> • Provide assistance for SMEs to undertake activities for development of export market
Export Training Programme	<ul style="list-style-type: none"> • Enhance knowledge of SMEs in export-related areas such as export regulations, market information, international standards, branding, packaging and trade financing
Advertisement, Media Relations, Printed and Electronic publications	<ul style="list-style-type: none"> • Disseminate information on MATRADE's assistance programmes for SMEs to undertake export business through publications and exporting guide books
SME Expert Advisory Panel (SEAP)	<ul style="list-style-type: none"> • Strengthen technical advisory services to SMEs through on-site assistance and encourage transfer of technology know how and experience from industry experts
Enterprise 50 Award Programme	<ul style="list-style-type: none"> • Recognise the achievements of Malaysia's enterprising homegrown companies, which are well positioned for the

	future
Skills Upgrading Programme	<ul style="list-style-type: none"> • Enhance the capacities and capabilities to employees of SMEs in the technical and managerial levels such as financial, quality management as well as business management
Industrial Linkage Programme	<ul style="list-style-type: none"> • Develop linkages between SMEs, MNCs, GLCs as well as large companies
SME-Brand Development Programme	<ul style="list-style-type: none"> • Create awareness on branding among SMEs
Empowering Business Online with eBay	<ul style="list-style-type: none"> • Help SMEs experience exponential growth by reaching the global market of ready buyers on eBay's e-commerce platform
Grow Your business using the Internet with Google	<ul style="list-style-type: none"> • Enhance knowledge, skills and ability of SMEs towards improving the company's performance, growth and competitiveness by leveraging on online marketing
Bumiputera Exporters Development Programme (BEDP)	<ul style="list-style-type: none"> • Provide export assistance programmes for Bumiputera SMEs to develop the necessary skills and knowledge to penetrate or expand their export markets
Bumiputera Enterprise Enhancement Programme (BEEP)	<ul style="list-style-type: none"> • Develop potential Bumiputera SMEs through provision of integrated assistance package
Hawkers and Petty Traders Entrepreneurship Training	<ul style="list-style-type: none"> • Provide training to hawkers and petty traders
Education Sector Financing Programme	<ul style="list-style-type: none"> • Encourage development of skilled human capital
Halal Awareness Programme (HAP)	<ul style="list-style-type: none"> • Provide knowledge on the fundamentals of halal and its requirements including halal certification and halal market
Groom Big	<ul style="list-style-type: none"> • Enhance and develop the quality of products of Bumiputera entrepreneurs for domestic and international market
International Trade Fairs	<ul style="list-style-type: none"> • Provide a platform to promote and market export-ready products/services in the global market and expand business networking between SMEs and overseas trade buyers and

Domestic Industry Showcase	<ul style="list-style-type: none">• Provide a platform to promote and market quality local products/services and expand business networking between SMEs, local and overseas trade buyers, suppliers, etc
Strategic Collaboration with GLCs	<ul style="list-style-type: none">• Create CSR awareness among GLCs on Bumiputera Entrepreneurs
Advertising Assistance Programme	<ul style="list-style-type: none">• Create awareness on the importance of promotion and Advertising

Chapter VIII:

PROMOTIONAL & **DEVELOPMENTAL** **POLICIES AND PROGRAMMES**

Promotion and development (P & D) of the SME sector goes beyond the realm of credit. It essentially caters to the non-credit demand of the sector, i.e. capacity building through skill upgradation, technology modernization and innovation, enterprise creation, market linkages, cluster development, information dissemination, policy advocacy and a host of such requirements. These non-credit aspects of an SME's business life cycle often play a dominant role as these aspects lead to building the capacity of the SMEs to effectively absorb the credit made available to them. These P & D activities have been duly recognized by many countries and formulated various policies and programmes for the holistic development of their SME sector. The present book discusses some of the major P & D initiatives of 8 countries in terms of cluster development, Technology modernisation and innovation and entrepreneurship & skill development.

BRAZIL

The promotion and development of the MSME sector in Brazil has been receiving greater thrust by its Government. The government programs targeting MSMEs have as principal goal of increasing the MSMEs participation in the national exporting, through sectoral actions mainly related to segments of

low technological intensity, aiming their modernization, increasing product values, penetration in new markets and foreign market training. The overarching thrust is basically the stimulation of duration and consolidation of MSMEs in the economical context and their greater participation in the national production and in the foreign market.

The various policies which are introduced by the Brazilian Government so as to facilitate the development and growth of the MSMEs in Brazil are:

- Centrais Facil: One stop shop
- Simples: less Redtapes
- SMEs forum: bringing together the various stakeholders on the same platform
- National prizes for entrepreneurial mayors
- Government procurements of goods
- SME general law
- National Innovation law
- Credit co-operative
- Micro finance
- Guarantee/ collateral

Cluster Development

The promotion of industry clusters in Brazil is one of the foundations of the new economic and social development strategy of the Federal Government. As a consequence, the Program of Local Productive Arrangements has been included in the 2004-2007 Multi-year Plan, which brings together the policies and work of different government bodies. SEBRAE is one of the few institutions in Brazil America to promote MSMEs that offers direct services to businesses and entrepreneurs and, simultaneously, creates the structure and regulations to promote and organize the MSME sector' resources and institutions. The central office is more dedicated to policy and evaluation issues, while the regional offices provide direct services MSMEs.

Brazil has developed a cluster support policy which helps the private and public sector to partner together to identify existing support measures to target priority clusters. The government is hoping that by

supporting existing clusters, it can undo the country's significant regional economic disparities and promote small business development. Cluster support has for some time existed in Brazil at a state level, but lacked any clear policy driven from the federal government. Clusters, however, form an important part of the federal government's 2008- 2011 Plano Plouri-Anul, which the Planning Commission uses to guide and review key policies to drive cluster policy. Since then cluster support has become far more coordinated. The Ministry of Development, Industry, and Trade's cluster (or as they are termed in Brazil, Arranjos Produtivos Locais or just APLs) working group essentially prepares guidelines for cluster development. Added to this each state government has its own cluster working group (Nucleo Estaduais) of which the first was set up in 2006. These ensure that the various development priorities of each state are attended to and are composed of various role players, including: representatives from Sistema S (including Sebrae and training agency Senac among others), the state government, financial institutions, workers and science and technology institutions. The Ministry's Productive Development Plan, released in May 2008, establishes targets for development plans for clusters in 10 states in 2009 and another nine in 2010.

The Government's cluster policy provides for the identification of certain geographic regions in the country where firms have already clustered and where the government could possibly form a cluster to channel support to MSMEs. In 2005, the first attempt was made to identify clusters and 957 were identified, covering 2,95,141 enterprises and 28 million employees. An updated list of identified clusters was expected to be released in 2010 and the number of mapped clusters was expected to be as high as 1400, going on a recent BNDES study. Of the total clusters identified in 2005, the country's states have nominated 267 as priority clusters, demanding special attention. In total, 125 plans of action had been developed through the various Nucleo Estaduais to assist priority clusters. After a plan is approved by the Nucleo Estaduais, a cluster's governance tries to present projects for each action in order to get funding. The Permanent Group for Clusters (GTP-APL) also identifies 142 priority clusters. Support for clusters is divided into five areas: capacity building and governance, innovation, market access, productive capacity and finance.

Brazil has around 4.5 million of formal enterprises of all sectors. Out of 17282 exporters, nearly 60% were SMEs. Even representing a large share in the number of exporters, they account only for 6% of export values. Individually, SME are often unable to capture market opportunities that require large

delivery capability, adherence to standards and regular supply. By the same account, they experience difficulties in achieving economies of scale in their procurement process (such as supply of equipments, raw materials, finance, maintenance, consulting services, etc.). In fact, small size creates many other intra-firm barriers, which can be materialized in the hindrance to settlement of functions such as training, credit and finance, market intelligence, logistics and customer support functions that are the very core of the firm dynamism during the internationalization process.

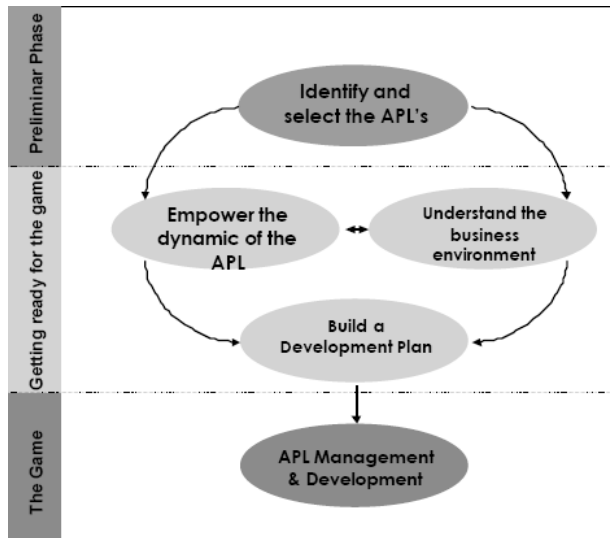
Thus SEBRAE tries to come up with measures which include the stimulating and strengthening small Brazilian entrepreneurs, through the managerial enhancement of national SME, investing a large part of its budget in technological solutions and professional qualification, improving production techniques, so that companies may be able to compete globally, with better products and services. Such an enhancement also includes the structuring of Brazilian SME in networks, productive chains and clusters (APL), so that jointly these companies may improve production and trading methods, reducing costs and increasing overall efficiency.

The key role of SEBRAE in promoting “APL” comes from its unique heritage as an interlocutor between the Private and the Public Sectors, after working for several years on specific and individual demands from entrepreneurs and promoting social forums to promote a better social-economic ambiance for SME.

The concept of APL

APL means in portuguese “*Arranjo Produtivo Local*” or Local Productive Arrangement. The essence consists in agglomerations of enterprises located in a same territory, which present a productive specialization and hold any linkage on interaction, cooperation and learning, among them, and with other local actors, such as the government, business entities, credit institutions, research and educational institutions.

Each cluster is different, specializing in a particular production. Thus the model for development for that cluster is customized according to their specific requirement taking in consideration local factors such as: actors and networks, local potentials and opportunities, comparative and competitive advantages, different natural resources, infrastructure and human capital available and so on.



Some other economic criteria considered are:

- i) It must be confirmed a minimum number of companies established in the cluster (at least 20 enterprises under a same productive specialization)
- ii) The cluster must employ a minimum of 100 individuals (total number of occupations inside the cluster)
- iii) The cluster must offer an export potential or an import substitution potential

Clusters help develop poor regions

The example of a cluster Pernambuco state in the country's Northeast, demonstrates that by supporting, the government and local authorities can promote regional growth and equity. Residents in three small towns in the north-eastern state of Pernambuco are today enjoying better houses and the area has more schools and jobs to go around after a cluster support programme was carried out in the area. The programme, Oficina de Moda, was implemented by Sebrae in 2004 in the towns of Caruaru, Toritama and Santa Cruz do Capibaribe – 140km or so inland from Recife. Thanks to the programme, 30 clothing companies saw their turnover grow by about 110% in just eight months after getting assistance in areas, such as, planning and production, marketing, trademark protections and design, through a cluster programme sponsored by the Brazilian small business support agency, Sebrae. Some of the firms grew from employing 30 people to 300 today.

Tax breaks spur tenfold growth in Recife cluster

In Recife, tax breaks and government funding have helped 130 information and technology businesses based at Porto Digital, an IT cluster, to increase their turnover tenfold between 2000 and 2009, while helping to create a more innovative state. Today the companies – 60% of which have less than 10 employees – generate a total turnover of US\$500 million. Companies benefit not only from a 60% tax break from the city and a 90% tax break from the state, but also from free training offered through Porto Digital. Some of the companies on the island have also received funding from Finep's Juro Zero (zero interest rate) programme. The cluster, which takes up half of a small island in the city centre of Recife and was set up 10 years ago as a way to retain the state's top IT talent, now helps to produce state-of-the-art companies. It also helps to develop innovative solutions to help the state's other clusters such as those in the shipyard, textiles and dry wall sectors. Some of the cluster development programmes in Brazil have gone beyond simply economic performance and to concentrate on the social aspects also. There is a cluster example of how IT cluster development was linked to school education and how the same was taken to a higher level (Box 8.1).

Box 8.1 : Cluster Development its Societal Impact

Porto Digital's Porto Desembarca programme has seen several companies in the cluster develop an innovative solution to boost pupils performance at local schools. Until recently, school pupils were being distracted from doing their homework because they were spending too much time playing computer games. The answer was the creation of a computer learning game by six companies who formed a joint venture in 2008 after a meeting between IT companies, teachers and state school authorities. The game required pupils to enter various clues before they could advance to the next stage. The clues were given out to pupils in answer to homework assignments the pupils had been tasked to complete. The JV even created another version which allowed pupils from different schools to challenge one another, with the chance to win prizes such as Playstations and computers. So successful has the project been that 5,000 schools now take part, up from 400 in its first year. Companies involved in the project have also had to double their staff complement in just two years. The state of Rio de Janeiro is also now implementing this strategy.

One of the key achievements of clustering strategy is make it possible for SME to gain international competitiveness, sustainability, and income and employment generation resulting in increased exports volumes. Clustered SMEs start to develop products, designs or collections not focusing only on the domestic or on the international buyer or even for a specific trade fair, they actually start to think globally and under a systemic perspective. More than likely, these SME know that the same competitor that it will be faced on a national fair will also be present in other international markets and fairs.

A key lesson by Sebrae when it came to supporting clusters, is that the decision-making process must follow a bottom-up strategy with the participation of all cluster members. A second lesson is that the success of any effort in cluster development essentially stems from having a credible institution lead the process which can attract other support organisations to join in. Sebrae's method of cluster support precludes the existence of at least 20 enterprises linked to one common specialised production and that these enterprises employ at least a total of 100 people. The cluster must also be capable of effectively contributing to increase exports or to competitively substitute imports, must have market potential, and be able to generate jobs and income.

Innovation & Technology

In concert with the Federal Government's Growth Acceleration Plan (PAC), the Ministry of Science and Technology (MCT) launched in late 2007 its own Action Plan for Science, Technology and Innovation (STI) for the period from 2007 to 2010: *Plano de Ação para Ciência, Tecnologia e Inovação 2007-2010* (PACTI). The main objective of the plan is to define a broad spectrum of initiatives, actions and programmes that make possible a more decisive role of STI in the country's sustainable development. Several initiatives are oriented to encourage firms to incorporate research and development and innovation (RDI) activities in their productive processes. Support to scientific and technological research will be increased for all knowledge areas, but greater encouragement has been given to the frontier, engineering and strategic areas for the country's development. It aims to invest EUR 15.7 billion between 2007 and 2010. The Plan's main innovation-related objectives are to: 1) structure the Brazilian Technological System (SIBRATEC), a network of networks of institutions to support technological development of firms throughout the national territory; 2) increase the share of researchers in firms to 33.5% in 2010 (26.3% in 2005); and 3) increase to 24% in 2010 the share of innovative firms receiving government support (18.8% in 2005).

An extensive and large Productive Development Programme (PDP) was launched by the government in May 2008 (superseding, in principle, the previous 2007 PITCE industrial policy document). One of the four central challenges that underlie the policy's main objective of providing sustainability to the current expansion cycle is to raise the innovation capacity. In PDP, the main objective is to raise private business research and development (R&D) expenditures to 0.65% of gross domestic product (GDP) or 0.51% of GDP in 2005. The planned annual growth rate over the period from 2007 to 2010 in these expenditures is 9.8%. Among the new initiatives set in the PDP is an increase in innovation resources. Objectives set in the PDP in regard to the development of the intellectual property (IP) system for 2010 are to double the number of deposits in Brazil by Brazilian enterprises of intellectual property rights (IPR) and triple patent deposits abroad.

Innovation governance system

Governmental bodies

The key innovation policy institution is the MCT, led by its innovation implementation agency FINEP (Financiadora de Estudos e Projetos), one of the two leading innovation policy implementation agencies. Its basic research agency is the National Council for Scientific and Technological Development (CNPq) and it also has its own network of Public Research Organisations (PROs). Graduate education financing policy is also set by CAPES, an agency of the Ministry of Education (MEC). There is also the Ministry of Development, Industry and Foreign Trade (MDIC), responsible for leading the definition and coordination of Brazil's industrial policy through the recently created policy organisation, Brazilian Agency for Industrial Development (ABDI). MDIC has under its purview the second main innovation implementation agency, Brazilian Development Bank (BNDES). MDIC also has in its structure the innovation support agencies National Metrology Institute (INMETRO) and the National Industrial Property Institute (INPI).

FINEP operates in strict accordance with the policies set forth by the MCT and in close cooperation with the CNPq. While the latter provides scholarships and grants to individual researchers and research groups and lately has become involved in scholarships for researchers involved in enterprise innovation programmes, FINEP supports STI activities in institutions, public or private, and companies.

High-level coordination of the emerging innovation policy was in the hands of the MCT until the January 2005 establishment of the public-private inter-ministerial industrial policy making advisory National Council for Industrial Policy (CNDI) and of the programme design and implementation monitoring agency ABDI, under the MDIC. The industrial policy priorities and programmes set by these bodies have an innovation policy component, which is coupled to the infrastructure and strategic goals set by MCT for the country's innovation policy.

Over the past year or so, advisory, oversight and orientation committees have been created or re-activated at different policy and programmatic levels. In November 2007, with the issuance of the Law 11,540/07 regulating the National Fund for Scientific and Technological Development (FNDCT), a provision came into effect which defined membership of the Directive Council under the MCT to include: representatives of the ministries MDIC, MEC, Planning, Defence and Finance; the presidents of FINEP, CNPq, Embrapa and BNDES; three representatives of the business sector, preferably from the technological area, of which one from the small and medium-sized enterprises (SMEs) sector; three representatives of the scientific and technological community and a representative from workers in the science and technology (S&T) area. The council approves its internal bylaws, contract research and studies to subsidise the definition of strategies and policies for funds allocation and to define the norms and guidelines for the use of FNDCT resources. Next, in January 2008, the FNDCT Permanent Committee for Systematic Monitoring and Activity Integration was established, as stipulated in the implementation guidelines of the 2004 Innovation Law. A committee proposal is to set up a forum with legitimacy to debate experiences in the Innovation Law area, besides making suggestions for new policy interventions and unfolding of the law. The committee's first meeting with the participation of MEC, MCT and MDIC discussed the IP policies being adopted by STIs, as presented in a report produced by MCT.

The National Science and Technology Council (CCT) was reactivated. The CCT was created back in 1996 as 'the advisory body to the Presidency of the Republic for the formulation and implementation of 'the national science and technology development policy'. The MCT acts as its Executive Secretary. The CCT is composed of 13 representatives of the federal government, 8 representatives of the productive sector and users and 6 representatives of national entities representative of the teaching, research and S&T sectors. It currently has five commissions: coordination, monitoring of expansion and consolidation of

the national S&T system, monitoring of firm technological innovation, monitoring of R&D in strategic areas and monitoring of R&D for social development. In July 2009, the CCT convened to, among other things, assess Objective 4 of the PACTI: expansion and consolidation of the national S&T system.

A Coordinating Committee of the Federal Sector Funds was established in the second half of 2009. The committee met in September 2008 to approve a calendar of the research incentive call for proposals of the FNDCT. Of the estimated EUR 1.14 billion to be invested by the FNDCT in 2009, EUR 146.4 million were to be allocated to transversal activities (targeted in the PITCE) and the sector funds are obligated to direct 50% of their expenditures to this action, representing EUR 101.7 million.

In January 2009, the Inter-Ministerial Committee convened for the first time on the Legal Framework of the Innovation Law which has representatives of MCT, MDIC, MF, and MPOG. The Committee's objectives are to identify, propose changes and refine the Innovation Law (2004) and the Good Law (2005).

Finally, in early 2009 a Permanent Innovation Law Monitoring Committee was established, formed by representatives of the ministries MCT, MDIC, Finance-MF, Education-MEC and Planning and Budget-MPOG.

The joint Executive Committee of the regional associations of FAPs (Confap) and State S&T Secretaries (Consecti) (*Comitê Executivo Consecti/Confap*) has since 2006 (when a term of cooperation was signed between MCT and the Executive Committee) been playing a role in shaping innovation policy, particularly in regard to its decentralisation aspects and dimensions.

In October 2008, the National Industry Confederation (CNI) launched the Enterprise Innovation Front (*Mobilização Empresarial pela Inovação-MEI*) with the aim of making innovation a permanent strategy of Brazilian firms. At the CNI-organized III Brazilian Congress of Innovation in Industry held August 19, the MEI and the Brazilian Competitiveness Movement (MBC) issued an innovation manifesto.

Main bodies managing implementation of policies

FINEP is the main innovation policy implementation agency, the so-called Brazil Innovation Agency. FINEP implements, manages and operates innovation programmes in strict accordance with the policies

set forth by the MCT, and in close cooperation with the CNPq. FINEP supports STI activities in institutions, public or private, and companies. While CNPq traditionally provides scholarships and grants to individual researchers and research groups, lately it has become involved in giving out scholarships for researchers involved in enterprise innovation programmes.

The BNDES, under the MDIC, is the other main innovation implementation agency and the largest funding one (its overall total disbursements increased from EUR 13 billion in 2007 to EUR 19 billion in 2008 and in the first half of 2009 increased 11% over the same period in 2008). Of the planned EUR 6.859 billion in the investment target of the PDP for the period from 2007 to 2010, BNDES will account for one third. Innovation is also a priority in the bank's 2008-2014 strategic plan. Its expenditures on innovation increased from EUR 119 million in 2007 to EUR 218 million in 2008, and up until June 2009 had reached EUR 79 million during that year.

Over the last few years, the BNDES has intensified support for innovation, which is a strategic priority for the institution and is considered one of the main tools for competition for companies in the current scenario. Since the beginning of 2008, innovation has gained importance with the review of support instruments and the availability of financial resources with special conditions. Innovative Capital and Technological Innovation credit lines were created, and the BNDES began focusing on equipping companies with the ability to innovate, offering support for innovation business strategies. In 2009, one of the highlights was lower interest rates in support lines for innovation. The reduction of interest rates was made possible through the creation of the BNDES' Investment Maintenance Program (BNDES PSI), which includes equalization of interest rates by the National Treasury and was valid up to the end of 2010. Also in 2009, the BNDES created the Innovation Production line, in addition to the other two mentioned above. The goal of the Innovation Production line is to support investments aimed at establishing, expanding and modernizing production capacity needed to absorb the results from research and development or innovation. This credit line also supports research and development or innovation that offer proven market opportunities, including developing incremental innovations in products and/or processes.

As proof of its continuing support to innovation even at a time of economic crisis, in mid-2009, the BNDES lowered until the end of 2009 its financing cost across the board, from the basic interest rate (TJLP) which was reduced from 6.25% per year to 6% per year, to lower rates for innovation financing of

3.5% (for the Technological Innovation finance line, down from a 4.5% rate) and 4.5% (for the Innovation Capital line, down from a 9.25% rate, which includes an average risk rate of 3%).

BNDES also launched the new BNDES Pro-Engineering (PRO-Engenharia) programme for the industrial sectors automotive, capital goods, defence, nuclear, aeronautics, aerospace, and oil and gas suppliers' chain. The programme has a EUR 1 524 billion budget until 2014.

The BNDES financing measures for innovation are separated into four categories: 1) fixed and variable rates; 2) variable rates; 3) BNDES card; and 4) grants (non-reimbursable).

In the fixed and variable rate category, there are programmes (financial lines in the bank's parlance) for financing/securities (Innovation Capital), for projects (Technological Innovation) and for select sectors (software-PROSOFT; pharmaceutical-PROFARMA; digital TV-PRODTV; aeronautics-Pro-Aeronáutica and engineering-Pro-Engenharia).

The Innovation Capital purpose is to support companies to develop capabilities to undertake innovative activities on a regular basis. This includes investments in tangible capitals, including physical infrastructure and intangible capitals. It provides a minimum of EUR 381 thousand in long-term financing and/or subscription of securities for innovation investment in physical infrastructure and tangible and intangible assets, in pursuit of the firm's innovation investment plan, to be submitted.

The Technology Innovation line targets companies for support technology projects aiming at the development of new or significantly improved products and/or processes (at least for the domestic market) involving technology risk and market opportunities. It provides long-term financing and/or subscription of securities.

The variable rate category comprises closed mutual funds and shares in venture capital (VC) funds, direct VC investments in firms and the seed capital programme Criatec, with a EUR 38 million target budget, split between the BNDES VC and PE investment subsidiary, BNDESPAR (80%) and the government development bank for the northeast region BNB (20%). This line has financed 37 VC and PE funds, including 17 targeted to emerging firms, which since 1988 have invested EUR 533.5 million in over 149 firms (105 VC and 45 PE, up to March 2009), including 93 small and medium-sized enterprises (SMEs)

(33 in 2007 to 2008). The Criatec programme objective is to make seed capital investment in innovative micro and small-sized companies. The investment period began in January 2008 and, by mid-2009, 18 companies had been invested in in the biotechnology, agribusiness, information technology (IT) and medical equipment areas.

The BNDES card is targeted to SMEs and provides small, low-interest credit lines (up to EUR 190 000 per card) for the purchase of capital goods and equipment and, more recently, software, certification, conformity, IP, R&D and innovation services. A company can have up to three cards – one from each of the three card-issuing public and private financial institutions (Banco do Brasil and Caixa Econômica Federal, public, and Bradesco, private). It can also be used as counterpart funds for obtaining innovation funds from FINEP programmes.

In the grants category, the FUNTEC-Technology Fund targets renewable energy, environment (control cars and plants emissions), electronics (microelectronics, nanotechnology and displays), new materials (new metal materials and advanced ceramics) and chemistry. The fund's purpose is to support research, development and innovation (RDI) projects in national strategic areas, allowing the country to grab opportunities and assume leadership positions. Its targets are Technology Institutes and Supporting Institutions. FUNTEC's operations take place in the form of direct support, are non-reimbursable and are limited to 90% of the project's total amount. Operational and administrative expenses related to RDI are limited to 5% of the grant. FUNTEC is governed by the FUNTEC Advisory Committee (CCTEC), comprised of staff employees of the BNDES, a Federal Government representative and external experts. The members who are not part of the BNDES staff are required to sign a Confidentiality Agreement and keep all information received as CCTEC members confidential.

Over the past year there has been an evolution of some measures and an extension of the range in the category Research and Technologies. Policy measures for direct support of business R&D, both as grants and loans, have continued to expand in volume of resources (loans mainly through BNDES measures and to a lesser extent FINEP, whereas the grant measure managed by FINEP experienced a sharp cut in its budget, as discussed above) and to diversify towards an implementation of decentralised versions (the state version of the Economic Subsidy programme PAPPE Subvenção finally took off, two years after its launch). Measures for research infrastructure have grown and for support infrastructure (technology transfer offices and training of support staff) have emerged.

Measures to improve the regulatory framework knowledge transfer (contract research, licences, research and IPR issues in public/academic/non-profit institutes) have been pursued. Policy measures to promote R&D cooperation, particularly with research institutes as well as indirect support to business R&D (tax incentives) have grown and been refined recently. In the Human Resources (education and skills) category policy, measures have emerged to address recruitment of researchers by companies in order to correct the highly skewed distribution of researchers in universities (66% of full-time researchers in 2005). Measures to increase awareness, creation and science education have been also strengthened and pursued by the MCT.

The range of measures to promote and sustain the creation and growth of innovative enterprises has been strengthened particularly in regard to support to risk capital, sectoral innovation in manufacturing and innovation in services and innovative start-ups.

Policy measures towards markets and innovation culture have improved with the promotion of favourable innovation climate (road shows and awareness campaigns, by both research associations and private sector groups) and innovation prizes including design prizes. An effort has begun in mid-2009 to monitor the Innovation Law evolution through impact assessments (on research and innovation issues) of new legislative or regulatory proposals in any policy field and a sustained and increased number of measures have been taken to raise awareness and provide general information on IPR.

New or modified support measures

Chart 8.1: New innovation policy support measures

Title	Innovation policy framework category	Organization responsible
Pro-Engineering	BNDES	
BNDES card, IPR and innovation services added	Support of SME corporate innovation	BNDES
FUNTEC	BNDES	

Sebrae in Brazil, which is the most important organization in Brazil for the promotion of Brazil's MSME sector, is also involved in promotion of technology modernization and innovation. Some of the achievements are:

- i) Brazil has a systemic innovation program, of which around 65% funding comes from SEBRAE, the government agency for Entrepreneurship development. Brazil is also more independent in terms of Technology development because of broad base of large national firms and more integrated value chains.

Business incubator is a system that is growing in Brazil, and some programs exist in the state and national level (e.g. SEBRAE Program to Firm Incubators; National Program to Support Firm Incubators). The Brazilian Association of Business Incubators and Science Parks (ANPROTEC) is among the strongest incubator/park associations in the world. Among the largest sponsors of incubators are federal agencies (52%) and private organizations (48% of total). Brazilian companies that began operations under the wing of organizations like ANPROTEC showed a survival rate of 75% after their first three years of operation, while the national average is no more than 25%. Those incubators have achieved outstanding success in bringing together start-up businesses and offering them technical support provided by an organization that is most often associated with a university, NGO or government office. Those programs may be targeted by projects or policies related to linkages in Brazil, given that the exchanges provided by entrepreneurs in the incubators create a rich environment for SMEs. Furthermore, the environment for business is stimulated and enriched, since strong connections between the academic and research institutions and that of the business sector may be created.

Enterprise and Skill Development

Improving the absorptive capacities of SMEs goes far beyond SME policy per se. SME policy, together with technology, FDI and educational policies are closely intertwined and should be regarded as parts of an indivisible system. Two core aspects that shape the absorptive capacities of countries and their SME sectors are (1) the educational policy and (2) incentive systems and market-oriented intermediaries (UNCTAD, 2006a).

Concerning the educational area, the university and research institutions system is relatively developed.

Sebrae aims to offer products and services to assist SMEs to compete better through entrepreneurship and skill development. The agency's activities, among others, were:

- (i) Educação Sebrae (Sebrae Education) which offered internet courses, reaching 282 300 participants in 2009 through nine courses (R\$6 million).
- (ii) The agency spent R\$4.3 million through strategic partnerships with a number of organisations:
 - The National Foundation of Quality's Competitiveness competition (Prêmio Competitividade do Fundação Nacional da Qualidade) with 57 718 applications.
 - Competition for Women in Business (Prêmio Mulher de Negócios) with 3 060 participants.
 - Abeta's Programme of Qualification and Certification in Adventure Tourism (Programa de Qualificação e Certificação em Turismo de Aventura) which assisted 756 enterprises.
 - Roberto Marinho Foundation (Fundação Roberto Marinho) which spread entrepreneurship through Canal Futura.
- iii) Sebrae Programme for advanced enterprises attended to 1 180 individuals in 2009, the goal in 2010 is to attend to 30 000 enterprises.

CHINA

In 2009, Chinese Government issued a document in September 2009 to strengthen support for the development of the country's small- and medium-sized enterprises (SMEs). According to the said cabinet note, the government will deepen reforms in the country's monopoly industries, lower the market access threshold for the SMEs and create a more open and fair competition environment for SMEs. The government will also optimize its procurement mechanism, raising its purchase proportion of commodities, engineering and services from the SMEs. The government will grant a one-year reprieve on social security fund to the SMEs in operational difficulty amid the global financial crisis, in a bid to reduce financial burdens and protect the interests of the SMEs. It will expand channels for the SMEs to raise capital by encouraging banks to lend more money to the SMEs, stepping up policy making efforts to guide private capital to tap into the country's financial system. The government will increase tax breaks to

small firms with an annual taxable income below 30,000 Yuan (\$4392.40) from January 1 to December 31 of 2010. According to the document, the government will also encourage the SMEs to improve their technological innovation capacities, enhance product quality, and promote development in energy conservation and clean production.

The letter and spirit of the said document shows that the Chinese government attaches great importance to the development of their SMEs. As mentioned in Chapter 3, on Jan. 1st, 2003, the Promotion Law on SMEs became effective. In Feb. 2005, the State Council issued Several Opinions on encouraging, supporting and guiding the development of self-employed and private economy and other non-public sectors of the economy. The Government encourages donation to the National SME Developmental Fund through taxation policies. Governmental agencies concerned should actively create good conditions, provide necessary and corresponding information services, and according to the demand of SME development, make arrangement for necessary space and facility for SMEs in urban and rural development plans, so as to support the establishment of SMEs. When establishing SMEs, unemployed and disabled people will receive active support and convenience and guidance from local governments. The relevant governmental agencies should take measures to extend the access for SMEs to admit college and polytechnic graduates.

The State Council approved and established the National Leading Group for promoting SMEs headed by Ministry of Industry and Information Technology and constituted 14 ministries including the Ministry of Finance, the Ministry of Science and Technology and the Ministry of Agriculture. The Leading Group is strengthening the overall coordination, organization and guiding of SMEs. The external environment for SMEs has been strengthening, and financing service of SMEs service system for SMEs has been improving.

Cluster Development

China has also witnessed rapid growth of industrial clusters since the initiation of reform and opening-up, playing a vital role in regional economic growth and industrial development. Chinese industrial clusters exist in most traditional industries, including textile, apparel, leather, hardware, arts and crafts, and enjoy fast development in such high-tech and emerging sectors as information technology, bio-engineering, new

materials, and the cultural creative industry. Chinese industrial clusters demonstrate three features, which make them significant and relevant for the study. These features are:

- **Small Products but Big Markets:** The products from industrial clusters can be as small as buttons and zippers, but they take a large share in domestic and overseas markets. For example, the number of lighters produced in Wenzhou City, Zhejiang Province account for 80% of the domestic market and 30% of the international market.
- **Small Enterprises but Large-Scale Cooperation:** Within the clusters there are many SMEs with a high level of specialization and collaboration. For instance, the socks clusters in Zhuji City, Zhejiang Province consist of over 3,600 enterprises, forming a network of sophisticated division of labor and collaboration.
- **Small Clusters but Great Achievements:** The development of industrial clusters expands employment, steps up the industrialization and urbanization in the underdeveloped regions, and enhances regional and industrial competitiveness. For example, in 2006, 40 industrial clusters located in the western Sichuan Province created about 400,000 job opportunities, promoting local economic and social development.

China also promotes SMEs clustering under the aegis of “Industrial Clustering”. This refers to various industrial colonies composed of enterprises in identical and closely connected industries in specific areas. SME clustering, in particular, is the centralization of SMEs in their location, considered an important feature of SME development.

In recent years, the Chinese government, in accordance with the principles of socialization, specialization and market-orientation, has vigorously developed various business support service organizations, and improved the service system for SMEs, providing SMEs with convenient, efficient, and high-quality services.

An SME cluster can maximize regional accessibility to produce and market by capitalizing on joint ventures, cooperation, and alliances. A specialized division in the cluster helps the enterprises not only to supply the consumers with diverse products but also reduce business expenditures by creating a commercial network and taking advantage of region accessibility, thus enhancing their competitive power.

Many enterprises belonging to one industry band themselves together into a SME cluster. These are mostly manufacturing enterprises along with allied industries. Doing so leads to higher economies of

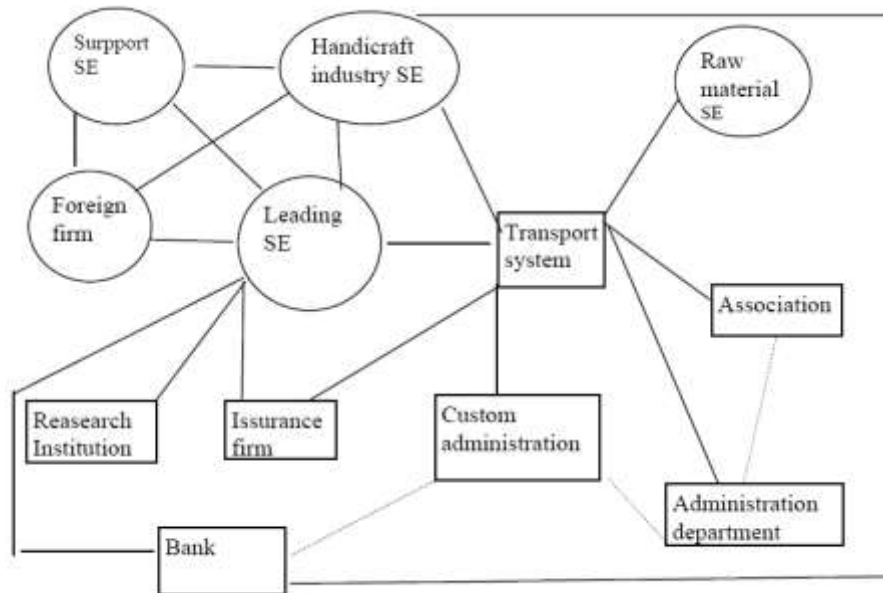
scale, which in turn enhances the host town's economic competitiveness. Take Zhejiang province, for example, which is one of the most vibrant areas in China. Its growth was fueled by the clustering of SMEs in the area into specialized industrial zones.

Cluster output accounts for about 50 percent of the total industrial output; taxes, 60 percent, export volume 70 percent, and employment 80 percent. Many small towns in China depend on township enterprises for their economic growth. Such enterprises are expected to generate more employment opportunities for the rural surplus labor force. A small town's development must be supported by its industry. Such support can come from SME clusters of enterprises in the secondary and tertiary industry, provide this kind of industry support, and attract rural surplus labor force to enter into the small town, which could accelerate the transfer of the rural surplus labor force. The interesting part of cluster development in China is that the small enterprise clusters develop very well in Jiangsu, Zhejiang and Guangdong provinces. The more small enterprise clusters are specialized, the more competitive they are.

The cluster economy is made up of professional towns and villages functioning as production hubs, with one or more towns focusing on one product. Some areas have set up large-scale specialized production and marketing, which shows great potential for success. This essentially illustrates the concept of "one village, one product" or "one town, one industry" as exemplified by provinces like Jiangsu, Zhejiang, and Guangdong. The concentration of production of certain products in these areas has given rise to such catch phrases as Shengze textiles, Hengshan sewing machines, Ningbo costumes, Wenzhou shoes, Shaoxing synthetic textiles, Haining leather coats, Yiwu small commodities, Yongkang hardware, to name a few.

The SME cluster facilitates information exchange and knowledge extension sharing, which not only attracts talent and other vital components of production but also encourages the entry of new enterprises, or industry players, into the trade. Therefore, clustering has become a major strategic choice of key SMEs to enhance their competitiveness, which benefits their host small towns economically.

Chart 8.2: Socialized Coordination of Small Enterprises



Local government units provide an enabling environment through appropriate policies and regulations as well as vital infrastructure, which are all essential to business. Small enterprises located in the areas between Shanghai and Zhejiang enjoy the convenience of having these facilities, which allow them to do business with local and foreign enterprises. Besides, local governments arrange for enterprise visits to other places, and organize them to participate in international trade exhibits every year. These governments also support various spare part associations and service companies and provide technical and R&D services.

Major Observations

- Improved and low-cost infrastructure, such as energy, transportation, communications, and Internet, is vital to SE clustering.
- Small towns specializing in production, trade, and tourism industry should develop potentially competitive industries.
- Implement the macroeconomic regulation and supply the local government service. The government should draw up a preferential policy for the development of SEs, help SEs to choose appropriate region and adjust their development direction.

- The point is to build a culture of the local society to promote competition and cooperation in order to cultivate an innovative entrepreneur efficiently.

Innovation and Technology

The State formulates policies to encourage SMEs to exploit new products, adopt advanced technology, production method and equipment according to the demand of market, in order to improve the quality of products and realize technological progress. The SME sponsored technological innovation programs and special technological upgrading programs for products of large enterprises can enjoy discounted loans policy. Government departments concerned provide policy support in terms of planning, space use, finance and promote the founding of all kinds of technological service agencies; set up productivity promotion centers and technology-enterprise nurturing foundations; provide SMEs with technology information, technology consultation and generalization service; provide SMEs with products research service and technology exploration service; promote the utilization of technology; realize the upgrading of technology and products of SMEs. The State encourages SMEs to cooperate with research institutions, universities and polytechnics on technology cooperation, exploration and communication, accelerate the industrialization of the technical achievements, and actively develop SMEs based on technology.

The State guides, promotes and standardizes SMEs to launch reorganization of assets through merger, acquisition, etc. in order to optimize the distribution of resources. Government departments and agencies concerned provide SMEs with guidance and help to promote the production development of SMEs and foreign economic and technical exchange and cooperation. At present, the Chinese government is vigorously implementing and setting up a market-oriented national innovation system that features enterprises as main players and linkage between industry and academia. A series of policies have been implemented, such as, encouraging R&D investment, accelerating commercialization of sci-tech achievements and government procurement of domestic innovation products. China has founded more than 500 technology incubators, out of which, over 130 incubators are in high-tech business, since opening its first incubator in 1987, according to statistics from the Torch High-Technology Industry Development Center, under the Ministry of Science and Technology (MOST).

SMEs are encouraged and supported to build linkage with universities and research institutes by jointly setting up labs and R&D centers and through joint or commissioned R&D. Technology intermediary agencies have been developing rapidly, including SME service centers, productivity centers, technology

consulting organizations, and technology exchange markets. Technology service facilities such research institutes and national engineering centers are now open to SMEs. All these developments have facilitated the commercialization of research results and the transfer of technologies. Efforts have been made to encourage the R&D, application and production of new products and new technologies and to promote the establishment of platforms of business support services in industrial clusters, providing technical services, such as, product testing and inspection, industrial design, consulting and diagnosis.

The main objective of Chinese innovation policy is to make China an 'innovation-oriented' society by 2020. This goal is stated explicitly in China's *Medium- and Long-Term Plan of Science & Technology Strategic Development* (MLP).

The MLP was prepared as a national strategy guiding China's science and technology (S&T) development in the early 21st Century. In this technocratic country, it is widely recognised that China has made, and should continue to make, great progress through S&T and innovation. Compared to other industrialised countries, however, the overall level of S&T development in China falls short. Moving beyond imitation and into innovation is considered to be one of the main challenges for China. The period between 2006 and 2020 is regarded a key strategic phase. It is hoped that China will not only move closer to industrialised countries in S&T fields, but also become a leader in emerging S&T fields. Accordingly, a set of innovation targets are set forth in the MLP. This document calls for more than 2.5% of gross domestic product (GDP) to be invested in research and development (R&D), the contribution of S&T progress to economic growth to be at least 60% and dependence on foreign technologies to below 30%. In addition, the MLP also sets the goal for China to rank in the top five countries in the world in terms of invention patents and international paper citations.

To achieve these goals, two priorities were put forward in the strategic plan. The first is promoting S&T development in select fields, and the second is enhancing innovation capacity through indigenous innovation activities. As is typically the case in China, it is difficult to develop all disciplines and fields simultaneously due to limited technological and financial resources. Thus, priority is given to key fields deemed to have significant socio-economic implications. Resources are focused on these key fields to enhance the country's competitive position in the world. The development of energy, water resources and environmental protection are prioritised, since these are important for aiding China's socio-economic development. Innovation in information technology (IT), new materials and advanced manufacturing

technology are deemed important for enhancing China's industrial base. Biotechnology is seen as a crucial investment both to reduce the threat of serious disease in-country and improve standards of health. Basic research, frontier research and interdisciplinary research are regarded as the engines and drivers of sustainable development in S&T. In particular, 11 fields, 68 topics, 16 special programmes, 27 frontier technologies, 18 basic science questions and 4 research plans are identified in this document, forming the research priority over the next 15 years.

In addition to 'selective development', the MLP also formalises indigenous innovation capacity as another S&T development strategy over the next 15 years. Beijing policymakers deem it critical to maintain national competitiveness and economic security. As the world's most populous country, China has increasing demands on its energy and raw materials for sustained economic growth. To reduce its reliance on international raw materials, the Chinese government has urged domestic enterprises to beef up technology and innovation, cut energy consumption and increase efficiency.

Following the MLP, the State Council announced the *Implementing Policies for the Medium- and Long-Term National Plans for S&T Development* in 2006. This document outlines implementation policies for R&D investment, fiscal strategies and taxation, public procurement, technology importation, intellectual property (IP), personnel training and research infrastructure. The policy document specifies measurements and targets for each of these areas, and operationalises the medium and long-term plan. In order to encourage enterprise innovation, specific fiscal policies are proposed in this document. Examples include providing loans and tax credits, encouraging VC investment and societal donations, developing related S&T services and government procurement.

Another key innovation policy is The National S&T Development Plan for the 11th Five-Year Period (2006-2010). It was developed according to the guidelines of the MLP and proposed the corresponding strategy for S&T development over the next five years. A series of quantitative targets are formulated using S&T indicators. For example, R&D/GDP is targeted at 2% by 2010; the level of reliance on foreign technologies is targeted to drop to 40%; being a 'Top 10' country in terms of number of scientific publication citations is a third target; being a 'Top 15' country in terms of the granted invention patents is a fourth target; having the S&T contribution to economic growth reach 45% is fifth; the share of value added in the manufacturing sector from high-tech industries reaching 18% is sixth; the number of S&T human resources reaching 50 million is seventh; the number of S&T personnel reaching 7 million is

eighth; and the number of full-time equivalent (FTE) R&D personnel reaching 1.3 million is the ninth target.

Innovation governance system

China's national innovation governance system is characterised by top-down synchronisation and coordination. Simply put, *Kuai* refers to various levels of administrative blocks including one national and numerous sub-nationals, while *Tiao* refers to vertical linkages of specialised departments connecting the central and local government. OECD (Organisation for Economic Cooperation and Development) *Reviews of Innovation Policy: China (2008)* provides a vivid illustration of a governance system at the central level of government (See Exhibit 5). Through *Tiao*, the national-local connection, innovation measures designed within the central government can be implemented at the local level.

To strive for an innovative society by 2020, the Chinese government has adopted various policy instruments to foster enterprise-centred innovation with special emphasis on indigenous innovation, which includes but is not limited to providing direct funding for in-house R&D. Within existing support measures, the five most important innovation instruments with leverage effects, in descending order, are the Hundred Talents Programme, Innovation Fund for Small Technology-based Firms, CHINEKA Programme, Knowledge Innovation Programme, Hong Kong Innovation and Technology Fund. These five measures target recruiting research excellence, facilitating collaboration networks and stimulating knowledge transfer among firms.

Table 8. : New Innovation Policy support measures

Title	Innovation policy framework category	Organisation responsible
Innovation Fund for Small Technology-based Firms	Governance & horizontal research and innovation policies	MOST, MOF
CHINEKA Programme 2008	Governance & horizontal research and innovation policies	China's MOST; Spain's Ministry of Industry, Tourism and Trade; China's TORCH; Spain's CDTI

Stimulus package	Governance & horizontal research and innovation policies	State Council and other relevant ministries
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Established in June 1999, the Innovation Fund for Small Technology-based Firms (Innofund) is a special government fund in support of technological innovations for small tech-based firms. This fund provides finances and facilitates technology transfer for Chinese-based enterprises. The missions of Innofund include supporting innovation, facilitating transformation of R&D results, cultivating tech-based SMEs, channelling investment to tech-based SMEs and promoting the establishment of an effective investment mechanism for high-tech industries. SMEs in China have been growing rapidly since the 1978 open-up policy. The purpose of Innofund is to encourage technological innovation among China's SMEs. Regardless of their ownership type, Innofund supports all small technology-based Chinese firms. Two government agencies, the Ministry of Science & Technology (MOST) and the Ministry of Finance (MOF), are in charge of Innofund. Funding is provided in the format of grants, subsidised loans (including interest allowances) and other equity investments. Although open to all Chinese-based technological SMEs, funding priority is given to high-tech, new enterprises and start-ups founded by overseas returnees. From 1999 to 2004 an overall budget of EUR 429 million was assigned to 6 400 approved projects.

The CHINEKA Programme is an industrial cooperation program between Chinese and Spanish companies which targets high-tech firms. Its primary objective is to facilitate bi-national industrial technological co-development and technology transfer projects by companies from both countries. From their respective S&T programmes, China's TORCH Centre and Spain's CDTI (Centro para el Desarrollo Tecnológico Industrial) jointly provide the needed funds for approved projects on the basis of matchmaking services. The first CHINEKA Project was certified in April 2006. By May 2008, seven joint projects were approved, mobilising more than EUR 20 million (66% from Spain and 34% from China). To date, key firm groups targeted include those in the biotechnology, energy, construction, IT and machinery sectors. Based on participating eligibility, China's TORCH Centre and Spain's CDTI identify and select projects and participants. For the approved CHINEKA projects, the Spanish participants could apply to CDTI for loans and grants. Chinese participants could apply for funding to the INNOVATION FUND for Small and Medium Technology Based Enterprises, according to its

requirements. The funding is provided in the forms of grants and subsidised loans with, co-financing from the private sector as well.

Responding to the present global economic downturn, China has implemented a set of policy instruments to reduce the negative impact on the Chinese economy. Notable among these is a CNY 4 trillion stimulus package. This package is earmarked for investment in fixed infrastructure and human capital assets. Since January 2009 the State Council has unveiled stimulus packages for 10 industries, including machinery-manufacturing, electronics and information industries, the light industry and petrochemical industries. Roughly CNY 1.5 trillion will go to infrastructure construction, including railways, roads, airports, urban power grids and irrigation projects. This represents the largest allocation of funding. In the first five months of 2009, the central government spent CNY 562 billion on major infrastructure projects and social welfare efforts. This figure represents over 60% of the central government's budgeted investment for the year.

Enterprise and Skill Development

To encourage business start-up, China actively supports the development of training programs, entrepreneurship mentoring, and service agencies handling administrative matters for SMEs. Intermediary service agencies are encouraged to provide business startup services. With government support, a group of business startup bases have been established.

Government of China has placed emphasis on education and training to improve the human quality of SMEs & also developed a MSMEs training framework that meets multiple needs and covers a wide scope, by making full play of the guiding role of fiscal funds, mobilizing resources of all stakeholders and relying on universities and other institutes. The SME Galaxy Training Program has been in implementation since 2003, and it offers training in business administration, safe production, industrial policies and etc.

National SME Galaxy Training Project- The National SME Galaxy Training Project is a training project specially designed for SMEs and financed by state revenues under the *Law of the People's Republic of China on Promotion of Small and Medium Enterprises*. The major idea of the Project is to: strive to improve the comprehensive quality of the extensive SME operators and managers, SME executives, employees in

SMEs and employees in SME service institutions, fully exert the leading role of subsidies from national revenues, promote the accelerated development of SMEs, and sharpen their market competition edge.

Others

China has constructed vast information networks and provides all sorts of free information service for SMEs. The government established China SMEs Information Portal and its branch websites in various provinces and municipalities, providing information services for SMEs regarding policy, regulation, market and cooperative opportunities. The government has also guided large IT companies such as China Mobile, China Netcom, and China Post to provide SMEs with IT solutions.

ITALY

The National Law 317, 1991, in Italy dedicates a whole paragraph to other forms of consortia involving SMEs, with the intention of filling the gaps characterizing the national system of incentives for inter-firm cooperation. More generally, Law 317 is the legal instrument created to respond to the need for a real policy for SMEs: indeed the overall objective of the law is “to promote development, innovation and competitiveness of small firms”, intervening not only by supporting firm investment, but also through the creation of those conditions necessary to the creation of an external environment favorable to competitive growth.

The formal recognition of the importance of the local environment to economic development reveals a major change in SME policy. Of note is that forms of inter-firm cooperation in Italy are often born within industrial districts and serve to reinforce the dynamic institutional context. Law 317 furthermore favors the participation of local institutions in consortia in roles of responsibility. In fact, this policy clearly emphasizes the fact that local bodies represent the vehicles, or intermediaries, for economic development.

There are numerous economic incentives provided by local (provinces, municipalities, Chambers of Commerce, regions), national and European funds. They are allocated to businesses according to the sector in which they operate. The Chambers of Commerce, which are found in every region, assist entrepreneurs in administrative procedures aimed at company start-ups. The National agency for inward

investment promotion and enterprise development promotes and finances investment programs submitted by existing businesses or start-ups.

AsseforCamere, the Chamberla of Commerce Limited Liability Consortium offering training services and support to small and medium-sized enterprises, provides a nationwide service for Newly-Established Businesses called Olimpo. This service aims at guiding and supporting entrepreneurs throughout the process leading to the setting up of their businesses. In particular, it supports them in assessing their own features (first entrepreneur-focused stage); defining the most suitable strategies based on each entrepreneur's characteristics (second stage: business idea); carrying out market analyses (third stage: the market); and, finally, in drawing up their business plans (fourth stage: the business plan). The Chambers of Commerce satisfactorily meet the frequent need for data and information about businesses, felt by the business world in general. In fact, they offer entrepreneurs (farmers, dealers, craftsmen, industrialists etc.) the opportunity to know each other and do business. The large amount of business-related data provided by the various Chambers of Commerce are collected in a centralized electronic database, which can be accessed by credit institutions, huge businesses, professionals, notaries public, business consultants and entrepreneurs.

The Chambers of Commerce are the key-nodes of a network that connecting them with local governments and newly set-up enterprises. Through the Chambers of Commerce, newly set-up businesses have access to all services provided. In particular, said services are based on 3 territory information "databases" and 5 support "technical tools".

Inter-firm cooperation in Italy has mainly been associated with the widespread presence of cooperatives and consortia. Along with the traditional productive and consumption cooperatives, established by individuals, a wide array of consortia, founded by firms, has developed since the early 1950s. These consortia were aimed at supporting small firms in areas where they are traditionally weak, such as finance or export. Thus consortia had specific targets and membership requirements, such as a sectoral focus or firm dimension criteria. The most traditional and developed examples in Italy are the credit guarantee cooperatives, and export consortia or consortia for product valorization. In establishing these consortia, the entrepreneurial associations have played a crucial role, in particular in northern Italy, thanks to the strong relationships with small firms and to their ability in coordinating and promoting the new consortia to local and national governments. The associations' activities in the early phases of these consortia consisted in providing organizational support and collecting funds among firms and public institutions.

Cluster Development

Italy is one of the most developed economies in the world, yet 98% of the industrial firms have less than 100 employees. What makes these firms competitive in the global market is the fact that they do not exist as individual firms but as a part of the group of firms called SME clusters. In Italy, the SME clusters refer to groups of small and medium-sized enterprises located in a relatively delimited geographic area engaged in the production of the same sort of products. Although there is strong competition among firms, often there is also a high degree of cooperation among firms in that the production processes are divided into distinct phases with separate firms responsible for different phases. Italy has shown the model of cluster development through 'competition by co-operation'. In this model, specialized small firms divide up the labor process and group together, or regroup, depending on the requirements of the market. This model allows for flexibility and short response times that large firms with fixed assembly lines are often unable to provide. It is important to point out that firms are interdependent, but do not necessarily have relations of dependency. The small firms tend to be relatively independent even if *interdependent*

Firm specialization is crucial to the success of clusters in that it allows small firms to focus their resources (which are often extremely limited) on what they do best (core competencies). Specialization helps curb problems of quality control - if a firm does only one thing, it has to do it well.

The Italian cluster experience offers two principal methodological lessons :

- A strong capacity for territorial and sectoral analysis, combined with the ability to analyze social interaction is required.
- It is necessary to evaluate the results of intervention, not only in terms of firm growth, but also in terms of general development of the territory. In this way the cumulative effects of changing competencies and know-how available in the area may be fully understood. Methods of monitoring the change process should therefore be built-in to interventions so that the local-level actors will be able to effectively observe changes and make future adjustment if necessary.

There are certain subsidies available to the industrial clusters as well. Consortia must be comprised of small industrial firms, or small industrial firms and small service providing firms. They may take the form of cooperatives and must have the goal of furnishing services aimed at promoting development (including technological development) and the rationalization of production, marketing and management of member firms.

Innovation and Technology

The main innovation policy priorities and lines of action followed by the Italian government can be summarised in the following points:

- Modernise and digitalise of the public administration. It is recognized that the innovation is strongly linked to innovation in public administration.
- Intensify cooperation and favour the creation of public-private partnerships to carry out 'big' research and innovation projects.
- Create clusters in order to reach critical mass, especially at regional level, taking advantage of the existing regional competences and 'excellences'.
- e-launch R&D investments in the energy sector.

R&D policy objectives at national level are formally outlined in a 'National Research Plan', 2009 in which the strategic lines of action are illustrated in detail. These objectives are complemented and reinforced in other documents such as the National Reform Programme, Industria 2015 and the e-government plan 2012, as well as the research plan for the energy sector.

National Reform Programme: Approved on 14 October 2005, the National Reform Programme (NRP) foresaw five strategic policy objectives of which priority No 2 was specifically dedicated to the promotion of research and innovation. The 2005 NRP, the update on progress reports (2006 and 2007) and the latest 2008-10 NRP contain interesting measures for the Italian system such as tax credits to encourage R&D and business cooperation with research institutions, tax exemptions for high-growth enterprises and the launch of Industrial Innovation Projects, amongst others (Industria 2015: Industrial innovation programme launched in September 2006). The most important line of action of Industria 2015 is the enhancement of the competitiveness of the productive system through the implementation of Industrial

Innovation Projects (big industrial projects in strategic technology areas) to promote the creation of partnerships among universities, research centres and enterprises. Three industrial innovation projects in the field of energy efficiency, sustainable mobility and new technologies for the 'made-in-Italy' sectors are already under way, whereas two other projects on cultural heritage and life-science technologies are expected soon. The current government has declared its intention to continue with these types of projects and to expand the choice to other strategic areas in the near future.

e-government 2012 Plan: Launched in January 2009 with the declaration to remedy the accumulated delay with respect to the implementation of the Lisbon strategy by modernising public administration. The e-government 2012 plan is expected to generate important savings (circa EUR 40 billion in 4-5 years) from the increase in productivity in the public sector, to reduce the public administration's administrative burden, and to encourage growth. Potentially the plan can combat the crisis and stimulate a virtuous circle through the creation of a qualified demand for advanced technological infrastructure and innovation in ICT.

Research Plan in the energy sector (2009-11): The plan launched by the Ministry of Economic Development in March 2009 foresees the allocation of funds (EUR 210 million) to boost research and innovation in the energy sector. The resources will be allocated to research centres and universities in order to strengthen research in the fields of production, rationing and savings of electricity, nuclear energy and environment protection.

It is also worth mentioning the regional policy planning document, i.e. the National Strategic Framework (2007-13), which aims to implement a unified policy scheme at country level, pulling together structural funds, national funds for underdeveloped areas and other regional resources for local development. A significant contribution to the growth of spending on research is coming from the National Strategic Framework, which has allocated more than EUR 20 billion to research and innovation.

Innovation governance system

The Italian governance system has been characterized by the presence of many policymaking. A key priority of innovation policy in Italy is to hold a strong strategic vision both at national and regional level, and a clear perspective to ensure long-term planning and long-standing impact results. This refers to the new policy mix based on horizontal and automatic incentives, on the one hand (tax credit) and on vertical and selective interventions in key areas considered to be critical for the future of the country – Industria 2015 programme, on the other.

Since 2006, there is a clearer political willingness to establish a new research and innovation policy framework. The first attempt to break with the previous regime came in 2006 when the government which tried to give a new direction to the system both in terms of governance and policy instruments. Specifically the government tried to:

1. Giving clearer directions to the Ministry of Universities and Education and include it in the Inter-ministerial Committee for economic planning, while conferring the leadership in innovation policy to the former.
2. Reform the Ministry of Economic Development and strengthen the role of Institute for Industrial Promotion (IPI),
3. Strengthen collaboration and coordination among the several ministries involved in R&D and innovation,
4. establish ANVUR, an agency to evaluate the results of the research activities carried out by universities and research centres,
5. establish the National Innovation Agency to evaluate the innovation projects included in Industria 2015.

The government has reunified the Ministry for Education, University and Research, and launched a thorough reform of the education system. For the first time in Italy, the Ministry has decided to assign a part of the funds destined to universities according to the results obtained in terms of quality of research and quality of teaching. This represents a first step towards the evaluation of results and the establishment of a meritocratic system.

A novelty with respect to the past refers to the upcoming National Research Plan which has been drafted taking into account the views of all stakeholders (i.e. ministries, industrial associations, regions) and which will concentrate on chosen strategic priorities trying to create a 'unified system' to avoid acting in many fronts.

Finally, as a consequence of the financial crisis, the government has set up several committees to deal with specific issues that are of concern to the Italian system. The issue of innovation is dealt with in a committee that is also concerned with energy and the environment (*Tavolo sull'energia, l'innovazione e*

l'ambiente). Another interesting committee is the SMEs one, specifically created to enact the Small Business Act and to present practical measures of immediate action to combat the crisis (e.g. the guarantee fund for SMEs).

Governmental bodies

The main ministries involved in research and innovation in Italy are the following:

- The Ministry of Economic Development (MSE), in charge of promoting strategic industrial research and innovation and responsible for the management and implementation of several support programmes and funds (e.g. FIT, Riditt, Industria 2015 and industrial innovation projects). The Ministry also oversees the research carried out by specialised agencies such as the National Agency for New Technologies, Energy and Environment (ENEA) .
- The Ministry of Education, University and Research (MIUR), which is in charge of determining R&D and education policy developing plans for universities and scientific institutions, promoting scientific and technological research, and forging international ties especially in consultation with representative bodies of other EU member states. The MIUR also supervises a large number of research organisations such as the National Research Council (CNR).
- The Ministry for Public Administration and Innovation, whose main mission is the modernisation of public administration through information and communication technologies. The Ministry's main departments are the Department for Public Function and the department for digitalisation and technological innovation.

The Ministry of Economy and Finance (MEF) also plays a role in the R&D and innovation system since it is in charge of drafting the Budget Law. Other ministries involved in innovation are the Ministry of Environment and the Ministry of Health. The main science and technology organisations coordinated by these Ministries are the Institute for research and environmental protection (ISPRA) and the National Institute of Health (ISS) respectively. Since 2006, the Department for EU Policies, through a technical committee called CIACE, has been appointed by the government to give political direction to the Lisbon Strategy and has been in charge of drafting the National Reform Program 2006-2008. Another important organisation of the Italian innovation system is the Inter-ministerial Committee for Economic Planning (CIPE), a high-level committee in charge of coordinating and planning the national economic policy and

responsible for the approval of the PNR together with the coordination of other research activities and the allocation of funds.

Main bodies managing implementation of policies

The bulk of government-sponsored scientific and technological research in Italy is delivered through the CNR and ENEA . The CNR was set up in 1923 and has been supervised by the MIUR since 1989. Presently, the CNR has over 100 research institutes and centres all over Italy, most of which are closely connected to universities. The CNR's main objectives are to:

- support scientific and technological research (basic and mission-oriented) through its research establishments and the financing of research carried out by scientific institutes and individual researchers,
- transfer research results to industry, services and government,
- provide advice to the government,
- grant scholarships for training in research.

Until 1989, the CNR was in charge of the coordination and the support of public R&D in Italy. In the 1990s, its coordination function was progressively moved to the Ministry of Education, Universities and Research. The CNR has been under reform for several years. It was initiated in 2003 to optimise the allocation of resources, simplify the programming and management of research activities and administrative procedures, promote international joint collaborations, valorise research results, strengthen links with the productive system and universities, and evaluate research results. The CNR is mainly funded by the Italian Government, but also receives funds from the EC and other national and international organizations through participation in public R&D projects calls.

The National Agency for new Technologies, Energy and the Environment (ENEA) directly engages in a wide range of research projects, with special emphasis on alternative energy, environment and biotechnology. ENEA's primary mandate is to conduct applied research, which can then be transferred to the Italian industry. It also conducts contract research in some areas (such as material testing) for Italian and foreign organisations. ENEA also promotes and participates in research consortia at both the national and international levels and owns shares in a number of high-tech companies. The major focus

of research activity in these consortia and companies is on renewable energy, environmental protection and agri-biotech. ENEA also provides training and technical support to SMEs and start-up companies. Like CNR, ENEA is mainly funded by the Italian Government, but it also receives funds from the EC and other national and international organisations through participation in public R&D project calls.

The IPI is an in-house body of the Ministry of Economic Development whose objective is to offer technical assistance and support to the Ministry in order to plan and implement programmes and interventions. In particular, it offers support in 'analysing, planning, implementing and assessing policies and interventions to develop, innovate and provide competitiveness in the national production system'.

IPI is involved in the following activities:

- Industrial policies: provide technical advice in the definition and implementation of industrial and commercial policies.
- Incentive instruments and policies: provide technical advice in activities concerning EU co-funded programmes, technical advice in the field of support measures and training experts in SME support measures,
- Technology transfer networks: offer technical support for the implementation of a network of intermediaries in the Italian production system, in technology transfer to the benefit of SMEs, and promote and realise an international interconnection system among national and regional networks for technology transfer.
- Multilateral and bilateral international cooperation efforts: give support and technical advice to the Administrations in the field of consultation, design and implementation of multilateral cooperation programmes and initiatives promoted by the EU, OECD, UN and other international organisations, including technical assistance to the governments of partner countries to plan and realise industrial development programmes as well as technical advice to the Regions in the design and implementation of industrial cooperation programmes.

Since 2007, IPI also supports the Ministry in monitoring and evaluation activities through a specific department with the mission to evaluate – *ex ante*, *in itinere*, and *ex post* – the support instruments managed by the Ministry of Economic Development. Invitalia, the inward investment agency entrusted by the Italian government also offers technical assistance and support to boost innovation and local industrial development and to upgrade local competitiveness.

At regional level, there is no unique model to manage and implement innovation policy, as regions have some discretionary power in this field. Many regions have created Regional Innovation Agencies with the role to fund and implement innovation policy measures. Others have specific departments for innovation, or in some cases innovation is dealt with within departments that have a broader scope (e.g. economic development), where innovation policy might be less decisive.

Moreover, every year since 2004, Confindustria organises 'the day of innovation', which is the institutional aspect of a much broader initiative launched by Confindustria in 2004 called 'Enterprises for Innovation'. Within this framework, seminars, workshops, training courses and awareness raising activities aimed at Italian managers and entrepreneurs are organised throughout the country to raise awareness of innovation management and organisational solutions that reinforce the competitiveness of the Italian firms.

Another important body recently operative is the National Innovation Agency, based in Milan. It will be in charge of promoting innovation in the country, as well as carrying out studies, statistics and forecasting. It will also be an instrument for the transfer of know-how from universities and PROs to public and private actors, also through training and IP assistance. In addition, the agency will be responsible for the evaluation of innovation projects.

Apart from the public organisations cited above, innovation policy is also influenced by other institutional actors, for example Confindustria – the leading organisation representing the manufacturing and service industries, which has played an important role in articulating and presenting concrete proposals to the government to reinforce and promote research and innovation in the country.

Having in mind the challenges that the country is facing, the most important innovation policy measures are the tax credit for R&D (IT 93), industrial innovation projects for energy efficiency (IT 94), sustainable mobility (IT 95) and 'made-in-Italy' sectors, the recently launched risk capital fund for SMEs (IT 99), and the brain-return measure. In addition, the FIT scheme (Fund for Technological Innovation) is running again with a thematic focus, including chemical-REACH (IT 102) and start-ups (IT 109). The most important non-financial innovation policy measures relate to intellectual property. A first attempt to reinforce the patent and IP systems started with the launch of the new Industrial Property code (IT 56), an important piece of legislation for the Italian system since it simplified the procedures for obtaining or

transferring industrial property rights. The patent and IP system has been further strengthened (IT 108) through the introduction of the anteriority search/novelty assessment (operative since 1 July 2008) left up to the European Patent Office (EPO). The introduction of this new element has been flanked by other developments to ensure the efficiency of the process.

Measures that could have a leverage effect, even though not directly connected to innovation, are the 'Set up a business in one day' included in the e-government 2012 plan, providing a single online point of contact for business to comply with the necessary requirements (registrations, modifications, authorizations, etc.) and the rise in the age of young entrepreneurs (up to 35 years old) together with the elimination of specific categories of beneficiaries, goals and types of intervention to have access to favourable credit conditions.

The new support measures introduced during the period July 2008 – July 2009 are the following:

- **Tax exemption on capital gains from start-ups (IT 100):** This measure is oriented to reinforce the role of private investors, especially business angels. In a national context characterised by scarce funds for innovative SMEs, this is an incentive to attract funds to finance new entrepreneurial initiatives. The measure establishes that capital gains are exempted from personal income taxes in compliance with the following: (1) shares are from young companies (no older than seven years), (2) they have been possessed for at least three years and (3) capital gains obtained are reinvested in the next two years on young start ups that operate in the same sector as the first company.
- **National Fund for Innovation (IT 101):** This fund is endowed with EUR 60 million and has been created by the Ministry of Economic Development to promote innovative projects based on strengthening and exploitation of industrial property. The Fund's main goal is to support SMEs and to reinforce Italian patents. It will act as an instrument to reduce investment risk for banks and financial intermediaries that participate in the funding/financing of innovative projects based on strengthening and use of patents.
- **Incentives for the elimination or reduction of substances of very high concern (IT 102):** The Ministry for Economic Development will finance experimental development projects regarding product or process innovation to reduce or eliminate chemical products/substances defined by the EC as 'of very high concern' under CE 1907/2006 (REACH). Its resources amount to EUR 120 million (63). With the launch of this measure,

the intention is to create a positive initiative that will take into account, on the one hand the concern for the protection of health and the environment and, on the other hand, the innovative capacity of the chemical industry.

- **Risk capital fund for SMEs (IT 99):** the Ministry for public administration and innovation has launched the fund for risk capital for the SMEs located in the South of Italy. This is one of the measures included in the e-government 2012 Plan and its objective is to favour the influx of risk capital in the region, as well as in Abruzzo and Molise. The fund – endowed with EUR 160 million– will support the creation and development of SMEs involved in investment programmes related to product and process innovation through the use of digital technologies. Since shortage of finance both from public and private sources has been recognised as one of the main factors that hinder innovation in Italy, this measure is an important step towards increasing the availability of venture capital funding.
- **Strengthening patents and intellectual property (IT 108):** The Italian Patents and Trademarks Office coordinates a project for the re-qualification of national patents, thanks to the introduction of the anteriority search/novelty assessment left up to the European Patent Office (EPO). The introduction of this new element has been flanked by other developments to ensure the efficiency of the process, including, reinforcement of the Italian Patents and Trademarks Office with the addition of technical examiners, automatic translation of national patents from Italian into English, security of the information flows between the Italian Patents and Trademarks Office and the EPO, change of procedures within the EPO, and availability of Italian patent documentation for feeding the automated translation system.
- **'Brain-return' measure:** The 'anti-crisis decree' launched by the Italian government last November 2008 foresees the introduction of fiscal incentives to attract Italian researchers living abroad. This measure will try to counteract the brain drain phenomenon, which is posing a serious threat in the Italian R&D system. The measure consists on a tax incentive (10% tax applied to personal income) during the first five years of fiscal residence in Italy as of 10 January 2009.
- **Funds for research and innovation in the energy sector:** the new plan for the research in the energy sector (2009-11) launched by the Italian Ministry of Economic Development has allocated EUR 210 million to research centres and universities to strengthen research in the fields of production, rationalisation and electricity savings, as well as nuclear energy and

environmental protection. This measure is expected to have a two-fold objective: boost innovation in the energy sector and contribute to the alleviation of the difficulties posed by the current crisis.

- **Funds for innovation projects in start-ups (IT 109):** with the introduction of this measure, the Ministry for Economic Development finances innovation projects proposed by start-up firms operating in medium and medium-high sectors in the following areas: biotech, ICT, materials, robotics and energy. The funding allocated EUR 55 million to this initiative.

Chart 8.--: Innovation Policy Support Measures

IPM N°	Title	Innovation policy framework category	Organisation responsible
IT 100	Tax exemption on capital gains from start-ups	Support to innovative start-ups including gazelles	Italian Revenue Agency (Agenzia delle Entrate)
IT 101	National Fund for Innovation	Consultancy and financial incentives to the use of IPR	Ministry of Economic Development
IT 99	Risk capital fund for SMEs	Support to risk capital	The Ministry for the public administration and innovation
IT 108	Strengthening patents and intellectual property	Measures to raise awareness and provide general information on IPR	Italian patent office
IT 102	Incentives for the elimination or reduction of substances of very	Direct support of business R&D (grants and loans)	Ministry of Economic Development

Review of the current range of support measures for innovation

The Italian Innovation Policy Support Fact-sheet containing TrendChart and ERAWATCH policy measures reveal that the majority of support measures are concentrated in the Research and Technologies category, in particular under the following sub-categories:

- Direct support of business R&D (grants and loans) with 32% of the total policy measures,

- R&D cooperation (joint projects, PPP with research institutes), with the same share as the previous one (32%),
- Policy measures concerning excellence, relevance and management of research in Universities (24%),
- Public Research Organisations (16%),
- Research Infrastructures (12%).

Direct public support to companies through grants and loans has been the traditional approach to finance research and innovation activities. Although still prevailing, the system has changed since 2006 with the reform of the public incentive system which introduced private banks to the scene to allow for a transition from capital subsidies to a system which hinges on risk-taking by banks. The reform consisted of the introduction of grants plus loans at low interest rates plus loans at market interest rates to be given by the private banks. The novelty of the reform was the presence of private banks and the need to comply with the conditions applied by the private banking sector in order to obtain the loan. Failure to comply with these requirements also implied automatic exclusion to opt for public grants.

With this measure, the government was trying not only to involve the private banking sector in the financing of innovation, but also to implement a system based on merit (*merito creditizio*) to avoid the inforce IPR.

Measures to improve R&D cooperation between public/academic sector research institutions and enterprises under R&D cooperation (joint projects, public-private partnerships with research institutes) are also numerous. In recent years, there has been clear policy orientation towards the intensification of links between research and industry, reflected in the number of support measures that foresee such collaboration. Participation of public research organisations (PROs) is almost a compulsory requirement in the majority of the call for tenders launched. In other measures, such as, tax incentives on R&D, incentives/benefits are becoming more favourable with the involvement and/or participation of PROs.

The Italian system has traditionally supported public research, with universities and public research centres/organisations being the main beneficiaries of public funding. Several specific funds have been created such as FIRB, FISR, COFIN, FAR.

Although in the category Markets and innovation culture the number of measures is also very limited, there have several activities such as workshops and conferences. Examples include the Innovation Forum organised by IDC, the Innovation Day organised by Confindustria, and the Research to Business (R2B) expo organised by Emilia Romagna region, which have all become regular annual appointments, showing increased interest in innovation topics. Another means to promote innovation has been through the launch of prizes (National Innovation Award, regional innovation prizes), as well as the organisation of 'Innovation weeks' (e.g. Apulia, Sicily, Friuli) and new measures that have just been introduced to support/re

As for the forms of funding, grants represent the dominant way of funding support measures (64%). This is also true in the EU-27 where the percentage is even higher (72%). As mentioned at the beginning of the section, the reform of the incentive system has introduced a scheme consisting of grants plus loans at low interest rates plus loans at market interest rates to be given by private banks. Also automatic incentives have been lately introduced (e.g. tax credit for R&D) following frequent requests of several stakeholders, such as, Confindustria.

Research support- The Italian Government has announced a new national program, 'Startech', the scope of which is to promote industrial research in Italy, to facilitate contacts between researchers and commercial enterprises and to boost the setting up of new high-tech ventures. Under this program, mentoring services are also provided in the areas such as technology, production process, marketing skills, partnership, patenting and business planning. A modern financial tool will also be used to provide seed and start-up capital for SMEs under this program. In addition, the Italian Private Equity and Venture Capital Association, and the Italian Business Angels Network provide necessary funds, equity seed capital, and start-up financing to enterprising new ventures

Enterprise and Skill Development

Training is one of the traditional tasks carried out by Chambers of Commerce; they provide training either directly (through specific services and dedicated management) or through suitably established Special agencies. At a national level, among the training agencies of the Chambers system, the following stand out: AsseforCamere (based in Rome and Florence), the Guglielmo Tagliacarne Institute (based in

Rome), 'Ifoa (Institute for the training of business operators, based in Reggio Emilia), Formaper (based in Milano).

Erasmus for Young Entrepreneurs-The European entrepreneur exchange program offers new entrepreneurs the possibility to work for up to 6 months with an experienced entrepreneur in his/her SME in another EU country. The specific objective is to contribute to enhancing entrepreneurship, internationalization and competitiveness of potential start-up entrepreneurs in the EU and newly established micro and small enterprises.

Part of some funds announced by Italy supports the development of a Global IP-Based Entrepreneurship Program. The program relies on the case studies of successful use of the IP system by SMEs in the OECD countries, notably Italy. The funds also support programs to stimulate the use of the IP system by SMEs in specific sectors, such as IT, software, biotechnology, textiles, agro-business, and tourism.

Mini companies in Secondary enterprises- Mini-companies run by students at school develop on a small scale a real economic activity, or simulate in a realistic way the operations of firms. While not disregarding other pedagogical tools, mini-companies are an important option within any strategy for stimulating entrepreneurial attitudes and skills.

Entrepreneurship in vocational education and training-The aim of the project is to identify existing policies and programs that promote learning about entrepreneurship within vocational training systems. Entrepreneurship is meant as a combination of mindsets and skills, therefore programs and courses will be considered that address both aspects. The project focuses on the systems of formal education and training, and on teaching entrepreneurship to young people.

Project FASTER- The FASTER project is supported by the Leonardo da Vinci Program of the European Commission. Its goal is to promote the mainstreaming in Europe of good practices for entrepreneurship education. The project is aimed at transferring the [ISTUD Entrepreneurship Program](#) (IEP), a training course to support high-growth oriented entrepreneurs. The course, designed to teach entrepreneurship to those committed in exploiting their knowledge through the creation of a knowledge intensive company, has been developed and successfully run in Italy by the business school ISTUD Foundation.

MALAYSIA

Cluster Development

One District, One Industry (Satu Daerah Satu Industri - SDSI)

This program aims to increase and create greater commercial activities in the rural areas, and at the same time, create more employment opportunities in the local areas. Among the activities promoted under this program are processing, manufacturing, production and services related to the rural areas, such as rural tourism, agro industries, livestock and aquaculture, nature-based products, and indigenous skills.

Under this program, participants are extended support for training, procurement of facilities/machineries, operation space, R&D activities, and marketing and promotional activities.

SME Industrial Estates

SMIDEC, together with the Malaysian Industrial Estate Berhad (MIEL) and Perbadanan Kemajuan Negeri Selangor (PKNS) has developed industrial estates all over the country to assist SMEs to operate their business in approved industrial areas or business premises. SMIDEC continues to promote and encourage SMEs to relocate their businesses to approved areas to ensure that SMEs have the foundation and the facilities to operate in a most conducive environment.

Technology and Innovation

It is observed that the Govt. of Malaysia and its various Ministries are seriously engaged in the promotion of modern technology in the SME sector. While the highlights of such programmes are given in Annexure 8.1 some of the important schemes and initiatives are given below:

MTDC Technology Incubation Center

The MTDC Technology Incubation Center is embodied under the Government's Technology Development Cluster (TDC) program. The program is designed to strengthen linkages between

universities/research institutions and industries. The main objective is to activate and promote the acceleration of the commercialization activities of both the local universities and research institutions.

Incubator Centers

For new entrepreneurs who are looking for temporary business premises, Incubator Centers are provided at various locations. The Incubator Center serves as a platform for new entrepreneurs to be guided and trained before venturing into any business. The qualifying criteria to be placed at these Incubator Centers include Bumiputera entrepreneurs between the ages of 21 and 50, having an interest to become an entrepreneur, possess entrepreneurial traits, operating a business, able to finance monthly costs of facilities used, and do not possess a business premise.

UKM-MTDC Smart Technology Center

UKM-MTDC Smart Technology Center is one of the sites focusing heavily on biotechnology. Current lots are divided into 2 main types, namely Technology Garage (TG) and Enterprise. TG has an equivalent of 396 sq. ft. and suitable for small office and R&D activities. While the Enterprise lots are for bigger companies with settable area up to 9000 sq. ft. The incubator is managed by the department of Technology Incubator Management (TIM).

To overcome resource constraints faced by SMEs in undertaking R&D activities, closer and pro-active collaboration between SMEs and research institutes and universities are undertaken. Measures towards more effective collaboration include:

- making R&D programs of these research institutes and universities more market driven to meet specific needs of SMEs, with emphasis on innovation; and
- Upgrading resource and institutional capacities of these research institutes and universities to enable the provision of more effective advisory services and commercialization of more research findings.

The role of incubation centers to support the development of start-up companies are being strengthened. Benchmarking of these centers with those in other countries, which have successfully created high value-added SMEs through their incubation programs, are also undertaken.

UPM-MTDC Technology Incubation Center One

The Center which is located at the Universiti Putra Malaysia (UPM) in Serdang, Selangor, provides services for the spawning of ideas to potential entrepreneurs in ICT, multimedia and agri-bio subsectors. It was established on November 16, 1996 and is a joint-venture project between Universiti Putra Malaysia and MTDC.

It is the first of a series of MTDC technology incubation centers established within universities' campus in Malaysia. The center is strategically located within the vicinity of the Multimedia Super Corridor and was the second area awarded with Cybercity status after Cyberjaya. The UPM-MTDC Technology Incubation Center One is being developed in stages and currently comprises three phases with a total built-up area of 141,964 sq ft. Phase 1 covers a built-up area of 24,600 sq ft, Phase 2 occupies 79,424 sq ft and Phase 3 covers 37,940 sq ft. These three phases cover an area of 39 acres, and expansion programs are underway.

UKM-MTDC Smart Technology Center

The Center is located at the Universiti Kebangsaan Malaysia (UKM) in Bangi, Selangor. The Centers focused on providing facilities for entrepreneurs in the biotech industry. It is a joint venture between Universiti Kebangsaan Malaysia (UKM) and MTDC. The center is planned to attract companies, mainly involved in biotechnology.

UTM-MTDC Technology Innovation Center

The Center is located at Universiti Teknologi (UTM) Malaysia in Skudai, Johor. It is focused on the development of industries in the areas of advanced engineering and life sciences. It was established in December 2001 and is a joint venture project between Universiti Teknologi Malaysia (UTM) and MTDC. The center is planned to attract companies mainly involved in advanced engineering and life sciences. The Center is located on a 4.24 acre piece of land within the Technovation Park area with a total built up area of 31,200 sq. ft.

Programmes in 2010**Technology & Innovation**

- The Cradle Investment Programme by Ministry of Finance (MOF) with an allocation of RM70 million is to commercialise technology ideas towards building a stronger innovation ecosystem. The programme is expected to benefit 110 SMEs to finance ideas and seed funding for commercialisation;

In 2010, the SME Corp Malaysia held SME Innovation Showcase named as SMIDEX 2010 to promote innovation among SMEs. The event which was participated only by invitation, by SMEs who had qualified the stringent criteria based on the 1-InnoCERT as given below. The highlight of the event was the SME Innovation Award to acknowledge and recognise the top most innovative SMEs in the following six categories:

Best Innovation Award in Manufacturing Sector

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Best Innovation Award in Services Sector

Best Innovation Award in Agriculture and Biotechnology Sector

Best Innovation Award in Design

Best Innovation Award in Green Technology and Energy Efficiency

Best Innovation Award in Halal

Box 8.3: Developments on SME Competitive Rating for Enhancement (SCORE)

The Ministry of International Trade and Industry (MITI) through SME Corporation Malaysia (SME Corp. Malaysia) will continue to implement the SME Competitive Rating for Enhancement (SCORE) which is a diagnostic tool to assess and rate the competitiveness of SMEs based on company performance and capabilities.

SCORE will also identify areas for improvement and develop appropriate action plans to guide and provide specific assistance to SMEs. At the 10th National SME Development Council (NSDC) meeting in February 2010, all Ministries and Agencies involved in SME development were encouraged to adopt SCORE to monitor SMEs under their programmes.

As at July 2010, a total of 4,686 SMEs have been evaluated under SCORE, of which 1,605 SMEs were rated 3 to 5 stars category. SCORE is one of the Key Performance Indicator of the Minister of International Trade and Industry (MKPI) and the target is to achieve a total of 5,000 companies evaluated by end-2010, with at least 1,500 in the category of 3 to 5 star.

Towards this end, SME Corp. Malaysia is expected to introduce the Enrichment and Enhancement (E2) Programme which will combine the elements of SCORE and the technical and business advisory services from experts under the SME Experts Advisory Panel Programme (SEAP) in improving the performance of companies under the 3 star category.

In order to ensure that there are sufficient auditors for SCORE, SME Corp. Malaysia is currently conducting the Training of Trainers on SCORE to train the SCORE auditors from within the agency and its strategic partners based on the SCORE module. The target is to have at least 50 auditors for SCORE by end-2010.

In addition, to cater for the specific needs of micro enterprise, SME Corp. Malaysia has also developed a special diagnostic tool for micro enterprises named as M-CORE (Microenterprise Competitive Rating for Enhancement). M-CORE is a simplified version of SCORE targeted to evaluate competitiveness of micro enterprises and to develop specific hand-holding assistance to address weaknesses of these businesses.

Entrepreneurship and Skill Development

The Malaysian Government realizes that skill needs to be nurtured at an early stage through the education system. Modules on entrepreneurship and entrepreneur-related skills were incorporated into the curriculum at the tertiary level, including universities. This is expected to build and enhance innovative and entrepreneurial talents. Creating awareness and acquiring such capabilities also facilitate the change in mindset, as well as inculcate positive business values and discipline.

Various Ministries of Govt of Malaysia are promoting various entrepreneurship and skill development programmes as given in Annexure 8.2. On-going entrepreneurship programs, including advisory and outreach services, are expanded to equip SMEs with new and improved management and business practices and methods in production, quality improvement, marketing and distribution to raise productivity, efficiency and profit levels. New schemes, including those on increased automation and business coaching, as well as the provision of technical skills, to assist SMEs to develop, commercialize and market innovative ideas, are also implemented.

Techno-preneur development is expanded to support science and technology-based SMEs, particularly Bumiputera SMEs, to benefit from home-grown technologies. Measures include the provision of appropriate infrastructure, transfer of technology and improve access to financing. New support mechanisms are constantly introduced to enhance outreach programs for SMEs, including advisory services on business, design, packaging and marketing.

Programs applicable and available for SMEs across all sectors which are implemented by various ministries and government agencies are targeted to develop entrepreneurial, management and specialized skills.

Gerak Usahawan

The Government's focus in encouraging Bumiputra to choose entrepreneurship as their career pathway has led MECD to initiate a series of entrepreneur road shows called "Gerak Usahawan". Organized in every state since 2005, this program provides various supports to entrepreneurs. This Program targets aspiring entrepreneurs, existing business owners, graduates and young entrepreneurs. Among activities organized under this program includes: exhibition, briefings on the facilities and services provided by the government, and information on business opportunities offered by MECD and its agencies.

Young Entrepreneurs Program

The Young Entrepreneurs Program is a collaborative effort between the Ministry of Entrepreneur and Cooperative Development (MECD) with the Ministry of Education. The Program which is targeted at secondary school students is managed by MECD. A total of 496 schools have participated in the Program. Through this Program, students are exposed to practical ways in doing business for a period of 9 months.

The Program's objectives are to instill entrepreneurship culture among secondary school students, and improve their skills and knowledge in starting and managing a business. Components of the Program include workshops for principals, teachers and advisors, students and counselors, entrepreneurship camps, state and national conventions.

Entrepreneur Development Programs

Three main programs have been developed for Entrepreneur Development Programs:

- Entrepreneur Development Training;
- Hands-On Training; and
- Packaged Training.

Entrepreneur Programs by Institutions of Higher Learning (Public)

Entrepreneur Development Programs by Institutions of Higher Learning (Public) was initiated in 1989. Currently, 5 main programs have been developed:

- Development Program for University Students (PPUS);
- Entrepreneur Training for University Students (LKS);
- Training of Trainers (TOT);
- Basic Course in Entrepreneurship for University Students (KAKS); and
- Student in Free Enterprise (SIFE).

Development Program for University Students (PPUS)

This program provides an opportunity for university students to be involved in entrepreneurship activities. Students are given training, funding, as well as a premise to manage their business on campus. In addition, students are also given advice and guidance by experienced lecturers in the field of entrepreneurship.

Entrepreneur Training for University Students (LKS)

This course was introduced in 2001. Students are required to undertake training from the first year of their academic course until their third year. Training, which comprised 7 modules is conducted during semester breaks.

Basic Course in Entrepreneurship for University Students (KAKS)

This course, which was initiated in 2002, is targeted at final year university students. This 6-day course qualifies students to apply for business loans under the Entrepreneur (University Student) Fund after they graduate. The course covers topics such as business ethics, motivation, management, and finance, business planning and marketing.

Student in Free Enterprise (SIFE)

This program, which is supported by MECD, is funded by the private sector. Students in this program are required to manage business operations and social activities. Students with high achievements resulting from these requirements become eligible to compete at the national and international level with other enterprises.

Entrepreneur Development

i. Entrepreneur Training

MARA offers various entrepreneur training programs to aspiring entrepreneurs who are between the ages of 21 and 45, former employees of Government/private sector, individuals who possess SPM, SPVM, IKM, diploma or degree, and those who pass the Aptitude Test and Interview.

The program aims to provide awareness, training, knowledge and guidance to potential entrepreneurs. Through this program, MARA seeks to upgrade entrepreneurship capabilities and provide management skills to existing entrepreneurs. The courses offered to assist companies to set-up enterprises comprise:

- Entrepreneur's Development Training (EDT);
- Achievement Motivation Training (AMT – 7 days);
- Exposure to Business Management Training (BMRT – 14 days,) which covers efficiency, business management exposure, suitability of individuals to projects, and outstation assignments;
- On-the-Job Training (EDT 3 – 60 days); and
- Business Planning (EDT 3 – 4 days), which covers preparation and presentation of working papers and projects to MARA and banks.

Entrepreneurs are also encouraged to upgrade their skills in the areas of management, accounting, production and marketing. Courses such as Development of United Entrepreneurs Training (DUET), building retail, wiring of buildings (TELEKOM/TNB), seminar/dialogue, and on-the-job training have also been conducted.

Other additional training includes Government Employee's Training Scheme and Seminar/Courses with relevant agencies.

ii. Technical Entrepreneurs Program (Technopreneurs)

The Technical Entrepreneurs Program was developed to assist and encourage trainees of the former IKM/GIAT MARA and other training institutions to start their own business. The objectives of this Program are to:

- i. Gain positive feedback on local development facilities to ensure quality services at minimal costs
- ii. Act as catalyst to the spawning of new businesses and the creation of conducive business environment; and
- iii. Provide opportunities to skilled Bumiputera youth to be involved in business. This will increase the number of Bumiputera entrepreneurs and indirectly expedite the achievement of the National Development Policy.

Apart from having certificate from IKM, GIAT MARA or any other recognized technical institutes in relevant fields, the qualifying criteria also include Bumiputera or Bumiputera based companies, individuals aged between 21 and 40, possess entrepreneurial characteristics, able to finance cost of rental of equipment and daily business expenditure, and pass the entrepreneurial examinations conducted by the Organizer. Facilities and services provided in these programs are packaged in an integrated manner. It comprises entrepreneur development, workshop for small companies, machine and equipment, technical training and consultancy services. Sectors that are being covered include automotive & motorcycle services, electric & electronic services, building, tailoring services, mechanical engineering, and photography.

Entrepreneur Adoption Scheme

The program aims to develop selected potential SMEs to be guided under the program of innovation and commercialization of MARDI's technology for a period of three years. Services provided include development of production system, participation in test bed and technology incubator of MARDI and also business/marketing development with the cooperation of relevant agencies.

Craft Entrepreneur Enhancement Program

The program emphasises on strengthening the aspects of entrepreneurial competencies, manufacturing and marketing to promote the development of craft entrepreneurs. Entrepreneurs are given technical assistance and skills enhancement to upgrade the competitiveness of their enterprises.

The objective of Craft Entrepreneur Enhancement Program is to develop innovative entrepreneurs who are capable of competing in the open market. Sectors that are covered under this program consist of textile crafts (embroidery, tekak, batik, weaving, songket), forest and fiber crafts (wood crafts, bamboo/rattan weaving), ceramics, ethnic crafts, and metal crafts (pewter, bronze, silver and gold).

The facilities and form of assistance cover development of skills, product development, production development, marketing and promotional development.

Bio-entrepreneurship Development Program

The Bio-entrepreneurship Development Program aims to:

- accelerate the commercialization process of R&D results undertaken by institutions of higher learning (IHLs) and government's research institutes (GRIs) in the area of biotechnology;
- provide biotech entrepreneurs with the knowledge and skills required; and
- enhance the competitiveness and capabilities of biotechnology entrepreneurs.

Funding for biotech technopreneurs is available with the provision of seed capital from the Malaysian Biotechnology Corporation and venture capital firm, such as, the Malaysian Technology Development Corporation (MTDC). Techno-preneur development and management support such as skill development and enrichment are also provided, including matchmaking between businesses and researchers and mentoring between successful biotechno-preneurs and start-ups/SMEs.

Techno-preneurs Development and Management Support Skill and Enrichment Program

The Program aims to develop competent techno-preneurs through transfer of knowledge and technology. This Program refers to research products and processes that are completed and ready for commercialization. Activities under this program include transfer of technology, Incubator Program, Contract Research Program and to provide R&D support including consultation and developing new

products and services. Knowledge and Skill Enhancement Program is aimed of creating value-added products, and increasing productivity level and competitiveness in areas of industrial quality assurance, medical quality assurance, radiation safety and health, testing and inspection technology and techno-management.

Agri Entrepreneur Development

To create skilled entrepreneurs in the agriculture sector, the Program comprised:

- **Agricultural Certificate Training**

- Training to develop skilled man-power at the operational level to fulfill employment in the public and private sector.

- **Agriculture Incubator Center**

- Training and exposure for the entrepreneurs to start commercial production (3-6 months).

- **Entrepreneur Nurturing Center (Food processing)**

- Technical courses and hands-on training in the food processing and production to comply Good Manufacturing Practice (GMP) and Good Hygiene Practice (GHP) for 6 months.

Technopreneur Development Program for Microelectronics

The program aims to support the development of SMEs using ICT and microelectronics technology through MIMOS R&D programs and facilities, as well as through its business entities.

Activities under this program include Integrated Circuit Design and Product Development Awareness Training, providing IC design implementation assistance, offering turnkey IC prototyping service involving IC design, wafer fabrication and packaging to SMEs with innovative ideas.

ICT-SME/Technopreneurs Capacity Development

The program aims to increase the number of visionary, skillful and competent technopreneurs and world-renowned Malaysian ICT leaders through the following initiatives:

- Start Your Own Business (SYOB) in ICT
- Foundation Series;
- Advanced Series; and
- Techno-preneur Leadership Series.

MSC Bumiputera Technopreneur Development

This is a comprehensive development program to support participation and growth of Bumiputra ICT SMEs. It is provided through collaborations with State Governments, associations and agencies. The programs offered are MDeC-MARA Bumiputra Development Program, and MDeC-MECD Bumiputra Development Program.

Technopreneur Management Support

The program is aimed at facilitating and providing resources to start-up companies, and accelerating the growth of ICT SMEs in MSC-status incubators. It focuses on commercialization and technologically-driven activities.

The Technopreneur Management Support includes:

- Business plan development and business advisory services;
- Development of unipreneurs (university technopreneurs) and researchers;
 - Nationwide incubation development;
 - MSC-status incubator development; and
 - Expansion strategies to develop MSC-status global ICT companies.

Entrepreneur Development Program

This program is developed to provide services to SMEs in the food, agriculture and agro-based industries.

• Support Services to Entrepreneur

This service aims to provide one-off support services as requested by SMEs in the agriculture and food industries. The services provided include information on technology and technical matters.

• Entrepreneur Guidance Services

This service aims to provide guidance to selected SMEs, who are capable and ready to expand in various priority areas. Entrepreneurs are provided with intensive guidance services for a period of three years, after which an agreement is signed between MARDI and the SMEs. Services rendered include troubleshooting, production system development, development utilization of technology, quality assurance, product shelf-life and labeling and packaging technology.

In addition, services are also provided to enhance skill through special courses, attachment training on specific technology and courses on entrepreneur development. It is conducted together with other agencies dealing with entrepreneur development. Services for product development which include production testing, quality improvement, system familiarization and simulated market testing of products using the facilities available at the test beds for various product clusters are also provided at various MARDI stations in the country.

Entrepreneur Adoption Scheme

The program aims to develop selected potential SMEs to be guided under the program of innovation and commercialization of MARDI's technology for a period of three years. Services provided include development of production system, participation in test bed and technology incubator of MARDI and also business/marketing development with the cooperation of relevant agencies.

In Malaysia (Giroud, 2006), the government has been encouraging foreign firms to develop local skills by providing tax incentives for companies that establish technical or vocational training institutions. There is an attempt to promote the creation of backward linkages using soft 'voluntary' incentives rather than compulsory policies, often cumbersome for foreign investors.

Efforts are undertaken to assist SMEs to further develop technical skills, especially in creating innovation and generating economic value from knowledge application. SMIDEC, along with other agencies and the private sector, review the present training and apprenticeship programs and assist in formulation of new

programs, to incorporate knowledge management plans and strategies, as well as knowledge-based applications and practices among SMEs. Existing training programs, aimed at enhancing entrepreneurial capabilities, including marketing and financial management, are expanded and reinforced. In marketing, training modules focus on areas, such as, negotiation skills, merchandising, pricing, brand building and consumer behavior, to keep pace with new market trends and requirements.

SMEs are also encouraged to enhance their awareness on new and emerging aspects of business operations and practices, such as, innovation, acculturation, advertising and the rapidly changing medium of communication to strengthen local brands and build market share. The presence of local and foreign hypermarkets and large retail outlets provides an additional avenue for SMEs to market their products and brands locally and overseas.

Industry associations are encouraged to establish a specialized training entity to provide relevant and requisite training, specifically in the areas of technology adoption and resource management. This effort further supports and improves the business efficiency and operational capabilities of SMEs.

International Training Programs

The International Programs under the National Productivity Corporation (NPC) are intended to provide participants with exposure and exchange of ideas on the best practices in productivity and quality implementation. The programs include:

- i. Productivity Improvement Program;
- ii. Systems Development for Small and Medium Enterprises;
- iii. Best Practices for Business Excellence; and
- iv. Promotion and Management of Small and Medium Enterprises.

Quality Management Programs

Quality Management Programs are geared to improve working quality in organizations, enhance efficiency and practice for productivity and quality, as well as provide guidelines towards Total Quality Management (TQM) implementation. Among the programs are ISO 9001:2000, EMS ISO 14000, Innovative and

Creative Circles, 5S Practices, Benchmarking, Six-Sigma, Balanced Scorecard, Kaizen, and Total Quality Management.

Productivity Management Programs

Productivity Management Programs are intended to improve knowledge and productivity management methodology to achieve higher productivity and quality products and services. Among the programs available are Statistical Process Control, Company Manual for Productivity Assessment, Filing and Recording for Management, Industrial Safety and Health, and Store & Stock Management.

Management Development Programs

The General Management Programs offered by the National Productivity Corporation (NPC) is also known as Management Development Programs. The objectives of the programs are to enhance leadership skills in managing human capital, improve personal and interpersonal positive attitude, create team spirit among people in organisations, and provide guidelines towards corporate culture excellence. The Management Development Programs include Managing Effective Training; Train the Trainers, Effective Motivation, Effective Leadership and Interpersonal Skills, and Business Enabling Skill Training (BEST).

Production Management Programs

The objectives of the Programs are to enhance organization capability in increasing its product and process reliability; provide methodologies for monitoring and analyzing quality and eliminating causes of variation in a process and improve production effectiveness through productivity improvement. The programs include Failure Mode and Effect Analysis, Statistical Process Control and Effective Inventory Management & Control.

Enterprise Development Programs

The objectives of the Enterprise Development Programs are to upgrade enterprises; especially SMEs towards business excellence improve enterprises performance through proper financial and productivity analysis and enable enterprises to be more competitive in facing globalization challenges. The Enterprise Development Programs include Financial and Productivity Analysis, Managing Effective Sales Team, Strategies for Improving Sales Performance, Effective Marketing Strategies, and Cash Flow Control.

ICT-Based Programs

The objectives of the ICT-Based Programs are to enhance basic software application skills; realize the application of internet for business communication; attaining supply chain excellence; and provide guidelines to achieve greater customer relationship effectiveness. The ICT-Based Programs include Best Practices towards Supply Chain Management, Best Practices in Customer Relationship Management (CRM), and ICT for Non-ICT Savvy. The programs are open to all levels of management and employees according to their suitability. All of the NPC's programs can also be conducted on an in-house basis.

SBL-Khas Scheme

The SBL-Khas training scheme is implemented to assist employers, including SMEs, who would like to send their employees for training. Under the Scheme, employers are either given the option to send their employees for free training or may only need to pay a small percentage of training fees, depending on the type of skills required. Training fees incurred are paid directly by the Human Resources Development Berhad (HRDB) to the training providers concerned.

The training programs under this Scheme are public programs and in-house programs conducted by training providers who are registered with HRDB. To fulfil the needs of employees who wish to conduct in-house training programs, the course contents of these training programs are customised to employers' needs. However, changes to course contents cannot exceed more than 50 per cent of the original registered course contents.

Skill Enhancement

The following programs are applicable and available for all SMEs, specifically in the manufacturing sector. Implemented by various Ministries and government agencies, these programs are targeted to equip SMEs in this sector with specific technical skills, as well as general management and entrepreneurship competencies to increase their competitiveness.

• Courses, Seminars and Workshops for the Timber Industry

The Malaysian Timber Industry Board (MTIB) provides financial assistance for SMEs to undergo training. Course coverage of expenses include fees, food and lodging for participation in courses that are organized by MTIB.

• In-house Training for Management and Production Technology

Sponsorships for activities under this program cover payments in the form of honorarium or allowance for the trainers or instructors for a duration of three to four days, or according to the type of program, whether management or production. Other costs such as raw material and additional machineries or equipment are to be borne by the enterprises.

• Product Development

This program involves activities such as product design, prototype manufacturing, and also product testing. Financial assistance is extended for costs incurred in engaging product designers, and instructors for prototype development. Costs for raw material and additional equipment are borne by the enterprises.

Apprenticeship Training Scheme

This Scheme provides basic technical knowledge and guidance to produce potentially successful entrepreneurs to manage small-to-medium businesses. This Program is conducted with the co-operation of research institutes such as SIRIM, MARDI, universities, Mentor Factories/Vendors. Training schemes are provided for the following industries: metal industries, ceramic industries, food and carbonated drinks.

Qualifying criteria include minimum individuals with minimum SPM/SPVM with experience in the relevant field, two guarantors and the ability to finance at least 10 percent of the project cost, able to start business independently/shared, six months after intensive training. Priority is given to participants who have at least two years experience in the relevant industry.

Furniture Industry Technology Center (FITEC)

FITEC is specially set up to develop existing Bumiputera furniture industry to achieve the highest level of competencies by developing its technological capabilities. Among the activities carried out by the Center are courses and training programs to improve production skills, using the latest technologies, provision of consultants and consultancy services for the manufacture of furniture, undertake research projects in the production of furniture and joint wood, dissemination of information on the latest technology in the production of furniture, and conducting analysis testing to increase the quality of furniture and joint wood. FITEC target groups include owners and managers of factories, technical officers of furniture and

joint wood factories, supervisors of furniture and joint wood factories, factory supervisors, employees. Training and courses offered by FITTEC include areas of management of furniture industries, furniture finish, design, costing, quality control, and furniture packaging.

SIRIM-MECD Program for Cosmetic Industry

Product development program for cosmetic industry in Malaysia covers new product development, testing and evaluation, pilot plant production and assistance for product registration. The minimum number of companies required per program is 25. It has been proven that at least 50% of participants/SMEs are able to increase their productivity through this program.

SIRIM-MARA Techno-Entrepreneur Program (MASTEC-3)

This program offers entrepreneurs to acquire technology in selected strategic areas. The program is targeted at new and existing entrepreneurs who are S&T graduates. Minimum 30 participants are required per program. Through this program, 15 new entrepreneurs/SMEs are created per year.

SIRIM-MRRD Skill Development/Enhancement Program

This Program is tailored for rural entrepreneurs in the area of cosmetic & toiletries, and ceramics technology. Minimum 100 participants are required per program. Through this program, 20 SMEs entrepreneurs are created per year.

Course and Technical Training Program for the Agriculture Sector

The course and technical training program aims to conduct courses on viable technology in enhancing the transfer of technology and the related information to the target group involved in agriculture and food industries. Qualifying criteria include Malaysians, age 18 years and above, completed lower secondary education. Specific qualifications are required for certain courses.

The sectors that are covered for this program consist of mechanization and automation (production), biotechnology (plant and etc.), horticulture, food processing and food safety, and animal production.

There are two types of courses conducted by MARDI:

- scheduled courses; and

- Unscheduled courses.

Scheduled courses are offered to the public. The date, duration, location and charges are fixed according to the courses. MARDI is entitled to select the participants based on the number and availability of places. Unscheduled courses are offered outside the scheduled course and it is based on request by clients. The course is conducted for group request and can be specially designed to meet the needs and suitability of the target group.

Information Dissemination

Online Services

In addition to the physical outreach programmes, Ministries and Agencies used the Internet as a medium to reach the business community and enhance their awareness on outreach programmes available.

SMEinfo Portal: www.smeinfo.com.my. This is a one-stop online resource centre for SMEs to obtain comprehensive and updated information on the SME development initiatives undertaken by the Government. Information is available in Bahasa Malaysia, English and Mandarin.

SME Corporation Malaysia: www.smecorp.gov.my. The site offers information on advisory services, fiscal and financial assistance, infrastructural facilities, market access and other programmes on SME development.

MATRADE Online: www.matrade.gov.my. The website offers a comprehensive source of trade-related information for Malaysian exporters and foreign importers.

Agribazaar: www.agribazaar.com.my. The site was developed by the Ministry of Agriculture and Agro-based Industry (MOA) in collaboration with MIMOS Berhad. It is an Internet-based trading hub for buyers and sellers of agriculture produce by providing a platform for farmers, producers, retailers and exporters to interact online as well as to have access to relevant data on new supply, price feedback and market projections.

iGuarantee: www.iGuarantee.com.my. iGuarantee is a one-stop web services portal by Credit Guarantee Corporation Malaysia Berhad's (CGC) which contains, amongst others, comprehensive information about its products and services. It also has an outline facility through which the SMEs can apply for CGC's guarantee schemes to secure financing from the financial institutions.

HRDF training portal: www.hrdf.com.my. The training portal which can be accessed through HRDF website serves as a centralized information hub for all training programmes available, i.e. courses, seminars, conferences and events related to human resource development. It also provides an avenue for training providers to promote their services and for employers to communicate with course providers on their training needs.

Technopreneur Development Portal: www.technopreneurdevelopment.net.my. This is a comprehensive public domain dedicated to the ICT business, comprising ICT SME industry database including MSC and non-MSM status companies. The portal provides on-line information and communication resources.

Advisory Services

In 2009, advisory services assumed a bigger role as SMEs sought assistance amidst the challenging environment faced during the global financial crisis. Assistance extended to SMEs included advisory services and consultancy to help these companies ride over the difficult period. These among others include the One Referral Centre (ORC) at SME Corp. Malaysia to provide assistance to SMEs on all areas and the Helpdesk at MATRADE HQ to provide advice on matters relating to export business.

Select P & D programmes in 2009 and 2010

Programmes in 2009

The bulk of these programmes were implemented by the Ministry of Plantation Industries and Commodities (MPIC), the Ministry of Rural and Regional Development (MRRD), and the Ministry of International Trade and Industry (MITI). Among the key programmes undertaken by MPIC and the outcomes were as follows:

Tunjuk Nasihat Sawit (TUNAS) Programme: The Malaysian Palm Oil Board (MPOB) which conducted the activities through the TUNAS Centre drew the participation of 64,314 smallholders. MPOB also conducted a Quality Palm Oil Seedlings Assistance Schemes for Smallholders which benefited 3,522 entrepreneurs;

Transfer of Technology in Estates in Sabah: The Malaysian Rubber Board (MRB) conducted the programme with the aim to develop model holdings and rubber group processing centres as well as to implement training and transfer of technologies which benefited a total of 660 smallholders; and

Entrepreneur Development Programme: Plantation of cash crops other than cocoa implemented by the National Kenaf and Tobacco Board (LKTN) involving 436 entrepreneurs covering 729 hectares of land. The programme had enabled these entrepreneurs to produce a total of 7,072 tonnes of cash crops valued at RM6.8 million.

During the year, MRRD also conducted a few programmes to promote entrepreneurship and these among others include:

• **The Commercial Agriculture and Rural Tourism Programme:**

MRRD in collaboration with State Governments managed to increase the income of 719 SMEs in the rural area through tourism and agriculture activities;

• **Entrepreneur Training programme:** The *Majlis Amanah Rakyat* (MARA) provided business exposure to some 12,344 entrepreneurs to create and develop competitive and dynamic entrepreneurs;

• **Additional Economic Activities (AET):** The Rubber Industry Smallholders Development Authority (RISDA) enabled a total of 1,165 smallholders to obtain an average household income of at least RM2,000 per month; and

• **Training and Entrepreneur Guidance:** *Jabatan Kemajuan Masyarakat* (KEMAS) successfully trained and facilitated 720 ex-KEMAS skilled trainees and rural entrepreneurs to venture into business.

• Meanwhile, programmes by MITI also yielded significant outcomes and these include:

Financial Assistance Scheme for SMEs in the Services Sector: The programme conducted by SME Corporation Malaysia (SME Corp. Malaysia) approved a total of RM46.2 million to 1,682 SMEs. The Scheme had not only assisted SMEs to achieve 80% business viability, but also to increase sales by 20 - 30%;

Hawkers and Petty Traders Entrepreneurship Training:

The Institut Keusahawanan Negara (INSKEN) provided training to 1,256 hawkers and petty traders, of which about 83% of the participants indicated that the training had enhanced their knowledge and expertise;

Bumiputera Enterprise Enhancement Programme (BEEP):

The programme conducted by SME Corp. Malaysia benefited 87 SMEs, enabling these companies to increase annual sales by 20 - 30%; and

Acculturation and Entrepreneurship Training programmes by INSKEN: These programmes which attracted some 84,565 participants during the year were aimed at developing more knowledgeable, skilled, progressive, resilient and competitive entrepreneurs.

Other key initiatives undertaken to promote entrepreneurship throughout the year included the Homestay programme by the Ministry of Tourism (MOTOUR) which benefited a total of 1,534 SMEs. The programme aims to enhance the quality of Homestay services through streamlining and tightening of the registration process and requirements. To qualify under the Homestay programme, the entrepreneur has to attend the basic Homestay course and undergo inspection by the panel appointed by MOTOUR.

An innovation-led economy does not only require creativity and high investments in technology, but also highly skilled workforce to support the entire chain of activities. Recognising the importance in building a greater talent pool and skilled workforce, the Government further intensified efforts to develop human capital in 2009. A total of 32 programmes were implemented at the cost of RM124.30 million benefiting 176,535 individuals. Most of these programmes were carried out by the Ministry of Human Resources (MOHR), MITI and MPIC.

Pembangunan Sumber Manusia Berhad (PSMB) an agency under MOHR is responsible to enhance the knowledge and skills of the workforce through effective management of the Human Resources Development Fund (HRDF). Through HRDF Schemes namely Skim Bantuan Latihan (SBL), Skim Bantuan Latihan Khas (SBL Khas), Program Boleh Lulus (PROLUS) and Perjanjian Latihan (PERLA), PSMB continued to emphasise on retraining and upgrading skills of Malaysian workforce in order to

equip the workforce with specialised, up-to-date skills in line with the business needs and the development strategy of the country towards a high income economy.

In 2009, a new scheme called “On-the-Job Training” had been introduced to SMEs registered under HRDF. This initiative was taken to facilitate SMEs to train their workers internally and minimise the disruption involved in sending a worker to external training. In 2009, a total of 58 programmes have been approved under this scheme.

During the year, PSMB has also provided consultative visits to SMEs registered under the Agency to extend advisory services in the area of training and to inform SMEs on the available schemes and financial assistance available under PSMB. A total of 180 companies were visited in 2009 under this programme. The combined efforts had benefited SMEs especially in developing their workforce to be more innovative, resilient and competitive. This initiative resulted in the utilisation rate of the HRDF amongst SMEs to increase from 34% in 1999 to 73% in 2009. As at end-2009, the number of SME employers registered with HRDF totaled 8,404, or representing 70% of the 12,045 total employers registered. A total of RM73.09 million of financial assistance was approved for SME employers, constituting about 21.5% of the RM340.65 million approved for all employers in 2009. The training places approved for SME employers were 122,989 or 17.9% out of 685,394 training places approved for all employers. This is very encouraging, considering that the number of workers in SMEs is only about 345,357, or constitute 16.6% of the total workers of 2,085,438 whose employers are registered with PSMB.

Apart from administering the HRDF and its role as a driving force in training and development of the Malaysian workforce, PSMB was entrusted by the National SME

Development Council (NSDC) back in Dec 2004 to be a coordinating body to coordinate and oversee training and human resource development for SMEs across all economic sectors. Under its role as a coordinating body, PSMB has implemented initiatives, amongst which include:

“Train the Trainer” (TTT) programme to ensure the quality of training provided by Ministries and Agencies. A total of 30 sessions were organised, and

attended by 423 trainers and training coordinators. In addition, 24 Evaluation-on-Effectiveness of Training programme (EET) were also attended by 322 trainers and training coordinators from the Ministries and Agencies;

Brainstorming on Core Competency to identify core competency and training needs in selected sectors. For year 2009, four brainstorming sessions were conducted which involved aquaculture, landscape, construction-related architecture and interior design, and driving institute.

The template of core competency and training needs for each sector was published in the PSMB portal for reference of SME employers; and SME Forum to establish close linkages with industry associations, SME employers, and Government Agencies in order to obtain feedback pertaining to relevancy of training programmes. Four sessions were conducted in 2009.

Meanwhile, MITI through its agencies conducted various human capital development programmes which include:

Skills Upgrading Programme:

The programme implemented by SME Corp. Malaysia through the 41 appointed Skills Development Centres (SDCs) and Professional Training Providers (PTPs) benefited a total of 8,364 employees from 4,835 SMEs in 2009. Based on the feedback gathered, 91% of the participants agreed that the courses have enhanced their skills and capabilities; and

Capacity Development Programme:

Malaysia Productivity Corporation (MPC) carried out the programme with the aim to enhance and develop the capacity of SME employees in the area of productivity and quality. The programme attracted a total of 6,914 SMEs.

Other key programmes in human capital development include:

Short-term Courses:

The programme by the Ministry of Higher Education (MOHE) aims to provide alternative career path for school leavers and provide lifelong learning in developing knowledge community. A total of 121,000 participants had benefited from the programme. MOHE also conducted the Self Development Module

programme to provide exposure to a total of 14,000 universities and Community College students on soft skills and entrepreneurship courses to inculcate their interest in entrepreneurship; and

Mesra Malaysia Programme:

The programme by MOTOUR involved 292 training courses which attracted a total of 15,000 participants.

Programmes in 2010

In 2010, 85 planned programmes were conducted in entrepreneurship development, with a financial commitment of RM276.3 million, and is expected to benefit 21,000 SMEs in 2010. Among the programmes which are expected to produce significant outcomes include:

The Training and Advisory Programme by MRRD, whereby 150 courses will be organised to provide entrepreneurship enhancement courses to 4,000 rural entrepreneurs;

The Women Entrepreneurs' Development Programme (Program Pembangunan Usahawan Wanita) by the Ministry of Women, Family and Community Development (MWFCDD) which is aimed at increasing the income of 4,000 women in low income household to a minimum of RM3,000 by end-2012 and providing skills training for woman to become entrepreneurs;

- The Training for Potential and New Entrepreneurs Programme by Ministry of Industrial Development (MID) Sabah, whereby 82 courses will be organised on entrepreneurship development and technical courses which are expected to create a total of 2,700 new entrepreneurs;
- The Technical Entrepreneurs Programme (Putek) by MRRD which is expected to create 1,000 new entrepreneurs with technical skills and provide assistance in building basic business sites/facilities; and
- SME Corp. Malaysia in collaboration with the Malaysian Industry-Government Group for High Technology (MIGHT) has begun to implement the 1- InnoCERT (1 Innovation Certification for Enterprise Rating and Transformation) programme to certify and foster growth of innovative SMEs to become homegrown champions.

In addressing shortages of skilled workforce and in line with efforts to create a competent pool of local talent, numerous initiatives will be undertaken to further develop human capital. In 2010, a total of 39 programmes are being implemented with a financial commitment of RM184.4 million to benefit 226,850 SMEs. Among the key programmes include:

- The Retraining and Skills Upgrading Programme by PSMB aims to reach out to 98,000 participants;
- The Short-term Courses offered by MOHE through community colleges will be further strengthened to include modular programmes. The programmes will use a flexible approach through various short courses especially in the technical and vocational field. A total of 47 courses will be offered in 2010 which are expected to benefit 50,000 participants and the number is expected to increase to 135 courses with 120,000 participants by 2015.
- The Short-Term and Part-Time Courses by MOHR in collaboration with the Human Resource Department to upgrade and enhance industrial workers' multitasking capabilities which is expected to benefit 45,100 participants;
- The Entrepreneur Training Programme implemented by MRRD through MARA to provide exposure, awareness and encouragement to some 25,700 youth and adult Bumiputeras to undertake entrepreneurship as a career;
- The Jejari Bestari programme by MWFCDD is intended at improving the economic status of 6,700 women in the rural areas and increasing the number of women entrepreneurs; and
- The National Dual Training System (NDTS) by MOHR which is expected to produce 5,000 apprentices and benefit 1,000 SMEs.
- The Halal Training Programme which include the Halal Awareness Programme (HAP), Halal Industry Programme (HIP) and Halal Professional Programme (HPP) implemented by MITI through Halal Industry Development Corporation (HDC) with the objective to increase awareness on halal and provide knowledge on the fundamentals of halal and its requirements, will reach out to more than 10,000 participants from SMEs in the manufacturing and services sector.

PHILIPPINES

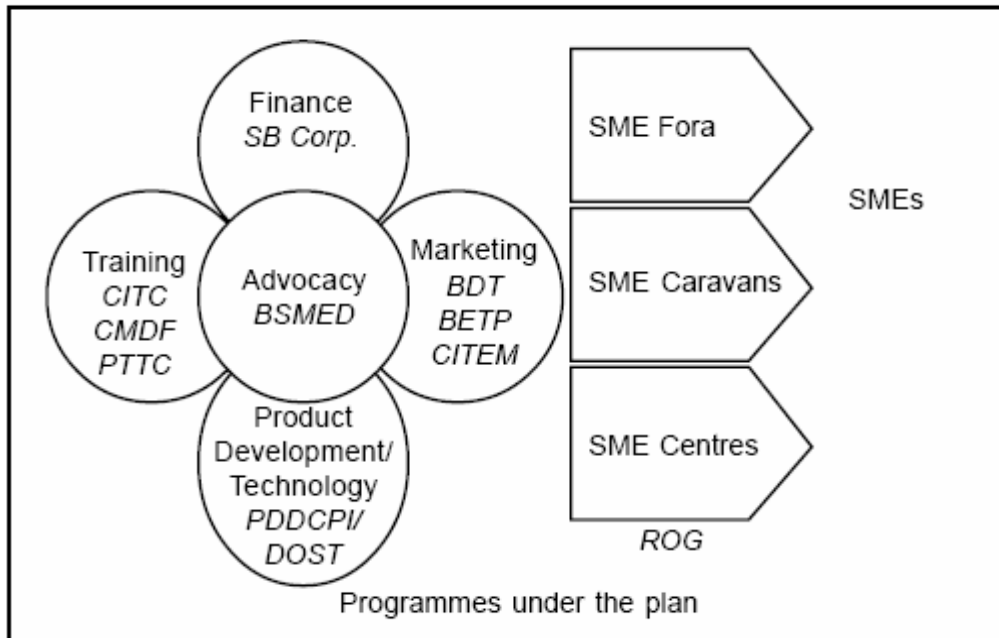
The Magna Carta for Small Enterprises is the landmark legislation which reflects the current policy to foster a dynamic SME sector, particularly rural and agri-based manufacturing ventures. This Law is guided by three principles in setting the pace for small and medium enterprise development:

- Minimal set of rules and simplification of procedures and requirements.
- Participation of private sector in the implementation of SME policies and programs
- Coordination of government efforts

The Carta also aims at, among others,

- raising government efficiency and effectiveness in providing assistance to MSMEs throughout the country, at the least cost;
- promoting linkages between large and small enterprises, and by encouraging the establishment of common service facilities;
- making the private sector a partner in the task of building up MSMEs through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and
- assuring a balanced and sustainable development through the establishment of a feedback and evaluation mechanism that will monitor the economic contributions as well as bottlenecks and environmental effects of the development of MSMEs.

Figure 1: SME agenda: An integrated approach



The SMED Council formulates SME promotion policies and provides guidance on implementing SME programs. It is a multi-agency group of eight persons who represent concerned government agencies, and four private sector representatives.

Cluster Development

Innovation and Technology

Product development and technology intervention

There are two main product development objectives under the Plan. The first is to create and sustain competitive advantage through product and package design and development, as well as through technology intervention. The second objective is to create an awareness and understanding of product development, its processes, and the ways in which a company can use it to advantage.

The following agencies / programmes provide a variety of product development services and technology intervention assistance to SMEs:

Advanced Science and Technology Institute (ASTI) conducts scientific research and development (R&D) in the advanced fields of Information and Communications Technology (ICT) and Microelectronics.

Programs and Services:

1. Research and Development (R&D) Program

This program aims to develop innovative technologies, products and solutions that will address the requirements of the industry, education and government sectors using Information and Communications Technology, Electronics, and Bioinformatics as enabling technologies. This program is further categorized into two (2) sub-programs namely:

(1) Information and Communications Technology (ICT) R&D, and (2) Microelectronics and Embedded Systems R&D.

- Information and Communications Technology (ICT) R&D Research and Development on ICT consists of three (3) components, namely:

- **Advanced Network Research**

The Advanced Network Research component seeks to develop competency in advanced networking technology, services, applications, and architecture; establish a national research and education network; develop, deploy, adapt, and adopt strategic networking technologies, services and applications.

- Wireless Technologies

The Wireless Technologies component aims to develop capability in fundamental design and implementation of industrial grade modules of wireless communications systems to a skill level that is able to produce world-class innovative wireless technologies.

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- Network Applications and Software

The Network Applications and Software component aims to develop expertise in software development in network applications to be able to produce marketable software and firmware products. ICT research activities shall focus on the following specific areas: Open Source Computing, IP Network Technology, Grid Computing, Wireless Technology, and Advanced Technology Center.

- Microelectronics and Embedded Systems R&D Microelectronics and Embedded Systems R&D will be undertaken in order to promote a culture of technology awareness and establish the design foundation and know-how vital for the Philippines to enter the global market for integrated circuits. It cultivates a skilled workforce adept in IC design and equipped for quality R&D work through training and exposure to actual design work.

2. Organizational Development Program

This program aims to enhance the organizational integrity, efficiency, and effectiveness of the Institute to ensure better adaptation to new technologies, opportunities and challenges. It comprises of three (3) subprograms, namely: (1) Human Resource Development, (2) Process Development, and (3) Knowledge Management.

• Human Resource Development (HRD)

This sub-program intends to develop and maintain ASTI's competencies and continuously improve staff performance. It covers the various aspects of HRD which include among others education and training; recruitment, selection and placement; performance appraisal/management; performance/career development; job analysis and evaluation; rewards and recognition; and staff counseling and discipline.

- **Process Development**

This sub-program hopes to contribute to the improvement of the agency performance and competitiveness through continuous enhancement of the organizational processes. All procedures and processes involved in the overall operations of ASTI whether administrative and technical will be documented, evaluated, and most importantly improved.

- **Knowledge Management**

This sub-program seeks to build and leverage ASTI's intellectual capital to improve the organizational performance through learning and innovation and to increase development impact of the institute.

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3. Technology Transfer Program

This program is geared towards effective utilization of R&D results, enterprise development and capability enhancement of industry and academe. Productivity enhancement of the local electronics sector particularly the small and medium enterprises (SMEs) and capacity building of local Electronics and ICT companies, as well as academic institutions and government agencies are given priority. Among the technology transfer activities being undertaken are technology diffusion and commercialization.

The Commission on Information and Communications (CICT) is mandated to develop the country as a world-class ICT services provider, provide government services to stakeholders online, provide affordable Internet access to all segments of the population, develop an ICT enabled workforce, and create an enabling legal and regulatory environment. The CICT is also empowered to “assist the DTI in carrying out its functions related to the promotion of trade and investment opportunities in ICT services”. Such services would include business systems planning and education, systems development and implementation, web and application hosting, and other services related to operating a computerized system for an SME.

Programs and Services:

1. Awareness Building Seminar

A one-day seminar aimed at building awareness of the benefits of applying ICT to business operations. Participants who attend these seminars will be given discount vouchers for the one-week Business Planning Workshops. (*Note: CICT-Strategic Business Development Group can also make the “Awareness Seminar Kit” for agencies and organizations who would like to conduct the one-day seminar on their own.*)

2. Business Planning Workshops

A five-day workshop which assists SMEs to:

- Define their businesses more clearly and design a more competitive business strategy;
- Determine the critical ICT, marketing and production capabilities to support their business strategy; and,
- Develop a cost/benefit analysis to support their planned investment in ICT capabilities.

3. Financing

The CICT has identified partner financial institutions which will provide funding for the ICT investment plans of SMEs that can present a feasible cost/benefit analysis (produced in the business planning workshop).

4. Implementation Assistance

To ensure quality standards of independent software vendors and application solutions providers delivered to SMEs, CICT will establish a database and track record of accredited vendors and suppliers.

5. SME Help Desk

To provide assistance for SMEs encountering problems with their ICT applications or hardware, the CICT will establish a telephone hotline which will assist SMEs in resolving their problems.

6. People’s PC Program for SMEs

Low-cost PCs meant to be affordable for SMEs.

7. Community e-Center Program for SMEs

Community-based internet access points for SMEs can be utilized for transaction processing, training/learning, and other activities (for enterprises that cannot afford to purchase their own computers).

The Industrial Technology Development Institute (ITDI) is a multidisciplinary research institute which uses local raw materials, recovers by-products and wastes, and provides technical services to support local industries.

Programs and Services:**1. Research and Development (R&D)**

Multidisciplinary applied researches in the fields of industrial manufacturing, mineral processing, energy, and environment, using local raw materials.

2. Technology Transfer and Contract Projects

Transfer of mature technologies with techno-economic viability, from product/ process development to techno-assessment to commercialization.

3. Tests and Analyses

Analytical and testing services (chemical, microbiological, physical, pharmacological, and toxicological) to industry and government agencies for various products and materials.

4. Food Engineering Services

A package of services offered to the local food industry and other institutions that provide them with technical assistance to improve product quality and productivity in their operations, and enable them to comply with stringent Sanitary and Phytosanitary System requirements of international trading under the World Trade Organization (WTO). Such services include technical advice and engineering consultancy on: product/process development and scale up, design and fabrication of food processing equipment, and design, layout and set-up of processing plant.

5. Calibration and Metrology

As national custodian for weights and measures, ITDI's program on metrology responds to the call for accuracy and traceability in the units of measurement (e.g. mass, length, volume) for product standardization, higher quality and competitiveness of local products, and consumer protection. The metrology center also assists in the setting of measurement standards and in repair and design of apparatus.

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6. Process Engineering

This program is a tool to solve production bottlenecks or shop floor problems and to translate ITDI developed processes into production systems. Through this program, ITDI integrates waste treatment systems, safety measures, and process control systems in the process. It also touches on the development of complex design systems that can be used for a wide range of products or a wide variety of processes in a plant.

7. Post-Harvest Handling/Near-Farm Processing

This provides encompassing solutions to problems on maintaining the quality and extending the shelf life of fresh produce from the time and place of harvest to the time and place of consumption, with minimum loss, maximum efficiency, and maximum returns to all involved. Processing and marketing problems of seasonal crops are addressed by providing alternative solutions such as developing value-adding qualities to the product to ensure continuous supply beyond the harvest season.

8. Packaging Research and Development

Development and/or improvement of packaging system, implementation of tools of modern and innovative packaging technologies and label design to upgrade the global competitiveness of local products, and institutionalizing linkages locally and abroad.

9. Cleaner Production (CP) Assessment

Promotion of cleaner technologies through CP assessment, technical information and training to strengthen the global competitiveness of local industries.

10. Enterprise Module (EM)/Technology Business Incubator (TBI)

Designed for technologies to spin off from the laboratories to industry. Offers the facility for tenancy to prospective investors while still planning or in the initial stage in setting up their own business, with close supervision and monitoring of in-house researchers/engineers. Available EMs/TBIs are: fruit juice processing, basi and sugar cane juice production, vinegar production using acetator, soap making, glass blowing, bio reactor (biodegradation of ecological solid waste), ceramics production, smoked fish, and virgin coconut oil processing.

11. Energy Audit

A critical examination of an energy consuming facility to help improve energy efficiency and productivity by identifying areas where energy waste can occur and recommend energy saving opportunities. Services

offered include audit of complete facility, energy equipment like boilers, dryers, motors and building, technical evaluation of energy conservation projects, and in-house training.

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12. Industry Training and Skills Development

Actual hands-on experience on manufacturing and various industrial processes, and demonstration/training on various technologies for income generation.

13. Use of Laboratory/Pilot Plant Facilities

Production facilities on a scaled up level for various technologies or processes can be availed of by industry such as those on: coconut oil milling and refining, food processing line (canning & dehydration), and materials processing (ceramics, plastics.) (Please see ITDI Pilot Plants/ Facilities).

14. Technical Information and Promotion

Documentation and dissemination of information on S&T services, technologies, and other technical inquiry data and promotion assistance to clients in various media channels.

15. Library Services

A worthy source of in-depth information on the Institute's major areas of concern and allied subjects; a special collection of theses and technical reports of in-house researches/studies.

The Phillipine Textile Research Institute (PTRI)'s main objective is to help sustain the growth and development of the textile and allied industries through various technical services, technology transfer and applied research and development (R&D) projects geared towards helping the textile and allied industries become more productive and globally competitive.

Programs and Services:

1. Research and Development

- Natural Fabrics R&D Program
- Natural Dyes R&D Program
- Silk Industry R&D Program

2. Technical Services

- Physical and Chemical Testing Services
- Textile Processing and Consultancy Services
- Fabric Weave Design Development
- Textile Performance Specification Development
- Information Services

3. Technology Transfer

- Manpower Development and Industry Skills Training
- Educational Tours and Visits
- S&T Exhibit Participation
- Technology Business Incubation
- IEC Materials Development and Dissemination

Science and Technology Information Institute (STII) is one of the service institutes under the DOST and functions as the information and communications arm of the department. By virtue of Executive Order No. 128 dated January 30, 1987, STII was created to: (1) Establish and develop a science and technology databank and library; (2) Disseminate science and technology information; and, (3) Undertake training on information and science and technology. Its mission is to make timely, relevant and quality S&T information activities and networking to promote awareness, understanding and appreciation for science and technology among Filipinos.

Programs and Services:

While STII's information resources and services cater mostly to students who come to the library for research, there are also projects that have direct application to livelihood activities and these are the following:

1. S&T Information Services

These involves the collection, management and production of information resources both print and non-print materials that serve as reference, information resource or supplementary materials for various clientele:

- **Tekno-Tulong:** A reference booklet containing easy-to-do recipes and tips for household or backyard-type business. (Also in CD form).

- **SETUP Success Stories:** A compendium of feature stories on adoptors of technologies who were successful in their trade because of the intervention or financial or technical assistance from the DOST.
- **Teknovideos:** These are 5 to 10-minute instructional or training videos on technologies for entrepreneurs, students and the general public.
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- **e-livelihood projects :**An online information resource for livelihood and technologies developed by DOST which are useful to Filipinos interested in putting up their own small businesses. This can be browsed at [www.geocities.com/ elivelihoodprojects](http://www.geocities.com/elivelihoodprojects).

2. S&T Promotion Services

These include activities that bring S&T information to the public especially those from the remote and marginalized sectors of society.

- **Youth Science Enterprise for Livelihood:** An outreach project that trains and equips out-of-school youths with technology know-how that can eventually open opportunities for small business ventures in the community.

Technology Application and Promotion Institute (TAPI) promotes the transfer and commercialization of technologies and market the services of other operating units/agencies of the DOST.

Programs and Services:

1. Enterprise Development

- **DOST-Academe Technology-based Enterprise Development Program (DATBED):** Develops entrepreneurial competencies among students, young professionals including out-of-school youths in selected academic institutions and NGOs while at the same time creating income generating projects for the involved institutions.
- **Venture Financing Program:** Provides funding support for start-up projects prior to full commercial loans from financial institutions to accelerate the initial commercialization of new technologies.

- **DOTCOM Program:** Extends financial support to dotcom companies in the Philippines so that those highly skilled/gifted IT experts can take advantage of the growing local e-commerce and favorable world economy.

2. Technology Promotions

- **Production of Technology Packages (TECHPACK) Program:** Provides financial assistance for the preparation of pre-feasibility studies, feasibility studies and business plans for selected technologies to establish not only the economic viability of adopting/using the technology but perhaps more importantly to guide Philippine scientists in their R&D efforts to further improve the technology.

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- **Prototype Development Assistance Program :** Provides financial support for the fabrication of commercial prototypes in order to shorten the lag time between development and utilization of available technologies and invention.
- **Pilot Plant Assistance Program:** Provides financial and technical assistance for the establishment and operation of pilot plants prior to full commercialization of the same.
- **Investors' Forum Program:** Brings together government and private technology generators, investors, financial institutions and technology adaptors interested in starting or improving technology-based ventures.

Entrepreneurship and Skill Development

The compendium of 2003 HRD and Entrepreneurship Training Programs for SMEs being offered by government training institutions is done in support of the National SME Development Agenda, a priority program of the government. The Department of Trade and Industry is the lead government agency tasked to implement the Agenda and provide SMEs with seamless access to government agencies. HRD and Entrepreneurship Training is one of five core elements of the Agenda including financing, marketing, product development and technological intervention, and advocacy for an enabling environment.

The training and entrepreneurship development programs of the National SME Agenda seek to provide existing and potential entrepreneurs with the necessary skills and knowledge to become competitive

players in the local or global market. It also seeks to create a pool of SME trainers, advisors, and counselors who can effectively assist SMEs nationwide.

Business counselors are assigned to SME Centers - focal points for SMEs seeking assistance or information on government and private sector programs and services, at regional and provincial offices. Business counselors are trained to assist existing entrepreneurs in their finance, marketing, technology, human resource development, and advocacy needs.

There are 25 selected SME Centers nationwide that have been given priority assistance and support under the National SME Development Agenda. Many of these priority SME Centers operate through close cooperation among the DTI, LGUs, local chambers of commerce, and provincial SMED Councils.

Department of Labor and Employment DOLE is responsible for general functions of policy-making, regulation and development on labor and employment, clustered as: worker protection and welfare, employment and manpower development, labor relations, and regional operations.

The National Wages and Productivity Commission (NWPC) and its Regional Tripartite Wages and Productivity Boards, as key policy making bodies on wages, incomes, and productivity, have the following mandates: (1) Fix minimum wages on regional, provincial, and/or industry levels; and, (2) Promote productivity improvement and gainsharing. Under Republic Act No. 6971, the “Productivity Incentives Act of 1990,” NWPC is also mandated to provide the necessary studies and technical assistance to enable workers and employers to conclude productivity agreements.

Programs and Services:

1. ISTIV Productivity Awareness Program (ISTIV-PAP)

The ISTIV-PAP is a values-driven human resource strategy for quality and productivity (Q&P) improvement that is rooted on the five ideal attributes of a productive individual. **I** stands for industrious, **S** for systematic, **T** for time-conscious, **I** for innovative, and **V** for strong value for work.

ISTIV is more than a program or a technique. It is a management concept that recognizes the value of human resource in bringing about the needed changes to improve quality of goods and services and the productivity of business enterprises.

While most Q&P programs and techniques focus on ways of doing things, ISTIV-PAP focuses on people and aims to instill a culture of positive change in the behavior of people in the organization. Thus,

company owners, managers and workers are trained in the ISTIV technology on the premise that everyone in the organization must share common Q&P values in order to attain higher productivity levels. ISTIV requires that management commit itself to create a work environment that allows Q&P to flourish.

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An ISTIV full-cycle training and consultancy runs from three (3) to six (6) months. The ISTIV training courses and consulting assistance are given free of charge. However, beneficiary-firms are asked to cost-share in the expenses for the training handouts, venue, food and other related expenses.

2. ISTIV Bayanihan

ISTIV Bayanihan is a productivity program for Barangay Micro Business Enterprises (BMBEs) and micro business enterprises. The program is developed to support growth of the micro business enterprises by enhancing their productivity through improved management of teamwork and enhanced work values of people in the workplace. The program utilizes the following strategies: (a) training, (b) networking, (c) referral, (d) recognition, and (e) communication. The program budget is sourced from the BMBE Development Fund.

Asian Centre for Entrepreneurship (ACE) brings together classic, corporate, and social entrepreneurs who want to create value and bring their organizations to higher levels of productivity, profitability, and professionalism. ACE embodies AIM's fulfillment of its institutional commitment to be at the forefront of providing relevant quality education and training to small and medium enterprises.

Programs and Services:

Degree and non-degree courses of ACE have been designed specifically to address the learning needs of classic, corporate and social entrepreneurs. The programs inculcate practical learnings that are readily applicable to current practices. The learning methodology is pragmatic and functional. ACE combines caserom learning with immediate application, providing a learn-as-you-go experience for program participants. Moreover, qualified ACE gurus and staff provide the necessary support to the learning process. This ensures that knowledge is acquired, assimilated and applied. ACE Programs deliver excellent entrepreneurial management and leadership education that will push enterprise performance to its peak.

Centre for Quality and Competitiveness (CQC) is a government-owned and controlled corporation serving as a capacitybuilder for government agencies and the private sector along the areas of productivity and quality, knowledge management, governance and sustainable human development. It provides training, research and consultancy services leading to the formulation of policies, design and implementation of innovative development programs for various sectors.

As the National Productivity Organization (NPO), the DAP carries out the country's commitment as a member of the Asian Productivity Organization (APO) by propagating the applications of productivity and quality improvement tools and techniques across sectors in the society. The DAP serves as the implementing arm of APO's activities in the country.

One of the Academy's operating groups is the Center for Quality and Competitiveness (CQC). The CQC caters to providing technical assistance on productivity and quality improvement for public organizations and private enterprises particularly for the small and medium enterprises (SMEs).

Programs:

1. SME Network and Cluster Development

Aims to develop cooperative linkages between and among business enterprises working in close proximity as industry clusters. These clusters cooperate to accomplish a joint development project to help them achieve collective efficiency and capture markets.

2. Deployment of Productivity Corps

Aims to address the business improvement concerns of SMEs through the assignment and dispatch of productivity experts for appropriate intervention like management advisory, technology installation and training. A cooperative endeavor among productivity leaders and experts to help strengthen the managerial and technical capabilities of SMEs.

Centre for Small Enterprises (CSE) is committed to work for the development of micro and small enterprises by providing holistic programs to enhance the entrepreneurs' management skills and knowledge in enterprise development.

CSE envisions itself to be a viable and sustainable entrepreneurial center focused in assisting the budding, vision-driven, and growth-oriented entrepreneurs.

Programs and Services:

1. Entrepinoy Training Workshops

CSE provides enterprise enhancement assistance programs and services to ensure the growth of entrepreneurs.

- Start Your Own Business Enterprise (SYOBE)
- Basic Marketing
- Purchasing and Stock Control
- Costing and Pricing
- Record Keeping
- Promotion for Micro Enterprises
- Micro Enterprise Taxes
- Enhance Your Business Enterprise
- Intermediate Record Keeping
- How to do a Marketing Plan
- Personnel/Human Resource Management
- Understanding the Financial Statements
- Entrepreneurship 101 (weekly free seminar)

2. Ka-Entrep Program

The program prepares the micro entrepreneurs for their membership to the Ka-Entrep micro entrepreneurs' organization whose main thrust is the promotion of their welfare and rights, in recognition of their capacities to develop themselves collectively.

The Ka-Entrep Micro and Small Entrepreneurs Organization of the Philippines, Inc. (Ka-Entrep) established last November 16, 2007 is operating within the National Capital Region. It has more than 200 members.

3. Entrepinoy Entrepreneurial Events

To date, CSE has hosted twelve (12) business fora. Dubbed as *Kapihang Entrepinoy*, the business fora provide a venue for micro and small entrepreneurs to enhance their enterprises' operations while expanding their network through various exchanges and partnerships.

CSE in cooperation with Ka-Entrep organization is also organizing business enterprise trade caravans.

4. Entrepinoy Business Forms and Legal Documents Kit

A computer-aided business forms and legal documents kit makes available to micro entrepreneurs the following: pro-forma purchase orders, sales contracts, promo letters, promissory notes, other negotiable instruments and legal documents. It is user-friendly, written in simple format for easy and convenient adoption in the transactions of a micro and small enterprise. The business kit contains a manual of the different business forms and legal documents pro-forma (hard copy) and CD containing all the proforma forms and documents (soft copy) which can be easily customized to fit the entrepreneurs' needs.

5. Online Catalog for Micro Entrepreneurs

A website where micro entrepreneurs may promote their products, find suppliers and interact with other micro entrepreneurs online.

Cottage Industry Technology Center (CITC) leads in the implementation of plans and projects aimed to provide production enhancing technologies and processes, tooling and equipment, product prototyping, and other related business development services (BDS) to community-based enterprises, marginalized groups, cooperatives, associations and other self-help groups with end-view of transforming them into sustainable and competitive MSMEs. It also helps develop other government and non-government entities as local non-financial BDS provider.

Programs and Services:

1. Diagnostics

A specialized service in the form of analyzing existing or planned production systems starting from raw materials to finished products.

2. Competency Building

From the result of the diagnostic services conducted, customized productivity and competency enhancement interventions will then be designed, reviewed, validated and delivered to target beneficiaries through skills training and knowledge development.

3. Technical Consultancy

Provision of expert advices on product development production processes, plant layout, equipment, selection, quality control, and raw materials/ component sources.

4. Tooling and Equipment

Design and fabrication of simple and low cost yet productivity enhancing tools and equipment to adapt to micro enterprises unique operations that equally require unique or customized implements.

5. Sample Making Prototyping

Provision of sample making or product prototyping services by CITC experts to micro enterprises who do not have the capacity to perform this task on their own.

6. Materials Utilization/Manipulation

Maximizes the competitive advantage of community based enterprises in terms of accessibility to sustainable raw materials, research and development activities aiming to come up with new indigenous-based materials suitable for construction purposes or for fresh and exciting products application.

7. Common Facility Services

Production facilities are made available for designers, manufacturers and exporters whose current production capacities are limited or are looking for suitable venue for their product prototyping needs.

Philippine Centre for Entrepreneurship (PCE) is a private, non-profit institution that works to mainstream and synergize entrepreneurship development programs and projects of schools, NGOs and the business community. It was envisioned to be “the preeminent local institution that promotes entrepreneurship by improving education, fostering a culture of enterprise, and providing a marketplace of innovations and best practices, thereby spawning competitive Filipino entrepreneurs.”

PCE's tangible goal is the creation nationwide of "Go Negosyo" (Get Into Business) communities—ecosystems that thrive in an environment of constant networking, mentoring and cooperation among educators, entrepreneurs and investors. Every Go Negosyo community will be distinguished by its ability to produce a continuous stream of startup ventures.

Programs:

1. Social Advocacy

Some 92% of all Filipino business owners are micro entrepreneurs helping move the economy along. PCE wants them to progress into small and medium enterprise (SME) owners whose capitalization is P3 million or higher. Though many Filipinos are already engaged in some business or another, a national advocacy can help bring their entrepreneurial drive to a higher level—from being "survival" or "necessity" entrepreneurs to becoming "opportunity" and "innovation" entrepreneurs.

Sustained advocacy will help change social attitudes and strengthen the culture of enterprise. Aside from lack of capital, certain mindsets also hamper the entrepreneurial spirit of many Filipinos: the fear of failure, the fear of taking risks, various misconceptions and stigmas about business ownership and self-employment. The ultimate aim for mounting an effective communications program is to popularize and demystify the essentials of entrepreneurial success.

2. Entrepreneurship Education

Current thinking affirms that it is never too early, even for children in primary school, to be exposed to a real enterprise. The Center therefore promotes entrepreneurship education in all school levels through materials development, teacher training and research. PCE is working closely with educators to embed business ownership in the national curriculum and help college students start a real enterprise before they graduate.

3. Business Plan Competitions

To get more young Filipinos thinking about business, PCE has become a booster of business plan competitions. Such contests make students more aware that in the real world, real money flows only to the best documented, best thought-out and well-presented business plans. Viable ideas are brought to light and to the attention of potential investors during such competitions.

4. Awards and Recognition

Encouragement and other psychic incentives play a big role in sustaining excellence in the field of entrepreneurship development. The Center honors exemplary advocates and institutions that promote entrepreneurship.

5. International Networking and Partnership

As there is no shortage of successful models in entrepreneurship development, the Center partners with international organizations in obtaining new concepts and mobilizing resources.

6. Thought Leadership

The Center pursues its preeminence in entrepreneurship development by mounting pioneering studies and research. It also obtains best practices and contributes to the shaping of relevant national policy.

Philippine Trade Training Centre (PTTC) designs and develops training curricula and corresponding instructional materials, and conducts training programs for micro, small and medium enterprises (MSMEs), business support organizations and the government sector. It provides post-training advisory and counseling services; customized in-company/firm-level training programs and services; a venue for MSMEs and large enterprises to promote their products by marketing, renting out and maintaining exhibition facilities; and events management support.

Technical Education and Skill Development Authority (TESDA) manages and supervises technical education and skills development in the Philippines. It was created to mobilize the full participation of industrial, labor, technical and vocational institutions, the LGUs, and civil society for skilled manpower development programs.

Programs and Services:

- Aims to develop the capability of TESDA partners and other TESDA providers through the provision of technical assistance, capability building programs, infrastructure development, etc.
- Offers training scholarships, assessment and certification services to promote development of Pinoy Workers of the World or Pinoy WOWs.\

- Actively assists local government units or LGUs in preparing for the devolution of training functions.

Institute for Small Scale Industries (ISSI) is an extension unit of the UP committed to entrepreneurship and small and medium enterprise (SME) promotion. It is engaged in training, research, consultancy, information, and advocacy services for the SME sector.

Programs and Services:

1. Training

- Designs and conducts training programs on management development, development management, entrepreneurship career development, and business and productivity improvement.
- Implements in the Philippines the APEC small business counselors training and accreditation program.

2. Research

- Undertakes policy researches, program evaluation, area economic researches, industry studies, and market studies.

3. Consultancy Services

- Provides factory diagnostics and management audits; holds small business clinics.

4. Information

- Prepares and publishes starting-a-business primers, growing-inbusiness manuals, and entrepreneurship textbooks and casebooks.

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5. Advocacy

- Conducts small business dialogues/fora, promotional and media campaigns.
- Assists schools in their efforts to infuse entrepreneurship concepts/modules/subjects into their curriculum.

Providing Assistance to Women

This particular legislation recognizes the special role of women in development and supports women entrepreneurs who are engaged in manufacturing, processing, service and trading businesses. Under this program, government financing institutions (GFIs) like the Landbank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) are mandated to provide assistance to:

- Non-governmental organizations (NGOs) engaged in developing women's enterprises to limit of P2M, provided the NGOs has an operating track record of a year;
- Existing women enterprises to the upper limit of P50, 000; and
- Potential women entrepreneurs with sufficient training up to a limit of P25, 000 each.

intensifying and expanding programs for training in entrepreneurship and for skills development for labor assuring to them access to a fair share of government contracts and related incentives and preferences.

REPUBLIC OF SOUTH KOREA

The Korean government has implemented a myriad of promotional and developmental policy measures to help SMEs. Perhaps the most important is the gradual education in number of industries reserved for the SME sector. In addition, the government has implemented human resource development, technology development and management consulting services to assist SMEs.

The Government has been stimulating new business start-ups and promoting SMEs. Tax incentives were made available to individuals who invest in new ventures, and venture capital firms are also given preferential treatment by the government.

The Small & Medium Business Administration (SMBA), since its foundation in 1996, has been in the driver's seat of Korea's SMEs-led innovation for the dynamo of the national economy. SMBA has developed and implemented a unique and effective SME promotion system, combining financing, marketing, technology, business start-up, micro-enterprises, etc. SMBA's main task is to cultivate a business environment that encourages, nurtures and grows new business start-ups and generates Korean can-do-spirit-based entrepreneurship.

To stimulate active M&As among venture businesses, the SMBA has implemented various policy measures, especially relaxing regulations which include a simplified procedure regarding small-scale stock exchanges, corporate value assessment by certified institutions, a streamlined procedure regarding M&As

and business transfer, replacement of a stock-holders' meeting by an executive board when shares traded are less than 50% of the total. Also, tax benefits have been expanded regarding stock trades and M&As.

The government promoted its "Industry based Technology Development Project" to support technology development of SMEs and assisted them in resolving technological difficulties in different regions by strengthening their tech support

through regional industry testing centers. In order to improve the industry structure that relied on imports and address the chronic trade deficit with Japan, the government drew up a 5 year plan to use local machines, parts and materials in 1986 to provide funding, technology development, and tax support. Along with this, a "System of Research Centers under SMEs" was established in 1983 to facilitate technological development through SMEs. In a bid to support the convergence of technologies through active exchanges between SMEs in different business areas, the government launched its "Group for Exchanges in Different Businesses" in 1989 and drew up its "Plans to

Advance Technology of the Group for Exchange" in 1990.

From 1990, "SMEs that Advanced Technologies" were selected so that they obtain technologies which would lead to upgraded technology levels.

The government introduced a "Competition System among SMEs" in 1995 to support the sales channels of SMEs and induce proper competition among SMEs, having limited competition or competition among designated SMEs when the government or public organizations procured the same items. In addition, as part of its project to secure areas to sell products, the government started constructing its "Comprehensive Distribution Center for SME Products" in 1996.

In order to assist technology development of SMEs, the government supported the "Regional Consortium Project for Technology Development among the Industry, Academia, and Research Centers" from 1993 and implemented a "Certification System for New Technology Marks (NT marks)" from May 1993. Also, for technology innovation, an "SME Technology Innovation Development Project" was carried out from 1997.

In an attempt to support technology development in SMEs, the government implemented the Korea Small Business Innovation Research Program (KOSBIR) in 1998, where a certain percentage of the R&D budget of the government and government invested institutions went towards SMEs. In order to support

the technology innovation of SMEs, the government enacted the Act on SME Technology Innovation Promotion in 2001. Also, the government recognized that supporting technologically innovative SMEs was an urgent matter, so they set up Inno-Biz in 2001 and set a goal of identifying and supporting 5,000 technologically innovative SMEs, 1,000 each year from 2001 to 2005.

For rapid commercialization of new technologies, the government established a “Korean Techno-mart” in 1998, establishing Techno-Net, where SME technology-related information was loaded onto an “SME Technology Exchange” in the Small and Medium Business Corporation.

In 2001, the government constructed a “Technology Innovation Support Connecting System” where information such as research tools and professionals employed at universities and research centers could be searched. Also, the “Technology Development Project on condition of Procurement” was introduced in 2002 so that SMEs could concentrate on technology development based on established sales channels.

The government has supported SMEs that intended to establish research centers affiliated with universities from 2005, and from 2007, by promoting its “Project to Support the Joint Use of Research Equipment” so that expensive state-of-the-art equipment owned by universities and research centers could be shared with SMEs.

“Innovative and leading SMEs” are those equipped with independent R&D and commercialization abilities. They are estimated to represent about 10% of the total number of SMEs (micro-enterprises excluded). Programs supporting this group focus on facilitating start-up, technology development and marketing in order to meet global standards. Programs for “*Self-reliant SMEs*” include revitalizing their start-up activities and providing structural improvement. This also includes helping SMEs who lack competitiveness to operate a business switch.

Entrepreneurship and Skill Development

The Government has the policy focus on:

- Organize venture businessmen's special lectures on entrepreneurship at universities
- Conduct youth start-up education
- Accelerate start-up activities of professors, researchers and collegiate

- Spread youth entrepreneurship and boost business start-up activities
- students
- Improve the spin-off start-up system for executives and employees of large enterprises

Aiming at generating a new vigor of the economy, SMBA has run various Programs to prime innovative business start-ups across the country. The SMBA established a dedicated micro-business development office on Dec. 28, 2005, plans to establish a professional institution, Micro-enterprise Promotion Agency in April 2006, and strengthened the function of the micro-enterprise assistance center.

The SMBA has established a 'commercial complex information system' to assist micro enterprises' start-up activities and their managerial stability, and is operating a five-stage start-up package program aimed at linking education and funding to encourage start-up activities. The purpose of these measures is to enhance the success rate of start-ups.

Business Incubator (BI): The SMBA supports BIs operated by universities and research institutes equipped with facilities and equipment that can support would-be entrepreneurs or new SME founders. This program is designed to promote the survival and growth of newly established venture companies. SMEs are provided with land, an expert consulting service, marketing education and other support.

Entrepreneur Graduate School: In order to foster start-up specialists through systematic and professional education, 5 universities, and colleges have run pilot programs for entrepreneur graduate schools since 2004.

Biz Cool for Teenagers: To inspire teenagers' pioneering spirit and business mentality, 80 middle and high schools have implemented Biz-Cool pilot programs. About 20,000 students have participated in the program and in a variety of financial education courses that conduct case studies on self-management, business start-up, business administration, and finance. The purpose of the program is to help them find their career and revitalize start-up activities.

The Korean Technology Transfer Center (KTTC) was established to better assess the potential of technology, and develop its financial return, by helping SMEs to commercialize it. Under the Transferred Technology Development Project, SMBA covers additional development costs required to commercialize technologies owned by universities, research institutes and businesses. According to MOCIE, the technology transfer ratio from research institutes and universities has risen from 18.5% in 2004 to 20.7% in 2005.

The Industry-University-Research Consortium Program is run by SMBA and was introduced in 1993 to increase the technological capacity of SMEs. Under this program, universities or research institutes develop technology needed in the manufacturing field in collaboration with SMEs. Stakeholders of regional innovation - Regional Innovation Centers (RRC), Techno Parks, Business Incubators (BIs), Technology Licensing Offices (TLO) - are also involved in the program. In 2005, about 220 consortia were formed to support 2 700 SMEs in developing new technologies.

Both short-term and long-term entrepreneurship training programs have been set up. Since 2004, five universities in Korea (notably Hoseo University and Jungang University) have launched a five-year pilot entrepreneurship program, "*Entrepreneur Graduate Schools*", to train "start-up specialists". The education program called "*Start-up Course*" created in 2002 on the other hand is a short-term training provided by local universities and specialized institutes. In addition, a special "*Technology start-up program*" was set up in universities in 2005 to target potential entrepreneurs with technological knowledge. It includes customized support programs, training and network-building at the pre start-up stage.

In an effort to relieve the shortage of labor in the "3D" (Dirty, Difficulty, Dangerous) fields, the government introduced an "Industrial Technology Training System for Foreigners" in 1993, and "The Elderly Volunteer Group" was launched to give working opportunities to retired people with special skills as part of its efforts to support SMEs.

The "SPi-1357" system was set up and operated by the Small and Medium Business Administration from January 2006 and provides SME policy information in real time on and off line. The customized policy information system (SPi: www.spi.go.kr) is a consolidated database which is categorized into 9 areas including funds, technology, HR, sales channels, exports, information progress status, SMEs, and venture. Policy information from 234 institutions such as government ministries and guaranteeing institutions is also available.

SOUTH AFRICA

South Africa has a wide range of support schemes that target small business owners, in the areas of research and development, business and marketing support, exports and support for setting up

manufacturing, tourism and co-operatives. The majority are in the form of incentive schemes, which pay out matching grants to business owners, with either half or a large percentage of the project costs being funded by the applicant themselves.

Cluster Development

The clusters supported under IPAP include:

1. Under metal fabrication, capital equipment and transport equipment: increased support for:
 - a) **The National Tooling Initiative:** This includes benchmarking of suppliers as part of the UNIDO's Sub-contracting and Partnership Exchanges (SPX) programme and participation in UNIDO's CSDP, developing a support instrument template to access support through the Small Enterprise Development Agency (Seda) as well as Khula, the National Empowerment Fund (NEF) and banks, rolling out a competitiveness improvement and export development programme, apprenticeship programme and carrying out an evaluation by the department of the programme.
 - (b) **The National Foundry Technology Network:** The National Foundry Technology Network, which provides technical support to foundries in South Africa. Support includes: carry out a training and benchmarking programme as part of Unido's SPX programme, technology assistance packages, facilitation of research and development through Mintek, the Council for Scientific and Industrial Research (CSIR) and the network..
2. In the automotive sector: The Department of Trade and Industry continues with its support to the sector through the Automotive Production and Development Programme, benchmarking, the setting up of a web portal to help SMEs to optimise existing technology investments and providing mentorship of SME component manufacturers.
3. The clothing and textiles sector: The Department of Trade and Industry continues with its support to the sector. A new programme, the Clothing and Textiles Production Incentive was launched in 2010 and the department also supports training programmes, a programme to clamp down on illegal imports and oversee the commercialisation of certain fibres.
4. Under the Forestry, timber, paper and pulp and furniture sector the Department of Trade and Industry proposed to:
 - a) Set up furniture clusters for small manufacturers in outlying regions. The furniture clusters aim to assist businesses to conduct joint selling and share various manufacturing costs. The

department aims to develop a business plan and marketing strategy sector, as well as appoint facilitators to set up clusters, in the 2010/11 financial year. In tandem with the clusters, the department aims to, in the same financial year, approve a business plan for the setting up of a furniture centre of competence, which also aims to aid small manufacturers.

- b) Set up charcoal plants in the Eastern Cape. The aim is to get Small Enterprise Development Agency (Seda) to train and register 12 co-operatives in communities showing an interest in charcoal production. The National Empowerment Fund (NEF) and the Industrial Development Corporation (IDC) provides funding and Seda also implements a business plan and co-operatives monitoring programme.

5. South Africa has adopted a strategic approach to industrial development and linkages creation. The most successful sector-specific policy has been the Motor Industry Development Program, which helped to establish competitive and relatively integrated clusters of automobile companies. Since 2004, South Africa has also carried out Customized Sector Support Programs in selected priority sectors. South Africa remains a good example of a country where strategic industrial orientation is mainly focused on technological upgrading and deepening, but has not excluded other major political objectives (i.e. South Africa's Black Economic Empowerment policy). Additionally, once the consensus on strategic policy guidelines had been achieved, it was immediately reflected in public pronouncements and policy frameworks, as revealed by the fact that agencies active in different policy fields such as FDI and trade promotion, SME support and technology policy have all given a prominent role to linkage building.

Draft Regional Industrial Development Strategy (RIDS)

The Draft Regional Industrial Development Strategy proposes the establishment of special economic zones (SEZ) – industrial parks, logistics parks, industrial estates and innovation hubs – and other measures such as promoting regional growth coalitions and support for industrial clustering among firms, in order to foster regional industrial development. The strategy also proposes the establishment of a Systemic Competitiveness Support Facility or “Thematic Fund” to support innovative regional development initiatives. A component of the fund will be a support facility for innovative start-ups. Efforts will be made to ensure that these measures benefit small enterprises as much as possible.

Focusing on special geographic areas

Strategy's focus on a shift from wholesale to retail service-delivery approaches is strengthened by Khula's proposed retail and partnering strategy, as well as the seda and Samaf retail and partnering strategy already in implementation. Coupled with the national roll-out, this service-delivery approach is designed to ensure that services are easily accessible across the country. The dti and the Small Enterprise Agencies Forum will closely and continuously monitor the adequacy of service provision in key geographic areas across the country, and ensure that measures are taken to close any identified gaps.

In addition, a deliberate effort is made to work as closely as possible with government programs targeting special geographical areas, such as the Integrated Sustainable Rural Development Program (ISRDP), Urban Renewal Strategy and the Forestry Enterprise Development Program, to ensure availability of support in target areas, and alignment with the Provincial Growth and Development Strategies and local government integrated development plans (IDPs). This strategy gives priority to the role of provincial government in providing an enabling environment for small business support through provincial economic development policies and enabling regulatory framework. This is supported by municipal infrastructure development plans and the implementation thereof.

Technology and Innovation

The Technology Innovation Agency (TIA or the Agency) was established in terms of the TIA Act, 2008 (Act No. 26 of 2008), with the objective of - "Stimulating and intensifying technological innovation in order to improve economic growth and the quality of life of all South Africans by developing and exploiting technological innovations".

The Agency is set up as a public entity with the aim to enhance the country's capacity to translate a greater proportion of local research and development into commercial technology products and services. The TIA is tasked with exploiting the existing body of knowledge at universities and public research institutions and channelling it effectively towards the development of technology based industries. Towards this end, the TIA provides funding, and other support, to persons developing and commercialising technologies, including fledgling, small and medium sized enterprises, large private companies as well as public institutions such as science councils and higher education research institutions, as appropriate.

TIA also provides a number of no-financial hand-holding support to SMMEs in South Africa. Its HCD programmes are geared at ensuring capacity building and skills development interventions are initiated to service the current challenge of scarcity of skills in the Science and Technology field especially in the “Innovation” space. The main objectives of TIA’s HCD intervention are to;

- Facilitate, support and promote increased awareness of science, engineering, technology and technology innovation opportunities through developing and leveraging strategic partnerships.
- Facilitate development and support of relevant programmes that are designed to attract and increase the skilled human capital in the fields of science, engineering, technology and technology innovation.
- Invest in relevant skills and capacity development within TIA and the technology innovation community and TIA investments.
- Facilitate the development of relevant and accredited and non accredited short courses that address the HCD needs of both TIA, the technology innovation community including the TIA sectors skills needs through the TIA Academy.

Similarly, the Commercialisation Unit of TIA is structured and positioned as a cross-cutting service delivery unit with the objective of ensuring that the various sector portfolios contribute towards achievement of TIA Strategic Objectives, particularly the development of new technology based services and products as well as establishment of viable technology based enterprises. The Commercialisation Unit provides dedicated opportunity evaluation and due diligence services to TIA sector portfolios as well as structured business support and advisory services., including technology nurseries. The main objectives are:

- Provide comprehensive opportunity evaluation and due diligence capability to ensure that TIA selects the most deserving ideas and technologies to support in order for TIA to meet its mandate;
- Provide business support and enterprise development capability (technology nurseries services) for technology commercialisation aimed at reducing risks associated with establishment of viable technology based businesses;

- Provide support to South African generated intellectual property and capacity to compliment such intellectual property with third party intellectual property in order to broaden the IP base and enhance South Africa's competitiveness; and
- Develop and retain appropriate commercialisation human capacity.

The SEDA Technology Programme

The SEDA Technology Programme is a growing network of incubators and technology support centres with a current footprint across all provinces. Linked to this is a dedicated fund that enables SMMEs to access funding for technology and technical services. Its primary focus area is to 'Enhance Competitiveness And Capabilities Of Small Enterprises Through Co-ordinated Services' with the following objectives:

Objective 1:

To promote the establishment and development of sustainable innovative technology based platforms that will contribute to the country's economic growth

Objective 2:

To enhance technology transfer through structured support and funding for small enterprises.

MoUs and SLAs in place.

Objective 3:

To promote the establishment and development of sustainable innovative technologybased platforms that will contribute to the country's economic growth.

Objective 4:

To promote the importance of quality and standards and provide technical support to South African firms (SMMEs) to improve their competitiveness and industrial upgrade.

Objective 5:

To promote a unique team culture based on passion, integrity and reliability to deliver

on government's mandate to stimulate economic growth in the economy.

With the programme's assistance, the South African Business and Technology Incubation Association (Sabtia) has been established to, among other objectives, foster best practice in South African incubation through links with similar bodies in other parts of the world.

Tshumisano Trust, a small business support agency of the Department of Science & Technology (DST), has established technology stations across the country. The sector-focused stations, located at universities of technology, facilitate technology transfer between these educational institutions and small enterprises. One of the technology station programme's critical contributions is to expose students at the stations' home institutions to small enterprises, thus helping to foster a culture of entrepreneurship. Tshumisano Trust's initiative also involves placing engineering graduates in internship programmes with small enterprises. The increasing rate of client referrals between SEDA Technology Programme and the technology stations is playing an important role in bridging support initiatives between sector departments and mainstream enterprise-development support agencies.

Productivity enhancement measures

The National Productivity Institute (NPI), a Ministry of Labor agency, supports small enterprises to enhance their productive capacity through its Productive Capacity Building Program. The NPI also works in partnership with seda to train small enterprises and service providers in productivity concepts such as entrepreneurship, life skills, economics and productivity improvement. It works in partnership with certain provincial small business support agencies, such as GEP (in Gauteng) and Red Door (in the Western Cape).

Entrepreneurship and Skill Development

The entrepreneurship and skill development have been broadly constructed under the 2004-2014 programme called AsgiSA (Box 8.2) wherein responses range from medium-term educational interventions to raise the level of skills in areas needed by the economy to immediate measures to acquire the skills needed for the implementation of AsgiSA projects.

Box 8.2 ---: AsgiSA programme

- The QIDS-UP programme aimed at achieving high levels of literacy and numeracy in the lowest grades
- The Maths and Science (Dinaledi) programme for 529 high schools to double Maths and Science high school graduates to 50 000 by 2008
- An upgraded career guidance programme
- A huge upgrading of the Further Education and Training colleges.
- The Adult Basic and Education Training programme is to be ramped up, based on a model developed in Cuba and New Zealand

Apart from interventions to address the skills challenge in the educational sphere, measures include the development of an Employment Services System (to close the gap between potential employers and employees), and Phase 2 of the National Skills Development Strategy.

A short-term project is the development of a scarce skills database based directly on the expected needs of the over 100 individual projects included in AsgiSA.

Other key skills projects include the deployment of experienced professionals and managers to local governments to improve project development, implementation and maintenance capabilities.

The Umsobomvu Youth Trust is driving a number of initiatives, many of which entail youth volunteers, to support a range of skills development programmes.

A new institution is the Joint Initiative for Priority Skills Acquisition (JIPSA). It is led by a committee of the Deputy President, key ministers, business leaders, trade unionists and education and training providers or experts. Its job is to identify urgent skills needs and quick and effective solutions. Solutions include special training programmes, bringing back retirees or South Africans and Africans working out of Africa , and drawing in new immigrants where necessary. It also includes mentoring and overseas placement of trainees to fast-track their development.

On the basis of AsgiSA's priorities, JIPSA's work areas are:

- high-level world-class engineering and planning skills for the network, transport, communications and energy industries
- city, urban and regional planning and engineering skills
- artisan and technical skills
- management and planning skills in education, health and in municipalities
- teacher training in Mathematics, Science, information and communications technology (ICT) and language competence
- specific skills needed by priority AsgiSA sectors, starting with tourism- and business-process outsourcing and cross-cutting skills needed by all sectors, especially financial and project managers
- skills relevant to the local economic development needs of municipalities, especially developmental economists.

The government as the major stakeholder in education and training has implemented the following training interventions:

a) Outcomes-based education

This approach focuses on mastering of knowledge and skills to achieve a certain outcome and not on the inputs of traditional curriculum-driven education and training. The emphasis is on the end result of the learning process. (Meyer, 2000:1; Nel, van Dyk, Haasbroek, Schultz, Sono & Werner, 2004:427).

b) Adult-based education and training (ABET)

Education of and learning by adults to fulfil their roles as educators, workers, citizens and parents are the focus of this approach. Developers of learning and training programmes need to account for the following adult learning characteristics (Aitchison 1997:2; Erasmus & Van Dyk, 2003:128; Nel et al.

2004:451):

- prefers to own learning projects (self-directed approach);
- possesses a wide range of experiences which could facilitate the learning process;
- acts from internal motivation with a need to grow and develop to self-realisation and are problem- and task orientated during the learning process.

c) National skills Development Strategy

This strategy focuses on the introduction of new institutions, programmes and funding policies to increase investment in skills development. Aims to address huge disparities in educational, skill and wage

levels in the working population and to utilise the workplace as an active learning environment. (Erasmus & van Dyk 2003:29); Paterson 2004:1).

d) Mentorship

Mentorship is a structured one-to-one relationship or partnership that focuses on the needs of the mentored participant or entrepreneur, requiring a supportive relationship sustained over a period of time, usually between a novice and expert. Mentors and entrepreneurs launch their relationship by participating together in a program orientation to increase their mentoring knowledge, hone their communication skills and establish the parameters of their mentoring relationship. Clark & Toto, 2006:1; Entrepreneur Nous, 2006:1).

e) Learning by exposure approach

This is individual learning, whereby the entrepreneur is assumed to gather knowledge and use it without any help, other than that offered by other entrepreneurs (Reid & Barrington 1997:115).

f) Educational approach

This approach is a long-term process that requires entrepreneurs to attend classes or by means of correspondence teaching to obtain formal recognised qualifications (Reid & Barrington, 1997:115).

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g) Experimental learning approach

This approach is learning by means of exploring new initiatives and to experiment with new ideas, concepts and activities focussing on both the emotional and intellectual side of the learner (Erasmus & Van Dyk, 2003:110).

h) Experiential learning approach

Experience precedes learning and it involves entrepreneurs in their own learning and to increase their awareness of the dynamics present in all human interactions (Van Dyk et al.,2001:292).

The above-mentioned training interventions could therefore be used to upgrade the skills levels of micro and small business entrepreneurs. It should be noted that during these training interventions, various training methods or techniques could be used (e.g. lectures, case studies, role-playing, apprenticeship and computer-based training).

Most of the schemes are located under a unit at the Department of Trade and Industry called The Enterprise Organisation. The schemes include:

- The Black Business Supplier Development Programme (BBSDP): a cost-sharing grant offered to black-owned small enterprises to assist them in improving their competitiveness and sustainability. Grants of up to R1 million are given out for enterprises with an annual turnover of up to R35 million. Since its inception in 2002 till March 31 2010, 9 657 enterprises with total disbursements of R187.5 million have benefited.
- The Co-operative Incentive Scheme: Provides start-up funding from R10 000 to R300 000 to co-operatives, with the government covering 90% of the funding in the form of a grant. From 2006 to September 7 2010, 357 co-operatives had been assisted to the tune of R71.2m.
- The Enterprise Development Programme: Matching grants are provided to small manufacturing firms and businesses in the tourism sector. Added to this the department also oversees the Support for Industrial Innovation (Spii) and Technology and Human Resources for Industry Programme (Thrip). The Enterprise Development Programme: 164 tourism projects (to the value of R417 million) and 290 manufacturing projects (R1 billion) had been approved up to the end of February 2010.
- Spii funds research and development (R&D) for new innovations in manufacturing, through a grant of 50% to 75% of up to R3m and has been in operation since 1993. Spii had funded 1 025 projects to the tune of R933 million up until March 31, 2010. In 2007 the programme was chosen by the OECD and World Bank as the best incentives programme within the South African government.(Business Day, 18 August 2009.) 263 Productivity SA's 2010 annual report. 264 Business Day, 18 August 2009.

Thrip supports scientific research and aims to foster a collaboration between academic institutions and industry through a cost-sharing grant offered by the department. The programme is managed by the National Research Foundation (NRF). Business owners can also benefit from the cluster-based initiative the Workplace Challenge Programme run by the Department of Trade and Industry and managed by Productivity SA, an agency of the Department of Labour. The programme aims to increase the productivity of businesses big and small, by getting them to work together in a cluster and share learnings. In all 19 clusters consisting of enterprises in all were up and running in the 2010 financial year.

The Umsobomvu Youth Fund (UYF), an agency dedicated to youth development, is implementing the country's first business-development services voucher program to assist young entrepreneurs to access quality business development services. The fund also offers entrepreneurship training for scholars and out-of-school youth. The aim is to introduce entrepreneurship education in schools countrywide. The youth enterprise strategy also ensures that entrepreneurial skills, talent and experience are nurtured among young women and men to enhance their capacity to participate in all aspects of South African social, economic and community life.

The strategy proposes a number of recommended actions to provide adequate and effective assistance to young entrepreneurs. These cover the areas of, among other things, creation of a culture of enterprise; strengthening and expanding successful youth enterprise-support schemes; addressing the financing needs of young entrepreneurs; provision of training, specifically within SMMEs; expansion and coordination of programs such as the New Venture Creation Learnership; ensuring adequate participation of youth-owned enterprises in procurement programs and other market access initiatives; integration of youth-enterprise development into national and provincial policies and strategies; and monitoring youth-enterprise development efforts.

The Government recognizes that the inclusive participation is critical to seeking ways and means to ensure that the task of entrepreneurship and small business promotion is carried out adequately, effectively and in a decentralized manner. As is shown by the range of the country's current participants in entrepreneurship and small business promotion in terms of policies, institutions and programs, the task of promoting entrepreneurship and small business:

- Cuts across a wide range of policy areas; therefore, by nature, it cuts across departmental boundaries and involves several departments at national level
- Cuts across the three spheres of government, with strategies, institutions and programs at national, provincial and municipal government levels
- goes beyond the public sector and its agencies, and encompasses the private sector and its organizations, educational institutions and non-governmental organizations.

Ensuring action across the entire entrepreneurship continuum

Pre-start-up

The main task in this area is to increase the supply of potential entrepreneurs with the motivation and capacity to identify and pursue opportunities to start their own businesses.

1. New / Proposed actions

Actions to be pursued include establishing a commission on entrepreneurship education to produce a report within one year on measures to take to integrate entrepreneurship education throughout the education system, including measures to build capacity for teaching entrepreneurship and, within universities, broadening entrepreneurship beyond MBA degrees to all academic programs; and the creation of platforms to exchange approaches and experiences. The strategy calls for the establishment of an Entrepreneurship Promotion Directorate within DTI to strengthen co-ordination, promotion and monitoring of the national entrepreneurship strategy. This strategy will introduce measures to increase the profile of entrepreneurship within the education system – by introducing new entrepreneurship education programs at universities and, in partnership with NGOs active in this area and the Umsobomvu Youth Fund, extending existing school-based entrepreneurship-education programs across the country. Where program gaps exist, new programs are developed and implemented. The private sector also plays a critical role, through launching wide-ranging media campaigns to profile the role of entrepreneurship in society, and showcasing successful entrepreneurs at local, provincial and national level. Innovative radio and TV initiatives are conceptualized and implemented. For this purpose, an informal Entrepreneurship Ambassadors Network is created, comprising previous entrepreneurship and small business award winners. Network members are asked to volunteer their time to give talks at schools and other community forums on the importance of entrepreneurship and small business. This will be supported by the introduction of provincial and national awards, which will recognize both media efforts to promote entrepreneurship, and those who excel in entrepreneurship programs in schools.

2. Institutional arrangements

A dedicated unit, which will be called the Entrepreneurship Promotion Directorate, will be created within DTI (EIDD) to drive the above action programs.

Start-ups

The main task here is to take the potential and capabilities of South Africans interested in starting new businesses, and convert these into actual action plans and access to means leading to new business start-ups.

1. Action Plan

Research will be conducted to examine the impact of the so-called “quiet disincentives” (such as level of taxation, labour-market legislation, barriers to entry) that discourage people from starting their own businesses. Based on the results of the research, measures will be introduced to alter the risk-reward profile of entrepreneurship and to increase the attractiveness of starting and continuing a business.

As proposed in AsgiSA, ongoing efforts will be made to eliminate barriers to entry arising from, among other factors, concentration in certain sectors of the economy and regulation. Efforts will also be made to create appropriate start-up incentives, including taxation measures (e.g. tax treatment of sole proprietors and private investment by the entrepreneur, family and friends in start-up businesses).

The “Explore Enterprise” campaign communicating the personal and societal benefits of starting up and running a business will showcase successful entrepreneurs and available enterprise-support programs, in order to persuade more people to set up businesses.

A comprehensive strategy on utilizing business incubators to foster start-ups, with particular focus on special target groups, priority sectors and special geographic areas, will be developed, proposing ways to utilize instruments such as the Support Program for Industrial Innovation (SPII) and others, for the benefit of incubator clients.

More encouragement is to be given to new start-ups by the business support network, and proper guidance provided to ensure access to all possible sources of support. Support programs will be introduced that address the following four basic key factors in starting a business: (i) acquiring the necessary managerial, technical and personal ability; (ii) acquiring motivation and commitment; (iii) developing the business idea from a raw idea to a valid idea; and (iv) identifying and acquiring the necessary physical and financial resources.

Access to finance for start-ups will be improved by encouraging existing providers of finance to introduce a greater quantum of products targeted at start-ups, by, for example, developing and implementing meaningful risk mitigation and risk-sharing measures.

As outlined in the various strategies, new or additional measures are to be formulated and implemented to stimulate start-ups through franchising and co-operatives, targeting youth and women, and focusing on priority sectors and special geographic areas.

2. Institutional arrangements

The DTI will commission and manage the proposed research on entrepreneurship disincentives and incentives. The “Explore Enterprise” campaign will be launched and managed by the Entrepreneurship Promotion Directorate and conducted primarily by seda, Khula, Samaf and UYF. The campaign could be conducted in partnership with chambers of commerce; university entrepreneurship/small business centers (targeting university students); and youth bodies such as the National Youth Commission and South African Youth Council and Students in Free Enterprise (SIFE). The seda Technology Program, in conjunction with SA Business Technology and Incubation Association (Sabtia), will be tasked with developing the proposed new business-incubation strategy.

Support for women-owned enterprises

The Government has initiated various measures to increase women entrepreneurship and to support women in business. These include:

1. Sawen (South African Women Entrepreneurs’ Network), a DTI-initiated national networking forum for individuals and organizations committed to the promotion and advancement of women entrepreneurs. Sawen represents and articulates the aspirations of women entrepreneurs, and holds organized educational and trade missions for members. Business linkages between SA women entrepreneurs and their counterparts in other parts of the world have also been facilitated. Sawen continues to be an advocacy network for women in business, ensuring that policies and strategies are sensitive to gender issues.
2. TWIB (Technology for Women in Business) is a DTI initiative that supports the advancement of women in business through the application of science and technology in their ventures. This is

aimed at overcoming constraints to enterprise innovation and growth, as well as fostering local and global competitiveness.

The sector departments have also developed initiatives to give targeted support to women in business. These have led to a grid of sector-specific women in business networks, including Sawic (construction sector), Woesa (oil and energy sector), and Sawima (mining sector).

Entrepreneurship and small business research

Research plays an important role in informing government policy and strategy on entrepreneurship and small business promotion. With the increase in the number of university-based centers of entrepreneurship and small business, research output is also expected to increase. However, additional measures are necessary to ensure that policy-relevant research is undertaken on an ongoing basis. In particular, statistical data on small enterprises, including business entry, exit, survival and failure rate, is critical to informing policies and support programs.

The DTI will also work with business organizations and academic institutions to identify additional areas for research, and to mobilize resources to undertake such research. Areas for ongoing research, which will receive immediate attention, are the identification of opportunities for small enterprise creation and growth within the various sectors of the economy, as well as technology application that supports the strengthening of productive capacities of small businesses. Results of the research will be widely publicized using existing institutions and other channels, to inform prospective and existing entrepreneurs of these opportunities.

Vuk'uphile, a learnership initiative of the Department of Public Works' Extended Public Works Program (EPWP), builds the capacity of emerging contractors to execute labor-intensive work emanating from the EPWP. As part of the learnership, participating learner contractors receive formal institutional training as well as on-the-job training in the form of ring-fenced contracts issued by an implementing agency (province and municipality). A banking partner for the program provides learners with finance, enabling them to develop a financial track record. Learners also have access to a qualified and experienced mentor during the implementation of the projects. The aim of the initiative is to ensure that learners exit the program with the necessary capacity to tender for and execute labor-intensive projects under the EPWP.

Manufacturing Investment Programme [MIP]

The MIP is an investment incentive designed to stimulate investment growth in line with the South African government's National Industrial Policy Framework. It aims to stimulate investment within the manufacturing industry. Qualifying investment costs would comprise machinery, equipment, land, buildings and commercial vehicles.

The incentive aims to enhance the sustainability of manufacturing investment projects by small enterprises and to support large-to-medium investment projects in manufacturing that would otherwise not be established without the grant.

Offerings include:

- The MIP provides investment support to both local and foreign owned enterprises
- The MIP offers an investment grant of up to 30% of the value to qualifying investment costs in machinery, equipment, commercial vehicles, land and buildings, required for establishing a new production facility; expanding an existing production facility; or upgrading production capability in an existing clothing and textile production facility
- Investment projects of R5 million and below may qualify for an investment grant equal to 30% of their total qualifying investment cost, payable over a three year period
- Investment projects of above R5m may qualify for an investment grant of between
- 15% and 30% of their qualifying investment costs, and payable over a two year period
- The investment grant cannot exceed R30 million

Skills development measures

As part of their sectoral skills-development mandates, various sector education and training authorities (Setas) have developed and are implementing small business skills-development programs. Some of the Setas are also implementing the New Venture Creation Learner-ship, with the aim of enabling the participating learners to learn the skills and receive the support necessary to start and successfully manage their own businesses.

Entrepreneurship education and financial literacy Programs

Several NGOs have been implementing curricular and non-curricular enterprise education programs over many years, in various parts of the country. These include the South African Institute of

Entrepreneurship, Junior Achievement Southern Africa, the Foundation for Enterprise & Business Development, Education with Enterprise Trust, Entrepreneurs on the Move, and, most recently, Mindset. Some major banks sponsor financial-literacy programs, mostly targeting high-school learners.

Students in Free Enterprise, an international organization that is operational in some South African universities, organizes, trains and motivates teams of university students to teach others the principles and value of free enterprise, incorporating entrepreneurship, personal and financial skills, business ethics and free-market economics. The SIFE World Cup, an international competition, exposes winning national teams and their projects to their international counterparts. An increasing number of universities across the country are establishing centers of

Entrepreneurship or small business, and entrepreneurship constitute part of the Master of Business Administration (MBA) curriculum in certain universities.

Government collaborative measures with organized business through Business Unity South Africa (BUSA), Chambers of Commerce & Industry South Africa (CHAMSA), Corporate SMME Development Forum (CSDF), National Business Initiative and various BEE charter councils will encourage the private sector to develop sector initiatives focused on skills development, preferential procurement targeting small business, enterprise development, and implementation assistance and monitoring of these corporate-sector initiatives.

Proposed institutional arrangements

The co-ordination of the above initiatives can be fully delegated to organized business through BUSA/CHAMSA and monitored by the Enterprise and Industry Development Division (EIDD) via a partnership agreement with **the dti** and its agencies. Thus, no new institutional arrangement is envisioned.

The “Explore Enterprise” campaign will be launched and managed by the Entrepreneurship Promotion Directorate and conducted primarily by seda, Khula, Samaf and UYF. The campaign could be conducted in partnership with chambers of commerce; university entrepreneurship/small business centers (targeting university students); and youth bodies such as the National Youth Commission and South African Youth Council and Students in Free Enterprise (SIFE). The **seda** Technology Program, in conjunction with SA Business Technology and Incubation Association (Sabtia), will be tasked with developing the proposed new business-incubation strategy.

The Youth entrepreneurship programme

In 2000 government announced the establishment of the Umsobomvu Youth Fund which started operating in 2001, with the mandate to facilitate the involvement of young people in economic activities. Umsobomvu implements a youth enterprise programme, providing both financial and non-financial support to youth enterprises. The youth entrepreneurship programme has three major projects:

- Enterprise funding.
- Micro-finance.
- Business development services.

Enterprise funding	Recently launched FNB-Momentum-UYF Progress Fund, which complements the Franchise Fund, launched in partnership with business partners.
Micro-finance	Focus on entry-level investments, and its pilot projects with the Nations Trust and Micro Enterprise Finance are funding micro-enterprises and co-operatives.
Business development services voucher	Helps young entrepreneurs to access quality business support from approved service providers through vouchers, ranging in value from R1 500 to R23 000.
Take it to the People project	Launched recently to create locally based economic opportunities for young people. The project focuses on income-generation and self-employment for young people living in 21 urban and rural areas identified as significant "poverty pockets". The project aims to develop local solutions to unemployment by investigating options for youth development in the form of micro and small businesses and co-operatives. It will work in conjunction with local municipalities and donors.
Contact, information & counselling	Aim to reach more than 730 000 young people over the next three years, offering information and counselling support regarding career development, employment and entrepreneurship through a youth line, advisory centres and an Internet portal. The

	first 12 of 33 planned advisory centres have already opened in the provinces of Gauteng, KwaZulu-Natal, Limpopo, Northern Cape, North West, and Western Cape.
School to Work	Is designed to transfer high-level technical skills and to facilitate work experience for unemployed matric and tertiary graduates. It also aims to introduce black youth into previously inaccessible careers, such as IT and accounting.
Youth Service	Focuses on unemployed youth who have no tertiary education, enabling them to acquire the skills, competencies and experience they require to achieve economic independence. This is done through a structured learning programme and accredited through a SETA.

Mentoring support

The DTI has set up a helpline in the name of BRAIN (business referral and information network) which has a data base of services and organisations in each province which provide these services to SMMEs.

Further, Fetola Volunteer Mentoring is a national initiative aimed building a thriving small business sector in South Africa. It is being launched by Fetola with the support of civic-minded partners & aims to create a national resource to match volunteer mentors to small business owners & managers in need of their skills. **Fetola** is an enterprise development organisation dedicated to building a better future for South Africa through the creation of a thriving small business sector.

What sets this initiative apart is that it is a volunteer programme, specifically for small and emerging businesses. Ultimately the database will use automated matchmaking tools to give entrepreneurs access to mentors with practical experience in everything from business administration and accounting, business management to sales and marketing, CRM, communications, HR and production management.

The Volunteer Mentor Programme provides a wide range of opportunities including:

- Individual recognition, encouragement, and support
- Increased self-esteem and confidence
- Confidence to challenge oneself to achieve new goals and explore alternatives
- A realistic perspective of your business environment
- Advice on how to balance work and other responsibilities and set priorities
- Knowledge of workplace "do's and don'ts"
- Gain experience in networking

The areas or skills which a Mentor can assist an SMME are:

- General business decision-making, including Vision development, business plan development, budgeting, SWOT analysis and business analysis.
- Business Management including supportive leadership development, Human resource management, resource & financial management, risk management.
- Business administration & Accounting – guidance with installation of systems & processes, filing, Governance, business registration. Dealing with banks, loans and simple finance models.
- Sales & Marketing at a small business level, including Product positioning & costing & pricing strategies. Customer Relationship Management and communications
- Production Management including piece-work, simple production lines, quality management, cost-efficiencies, product re-engineering, market driven product strategies

TURKEY

For many years, Turkey's SME policies has been geared towards enhancing productivity and competitiveness through spurring R&D spending, innovation and the diffusion of ICT. In 2002 new programs and funding schemes were designed to this effect. These support programs focused on industry, often leaving out service activity. A broader industrial foundation was viewed as being critical for both stronger international integration and reduced regional imbalances.

Cluster Development

The plan for business support activities in 2003-05 also calls for expansion of the local and regional cluster programs. Clusters would be formed within organized industrial zones, industrial zones and small-scale industrial estates. Specific project plans call for the support of a Fashion and Textile Cluster Project, and for establishing centers of excellence for the automotive, footwear, leatherwear/fashion and furniture industries. Turkey has extensive experience with building clusters of smaller enterprises in specific industries and should be able to extend the concept in new directions. Perhaps the only caveat is that existing clusters should be evaluated to identify their strengths and weaknesses before carrying out the expansion. A project proposal for cluster analysis and modeling in organized industrial zones and small-scale industrial estates has been submitted to the EU by the Ministry of Industry. KOSGEB is also envisaging a major project to study if successful clustering projects can be initiated in the industrial sectors. Another project related to the development of clusters in developing areas is to be supervised by the State Planning Organization and the Ministry of Industry and Trade with the co-operation of numerous ministries and outside organizations such as TESK and universities.

Technology and Innovations

In 2001, the Law on Technology Development Zones No: 4691 was put into effect with the aim of supporting technology-based enterprises, developing cooperation between universities and the industry, and facilitating the spread of technology. Within the framework of the provisions of this law, the Ortadođu Techno Park (METU-Ankara) and TÜBİTAK-Marmara Research Centre Techno Park were introduced with the publishment of the Law. Subsequently, the following twelve Technology Development Zones were established: İzmir Technology Development Zone, Ankara (Bilkent) and Gebze OIZ Techno-park were announced in the Official Gazette No: 24934 dated 12 November 2002; İstanbul Technical University Arō Techno-city and Hacettepe University were announced in the Official Gazette No: 24989 dated 10 January 2003; Yıldōz Technical University, Eskişehir and Kocaeli Universities were announced in the Official Gazette No: 25075 dated 10 April 2003; Selçuk and İstanbul Universities were announced in the Official Gazette No: 25193 dated 8 August 2003. All of the enterprises in the Technology Development Zones are in SME scale and it is seen that these businesses operate in the IT, defence and electronic industries in particular.

A new phase of entrepreneurship and SME policies has opened up with the adoption in 2007 of the 9th Development Plan covering the period 2007-2013. This plan focuses on stronger R&D spending and innovation as indispensable structural tools to bolster the business sector. Aimed at lifting R&D spending to 2% of GDP in 2010 from 0.8% in 2005 the plan envisages the upgrading and expansion of the R&D infrastructure. To this end, public research institutes will be strengthened and private research centers established. Academic R&D activities will be increasingly oriented towards industrial needs implying stronger collaborative links between universities and industry. The Plan also intends to complete the building of Technology Development Zones (TDZs) and to create Technology Transfer Centers. Financial underpinning of these projects is scheduled to come from new financial instruments capable of expanding scarce supplies of venture capital for innovative SMEs (ISMEs) and high-growth SMEs (HGSMEs). Innovative firms striving to overcome pressure from foreign low-cost competition will benefit from special incentives.

The 9th Development Plan also embodies a special strategy for balanced regional development. Aimed at reducing stark regional disparities through stronger regional competitiveness the Plan adopts a 'Growth Centers Approach'. Under this approach, geographical areas with a high-growth potential are identified, mainly inside less-developed regions. The main function of such growth centers is to install a balanced physical and social infrastructure capable of generating new industrial 'focal points'. According to the Plan, such infrastructural 'magnets' eventually attracts investment from both outside the region and from outside Turkey. This 'Growth Centers Approach' is also integrated into the Strategic Coherence Framework as agreed by the EU-Commission in June 2007. Accordingly, the SME Strategy and Action Plan (2007-2009), covering the first three-year segment of the 9th Development Plan, focuses on lending support to new, innovative and competitive enterprises, correcting past program failures and a more stringent monitoring of policy outcomes. The plan singles out several priority areas, including entrepreneurship development, firm creation, integration of SMEs into international markets and national and international networks, improvement of the business environment, diversification of financial instruments and expansion of technological and innovative capacity. In pursuit of this aim, the plan offers training programs for SMEs, encouraging them to participate in European Technology Platforms. It also supports post-graduate studies of industry at university level Industrial Thesis Supporting Program (SANTEZ Project) and prepares the conversion of technology 'incubators without walls' into technology development centers.

Main objectives for innovation policy

The goals and objectives of innovation policy in Turkey are covered in the following main official documents: The Ninth Development Plan (2007-13), the Medium-Term Programme (2008-10) issued by the State Planning Organisation (DPT), the Implementation Plan for the National Science and Technology Strategy (2005-10) and the National Innovation Strategy (2008-10). The innovation policy measures are given in Annexure 8.3.

The objectives highlighted in the first two documents include raising the competitiveness of the Turkish economy, increasing R&D and innovativeness, disseminating information and communication technologies and creating job opportunities. Quantitative targets defined for these objectives are as follows:

- annual growth rate of 5.6% achieved during 2008-10,
- 1.4 million new jobs created,
- GERD/GDP increased from 0.67% in 2002 to 2% in 2013,
- share of privately financed R&D raised to 60% by 2013,
- number of full-time equivalent R&D personnel increased to 80 000 in 2013 (from 23 995 in 2002),
- mobile telephone subscriber penetration rate raised from 64% to 90% between 2006-13,
- broadband subscriber penetration rate increased from 3.5% to 20% in the 2006-13 period,
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The 'National Innovation Strategy (2008-2010)' does not cover quantified objectives and specific targets.

The aims of the strategy listed in the document are to:

- encourage entrepreneurship, innovation and productivity,
- use science and technology capacity in the country at maximum level,
- support development of sustainable, strong and competitive markets,
- develop appropriate infrastructure and environment,
- develop international cooperation,
- develop the management and coordination of the innovation system.

The Science and Technology Strategy (2005-10), includes the following objectives:

- increasing demand for R&D,
- increasing the number and quality of scientists, vocational and technical staff,
- increasing GERD as a %age of GDP.

In line with these objectives, the main R&D targets (to be reached by 2010) are identified as to increase the ratio of GERD/GDP to 2% (from 0.67% in 2002, with 50% of this amount being invested by the private sector), and to raise the number of full-time equivalent R&D personnel to 40 000 (up from 23 995 in 2002). In 2008, new methodology for calculating GDP was put into force, and as a result, GERD was recalculated as 0.60% for 2006 and 0.71% for 2007. The goal of 40 000 FTE researchers was reached mainly due to the revision of the FTE ratios by Turkstat. As a result, in 2008, the government replaced the target year of 2010 with 2013 aiming at a 2% target. The target for full-time equivalent R&D personnel to be reached by 2013 was revised as 150 000.

The following strategic objectives were defined in the implementation plan of the science and technology strategies:

- raising awareness of science and technology,
- developing scientists (i.e. building human capital for research),
- supporting result oriented and quality research,
- increasing the effectiveness of national science and technology governance,
- enhancing the science and technology performance of the private sector,
- developing a research environment and infrastructure and
- activating national and international linkages of researchers.

The complete set of targets established in the implementation plan is presented in Table 8.---

Table 8. : Targets in the implementation plan of the science and technology strategies

Objective	Quantitative target	To be achieved by (year)
Increasing the gross domestic expenditure of R&D (GERD) as a percentage of GDP	2	2010 (revised target year 2013)
Increasing the GERD per capita (USD, PPS)	124	2010
Increasing the number of total researchers (fulltime equivalent)	40 000 (revised target 150 000)	2010 (revised target year 2013)
Increasing the number of researchers per thousand employed	2.3 (revised target 5)	2010 (revised target year 2013)
Increasing the business expenditure on R&D (BERD) as a percentage of GERD	50	2010
Increasing the public expenditure on R&D as a percentage of GERD	12	2010
Increasing the number of triadic patents	100	2010
Increasing the number of scientific publication per million population	400	2010
Increasing the number of science citation per million population	150	2010
Increasing the SMEs innovating in-house (% of all SMEs)	40	2010
Increasing the SMEs involved in innovation cooperation (% of all SMEs)	20	2010
Increasing the sales of new-to-market products (% of total turnover)	10	2010
Increasing the share of manufacturing value-added in high-tech sectors	10	2010
Increasing tertiary-type A education graduates in workforce (men)	90	2010
Increasing tertiary-type A education graduates in workforce (women)	80	2010

Improving the competitiveness ranking	35	2010
Improving the global competitiveness index ranking: infrastructure	45	2010
Improving competitiveness ranking: legal environment influencing scientific research	35	2010

Among the key documents outlining innovation policy in Turkey are the national development plans. The Ninth Development Plan, which was issued in the Official Gazette in 2006 covering the period 2007-13, emphasises the importance of R&D under the strategic objective of 'increasing competitiveness' to contribute to the economic and social development of Turkey. In addition to the R&D and innovation objectives mentioned above, the Plan also puts emphasis on the regional development policy and cluster development, stating that during the next five years, support for clustering under the leadership of driving sectors will be ensured within a strengthened social network. The Plan also touches upon the weaknesses in university-industry links. Finally, it foresees independent evaluation of science, technology and innovation policy measures.

Another important policy document covering innovation policy aspects is the five-year Implementation Plan of the Science and Technology Strategies (2005-10). As noted above, the plan covers a list of indicators and targets. It also underlines a number of actions to meet the main goals of increasing demand for R&D and increasing the number and quality of scientists, vocational and technical staff, as well as increasing GERD as a percentage of GDP.

Some of these actions are directly linked to innovation, such as supporting the establishment of science and technology-based innovative firms under the objective of 'developing scientists'; improving venture capital legislation under the objective of 'increasing the effectiveness of national science and technology governance', and using R&D in public procurement under the objective of 'enhancing the S&T performance of the private sector'.

Innovation governance system

The innovation policies in Turkey stem from the long tradition of science and technology policymaking (dating back to 1960s) and are based on a well-developed institutional framework. The BTYK is the highest-level policy coordination body for science, technology and innovation in Turkey. The key ministries and other government bodies, which are explained below, actively participate in policymaking and implementation.

There have not been any remarkable changes in the governance system over the period covered by this report. The only change that took place in 2009 is the revision of the KOSGEB Law for providing support to the services and commercial sectors, in addition to the manufacturing industry. A committee on global warming and climate change (Global Warming and Climate Change Monitoring Committee) has been established within the reporting period. The committee implements a number of activities to monitor and disseminate information, and implements activities including the organisation of annual conferences on climate change and global warming.

Private, semi-public and non-governmental organisations have become increasingly important for bridging institutions among the private and public sectors and academia, and for acting as a voice for the private sector. As the umbrella organisation of the business federations, TOBB plays an important role in the national innovation system. TOBB acts as the hub of a network formed by most of the non-governmental organisations and industrial chambers. Chambers of industry located throughout Turkey mainly provide and disseminate information to their members. However, only a few of them are very active in innovation matters. Other proactive and bottom-up initiatives in favour of innovation led by private and non-governmental organisations remain a strength of Turkey.

Main bodies managing implementation of policies

The main institutions financing innovation in the private sector include the MoIT, the Technology and Innovation Support Programmes Directorate of TUBITAK (TUBITAK-TEYDEB), KOSGEB and TIGV.

The MoIT is responsible for the assignment of Technoparks (the so-called 'technology development zones', TDZ, as defined by the Law), support of industrial R&D and the establishment of Industrial Estates and Organised Industrial Zones. The MoIT (through its Directorate-General for Industrial Research & Development which also implements the TDZ scheme) manages the Industrial Thesis (San-Tez) Projects Programme, and aims to start new programmes to support R&D and innovation in the

industry. The Department also implements the R&D Law enacted in February 2008 together with the MoF as well as the schemes such as Technopreneurship Support and Precompetitive R&D Support under this legislation. The MoIT through its Directorate-General for Small Industrial Estates and Industrial Zones implements studies to stimulate cluster development activities in Turkey.

While the science and technology policy formulation role of TUBITAK is mainly handled by its Science and Technology Policies Directorate, research and innovation support programmes are managed by its three departments, namely the TUBITAK-ARDEB (Research Projects Support Directorate), TUBITAK-TEYDEB (Technology and Innovation Projects Support Programmes Directorate) and TUBITAK-BIDEB (Scientist Support Directorate). TUBITAK-TEYDEB is the division which provides grants for the R&D and innovation activities of the private sector. TUBITAK is also the National Coordination Office for Turkey in the EU Research Framework Programmes. Another responsibility assigned by the BTYK to TUBITAK is to provide effective functioning of the Turkish Research Area (TARAL) which is defined as the platform where the private and public sectors and non-governmental organisations strategically focus and collaborate for R&D. TUBITAK is also responsible for the integration of TARAL with the European Research Area (ERA).

KOSGEB, an affiliate of the MoIT, is an autonomous public body implementing a wide range of schemes for increasing competitiveness of SMEs and promoting entrepreneurship. It also provides an environment for establishment of high-tech firms through its incubators (called as Technology Development Centres, TEKMERs) in cooperation with the technical universities and industrial chambers. KOSGEB runs a Regional Development Centre and regional offices, and establishes facilities for common use of the private sector together with regional umbrella organisations.

Established in 1991 with support under a World Bank project, TTGV is a not-for-profit foundation managing technology development support programmes through the finance provided by the UFT and by their own resources. Currently, TTGV implements the Technology Development Project Support (TDP) Programme, Commercialisation Project Support Programme and the Joint Technology Development Projects Supports Programme in order to increase private sector investments in R&D and innovation. They implement the Pre-incubation Support Programme, the Risk Sharing Facility Support Programme and the Start-up Support Programme through their company Teknoloji Yatirim A.S. in order to stimulate the establishment of new technology-based firms. Finally, TTGV implements energy and environmental project support programmes under the headings of the Renewable Energy Support Programme, the Programme for Energy Efficiency in Industry, and the Environmental Technologies Support Programme.

When the estimated annual budget per priority field is taken into account, the majority of funding is used for direct support of business R&D (grants and loans) and then for policy measures concerning excellence, relevance and management of research in universities. In fact, with the increase in the governmental commitment, public funding allocated for research and innovation has increased since 2005. The total amount of funds disbursed from the state budget for research and innovation between 2005 and 2008 was EUR 842 million, representing a four-fold increase from 2005 to 2008.

Certain important innovation policy measures may not provide direct funding (e.g. legislative measures) or certain measures with marginal budgets may have an important leverage effect (e.g. innovation vouchers). Considering this fact, the important non-financial measures for Turkey can be given as follows:

1. support for the establishment of technology parks (Law on Technology Development Zones) (TR 18),
2. Law on Supporting Research and Development Activities (Law No. 5746),
3. Young Entrepreneur Development Programme (TR 10).

All three of these non-financial measures help the development of an R&D and innovation culture in the country. The first measure contributed to the first steps of inter-firm collaboration and cooperation between academics and the private sector on R&D. The second measure, which has been initiated in 2008, provides strong tax incentives and is expected to increase private R&D investments and attract R&D oriented multinationals. The last measure is the only programme through which university students are trained on entrepreneurship.

To strengthen the interaction between SMEs and universities, TEKMERs and business incubators have begun to be established near universities. Currently, there are 20 TEKMERs located in university campuses. Three of them are located in less-developed regions (NUTSII regions) supporting 110 firms. In addition there are 7 'incubators without walls' located in Industrial Zones and along with TEKMERs they support about 1 400 R&D projects. Private companies (Ericsson, Koc Holding and Siemens) have established business incubators of their own.

Another program creating ties between academia and the business sector is SANTEZ. This program sponsors graduate studies based upon requests by industry and stimulates the transmutation of invention into innovation through innovation-oriented SMEs. Financial support of up to 75% of the project budget

is provided by the Ministry of Industry and Trade while the rest is covered by the company commercialising the output.

In addition, Technology Development Zones (TDZs) have been created to help bridge the gap between research activity and business needs. TDZs promote the use of high/advanced technologies and related R&D capabilities through co-operation between universities, research institutes and the productive sector. Financial support is granted for land, infrastructure and construction of management buildings.

TDZs benefit from tax exemptions and incentives until 2014. There are 28 TDZs in Turkey of which 18 are operational. They are mainly established by universities. Currently, nearly 800 firms are linked to TDZs (99% of SMEs) and over 2 500 R&D projects are underway. Another stakeholder building links between universities, research centers and enterprises is the State Planning Organization (SPO) which issues guidelines for research, technology, development and innovation. The Scientific and Technological Research Council of Turkey (TUBITAK) implements programs to strengthen the collaboration between industry and the research community: ISBAB supports initiatives to establish scientific and technological cooperation networks. EUREKA provides R&D network assistance for the 'Support Program for R&D Projects Market Platform'. Other TUBITAK programs stimulate private R&D efforts and start-ups of innovation-oriented SMEs (TEKNOGISIM).

Entrepreneurship and Skill Development

Highlights of entrepreneurship and SME policy over the past few years included:

- The five-year National Convergence Program to the EU *acquis* (2001-05). Aimed at improving SMEs' efficiency and competitiveness, the plan promoted the diffusion of best practices to upgrade product quality and innovation and technology capacity through modern management techniques, new financial instruments and partnerships with universities and foreign companies. The plan also called for better service delivery to SMEs creating and expanding support units (*service stations*).
- The Urgent Action Plan adopted by the High Planning Council in November 2003. The implementation of this plan, prepared in the context of EU pre-accession, is one of the priorities of the SME Charter of the 2003 Turkish National Program for the adoption of the EU *acquis*.

The purpose of the plan was to raise the transparency of existing policies and programs; to define clearly the respective responsibilities for public and private organizations and to identify a set of required activities.

KOSGEB's TEKMERs act as incubators providing support for technology development through know-how, material, equipment and office space. They have been established through protocols signed between KOSGEB and universities and chambers of commerce; they service both start-ups and existing innovative SMEs. In the areas where TEKMERs do not exist 'business incubators without walls' provide services to SMEs, excluding office allocation. IGEMs are mainly established in organized industrial zones and provide services to manufacturing SMEs.

KOSGEB's Center for Entrepreneurship seeks to spur entrepreneurial activity by releasing information about potentially viable business opportunities. Using market research findings which it has sponsored or conducted the center makes the information available through the network of IGEMs, TEKMERs, OIZs and SSIEs. In addition, the center systematically reviews and documents successful business practices for inclusion in the *KOBINET* project, the SME network. The aim is here to stimulate entrepreneurs' use of the Internet, inviting them to enter *e-commerce*.

KOSGEB's program for business *start ups* offers two types of training. *General* educational services are supplied through *KOSGEB's* facilities dealing with basic managerial and technical issues. *Specialized* training is provided by professional organizations (public or private) for entrepreneurial activities not covered by *KOSGEB's* courses. The support ratio for general and special training is regionally differentiated. *KOSGEB* covers up to 100% of the cost for *general* education services and up to 80% and EUR 3 500 per firm for *specialized* training.

Annexure 8.1

Technology development initiatives of Govt of Malaysia

Ministry of Agriculture and Agro-Based Industry	
Increase in Production Capability	<ul style="list-style-type: none"> • Modernize, increase production capacity and assist entrepreneurs in obtaining certification • Increase the production capacity of agro-based entrepreneurs through mechanization and automation • Improve product quality, image and presentation to comply with the Food Act and labeling rules • Assist entrepreneur to acquire machinery and equipment to improve productivity
Ministry of Science, Technology and Innovation (MOSTI)	
Biotechnology Entrepreneur Programme	<ul style="list-style-type: none"> • Nurture and develop bio entrepreneurs through establishment of mentoring programme and build capacity of bio-entrepreneurs through workshops, seminars, conferences and training programmes
Commercialisation of R&D Fund (CRDF)	<ul style="list-style-type: none"> • Leverage on science , Technology and Innovation (STI) for national development and wealth creation via commercialization of products and processes
Malaysia Nuclear Technopreneur Programme	<ul style="list-style-type: none"> • Develop technopreneurs who are technically advanced and competent through transfer of knowledge and technology
Pre-Commercialisation Fund	<ul style="list-style-type: none"> • Undertake the development of new or cutting edge technologies and stimulate the growth and innovation of Malaysian technology-based enterprises by increasing their R&D and commercialization
e-Content	<ul style="list-style-type: none"> • Create quality content products for local and global markets by local companies , and develop resilient and competitive

	content industry.
Technology Acquisition Fund (TAF)	<ul style="list-style-type: none"> Promote utilization of foreign technology in the manufacturing sector through physical development of existing and new products and processes to increase wealth creation and technology content of Malaysian companies whilst enhancing their global competitiveness
ICT SME Development	<ul style="list-style-type: none"> Develop and grow competitive and sustainable ICT SMEs
Ministry of Rural and Regional Development (MRRD)	
Entrepreneur Technical Programme (Putek)	<ul style="list-style-type: none"> Create new entrepreneurs with technical skills and assist in building basic business sites/ facilities to enable them to manage their business independently
Furniture Technology Resources Centre	<ul style="list-style-type: none"> Assist furniture entrepreneurs in production, distribution, marketing and product design
Manufacturing Technology Incubator	<ul style="list-style-type: none"> Assist entrepreneurs to start manufacturing activities by providing machinery, materials, start-up capital and infrastructure financial assistance and supporting unit services
Ministry of International Trade and Industry (MITI)	
SME- University Internship Programme	<ul style="list-style-type: none"> Facilitate and upgrade SMEs' knowledge towards improving the business processes, productivity and financial performance, while the students will be further exposed to entrepreneurship
MAJAICO A-1	Upgrade the local automotive parts and components manufacturer towards higher value added activities and enhance capacity building through the implementation of the Lean Production System (LPS)
SME Innovation Showcase	<ul style="list-style-type: none"> Provide a platform for SMEs to display products and services available for outsourcing activities

Annexure 8.2

Entrepreneurship and Skill Development programmes of Govt. of Malaysia

Major Programmes	Programme Objectives
Ministry of Agriculture and Agro-Based Industry (MOA)	
Human Capital Development	<ul style="list-style-type: none"> • Develop more professional and dynamic entrepreneurs with strong business skills especially in the area of marketing • Develop professional and competent agro-based entrepreneurs for business expansion • Develop knowledgeable entrepreneurs in pineapple-based product processing
Ministry of Higher Education (MOHE)	
Short term courses	<ul style="list-style-type: none"> • Organise and provide lifelong learning in developing knowledge community (k-communities) • Provide training to promote skills upgrading and re-skilling for local workforce
Ministry of Human Resources (MOHR)	
Forum, Training Fair and dialogues	<ul style="list-style-type: none"> • Establish close linkages with private organizations and academic institutions to ensure that training programmes are in accordance with industry's needs
Retaining and skills upgrading	<ul style="list-style-type: none"> • Equip workers with skills, capabilities, technical know-how and best practices to be resilient and competitive
Brainstorming on core Competencies for industries	<ul style="list-style-type: none"> • Identify training needs for selected industries
Train-the-Trainer	<ul style="list-style-type: none"> • Produce quality trainers from Ministries and Government Agencies
SME Training Needs Analysis Consultancy Scheme	<ul style="list-style-type: none"> • Assist in producing annual training plans systematically and on needs basis

Evaluation on Effectiveness, Relevancy and Quality of Training Programmes	<ul style="list-style-type: none"> • Ensure training programmes meet the objectives set by the Ministries and Agencies
Benchmark Training Programmes against International Best Practices	<ul style="list-style-type: none"> • Improve quality of training management in terms of development of training needs analysis, training programmes, delivery and evaluation
Training Cum Production (TCP)/Teaching Factory	<ul style="list-style-type: none"> • Create smart collaboration between training institutes' experts and SMEs by producing a small batch of production
Short-term and Part-time Courses	<ul style="list-style-type: none"> • Upgrade and enhance the multitasking capability of industrial workers and enable them to gain training despite their full time engagement at work
Ministry of Rural and Regional Development (MRRD)	
<i>Kemudahan Pengeluaran Dan Perintisan (KPP)</i>	<ul style="list-style-type: none"> • Assist start-up businesses (apprenticeship) and increase production through financial and advisory assistance
Training and Advisory Programme	<ul style="list-style-type: none"> • Provide entrepreneurship enhancement, skills and technology courses to rural entrepreneurs
Promotion and Marketing Programme	<ul style="list-style-type: none"> • Increase the involvement of rural entrepreneurs in business through introduction and promotion of rural products
One District One Industry (SDSI)	<ul style="list-style-type: none"> • Increase income of rural community through projects involving rural products/services
Training and Entrepreneur Guidance	<ul style="list-style-type: none"> • Train and facilitate ex-KEMAS skilled trainees and rural entrepreneurs to venture into business
Entrepreneur Guidance	<ul style="list-style-type: none"> • Increase number of <i>Orang Asli</i> entrepreneurs in various fields.
Expansion Course	<ul style="list-style-type: none"> • Provide exposure in all aspects such as agriculture technology and entrepreneurship to aborigine with existing businesses or those who received sponsorship from JHEOA
Ministry of Industrial Development Sabah (MID Sabah)	

Graduate Entrepreneur Scheme (SUS) Course	<ul style="list-style-type: none"> • Instill entrepreneur and enhance business management knowledge among Bumiputera graduates
Technopreneur Programme	<ul style="list-style-type: none"> • Promote the development of new products in selected industries through transfer of technology
Prime Minister's Department (JPM)	
FELDA Light Industry Centre (PIRF)	<ul style="list-style-type: none"> • Provide business premises that comply with halal and GMP certification for FELDA's residents to encourage them to diversify into economic activities that will increase their income
Tunas Mekar	<ul style="list-style-type: none"> • Create new entrepreneurs among young graduates from the settlers' family to improve and enhance the economic activity at the scheme and encourage the second generation of FELDA to live at the scheme
One Province One Industry (Sawari)	<ul style="list-style-type: none"> • Increase the number and income of food and craft producers through provision of business premises

WOMEN ENTREPRENEURSHIP

Ministry of Women, Family and Community Development (MWFCD)	
Women Entrepreneurship Incubator (I-KeuNITA)	<ul style="list-style-type: none"> • Eradicate poverty and improve the quality of life for women
Women Entrepreneur Development Programme	<ul style="list-style-type: none"> • Provide exposure to participants on business opportunities available for women entrepreneurs
Honey Bakers Franchise Development Programme	<ul style="list-style-type: none"> • Develop women entrepreneurs in the franchise industry
<i>Jejari Bestari</i>	<ul style="list-style-type: none"> • Improve the economic status of women in rural area by encouraging them to venture into entrepreneurship
<i>Karnival Wanita 1Malaysia: Jalanan Rakyat</i>	<ul style="list-style-type: none"> • Provide a platform especially for women to venture into entrepreneurship, generate income and gain experience

Single Mother Skill Incubator (I-KIT)	<ul style="list-style-type: none"> • Eradicate poverty and increase the quality life of single Mothers
Ministry of Industrial Development Sabah (MID Sabah)	
Small Projects under Social Development Programme	<ul style="list-style-type: none"> • Provide small projects to social aid recipients and other target groups to develop their entrepreneurship skills and enhance their standard of living
Training for Potential and New Entrepreneurs	<ul style="list-style-type: none"> • Instill entrepreneurship and impart technical knowledge and skills to potential and new entrepreneurs

Annexure 8.3

Innovation Policy Measures in Turkey

The goals and objectives of innovation policy in Turkey are covered in the following main official documents: The Ninth Development Plan (2007-13), the Medium-Term Programme (2008-10) issued by the State Planning Organisation (DPT), the Implementation Plan for the National Science and Technology Strategy (2005-10) and the National Innovation Strategy (2008-10) prepared by TUBITAK and approved by the B'YK.

The objectives highlighted in the first two documents include raising the competitiveness of the Turkish economy, increasing R&D and innovativeness, disseminating information and communication technologies and creating job opportunities. Quantitative targets defined for these objectives are as follows:

- annual growth rate of 5.6% achieved during 2008-10,
- 1.4 million new jobs created,
- GERD/GDP increased from 0.67% in 2002 to 2% in 2013,
- share of privately financed R&D raised to 60% by 2013,
- number of full-time equivalent R&D personnel increased to 80 000 in 2013 (from 23 995 in 2002),
- mobile telephone subscriber penetration rate raised from 64% to 90% between 2006-13,
- broadband subscriber penetration rate increased from 3.5% to 20% in the 2006-13 period,
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- encourage entrepreneurship, innovation and productivity,
- use science and technology capacity in the country at maximum level,
- support development of sustainable, strong and competitive markets,
- develop appropriate infrastructure and environment,
- develop international cooperation,

- develop the management and coordination of the innovation system.

The Science and Technology Strategy approved by the BTYK in September 2004 includes the following objectives:

- increasing demand for R&D,
- increasing the number and quality of scientists, vocational and technical staff,
- increasing GERD as a%age of GDP.

In line with these objectives, the main R&D targets (to be reached by 2010) are identified as to increase the ratio of GERD/GDP to 2% (from 0.67% in 2002, with 50% of this amount being invested by the private sector), and to raise the number of full-time equivalent R&D personnel to 40,000 (up from 23 995 in 2002). In 2008, new methodology for calculating GDP was put into force, and as a result, GERD was recalculated as 0.60% for 2006 and 0.71% for 2007. The goal of 40,000 FTE researchers was reached mainly due to the revision of the FTE ratios by Turkstat. As a result, in 2008, the government replaced the target year of 2010 with 2013 aiming at a 2% target. The target for full-time equivalent R&D personnel to be reached by 2013 was revised as 150000.

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- developing scientists (i.e. building human capital for research),
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- increasing the effectiveness of national science and technology governance,
- enhancing the science and technology performance of the private sector,
- developing a research environment and infrastructure and
- activating national and international linkages of researchers.

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Increasing the number of total researchers (fulltime equivalent)	40 000 (revised target 150 000)	2010 (revised target year 2013)
Increasing the number of researchers per thousand employed	2.3 (revised target 5)	2010 (revised target year 2013)
Increasing the business expenditure on R&D (BERD) as a percentage of GERD	50	2010
Increasing the public expenditure on R&D as a percentage of GERD	12	2010
Increasing the number of triadic patents	100	2010
Increasing the number of scientific publication per million population	400	2010
Increasing the number of science citation per million population	150	2010
Increasing the SMEs innovating in-house (% of all SMEs)	40	2010
Increasing the SMEs involved in innovation cooperation (% of all SMEs)	20	2010
Increasing the sales of new-to-market products (% of total turnover)	10	2010
Increasing the share of manufacturing value-added in high-tech sectors	10	2010
Increasing tertiary-type A education graduates in workforce (men)	90	2010
Increasing tertiary-type A education graduates in workforce (women)	80	2010
Improving the competitiveness ranking	35	2010
Improving the global competitiveness index ranking:	45	2010

infrastructure		
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Another important policy document covering innovation policy aspects is the five-year Implementation Plan of the Science and Technology Strategies (2005-10). As noted above, the plan covers a list of indicators and targets. It also underlines a number of actions to meet the main goals of increasing demand for R&D and increasing the number and quality of scientists, vocational and technical staff, as well as increasing GERD as a percentage of GDP.

Some of these actions are directly linked to innovation, such as supporting the establishment of science and technology-based innovative firms under the objective of 'developing scientists'; improving venture capital legislation under the objective of 'increasing the effectiveness of national science and technology governance', and using R&D in public procurement under the objective of 'enhancing the S&T performance of the private sector'.

The National Innovation Strategy (2008-10) prepared by TUBITAK and approved by the BTYK in March 2007 focuses mostly on the relation between science, technology and innovation. The document does not include quantitative targets, as noted above. TUBITAK is responsible for the follow-up and coordination of the strategy.

Innovation governance system

The innovation policies in Turkey stem from the long tradition of science and technology policymaking (dating back to 1960s) and are based on a well-developed institutional framework. The BTYK is the highest-level policy coordination body for science, technology and innovation in Turkey. The key ministries and other government bodies, which are explained below, actively participate in policymaking and implementation.

There have not been any remarkable changes in the governance system over the period covered by this report. The only change that took place in 2009 is the revision of the KOSGEB Law for providing support to the services and commercial sectors, in addition to the manufacturing industry. No committees or special advisory bodies have been set up by the government to monitor and/or advise policymakers on innovation as a consequence of the financial crisis. A committee on global warming and climate change (Global Warming and Climate Change Monitoring Committee) has been established within the reporting period. The committee implements a number of activities to monitor and disseminate information, and implements activities including the organisation of annual conferences on climate change and global warming.

Private, semi-public and non-governmental organisations have become increasingly important for bridging institutions among the private and public sectors and academia, and for acting as a voice for the private sector. As the umbrella organisation of the business federations, TOBB plays an important role in the national innovation system. TOBB acts as the hub of a network formed by most of the non-governmental organisations and industrial chambers. Chambers of industry located throughout Turkey mainly provide and disseminate information to their members. However, only a few of them are very active in innovation matters. Other proactive and bottom-up initiatives in favour of innovation led by private and non-governmental organisations remain a strength of Turkey.

2.1 Governmental bodies

The BTYK is chaired by the Prime Minister and includes related Ministers from the following fields/ministries:

- Communication and Transportation
- Energy and Natural Sources Defence
- Finance

- National Education
- Health
- Forestry, Agriculture and Rural Affairs
- Industry and Trade

Other key players in the BTYK include:

- President of the Higher Education Council (YOK)
- DPT
- Undersecretary of Treasury
- Undersecretary Foreign Trade
- President and one Vice President of TUBITAK
- President of the Atomic Energy Council of Turkey
- General Director of the Broadcasting Corporation of Turkey
- President of TOBB
- representatives from two leading universities

Presidents of other related governmental organisations, not-for-profit foundations, chambers and major technical universities are invited to the meetings. Established in 1983, the BTYK was legally formed for determining, directing and coordinating science, technology and innovation policies. The Council proposes policies and decides on policies designed by TUBITAK. It also approves the action plan for implementation of the policies and assigns the responsible bodies and coordinators for each policy measure, in addition to following up and coordinating implementation of policy actions. TUBITAK, which reports to the Prime Minister, is responsible for the design of science and technology policy. TUBITAK acts as secretary to the BTYK.

The High Planning Council (YPK) is the highest-level body for the preparation and implementation of the National Development Plans. It also covers innovation and technology policy actions for Turkey. The DPT is the Secretary to the YPK, which is chaired by the Prime Minister and composed of the ministers appointed by the Prime Minister (Ministers of Finance; Public Works and Settlement; Transport; Industry and Trade; and Energy and Natural Sources), and the Under-Secretary of DPT. DPT is responsible for the design and implementation of the National Development Plans and other innovation-related policies and programmes, and is thus another important actor of the NIS. The DPT also provides budgetary

allocation for the support of R&D activities in public institutions, including universities. It coordinates and monitors implementation based on the Public Investment Programme.

The providers of public funds for innovation are also major players at government level. These comprise the Under-Secretariat of the Treasury (HM) and of Foreign Trade (DTM), as well as coordinators of policy implementation, namely the Ministries of Industry and Trade (MoIT), Finance (MoF), National Education (MoNE) and Agriculture and Rural Affairs (MARA). The Council of Higher Education (YOK) also provides public funds for innovation. Another component of the innovation system is the Turkish Academy of Science (TUBA) affiliated to the Prime Minister's office. It is mainly in charge of cooperation with academia and the support of academic research. The Turkish Patent Institute (TPE), the National Metrology Institute (UME), the Turkish Accreditation Agency (TURKAK) and the Turkish Standards Institute (TSE) affiliated to the MoIT are the other public organisations of the national innovation system. The Competition Authority, the Telecommunications Authority and the Electricity Market Regulatory Authority are the most important regulatory bodies within the Turkish innovation system. Another actor is the Turkish Statistical Institute (Turkstat) which is responsible for providing statistical information related to R&D, innovation and industry, among others.

2.2.2 Main bodies managing implementation of policies

The main institutions financing innovation in the private sector include the MoIT, the Technology and Innovation Support Programmes Directorate of TUBITAK (TUBITAK-TEYDEB), KOSGEB and TTGV.

The MoIT is responsible for the assignment of Technoparks (the so-called 'technology development zones', TDZ, as defined by the Law), support of industrial R&D and the establishment of Industrial Estates and Organised Industrial Zones. The MoIT (through its Directorate-General for Industrial Research & Development which also implements the TDZ scheme) manages the Industrial Thesis (San-Tez) Projects Programme, and aims to start new programmes to support R&D and innovation in the industry. The Department also implements the R&D Law enacted in February 2008 together with the MoF as well as the schemes such as Technopreneurship Support and Precompetitive R&D Support under this legislation. The MoIT through its Directorate-General for Small Industrial Estates and Industrial Zones implements studies to stimulate cluster development activities in Turkey.

While the science and technology policy formulation role of TUBITAK is mainly handled by its Science and Technology Policies Directorate, research and innovation support programmes are managed by its

three departments, namely the TUBITAK-ARDEB (Research Projects Support Directorate), TUBITAK-TEYDEB (Technology and Innovation Projects Support Programmes Directorate) and TUBITAK-BIDEB (Scientist Support Directorate). TUBITAK-TEYDEB is the division which provides grants for the R&D and innovation activities of the private sector. TUBITAK is also the National Coordination Office for Turkey in the EU Research Framework Programmes. Another responsibility assigned by the BTYK to TUBITAK is to provide effective functioning of the Turkish Research Area (TARAL) which is defined as the platform where the private and public sectors and non-governmental organisations strategically focus and collaborate for R&D. TUBITAK is also responsible for the integration of TARAL with the European Research Area (ERA).

KOSGEB, an affiliate of the MoIT, is an autonomous public body implementing a wide range of schemes for increasing competitiveness of SMEs and promoting entrepreneurship. It also provides an environment for establishment of high-tech firms through its incubators (called as Technology Development Centres, TEKMERs) in cooperation with the technical universities and industrial chambers. KOSGEB runs a Regional Development Centre and regional offices, and establishes facilities for common use of the private sector together with regional umbrella organisations.

Established in 1991 with support under a World Bank project, TTGV is a not-for-profit foundation managing technology development support programmes through the finance provided by the UFT and by their own resources. Currently, TTGV implements the Technology Development Project Support (TDP) Programme, Commercialisation Project Support Programme and the Joint Technology Development Projects Supports Programme in order to increase private sector investments in R&D and innovation. They implement the Pre-incubation Support Programme, the Risk Sharing Facility Support Programme and the Start-up Support Programme through their company Teknoloji Yatirim A.S. in order to stimulate the establishment of new technology-based firms. Finally, TTGV implements energy and environmental project support programmes under the headings of the Renewable Energy Support Programme, the Programme for Energy Efficiency in Industry, and the Environmental Technologies Support Programme.

2.3 Public funding to innovation

2.3.1 Review of the current range of support measures for innovation

This section analyses the research and innovation policy support measures for Turkey based on the factsheet provided in Annex 1. The factsheet is based only on the information contained in the support TrendChart-ERAWATCH policy measures database. The database covers those measures and publicly available information compiled in accordance with the TrendChart-ERAWATCH requirements. For the purposes of this exercise, some measures may be missing or not included. Therefore, the factsheet and the following review do not necessarily represent a complete picture of the innovation policy mix in Turkey.

The figures in Annex 1 can be misleading when they are examined without considering the fact that the factsheet of policy measures is based on 20 research and innovation measures implemented in Turkey as opposed to 952 measures of the EU. Also, when interpreting the charts, it should be taken into account that only policy priorities indicated by more than 5% of measures are included, and a single support measure could be assigned up to four policy priorities. The support programmes mainly concentrate on the categories of 'Research and Technologies', 'Human Resources (education and skills)', 'Promote and sustain the creation and growth of innovative enterprises' and 'Markets and innovation culture'. There are no policy measures falling into the category of 'Governance & horizontal research and innovation policies'. The priorities addressed by the measures reflected on the chart should be interpreted cautiously as well. A typical example is '4.1.1 Support to sectoral innovation in manufacturing'. The chart shows that this priority is one of the main policy priorities for Turkey in comparison to the EU. However, 4.1.1 only represents three measures on energy and environment (TR 35, TR 36 and TR 37).

With this in mind, the main priorities addressed in the policy measures are the following:

- Direct support of business R&D (grants and loans),
- Support to innovative start-ups including Gazelles,
- Policy measures concerning excellence, relevance and management of research in universities,
- Support to sectoral innovation in manufacturing,
- Career development (e.g. long-term contracts for university researchers),
- Job training (LLL) of researchers and other personnel involved in innovation.

The number of policy measures addressing the priorities 4.3.1, 2.1.1, 4.1.1 and 3.2.2 above has increased over the last three years. With respect to the target groups of research and innovation measures, the first three rankings are higher education institutions, companies and scientists/researchers (as individuals).

Innovation management tools, commercialisation of innovation (including IPR), development/prototype creation, applied industrial research and awareness-raising amongst firms on innovation are the most commonly covered aspects of the innovation process targeted by measures. Here it should be noted that a single support measure could be assigned to more than one 'aspect'.

Regarding the sources of co-financing of support measures, grants are the most commonly used instruments, followed by subsidised loans. On the other hand, Turkey uses more subsidised loan schemes than the EU which heavily focuses on grants. Here, again, the chart should be interpreted carefully since the measures using equity support are only two in Turkey. Policy measures in Turkey are largely co-financed by the private sector while the share of those co-financed by the Structural Funds are also fairly high in the EU.

When the estimated annual budget per priority field is taken into account, the majority of funding is used for direct support of business R&D (grants and loans) and then for policy measures concerning excellence, relevance and management of research in universities. In fact, with the increase in the governmental commitment, public funding allocated for research and innovation has increased since 2005. The total amount of funds disbursed from the state budget for research and innovation between 2005 and 2008 was EUR 842 million, representing a four-fold increase from 2005 to 2008.

Certain important innovation policy measures may not provide direct funding (e.g. legislative measures) or certain measures with marginal budgets may have an important leverage effect (e.g. innovation vouchers). Considering this fact, the important non-financial measures for Turkey can be given as follows:

1. support for the establishment of technology parks (Law on Technology Development Zones) (TR 18),
2. Law on Supporting Research and Development Activities (Law No. 5746),
3. Young Entrepreneur Development Programme (TR 10).

All the three of these non-financial measures help the development of an R&D and innovation culture in the country. The first measure contributed to the first steps of inter-firm collaboration and cooperation between academics and the private sector on R&D. The second measure, which has been initiated in 2008, provides strong tax incentives and is expected to increase private R&D investments and attract R&D oriented multinationals. The last measure is the only programme through which university students are trained on entrepreneurship.

2.3.2 New or modified support measures

Over the last year, no new policy measures have been introduced in Turkey. On the other hand, the policy measure Scientific and Technologic Cooperation Networks and Platforms Support Programme (ISBAP) (17) has been revised. The scope of ISBAP, which aims to support networking and/or establishment of technology platforms among national and international research organisations working on basic science, engineering, health and social sciences, has been broadened to stimulate formation of provincial innovation platforms. The platforms, which will be supported in a similar way to the technology platforms, must be created jointly by public organisations, research institutions, non-governmental organisations and the private sector before applying for TUBITAK support.

Abbreviations

ABDI	Brazilian Agency for Industrial Development
ABET	Adult-based education and training
ABS	Asset Backed Securities
ACCESS	Accelerating Change in the Countryside thru Equity Sharing Strategy
ACE	Asian Centre for Entrepreneurship
AD Diper	Pernambuco Economic Development Agency
ADLE	Additional deduction for labour expense
AFTA	ASEAN Free Trade Agreement
AGN	Rio Grande do Norte
AMT	Achievement Motivation Training
ANPROTEC	Brazilian Association of Business Incubators and Science Parks
APE	Act on the Protection of Fixed-Term and Part-Time Employees, South Korea
APEX	Export Promotion Agency
APL	<i>Arranjo Produtivo Local</i> or Local Productive Arrangement
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
ASTI	Advanced Science and Technology Institute
BAP	Bankers' Association of the Philippines
B-BBEE	Broad-Based Black Economic Empowerment
BBSDP	Black Business Supplier Development Programme
BCB	Brazilian Central Bank
BCEA	Basic Conditions of Employment Act, South Africa
BCIC	Bumiputera Commercial and Industrial Community
BDT	Bureau of Domestic Trade
BEE	Black Economic Empowerment
BEEP	Bumiputera Enterprise Enhancement Programme
BEPF-i	Bumiputera Entrepreneur Project Fund-i
BEST	Business Environment Simplification Taskforce
BETP	Bureau of Export Trade Promotion
BIC	Branding Innovation Centre
BITR	Bureau of International Trade Relations
BMBE	Barangay Micro Business Enterprise
BMRT	Exposure to Business Management Training
BMSMED	Bureau of Micro, Small and Medium Enterprise Development
BMT	Bombay trick none
BNDES	Banco Nacional de Desenvolvimento Econômico e Social

BNDES PSI	BNDES' Investment Maintenance Program
BOK	Bank of Korea
BPG	Brand Promotion Grant
BRAIN	Business Referral and Information Network
BRIS	Information Services Sdn Bhd
BSP	Central Bank of the Philippines
CBRC	China Banking Regulatory Commission
CCB	China Construction Bank
CCM	Companies Commission of Malaysia
CCRIS	Centralised Credit Reference Information System
CCT	National Science and Technology Council
CDB	China Development Bank
CDC	Commonwealth Development Corporation
CDM	Clean Development Mechanism
CEPT	Common Effective Preferential Tariff
CEPT	Common Effective Preferential Tariff
CGC	Credit Guarantee Corporation Malaysia Berhad's
CGIC	Credit Guarantee Insurance Corporation
CGS	Credit Guarantee Scheme
CICT	The Commission on Information and Communications
CIPA	Internal Accident Prevention Commission
CIPE	Inter-ministerial Committee for Economic Planning
CIPF	Cultural Industry Promotion Fund
CITEM	Centre for International Trade Exposition and Mission
CLL	Consolidation of Labour Laws
CNB	The Citizens National Bank
CNI	National Industry Confederation
CNPq	National Council for Scientific and Technological Development
CNR	National Research Council
COC-MSMED	Congressional Oversight Committee on Micro, Small and Medium Enterprise Development
COMPETE	Comprehensive Program to Enhance Technology enterprises
COSATU	Congress of South African Trade Unions
CPF-SP	Community Projects Funds
CPOs	Confirmed Purchase Orders
CQC	Center for Quality and Competitiveness
CRA	Credit Reference Agencies
CRPA	Corporate Restructuring Promotion Act

CSCs	Confirmed Sales Contracts
CSEZ	Clark Special Economic Zone Authority (CSEZ)
CSL	Social Contribution on net income
CSLL	Contribuição Social sobre o Lucro Líquido
DAGS	Direct Access Guarantee Scheme
DATBED	DOST-Academe Technology-based Enterprise Development Program
DBP	Development Bank of the Philippines
DFI	Development Financial Institution
DIP	Debtor-in possession
DOINFO	DP Information Network Pte Ltd
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
DUET	Development of United Entrepreneurs Training
EA	Employment Act of Malaysia and Turkey
EBL	Execution and Bankruptcy Law
ECAP	Environmental Compliance Assistance Programme
ECB	European Central Bank
ECIC	The Export Credit Insurance Corporation
ECR	Export Credit Refinancing
EDLSA	Enforcement Decree of the Labour Standards Act of South Korea
EDT	Entrepreneur's Development Training
EEA	Equal Employment Act as amended of South Korea
EET	Evaluation-on-Effectiveness of Training programme
EIB	European Investment Bank
EIF	European Investment Fund
EMAS	Eco-Audit and Management Scheme
EME	Exempted Micro Enterprise
EMIA	Export Market and Investment Assistance
EMU	European Monetary Union
ENEA	the National Agency for New Technologies, Energy and Environment
EOI	Export-oriented Industrialization
EPO	European Patent Office
EPPA	Easy Pondong Pang-Asenso
ERA	European Research Area
ESCO	Energy Service Company
ETAP	Environmental Technology Action Plan

EXPONET	Export Assistance Network
FAMA	Federal Agriculture Marketing Authority
FAMPE	Guarantee Fund for Micro and Small Businesses
FDI	Foreign Direct Investment
FGTS	Unemployment Guarantee Fund
FINEP	Financiadora de Estudos e Projetos – Research and Projects Financing
FIITEC	Furniture Industry Technology Center
FMO	Netherlands Development Finance Company (FMO) and the Commonwealth Development Corporation (CDC)
FNDCT	National Fund for Scientific and Technological Development
FPF	Film Promotion Fund
FRIA	Financial Rehabilitation and Insolvency Act
FSC	Financial Services Commission
FSCS	Fund for a Sustainable Civil Society
FSMI2	Fund for Small and Medium Industries 2
FSS	Financial Supervisory Services
FTA	Free Trade Agreement
FTZ	Free Trade Zone
FUNPROGER	Guarantee Fund for the Creation of Employment and Income
G&E	Growth and Environment Scheme
GDP	Gross Domestic Product
GFI	Government Financing Institutions
GFPC	Guarantee Fund for the Promotion of Competitiveness
GPA	Agreement on Government Procurement
GPL	Government Procurement Law
GPPB	Government Procurement Policy Board (GPPB)
GRI	Malaysian Government Research Institutes
GSIS	Government Service Insurance System
GSP	Generalized System of Preferences
GTFS	Green Technology Financing Scheme
GTP-APL	Permanent Group for Clusters
HAP	Halal Awareness Programme
HCI	High Capacity Industries
HDC	Halal Industry Development Corporation
HIP	Halal Industry Programme
HPP	Halal Professional Programme
HRDF	Human Resources Development Fund
IBA	Industrial Building Allowance

IBGE	Brazilian Institute of Geography and Statistics
IBK	The Industrial Bank of Korean
ICCREA	Istituto centrale delle Casse rurali e artigiane
IDB	Inter- American Development Bank
IDC	Industrial Development Corporation
IEFS	Indirect Exporter Financing Scheme
IFEX	International Food Exhibition
IFMCs	Islamic fund management companies
IGEME	Trade and Industry Chambers and Export Promotion Centres
IGLF	Industrial Guarantee and Loan Fund
IHL	Institutions of Higher Learning
IMF	International Monetary Fund
INDI	Minas Gerais Industrial Development Institute
INMETRO	National Metrology Institute
INPI	National Industrial Property Institute
INSKEN	Institut Keusahawanan Negara
IPA	Investment Promotion Agency
IPF	The Information Promotion Fund
IPP	Investment Priorities Plan
IRA	Industrial Relations Act
IRFGS	Industry Restructuring Financing Guarantee Scheme
IRR	Implementing Rules and Regulation
ISBDS	Integrated Small Business Development Strategy
ISPRA	Institute for research and environmental protection
ISS	National Institute of Health
ISSEP	Industrial Support Services Expansion Program
ITMAS	International Tourism Marketing Assistance Scheme
iVCI	Istanbul Venture Capital Initiative
KAKS	Basic Course in Entrepreneurship for University Students
KCGF	The Korean Credit Guarantee Fund
KDF	Korea Development Fund
KEPCO	Korea Electric Power Corporation
KFRCGF	Korea Federation of Regional Credit Guarantee FUND
KFSG	Korean Federation of Small Business
KFW	Kreditanstalt für Wiederaufbau Bankengruppe
KODIT	Korea Credit Guarantee Fund
KOGAS	Korea Gas Corporation
KOSBIR	Korea Small Business Innovation Research Program

KOSGEB	SME Development Institute of Turkey
KOTEC	Korea Technology Finance Corporation
KOTRA	Korea Trade Investment Promotion Agency
KPBC	Korea Policy Banking Corporation
KTCGF	The Korea Technology Credit Guarantee Fund
KTTC	Korean Technology Transfer Center
LBP	Landbank of the Philippines
LBSC	Local Business Service Centre
LC	Labour Code of Philippines
LKS	Entrepreneur Training for University Students
LRA	Labour Relations Act, South Africa
LSA	Labour Standards Act, South Korea
LUCY	Lim Kok Wing University of Creative Technology
MAC	Manufacturing advisory centre
MARA	Majlis Amanah Rakyat
MASTEC	SIRIM-MARA Techno-Entrepreneur Program
MATRADE	Malaysian External Trade Development Corporation
MBC	Brazilian Competitiveness Movement
MCCM	Malay Chamber of Commerce of Malaysia
MCT	Ministry of Science and Technology
MCTF	Multi Currency Trade Finance
MDIC	Ministry of Development, Industry and Foreign Trade
MDTCC	Ministry of Domestic Trade, Co-operatives and Consumerism
MECD	Ministry of Entrepreneur and Cooperative Development
MEF	Ministry of Economy and Finance
MFRC	Micro Finance Regulatory Council
MGID	Minas Gerais Industrial Development
MIDF	Malaysia through Malaysian Industrial Development Finance Berhad
MIEL	Malaysian Industrial Estate Berhad
MIEPA	McKeever Institute of Economic Policy Analysis
MIF	Multilateral Investment Fund
MIGHT	Malaysian Industry-Government Group for High Technology
MITI	Ministry of International Trade and Industry
MIUR	The Ministry of Education, University and Research
MLP	<i>Medium- and Long-Term Plan of Science & Technology Strategic Development</i>
MOED	Ministry of Entrepreneur Development
MOHE	Ministry of Higher Education
MOST	Ministry of Science and Technology

MOTOUR	Ministry of Tourism
MPC	Malaysia Productivity Corporation
MPIC	Malaysian Plantation Industries and Commodities
MPOB	Malaysian Palm Oil Board
MRC	TUBITAK Marmara Research Centre
MRRD	Ministry of Rural and Regional Development
MSC	Multimedia Super Corridor
MSME	Micro, Small and Medium Enterprises
MSPs	Malaysian Service Providers
MTDC	Malaysian Technology Development Corporation
MTI	Ministry of Trade and Industry
MTIB	Malaysian Timber Industry Board
MTPDP	Medium Term Philippine Development Plan
MWFCD	Ministry of Women, Family and Community Development
NAFIN	Nacional Financiera
NAMAC	National Manufacturing Advice Centre
NCB	National Central Banks
NCG	National Fund for Development of Credit Guarantees for Private Enterprises
NDP	New Development Policy
NDTS	National Dual Training System
NEF	National Empowerment Fund
NEF2	New Entrepreneur Fund 2
NEM	New Economic Model
NEP	New Economic Plan
NIC	Newly Industrialised Country
NIIP	National Indigenous Innovative Products (NIIP)
NKEA	National Key Economic Areas
NPGS	New Principal Guarantee Scheme
NSDC	National SME Development Council
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Territorial Units for Statistics
NWPC	National Wages and Productivity Commission
ODOI/SDSI	One District, One Industry
OECD	Organisation for Economic Cooperation and Development
OIC	Organization of Islamic Conference
OIZ	Organized Industrial Zones
OL-GFP	Omnibus Line under the General Facility Program
ORC	One Referral Centre

OTOP	One Town, One Product
PAC	Federal Government's Growth Acceleration Plan
PBC	People's Bank of China
PBE	Programme Enterprising Brazil
PCFC	People's Credit and Finance Corporation
PDB	Planters' Development Bank
PDP	Productive Development Programme
PEFG	Preshipment Export Finance Guarantee Program
PEIEEx	Program of Industrial Export Extension
PERG	Postshipment Export Risk Guarantee
PERLA	Perjanjian Latihan
PEZA	Philippine Economic Zone Authority
PIA	Philippine Information Agency
PIPE	Private Investment in Public Equity
PITCE	Política Industrial, Tecnológica e de Comércio Exterior
PIUS	Incubator Graduate Entrepreneurs Program
PKNS	Malaysian Industrial Estate Berhad (MIEL) and Perbadanan Kemajuan Negeri Selangor
PKNS	Perbadanan Kemajuan Negeri Selangor
PMCK	Produk Malaysia Citarasa Kita
PPA	Public Procurement Authority
PPL	Public Procurement Law
PPPFA	Preferential Procurement Policy Framework Act
PPUS	Development Program for University Students
PROLUS	Program Boleh Lulus
PROs	Public Research Organisations
PSMB	Pembangunan Sumber Manusia Berhad
PTRI	The Phillipine Textile Research Institute
PUBLIC	Entrepreneur Development Programs by Institutions of Higher Learning
Putek	Technical Entrepreneurs Programme
QUEDANCOR	Quedan and Rural Credit Guarantee Corporation
RAM	Rating Agency Malaysia Bhd
RBAP	Rural Bankers' Association of the Philippines (RBAP); and the Bankers' Association of the Philippines (BAP)
RDI	Research and Development and Innovation
REACH	Registration, Evaluation, and Authorisation of Chemicals
REMTECH	Regional Emerging Markets Technology Transfer Network
REWARD	Renewable Energy for Wiser and Accelerated Resources Development

RFI	Retail Finance Intermediarie
ROSCA	Rotating Savings and Credit Association
RPGT	Real Property gGin Tax (RPGT)
RSC	Regional Services Council
RVCF	Regional Venture Capital Fund
Sabtia	South African Business and Technology Incubation Association
SACN	South American Community of Nations
SAESBA	South African Entrepreneurship and Small Business Association
SAMAF	SA Micro Finance Apex Fund
SARB	South African Reserve Bank
SBA	Small Business Act
SBDC	Small Business Development Corporation
SBGFC	Small Business Guarantee Fund Corporation
SBL	Skim Bantuan Latihan
SBL Khas	Skim Bantuan Latihan Khas
SCORE	SME Competitive Rating for Enhancement
SDC	Skills Development Centres
SDRC	Small Debt Resolution Committee
SDRS	Small Debt Restructuring Scheme
SEAP	SME Experts Advisory Panel Programme
SEBRAE	Institute for the Support of Micro and Small Firm
SEDA	Small Enterprise Development Agency
SEF	Services Export Fund
SEFF	Small Enterprise Financing Facility
SELIC	Sistema Especial de Liquidação e Custodia
SFTOs	Sectoral Foreign Trade Organizations
SFTOs	Sectoral Foreign Trade Organizations
SHE	Safety, Health and Environment
SIAC	SME Information and Advisory Centre
SIE	Small Industrial Estate
SIFE	Student in Free Enterprise
<i>SIMPLES</i>	Combined Tax and Contribution Payment System for Micro and Small-Sized Enterprises
SIRIM	Standards and Industrial Research Institute of Malaysia
SJPP	Syarikat Jaminan Pembiayaan Perniagaan Berhad
SLSAD	Soft Loan Scheme for Automotive Development
SLSCD	Soft loan Scheme for Services Capacity Development
SLSME	Soft Loan Scheme for SME
SMBA	Small and Medium Business Administration

SMBPA	Small and Medium Business Promotion Agency
SMEAGS	SME Assistance Guarantee Scheme
SMEC	Small and Medium Enterprise Credit Programme
SMIDEC	The Small and Medium Industries Development Corporation
SMIPC	The Small and Medium Industry Promotion Corporation
SOEs	State Owned Enterprises
SPED	Rural Economy Funding Scheme
SPEED	Sustainable Partnership for Eco-Enterprise Development
SPUBS	Sabah Bumiputera Entrepreneur Financing Scheme
SPX	UNIDO's Sub-contracting and Partnership Exchanges
SSAS	Sector Specific Assistance Scheme
SSEFZ	Subic Special Economic and Freeport Zone
SSIF	SEAF Sichuan SME Investment Fund LLC
SSS	Social Security System
STI	Action Plan for Science, Technology and Innovation
STII	Science and Technology Information Institute
SULONG	SME Unified Lending Opportunities for National Growth
SWEEP	Sustainable Waste Management Eco-Enterprise Program
SYOBE	Start Your Own Business Enterprise
TAF	Technology Acquisition Fund
TAPI	Technology Application and Promotion Institute
TBI	Technology Business Incubator
TCGF	Technology Credit Guarantee Fund
TCLs	Treasury Circular Letters
TDZ	Technology Development Zones
TECHPACK	Production of Technology Packages
TEKUN	Tabung Ekonomi Kumpulan Usaha Niaga
TEO	The Enterprise Organization
TESK	Confederation of Turkish Tradesmen and Craftsmen
TIA	Technology Innovation Agency
TJLP	Taxa de Juros de Longo Prazo
TKB	Development Bank of Turkey
TLGP	Term Loan Guarantee Program
TOBB	Industry, Maritime Trade and Commodity Exchanges of Turkey
TOT	Training of Trainers
TPPA	Public Transport Development Fund
TQM	Total Quality Management
TTGV	Technology Foundation of Turkey

TTT	Train the Trainer
TUBITAK	Scientific and Technological Research Council of Turkey
TULRAA	Trade Union and Labour Relations Adjustment Act, South Korea
TUNAS	Tunjuk Nasihat Sawit Programme
TWIB	Technology for Women in Business
UEAPME	European association representing Crafts and SMEs
UIF	Industrial Development Corporation
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
VCT	Venture Capital Trusts (VCT)
WCGS	Working Capital Guarantee Scheme
WTO	World Trade Organization

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