

## **Commentary: Time to review Government assistance to SMEs Ahead of Budget 2018, one expert from the Institute of Policy Studies suggests four ways in which the Government's assistance to SMEs can be tweaked.**

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SINGAPORE: There are two main schools of thought on the role of the Government in supporting our small- and medium-sized enterprises (SMEs).

Some believe that the Government has done too much for our SMEs, has cultivated a sense of entitlement and dependency, and should take a step back and allow competition to separate the wheat from the chaff.

Others believe that the Government needs to continue to assist SMEs, but should review its current schemes and incentives.

Given Singapore's state-guided form of capitalism since independence, the Government is a significant player in the economy; whatever it chooses to do or not to do will have a large impact on our SMEs.

SMEs, in turn, provide employment for about 70 per cent of our local work force.

Therefore, the question is not whether Government should help our SMEs, but how it can do so in a way that supports a thriving local private sector that is ready for the disruptions wrought by the accelerating pace of technological advances.

### **LOW HANGING FRUIT**

First, in implementing its various schemes, the Government should refine its categorisation of SMEs based on annual revenue or sectors.

This will allow for more targeted policy measures and closer analysis of the impact of respective policies on businesses with different needs and capabilities.

Currently, there is a wide spectrum of companies banded together under the term SME - companies with either under S\$100 million in annual revenue, or fewer than 200 staff.

Some Trade Associations and Chambers like the Singapore Chinese Chambers of Commerce and Industry (SCCCI), on the other hand, categorise their SME members as micro, small, medium and large.

Second, this would then allow the Government to review its some 200 schemes and programmes for different groups of SMEs. After all, the Government has shown a capability and willingness to operate in this manner, adopting distinctive foreign manpower regulations in the construction sector.

Other sectors could also benefit from a closer tailoring of regulations and schemes, such as food and beverage (F&B) and hospitality - sectors that are crucial to support the tourism industry, one of the pillars of the economy.

## **FIND BALANCE BETWEEN PREVENTING ABUSE AND ENSURING EASE OF APPLICATION**

Third, the Government has to find a balance between preventing abuses of its schemes and ensuring ease of application for SMEs.

Currently, the process of application and compliance measures required to submit an application is beyond the scope of what most SMEs, especially micro SMEs, can manage.

One SCCC I survey found that larger SMEs benefited most from Government schemes and programmes.

Requirements have become more stringent, especially after abuses of the Productivity and Innovation Credit (PIC) Scheme were reported.

Yet surveys of SMEs by the Association of Small and Medium Enterprises (ASME) and the SCCC I found that the PIC had the highest take-up rate: 90 per cent for ASME and 84 per cent for SCCC I.

It seems the PIC, while easy to apply for, was generally ineffective in increasing the innovative capacity of companies despite its high take-up rate, and perversely created a sense of entitlement and dependence among SMEs on easy handouts from the Government.

The Government's recent implementation of the Go Digital scheme offers an interesting model.

The scheme provides SMEs with some 60 subsidised prequalified software solutions managed by the Info-communications Media Development Authority (IMDA) so that they can build stronger digital capabilities to seize opportunities for growth in the digital economy.

To reduce bureaucratic hurdles, the Government automatically pays for 70 per cent of the cost of these prequalified solutions and the SMEs the remaining 30 per cent.

## **REVIEW SCHEMES WITH EYE ON TAKE-UP RATES**

Fourth, the Government should review its schemes with an eye on those with uneven or low take-up rates.

The same SCCC I survey showed the popularity of human capital training subsidies among its members. After the PIC, schemes, such as the Enterprise Training Support and WorkPro, have the next highest take-up rate of 46.9 per cent among its members.

The other popular SME scheme with SCCC I members is the Innovation and Capability Voucher (ICV) administered by SPRING. ASME members found the ICV to be useful with an application rate of 27 per cent.

While policies that are critical to SMEs like training for labour have a relatively high take-up rate, schemes such as the Micro-loan Scheme by SPRING seem to have a low take-up rate of 4.7 per cent while the Internationalisation Finance Scheme by IE Singapore only has a 2 per cent take-up rate by SCCC members.

Other schemes in the area of internationalisation also have very low take-up rates.

Notably, given that financing and cash flow are critical issues for SMEs, the low take-up rate for financial schemes suggests that either the process of application is too onerous for most, or the sums involved are too small for SMEs to consider applying.

In fact, while the Government's manifold schemes and programmes reflect its willingness to provide incentives and assistance for SMEs, many schemes and incentives end up being poorly utilised.

At the same time, according to the SCCC survey, for Government schemes in general, the manufacturing sector has the highest take-up rate at 86.9 per cent, compared to the service sector at 64.1 per cent.

This suggests that SMEs in the service sector have not been as active in applying for Government schemes to transform and upgrade themselves.

Alternatively, the Government schemes available to the service sector may not be as useful or specific compared to those in the manufacturing sector.

It is important to understand the reasons behind this difference, since both sectors are critical to the local economy.

## **BETTER TO HAVE FEWER, MORE TARGETED SCHEMES**

The SME landscape is complex and diverse. Schemes to help SMEs need to be targeted and tailored for specific sectors.

It may be better to have fewer schemes and programmes that focus on the critical needs of SMEs such as human capital, finance and digitisation rather than an array of schemes that are unutilised or under-utilised.

While a scheme's take-up rate alone is not a good measure of whether it has achieved its objectives, the above results suggest a need to review the objectives, design, and implementation of the Government's key schemes.

The goal must be to encourage SMEs to develop their capabilities, and reduce their dependence on Government support over time.

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