

PHILIPPINE MSMEs AND ENTREPRENEURSHIP

PUSHING BOUNDARIES



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PREFACE

The Micro, Small, and Medium Enterprise (MSME) sector is a critical driver of the economy, contributing thirty-five percent (35%) of the country's GDP, and accounting for two-thirds of the country's employment and a fifth of the country's exports. These figures are good, but they can be better.

The Philippine government seeks to further increase their contribution to the national economy, mindful of the challenges that they face, including limited access to funds, raw materials, skilled workers, and technology. Under the right policy conditions and supported by an effective governance framework, MSMEs can become powerful agents for inclusive growth.

The Philippine APEC Business Advisory Council (ABAC), as Chair of ABAC in 2015, steered ABAC's MSME agenda to achieve three main objectives:

- firstly, bring everyone, specially MSMEs, into the internet and digital economy;
- secondly, enhance the participation of MSMEs in market driven technology-based economy through innovation; and
- thirdly, bring more MSMEs into the global value chain.

In cooperation with the Asian Institute of Management, the book, *Going Global Together*, was published, highlighting the significant role of big businesses in creating the pathways for MSMEs to join the global value chain. Beyond these partnerships, however, rest a more critical element -- governance -- that will provide our MSMEs the guidance and support to enable them to push the boundaries, create ideas, and translate these into products or services that are responsive to the changing landscape of consumer expectations and tastes in a much more complex global supply chain.

A number of policies have been put in place which have created inroads to MSME development in the country, but it would nonetheless be instructive to derive lessons from the experiences of other economies.

The Philippines, as Chair of the APEC Meetings in 2015, has had the opportunity to take a broader view of other countries' experiences in terms of maximizing the potential of MSMEs as creators of new sources of growth through their participation in global value chains.

This review is necessitated by a compelling need to look at the Philippine MSME experience through the lens of the existing global economic structure. There is now a broader global economic terrain that needs to be considered in enhancing the country's MSME policies.

This study has three major objectives.

First, it aims to document Philippine MSME policy experience.

Second, it attempts to draw useful lessons from the experiences of economies whose MSME sector has thrived. In the case of Vietnam, its experiences will provide insights on the evolution of its MSME policies and strategies and its current challenges.

Finally, this paper will look at the country's governance framework for MSMEs and recommend ways to address some of the issues that impair MSME growth and sustainability.

MSMEs IN THE PHILIPPINES

The Philippines has two operational definitions of MSMEs – based on employment, and the other, based on assets.

Republic Act (RA) 9501 or the Magna Carta for MSMEs defines MSMEs as any “business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation” whose total assets, exclusive of “land on which the particular business entity’s office, plant and equipment are situated” fall under any of the categories enumerated in Table 1.

Resolution No. 1, series of 2003 of the SME Development Council of 2003, on the other hand, defined the categories of MSMEs based on the number of employees.

Figure 1 and Table 2 show the number of registered enterprises in the country on selected years, beginning in 1995 or four years after the Magna Carta for Small Enterprises (RA 6977) was passed into law. The law was amended in 1997 by RA 8289.

If the number of MSMEs were an indication of the laws’ impacts, one may attribute the surge in the number of MSMEs from 1995 to 2000 from these policy measures – from 492,610 in 1995 to 818,076 in 2000.

The highest number of enterprises was registered in 2014 at 946,988, with 99.6% of these enterprises accounted for by MSMEs -- a great number of which (90%) are classified as microenterprises. Total number of MSMEs during this period was 940,886.

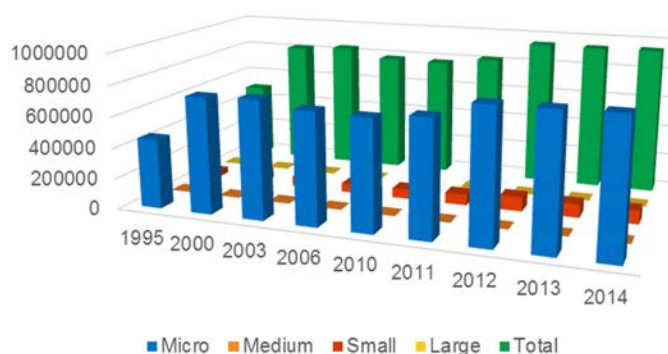
From 1995 to 2014, microenterprises dominated the economy. As of 2014, microenterprises accounted for at least ninety percent (90%) of all enterprises. In 2014, small enterprises accounted for only 9%. Medium enterprises, in terms of asset and size structure, were negligible at .4%.

In both developed and developing economies, MSMEs dominate the economy. In many instances, they constitute more than 99 percent of all enterprises.

Table 1. Criteria for classifying MSMEs in Philippines

Category	Assets	No. of Employees
Microenterprise	Less than 3 million pesos	1-9
Small Enterprise	3 million to 15 million pesos	10-99
Medium Enterprise	More than 15 million to 100 million pesos	100-199

Figure 1. Enterprises in the Philippines by Category



Source: DTI-BSMED, Philippine Statistics Authority, Census and Technical Coordination Office

Table 2. Number of Enterprises by Year and by Category

Year	Philippine Enterprises				
	Micro	Medium	Small	Large	Total
1995	449,950	2,712	3,984	2,447	495,057
2000	747,740	3,070	6,716	2,984	821,060
2003	762,573	3,521	6,917	3,745	839,114
2006	720,191	2,839	57,439	2,596	783,165
2010	709,899	2,839	61,979	3,023	777,687
2011	743,250	3,287	70,222	3,496	820,255
2012	844,764	4,095	92,027	4,011	944,897
2013	846,817	3,748	86,762	3,847	941,174
2014	851,756	3,886	87,283	4,063	946,988

Source: DTI-BSMED, Philippine Statistics Authority, Census and Technical Coordination Office

In many developed economies, microenterprises far outnumber small and medium enterprises. In Japan and Korea, for example, microenterprises account for eighty-seven percent (87%) and eighty-eight percent (88%) of the economy, respectively. Developing economies would appear to have a lower percentage of microenterprises, but this is attributed to the presence of a large informal sector and weaker business environments. (UNESCAP, 2012)

On the employment front, MSMEs in the Philippines account for at least 62% of the employment figures of enterprises in 2014, 30% of which was accounted for by microenterprises. (Figure 2)

MSMEs were predominantly in the wholesale and retail trade. Repair of motor vehicles and motorcycle industries accounted for 437,205 or 46% of business establishments. Ninety-four percent (94%) of these were microenterprises.

The accommodation and food services sector accounted for 127,518 or thirteen percent (13%) of enterprises; while manufacturing, electricity, water, gas, and construction sector accounted for 124,736 or thirteen percent (13%). Eighty-six percent (86%) of MSMEs as of 2014 are in the services sector, while thirteen percent (13%) is accounted for by the manufacturing and industry sector. (Figure 3)

It may be further noted that while the number of MSMEs has increased from 1995 to 2014, the number of MSMEs in the manufacturing sector declined from 15,748 in 1999 to 13,494 in 2014, down by fourteen percent (14%).

PHILIPPINE ENTREPRENEURSHIP POLICY

The country's first major push into entrepreneurship began in the 1970s.

The 1987 Philippine Constitution recognized entrepreneurship as a driver of economic growth. It guarantees the promotion of industries and employment. It vows to protect Filipino enterprises against unfair competition and trade practices and commits to give opportunities for private enterprises to grow.

Figure 2. Distribution of Employment by Enterprise Category, 2014

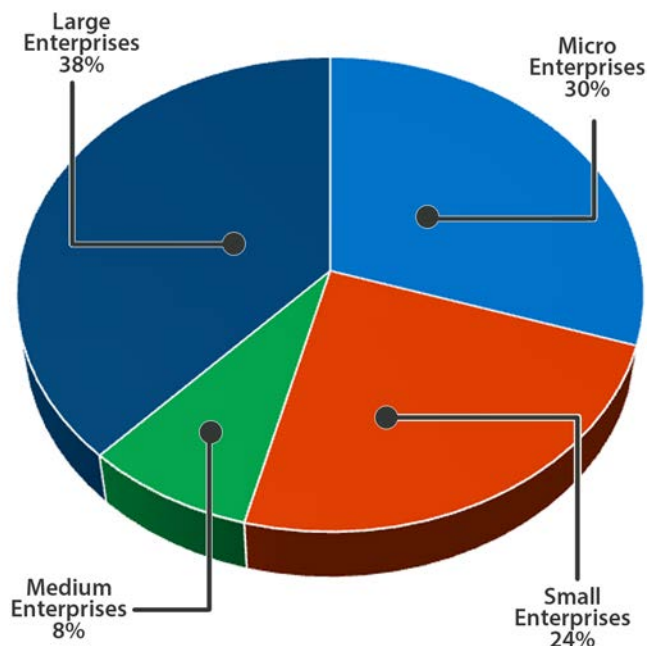
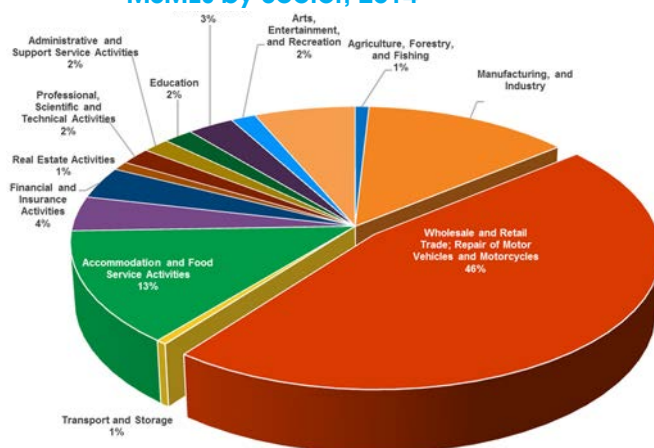


Figure 3. Percentage Distribution of MSMEs by Sector, 2014



As MSMEs assert their roles in the country's growth story, the government has woven MSME-oriented policies in different facets of its development agenda.

Over the years, various laws have been enacted to boost entrepreneurship in the Philippines. The most basic and fundamental of which is the Magna Carta for Small Enterprises which was legislated in 1991 under Republic Act 6977, and amended in 1997 and 2008.

The Magna Carta for Small Enterprises establishes the state policy to "promote, support, strengthen

and encourage the growth and development of MSMEs in all productive sectors of the economy, particularly rural/agri-based enterprises” and to foster “entrepreneurship, support entrepreneurs, encourage the establishment of MSMEs and ensure their continuing viability and growth and thereby attain countryside industrialization.” (Republic Act 9501)

The law sought to achieve these objectives by establishing a favorable business environment, improving access to financing, providing adequate business support, providing training on entrepreneurship and worker skills, providing linkages between SMEs and large firms, and working in partnership with the private sector.

The 2004-2010 MSME Development Plan was anchored on the following principles to set the pace for SME development in the country:

- minimal set of rules and simplification of procedures and requirements;

- private sector participation in the implementation of MSME policies and programs; and
- coordination of government efforts to develop the MSME sector.

The SME Development Plan also sought to support the national government’s initiative of creating six million jobs in six years. The MSME sector was positioned as a key driver for the creation of new jobs and economic recovery. The plan was succeeded by the 2011-2016 MSME Development Plan which covers a range of support services.

The MSME sector’s performance is basically affected by key challenges, including high cost of doing business, lack of access to finance and market information, and low productivity and competitiveness – the very issues which the Magna Carta for SMEs sought to address when it was adopted twenty-five years ago.

KEY POLICIES

There are at least thirty-six (36) laws that impact MSMEs in the country. Eight of these laws are

An analysis of the MSME data in Figure 1 and other indicators, however, will reveal that MSME sector growth has remained modest from 2000 to 2014, based on the following:

- Microenterprises, which constitute at least ninety percent (90%) of the enterprises, have grown by only fourteen percent (14%) over a period of fifteen years, from 2000 to 2014, and by only 1% from 2012 to 2014;
- Medium enterprises constitute only 0.4% of the enterprises from 2008 to 2014, generating a hollowed middle that has remained unchanged over the past 15 years;
- The percentage share of small enterprises has remained unchanged at 9% from 2012 to 2014, with its numbers even declining from 92,027 in 2012 to 87,283 in 2014;
- While accounting for sixty-two percent (62%) of the employment in enterprises, the country’s MSME sector has relatively low value added to the economy, estimated at only 30.8 percent of value added, lower than in other Asian economies such as Indonesia (53.28%), Vietnam (39%) and Thailand (37.8%); (Philippine Senate, 2012)
- In terms of labor productivity, microenterprises registered the lowest at only 10% of the labor productivity of large enterprises. The labor productivity of small enterprises was 52% of that of large enterprises, while medium enterprises’ productivity performance was at 82%.

aimed at directly promoting the MSME sector's growth and development – with half of these laws having been passed in the past two years. Republic Act 6977 or the “Magna Carta for MSMEs,” apart from establishing the country's MSME policy

A major milestone, however, in MSME policy is the Go Negosyo Act which mandated the establishment of Negosyo Centers in all provinces, cities, and municipalities. These centers are responsible for promoting ease of doing business and facilitating access to programs and services for MSMEs.

framework, mandated and tasked institutions to promote MSME growth and development.

The Small and Medium Enterprise Development (SMED) Council was created to undertake, principally, coordination activities for the “promotion, growth and development of small and medium enterprises.” It also established the Small Business Guarantee and Finance Corporation to handle financing initiatives for MSMEs.

The Magna Carta was subsequently amended by RA 8289 and then by RA 9501, with the latter mandating a more aggressive effort to promote MSME role in nation building and renaming the SMED Council into the Micro, Small and Medium Enterprise Development (MSMED) Council. It also established the “Presidential Awards for Outstanding MSMEs”.

Republic Act 9178 or the Barangay Micro Business Enterprises Act of 2002 sought to integrate microenterprise in the informal sector into the

The country is not lacking in policies that seek to promote the growth of MSMEs. It is important, however, that the extent by which these laws are implemented across relevant agencies is monitored and assessed. Failing to do so would provide no basis to improve policy frameworks and programs.

mainstream economy. Various incentives are provided under the Act, such as, income tax exemption, exemption from the coverage of the Minimum Wage Law, priority to a special credit window, and technology transfer, production and management training, and marketing assistance programs.

The effectiveness of this law in facilitating the transition of MSMEs from informal to the formal sector remains to be seen as the Philippines fared poorly in the ASEAN SME Policy Index in this dimension, garnering its lowest score of 2.

Many of the country's laws also seek to help MSMEs access credit or financing.

These laws gave birth to SULONG financing program and other MSME-focused loan and credit facilities by government financing institutions, banks, micro-finance NGOs, and cooperatives.

It was only in 2015, however, that Congress passed a law which focused on strengthening entrepreneurship education. The Youth Entrepreneurship Act aims to “establish, maintain, and support a complete, adequate, and integrated system of education and training to encourage the entrepreneurial spirit among our youth as well as support and promote the growth of young entrepreneurs nationwide.”

Table 4 lists the major laws that directly support the development agenda for MSMEs. The nature and coverage of these laws are outlined in the table, highlighting the policy areas that they seek to address.

Table 3. Tally of Legislations and Their Policy Scope/ Areas Relevant to MSMEs

Policy Area	Number of Laws
Ease of Doing Business	6
Access to finance	14
Market expansion/trade	8
Access to Technology	6
Access to Training	10
Tax Incentives	9
Advocacy/Representation	3
Entrepreneurial education	2
Operations-related policies (fiscal, labor, etc.)	17

Table 4. Legislations Enacted to Promote MSME Growth and Development

Laws	Year	Ease of Doing Business	Access to finance	Market expansion	Techno. access	Training	Tax incentives	Advisory services /reps	Entrep. Educ'n.	Ops. Related	Remarks Credited/ Reorganized Entities
RA 10744 Credit Surety Fund Act	2015		x				x	**			
RA 10693 Microfinance NGO Act	2015		x			x					Microfinance NGO Regulatory Council
RA 10679 Youth Entrepreneurship Act	2015								x		Entrepreneurship Education Committee (EEC)
RA 10644 Go Negosyo Act	2014	x		x	x	x	x	x	x		Negosyo Centers Micro, Small, and Medium Enterprise Development (MSMED) Council
RA 9501 Magna Carta for Micro, Small, and Medium Enterprises <i>(Amending RA 6977 as amended by RA 8289)</i>	2008	x	x	x	x	x		x		x	Micro, Small, and Medium Enterprise Development (MSMED) Council Bureau of MSME Development (BMSMED)
RA 8289 - An Act Amending RA 6977 "Magna Carta for SMEs"	1997	x	x	x	x	x				x	Small Business Guarantee and Finance Corp. (SB Corporation)
RA 6977 - Magna Carta for SMEs	1991	x	x	x	x	x				Defined SMEs	
RA 9178 Barangay Micro Business Enterprises Act	2002	x	x	**	**	**	x				
RA 9281 An act to strengthen agriculture and fisheries modernization in the Philippines by extending effectivity of tax Incentives and its mandated funding support <i>(Amending RA 8435)</i>	2003		x				x				
RA 8435 Agriculture & Fisheries Modernization Act	1997		x								
RA 9520 Philippine Cooperative Code <i>(Amending RA 6938, "Cooperative Code of the Philippines")</i>	2009		x				x			x	Policies on creation of cooperatives
RA 6938 Cooperative Code of the Philippines	1990		x				x			x	

Legends:

- x - MSME area of concern that is directly addressed by the law
- ** - MSME area of concern that is indirectly addressed by the law

Laws	Year	Ease of Doing Business	Access to finance	Market expansion	Techno. access	Training	Tax incentives	Advisory services /reps	Entrep. Educ'n.	Ops. Related	Remarks Credited/ Reorganized Entities
RA 6939 An Act Creating the Cooperative Development Authority	1990									x	Cooperative Development Authority
RELATED LAWS AND LEGISLATIONS											
Financing											
RA 8791 General Banking Law	2000		x								
RA 8425 Social Reform and Poverty Alleviation Act	1997		x			**					National Anti-Poverty Commission
RA 7353 Rural Bank Act (As amended by RA 10574, "An Act Allowing the Infusion of Foreign Equity in the Capital of Rural Banks")	1992 (2013)		x								
Labor and Human Resources											
RA 7796 Technical Education Skills Development Act	1995					x					
RA 7686 Dual Training System Act	1994					x					
RA 6727 Wage Rationalization Act	1989									x	Refers to statutory provision on minimum salaries of workers
RA 6640 An Act Providing for Statutory Minimum Wage and Rates of Employees in the Private Sector	1987									x	
RA 602 Minimum Wage Act	1951									x	
Labor Code, Articles 106-109 (Presidential Decree No. 442 (As Amended))	1974									x	Treatment of workers
Taxes and Incentives											
RA 7916 Special Economic Zone (As amended by RA 8748, "An Act Amending RA 7916" in 1999)	1995 (1999)	x		x			x				Philippine Economic Zone Authority
RA 7918 An Act Amending Article 39 of EO 226	1995			x			x				
EO 226: The Omnibus Investments Code	1987			x			x				
RA 8424 National Internal Revenue Code of 1997	1997									x	Tax obligations of enterprises in the Philippines

Laws	Year	Ease of Doing Business	Access to finance	Market expansion	Techno. access	Training	Tax incentives	Advisory services /reps	Entrep. Educ'n.	Ops. Related	Remarks Credited/ Reorganized Entities
RA 7716 Expanded Value Added Tax Law <i>(As amended by RA 8241 in 1996)</i>	1994									x	VAT policies
OTHER RELATED LAWS											
RA 10667 Philippine Competition Act	2015									x	Philippine Competition Commission Anti-competitive acts, enforcement, and penalties
RA 8792 Electronic Commerce Act	2000			x	x					x	Use of e-commerce in operations
RA 8293 Intellectual Property Code of the Philippines <i>(As amended by RA 10372, "An Act Amending certain provisions of the Intellectual Property Code of the Philippines")</i>	1997 (2012)									x	Intellectual Property Office (IPO); Laws on (1) patent, (2) trademarks, service marks, and trade names; and (3) Copyright
RA 7394 Consumer Act of the Philippines	1992									x	National Consumer Affairs Council Policies on product quality, consumer protection, as well as prohibited acts and penalties/ violations
BP 68 Corporation Code of the Philippines	1980									x	Policies relating to establishment of corporations
RA 386 Civil Code of the Philippines	1949									x	Ownership, transfer, and governance on trade marks; and Provisions re contracts
RA 3815 Revised Penal Code	1930									x	Penalties for frauds in business/ industry

Policy Area	Number of Laws
Ease of Doing Business	6
Governance	12

INSTITUTIONAL SUPPORT TO PH MSMES

The government plays a crucial role in MSME development as it provides the essential policy and program environment to support its growth.

The MSMED Council is the primary government body responsible for developing MSME promotion policies and for providing guidance on implementing MSME programs.

It is attached to and chaired by the Department of Trade and Industry (DTI), which is responsible for developing and regulating business enterprises. Several bureaus and corporations under DTI, as well as its attached agencies, implement programs to promote MSME development.

MSMED COUNCIL

The MSMED Council is a policy recommendatory and coordination body. Its primary mission is to help “establish the needed environment and

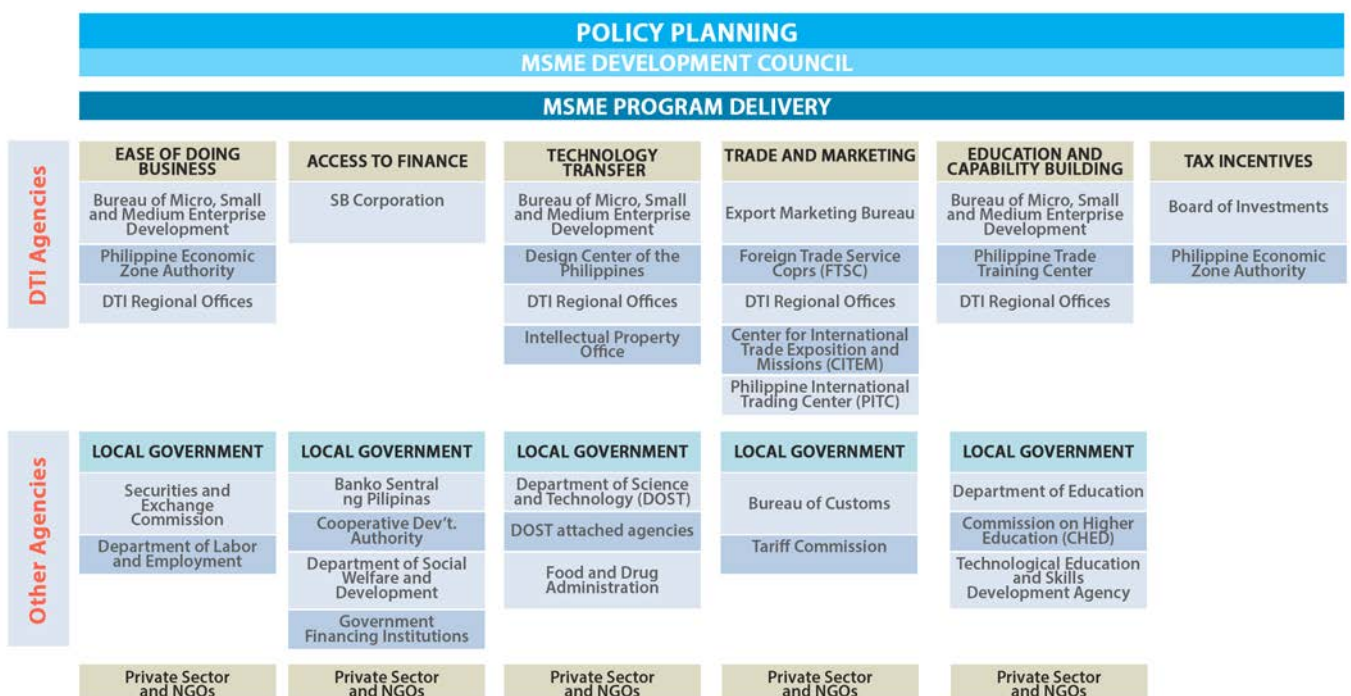
opportunities conducive to the growth and development of the MSME sector.” One of its key responsibilities is that of coordinating and integrating various government and private sector activities relating to MSME development. Apart from the Chairman, the Council has ten members.

Given the cross-sectoral nature of MSME concerns, its members include the Secretaries of Interior and Local Government, Tourism, Science and Technology, and Agriculture; the Chairman of the Small Business Corporation; three (3) representatives from the MSME sector of Luzon, Visayas and Mindanao; one representative from the labor sector, to be nominated by accredited labor groups; and a representative from the private banking sector.

The Bureau of Micro, Small and Medium Enterprise Development (BMSMED) of the DTI serves as the MSMED secretariat.

While the Magna Carta for SMEs mandates the Council 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,” it does not have the means

Figure 4. Philippine SME Institutional Structure



to extend such assistance due to logistical and institutional constraints. It appears to be a very powerful entity on paper, but does not have the wherewithal to deliver such support to the agencies.

DEPARTMENT OF TRADE AND INDUSTRY

Implementation of MSME policies are carried out by the DTI through its Regional Offices (17 offices) and Provincial/City Offices (81 offices). The Bureau of Export Trade Promotion, Export Marketing Bureau, and the Foreign Trade Services Corps assist in expanding the market access and internationalization of MSMEs.

The DTI has also established a total of one hundred forty-four (144) Negosyo Centers as of December 2015. The establishment of these centers was mandated by the "Go Negosyo Act." These Centers help promote ease of doing business by facilitating access to services for MSMEs, including business registration assistance, business advisory services, business information and advocacy as well as access to market linkages. Within the DTI are various bureaus and units that support MSME development. The BMSMED provides secretariat support to the MSME Council, but due to limited resources, is unable to deliver large scale and broad support to agencies undertaking MSME programs which is called for in the Magna Carta for SMEs.

The following are the DTI attached agencies, bureaus and corporations that deliver MSME programs and services:

1. Bureau of Domestic Trade Promotion

Promotes efficient marketing and distribution of local products and services. BDTP implements programs and services to strengthen linkages among MSMEs nationwide.

2. Export Marketing Bureau

Enhances capabilities and global competitiveness of exporters and would-be exporters by providing them timely and relevant information and assistance on international markets.

3. Foreign Trade Service Corps

Promotes Philippine exports and investments overseas through various marketing and commercial intelligence activities.

The Philippines has trade offices in strategic locations worldwide.

4. Design Center of the Philippines

Assists MSMEs in the areas of product / package design, product technology demonstration, design and technical information, and library information on design-related topics.

5. Philippine Trade Training Center

Conducts training programs, including export marketing and management, entrepreneurial management, quality and productivity, and trade exhibition. It also offers post-training advisory and consulting services. It rents out its facilities as training, exhibition, and events venue.

6. Center for International Trade Expositions and Missions

Organizes international trade fairs where MSMEs can participate in order to promote their products and services to target customers. It assists exporters in the areas of marketing, promotion, and capability building.

7. Philippine International Trading Corporation

Provides trade and trade-related services to private enterprises. These include buyer-supplier matching, export documentation, product sourcing, quality inspection and assurance, as well as use of PITC custom bonded warehouse for storage, handling, and trucking of products and raw materials.

8. Philippine Economic Zone Authority

Sets the general policies for, operates, manages, and develops economic zones in the country.

9. Bureau of Micro, Small and Medium Enterprise Development

Initiates and implements projects for MSMEs in the areas of training, technology transfer, financing, and marketing. It serves as Secretariat of the MSMED Council.

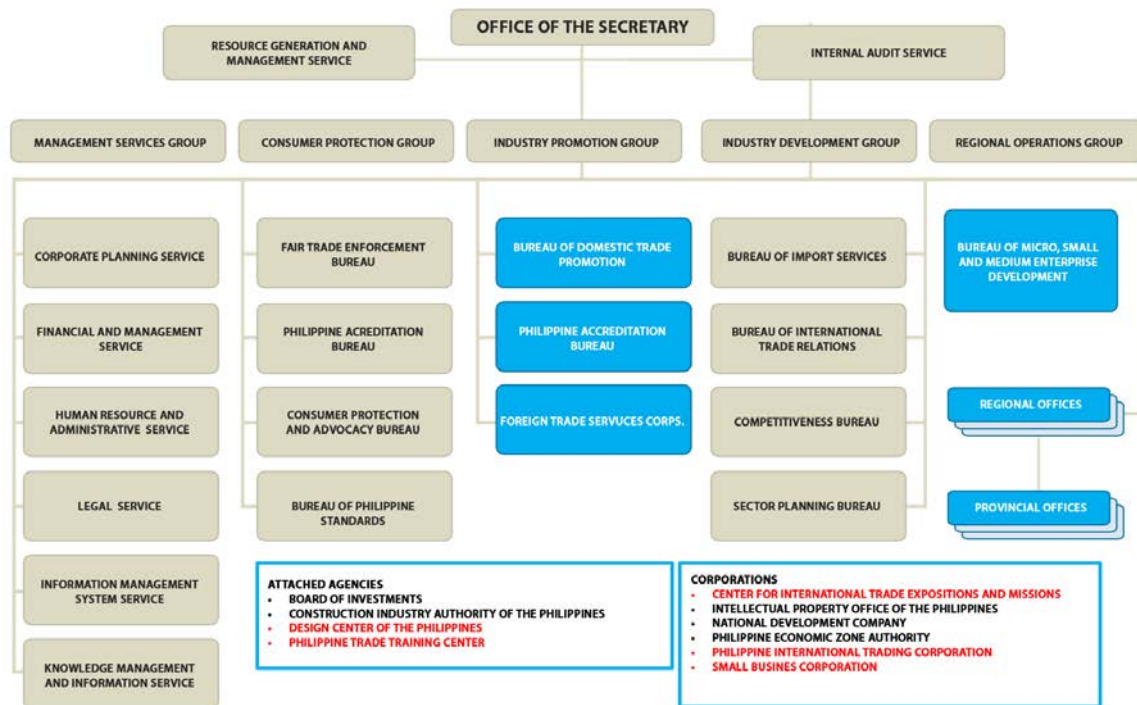
10. DTI Regional and Provincial Offices

DTI has 17 regional offices and 81 provincial / city offices that cascade DTI services and assists MSMEs in the countryside.

11. Small Business Corporation

Promotes financing and credit delivery systems for MSMEs.

Figure 5. DTI Organizational Structure



Source: Department of Trade and Industry

OTHER GOVERNMENT AGENCIES INVOLVED IN ASSISTING MSMEs

Implementation of MSME policies are carried out by the DTI through its Regional Offices (17 offices) and Provincial/City Offices (81 offices). The Bureau of Export Trade Promotion, Export Marketing Bureau, and the Foreign Trade Services Corps assist in expanding the market access and internationalization of MSMEs.

MSME challenges and needs span a wide range of sectors. As such, numerous agencies are charged with implementing policies and programs that are relevant to MSME concerns.

These agencies include the Department of Science and Technology (DOST) which leads efforts to promote innovation and technology transfer among MSMEs; Bangko Sentral ng Pilipinas, and government-owned financing institutions such as Landbank of the Philippines and Social Security System (SSS); Department of Agriculture; Local Government Units; National Anti-Poverty Commission; Department of Finance-National Credit Council; People's Credit and Finance Corporation; Philippine Information Agency; Department of Interior and Local Government; National Commission on the Role of Filipino Women; and the

Department of Education (DepEd) which is mandated to promote entrepreneurship education.

The preponderance of agencies attending to the needs of the MSME sector presents a challenge by itself. Alignment of priorities, program objectives, strategies would be needed to maximize the impact of services and interventions.

BUSINESS ASSOCIATIONS AND NON-GOVERNMENT ORGANIZATIONS WITH MSME-RELATED ADVOCACIES

The Magna Carta for SMEs provides that the private sector will be the government's partner "in the task of building up MSMEs through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives."

The law also mandates consultation with the private sector in the formulation of the six-year micro, small and medium enterprises development plan which is prepared by the DTI.

As such, the private sector and civil society are actively involved in MSME development initiatives. They either organize and execute their own programs or

partner with the government. These organizations also actively participate in consultations and deliberations about policies impacting MSMEs.

What is lacking though is a more defined and regular mechanism for public-private sector partnership in the delivery of programs and services for MSMEs. Many of the private sector initiatives are independently branded and implemented as stand-alone initiatives with the participation of government from time to time.

Programs for MSMEs need to be integrated as part of a coherent “whole,” guided by a shared vision and plan of action that everyone in the society – public and private sector alike – embraces and supports.

PROGRAMS FOR MSMEs

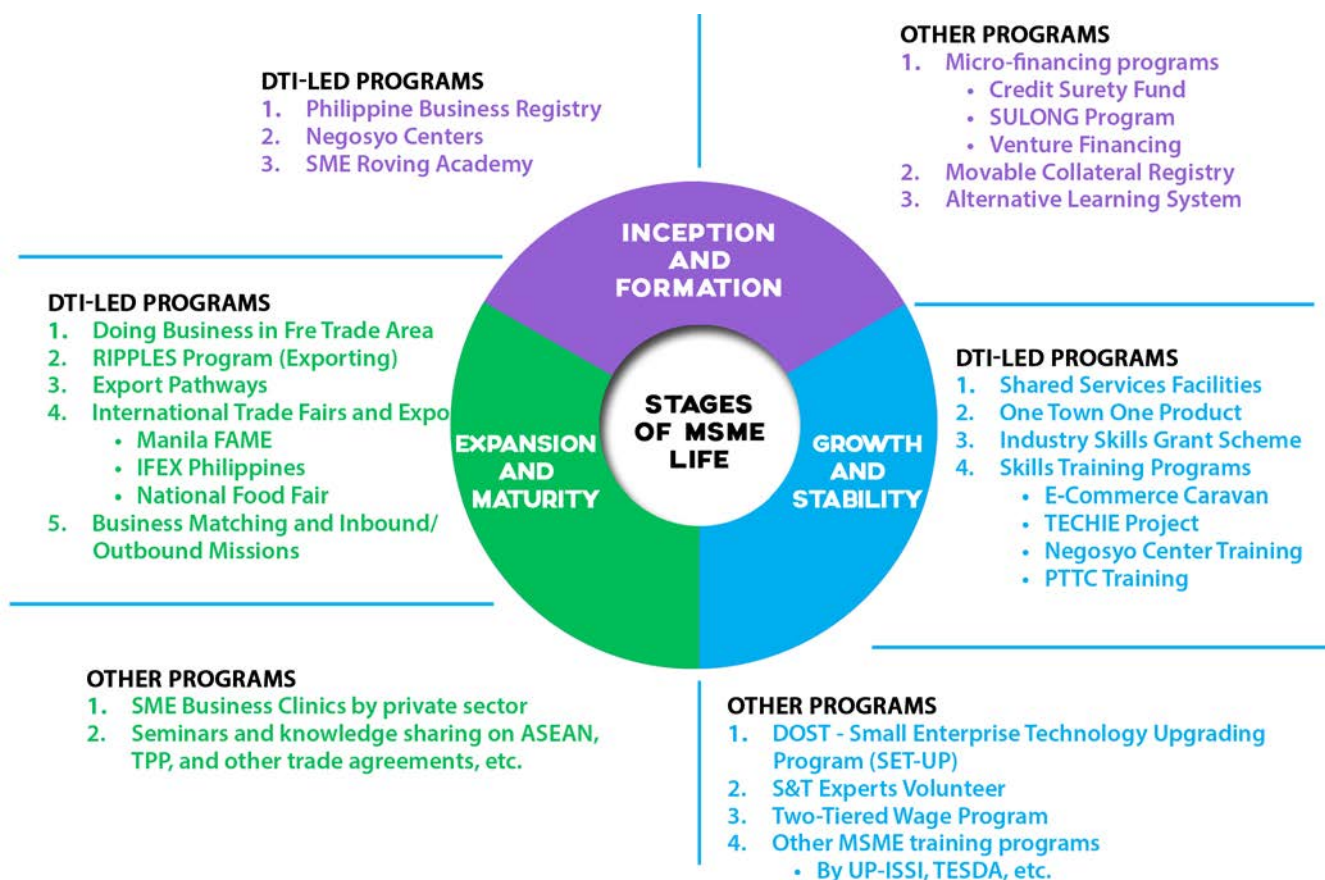
There are various programs and projects carried out by the public and private sectors benefiting MSMEs nationwide. Below is a list of these programs, clustered according to MSME development stage. Figure 6 outlines these programs and classifies them by stages of MSME growth.

INCEPTION AND FORMATION STAGE

Programs for those that are just starting a business.

1. **Philippine Business Registry (DTI)** - a web-based registration system that integrates, into a one-stop shop, the various services of government agencies

Figure 6. Programs for MSMEs in Every Stage of Business Development



involved in the registration and licensing of new enterprises.

2. **SME Roving Academy (SMERA) (DTI)** - a nationwide DTI learning program for new and existing entrepreneurs in the area of business registration and licensing, financing, marketing, productivity improvement, taxation, product trends, target markets, among others.
3. **Micro-financing Programs** – financing options offered by the government, including:
 - Credit Surety Fund (CSF) Program – credit enhancement scheme developed by the BSP which aims to increase the credit worthiness of micro, small and medium enterprises (MSMEs) that are experiencing difficulty in obtaining loans from banks due to lack of acceptable collaterals, credit knowledge and credit track records.
 - SME Unified Lending Opportunities for National Growth (SULONG) Program (GFIs) – short- and long-term funding offered by accredited government financial institutions to SMEs for export financing, temporary working capital, purchase of equipment or lot, or building construction.
 - Venture Financing Program (VFP) – DOST funding for start-ups and technology-based projects to help accelerate the commercialization of new and emerging technologies or inventions.
4. **Movable Collateral Registry** – a system developed by the DOF that increases MSMEs' access to finance by allowing them to leverage movable assets, such as inventory, crops and equipment, into capital for investment and growth.
5. **Alternative Learning System** – a literacy cum livelihood program of the Department of Education that allows participants to acquire formal basic education or to upgrade knowledge and technical skills through a Continuing Education Program for gainful employment. (*Department of Education, <http://www.deped.gov.ph/als>*)
6. **Small Enterprise Technology Upgrading Program (SET-UP)** – a technological grant program of the DOST which helps MSMEs improve their operations and boost productivity. Aside from the grant, DOST also assists and advises entrepreneurs on product quality, packaging, workforce, operational costs, waste management, and other operations-related activities.
7. **Science and Technology Experts Volunteer Program (STEVPP)** – MSMEs, NGOs, and cooperatives in the countryside could avail of technology support through volunteer scientists and experts who are tapped to extend free technical assistance under this DOST program.
8. **Shared Services Facility (SSF)** – Led by the DTI, a shared service facility allows MSMEs to access better technology and more sophisticated equipment. SSF lends MSMEs equipment that could boost their productivity and improve their efficiency through product proto-typing, package testing, 3D printing, etc.
9. **One Town-One Product (OTOP)** – Led by the DTI, this program promotes unique products of cities/ municipalities or products where the cities/ municipalities have competitive advantage.
10. **Industry Skills Grant Scheme (ISGS)** – DOT program that provides grants for training that focuses on upgrading skills and competency levels of the tourism industry workforce.
11. **Two-Tiered Wage Program** – a system and policy reform implemented by DOLE which aims to improve Philippine global competitiveness on flexible wage determination.
12. **Other Skills Training Programs** – Various government agencies hold training courses for MSMEs.

The training programs include the following:

- E-Commerce Caravan – seeks to increase the number of MSMEs engaged in online merchandising / business by helping them to adopt e-commerce in transacting businesses, such as e-payment, logistics, customer relationship management, and consumer protection.
- Training Enhancement for Competitiveness in Harnessing Innovative Entrepreneurs (TECHIE) – helps entrepreneurs become more IT-enabled by teaching them basic computer literacy

GROWTH STAGE

Programs for MSMEs that are already operating to help improve business operations in the area of productivity, cost efficiency, marketing, people and manpower improvement, among others.

and applications as well as internet-based marketing.

- Negosyo Center Training – courses focus mostly on product development, basic marketing, and as well as packaging and design.

- PTTC Training – these courses intend to help MSMEs improve their day-to-day operations. Courses include, among others, logistics management, food packaging and labeling, basic accounting, MS office software applications, business continuity, and ISO certification processes.

Other training programs are also conducted by agencies such as Technological Education and Skills Development Authority (TESDA) and the UP-Institute of Small Scale Industries (UP-ISSI).

EXPANSION AND GLOBALIZATION

These are DTI-led Programs that seek to expand SME's market reach to international markets

13. Doing Business in Free Trade Area (DBFTA) – a nationwide information campaign on the country's current free trade agreements to promote awareness on overseas market opportunities, tariff reductions, rules of origin and customs procedures, etc.

14. Regional Interactive Platform for Exporters (RIPPLES) – an advance program on export readiness, export market entry, export sustainability, and export expansion. Entrepreneurs who have completed the SME

Roving Academy program are eligible to join. This program is run by DTI regional offices.

15. Export Pathways Program (EPP) – helps exporters with client-focused interventions at all business stages.

16. Trade Fairs and Exhibits – government assistance to MSMEs that wish to participate in international trade fairs and exhibitions, including the conduct of trade fairs such as Manila FAME - the country's premier trade platform for MSME's lifestyle products, design and craftsmanship; International Food Exhibition (IFEX Philippines); National Food Fair, etc.

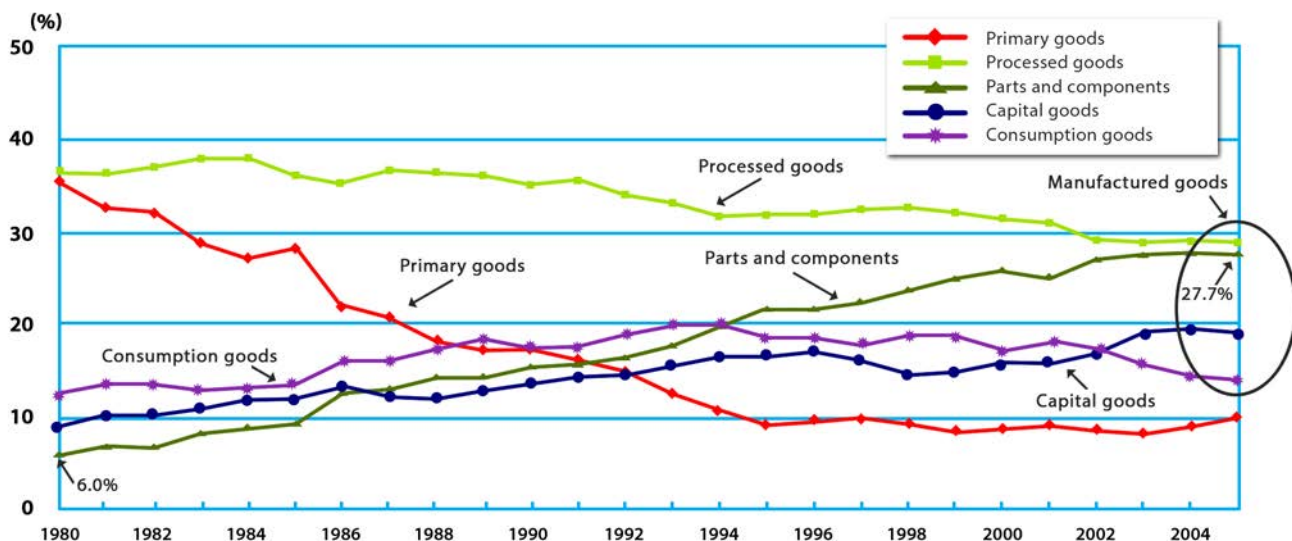
17. Business Matching and Inbound / Outbound Mission – DTI-led missions to help MSMEs promote and market their products and services and find business partners in the country and overseas. DTI organizes and assembles delegations for business travel to target markets such as North America, Europe, and Asian countries.

MARKET ACCESS FOR MSMEs

Regionalism in Asia, spurred by global value chains (GVCs) and free trade agreements (FTAs), highlights the crucial role of MSMEs in the region's development.

The trade patterns have changed as capital goods and final products no longer dominate trading across economies. Today, parts and components of products are increasingly being traded within and across

Figure 7. Trade Pattern in East Asia



industries and regions. Production processes today involve production blocks with stages of production taking place in different economies.

Figure 7 shows the increasing levels of importation of parts and components within East Asia from 7.2% in 1980 to 32.2% in 2003, while those of processed goods decreased from 37.3% to 28.0% in those same years. (Asian Development Bank, 2010)

The fragmentation of production processes and the elimination of barriers to trade generate vast opportunities for MSMEs to participate in the regional and global value chains.

Underscoring the important role of MSME participation in the regional economic order, the Philippines, as Chair of the Asia Pacific Economic Cooperation (APEC) in 2015, placed MSMEs at the “front and center” of the APEC agenda. Key outcomes of the Philippine Chairmanship in relation to the MSME agenda are outlined in Table 5.

These outcomes seek to address the barriers to trade and investment which disproportionately impact the MSMEs.

Table 5. Outcomes of APEC 2015

Leader’s Declaration: MSMEs at the Front and Center of the APEC Agenda
Participation in Regional and Global Markets
<ol style="list-style-type: none"> 1. Boracay Action Agenda to Globalize MSMEs 2. APEC Iloilo Initiative: Growing Global MSMEs for Inclusive Development 3. APEC Strategic Blueprint on GVC Development and Cooperation 4. APEC MSME Marketplace 5. Global Value Chain MSME Automotive Sector Survey 6. ABAC - AIM Study, “Going Global” (Study on how bigger businesses help smaller businesses join the value chains of production) 7. ABAC - USC Marshall School Study (Accelerating MSME Growth through Cross-Border e-Commerce) 8. Formation of the Asia Pacific Services Coalition, facilitated by ABAC
ICT and E-Commerce
<ol style="list-style-type: none"> 1. Digital Economy Action Plan for MSMEs 2. ABAC Digital Economy Principles
Access to Finance
<ol style="list-style-type: none"> 1. Cebu Action Plan 2. Financial Infrastructure Development Network
Resilience
<ol style="list-style-type: none"> 1. APEC SME Disaster Resilient Policy Framework 2. Business Continuity Planning Guidebook 3. APEC Business Ethics for SME Initiative

PHILIPPINE COMPETITIVENESS AND EASE OF DOING BUSINESS PERFORMANCE

By promoting the participation of MSMEs in GVCs and international trade, the growth that APEC helps to actualize, will be more inclusive, thus driving broader economic prosperity in the region.

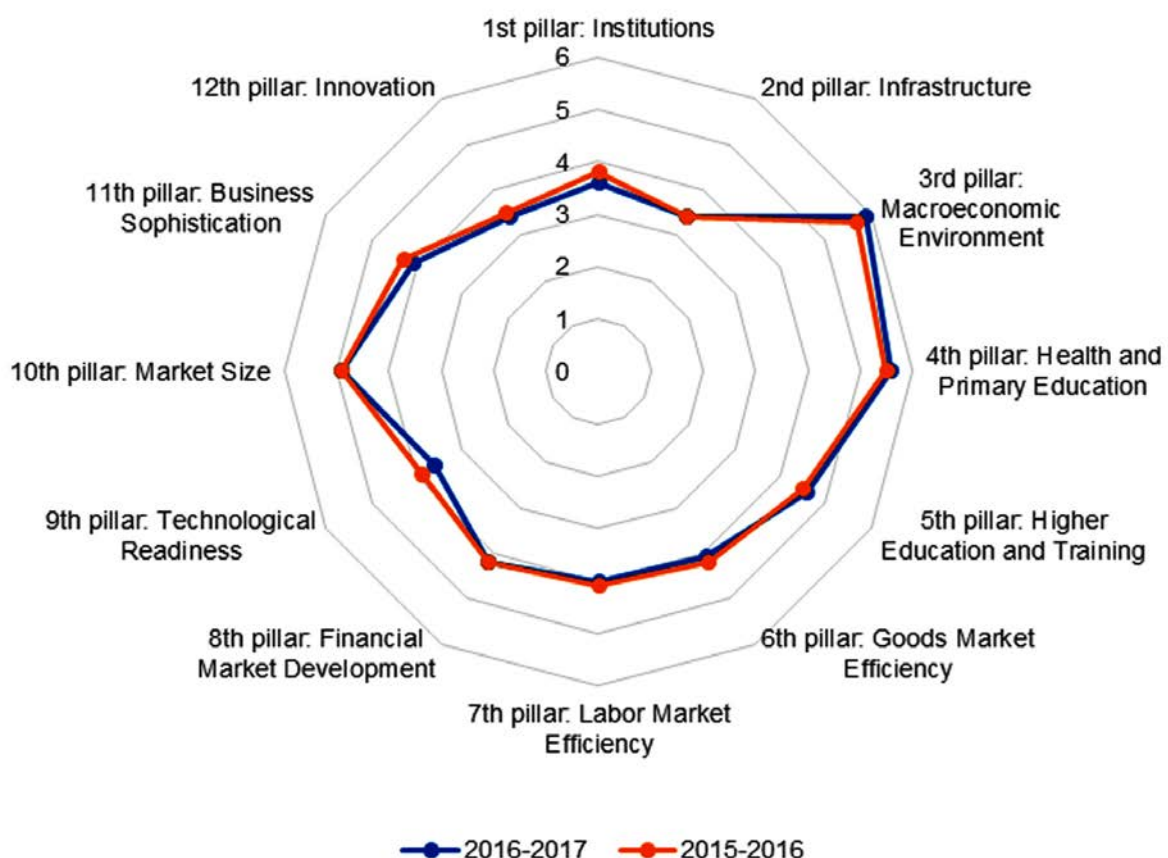
GLOBAL COMPETITIVENESS

Philippine competitiveness improved in 2015-2016, but its rating declined during the period 2016 to 2017, based on the World Economic Forum (WEF) Global Competitiveness Index.

The country's competitiveness ranking was on steady increase during the past six rating periods of WEF – from 85th in 2010-2011 to 47th in the 2015-2016 report, the latter being the highest ranking achieved by the Philippines over the past six years.

The country's world competitiveness index rating, however, slipped by 10 percentage points during the 2016-2017 rating of WEF, placing the country 57th out of 138 economies covered by the rating system.

Figure 8. World Economic Forum (WEF) Global Competitiveness Index: Philippine Performance (2015-2016 and 2016-2017)



There were six areas wherein the country's ratings dipped between the cited periods of review, including institutions, goods market efficiency, labor market efficiency, technological readiness, business sophistication, and innovation.

Minimal improvements were noted in the rating for macroeconomic environment (5.9), health and primary education (5.6), and higher education and training (4.6).

Table 6. Philippine Ranking, WEF Global Competitiveness Index (2010-2017)

Pillars	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Overall ranking	85	75	65	59	52	47	57
Institutions	125	117	94	79	67	77	91
Infrastructure	104	105	98	96	91	90	95
Macroeconomic environment	68	54	36	40	26	24	20
Health and primary education	90	92	98	96	92	86	81
Higher education and training	73	71	64	67	64	63	58
Goods market efficiency	97	88	86	82	70	80	99
Labor market efficiency	111	113	103	100	91	82	86
Financial market development	75	71	58	48	49	48	48
Technological readiness	95	83	79	77	69	68	83
Market size	37	36	35	33	35	30	31
Business sophistication	60	57	49	49	46	42	52
Innovation	111	108	94	69	52	48	62

*Note: Texts in bold font represent significant decline in ranking between the 2015-2016 and 2016-2017 ranking
Source: WEF Global Competitiveness Index, 2010 to 2017

Table 7. Comparative Global Competitiveness Ranking of Selected Economies (2016-2017)

Pillars	Germany	Japan	Malaysia	Rep. Korea	Vietnam	Philippines
Overall Ranking	5	8	25	26	60	57
Infrastructure	8	5	26	10	79	95
Macroeconomic environment	15	104	35	3	77	20
Labor market efficiency	22	19	24	77	63	86
Financial market development	20	17	13	80	78	48
Technological readiness	10	19	43	28	92	83
Market size	5	4	24	13	32	31
Business sophistication	3	2	20	23	96	52
Innovation	5	8	22	20	73	62

Source: WEF Global Competitiveness Index, 2016 to 2017, 138 economies covered by rankings

Table 8. Ease of Doing Business: Philippines (2011-2016)

Key Indicators	2011	2012	2013	2014	2015	2016
Overall ranking	134*	136	138	108	97*	103
Starting a business	156	158	161	170	157	165
Getting credit	128	126	129	86	105	109
Paying taxes	124	136	143	131	125	126
Trading across borders	61	51	53	42	94	95
Enforcing contracts	118	112	111	114	139	140

Note: * 2011 ranking was adjusted as shown in 2012 Report

**2015 ranking was adjusted as shown in 2016 Report

Source: World Bank Doing Business Reports 2011-2016

The country scored the least in infrastructure (3.4), innovation (3.4), and institution (3.6), and technological readiness (3.6) pillars.

Figure 8 highlights the little improvement the country has realized in its global competitiveness ranking between the last two rating periods. Over the past six years, the country also barely realized improvements under the pillars of institutions, infrastructure, health and primary education, goods market efficiency, and labor market efficiency. The country's ranking under these pillars over the past six years has never gone beyond the median. The country's consistently poor performance in these areas have had a significant impact on the country's competitiveness performance over the years.

There have been a couple of minor improvements in the ranking from 2010 up to the 2015-2016 but these were concentrated mainly in the pillars of technological readiness, business sophistication, and innovation. The improvements realized over the past years, however, are overshadowed by the fact that these are also the pillars that suffered some of the most significant declines in the 2016-2017 ranking. (Table 6)

Table 7 presents the Philippine ranking vis-à-vis other countries in the WEF competitiveness index. The Philippines is lagging behind Vietnam in terms of infrastructure and labor market efficiency. Vietnam has been making great strides in improving its competitiveness ranking from 2012 to 2016, declining only in the 2016-2017 ranking by 4 percentage points.

Vietnam has been having challenges in its inadequately educated workforce, policy

instability, and tax regulations, access to financing, poor work ethic in the national labor force, corruption, among others.

For the Philippines, the most problematic factors included inefficient government bureaucracy, inadequate infrastructure, tax rates, corruption, among others.

EASE OF DOING BUSINESS








The Philippines has shown improvements in terms of its ranking in the Ease of Doing Business Report published by the World Bank and the International Finance Corporation. From a rank of 134th six years ago, the Philippines improved 31 notches to 103rd in the latest Report (2016).

On a year-to-year basis, however, the Philippines' doing business environment declined from 97th in 2015 to 103rd in 2016, underscoring the need to institute business environment and ease of doing business reforms in the country.

The country's performance from 2011 to 2016 was very erratic across key indicators. While it implemented a few reforms to ease doing business, these reforms were not enough to ensure stability in the country's ease of doing business performance.

In 2015, a city ordinance restricting truck traffic in Manila adversely affected the country's ranking under the indicator "Trading Across Borders" relegating the country to the 94th spot compared to 42nd in the previous year.

Table 9. Business Reforms Instituted by the Philippines

Year	Key Indicators	Reforms / Developments Impacting Doing Business	Impact
2011	Starting a Business	• Set-up one-stop shop at municipal level to ease business start-up	
	Trading Across Borders	• Improve electronic customs systems to reduce time and costs to trade	
2012	Resolving Insolvency	• Adopted Insolvency Law with provisions on liquidation and reorganization of financially distressed companies	
2013	None	• No business reforms	N/A
2014	Getting Credit	• Began to distribute positive and negative information • Enacting data privacy law to guarantee borrowers' right to access their data	
	Paying Taxes	• Introduced electronic filing and payment system for social security contributions	
2015	Trade Across Borders	• City ordinance restricted truck traffic in Manila	
2016	Starting a Business	• Streamlined communications between Securities and Exchange Commission and the Social Security System, thus expediting process of issuing employer registration number	

MSME SECTOR PERFORMANCE

Table 9 highlights the business reforms initiated by the Philippines in various policy and regulatory fronts. These measures impact upon MSMEs.

The Mid-Term Review of the MSME Development Plan for 2011-2016 revealed that the programs implemented under the plan helped generate new employment, generating a total of 1,555,554 new MSME employment from 2011 to June 2013. This figure is 75% of the MSME Development Plan's 2 million-employment target.

Table 10 highlights key outputs and outcomes of the MSME Programs implemented by government agencies, based on the Mid-term Review of the MSME Development Plan 2011-2016.

Notwithstanding these achievements, it is worth noting that the Philippines ranked 5th in the ASEAN SME Policy Index performance, highlighting the need to improve its policy regime for the MSME sector. With an over-all aggregate score of 3.8, the Philippines barely surpassed the ASEAN average of 3.7.

The SME Policy Index jointly developed by the Economic Research Institute for ASEAN and East Asia (ERIA), the Organisation for Economic Co-operation and Development (OECD), and members of the ASEAN SME Working Group aims to review the effectiveness of MSME policies across economies and examine the effectiveness of their implementation.

Figure 9 shows the country's over-all SME policy performance, lagging behind Singapore,

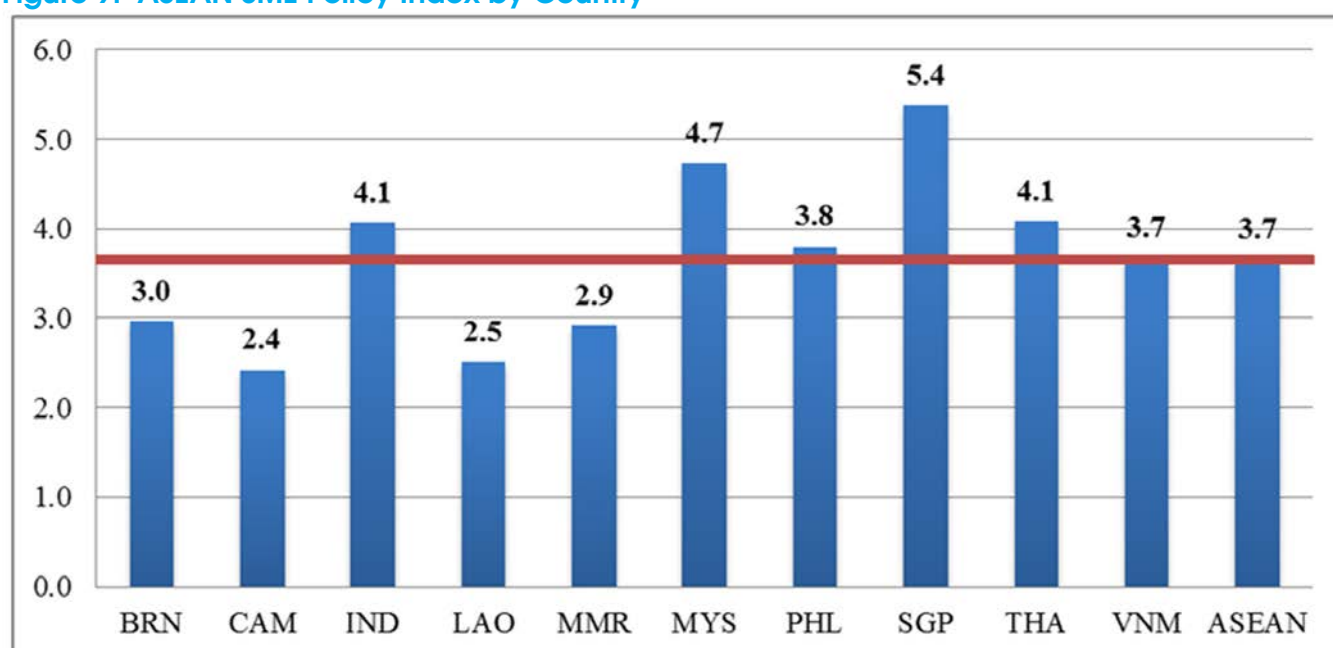
Table 10. MSME Development Programs Scorecard

Program Areas	Outputs and Outcomes
Based on MSME Development Plan 2011 to 2016 Mid-Term Update	
Enhancing Business Enabling Environment	<ul style="list-style-type: none"> 926 LGUs have streamlined their business registration process compared to only 82 in 2010
Increasing Access to Finance	<ul style="list-style-type: none"> PhP257 Billion worth of loans released, more than double the amount of loans released in 2010 which was only PhP100 Billion Increase in number of MSME borrowers from government financial institutions (GFIs) and government owned and controlled corporations (GOCCs)
Strengthening Access to Markets	<ul style="list-style-type: none"> Generated USD1.34 Million worth of exports with support and intervention from trade fairs and other export marketing events Generated PhP431 Million worth of domestic sales from trade fairs and expositions
Improving Productivity and Efficiency	<ul style="list-style-type: none"> 52,586* MSME beneficiaries attended training programs conducted by the following institutions: <ul style="list-style-type: none"> Philippine Trade Training Center UP – Institute of Small Scale Industries DTI-Bureau of MSME Development
Based on Individual Program Reports	
Enhancing Business Enabling Environment	<p>Go Negosyo</p> <ul style="list-style-type: none"> Established 144 Negosyo Centers in 2015 to promote ease of doing business and to facilitate access of MSMEs to services
Strengthening Access to Markets	<p>Doing Business in Free Trade Area (DBFTA)</p> <ul style="list-style-type: none"> Conducted DBFTA sessions nationwide. DBFTA in the recent years benefit over 25,000 MSME participants/owner/s employees.
Improving Productivity and Efficiency	<p>Shared Services Facility</p> <ul style="list-style-type: none"> Established 1,434 SSFs to reach the grassroots level <ul style="list-style-type: none"> Some of these facilities are Fabrication Laboratories (FabLab) such as those unveiled in Ilocos and Bohol <p>DOST-SET-UP</p> <ul style="list-style-type: none"> Various regions reported achieving 100% target number of projects
MSME Advocacy	<ul style="list-style-type: none"> Launched Negosyo ATBP, a business education radio program that seeks to raise public awareness on MSMEs government programs and success stories

Note: This list reflects the major milestones

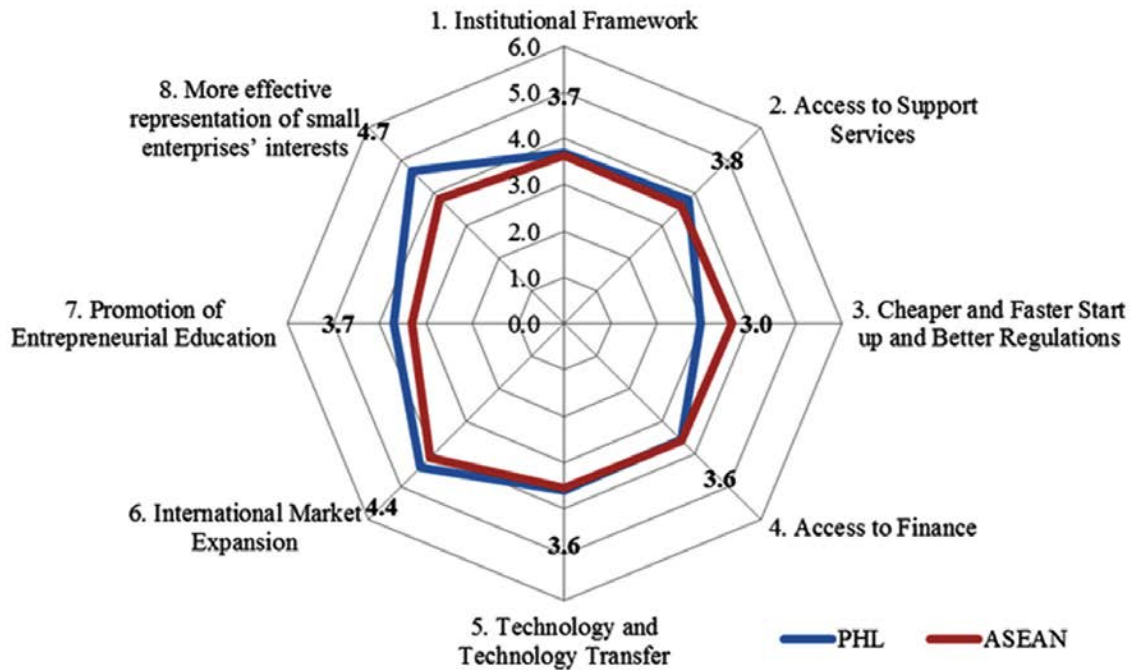
*Does not include beneficiaries of other training programs done by other agencies such as DOST, TESDA, etc.

Figure 9. ASEAN SME Policy Index by Country



Source: Economic Research Institute for ASEAN and East Asia (ERIA), OECD

Figure 10. Philippine SME Policy Index



Source: Economic Research Institute for ASEAN and East Asia (ERIA), OECD

According to the OECD, the Philippines achieved moderate success in the implementation of its MSME Development Plan.

Malaysia, Indonesia, Thailand, and barely outperforming Viet Nam. The Philippines is the only founding member of ASEAN that failed to achieve a 4+ rating based on this OECD index.

The Philippine performance was based on a detailed review by the OECD of eight policy dimensions, highlighted in Figure 10.

The Philippines ranked highest in more effective representation for SMEs (4.7) and ranked lowest in cheaper, faster start-up and better legislation (3.0).

Specifically, the report cited the following dimensions where the Philippines will need to improve on:

1. Review and amendment of legislations and regulations; and
2. Use of Regulatory Impact Analysis (RIA).

The following are the policy dimensions wherein the Philippines ranked below the ASEAN average.

Table 11. Philippine SME Policy Index Rating vis-à-vis ASEAN Rating

Policy Dimension	Philippine Score	ASEAN Average
INSTITUTIONAL FRAMEWORK		
SME definition	4.0	4.2
SME development strategy	3.5	3.8
Facilitation for a transition from informal to formal (registered) sector	2.0	2.7
ACCESS TO SUPPORT SERVICES		
Government action plan on development of SME support services	3.5	3.7
CHEAPER AND FASTER START UP AND BETTER LEGISLATION AND REGULATIONS		
Number of administrative steps for obtaining the business registration certificate	4.0	4.6
Completion of the overall registration process and entry in operations	2.8	3.4
On-line registration	3.0	3.9
Progression to one-stop-shop (OSS)	4.0	4.1
Review and amendment of legislations and regulations	2.5	3.4
Use of Regulatory Impact Analysis (RIA)	1.5	3.3
ACCESS TO FINANCE		
Cadastre (including land use right)	3.5	4.2
Creditor rights	3.0	3.9
Credit bureau/ registries (not limited to SME)	1.5	3.3
Microfinance Facilities (including Credit Unions)	4.0	4.1
TECHNOLOGY AND TECHNOLOGY TRANSFER		
Promote Technology Dissemination	3.5	3.6
Information on innovation support services	1.0	2.9
Technology support in Universities, R&D Labs and Incubators with SMEs Linkages	3.5	3.6
Sciences / industrial parks, competitive clusters and facilities (agglomeration)	3.0	3.3
Financial Incentives	3.0	3.1
PROMOTION OF ENTREPRENEURIAL EDUCATION		
Support of Entrepreneurial Learning in higher education	3.5	3.7
PHILIPPINE AVERAGE SCORE VERSUS ASEAN		3.7
PHILIPPINE AVERAGE SCORE VERSUS SINGAPORE, MALAYSIA, INDONESIA, AND THAILAND		4.5

Source: Economic Research Institute for ASEAN and East Asia (ERIA), OECD

To better appreciate the results of this review, Table 12 below presents the Philippine Ease of Doing Business Performance vis-à-vis other countries' performance. The Philippines fared poorly, including in the dimensions of Starting a business, Getting credit, and Enforcing contracts.

Table 12. Comparative Performance of Countries on Ease of Doing Business (189 countries, 2016)

	Germany	Japan	Malaysia	South Korea	Vietnam	Philippines
Overall Ranking	15 th	34 th	18 th	4 th	90 th	103 rd
Starting a business	107 th	81 st	14 th	23 rd	119 th	165 th
Number of procedures	9	8	3	3	10	16
Time required	10.5 days	10.5 days	4 days	4 days	20 days	29 days
Cost (% of income per capita)	1.8	7.5	6.7	14.5	4.9	16.1
Getting credit	28 th	79 th	28 th	42 nd	28 th	109 th
Depth of credit information index (8 as highest)	8.0	6.0	7.0	8.0	7.0	5
Credit registry coverage (% of adults)	1.6%	0%	57%	0%	41.5%	0%
Credit bureau coverage (% of adults)	100%	100%	77.1%	100%	6.9%	14%
Getting credit	72 nd	121 st	31 st	29 th	168 th	126 th
Number of payments per year	9	14	13	12	30	36
Total tax rate (% of profit)	48.8%	51.3%	40%	33.2%	39.4%	42.9%
Trading across borders	35 th	52 nd	49 th	31 st	99 th	95 th
Time to export (border compliance)	36 hours	48 hours	20 hours	14 hours	57 hours	42 hours
Time to export (documentary compliance)	1 hour	3 hours	10 hours	1 hour	83 hours	72 hours
Time import (border compliance)	0 hour	48 hours	24 hours	6 hours	64 hours	72 hours
Time to import (documentary compliance)	1 hour	3 hours	10 hours	1 hour	106 hours	96 hours
Enforcing contracts	12 th	51 st	44 th	2 nd	74 th	140 th
Time required	429 days	360 days	425 days	230 days	400 days	842 days
Cost (% of claim)	14.4	23.4	37.3	10.3	29	31

Source: Ease of Doing Business (2016)

LESSONS FROM OTHER ECONOMIES

TAIWAN

SMEs in Taiwan occupy an important part in its economic story. Characterized as dynamic, diverse, innovative, and creative, Taiwan's SMEs play a crucial role in the industrial and services sectors. They have also contributed largely to Taiwan's foreign trade due to their strong export sales capability.

Reaching a record number of 1.33 million in 2013 (representing 97.64% of total Taiwanese enterprises), SMEs' sales totaled NT\$11,322 billion or about 30% of total enterprise sales in the country. It employed 8.55 million people, accounting for 78.3% of the country's total employment.

SME Development Policy

The growth of SMEs in Taiwan is a product of decades long economic policy planning, cultural factors, technology, and economic integration.

The story of Taiwan's economic development is divided into seven periods: (1) Economic Reconstruction, (2) Import Substitution, (3) Rapid Export Growth, (4) Second Import Substitution, (5) Emergence of Hi-tech Industries, (6) Changing Industrial Structure, and (7) Innovation and R&D. Experts trace back efforts to build an enabling environment for SMEs to Taiwan's "Land to the Tiller" program in the 1950s which made farmer-tenants owners of their fields, as well as the compulsory education policy in 1968.

But a key milestone in Taiwan's SMEs journey is the State's issuance of the Statute for SME Development in the 1990s which has become the key basis of the government's SME assistance program. Through this, it set-up an SME Development Fund amounting to US\$358 million.

Taiwan's recognition of the role of SMEs in the country has been made more evident when it incorporated an SME Protection Clause in its Constitution. This move is seen to have helped create a culture of friendly environment for SMEs in the country. It set the tone towards SMEs' further development and growth.

The lead players in Taiwan's SME Development are the "black-hand bosses." They are owners of SMEs who used to be expert machinists or apprentices who left their jobs in the factories to start their own businesses. They would usually congregate in areas where there are large concentrations of other black-hand entrepreneurs and sub-contract requirements to one another, exchange production inputs, or sell raw materials to one another. This practice has led to the birth of production networks in Taiwan and helped boost SMEs' export capability.

Two key developments in the business environment have also impacted the way SMEs do business -- technology and innovation, as well as globalization and economic integration.

SMEs embraced innovation and R&D to ensure that they are able to access and maximize the opportunities offered by globalization and regional integration. Technology-based infrastructure such as the Internet, e-commerce, and other information technology (IT)-enabled processes were employed to widen their markets.

Institutional Support and Strategies

The SME Administration (SMEA) is responsible for developing and implementing Taiwan's SME strategies and programs. It is headed by a Director-General and supported by two deputies. It is an independently structured entity that is under the control and supervision of the Ministry of Economic Affairs.

Taiwan's SME development strategies are focused on four areas:

- Improving financing services and boosting investment in SME sector
- Encouraging SMEs to upgrade and enhance their R&D capabilities

- Putting mechanism to support business start-up and incubation
- Promoting in-depth development of local industries

Strategy 1: Improving financing services and boosting investment in SME sector

Young Entrepreneur

Start-Up Financing Loans

Launched in 2012, this program provides loans to young entrepreneurs aged 26 to 45 at preferential interest rates to help them kick-start their businesses.

Strategy 2: Encouraging SMEs to upgrade and enhance their R&D capabilities

Promoting Cloud Computing Services

The SME Cloud Computing Promotion Service Center helps SMEs utilize cloud computing-based services.

A+ Innovation and R&D Program

The government provides subsidy for SMEs to engage in technology R&D investment, which may be high-risk but is forward-looking.

Strategy 3: Putting mechanism to support business start-up and incubation

Taiwanese SME Incubation Centers

Latest data show there are a total of 131 incubation centers in Taiwan. Of these, 76 receive subsidies from SMEA, while 5 are directly operated by the agency:

- Nankang Software Innovation Center (e-commerce, embedded systems, software, network communications)
- Nankang Biotech Incubation Center (pharmaceuticals, medical equipment, healthcare, agricultural biotechnology)
- Kaohsiung Software Incubation Center (digital content, software, technology services)
- NCKU Incubation Center (biotechnology and healthcare, green energy, environment, precision machinery)
- Hsinchu Biomedicine Industrial and Incubation Center (biotech industry development chain)

Micro Start-up Phoenix Plan.

This aims to boost labor participation of females and encourage middle-aged individuals to start their own enterprises. It provides participants with advisors and assistance in securing loans.

Strategy 4: Promoting in-depth development of local industries Building Regional Brands: "Bright Spots" and "Town Brands".

This program seeks to enhance a particular town's overall production value, improving the image of local specialty industries, and boost the products' international viability.

Promoting Collaboration between Taiwan and Japan SMEs

This program facilitated cooperation discussions between 164 Japanese SMEs and 495 Taiwanese SMEs which led to 50 strategic partnerships for business opportunity amounting to NT\$5.1 billion. It has also implemented Taiwan-Japan Cooperation and Exchange Promotion Platform (see www.technomart.org.tw).

Some of Taiwan's more successful SME development programs are:

"Hidden Champions"– 50 outstanding SMEs are selected by MOEA and supported in terms of branding, marketing, and technological capabilities. The success of the SMEs is expected to result into 10,000 quality jobs.

SME Incubation Centers – Taiwan's incubation centers had incubated 5,885 SMEs and 2,717 start-ups from 1997 to 2013. Through the help of the program, the firms were able to secure 3,469 patents and employed 128,990 people. Sixty-eight (68) of the incubated SMEs have secured stock market listing.

SME Credit

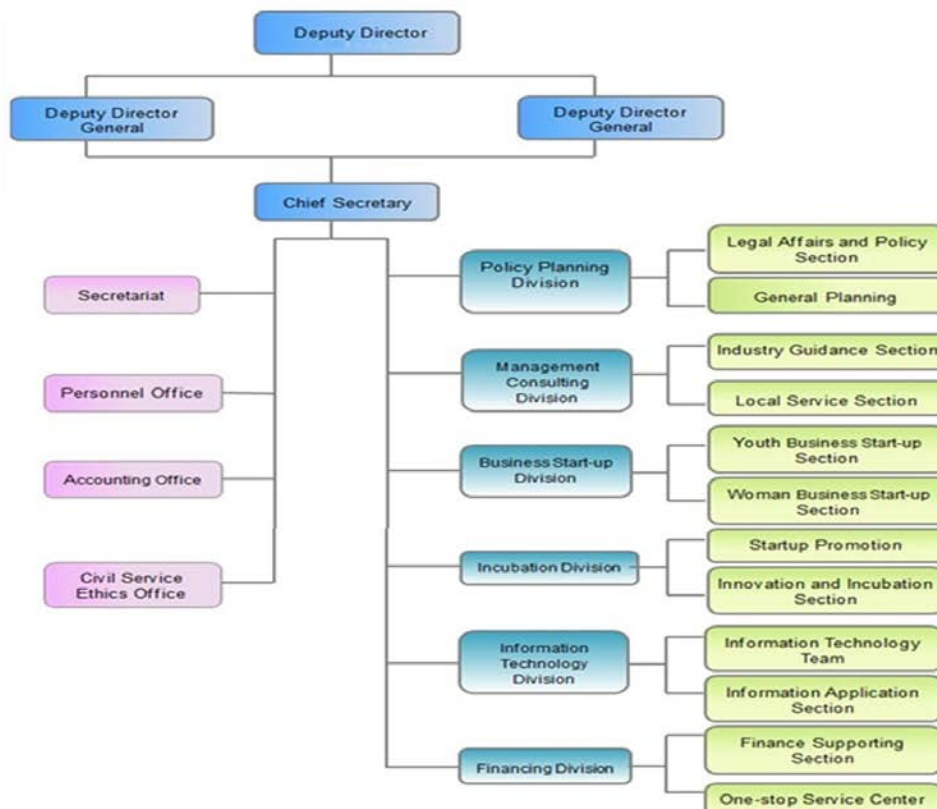
Guarantee Program - As of 2014, the program has benefited a total of 353,960 enterprises, with a cumulative credit guarantee volume of NT\$8,776.4 billion loans. The loans have helped reduce the negative impact of the global economic crisis on SMEs in Taiwan.

Support for Female-Owned SMEs – APEC has likewise recognized Taiwan's efforts in promoting participation of females in SMEs. One of its key programs toward this end is Micro Start-Up Phoenix Plan.

Table 13. Taiwan’s Economic Development Policy in Retrospect

Pillars	Germany
First Period: 1940s Economic Reconstruction	Post World War II, Taiwan’s priority was given to increasing agricultural and industrial production.
Second Period: 1950s Import Substitution	The government encouraged private enterprises to import raw materials and inputs to increase production of consumer goods that could replace imported products in the market. SMEs started to produce for the domestic market.
Third Period: 1960s Rapid Export Growth	The implementation of Statute for the Encouragement of Investments and emergence of export processing zones saw rapid growth of exports. SMEs’ flexibility and cheap labor made it competitive in the export market.
Fourth Period: 1970s Second Import Substitution	The government launched Ten Major Construction Projects and strengthened infrastructure to promote capital-intensive industries including machinery and manufacturing. Trade surplus grew. Many SMEs, particularly exporters, used sub-contracting model to remain resilient amid oil crisis and protectionist trade policies.
Fifth Period: 1980s Emergence of Hi-Tech Industries	The Hsinchu Science-based Industrial Park facilitated the development of high-tech industries. A new breed of SMEs began to emerge as businesses invested in R&D, technology, and international competitiveness.
Sixth Period: 1990s Changing Industrial Structure	The government started to pay attention to SMEs through the following: <ul style="list-style-type: none"> • Statute for the SME Development • Statute for Upgrading industries • Six-Year National Development Plan • SME Protection Clause in the Constitution • Tax incentives for R&D • SME manpower training
Seventh Period: 2000s to present Innovation and R&D	Government envisioned Taiwan as a Green Silicon Island. Its economic plan and policies gave priority to the promotion of innovation-oriented industrial policy, creation of R&D Centers by foreign corporations, and setting up local innovation and incubation centers for SMEs. SMEs were encouraged to transform themselves into businesses in a high-value added industrial era.

Figure 11. Organizational Structure of the MOEA-SMEA



Source: Taiwan MOEA SME Administration Website

The SME sector is long viewed as a driving force for wealth creation and serves the role of incubators for innovation.

UNITED STATES OF AMERICA

SMEs play a vital role in the economy of the United States. They account for 50% of private sector employment, and generate 64% of new private sector jobs.

SME Development Policy

The Small Business Act of the United States, as amended, establishes the indispensable role of small businesses in the preservation and expansion of free competition – a basic element not only to the economic well-being but to the security of the nation. As such, it is the policy of the US to encourage and develop the “actual and potential capacity of small business.”

The Small Business Act provides that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business in order to preserve free competitive enterprise, to ensure “that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government be placed with small business enterprises to ensure that a fair proportion of the total sales of Government property are made to such enterprises.”

The US also seeks to assist small businesses to increase their ability to compete in the international market.

Institutional Support and Strategies

The US SME assistance tradition dates way back in 1953 when the government established the US Small Business Administration (SBA). SBA’s mission is to “help small businesses in the US start, build, and grow their businesses.”

SBA provides Contracting Support, Counseling Services, Capital, and Disaster Assistance to SMEs.

SBA operates 10 regional offices, 74 district offices, and 7 disaster center offices across the country.

To ensure delivery of services and wider reach, it also partners with a number of organizations such as the following:

- **SCORE** – a non-profit organization of volunteer business counselors
- **Women’s Business Center** – a network of 100 educational centers assisting women start their own enterprises
- **US Export Assistance Center** – provides export assistance to SMEs expanding abroad. It is manned by an SBA staff, a bank representative, and staff from other public and private organization.
- **Veteran Business Outreach Center** – provides entrepreneurial services for eligible veterans owning or wanting to start a business
- **Certified Development Companies** – regulated by SBA to provide financing to SMEs
- **Regional Innovation Clusters** – geographic concentration of interconnected companies, suppliers, associations that have a specific industry focus
- **Scale-Up America Communities** – SBA structured this community-focused initiative to help firms grow by leveraging on the resources they have in their areas.

The SBA adopted the following strategies for 2014-2018:

- **Growing businesses and creating jobs** – Under this strategy, SBA expands access to capital and opportunities for small businesses; strengthens entrepreneurial education, counseling and training resources to help create new businesses and support the needs of existing businesses; ensures quick deployment of SBA’s disaster assistance resources for businesses; drives innovation and job creation; and strengthens outreach to underserved communities and populations.
- **Meeting the needs of today’s and tomorrow’s small businesses** – Part of this strategy includes strengthening SBA’s core programs

and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community; investing in SBA employees; mitigating risks to taxpayers and improve oversight across SBA programs.

•Serving as the voice for small business – Under this strategy, SBA collaborates with other agencies to strengthen the delivery of programs, resources and services; fosters small business-friendly environment by encouraging Federal Agency awareness about the impact of unfair regulatory enforcement and compliance efforts, reducing burdens on small business; and promotes the availability, analysis, and dissemination of the most current, accurate, and detailed statistics possible on small business.

Table 14. US SBA Programs for SMEs

US Small Business Administration 3C and D Program for SMEs			
Contracting	Advisory/ Counselling	Finance	Disaster Assistance
Allocation of government contracting opportunities for SMEs Mentoring/ Protégée program for government contracting Match-making events	Hands-on training and mentoring programs Online-training courses Expert advice	SBA-guaranteed loans for: <ul style="list-style-type: none"> • Working capital • Replenishing seasonal inventory • Building expansion / renovation • Purchase of equipment 	Low-interest, long-term disaster assistance loans for physical and economic damage caused by disasters

MALAYSIA

SME development has always been an integral part of Malaysia's mid- and long-term development plans such as the 15-year Third Industrial Master Plan (2006 – 2020). This underscores the great import placed by the Malaysian government on SMEs as a driver for economic growth.

Malaysia's SMEs account for 97.3% or 645,136 of total business establishments in 2010.

SMEs are concentrated in the services sector, accounting for 90% or 580,985 establishments; 6% (37,861) are in the manufacturing sector; 3% in the construction sector (19,283); 1% (6,708) in the agriculture sector; and 0.1% in the mining and quarrying sector.

SMEs' contribution to the Malaysian economy is immense as shown by the figure below.

SME Development Policy

Malaysia's SME Masterplan (2012-2020) charts the policy direction of SME development until the year 2020.

Malaysia aims to increase SME contribution to GDP to 40% by 2020.

Its primary goal is to accelerate the growth of SMEs via innovation-driven and productivity-led strategies for Malaysia with the view to realizing a high-income nation status by 2020.

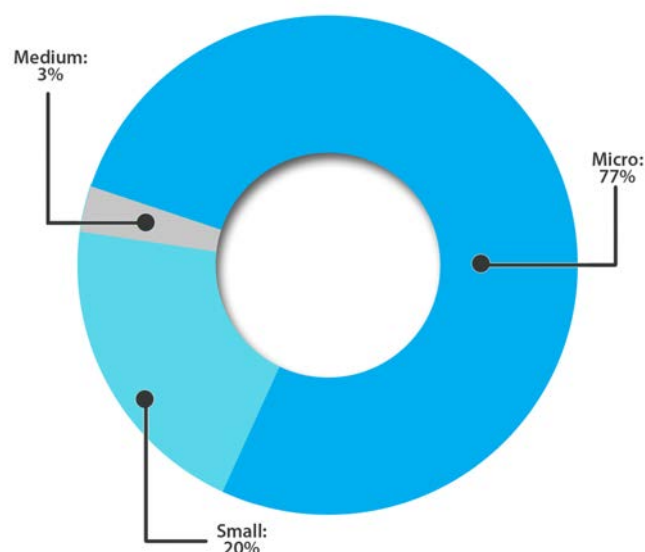
Institutional Support and Strategies

The National SME Development Council (NSDC) was established in 2004 and is chaired by the Prime Minister, underscoring Malaysia's high level commitment in promoting SMEs. It is headed by a Chief Executive Officer.

The NSDC coordinates the efforts of various Ministries and agencies that implement SME related programs. The NSDC mandate includes:

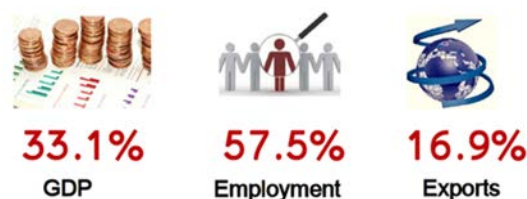
- Formulation of policies and strategies to develop SMEs across all sectors;
- Review of roles of ministries and government agencies involved in SME development;

Figure 12. Distribution of SMEs by category



Source: SME Corporation Malaysia

Figure 13. Distribution of SMEs by category



Source: SME Corporation Malaysia

- Improve collaboration between ministries and government agencies and carry out coordination work to ensure effective implementation of SME development policies;
- Guide private sector to cooperate in developing SMEs.

The SME Corporation is dedicated solely to the mandate of promoting the development and growth of SMEs and is being run like a private enterprise. Its strategies are focused on:

- Innovation and technology adoption
- Market access
- Human capital development
- Legal and regulatory environment
- Access to financing
- Infrastructure

Figure 14. Organizational Structure of SME Corp Malaysia

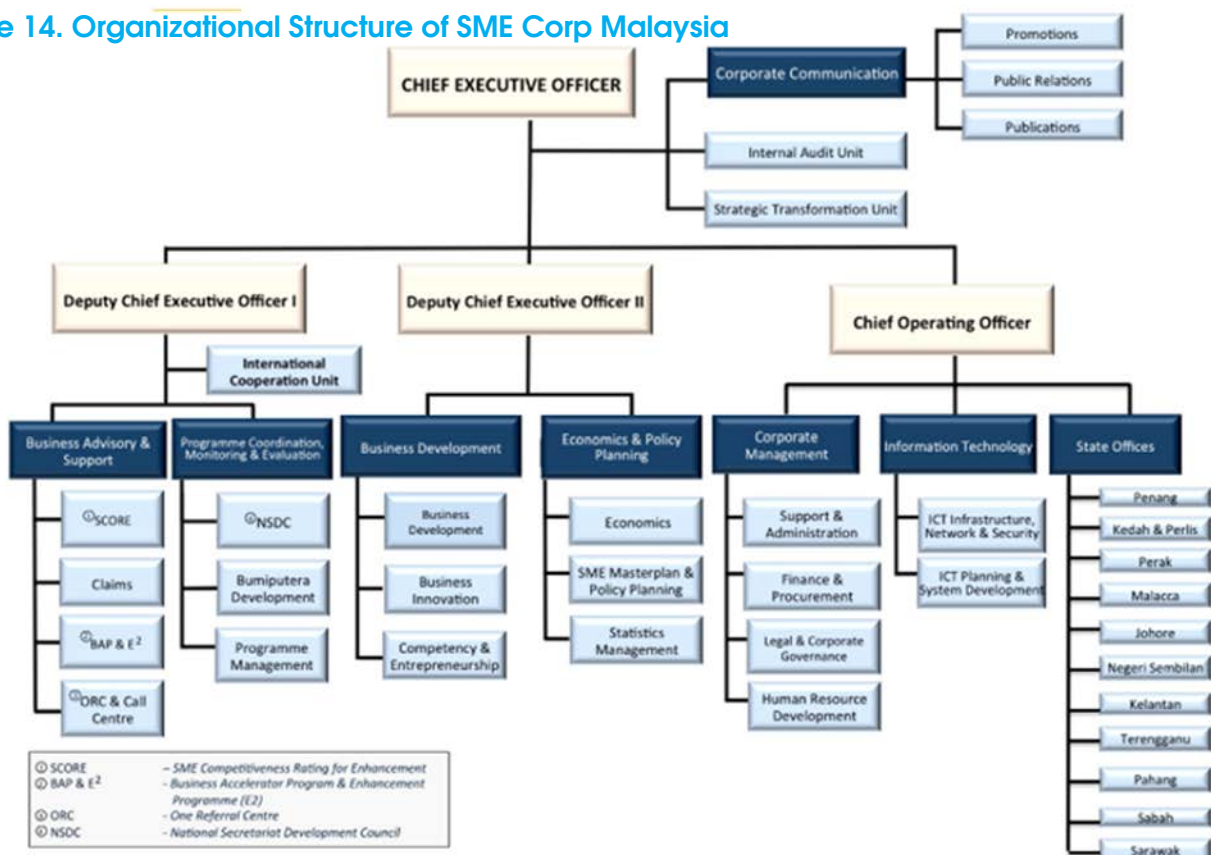
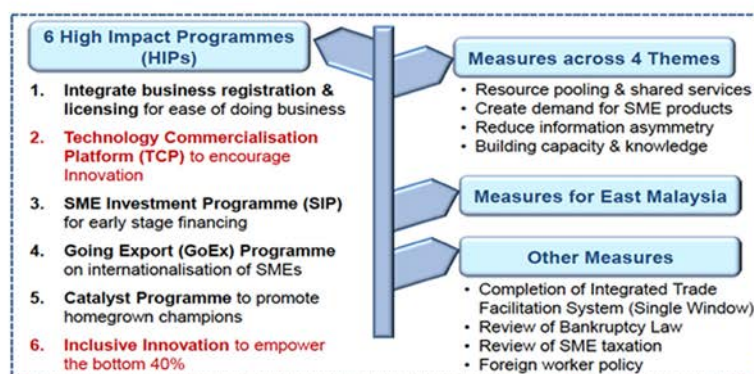


Figure 15. Malaysia's Six High Impact programs for SMEs



Source: SME Corporation Malaysia

GERMANY

Eighty percent of the world's medium sized market leaders are based in Germany or Scandinavia. (Economist, November 25, 2010)

Germany's economic power is significantly shaped by SMEs. Around 99 percent of all companies in Germany are classified as SMEs. These are family owned enterprises that are often passed on from one generation to another. They are able to adapt to new markets and are capable of innovating new products and services.

Germany's micro, small and medium enterprise sector is summed up in one international brand – German "Mittelstand."

There are 3.7 million German Mittelstand (GM) companies in Germany, representing 99.6% of the country's total enterprises and accounting for 56.5% of Germany's total net added value. MSMEs employ more than 15 million people or almost 60% of the entire employee population.

In 2014 alone, GM firms created jobs for almost one million people; in contrast, large companies cut more than half a million jobs.

Ninety percent of Germany's Mittelstand operate in business-to-business markets and seventy percent are located in Germany's countryside.

Germany defines "Mittelstand" as companies with less than 500 employees and/or those that possess the Mittelstand mindset, characterized by the entrepreneur's sense of ownership of the business' risks and liability, and a strong responsibility for the company's success, staff, and the region or community in which it is a part of.

Almost all German businesses fall into the Mittelstand category, ranging from traditional artisan businesses to small and high technology firms, to globally renowned engineering and manufacturing companies.

Exports are driven by Germany's backbone of highly innovative small and medium-sized enterprises (SMEs).

These constitute 99.6 % of all companies, employing almost 80 percent of all employees in Germany. Many of these SMEs are world market leaders in their respective niche segments. Together with internationally leading

large companies – including Bayer, BASF, Daimler, Volkswagen, and Siemens to name but a few – they make up Germany's manufacturing industrial base.

SME Development Policy

The number of SMEs and their unique characteristics make the German economy less vulnerable to economic volatility. Their important role in the economy and their resilience put SMEs at the core of Germany's economic development policy.

Germany's experience in MSME development is unique in view of the mandated role of private sector organizations in delivering services for MSMEs.

Business chambers are agents of public interest in Germany and as such, the law requires that their opinions are solicited and considered by the government with regard to any decision that could impact upon MSMEs.

The unique characteristics that define the German Mittelstand brand are as follows:

1. GM value their employees and their employees' families

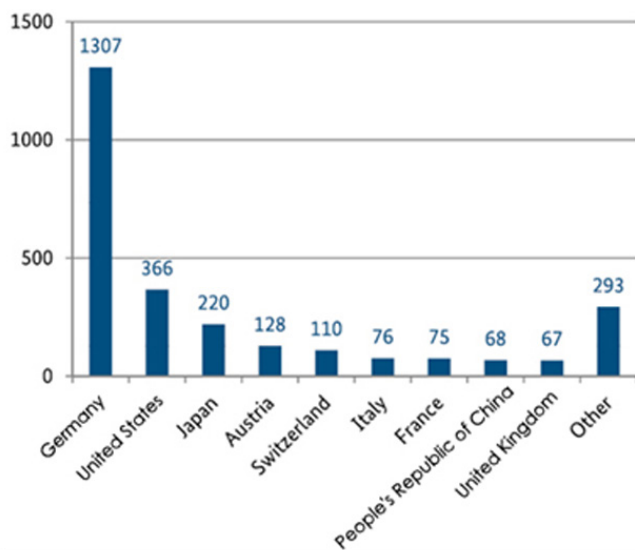
Employees of SMEs in Germany are generally satisfied with how they are treated in their jobs based on a survey by the University of St. Gallen among 14,701 SME employees. Employees generally feel a sense of community at work. (David B. Audretsch, 2016)

Taking into account their employees' responsibilities at home, GM companies extend policies allowing their people to spend time with their families. Seventy percent (70%) of employees surveyed have flexible working hours, 24% could work mobile, and 15% are entitled to sabbaticals.

2. GM companies are global, modern, and cosmopolitan

MSMEs in Germany are global market leaders in their respective industries, producing specialized and niche products and services. Called "hidden gems," these companies number 1,300 -- far more than the number of companies that are in the same category in other countries – 366 in the United States, 220 in Japan, and 128 in Austria.

Figure 17. Hidden Gems by Country (2012)



Source: ADB, Sebastian Paust, *The German Mittelstand: A Model for Emerging Asia's Economies?*

These global market leaders are based outside Germany's urban areas. Top areas producing hidden gems are Hamburg, Munich, Nuremberg, and Heilbronn.

Most of the German MSMEs are exporters, even those that have only 50 to 100 employees. These exporting companies sell 20% of what they produce to overseas markets. Latest data show 98% of exporting companies in Germany belong to the German Mittelstand category and only 2% are large companies.

3. GM companies are innovative and technology-driven

True to Germany's traditional taste for inventing, German MSMEs are driven by technology and are passionate about innovation.

On a yearly basis, about 90% of patent applications in Germany are said to come from GM firms.

The government supports the use of information and communication technology (ICT) in MSMEs to help ensure they remain competitive. At the firm level, employees are encouraged to take part in innovation processes regardless of the discipline area they work for – development, production, research, or sales and marketing.

4. GM companies do business for the long term

MSMEs in Germany, especially those in the motor industry, invest billions of euros to fuel corporate growth and innovation. GM firms build financial "buffers" to prepare for leaner years, and possible financial or economic crises.

Most GM companies are financially stable and could do business even at times of crisis.

A year after the 2009 economic crisis, the GM firms immediately recovered; 47% of the companies were even able to invest a total of 143 billion euros.

5. GM companies are socially responsible

MSMEs in Germany demonstrate strong sense of active citizenship and social commitment.

MSMEs put in large amount of money in projects for children, young people, and those with cultural and social objectives.

Institutional Support and Strategies

The Federal Ministry of Economics and Technology is responsible for developing and administering Germany's policies and programs for SMEs. Its primary task is to reinvigorate the social market economy, promote innovation in the long term and "strengthen the social fabric in Germany." One of its key objectives is that of supporting German companies, particularly SMEs, with the view to accessing international growth markets. There are separate directorates for SME Policy, and Digital and Innovation Policy. Under the Ministry are six distinct authorities.

The Federal Office for Economic Affairs and Export Control (BAFA) is a higher federal authority that exercises federal responsibilities in the fields of foreign trade and payments, business promotion and energy. One of its core responsibilities is export control and economic development, under which programs for SMEs are developed and implemented.

The BAFA is headed by a President and is supported by four directorates. It currently has a staff of 621.

The Federal Republic of Germany provides a number of programs for SMEs, including financial support and advisory services.

In Germany, promotional activities for micro-, small- and medium sized enterprises can be structured

according to financing and implementing institutions, namely:

- Promotional activities and programs implemented by the Chambers: Chambers of Industry and Commerce as well as the Chambers of Skilled Crafts;
- Promotional activities and programs by Industrial Associations (i.e., the Bundesverband der Deutschen Industrie, Federation of German Industry)
- Government programs as well as programs offered by the European Union.

The Federal Government implements a number of programs for MSMEs -- financial support for business start-ups and already existing MSMEs; consultancy services; financing R&D to support MSME internationalization; among others.

There exists about 1,000 support facilities for SMEs in Germany today.

In supporting SMEs, the European Union is beginning to play an increasingly important role. The relevant programs and initiatives of EU can be divided into three categories:

- Structural-political programs, with the aim of dismantling economic disparities between the various EU countries and regions;
- Programs for developing economic networks for the business communities within the EU, including networks of European and extra-European business;
- Individual programs to support SMEs in particular, with the general aim of increasing the international competitiveness of the businesses - through support for R&D in the businesses, participation in trade fairs etc.
- Financing programs for special purposes for SMEs.

The Role Of Business Membership Organizations In Strengthening German SMEs

The services offered by the business chambers and BMOs, include the following (Sequa, 2013):

1. Representation of SME interests

Business chambers are tasked under German law to represent the interests of MSMEs by advising authorities and submitting proposals and expert opinions on matters relevant to MSMEs. At municipal levels, local chambers must be heard and consulted on regulations and policy development initiatives, i.e., industrial zone planning.

2. Vocational Training and Education

The business chambers are also responsible for the vocational training of MSMEs. Their roles include registration and approval of apprenticeship training contracts, holding examinations, supervision of in-company training, developing and executing training regulations, and conduct of practical and advanced training.

3. Offers of Information

BMOs offer relevant information to MSMEs in various subjects and sector or industry-specific themes. Information are cascaded through events, computer-based information sources such as databases, and online platforms including websites and online help desks.

4. Consultancy Services

BMOs have a huge network of consultants ready to assist companies, including MSMEs. The government's support comes in the form of financing the fees of commercial and technical consultants and granting allowances for the BMOs' operations.

The consultants offer MSMEs free 'first consultation' hours, which, on average, last 6.7 hours. They give MSMEs advice in the fields of business, internet and communication, public relations and advertising, international trade, environment, taxation, and investment planning.

BMOs also play an active role in the implementation of public support programs for SMEs.

Table 15. German Government MSME and BMO MSME Programs

Government Level	MSME Promotion Initiatives	Role of BMOs
Central Government / Federal	<p>'Germany – country of business start-ups' campaign</p> <ul style="list-style-type: none"> • Advertising by potential entrepreneurs • Financing opportunities for business start-ups 	<p>BMOs establish one stop shops which serve as central point of contact for business founders</p> <p>BMOs process applications of potential entrepreneurs for coaching</p> <p>BMOs act as advisors to help SMEs access financing</p>
	<p>Financing aids through credit guarantees, subsidized loans, etc.</p>	<p>BMOs help through:</p> <ul style="list-style-type: none"> • Information sharing / dissemination • Advisory services • Seminars and training on company financing • Establishing own guarantee facilities for their members
German States	<p>Economic policy formulation</p>	<p>BMOs and state government work together in developing policies for MSME promotion</p>
	<p>Foreign trade fairs</p>	<p>BMOs and Federal State come up with shared look and visual identity among participating companies from the state</p> <p>BMOs assist in advertising the trade fairs</p>
Regional Level	<p>Location marketing</p> <ul style="list-style-type: none"> • Creation and expansion of industrial sites • Development of industrial parks and technology • Infrastructure building 	<p>Local business communities take part in local site planning and development</p> <p>Establishment of 'non-profit companies for economic promotion</p>

VIETNAM

Vietnam is one of the fastest rising economies in Asia, growing at an average of 6.15 percent in the past 15 years. The rising demand and the impact of free trade agreements have contributed to the increase in the value of its agricultural exports, while billions worth of foreign direct investments pour into oil and gas, food processing, textile and garments, and other manufacturing industries.

Vietnam’s growth story could be traced back three decades ago when it adopted its Doi Moi (economic renovation) policy. In 1986, Vietnam pursued a comprehensive and radical reform to open up and stabilize its economy, thus “enhancing freedom of choice for economic units and competition.” (ERIA, 2007)

As Vietnam recognized the increasing role of private businesses in achieving growth, the government introduced a wide range of policies and legislation geared towards supporting private businesses.

SME Development Policy

A major milestone in the development of Vietnam’s private sector, 97% of which are SMEs, is the enactment of the Enterprise Law in 2000.

The Enterprise Law simplified company registration processes, abolished unnecessary requirements, and reduced business registration from 3 months to 2 weeks.

The change significantly cut the number of approving institutions for business registration from 34 to 1.

It also resulted into lower costs of licensing and permits from US\$100 (minimum) to US\$35.

The Enterprise Law spurred the phenomenal growth of the number of registered enterprises in Vietnam. From 2000 to 2007, Vietnam saw 250,000 newly registered non-state enterprises, 5.5 times higher compared to data from 1990 to 1999.

Since then, Vietnam continued to exert efforts to shore up its private sector success. Some of the key policies enacted from 2000 to 2015 are listed in Figure 19.

Figure 19. Timeline of Key Policies Adopted by Vietnam

2015	Enterprise Law Amendment <ul style="list-style-type: none"> Clarified confusing provisions in previous investment and enterprise laws
2012	1231/2012/QĐ-TTg <ul style="list-style-type: none"> Crafted 2011-2015 SME Development Plan
2011	03/2011/QĐ-TTg <ul style="list-style-type: none"> Guaranteed mechanisms for SME loans
2009	56/2009/ND-CP <ul style="list-style-type: none"> Enhanced SME Development policy Mandated the Enterprise Development Agency as primary agency responsible for SMEs
2006	Vietnam accession to WTO <ul style="list-style-type: none"> Facilitated market-oriented reforms to comply with international trade commitments
2006	236/2006/QĐ-TTg <ul style="list-style-type: none"> Crafted 2006-2010 SME Development Plan
2005	ASMED SME Segmentation <ul style="list-style-type: none"> SMEs segmented into micro, small, and medium
2004	143/2004/QĐ-TTg <ul style="list-style-type: none"> Approved training support for SMEs
2001	90/2001/ND-CP <ul style="list-style-type: none"> Defined SMEs Provided the framework for SME Development Created the SME Promotion Council and the Agency for SME Development (ASMED)
2000	Enterprise Law <ul style="list-style-type: none"> Simplified company registration processes Reduced cost of licensing and permits

The 2011-2015 SME Development Plan of Vietnam sought to increase the number of small and medium enterprises in Vietnam from 250,000 to 600,000 by the end of 2015. At the same time, the plan also aimed to improve technology capacity, labor skills, information systems and promote activities to help MSMEs.

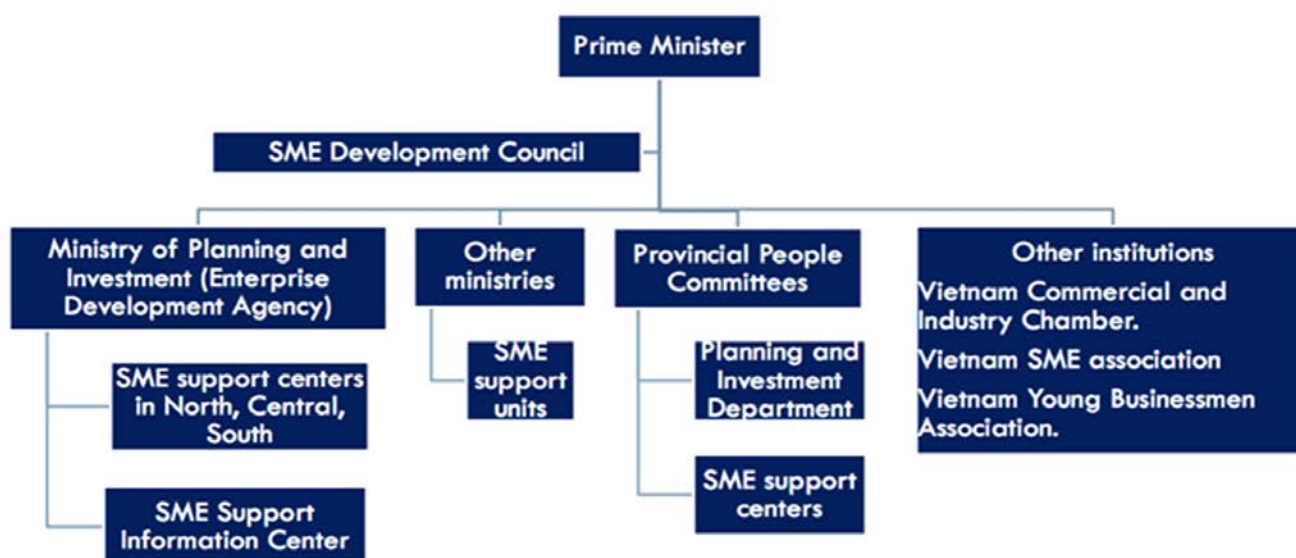
Institutional Support and Strategies

Another turning point in Vietnam’s enterprise development is the issuance of Government Decree 90 in 2001 which mandated the establishment of favorable conditions for SMEs. It established the SME Promotion Council as an advisory body on SMEs and tasked the Agency for SME Development (ASMED) to coordinate SME-related programs.

In 2009 Government Decree 56/2009 was issued with the goal of strengthening the capacity of agencies in-charge of implementing SME policies and programs at the national and local levels. ASMED was renamed the Enterprise Development Agency (EDA). Housed under the Ministry of Investment and Planning, EDA is the primary agency responsible for SME policies and programs.

It has three primary roles: (1) business registration process; (2) SME development support; and (3) reform of state-owned enterprises.

Figure 20. Vietnam’s Institutional Mechanism



The Enterprise Development Agency (EDA) is headed by a Director- General.

Vietnam's participation in free trade agreements have facilitated the country's trade- and market-related reforms. To comply with commitments made with bilateral / regional trade partners, Vietnam had to implement new policies geared toward better export-import environment, improved customs, reduced tariff, more open investment regime, fair competition, among others.

These reforms created a level-playing field for domestic and foreign-owned enterprises, as well as state-owned enterprises (SOEs) and private companies. For example, Vietnam gradually reduced the subsidies for SOEs, thus creating the impetus for these enterprises to improve their operational efficiency and performance, while at the same time promoting a level playing field for SOEs and private enterprises.

Another key contributor to Vietnam's SME development is the active engagement of private entrepreneurs, through organized business organizations, in shaping the country's SME policy environment.

Business organizations' representation of SMEs reinforces a new dialogue between the state and non-state business sector and enhances the way policies are deliberated and rolled-out.

SMEs in Vietnam generate more than half a million jobs and account for 50% of the labor force. SMEs also narrow the development gap between rural and urban areas, stimulating development in the countryside.

Vietnamese SMEs however continue to face a number of challenges. For the years 2010, 2011, and 2012, the number of newly established enterprises declined continuously from 83,600 to 77,500 and 69,800. In 2013, 60,700 SMEs discontinued operations, 11.9% higher than previous year's record.

Common difficulties experienced by Vietnamese SMEs include lack of capital financing, technology deficiencies, and low quality of human resources especially at the management level.

Economy Experiences at a Glance

Different economies approach MSME development with a range of policy options, strategies, and programs. This study generated the following conclusions with respect to the institutional and policy approaches of the economies studied:

1. There is a shared goal and objective that guides policy and program action of government agencies. All the economies studied had a central body with full authority to coordinate MSME-related programs of government agencies. In some cases, national SME Councils were established to coordinate MSME efforts at the highest level of government. These Councils provided the platform for inter-agency/ministry coordination. Given the very broad and diverse nature of the needs of MSMEs, it cannot be helped but have various agencies implementing intersecting programs for MSMEs. It is the National Councils' responsibility to ensure that these efforts supplement each other and are all aligned towards the same goals for MSME and national development.

2. A central agency with clear and absolute mandate to help MSMEs is important; other agencies should have clearly defined roles. All economies had national MSME agencies that were responsible for implementing programs for MSMEs – spanning such areas as human capital development, technology development and acquisition, start-ups, financing, and even disaster assistance. These agencies did not just serve as secretariat to the national councils, but had their own program portfolio, services, and funding programs for MSME. The MSME plan which it develops should serve as guide post for all agencies in developing and delivering programs for MSMEs.

3. Political will to help MSMEs is made evident through massive funding support to enable government instrumentalities to deliver outcomes. All of the MSME agencies were fully supported by the national government in terms of funding and resources. They were both policy-formulating and operational in nature, delivering programs and services through their vast national networks.

4. Private sector is government's partner in delivering services and promoting a strong MSME sector. Strong private sector support was evident in the economies studied. In the case of Germany,

businesses are obliged to be part of a business chamber, which, as corporations under public law, are mandated to take on responsibilities as directed by the government. Businesses become members of the Chamber of Commerce and Industry and/or the Chamber of Skilled Crafts which help deliver support services to small businesses.

5. Big business helping small business is necessary in the drive for MSME internationalization and GVCs. Strong and mutually beneficial linkages between MSMEs and large firms have helped promote supply chain development and have allowed MSMEs to access regional and international markets. In the case of Taiwan and Germany, big international brands sub-contract many of their production requirements to MSMEs.

6. Innovation is an integral part of the economies' MSME development blueprint. Taiwan, Malaysia, Germany, and the United States implement strategies

to boost R&D and Innovation in MSMEs. They have fully developed quality standards and promote these through resource centers funded and supported by the government and the private sector.

7. Programs to provide the needed skills and knowledge for the 21st century workforce are needed. The identification of HRD requirements in specific industries and the provision of programs and facilities for continuing skills training are carried out by governments in partnership with the private sector. This is undertaken to ensure that entrepreneurs will have a steady and qualified supply of manpower to meet their growing demands.

8. Governments encourage the establishment of new enterprises by creating the conditions that will facilitate their growth. Funding and resource support to start-ups and incubators were made available by the economies studied. Private sector support was also encouraged and facilitated by the governments.

Table 16. Economy Experiences at a Glance

	Agency	Areas of Support	Strategies / Approaches	Agency Support			
				Funding	Private Sector	Start-ups/ Incubator	R&D/ Innovation
Taiwan	SME Administration (Headed by a Director-General) Independently structured Under Ministry of Economic Affairs Develops and implements programs	<ul style="list-style-type: none"> • National SME Plan • Production technology • Capacity Building • Management Assistance • Financing • Coordination with banks • IT support • One-stop Service Center for funding • Start-up Loan • SME Credit Guarantee Fund 	<ul style="list-style-type: none"> • Creating a healthy environment for the development of SMEs • Building a platform for enterprise start-up and incubation • Enhancing SMEs' information technology capabilities • Strengthening SME management guidance functions • Integrating SME finance mechanisms. 	<ul style="list-style-type: none"> Small Business Innovation Research (subsidy of bet. NT1million to NT10mil) Taiwan SME Innovation Award, NT300,000 SME Innovation Devt Project Loan, NT10-50 million Cultural Creativity Industry Special Loan, NT30-100million Small Enterprise Loan, NT5 million National Development Fund Startup Angel Project Service Industry Innovation Research (SIIR) Industry Level-up Startup Platform Guidance Project SME National Development Fund Investment Taipei City Industry Incentive Subsidy Project 	<ul style="list-style-type: none"> Fosters specialized trading entities as part of an SME parts and components supply system that can become part of the international supply chains of producers Large firms play key role in development of production systems, provision of supplies to SMEs, and interme-diary source of capital 	Yes	Service Industry Innovation Research (SIIR)

	Agency	Areas of Support	Strategies / Approaches	Agency Support			
				Funding	Private Sector	Start-ups/ Incubator	R&D/ Innovation
United States	<p>US Small Business Administration</p> <p>(Headed by an Administrator)</p> <p>Independently structured</p> <p>Provides Contracting Support, Counseling Services, Capital, and Disaster Assistance to SMEs</p>	<ul style="list-style-type: none"> • Financial and federal contract procurement assistance • Management assistance • Specialized outreach to women, minorities and armed forces veterans • Loans to victims of natural disasters • Specialized advice and assistance in international trade 	<ul style="list-style-type: none"> • Growing businesses and creating jobs • Building an SBA that meets the needs of today's and tomorrow's small businesses • Serving as the voice for small business 	<p>Small business loans</p> <p>Microloans</p> <p>Disaster loans</p> <p>Real estate and equipment loans</p> <p>Home loans</p> <p>Export Loan</p> <p>R&D Financing</p> <p>Loans from 2011-2014 in the amount of \$74 billion</p>	<p>Tech Coalitions</p> <p>Resource Partners</p> <p>Investment Funds</p>	Yes	<p>Regional Innovation Clusters</p> <p>Small Business Innovation Research Program</p>
Malaysia	<p>SME Corporation Malaysia</p> <p>Independently structured and operates like a private enterprise</p> <p>Develops and implements MSME programs</p> <p>National SME Dev't Council (NSDC) that is chaired by the Prime Minister</p> <p>The Council coordinates efforts of the various agencies and Ministries related to MSMEs</p>	<ul style="list-style-type: none"> • Single registration point • National network or privately managed platform to promote innovation • Customized assistance to new exporters and SMEs venturing into new markets • Financing/ Early stage financing • Market access • Human capital development • Monitoring and Evaluation • Coordination • Access to reliable database • Effective business services 	<ul style="list-style-type: none"> • Outcome based approach through Monitoring and Evaluation • Live plan approach that allows the SME master plan to be relevant • Demand driven programmes • Strong public-private partnership • Time bound pro-grammes to address market imperfections and information asymmetry • Benchmarking against best practices 	<p>2016 budget includes:</p> <ul style="list-style-type: none"> • Additional RM1 billion for the Shariah-compliant SME Financing Scheme; • RM107 million to fund entities at various stages of business development; • RM60 million for the Entrepreneurs Acceleration Scheme, and SME Capacity and Capability Enhancement Scheme • RM200 million SME Technology Transformation Fund under the SME Bank to provide soft loans at 4% • RM18 million to expand the Small Retailer Transformation Programme (TUKAR) and Automotive Workshop Modernisation (ATOM) projects • RM235 million allocated to Malaysia External Trade Devt Corp. for 1Malaysia Promotion and for Services Export Fund and Export Promotion Fund 	<p>Associations, chambers & NGOs help develop SMEs</p> <p>Large firms mentor SMEs</p> <p>Provide inputs to design & implementation of programs</p> <p>Private service providers to serve SMEs</p>	Yes	Support for innovation in the form of direct financial grants and various tax incentives

	Agency	Areas of Support	Strategies / Approaches	Agency Support			
				Funding	Private Sector	Start-ups/ Incubator	R&D/ Innovation
Germany	<p>Federal Office of Economic Affairs and Export Control (BAFA) under the Federal Ministry of Economics and Technology which is responsible for developing and administering Germany's policies and programs for SMEs.</p> <p>The BAFA is headed by a President and is supported by four directorates and 621 staff.</p>	<ul style="list-style-type: none"> • Technology acquisition and innovation • Capacity Building • Management Assistance • Financing • Start-up Loan 	<ul style="list-style-type: none"> • Developing key technologies and promoting investment • Boosting market opportunities abroad • Making better use of the pool of skilled labour • Supporting hand-overs and start-ups of companies • Facilitating financing • Securing raw materials, improving energy and materials efficiency • Reduction of bureaucratic burdens. 	<ul style="list-style-type: none"> • Credit Guarantees • Subsidized Loans • Financial aid that substitute private equity for start-ups • Funding of consultancy for SME Financing • Subsidizing companies engaging commercial advisors <p>Granting allowances for operating a large consultancy network within the skilled crafts' organization</p> <p>In 2011, 11% of the investment was financed via public-sector assistance.</p>	<p>Advisory Services are provided by Business Membership Organizations.</p> <p>These are funded by the Federal Govt</p> <p>Consultancy programs financed by the German Gov't and implemented by Chambers or other BMOs.</p>	Yes	<p>Innovation support scheme such as advisory services</p> <p>Consultancy for technology and innovation subsidized by Govt, up to 50% percent in the old federal states and up to 75% percent in the new federal states</p>
Vietnam	<p>Enterprise Development Agency</p> <p>Operates under the Ministry of Investment and Planning and is the primary agency responsible for SME policies and programs.</p> <p>SME Promotion Council serves as advisory body on SMEs and coordinates SME-related programs</p>	<ul style="list-style-type: none"> • Access to Finance • Access to production premises • Human capital devt • Technology support • Market access • Advisory services • Creation of enterprise clusters and provide incubators programs 	<ul style="list-style-type: none"> • Improve the legal framework for entry, operation and withdrawal from the market of SMEs • Support finance and credit access and improve efficiencies • Support technological innovation and application of new technologies in SMEs • Develop human resources for SMEs, focusing on improving management capacities • Promote the formation of association clusters, industry clusters and improve land access for SMEs. • Provide information to support SMEs and promote market expansion for these firms. • Build organization systems to help develop SMEs. • Manage the implementation of the SMEs development plan 	<p>Part of Vietnam's 2011-2015 strategy is the establishment of an SME Support Fund. The fund is established at the central level.</p> <ul style="list-style-type: none"> • Established the SME Devt Fund in 2013, VND 2 trillions • Credit programs - Investment credit of VND 19 trillions; Export credit of VND 17 trillions over 2006-2011 • Credit program in poor areas -- More than VND 0.3 trillions as of 2012. • Credit Guarantee Fund -- 12 funds in operation, 7 in formation process as of 2014. Total capital of VND 512 billion. Guaranteed amount nearly VND 3 trillions over 2002-2012. • Guaranteed amount by Vietnam Development Bank, Guaranteed amount of VND 11 trillion. • Interest rates, credit allocation, tax exemption during the economic slowdown • Special credit funds for Development Investment, Promotion of Industry, Agriculture, Environment, Science and Technology 	<p>Policy consultations with the business community.</p> <p>Dialogues held at least 10 times a year at the national level; local consultations also done</p> <p>Formation of association clusters, industry clusters to support SME devt</p>	Yes	<p>Promotes technology application innovation program focusing on high-tech development to create new products and modern equipment/ machineries</p>

RECOMMENDATIONS

MSMEs are important drivers for job creation and economic growth. With greater and deeper economic integration arising from the ASEAN Economic Community, the country needs to move towards the development of high-growth SMEs that are ready to compete in an integrated market.

Guided by the findings from the benchmarking exercise undertaken through this study, the following recommendations are hereby submitted for consideration.

Adopt a “Whole-of-Government” Approach for MSMEs

The countries covered by this study highlight the importance of having a more integrated and well-coordinated institutional support systems for MSMEs.

Malaysia, Germany, United States, Taiwan, and even Vietnam have all put up institutional structures and support mechanism for a centralized, but widely dispersed and well coordinated administration of their MSME policies and programs.

The distinct characteristic of their institutional mechanism rests in the fact that institutions set up to administer and coordinate SME policies are rooted in strong political will and commitment toward small businesses.

Such political will and commitment is actualized through the level of funding and support appropriated by their governments to meet the massive requirements of the MSME sector.

The Philippines has a preponderance of laws that seek to promote MSME development. The Magna Carta for MSMEs, enacted in 1991 and amended in 1997 and in 2008, is geared towards the development of the Filipino entrepreneurial spirit by providing a business environment conducive for MSMEs. It created the MSME Council as the primary agency responsible for the promotion, growth and development of small and medium enterprises in the country.

Its role is one of facilitating and coordinating national efforts to promote MSME development, “including assisting relevant agencies in the tapping

of local and foreign funds for small and medium enterprise development” (RA 9501). The Council is attached to the Department of Trade and Industry, while the Bureau of Small and Medium Enterprises serves as its Secretariat.

The Council has the authority to review existing policies of government agencies that affect the growth and development of MSMEs and recommend changes to the President and Congress.

The Magna Carta for MSMEs also provide that the Council will “direct or assist relevant government agencies and institutions at the national, regional and provincial levels,” to promote the productivity and viability of MSMEs.

Efforts of the government to promote MSME development need to adhere to a “Whole-of-Government” approach to ensure that the distinct efforts of various agencies all contribute to a general, shared objective that builds on our strengths and advantages.

Specific recommendations include the following:

1. The Council is a catalyst of government and private sector efforts to support MSMEs. Its role is to bring various sectors and stakeholders together, with the aim of finding solutions on issues that affect the MSMEs. As such, it has to have representations from the highest levels of government and the agencies that implement programs for MSMEs. All agencies with mandates related to the MSME sector needs to come together and implement programs as a team – guided by a shared goal and commitment to help MSMEs develop their potential and sharpen their value adding capabilities in our areas of greatest strength.

2. The Council has a twin duty to promote entrepreneurial culture and to advance MSME development. A parallel effort of promoting a culture that encourages entrepreneurial pursuits needs to be led by the Council, working with the private sector and the relevant agencies of the government. The Council needs to pursue an initiative that will positively influence the entrepreneurial mind-set of the youth, professionals, and other groups, as well

as promote education and professional upgrading of potential business founders.

3. The Council needs to assume a more active and direct role in coordinating government efforts to promote MSME development. Their primary role should be that of a facilitator – one that facilitates SMEs' access to finance, internationalization, innovation, public procurement, e-commerce, internet and digital technology, as well as reducing administrative burdens that affect them and improving the ease of doing business.

4. The Council plays a major role in influencing various government agencies toward placing innovation at the center of the MSME agenda. Philippine MSMEs need to be encouraged to develop new products and services in areas that they clearly have a distinct advantage or strength. As such, related efforts by the DOST, the DA, and other agencies of the government need to be aligned on specific high growth areas towards which resources will be directed.

Strengthen the Institutional Structure that Supports MSMEs

Given the wide-ranging nature of MSME needs, other government agencies and local government units have their respective mandates that are relevant to the MSME agenda. Many of these initiatives, however, are independently undertaken with minimal coordination among agencies, thus resulting to inefficiencies and resource wastage.

The present institutional set-up, therefore, provides an illusory coordinating mechanism and structure for effective horizontal coordination and harmonization of MSME policies.

What is interesting to note is that the Magna Carta for MSMEs, which vested the MSME Council with such broad mandate, also vested upon the Small Business Corporation (formerly Small Business Guarantee and Finance Corporation) 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."

Under RA 9501, the SBC is also mandated to "source and adopt development initiatives for globally competitive MSMEs in finance and business technologies, and to extend all forms of financial assistance to eligible MSMEs." This mandate is

duplicative, if not redundant, with the mandates of other government departments such as the DTI and the DOST.

In view of this, the following recommendations are hereby submitted:

1. Strengthen the institutional infrastructure by giving one government agency the full and clear mandate to implement SME policies, with sufficient authority to coordinate both horizontally (i.e., among departments and agencies) and vertically (among different policy levels at city/municipality, provincial, regional, and national level). This agency should not only have the mandate, but more importantly, the resources to carry out its responsibilities. In pursuing this, the Magna Carta for MSMEs may be amended to bestow upon the BMSMED or the SBC (but not to both) the powers and functions as the central coordinating and primary implementing agency for MSME policies and programs, to be put under the direct supervision of the Department of Trade and Industry.

This proposal, in effect, will result to institutional restructuring and reorganization, and will integrate program implementation, including those pertaining to funding, under the operational control of one agency.

2. A clear rationale for the SME support policies will have to be established, defining the concerned agencies' scope of work and responsibilities (i.e., Trade and Industry, Agriculture, Science and Technology, Interior and Local Government, etc.).

3. Political will and commitment to MSME growth will have to be achieved at the national and local levels. This will help facilitate the improvement of the business environment in support of MSME growth and development.

4. Sufficient funds and resources that reflect the policy commitment enunciated under the laws will need to be appropriated for MSME development. Such funding should be sufficient to provide the requirements of the Negosyo Centers and the financing requirements of the sector.

Simplify Business Processes

The Philippines ranks fifth among ASEAN countries in the OECD ASEAN SME Policy Index. It achieved the highest score in effective representation of SMEs (4.7) and the lowest in Cheaper, faster start-up, and better legislation and regulation for SMEs (2.96).

The World Bank's Ease of Doing Business 2016 Report cited improvements in the performance of the Philippines with respect to simplifying post registration procedures such as tax registration, social security registration, licensing, among others. However, it still ranked 165th out of 189 countries in the Starting a Business criterion – a key consideration for MSMEs that are just starting. The Philippines also ranked poorly in registering property (112), getting credit (109), enforcing contracts (140), trading across borders (95) – all of these are vital to MSME development and growth.

The country needs to introduce significant improvements in simplifying registration and post-registration processes.

It takes 16 procedures over a period of 29 days, accounting for 16.1% of the business' income per capita to start a business in the country.

The SME Policy Index 2014 also cited that it takes "6 days to obtain a business permit, 7 days to print receipts and invoices at the print shops, 7 days to register with the Social Security System, and 3 days to register the company with the SEC and receive pre-registered taxpayer identification number (TIN)."

These processes need to be simplified for the government's MSME strategy to gain traction and deliver results.

Monitor and Evaluate the Impact of Government MSME Policies and Services

Monitoring and evaluation of policy and program implementation needs to be diligently carried out to identify ways to improve and strengthen existing support policies and mechanisms for MSMEs. This will also help ensure alignment of policies and programs across government agencies.

The BSMED assists the MSME Council in coordinating and monitoring SME policies and programs and activities of all government agencies affecting SMEs. While the mandate is given, the monitoring and evaluation mechanism for MSME policies and programs being implemented by the different agencies is weak.

Unless monitoring and evaluation of policies and programs are carried out, there is no way by which critical constraints to the growth and development of the MSME sector can be addressed.

Furthermore, the government needs to be able to monitor the extent by which MSMEs in the informal sector are able to transition into the formal sector. This is vital in order to see if existing legislations and policies (such as the Barangay Micro Business Enterprises) are able to facilitate and contribute to the process of conversion and assimilation of informal MSMEs into the formal economy.

A mechanism for review, evaluation, monitoring, and revision strategy should be formulated and effectively implemented.

Promote and Develop E-Commerce Capacities among MSMEs

Government policies are in place to foster e-commerce. RA 8792 (E-Commerce Act) was legislated in June 2000, setting government policies on electronic transactions and the legal framework for the country's participation in e-commerce. The Philippines was the third country in Southeast Asia that passed a legislation to promote and protect electronic transactions.

The Philippine Statistics Authority reported that in 2012, e-commerce sales reached only Php79 Billion, accounting for only 0.6% of total income during the period. Fifteen years after the adoption of the legal framework, "local e-commerce sales still comprise less than one percent of the total local retail market. The issue is both cultural and habitual, we are still uncomfortable as a people on the lack of guarantees of an online purchase." (Madrid, 2012)

The APEC Business Advisory Council (ABAC) in 2015, commissioned the USC Marshall School to undertake a study that would capture the business leaders' views and experiences on the challenges and opportunities of cross-border e-commerce for MSMEs in APEC economies. The study concluded that "MSMEs face an environment that is unnecessarily complex, biased in favor of larger firms, and lacks a coherent cross-border e-commerce trade framework." Some of its key

findings that are relevant to this paper include the following: (USC Marshall School)

- “Cross-border e-services offer both the greatest growth potential and the easiest entry into the global value chain for MSMEs. However, much more effort is needed to develop MSME capacity in cross-border e-services.
- ‘MSMEs’ capacity and reach must be improved. The single most critical limiting factor observed was the lack of readiness and capability of MSMEs to engage in e-commerce. Problems of awareness, technical ability, access to talent, and financing all limit the potential of MSMEs.
- ‘There is a disturbing lack of awareness among most APEC governments, and among most MSMEs, of the potential opportunities in cross-border e-commerce, and of the developments and innovations in cross-border e-commerce in other economies.
- ‘Cross-border e-commerce flourishes best in strong domestic e-commerce environments. Developing strong domestic supporting institutions and players is critical to creating globally competitive cross-border e-commerce firms. In turn, globally competitive cross-border e-commerce firms enhance the competitiveness of domestic e-commerce.’

The Philippines, as Chair of APEC in 2015, initiated what is now referred to as the APEC MSME Market Place -- as a “one-stop portal to facilitate access to information related to doing business in the region and to inform on projects and activities that promote MSMEs’ integration to international trade.” (The APEC Iloilo Initiative: Growing Global MSMEs for Inclusive Development)

The benefits of the APEC MSME Market Place need to be felt by local MSMEs. It can do so by promoting internet and digital access of MSMEs and capacitating them in using e-commerce as a platform for widening their market reach.

The government needs to ensure that the Philippine e-Commerce Roadmap goal of enabling 100,000 MSMEs to conduct e-commerce is realized.

Recommendations to this effect include the following:

- Ensure that e-Commerce plans and programs of various agencies of the government are harmonized and aligned. The DTI, under RA 8792, is mandated to supervise the promotion and development of electronic commerce in the country; while the Department of Information and Communications Technology (DICT), under RA 10844, is responsible for harmonizing and coordinating “all national ICT plans and initiatives.” The DTI and the DICT have to work in tandem to ensure that programs and services to promote e-Commerce are effectively and efficiently carried out;
- The government has to address internet infrastructure issues if it wants e-Commerce to flourish;
- Government has to come up with a simplified tax registration, filing, payment, reporting and correction system that is less bureaucratic to lessen issue on non-compliance among MSMEs in the e-Commerce arena. Simplifying tax processes will serve as an incentive for MSMEs to comply with regulations;
- Confidence building, education, and capacity building among MSMEs and the public-at-large, will need to be addressed. DTI and DICT, which both have mandates to address this, will need to work as a team in delivering this service;
- e-Commerce plans and programs will have to take into consideration the need to develop parallel services such as distribution, payment, logistics, technology, security, just to name a few. Promoting e-commerce, without addressing these other equally important concerns will be self-defeating.

Create Innovative Options to MSME Finance

The World Bank reports that more than 50% of SMEs lack access to finance, thus hindering their growth. In the Philippines, it is reported that “total SME loan volume from banks stood at only \$9 billion in 2014, compared to Thailand’s \$171 billion –the highest in the region.” (Deloitte Southeast Asia Ltd , 2015) Personal funds continue to be the main source of enterprise funding by Philippine MSMEs.

The Magna Carta for MSMEs mandates all banks to allocate 2% of their total loan portfolio to medium firms, and 8% to micro and small firms.

The ADB study in 2015 showed, however, that MSME lending is generally on a decline as a ratio of banks' total loan portfolio.

The outstanding amount lent by all lending institutions to MSMEs increased modestly from P248.2 billion in 1990 to P308.5 billion in 2010. The growth rate in lending during those 12 years, was roughly 24.3% or 2.32% per year growth. (Asian Development Bank, 2015)

The study also revealed a decline in the Universal banks' share in total loan provisions from 83.7% in 1999 to 72.9% in 2010. Even thrift and rural cooperative banks, which are supposed to be the ones absorbing the MSME credit demand, have likewise reduced their lending ratios to the MSMEs quite significantly from 2004 to 2010. (Asian Development Bank)

What is very telling in the study is that many universal banks have wantonly violated the mandated 8% lending ratio, opting to be penalized Php500,000 and earn more, rather than lend to MSMEs.

Access to finance continues to be a key challenge for local SMEs, with most Philippine lenders requiring collateral before extending credit. This may be attributed to a host of issues such as slow fund disbursement due to "lack of credit information, lack of bank and government guidance on preparation of compliance documents, and vulnerability of financial institutions that result to high-cost loans."

The following recommendations may be considered in the light of these findings:

- Review SEC. 15 of the Magna Carta for MSMEs on the Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises since the mandated bank lending ratio will expire in 2018. Amendments to the law should be able to address the observation regarding the wanton violation of this provision by banks as they find it even more profitable to just pay the fine and lend to bigger firms or projects.

- The Small Business Corporation has released a total P42.2 billion in loans to micro, small and medium enterprises as of end-2014. In 2014, the amount of loans released was at P2.1 billion, lower by 36% compared to P3.3 billion loan released

in 2013. There is a need to assess the impact of the lending program of the Small Business Corporation. Critical to this assessment is a determination if government intervention in the area is able to actualize the objectives for which these have been established.

- The government needs to consider broadening its financing interventions for start-ups. The government may assess the impact of financing structures offered by private entities and supplement this, as may be needed.

- The government needs to develop and implement alternative funding schemes for MSMEs, including business incubators and start-ups. A voucher system, grants, or loans with favorable terms may be implemented by the government to accelerate MSME development in high growth sectors. All these programs, however, need to be complemented by an effective monitoring and impact assessment system to provide basis for planning and program development or revisions.

Promote a Culture Of Entrepreneurship and Innovation

The Philippines has a wide range of legislations and policies that seek to support the development of MSMEs. This can only be achieved, however, with a supportive and enabling environment.

National and local government units, the business sector, educational institutions, among others, have a vital role in building a culture of entrepreneurship and innovation.

Taiwan, the United States, Germany, and Malaysia exhibit a long-established tradition of entrepreneurship, heavily supported by the government and the private sector.

One way of promoting entrepreneurship and innovation is through programs that assist individual innovators.

Government agencies, such as the DOST, have programs that promote innovation, but better coordination with other agencies is required to ensure that we focus on areas that build on our areas of strengths.

These efforts also need to be anchored on sound planning with the view to identifying and projecting what the market needs today and in the future.

Assist MSMEs to Expand Into Innovative and Value Adding Activities In Order to Grow

Government has a vital role in helping existing MSMEs transition into innovative and value adding activities.

Growth can be disruptive to MSMEs due to attendant pressures that this bring in terms of added managerial, financial, manpower, and logistical resources required for their expanded operations.

Many firms, afraid of the unintended consequences (i.e., taxation, labor regulations, etc.) that enterprise growth might bring, elect to adopt the status quo.

Implications of MSME growth include having to comply with more stringent policies or requirements covering such areas as labor, taxation, among others. Because of this, policies that incentivize the growth of MSMEs need to be established. Such policies have to address the following (OECD, 2010):

- Address disincentives to growth. Administrative obstacles and impediments need to be removed to facilitate the transition of MSMEs into larger enterprises. Growth of MSMEs should be incentivized.
- Promote growth ambitions in new and existing businesses. MSMEs need to understand that innovation will strengthen their growth potential and open new opportunities for them. Policies need to broaden institutional support to promote innovation in MSMEs.
- Assist MSMEs to develop and adopt the necessary organizational and managing skills to help them cope with the attendant pressures on manpower, logistical, and financial resources.
- Support MSMEs transitioning into larger enterprises by enabling them to access financing for their growth. Policies to enable the use of movable collaterals by MSMEs should be put in place.

Strengthen the Role of Private Sector and Business Chambers in MSME Development

MSMEs need support in many facets of their business and operations – from accessing markets, acquiring technologies, innovating new products and services, developing product potential, accessing financing, just to name a few.

Experiences of other economies have shown the valuable role of business chambers and associations in supporting MSMEs. They deliver concrete support in the form of capacity building programs, networking opportunities, market expansion, among others.

Under a more integrated regional economy under the ASEAN Economic Community, a more pronounced and direct participation of business chambers and associations in MSME development is essential.

They can provide market data and other information on market opportunities and obstacles to better prepare MSMEs which will help them direct their efforts on areas and markets with the greatest potential for growth.

Business chambers and associations can also serve as effective mouthpieces and thus fulfill an advocacy role for MSMEs to better improve the regulatory environment. They can also help MSMEs comply with standards and other legal frameworks such as tax systems, intellectual property rights, marketing, and other regional trading frameworks.

The development of SMEs' linkages with larger enterprises will also need to be harnessed as these can play a significant role in promoting global value chains and in developing local production and growth clusters.

Many companies have also been internationalizing their subcontracting networks over the years. The government, in turn, needs to ensure a reliable and efficient value chain and subcontracting system to ensure the long-term viability of MSMEs.

A legal framework that will incentivize private sector / business chamber support to MSME growth and development is needed.

CONCLUSION

The growth and development of MSMEs that leads to a more pronounced and recognized role in the country's inclusive growth requires a commitment to institutional and structural reforms. Simply put, the way we do things to support MSME development needs to change.

Critical measures include developing sound regulatory frameworks, promoting the ease of doing business, putting innovation at the center of the country's development agenda, promote business activities in science and technology, harnessing business networks and linkages in support of MSME internationalization, developing infrastructure, developing human capital, improving government procurement policies that will enable MSMEs to access this market, improving access to finance, among others.

All these underscore the importance of a broad-based strategy to meet the country's ambitions for MSMEs.

Given this, a "whole-of-government" approach is a "must." No agency can claim a monopoly of mandate to serve the MSMEs.

Given the cross-cutting, and at times, intersecting needs of the MSMEs, the instrumentalities of government, in tandem with policy makers, will need to deliver a "team solution" rather than fragmented and unrelated efforts that seldom add up to meaningful outcomes.

The government also needs to provide the institutional space for the private sector, including the MSMEs, to participate in the planning and review of policies and programs. The private sector is an invaluable partner in implementing plans and programs for MSMEs.

Business chambers and associations, as the experiences of other countries demonstrate, have a vital role in shaping a positive outcome for MSME development. They do not only provide the linkages and networks, but can also help provide the foundational skills needed to run an enterprise. A mechanism for this is needed.

Finally, developing MSMEs does not mean neglecting big business. The country's enterprise landscape is dominated by MSMEs, accounting for 99.6% of the total enterprises. Their success and failure will have a tremendous impact on our economy as they account 62% of employment in our country, with 30% accounted for by microenterprise enterprises.

A supportive ecosystem of inter-related factors – from financial access to fair and efficient regulatory environment – is needed to enable MSMEs to thrive. Institutions define the policies, interventions, and their outcomes, and as such, this paper seeks to put a spot light on institutional and structural issues that require government attention.

The field of vision for the country's MSME agenda is wide. It is important that focus is given on key priorities that can deliver the most outcomes for our country. Government instrumentalities also need to be aligned on these priorities and proceed under a whole-of-government approach.

Finally, building a competitive entrepreneurship ecosystem requires private sector support. Policies and programs are better shaped and delivered with the help of vital sectors, including that of business. The aim is to create an ecosystem wherein businesses operate on a level playing field, and where MSMEs can come together and work with big business and the government to help achieve inclusive growth.

We can no longer just focus on a few elements of the entrepreneurship ecosystem that are the easiest to implement. Interventions need to go beyond helping individuals. Policy measures that strengthen institutional and structural support are needed to address the most fundamental underlying factors that stifle entrepreneurship in the country.

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