SME COMMITTEE

RECOMMENDATIONS FOR BUDGET 2014

Singapore Business Federation

December 2013

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EXECUTIVE SUMMARY

In Budget 2013, the Government announced a Quality Growth Programme which aims to engender a dynamic and re-energised small and medium enterprise (SME) environment through better jobs and higher wages. While slowing the growth of foreign workers, the Government introduced a 3-year Transition Support Package to help companies to restructure and adjust during this period of transition.

The SME Committee (SMEC) appreciates the Government for the special attention given to SMEs but cautions that close monitoring is required during this difficult transition period of economic restructuring. As SMEs contribute some 70% of employment and an estimated 55% of GDP contribution, there is a need to ensure that they remain the bedrock of the Singapore business landscape. In particular, the *SMEC urges the Government to allow more time for the restructuring process and not introduce any more measures that would exacerbate the already harsh conditions that SMEs are currently facing*.

In these recommendations for Singapore Budget 2014, the SMEC urges the Government to consider the following key points:

(a) **Economic Competitiveness** – Singapore's competitiveness is eroded by global conditions while domestically it is dragged down by reduced business efficiency as a result of high business costs and the restructuring process

(b) **High business costs** – High business costs catalysed by policies which have a severe impact on business survival and expansion

(c) **Realistic productivity target** – Companies need more time to achieve Government's productivity growth target as SMEs face short term challenges in costs and manpower constraints

(d) **Financing for growth** – Increasing challenges of SMEs seeking financing for business continuity, growth and market expansion

(e) **Seizing growth opportunities** – Give more focus to help SMEs seize growth opportunities particularly in ASEAN and rest of Asia

(f) **Greater differentiated fiscal policies –** Greater differentiated fiscal policies for SMEs as compared with larger corporations

SMEC recommends that the Government introduces measures in Budget 2014 in a more targeted approach for the following groups of SMEs:

1. SMEs seeking growth

There is urgent need for SMEs to revitalise their appetite for growth. Caught up with day-to-day fire-fighting, SMEs are facing stagnant growth as they try to cope with persistent high business costs and manpower constraints. SMEC recommends the Government strengthens its support for SMEs in the areas of innovation, internationalisation and access to financing. Besides facilitating SMEs to tap on public financing and test-bedding resources to complete an innovation or expansion project, the Government should also review regulations and encourage the growth of a thriving ecosystem of innovation and financing in the private sector. SMEC also urges the Government to review fiscal support to encourage SME growth and internationalisation.

2. SMEs in survival mode

SMEC proposes that the Government introduces measures to help SMEs struggling to survive through concessions of manpower costs and productivity investments, and taking more proactive measures to mitigate rising land, rental and transportation costs. Improving access to financing is also a key aspect in helping SMEs strengthen their working capital and cash flow position thereby sustaining their day-to-day operations.

3. SMEs in sectors with special needs

The Construction, Retail and Food & Beverage sectors have reported severe impact on their profitability from drastic tightening of manpower policies in recent years. To alleviate the stress on these sectors, the SMEC recommends the Government to support these SMEs to adopt more efficient and effective management of their existing foreign manpower. This includes more flexible deployment of foreign workers and retention of experienced workers.

1. INTRODUCTION

Background

1.1 As the apex business chamber, the Singapore Business Federation (SBF) is an active advocate for the interests of businesses in Singapore. The Small and Medium Enterprises Committee (SMEC) was formed in December 2011 under the auspices of SBF as a single, consolidated and strong voice representing SMEs across key industries.

Difficult transition period of economic restructuring

1.2 In 2013 SMEs continued to face challenges of a tight labour market and rising costs as business sentiments remained subdued in spite of a recovering global economy. While SMEC appreciates the Government for its special attention given to SMEs in the Singapore Budget 2013 and shares the Government's objective for productivity-led and quality-driven growth, this is a difficult transition period of economic restructuring that requires close monitoring to ensure that SMEs remain the bedrock of the Singapore business landscape. This is especially significant when SMEs contribute some 70% of employment and an estimated 55% of GDP contribution.

1.3 In 2013, SMEC stepped up its activities in advocacy and outreach while giving feedback to Government on the Budget measures especially under the 3-year Transition Support Package. Overall, SMEC urges the Government to allow more time for the restructuring process and not introduce any more measures that would exacerbate the already harsh conditions that SMEs are currently facing.

Seizing regional growth opportunities

1.4 With signs that the global economy is recovering and regional growth expanding, our SMEs have to seize these growth opportunities. The ASEAN Economic Community (AEC) 2015 will potentially expand Singapore's economic space. There is greater urgency for our SMEs to prepare themselves and not miss out on these opportunities while regional competitors are fast catching up.

Targeted approach in Budget 2014

1.5 In these recommendations for Budget 2014, the SMEC hopes that Government would give priority to helping SMEs grow and revitalise their competitiveness. The SMEC proposes a targeted approach in helping three groups of SMEs: those that need help for growth, those struggling for survival, and a third group in sectors that need special support.

Ecosystem conducive for SME growth

1.6 Through discussions at SMEC and feedback from the SME Convention held on 28 October 2013, some fundamental issues for developing an ecosystem conducive for SME growth were raised. These include:

(a) ***Government policy on public procurement*** – There is room to enhance public procurement policies and processes to facilitate greater SME participation in Government projects.

(b) ***Business land, space and rental*** – Some industrial activities may no longer fall under the "Business 1" (B1) space in accordance with URA's industrial classification, but neither can these businesses afford or are suited for offices or commercial spaces. In land-scarce Singapore, a balance is needed to cater to varying and evolving needs of industrial, commercial and retail spaces while maintaining affordability and competitiveness of businesses.

(c) ***SME financing*** – There is a need for closer monitoring of SMEs' access to financing as this is a critical enabler for their survival and growth.

(d) ***Institutional reforms*** – There have been calls to set up a single dedicated government agency that has an overarching view and the mandate to manage SME issues covering growth, financing, innovation, costs and internationalisation.

1.7 The SMEC will address these and some other issues through Position Papers to be issued in 2014.

2. BUDGET CONSIDERATIONS

Eroding competitiveness due to global factors, high costs and restructuring

2.1 While Singapore retained its second position behind Switzerland and ahead of Finland for three years in a row in the World Economic Forum's Global Competitiveness Report[1], it slipped for three consecutive years from first in 2010 to fifth this year in the Institute of Management Development (IMD) World Competitiveness Yearbook[2]. IMD attributed the fall to the effects of restructuring, global slowdown and high inflation in Singapore, where higher business costs have been the cause of poor business efficiency.

2.2 Singapore has also fallen from the top spot to third place in the 2013 HSBC Global Survey on the most desirable countries for expatriates to work and live in[3]. At the same time, the annual Cost of Living survey conducted by ECA International placed Singapore one spot higher from last year to be the 30th most expensive location globally for international assignees[4].

2.3 On the domestic front, competitiveness has been impacted by high wages, rental, transport costs and utilities. Amidst the tight hiring conditions, manpower costs remain the top cost component for SMEs.

Cost headwinds distract SMEs off restructuring and business expansion

2.4 Rising business costs in Singapore has been catalysed by policies such as the rapid tightening of foreign labour supply, lack of affordable business space leading to high rental costs and the sharp increase in transportation costs.

2.5 Reflecting the severity of rising business costs, the SME Development Survey 2013 revealed that average turnover and profit had both reduced across sectors. More than a third of SMEs indicated cost reduction as a top priority, a shift from past years' emphasis of business strategies that aim to drive turnover growth. SMEs seemed more preoccupied with operational challenges. In their day-to-day

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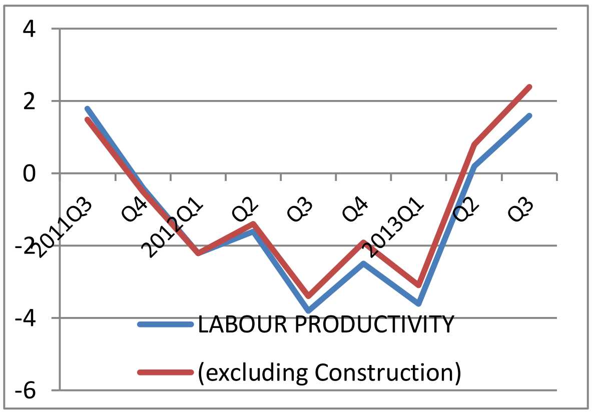
[1] http://www.weforum.org/issues/global-competitiveness
[2] http://www.imd.org/news/World-Competitiveness-2013.cfm
[3] http://www.todayonline.com/singapore/singapore-no-longer-no-1-expatriates-eyes
[4] http://www.eca-international.com/news/press_releases/7931/Singapore_is_now_among_the_top_30_most_expensive_locations_in_the_world_for_expatriate_staff

fire-fighting mode, they had little bandwidth left to implement productivity improvements and plan for business expansion overseas. About a quarter of SMEs in the survey do not have concrete strategic plans for the next 12 months, compared with only 15% that indicated so last year.

2.6 In the latest SBF National Business Survey 2013/2014, 72% of respondents indicated "Reduce Business Costs" as their top concern, while 48% indicated Employment/HR issues – consistent with findings from last year. Other areas where businesses are requesting for assistance are Investment in Training & Development (23%) as well as Investment in Technology (21%).

Productivity growth target stretched, could take longer time to achieve

2.7 Singapore has set a target of achieving national productivity growth of 2-3% per annum for 10 years until 2020. This target has not been met in the last two years where labour productivity growth was 1.3% in 2011 and -2.6% in 2012. Productivity has been negative for six quarters since 2011. Although this has improved slightly in the second and third quarters of 2013, according to Moody's, positive results of the Government programmes will likely show up only in the next two to three years[5].



2.8 According to the SME Development Survey 2013, more than half (58%) of SMEs are looking to improve productivity. Raising productivity is also the top cost reducing strategy for SMEs (from 29% in 2012 to 32% in 2013). However, the survey also found that less than 30% of SMEs are investing in staff training & development and that there is a lack of manpower with the right attitude and right skills. In addition, the number of SMEs planning to raise their productivity through IT investments or enhancing/streamlining operating processes has not improved. About 70% of respondents cited the high costs involved as the main challenge for them to adopt technology and innovation.

[5] http://sbr.com.sg/economy/news/why-singapores-2-3-labour-productivity-target-ambitious

2.9 While SMEs acknowledge that productivity is the way to go in the long run, they face short term challenges in costs and having the right manpower to embrace productivity measures. Therefore, it might take more time to achieve the Government's productivity growth target of 2-3%.

Increasing signs of financing challenges for SMEs

2.10 The SME Development Survey 2013 also revealed more SMEs citing financing challenges – from 13% in 2012 to 17% in 2013 – due to the subdued global economic climate and domestic constraints of rising business costs and manpower issues. The main challenges SMEs face were cash flow problems and obtaining bank financing.

2.11 From the credit perspective, the number of SMEs falling under DP's "High Risk" Credit Rating has risen to an alarming 43% in 2012, up from 38% in 2010 and 25% in 2008. The trend is particularly worrying as SMEs under "High Risk" now form the majority. Those in the Retail sector (which includes F&B services) saw the greatest increase in the "High Risk" category, rising from 46% in 2011 to 68% in 2012.

Business Sector	DP Credit Rating								
	Investment Grade			High Yield			*High Risk*		
	2012	2011	2010	2012	2011	2010	*2012*	2011	2010
Construction	22%	22%	19%	44%	41%	44%	*34%*	37%	37%
Infocomm	5%	17%	16%	28%	23%	27%	*67%*	60%	57%
Manufacturing	30%	21%	26%	38%	49%	23%	*32%*	30%	31%
Retail (incl F&B)	13%	23%	12%	19%	31%	44%	*68%*	46%	44%
Services	16%	17%	16%	28%	36%	33%	*56%*	46%	51%
Transport/Storage	25%	12%	16%	29%	38%	48%	*46%*	50%	36%
Wholesale	26%	23%	18%	40%	44%	51%	*34%*	33%	31%
Overall	**22%**	**21%**	**18%**	**35%**	**40%**	**44%**	***43%***	**39%**	**38%**

Seizing growth opportunities in ASEAN and Asia

2.12 While there are signs of recovery in the global economy, the economic uncertainty and greater competition of the past year have stifled the ability of SMEs to derive revenues from overseas. The SME Development Survey 2013 showed that compared to the preceding year there was an eight percentage point drop to 46% of Singapore-based SMEs that earn a proportion of their revenue from overseas. However, there are some positive signs that SMEs are exploring growth opportunities e.g. through internationalisation. About 70% of respondents in the SME Development Survey 2013 indicated a desire to look into overseas expansion, a modest rise from 67% last year.

2.13 Separately the SBF-DP SME Index for 4Q2013 as well as the annual CPA Australia Asia Pacific Small Business Survey 2013 point to a more positive outlook amongst SMEs. The SBF-DP SME Index, a quarterly business sentiment index which provides a six-month forward outlook of the SME community, showed that more SMEs are positive about the next six months. Similarly, the CPA Australia survey found that more than 50% of small businesses in Singapore remain positive about business growth and plan to increase headcount in 2014.

Overall Index (Out of 100)	**1Q11– 2Q11F**	**2Q11 – 3Q11F**	**3Q11 – 4Q11F**	**4Q11 – 1Q12F**	**1Q12 – 2Q12F**	**2Q12 – 3Q12F**	**3Q12 – 4Q12F**	**4Q12 – 1Q13F**	**1Q13 – 2Q13F**	**2Q13 – 3Q13F**	**3Q13 – 4Q13F**	**4Q13 – 1Q14F**
Commerce/Trading	55.7	57.5	53.5	51.4	52.0	55.1	58.2	54.4	53.9	54.6	53.7	55.1
Construction/ Engineering	-	-	-	-	51.1	48.1	52.1	54.0	54.5	55.4	56.1	57.4
Manufacturing	57.3	54.7	56.4	48.2	47.9	54.1	54.9	54.0	50.8	54.1	54.0	54.6
Business Services	60.2	59.4	59.5	51.3	50.9	54.5	56.6	52.0	51.1	55.3	54.6	55.1
Transport / Storage	56.9	57.1	54.2	50.5	47.0	48.1	51.8	54.0	51.3	54.7	54.0	53.3
Overall	**57.8**	**58.9**	**56.7**	**51.0**	**50.8**	**52.4**	**54.4**	**53.0**	**51.6**	**54.8**	**54.1**	54.7
Percentage change q-o-q (%)	▼ 3.4	▲ 1.9	▼ 3.8	▼ 10.1	▼ 0.4	▲ 3.2	▲ 3.8	▼ 2.6	▼ 2.6	▲ 6.2	▼ 1.4	▲ 1.1

2.14 It is important for Singapore SMEs to tap onto the opportunities of the regional growth in ASEAN and Asia. According to the global information company HIS, the ASEAN economy will double by 2020, with the nominal GDP increasing from US$2 trillion in 2012 to US$4.7 trillion[6]. Thus there is a need for Singapore SMEs to expand into the region and beyond, and reinforce Singapore as a focal point and gateway into Asia.

Greater differentiated fiscal policies for SMEs

2.15 In Budget 2013, the Government introduced the 3-Year Transition Support Package under the Quality Growth Programme aimed at helping businesses restructure and improve their productivity. While SMEs should benefit from such assistance, it appeared that larger corporations gained more from the benefits instead. For example, under the Wage Credit Scheme (WCS) larger corporations have greater resources to raise salaries of their employees and therefore were better able to attract and retain them while benefiting from WCS pay-out. This might have caused SMEs to lose these employees who are attracted to the higher wages offered by the larger corporations. This was an unintended consequence of a fiscal policy applied equally to all enterprises.

2.16 According to the SBF National Business Survey 2013/2014, 44% of larger corporations – multinational companies (MNCs), government-linked and Temasek-linked companies (GLCs/TLCs) – found Budget 2013 useful compared to 41% for SMEs. Similarly, as shown in the table below, the extent to which Budget 2013 helped lowered business costs was higher among MNCs/GLCs/TLCs rather than SMEs. Hence there is a need for greater differentiated fiscal policies for SMEs in the Budget measures.

Company category	**Extent which Budget 2013 has helped lower business costs**		
	Not at all	**To some extent**	**Not sure**
SME	12%	24%	64%
MNC/GLC/TLC	13%	33%	54%
Overall	12%	27%	61%

[6] http://www.scmp.com/business/economy/article/1228657/asean-economies-set-double-gdp-2020-says-ihs

3. GROWTH MEASURES

More SMEs facing stagnating or declining growth

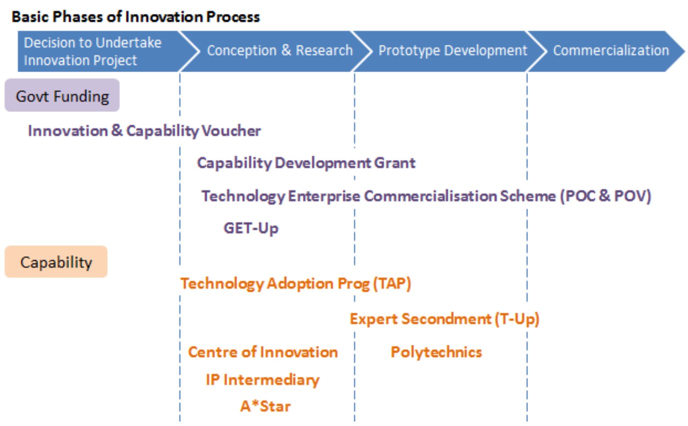
3.1 SMEC's ground sensing has revealed that the effects of restructuring have weighed down SMEs' pace of growth during this transition period. The SME Development Survey 2013 has shown that 44% of SMEs are facing stagnant growth. However a more worrying sign is that only 7% of SMEs are reporting double digit growth, the lowest percentage registered in the survey's ten year history.

3.2 With strong regional growth in Asia delivering both threats and opportunities, it is critical for our SMEs to reverse their current state and strive for sustained growth, despite a more challenging business environment. The focus of this year's Budget should be helping SMEs build their capacity for growth, especially through innovation, internationalisation and better access to financing.

Strengthening support for innovation in SMEs

Align support measures across the innovation chain

3.3 Currently the Government offers a range of incentives and grants through different schemes for innovation projects. Feedback to SMEC's Innovation Subcommittee highlighted that the qualifying activities under each scheme are segmented, each for a specific purpose. SMEs that require an integrated innovation process tend to fall through the crack of these specific schemes. A seamless process to access different schemes is needed to help SMEs progress through the pipeline of an innovation project from conceptualisation to commercialisation.



(a) **Innovation and Capability Voucher (ICV):** SMEs are sensitive to cash flow and return on investment before they embark on costly innovation projects. Many have given feedback that the $5,000 quantum of the ICV is too small and its qualifying activities are too restrictive. The positioning of the ICV as a teaser for SMEs to take up innovation does not sufficiently address their basic concern over the continuity of support through different phases of the innovation project.

(b) **Capability Development Grant (CDG):** Ideally, SMEs who have successfully completed ICV and would like to embark on a full-fledge project should switch over to the CDG which offers a more substantial coverage. However this path is not apparent to SMEs and it requires a separate process to qualify for the project and activities.

(c) **Technology Enterprise Commercialisation Scheme (TECS):** The TECS represents an exemplary coverage that SMEs are looking for. However, they are unable to qualify for the TECS as the scheme is applicable only to start-ups with innovation based on proprietary technology.

SMEC recommends

(a) Expanding qualifying activities and list of service providers under ICV

(b) Providing fast-track facilitation to SMEs applying for CDG if they have received ICV for the first phase of their innovation project

(c) Broadening the eligibility criteria for TECS to all SMEs, instead of only to start-ups

(d) Expanding the TECS to support all defensible blue-ocean ideas based on innovative technologies and business models

Better SMEs access to technologies from public research institutes

3.4 SMEs have reportedly faced difficulties navigating the processes and conditions when working with public research institutes (RIs). Statistics from the SME Development Survey 2012 showed that only 1% of SMEs have tapped onto technology resources by government/knowledge institutions and 3% purchased technology know-how or inventions.

3.5 SMEs look to reap tangible benefits for the time, manpower and other resources invested when co-developing new innovative ideas with the RIs. They need direct and outcome-driven information to make an investment decision whether to licence an existing technology from the RIs. However, they often face barriers from overly complex jargons and researchers who work on a different time track from businesses. Existing technologies that reside in RIs are also not geared towards industry-specific applicability. While each RI's technology transfer office (TTO) tries to facilitate the licensing process, they may lack sufficient industry understanding to implement the translation effectively.

3.6 As an example, SMEC appreciates A*Star's response to recent feedback on licensing by launching a new *Headstart* scheme which gives SMEs an 18-month exclusivity for foreground intellectual property (IP) generated from the research collaboration. However an 18-month moratorium is insufficient especially for some sectors – e.g. marine, automotive, aerospace, medical devices, pharmaceutical – where extensive regulatory compliance and approvals are needed for successful application of the technology. A*Star has since agreed to review the *Headstart* programme to tailor the period of licensing exclusivity to a pre-agreed timeframe for the new product/service to enter the market.

SMEC recommends building up capacity and knowledge within TTOs to understand industry needs better in order to translate technologies into business solutions more effectively.

Growing a thriving ecosystem of innovation enablers in the private sector

3.7 Many SMEs face constraints in their internal resources and capabilities to embark on innovation projects. For instance, the SME Development Survey 2013 found that 23% of SMEs lack the appropriate staff with capabilities in technology adoption. They need to tap on external experts with specific knowledge to help them in their innovation process.

3.8 Existing government schemes such as T-Up and CDG fund researchers, scientists and engineers (RSEs) only from selected RIs and tertiary institutions. Feedback and anecdotal accounts to SMEC's Innovation Subcommittee suggest limited successes of matching RSEs with SMEs where it is largely dependent on the availability and willingness of RSEs. Furthermore the RIs may not be able to supply an expert relevant to the specific area of knowledge that the SME requires.

SMEC recommends

(a) Liberalising the use of designated service providers to create demand for private sector innovation enablers such as RSEs, consultants, venture catalysts, product designers, etc

(b) Expanding schemes such as the ICV, T-UP and CDG to cover the manpower costs of suitably qualified/accredited private sector innovation enablers

Build platforms to encourage public-private partnerships for innovation projects

3.9 It is widely recognised that SMEs face challenges accessing various resources for their innovation projects because of their higher risk profile and lack of track record. Besides funding, more support could be given to SMEs by providing:

- platforms to showcase SME innovation
- resources and facilities for test-bedding
- first purchase order and sources of reference.

3.10 The IDA has been proactive in facilitating innovation for Infocomm SMEs. Besides its annual briefs to SMEs on their upcoming projects, the IDA has recently announced its latest initiative called the IDA Lab, to encourage experimentation and collaboration between IDA staff and the industry through the provision of office space.

SMEC recommends more government agencies to partner SMEs for their innovation projects by providing them test-bedding assistance and opportunities to showcase their innovation.

Fiscal support to encourage SME growth and internationalisation

Enhance mergers and acquisition allowance for overseas growth

3.11 The SME Development Survey 2013 found that of those SMEs that have an overseas strategy, more are looking to use joint ventures or mergers and acquisition (M&A) to enter potential markets (from 2% in 2012 to 7% in 2013). However SMEs generally have limited financial resources to enter an overseas market through M&As.

3.12 In Budget 2010, the M&A Allowance scheme was introduced to encourage companies in Singapore to grow their businesses through M&As. It grants companies a 5% allowance on acquisition of another company's shares as well as double tax deduction on transaction costs incurred on qualifying share acquisitions. In Years of Assessment 2011 and 2012, 34 SMEs benefited from the M&A Allowance scheme. The scheme could be enhanced to be more relevant to industry practices for M&As, particularly for SMEs.

3.13 Feedback from a focus group discussion conducted in July 2013 found that SMEs typically prefer to start off an M&A effort by acquiring a minority stake in the target company as part of its assessment of the company before deciding whether to take a majority shareholding. This is also more prudent as SMEs have lesser resources. Furthermore, current restrictions on the acquisition of controlling stakes in foreign companies in certain sectors limit the use of this M&A Allowance scheme. In such cases, the SME will not be eligible for the scheme. In addition, the scheme does not apply in the event of a failed overseas shares acquisition even though transaction costs have been incurred.

SMEC recommends expanding the M&A Allowance scheme as follows

(a) Allow SMEs that do not take a controlling stake in the target companies to be eligible as long as they control at least 30 percent of the target company

(b) Allow transactional costs to be tax deductible even for unsuccessful overseas M&A attempts

(c) Expand the scope to SMEs that expand overseas through other means, such as joint ventures and partnerships, by supporting transactional costs and other common set-up costs

New forms of SME financing

3.14 The SME Development Survey 2013 found that the percentage of start-ups seeking new/additional financing has been on the rise from 20% in 2011, 33% in 2012 and 41% in 2013. Amongst the start-ups seeking financing, more will be using it to expand the range of products/services (81%), acquire assets (35%) and for overseas expansion (19%).

3.15 As banks move towards being Basel III compliant, they will be less able to disburse loans to higher risk SMEs due to higher capital requirements. At the same time, the emergence of alternative sources of financing, such as crowdfunding and trade receivables exchange, presents opportunities for SME/start-up fundraising. As SMEs continue to face constraints from traditional sources of financing, it is necessary for Singapore to enable alternative modes of funding to grow our SMEs.

<u>Crowdfunding</u>

3.16 *Crowdfunding* is a recent popular funding method where individuals pool their money usually through an online platform to fund personal projects or business start-ups. According to the 2013 Crowdfunding Industry Report by Massolution, crowdfunding volume grew 81% worldwide in 2012 to reach $2.7 billion, through over one million campaigns. Volume is forecast to increase to $5.1 billion in 2013.

3.17 Recognising its potential, the United States passed the Jumpstart Our Business Startups (JOBS) Act last year to ease financing and spur growth of start-ups and small businesses through crowdfunding. On 23 October 2013, the Securities and Exchange Commission (SEC) proposed further rules under which start-ups and small businesses could sell equity stakes of their companies over the Internet using a crowdfunding exchange[7].

3.18 Amongst the four main types of crowdfunding, donation and reward-based crowdfunding have been popularly used, and accounted for 52% of global crowdfunding volumes in 2012. Equity and debt crowdfunding (4% and 44% respectively) have been less prevalent due to regulations, but these could provide a more viable alternative for start-ups and SMEs to raise capital.

[7] http://www.bloomberg.com/news/2013-10-23/sec-to-vote-on-crowdfunding-plan-as-white-advances-jobs-act-1-.html

3.19 Crowdfunding in Singapore is in its infancy, with the top campaign on a local platform, PixBento raising just US$3,220. This is in contrast with US$1.44 million raised by Pirate3D, Singapore's top crowdfunded campaign launched on the US-based platform Kickstarter[8]. Most of the crowdfunding platforms in Singapore engage in donation and reward-based crowdfunding. However, as Asia becomes home to a growing pool of entrepreneurs seeking new financing, Singapore can leverage on its reputation as a trusted hub with a robust legal framework with clear and transparent rules to draw funding from investors to regional entrepreneurs. This will reinforce Singapore's position as a financial centre and IP hub.

3.20 It is timely for Singapore to review its financial regulations that will enable start-ups and SMEs to tap on the opportunities offered by equity and debt-based crowdfunding as viable alternatives for raising capital.

<u>Trade Receivables Exchange (TRE)</u>

3.21 Another alternative source of financing for SMEs is a trade receivables exchange (TRE), an online platform where businesses can obtain working capital through auctioning their accounts receivables to investors. There are several TRE platforms such as the US-based "The Receivables Exchange" and UK-based "European Trade Receivables Exchange (EuroTRX)" and "MarketInvoice".

3.22 A TRE allows SMEs to leverage on an unutilised asset on the balance sheet without additional costs in terms of interest or equity dilution. It is also particularly useful for SMEs whose buyers' debt is not investment grade that would qualify them to obtain factoring from banks.

3.23 A TRE can also serve as an alternative channel for governments to co-invest directly in SMEs. Since August this year, the UK government has become a buyer of invoices on the MarketInvoice as an alternative to providing financing to UK SMEs seeking working capital as well as growth financing. Under the Business Finance Partnership scheme, it is investing £1.2 billion to increase lending to UK SMEs across a wide range of industries from sources other than banks[9].

[8] http://www.businesstimes.com.sg/premium/top-stories/crowdfunding-spore-catching-fast-20131130

[9] http://marketinvoice.com/about/uk-government-now-buying-invoices-on-marketinvoice/

3.24 Singapore can similarly establish a trade receivables exchange that will benefit SMEs through lower cost of capital and increased liquidity. It can also serve as an alternative channel for the government to co-invest directly in SMEs.

SMEC recommends Government to review the financial regulations and legislations to facilitate the following:

(a) To allow equity and debt-based crowdfunding

(b) To encourage the establishment of a trade receivables exchange

4. MEASURES FOR SME SURVIVAL

Overview

4.1 In the past year, SMEs have been exposed to multiple shocks. More stringent policies on foreign workers, cooling measures on the property markets, and financing restrictions on property and vehicle ownership have had more severe knock-on effects to SMEs than expected. SMEs struggle to cope with manpower constraints and fast rising business costs in their day-to-day operations, with little resources left to implement productivity improvements.

Manpower and related costs

Supporting healthcare benefits to employees

4.2 Successful implementation of employee healthcare benefits not only maintains a healthy workforce thereby decreasing medical outlays but also increases employee retention, raises productivity and has a positive impact on the bottom line. Generally SMEs will find it difficult to match the benefits provided by larger corporations and hence have lesser ability to attract and retain employees.

4.3 One benefit that needs review is the tax deduction for medical expenses by employers. Set in 2006, it allows employers a 1% deduction of total remuneration, or up to 2% if additional requirements are met. However in a recent Global Medical Trends survey by Towers Watson, the medical bill for Singapore employees rose an estimated 8.5% in 2012[10], with hospital bills identified as the biggest component to firms here. Also, healthcare consumer price index increased from 101.9 in 2010 to 109.0 in 2012[11] and average total bill for Class C wards increased by about eight to 30 per cent over the past three years.

4.4 In its Budget 2014 wish list, PWC[12] highlighted that the administrative concession which allows a trade-off between corporate deduction and individual tax in relation to Group Life Insurance premiums needs to be reviewed. It argued that "The

[10] Global Medical Trends Survey, Towers Watson, 2012
[11] Healthcare CPI for 2010 to 2012, Ministry of Health, Source: http://www.moh.gov.sg/content/moh_web/home/statistics/Health_Facts_Singapore/Consumer_Price_Indices_CPI_and_Household_healthcare_Expenditure.html
[12] https://www.pwc.com/sg/en/pressroom/pressrelease20131130.jhtml

Singapore tax system does not apply the principle of tax symmetry, which is what the concession appears to have been premised upon." We are in agreement that this should be reviewed and a "de minimis rule would be simpler to administer, consistent with the treatment for other employee benefits-in-kind".

SMEC recommends

(a) An increase in corporate tax deduction for medical expenses to commensurate with rising health and medical costs

(b) A review of tax treatment on Group Life Insurance premiums to be consistent with other employee benefits-in-kind expenses

Medical costs for older employees

4.5 With Singapore's ageing population, the average age of the workforce will increase as more are working beyond their retirement age[13,14]. Given the tight labour market, SMEs will keep their employees longer, while also seek to tap on economically inactive retirees to supplement their labour pool. These developments could have an impact on health and medical costs for SMEs as older employees would incur higher medical expenses.

4.6 According to Mercer, the annual premium for medical insurance for an SME with 50 to 100 employees is between \$60,000 and \$100,000[15]. This is a substantial amount given their thin profit margin – almost half of SMEs surveyed in the SME Development Survey made a net profit of up to \$300,000 in 2012. To further encourage the employment of older employees, a co-payment of the insurance premium for employees 50 years and above could be made through the Special Employment Credit (SEC) scheme.

SMEC recommends further support of employment of older local employees through a co-payment of insurance premiums with the Special Employment Credit (SEC) scheme.

[13] A Sustainable Population For a Dynamic Singapore Population White Paper, January 2013, National Population and Talent Division (NPTD), Singapore

[14] Pensions at a Glance 2011: Retirement-Income Systems in OECD and G20 Countries, OECD (2011), Source: http://www.oecd.org/document/49/0,3746,en_2649_34757_42992113_1_1_1_1,00.html

[15] Health is Wealth, SME Magazine Jul-Aug 2013

Job Flexibility Scheme (JFS)

4.7 In July 2013, the Job Flexibility Programme (JFP) for the hospitality sector was extended to other services sectors. The current JFS allows businesses the flexibility to deploy their work permit holders (WPHs) to other occupations within the same company. Under JFS, companies under the same group are treated as distinct entities and are not allowed to deploy their foreign workers across one another. For better utilisation of manpower, companies should have the flexibility to deploy their manpower across companies, as long as they are under the same group of companies or management. To minimise risk of abuse, a prescribed job list that details which occupations are suitable for cross-deployment could be developed under the scheme.

SMEC recommends that JFS eligibility be expanded to allow cross-deployment between companies that are under the same group of companies or management.

Productivity improvements

Productivity and Innovation Credit (PIC)

4.8 Amidst the current economic restructuring, many companies are still in a transition phase and will require the continued support that the PIC scheme offers. SMEC supports suggestions by several quarters including the Singapore Chinese Chamber of Commerce & Industry (SCCCI) and PWC for the scheme to be extended beyond YA2015.

4.9 The PIC Bonus gives businesses a dollar-for-dollar matching cash bonus for YAs 2013 to 2015, subject to an overall cap of $15,000 for all three YAs combined. The PIC Bonus quantum could be increased and made non-taxable to help cash strapped companies that require more support.

SMEC recommends

(a) PIC scheme to be extended beyond YA 2015

(b) Increasing the PIC Bonus and making it non-taxable

4.10 The cash pay-out option under PIC is available only to companies with at least three local employees (i.e. Singapore citizens or Singapore permanent residents with CPF contributions) excluding sole-proprietors, partners of partnership and shareholders who are directors of the company. SMEs typically have fewer employees, with the shareholders of the companies themselves working as employees. This restriction would disqualify many SMEs from the cash pay-out option. The restriction should be relaxed to include sole proprietors, partners and shareholders who are also CPF-contributing employees so that the smaller businesses may also enjoy this incentive.

SMEC recommends extending PIC cash pay-out eligibility to companies with at least three local employees, including those who are sole proprietors, partners and shareholders, as long as CPF contribution is made.

Greater flexibility for PIC claims

4.11 Under the PIC scheme, companies can claim an additional 300% deduction for the six PIC qualifying activities, each capped at an annual expenditure of S$400,000. But they are not allowed to transfer unutilised claims from one qualifying activity to the others. However SMEs typically tend to spend more on training, acquisition of information technology and automation equipment. Only in extremely rare instances are SMEs able to fully utilise the deductions for each of the categories.

4.12 For example, the purchase of automation equipment such as a computer numerical control (CNC) machine used in precision engineering processes can easily cost upwards of $1 million each. In this case the SME would have fully utilised its PIC claim under one activity while it still has unutilised claims under the other categories.

4.13 A combined cap for claims under the six PIC activities would allow SMEs to invest more in activities that are relevant to them. For instance, a company with no claims made in licensing of IP rights or registration of patents will be able to spend more on acquisition of machinery or training if a combined cap is in place. Alternatively, a higher cap for training, IT and automation qualifying activities could be implemented.

SMEC recommends:

(a) Having a combined cap for all six PIC qualifying activities, or

(b) Introducing a higher cap for training, IT and automation activities

4.14 Smaller SMEs with limited staffing and financial resources are usually unable to send their staff for external training. Some SMEs also find it more cost effective to conduct their own internal training, as they prefer more hands-on and customised content that cannot be easily facilitated by external trainers. This is especially so in situations when SMEs are assimilating more economically inactive workers and embarking on productivity through customised automation.

4.15 Currently salaries and other remuneration (excluding director fees) paid to in-house trainers for course delivery are covered under the PIC. However, preparation time is also needed and essential for effective training. This can be accounted for through recorded timesheets. Therefore, salaries and other remuneration paid to in-house trainers for other duties including preparation of training material should be covered under the PIC too.

4.16 For SMEs that tap on internal or non-accredited training, they are only able to enjoy a smaller training expenditure cap of $10,000. This contrasts against the larger $400,000 cap for accredited training. The cap for non-accredited training could be increased.

SMEC recommends PIC be extended to cover the following:

(a) Salaries and other remuneration paid to in-house trainers for other duties including preparation of training material

(b) Non-accredited training cap from $10,000 to $50,000

Business land, space and rental

Overview

4.17 A report in the Straits Times on 7 August 2013 titled 'Tai Seng factory bosses squeezed by sharp rental hikes" sums up the issue of businesses operating in factories sold to private companies under the Government's land divestment policy. The occupiers faced rental hikes of up to 70 per cent when they sought to renew their three-year leases with the new landlord. The sharp rent hike would curtail the affected companies' competitiveness and could force them to wind up or shift their operations overseas. One company cited how it was forced to move even though it was part of the supply chain servicing multinational corporations with their components.

More affordable industrial space needed

4.18 In the past, JTC had provided affordable industrial space for SMEs. However, since its divestment policy in 2008, JTC's share of the total market for the multiple-user factory segment dropped from about 12.8 to 3.7 per cent. Their recent focus has been to build specialised industry clusters fitted with facilities to help companies lower operational and capital costs, such as the Surface Engineering Hub launched this year. Industry feedback is that JTC could work closer with companies and industry associations to build more of such facilities to improve the productivity of more clusters.

SMEC recommends JTC to develop industry hubs equipped with shared facilities in consultation with relevant trade associations.

SMEs contributions in the entire value chain

4.19 Often, SMEs are sub-contractors to MNCs, specialising in one or two aspects of the production process. During a dialogue session with JTC in July 2013, it was highlighted that many SMEs, for example those in the chemical sector, are integral to the entire value chain of the industry. However in the assessment of an application for space or renewal of lease, JTC only considers the economic value-add (EVA) of the SME by itself. The EVA computation should not be based just on the standalone contribution of the SME but also of the whole industry for which it plays a key role.

JTC lease renewal process

4.20 Businesses require early notification of renewal outcomes to better plan for the future. JTC currently consults its lessees for renewal six years before the end of the tenure (consultation time) and announces the outcome of renewal applications at least three years prior to termination. However, there has been feedback of insufficient consultation time and ambiguity of the renewal criteria. Businesses also need clarity on whether renewal cases are considered as new applications and the other available alternatives in the event the renewal is unsuccessful.

SMEC recommends ensuring sufficient supply of land and affordability of rental for businesses through

(a) Considering the SMEs' contributions as part of the industry's economic value chain when evaluating land applications or lease renewals

(b) Allowing consultation for lease renewal to take place between six years to 12 years before the end of the lease tenure and to announce the outcome of renewal applications within 18 months of consultation

(c) Greater clarity of JTC's renewal criteria, with provision for relocation assistance for unsuccessful or non-renewed tenants

More equitable rental terms

4.21 Currently, tenants have little or no access to readily available information on rental rates to make comparison over the rates set by landlords. Other than the residential housing market where URA provides data for rental contracts of private residential property [16] and median rentals of private non-landed residential properties[17], there is currently no readily available published and comprehensive data on prevailing market rates for industrial and commercial space. Transparency of such information would help to level the playing field for both tenants and landlords, which will in turn have a stabilising effect on the market. The published data could be aggregated by development to make the information relevant and useful.

4.22 Some tenancy agreements are also almost entirely in favour of the landlord. Many anecdotal accounts of one-sided agreements have been cited by the retail industry where tenants are subjected to unfair terms, including landlord's right to revise rental during the lease term and premature termination of the lease. In the industrial space segment for example, DTZ reported that even though there has been increased supply of space for SMEs, a slow and steady build-up of demand

[16]Rental contracts of private residential property, Source:http://www.stproperty.sg/site/PropWatchImg/image/spw-scr-rentalanalysis-b

[17]Median rentals of private non-landed residential properties , Source:https://www.ura.gov.sg/realEstateIIWeb/rental/search.action

has resulted in a tighter leasing environment where landlords are less flexible on rental negotiations, holding or increasing their asking rents[18].

4.23 A code of best practices for adoption as a standard tenancy agreement could be developed for both landlords and tenants. The Government could take the lead by adopting the code thereby setting the path for it to be adopted by the industry.

SMEC recommends Government

(a) Publishes and make readily available meaningful, aggregated data on sale and rental of business space

(b) Collaborate with private sector to develop a code of best practices for adoption as a standard tenancy agreement, and take the lead for its eventual adoption by industry

Transportation costs

Escalating costs for moving goods

4.24 Transportation of goods and services is part and parcel of business operations. In the SME Development Survey 2013, transportation featured as the fourth cost component for SMEs. Despite an increase in quotas for commercial vehicles, the Certificate of Entitlements (COE) has been increasing in tandem with the other categories of vehicles[19]. Correspondingly the prevailing quota premium (PQP) for extension of COEs has become prohibitive even when an extension of further five years has been granted under Budget 2013.

SMEC urges Government to further review the system for ownership of commercial vehicles to ensure affordability of movement of goods and services for SMEs as part and parcel of their business operations.

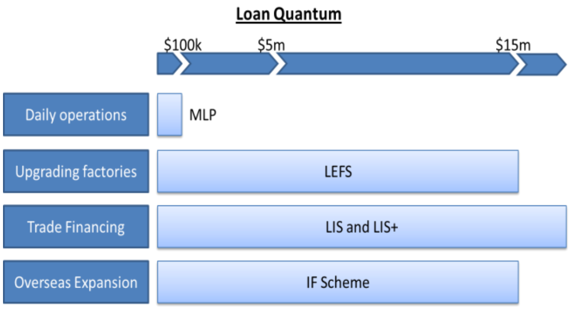
[18] Office rents to increase gradually, 23 September 2013, DTZ, Source: http://www.dtz.com/Singapore/Office+rents+to+increase+gradually
[19] COE price rise across all categories, Channel News Asia, 9 Oct 2013, Source: http://www.channelnewsasia.com/news/singapore/coe-prices-rise-across/841832.html

Financing for capital needs

Improving SMEs' access to working capital

4.25 The SME Development Survey 2013 found that while there has been a decrease in the number of SMEs getting more financing for working capital needs (from 57% in 2012 to 37% in 2013), this was still the primary demand for new/additional financing. Working capital needs were particularly pronounced in SMEs with turnover growth of up to 10% per annum (38%), and negative turnover growth (51%).

4.26 The Micro Loan Programme (MLP) is meant as a working capital loan for SMEs. The loan quantum was last increased from $50,000 to $100,000 in 2009[20]. However only start-ups and micro SMEs will find it useful, while most SMEs will consider the loan quantum inadequate to meet their working capital needs. The quantum is also significantly lower compared with the other government financing schemes such as the Loan Insurance Scheme (LIS), Local Enterprise Finance Scheme (LEFS) and International Finance (IF) Scheme for the specific purposes.



4.27 SMEs in the services sector, which account for the majority of SMEs in Singapore, find it more challenging to pledge sufficient collateral to obtain loans. Increasing the loan quantum of the MLP as well as introducing a working capital loan scheme (WCLS) will help to address the working capital needs of SMEs. The loan quantum of the WCLS could be up to $5 million, with loan tenure determined by the PFIs subject to a cap of five years.

SMEC recommends that Government

(a) Increase the loan quantum of the MLP from $100,000 to $300,000

(b) Introduces a Working Capital Loan Scheme with a loan quantum of up to S$5 million, with loan tenure to be determined by the PFIs subject to a cap of five years

[20] Source: http://apps.spring.gov.sg/SPRINGnews/2009_01/index2.html

5. SECTORS WITH SPECIAL NEEDS

Overview

5.1 In his speech at the 2013 NTUC Ordinary Delegates' Conference on 29 October 2013, Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam identified Construction and Retail as manpower-reliant sectors with low productivity growth.

5.2 Findings from the SME Development Survey 2013 showed that manpower costs was the top cost driver impacting the Construction, Retail/F&B services sectors. 95% of Construction and 87% of Retail/F&B respondents reported their profitability being impacted by manpower costs.

Business Sector	**Top 3 Cost Components Affecting Profitability**		
	Manpower	**Materials**	**Rental**
Construction	*95%*	73%	26%
Retail (incl. F&B services)	*87%*	36%	68%
All sectors	**85%**	**47%**	**41%**

5.3 When asked which areas of assistance were needed to improve productivity, the Construction sector indicated "improving staff productivity" as their top priority, while "review of operations and streamlining of processes" was identified as the greatest need for those in Retail/F&B services.

	Areas of consultancy assistance needed to improve productivity					
Industries	Staff	Operations	Roadmap of actions	ICT solutions	Automation	Implement productivity measure
Construction	*65%*	32%	21%	9%	14%	13%
Retail (incl F&B)	47%	*53%*	18%	11%	13%	3%
All sectors	**53%**	**39%**	**17%**	**15%**	**13%**	**9%**

Impact of manpower policies

Persistent manpower challenges

5.4 In recent years, the Government has implemented more drastic measures to rein in foreign manpower growth. These include further tightening of foreign worker dependency ratio ceiling (DRC), sharp increases in foreign worker levies and higher qualifying salaries for S Pass and Employment Pass holders.

5.5 These policies have resulted in the steep escalation of manpower costs. 85% of respondents in the SME Development Survey 2013 had indicated manpower as their top cost component, up 13 percentage point from 72% in 2012. Similar findings were reflected in an internal SBF Budget Survey 2013, where almost two thirds of respondents revealed that they were severely affected by the increase in foreign worker levies.

5.6 While the respective sectors have taken steps to improve productivity such as training and implementing better processes and systems to free up manpower, these efforts will take time to yield results. Hence, the pace of tightening foreign manpower needs to be recalibrated against the effectiveness of the various measures introduced. Meanwhile the Government needs to be more flexible in allowing businesses to adjust their manpower deployment, given already tight manpower conditions.

Attracting locals to the sectors

5.7 Businesses, especially those in the Construction, Retail and F&B services sectors experience significant challenges in the recruitment of local workers. Apart from work conditions, many locals do not perceive jobs in these sectors as desirable or suitable as long-term careers. Consequently, SMEs in these sectors have given numerous anecdotal accounts how high local staff attrition has disrupted their operations.

5.8 A more concerted effort is needed to change the perception of local job seekers on these jobs, such as through rebranding, redesigning and promoting the professionalism these jobs offer. Past experiences for the marine and precision engineering industries have shown the effectiveness of such programmes especially through TV dramas to portray these jobs in a better light.

SMEC recommends that Government supports the various Trade Associations to develop and roll out a series of branding programmes to better portray jobs in the respective sectors.

Construction sector

Delays and higher costs as a result of tighter manpower will affect consumers

5.9 The Government has acknowledged the myriad challenges in raising construction productivity by 2% to 3% per year[21]. The sector is likely to remain stretched over the next few years, in light of strong demand from public sector projects and reduced manpower quotas.

5.10 A *Sunday Times* article "Construction boom, but challenges loom" on 20 October 2013 highlighted delays in completion deadlines for building projects, as direct consequences of tighter manpower constraints. The report cited an example of a build-to-order (BTO) project that had estimated waiting times lengthened from 30 months to 47 months since 2010. Experts have attributed this to the labour quota for each construction project being halved, as compared to 2010 levels.

5.11 Cost-wise, the same article quoted experts' estimates that hiring a worker within a contractor's quota now costs around $1,800 to $2,000 a month compared with $1,200 a few years ago. Accommodation fees in foreign worker dormitories have almost doubled to $270 per worker in 2013 from $150 in 2010. Likewise, medical insurance costs in 2013 have experienced a similar twofold increase.

Critical impact of adequate Man-Year Entitlements (MYE)

5.12 The industry feels that the 45% MYE cut for employing foreign workers was already severe to begin with. Any further cuts to MYE may lead to higher building costs and delay to projects progress. Safety may also be compromised if main contractors choose to deploy most of their MYEs to tasks that affect project progress and less for safety/house-keeping related tasks.

5.13 Rampant job-hopping among foreign workers has further worsened the manpower constraints for employers, who then lose the remaining value of the workers' MYE. The industry has been calling for a mechanism where the original employer is allowed to retain all or part of the remaining MYE for workers who leave before fulfilling the contract period (which is tied to the MYE).

[21] Speech By Mr Tharman Shanmugaratnam, Deputy Prime Minister & Minister For Finance At Opening Of The Third Singapore Construction Productivity Week, 31 July 2013

SMEC recommends that Government:

(a) Makes no further cuts to Man-Year Entitlement (MYE)

(b) Allow companies to use any unfulfilled period of MYE that is not less than three months for employment of another worker or extension of an existing worker

Period of employment of experienced foreign workers

5.14 Retaining experienced foreign workers have become more crucial for our SMEs especially to ensure business continuity and productivity gain. One common feedback by companies is that they are unable to renew the higher skilled R1 and basic skilled R2 status for their experienced Work Permit Holders (WPHs), which would have allowed them to stay longer. These loyal workers may have exceeded 10 years and 18 years of service with the company for R1 and R2 work permit holders respectively. For companies, it is highly counter-productive to lose such highly experienced workers, as productive time is lost training new workers from scratch. If these skilled workers are not renewed, it would mean a loss to Singapore as they would usually join a similar industry of another competitive economy.

SMEC recommends that:

(a) The period of employment of higher skilled (R1) workers be increased from 18 to 25 years

(b) The period of employment of basic skilled workers (R2) be increased from 10 to 18 years

5.15 Retention and release of workers should also be better aligned to the contributions and value-add of the foreign workers to the companies. For manual skilled workers, this can be achieved by reviewing the need for educational qualification criteria which are not critical for such jobs. Requiring manual jobs to have educational qualification would reduce the pool of potential candidates unnecessarily.

SMEC recommends that the Government reviews the necessity for paper qualification criteria which are not essential for manual skilled jobs.

Greater emphasis of foreign workers engaged in safety-related trades

5.16 Construction employers have given feedback that some safety-related occupations such as lifting supervisors, riggers, safety supervisors are still being regarded as "lower-skilled" occupations and thus do not qualify for lower foreign worker levies. The skill status of these foreign workers should be reviewed and upgraded in recognition of the importance of safety and the significant time and resources spent on such training.

SMEC recommends that Government upgrades the skilled status of foreign workers in safety-related occupations from "Basic Skilled" (R2) to "Higher Skilled" (R1).

Expand the Multi-Skilling Scheme

5.17 The Construction sector faces shortage of workers in common roles such as drivers and security guards. Yet companies are not allowed to use those workers who have the required skills and qualifications, such as the appropriate driving licence to carry out these tasks.

5.18 Under the Building and Construction Authority (BCA) Multi-Skilling Scheme[22], employers are offered flexibility in workers' deployment on site. The scheme should be extended to include common roles not currently covered while helping companies cope with shortage of these workers. Training could be provided for workers to acquire the required skills and certification to perform those tasks. This will help to enhance labour productivity and reduce hiring of more workers.

SMEC recommends that Multi-Skilling Scheme be expanded to include trades such as drivers and security guards.

CoreTrade certified foreign workers

5.19 One of the key amendments introduced under the Building Control (Amendment) Act 2007 was the licensing of builders. Under current rules, licensed Class 1

[22] http://www.bca.gov.sg/MultiSkilling/others/MS_Flyer.pdf

General Builders are required to deploy a minimum number of CoreTrade[23] personnel for projects valuing S$20million and more. CoreTrade registered personnel may also qualify as "higher skilled" R1 workers which enjoys a lower foreign workers levy.

5.20 CoreTrade personnel are valued by employers for their technical competence and experience in their respective trades. The original employer has invested much time and resources to qualify their workers for CoreTrade certification. To minimize rampant job hopping at the expense of the original employer, the worker should remain with the employer for at least two years from the date of his Core Trade certification.

SMEC recommends that CoreTrade certified workers should be required to remain with the original employer for at least two years effective from the date of obtaining CoreTrade certification.

Affordable foreign workers dormitories for businesses

5.21 As highlighted above, construction firms have been impacted by higher dormitories costs. These independent purpose-built dormitories are usually managed and tendered out by the Building and Construction Authority (BCA) and JTC. The practice of awarding competitive tenders to the highest bidder has led to higher rental costs.

SMEC recommends that dormitory tenders be awarded based on a pre-determined rate or best sourcing principle that is equitable to both end users and providers.

[23] Construction Registration of Tradesmen (CoreTrade) is a registration scheme, administered by the Building and Construction Authority, for skilled and experienced construction personnel in the various key construction trades.

Retail and F&B services sectors

Poorest performers amongst all sectors in SME Development Survey

5.22 The SME Development Survey 2013 found SMEs in the Retail/F&B services sector to have the weakest financial performance. This is evident in the declining share of Retail/F&B SMEs with more than $5 million sales turnover (from 57% in 2011 to 37% in 2012), while more of such SMEs reported financial losses (from 14% in 2011 to 17% in 2012). On the other hand, fewer SMEs in the Retail/F&B reported that they were keen to adopt technology (64% in 2012 to 51% in 2013).

Source countries for foreign manpower

5.23 The Retail and F&B businesses are by nature service-oriented which requires a minimum number staff to maintain service level. Figures released by MOM revealed that in the third quarter of 2013 there were fewer job seekers and more job vacancies[24]. This was particularly pronounced in Retail and F&B services.

	Job Vacancies		Job Vacancies Rate (%)	
	Sep 12	Sep 13	Sep 12	Sep 13
Retail	*3,200*	4,000	5.2	5.5
F&B Services	*5,500*	6,100	6.2	6.2
All Services sectors	44,200	49,000	3.4	3.7
All sectors	**56,400**	**61,900**	**2.8**	**3.0**

5.24 Currently MOM specifies that services sector companies can recruit workers from Malaysia, People's Republic of China (PRC) and North Asian Sources (NAS), namely Hong Kong, Macau, South Korea and Taiwan. However as employment conditions in those economies improve, the supply of suitable workers has drastically reduced, particularly from NAS economies. Given that the NAS has become obsolete and misaligned to the industry requirement, the source countries should be expanded to help the sector cope with the manpower shortage.

SMEC recommends that Government reviews and expands the source countries of foreign workers for the services sector.

[24] "Fewer job seekers, more job openings in third quarter of 2013", The Straits Times, 13 Dec 2013

Student Pass holders as supplement workforce

5.25 There has been no significant increase of locals employed by the Retail and F&B sectors despite employers offering higher wages. To deal with the shortage of manpower, operators have sometimes engaged foreign students enrolled in one of the 22 institutions[25] approved by MOM, on part-time employment. These students are exempted from having a valid work pass. Student Pass holders studying in institutions other than those listed do not enjoy this entitlement.

5.26 In recent years, the private education sector has undergone a transformation through a rigorous EduTrust Certification Scheme conducted by the Council of Private Education (CPE) under the Ministry of Education (MOE). Foreign students enrolled in institutions certified under EduTrust should also be included under MOM's list. By allowing these students to work part-time, businesses can tap on a larger part-time workforce.

SMEC recommends that Government widens the Student Pass holders to EduTrust-certified institutions beyond the 22 approved by MOM to work part-time in the Retail and F&B services sectors.

Enhancing on-the-job training support schemes for Retail and F&B services

5.27 WorkPro Scheme (WPS) currently includes training support under the list of recruitment and retention incentives. Under the WPS, employers can receive On-the-Job (OJT) training allowance to partially defray costs of training. However, this is only applicable to new back-to-work local employees. Up to the first two months is supported which barely covers the probation period, which is typically between three to six months. Besides, most companies allow staff a period of settling in to evaluate their suitability before embarking on the relevant training.

5.28 In addition, the OJT allowance is only applicable to companies which have received grants for job redesign and enhancing work-life balance. While this may be helpful, SMEs in the Retail and F&B services sectors require better support for their OJT needs especially where staff are cross deployed, given multiple job roles and training of part-timer workers.

[25] Part-time employment of foreign students: http://www.mom.gov.sg/foreign-manpower/working-in-singapore/Pages/employment-of-foreign-students.aspx

5.29 Another scheme is the Enterprise Training Support (ETS), announced in Committee of Supply (COS) 2013. The ETS is partly aimed at raising employees' productivity and skills levels, and helping employers attract and retain valued employees. Companies receive funding for structured OJT and development of OJT curriculum blueprints. However, only newly subscribed companies to Singapore Workforce Development Agency's (WDA) funding are eligible. These companies have to bundle their OJT programmes with Workforce Skills Qualifications (WSQ) framework. Given the peculiar challenges of SMEs in the Retail and F&B services sectors, there should be greater flexibility in their OJT frameworks to offer focused training for employees.

SMEC recommends widening WorkPro and ETS training support for the Retail and F&B services sectors:

(a) To extend the scheme to include existing staff who are cross deployed to a new department or job scope
(b) To allow greater flexibility for period of training and extend eligibility period to 12 months from date of hire for new staff or date of cross deployment for existing staff
(c) To make the schemes eligible to all SMEs instead of only new companies subscribing to WDA grants

6. CONCLUSION

6.1 This paper has highlighted the issues and challenges faced by SMEs in the current restructuring process. The SMEC has made recommendations to help SMEs tackle these challenges while also seizing growth opportunities in ASEAN and Asia. SMEC urges Government to accept and implement these recommendations in Budget 2014.

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• Plug existing gaps in financing capacity to meet expansion needs</td></tr>
<tr><td colspan="3">Strengthen support to spur SMEs innovation outputs</td></tr>
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• Provide fast-track facilitation to SMEs applying for CDG if they have received ICV for the first phase of their innovation project
• Broaden the eligibility criteria for TECS to all SMEs, instead of only to start-ups
• Expand TECS to support all defensible blue-ocean ideas based on innovative technologies and business models</td><td>Innovation Sub-committee</td></tr>
<tr><td>2.</td><td>Better SMEs access to technologies from public research institutes
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• Expand schemes such as the ICV, T-UP and CDG to cover the manpower costs of suitably qualified/accredited private sector innovation enablers</td><td>Innovation Sub-committee</td></tr>
</table>

4.	**Build platforms to encourage public-private partnerships for innovation projects** • More government agencies to partner SMEs for their innovation projects by providing them test-bedding assistance and opportunities to showcase their innovation	Innovation Sub-committee
Fiscal support to encourage SME growth and internationalisation		
5.	**Enhance the M&A Allowance scheme for overseas growth** • Allow SMEs that do not take a controlling stake in the target companies to be eligible as long as they control at least 30 percent of the target company • Allow transactional costs to be tax deductible even for unsuccessful overseas M&A attempts • Expand the scope to SMEs that expand overseas through other means, such as joint ventures and partnerships, by supporting transactional costs and other common set-up costs	Internationalisation Sub-committee
6.	**New forms for SME financing** • Review the financial regulations and legislations to facilitate the following: − To allow equity and debt-based crowdfunding − To encourage the establishment of a trade receivables exchange	Financing Sub-committee

MEASURES FOR SME SURVIVAL		
Government should proactively address various "bread-and-butter" issues that directly impact business survival • High business costs due to tight resource constraints −Manpower, rental, transport, utilities etc • Tightened foreign worker controls impacting staffing needs • More effective support needed for productivity improvement and industry consolidation • Deteriorating financing capacity to meet operational needs		
Manpower and related costs		
7.	**Supporting healthcare benefits to employees** • Increase corporate tax deduction for medical expenses to commensurate with rising health and medical costs	Cost of Doing Business Sub-committee

	• Review of tax treatment on Group Life Insurance premiums to be consistent with other employee benefits-in-kind expenses	
8.	**Medical costs for older employees** • Further support for the employment of older local employees through a co-payment of insurance premiums with the Special Employment Credit (SEC) scheme	Cost of Doing Business Sub-committee
9.	**Job Flexibility Scheme (JFS)** • Expand eligibility of JFS to allow cross-deployment between companies that are under the same group of companies or management	Manpower & Productivity Sub-committee
Productivity improvements		
10.	**Productivity and Innovation Credit (PIC)** • Extend PIC scheme beyond YA 2015 • Increase the PIC Bonus and making it non-taxable • Extend PIC cash pay-out eligibility to companies with at least three local employees, including those who are sole proprietors, partners and shareholders, as long as CPF contribution is made • Have a combined cap for all six PIC qualifying activities *or* introduce a higher cap for training, IT and automation activities • Extend to cover the following: – Salaries and other remuneration paid to in-house trainers for other duties including preparation of training material – Non-accredited training cap from $10,000 to $50,000	Manpower & Productivity Sub-committee
Business land, space and rental		
11.	**More affordable industrial space needed** • Develop industry hubs equipped with shared facilities in consultation with relevant trade associations	Cost of Doing Business Sub-committee
12.	**JTC lease renewal process** • Ensure sufficient supply of land and affordability of rental for businesses through: – Considering the SMEs' contributions as part of the industry's economic value chain when evaluating land applications or lease renewals – Allowing consultation for lease renewal to take place	Cost of Doing Business Sub-committee

	between six years to 12 years before the end of the lease tenure and to announce the outcome of renewal applications within 18 months of consultation – Greater clarity of JTC's renewal criteria, with provision for relocation assistance for unsuccessful or non-renewed tenants	
13.	**More equitable rental terms** • Publish and make readily available meaningful, aggregated data on sale and rental of business space • Develop a code of best practices for adoption as a standard tenancy agreement, and Government to take the lead for its eventual adoption by industry	Cost of Doing Business Sub-committee
Transportation costs		
14.	**Escalating cost for moving goods** • Further review the system for ownership of commercial vehicles to ensure affordability of movement of goods and services for SMEs as part and parcel of their business operations	Cost of Doing Business Sub-committee
Financing for capital needs		
15.	**Improving SMEs' access to working capital** • Increase the loan quantum of the MLP from \$100,000 to \$300,000 • Introduce a Working Capital Loan Scheme with a loan quantum of up to S\$5 million, with loan tenure to be determined by the PFIs subject to a cap of five years	Financing Sub-committee

SECTORS WITH SPECIAL NEEDS		
Government should give special support to sectors that have been more severely impacted by rising costs and tightening of manpower policies.		
Impact of manpower policies		
16.	**Attracting locals to the sectors** • Support the various Trade Associations to develop and roll out a series of branding programmes to better portray jobs in the respective sectors	Manpower & Productivity Sub-committee

Construction sector – *with inputs from the Singapore Contractors Association Limited (SCAL)*		
17.	**Critical impact of adequate Man-Year Entitlements (MYE)** • Make no further cuts to Man-Year Entitlement (MYE) • Allow companies to use any unfulfilled period of MYE that is not less than three months for employment of another worker or extension of an existing worker	Manpower & Productivity Sub-committee
18.	**Period of employment of experienced foreign workers** • Increase the period of employment of: – Higher skilled (R1) workers from 18 to 25 years – Basic skilled workers (R2) from 10 to 18 years • Review the necessity for paper qualification criteria which are not essential for manual skilled jobs	Manpower & Productivity Sub-committee
19.	**Greater emphasis of foreign workers engaged in safety-related trades** • Upgrade the skilled status of foreign workers in safety-related occupations from "Basic Skilled" (R2) to "Higher Skilled" (R1)	Manpower & Productivity Sub-committee
20.	**Expand the Multi-Skilling Scheme** • Expand the Multi-Skilling Scheme to include trades such as drivers and security guards	Manpower & Productivity Sub-committee
21.	**CoreTrade certified foreign workers** • Require CoreTrade certified workers to remain with the original employer for at least two years effective from the date of obtaining CoreTrade certification	Manpower & Productivity Sub-committee
22.	**Affordable foreign workers dormitories for businesses** • Award dormitory tenders on a pre-determined rate or best sourcing principle that is equitable to both end users and providers	Manpower & Productivity Sub-committee
Retail and F&B services sectors – *with inputs from the Singapore Retailers Association (SRA) and the Restaurant Association of Singapore (RAS)*		
23.	**Source countries for foreign manpower** • Review and expand the source countries of foreign workers for the services sector	Manpower & Productivity Sub-committee

24.	**Student Pass holders as supplement workforce** • Widen the Student Pass holders to EduTrust-certified institutions beyond the 22 approved by MOM to work part-time in the Retail and F&B services sectors	Manpower & Productivity Sub-committee
25.	**Enhancing on-the-job training support schemes for Retail and F&B services** • Widen WorkPro and ETS training support for the Retail and F&B services sectors: − To extend the scheme to include existing staff who are cross deployed to a new department or job scope − To allow greater flexibility for period of training and extend eligibility period to 12 months from date of hire for new staff or date of cross deployment for existing staff − To make the schemes eligible to all SMEs instead of only new companies subscribing to WDA grants	Manpower & Productivity Sub-committee

7. ANNEX

SME Committee

Name	Designation	Organisation
MOS Teo Ser Luck	Advisor	MTI
Mr Lawrence Leow	Chairman	SMEC
Mr Tony Chew	Chairman	SBF
Mr Chan Chong Beng	Immediate Past President	ASME
Mr George Huang	President	SMF
Mr Lau Tai San	Council Member	SCCCI
Mr Abdul Rohim Sarip	Immediate Past President	SMCCI
Mr Rangarajan Narayanamohan	Chairman	SICCI
Mr Edwin Khoo (up to September 2013)	Member	ABS
Mr Linus Goh (with effect from October 2013)	Member	ABS
Dr Ho Nyok Yong	President	SCAL
Mr Roderick Chia	Member	SITF
Mr Quek Keng Liang	Chairman	SLA
Mr Douglas Foo	Council Member	SNEF
Dr Ricky Souw	Council Member	SPETA
Mrs Wong Sioe Hong	Vice President	SRA
Mr Melvin Tan	Managing Director	Cyclect Group
Ms Susan Chong	Managing Director	Greenpac
Mr Glenndle Sim	Executive Chairman & CEO	Mencast Holdings
Ms Cynthia Phua	Executive Director & Head, Retail Services	Knight Frank Pte Ltd

SMEC Sub-committee on Cost of Doing Business

Name	Designation	Organisation
Mr Chan Chong Beng	Chairman	Sub-committee
Ms Susan Chong	Vice-Chairman	Sub-committee
Mr Jeremy Fong Sue Fun	Chairman	SPETA
Mr Goh Swee Hong	Partner	RSM Chio Lim
Mr Desmond Hill	Deputy General Manager	Penta-Ocean Construction
Dr Dora Hoan	Group Managing Director	Best World International
Mr Anthony Say	Honorary Secretary	RAS
Mr Benjamin Tan	Managing Director	Ho Lee Construction
Mr Wong Ghan	Managing Director	Speedy Industrial Supplies
Mrs Wong Sioe Hong	Vice President	SRA
Mr Thian Tai Chew	Assistant Executive Director	SBF

SMEC Sub-committee on Manpower and Productivity

Name	Designation	Organisation
Mr Lau Tai San	Chairman	Sub-committee
Mr Tan Jit Khoon	Vice-Chairman	Sub-committee
Mr Ang Kiam Meng	Immediate Past-President	RAS
Mr Kay Kong Swan	Chief Executive Officer	CWT Ltd
Mr Low Ming Wah	President/COO	Micro-Mechanics
Ms Cynthia Phua	Executive Director	Knight Frank Pte Ltd
Mr Voo Soon Sang	Vice President	SSPHBOA
Mr Jeffrey Yu	Managing Director	HSL Ground Engineering
Mr Neo Kian Siong	Assistant Executive Director	SBF

SMEC Sub-committee on Financing

Name	Designation	Organisation
Mr Edwin Khoo (up to September 2013)	Chairman	Sub-committee
Mr Linus Goh (with effect from October 2013)	Chairman	Sub-committee
Mr Desmond Hill	Vice-Chairman	Sub-committee
Ms Susan Chong	Managing Director	Greenpac
Ms Foo Mee Har	MP, West Coast GRC	Parliament of Singapore
Mr Steven Koh	Deputy Chief Executive Officer/Executive Director	Armstrong Industrial Corp
Mr Nicholas Malcomson	Founding Director	Pay2Home Direct
Mr Ng Siew Quan	Partner	PWC LLP
Mr Quek Keng Liang	Chairman	SLA
Ms Betty Sim	Head	OCBC Bank
Mr Glenndle Sim	Executive Chairman & CEO	Mencast Holdings
Ms Annabelle Tan	Council Member	SMF

SMEC Sub-committee on Internationalisation and Market Access

Name	Designation	Organisation
Dr Ricky Souw	Chairman	Sub-committee
Mr Abdul Rohim Sarip	Vice-Chairman	Sub-committee
Mr Kelvin Chia	Partner	Kelvin Chia Partnership
Mr Roderick Chia	Managing Director	IDM Venture Capital
Mr Douglas Foo	Chief Executive Officer	SAKAE Holdings Ltd
Mr Andrew Khng	Director	Tiong Seng Contractors
Mr Low Cheong Kee	Managing Director	Home-fix DIY
Ms Edith Cheong	Assistant Executive Director	SBF
Mr Martin Yuoon	Assistant Executive Director	SBF

SMEC Sub-committee on Innovation

Name	Designation	Organisation
Mr Melvin Tan	Chairman	Sub-committee
Mr Roderick Chia	Vice-Chairman	Sub-committee
Ms Audrey Yap	Managing Partner	Yusarn Audrey
Mr Bill Liu	Managing Partner	Stream Global Pte Ltd
Dr David Chew	Executive Chairman	Stratech Systems Ltd
Mr Eugene Tan	Managing Director	XentiQ Pte Ltd
Dr Govindharaju Venkidachalam	Director	Hyflux Ltd
Mr Mark Lee	Chief Executive Officer	Sing Lun Holdings Ltd
Mr Ryan Chioh	Managing Director	FarEastFlora.com Pte Ltd
Mr Tan Jit Khoon	Chief Executive Officer	Winson Press Pte Ltd
Mr Crispian Lye	Deputy Director	SBF
Mr Stephen Phoon	Deputy Director	SBF

Secretariat

Name	Designation
Mr Ho Meng Kit	Chief Executive Officer, SBF
Mr Victor Tay	Chief Operating Officer, SBF
Mr Lam Kong Hong	Director, SME Committee, SBF
Mr Zhuo Yao Hong	Asst Manager, Strategic Planning & Research Unit, SBF
Ms Gan Jing Wen	Executive, Strategic Planning & Research Unit, SBF
Ms Alaxys Liu	Executive, Strategic Planning & Research Unit, SBF
Ms Nafisah Zakariah	Executive, SME Committee, SBF

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