SME COMMITTEE

RECOMMENDATIONS FOR BUDGET 2015

Singapore Business Federation
December 2014

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EXECUTIVE SUMMARY

In his round-up speech for Budget 2014, Deputy Prime Minister (DPM) Tharman Shanmugaratnam emphasised the importance of ensuring that SMEs remain the core of Singapore's economy, and communicated the government's top priorities in the next phase of restructuring, the first of which is to transform the SME sector in order for them to overcome the constraints of a tight labour market and high business costs. As providers of 70% of employment and contributing to more than 50% of GDP, SMEs are important pillars of Singapore's economy.

The Small and Medium Enterprises Committee (SMEC) appreciates the attention given to the restructuring process and the schemes implemented to help SMEs over the past few years, such as the 3-year Transition Support Package (TSP) aimed at helping SMEs overcome ongoing business challenges. As Singapore continues with the economic restructuring journey, SMEC hopes that the Government would place greater priority in ensuring that SMEs remain core to the Singapore economy.

For Budget 2015, SMEC urges the Government to focus on the following areas to help accelerate development of the SME sector:

(a) SME Development Strategy
Adopt a more holistic approach in SME development where the interests of local enterprises are at the centre of economic strategies across whole-of-government.

(b) SME Transformation
Implement more targeted measures to help SMEs, particularly those in the domestic-oriented sectors still grappling with challenges of transformation.

(c) SME Growth Strategy
Help SMEs grow through internationalisation, innovation and collaboration.

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 industry sectors.

Key challenges remain

1.2 Since its inception, SMEC has actively engaged in outreach and advocacy activities, continually giving feedback to Government on SME issues and challenges in particular how SMEs are coping with the restructuring process. SMEC has submitted recommendations annually for Budgets 2012 to 2014, and is encouraged by the attention of the Government and the adoption of several of its recommendations in the respective Budgets. SMEs as a whole have benefitted from these Budget measures.

1.3 However key challenges remain. While some industries are more affected than others, overall, SMEs are still feeling the strain of tightening manpower, demand for high wages by locals, escalating business costs and increasing competition. Market uncertainties add to the difficulties as businesses strive to balance operational challenges with sustaining shareholder value and maintaining growth aspirations.

> Singapore companies cannot catch up with the speed of Government's policy changes.
> *A precision engineering company*

> Singapore Government should slow down on restructuring as many companies are suffering.
> *A manufacturing company*

Sentiments expressed in SBF-American Express Singapore Business and Financial Strategy Survey (Oct 2014)

A mindset shift in Budget 2015

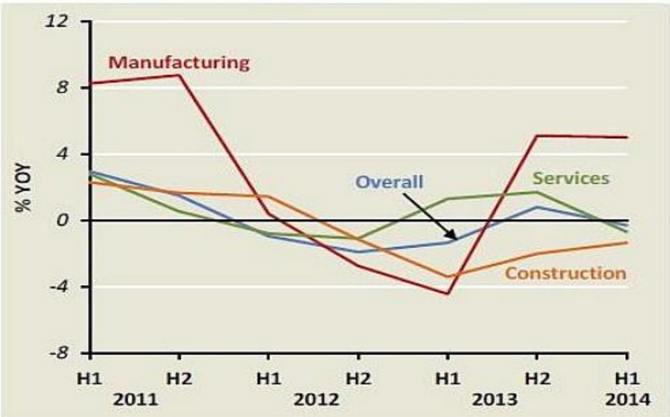
1.4 In these recommendations for Budget 2015, SMEC hopes that Government would consider a more holistic approach to SME development where the interests of local enterprises are at the centre of our economic strategies. SMEC urges Government to implement more targeted measures to help SMEs, particularly those in the domestic-oriented sectors still grappling with challenges of transformation. Finally with Singapore's small domestic market and looming implementation of the ASEAN Economic Community (AEC) 2015, more help should be given to grow our SMEs through overseas expansion, innovation and collaboration.

2. BUDGET CONSIDERATIONS

Restructuring pains

2.1 In 2010, the Economic Strategies Committee (ESC) set a target for Singapore to achieve productivity growth of 2% to 3% per year over the next ten years, by which time the aim is also to double to 1,000 the number of globally competitive companies with revenue of over $100 million[1]. Underlying the restructuring efforts are productivity improvements through reduced reliance on foreign manpower, supplemented by programmes and incentives for companies to raise productivity.

2.2 Coming to the half-way mark at the end of 2014, numerous concerns have been raised over the restructuring push. A *Business Times* report on 27 October 2014[2] summed up reservations expressed by private sector economists that so far *"the pain is showing, but not the gains"*. According to MAS's Macroeconomic Review, labour productivity growth averaged just 0.1 per cent from 2011 to Q2 2014, and 0.4 per cent if construction is excluded. In Q32014, labour productivity growth remained weak, at -0.8% in Q32014, and -0.5% if construction is excluded[3].



Labour Productivity Growth (Source: MAS Macroeconomic Review, Oct 2014)

2.3 In its annual review of Singapore's economic policies, the International Monetary Fund (IMF) cautioned that Singapore's plans to cut reliance on foreign workers could reduce its competitiveness and growth potential while keeping core inflation elevated[4]. IMF acknowledged that plans to restructure the economy by trying to boost productivity and curb use of cheap foreign labour could eventually set the stage for a long period of sustainable growth. However it noted that productivity improvements might take some time to materialise and may not fully offset the effects of declining labour force growth. IMF also concluded that downside risks still remain. With Singapore's open economy and high dependence on trade, the country will inevitably be exposed to slower growth rates of its major trading partners and volatility in the global financial market.

[1]Report of the Economic Strategies Committee, *Economic Strategies Committee*, Feb 2010
[2]Doubts over Singapore's restructuring push, *Business Times*, 27 Oct 2014
[3] Monthly Digest of Statistics Singapore, *Department of Statistics Singapore (DOS)*, Nov 2014
[4]IMF Country Report No. 14/312 – Singapore, *International Monetary Fund*, October 2014

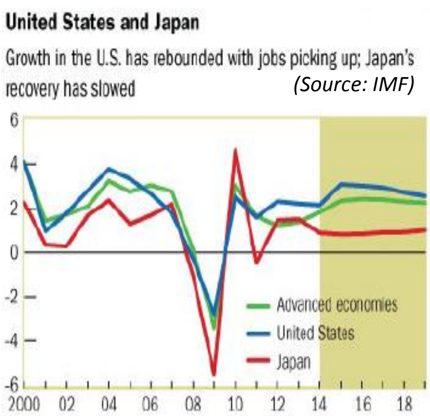
Growing the second wing

2.4 With constraints of land, labour and a small domestic market, it is critical for SMEs to expand overseas as a key strategy for growth. There is greater urgency for Singapore companies to internationalise to capitalise on opportunities in the global market.

2.5 **ASEAN Economic Community (AEC) 2015** – ASEAN has a combined GDP of nearly US$3 trillion and a growing middle class amongst its 625 million population. In 2012, ASEAN formed 27% of Singapore's direct investments abroad, surpassing China. In 2013, Singapore accounted for the largest share of intra-ASEAN trade valued at about US$207 billion[5]. AEC 2015 will in principle enlarge Singapore's economic space. However our SMEs will need to gear up for greater competition from both within ASEAN as well as those outside who will use Singapore as a base to launch their presence in the region.

2.6 ***United States (US) and European Union (EU)*** – The US and EU are two of Singapore's top trading partners. A surge in business and consumer spending propelled the US to a 3.9% growth in the third quarter of this year[6], with recovery expected to be boosted especially with recent declines in oil prices. Growth in the EU has been anaemic, prompting European Commission (EC) President Jean-Claude Juncker to announce a 300 billion Euros investment plan in a hope to accelerate recovery and kick-start EU's growth[7].

2.7 ***Japan*** – Singapore's ninth largest trading partner in 2013 has slipped into a technical recession with a 1.9% contraction in annual terms in the third quarter of 2014. The decline has been attributed to a big fall in business spending following an increase in the country's sales tax in April this year[8]. Japan has since announced an 18-month delay in their consumer tax hike[9]. The Bank of Japan expanded their bond buying program to ¥80 trillion per year, up from ¥70 trillion previously[10] to stimulate growth.



2.8 ***China*** – China was Singapore's largest trading partner in 2013, with the recent establishment of a direct currency trading platform between the Singapore Dollar and Chinese Reminbi expecting to further boost trade relations. New developments in China include the US$40 billion Silk Road Fund which is expected to improve connectivity and create an economic belt in the ASEAN region[11].

[5] External Trade Statistics, *ASEAN*, 24 Jul 2014
[6] US Economy Stronger Than Expected In Third Quarter, *The Guardian*, 25 Nov 2014.
[7] Juncker Unveils Investment Plan to Kick Start EU Growth, *The Business Insider*, 26 Nov 2014.
[8] Japan's Third Quarter Recession Deeper Than Estimated, *BBC News*, 8 Dec 2014.
[9] Delay the second consumption tax hike, *The Economist*, 17 Nov 2014
[10] A bigger bazooka, *The Economist*, , 31 Oct 2014
[11] New Maritime Silk Road will benefit Singapore & ASEAN, *People's Action Party*, 12 Sep 2014

2.9 ***India*** – India presents great potential for Singapore companies. The slew of economic reforms announced by Prime Minister Narendra Modi to revive economic growth and expand economic opportunities have raised business confidence in the Modi government. Moves to liberalise the country's insurance sector, amend archaic labour laws and reduce subsidies for some sectors of the domestic industry[12] will place India in a prime position to attract investors and enhance multilateral collaborations.

2.10 ***Other emerging markets*** – There are opportunities beyond the major economies and immediate ASEAN region that Singapore SMEs could expand into. These include regions with low SME penetration rates such as Africa, the Middle East, North and Latin America, as well as parts of Europe. Within these regions, IE Singapore has identified some countries with greater growth potential, including Qatar, Brazil and Turkey[13]. Trade flows from Asia to Africa is estimated to grow at 10% annually. In 2013, trade between Singapore and Africa reached US$11.1 billion. Singaporean companies will have opportunities in African countries such as South Africa, Nigeria, Kenya and Ghana.

A pro-SME eco-system

2.11 At the SMEC Strategic Planning Session held on 26 March 2014, business leaders and representatives from 25 trade associations and chambers (TACs) voiced the need for government policies to be more responsive to SMEs' needs. These include:

- The need for more coordinated policy-making between government agencies
- Better resource allocation and targeted assistance schemes for SMEs
- While favouring selected sectors, not to neglect other sectors
- Facilitating collaborations between SMEs and large enterprises and fostering better "guanxi" between Singapore and foreign enterprises
- Better policy coordination and communication with businesses

2.12 The business community also highlighted the need for policies to better address the following:

- Help SMEs better manage costs and resource constraints (manpower shortage, land and space to be adequately provided)
- More options for SMEs in their financing and internationalisation needs
- More holistic assessment in government grants disbursement (financial/tax incentives) and resource allocation (land, manpower, etc.)
- Lower government fees, charges and compliance costs

[12]Modi's Reform Agenda to Revive Economic Growth in India, *Reuters*, 28 Nov 2014.
[13] Discover a world of possibilities, *IE Singapore*

3. SME DEVELOPMENT STRATEGY

SMEs: Key economic pillar

3.1 SMEs are crucial to the Government's economic development strategies. In 1986, when global economies were recovering from a recession, the then Economic Committee highlighted that SMEs accounted for 30% of domestic exports and was a critical pillar of a mature structure of firms that consist of multinational companies (MNCs) and local companies[14]. More recently, the ESC stressed the importance of growing a deeper base of globally competitive Singapore enterprises by implementing strategies in areas ranging from financing, seed funding to empowering local trade organisations to drive growth and internationalisation. The objective is to create a vibrant, diverse corporate ecosystem conducive for business growth.

3.2 However despite these efforts, the ESC's target of doubling to 1,000 the number of globally competitive companies with revenue of over $100 million seems difficult to achieve. There are no official statistics but it is estimated that the net growth of businesses crossing S$100 million was around five to eight per year in the past five years. The number of home-grown SMEs that have truly achieved international status with global footprint is few and far in between.

Review of ESC

3.3 The ESC recognised that Singapore's economic transformation is a multi-year effort that will require the economy to build on current strengths while shifting into more knowledge-intensive, sophisticated and innovative activities for both manufacturing and services. While efforts are continuing to raise productivity and develop new capabilities, new business trends and markets have emerged since the recommendations were released five years ago. These include technological advancements, the astronomical rise and influence of the internet and concerns over ageing population and workforce. Regional and emerging economies have also fast advance on capabilities, human resource and infrastructure development.

3.4 A review of the ESC recommendations and targets could be conducted to assess how we are doing and whether the approaches taken are still relevant in building the SME sector. For example, while ESC identified high-value manufacturing, urban solutions and energy as industries for greater focus, new strategies could be developed to build on core capabilities in other sectors that Singapore SMEs have developed – such as water management, wearable devices and the silver industry – and grow them into global companies.

[14]Report of the Economic Committee - The Singapore Economy New Directions, *Economic Committee – Ministry of Trade and Industry*, 1986

SMEC recommends that Government

a) Reviews the ESC recommendations to assess the performance and continued relevance of the strategies to raise productivity and grow SMEs into global companies

b) Identifies industries that Singapore has the potential to become global leaders and implement strategies to help SMEs in these sectors develop into global players.

SME data

3.5 Currently, data on SMEs are dispersed where different ministries and agencies collect their own statistics e.g. on productivity, revenue performance, labour and manpower, business cost, financing, R&D, overseas trade and investments, etc. Better coordination and analysis of such data is critical so that a vigorous assessment can be made to monitor the overall health of SMEs and ensuring that policies and programmes catering to specific needs are developed.

SMEC recommends that Government provides more comprehensive and coordinated SME data for better monitoring and assessment of the overall health of SMEs.

Current SME support structure: A multi-agency approach

3.6 Currently the Government adopts a multi-agency approach to help SMEs grow. SPRING Singapore is the de-facto agency that oversees the local SME sector. SPRING supports SMEs growth through a broad range of grants and incentive programmes to support SMEs' capability development. On the other hand, IE Singapore helps SMEs to expand overseas, JTC supplies industrial land while A*STAR supports SMEs in developing and adopting new technologies. iDA actively supports the growth of local innovative info-communication companies and start-ups[15]. SPRING works closely with these and other agencies to ensure alignment of programmes and strategies for the respective sectors.

3.7 While the current multi-agency approach had served SMEs well, each agency tended to drive programmes based on its own mandate and key performance indicators (KPIs). However, SMEs issues are cross-cutting, diverse and increasingly more varied. These include financing, manpower and human resource, internationalisation, technology and innovation, regulations and compliance issues

[15] MTI's reply to media queries on economic restructuring – Aug 2014, *Ministry of Trade and Industry*, 4 Aug 2014

that cut across different sectors and industry clusters. Anecdotal accounts on the ground have revealed SMEs' confusion with the myriad of schemes and frustrations at times when having to adopt a different approach when dealing with separate agencies for different issues and assistance.

3.8 Business leaders had spoken in various official and public forums on SMEs' challenges. SBF Chairman Mr Teo Siong Seng, in his position as Nominated Member Of Parliament (NMP) then, spoke in Parliament in October 2013 that businesses wish for a single government agency in which they can approach directly for help. He highlighted that "*the problems faced by SMEs are complicated and involve many government agencies*". He added that despite the good efforts by SPRING, IE Singapore and the other government agencies, they were still unable to solve the SME's problems at hand. Current NMP Mr Thomas Chua reiterated this call in Parliament in November 2014. This view was also echoed by SMEC Chairman Mr Lawrence Leow at both the 2013 and 2014 SME Conventions.

3.9 At a lunch dialogue with business leaders organised by SBF in November 2014, DPM Tharman pointed out that the lack of a single agency should not be an excuse used by businesses why SMEs are not doing well. SMEC acknowledges this view but SMEs face numerous difficult challenges such as limitations of resources, manpower, talent, financing, innovation, etc. While a single SME agency is not the silver bullet, it will help enormously in spurring SME development.

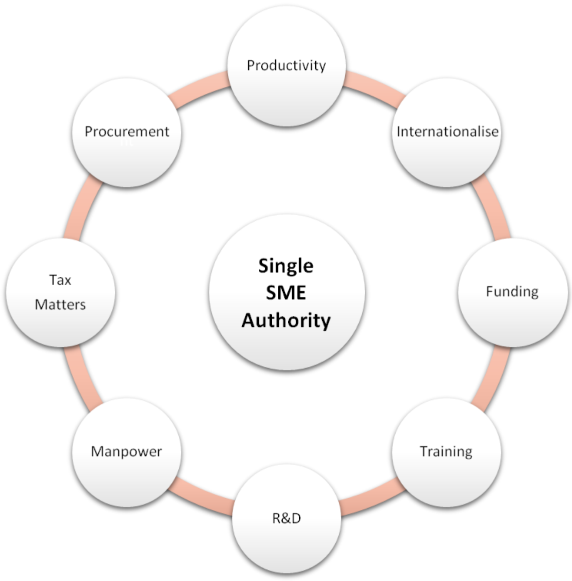
Need for a single SME authority

3.10 The existing multi-agency approach may have served the smaller companies well but its achievements are less clear with the larger SMEs, particularly when viewed in the light of the number of globally competitive companies with revenue of more than $100 million Singapore has produced.

3.11 Over the past decades, the Government has successfully implemented policies that attracted many MNCs to Singapore and developed GLCs to become global players. SMEC hopes that the Government can do likewise for the SME sector by implementing policies dedicated to help SMEs develop into globally competitive players. A single SME authority either in the form of a new establishment or an existing agency with a redefined scope and focus, being the equivalent of what EDB is to MNCs, may be the missing piece in the SME puzzle.

3.12 Building global companies also means retaining the brand and identity with links back to Singapore. For many family and closely-held businesses, succession planning is one of the toughest and most critical challenges. According to a UOB Small Business Survey conducted in November 2014, one in two respondents voiced concerns over finding suitable successors to replace their key person. Many successful companies also choose to cash out, selling to overseas buyers after building a viable business. The Singapore brand that has taken many years to build is often lost following the sale. Strategies on succession planning are overdue and this aspect may be suitably undertaken by the single SME authority as part of its overall development strategy to help successful global companies with the Singapore brand sustain and transform into multi-generational institutions long after the founding members are gone.

3.13 A single SME authority would provide a strong, integrated thrust for holistic SME development. Much like EDB's role in nurturing MNCs in Singapore, a single SME authority would have dedicated focus and be empowered to drive the SME agenda across whole-of-government. More importantly, a single SME authority would have oversight of better, more comprehensive and coordinated SME data for better policy and programme formulation.



SMEC urges the Government to place SME development at the centre of economic strategies with a view to helping more SMEs develop into globally competitive players. To achieve this goal, SMEC recommends that the Government study the need for the establishment of a single SME authority empowered to champion SME development and drive the SME agenda across whole-of-government. This will provide a more comprehensive and coordinated approach towards managing SME issues and policy implementation. Alternatively the Government could empower an existing agency for this role.

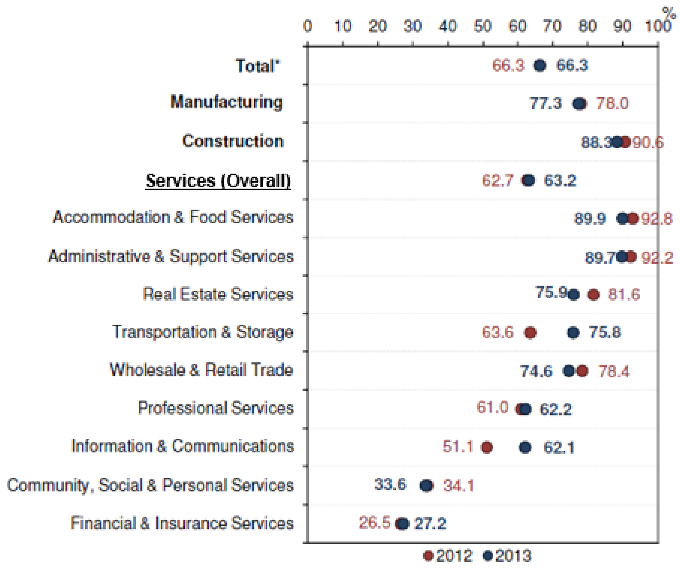
4. SME TRANSFORMATION

Overview

4.1 Singapore's economic restructuring strategy put forth by the ESC is principled on skills upgrading, innovation and productivity to ensure that Singapore continue to achieve sustained and inclusive growth. Strong focus was placed on reducing dependence on foreign labour and attaining productivity growth of 2% to 3% per year.

4.2 However, the tight labour market and land resources coupled with other factors have contributed to escalating business costs. More than four in ten SMEs responding to a poll at the SME Convention 2014 found the pace of economic restructuring too fast to manage. A pre-budget survey conducted by KPMG reported an overwhelming 96% of respondents had only recently initiated plans to adopt innovation and raise productivity[16]. In light of these feedback and trends, SMEs would continue to need support to manage business costs and invest in productivity improvements.

4.3 MOM's Job Vacancies Survey 2013 has revealed that the Construction sector face the greatest difficulty filling up vacancies by locals. However within the overall Services sector, there were individual components, such as those in the Accommodation & Food and Administrative & Support Services sectors that were also severely affected (see chart below). A more granular approach should be taken to help those in the affected services sectors to cope with manpower challenges.



	Number of Hard-to-Fill Vacancies By Locals		% Change
	2012	2013	
Total*	34,760	38,310	10.2
Manufacturing	4,950	5,580	12.6
Construction	3,570	3,250	-9.0
Services (Overall)	25,800	29,200	13.2
Accommodation & Food Services	6,030	6,800	12.8
Administrative & Support Services	4,070	4,420	8.6
Real Estate Services	1,510	1,810	19.7
Transportation & Storage	2,000	2,550	27.7
Wholesale & Retail Trade	4,830	5,520	14.3
Professional Services	1,770	1,930	9.3
Information & Communications	790	1,030	30.2
Community, Social & Personal Services	4,170	4,420	6.0
Financial & Insurance Services	630	710	12.3

Source: Job Vacancy Survey, MOM

[16] Budget 2014 and Economic Restructuring in Singapore, *Institute of Policy Studies*, Feb 2014

Tax and fiscal support

PIC Bonus

4.4 The PIC Bonus scheme gives businesses a dollar-for-dollar matching cash bonus for year of assessments (YA) 2013 to 2015, subject to an overall cap of $15,000 for all three YAs combined. The scheme is due to expire in YA 2015. From IRAS data, the scheme has been well utilised.

4.5 However SMEs are still feeling the effects of restructuring and rising business costs. Preliminary findings from SBF's National Business Survey 2014/2015[17] showed that 62% of respondents were still grappling with rising business costs. The SME Development Survey 2014 also revealed rising business costs as a major concern of SMEs, with top contributors from manpower (48%) and rental (31%) costs. The later survey also showed that on top of thinning profits, there was a 2% rise in the number of companies making losses. There is a need to continue providing support to SMEs to cope with persistent rising business costs.

SMEC recommends that PIC Bonus be extended for another three years from YA2016 to YA2018 to coincide with the extension of the PIC scheme until YA2018.

R&D claims under PIC

4.6 Based on IRAS data, only 3% of PIC claims have been made for R&D, intellectual property (IP) or approved design activities in YA2011 and YA2012. A study by PwC in October 2014 showed only 6.3% of respondents had intentions to tap on the R&D tax benefits offered under the PIC scheme. Two key factors contribute to the low-take up:

1) To qualify for R&D tax benefits under PIC, a project has to include "a systematic, investigative and experimental study in a field of science or technology that aims to either acquire new knowledge, create new products or processes, or improve existing products and processes". However SMEs' activities in R&D are often more "development" than "research" which may not qualify even if there are some elements of innovative technology application.

2) Approvals of R&D claims require domain knowledge or technical expertise to validate that the project has sufficient innovative and novelty components meeting the requirements under the scheme. Feedback from SMEs have surfaced that tax officers may not be able to make informed technical assessments when processing such claims, resulting in otherwise valid cases being rejected.

[17] National Business Survey 2014/2015, *SBF (to be published Jan 2015)*

SMEC recommends that

a) The qualifying requirements for R&D claims under PIC be adjusted to cater to more development-based activities for SMEs

b) A panel of relevant experts with appropriate domain knowledge or technical expertise be convened to hear appeals for PIC R&D claims, similar to SPRING's recently-announced Grant Appeal Advisory Panel.

Financing

Restructuring Loan Scheme

4.7 According to the SME Development Survey 2014, average SME cash reserves are weakening, falling 47% from $1.37m in FY2010 to $0.72m in FY2013. This suggests that many SMEs would be at short-term liquidity risks. With their weakening financial position, many SMEs would require financial assistance in their transformation and restructuring process. The same survey indicated that 29% of SMEs require additional funding to supplement their working capital. With SMEs requiring both more time and capital investments to adjust to the new paradigm, a bridging loan, with a loan quantum up to $3 million could be introduced to tie over cash flow needs for restructuring.

SMEC recommends introducing a Restructuring Loan Scheme with a loan quantum of up to $3 million to help SMEs in their transformation and restructuring process.

Competitive interest rates for government loan programmes

4.8 While government-supported financing schemes like the Microloan Programme (MLP), the Local Enterprise Financing Scheme (LEFS) and the Internationalisation Finance Scheme (IFS) had enhanced SMEs' access to loans, the minimum interest rates set by Government under these schemes can be effectively higher than prevalent bank rates.

4.9 SMEs have given feedback that the interest rates of government-backed loans should be pegged at a more equitable rate compared to commercial banks. They highlighted that countries such as Taiwan and Germany, which have strong SME support structures, offer loans at much lower rates, even to the extent of charging subsidised interest rates.

4.10 As an enhancement to the current government-supported financing schemes, the Government could adopt interest rates pegged at a more equitable rate compared to commercial banks and enhance the risk-sharing amongst the stakeholders so as to lower the financing cost for SMEs.

SMEC recommends that Government adopts interest rates pegged at a more equitable rate compared to commercial banks for government-supported financing schemes, and enhance the risk-sharing amongst the stakeholders so as to lower the financing cost for SMEs.

Cost of doing business

Equitable rental terms

4.11 There are anecdotal accounts of agreements favouring landlords that had been cited by the retail industry, where tenants were subjected to onerous terms, including landlord's right to revise certain rental conditions during the lease term and premature termination of the lease.

4.12 At an SBF industry forum held in April 2014, 37% of the participants called for fair tenancy legislation, while a further 35% requested for a fair tenancy framework. As legislation requires greater in-depth studies on the implications, SMEC, in consultation with the business community has established a Fair Tenancy Framework in which a Business Leasing Guide has been developed for voluntary adoption by both landlords and tenants. The Government could take the lead by adopting the framework, thereby setting the path for its adoption.

SMEC urges Government landlords to lead in the adoption of the Fair Tenancy Framework.

Medical costs for older employees

4.13 Currently more than 20% of Singapore's resident workforce is aged between 50 and 59 years old[18]. The average age of the workforce is also increasing as more are working beyond their retirement age. Given the tight labour market, SMEs keep their employees longer while seeking to tap on the economically inactive residents to supplement their labour pool. The SBF National Business Survey 2013/2014 showed that SMEs had three times more workers aged 62 and above compared to larger companies. The impact on health and medical costs for SMEs are therefore greater as older employees would incur higher medical expenses.

4.14 The Government's is also calling for businesses to voluntarily engage older workers and to re-employ them past the official retirement age. There is a need to assist and incentivise SMEs to manage the corresponding increase in the associated costs of doing so.

4.15 In today's working environment, an employee can expect to change jobs more frequently throughout his working life. The employee also has the likelihood of losing his medical benefits with each job change. With that in mind, the tripartite

[18]Comprehensive Labour Force Survey, *MOM,* Jun 2013.

partners have been encouraging employers to adopt portable inpatient/hospitalisation medical benefits which will provide continuous medical coverage for employees switching jobs and post-retirement. However some companies would require financial assistance to make this transition.

SMEC recommends that Government provides financial assistance for SMEs to migrate towards portable medical benefits for employees.

Shared services

4.16 Shared services offer SMEs opportunities to save manpower and operating costs while freeing up internal resources so as to focus on core activities. Findings from the SBF-American Express Singapore Business and Financial Strategy Survey 2014 revealed that one third of SME respondents intend to take on shared services in the next 12 months.

4.17 In SMEC's Recommendations for Budget 2014, it was proposed that TACs play a bigger role to facilitate shared services for their SME members. Specifically, they could help identify common needs of their members and invest in software, hardware or equipment which can be shared for use amongst their members for higher productivity, especially as micro and small SMEs do not on their own have the resources to invest in such solutions. The Government could provide grants to TACs to undertake these projects for the collective benefit of their industry.

4.18 One such project is being undertaken by the Association of Small and Medium Enterprises (ASME). It aims to offer an IT cloud platform with functionalities such as HR solutions, tax accounting and company audits and providing a common interface for transactions with government agencies like CPF, IRAS and ACRA. This would achieve manpower and cost savings through the provision of standardised reporting format.

4.19 The Singapore public sector uses an online eProcurement system known as Government Electronic Business (GeBIZ) to transact with suppliers. It is an internet-based government-to-business portal, which covers the entire procurement cycle. The infrastructure could be replicated as a separate system operated by a TAC/entity to be used for business-to-business transactions. The system would benefit both buyers and sellers through greater efficiency in the procurement and tendering processes.

SMEC recommends

a) **Continued support be extended to TACs for the development of shared services such as HR solutions, tax accounting and company audits through IT cloud platform**
b) **GeBIZ infrastructure be replicated as a separate system operated by a TAC/entity, for private sector business-to-business transactions.**

Manpower and productivity challenges

Wage Credit Scheme

4.20 For its 2014/15 wage guideline recommendations, the National Wages Council (NWC) highlighted that the tight labour market is expected to place upward pressures on wages, as tighter foreign workforce policy measures continue to cap foreign labour availability. The NWC also noted that the Wage Credit Scheme (WCS) had helped businesses cope with rising wage costs so that they could free up resources to invest in productivity, and share their productivity gains with their employees. Statistics from IRAS showed that SMEs had received around three quarters of the $800 million first tranche disbursement to employers.

4.21 Despite the high take-up rate of WCS by SMEs, their overall productivity is still not satisfactory. SMEs generally need more time than their larger counterparts to restructure operations, consolidate resources and implement productivity measures. SMEs are also less competitive in raising salaries or when hiring, losing out to larger companies and MNCs. An early announcement on the extension of WCS ahead of its expiry in 2015 will also enable SMEs to better plan their short to medium term manpower strategies.

SMEC recommends that the WCS be extended for another three years to YA2018 for SMEs only.

Productivity measurements

4.22 A primary aim of the economic restructuring exercise is to move the economy towards productivity-driven growth. However, labour productivity has remained sluggish, with third quarter of 2014 figures[19] showing an overall growth of -0.8%. Labour productivity in finance & insurance and manufacturing are the only sectors showing improvements (+5.8% and +2.1% respectively). Of the remaining sectors, accommodation & food services, construction and transportation & storage and construction showed the biggest declines (-3.5%, -2.9% and -2.8% respectively).

4.23 Value-add (VA) per worker is currently being used as a broad measure of labour productivity across all sectors. It is an indicator which Government uses as a primary basis for the various manpower tightening measures. While VA per worker provides a broad comparison across sectors, it may not accurately reflect the true productivity of specific sectors where labour input is not the only variable. Supplementary sector-specific indicators should be developed for a more comprehensive measure of productivity in the specific sector. With more granular productivity indicators, more targeted policies and programmes could be developed to better support SMEs raise productivity in those sectors.

[19] Monthly Digest of Statistics Singapore, *Department of Statistics Singapore (DOS),* Nov 2014

SMEC recommends studies be conducted to develop supplementary productivity indicators for specific sectors that will more accurately reflect the productivity of the sector.

Foreign worker levies

4.24 Preliminary results of the SBF National Business Survey 2014/2015 show that on the whole, foreign worker levies continue to be a huge burden on businesses as they grapple with rising costs. The steep increases in the levies over the past few years have significantly impacted SMEs' profitability. Topping the wish list in the Pre-Budget 2015 Survey conducted by the Singapore Chinese Chamber of Commerce and Industry (SCCCI), two thirds (66.5%) of respondents wished that foreign worker levies are not further raised, and that quotas are not tightened[20].

4.25 The foreign worker levies has been used as a lever to restrict foreign worker access and to protect local wages. From MOM, the overall foreign worker growth in the first half of 2014 was the lowest since 2009. With the implementation of the Progressive Wage Model (PWM) as well as other government schemes, wages and career prospects of locals, especially for low wage workers (LWWs) have risen steadily. As at end-October 2014, close to 270 companies have adopted PWM, benefiting more than 150,000 local workers[21]. Real income increment has increased by 4.6% (median) from 2012 to 2013, much higher than the real annualised growth of 1% (median) for the period 2003 to 2012. In view of this, the relevance of foreign worker levies as a lever to restrict foreign worker access and protection of the local wages has been diminished. Studies will be required to address business costs which are driven up unnecessarily.

4.26 In SMEC's Recommendations for Budget 2013, it was highlighted that S Pass holders are subjected to the full brunt of foreign worker measures – the Foreign Worker Levy, Dependency Ratio Ceiling (DRC) quota and minimum qualifying wage (see table). An employer of S Pass holders having satisfied the DRC and minimum salary requirements would have met the objective of regulating the number of foreign workers while providing wage-parity between foreign workers and locals. Thus, the levy for S Pass holders is unnecessary and leads to higher cost of doing business.

Work Passes	DRC	Minimum Salary	Levy
Employment Pass		*x*	
S Pass	*x*	*x*	*x*
Work Permit	*x*		*x*

[20] Government should continue incentives, programmes to help businesses: SCCCI, *CNA,* 26 Dec 2014
[21] Nearly 270 Companies Have Adopted Progressive Wage Model: NTUC, *CNS*, 12 Nov 2014

SMEC recommends that Government

a) **Holds back on any further planned increases in foreign worker levies**
b) **Removes the Foreign Worker Levy for S Pass holders as they are already subjected to DRC quota and minimum salary requirements.**

Job Flexibility Scheme (JFS)

4.27 In SMEC's Recommendations for Budget 2014, it was highlighted that the Job Flexibility Scheme (JFS) was useful to allow cross deployment of foreign workers, hence maximising manpower utilisation. Under JFS however, companies within the same group are treated as distinct entities and are not allowed to deploy their foreign workers across one another even though it optimises manpower resources, while saving companies the need to bring in additional foreign workers for the subsidiaries and companies.

4.28 For better utilisation of foreign manpower especially during lull periods, companies should be given the flexibility to deploy workers 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.

Special needs sectors

Infocomm Technology (IT) talent

4.29 IT is a critical enabler that underpins the ability of all sectors of industry to improve productivity. It has become increasingly critical for companies to have sufficient internal IT talent to drive operations and growth. The SME Development Survey 2014 showed that 64% of SMEs have strengthened their in-house technology innovation capabilities.

4.30 In response to feedback from members on difficulties recruiting manpower and talent in the IT sector, SBF organised a roundtable discussion involving the Singapore Infocomm Technology Federation (SiTF) and industry and government representatives in August 2014. At the session, SME participants and IT service providers highlighted that they could not match the financial capacity to compete with government and MNC employers on employee salaries. The situation is not helped with the high leakage of IT graduates e.g. with programming knowledge to other industries. The recent Government announcement for Singapore to be the world's first smart nation could further exacerbate competition for skilled IT manpower. Special attention will be needed to develop career roadmaps for IT professionals.

4.31 Participants to the dialogue also highlighted that the foreign workers quota is unrealistic for small SMEs in IT business and IT start-ups, and neither could they afford the minimum salaries for hiring foreign talents under the work pass schemes. By their nature, start-ups should not be subjected to the same DRC and salary criteria as the larger companies. A more favourable foreign worker quota could be given, and employee stock options could be convertible into salaries for computation of minimum salary requirements. A special pass for IT talents could also be created based on skill level.

SMEC recommends that Government

a) Supports a special programme to enhance career development and career progression of IT professionals to improve the attractiveness of IT jobs supporting the various industry sectors

b) Gives special considerations to technology and IT start-ups' prevailing qualifying salary criteria for work-pass eligibility

c) Creates a new category of passes for IT talent based on skill level and easing foreign worker quota and levies for IT professionals to uplift the productivity of all industry sectors and support the Government's vision of making Singapore the world's first smart nation.

Maintaining service levels in hospitality and tourism industries

4.32 Retail, food & beverage (F&B) and tourism related industries are service-oriented businesses that depend on having a minimum number of staff to maintain adequate service levels. In a survey carried out by the Institute of Service Excellence (ISES), it was revealed that the Customer Satisfaction Index for the F&B and Tourism industries in the third quarter of 2014 has dropped from 70.3 last year to 65.8 – the lowest since 2011. ISES has attributed this decline to the manpower crunch.

4.33 At a lunch dialogue hosted by SBF in August 2014, key representatives from five TACs related to the tourism industry – the Singapore Nightlife Business Association (SNBA), Singapore Hotel Association (SHA), Restaurants Association of Singapore (RAS), Association of Singapore Attractions (ASA), National Association of Travel Agents Singapore (NATAS) – lamented the difficulties of recruiting locals, despite repeated efforts to do so. While some have been able to tap on new technologies to improve productivity or employ part-timers and students to synchronise with peak periods for their businesses, it is a perennial problem for most.

4.34 In SMEC's Recommendations for Budget 2014, it was highlighted that the supply of suitable workers from approved source countries for the services sector – currently Malaysia, People's Republic of China (PRC), Hong Kong, Macau, South Korea and Taiwan – has drastically reduced given the improved economic, social and employment conditions in these countries. The list of source countries should be updated to include other countries, e.g. the Philippines and Myanmar, to help cope with the shortage or service staff.

SMEC recommends updating the source countries to include other countries, e.g. the Philippines and Myanmar, for recruitment of service staff for the hospitality and tourism industries.

Student Pass holders as supplement workforce

4.35 SMEC's Recommendations for Budget 2014 suggested that the pool of foreign students given Work Pass Exemptions for part-time employment be expanded to include those enrolled at private education institutions (PEIs) certified under the Council of Private Education's (CPE) EduTrust Certification Scheme.

4.36 CPE's EduTrust scheme involves a rigorous assessment of PEIs covering areas such as corporate governance, selection of recruitment agents, curriculum design, and student selection, admission, learning development, tracking and performance assessment[22]. EduTrust would provide assurance that students enrolled in certified PEIs are bona fide education seekers.

SMEC recommends that approval for part-time employment of foreign students be expanded to Student Pass holders enrolled at CPE's EduTrust-certified institutions.

Long Term Visit Pass for foreign students

4.37 Currently, foreign students graduating from selected local institutes of higher learning (IHLs) can apply for a one-year Long Term Visit Pass (LTVP) to stay in Singapore after graduation to look for a job. The list of approved IHLs includes local universities, local polytechnics, offshore institutes with local campuses and three specialised colleges[23]. Foreign students not enrolled with the approved IHLs are required to return home upon completion of their course.

4.38 Foreign students trained with specialised skills or in special vocations should be given opportunities to find work and contribute back to Singapore, especially in areas where there is an acute shortage of such skills locally. This includes, for example, skills in the IT, F&B, hotel and retail services industries. The list of approved IHLs for students eligible for LTVP could be extended to CPE's EduTrust-certified institutions that provide vocational training in these fields.

SMEC recommends that the one-year LTVP be extended to foreign students of EduTrust-certified vocational institutions that provide training in specialised skills or special vocations in the IT, F&B, hotel and retail services industries.

[22] EduTrust Certification Scheme, *Council for Private Education*, 1 Jul 2014
[23] Maritime and Ports Authority, LASALLE-SIA College of the Arts, Nanyang Academy of Fine Arts

Man-Year Entitlement (MYE) for the construction sector

4.39 The progressive cuts in MYE for the construction sector from July 2010 to July 2013 had brought about a cumulative 45% reduction in MYE for companies. The construction 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). The rationale is to alleviate manpower constraints for employers who lose the remaining value of the workers' MYE when the foreigner workers leave the company prematurely. It will also allow employers to extend the contract and retain skilled foreign workers in Singapore as the economy moves ahead with economic transformation.

SMEC recommends allowing companies to aggregate all unfulfilled period of MYE that is individually longer than one month to be used cumulatively for extension of work passes of existing workers or the employment of other workers.

Recognition and upgrading of safety personnel in safety-related occupations in the construction sector

4.40 Significant time and resources are required to groom workers to take on safety-related roles. These workers acquire special skills and play an important role in maintaining and enhancing workplace safety. They also shoulder heavy responsibilities and penalties in the event of safety lapses. However, in some safety-related occupations such as lifting supervisors, riggers and safety supervisors, the workers were regarded as "lower-skilled" despite their added training and responsibilities. The skill status of foreign workers trained in safety-related roles could be elevated to "R1" status in view of the importance of workplace safety, training received by the workers and the responsibilities they hold.

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

Construction Hubs

4.41 The use of prefabrication and modularisation increases productivity in the construction industry through decreased project schedules, savings in project costs and reduction of construction site waste. However adequate storage space for precast units and machinery is required. Insufficient local storage space increases production and transportation costs that could hamper the use of prefabrication. A Construction Hub would promote greater adoption and create the necessary space for the storage of prefabricated units and machinery in the longer term.

SMEC recommends that Government, in consultation with the Singapore Contractors Association Limited (SCAL) provides one or more Construction Hubs to house precast components and machinery.

5. SME GROWTH STRATEGY

Growth through internationalisation, innovation and collaboration

5.1 The SME Development Survey 2014 has revealed that with global recovery, more SMEs are achieving turnover growth rate of more than 10%. About 6% more SMEs are experiencing accelerating or moderate growth compared to a year ago, while 2% fewer reported declining growth.

5.2 However more help is needed to spur SMEs growth. The survey showed that the top four SME business strategies were (i) business model innovation, (ii) increasing production by raising productivity, (iii) enhancing current service offerings and (iv) expanding overseas. Indeed, manpower shortage putting a strain on operational efficiency was a key motivation for SMEs to raise productivity through innovation. SMEs are looking to expand overseas to combat the rising cost of doing business in Singapore, and also seeking greater collaboration in reaching out to these markets.

Internationalisation

AEC 2015

5.3 ASEAN is one of Singapore's most important markets, accounting for a quarter of total trade. The SME Development Survey 2014 revealed that six of the top ten markets that SMEs are engaged are in ASEAN. However findings from a SBF-organised AEC 2015 Forum held in May 2014 showed that about 92% of the attendees had limited knowledge of AEC 2015. Of those who were aware, about a quarter felt that AEC 2015 would not bring any benefits or could even invite threats to their businesses. This lack of appreciation on the impact of AEC 2015 on businesses was also echoed during a dialogue session between SMEC and MTI in November 2014.

5.4 Some of the major concerns highlighted in the AEC 2015 Forum as well as in SCCCI SME Business Survey 2014 are the unfamiliarity with rules and regulations in these overseas markets, cross-cultural communications, bureaucracy and red tape, resolving disputes and identifying the right business partners. Support to address these concerns are best provided in the respective markets where on-the-ground experience, knowledge and intelligence are crucial.

SMEC recommends that Government

a) Working through TACs, step up efforts to raise SMEs' awareness and knowledge of AEC 2015

b) Enhance and strengthen the operations of IE Singapore's overseas centres in selected ASEAN countries to provide a more comprehensive in-market support for Singapore SMEs in those countries.

Overseas expansion assistance programmes

5.5 The SME Development Survey 2014 showed a 6% increase in SMEs expanding overseas market presence compared to last year, with the increase consistent across SMEs of all turnover sizes. The same survey also indicated that 50% of SMEs derive at least a part of their revenue from overseas markets, thus highlighting the importance of internationalisation as a growth lever for SMEs.

5.6 At an SBF event on Internationalisation held in July 2014, a third (33%) of the participants appreciated government grants as the most useful form of available assistance. These include IE Singapore's Global Company Partnership (GCP) Programme and iMAP schemes. Feedback from the event as well as at dialogues with IE Singapore have been given to enhance the schemes to make them more effective. Currently, under GCP, only companies with in-market turnover not exceeding $100,000 are eligible for the grant for in-market sales support. However, this cap on in-market turnover is too low for large markets such as China and India.

5.7 In SMEC's Recommendation for Budget 2013, it was highlighted that the double tax deduction for internationalisation scheme is not useful to SMEs that do not pay tax or are loss-making. It was highlighted that grants instead of tax incentives for airfare and accommodation incurred under the iMAP scheme would be more effective in encouraging more SMEs to expand overseas. Existing criteria for the iMAP scheme is also overly restrictive. Currently, travel and accommodation costs are not supported under iMAP, which may make business missions too costly for some SMEs.

5.8 SMEC's Recommendation for Budget 2014 also highlighted that SMEs typically prefer to start off a mergers and acquisition (M&A) effort by first acquiring a minority stake in the target company as part of its assessment before deciding to take a majority shareholding. This renders them ineligible for the M&A Tax Allowance scheme, even though substantial costs have already being incurred during M&A efforts.

SMEC recommends the Government schemes for internationalisation be enhanced as follows:

a) IE Singapore's Global Company Partnership (GCP) programme to
   - **Raise the in-market turnover ceiling on GCP grant eligibility for in-market sales support to $200,000 and allow multiple claims for new businesses within the same country with a large market**
   - **Remove requirement for companies to take controlling stake in target companies for M&A, and lower the requirement to 30% stake instead**

b) Extend support under iMAP to include participants' travel and accommodation costs

c) Lower the threshold for IRAS' M&A Tax Allowance eligibility to 30%.

Foreigner training schemes

5.9 The SME Development Survey 2014 revealed a sharp increase in SMEs facing challenges of not having the necessary manpower to operate overseas – up from 7% in 2013 to 23% in 2014. While these SMEs could recruit locals in the country, they will need to bring them back to Singapore for short-term training so that when they return, they could help set up and run the operations in that country.

5.10 In the Recommendations for Budget 2013, SMEC highlighted that the Training Employment Pass (TEP) and Training Work Permit (TWP) for three and six months training respectively granted to these overseas trainees are subject to the same conditions for work pass and work permit holders.

5.11 While companies internationalise to enter new markets, many are doing so to lower operating costs amidst rising business costs and the tight labour market in Singapore. They benefit from the abundant labour and lower wages in other countries. Imposing salary restrictions on trainees under TEP and TWP would raise salary expectations of these trainees, which would then defeat the whole purpose of the SME's internationalisation effort. It would also create a paradox where an overseas trainee gets paid more while under training than he would after completing his training.

5.12 Understanding MOM's concern of abuse, it was proposed that clear terms could be specified for the TEP and TWP that the permits are purely for the purpose of training and strictly non-renewable. The companies applying for TEP and TWP should also show evidence e.g. that they have genuine overseas establishments.

SMEC recommends exempting Training Employment Pass (TEP) and Training Work Permit (TWP) from prevailing conditions for quota, levy and minimum salary. For TEP and TWP holders brought in over and above the DRC cap, they should be allowed entry into employment without the levy and minimum salary imposed, while capping such trainees to 20% of companies' DRCs.

Innovation

5.13 The SME Development Survey 2014 revealed that SMEs placed strategic importance to restructuring their business models and enhancing their product offerings. The same survey also found a growing proportion of SMEs pursuing productivity improvements, strengthening their technology and embracing innovation.

eCommerce

5.14 Research trends showed that consumers are increasingly procuring goods and services online[24]. Singapore residents rank amongst the world's most active online shoppers, with seven in ten residents planning to make an online transaction within the next six months[25]. A study by the Council of Supply Chain Management Professionals (CSCMP) in the US had shown business-to-consumer (B2C) eCommerce not only to be the fastest trade sector, but also displayed relative resilience during the last financial crisis[26].

5.15 An integrated eCommerce value chain could open up SMEs, particularly those in the tourism, retail, hospitality and logistics sectors, to these consumers and improve productivity by leveraging on technology while reducing the constraints brought about by physical inputs such as land and human labour.

5.16 However, a poll at SBF's eCommerce Forum in July 2014 showed that less than 5% of SMEs used eCommerce platforms nor had any integrated eCommerce strategy. The top reasons for the low adoption were high knowledge barriers in utilising the technology and lack of skilled manpower. Lack of legal know-how, taxation, consumer rights, online customer service best practices, trade disputes, payment standards and cyber security were the other barriers businesses face in embarking on eCommerce[27].

5.17 Currently, iSPRINT supports adoption of some eCommerce solutions under its various categories. However it is not comprehensive. A specific category for eCommerce could be introduced under iSPRINT to help SMEs kick-start and implement dedicated suites of solutions such as big data, database management, logistics, e-payment solutions and cyber-security packages.

SMEC recommends a specific category be introduced under iSPRINT to help SMEs kick-start and implement dedicated suites of solutions for eCommerce.

Crowdfunding and other financing platforms

5.18 The SME Development Survey 2014 noted that 24% of companies in post-start-up stage were not able to obtain new financing. In a poll carried out at the Start-Up Enterprise Conference 2014, only 13% of SMEs under two years old managed to secure equity financing. SMEs between two to four years fared even worse, with only 8% managing to do so. The growth of such companies would be stifled if not provided with resources to continue their development. A study in the US showed

[24] eCommerce: evolution or revolution in the fast-moving consumer goods world?, *The Nielsen Company*, Aug 2014
[25] Chart of the Day: Take a look at Singapore's booming eCommerce sector, *Singapore Business Review*, 28 Aug 2014
[26] The economic impact of eCommerce, *CSCMP Supply Chain Quarterly*, Q2 2011
[27] eCommerce – New Opportunities, New Barriers, *National Board of Trade (Sweden)*, 2012

that 50% to 70% of start-ups will not survive beyond 18 months largely due to lack of access to financing[28].

5.19 Equity-based crowdfunding had been gaining popularity globally as a form of alternative financing. Following SMEC's recommendation for Budget 2014, the Government accepted the need to review financial regulations and legislations to allow equity and debt-based crowdfunding in Singapore. Since then, there has been several interests from entrepreneurs to establish crowdfunding and peer-to-peer lending platforms. As at October 2014 the Singapore Exchange has issued a statement indicating that the feasibility of equity crowdfunding in Singapore is still being explored[29].

SMEC recommends that the establishment of crowdfunding and other platforms such as peer-to-peer lending be accelerated to address equity and debt financing needs.

A*Star Headstart Programme

5.20 A*Star's Headstart programme was announced in Budget 2014. It provides participating SMEs with an 18-month exclusive and royalty-free foreground intellectual property (IP) licenses generated from the research collaboration. However, an 18-month exclusivity is insufficient for the process to commercialise the technology. In some sectors this could even be protracted when regulatory compliance and approvals are needed. SMEs that invested in the research collaborations bear the risk and uncertainty of losing their competitive advantage acquired when this exclusivity period is pre-maturely removed.

SMEC recommends raising the exclusivity for foreground IP generated in the Headstart programme to 36 months.

Align support measures across the innovation chain

5.21 SMEC's Recommendations for Budget 2014 highlighted that the various government innovation and capability development schemes could be streamlined to help SMEs progress through the pipeline of an innovation project from conceptualisation to commercialisation. The Technology Enterprise Commercialisation Scheme (TECS) is a useful scheme not just for start-ups but could be extended to all SMEs as well. Also, the qualifying activities and application processes under the Innovation and Capability Voucher (ICV) and Capability Development Grant (CDG) could be made seamless for SMEs progressing from test bedding to a full-fledged project.

[28] Small Business Owners Don't Fear The Devastatingly High Failure Rate, *Business Insider*, 5 Jun 2013
[29] SGX exploring crowdfunding platform for startups: sources, *The Business Times*, 30 Oct 2014

SMEC recommends

a) **Extending eligibility criteria for TECS to all SMEs instead of only for start-ups.**

b) **Allowing fast-track facilitation to SMEs applying for CDG if they have received ICV for the first phase of their innovation project. Priority could be given for projects that have evidence of market demand (e.g. MNC commitment) to be early adopter.**

Collaboration

Industry collaboration

5.22 At the SMEC Strategic Planning Session 2014, business leaders emphasised the need for SMEs and large enterprises to foster a greater collaborative mind-set to achieve higher growth. Findings from a 2013 research commissioned by technology firm Fujitsu on some 500 UK SMEs showed evidence that 70% of SMEs were successful in tendering for large contracts when they partner with a larger partner[30].

5.23 During an SBF event on Internationalisation held in July 2014, more than a third of businesses (35%) expressed desire to collaborate with larger enterprises, in particular government-linked companies (GLCs) for overseas projects. Participants noted however that this form of collaboration and partnership was not commonly practised, unlike Korea, Taiwan and Japan where large enterprises give preference to their local SME subcontractors.

SMEC recommends that Government encourages local enterprises such as GLCs to partner SMEs for overseas projects. Incentives could be provided through tax credits or special tax rebates to induce collaboration.

[30] Collaboration Nation: Creating an environment for growth, *Fujitsu Limited*, Aug 2013

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 for a more holistic approach to SME development, help SMEs cope with continuing challenges in transformation while also seizing growth opportunities overseas particularly with onset of AEC 2015. SMEC urges Government to accept and implement these recommendations in Budget 2015.

SME DEVELOPMENT STRATEGY	
1.	**Review Economic Strategies Committee (ESC) recommendations** a) Review the ESC recommendations to assess the performance and continued relevance of the strategies to raise productivity and grow SMEs into global companies. b) Identify industries that Singapore has the potential to become global leaders and implement strategies to help SMEs in these sectors develop into global players.
2.	**SME data** Provide more comprehensive and coordinated SME data for better monitoring and assessment of the overall health of SMEs.
3.	**Establish single SME authority** Place SME development at the centre of our economic strategies with a view to helping more SMEs develop into globally competitive players. To achieve this goal, study the need for the establishment of a single SME authority empowered to champion SME development and drive the SME agenda across whole-of-government. Alternatively, empower an existing agency for this role.

SME TRANSFORMATION	
Tax and fiscal support	
4.	**Productivity and Innovation Credit (PIC) Bonus** Extend PIC Bonus for another three years from YA2016 to YA2018 to coincide with the extension of the PIC scheme until YA2018.
5.	**R&D claims under PIC** a) Adjust qualifying requirements for R&D claims under PIC to include more developmental-based activities for SMEs. b) Convene a panel of relevant experts with appropriate domain knowledge or

	technical expertise to hear appeals for PIC R&D claims, similar to SPRING's recently-announced Grant Appeal Advisory Panel.
Financing	
6.	**Restructuring Loan Scheme** Introduce a Restructuring Loan Scheme with a loan quantum of up to $3 million to help SMEs in their transformation and restructuring process.
7.	**Competitive interest rates for government loan programmes** Adopt interest rates pegged at a more equitable rate compared to commercial banks for government-supported financing schemes, and enhance the risk-sharing amongst the stakeholders so as to lower the financing cost for SMEs.
Cost of doing business	
8.	**Equitable rental terms** Government landlords to lead in the adoption of the Fair Tenancy Framework.
9.	**Medical costs for older employees** Provide financial assistance for SMEs to migrate towards portable medical benefits for employees.
10.	**Shared services** a) Continued support be extended to Trade Associations and Chambers (TACs) for the development of shared services such as HR solutions, tax accounting and company audits through IT cloud platforms. b) GeBIZ infrastructure be replicated as a separate system operated by a TAC/entity, for private sector business-to-business transactions.
Manpower and productivity challenges	
11.	**Wage credit scheme (WCS)** Extend WCS for another three years to YA2018 for SMEs only.
12.	**Productivity measurements** Conduct studies to develop supplementary productivity indicators for specific sectors that will more accurately reflect the productivity of the sector.
13.	**Foreign Worker Levies** a) Hold back on any further planned increases in foreign worker levies. b) Remove the foreign worker levy for S Pass holders as they are already subjected to dependency ratio quota (DRC) and minimum salary requirements.

14.	**Job Flexibility Scheme (JFS)** Expand JFS eligibility to allow cross deployment between companies that are under the same group of companies or management.
Special needs sector	
15.	**Infocomm Technology (IT) talent** a) Support a special programme to enhance career development and career progression of IT professionals to improve the attractiveness of IT jobs supporting the various industry sectors. b) Give special considerations to technology and IT start-ups' prevailing qualifying salary criteria for work-pass eligibility. c) Create a new category of passes for IT talent based on skill level and easing foreign worker quota and levies for IT professionals to uplift the productivity of all industry sectors and support the Government's vision of making Singapore the world's first smart nation.
16.	**Maintaining service levels in hospitality and tourism industries** Update the list of source countries to include more countries, e.g. the Philippines and Myanmar, for recruitment of service staff for the hospitality and tourism industries.
17.	**Student Pass holders as supplement workforce** Approve expansion of part-time employment of foreign students to Student Pass holders enrolled at the Council for Private Education's (CPE) EduTrust-certified institutions.
18.	**Long Term Visit Pass (LTVP) for foreign students** Extend one-year LTVP to foreign students of EduTrust-certified vocational institutions that provide training in specialised skills or special vocations in the IT, F&B, hotel and retail services industries.
19.	**Man-Year Entitlement (MYE) for the construction sector** Allow companies to aggregate all unfulfilled period of MYE that is individually longer than one month to be used cumulatively for extension of work passes of existing workers or the employment of other workers.
20.	**Recognition and upgrading of safety personnel in safety-related occupation in the construction sector** Upgrade the skilled status of foreign workers in safety-related occupations from "Basic Skilled" (R2) to "Higher Skilled" (R1).

21.	**Construction Hub** In consultation with the Singapore Contractors Association Limited (SCAL), provide one or more Constructions Hubs to house precast components and machinery.

SME GROWTH STRATEGIES	
Internationalisation	
22.	**AEC 2015** a) Work through TACs to step up efforts to raise SMEs' awareness and knowledge of AEC 2015. b) Enhance and strengthen the operations of IE Singapore's overseas business support centres in selected ASEAN countries to provide a more comprehensive in-market support for Singapore SMEs in those countries.
23.	**Overseas expansion assistance programmes** a) Under IE Singapore's Global Company Partnership (GCP) programme: o Raise the in-market turnover ceiling on GCP grant eligibility for in-market sales support to $200,000 and allow multiple claims for new businesses within the same country with a large market. o Remove requirement for companies to take controlling stake in target companies for M&A, and lower the requirement to 30% stake instead. b) Extend support under IE's International Marketing Activities Programme (iMAP) to include participants' travel and accommodation costs. c) Lower the threshold for IRAS' Mergers and Acquisitions (M&A) Tax Allowance eligibility to 30%.
24.	**Foreigner training schemes** Exempt Training Employment Pass (TEP) and Training Work Permit (TWP) from prevailing conditions for quota, levy and minimum salary. For TEP and TWP holders brought in over and above the DRC cap, they should be allowed entry into employment without the levy and minimum salary imposed, while capping such trainees to 20% of companies' DRCs.
Innovation	
25.	**eCommerce** Introduce a specific category under iSPRINT to help SMEs kick-start and implement dedicated suites of solutions for eCommerce.

26.	**Crowdfunding and other financing platforms** Accelerate the establishment of crowdfunding and other platforms such as peer-to-peer lending to address equity and debt financing needs.
27.	**A*Star Headstart Programme** Raise the exclusivity for foreground IP generated in the Headstart programme to 36 months.
28.	**Align support measures across the innovation chain** a) Extend eligibility criteria for the Technology Enterprise Commercialisation Scheme (TECS) to all SMEs instead of only start-ups. b) Allow fast-track facilitation to SMEs applying for CDG if they have received ICV for the first phase of their innovation project. Priority could be given for projects that have evidence of market demand (e.g. MNC commitment) to be early adopter.
Collaboration	
29.	**Industry Collaboration** Encourage large local enterprises such as Government-linked companies (GLCs) to partner SMEs for overseas projects. Incentives could be provided through tax credits or special tax rebates to induce collaboration.

7. ANNEX

SME Committee

Advisor		
Mr Teo Ser Luck	Minister of State	MTI
Chairman		
Mr Lawrence Leow	Chairman & CEO	Crescendas Group
Members		
Mr Teo Siong Seng	Chairman	SBF
Mr Tony Chew	Immediate Past Chairman	SBF
Mr Kurt Wee	President	ASME
Mr Lau Tai San	Vice President	SCCCI
Mr R. Ponnampalam	Vice Chairman	SICCI
Mr Abdul Rohim Sarip	Immediate Past President	SMCCI
Mr Douglas Foo	President Council Member	SMF SNEF
Mr George Huang	Immediate Past President	SMF
Mr Linus Goh	Member	ABS
Dr Ho Nyok Yong	President	SCAL
Mr Ernie Koh	President	SFIC
Mr Roderick Chia	Member	SiTF
Mr Stanley Lim	Chairman	SLA
(The Late) Mr Quek Keng Liang	Immediate Past Chairman	SLA
Dr Ricky Souw	Council Member	SPETA
Mrs Wong Sioe Hong	Vice President	SRA
Ms Susan Chong	CEO	Greenpac (S) Pte Ltd
Ms Nanz Chong-Komo	Founder	Nanz Inc Group Pte Ltd
Mr R Dhinakaran	Managing Director	Jay Gee Melwani Group
Ms Cynthia Phua	Executive Vice President	Singbridge Corporate Pte Ltd
Mr Melvin Tan	Managing Director	Cyclect Group
Mr Glenndle Sim	Executive Chairman & CEO	Mencast Holdings Ltd

SMEC Sub-committee on Cost of Doing Business

Mr Kurt Wee	Chairman	Sub-committee
Mrs Wong Sioe Hong	Vice-Chairman	Sub-committee
Dr Dora Hoan	Past President	ASME
Mr Benjamin Tan	Treasurer	SCAL
Mr Desmond Hill	Council Member	SCAL
Mr Jeremy Fong Sue Fun	Chairman	SPETA
Ms Cynthia Phua	Executive Vice President	Singbridge Corporate Pte Ltd
Mr Tay Hong Beng	Partner, Head of Tax	KPMG Singapore

SMEC Sub-committee on Financing

Mr Linus Goh	Chairman	Sub-committee
Mr Desmond Hill	Vice-Chairman	Sub-committee
Mr Roderick Chia	Member	SiTF
(The Late) Mr Quek Keng Liang	Immediate Past Chairman	SLA
Ms Annabelle Tan	Council Member	SMF
Mr Steven Koh	Deputy Chairman	SPETA
Ms Susan Chong	CEO	Greenpac (S) Pte Ltd
Ms Foo Mee Har	Member of Parliament	Parliament of Singapore
Mr Nicholas Malcomson	Director	Pay2Home Direct
Ms Betty Sim	Head, Credit Risk	OCBC Bank
Mr Glenndle Sim	Executive Chairman & CEO	Mencast Holdings Ltd

SMEC Sub-committee on Innovation

Mr Melvin Tan	Chairman	Sub-committee
Mr Roderick Chia	Vice-Chairman	Sub-committee
Mr Mark Lee	President	TaFf
Dr David Chew	Executive Chairman	Stratech Systems Ltd
Ms Nanz Chong-Komo	Founder	Nanz Inc Group Pte Ltd
Mr Bill Liu	Managing Partner	Stream Global Pte Ltd
Mr Eugene Tan	Managing Director	XentiQ Pte Ltd
Dr Govindharaju Venkidachalam	Director	Hyflux Ltd
Ms Audrey Yap	Managing Partner	Yusarn Audrey

SMEC Sub-committee on Internationalisation

Mr Lau Tai San	Chairman	Sub-committee
Mr Abdul Rohim Sarip	Vice-Chairman	Sub-committee
Mr Douglas Foo	President/Council Member	SMF/SNEF
Mr Andrew Khng	Immediate Past President	SCAL
Mr Ernie Koh	President	SFIC
Mr Kelvin Chia	Senior Partner	Kelvin Chia Partnership
Mr Low Cheong Kee	Managing Director	Home-Fix DIY Pte Ltd
Mr William Tay	Executive Chairman	CAST Laboratories Pte Ltd

SMEC Sub-committee on Manpower and Productivity

Ms Susan Chong	Chairman	Sub-committee
Mr Tan Jit Khoon	Vice-Chairman	Sub-committee
Mr Ang Kiam Meng	Immediate Past President	RAS
Mr Erman Tan	President	SHRI
Mr Kay Kong Swan	Deputy Chairman	SLA
Mr Dennis Foo	President	SNBA
Mr Low Ming Wah	Deputy Chairman	SPETA
Mr R Dhinakaran	Vice President	SRA

Rental Practices Working Group (RPWG)

Ms Cynthia Phua	Chairman	RPWG
Mr Ang Yuit	Vice President	ASME
Mr Alan Goh	Member	RAS
Mr Abdul Rohim Sarip	Immediate Past President	SMCCI
Ms Er Hun Yee	Member	SRA
Mr See Chern Yang	Associate Director	Premier Law LLC
Mr Tay Kay Poh	Executive Director	Knight Frank Pte Ltd
Ms Priscilla Yap	Manager, Real Estate	NTUC FairPrice
Mr Calvin Yeo	Deputy Managing Director	Colliers International (S) Pte Ltd
Ms Yeo Meow Ling	Deputy Director	SPRING

SMEC Secretariat

Mr Ho Meng Kit	Chief Executive Officer, SBF
Mr Victor Tay	Chief Operating Officer, SBF
Mr Lam Kong Hong	Director, SME Committee, SBF
Mr Lai Wei Bing	Senior Manager, SME Committee, SBF
Mr Zhuo Yao Hong	Manager, Strategic Planning & Research, SBF
Ms Serene Ho	Asst Manager, Strategic Planning & Research, SBF
Ms Han Li Ying	Senior Executive, SME Committee, SBF

Abbreviations

Trade Associations and Chambers

ABS	The Association of Banks in Singapore
ASME	Association of Small and Medium Enterprises
ASPRI	Association of Process Industry
RAS	Restaurant Association of Singapore
RPWG	Rental Practices Working Group
SBF	Singapore Business Federation
SCAL	Singapore Contractors Association Limited
SCCCI	Singapore Chinese Chamber of Commerce and Industry
SFIC	Singapore Furniture Industries Council
SHRI	Singapore Human Resources Institute
SICCI	Singapore Indian Chamber of Commerce and Industry
SiTF	Singapore Infocomm Technology Federation
SLA	Singapore Logistics Association
SMCCI	Singapore Malay Chamber of Commerce and Industry
SMEC	Small Medium Enterprises Committee
SMF	Singapore Manufacturing Federation
SNBA	Singapore Nightlife Business Association
SPETA	Singapore Precision Engineering & Tools Association
SRA	Singapore Retailers Association
TaFf	Textile & Fashion Federation (Singapore)

Government Assistance Programmes

CDG	Capability Development Grant
GCP	Global Company Partnership
ICV	Innovation and Capability Voucher
iSPRINT	Increase SME Productivity with Infocomm Adoption & Transformation
iMAP	International Marketing Activities Programme
JFS	Job Flexibility Scheme
LEFS	Local Enterprise Financing Scheme
MLP	Microloan Program
PACT	Partnership for Capability Transformation
PIC	Productivity and Innovation Credit
TECS	Technology Enterprise Commercialisation Scheme
WCS	Wage Credit Scheme

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