



## **SME COMMITTEE**

## **RECOMMENDATIONS FOR BUDGET 2013**

Singapore Business Federation  
December 2012

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# 1. INTRODUCTION

## SME Committee

- 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.
- 1.2 In 2012 businesses faced major challenges that threatened many of their survival. After extensive deliberations, engagements with government agencies and consultations with businesses, the SMEC has gained a comprehensive perspective of SME issues and have formulated recommendations around five key areas:
- (i) Cost of doing business
  - (ii) Manpower and productivity
  - (iii) Financing
  - (iv) Internationalisation and market access
  - (v) Innovation
- 1.3 Overall, SMEC urges the government to give special consideration to the SME sector in Budget 2013 taking into account the current macroeconomic conditions and the impact of diminished local capacity on SMEs. Government's economic restructuring policy changes should be flexible to capture opportunities in the emerging region and to continue grooming domestic-oriented industries to sustain our economy despite global downswing. Recognising the SME sector's contribution to GDP, employment share as well as being crucibles for entrepreneurship, the government should adopt a more involved and developmental role for the sector. The government should recognise that some market based policies can be difficult for SMEs in particular start-ups and emerging SMEs.

## **Opportunities amidst turbulence and uncertainty**

### ***Global growth remains pessimistic***

- 1.4 2012 has been a challenging year for the global economy and the overcast is unlikely to clear soon with major economies teetering on the brink of recession. Prolonged crisis in the Eurozone, stalled growth in the U.S. and below-expectation performance in many other economies have reversed growth in world trade volumes and caused significant stress for Singapore. As an export-led economy with a small domestic market, Singapore has seen 2.8 per cent decline in total trade and 5.9 per cent contraction in GDP in 3Q2012.

### ***Regional growth poses competition but also creates opportunities***

- 1.5 Singapore is situated strategically in the emerging region of the world that shows most promise for growth in coming years. As the region develops, Singapore will likely see increased competition for both investments and human capital. Before competition intensifies further, this is an important time for Singapore to take advantage of its existing competitiveness to harness opportunities and be the gateway for the inflow of investments into the region.

### ***Growth of domestic-oriented industries exert demand on local capabilities***

- 1.6 The MAS Macroeconomic Review (October 2012) reported that weak external demand has resulted in poor performance in external-oriented industries and Singapore's economy is largely sustained by domestic-oriented industries such as construction, hospitality and F&B. These industries will continue to exert demand on the labour market with strong job creations.

### ***Subdued SME outlook for 2013***

<b>Overall Index (out of 100)</b>	<b>2Q10 – 3Q10 F</b>	<b>3Q10 – 4Q10 F</b>	<b>4Q10 – 1Q11 F</b>	<b>1Q11 – 2Q11 F</b>	<b>2Q11 – 3Q11 F</b>	<b>3Q11 – 4Q11 F</b>	<b>4Q11 – 1Q12 F</b>	<b>1Q12 – 2Q12 F</b>	<b>2Q12 – 3Q12 F</b>	<b>3Q12 – 4Q12 F</b>	<b>4Q12 – 1Q13 F</b>	<b>1Q13 – 2Q13 F</b>
Commerce	54	61	57	56	57	54	51	52	55	58	54	54
Construction/ Engineering	-	-	-	-	-	-	-	51	48	52	54	54
Manufacturing	55	51	57	57	55	56	48	48	54	55	54	51
Business Services	49	56	63	60	59	59	51	51	54	57	52	51
Transport / Storage	50	68	55	57	57	54	50	47	48	52	54	51
<b>Overall</b>	<b>51</b>	<b>56</b>	<b>60</b>	<b>58</b>	<b>59</b>	<b>57</b>	<b>51</b>	<b>51</b>	<b>52</b>	<b>54</b>	<b>53</b>	<b>52</b>

*Outlook for 1Q13 – 2Q13F (January 2013 – June 2013)*

- 1.7 Led by gloomy and uncertain external conditions and squeezed by constraints in local capacity, the latest SBF-DP SME Index continued to decline and revealed that SMEs have a less optimistic outlook for the year ahead. Weak sentiments of SMEs are also reflected in various reports, such as EDB’s Business Expectations of the Manufacturing Sector and BT- UniSIM’s Business Climate Survey.

## 2. COST OF DOING BUSINESS

### Overview

#### ***Labour, rental and utilities as key cost determinants***

- 2.1 In a survey on the cost of doing business commissioned by SMEC in Sep-Oct 2012, about 40% of SMEs indicated that labour costs has increased the most over the past years, followed by rental and utilities costs. About 66% of the respondents indicated that the rising costs has significantly impacted profitability, with over 80% of those in manufacturing, wholesale & retail trade and transportation indicating so.
- 2.2 The survey found that the prime drivers of cost increases are high oil prices, government levies, quota on foreign workers and the strong Singapore dollar. These findings concur with the SME Development Survey 2012 conducted by DP Information Group where 73% of SMEs said they were affected by rising oil prices, 56% affected by foreign workers manpower policies, and 43% were affected by the strong Singapore dollar.

#### ***Policy-induced cost drivers***

- 2.3 While rising oil prices is an external factor that Singapore, like other countries is susceptible to, many internal factors are policy-induced cost drivers such as foreign workers levies, minimum qualifying salaries imposed on work pass holders, land divestment policies and privatisation of electricity generation and distribution.

#### ***SBF National Business Survey 2012/2013 Budget Wish List***

- 2.4 In the latest SBF National Business Survey 2012/2013, 72% of respondents indicated *Reducing business costs* as their top concern, while 48% indicated *Employment/HR* – a marked 8% increase over last year's survey, reflecting the impact of the changes in foreign worker policies and the tight labour market. Other major areas where businesses are requesting for help are investments in training & development (25%), technology (21%) as well as for overseas business expansion (17%).

Measures for improvement	%
Reduce Business Costs	72%
Employment/HR	48%
Investing in Training & Development	25%
Investment in Technology	21%
Overseas Business Expansion	17%
Financing Issues	12%
Reduce legislative/compliance relating to business competitiveness matters	11%
Local Business Expansion	10%

2.5 The survey found that the wish list for Budget 2013 is for more government assistance and incentives to help cope with the increasing costs of rental, manpower and other related business costs.

Top 3 Budget 2013 Wish List
Rental costs
Foreign worker quota related costs
Other cost related measures

### SME Cash Grant

#### ***Returning cash to SMEs to meet rising business costs***

2.6 The SME Development Survey 2012 found that 15% of SMEs reported losses in FY2011 as compared to 11% in FY2010. About 72% of these SMEs generated no more than S\$5 million in turnover as rising costs take a toll on eroding profits. For many SMEs that are not profitable or pay little taxes, a cash pay-out rather than tax deduction incentives will be more effective in helping SMEs cope with rising business costs.

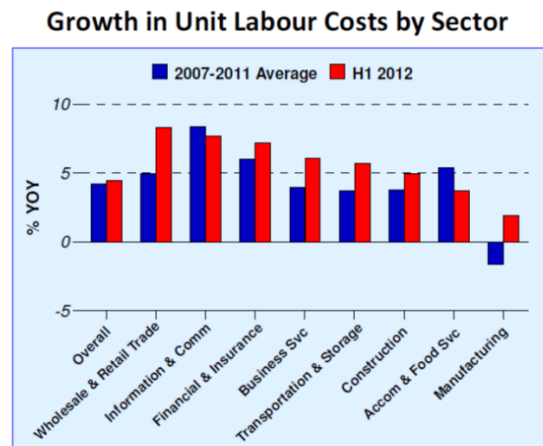
**The SMEC recommends a one-off SME cash grant of \$10,000 to help SMEs cope with rising business costs.**



## Cost of Labour

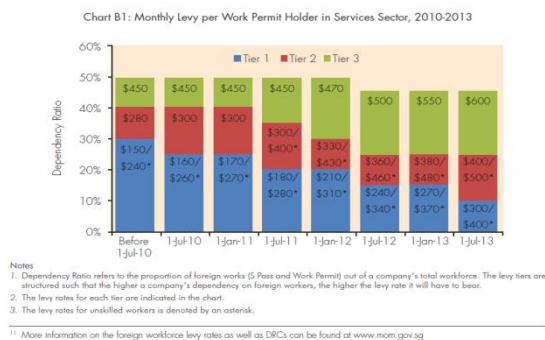
### Higher costs due to tightening labour market

2.7 SMEs continue to face rising labour costs as a result of cumulative effects of tightening labour policies. Unit labour cost is expected to grow by 4-5% with most sectors experiencing higher costs than the 2007-2011 average (see chart).



(Source: MAS Macroeconomic Survey, October 2012)

2.8 A major component of labour costs is the Foreign Worker Levy, a pricing mechanism to regulate the number of foreign workers and to reduce the impact of lower wage foreign workers on the wages of the local workforce. The Levy is expected to increase further in 2013. Faced with the tight domestic labour supply, the Levy adds regulatory costs to employers. It introduces an inflationary element to the cost of doing business. Already, Singapore's inflation is higher than Asia's average inflation. This puts a significant strain on enterprises and erodes Singapore's cost competitiveness.



Foreign Workers Levy in Services Sector, 2010-2013 (Source: Ministry of Manpower (MOM))



Singapore versus Asia-8 Inflation (Source: Singapore Business Review, 3rd Oct)

2.9 The government should delay further increases in foreign worker levies for 2013 for the following reasons:

- **Higher than expected inflation rate** – Core inflation increase by 2.4% year-on-year, faster than August 2012, 2.2% (Monetary Authority of Singapore Sept 2012 report).
- **Tight labour resource and lower than expected productivity** – Companies highlighted that productivity has not been positive in 2012 despite constricting access to foreign workers.

**SMEC recommends that government delays further increases in foreign worker levies.**

2.10 Of the three categories of work passes for foreign workers, employers of S Pass holders are subjected to the full brunt of measures – the Foreign

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

Worker Levy, Dependency Ratio Ceiling (DRC) quota and minimum qualifying wage. 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.

**The SMEC recommends the removal of foreign worker levy for S Pass holders as they are already subjected to DRC quota and minimum salary requirements.**

## **Industrial land and rental**

### ***Rapid rental increases***

2.11 Over the past three years industrial rents have risen 30 per cent while industrial land prices notched up 60 per cent in the past two years (*Channel News Asia, 16 Nov 2012*). According to a recent Amfraser Research, Singapore's industrial property price index grew the most – up 8.8% quarter-on-quarter compared to residential and commercial properties.

### ***SMEs have limited options for affordable space***

2.12 In the past, JTC had provided affordable industrial space for the needs of SMEs. However since its divestment in 2008, their share of the total market for industrial properties has dropped from about 12.8 per cent to the current 3.7 per cent. Their recent focus has been to build specialised industry clusters such as the Surface Engineering Hub, and the MedTech1@MedTech Hub to be launched in 2013. These specialised industrial facilities help companies lower their operational and capital costs. JTC should expand this programme and work with companies and industry associations to build more of such factories which will improve the productivity of more clusters.

2.13 However many SMEs do not fall within the targeted industry clusters and hence find themselves with limited options for lower cost generic industrial space. It is noted though that a recent launch by JTC of the Small Footprint Standard Factories at Tanjong Kling appears to be in the right direction if it can cater to these SMEs.

2.14 The government has pledged that there will be enough land and has announced the release of 22 sites for industrial use in the first half of 2013 (*ST, 19 Dec 2012*). But with recent tightening measures on residential properties, investors' interests are shifting to industrial and commercial properties. With this strong demand, private developers are likely to bid aggressively for the land sites to be released. To maximise returns, such privately developed industrial space are invariably priced at a premium.

They are normally built with more frills and additional features for which SMEs seeking basic industrial space do not necessarily need.

- 2.15 Almost a third of the industrial spaces are owned and rented out by REITs and developers. While REITs may account for only about 16% of market share, it has a trendsetting effect on rental prices which transcends to a larger impact for smaller businesses. In the SME Development Survey 2012, about 20% of SMEs felt that the REITs mechanism had resulted in overall higher rental costs.
- 2.16 Currently, HDB holds about 12,500 industrial and 18,000 commercial units. According to the online portal *place2lease* only a few units are available at any one time. This reflects the high demand for simple, no frills and affordable generic space by SMEs. More of such units should be built to meet this demand.

**The SMEC recommends government to provide ample supply of affordable, ready, generic and no-frills industrial facilities for SMEs.**

### ***Benchmarking multi-users industrial facilities***

- 2.17 Just as government benchmark industrial land prices to similar overseas locations to ensure that our industrial land prices are competitive, it should similarly benchmark the prices of multi-users industrial facilities with similar competitors overseas. Government can then introduce supply of industrial land for these industrial facilities into the market to ensure that these facilities are available to our businesses at competitive prices.

**The SMEC recommends benchmarking the prices of multi-users industrial facilities with similar competing locations overseas.**

### ***Fringe costs add up for SMEs***

- 2.18 Fringe costs associated with industrial and commercial rental include the administrative fee of \$500, sub-letting fees on top of prevailing rentals, and costs for outgoing tenants to return the premises to its original state. These costs add up for SMEs operating at very thin margins.

### Fees and charges

- **Administrative Fee**  
You will be required to pay an administrative fee prescribed by JTC of up to \$500 (subject to prevailing GST). The administrative fee is non-refundable.
- **Water Discharge Fee**  
For units installed with sprinkler systems, a water discharge fee of \$250 is payable (subject to prevailing GST).
- **Rental and Other Charges**  
Rent and service charge is payable up to the date the premises are returned to JTC, fully reinstated. Any outstanding arrears and other charges will also need to be settled prior to vacating of the premises.

*Fees and Charges with regards to premature termination of tenancy*

#### For lessees or tenants on land rental or upfront premium scheme

Monthly subletting fee

$$= \{30\% \times \text{JTC's land rental rate per annum}^5 \times (\text{Sublet area} \div \text{Total GFA}) \times \text{Land area}\} \div 12$$

#### Example One

JTC's land rental rate	\$22.20 psm pa
Sublet area	600 sqm
Total GFA of lessee's premises	7,000 sqm
Land area of lessee's site	5,000 sqm

#### Monthly subletting fee payment

$$= \{30\% \times \$22.20 \times (600 \div 7000) \times 5000\} \div 12$$

$$= \$237.86 \text{ (rounded off to 2 decimal places) + GST at prevailing rate}$$

[As annual subletting fee exceeds \$500, payment will be on a monthly basis]

<sup>3</sup> Minimum monthly subletting fee is \$41.67 (plus GST at prevailing rate). This works out to \$500 per annum.

<sup>4</sup> Interest rate is subject to review from time to time.

<sup>5</sup> To check JTC's land rental rate, you may refer to our website at <http://www.jtc.gov.sg> or call our Contact Centre Hotline at 1800 568 7000.

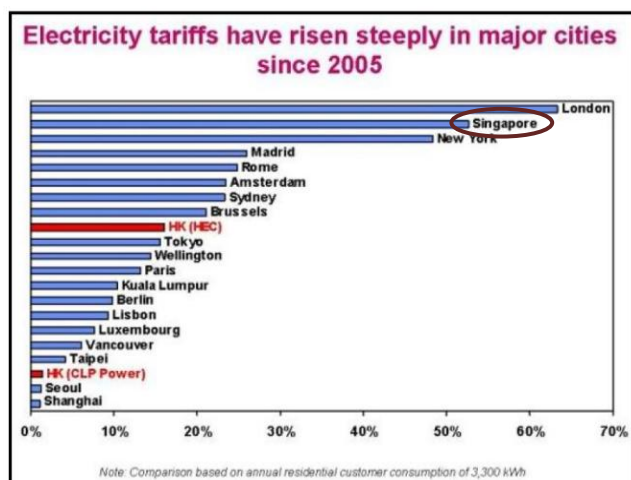
*Sub-letting Fees for lessees or tenants on land rental or upfront premium scheme  
(Source: JTC's "Subletting Your Premises" Handbook)*

**The SMEC recommends reduction of JTC and HDB fringe costs and review of other administrative requirements.**

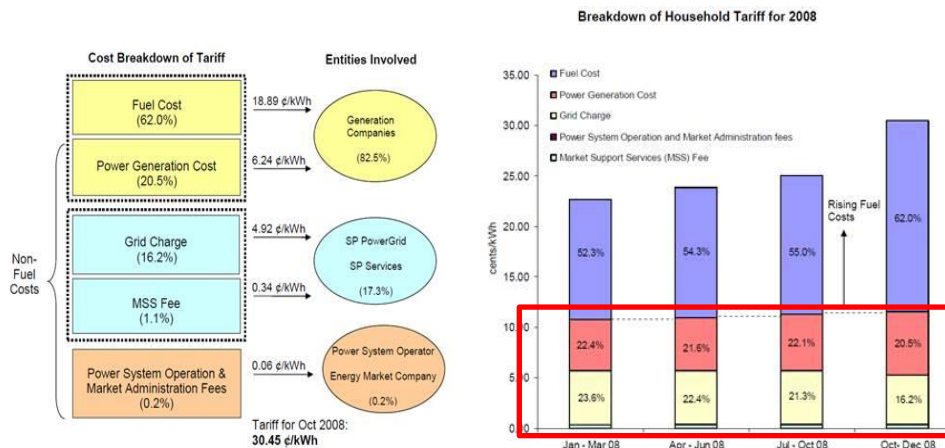
## Cost of utilities

### Lowering non-fuel costs

2.19 According to a study conducted in 2008 by Hong Kong electricity producer CLP Power, which supplies about 80 per cent of Hong Kong's power needs, Singapore was second highest among 21 cities with raising electricity tariffs.



2.20 The cost of electricity in Singapore can be broken down into the fuel cost and non-fuel costs. While the fuel cost is directly linked to oil prices, a bulk of the non-fuel costs, constituting almost 40% of the total electricity tariff, are the generation and grid costs.



Breakdown of Utility Charges in Singapore (Source: EMA)

2.21 A major part of the electricity grid infrastructure costs is to build a high standard, reliable and buried grid system devoid of unsightly overhanging cables. It benefits not just electricity consumers but has wider impact on investments, tourism and other aspects of Singapore as a liveable city.

2.22 The SMEC believes that energy costs should not be subsidised to encourage prudent consumption and energy efficiency. However there is room to review how the non-fuel costs can be lowered.

**The SMEC recommends that the non-fuel cost components such as power distribution and grid charges be reviewed to ensure that pricing of utilities remains competitive compared with other countries/economies.**

## Government compliance

### **Complexity of licensing and compliance costs**

2.23 Singapore has consistently been ranked by the World Bank as the top economy for ease of doing business. For example an Online Business Licensing System (OBLS) provides a guide and navigate users on licensing requirements. However more could be done to reduce the costs, complexity and backend processing for starting a business.

2.24 A study by SBF provides an example of the host of licensing requirements and cumulative costs for starting a restaurant (below). It reveals the complex licensing and application processes from several government agencies as well as some high administrative costs to businesses. Some of these licences also require annual renewals together with inspection by the separate agencies.

<b>Licence</b>	<b>Licencing agency</b>	<b>Cost</b>
Name Approval Fee	ACRA	\$15.00
Registration Fee for Company Limited by Shares	ACRA	\$300.00
Food shop licence	NEA	\$160.00
Halal eating establishment scheme	MUIS	\$175.00
Public Entertainment Licence	SPF	\$1,200.00
Meat/fish processing or cold store	AVA	\$260.00
Petroleum / flammable materials storage	SCDF	\$1,200.00
Import licence for processed food	AVA	\$21.50
* Work Permit (foreign workers)	MOM	\$470.00
* A&A approval for conservation buildings	URA	\$2,500.00
* Signage for conservation building	URA	\$41.20
* General radio communication station licence	IDA	\$100.00
* Localised private network licence	IDA	\$100.00
* Localised radio communication	IDA	\$100.00
* Wide area private network licence	IDA	\$500.00
* Music copyright licence	COMPASS <sup>^</sup>	\$219.00
<b>TOTAL</b>		<b><u>\$7,361.70</u></b>

\* Where applicable

<sup>^</sup> The Composers and Authors Society of Singapore formed in conjunction with the Copyright Act of Singapore

- 2.25 Government departments and agencies should reduce the processing time for granting permits, licenses and approvals and look at simplifying the process in situations where multi-agencies are involved so as to reduce the complexity and compliance costs for licensing, and lessen the burden on businesses with multiple inspections by different agencies.

**The SMEC recommends a review of licensing requirements to reduce the complexity and compliance costs.**

### ***Holding costs for businesses***

- 2.26 Companies have given feedback that the current process for MOM to calculate DRC eligibility of foreign workers affects their ability to commence operations by up to five months. This is because MOM requires the company to show CPF contributions of its local workforce over a three-month period, which are then used to calculate the company's foreign worker quota. In the calculation MOM excludes the current month as well as the preceding month contributions.
- 2.27 While the problem is faced by all businesses alike, it is worse for start-ups. Start-ups are small businesses that begin with employing only a handful of workers. In some companies, the key staff critical for starting operations is a foreign worker with specialised skills – such as an expertise chef in a restaurant. As a consequence, the business cannot start to operate at optimal level, and in extreme cases cannot even commence operations until the key staff is in the job. Meanwhile the company incurs overhead costs such as rental, utilities and manpower costs as well as opportunity costs for up to five months. The three-month period for the calculation of foreign worker quota should be shortened to reduce holding costs and quicken access to manpower.

**The SMEC recommends that the three-month period for the calculation of foreign worker quotas be shortened to one month to enable SMEs to reduce holding costs and have quicker access to manpower.**



### 3. MANPOWER AND PRODUCTIVITY

#### Overview

#### ***Manpower a major challenge for SMEs***

- 3.1 According to the SME Development Survey 2012, 56% of SMEs across all industries are affected by the changes in foreign worker policies. Apart from higher employment costs, labour shortage was the second most pressing issue SMEs face. Unable to secure manpower, SMEs have to face the consequence of either scaling down their operations despite seeing growth potential, relocating their businesses, or simply closing shop. The drastic impact on the performance of SMEs will in turn have a wider impact on jobs for Singaporeans.

#### ***Productivity measures***

- 3.2 The SBF National Business Survey 2012/2013 found that in the face of the foreign labour policy changes, 44% of companies will be taking concrete steps to upgrade operations so as to be less dependent on foreign workers. 67% of respondents are looking to up-skill their workers as a way to overcome the manpower crunch.

#### ***Locals and foreigners are integral to Singapore's workforce***

- 3.3 A focus group discussion (FGD) on manpower conducted by SMEC in September 2012 found that SMEs consider locals and foreigners as integral to business workforce. Employers at the FGD overwhelmingly stated their preference for local workers if they are available. However, none were successful in hiring any despite several attempts, with about a third stating that no locals responded to their advertisements. About 15% of the participants were even willing to pay more for locals than foreign workers.
- 3.4 As locals become more educated, there will be less resident manpower to take up non-PMET jobs. The Department of Statistics has already noted an inverse relationship between citizens' education level with the take-up rate for non-PMET jobs from 2001 to 2010. Evidence from news articles also

suggest that operational, manual and laborious jobs are shunned by locals. Some commonly cited reasons for locals' reluctance includes 'below their dignity or status', 'long hours' and salaries that fall short of expectations (*"Some view frontline jobs as 'inferior'", ST, 13 Sep 2012*).

- 3.5 Participants at the FGD urged the government to provide continued access to foreign manpower as they are crucial in complementing the local workforce. Foreign *talents* catalyse the growth of new and strategic sectors with their specialised knowledge, experience and skills that locals take time to acquire, while foreign *workers* meet the employment gap for non-PMET jobs which tend to be shunned by locals.

### ***MNCs may hollow-out of Singapore***

- 3.6 Multinational corporations (MNCs) and large enterprises that depend on SMEs as their suppliers are also affected when the SMEs are not able to fulfil their commitments to them. At a lunch dialogue with members of the local press held on 16 Oct 2012, a MNC representative warned that given the tight labour market, the whole ecosystem of vendors could not function properly. This view was echoed by the Singapore International Chamber and Commerce (SICC) at the SME Convention held on 25 Oct 2012, which further added that MNCs needed greater clarity and certainty of a sustainable workforce for their long term strategic planning. If current situation persists, MNCs will either put their expansion plans on hold, or even consider pulling their investments out of Singapore entirely.

## **Manpower**

### ***Resource constraints hamper productivity initiatives***

- 3.7 According to a recent survey conducted by the Singapore Chinese Chamber of Commerce & Industry (SCCCI), 69% of companies cite manpower crunch as a factor that hinders their restructuring and productivity activities. SMEs in particular are not able to focus efforts on productivity implementation as they deploy their already over-loaded resources to deliver services critical for business survival. This is the spill-

over effect from the tightening of foreign manpower policies and a tight labour market.

- 3.8 For companies that have initiated their productivity programmes, workers training, acquiring technology and process streamlining need time to take effect. Through the focus group discussion and the SME Convention, a majority of companies indicated that it will take an average of about one year before tangible benefits from their productivity initiatives could be realised.
- 3.9 SMEs should be given sufficient time to raise productivity. There should not be further tightening of manpower policies such as levy increases, further decrease in DRC quota for various work passes and rise in minimum salary requirements for foreign workers until there is clear evidence that small businesses are able to raise their productivity in the current difficult environment.

**The SMEC recommends that government delays further tightening of manpower policies such as levy increases, further decrease in DRC quota for various work passes and rise in minimum salary requirements for foreign workers until there is clear evidence that small businesses are able to raise their productivity in the current difficult environment.**

### ***Attracting the economically inactive through WIS***

- 3.10 The National Population and Talent Division (NPTD) estimates that there are about 485,000 economically inactive residents in Singapore (see table).

<b>Economically Inactive</b>	<b>~ 485</b>
• Family Responsibilities (Housework, childcare, caregiving)	335
• Retired	141
• Discouraged	9

**Source: NPTD**

- 3.11 Currently, housewives and retirees are not motivated to return to work due to their domestic commitments such as looking after children or the aged. While adjustments could be made e.g. adopting flexible work arrangements, a common feedback is that the take-home pay must yield a reasonable

surplus after covering their daily expenses (transportation, meals) as well as costs incurred where alternative arrangements are needed to look after the children or aged. More should be done to attract this group of economically inactive back to the workforce.

### ***Widening WIS scheme eligibility***

- 3.12 The Workfare Income Supplement (WIS) scheme supplements the wages and retirement savings of older low-wage workers as well as encouraging them to stay employed. This scheme can be extended to attract the economically inactive back to the workforce. However the eligibility criteria need to be widened in terms of minimum age, property annual value, gross salary and minimum employment period. The WIS quantum should also be increased significantly, with a higher cash pay-out component. The cash pay-out should also be paid monthly to the employee instead of being paid in fixed quarters.

**The SMEC recommends attracting the economically inactive back to the workforce by widening the WIS scheme as follows:**

- (a) Review the minimum age, property annual value, gross salary and minimum employment period**
- (b) Increase WIS quantum significantly**
- (c) Increase the cash pay-out component**
- (d) Paying monthly instead of in fixed quarters.**

### ***Incentivising lower foreign worker dependence***

- 3.13 A company that increases its local workforce effectively increases its quota to employ foreign workers through the DRC system. The company could maximise its quota eligibility as long as it can afford the levy for the foreign workers.

- 3.14 The current levy measure can be enhanced further to incentivise companies to keep the number of foreign workers to a minimum while continuing to employ more locals. This incentive could be built into the tiered levy system. Keeping the current highest levy rates, MOM could introduce three or more intermediate tiers – making a total of five or more tiers as compared to the current three tiers. Increasing the number of tiers

would enable the company to reach the lower threshold level faster if it reduces the number of foreign workers, thereby enjoying a lower levy.

- 3.15 In addition, a short-term incentive scheme could be introduced where over the next two to three years, companies could be given levy rebates for their reduction of the number of foreign workers employed. This additional incentive will signal to companies that government is prepared to return some levies to companies who actively reduce the number of foreign workers on their payroll.

**The SMEC recommends that incentive schemes be introduced to help businesses to actively employ locals and move away from reliance on foreign workforce.**

### ***Accelerate assimilation of local graduates***

- 3.16 Students at tertiary institutions and some junior colleges undergo internships and industrial attachments in their various fields of studies. While the career offices at the institutions seek out willing companies to host such internships and attachments, students generally prefer an attachment to MNCs, larger companies or government agencies. There needs to be better and increased matching of tertiary students to condition them with a positive work experience with SMEs.

**The SMEC recommends that MOE and TACs work together to develop internship programmes with SMEs as part of the curriculum for students of tertiary institutions and junior colleges.**

## **Productivity**

### ***Productivity and Innovation Credit (PIC) eligibility for staff training***

- 3.17 In a FGD on the PIC Scheme jointly conducted by SBF and KPMG on 27 November 2012, participants provided feedback and inputs to enhance the scheme. Currently, companies that engage external trainers are eligible for enhanced tax deductions for the full costs to engage the trainer. For in-

house training, only the salary and other remuneration costs incurred by in-house trainers are eligible under the PIC scheme. It does not take into account the time spent by the in-house trainer for preparation work prior to the training sessions, as well as other related work such as drawing up training plans and devising tailored learning and development programmes. Such costs would have been factored into the fees paid to external trainers. Likewise the costs incurred for preparation and development of in-house training programmes should also be included as qualifying training expenditure under the PIC scheme.

- 3.18 With the current manpower shortage, many companies operate with a lean workforce. Yet 67% of respondents to the National Business Survey 2012/2013 are looking to up-skill their workers. But sending staff for training would mean a further staff shortage especially for SMEs. It would be helpful and a strong encouragement to businesses if they are given tax benefits by allowing absentee payroll costs to be included as part of qualifying training expenditure under the PIC scheme.
- 3.19 While staff training is incentivised under the PIC scheme, training for shareholders are not. The benefit should be extended to training of shareholders, for example in the areas of strategic planning so as to increase the company's productivity and innovation. This is especially relevant for SMEs and family-owned businesses.

**The SMEC recommends widening the PIC eligibility for staff training as follows:**

- (a) Extend the benefits for external training to in-house training by allowing the development and preparation for in-house training costs as part of qualifying training expenditure**
- (b) Allow absentee payroll costs to be included as part of qualifying training expenditure**
- (c) Extend training benefit to include shareholders' training.**

### ***Greater certainty for PIC eligibility for automation equipment***

- 3.20 Participants at the SBF/KPMG FGD also highlighted that while the list of prescribed automation equipment provided by IRAS serves to establish some clarity on the eligibility of claim for automation equipment, more could

be done to provide greater certainty to businesses for PIC claims. For example IRAS could give a pre-approval for eligibility of claim for automation equipment a company plans to purchase. Conversely IRAS could provide case studies illustrating the components in a purchase which would typically not qualify as automation equipment for PIC claim. This would be useful especially for SMEs as the investment outlay in automation equipment can be substantial from the companies' financial perspective.

**The SMEC recommends that IRAS pre-approve potential purchase of automation equipment, or provide case studies illustrating the components in a purchase which would typically not qualify as automation equipment for PIC claim.**

### ***Widening PIC to other productivity initiatives***

- 3.21 Participants at the SBF/KPMG FGD alerted that there are initiatives to improve productivity and innovation which are not qualifying items under the PIC scheme. These include adopting programmes such as the six sigma concept or setting up quality action circles so as to minimise wastage, errors and/or redundancies, and to improve business work processes.
- 3.22 Companies have also given feedback that while the PIC would allow claims for specific IT and automation systems, they could not justify claims for some relatively simple, low cost mechanisation, special tooling and workbenches, reconfiguration of work flow. Some of these steps can result in significant productivity improvements. There should be greater flexibility in the PIC eligibility criteria for such claims so that the SMEs will be encouraged to take these simple steps to improve productivity.
- 3.23 The scope of the PIC scheme could be widened to include these initiatives highlighted as qualifying activities.

**The SMEC recommends widening PIC eligibility to include activities such as adoption of productivity programmes and application of simple low cost productivity and process improvement measures.**

### ***PIC cash pay-out option for small businesses***

3.24 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 so that the smaller businesses may also enjoy this incentive.

**The SMEC recommends that the restriction on having at least three local employees should be relaxed to include shareholders of companies who are also employees.**

### ***Unlocking productivity through cross deployment***

3.25 Foreign workers permits are issued based on specific vocations and specific sectors. This means that the workers may not be deployed in other suitable areas of work within the company. It may lead to the company having to engage additional manpower resulting in sub-optimal use of manpower resources. Recognising this, MOM launched the Job Flexibility for Productivity (JFP) initiative in Oct 2012 which offers employees, both local workers and foreign Work Permit holders, opportunities to work across different job functions within the same hotel or hostel. Such cross-deployment of workers clearly has tremendous benefits. The JFP should be introduced into more industries without further delay.

*The 'Job Flexibility for Productivity' (JFP) initiative for the hospitality industry by Ministry of Manpower (MOM) and Singapore Tourism Board (STB) was launched on 1 October 2012. Under this pilot initiative, hotels and hostels licensed by the Hotel Licensing Board (HLB) can offer their employees, both local workers and foreign Work Permit Holders (WPHs), opportunities to work across different job functions within the same hotel or hostel. This initiative aims to reduce the hospitality industry's reliance on foreign workers, and in the longer term, improve productivity and raise wages for workers.*



- 3.26 The current foreign worker policy also forbids a company that serves different sectors to deploy foreign workers across the sectors for optimal manpower utilisation. For example, a local company serving the marine, process engineering and construction sectors could not use the same foreign worker with welding skills across the sectors. The company should be allowed to do so as it would help achieve optimal use of its manpower while minimising the need to employ more foreign workers than necessary.
- 3.27 In similar circumstances, foreign workers employed by subsidiary companies, or by companies with common or controlling shareholders could not be deployed across these subsidiaries or companies respectively. This should be allowed as it optimises manpower resources, while saving the need to bring in additional foreign workers for the subsidiaries and companies.

**The SMEC recommends extending the JFP scheme as follows:**

- (a) Extend to more industries and sectors without further delay**
- (b) Allow cross-deployment of workers for companies that have projects serving multiple sectors**
- (c) Allow cross-deployment of workers across subsidiaries and companies with common or controlling shareholders.**

### ***Retaining experienced foreign workers***

- 3.28 Businesses seek clarity and transparency in the renewal process of foreign workers for continued efficiency of their operations. Between Jan-Jul 2012, 29% of the total number of rejected applications for Employment Pass and S Pass were for renewal cases. Through focus groups and other discussions, businesses have continually given feedback that they are not given reasons for unsuccessful applications. They then have to go through the administrative hassle to reapply or appeal without knowing the reason for the initial rejection. This wastes precious time and resources.
- 3.29 Generally employers apply for renewals of those foreign workers whom they value as contributing to the company. Under the current process however, renewals are ultimately decided by MOM, which may not take the employer's assessment of the worker into consideration. There are situations where certain foreign workers play a crucial role in the

employer's business in which case MOM is not in a position to take account of and neither is there adequate avenue for the employer to appeal to MOM.

- 3.30 Recently MOM has also made changes to the criteria for foreign workers both in terms of minimum salary and qualification requirements. These new criteria also apply to renewal cases which is unfair to employers as these workers were recruited under the old criteria. While raising the minimum salary would result in higher costs for employers, raising the qualification criteria and applying it retrospectively to those foreign workers who are already here but fall short of the new criteria would lead to loss of trained and experienced workers for businesses. These workers would have since undergone training and/or possess relevant skills to perform their jobs effectively and are productive. To replace them, the company would have to go through the whole process of training and familiarisation for the new workers, at the expense of productivity. Hence, due consideration should be given to the employers' assessment and the renewal of foreign workers should not be based solely on MOM's new criteria.

**The SMEC recommends that renewal of foreign workers should not be based solely on MOM's new qualification criteria as the employers' assessment and the foreign workers' technical skills, knowledge and experience should take precedence and be given due consideration.**

### ***Nurturing local productivity expertise for SMEs***

- 3.31 A survey among participants at the SME Convention held on 25 Oct 2012 found that the lack of internal knowledge and manpower were the two key challenges faced by SMEs in improving productivity. However when SMEs need to seek help, there is generally a shortage of productivity expertise that they can rely on in Singapore. Statistics from the Practising Management Consultant (PMC) programme shows that of the nearly 330 PMC certified consultants, less than a quarter, or about 75 of such consultants, declare their services in the Quality/Productivity Management System. Even so, most of these consultants are quality management systems rather than productivity experts. Hence, there are very few certified productivity consultants in Singapore to serve the SMEs.

- 3.32 There is a dire and urgent need to build up an adequate pool of productivity experts that can help SMEs raise their productivity. These experts could be productivity consultants or attached to SMEs to develop in-house capabilities. A comprehensive certification programme for productivity personnel should be set up to nurture a pool of productivity experts. The programme would be a catalyst to promote and raise the level of productivity expertise in Singapore.

**The SMEC recommends that a comprehensive certification programme be developed to certify qualified personnel as productivity experts to promote, nurture and raise the level of productivity expertise in Singapore.**

***Trade Associations and Chambers (TACs) can help boost productivity***

- 3.33 Currently the Enterprise Development Centres (EDCs) provide advice to SMEs under SPRING Singapore's Productivity Management Programme (PMP). This entails helping SMEs perform an assessment to identify needs for productivity improvements. However only about 10-20% of SMEs that sought advice from the EDCs take the next step to implement the improvements identified. The common feedback is that the SMEs do not have the time and resources, are not eligible for funding, and in some cases do not have economies of scale to implement the proposed solutions.
- 3.34 TACs can play a bigger role in supporting SMEs in their specific sectors. They could help identify common needs of their members and engage institutions, productivity centres or professional consultants to conduct R&D, or develop some common tools or solutions for the benefit of the sector. They could 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 high cost automation. The government could provide grants to TACs to undertake these projects for the collective benefit of their industry.

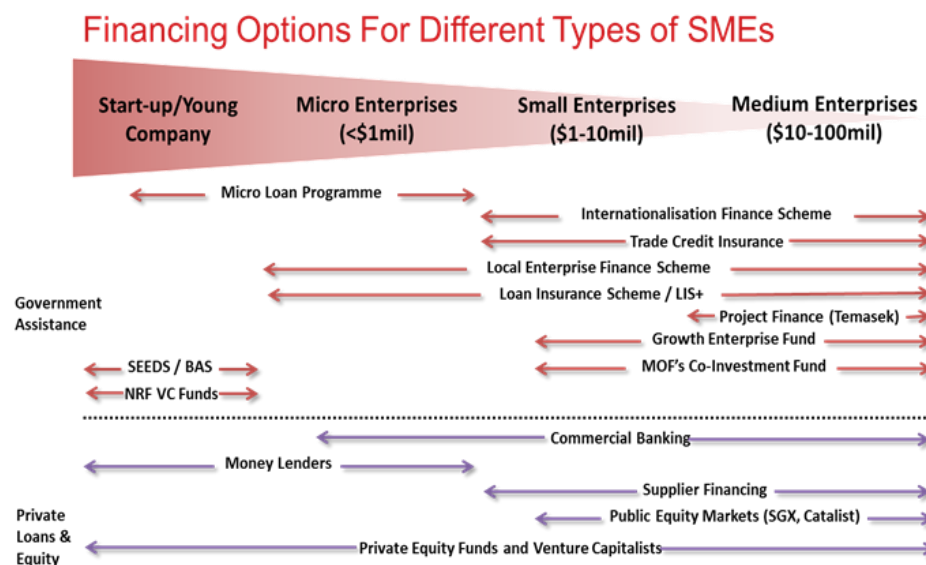
**The SMEC recommends that grants be provided for TACs to undertake projects for the collective benefit to improve productivity of their industry.**

## 4. FINANCING

### Overview

#### **Financing options for SMEs**

- 4.1 The SME Development Survey 2012 has shown an increase in SMEs facing cash flow problems (from 62% in 2011 to 71% in 2012). The liquidity of these businesses, measured as cash to short-term debt ratio, has also worsened, with the number of SMEs with ratio of up to 0.5 times rising from 39% in 2011 to 42% in 2012.
- 4.2 The financing options for SMEs are mapped out in the figure below. It shows that start-ups and micro-enterprises have relatively fewer alternatives particularly on the range of government schemes. There are also no working capital loan schemes available for businesses.



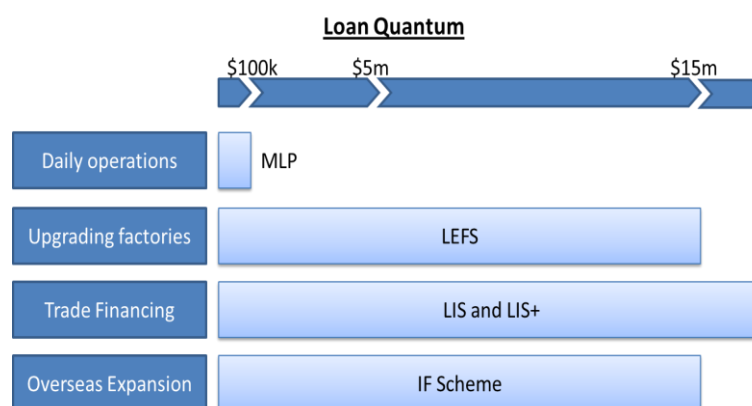
- 4.3 Singapore does not have a SME bank. The government provides funding assistance administered through participating financial institutions (PFIs) under risk-sharing arrangements for the respective schemes. The PFIs are commercial banks and finance companies, which are profit driven establishments and accountable to their shareholders. Hence in spite of the risk share that the government takes up in its financing schemes, they are still wary of default risks.

4.4 In addition, Singapore is set to implement the Basel III minimum capital adequacy requirements two years in advance of the Basel Committee's timeline of 1 Jan 2015. With this, banks are likely to tighten the amount of loans given to the smaller and riskier SMEs.

### Government loan programmes

#### **SME Working Capital Loan**

4.5 The government has a range of financing schemes that cater to specific needs of SMEs. For instance, the Local Enterprise Finance Scheme (LEFS) helps SMEs with capital purchases for automation and upgrading of factories and equipment. The Loan Insurance Programme (LIS) is a trade financing insurance scheme while the International Finance (IF) Scheme for the purpose of overseas expansion and the Micro Loan Programme (MLP) for the financing of the business' daily operations.



4.6 According to the SME Development Survey 2012, 57% of the SMEs seeking new financing are doing so for the purpose of working capital. While companies with fixed assets or inventory may be able to obtain a normal bank loan or a loan under either the LIS or IF Scheme, businesses that have mostly intangible assets or in the services sector would not meet the collateral requirements for such loans. The only other government loan scheme for such SMEs is the MLP. But compared to the other schemes, the maximum loan quantum for the MLP is significantly lower.

4.7 A working capital loan scheme (WCLS) will help fill the gap by providing SMEs with a loan for the business operations and expansion, especially those in the services sector with little tangible assets that can be used as collateral for other loans.

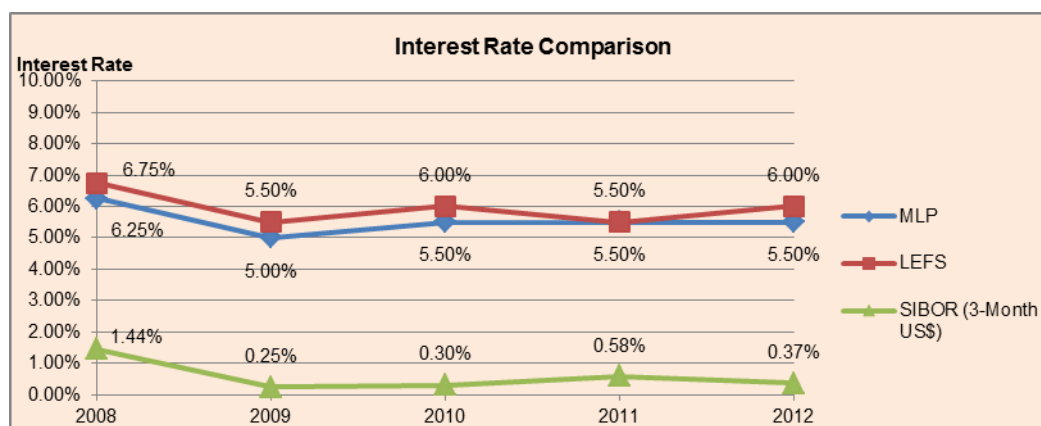
4.8 The loan quantum of the WCLS could be up to \$5 million, with loan tenure be determined by the PFIs subject to a cap of five years.

**The SMEC recommends that government 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.**

### ***Competitive interest rates for government loan programmes***

4.9 Since the 2008 Global Financial Crisis, interest rates in Singapore have been very low, with the Singapore Interbank Offered Rate (SIBOR) at less than 1%. This has reduced the cost of borrowing and increased the affordability of bank loans.

4.10 The government decides on the interest rates for most of their loan schemes as they provide the funds. However as shown in the chart below the interest rates have remained high even when the interbank rates are low.



- 4.11 The interest rates of government loan schemes should be pegged at a fair and reasonable margin above cost of funds at the prevailing time. This will make the government loan schemes more equitable compared to other commercial bank loans which have been adjusted to market.

**The SMEC recommends that the interest rates of government loan schemes be pegged at a fair and reasonable margin above cost of funds.**

#### ***Increase the pool of underwriters under Loan Insurance Scheme (LIS)***

- 4.12 The LIS helps SMEs secure loans by insuring them against default where the government subsidises part of the insurance premium. During downturn years a higher default rate has been observed regardless of the loan origination period. As such insurers may seek to minimise their risk exposures by refusing to take additional risks during bad times.
- 4.13 The government could take a more proactive approach by increasing the number of insurers under LIS. This would give the PFIs more options to turn to when they are unable to secure insurance for the SME loans especially in downturn years. Moreover, having more underwriters would also provide more competitive rates, thereby reducing the premium burden of the SMEs.

**The SMEC recommends that government increases the number of underwriters under LIS to induce more competitive rates on insurance premium for SMEs.**

#### ***Standardised SME loan reporting***

- 4.14 Each financial institution has its own categorising of its SME clients, e.g. in terms of the number of employees, turnover and paid-up capital. While local banks would generally follow government's SME definition, there are still differences between them. Foreign banks are also different. According to the Association of Banks of Singapore (ABS) foreign banks need to adopt standards imposed by their headquarters. With the different

standards being used, it is not meaningful to compare SME loans across financial institutions.

- 4.15 Comparable and meaningful data are needed to help monitor SME financing issues and better understand the SME loan market. It provides an accurate reflection of the differing needs of SMEs which will enable the government and banking sector develop more targeted SME loan programmes for the different needs of SMEs.
- 4.16 The government could standardise the reporting requirement from financial institutions based on the definition used by SPRING Singapore – i.e companies with annual sales turnover of not more than S\$100 million or employment size of not more than 200 workers. A further sub-category of micro (less than \$1 million), small (between \$1 million-\$10 million) and medium (between \$10 million-\$100 million) enterprises could also be included for better data capture.

**The SMEC recommends that government requires a standard definition for SMEs in the reporting of SME loans from financial institutions.**



## 5. INTERNATIONALISATION AND MARKET ACCESS

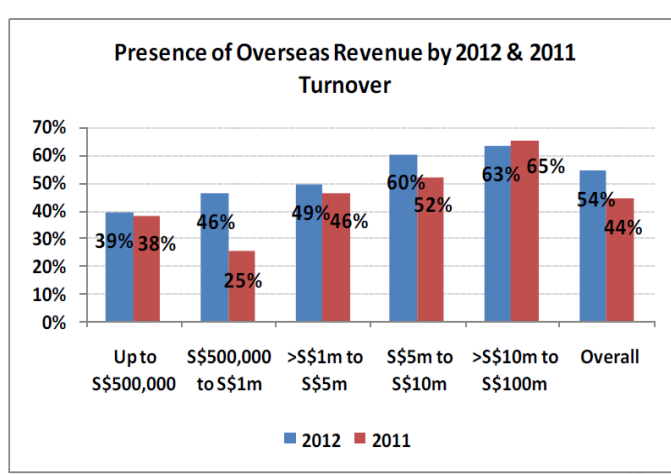
### Overview

#### ***Push-pull factors for internationalisation***

5.1 As businesses contend with slower growth prospects coupled with severe resource constraints and rising business costs in Singapore, more SMEs are taking a serious look at opportunities overseas. More SMEs are realising the growth markets in Asia, particularly ASEAN and China, as attractive locations to expand their businesses. The SME Development Survey 2012 found that 54% of SMEs have reported overseas revenue in 2012 – a 10% increase from a year ago. There was a drastic drop in SMEs that did not have market presence overseas as a main business strategy (from 45% in 2011 to 16% in 2012).

#### ***Smaller SMEs heading overseas***

5.2 The SME Development Survey 2012 revealed that more amongst the group of SMEs with a turnover of between S\$500,000 to S\$10 million have overseas revenue in 2012 (see chart). It observed a rising trend of smaller companies that are looking for opportunities abroad even before establishing themselves locally. This new segment of SMEs focuses and initiates its growth strategies in overseas markets rather than growing first in the domestic market.



## Help SMEs build track record through partnerships

### ***More opportunities for SMEs in government tenders***

- 5.3 SMEs desire to build their track record in order to increase their chances to participate in international projects. Ideally the process starts with undertaking local projects first, but SMEs are not finding the support needed. An example is the exclusion of local architect firms from participating in the design of Changi Airport Terminal Four from the outset. Where government tenders are concerned, overly stringent criteria are set in the tender conditions and evaluation process that rule out any SME participation. Ironically, there are many instances where the unsuccessful SME ended up doing the job for the successful tenderer who can fulfil the criteria. The government should review some of its procurement requirements to allow more SMEs to participate in their tenders.

**The SMEC recommends that government should review some of its procurement requirements to allow more SMEs to participate in their tenders.**

### ***SBF to help nurture GLC/LLE and SME collaboration***

- 5.4 In Korea, Japan and Taiwan, SMEs have an advantage internationalising because large enterprises from these countries give preference to subcontractors from their own country, thereby helping these SMEs grow. In Singapore, the government-linked companies (GLCs) and large local enterprises (LLEs) should be incentivised by the government to engage Singapore SMEs as subcontractor or supplier for overseas projects. A platform should be created to induce greater GLC/LLE-SME collaboration.
- 5.5 Singapore Business Federation (SBF) is in the position to serve as a platform for regular interaction between SMEs and the GLCs and other large local enterprises. This can be done through networking sessions for key local players such as SembCorp, Keppel, CapitaLand and ST Group to share on the projects in the pipeline so that the SMEs can better prepare themselves. These sessions will also serve to align the organisational perceptions of the GLCs on the capabilities of those SMEs that already have the required capabilities.

## ***Incentivise GLCs and large enterprises to partner with SMEs***

5.6 There are various capability building and partnership schemes and programmes that SMEs can tap onto. Each of these has a specific purpose (see table below).

Schemes	Capability Development Scheme (CDS)	Partnerships for Capability Transformation (PACT)	International Partners (iPartners)
Agency	SPRING	EDB	IE
Purpose	To help SMEs build up their capabilities, restructure their businesses for sustained growth and competitiveness, realign their operations and raise productivity, in areas such as human capital development, technology adoption, innovation, service quality, and branding.	To help Original Equipment Manufacturers (OEMs) and Singapore-based suppliers develop new and cutting-edge competencies needed to meet stringent manufacturing quality and certification requirements through collaboration with their foreign counterparts.	To facilitates the formation of complementary alliances for overseas expansion, with the ultimate aim of increasing companies' market accessibility and overseas sales.

5.7 The Local Industry Upgrading Programme (LIUP) was introduced in 1986 to upgrade the capabilities of local enterprises through partnerships with their foreign counterparts<sup>1</sup>. One of the attributes of the LIUP that made it successful was the LIUP manager who would be deployed from the participating MNC to expand the capabilities of the local enterprises for a period of one to two years. At the same time, the LIUP manager would be able to initiate operation and performance improvement of the local enterprises over time.

5.8 A programme similar to LIUP could be introduced where GLCs and LLEs could partner with SMEs on a project basis through a manager, whose salary would be funded by the government. Such a programme would be effective to start off domestic projects where large companies have technical knowhow that would benefit the SME subcontractors. Potential projects are in the marine, construction, precision or process engineering sectors. It would help build up the track record of these SMEs working with large enterprises and develop the confidence for international projects. GLCs and LLEs could be incentivised through tax or other incentives to bring SMEs under their wing for international projects.

<sup>1</sup> LIUP was subsumed under the Partnership for Capability Transformation (PACT) scheme in 2010.

**The SMEC recommends that government incentivises GLCs and LLEs to partner with SMEs, through**

- (a) funding a project manager under a programme similar to LIUP, and**
- (b) providing tax or other incentives to GLCs and LLEs that engage SMEs as subcontractors or suppliers for overseas projects.**

### ***Airfare and lodging incentives for iMAP for SMEs***

5.9 Introduced in April 2002, the International Marketing Activities Programme (iMAP) provides support for companies when they participate in international marketing activities led by TACs. It supports up to 70% of eligible core expenses e.g. rental of exhibition space, booth construction cost and fair/mission consultancy expenses. However iMAP does not cover airfares and lodging expenses. This is seen by many SMEs as a deterrent even if they wish to participate in the international trade fairs and business missions.

5.10 In April 2012, the government allowed a new double tax deduction for internationalisation scheme. It allows Singapore companies to deduct qualifying expenses against their taxable income. However this new scheme is not useful to SMEs that do not pay tax or are loss-making. It contradicts the objective to spur loss-making companies to actively seek opportunities outside Singapore as a means of survival. Moreover, SMEs are often cash-strapped. Grants instead of tax incentives for airfare and accommodation are more effective in encouraging them to expand overseas.

**The SMEC recommends that government enhances iMAP by including airfares and accommodation expenses incurred by SMEs as qualifying costs eligible for grant support under the programme.**

## Support for Singapore SMEs overseas

### ***Leverage on established businesses and existing networks***

- 5.11 There are various Singapore business communities in overseas markets such as the Singapore clubs in Dubai and Vietnam. These are often informal groups run mainly by volunteers to organise activities and events for Singaporeans in those locations. Generally they do not have official capacity to formally champion Singapore businesses' interests in that country.
- 5.12 IE Singapore has a network of overseas centres with their role primarily focused on trade promotion at the macro level, and supporting government-to-government trade engagements and visits. While these overseas centres also provide support for Singapore companies in those countries, more could be done to support and assist our SMEs especially with growing interest to venture abroad among the less experienced SMEs .
- 5.13 Some on-the-ground support needed would include advisory and information for starting up businesses. Advice and information on the regulatory environment, business culture, recruitment and employment policies, contacts of government officials and agencies and networking opportunities with potential business partners, suppliers and customers are amongst the more common support and assistance needed.
- 5.14 Singapore businesses do not have a formal structure that represents their interests in overseas markets, such as AmCham, AustCham and EuroCham business advocacy for the American, Australian and European businesses respectively. Where issues occur there is no official entity with the capacity to formally champion Singapore businesses' interests in that country.
- 5.15 An organised platform could be set up in the form of a "SingCham" (or equivalent) to represent Singapore businesses overseas. Government funding could be provided to establish the permanent secretariat that would be organised more professionally to support Singapore businesses in the respective countries. It is envisaged that for a start the overseas presence of "SingCham" (or equivalent) would be in ASEAN and China given the

opportunities and strong business interest in these locations. The setting up of a “SingCham” (or equivalent) in ASEAN would also be timely with the impending launch of the ASEAN economic community in 2015.

**The SMEC recommends the formation of a “SingCham” (or equivalent) to represent the interests of Singapore businesses overseas, with government to provide funding for its setup.**

### **Building capacity for overseas expansion**

#### ***Separate foreigner training schemes from long-term work schemes***

- 5.16 A recent survey conducted by IE Singapore revealed that one of the top challenges Singapore companies face when internationalising is getting the right people with the right capabilities to manage an overseas operation. With the tight labour market domestically, it has become increasingly difficult to find suitable employees who are willing to be posted overseas. Even for those more adventurous, there would be concerns on security, healthcare and children’s education if the posting is to a less developed country.
- 5.17 A viable alternative for SMEs setting up overseas operations is to recruit locals in that country and bring them back to Singapore for short-term training so that when they return, they can help set up and run the operations for the SME in that country. However, 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.
- 5.18 Businesses should not be subjected to the foreign worker levies nor should the trainees be counted as part of the DRC under TEP and TWP since these trainees are engaged in Singapore temporarily for training only. 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.

- 5.19 The TEP and TWP should not impose the usual foreign work pass and work permit restrictions as they are meant for training of overseas workers. Such trainees could be brought in over and above prevailing DRC, without the levy and/or minimum salaries being imposed, but subject to a cap of 20% of the company's foreign workers quota. As most of these trainees are at PMET level, a separate category parallel to S Pass holders (TSP) could also be created.
- 5.20 Understanding MOM's concern of abuse by employers, clear terms can be spelt out for the TEP and TWP and the proposed TSP that the permits are purely for the purpose of training and strictly non-renewable. The companies applying for TEP and TWP and the proposed TSP should also show evidence e.g. that they have bona fide overseas establishments.

**The SMEC recommends that for the purpose of helping companies train foreign staff to set up overseas operations:**

- (a) A new category for foreign PMET trainees (TSP) be created**
- (b) The usual work pass and work permit conditions for quota, levy and minimum salary should not apply to TEP, TWP and the proposed TSP**
- (c) Such trainees be brought in over and above prevailing DRC, without the levy and/or minimum salaries being imposed, but subject to a cap of 20% of the company's foreign workers quota.**

## **Restructuring to enhance competitiveness**

### ***Assistance for SMEs to restructure***

- 5.21 With limited land and tight labour supply, Singapore businesses face severe resource constraints that have pushed up the cost of doing business. If the cost structure for a company is no longer viable, there is a need for it to restructure to stay competitive. Government should help such

SMEs – by way of assistance scheme – to relocate their lower value-added operations while retaining their headquarters and higher value activities such as R&D, product development and marketing activities in Singapore.

**The SMEC recommends that government provides assistance scheme for SMEs to restructure by relocating their lower value-added operations while retaining their headquarters and higher value activities such as R&D, product development and marketing activities in Singapore.**



## 6. INNOVATION

### Current Singapore's innovation landscape

#### ***Despite Singapore ranking high in global innovation index, SMEs lag in innovation***

- 6.1 Singapore has recorded exceptional overall performance in major global indices and rankings on innovation. Singapore was ranked 3<sup>rd</sup> in the Global Innovation Index 2012, but 11<sup>th</sup> for *Innovation Output* due to lower creative, knowledge and technology creation.
- 6.2 As first-tier cities are shifting towards more knowledge-oriented economies, it becomes increasingly critical for Singapore to stay competitive through innovation. The SME Development Survey 2012 noted however that while Singapore SMEs respond to various government initiatives to strengthen their technology innovation capabilities, these are mainly on hardware, IT software and acquisition of machinery and equipment. Few SMEs appreciate the importance of acquiring 'software' or knowhow. Only 20% engage consultants, technical experts or professionals, 5% hire staff with required knowledge/experience, and 1% tap on government technical resources.

#### ***Weaknesses in Singapore's innovation output***

- 6.3 Singapore's innovation ranking lags behind in some critical aspects:
- (a) **Low commercialisation rate of intellectual properties (IPs)** – While Singapore ranks high for its institutional framework and the number of IPs patents filed, the commercialisation process to bring these IPs from conceptualisation to successful Made-in-Singapore products remained low.
  - (b) **Lack of ideation and design companies** – Surveying Singapore's landscape of ideation, design-oriented or IP-oriented companies revealed a lack of such home-grown innovation enablers. For example, world-class Frog Design, a company specialising in

interaction, product and innovation design had exited after its initial years of establishing its Singapore office.

- (c) **Technology innovation requires financing stamina** – A lot of these IPs require long research gestation period and prototyping processes. Some of these entrepreneurial and innovative initiatives face early demise owing to a lack of financing stamina e.g. biomedical technology companies face higher mortality rate owing to long pre-clinical trials.
- (d) **Valuation of IPs** – These innovative enterprises have difficulties securing traditional bank loans owing to local community's inability to assess IPs as collaterals. For the better technologies, they ended up being funded by foreign venture capitalists which can be to Singapore's loss especially when further developments of these IPs do not involve Singapore.
- (e) **Defence against patents infringement** – First mover technology innovators tend to face patents infringement and defence issues. An example is home grown innovator Trek 2000, which has spent the last few years fighting multi-million-dollar lawsuits against firms trampling on its ThumbDrive IP rights. Now, sharks are circling the FluCard (*"Chasing the Made in Singapore Dream", BT, 24 Dec 2012*). Weaker start-ups lacking the coffers to battle copycats can easily wither away.

### ***Strengthening innovation-based businesses***

6.4 There are some areas which Singapore can strengthen in comparison to other innovative Asian economies like Korea and Taiwan:

- (a) **IP Bank to promote innovation-based business** – Korea and Taiwan had launched national-level IP Banks to promote innovation-based businesses. In Taiwan, the Industrial Technology Research Institute (ITRI) together with an IP Bank mechanism promotes patent licensing, strategic in-sourcing of patents and nurturing innovation-based businesses on the basis of IPs. The IP Bank also provides IP aggregation and financing.

- (b) **Assertive technologies aggregation and translation** – Taiwan uses its research institute to aggressively promote intellectual properties, as well as sort and package IPs into valuable combinations for their domestic industries. ITRI has transferred some 1,622 patents to domestic and foreign businesses.

### Spurring innovation through an Intellectual Property (IP) Bank

#### ***Synergising agencies to facilitate IP-based companies***

- 6.5 Currently A\*STAR spearheads national-level research which has improved Singapore's ranking in innovation input. The IPOS provides IP registration and incentivise IP management services. SPRING Singapore focuses on nurturing growth-oriented companies. Greater effort and resources can be invested to drive the national agenda of developing Singapore as an IP Hub supporting local SMEs.
- 6.6 There should be greater synergy amongst the three agencies to help more IP-based companies like Trek 2000 grow in Singapore. There are also few options for companies to obtain financing to develop their ideas to market as few financial institutions recognise or are able to value IPs as collaterals.
- 6.7 An IP Bank should be explored with the following objectives:
  - (a) To conduct more accurate assessment of the value of IPs through a specialised institution with domain knowledge in technologies
  - (b) To provide greater access to capital for IP-based SMEs
  - (c) To promote, aggregate, sort and synergise IPs for better assimilation for industry commercialisation
  - (d) To encourage IP to reside within the country thereby protecting Singapore-owned IPs.

### ***Explore establishment of IP Bank***

6.8 Such an IP Bank can be set up through a combined effort of institutions with domain knowledge and resources in IP. For instance, IPOS and SPRING could work together with Exploit Technologies Pte Ltd (ETPL) which is the technology transfer arm of the Agency for Science, Technology and Research (A\*STAR), to build the framework of the IP Bank. IP transactions can eventually be executed by ETPL which has existing knowledge and infrastructure for the commercialisation of IPs. This IP Bank can facilitate commercialisation by providing repayable loans to SMEs. SMEs will have an option to exercise subsequent buy-back provisions of their IPs. The IP Bank can also help nurture IP-based enterprises and defend any international IP infringements against our SME innovators.

**SMEC recommends government extends a more assertive effort to translate technologies for commercial assimilation by local businesses, as well as to explore the establishment of a local IP Bank.**

### **Strengthening Innovation Enablers**

#### ***Growing critical mass of local ideation and product designer SMEs***

6.9 Third party innovation enablers are product design and development specialists who help their clients drive innovative solutions through activities such as business model prototyping, data visualisation, innovation strategy, organisational design, qualitative and quantitative research, and IP liberation. Instead of a generalised and academic approach, innovation enablers are more market and business oriented by designing products based on business viability, consumer desirability and technology feasibility.

- 6.10 Local ideation and product SME designers like Lawton & Yeo which used to design world-class Ericsson's mobile phone found it hard to scale its operations owing to the lack of local demand. A specialist group of companies like Idea Factory and Xentiq are a rare breed which needs more assistance. A critical mass of local ideation and design enablers will be essential to spur innovation amongst SME community.

**The SMEC recommends that government helps strengthen and grow local design and innovation capabilities of SMEs enablers and product designers. This will help catalyse ideation amongst local SMEs and spur more innovative climate to develop Made-in-Singapore products.**

### Promoting co-innovation amongst MNCs and SMEs

- 6.11 Evidence from countries with significant partnership between large companies and SME suppliers has indicated that consortium formation facilitates innovation. For example, the Keiretsu and Chaebol models from Japan and Korea have noted a rapid improvement in technology, product development, and production process in SME suppliers through assistance from large companies. The nature of long term partnership in consortium formation incentives large companies to invest more proactively in their SME suppliers, through knowledge transfer, training, even setting up of joint facilities in research and development.
- 6.12 Singapore lacks the culture and history of consortium formation. While IE Singapore actively promotes the iPartners Scheme to bring together large enterprises, its outreach can be further enhanced for Singapore to truly reap innovation benefits of consortium formation. For example, the iPartners scheme focuses more on pre-market entry and market entry activities instead of innovation development activities. So far, it has only help formed about 48 consortiums with 233 companies. This performance is far from what Korea has achieved, where according to United Nations Industrial Development Organisation (UNIDO), 80% of Korean SMEs produce over 80% of their output under subcontracting contract with one or more Chaebols.

6.13 Greater effort should be taken to promote co-innovation initiatives amongst large enterprises and SMEs in Singapore. This should include adopting a deliberate, long term partnership with local SMEs focusing on IP-centric or product development projects. Current programme schemes apply either tax incentives or grants for co-innovation. An integrative scheme comprising of tax incentives for large companies and grants for SMEs should more appropriately cover consortium co-innovation projects.

**The SMEC recommends an integrative scheme to promote co-innovation initiatives amongst large enterprises and SMEs through tax incentives for the large enterprises and grants for the SMEs.**

## 7. CONCLUSION

- 7.1 This paper has highlighted the issues and challenges faced by SMEs amidst growing economic uncertainties in coming years. The SMEC has made recommendations to tackle these challenges and urges government to accept and implement them in Budget 2013.

### Recommendations

SMEC  
Sub-committee

#### Financial/Tax incentives

1. **SME cash pay-out** – A one-off SME cash grant of \$10,000 to help SMEs cope with rising business costs. Cost of doing business
2. **Widen PIC eligibility** – Extend PIC eligibility for the following: Manpower & Productivity
  - (a) Extend the benefits for external training to in-house training by allowing development and preparation for in-house training costs to be part of qualifying training expenditure
  - (b) Allow absentee payroll costs to be included as part of qualifying training expenditure
  - (c) Extend training benefit to include shareholders' training
  - (d) Allow claims for activities such as adoption of productivity programmes and application of simple low cost productivity and process improvement measures.
3. **PIC approved list of equipment** – Pre-approve potential purchase of automation equipment, or provide case studies illustrating the components in a purchase which would typically not qualify as automation equipment for PIC claim. Manpower & Productivity

- |   |                            |
|---|----------------------------|
| 4. <b>Shareholders as employees for family-run businesses</b> – Relax the restriction for PIC claim on having at least three local employees when shareholders of companies themselves are also employees.                              | Manpower &<br>Productivity |
| 5. <b>Incentives and grants for co-innovative initiatives</b> – An integrative scheme to promote co-innovation initiatives amongst large enterprises and SMEs through tax incentives for the large enterprises and grants for the SMEs. | Innovation*                |

Manpower

- |   |                            |
|---|----------------------------|
| 6. <b>Stabilising worker levies</b> – Delay further increases in foreign worker levies.   | Cost of doing<br>business  |
| 7. <b>Faster foreign worker passes</b> – Shorten the three-month period for the calculation of foreign worker quotas to one month to enable SMEs to reduce holding costs and have quicker access to manpower.   | Cost of doing<br>business  |
| 8. <b>Refinement in S Passes</b> – Remove foreign worker levy for S Pass holders as they are already subjected to DRC quota and minimum salary requirements.  | Cost of doing<br>business  |
| 9. <b>More time needed for productivity initiatives</b> – Delay any further tightening in manpower policies such as levy increases, further decrease in DRC quota and rise in minimum salary requirements for foreign workers until there are clear evidence that small businesses are able to raise their productivity in the current difficult environment. | Manpower &<br>Productivity |
| 10. <b>Widen WIS criteria and pay-out</b> – Widen the WIS scheme as follows:<br>(a) Review the minimum age, property annual value, gross salary and minimum employment period   | Manpower &<br>Productivity |



- (b) Increase WIS quantum significantly
  - (c) Increase the cash pay-out component
  - (d) Employees to be paid monthly instead of in fixed quarters.
11. **Accelerate assimilation of tertiary institutions** – MOE and businesses/TACs to work together to develop internship programmes with SMEs as part of the curriculum for students of tertiary institutions and junior colleges. Manpower & Productivity
12. **Incentives to encourage foreign worker reduction** – Introduce schemes to incentivise companies to actively employ locals and reduce their dependence on foreign workers. Manpower & Productivity
13. **Foreign worker cross deployment** – Extend the Job Flexibility for Productivity as follows: Manpower & Productivity
- (a) Extend to more industries and sectors without further delay
  - (b) Allow cross-deployment of workers for companies that have projects serving multiple sectors
  - (c) Allow cross-deployment of workers across subsidiaries and companies with common or controlling shareholders.
14. **Retaining experienced foreign workers** – Renewal of foreign workers to give due consideration to employers' assessment and the foreign workers' technical skills, knowledge and experience, which should take precedence rather be based solely on MOM's new qualification criteria. Manpower & Productivity
15. **Catalyse pool of local productivity expertise** – Develop a comprehensive certification programme to certify qualified personnel as productivity experts to promote, nurture and raise the level of productivity expertise in Singapore. Manpower & Productivity

16. **TACs to help boost productivity** – Provide grants for TACs to undertake projects for the collective benefit of their members to improve productivity. Manpower & Productivity
17. **Training of foreign workers for overseas expansion** – For companies that need to train foreign staff to set up overseas operations: Internationalisation
- (a) Create a new category for foreign PMET trainees (TSP)
  - (b) Remove the usual work pass and work permit conditions for quota, levy and minimum salary to TEP, TWP and the proposed TSP
  - (c) Allow such trainees to be brought in over and above prevailing DRC, without the levy and/or minimum salaries being imposed, but subject to a cap of 20% of the company's foreign workers quota.

#### Land and rental

18. **Generic industrial facilities** – Provide ample supply of affordable, ready, generic and no-frills industrial facilities for SMEs. Cost of doing business
19. **Ensuring industrial land prices are competitive** – Benchmark the prices of multi-users industrial facilities with similar competing locations overseas. Cost of doing business
20. **Reduce administrative costs** – Reduce JTC and HDB fringe costs and review of other administrative requirements. Cost of doing business

#### Utilities

21. **Review utility non-fuel costs** – Review the non-fuel cost components such as power distribution and grid charges to ensure that pricing of utilities remains competitive compared with other countries/economies. Cost of doing business

## Financing

22. **Institute working capital loan** – 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
23. **Competitive loan interest** – Interest rates of government loan schemes be pegged at a fair and reasonable margin above cost of funds. Financing
24. **Increase LIS underwriters** – Increase the number of underwriters under the LIS to induce competitive rates on insurance premiums for SMEs. Financing
25. **Standardised SME loan reporting** – Require financial institutions to report SME loans using a standard definition for SMEs. Financing

## Internationalisation and market access

26. **Greater SME participation in government tenders** – Government to review some of its procurement requirements to allow more SMEs to participate in their tenders. Internationalisation
27. **Catalyse consortium formation** – Incentivise GLCs and LLEs to partner with SMEs through  
(a) funding a project manager under a programme similar to LIUP, and  
(b) providing tax or other incentives to GLCs and LLEs that engage SMEs as subcontractors or suppliers for overseas projects. Internationalisation
28. **Facilitate internationalisation through mission trips** - Enhance the iMAP by including airfare and accommodation expenses incurred by SMEs as qualifying costs eligible for support under the programme. Internationalisation

29. **Integration of overseas business networks** – Internationalisation  
Provide funding for the formation of a “SingCham” (or equivalent) to represent the interests of Singapore businesses overseas.
30. **Relocation assistance scheme** – Develop a Internationalisation  
scheme to provide assistance for SMEs to restructure by relocating their lower value-added operations while retaining their headquarters and higher value activities such as R&D, product development and marketing activities in Singapore.

Whole of government

31. **Review licensing/compliance requirements and costs** - Review licensing requirements to reduce complexity and compliance costs. Cost of doing business
32. **IP Bank to catalyse innovation financing** – Innovation\*  
Government to extend a more assertive effort to translate technologies for commercial assimilation by local businesses, as well as to explore the establishment of a local IP Bank.
33. **Catalyse ideation amongst local SMEs** – Innovation\*  
Strengthen and grow local design and innovation capabilities of SMEs enablers and product designers.

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\*Recommendations for Innovation submitted by SMEC Secretariat

## 8. ANNEX

### SME Committee

<b>Name</b>	<b>Designation</b>	<b>Organisation</b>
Mr Lawrence Leow	Chairman	SMEC
Mr Tony Chew	Chairman	SBF
Mr Chan Chong Beng	President	ASME
Mr George Huang	President	SMF
Mr Lau Tai San	Council Member	SCCCI
Mr Abdul Rohim Sarip	President	SMCCI
Mr Rangarajan Narayanamohan	President	SICCI
Mr Edwin Khoo	Member	ABS
Dr Ho Nyok Yong	President	SCAL
Mr Roderick Chia	Member	SITF
Mr Quek Keng Liang	President	SLA
Mr Douglas Foo	Council Member	SNEF
Dr Ricky Souw	Chairman	SPETA
Mrs Wong Sioe Hong	Vice President	SRA
Mr Melvin Tan	Managing Director	Cyclect Group
Ms Susan Chong	Chief Executive Officer	Greenpac
Mr Glennle Sim	Executive Chairman & CEO	Mencast Holdings
Ms Cynthia Phua	General Manager	NTUC Fairprice

### **SMEC Sub-committee on Cost of Doing Business**

<b>Name</b>	<b>Designation</b>	<b>Organisation</b>
Mr Chan Chong Beng	Chairman	Sub-committee
Ms Susan Chong	Vice-Chairman	Sub-committee
Mr Jeremy Fong Sue Fun	Dy Chairman	SPETA
Mr Goh Swee Hong	Partner	RSM Chio Lim
Mr Desmond Hill	Dy General Manager	Penta-Ocean Construction
Dr Dora Hoan	Group MD	Best World International
Mr Anthony Say	Hon 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**

<b>Name</b>	<b>Designation</b>	<b>Organisation</b>
Mr Lau Tai San	Chairman	Sub-committee
Mr Melvin Tan	Vice-Chairman	Sub-committee
Mr Ang Kiam Meng	President	RAS
Mr Kay Kong Swan	Chief Executive Officer	CWT Ltd
Mr Low Ming Wah	President/COO	Micro-Mechanics
Ms Cynthia Phua	General Manager	NTUC Fairprice
Mr Charles Quek	President	ASPRI
Mr Tan Jit Khoon	Chief Executive Officer	Winson Press
Mr Voo Soon Sang	Vice President	SSPHBOA
Mr Jeffrey Yu	Managing Director	HSL Ground Engineering
Mr Touw June Wah	Deputy Director	SBF
Ms Irene Chen	Senior Manager	SBF

### **SMEC Sub-committee on Financing**

<b>Name</b>	<b>Designation</b>	<b>Organisation</b>
Mr Edwin Khoo	Chairman	Sub-committee
Mr Desmond Hill	Vice-Chairman	Sub-committee
Ms Susan Chong	Chief Executive Officer	Greenpac
Mr Steven Koh	Executive Director	Armstrong Industrial Corp
Mr Nicholas Malcomson	Director	Pay2Home Direct
Mr Ng Siew Quan	Partner	PWC LLP
Mr Quek Keng Liang	President	SLA
Ms Betty Sim	Head	OCBC Bank
Mr Glennle Sim	Executive Chairman & CEO	Mencast Holdings
Mr Wong Choon Kin	Member	SMF
Ms Esther Chong	Assistant Executive Director	SBF

### **SMEC Sub-committee on Internationalisation and Market Access**

<b>Name</b>	<b>Designation</b>	<b>Organisation</b>
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	Apex-Pal Holdings
Mr Andrew Khng	Director	Tiong Seng Contractors
Mr Low Cheong Kee	Managing Director	Home-fix DIY
Mr Charles Quek	President	ASPRI
Ms Edith Cheong	Assistant Executive Director	SBF
Mr Martin Yuon	Assistant Executive Director	SBF

## Secretariat

<b>Name</b>	<b>Designation</b>
Mr Ho Meng Kit	Chief Executive Officer, SBF
Mr Victor Tay	Chief Operating Officer, SBF
Mr Lam Kong Hong	Director, SME Committee, Capacity Building Division, 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, Capacity Building Division, SBF

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