Regulatory Reform – Case Studies on Improving the Business Environment for SMEs

Purpose: Information
Submitted by: Policy Support Unit, APEC Secretariat
Regulatory Reform – Case Studies on Improving the Business Environment for SMEs

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Case Studies on Improving the Business Environment for SMEs

- Study commissioned by APEC Policy Support Unit to Developing Trade Consultants
- Released in Sep 2015
- 4 case studies analyzing:
  - Role of regulatory reforms in improving conditions for SMEs
  - Draw lessons and policy recommendations based on previous experiences
Overview of Report

Business Constraints Identified by SMEs in the APEC Region

<table>
<thead>
<tr>
<th>Issue</th>
<th>% of SMEs Identifying Issue as the Major Constraint on their Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax rates</td>
<td>18.7%</td>
</tr>
<tr>
<td>Access to finance</td>
<td>17.4%</td>
</tr>
<tr>
<td>Practices of competitors in the informal sector</td>
<td>15.6%</td>
</tr>
<tr>
<td>Inadequately educated workforce</td>
<td>10.1%</td>
</tr>
<tr>
<td>Electricity</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

Source: World Bank Enterprise Survey. APEC Secretariat, Policy Support Unit
Seriousness of Business Constraints by Size of Firm (0=lowest, 4=highest)

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Large Firms</th>
<th>SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>1.24</td>
<td>1.14</td>
</tr>
<tr>
<td>Transport</td>
<td>1.14</td>
<td>1.00</td>
</tr>
<tr>
<td>Customs and trade regulations</td>
<td>0.90</td>
<td>0.58</td>
</tr>
<tr>
<td>Access to land</td>
<td>0.81</td>
<td>0.76</td>
</tr>
<tr>
<td>Tax rates</td>
<td>1.34</td>
<td>1.60</td>
</tr>
<tr>
<td>Tax administration</td>
<td>1.09</td>
<td>1.01</td>
</tr>
<tr>
<td>Business licensing and Permits</td>
<td>0.88</td>
<td>0.79</td>
</tr>
<tr>
<td>Labor regulations</td>
<td>1.09</td>
<td>0.77</td>
</tr>
<tr>
<td>Access to finance</td>
<td>0.99</td>
<td>1.18</td>
</tr>
</tbody>
</table>

Source: World Bank Enterprise Survey, APEC Secretariat, Policy Support Unit

Case Study 1: Agencies for SME Growth, Development, Compliance and Internationalization

- Looking not just at **rule making**, but **institution building**, i.e. how to design SME supporting institutions.
- In Chinese Taipei, a key to support SME development was to establish a system with **clear responsibilities for each public institution** involved. Leadership by Ministry of Economic Affairs was key for **inter-institutional coordination**.
- **Transparency and dialogue with the private sector** have been key factors for the success of SME-related programs in Mexico. In Malaysia, the government adjusted the business law to SME needs to encourage SMEs to make decisions to help them getting ready to a new global business environment.
Case Study 2: Agencies Supporting SME Finance

- According to World Bank’s Enterprise Survey, one of the main constraints to SMEs in APEC is access to finance.
- Key problem is information asymmetry. Reforms to improve information flows tend to improve access to finance.
- Transparency is important:
  - Regulations on credit information bureaus should guarantee data are being used properly and banks trust the credit information.
  - SME factoring could develop further if companies have access to information on the conditions offered by financial institutions for their accounts receivable.
  - IT solutions can improve information flow, but their effectiveness depends on a solid legal framework.

Case Study 3: Regulatory Tiering

- Differentiated treatment favoring SMEs.
- Regulation affecting SMEs: In Singapore, companies with annual turnover and assets below SG$10 million are exempted from statutory auditing requirements.
- Regulation affecting companies serving SMEs: In Philippines, mandatory credit allocations, 2%-8% of banks’ portfolio has to be put in place for SMEs.
- More flexible schedules instead of modifying substance in regulations: In Canada, smaller firms report on Goods and Services Tax on an annual basis, medium-sized firms on a quarterly basis and large firms on a monthly basis.
- Regulation facilitating SME access to instruments: In China, utility patent models help SME to cover incremental innovations.
Case Study 4: SME-Friendly Regulatory Impact Assessment

- Regulatory compliance costs can fall heavily on SMEs in terms of time costs or use of human resources.
- Formalized **SME-friendly RIAs** are not common, but can promote **good rule making** to make compliance reasonable for SMEs. For example: US Regulatory Flexibility Act.
- **Cost savings** and **burden reduction** can be achieved thanks to **ex-ante cost-benefit analysis** and **stakeholder consultations**.
- Important to undertake **regular assessments of SME-compliance costs**. **Ex-post cost benefit analysis** can help fine-tuning regulations.

Lessons Learned from Case Studies

- Regulatory Reforms to improve business conditions for SMEs require aspects of **rule making** and **institution design**.
- Reforms facilitating **access to information** can facilitate SMEs to conduct businesses.
- SMEs need to be included in the reform process. **Consultations** are key for a better understanding of SMEs constraints. **Public and private sectors** need to work together.
- **Regulatory compliance** can be a major obstacle for SMEs. **Flexible schedules or structures** can make things easier for SMEs.
- Regulatory reform is a **process and not a one-off event**. **Tracking performance** is crucial to support reforms.
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