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Agenda: 11

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

Purpose: Information

Submitted by: Policy Support Unit, APEC Secretariat



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

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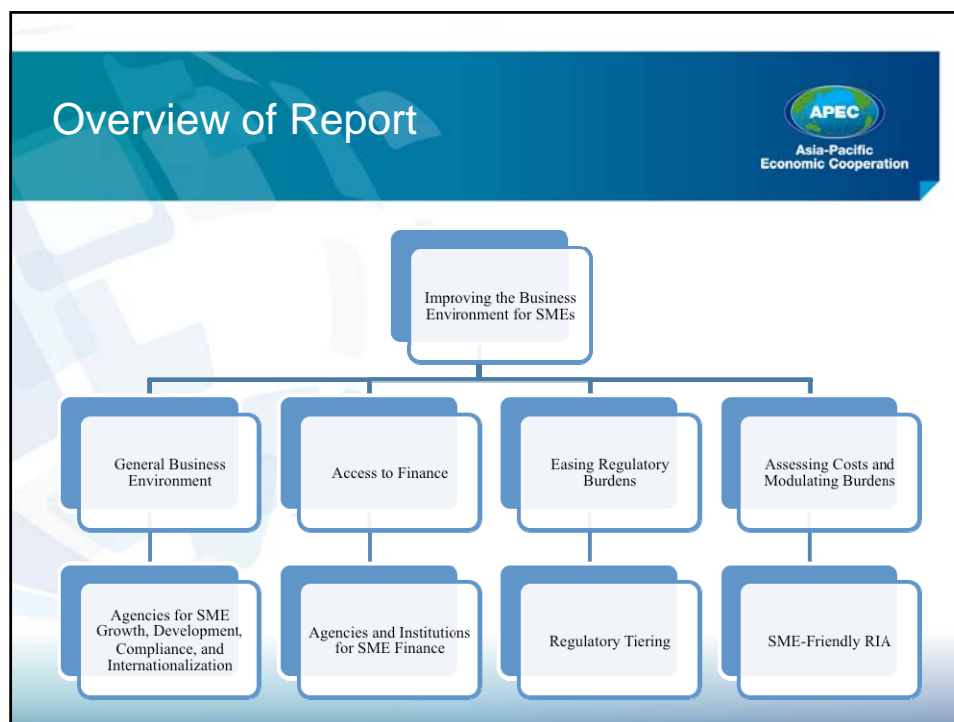
## Case Studies on Improving the Business Environment for SMEs



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- Study commissioned by APEC Policy Support Unit to Developing Trade Consultants
- Available at [http://publications.apec.org/publication-detail.php?pub\\_id=1674](http://publications.apec.org/publication-detail.php?pub_id=1674)
- 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



## Business Constraints Identified by SMEs in the APEC Region

| Issue   | % of SMEs Identifying Issue as the Major Constraint on their Business |
|---|---|
| Tax rates                                       | 18.7%   |
| Access to finance                               | 17.4%   |
| Practices of competitors in the informal sector | 15.6%   |
| Inadequately educated workforce                 | 10.1%   |
| Electricity                                     | 5.9%  |

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

## Seriousness of Business Constraints by Size of Firm (0=lowest, 4=highest)



| Constraint                     | Large Firms | SMEs |
|--------------------------------|-------------|------|
| Electricity                    | 1.24        | 1.14 |
| Transport                      | 1.14        | 1.00 |
| Customs and trade regulations  | 0.90        | 0.58 |
| Access to land                 | 0.81        | 0.76 |
| Tax rates                      | 1.34        | 1.60 |
| Tax administration             | 1.09        | 1.01 |
| Business licensing and Permits | 0.88        | 0.79 |
| Labor regulations              | 1.09        | 0.77 |
| Access to finance              | 0.99        | 1.18 |

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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