



**Asia-Pacific
Economic Cooperation**

2016/SMEWG42/006

Agenda: 11

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

Purpose: Information

Submitted by: Policy Support Unit, APEC Secretariat



APEC PERU
2016

**42nd Small and Medium Enterprises Working Group
Meeting
Ho Chi Minh City, Viet Nam
27–28 April, 2016**



Asia-Pacific
Economic Cooperation

Advancing
Free Trade for Asia-Pacific
Prosperity

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

27-28 April 2016 – 42nd Meeting of the APEC SME
Working Group. Ho Chi Minh City, Viet Nam

Presented by
Carlos Kuriyama, Senior Analyst, Policy Support Unit, APEC Secretariat

Copyright © 2015 APEC Secretariat

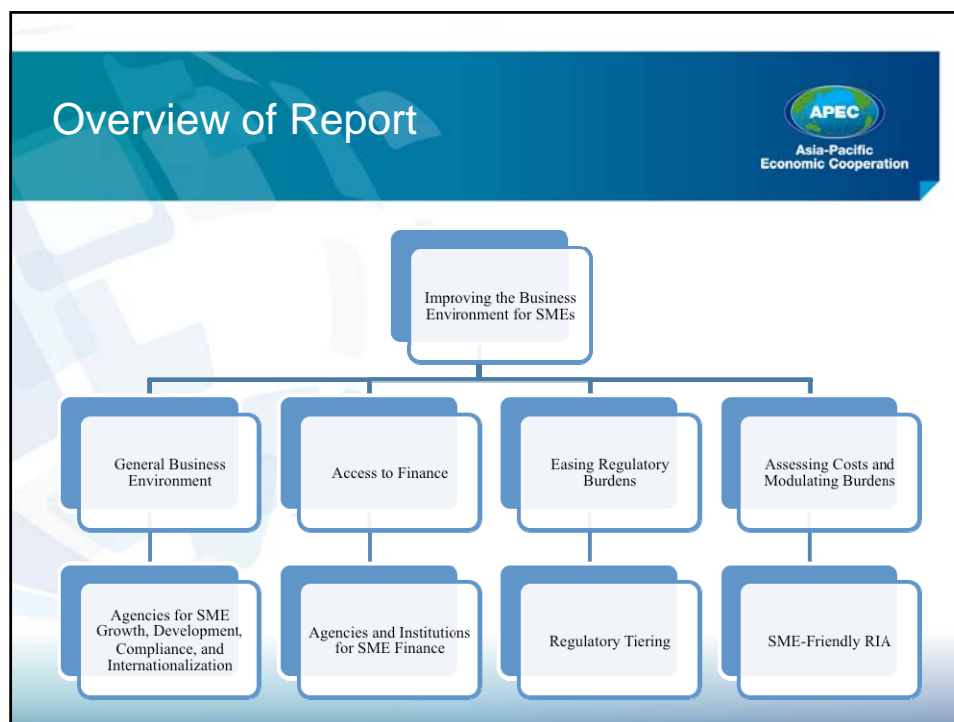
Case Studies on Improving the Business Environment for SMEs



Asia-Pacific
Economic Cooperation



- Study commissioned by APEC Policy Support Unit to Developing Trade Consultants
- Available at 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.

Follow us on social media



Asia-Pacific
Economic Cooperation



www.apec.org



www.facebook.com/APECnews



@APEC and @Bollard_APEC



www.linkedin.com/company/asia-pacific-economic-cooperation-apec-secretariat