

# Chapter 3

## Financial Status of SMEs

The overview of the financial status of SMEs presented in the first two sections of this chapter is based on data supplied by the Tax Data Center of the Ministry of Finance. As these data are derived from business income tax returns, there is a one-year time lag in contrast to the data presented in the other chapters. In other words, the data in Sections I and II are for the year 2003 rather than 2004. Section III analyzes the sources of funds for the manufacturing sector and the reasons for the difficulty in acquiring funds. Section IV examines the interaction between banks and SMEs based on changes in the statistical data.

Given the varying sources of data, the definition of SMEs used in different sections of this chapter also varies. In Section I and Section II, the definition of SMEs is that firms in the mining and quarrying, manufacturing and construction sectors have capital of NT\$80 million or less, and firms in other sectors have annual sales revenue of NT\$100 million or less. The industry categories used in Section II have been revised according to the ROC Standard Industry Classification Version 7. The data in Section III come from the Status Survey Report on the Domestic Investment of Manufacturing Industry published by the Statistics Department, Ministry of Economic Affairs, according to which large enterprises are firms with 200 or more employees; medium enterprises are firms with 100–200 employees; and small enterprises are firms with less than 100 employees. The data in Section IV are quoted from the Summary of Financial Statistics published by the Financial Supervisory Commission, Executive Yuan and from the Central Bank of China, which adopt the same definitions for SMEs as those in Sections I and II.

In 2003, more than 600,000 enterprises filed business income tax returns. After deducting those enterprises that did not provide complete data, where it was unclear as to which industry the enterprise belonged, or where the declared data were inconsistent, we were left with the financial data for 298,798 enterprises, of which

284,172 (95.11%) were SMEs. Of those SMEs, 124,962 or 43.97% were in the wholesale and retail sector, 74,485 or 26.21% were in manufacturing industry, and 31,654 or 11.14% were in the construction industry.

Overall, the financial conditions of enterprises in 2003 improved over 2002. Based on the 2003 profit and loss statements of the samples, 190,573 enterprises recorded profits. That means that 36.22% of enterprises did not make a profit in 2003, a figure slightly lower than the 37.19% recorded in 2002. 23.04% of large enterprises did not make a profit in 2003, compared to 25.36% in 2002, while 36.90% of SMEs failed to show a profit, as compared to 37.74% in 2002.

## **I Overall Financial Status of SMEs**

In this section, consolidated balance sheet data (where the figures for each account in the balance sheet are converted into percentages of total assets) is used to examine the fund utilization and funding sources of large enterprises and SMEs; by the same token, consolidated figures are used to observe the profit/loss status of enterprises.

### **1. Analysis of Fund Utilization by SMEs**

#### **(1) Small Increase in Current Assets**

As can be seen from Table 3-1-1, the current assets of large enterprises as a percentage of total assets in 2003 declined by 5.62 percentage points from 2002, while the corresponding figures for SMEs increased by 2.72 percentage points, with accounts receivable displaying the highest gain of 1.13 percentage points, followed by cash with 0.94 percentage points, and inventory with 0.78 percentage points. These figures reflect the conservative mentality of SMEs, working to keep their cash position amid the constantly changing business climate when they do not have as much control over the terms of transactions on credit as large enterprises.

#### **(2) Significant Drop in Funds and Long-term Investments**

For large enterprises, the share of total assets held by funds and long-term investments increased by 3.82 percentage points in 2003 as compared to 2002, reflecting the more

aggressive approach of large enterprises towards capital expenditure back in 2001 in anticipation of a global economic rebound. By contrast, for SMEs the share of total assets held by funds and long-term investments fell by 2.95 percentage points over the same period.

**Table 3-1-1 Consolidated Financial Data of Taiwanese Enterprises, 2001–2003**

Unit: %

Item	Size/Year	Large enterprises			SMEs		
		2001	2002	2003	2001	2002	2003
<b>Current assets</b>		60.20	64.10	58.48	59.39	56.04	58.76
Cash		23.27	26.51	26.97	15.55	14.67	15.61
Accounts receivable		22.70	29.16	22.54	16.53	16.04	17.17
Inventory		10.59	5.28	5.92	23.54	21.81	22.59
Advance payments		0.55	0.51	0.54	1.87	1.68	1.60
Other current assets		3.09	2.64	2.50	1.91	1.84	1.80
<b>Funds and long-term investments</b>		24.76	19.81	23.63	9.74	13.38	10.43
<b>Fixed assets</b>		11.36	12.03	13.89	27.51	27.16	27.70
Land and buildings		6.50	6.44	7.40	15.78	16.20	16.91
Machinery		3.76	4.65	5.16	9.65	8.94	8.59
Other fixed assets		1.10	0.94	1.33	2.08	2.02	2.21
<b>Intangible and other assets</b>		3.68	4.07	4.01	3.36	3.42	3.11
<b>Total assets = Liabilities + Net worth</b>		100.00	100.00	100.00	100.00	100.00	100.00
<b>Liabilities</b>		79.55	80.73	78.47	66.23	66.33	66.67
<b>Current liabilities</b>		57.19	61.76	57.14	59.58	58.95	59.37
Short-term loans		41.91	43.20	41.45	17.24	17.27	15.60
Accounts payable		9.27	12.26	8.39	14.92	14.93	16.35
Income received in advance		1.89	2.29	2.39	4.92	4.64	4.87
Other current liabilities		4.13	4.01	4.91	22.50	22.11	22.55
<b>Long-term liabilities</b>		18.93	12.97	14.42	4.75	5.31	4.94
Long-term loans repayable		3.81	3.98	3.84	4.30	4.54	4.54
Other long-term liabilities		15.11	8.99	10.59	0.45	0.77	0.39
<b>Other liabilities</b>		3.43	6.01	6.91	1.90	2.07	2.36
<b>Net worth</b>		20.45	19.27	21.53	33.77	33.67	33.34
Stockholders' equity		14.59	14.46	15.42	41.40	41.17	40.40
Reserves and operating surplus		5.87	4.81	6.11	-7.63	-7.51	-7.07

Source: Business income tax return data, Ministry of Finance.

According to the Monthly Bulletin of Investment Statistics published by the Investment Commission, Ministry of Economic Affairs, the number of investments in China by Taiwanese enterprises rose by 23.29% in 2003 to 1,837 projects, up from 1,490 projects in 2002. The amount of investment in China totaled US\$4.59 billion, up 18.91% and accounting for 53.68% of Taiwan's total outward investment.

According to the Survey on Overseas Investment by Manufacturing Industry published by the Statistics Department of the Ministry of Economic Affairs, investment in China accounted for the lion's share of the outward investment by manufacturing industry with 77.75%, followed by investment in the US with 15.93%.

With regard to the supply of raw materials, parts and components, and semi-finished products for use in production by Taiwanese enterprises in major outward investment areas, all the indicators are positive, except for that in regard to items "supplied by Taiwan," which is pointing in a negative direction. "Supplied by Taiwanese enterprises in the invested country" was the indicator with the highest positive prospects, followed by "supplied by local, non-Taiwanese enterprises." These indicators suggest that, as the overseas establishments of Taiwanese enterprises stabilize, the trade creation effect brought about by outward investment gradually dwindles, and those enterprises tend to look to utilizing local resources more efficiently, make more effort to localize their business, and seek raw materials, parts and components, and semi-finished products directly from local suppliers.

As for the sales of products manufactured in the major overseas investment areas, more enterprises are electing to sell through their overseas establishments directly. This practice is particularly common among the larger enterprises. The amounts of sales to both the local market and export markets by the overseas establishments of Taiwanese enterprises have increased significantly regardless of the size of enterprise or the type of industry, while the sales generated from selling back to Taiwan have been declining. It is apparent that the efforts of those enterprises to develop overseas markets and enhance after-sales service are gradually starting to pay off.

The continuing deterioration of the economic environment in Taiwan in the first half of 2003 prompted SMEs to step up their overseas investments, as they focused on the abundant labor supply and the vast market in China. This is probably why the SMEs' share of total assets held by funds and long-term investments remained relatively high, while it could also be that SMEs remained conservative towards increasing machinery investment. Another possibility is that in an era of low interest rates when bank deposits yield meager returns, SMEs have adjusted their fund allocation by increasing the shares attributable to funds and long-term investments to earn better returns.

### **(3) A Slight Drop in Investment in Machinery, and a Slight Rise in Investment in Fixed Assets**

For SMEs, the share of total assets held by fixed assets has been more or less the same in the past three years; it was 27.70% in 2003, representing an increase of 0.54 percentage points from 2002. The share held by land and buildings rose, while that held by machinery continued to fall. This indicates that, with the economic outlook still uncertain (although the recession seemed to have bottomed out in 2002), SMEs, which tend to have less capital, continued to give priority to holding more land, and delayed investment in machinery. Depreciation is another reason for the lower share held by machinery.

## **2. Analysis of SME Funding Sources**

Overall, there was little change in the funding sources for SMEs in 2003 as compared to 2002. With no clear sign of an economic upturn, enterprises have continued to struggle, with no significant improvement in profitability.

### **(1) A Fall in Current Liabilities and an Increase in Long-term Debt**

Taiwan's economy began its downturn in the second half of 2000. The SMEs' overall debt ratio jumped in 1999 and 2000 to 55.64% and 65.43%, respectively, then stayed around that level in the three years that followed. The current liability ratio in 2003 was 59.37%, which was slightly higher than in 2002. However the long-term liability ratio in 2003 was down slightly from 2002. The changes in the SMEs' debt ratios were the exact opposite of those for large enterprises. By analyzing the sources of funding for SMEs and large enterprises, in particular banks, we can get a glimpse of the attitude of lenders towards enterprises of different sizes. Because many SMEs have moved their production bases overseas, banks have become more cautious in extending credit to them, especially in the provision of short-term loans. As a result, we see an increase in the share of trade financing, accounts receivable and accounts payable among SMEs.

### **(2) Reserves and Surplus Still Negative**

By and large, SMEs continued to exhibit a lackluster performance in 2003. Of close to

300,000 enterprises, 36.90% failed to make a profit, resulting in a situation where the accumulated loss as recorded on the balance sheet became greater than the accumulated surplus, and both the reserve account and surplus were negative. This situation continued for three years from 2000 onward, reflecting the difficult operating environment faced by SMEs, and the prevalent practice of SME owners undertaking overseas investment under their own names and engaging in “triangular trade.” As a result, the establishment of many SMEs in Taiwan has shrunk to the point where a SME no longer conducts regular business and may even show a loss on its books.

### 3. Analysis of SME Profit and Loss

#### (1) No Significant Change in Operating Costs as Compared to the Previous Year

In 2003 the operating costs of SMEs accounted for 81.03% of their net operating income (Table 3-1-2), down 0.37 percentage points from 2002; among large enterprises, the decrease was 0.15 percentage points. In the last three years, large enterprises and SMEs have seen their gross profit margin stabilize, with that of SMEs staying above 18% (18.97% in 2003). By contrast, the gross profit margin of large enterprises has dropped to the level of 5.5% as the operating environment has deteriorated since 2002 (the ratio of operating costs was 90.57% in 2000, 94.26% in 2001, and 94.60% in 2002). These figures reflect the fact that SMEs usually operate in a niche market where price competition is less intense, and are able to maintain reasonably high gross profit margins even when the economic climate deteriorates.

**Table 3-1-2 Profit and Loss of Taiwanese Enterprises, 2001–2003**

Unit: %

Item	Year	Large enterprises			SMEs		
		2001	2002	2003	2001	2002	2003
Net operating income		100.00	100.00	100.00	100.00	100.00	100.00
Less: Operating costs		94.26	94.60	94.45	81.32	81.40	81.03
Gross operating profit		5.75	5.40	5.55	18.68	18.60	18.97
Less: Operating expenses		4.93	4.89	4.32	18.51	18.38	18.06
Net operating profit		0.82	0.52	1.23	0.16	0.22	0.91
Plus: Non-operating income		0.78	0.71	0.73	1.87	1.62	1.33
Less: Interest expenses		0.41	0.42	0.38	1.09	0.93	0.92
Less: Other non-operating expenses		0.54	0.39	0.31	1.48	1.15	0.87
Profit (loss)		0.64	0.41	1.26	-0.53	-0.24	0.45

Source: Business income tax return data, Ministry of Finance.

## **(2) A Substantial Drop in Operating Expenses, But the Ratio is Still Higher Than That of Large Enterprises**

Operating expenses include expenses arising from operations, including salaries, rentals, advertising, depreciation, insurance, etc. In 2003 the operating expenses of SMEs amounted to 18.06% of net operating income, down 0.32 percentage points from 18.38% in 2002, but still far higher than the 4.32% of larger enterprises. Either because of contractual requirements or the accounting method used, it is more difficult for SMEs to pare down their rental expenses, depreciation or salaries as compared to large enterprises, in particular those in high-tech and OEM or ODM businesses. In addition, SMEs lack the advantage of economies of scale. As a result, their operating expenses (as a percentage of net operating income) tend to be much higher than those of large enterprises.

## **(3) Erosion of Net Operating Profit by High Operating Expenses**

Operating costs and operating expenses combined accounted for 81.03% of the net operating income of SMEs, while their net profit margin ratio was just 0.91%. SMEs have much higher gross operating profit than large enterprises, but because they lack the bargaining power that large enterprises enjoy and cannot achieve the same economies of scale, their operating expenses account for a very high percentage of net operating income. High gross profit margins are thus eroded by high operating costs, resulting in net profit performance inferior to that of large enterprises. Large enterprises enjoy a gross profit margin of only 5.55%, but are able to achieve a profit margin of 1.23% because they have been more successful at keeping operating expenses down. However, in 2003 both large enterprises and SMEs generally posted a lower operating expenses ratio, suggesting that business owners have improved the ability to control costs and expenses in this era of declining profit margins.

## **(4) Current Profit and Loss Turned Positive**

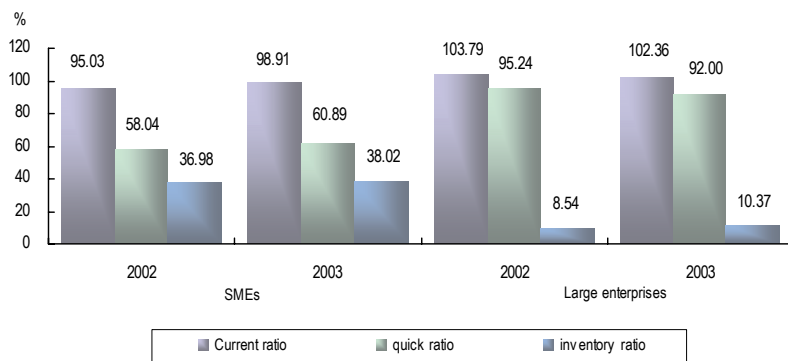
Although gross profit margins in 2003 were comparable to those of previous years, SMEs made an impressive gain of 0.91% in net operating profit from 0.22% in 2002 due to the effective control exercised over operating expenses. The non-operating income and expenses of SMEs in 2003 were more or less the same as in previous years. Thus, many SMEs recorded a profit in 2003.

## 4. Analysis of Financial Ratios of SMEs

### (1) Current Ratio, Quick Ratio and Inventory Ratio Remain About the Same

Spurred by the upturn in the global economy, the short-term liquidity of SMEs improved in 2003 (Figure 3-1-1), with the current ratio, quick ratio and inventory ratio all rising slightly. The quick ratio and inventory ratio of large enterprises moved in different directions, reflecting the differences in operational patterns. For example, if enterprises are unable to bring short-term debt under control, their short-term solvency will be adversely affected. In 2003 the current ratio of large enterprises declined by 1.43 percentage points, and their quick ratio declined by 3.24 percentage points, indicating that the short-term solvency of large enterprises in 2003 was somewhat weaker than in 2002. The inventory ratio of large enterprises increased slightly to 10.37% from 8.54% in 2002, suggesting that large enterprises stocked up a little bit more to meet production and sales needs under a recovering global economy.

**Figure 3-1-1 Short-term Liquidity of Enterprises, 2002–2003**



Notes: 1. Current ratio =  $\text{current assets} \div \text{current liabilities} \times 100\%$  (reference value = 200; ideally, the ratio should be higher than the reference value).

2. Quick ratio =  $(\text{current assets} - \text{inventories}) \div \text{current liabilities} \times 100\%$  (reference value = 100; ideally, the ratio should be higher than the reference value).

3. Inventory ratio =  $\text{inventories} \div \text{current liabilities} \times 100\%$  (reference value = 50; ideally, the inventory ratio should be higher than the reference value).

Source: Business income tax return data, Ministry of Finance.

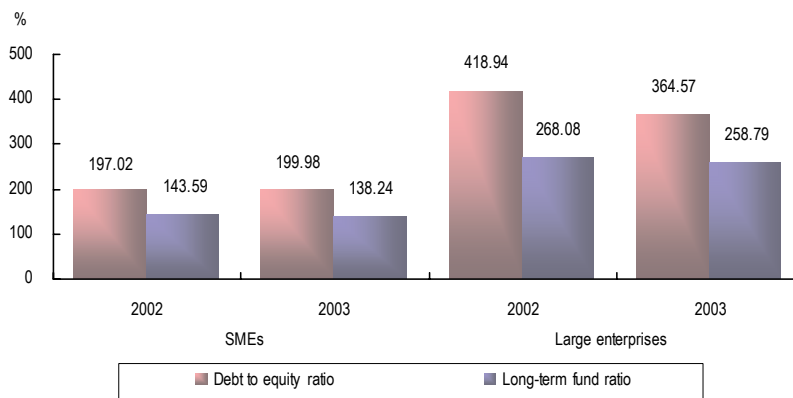
### (2) A Rise in the Debt-to-Net Worth Ratio and a Drop in the Long-term Fund Ratio

The debt to net worth ratio of SMEs in 2003 was 199.98%, up 2.96 percentage points



from 2002. However, that of large enterprises dropped substantially (by 54.37 percentage points) from 418.94% to 364.41%. This indicates that, as banks have become less willing to extend loans in recent years, large enterprises have turned from the money market to the capital markets for financing. Because of their better debt repayment ability, large enterprises tend to have a much higher debt ratio than SMEs. The debt to net worth ratio is a measure of the long-term solvency of an enterprise; an increase in this ratio indicates a decline in the enterprise's ability to meet its obligations to creditors. The long-term fund ratio of SMEs fell slightly to 138.24%, which was worse than the 258.79% of large enterprises, but still within the acceptable range (Figure 3-1-2).

**Figure 3-1-2 Long-term Stability of Enterprises, 2002–2003**



Notes: 1. Debt to net worth ratio =  $\text{debt} \div \text{net worth} \times 100\%$  (reference value = 100; ideally, the ratio should be below the reference value).

2. Long-term fund ratio =  $(\text{equity} + \text{long-term debt}) \div \text{fixed assets} \times 100\%$  (reference value = 100; ideally, the ratio should be higher than the reference value).

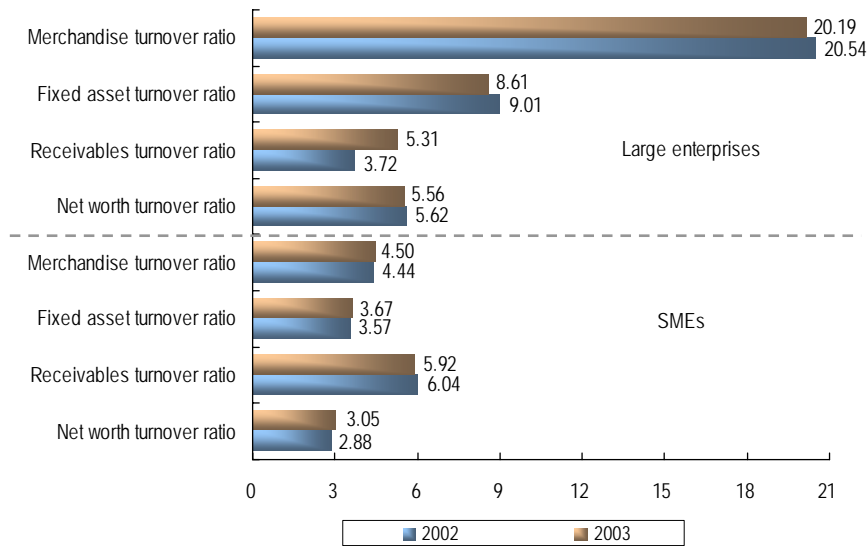
Source: Business income tax return data, Ministry of Finance.

### (3) A Slight Decrease in the Receivables Turnover Ratio While the Other Turnover Ratios Edge up

The operational performance of an enterprise depends on the effective utilization of its assets. The level of turnover reflects the extent to which the assets are being effectively utilized, the company's credit policy and its inventory policy. The receivables turnover can be used to measure the operating capability of an enterprise; a high ratio suggests better operating capability, the efficient collection of receivables and the absence of idle or excess inventory. Looking at the data for 2003, the

receivables turnover of SMEs dropped slightly to 5.92 turns from 6.04 turns in 2002 (Figure 3-1-3), while merchandise turnover rose slightly to 4.50 turns from 4.44 turns in 2002.

**Figure 3-1-3 Operating Capability of Enterprises, 2002–2003**



Notes: 1. Net worth turnover ratio = net sales / net worth.  
 2. Receivables turnover ratio = net sales / receivables.  
 3. Fixed asset turnover ratio = net sales / fixed assets.  
 4. Merchandise turnover ratio = net sales / inventories.  
 Source: Business income tax return data, Ministry of Finance.

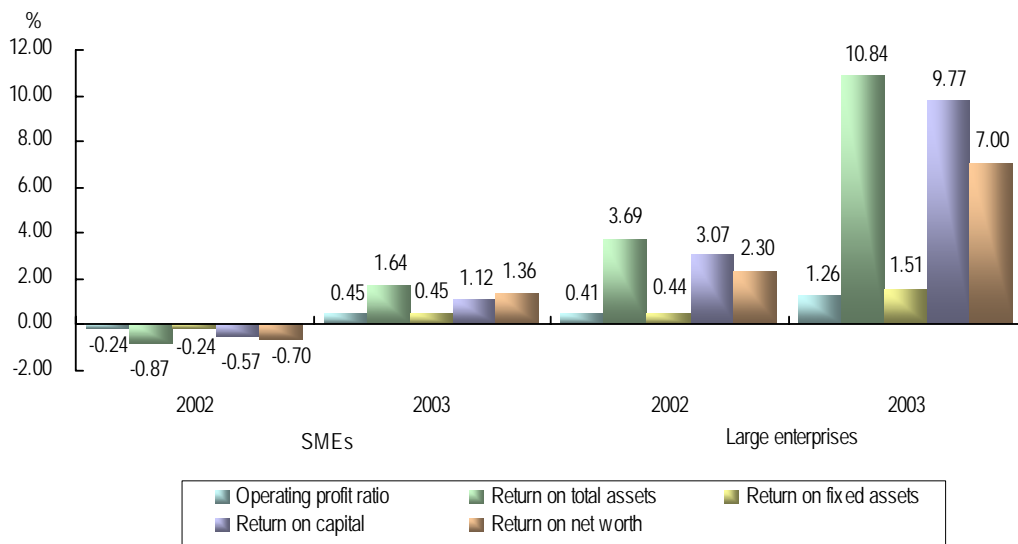
The other two turnover ratios – net worth turnover and fixed asset turnover – are used to evaluate the efficiency of asset utilization. Higher ratios mean the enterprise is better able to make effective use of its own capital and fixed assets. In 2003 the fixed asset turnover of SMEs rose slightly to 3.67 turns from 3.57 turns in 2002, while the net worth turnover rose to 3.05 turns from 2.88 turns in 2002, indicating that SMEs were better able to make use of their fixed assets and own capital to generate income under conditions of stronger domestic demand.

#### (4) Profitability Indicators All Positive

Profitability can be observed from an enterprise's ability to use its funds and capital to generate profit. Taiwan's economic growth in 2003 was comparable to that in 2002, reflecting the growth level since 2001 (-2.18% in 2001, 3.59% in 2002, and 3.3% in

2003). As domestic demand gradually picked up steam, SMEs were able to see a profit in 2003 after two consecutive years of loss in 2001 and 2002. The profitability indicators of SMEs were all positive in 2003; the operating profit ratio was 0.45%, the return on total assets was 1.64%, the return on fixed assets was 0.45%, the return on capital was 1.12%, and the return on net worth was 1.36% (Figure 3-1-4).

**Figure 3-1-4 Profitability of Enterprises, 2002–2003**



- Notes: 1. Operating profit ratio = current profit / net operating income.  
 2. Return on fixed assets = Current profit / fixed assets.  
 3. Return on total assets = current profit / total assets.  
 4. Return on capital = current profit / profit.  
 5. Return on net worth = current profit / net worth.

Source: Business income tax return data, Ministry of Finance.

## II Financial Analysis by Industry

The breakdown by industry of the 298,798 enterprises for which comprehensive financial data are available is shown in Table 3-2-1. Of the 284,172 SMEs, 104,855 (or 36.90%) failed to make a profit. The industries with a percentage of SMEs failing to make a profit higher than the overall average of 36.90% included: the accommodation and eating-drinking places industry (59.83%), educational services (56.13%), leisure services (55.73%), finance and insurance (52.89%), and professional services (52.24%).

**Table 3-2-1 Financial Status of Enterprises by Industry, 2003**

Unit: %

Industry	Scale	SMEs		Large enterprises	
		No. of enterprises	% failing to make a profit	No. of enterprises	% failing to make a profit
Total		284,172 (104,855)	36.90	14,626 (3,370)	23.04
Agriculture, forestry, fishing and animal husbandry		974 (207)	21.25	26 (4)	15.38
Mining and quarrying		351 (49)	13.96	5 (1)	20.00
Manufacturing		74,485 (16,525)	22.19	2,112 (618)	29.26
Electricity, gas and water		159 (56)	35.22	32 (9)	28.13
Construction		31,654 (9,684)	30.59	1,161 (405)	34.88
Wholesale and retail		124,962 (53,920)	43.15	8,010 (1,478)	18.45
Accommodation and eating-drinking places		7,922 (4,740)	59.83	245 (73)	29.80
Transportation, warehousing and communications		10,504 (3,748)	35.68	646 (106)	16.41
Finance and insurance		3,375 (1,785)	52.89	1,004 (306)	30.48
Real estate, rental and leasing		5,868 (2,905)	49.51	527 (183)	34.72
Professional, scientific and technical services		12,416 (6,486)	52.24	418 (84)	20.10
Educational services		253 (142)	56.13	10 (2)	20.00
Health care and social welfare services		120 (50)	41.67	–	–
Cultural, sporting and leisure services		3,675 (2,048)	55.73	250 (71)	28.40
Others		7,454 (2,510)	33.67	180 (30)	16.67

Note: Figures in parentheses are the number of enterprises failing to make a profit.  
Source: Business income tax return data, Ministry of Finance.

## 1. Overall Financial Analysis by Industry

The 2003 consolidated balance sheets of SMEs and large enterprises by industry are shown in Table 3-2-2 and 3-2-3; the 2003 profit and loss structure by industry is shown in Table 3-2-4; the consolidated financial ratios by industry are presented in 3-2-5. As can be seen from the figures, considerable disparities exist between the financial structures of different industries. These are summarized below.

### (1) The Construction Industry had the Highest Current Asset Ratio, while the Cultural, Sporting and Leisure Services Industry had the Lowest

As in 2002, SMEs in the construction industry had the highest ratio of current assets in 2003, at 85.71%. Current assets account for the vast majority of the assets of construction firms, with inventory being a particularly significant item. After inventory is sold and converted into cash, the enterprise will continue to pour in cash

to increase inventory if it feels that a reasonable return can be made. As shown in Table 3-2-2, inventory accounts for nearly 50% of current assets in the construction industry. This might be related to the ongoing slump in the real estate market that has made it difficult for construction companies to move their inventory.

The lowest ratio of current assets is found in the cultural, sporting and leisure services industry, at only 27.68%, which is far lower than the average of other industries. This has to do with the nature of this industry. Because the cultural, sporting and leisure services industry provides mainly services where payment is normally made in cash, enterprises in this industry tend to have a lower level of accounts receivable. In addition, services are converted into cash once provided; the enterprise cannot stock up.

### **(2) The Cultural, Sporting and Leisure Services Industry Displayed the Highest Fixed Asset Ratio, While the Finance and Insurance Industry Had the Lowest**

The situation with the fixed assets ratio of SMEs is the mirror image of the situation with the current assets ratio. The cultural, sporting and leisure services industry had the highest fixed assets ratio, at 61.96%, while the finance and insurance industry had the lowest, at just 8.19%.

### **(3) The Debt Ratios of the Cultural, Sporting and Leisure Services Industry, the Hotel and Restaurant Industry, and the Real Estate, Rental and Leasing Industry were Close to 80%**

The debt ratio in most industries has remained at around 50–60%. However those of the cultural, sporting and leisure services industry, the hotel and restaurant industry, and real estate, the rental and leasing industry were all in the region of 80%, being 85.88%, 79.22%, and 78.05%, respectively. The construction industry had the highest current liability ratio, at 73.05%. The industry's current assets ratio to total assets was also very high, at 85.71%. These figures reflect the "rely on cash to generate cash" nature of the construction industry. In the construction industry, income received in advance accounts for 30% of current liabilities. This is because of the widespread practice in the construction industry of collecting advance payments from the sale of pre-sold housing products or for construction work. Along with the receipt of advance

Table 3-2-2 SMEs' Consolidated Balance Sheet by Industry in 2003

Unit: %

Item \ Industry	Agriculture, forestry, and animal husbandry	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail	Hotel and restaurant	Transportation, warehousing and communications	Finance and insurance	Real estate, rental and leasing	Professional, scientific and technical services	Educational services	Health care and social welfare services	Cultural, sporting and leisure services	Other services
<b>Current assets</b>	43.82	44.62	60.74	42.72	85.71	73.45	34.82	54.66	30.56	37.10	52.31	31.62	67.84	27.68	55.93
Cash	11.79	12.39	13.19	21.22	14.58	17.78	10.83	23.24	21.93	7.86	26.02	21.86	31.11	9.72	27.97
Accounts receivable	7.44	17.07	22.34	9.53	22.79	20.71	7.81	20.82	5.71	3.50	14.79	6.74	12.47	8.02	13.95
Inventory	8.20	8.68	22.68	9.34	44.66	30.95	12.50	4.72	1.25	21.67	6.40	0.53	20.54	6.00	8.67
Advance payments	12.47	4.93	1.37	1.48	1.40	1.93	2.12	2.80	0.45	1.55	2.20	1.21	0.75	2.34	3.00
Other current assets	3.91	1.55	1.17	1.15	2.29	2.09	1.57	3.07	1.21	2.53	2.90	1.29	2.97	1.60	2.34
<b>Funds and long-term investments</b>	2.46	1.07	1.48	1.03	0.96	5.24	5.13	6.54	59.13	9.31	17.03	16.38	14.96	4.07	4.48
<b>Fixed assets</b>	45.53	50.11	35.97	53.07	10.41	18.92	55.29	33.50	8.19	47.06	23.75	19.37	13.96	61.96	34.70
Land and buildings	12.37	18.38	18.88	22.81	4.53	11.91	39.18	11.97	7.40	37.85	16.03	8.13	2.38	45.83	19.58
Machinery	27.66	28.86	14.97	19.30	5.36	5.88	10.16	19.90	0.41	2.18	6.09	1.90	9.07	8.96	12.75
Other fixed assets	5.50	2.87	2.13	10.96	0.51	1.13	5.95	1.63	0.39	7.03	1.64	9.34	2.51	7.17	2.36
<b>Intangible and other assets</b>	8.19	4.20	1.81	3.18	2.92	2.40	4.76	5.31	2.12	6.54	6.91	32.63	3.24	6.30	4.90
<b>Total assets = Liabilities + Net worth</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<b>Liabilities</b>	69.93	59.17	68.80	50.10	77.10	70.92	79.22	43.62	38.64	78.05	52.06	35.69	43.17	85.88	51.31
<b>Current liabilities</b>	53.75	51.73	62.53	42.47	73.05	66.38	67.04	37.71	32.69	60.14	46.55	30.02	40.96	59.15	43.26
Short-term loans repayable	14.70	15.43	18.41	10.25	9.44	13.85	15.15	8.72	14.42	23.53	8.64	9.00	1.91	12.08	8.98
Accounts payable	12.45	13.61	20.67	13.36	17.11	20.65	15.63	11.55	4.68	8.28	15.04	13.69	18.29	10.45	11.89
Income received in advance	2.87	0.29	1.49	1.11	33.77	1.42	1.26	1.02	0.23	2.76	4.71	0.69	10.55	2.53	2.34
Others	23.73	22.41	21.96	17.76	12.73	30.46	35.00	16.42	13.35	25.57	18.15	6.64	10.21	34.08	20.06
<b>Long-term liabilities</b>	8.85	6.30	5.08	6.76	1.18	3.17	10.24	3.57	4.13	11.96	3.10	2.87	0.96	10.47	5.30
Long-term loans repayable	8.69	2.88	4.62	6.10	1.08	2.99	9.02	2.32	3.78	11.42	2.76	2.85	0.03	9.76	4.51
Other long-term liabilities	0.16	3.42	0.46	0.66	0.10	0.18	1.22	1.25	0.34	0.54	0.35	0.01	0.93	0.72	0.79
<b>Other liabilities</b>	7.32	1.14	1.20	0.87	2.87	1.38	1.94	2.34	1.83	5.94	2.40	2.80	1.26	16.25	2.74
<b>Net worth</b>	30.07	40.84	31.20	49.90	22.91	29.08	20.78	56.38	61.36	21.95	47.94	64.31	56.83	14.12	48.69
Stockholders' equity	37.75	35.95	30.24	60.92	29.28	45.05	47.53	72.12	57.48	30.16	75.53	74.13	100.64	40.27	70.02
Reserves and operating surplus	-7.68	4.89	0.95	-11.02	-6.37	-15.97	-26.75	-15.74	3.88	-8.20	-27.59	-9.82	-43.81	-26.15	-21.32

Source: Business income tax return data, Ministry of Finance.

**Table 3-2-3 Large Enterprises' Consolidated Balance Sheet by Industry in 2003**

Unit: %

Item \ Industry	Agriculture, forestry, fishing, and animal husbandry	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail	Hotel and restaurant	Transportation, warehousing and communications	Finance and insurance	Real estate, rental and leasing	Professional, scientific and technical services	Educational services	Health care and social welfare services	Cultural, sporting and leisure services	Other services
<b>Current assets</b>	52.70	41.17	38.15	14.34	78.05	66.86	18.20	29.78	64.30	39.12	60.36	64.05	–	23.25	43.30
Cash	10.33	25.66	9.06	5.27	9.78	13.90	7.85	15.18	35.49	6.61	20.56	43.40	–	7.52	17.54
Accounts receivable	9.75	9.50	15.77	4.78	15.05	31.13	4.81	9.10	25.56	5.52	19.38	13.30	–	8.57	9.97
Inventory	9.80	1.71	10.72	2.64	47.59	17.53	2.72	0.79	0.61	23.72	16.33	0.59	–	1.82	5.90
Advance payments	20.75	0.86	1.00	0.38	1.57	2.01	1.24	0.72	0.14	1.06	1.33	3.39	–	1.97	1.47
Other current assets	2.08	3.44	1.60	1.27	4.06	2.29	1.57	3.99	2.51	2.22	2.77	3.38	–	3.38	8.42
<b>Funds and long-term investments</b>	16.44	29.38	13.55	5.72	6.01	7.58	6.34	24.88	29.77	12.37	17.79	22.48	–	7.32	17.48
<b>Fixed assets</b>	23.89	29.18	44.36	76.44	10.33	21.80	66.94	40.20	2.35	41.21	16.80	8.98	–	61.04	30.97
Land and buildings	13.09	21.20	17.80	10.05	6.66	16.54	54.06	14.71	2.06	24.44	10.05	2.13	–	36.41	19.78
Machinery	8.06	1.92	24.11	63.12	3.03	3.20	5.21	21.32	0.20	4.70	4.32	4.17	–	10.29	10.07
Other fixed assets	2.74	6.06	2.46	3.27	0.65	2.06	7.67	4.18	0.09	12.07	2.43	2.68	–	14.34	1.12
<b>Intangible and other assets</b>	6.97	0.27	3.94	3.50	5.61	3.77	8.53	5.14	3.58	7.29	5.05	4.49	–	8.39	8.26
<b>Total assets = Liabilities + Net worth</b>	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	–	100.00	100.00
<b>Liabilities</b>	53.55	29.11	52.16	55.20	75.08	71.43	59.19	46.00	87.75	67.94	56.88	45.48	–	67.18	68.52
<b>Current liabilities</b>	47.36	17.42	31.33	15.20	70.04	62.84	32.54	23.56	64.24	44.91	50.89	40.65	–	39.74	43.36
Short-term loans repayable	22.88	12.75	13.66	8.97	11.70	20.91	12.90	8.36	55.28	24.38	5.53	1.42	–	14.98	7.99
Accounts payable	10.91	4.35	12.48	4.85	13.97	30.38	12.64	10.30	4.45	7.40	19.54	16.54	–	12.91	10.49
Income received in advance	11.76	0.03	1.11	1.10	39.95	2.47	0.88	0.57	0.10	3.64	18.89	19.98	–	4.41	20.23
Others	1.81	0.30	4.09	0.28	4.43	9.08	6.11	4.34	4.41	9.49	6.93	2.71	–	7.44	4.65
<b>Long-term liabilities</b>	3.73	7.81	17.27	36.44	2.91	6.65	20.93	18.82	14.81	17.44	3.94	0.00	–	13.96	23.33
Long-term loans repayable	3.65	7.81	12.09	22.73	2.38	5.80	19.25	12.03	0.56	14.99	2.69	0.00	–	11.54	13.34
Other long-term liabilities	0.08	0.00	5.18	13.72	0.53	0.86	1.68	6.79	14.25	2.45	1.25	0.00	–	2.42	9.98
<b>Other liabilities</b>	2.45	3.88	3.55	3.56	2.14	1.93	5.72	3.62	8.69	5.60	2.05	4.83	–	13.48	1.84
<b>Net worth</b>	46.46	70.89	47.85	44.80	24.92	28.57	40.81	54.00	12.25	32.06	43.12	54.52	–	32.82	31.48
Stockholders' equity	27.49	52.18	33.24	31.39	25.48	23.39	37.53	39.87	8.14	20.06	27.38	43.41	–	28.46	24.48
Reserves and operating surplus	18.96	18.70	14.61	13.42	-0.56	5.18	3.28	14.13	4.11	12.00	15.74	11.12	–	4.37	7.00

Source: Business income tax return data, Ministry of Finance.

payments, there is usually a contractual requirement that the work be completed on schedule. That means that construction companies run the risk of incurring huge penalties if they fail to monitor the progress of work properly.

After the construction industry, the accommodation and eating-drinking places industry had the second highest current liabilities ratio, at 67.04%. This reflects the changes in consumer spending patterns, which have created a situation where enterprises in this industry tend to have inadequate current ratios. It also warrants further examination as to whether the high ratio of “other liabilities” under the current liabilities is related to the nature of the industry. The real estate, rental and leasing industry ranked third in terms of the debt ratio; this industry’s current liabilities ratio was 60.14%, while its current assets ratio was 37.10%. Clearly, there is an excessive reliance on short-term borrowing to pay for long-term debt in this industry. Companies in the real estate, rental and leasing industry need to pay more attention to working capital management to keep credit risk to a minimum.

#### **(4) The Majority of Industries Had Negative Reserves and Surpluses**

In 2003 36.90% of SMEs failed to make a profit. With the exception of mining and quarrying, manufacturing, and finance and insurance, which were able to keep their reserves and surpluses in positive territory, all other industries reported negative reserves and surpluses. Eight industries accumulated losses in excess of 10%, namely, health care and social welfare services (-43.81%), professional, scientific and professional services (-27.59%), the accommodation and eating-drinking places industry (-26.75%), the cultural, sporting and leisure services industry (-26.15%), real estate, rental and leasing (-26.17%), other services (-21.32%), wholesale and retail (-15.97%), transportation, warehousing and communications (-15.74%), and electricity, gas and water (-11.02%).

#### **(5) Reasonable Gross Profit Levels, but Poor Cost Control and Disappointing Profits**

From the profit and loss structure of SMEs in 2003 (Table 3-2-4), it can be seen that, of the 15 industry categories, only four – agriculture, forestry, fishing and animal husbandry, mining and quarrying, manufacturing, and construction – made a profit. All other industries reported a loss. About half of all industries had gross profit



margins of around 30%, with that of the educational services industry being the highest at 54%. Only SMEs in agriculture, forestry, fishing and animal husbandry, manufacturing, electricity, gas and water, and the accommodation and eating-drinking places industry had lower gross profit margins than large enterprises in the same industry. SMEs in the other eleven industries performed better than their large-sized counterparts in terms of gross profit margin, reflecting the tendency for SMEs to focus on niche markets. However, despite their impressive performance in terms of gross profit margins, the ability of SMEs to keep operating expenses and costs under control was far inferior to that of large enterprises. As a result, there were only four industries in which SMEs exhibited a positive net operating profit and earnings after deducting operating expenses.

While the gross profit margins of SMEs are far higher than those of large enterprises, their current profit levels after deducting costs and expenses lag far behind those of large enterprises. This probably reflects the fact that the SMEs' ability to control costs and non-operating expenses is inferior to that of the large enterprises. Another possibility is the deliberate reporting of extra expenditure on the part of SMEs to reduce their tax burden. The industry that sustained the biggest loss in 2003 was finance and insurance. However, it exhibited an improvement in terms of its current profit (loss) (-32.09% in 2001, -25.26% in 2002). The majority of enterprises in the finance and insurance industry have recorded losses in the past few years, mainly because many banks have been writing off non-performing loans, and insurance companies have been increasing their loss reserve as required by law and experiencing shrinking margins as a result.

As shown in Table 3-2-4, the operating expense ratio of SMEs in finance and insurance was 77.28%, lower than the 98.13% of their large-sized counterparts. However, the operating expense ratio of SMEs in finance and insurance amounted to 29.69%, which was much higher than the 1.87% of large enterprises in the same industry. As regards non-operating income and expenses, the interest expense ratio of SMEs in finance and insurance was not only higher than that of large enterprises, but also placed second among the 15 industry categories. The above figures seem to show that the cost control ability of SMEs is not inferior to that of large enterprises; it is the high interest expenses and other non-operating expenses that contribute to net operating losses and current losses.

**Table 3-2-4 Profit and Loss Structure by Industry, 2003**

Unit: %

Item \ Industry	Agriculture, forestry, fishing, and animal husbandry	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail	Hotel and restaurant	Transportation, warehousing and communications	Finance and insurance	Real estate, rental and leasing	Professional, scientific and technical services	Educational services	Health care and social welfare services	Cultural, sporting and leisure services	Other services
<b>SMEs</b>															
Net operating income	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Less: Operating costs	85.85	76.65	83.62	74.13	85.89	80.45	63.20	69.28	77.28	74.74	53.24	45.74	58.79	59.92	57.86
Gross operating profit	14.16	23.35	16.38	25.87	14.12	19.55	36.80	30.72	22.73	25.26	46.76	54.26	41.22	40.08	42.14
Less: Operating expenses	12.28	18.17	12.96	30.69	12.09	21.06	42.99	31.12	29.69	30.47	54.09	62.02	42.28	47.54	44.16
Net operating profit	1.88	5.18	3.42	-4.82	2.02	-1.51	-6.19	-0.40	-6.96	-5.21	-7.33	-7.77	-1.07	-7.47	-2.02
Plus: Non-operating income	1.51	0.45	0.94	4.47	0.51	1.49	1.47	1.94	7.19	7.88	3.06	7.20	1.11	2.86	1.41
Less: Interest expenses	1.58	0.33	0.83	0.26	0.43	0.56	0.75	1.12	9.98	5.97	2.04	3.61	0.20	1.99	1.05
Less: Other non-operating expenses	1.35	0.46	0.96	1.46	0.34	0.47	0.96	0.60	5.10	7.82	0.84	3.68	0.26	2.12	0.52
<b>Current profit (loss)</b>	<b>0.45</b>	<b>4.84</b>	<b>2.57</b>	<b>-2.06</b>	<b>1.76</b>	<b>-1.05</b>	<b>-6.42</b>	<b>-0.18</b>	<b>-14.85</b>	<b>-11.12</b>	<b>-7.15</b>	<b>-7.85</b>	<b>-0.41</b>	<b>-8.72</b>	<b>-2.16</b>
<b>Large enterprises</b>															
Net operating income	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	—	100.00	100.00
Less: Operating costs	80.16	69.79	85.67	73.16	94.16	86.30	62.33	77.96	98.13	85.62	66.72	69.39	—	60.55	69.79
Gross operating profit	19.84	30.21	14.33	26.84	5.84	13.70	37.67	22.04	1.87	14.38	33.28	30.61	—	39.46	30.21
Less: Operating expenses	14.41	18.59	8.32	3.78	4.66	12.00	34.62	15.16	1.59	10.65	26.43	25.65	—	32.60	25.00
Net operating profit	5.43	11.62	6.01	23.06	1.18	1.70	3.05	6.88	0.29	3.74	6.85	4.96	—	6.86	5.20
Plus: Non-operating income	3.28	5.98	1.98	2.07	1.79	1.11	2.14	2.26	0.38	3.54	1.60	4.23	—	3.66	2.93
Less: Interest expenses	1.03	1.96	1.48	0.83	1.00	0.48	0.79	1.12	0.17	2.59	1.01	3.27	—	1.90	0.89
Less: Other non-operating expenses	1.48	3.69	1.36	5.38	0.94	0.49	2.34	1.29	0.05	3.99	0.39	0.06	—	2.73	1.57
<b>Current Profit (loss)</b>	<b>6.21</b>	<b>11.95</b>	<b>5.16</b>	<b>18.93</b>	<b>1.03</b>	<b>1.84</b>	<b>2.06</b>	<b>6.72</b>	<b>0.45</b>	<b>0.70</b>	<b>7.05</b>	<b>5.87</b>	<b>—</b>	<b>5.88</b>	<b>5.68</b>

Source: Business income tax return data, Ministry of Finance.

## 2. Financial Ratios by Industry

The indicators used in this section are the same as those in Section I, but they have been recalculated to provide financial ratios for examining the changes in the financial status of enterprises in each industry (Table 3-2-5).

Table 3-2-5 Financial Ratios for Individual Industries in 2003

Unit: %

Item \ Industry	Agriculture, forestry, fishing, and animal husbandry	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail	Hotel and restaurant	Transportation, warehousing and communications	Finance and insurance	Real estate, rental and leasing	Professional, scientific and technical services	Educational services	Health care and social welfare services	Cultural, sporting and leisure services	Other services
<b>SMEs</b>															
Current ratio	81.52	86.26	97.14	99.48	117.51	110.58	51.93	144.86	93.36	61.62	111.31	104.77	167.51	46.78	129.22
Quick ratio	66.26	69.48	60.87	77.73	56.28	63.98	33.29	132.34	89.53	25.63	97.68	103.02	116.80	36.64	109.19
Inventory ratio	15.26	16.78	36.26	21.75	61.23	46.60	18.64	12.52	3.83	35.99	13.63	1.74	50.71	10.14	20.03
Debt-to-net worth ratio	232.52	144.89	220.55	100.39	336.58	243.91	381.17	77.36	62.97	355.52	108.58	55.49	75.97	608.12	105.36
Long-term fund ratio	85.49	94.06	100.85	107.93	231.11	170.57	56.13	179.11	800.50	72.14	216.96	348.59	409.23	39.71	155.68
Net worth turnover	2.23	3.41	4.69	0.99	4.55	4.66	4.03	1.51	0.17	0.60	1.21	0.33	1.61	3.05	1.96
Receivables turnover	9.01	8.16	6.55	5.24	4.57	6.54	10.73	4.09	1.83	3.75	3.96	3.17	7.26	5.37	6.84
Fixed asset turnover	1.47	2.78	4.07	0.94	10.01	7.16	1.51	2.54	1.27	0.28	2.46	1.10	6.49	0.70	2.75
Merchandise turnover	8.17	16.04	6.45	5.35	2.33	4.38	6.70	18.05	8.32	0.61	9.14	40.60	4.41	7.19	11.00
Operating profit ratio	0.45	4.84	2.57	-2.06	1.76	-1.05	-6.42	-0.18	-14.85	-11.12	-7.15	-7.85	-0.41	-8.72	-2.16
Return on total assets	0.66	13.44	10.46	-1.94	17.60	-7.53	-9.73	-0.46	-18.91	-3.10	-17.61	-8.66	-2.65	-6.07	-5.95
Return on fixed assets	0.30	6.74	3.76	-1.02	1.83	-1.42	-5.38	-0.15	-1.55	-1.46	-4.14	-1.67	-0.37	-3.76	-2.06
Return on capital	0.80	18.74	12.44	-1.68	6.27	-3.16	-11.31	-0.21	-2.69	-4.83	-5.49	-2.25	-0.37	-9.33	-2.95
Return on net worth	1.01	16.50	12.06	-2.04	8.01	-4.89	-25.88	-0.27	-2.52	-6.64	-8.64	-2.60	-0.66	-26.61	-4.24
<b>Large Enterprises</b>															
Current ratio	111.27	236.39	121.72	94.34	111.42	106.39	55.38	126.37	100.15	87.11	118.68	157.55	-	58.50	99.86
Quick ratio	90.58	226.55	87.52	77.00	43.48	78.50	47.10	123.02	99.21	34.30	86.58	156.11	-	53.91	86.25
Inventory ratio	20.69	9.84	34.20	17.34	67.94	27.89	8.28	3.35	0.94	52.81	32.11	1.44	-	4.58	13.60
Debt-to-net worth ratio	115.26	41.07	109.01	123.20	301.34	250.03	145.03	85.18	716.08	211.93	131.93	83.42	-	204.67	217.73
Long-term fund ratio	210.07	269.69	146.84	106.29	269.36	161.55	93.12	181.21	1,151.52	120.11	280.00	607.11	-	76.63	176.96
Net worth turnover	1.89	0.30	1.54	0.73	2.13	7.18	1.41	1.25	10.86	0.98	2.23	2.23	-	1.39	2.31
Receivables turnover	9.00	2.22	4.68	6.81	3.53	6.58	12.09	7.43	5.20	5.70	4.97	9.13	-	5.31	7.29
Fixed asset turnover	3.67	0.72	1.66	0.43	5.14	9.40	0.87	1.68	56.60	0.76	5.73	13.53	-	0.74	2.35
Merchandise turnover	8.95	12.28	6.88	12.36	1.12	11.70	21.38	85.64	219.28	1.33	5.90	207.21	-	24.96	12.32
Operating profit ratio	6.21	11.95	5.16	18.93	1.03	1.84	2.06	6.72	0.45	0.70	7.05	5.87	-	5.88	5.68
Return on total assets	22.80	8.62	8.59	8.07	5.31	17.32	1.79	11.30	25.58	0.54	40.41	79.35	-	4.38	13.32
Return on fixed assets	5.45	2.51	3.81	6.17	0.55	3.78	1.19	4.54	0.60	0.22	6.79	7.13	-	2.67	4.12
Return on capital	19.81	4.82	11.46	19.65	2.15	16.14	3.16	11.39	7.38	1.10	24.80	16.42	-	9.39	16.86
Return on net worth	11.72	3.55	7.96	13.76	2.20	13.22	2.91	8.41	4.91	0.69	15.75	13.07	-	8.14	13.10

Source: Business income tax return data, Ministry of Finance.

With no signs of the domestic economy picking up again, the short-term solvency or debt paying ability worsened in most industries. As can be seen from Table 3-2-5, eight industries had a current ratio below 100% in 2003. Regarding the

quick ratio, only the transportation, storage and communications industry had a quick ratio significantly higher than 100%, at 132.34% (educational services: 100.95%; health care and social welfare services: 116.80%; other services: 109.19%), most other industries had a current ratio below 80%, indicating poor ability to convert assets into cash to meet repayment obligations. By analyzing the data from the Joint Credit Information Center, it can be seen that the situation is particularly serious in the agriculture, forestry, fishing and animal husbandry industry, and the electricity, gas and water industry. In 2003, both of these industries saw their current ratios drop by 16.8% and 7.1% respectively, indicating a significant deterioration in short-term solvency.

The short-term solvency of the accommodation and eating-drinking places industry and the cultural, sporting and leisure services industry also needs to be watched. These two industries ranked the lowest in terms of both their current ratios and quick ratios, with quick ratios of just 33.29% and 36.64% respectively.

Taiwan's economy began to pick up again in 2002, recording positive growth of 3.59% in contrast to the negative growth of -2.18% in 2001. The economic growth continued in 2003, with a growth rate of 3.24% being recorded, and 5.71% in 2004. The level of demand in both the domestic and foreign markets also grew stronger. As a result, those SME financial ratios that measure their operating performance also improved significantly in 2003.

### **III Sources of Funding for Manufacturing Industry and Reasons for Difficulty in Acquiring Funds**

#### **1. Main Sources of Funds for Operation or Investment**

Taiwan has robust financial and capital markets that offer a wide variety of funding sources for businesses. Aside from own funds or borrowing from private lenders, bank loans or the issuance of bills and notes, bonds, or stocks have become important funding sources for enterprises. According to the 2004 Survey of Domestic

Investment by Manufacturing Industry published by the Statistics Department, Ministry of Economic Affairs (Table 3-3-1), around 76% of the funds for the operation or investment of domestic manufacturers (regardless of their size) come from local bank loans, followed by cash capital increments (35.31%), and retained earnings or capital surplus (31.91%).

**Table 3-3-1 Sources of Funds for the Operation or Investment of Manufacturers in 2004**

Unit: %

Sources of funds	Scale	Total	Large enterprises	Medium enterprises	Small enterprises
Borrowing from domestic banks		75.87	72.51	76.19	77.69
Cash capital increment		35.31	34.39	38.78	35.55
Retained earnings or capital surplus		31.91	43.10	32.65	25.69
Borrowing from friends and relatives		13.15	1.15	10.20	19.99
Revolving credit association		6.45	0.29	1.36	10.23
Issues of commercial paper or depository receipts		9.85	22.89	13.61	2.37
Borrowing from foreign banks		6.25	12.64	4.76	2.85
Issues of corporate bonds		7.49	22.03	4.76	0.42
Borrowing from credit cooperatives or farmers' or fishermen's associations		3.14	0.38	0.68	4.85
Others		6.45	6.51	8.16	6.28

Notes: 1. Large enterprises are firms with 200 or more employees; medium enterprises are firms with 100–200 employees; small enterprises are firms with less than 100 employees.

2. Respondents were allowed to list more than one source.

Source: Statistics Department, Ministry of Economic Affairs, *Survey of Domestic Investment by Manufacturing Industry*, November 2004.

The funds of large and medium enterprises that came from the issuance of commercial paper or depository receipts accounted for 22.89% and 13.61% of all funds in 2003, respectively (vs. 41.52% and 23.9% in 2002). This represents a decrease in the use of such direct financing tools by large and medium enterprises as the era of low interest rates draws to an end. The percentage of funds obtained by borrowing from friends and relatives, private lenders, and other private sources increased to 1.44% and 11.56% for large and medium enterprises respectively (vs. 1.56% and 3.58% in 2002), reflecting the difficulty in securing financing in the capital and money markets, even though these ratios are still relatively low. Small enterprises obtained as much as 30.22% of their funds from borrowing from friends and relatives, private lenders, and other private sources, indicating a heavy reliance on personal relationships in the acquisition of funds and much weaker financial leveraging ability compared with large and medium enterprises.

## 2. Major Difficulties Encountered by Manufacturers in the Acquisition of Funds

Based on the 2004 Survey of Domestic Investment of Manufacturing Industry published by the Statistics Department, Ministry of Economic Affairs, 32.59% of small enterprises in the manufacturing industry felt that they were having difficulty in acquiring funds, while 31.29% of medium enterprises held the same view (Table 3-3-2).

**Table 3-3-2 Reasons for Difficulty in Acquiring Funds by Manufacturers in 2004**

Questionnaire	Scale	Unit: %			
		Total	Large enterprises	Medium enterprises	Small enterprises
<b>Any difficulty in acquiring funds?</b>					
No		71.82	80.27	68.71	67.41
Yes		28.18	19.73	31.29	32.59
<b>Reasons for the difficulty in acquiring funds</b>					
Banks tightened up on lending policy in view of a slump in the industry		45.98	50.49	43.48	44.66
Banks became more rigorous in approving loan applications		54.94	48.54	60.87	56.63
The interest rate offered was too high		44.94	38.35	36.96	47.73
Unable to furnish adequate collateral		39.77	27.67	45.65	43.37
Banks could not process the loan request in time		17.13	16.02	23.91	16.99
Low stock price rendered public or private offering difficult		7.93	23.79	10.87	2.43
The application formalities for cash capital increments or bond issuance are too complicated		6.21	15.53	4.35	3.24
Others		2.87	5.83	0.00	2.10

Notes: 1. Large enterprises are firms with 200 or more employees; medium enterprises are firms with 100–200 employees; small enterprises are firms with less than 100 employees.

2. Respondents were allowed to list more than one reason.

Source: Statistics Department, Ministry of Economic Affairs, *Survey of Domestic Investment by Manufacturing Industry*, November 2004.

Regardless of the size of enterprise, the top three reasons why enterprises in the manufacturing industry experience difficulty in securing funds are: “Banks become more rigorous in approving loan applications” (54.94%), “Banks tighten up on lending policy in view of a slump in the industry” (45.98%), and “The interest rate offered is too high” (44.94%). These are followed by “Unable to furnish adequate collateral” (39.77%), and “Banks could not process the loan request in time” (17.13%), and “Low stock price rendered public or private offering difficult” (7.93%). Less than 10% of the manufacturers surveyed found acquiring funds difficult because “The application formalities for cash capital increments or bond issuance are too complicated” (Table

3-3-2).

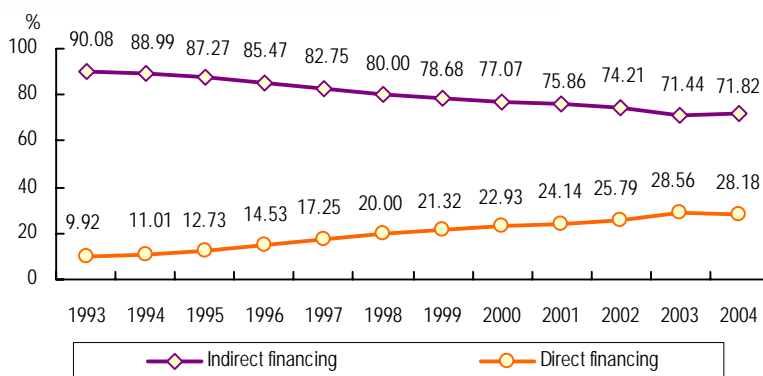
The government implemented a number of measures in 2003 to help SMEs secure working capital. These measures include: expanding the services provided by the “SME Troubleshooting Center,” helping innovative SMEs to acquire working capital, improving the accounting system of SMEs and helping SMEs to secure financing, introducing a number of new low interest rate loan programs and continuing to implement existing programs, and enhancing the functions of the Small and Medium Enterprise Credit Guarantee Fund. The Central Bank of China also continued to implement its easy monetary policy and lowered the discount rate to steer the market towards lower rates. As the economy rebounded in 2003, the difficulties encountered by manufacturing enterprises in securing funds as reported in the survey should be alleviated gradually.

## **IV Financial Institutions and SME Financing**

Financing is the lifeline of an enterprise, and this is particularly true for SMEs, which tend to have inadequate funds. Ready access to funds and smart fund management are among the keys to their successful operation. The sources of funding for an enterprise include internal funds and external financing. Internal funds include primarily the earnings and reserves of the enterprise, with the amount available depending on its business performance. External financing includes private loans, business credit, bank loans, and the issuance of securities in the financial markets. With the rapid development of Taiwan’s capital markets, the direct financing’s share of total financing has been increasing, reaching 28.56% at the end of 2003, although falling slightly to 28.18% in 2004, meaning that it remains a viable financing alternative for SMEs. The share held by indirect financing (loans and investments) went down to 71.44% as of the end of 2003, and then edged up to 71.82% by the end of 2004. Bank loans as a percentage of financing from banks and the financial markets had dropped to 62.99% by the end of 2004 (Figures 3-4-1 and 3-4-2).

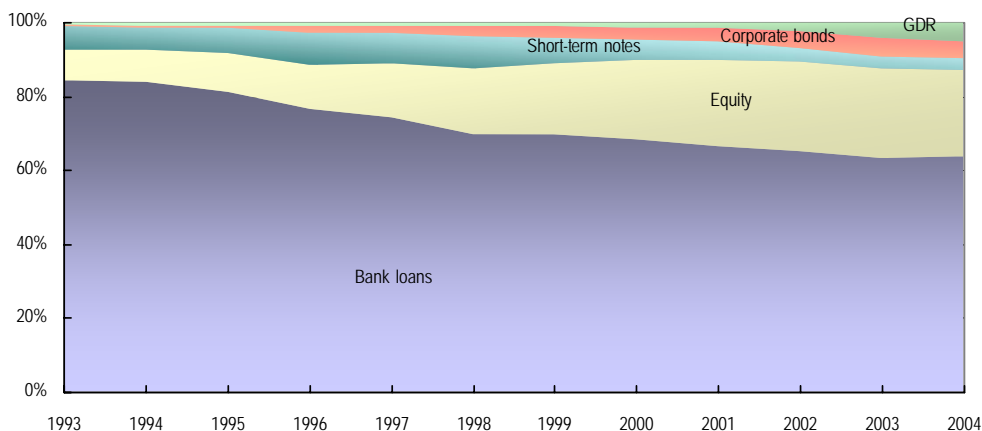
In light of the fact that bank loans remain the most important source of financing for SMEs, it is essential that the interactions between banks and SMEs undergo further structural change.

**Figure 3-4-1 Shares Held by Direct and Indirect Financing, 1993–2004**



Source: Central Bank of China, Republic of China.

**Figure 3-4-2 Business Financing Channels, 1993–2004**



Source: Central Bank of China, Republic of China.

## 1. Seven Leading Banks Provided a Particularly Large Amount of Financing to SMEs

Taiwan Cooperative Bank has consistently been the top lender in the SME loan market (“loans outstanding” in this section include overdue loans). As of the end of 2004, the bank’s loans outstanding to SMEs amounted to NT\$591.6 billion, an increase of NT\$54.9 billion from 2003 and giving it a market share of 21.34%. Taiwan Business Bank, one of the SME-specialized banks, came in second with



NT\$333.7 billion in loans outstanding to SMEs, which was NT\$8.1 billion lower than the 2003 level, and gave it a 12.03% market share. First Commercial Bank was in third place with NT\$242.7 billion in loans and a market share of 8.75% (Table 3-4-1).

**Table 3-4-1 Top 10 Banks by Amount of Loans to SMEs, End of 2004**

Unit: NT\$ million; %

Bank	Loans outstanding	Market share	Loans to SMEs as percentage of total loans
Total	1,975,169	71.22	
Taiwan Cooperative Bank	591,646	21.34	47.13
Taiwan Business Bank	333,714	12.03	46.56
First Commercial Bank	242,694	8.75	32.02
Hua Nan Commercial Bank	203,072	7.32	24.14
Chang Hwa Commercial Bank	163,918	5.91	20.00
Land Bank of Taiwan	117,201	4.23	9.08
Bank of Taiwan	104,940	3.78	8.73
Tainan Business Bank	74,779	2.70	66.01
International Commercial Bank of China	72,218	2.60	16.61
Hsinchu International Bank	70,987	2.56	28.22

Source: Bureau of Monetary Affairs, Financial Supervisory Commission, Executive Yuan, *Statistics of Banking Business*, February 2005.

In addition, Hua Nan Commercial Bank, Chang Hwa Commercial Bank, the Land Bank of Taiwan, and the Bank of Taiwan have always maintained high shares in the SME loan market. Banks whose loans outstanding to SMEs went down at the end of 2004 as compared to 2003 include: Chang Hwa Commercial Bank (NT\$174.9 billion less), Taiwan Business Bank (NT\$8.1 billion less), Hsinchu International Bank (NT\$6.4 billion less), and First Commercial Bank (NT\$5.9 billion less). By contrast, Tainan Business Bank and Taiwan Cooperative Bank increased their loans to SMEs in 2004 by NT\$5.5 billion and NT\$54.9 billion, respectively. It is clear that banks adopt different lending policies in view of the changing economic climate.

## 2. SME Specialized Banks Had a Higher Percentage of Loans Extended to SMEs

Loans to SMEs have always accounted for a high percentage of the loans granted by the four SME-specialized banks, in line with the policy objectives that these banks are expected to meet. Of the top 10 banks in terms of the percentage of loans going to

SMEs, over the years the top 3 have consistently been SME-specialized banks (Taiwan Cooperative Bank ranked fourth in 2004). However, except for the Taiwan Business Bank and Tainan Business Bank, the amount of loans outstanding of the other two SME-specialized banks was limited, reflecting their relatively small scale of operations relative to regular commercial banks (Table 3-4-2).

**Table 3-4-2 Top 10 Banks by Percentage and Amount of Loans to SMEs in 2003 and 2004**

Unit: NT\$ million; %

Bank	2003		2004	
	Loans to SMEs as a percentage of total loans	Loans outstanding	Loans to SMEs as a percentage of total loans	Loans outstanding
* Tainan Business Bank	67.03	69,252	66.01	74,779
* Hualien Business Bank	60.37	15,236	60.24	11,905
* Taitung Business Bank	60.04	24,839	60.03	24,707
Taiwan Cooperative Bank	43.93	536,737	47.13	591,646
* Taiwan Business Bank	49.87	341,765	46.56	333,714
First Commercial Bank	31.99	248,575	32.02	242,694
Shanghai Commercial and Savings Bank	26.66	49,997	31.74	59,611
Hsinchu International Bank	33.39	77,381	28.22	70,987
Shin Kong Commercial Bank	21.23	11,085	27.57	14,983
Hua Nan Commercial Bank	22.49	183,521	24.14	203,072

Note: Banks marked "\*" are SME specialized banks.

Source: Bureau of Monetary Affairs, Financial Supervisory Commission, Executive Yuan, *Statistics of Banking Business*, February 2005.

### 3. High Market Concentration in the Provision of Loans to SMEs by Regular Banks

As of the end of 2004, there were 55 domestic banks (including 50 regular banks and 5 SME-specialized banks) and 36 foreign banks operating in Taiwan. The total loans outstanding to SMEs amounted to NT\$2.77 trillion, or NT\$40.3 billion less compared to the end of 2003. The top 10 banks in terms of loans outstanding to SMEs (including the seven banks referred to above) had a combined market share of 71.22%, indicating a high level of market concentration. The combined value of loans outstanding to SMEs by all foreign banks was NT\$15.7 billion, representing a market share of merely 0.57%, which was roughly the same as in the previous year.

#### 4. A Small Increase in Outstanding Loans to SMEs by Banking Subsidiaries of Financial Holding Companies

In response to the development of the financial market, the diversification of demand for financial services, and the government's desire to expand the scale of the financial sector, improve its operational performance and enhance the international competitiveness of the industry as a whole, the Financial Holding Company Law was approved by the Legislative Yuan and signed into law by the President on July 9, 2001, taking effect on November 1, 2001. So far, a total of 14 financial holding companies have been established. As of the end of 2004, 14 banking subsidiaries of financial holding companies and the China Development Industrial Bank had a combined total of NT\$820.1 billion in loans outstanding to SMEs, accounting for 29.58% of all loans outstanding to SMEs, an increase of NT\$45.8 billion or 5.91% as compared to the end of 2003 (Table 3-4-3). This indicates that those banks still value the business of SMEs, although the growth in the total loan amount was not as substantial as 2003.

**Table 3-4-3 Loans Outstanding and Percentage of Loans to SMEs by Banking Subsidiaries of Financial Holding Companies in 2003 and 2004**

Unit: NT\$ million, %

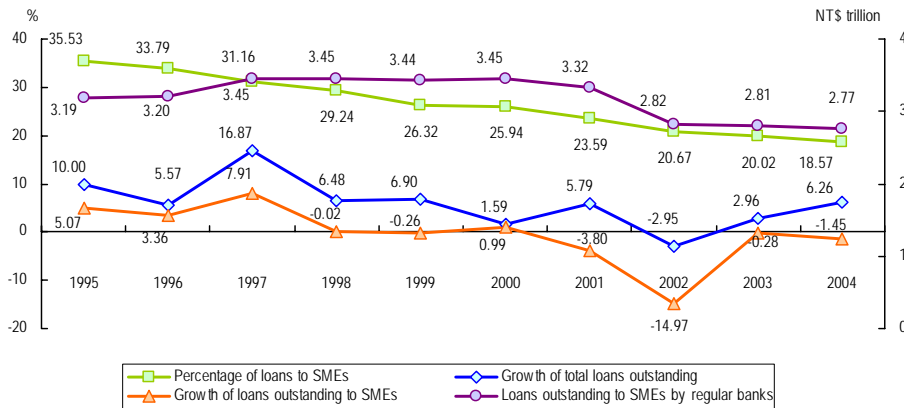
Bank	2003		2004			
	SME Loans outstanding	Loans to SMEs as a percentage of total loans	SME Loans outstanding	Loans to SMEs as a percentage of total loans	Change in loans to SMEs	Annual growth
Total	774,345	27.53	820,116	29.58	45,771	5.91
First Commercial Bank	248,575	31.99	242,694	32.02	-5,881	-2.37
Hua Nan Commercial Bank	183,521	22.49	203,072	24.14	19,551	10.65
International Commercial Bank of China	57,418	15.53	72,218	16.61	14,800	25.78
Chiao Tung Bank	65,287	17.06	63,962	16.18	-1,325	-2.03
Chinatrust Commercial Bank	42,265	7.30	46,714	6.84	4,449	10.53
International Bank of Taipei	32,362	8.87	36,443	11.82	4,081	12.61
Cathay United Bank	31,021	5.84	31,689	5.69	668	2.15
E. Sun Commercial Bank	18,627	10.21	26,339	10.21	7,712	41.40
Fubon Commercial Bank	20,455	15.08	22,792	18.60	2,337	11.43
Jih Sun International Bank	16,009	9.69	18,859	10.38	2,850	17.80
Taishin International Bank	37,843	9.94	18,488	4.09	-19,355	-51.15
Fuhwa Commercial Bank	15,048	9.41	16,920	9.17	1,872	12.44
Shin Kong Commercial Bank	11,085	21.23	14,983	27.57	3,898	35.16
Bank SinoPac	1,798	0.96	2,684	1.17	886	49.28
China Development Industrial Bank	4,116	6.57	2,259	4.27	-1,857	-45.12

Source: Bureau of Monetary Affairs, Financial Supervisory Commission, Executive Yuan, *Statistics of Banking Business*, February 2005.

## 5. Overall Bank Loans to SMEs Maintained the Same Level as at the End of 2003

In order to conform to the requirements set forth in the government's "2-5-8 financial reform program" which requires banks to reduce their non-performing loans to 5% before the end of 2003, banks have been working vigorously to clean up their NPL portfolio by being more aggressive in payment collection, selling off non-performing assets, and writing off bad debts to bring their NPL ratio down. According to the statistics of the Bureau of Monetary Affairs, Financial Supervisory Commission, domestic banks wrote off a total of NT\$162.2 billion in bad debts in 2004, which was less than the write-off in the previous two years (NT\$413.8 billion in 2002, NT\$236.8 billion in 2003). The total loans outstanding of regular domestic banks (excluding overseas loans) as of the end of 2004 grew by 6.26% over the end of 2003 (Figure 3-4-3). The loans outstanding to SMEs declined by 1.42% to NT\$2.81 trillion; the percentage of bank loans going to SMEs also fell by 1.45 percentage points, from 20.02% to 18.57%.

**Figure 3-4-3 Bank Loans to SMEs over the Years**



Note: Total loans outstanding was derived from "loans outstanding to SMEs (including overdue loans) by regular banks" ÷ "loans to SMEs as a percentage of total loans."

Source: Bureau of Monetary Affairs, Financial Supervisory Commission, Executive Yuan, *Statistics of Banking Business* published each year.

Benefiting from a robust global economy, the overall performance of the Taiwanese economy in 2004 was quite impressive, with import and export trade both rising to new heights, which in turn encouraged companies to upgrade their equipment. Private investment shot up, the employment market and the bank NPL picture also

improved, and the real estate market picked up again. All these developments helped to drive up demand in the domestic market.

Banks have traditionally been less willing to extend loans to SMEs due to their dubious financial health. However, with the economic climate improving and with the government injecting more funds into the SME Credit Guarantee Fund in the past few years to make up for the difficulty that most SMEs experience in providing sufficient collateral, banks have become more willing to extend loans to SMEs. The “Credit Guarantee Utilization Rate” of the SME Credit Guarantee Fund (i.e. financing to SMEs through the provision of credit guarantees as a percentage of total loans outstanding to SMEs) also rose to 15.04% from 9.71% at the end of 2003. In an era of declining profit margins, banks now generate only meager profits from loans to large corporations, and are gradually shifting the main focus of their business operations towards consumer finance and SME financing. It is foreseeable that the percentage of bank loans going to SMEs will continue to increase in the future, making it easier for SMEs to secure the financing they need.

It should be noted that the definition of “loans” in this section includes overdue loans, but not bank guarantees and acceptances; if those items were to be included, the loans outstanding and percentage of loans to SMEs would change. In addition, the bank funds described above were directly allocated to their SME loan business, but in fact a significant number of SMEs borrowed from the bank in the name of individuals. Those personal loans are not treated as loans to SMEs, but in reality they do constitute a type of SME financing.

## **6. A Continuing Fall In the Amount of Loans Secured by SMEs for Every NT\$100 of Revenue**

Bank loans outstanding to SMEs totaled NT\$2.77 trillion in 2004, accounting for 18.57% of total bank loans outstanding. The dollar amount was comparable to that in 2003, but the ratio fell, mainly because banks put more focus on business with large corporations. As of the end of 2004, the NPL ratio of banks had dropped to 2.78% (it had been 4.33% at the end of 2003, after peaking in the first quarter of 2002 at 8.04%); the overdue loans also fell to NT\$557.6 billion (having peaked at NT\$1,147.5 billion in the first quarter of 2002). Clearly, the overall health of Taiwan’s banks is gradually

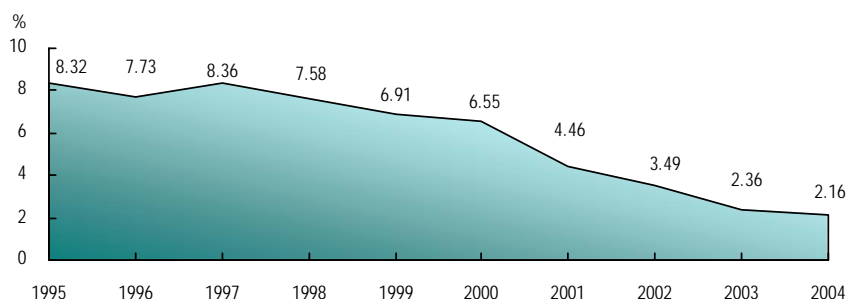
improving, making it more likely that banks will be able to play their role as financial intermediaries more effectively, and making it easier for SMEs to secure financing.

## 7. The Cost of Financing Has Fallen over the Last Few Years

The Central Bank of China (ROC) has maintained an easy monetary policy since the end of 2000, and has cut the discount rate 15 times to bring market rates down and help cut the cost of funding for businesses. The Central Bank has also urged banks to implement the new prime rate system for loans to address the stiff downward rate adjustment issue and to effectively lower the lending rates to corporations. In a letter to domestic banks in June 2003, the Central Bank asked the banks to step up their SME loan business and take on SME credit guarantee business, and indicated that it will monitor the banks' business on a monthly basis. As of end of 2004, loans extended to SMEs through the SME Credit Guarantee Fund by domestic banks amounted to NT\$332.6 billion, an increase of 41.83% from NT\$234.5 billion at the end of 2003.

The Central Bank data show that the average interest rate on new loans extended by the Bank of Taiwan, Taiwan Cooperative Bank, and the three leading state-owned commercial banks had fallen steadily from 8.73% in 1994 to 2.16% in 2004 (Figure 3-4-4). Although the Central Bank data were not broken down by enterprise size, it is clear from Figure 3-4-3 that the cost of bank loans secured by SMEs has been falling consistently over the last few years.

**Figure 3-4-4 Average Interest Rates on New Loans Extended by Five Leading Banks from 1995 to 2004**



Note: The interest rates are a weighted average of the 12 months in the year.  
Source: Central Bank of China, Republic of China.