

Chapter 11

An Appraisal of the Government's SME Policy and the Prospects for the Future

The government's SME policy has for many years focused on helping SMEs to achieve development, and particularly on helping them to strengthen their operations. Faced with the emergence of the knowledge economy and the changes taking place in Taiwan's industrial structure, SMEs now have to operate in an increasingly difficult environment. The areas on which the government needs to focus in its provision of assistance to SMEs in this new era are strengthening the fundamentals of organizational structure and raising competitiveness. Chapter 10 described the results achieved in the implementation of the government's SME policy in 2003; this chapter will attempt a comprehensive appraisal of SME policy in Taiwan in light of the changes in the overall business environment, and will attempt to forecast the changes that can be anticipated in SME policy in the future.

I An Appraisal of the Government's SME Policy

1. Building an Environment Conducive to SME Development

(1) Formulation of Development Strategy

The Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs (MOEA) is the government agency responsible for the provision of guidance to SMEs in Taiwan. Through the implementation of various strategies aimed at building up an environment favorable to SME development, strengthening the technological and IT capabilities of Taiwan's SMEs, improving the provision of

management guidance, achieving more effective integration of the various financing mechanisms available to SMEs, and setting up start-up incubator platforms, etc., the Administration seeks to make its vision of establishing “an environment in which SMEs can grow and thrive” a reality. Given the rapid pace of change in the business environment, policy planning needs to focus on four key areas: transformation, innovation, incubation and clustering. Policy implementation must be systematic, starting from environmental analysis and moving through the stages of policy measure planning, execution and performance appraisal. In this way, it should be possible to create an environment in which Taiwan’s SMEs have more room for growth and more opportunity to innovate, while providing the guidance necessary to support the development of properly-functioning value chains in emerging industries.

(2) Providing Assistance for SMEs in the Area of Human Resources

To determine how effective the implementation of the Plan to Expand Employment Through Public Service Provision had been, the Council for Economic Planning and Development commissioned a group of scholars led by Lin Shao-yin to produce an appraisal report: *Appraisal of the Results of Implementation of the Plan to Expand Employment Through Public Service Provision (Incorporating the SME Manpower Assistance Implementation Plan)*. This report was taken as the basis for the analysis of the implementation results of the SME Manpower Assistance Implementation Plan presented in this section.

a. Paid Employees

The following points were noted in the report: (a) Of the increase in the number of paid employees resulting from the implementation of the Plan, only 18.54% were middle-aged or elderly, and only 13.71% belonged to the specific groups targeted by the Plan. (b) According to the results of the paid employee questionnaire survey, for 25.45% of the respondents the main reason for leaving their previous job was that their contract had expired or they had been laid off; i.e. they had left their previous job involuntarily. The main reasons given for seeking new employment were that the individual was about to be made redundant, that they were already unemployed, or that they had graduated from school or university and needed to find a job; these three reasons combined accounted for 19.65% of all respondents. 29.05% of the

respondents agreed with the suggestion that, if it had not been for the SME Manpower Assistance Implementation Plan, they would have still been unemployed. (3) The results of in-depth interviews showed that 33.33% of the respondents were seeking new employment because they had been laid off by their previous employers.

As regards the attitude taken towards the Plan by the involuntarily unemployed and those individuals belonging to the particular groups targeted by the Plan, it appears that the Plan was felt to be a worthwhile initiative for the following reasons:

- i. Of those who had been hired by new employers under the Plan, only 13.13% expected to be laid off again. Furthermore, only 8.53% of the employers expected to have to lay off some of the newly recruited employees. The chances of the new employees being able to retain their jobs over the long term thus appeared to be relatively high.
- ii. Cross-tabulation analysis of sex, age, education, industry and nature of work performed with “whether the individual felt that, without the Plan, he or she would have remained unemployed,” “whether the individual expected to be able to keep his or her new job,” “how long the individual expected to be able to keep his or her new job,” and “whether the individual felt that the Plan would help to solve the problem of unemployment in Taiwan” gave rise to the following results:
 - Of those who “strongly agreed” that, without the Plan, they would have remained unemployed, the largest shares were held by those aged 45 or over (40.23%), those educated to the junior high school level or below (41.73%), and those in unskilled occupations (25.00%).
 - Of those who felt that the Plan would be “very helpful” towards solving the unemployment problem, the largest share was held by those aged 45 or over (34.48%).
 - Of those who reported that they would continue in the job after the trial employment period was over (assuming that the employer was willing to keep them on), the largest shares were found among those respondents who were female (92.58%), aged 25–35 (94.80%) or over 45 (91.95%), and those in service sector occupations (90.11%).
 - Of those were reported that they would like to keep their job until retirement,

the largest shares were held by those respondents who were female (32.23%), 45 or over (60.92%), or educated to the junior high school level or below (50.39%).

During in-depth interviews and seminars, several employers reported that, having experimented with hiring the middle-aged unemployed and high-school dropouts under the Plan, they had discovered that the middle-aged unemployed made solid, reliable workers, while high-school dropouts were grateful for having been given a job and were determined to make the most of the opportunity. Overall, the SME Manpower Assistance Implementation Plan appears to have been an extremely effective measure for helping women, the middle-aged, those with a limited education, service-sector workers and unskilled workers to find employment.

b. Employers

i. Employer Satisfaction

The SMEs that had benefited from the SME Manpower Assistance Implementation Plan were generally very positive about the prospects for retaining the additional employees they had taken on through the Plan's implementation, and expressed a high level of satisfaction with the Plan. A full 68.05% of respondent companies reported that they were satisfied with the Plan, and 18.54% expressed a high level of satisfaction.

Nearly 85% of respondent enterprises felt that the Plan would help to ameliorate the problem of unemployment in Taiwan, mainly by encouraging business enterprises to take on more workers, but also by helping them to reduce personnel costs. Approximately 60% of respondent companies were strongly in favor of the continued implementation of the Plan.

Among those SMEs that were not satisfied with the Plan, the main reason given for this dissatisfaction was that the application procedures were excessively complex (with too many forms to fill out, and too many supplementary documents required); 53.47% of the dissatisfied enterprises gave this as a reason. The next most commonly given reason was that the time required for approval of applications was too long (36.81% of dissatisfied enterprises), followed by the requirement that the additional employees recruited under the Plan had to be employed for a period of at least six

months before the government subsidy was to be paid to the enterprise concerned, and that the time required for a review of subsidy applications was too long (33.92%).

ii. The Increase in Production Value among Participating Enterprises

Following participation in the SME Manpower Assistance Implementation Plan, participating enterprises' average production value per worker increased by 1.19%, which is not a particularly high figure. However, 12% of participating enterprises reported that the additional employees recruited under the Plan had made a major contribution towards boosting the enterprise's production value, and 56.29% reported that they had made some contribution.

(3) Adjusting the Legal Framework for SME Operation

The objectives behind the reworking of the legal framework governing SME operation are to revise those laws and regulations that have come to constitute a hindrance to SME development, and to establish new laws and regulations that will be conducive to SME development; the overall goal is thus to create a new legal environment that will facilitate the growth of Taiwan's SMEs. As a rule, laws and regulations make no distinction between large enterprises and SMEs, or else are formulated with the needs of large enterprises in mind; the special characteristics and requirements of SMEs are often neglected, creating a situation in which SMEs are obliged to compete in an environment that is biased against them.

SME legal framework adjustment measures in 2004 focused on three key areas: (1) Aggressive promotion of the establishment of new analytical mechanisms with respect to the adjustment of the legal framework for SME operation, and ensuring that the rights of SMEs under the law are protected. (2) Undertaking research in four major areas: laws and regulations governing the appraisal of intangible assets and their use as collateral; laws and regulations governing the protection and management of intellectual property rights in the e-learning industry; the development of analytical mechanisms for legal framework adjustment; and laws and regulations for preventing delay in payment. This research will help to identify the main problem areas in the process of legal framework adjustment, and the areas where work will need to be done in the future. (3) Helping SMEs to establish legal affairs systems: this work included the holding of legal affairs training courses, and the provision of legal affairs

consulting services. These three key areas are examined separately below:

a. Promoting the Establishment of a New Analytical System for the Adjustment of the Legal Framework for SME Operation

To bring about the establishment of new analytical mechanisms for the adjustment of the legal framework for SME operation, in 2003 the SMEA embarked on the necessary preparatory work, holding several consultative meetings.

The Proposal for Promoting the Establishment of New Analytical Mechanisms for the Adjustment of the Legal Framework for SME Operation was approved at the 11th Meeting of the Executive Yuan SME Policy Review Committee on December 21, 2004. The decisions reached were as follows:

- i. The MOEA would be asked to add a provision to the effect that “when formulating new legislation, government agencies should take into consideration the size and special characteristics of SMEs, so as to facilitate SME compliance with the new legislation” to the revised text of Paragraph 4 of Item 3 of the Points to Note for Executive Yuan Agencies When Submitting Draft Legislation to the Executive Yuan for Approval, and to draw up and submit to the Executive Yuan the relevant standard operating procedures and self-appraisal forms.
- ii. The MOEA would be asked to formulate plans for the establishment of a legal framework adjustment analysis consulting center that could set up the necessary shared databases and platforms, and could implement an annual survey of the obstacles encountered by SMEs in the area of laws and regulations and of their needs in this regard, thereby helping other government agencies to undertake analysis regarding the adjustment of the legal framework. The SMEA was to be required to monitor all additions and revisions made to existing laws and regulations that might impact SMEs, to ensure that the rights of SMEs are protected.

b. Helping to Ensure that the Legal Rights of SMEs are Protected

- i. Helping SMEs to Adjust to the Introduction of the New Labor Pension System

With the *Labor Pension Act* scheduled to come into effect on July 1, 2005, the stipulation that the old labor pension system will continue to operate alongside the new

system has put business enterprises under heavy pressure. In the short term, enterprises will find that the funds available to them have decreased, creating a heavy financial burden. The SMEA's SME Troubleshooting Center provides a one-stop service window to help SMEs adjust to the introduction of the new pension system. If SMEs need special assistance, the SMEA's Operational Management and Finance Guidance Systems can provide guidance and consulting services in the areas of manpower adjustment, salary structure, financial planning, operational management, etc.

As regards other measures introduced to help SMEs adapt to the new labor pension system, besides arranging for the provision of small working capital loans to SMEs by Taiwan's banks, the Executive Yuan has agreed to allocate a budget of NT\$5 billion for loan guarantees. The MOEA has completed the drawing up of the Guidelines for Labor Pension Fund Loans, which are due to come into effect simultaneously with the new labor pension system on July 1, 2005. The loans are available both to enterprises paying into labor pension funds under the new system and those paying into them under the old system. Loans to SMEs are capped at NT\$5 million per loan; those to large enterprises are capped at NT\$30 million per loan. Being listed on the stock market or the OTC exchange does not disqualify a company from applying for one of these loans. To ensure the smooth implementation of the Labor Pension Fund Loan system simultaneously with the introduction of the new labor pension system, the SMEA will be drawing up detailed explanatory notes for applicants, striving to maximize communication with banks and with industry, and setting up the necessary mechanisms for publicizing the availability of the loans.

ii. The Legislative Yuan SME Development Promotion Group

The Members of the Legislative Yuan SME Development Promotion Group include Legislators from all parties within the Legislative Yuan. The Group's aims are to make sure that consideration is given to SMEs' needs with respect to legal framework adjustment, to encourage the executive branch to pay due attention to SMEs, and to work together to promote SME development.

The Group's meetings provide a mechanism for communication between the regulatory authorities and SMEs; the Group can present SMEs' concerns regarding legal framework adjustment on their behalf. The Group gives SMEs a channel for

expressing complaints regarding the obstacles that particular laws and regulations put in their way, and for presenting explanations and suggestions to the Legislative Yuan and the various regulatory authorities, thereby ensuring that Legislators and government agencies have a clear understanding of the difficulties that enterprises are experiencing, and providing a basis for future revisions of the law or the establishment of new legislation.

In 2004, enterprises raised a series of points related to the Construction Management Regulations, Water Pollution Control Act, Tobacco and Alcohol Tax Act, Pharmaceutical Affairs Law, Waste Disposal Act, etc. Over the period from September to December 2004, the Convenor of the Legislative Yuan SME Development Promotion Group arranged for the companies that had raised these issues to meet with representatives of the regulatory authorities concerned to discuss the issues. The regulatory authorities provided the enterprises with guidance, and agreed to study the suggestions for the revision of laws and regulations made by the enterprises. In the case of those problems reflecting a need for more effective guidance on the part of the regulatory authorities, the regulatory authorities were asked to help business enterprises to conform to the requirements of the law.

The Legislative Yuan SME Development Promotion Group has helped to build a preliminary consensus between business enterprises and the regulatory authorities with regard to suggestions for the revision of laws and regulations. The regulatory authorities have in many cases agreed to undertake revisions of the laws and regulations concerned, or to provide assistance to help business enterprises to conform to them; where necessary, in-depth discussions have been held with the enterprises' representatives. So far, the results achieved by the operation of the Group have been very impressive. A further expansion of this system would be advisable, so that the Group can continue to provide SMEs with input into the removal of obstacles to SME development that arise from problems in the legal framework.

However, given the miscellaneous nature of the issues raised during the "Legislative Yuan SME Development Promotion Group Discussion Meetings" and the lack of an opportunity to undertake prior coordination work with other government agencies, after intensive discussion it was decided that "SME Legal Affairs Discussion Meetings" would be held at the local level, providing an opportunity to

find out the issues that local SMEs are concerned with; an “SME Legal Affairs Coordination Meeting” could then be held to coordinate the activities undertaken by the various different government agencies concerned, before making a formal submission of recommendations to the “Legislative Yuan SME Development Promotion Group Discussion Meeting.”

2. Development of Incubation Platforms

(1) The Entrepreneur Success Plan

The Entrepreneurial Activity Success Plan incorporates three sub-plans: the Start-up Consulting Service Plan, the Start-up and Innovation Cultivation Institute Plan, and the Entrepreneur Success Plan. Currently, there are four main problems affecting the implementation of these plans: (1) Entrepreneurs in Taiwan tend to be insufficiently aware of the content that a proper business plan should contain; they are usually unable to provide quantified forecasts for future market demand, cash flow, when the enterprise will break even, when it will start to make a profit, or prepare own capital and financing ratios, etc. (2) The Plan focuses on those enterprises with significant development potential that have just been established or that are about to be established. However, the resources available to the SMEA are limited, and its contacts with banks and venture capital firms are insufficiently well developed, making it difficult to provide follow-up support. (3) There is a general lack of awareness of the fact that entrepreneurial skills need to be learnt. (4) The scope of publicization efforts needs to be expanded.

The response of the SMEA to these problems has been as follows:

a. Establishing a Clear Division of Labor between the Three Sub-plans

The Start-up Consulting Service Plan should focus mainly on the integration of websites and databases between the three sub-plans, while supplementing this with a telephone consulting service. The emphasis in the Start-up and Innovation Cultivation Institute Plan should be on getting university professors to write teaching materials for courses on business plan preparation, while the third sub-plan – the Entrepreneur Success Plan – should focus on guidance services, supplementing this with the integration of guidance resources.

b. Adoption of a Dual-track System for Advertising and Publicization to Ensure Maximum Access to Local Communities for Minimal Effort

Publicization and advertising will employ an easy-to-understand strategy based on a toll-free start-up consulting hotline. Advertising and publicization with respect to strategic alliance partners will rely on close collaboration with the SME Service Centers in Taiwan's 23 counties and cities and with incubator centers. In this way, the limited resources available can be used to maximum effect.

c. Leveraging Website Resources to Educate Entrepreneurs

E-Learning can be used to educate the public as to how important it is to have a carefully written business plan when starting up a business.

d. Providing Courses in Areas with Significant Business Start-up Potential to Encourage the Public to Educate Themselves**e. Making Use of Embedded Marketing by Providing the Media with Success Stories****(2) Incubator Center Promotion and Management**

Over 90% of incubator centers in Taiwan receive funding support from the SME Development Fund; the total amount of funding that the Fund is required to provide for incubator centers every year runs to nearly NT\$200 million. Given that the Fund is already making a loss, there is clearly a need to review the necessity for the current subsidy mechanism. In the future, more emphasis should be placed on performance appraisal and on developing procedures for terminating support for non-performing incubator centers. The SMEA has already established an incubator center performance appraisal mechanism, but more needs to be done in terms of weeding out ineffective incubator centers. The government should also be helping incubator centers to access alternative funding sources, so as to reduce the burden on the SME Development Fund.

(3) SME Manpower Cultivation

Currently, the manpower cultivation work undertaken by the SMEA still consists mainly of traditional training programs. Furthermore, there is considerable overlap between the courses, raising concerns that resources may be being wasted. In the

future, the SMEA will need to overhaul its manpower cultivation programs, by aiming to reduce duplication, and leveraging information technology to improve the courses provided both quantitatively and qualitatively.

3. Upgrading IT Capabilities

(1) Providing e-Enablement Guidance for SMEs

When selecting industry associations to undertake industry-specific online database and e-commerce projects, there appears to be a strong bias towards selecting industry associations in Northern Taiwan; insufficient attention has been given to the need to achieve balanced regional development between the north and south. In the selection of websites to participate in e-commerce promotion and the establishment of targets for the government's marketing guidance mechanism, so far little attention has been paid to the promotion of supply chain integration, clustering effects or international marketing.

(2) Upgrading the Quality of the Guidance Provided

The underlying vision behind the government's planning in this area is to help Taiwan's SMEs build an image of quality. The specific objectives include strengthening the innovation system, achieving sustainable development through value creation, implementing industrial upgrading through reorientation towards the service sector, and revitalizing local industries to simulate the growth of the economy as a whole. The four main problems that have been encountered in the course of plan implementation include the following: (1) There is a clear need to introduce quality management systems and to improve quality management in the service sector; the government should continue to implement quality surveys, to assist in the formulation of quality strategies, to draw up quality standards and quality-related Key Performance Indicators (KPI), and to make revisions to relevant laws and regulations where necessary. (2) Taiwan needs to build a sound management environment and to strengthen the links between the various sectors that are involved, for example by helping SME business owners to recognize the importance of total quality, and providing quality enhancement guidance to industry clusters. (3) So far, Taiwan has failed to make effective use of international resources or to bring its SMEs into line with global trends. More should be done to introduce new quality concepts from

overseas, and to undertake localization of both quality management and related technology, while leveraging collaboration between industry and academia to establish quality databases. (4) Demand for quality management talent among SMEs currently outstrips supply. Measures that can be implemented to solve this problem include the cultivation of personnel with key skills, the provision of training for quality management personnel at all levels, the cultivation of quality management instructors and consultants, and sending top-flight talent overseas for training. (5) Overall quality awareness is still too low. Ways to combat this problem include the cultivation of quality benchmarkers, and publicization of the key factors behind examples of successful quality improvement; effective use should be made of the media in these publicization efforts.

(3) Cultivation of e-Enablement Talent

As regards the cultivation of human talent in the field of e-enablement, the three main issues here are as follows: (1) Improving the mechanisms for the selection and cultivation of e-enablement consultants and establishing an e-enablement consultant database, while at the same time working to strengthen community exchange. (2) Differentiating training courses from other e-enablement training programs. (3) Establishing review mechanisms in those cases where a steering committee has not been established.

With regard to the cultivation of e-enablement consultants, the emphasis should be on the selection of consultants with prior experience in e-enablement guidance projects. Experts familiar with the special needs of SMEs should be invited to participate in the planning of training course content, and the curriculum should be reviewed and revised on a regular basis. Different levels of training can be instituted to develop specialized and advanced instruction, as opposed to the basic courses provided by universities and commercial training providers. Furthermore, training should be provided not only to individuals, but also to entire enterprises. A steering committee should be established to engage in regular review of the relevant mechanisms and the results of implementation.

(4) Planning, Establishment and Maintenance of the Management Information Sources Required by SMEs

This work area falls under the framework of the government's e-Life plans. The aim is

to establish an effective, comprehensive SME information service network that can provide SMEs with a convenient, one-stop portal for their decision-making needs. Planning in this area will need to focus on making the system meet SMEs' special requirements, providing industry-specific business information, and value-added services targeting business strategy and policy formulation. SMEs will be able to access all of the information they require for the entire operational cycle from a single portal. During the implementation process, representatives of industry associations will be invited to form a promotion committee; this will be supplemented by regular visits to industry associations to undertake surveys of SMEs' IT needs, thereby enhancing both the depth and breadth of the project.

4. Strengthening Guidance in the Area of Operational Management

(1) Provision of Guidance with Respect to SME Production and Sales and Technology Management Applications

The limited funding available for individual projects often hinders implementation. Coordination meetings should be held on a regular basis to discuss the results of implementation and the difficulties encountered, to strengthen horizontal communication, integration and publicization, and to arrange for the sharing of resources with other agencies, so as to ensure that maximum synergy is created by each project.

(2) SME Awards and Commendations

a. The National Award of Small and Medium Enterprises

The percentage of SMEs entering for the National Award of Small and Medium Enterprises that fall under the category of service sector enterprises is very small. With the ongoing transformation of Taiwan's economic structure into a service economy, the production value of the service sector has been rising steadily. However, service sector enterprises are often unable to participate in the National Award of Small and Medium Enterprises because they do not meet the qualifications with respect to operating revenue (less than NT\$100 million per year) or number of employees (no

more than 50 employees). Ideally, the definition of SMEs in the service sector should be amended to facilitate service sector enterprises' participation in the Award.

b. The Small and Medium Enterprise Innovation Research Award

Efforts should be made to encourage participation in this Award by service sector enterprises, in light of the anticipated trends in service sector development. Particular emphasis should be placed on encouraging participation by enterprises that have the potential to make a significant contribution to the development of Taiwanese industry as a whole, and that are involved in the provision of cutting-edge knowledge-intensive services, technical services or business services, thereby helping Taiwanese industry to develop new sources of competitive advantage and enhancing the growth potential of the service sector.

c. The Master's and Ph.D. Thesis Award

2004 saw a dramatic increase in the number of people registering to participate in this Award; there was also a significant broadening in the scope of topics covered by the theses entered for the Award. As a result, both the judges' workload and the difficulty of judging the contest increased. The fact that the Award is restricted to topics relating to SMEs has tended to restrict its growth. In addition, more needs to be done to publicize the results of the Award, so that the knowledge embodied in the winning theses can be more widely disseminated.

d. The Golden Book Award

In 2004, business book publishing saw an increase in the percentage of books that were returned to publishers, a decrease in the number of bestsellers, and a fall in profits for publishers. Overall, the number of business books published was lower than in previous years. Another problem affecting the Golden Book Award was that publishers tend to display different attitudes regarding the types of books that should be entered for the Award; this has a negative impact on the Award results. In the future, a review committee should revise the qualifications for entry for this award on a regular basis.

e. The Little Giant Award

Relatively few of the SMEs that enter for the Little Giant Award are service sector

enterprises. This may be related to the lack of uniformity in the definition of export ratios for service sector enterprises; in the future, efforts should be made to coordinate the establishment of a unified standard by the various regulatory authorities. In 2005, the awards ceremony for the Little Giant Award will be combined with that for the Bureau of Foreign Trade's Golden Trade Award. The collaboration between the two agencies will need to be carefully planned to ensure that maximum synergy is created through the integration of the awards ceremonies.

(3) Helping SMEs to Participate in Government Purchasing

The SMEA's inquiry hotline often receives calls from SMEs complaining about bid-rigging and other abuses. When these are reported to the regulatory authority concerned, in many cases no action is taken, and the problem continues to exist.

(4) The SME Service Network

The amount of funding available for the SME Development Fund has been falling steadily in recent years. This has had a knock-on effect in reducing the funding that can be provided for SME service centers at the county and city level, industry associations and chambers of commerce. The positioning of the SME service centers, industry associations and chambers of commerce needs to be reassessed, their performance appraised, and funding re-allocated, while encouraging them to reorganize themselves in accordance with their own particular strengths and special functions. In this way, it should be possible to avoid duplication of effort and to enhance the efficiency of resource utilization.

(5) Provision of Guidance for Traditional and Special Local Industries

There are four key problems affecting the development of Taiwan's traditional and special local industries: (1) Enterprises in traditional and special local industries tend to be very conservative in their methods, demonstrating little enthusiasm for innovation. (2) Efforts to encourage integration and create synergy within local industries have had little success. (3) Autonomous local industry organizations have generally failed to develop a comprehensive range of functions. (4) Excessive emphasis on commercialization has destroyed much of the cultural value of traditional local industries. The fourth problem is a particularly serious one. Looking back over

the efforts that have been made in the past few years to develop local industries and implement community-building activities, the projects that most impressed observers were generally those that were firmly rooted in the cultural essence of local traditions, while at the same time accepting the need for innovation to adapt to changing times. The provision of guidance to traditional and special local industries should therefore focus on the cultivation and leveraging of these industries' cultural content.

(6) The SME Honorary Instructor System

The SME Honorary Instructors at the county and city level often find that they cannot find the time to attend training courses, or that they are too busy with other affairs to continue working as an Honorary Instructor. As a result, the turnover rate among Honorary Instructors is excessively high, and it is difficult for the county and city-level SME Service Centers and the SME Honorary Instructor Associations to gain a clear picture of the manpower resources available to them; this in turn reduces the effectiveness of the Honorary Instructor system.

(7) Guidance in the Area of Mutual Assistance and Collaboration

Collaborative exchange is the foundation for practical collaboration. Currently, limited availability of funds has obliged the government to cut back on the provision of funding for exchange activities, thereby reducing the opportunities for SMEs to come up with new ideas through collaborative brainstorming.

5. Integration of Financing Mechanisms

(1) Consulting, Assistance and Guidance Services Provided by the SME Troubleshooting Center

In 2004, the SMEA received a series of complaints from SMEs to which the SMEA had previously provided guidance. In most cases, the letter expressed dissatisfaction with the company's failure to pass the Joint Diagnostic Guidance Review under the new dual-track SME financing guarantee system.

The SMEA dispatched personnel to visit the companies concerned and determine the veracity of their complaints. The companies were also invited to submit new

applications under the dual-track system. The enterprises concerned were generally quite satisfied with this solution, and no further complaints were received. By opening up channels for direct communication with business enterprises, the SMEA was able to reduce the likelihood of similar disruptive interference by financial advisors in the future.

(2) Credit Guarantees

The effectiveness of the SME Credit Guarantee Fund has for many years been reduced by limited funding and limited manpower that have prevented the Fund from doing more than passively responding to applications from financial institutions. In April 2003, the Executive Yuan gave its approval for a new measure whereby the MOEA replaced the Ministry of Finance as the regulatory authority for the SME Credit Guarantee Fund; it was anticipated that this move would help to ensure that Taiwan's credit guarantee system and industry guidance mechanisms were more in tune with the needs of government policy, while helping to ensure a smooth transition from policy formulation to policy implementation. At the same time, it was decided that in the future the Fund would simultaneously provide both direct and indirect credit guarantees. While working to keep pace with the changes taking place in the financial sector, the regulations that govern the Fund's operations would be reviewed, so that those regulations that no longer conform to the needs of today's Taiwan would be revised. In addition, the Fund will be focusing on the development of new, innovative financing services so that it can provide a more diversified range of services and contribute to the building of an environment more conducive to SME development.

The SME Credit Guarantee Fund is currently faced with various problems, including the lack of stable funding sources, the need to make credit guarantee authorization processes more rigorous, unsatisfactory risk control mechanisms and the need to bring income and expenditure into balance. As regards funding sources, the higher the Fund's credit guarantee multiple, the greater the level of risk that the Fund has to bear. While the government wants the Fund to expand the scope of its credit guarantee provision, stable funding sources will need to be found if the Fund's net worth is to be prevented from falling.

a. Developing Stable Funding Sources to Make the SME Credit Guarantee Fund a More Effective Institution

On December 17, 2003, a presidential decree was issued that made several revisions to the *SME Development Statute*. Paragraphs 2 and 3 of Article 13 of the *SME Development Statute* were revised to read as follows:

“In order to ensure adequate funding for the SME credit guarantee mechanism, the regulatory authority will be required to allocate a budget appropriation for the mechanism in question, to ensure that it is able to continue providing a suitable volume of credit guarantees. The financial institutions that have signed contracts with the mechanism in question will be expected to make donations; the regulatory authority may also collect donations from the private sector.

The donations from financial institutions referred to above may be gradually increased as necessary to a maximum of 35% of all donations. The exact level shall be determined by the regulatory authority in light of the total amount of funds provided, the delinquent loan ratio, the total amount of subrogated repayments, the amount of loans outstanding, the net value of these loans, overall profit and loss status and the amount of donations already made, etc.

During the first meeting of the President’s Economic Advisory Team, held on July 10, 2003, President Chen Shui-bian said that he hoped that the size of the SME Credit Guarantee Fund could be increased by NT\$10 billion a year over the next five years for a total of NT\$50 billion, so as to strengthen the Fund’s performance.

With the economy starting to pick up again, the SME Credit Guarantee Fund has an important role to play, and the amount of loan guarantees that it provides should be increased. However, as of the end of 2004, the total of NT\$265,672 million in loan guarantees that the Fund had provided to SMEs was equivalent to 19.53 times the Fund’s net value of NT\$13,603 million (excluding separate funds set up in accordance with the requirements of government policy). More money will need to be allocated to the fund if its operations are to be maintained over the long term.

b. Ensuring Effective Control of the Delinquent Loan Ratio

In the last few years, the SME Credit Guarantee Fund has become more aggressive in

its implementation of risk control measures, while at the same time trying to keep the negative impact on SME financing to a minimum. These efforts to reduce the level of risk have already started to pay off. The number of credit guarantees provided in the last four years and the total value of these guarantees are shown in Table 11-1-1. In the past, the delinquent loan ratio for loans obtained using credit guarantees provided by the SME Credit Guarantee Fund has generally been around 4.38%. In 2004, the ratio was 2.76%, representing a significant improvement on the figure of 4.97% recorded in 2002 (Table 11-1-2).

Table 11-1-1 Cases and Value of Credit Guarantees Provided by the SME Credit Guarantee Fund in Recent Years

Year	Cumulative credit guarantee cases	Cumulative amount of credit guarantees provided (NT\$ million)	Cumulative amount of financing secured (NT\$ million)	Cumulative number of enterprises receiving credit guarantees	No. of credit guarantee cases provided	Value of credit guarantees provided (NT\$ million)	Value of financing provided (NT\$ million)
2001	1,973,109	2,329,640	3,171,829	144,402	149,610	147,804	233,913
2002	2,133,232	2,480,668	3,422,806	162,293	160,123	151,028	250,977
2003	2,333,015	2,685,848	3,770,659	185,517	199,783	205,179	347,852
2004	2,598,334	3,001,506	4,287,696	214,964	265,139	315,658	517,037

Source: SME Credit Guarantee Fund, *Credit Guarantee Bulletin* (consecutive issues).

As a rule, banks require collateral when granting loans. The SME Credit Guarantee Fund focuses on providing credit guarantees for SMEs that are unable to put up sufficient collateral; the level of risk that the Fund has to bear is thus inherently higher than that borne by banks in their regular lending operations. Nevertheless, in order to ensure that its funds are used efficiently, the SME Credit Guarantee Fund will need to work closely with financial institutions to try to improve the quality of the credit provided through its efforts, while at the same time expanding the provision of batch-type credit guarantees and strengthening risk control, so as to create a win-win-win situation for SMEs, banks and the Fund itself.

(3) Trust-type Investment Accounts

The main purpose of the trust-type investment accounts is to support the growth of start-ups and strengthen the competitiveness of Taiwanese industry. The targets for investment are newly-established SMEs and those in the process of transforming themselves. With these types of company there is the potential for high profitability

once the enterprise has grown to a reasonable size, but there is also a significant risk that all the funds invested in the enterprise will be lost.

Table 11-1-2 Delinquent Loan Ratios for Loans Obtained through Credit Guarantees Provided by the SME Credit Guarantee Fund

Unit: %

Year	Ratio of new delinquent loans	Year	Ratio of new delinquent loans
1975	14.79	1991	2.46
1976	4.21	1992	2.87
1977	2.68	1993	4.51
1978	1.64	1994	4.42
1979	2.00	1995	6.13
1980	1.06	1996	6.48
1981	1.34	1997	4.83
1982	2.98	1998	5.41
1983	3.46	1999	5.97
1984	3.05	2000	4.92
1985	6.06	2001	7.25
1986	3.64	2002	4.97
1987	2.77	2003	2.75
1988	2.01	2004	2.76
1989	2.32	Average	4.38
1990	3.03		

Notes: 1. The ratio of new delinquent loans = the amount of new delinquent guaranteed loans / the total amount of loans that have come due.

2. The Credit Guarantee Fund classifies as delinquent loans those which have not yet been repaid two months after becoming due; this is different from the method used by most banks, which classify as delinquent those loans that have not yet been repaid three months after becoming due. The basis for calculation of delinquent loans used by the Fund is thus different from that used by the banks.

Source: SME Credit Guarantee Fund.

(4) Promoting the Growth of the SME Development Corporations

Although the three SME Development Corporations' business areas include five other areas besides investment and advisory services, in reality most of their operating revenue is derived from investment activity. This investment activity is vulnerable to the ups and downs of the business cycle, and in the last few years the SME Development Corporations' operational performance has been disappointing.

(5) The SME Development Fund

Given the limited size of the SME Development Fund and the current low level of market interest rates, interest income is not enough to meet the Fund's steadily increasing expenditure. As a result, the Fund has been in the red for several years in a

row. The loans and investment that the Fund provides fall under the category of long-term financing, with little chance of making a significant return on investment in the short term, so the Fund's ability to use profits from previous investment to support new investment is limited. It would also be difficult for the Fund to get the banks to increase their interest rates as a means of boosting its income.

II SME Policy in Taiwan – the Future

Taiwan's SMEs have to contend with a constantly changing business environment, including the rapid development of both regional and bilateral trade, the implementation of the New Basel Capital Accord (Basel II), the increase in environmental awareness worldwide, the emergence of the New Economy, and the changes in both the scale of, and the form taken by, global business competition. The government needs to consider how it can best leverage its existing guidance resources to strengthen SMEs' ability to achieve sustainable growth; for the SME guidance system, this will constitute a major challenge. This section will examine the future of SME policy in Taiwan, by focusing on five aspects: the business environment, marketing, industry clusters, business start-up and incubation, and finance.

1. Creating an Environment Conducive to Perpetual Operation

(1) Active Participation in International Economic Organizations, While Helping SMEs to Respond to Changes in the International Business Framework

Active participation in international economic organizations – particularly the World Trade Organization (WTO) – can help SMEs to grasp emerging business opportunities. However, while participation in international organizations can give access to new business opportunities, it also implies increased responsibility, particularly with regard to the implementation of environmental protection measures. The Taiwanese government will need to help Taiwan's SMEs to conform to the requirements of green production and to international environmental protection standards. In particular, the coming into effect of the Kyoto Protocol will have a major impact on SMEs. Although Taiwan is not a signatory of the United Nations Framework Convention on Climate

Change, which would suggest that the coming into force of the Kyoto Protocol should have no immediate impact on Taiwan, nevertheless, in order to fulfill its responsibilities as a member of the international community, Taiwan is working to reduce greenhouse gas emissions. Although the high-energy-consumption industries that will feel the impact of the Kyoto Protocol most severely are generally dominated by large enterprises rather than SMEs, Taiwan's industrial structure is characterized by strong relationships (particularly supply chain relationships) between large enterprises and SMEs. SMEs in Taiwan will therefore be subject to a knock-on effect from the efforts that large enterprises are making to reduce greenhouse gas emissions. Not only can SMEs not afford to ignore the Kyoto Protocol, they will need to be prepared to absorb its impact very soon.

(2) Creating the Legal and Regulatory Framework Needed to Foster the Growth of an "Innovation Society"

In order to build an environment that will enable SMEs to compete on a level playing field, the SMEA began some time ago to examine those laws and regulations that create unfairness for SMEs. However, standard operating procedures for the appraisal and analysis of legislation have yet to be established, and there is no "handbook" to follow. Looking ahead to the future, in order to ensure that SMEs' legal rights are protected, besides working to prevent abuses, attention will also need to be paid to the establishment of an appropriate legal framework for promoting innovation among SMEs.

2. Strengthening SME Start-up and Innovation Platforms

(1) Enhancing Incubator Center Guidance Capabilities

Currently, the incubator sector in Taiwan is still dominated by incubator centers attached to universities. One way to strengthen the guidance capabilities of incubator centers would be to foster private-sector participation in incubator center operation, and to encourage foundations to set up new incubator centers. Incubator center operation needs to be closely integrated with the development of local industries; at the same time, more should be done to strengthen the incubation functions of the Nankang Software Park, the Nankang Biotechnology Park and the Tainan

Science-based Industrial Park. To achieve these goals, the government will need to devise appropriate incentive mechanisms and ancillary measures.

(2) Strengthening Start-up and Innovation Networks and Building a Knowledge-intensive, Entrepreneurial Society

Start-ups are the lifeblood of any economy; their importance cannot be overstated. In recent years, entrepreneurial activity in Taiwan has remained strong; a total of 108,610 new enterprises were set up in 2004, with most of the entrepreneurs being young people in the 20–40 age range. While the abundance of young entrepreneurs is to be welcomed, there are two main problems affecting Taiwan's new start-ups. First, most of the newly-established enterprises fall under the category of micro-enterprises; many one-person operations. This can lead to an excessive dispersal of resources. Another problem is that the percentage of start-ups that manage to stay in business is still too low.

Leading management theorist Peter Drucker has pointed out that business risk in start-ups is generally derived from a “heroic,” macho attitude towards management. Someone setting up a new business will almost always have some innovative ideas, but this alone may not be enough to ensure success. The SMEA has been implementing the Entrepreneur Success Plan to provide progressive, step-by-step guidance. The existence of this guidance network increases an entrepreneur's chances of success at every stage of the start-up process. However, there is a need for a more comprehensive approach, and for the establishment of a follow-up system. At the same time, entrepreneurial knowledge and experience should be more widely disseminated so as to build a knowledge-intensive, entrepreneurial society.

(3) Developing New Financing Channels for Start-ups

For a start-up or an enterprise undergoing incubation, the potential sources of funding include own capital, loans and direct investment. As far as loans are concerned, the government currently provides special loans for young entrepreneurs and for micro-enterprises. On the investment side, in 2003 the MOEA began to allocate funds from the SME Development Fund for the establishment of “SME Start-up and Incubation Trust Investment Accounts,” targeting those SMEs that had been in existence for less than five years or that were currently located in an incubator center.

The SME Development Corporations and private venture capital firms also constitute potential sources of investment for SMEs. To maximize their ability to secure funding, SMEs need to focus on strengthening their overall financial structure.

3. Integration of Industry Clustering Models and Strengthening of Supply Chain Management

The integration of industry cluster models will involve the restructuring of center-satellite systems, while at the same time encouraging more intensive utilization of the Internet and of advanced communication tools. Particularly in the areas of marketing and knowledge management, this can help to stimulate the industry cluster effect.

The main emphasis in supply chain management guidance in 2005 has been on helping SMEs to join the global supply chains of transnational corporations. In this area, the SMEA has been working with the Industrial Development Bureau, which has been implementing a Car Part Industry Development Plan. The Plan comprises two main parts: (1) Establishing a quality guarantee system for small and medium-sized car part manufacturers, and helping them to upgrade their production technology and quality management capabilities. (2) Planning and developing new interfaces for linking the operations of part suppliers with those of center manufacturers and trading companies in the areas of inventory management, order processing, purchasing, production scheduling, purchase order forecasting, money flow and information flow. It is anticipated that the implementation of this plan will help SMEs to improve the quality of their products, strengthen their technology development capabilities, reduce inventory costs, cut lead time, and integrate the different standards adopted for e-enablement, thereby reducing the overall cost of e-enablement for SMEs.

4. Strengthening Marketing Capabilities to Take Advantage of Business Opportunities All Over the World

(1) Upgrading Marketing Capabilities

Currently, the manufacturing sector still accounts for the largest share of Taiwan's SMEs. Their small size makes it difficult for these firms to keep up to date with the changes in markets and distribution channels. To help SMEs to secure business

opportunities on a worldwide basis, the government will need to arrange for the relevant agencies to supervise marketing integration. This could include strengthening the functions of industry associations and improving their ability to provide services to SMEs, integrating the specialist capabilities of universities and research institutes, and establishing marketing platforms for individual industry networks to help SMEs develop new markets.

Helping SMEs to bring their operations into line with market needs is another important issue. Some of the strategies that could be adopted in this area would include: helping SMEs to become key suppliers for international corporations, so as to integrate Taiwanese SMEs into global supply chains; providing SMEs with assistance for the establishment of overseas marketing offices to develop new distribution channels; and encouraging SMEs to participate in international activities that can help to strengthen their visibility in international markets.

(2) Developing Community Enterprises and Traditional and Special Local Industries to Create New Jobs at the Local Level

As part of the Executive Yuan's New Home Community Development Plan, the government has been providing guidance for community enterprise development and for the restructuring of traditional commercial districts, while also working to revitalize local industries, encouraging local industries to leverage the potential of local culture, and providing resources for R&D targeting traditional local specialties, so as to help enterprises in rural communities to upgrade and transform themselves. The development of local industries also helps to create a wider range of new jobs in local communities, encouraging young people to come back to these communities to work or to start their own businesses.

5. Helping SMEs to Secure Financing

(1) Development of a Comprehensive SME Finance Guidance Network

Difficulty in securing financing by SMEs is often related to unsatisfactory financial management systems. However, examination of the guidance mechanisms as they exist today shows that the guidance resources applied to financing issues have not been sufficiently well integrated with the SMEs' own financial management resources,

making it difficult to create synergy. In the future, more attention will need to be paid to ensuring flexible guidance system interaction.

(2) Helping SMEs to Obtain Working Capital

a. Strengthening the Intermediary Role of the Banks

In order to strengthen the banks' ability to provide SMEs with working capital, the Financial Supervisory Commission (FSC) will be drawing up performance appraisal standards with respect to the provision of loans to SMEs. The appraisal results will be used as the basis for applying different levels of incentive measures, so as to encourage banks to be more active in the provision of financing to SMEs. The aim is to increase total outstanding bank loans to SMEs by NT\$200 billion.

The government will also need to review the various categories of low-interest loans that are currently available to SMEs, including loans for reducing environmental pollution, reducing operating costs, helping SMEs to secure factory sites, and strengthening their competitiveness, etc. Those schemes that have proved successful should be expanded, so as to enhance the range of funding channels available to SMEs.

b. Developing a More Diversified Range of Financing Channels to Help SMEs Obtain Working Capital

In the last few years, direct financing has come to play an increasingly important role in the Taiwanese economy. This has helped to increase the range of funding channels available to SMEs; enterprises can adjust their financing strategy depending on the stage that they have reached in the enterprise growth process. For example, in the early stages of business start-up an enterprise will be mainly dependent on own capital, in the growth stage it will be able to access bank loans, and once the enterprise has reached maturity it will be able to obtain financing from the capital markets or make use of other financial products.

Many SMEs have reported that the main problem they experience when trying to secure financing is that the banks' criteria for approving loans are too rigorous. In some cases, financial statements do not provide an accurate picture of an enterprise's true worth. To get round this problem, SMEs need to achieve higher levels of transparency, and to strengthen their internal controls and accounting systems, thereby

making it easier for themselves to secure financing. At the same time, the government should be working to educate SMEs regarding the importance of having an impressive balance sheet.

As part of its efforts to support industrial development and create an environment conducive to the development of knowledge-intensive industries, the government, working through Taiwan's financial institutions, has been working to develop innovative new channels for SME financing. These include the introduction by the SME Credit Guarantee Fund of batch-type credit guarantees, whereby risk control measures for individual guarantees are relaxed, thus simplifying the procedures that financial institutions have to complete and helping SMEs to obtain the financing they need.

c. The SME Credit Guarantee Fund – Focusing on Diversification

In January 2004, the Executive Yuan approved a plan for the transformation of the SME Credit Guarantee Fund. Five main strategies would be adopted to achieve this transformation: expansion of the direct credit guarantee mechanism; the introduction of new enterprise appraisal systems; diversification through the rollout of innovative new credit guarantee services; putting the Fund's operations on a sound financial footing; and strengthening the service capabilities. It was anticipated that the implementation of these strategies would help to give SMEs easier, smoother access to financing, while at the same time contributing to the achievement of the government's industrial policy goals, and achieving more effective integration of guidance resources, including the centralization of credit databases and the development of more advanced credit risk management techniques.

In line with the adoption of the new transformation strategy, the SME Credit Guarantee Fund has adopted various measures to develop new funding sources and reduce expenditure. The Fund has also set up a dedicated risk control department, and has introduced new human resources performance appraisal systems. It is anticipated that these measures will help to gradually reduce the Fund's deficit and improve the quality of the service that it provides.