

# Chapter 10

## SME Guidance Policy and Measures

With the worldwide development of the knowledge economy, innovation and speed have become the two cornerstones that support enterprise value creation and the achievement of perpetual operation. Under these challenging circumstances, besides restructuring, Taiwanese industry also needs to focus on the development of high value-added products and the upgrading of service quality. Faced with the impact of World Trade Organization (WTO) accession, the magnetic pull that China has been exercising on the world's manufacturing industry, and the potential impact of the ASEAN Free Trade Area (AFTA), only those small and medium enterprises (SMEs) that are prepared to be constantly learning, constantly upgrading and transforming themselves and constantly seeking innovation will be truly competitive in global terms.

To build Taiwan into an ideal location for SME startup and development, the main emphasis of the Small and Medium Enterprise Administration (SMEA) of the Ministry of Economic Affairs (MOEA) when formulating SME policy has been to strengthen the overall management guidance function, integrate financial and financing mechanisms, help SMEs to upgrade their IT capabilities, build up SME incubator platforms and create an overall environment conducive to the development of SMEs. The drawing up and revision of SME development strategy takes into account the changes in the economic situation both in Taiwan and in the global economy as a whole, and considers both SMEs' current and future needs. The government also seeks to devise appropriate ancillary measures that will help to boost SME competitiveness, help SMEs to collaborate with and provide mutual assistance to one another, and promote the steady development of Taiwanese industry as a whole.

The guidance policies and measures implemented by the government in 2004 to promote the development of SMEs are discussed in the following sections.

# I Creating an Environment Conducive to SME Development

## 1. Analysis of the SME Business Environment

The promulgation of the SME Development Statute in 1991 marked the beginning of a new era in the government's provision of guidance to SMEs; from now on, SME guidance would be implemented on a systematic basis through carefully formulated plans. The analysis of SME-related activity in this section comprises two main elements: (1) Statistical surveys of SME economic activity, and analysis of the results. (2) Research and planning in the area of SME guidance policy and measures. Implementation results for 2004 are summarized in Table 10-1-1.

## 2. Implementation of SME Manpower Assistance Plans

On the bases of the discussion of the unemployment problems and related economic issues at a meeting chaired by President Chen Shui-bian on November 18, 2002, the Council for Economic Affairs formulated the concept of "creating jobs through the promotion of public services." Having studied the experience of governments in Europe, the US and South Korea, it was anticipated that the adoption of this strategy would lead to the creation of a large number of jobs in a relatively short time frame, and would serve as a model for other projects. On February 6, 2003, the President promulgated the *Provisional Statute for the Expansion of Employment through Public Services*; the *Measures Relating to SME Manpower Assistance* were subsequently drawn up in accordance with Paragraph 2 of Article 3 of this *Provisional Statute*.

On June 18, 2003, the SMEA began to implement a manpower assistance program in accordance with the above-mentioned *Provisional Statute* and *Measures*. The scope of assistance was expanded from middle-aged and older workers to include all workers aged 18 or over; the government allocated a budget of NT\$3 billion to encourage enterprises to recruit from among the unemployed and among young people who had yet to find their first job. As of the end of 2004, the number of employees recruited by enterprises under this project had reached 51,488, exceeding the target of 32,000 set by the Executive Yuan. Taking the employed population to be approximately 9.6

million people, the program had succeeded in reducing the unemployment rate in Taiwan by around 0.3 percentage points. Enterprises continued to employ 65% of the workers taken on under the project even after the government subsidies ended; the project was thus creating long-term, rather than short-term employment opportunities. Survey results showed that 79.8% of enterprises that applied for employment subsidies under the plan were satisfied with the way the project had been implemented.

**Table 10-1-1 Research and Analysis Focusing on the Economic Activity of SMEs in 2004 – Work Items and Implementation Results**

Work Item	Explanation	Results
Implementation of statistics surveys relating to SME economic activity, and analysis of the results	<p><b>1. SME trends survey</b> In order to gain a clearer picture of the current state of SME operation and of the major trends affecting them, the government undertakes statistical surveys and analysis of the results. The <i>White Paper on Small and Medium Enterprises in Taiwan</i> contains 10 chapters focusing on SME finances, marketing, overseas investment, labor utilization etc. The <i>White Paper</i> is published in both English and Chinese versions, and comes with a CD containing supplementary information. All of the information contained in the <i>White Paper</i> is posted on government websites so as make it as widely available as possible.</p>	1,300 copies of the Chinese version published, 800 copies of the English version published, 300 CDs produced
	<p><b>2. Research on particular issues relating to SMEs</b> The government undertakes research on specific issues relating to SMEs' economic activity in light of the changes taking place in the economic environment as a whole. The studies that have been undertaken include research on the impact of the Severe Acute Respiratory Syndrome (SARS) epidemic on Taiwan's SMEs, and on business start-up by female entrepreneurs in Taiwan. All of the results of this research is included in the <i>White Paper</i>, and is made available to government agencies for their reference when formulating policy.</p>	Three research reports
SME guidance policy measure research and planning	<p><b>1. Undertaking research on SME guidance policy measures</b> The Small and Medium Enterprise Administration undertakes research on policy issues and issues of immediate importance on an ongoing basis, to serve as a basis for the formulation of SME guidance policy and for the reference of the Executive Yuan when reviewing SME policy. The areas covered by this research include: the planning of guidance strategy for special local industries and community SMEs; feasibility studies for the establishment of local government SME guidance organizations as foundations; multi-level SME guidance strategy planning; the impact of the new state pension system on SMEs; the positioning and promotion of incubator centers for SMEs; feasibility studies for the extension of alternative military service to include R&amp;D work in SMEs; statistical analysis of the standards used to determine SME status; the impact of rising iron and steel prices on SMEs, and the response measures available; the impact of the tax incentives provided for by the section of the SME Development Statute covering start-up and the cultivation of innovation; comparative analysis of the legal framework for SME guidance in Japan; the impact of rising oil prices on SMEs, and the response strategies available.</p>	11 research reports
	<p><b>2. The holding of conferences to discuss SME guidance strategy and of seminars bringing together representatives of government, industry and universities</b> In line with the needs of SME guidance strategy promotion, SME guidance strategy conferences and seminars bringing together representatives of government, industry and academia are held on a regular basis. The conclusions reached at these conferences and seminars are submitted to the government agencies responsible for SME guidance, to serve as a reference in policy formulation. Topics considered at conferences and seminars in 2004 included the planning of guidance strategy to promote the development of special local industries and community SMEs, and the development, positioning and promotion of SME incubator centers.</p>	Two conferences/ seminars

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

### **3. Adjusting the Legal Framework for SME Operation**

The fairness or lack of fairness of the legal environment has a major impact on SMEs' ability to compete in the marketplace and on whether SMEs are able to survive and flourish. Besides consulting SMEs regarding the need for revision of the law or enactment of new laws, the government also commissions research institutes to study the legal framework under which SMEs operate, and invites academics and experts to attend conferences and public hearings to discuss the adjustments that may need to be made to existing legislation. All completed reports are submitted to the executive branch for its reference when revising existing laws or formulating new legislation. The main work items for 2004 were as follows: (1) Research into the revision of existing SME-related laws and regulations and into ensuring that SMEs' rights are protected. (2) Encouraging the development of legal affairs systems within SMEs and the provision of legal affairs consulting services.

## **II Building Up the SME Start-up Incubation Platform**

### **1. Establishment of an SME Start-up Knowledge and Information Platform**

Given the rapid development of information technology and of the knowledge economy worldwide, entrepreneurial activity today needs to combine innovation with information and knowledge, with a focus on the ongoing development of innovative products and on the transformation of existing industries into knowledge-intensive industries. With the diversification of consumer needs that has accompanied the diversification of society as a whole, new types of service industry have emerged, and there has been a steady increase in the number of Small Office / Home Office (SOHO) type businesses being set up. However, new products and new business areas are generally characterized by a high level of risk. SMEs in these fields are faced with a variety of challenges, including problems with financing, technical obstacles, limited availability of specialist talent, difficulty in securing access to market information, problems with business opportunity matching and with management coordination, etc.

To help overcome these problems, the government has established a comprehensive set of start-up incubation mechanisms, along with channels for supporting the development of specialist technology. There is thus a learning platform in place to assist entrepreneurs looking to establish a new enterprise, making it that much more likely that such entrepreneurial activity will be successful.

The seven main work items in this area in 2004 were as follows: (1) Provision of consulting services for business start-up. (2) Stepping up the publicization of start-up and innovation promotion. (3) Promoting the establishment of business start-up and innovation learning institutes. (4) Establishment of more “Start-up Dream Factories.” (5) The holding of the Third Annual TIC Awards for new businesses. (6) The holding of conferences to exchange experience in the field of business start-up. (7) The holding of training courses for entrepreneurial talent.

## **2. Strengthening the Functions of the SME Incubation System**

Promoting the establishment of new enterprises is a key element in the government’s strategy to reinvigorate Taiwan’s economy, reduce unemployment and boost the competitiveness of Taiwanese industry. In line with its strategy of developing Taiwan into an ideal location for SME start-up, growth and development, in 2002 the government formulated the Asia Entrepreneurial Development Center (AEDC) plan, aiming to build up a comprehensive SME incubation platform that would integrate incubator centers, access to knowledge and information, and venture capital funding. Promotion of incubator center establishment began in 1996; within the space of eight years, a total of 1,883 enterprises had benefited from SME incubation services, of which 12 went on to secure stock market or OTC listing. As of the end of 2004, there were 82 incubator centers in Taiwan. Three of these were established directly by the SME Development Fund, and the Fund provided support for the establishment of 71 others, so as to strengthen Taiwan’s overall incubation capabilities.

## **3. Focusing on Human Resources Development and Training**

With the changes that have been taking place in the international business environment, helping SMEs to keep their finger on the pulse of change in the knowledge economy and to implement lifelong learning have become key elements in the process of

boosting SMES' core competitiveness. The small size of SMEs, coupled with their high employee turnover rates, has made the issue of manpower quality that much more important. The government in Taiwan has been working to promote lifelong learning mechanisms, encouraging the adoption of diversified manpower cultivation planning, and encouraging the sharing of experience, so as to help SMEs to upgrade the quality of their employees and of their specialist expertise, thereby contributing to the formation of a consensus regarding industrial development and instilling new vitality into Taiwanese SMEs as a whole. The five main work items in this area in 2004 were as follows: (1) Promoting plans for training center establishment. (2) Organizing training courses for specialist talent. (3) Cultivation of management guidance experts. (4) The holding of conferences to forecast future development and propose response strategies. (5) Ongoing promotion of the lifelong learning system.

#### 4. Active Participation in International SME Activities

The important role that SMEs have played in Taiwan's economic development is widely recognized all over the world. Participation in the activities of international organizations not only helps to increase the visibility of Taiwan's SMEs, it also gives Taiwan the opportunity to share with other countries its experience in SME development, to learn from the experience of others, and to develop new business opportunities and new opportunities for international collaboration, thereby furthering the achievement of perpetual development by Taiwan's SMEs. Taiwan has participated actively in the activities of APEC and in OECD-related activities; it also participates in the activities of non-governmental organizations such as the ICSB, ISBC and APO. In 2004, Taiwanese delegations attended international conferences in Amman and in Russia, and Taiwan hosted an APEC forum on incubator center development. The key work items undertaken in 2004, and the implementation results, are summarized in Table 10-2-1.

**Table 10-2-1 Taiwan's Participation in International SME Activities in 2004**

Work Item	Explanation
Participation in SME-related international conferences organized by APEC	1. Participation in the APEC SME ministerial meeting The 11 <sup>th</sup> APEC SME Ministerial Meeting was held in October 2004 in Santiago, Chile. Deputy Minister Shih Yen-shiang of the MOEA led the Taiwanese delegation. Vice Minister Shih gave the introductory address – "Policies and Measures for Promoting Development" on the section of "Innovation and Technology," to an enthusiastic response. The other participants supported the proposal that the 2005 APEC SME Work Team Meeting should be co-hosted by Taiwan and South Korea; there was also support for the holding of bilateral negotiations between Taiwan and Chile, South Korea, Peru and Vietnam.



**Table 10-2-1 Taiwan's Participation in International SME Activities in 2004 (continued)**

Work Item	Explanation
Participation in SME-related international conferences organized by APEC	<b>2. Participation in APEC meetings relating to private-sector economic and trade collaboration</b> Twenty Taiwanese SMEs formed an SME delegation to attend the APEC "Expo Alimentaria 2004" agricultural and food exhibition in Chile. Together with representatives of Taiwan's Chinese International Economic Cooperation Association (CIECA), they took part in bilateral private sector economic and trade collaboration discussions with several countries, including Peru, Chile and Colombia. As a result of the Taiwanese SMEs' participation in the exhibition, Taiwanese firms secured business opportunities in Chile worth approximately US\$7.5 million.
	<b>3. Participation in APEC work meetings</b> Taiwanese delegations participated in the 18 <sup>th</sup> and 19 <sup>th</sup> APEC SME Work Team Meetings, an APEC conference on the entrepreneurial spirit, and the 3 <sup>rd</sup> Micro-enterprise Work Team Meeting, etc.
	<b>4. Participation in APEC SME conferences</b> Taiwan sent delegations to attend the APEC IBIZ Coordination Committee Meeting held in Canada in March 2004, the APEC SME Interaction Conference held in Russia in June 2004, the APEC SME e-Enablement Policy Forum held in South Korea in July 2004, the APEC SME Network Promotion Forum held in Japan in October 2004, the APEC SME Policy Implementation Collaboration Meeting, etc. The papers read out at these meetings by the Taiwan delegations helped to publicize Taiwan's achievements in SME development.
Attendance at OECD meetings and the meetings of various SME related organizations	<b>1. Attendance at OECD meetings</b> The OECD is an organization in which Taiwan is actively seeking to secure participation. In June 2004, Deputy Minister Yen-shiang Shih of the Ministry of Economic Affairs led a Taiwanese delegation to attend the 23 <sup>rd</sup> OECD SME Work Team Meeting, the 2 <sup>nd</sup> OECD SME Ministerial Meeting and four related meetings (a conference on innovation and information and communications technology, a conference on SME statistics, a female entrepreneurship forum and a global business opportunity matching meeting), all held in Istanbul, Turkey, with the status of observers.
	<b>2. Participation in ICSB, ISBC and APO meetings</b> Taiwanese delegations attended the 49 <sup>th</sup> Annual Meeting of the International Council for Small Business (ICSB), held in South Africa in June 2004, the 31 <sup>st</sup> International Small Business Congress (ISBC), held in Poland in September 2004, and an Asia Productivity Organization (APO) conference on enterprise innovation held in Singapore in October 2004.
	<b>3. Participation in international conferences</b> Taiwanese delegations attended the Small and Medium Enterprise Conference held in Amman, Jordan in February 2004 and the 3 <sup>rd</sup> Annual Saudi Arabia Science and Technology Conference held in Riyadh in November 2004 to read papers on Taiwan's experience in SME development, thereby contributing to the development of international collaboration.
Hosting of international SME conferences and other exchange activities	<b>1. Hosting the 2nd APEC Incubator Forum</b> Reflecting Taiwan's enthusiasm for participation in international SME activities and its desire to share its experience in incubator center operation with others, the 2 <sup>nd</sup> APEC Incubator Forum was organized by Taiwan, with assistance from the US and South Korean incubator center associations. The Forum, which was held at the Westin Taipei over the period August 30 to September 2, 2004, was attended by 110 Taiwanese participants and 40 from 17 other APEC member economies, for a total of 150 participants. The theme of the Forum was the provision of assistance to start-ups with respect to marketing and international trade; the participants were full of praise for the organization of the event.
	<b>2. Bilateral collaboration</b> As part of Taiwan's efforts to promote international collaboration and the formation of international strategic alliances by Taiwan's SMEs, a number of collaborative agreements were reached through bilateral negotiations and discussions (in some cases at the ministerial level) between Taiwan and Malaysia, the Philippines, France, Panama, Israel, Mexico, Guatemala, Peru, Vietnam, Germany, Russia and the state of California, thereby helping to strengthen bilateral trading relations with these countries.
	<b>3. Visits by foreign dignitaries</b> Approximately 30 groups of foreign visitors were received at the offices of the SMEA, where they were given presentations on Taiwan's SME guidance policies and measures.

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

## III Upgrading SMEs' IT Capabilities

### 1. Strengthening SMEs' Information Management Capabilities

By improving their capabilities on internal information management and their online

marketing capabilities SMEs will be able to maintain their core competitiveness, improve their positioning and strengthen their operational performance. The government has been working actively to provide guidance to SMEs in the areas of e-enablement and Internet technology, encouraging them to make full use of the Internet to develop new distribution channels, and stepping up the provision of guidance to promote e-business and the enhancement of competitiveness, etc. The key work items for 2004 in this respect were as follows: (1) Promoting e-enablement among SMEs. (2) Encouraging SMEs to make use of the Internet for e-learning purposes. (3) Raising the broadband penetration rate among SMEs. (4) Encouraging the adoption of information management applications by SMEs. (5) Stepping up the development of enterprise services under the government's "e-Plans."

### (1) Promoting e-Enablement among SMEs

The main objectives, and results achieved, in the promotion of e-enablement among SMEs in 2004 are summarized in Table 10-3-1.

**Table 10-3-1 SME e-Enablement – Objectives and Results in 2004**

Work Item	Explanation	Results
Provision of guidance for the establishment of industry-specific online databases and e-business systems	In July 1999, the government began to use the SME Information Management Guidance System to promote the establishment of e-business systems among SMEs. As of 2004, industry-specific online databases and e-business mechanisms (including online request for quote, quotation, price negotiation, technology news and market information provision, etc.) had been established for 58 industries, including the metal casting industry, shoe manufacturing, silk weaving, woven fabric production, cotton fabric dyeing and finishing, the food and pharmaceuticals production machinery manufacturing industry, etc.	10 projects implemented
E-Enablement Service Team activities	The SME e-Enablement Service Team and e-Enablement Deepening Service Team have been set up as a joint effort between government, industry and academia. Besides providing on-site diagnostics service and offering SMEs guidance with respect to e-enablement, the Teams also formulate e-enablement processes and model mechanisms for individual industries, provide assistance with e-enablement appraisal operations, and investigate the degree of improvement that enterprises experience after implementing e-enablement. The e-Enablement Service Team makes use of several different forms of guidance, including short-term diagnostic guidance, regular guidance for individual enterprises, and model enterprise guidance.	Seven service teams established, 700 enterprises assisted, e-Enablement Deepening Guidance provided to 40 enterprises
Expanding the cultivation of e-enablement talent	SME e-enablement talent cultivation has been integrated with e-learning and the provision of guidance by the e-Enablement Service Teams to create a hybrid mechanism for SME e-enablement talent training and SME e-enablement promotion, thereby helping SMEs to cultivate the human resources they require for successful e-enablement.	1,981 instances of cultivation
Making effective use of online marketplaces for market development purposes	The SMEA has provided assistance to several industries (including the hand tool industry, the satin fabric industry and the fastenings industry) in the setting up of online marketplaces, helping them to make use of the relevant mechanisms, and assisting with the collection of information regarding foreign buyers, domestic manufacturers, request for quote and quotations, so as to boost the competitiveness of Taiwan's SMEs in international markets. (1) Assisting with the collection of foreign buyer data. (2) Assisting with the production of lists of domestic manufacturers. (3) Assisting with the organization of request for quote and quotation information.	1,458 enterprises 687 enterprises 260 enterprises

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.



## (2) Strengthening SMEs' e-Learning Capabilities

The main work items and implementation results in the promotion of e-learning among SMEs in 2004 are summarized in Table 10-3-2.

**Table 10-3-2 SME e-Learning Promotion – Objectives and Results in 2004**

Work Item	Explanation	Results
Maintenance of e-learning platforms	Strengthening of system functions, development of a "Business Zone," establishment of new e-learning courses, and integration with online publicization efforts. Besides providing online course selection and e-learning implementation, provision has also been made for tailor-made service functions to meet the needs of individual enterprises.	151,273 visitors to the site
	(1) Establishment of an e-learning "Business Zone" for enterprises. (2) Implementation of two online marketing management courses, one online health and safety education course, and one online enterprise management class. A total of 51,335 individuals took online course in 2004, of which 28,905 completed their courses.	124 enterprises received assistance Four courses provided
Enhancement of e-learning content	(1) Integration of training course information between the SME e-Learning Institute and the Lifelong Learning Network.	3,481 items of information
	(2) Production of teaching materials based on e-adoption case studies.	Seven sets of materials
	(3) Production of case studies based on cases handled by the SME Troubleshooting Center.	Two sets of materials
	(4) Conversion of teaching materials for online use.	23 sets of materials
Selection of e-learning courses and materials	(1) Establishment of a selection committee to improve the selection of materials; holding of related presentations.	Two sessions with 35 attendees
	(2) Public selection of e-learning courses and materials.	66 sets of materials
Vocational skills planning and system development	Content planning for SME e-learning in the areas of information management, finance management and quality management, development of vocational learning guidance and establishment of learning guidance systems.	20 categories
SME e-learning publicization and promotion	(1) Promotion in the media.	Two instances
	(2) Holding of presentations, including presentations focusing on case studies of successful utilization of the SME e-Learning Institute and the SME e-Learning Institute Business Zone. A display of achievements in this area was included in the Taipei Information Month Exhibition.	Six presentations, with 217 visitors
	(3) Printing of direct marketing materials for distribution during publicization and promotion activities.	6,000 copies

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

## (3) Raising the Broadband Penetration Rate among SMEs

The main work items and implementation results in the government's efforts to increase the broadband penetration rate among SMEs in 2004 are listed in Table 10-3-3.

## (4) Promoting the Adoption of Information Management Applications by SMEs

The main work items and results achieved in the promotion of information management application adoption among SMEs in 2004 are summarized in Table

10-3-4.

**Table 10-3-3 Raising the Broadband Penetration Rate among SMEs – Objectives and Results in 2004**

Work Item	Explanation	Results
Helping SMEs to adopt broadband e-enablement infrastructure	Assisting SMEs with the adoption of broadband e-enablement infrastructure, market research and work planning; monitoring the rate at which SMEs are implementing e-enablement through the establishment of broadband Internet access, and adjusting the annual work plans in light of this information.	Provision of assistance to 2,001 enterprises
Establishment of model applications for SME clusters	Organization of service teams to provide consulting and network establishment services for broadband e-enablement infrastructure, and development of model applications for regional and industry-based SME clusters.	Two projects
Publicization of broadband e-enablement applications for SMEs	(1) Holding of presentations and of conferences to discuss case studies. (2) Holding of broadband e-enablement application presentations. (3) Integrating the operations of application service providers (ASPs) and Internet service vendors (ISVs) to collate and organize broadband application solutions and produce broadband e-enablement solution manuals for the reference of business enterprises.	10 conferences with 424 participants Three presentations with 108 participants 2,000 copies

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

**Table 10-3-4 Promoting the Adoption of Information Management Applications among SMEs in 2004 – Objectives and Results**

Work Item	Explanation	Results
Provision of SME e-enablement consulting and diagnostic guidance services	Implementation of short-term diagnostic guidance involving both industry consultants and IT consultants, to assist SMEs with the process of e-enablement, while at the same time collecting information on information management utilization among SMEs for future reference.	100 enterprises
Helping industry associations to leverage the Internet to develop overseas markets	Integration of companies' internal information systems, and leveraging of existing industry-specific online databases and e-commerce systems to provide online request for quote, quotation and price negotiation services, along with mechanisms for the provision of technology and business news, so that SMEs can exploit the potential of e-business in their market development efforts.	6 projects
Exploiting e-learning for manpower cultivation	Utilization of an e-learning environment (with multi-point connections) to promote new IT concepts, and implement manpower cultivation, online seminars etc. (50-hour course)	20 sessions, 2,190 trainees
Information management application guidance	Presentations of results achieved, exhibitions and other promotional activities. The 2004 Information Month activity included a display of SMEs' achievements in the field of e-enablement.	7 sessions, 65,000 visitors

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

### (5) “e-Land” Project Promotion

The main “e-Land” project promotion items (with respect to enterprise management) and the results achieved are summarized in Table 10-3-5.

**Table 10-3-5 Major Enterprise Management Related “e-Land” Project Work Items and Results Achieved in 2004**

Work Item	Explanation	Results
Strengthening the provision of e-Land system platform functions to business enterprises	The government will continue to maintain the enterprise management service e-Land systems established in the previous year, and will expand the software and hardware equipment and network content to improve the functioning of these systems.	—
Development of application systems for enterprise management service e-Land networks	As part of the efforts to develop shared platforms – see <a href="http://esmenet.moeasmea.gov.tw">http://esmenet.moeasmea.gov.tw</a> (Chinese-language site) – the government is developing application systems for use with enterprise management service e-Land networks. These include e-Land portal site member and billing management systems, online analysis systems, online training systems, data mining systems, data warehousing management systems, value-added information analysis operations, content management systems, knowledge management application systems, database inquiry systems for information search systems, desktop systems for integrated customer services, customer relations and project management systems, etc. (1) Establishment of information service website alliances. (2) Publication of SME service magazines. (3) Publication of e-papers. (4) Production of value-added research reports.	4 alliances 11 issues 20 issues 20 reports
Business operation information service network call center	Establishment of an information service call center (0800-221-512) to provide information on SME operation in a timely manner by fax, telephone, over the Internet etc.	—
Collection, processing and adding of value to business data	(1) Collection of business data through surveys and interviews; this information is then collated, classified and put on file. The model used for adding value to the information includes the publication of SME service magazines and e-papers, the establishment of alliances with websites, and the promotion of enterprise management service e-Land network service operations. (2) Visitors to portal site.	29,000 items of data  233,500 hits
Promotional and publicization activities	(1) Holding of conferences and project presentations. (2) Collaborative promotional activities with information websites and the media. (3) Implementation of a user satisfaction survey by the e-Land portal site. 630 valid questionnaires were returned, with the overall satisfaction rate being 89%. The portal site received an average of around 700 hits per day.	10 conferences and presentations, attended by 500 individuals 44 collaborative activities One survey

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

## 2. Promoting Knowledge Management Guidance Service for SMEs

Focusing on “knowledge management and innovation,” the government is promoting the development of SMEs that can make effective use of knowledge to boost their competitiveness. The key work items, and the results achieved in 2004, are shown in Table 10-3-6.

**Table 10-3-6 2004 SME Knowledge Management Plan Work Items and Implementation Results**

Work Item	Explanation	Results
Establishment and maintenance of an SME knowledge management service website	(1) Selection and registration of application software. (2) No. of visitors to site.	22 items 11,000 hits
Diagnostic and guidance service for SMEs in the area of knowledge management utilization and adoption	(1) Diagnostic evaluation and analysis reports for SMEs. (2) Open selection of model SME knowledge management projects. (3) Preparation of digital teaching materials based on case studies of SME knowledge management applications. (4) Open selection of consultants. (5) Holding of consultant training activities. (6) Holding of 45-hour training programs for "seed consultants" in both North and South Taiwan.	300 cases 25 projects 10 sets of materials 120 consultants 3 activities 2 courses, with a total of 64 trainees
Study and analysis of knowledge management application technology	Three SME knowledge management research projects and one SME knowledge management demand and trends analysis project.	4 projects
Cultivation of knowledge management talent	(1) Holding of 90-hour training courses in Northern, Central and Southern Taiwan. (2) Production of digital teaching materials for introductory knowledge management training programs.	30 sessions, with a total of 1,152 trainees 4 sets of materials
Knowledge Management Promotion and Publicization Activities	(1) Holding of knowledge management policy presentations in Northern, Central and Southern Taiwan. (2) Holding of conferences and international forums on current trends in knowledge management. (3) Participation in the Information Month exhibition in Taipei, with the holding of a knowledge management achievements presentation. (4) Production of a knowledge management promotion video. (5) Printing of SME knowledge management application handbooks. (6) Preparation of practical guides to knowledge management implementation. (7) Printing of collected results of SME knowledge management implementation projects.	4 sessions, with 282 participants 1 conference, with 290 participants 1 exhibition, with 115 participants 1 video 1,000 copies 3 guides 200 copies

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

### 3. Provision of Guidance to Help SMEs to Strengthen Their Quality Management Capabilities

In order to speed up the process of industrial upgrading and transformation, and to strengthen the competitiveness of Taiwanese products, the government has been aggressively promoting the adoption of quality management concepts among SMEs. By providing assistance in the establishment of quality management systems and the cultivation of quality management talent, the government is helping SMEs to improve their operational performance, and to upgrade the quality of the products and services they provide. Key work items in 2004 included the promotion of ISO9000

certification, encouragement of innovation in the field of quality management, strengthening of quality management guidance service, implementing quality management training and undertaking consumer protection publicity campaigns, etc.

## IV Strengthening SME Management

### 1. Improving the Quality of SME Management so as to Promote the Upgrading and Transformation of the SME Sector as a Whole

For many years, the vitality of Taiwan's SMEs and their constant striving for innovation was a major factor behind Taiwan's rapid economic development. Recently, however, following the changes that have taken place in both the domestic and international business environment, SMEs have been forced to pay more attention to strengthening the quality and to enhancing their specialist capabilities, so as to be able to keep pace with changes in market demand, develop new products, and increase the value-added of existing products. In 1992, the government established an SME Management Guidance System in the hope that, by putting in place the necessary guidance mechanisms, it could encourage SMEs to strengthen their own management capabilities and upgrade the overall quality of their operations. The six key work items for 2004 were as follows: (1) Strengthen the provision of management guidance to SMEs. (2) Help SMEs to develop their marketing capabilities. (3) Implement a turnkey factory exportation guidance program. (4) Help SMEs to strengthen their technical capabilities. (5) Utilize technology adoption teams to enhance SMEs' competitiveness. (6) Coordinate the integration of guidance system functions.

### 2. Stepping Up Promotional Activities Relating to SME Management

In its efforts to strengthen the provision of services to SMEs, besides working to enhance the functioning of the government service network, the government has also been working with SME organizations to organize activities that can be used to spread

awareness of new legislation and new guidance measures. At the same time, the government has been making active use of both electronic and print media to transmit information that will help SMEs to make more effective use of their existing resources. Various awards are held to honor the achievements of SMEs that have achieved particular success in innovation, R&D or enterprise upgrading, and to honor those individuals and groups that have made an outstanding contribution towards the provision of service to SMEs. These awards include the Little Giant Award, the National Award of Small and Medium Enterprises, the Small and Medium Enterprise Innovation Research Award, and the Outstanding Service Commendation Awards. By publicly honoring these enterprises, groups and individuals, the government hopes to draw attention to their efforts and to the results they have achieved.

### **3. Helping SMEs to Participate in Government Procurement**

Government procurement (including expenditure on construction work, materials and labor) accounts for over 40% of the government's annual budget (with most of the rest going on personnel related expenses). However, SMEs' efforts to secure government procurement business opportunities often end in failure because of unfamiliarity with the relevant laws, regulations and procedures. To help SMEs to participate in government procurement, Articles 37 and 38 of the section of the SME Development Statute covering public purchasing and public construction were formulated to provide a basis for SME participation in these activities. In addition, the July 1997 revision of the Constitution included a clause intended to protect SMEs' rights in this area. Article 97 of the Government Procurement Law, which was promulgated in May 1999, clearly stipulates that the regulatory authorities may take appropriate measures to help SMEs to secure a specified share of government procurement business opportunities. The SMEA has been working actively to help overcome the various problems that have inhibited SME participation in government procurement in the past. The Administration's key work items for 2004 were as follows: (1) Provision of information regarding government procurement opportunities and provision of consulting services relating to the Government Procurement Law. (2) Holding of seminars regarding SME participation in government procurement activities. (3) Ongoing statistical analysis of the level of SME participation in government procurement in Taiwan.



#### **4. Ensuring Effective Utilization of SME Service Resources at the Local Level**

In order to expand both the depth and breadth of SME service work, beginning in 1992 the government (working through the Industrial Development and Investment Promotion Committees in each county and city) began to establish SME Service Centers in every county and city in Taiwan to serve as a “service window” and facilitate the integration of local resources. In 1996, Taiwan adopted a system that had previously been used in the US and Japan, appointing “honorary SME guidance personnel” who would provide assistance to SMEs on a voluntary basis to help them strengthen their competitiveness. The key work items for 2004 in this area were as follows: (1) Strengthening the functions of the local SME Service Centers. (2) Continuing with the promotion of the “honorary SME guidance personnel” system.

#### **5. Expanding the Development of Traditional and Special Local Industries**

In recent years, examples of the successful development of traditional and special local industries have been found in countries all over the world. Taiwan is no exception to this trend; regions that had been in decline due to the outflow of population to other parts of the country have seen traditional industries revive, and have seen the development of new industry clusters that make effective use of local resources. In order to foster the growth of local industries and help in the rebuilding of local communities, the government implemented two programs to provide guidance for the development of local industries and community enterprises, with implementation beginning in 1989 and 1994 respectively. In 2003 these programs were incorporated into the New Home Community Development Plan forming part of the government’s Challenge 2008 National Development Plan. Under this new Plan, the government has worked to build up the infrastructure and mechanisms needed to promote the formation of alliances among traditional and special local industries and among community industries. A variety of guidance measures are being used to help upgrade the capabilities of small enterprises, and to revitalize both local industries and local communities as a whole. It is estimated that, in 2004, the implementation of this Plan helped to boost the operating revenue of the industries concerned by NT\$150 million, and created 1,400 new jobs.

## **6. Promoting the Establishment of Networks for Mutual Assistance and Collaboration among SMEs**

In the face of today's rapidly changing business environment, besides working to strengthen their own capabilities, SMEs also need to make effective use of strategic alliances, intra-industry collaboration and cross-industry exchange. By collaborating with one another, SMEs can build economies of scale; by sharing technical, production, sales and IT resources, they can compensate for those areas in which, individually, they are weak, working together to boost competitiveness. Recognizing that the establishment of mutual assistance networks among enterprises is no easy task, the government has sought to play the role of enabler, or a bridge between enterprises. The four main work items in this area in 2004 were: (1) The provision of guidance for collaboration and exchange associations. (2) Guidance for individual collaborative projects. (3) Guidance for industry cluster formation. (4) Promotion and publicization of mutual assistance and collaboration efforts.

## **V Integration of SME Financing Mechanisms**

### **1. Provision of Consulting and Guidance Services for Financing**

To help overcome the various problems relating to SME investment, upgrading, transformation and guidance, such as availability of land for factory construction, access to market and technical information, the tax burden (including import duty) etc., in May 1996 the SMEA established the SME Troubleshooting Center to handle queries, appeals and requests for assistance from SMEs. During the past nine years, the Center has provided service to more than 20,000 SMEs. Over 80% of the problems for which the Center provided assistance were related to financial matters; more than 500 SMEs that would otherwise have been forced to close down were able to remain in business, thereby protecting the jobs of almost 30,000 workers. With the changes in the structure of the Taiwanese economy, unemployment has become a serious issue. The SMEA has begun providing business start-up guidance service for the unemployed to help the middle-aged unemployed set up their own businesses. The two key work items in 2004 were: (1) Improving the service provided by the SME Troubleshooting Center; (2) Provision of guidance and consulting services with

respect to micro-enterprise start-up by the middle-aged unemployed.

## **2. Helping SMEs to Strengthen Their Accounting Systems and Improve Their Financial Management Capabilities**

To help SME owners and their accounting or bookkeeping personnel to establish appropriate accounting systems, in 2003 the government began planning work for the “SME Finance College – Manpower Cultivation Plan for the Establishment of Sound Accounting Systems.” This Plan provides for a series of training and publicization activities, together with the strengthening of financial consulting services, so as to make it easier for SMEs to obtain funding.

The plan focuses mainly on SMEs in the manufacturing sector with paid-in capital of at least NT\$30 million, or with at least 50 full-time employees, and those in the service sector that posted annual operating revenue of at least NT\$30 million in the previous year, or that have at least 20 full-time employees, giving priority to the training of accounting managers or chief accountants.

In 2004 implementation of “sound corporate accounting system, financial manager and financial management consultant training” programs began in Northern, Central and Southern Taiwan, with a total of 919 individuals receiving training. The training course content included: methods whereby SMEs can establish a sound accounting system in response to the changes in the business environment, the Commercial Accounting Law and Commercial Accounting Principles (including the principles governing cross-investment accounting), the types of internal auditing and internal control systems that SMEs should seek to establish, cost management and target cost accounting systems, financial accounting and financial report preparation, accounting practice, the legal framework, etc.

## **3. Helping SMEs to Secure Financing**

### **(1) Helping SMEs to Obtain Financing through the SME Financing Guidance System**

Prior to the establishment of the SME Financing Guidance System, the SME Joint Guidance Center was responsible for providing general guidance and financing

assistance. Financing assistance targeted those SMEs in strategically important industries and industries with significant development potential that had sought financing from banks and been refused; the Center also provided management and financing diagnostic services. The SME Financing Guidance System was set up in July 1992 to coordinate the activities of the relevant guidance providers and encourage their participation in SME financing guidance. In recent years, the System has handled an average of nearly 300 SME financing diagnostics cases a year. The provision of financing was recommended in around one third of these cases, with the average total amount of recommended financing exceeding NT\$1 billion per year.

## (2) Project Financing Loans

SME Project Financing Loans use various government funds to achieve specific objectives or guide the direction taken by industrial development; they may be employed independently or in collaboration with bank loans. The number of project financing loans awarded as of the end of 2004, along with the number of enterprises receiving loans and the total amount of loans, are shown in Table 10-5-1.

**Table 10-5-1 SME Project Loan Financing Cases and Loan Amounts as of the End of 2004**

Loan type	Cumulative cases of approved loans (cases)	Cumulative amount of approved loans (NT\$ million)
SME Upgrading Loans	27,712	177,121
Loans for the Purchase of Automation Equipment	6,575	350,973
September 21, 1999 Earthquake Reconstruction Loans	1,933	16,069
Loans for the Revitalization of Traditional Industries	3,071	29,548
SME Development Fund Project Loans	3,302	46,845
SME Root Establishment Project Loans	10,607	142,641
SME Mini-Loans	118,262	118,053
Young Entrepreneur Loans	17,806	22,075
Traditional Industry Project Loans	198,801	1,609,906
Micro-enterprise Start-up Loans	4,631	3,837

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

## (3) Helping SMEs to Secure Financing through the Provision of Credit Guarantees by the SME Credit Guarantee Fund

SMEs are the foundation on which the Taiwanese economy rests. However, SMEs often find it difficult to secure financing from financial institutions, it is because of

their small size, concerns about repayment ability, lack of collateral, or their unsound accounting systems. To help overcome this problem, in 1974 the government established the SME Credit Guarantee Fund to implement government policy with respect to SMEs, help SMEs to overcome the problems they were experiencing due to lack of collateral when trying to secure financing, increase financial institutions' willingness to lend to SMEs, and help other guidance providers to improve the effectiveness of their SME guidance.

In January 2004, the Executive Yuan formulated a development plan for the SME Credit Guarantee Fund. This plan encompassed five main development and transformation strategies – expansion of the direct credit guarantee mechanism, promotion of new appraisal systems, development of innovative new credit guarantee services, putting the SME Credit Guarantee Fund on a sound financial footing, and enhancing the efficiency of service provision. It was anticipated that the implementation of these strategies would help to improve SMEs' ability to secure financing, open up new financing channels, facilitate the implementation of the government's industrial policy, bring about better coordination of guidance resources, leverage the power of centralized credit databases, and help to improve risk management techniques. As part of the transformation program, besides working to develop new revenue sources and cut back on unnecessary expenditure, the SME Credit Guarantee Fund will also be setting up a new risk management department, and introducing new performance appraisal systems, so as to gradually reduce the loss that the Fund makes and improve the performance of its staff, so that it can continue to function as an important source of support for Taiwan's SMEs.

#### **a. The Functions of the SME Credit Guarantee Fund**

SME credit guarantee mechanisms can now be found all over the world; they are particularly high developed in Asia. The chief functions of such mechanisms are summarized in Table 10-5-2.

#### **b. Developing New Types of Credit Guarantee Service at the Government's Request**

Besides providing regular credit guarantee service for SMEs, the SME Credit Guarantee Fund has expanded the scope of its operations at the government's request

to include various new types of credit guarantee service. These new services are listed in Table 10-5-3.

**Table 10-5-2 The Functions of Taiwan's SME Credit Guarantee Fund**

Function	Explanation
Bridge function	The main function of the SME Credit Guarantee Fund is to serve as a financing bridge between banks and SMEs. By providing credit guarantees for those SMEs that are unable to provide sufficient collateral of their own, the Fund helps these SMEs to secure financing. From its establishment in July 1974 until the end of December 2004, the Fund provided a total of 2,598,154 credit guarantees, amounting to NT\$3,001.5 billion. These guarantees helped SMEs to secure financing worth NT\$4,287.6 billion; they have thus made a significant contribution to the growth of Taiwan's SMEs and to the development of the Taiwanese economy as a whole.
Acquiring new collaborative partners	Taiwan's SME Credit Guarantee Fund has signed agreements for the provision of credit guarantee services with 45 Taiwanese financial institutions. In December 2004, the Hualien Second Credit Cooperative Association signed an agreement to join the credit guarantee mechanism, becoming the first credit cooperative in Taiwan to provide SME financing through this mechanism. Subsequently, the Tainan Third Credit Cooperative Association joined the SME credit guarantee mechanism too, on February 23, 2005. SMEs can now take advantage of the credit guarantee system to obtain financing at more than 4,000 financial institution branches throughout Taiwan. At the same time, collaboration with financial institutions enables the SME Credit Guarantee Fund to extend its reach throughout the country while at the same time maintaining a lean, vigorous organizational structure. As of the end of 2004, the amount of outstanding credit guarantees provided by the Fund exceeded NT\$1 billion in every county and city in Taiwan except Taitung County, Penghu County and Kinmen County, reflecting the high level of penetration that the credit guarantee system has achieved.
Staged assistance function	Most enterprises find that, after using the credit guarantee mechanism for several years, as the enterprise's financial health improves and it begins to establish a more impressive credit record, it is able to secure financing directly from banks, or from the capital markets, without the need for credit guarantees. The SME Credit Guarantee Fund thus provides credit guarantees to SMEs when the level of risk is highest. Once an SME grows strong enough to secure financing directly from the banks without needing a credit guarantee, the Fund's task is over with respect to that SME.
Credit guarantees are provided mainly to small enterprises	According to the SME Credit Guarantee Fund's statistics, as of the end 2004, 69.46% of outstanding credit guarantees granted to SMEs were for NT\$2 million or less, 88.56% were for NT\$5 million or less, and 95.65% were for NT\$10 million or less. 96.56% of the enterprises that had been granted credit guarantees had capitalization of NT\$30 million or less. It can thus be seen that small enterprises continue to constitute the main recipients of SME Credit Guarantee Fund credit guarantees.

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

### **c. Provision of Credit Guarantees by the SME Credit Guarantee Fund – Achievements**

In 2004, the SME Credit Guarantee Fund provided 265,139 credit guarantees with a combined value of NT\$315,658 million, helping 126,457 enterprises to secure financing worth NT\$517,037 million from financial institutions. 256,767 of the credit guarantees were not supported by special government funds; these guarantees had a combined value of NT\$300,278 million, and helped SMEs to secure financing worth NT\$494,524 million from financial institutions. As of the end of 2004, the total amount of outstanding credit guarantees was NT\$292,650 million, representing an



increase of NT\$94,396 million (or 47.61%) on the end of 2003. The amount of loans outstanding stood at NT\$464,703 million, representing an increase of NT\$140,358 million (or 43.27%) on the end of 2003. The number and value of the various types of credit guarantees as of the end of 2004 are shown in Table 10-5-4.

**Table 10-5-3 Types of Credit Guarantee in Taiwan**

Credit Guarantee Item	Explanation
Credit guarantees for Young Entrepreneur Loans	In October 1986, the SME Credit Guarantee Fund began to provide credit guarantees for Young Entrepreneur Loans, with the aims of helping young people to set up their own businesses, creating new jobs, and contributing to national economic construction.
Credit guarantees for Brand Development Loans	In October 1990, the SME Credit Guarantee Fund began to provide credit guarantees for Brand Development Loans, with the aim of helping Taiwanese enterprises to establish and promote their own brands for the development of international markets; the scope of implementation of these credit guarantees included not only SMEs but also large enterprises.
Credit guarantees for Traditional Industry Loans	In line with the government's policy of encouraging the upgrading and transformation of traditional industries, in October 2000 the SME Credit Guarantee Fund began to provide credit guarantees for Traditional Industry Loans. The reaction to this new service was extremely positive, and the outstanding credit guarantee balance has risen to NT\$1.7 trillion. Financing categories include short and medium-term working capital loans and also capital expenditure financing.
Credit guarantees for Earthquake Reconstruction Loans	In addition to providing credit guarantees for Earthquake Reconstruction Loans following the September 21, 1999 earthquake (and the October 22 earthquake that followed), beginning in June 2001 this was expanded to include provision of credit guarantees for Loans for Enterprises Affected by Earthquakes, with the aim of helping both enterprises that had been directly affected by the earthquakes and those that had been indirectly affected to rebuild their productivity and competitiveness. Provision of credit guarantees under this program was not limited to SMEs; the Ministry of Economic Affairs allocated NT\$2 billion to cover the credit guarantee risk.
Credit guarantees for Micro-enterprise Start-up Loans	In order to help the middle-aged unemployed to start new businesses (thereby creating new jobs), in January 2003 the SME Credit Guarantee Fund began to provide credit guarantees for Micro-enterprise Start-up Loans.
Credit guarantees for R&D Loans for Industrial Upgrading	In line with the government's policy of helping business enterprises to secure financing for R&D activity, in January 2003 the SME Credit Guarantee Fund began to provide credit guarantees for R&D Loans for Industrial Upgrading
First-stage Direct Credit Guarantees	In line with the government's efforts to strengthen the provision of financing to SMEs, a new initiative was introduced whereby those SMEs that display strong capabilities in the areas of R&D, operational management or marketing can apply directly to the SME Credit Guarantee Fund for credit guarantees, and then use these credit guarantees to secure financing from financial institutions.
Credit guarantees for Knowledge Economy Enterprise Financing	With the dawning of the era of the knowledge economy, the SME Credit Guarantee Fund has begun to provide credit guarantees for Knowledge Economy Enterprise Financing loans to help enterprises with strong capabilities in the areas of innovation, R&D, new product development or new technology development to secure financing.
Batch-type Credit Guarantees	In order to meet the development needs of Taiwanese industry and help SMEs to secure the low- interest loans that they need, batch-type credit guarantee provision based on overall risk has been introduced.

Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

There is good evidence to show that the availability of credit guarantees helps SMEs to grow stronger. Of the 138 SMEs that have won the National Award of Small and Medium Enterprises over the years, 108 had previously been recipients of credit guarantees from the SME Credit Guarantee Fund; the same was true of 92 of the 125

winners of the Little Giant Award and 251 out of the 435 winners of the Small and Medium Enterprise Innovation Research Award. Furthermore, more than 2,000 of the SMEs that have been granted credit guarantees in the past have since grown sufficiently large to be classed as “large enterprises” rather than SMEs; 663 have secured stock market or OTC listing.

**Table 10-5-4 Cases and Value of Individual Types of Credit Guarantee as of the End of 2004**

Type of Credit Guarantee	Cases of Guarantees Provided	Value of Guarantees Provided (NT\$ million)
Credit guarantees for Young Entrepreneur Loans	7,570	4,959
Credit guarantees for Brand Development Loans	91	2,046
Credit guarantees for Traditional Industry Loans	31,469 (19,470)	114,328 (57,623)
Credit guarantees for Earthquake Reconstruction Loans	313	1,895
Credit guarantees for Micro-enterprise Start-up Loans	4,412	3,641
Credit guarantees for R&D Loans for Industrial Upgrading	106	1,543
First-stage Direct Credit Guarantees	13	59
Credit guarantees for Knowledge Economy Enterprise Financing	8	140
Batch-type Credit Guarantees	–	43,000

Note: Figures in parentheses are the data for SMEs in the case of loans available to both SMEs and large enterprises.  
Source: Small and Medium Enterprise Administration, Ministry of Economic Affairs.

#### 4. Helping Newly Established SMEs to Secure Working Capital

At the 30<sup>th</sup> Meeting of the SME Development Fund Management Committee it was decided that, in order to channel investment towards newly established SMEs with strong growth potential, thereby contributing to the upgrading of Taiwanese industry, funds would be allocated from the SME Development Fund to set up “SME Incubation Investment Trust Accounts.” Having secured the approval of the Executive Yuan, a group of trust banks and asset management companies were selected (through an open, transparent process) to manage these accounts. At the same time, platforms such as the Taiwan Innovation Competition and innovation fairs would be used to establish “seed capital” investment benchmarks, thereby helping to stimulate exchange in the area of enterprise start-up and to encourage venture capital firms (both in Taiwan and overseas) to invest in new start-ups.

In October 2003, “SME Incubation Investment Trust Accounts” began to be

established for newly established SMEs that had been in existence for less than five years, SMEs that were being cultivated by incubator centers and SMEs that had been implementing a process of transformation or upgrading – with new products, new technology, new production equipment or a new brand – for a period of less than five years. It was anticipated that NT\$2 billion would be allocated to this program over a period of four years. As of the end of 2004, 28 SMEs with strong development potential had already received investment through this program; with the addition of investment from private venture capital firms, these 28 SMEs had received cumulative investment in excess of NT\$1,220 million.

## VI The Resources Allocated by the Government to SME Development

Paragraph 3 of Article 4 of the *SME Development Statute* stipulates that the *White Paper on SMEs in Taiwan* should list all government resources allocated for SME development. Since 2001, the *White Paper* has contained a section describing these resources. However, the paragraph in question does not clearly define the scope of “resources allocated for SME development.” For the purposes of this section, “resources allocated for SME development” include all resources allocated for this purpose by central government agencies. These resources fall into three categories: government purchasing of goods, construction work or services from SMEs; the resources allocated by the government for SME guidance; resources allocated by the government for project financing loans to SMEs. The data presented in this section is based on the actual amounts spent. **In total, government resources allocated for SME development in 2004 came to NT\$742,425 million.** The items that made up this total are outlined below.

### 1. Government Purchasing from SMEs – NT\$712,458 million

Tender award statistics from the Government Procurement Information System show that, in 2004, total government purchasing from SMEs (regardless of whether the SMEs were being used as contractors or subcontractors) came to NT\$712,458 million), as compared to approximately NT\$653,000 million in 2003. The share of total

government procurement going to SMEs (whether as contractors or subcontractors) rose from 60.92% in 2003 to 75.74%. As the Government Procurement Information System covers all levels of government, this procurement data includes both central government and local government purchasing.

## 2. Government Spending on the Provision of Guidance to SMEs – NT\$15,284 million

The agencies involved in the Ten Major Guidance Systems established by the MOEA to provide guidance to SMEs include the SMEA itself, the Industrial Development Bureau, the Bureau of Foreign Trade, the Commerce Department, the Department of Industrial Technology, the Industrial Development and Investment Center, etc. Table 10-6-1 shows the settled account of expenditures for each of these agencies in 2004. The grand total comes to NT\$26,774 million, of which NT\$14,996 million (56.01% of the total) was applied to SME guidance. The Department of Industrial Technology made the single largest contribution to SME guidance, at NT\$10.2 billion, followed by the Industrial Development Bureau with NT\$1.6 billion and the Bureau of Foreign Trade with NT\$1.5 billion. The entire expenditure of the SMEA – NT\$1.2 billion – was allocated to SME guidance.

**Table 10-6-1 Resources Allocated to SME Guidance by the MOEA**

Agency	Annual Amount	Units: NT\$ thousand; %	
		Settled Account of Expenditures – 2004	Total Expenditure on SMEs
Small and Medium Enterprise Administration (including the SME Development Fund)		1,156,869	1,156,869 (100.00)
Industrial Development Bureau (industrial technology guidance and the Industrial District Development Fund)		3,834,871	1,595,270 (41.5)
Bureau of Foreign Trade (overseas marketing guidance and Trade Promotion Fund)		2,420,412	1,541,375 (64.00)
Commerce Department (promoting the modernization of commercial operations and the development of relevant technology)		1,123,756	441,979 (39.33)
Department of Industrial Technology		18,097,561	10,198,295 (56.35)
Industrial Development and Investment Center (overseas investment guidance and overseas hi-tech talent recruitment)		140,546	62,275 (44.31)
<b>Total</b>		<b>26,774,015</b>	<b>14,996,063 (56.01)</b>

Note: Figures in parentheses are the percentage of the total settled account of expenditures for the agency in question.  
Source: The respective agencies.

Although implementation of the Plan for Raising the Competitiveness of the Distribution Sector and the Plan for Promoting the Development of Commerce-related Technology caused the Commerce Department's expenditure on SME guidance to rise to NT\$5.6 million, while increased spending on the recruitment of overseas hi-tech talent by the Industrial Development and Investment Center caused SMEs' share of total procurement to rise, for most agencies the amount spent on SME guidance fell in 2004. In particular, the SMEA's settled account of expenditures fell by NT\$3.2 billion compared to 2003, mainly because 2003 had seen the spending of more than NT\$3 billion on the SME Manpower Assistance Plan.

Besides the expenditure outlined above, the Council of Labor Affairs also spend approximately NT\$288 million on SME manpower cultivation. Total government spending on SME cultivation was therefore approximately NT\$15,284 million.

### **3. SME Project Financing Loans – Approximately NT\$14,683 million**

The types of project financing that mainly target SMEs include: SME Upgrading Loans, National Youth Commission Young Entrepreneur Loans, SME Development Fund Project Loans, Agricultural Development Fund Agricultural Machinery Loans, SME Root Establishment Project Loans, Loans for Indigenous People, and Micro-Enterprise Start-up Loans. Although those types of loans targeting farmers, fisherman and members of indigenous communities are available to large enterprises as well as SMEs, in practice the enterprises that receive these loans are almost all SMEs, so these loan types have been included in the calculations. Total government spending on SME project financing loans in 2004 was approximately NT\$9,813 million (Table 10-6-2).

SMEs can also obtain financing through the SME Credit Guarantee Fund. The amount that the Fund was required to pay to cover delinquent loans in 2004 totaled NT\$4.87 billion; adding this figure to government spending on SME project financing loans, the total amount spent by the government on loans to SMEs in 2004 was approximately NT\$14,683 million.

**Table 10-6-2 Government Spending on SME Project Financing Loans in 2004**

Unit: NT\$ million

Loan Type	Targets	Method	Amount	
			Total Loan Amount	Government Expenditure
SME Upgrading Loans	SMEs	The Executive Yuan Development Fund provides one quarter of the funds for each loan, with the remaining three quarters being provided by banks.	10,263	2,566
National Youth Commission Young Entrepreneur Loans	Young entrepreneurs	The Sino-American Fund for Economic and Social Development provides half of the funds for each loan, with the other half being provided by banks.	1,301	650
SME Development Fund Project Loans	SMEs	The SME Development Fund provides all funding.	369	369
Agricultural Development Fund Agricultural Machinery Loans	Farmers and fishermen actually involved in agricultural or fisheries production, along with farmers' or fishermen's organizations involved in agricultural or fisheries production contracting work.		1,190	102
SME Root Establishment Project Loans	SMEs	The Council for Economic Planning and Development provides funding support from medium and long-term funds.	5,858	5,858
Loans for Indigenous Peoples	Member of indigenous communities		148	148
Micro-enterprise Start-up Loans	Enterprises established by the middle-aged or elderly unemployed (aged 45–65) that have been in existence for less than one year.		1,806	120
<b>Total</b>			<b>20,935</b>	<b>9,813</b>

Source: The respective agencies.