



Part Three
**Government SME Guidance
Policy and Its prospects**

The graphic features a globe with a map of India in the center. A large green arrow points upwards from the bottom left towards the top right, passing through the globe. Below the globe, a group of stylized human figures in orange and brown are shown with their arms raised in celebration. To the right of the figures are three interlocking gears: a green one at the bottom, a blue one in the middle, and a light blue one at the top. The years 2003 through 2008 are listed on the right side of the globe, with 2004 highlighted in red.

2003

2004

2005

2006

2007

2008

Chapter 9

SME Guidance Policy and Measures

In the last year, the overall state of Taiwan's SMEs has gradually started to improve, after two years in which Taiwan's economy was severely depressed. In the spring of 2003 a new infectious disease – Severe Acute Respiratory Syndrome (SARS) – suddenly erupted out of mainland China, spreading via Hong Kong and Macao to other parts of the world. Taiwan is geographically very close to mainland China, Hong Kong and Macao, and has close trading links with all three of these regions; it was thus almost inevitable that SARS would spread to Taiwan too. Despite the response measures taken by government agencies and by Taiwan's hospitals, panic and loss of confidence were widespread. The number of business travelers and tourists visiting Taiwan fell off dramatically, which had a serious negative impact on the tourism and transportation industries. Overall market demand fell off, and many SMEs experienced a serious deterioration in their operational performance. Although, after peaking in May, the SARS epidemic was eventually brought under control, it left a scar on the collective psyche of the Taiwanese people, and caused serious damage to Taiwanese industry.

SMEs in Taiwan today have to deal with the increased pressure resulting from the market opening that Taiwan has had to implement in accordance with its WTO pre-accession agreements, and with fierce competition emanating from mainland China. At the same time, however, the steady increase in the size of the markets available to Taiwanese firms and the benefits deriving from the international division of

labor are creating new opportunities. If Taiwan's SMEs can leverage the experience they have built up over the years, while at the same time working to upgrade, transform themselves and innovate, it should be possible for them to develop into enterprises that are truly competitive in global terms, with their own unique advantages.

In line with its underlying philosophy for providing guidance to SMEs and in accordance with the provisions of the *Small and Medium-sized Enterprise Development Statute*, the SMEA of the Ministry of Economic Affairs has been working to improve the overall business environment for SMEs, encouraging SMEs to collaborate with each other, and providing guidance to help SMEs achieve self-strengthening. The overall aim of these activities is to facilitate the development of Taiwan's SMEs along healthy lines. In the area of policy formulation, in order to be able to provide additional assistance to help Taiwan's SMEs survive and thrive, the overall vision is based on developing Taiwan into an "ideal location for the establishment, growth and development of SMEs." This chapter will provide a retrospective of the measures adopted in 2003 to provide guidance for SMEs, and the results achieved.

I Implementation of the SME Guidance and Service Mechanism

Due to their small size, it is difficult for SMEs to make effective use of the endogenous growth model; in most cases, they are forced to make use of the exogenous growth model. One of the main emphases in the government's efforts to help SMEs strengthen their own capabilities has therefore been the

provision of various types of resources, along with attempts to ensure effective integration of external networks.

1. Strengthening the Functions of the SME Service Network

(1) Expanding the Operations of the SME Troubleshooting Center

The SME Troubleshooting Center was established on May 1996. Whether in terms of helping SMEs to solve their operational difficulties or in terms of upgrading the overall level of performance in the provision of services to SMEs, the performance of the SME Troubleshooting Center has won plaudits from SMEs in all sectors. Besides handling inquiries and petitions from SMEs, the Center also undertakes work relating to SME investment, upgrading and transformation, including matters relating to the acquisition of land for factory construction, helping SMEs to obtain information relating to markets and new technology, taxation (including import and export duty), etc. Over the last eight years, the SME Troubleshooting Center has served more than 20,000 SMEs. SMEs tend to be small, and have difficulty in securing financing. As a result, more than 80% of the problems that the Center deals with relate to financial matters, financing, etc. More than 500 enterprises that had been in severe financial difficulties were able to remain in business thanks to the assistance provided by the Center; around 30,000 workers were able to keep their jobs as a result. The SME Troubleshooting Center has thus made a major contribution towards helping Taiwanese SMEs to maintain normal operation.

In addition, in order to help SMEs secure the financing they need, the Credit Guarantee Fund and Joint Guidance

Center have been working together to create a dual-track system for SME financing. Under this system, while SMEs can continue to secure financing through the Credit Guarantee Fund, in cases where an SME is experiencing particularly severe difficulties, the SME Troubleshooting Center can coordinate the provision of financing through the Credit Guarantee Fund and Joint Guidance Center. In cases where an SME has already been refused a bank loan, the Center will coordinate with the Credit Guarantee Fund, the Joint Guidance Center and the bank. The first step in cases of this kind is to help the SME to establish effective financial systems and to upgrade its quality; once this has been achieved a new application for bank financing can be made.

When the SARS epidemic spread to Taiwan in April 2003, SMEs in many industries found themselves experiencing a serious operational crisis. The SME Troubleshooting Center played an important role during this period, collaborating with other government agencies in the implementation of various special measures and helping companies to overcome their cashflow problems.

As regards the achievements of the SME Troubleshooting Center in 2003, besides handling 10,656 inquiries, the Center also helped 137 SMEs to secure loans (totaling over NT\$385 million), secured an easing of repayment terms in another 34 cases (involving loans worth over NT\$15,175 million). In addition, the Center helped with the implementation of the measures adopted by the government in response to the SARS epidemic. This assistance included helping 50 SMEs to secure financing (totaling NT\$1,390 million), and arranging for easier repayment terms in four cases. In addition, in line with the

implementation of the dual-track financing systems, the Center was involved in joint diagnostics for the provision of financing in 52 cases (with the total amount of financing involved being NT\$1,111 million).

(2) Effective Utilization of SME Service Resources at the Local Level

a. Strengthening the Performance of Local SME Service Centers

In order to achieve a deepening and broadening of SME service work, and to ensure that local resources are utilized effectively, since 1992 SME service centers have been established in every county and city in Taiwan through the auspices of the local industrial development and investment promotion committees. These local SME service centers provide SMEs with immediate and effective services with respect in the areas of training courses, seminars, hands-on training, guidance, referrals and consultation (both over the telephone and face-to-face). During the period January–December 2003 the SME service centers in the metropolitan areas of Taipei and Kaohsiung and in Taiwan's 21 other counties and cities organized a total of 970 lectures (attended by 65,630 persons), provided a telephone consulting service on 39,796 occasions, provided referrals to more than 2,355 SMEs, implemented on-site diagnostics for 1,284 SMEs, made 5,302 visits to SMEs, provided information of various types on 1,364,090 occasions, and provided coordination services on 14,283 occasions.

b. Ongoing Promotion of the SME Honorary Instructor System

In order to help SMEs to improve their operational management and enhance their competitiveness, in 1996 the

government began promotion of the SME Honorary Instructor system, based on the SME Diagnostician system employed in Japan. The government selected business owners who had achieved success in their own activities and who had demonstrated a general enthusiasm for helping others, along with retired managers, government officials and other experts, and encouraged them to assist in the provision of consulting services to local enterprises on a volunteer basis. In 2003 an additional 396 persons were chosen to serve as SME Honorary Instructors, bringing the total of registered Instructors to 2,668.

(3) Continuing Promotion of the “Industrial Upgrading Train” Activity

In order to encourage enterprises to work to strengthen product innovation and increase the level of value added provided in their services, the SMEA of the Ministry of Economic Affairs has for five years now been organizing the “Industrial Upgrading Train” activities, the aim of which is to promote innovation, R&D, upgrading and transformation, thereby contributing to the survival and growth of Taiwan’s SMEs. In 2003, Industrial Upgrading Train events were held on three occasions in each of three locations – Taipei, Taichung and Tainan. The “Business Opportunities from New Products and New Technologies – Presentation and Exhibition” held in Taipei on July 29, 2003 was attended by representatives of 40 companies, with 8 companies giving presentations, and 43 contracts were signed as a result of the activity, with a total value of over NT\$120 million.

2. Strengthening the Publicization of SME Success Stories

Besides the upgrading of the SME service network, another

important aspect of SME service work is the organizing of activities through the various SME related organizations and associations, so as to publicize the government's new policy measures with respect to SMEs. It is also necessary to make use of both electronic and print media to provide various types of information, so that SMEs are aware of the resources available from the government and can access and make effective use of these resources. In addition, in order to encourage SMEs to focus on innovation, R&D, upgrading and transformation, and to ensure recognition for those groups and individuals that have provided assistance to SMEs, the government has instituted various types of Awards to SMEs. The main publicization activities implemented in 2003, and the results achieved, are outlined below:

- (1) The holding of the Sixth Annual Little Giant Award: 17 SMEs that had displayed particularly impressive performance in their respective fields were selected for commendation.
- (2) The holding of the Twelfth Annual National Awards for SMEs: 12 SMEs were selected to receive awards, with the awards being presented by President Chen Shui-bian. In addition, four visits to award-winning SMEs were arranged.
- (3) The Minister of Economic Affairs presented awards to 12 individuals who had displayed outstanding performance in the provision of guidance and service to SMEs.
- (4) A total of 218 radio programs for SMEs were produced. These programs, which were broadcast on Monday–Friday in the 9:00–10:00 a.m. timeslot, provided SMEs with

information about the government's industrial policy and guidance measures for SMEs.

- (5) A comprehensive "policy marketing" plan was implemented. This involved the holding of three summit conferences, along with two sessions in which representatives of the media had the opportunity to interview the owners of outstanding SMEs. Three interviews with the Director General of the SMEA were published in various media, in addition to three interviews with the owners of successful SMEs, and two in-depth reports on SMEs.
- (6) The government provided funding to help the Chinese National Federation of Industries and the National Association of Small and Medium Enterprises hold various activities including lectures, conferences and seminars. A total of 130 such activities were held, with 5,321 people participating.
- (7) The government provided funding to help 32 SME-related organizations to organize a total of 32 lectures, conferences and seminars; these activities were attended by a total of approximately 1,500 people. Funding was also provided for two special exhibitions organized by the chambers of commerce of Taichung City and Kaohsiung City; a total of around 70,000 people attended these exhibitions.
- (8) The "2003 Golden Book Awards" were presented to 17 outstanding books on the subject of SME management and which it was felt would be of particular value to SME owners and employees.

- (9) Ten issues of the SME Service Bulletin were published, to help keep SMEs up to date with guidance policy and other important information.

II Establishment of an SME Start-up and Incubation Platform

1. Aggressive Establishment of an SME Start-up and Innovation Information Platform

With the rapid advances that have taken place in information technology in the last few years and the emergence of the knowledge economy, more and more attention has come to be attached to the question of how SMEs can make effective use of technology and innovation, integrating information and knowledge so as to constantly develop new products and transform themselves into knowledge-intensive enterprises. This type of strategy gives SMEs the best chance of survival and growth; in the future, technology and information will play a vital role in SME start-up. The process of creating new products and developing new business areas not only requires enterprises to bear high levels of risk, it also presents complex operations problems.

In the last few years, the economy, society and consumers' needs have all become more diversified. There has been a significant increase in the number of new service industries coming into being, and in the number of Small Office / Home Office (SOHO) type businesses. There is thus a real need for a comprehensive enterprise cultivation mechanism, so that those people interested in establishing their own business have a learning platform available to them that

can increase the chance of success. The most important measures taken by the government in 2003 to establish new mechanisms to encourage SME start-up were as follows:

(1) Provision of Start-up Information and Inquiry Services

In order to help new enterprises to survive and thrive, the government has established an SME Start-up Knowledge and Information Service Network. Start-up inquiry service centers and a start-up service network help individuals to access the information they need in preparation for starting their own business, thereby increasing the likelihood that the new business will be successful. The network also provides new businesses with the inquiry services they need when the enterprise is just getting off the ground, which helps to ensure robust growth. In 2003 the start-up inquiry service centers provided inquiry services for 14,354 newly-established SMEs, which included the provision of telephone inquiry services on 6,793 occasions, the provision of joint consulting services on 3,215 occasions, the provision of one-to-one consulting services on 4,022 occasions, and the provision of on-line consulting services on 324 occasions.

(2) Establishment of Entrepreneurship and Innovation Colleges

Entrepreneurs may possess innovative ideas and technology, but they often lack experience in new business establishment; as a result, they may be unable to survive in the intense competition that characterizes the business world. The Entrepreneurship and Innovation Colleges provide a range of courses on the practical aspects of new business start-up, and help new enterprises to obtain the knowledge and technology

they need. This in turn increases the likelihood that the new business will survive.

(3) Organizing Entrepreneurship and Innovation Fairs

In order to create synergy in the area of new business establishment, the government holds regional and international entrepreneurship and innovation fairs on a regular basis, giving SMEs an opportunity to exchange experience and learn from one another, and to develop a more international outlook. These fairs also help newly-established enterprises to obtain new technology and develop new business opportunities, thereby helping Taiwan to develop into an important center for the cultivation of new hi-tech industries. The entrepreneurship and innovation fair held in 2003 had a total of 138 stands, with 153 different items of new technology on display. Some 1,295 business deals were negotiated, with the information and communications industry, software industry, optoelectronics industry, metals industry and machinery industry accounting for over 80% of these.

(4) Holding of the National New Enterprise Award Competition

In order to encourage innovation and publicize the achievements of innovative SMEs that have demonstrated high value added and technology-oriented operation, the National New Enterprise Award competition has been held on a regular basis. The aim is to provide a platform for the development of new markets, new technologies, new designs, new products, new services and new business models by newly-established enterprises. The competition also helps new businesses to secure access to venture capital funding, thereby encouraging

entrepreneurial activity in society as a whole. The Second Annual National New Enterprise Award, held in 2003, involved an initial presentation, a competitors' presentation, and a three-stage judging process. A total of 193 teams entered the competition, with 20 being selected to receive awards.

(5) Organizing Experience Exchanges between Entrepreneurs

In 2003 conferences were held in northern, central and southern Taiwan to provide representatives of industry, government and the academic community with the opportunity to exchange experience on the subject of "the management philosophy of entrepreneurs." A total of 383 entrepreneurs participated in these conferences.

(6) Manpower Cultivation for Entrepreneurial Activity

The following activities were organized in 2003 to encourage participation in entrepreneurial activity by innovative, creative persons with strong entrepreneurial drive:

- a. Twenty-two entrepreneurship classes were organized for young entrepreneurs, female entrepreneurs, entrepreneurs in traditional local industries and entrepreneurs who required training in business plan formulation. The total number of persons trained was 1,226.
- b. Eight "Entrepreneurship and Innovation Forums" were held in Northern, Central and Southern Taiwan, with discussions focusing on the tourism and leisure industry, the knowledge-intensive industries and e-business establishment.
- c. Thirteen lectures on entrepreneurship-related issues were

held, with a total of 1,163 people attending.

2. Strengthening the SME Incubation Function

(1) Ongoing Financial Assistance for Public and Private Incubator Centers Serving SMEs

Every year since 1997 funding has been provided from the SME Development Fund to assist in the establishment of SME incubator centers by both public and private agencies. These incubator centers offer a wide range of services for SMEs; they provide space, shared laboratory facilities, and support services in the areas of technology, manpower, commercial operations, information, financing and administration. In 2003 a total of more than NT\$190 million in subsidies was provided to incubator centers attached to 52 institutions. These incubator centers were home to a total of 1,051 enterprises; the total amount of investment created as a result of these subsidies was over NT\$4.93 billion.

The information and electronics industry accounted for the largest share of enterprises; more than one third of the SMEs housed in these incubator centers belonged to the information and electronics sector. The automation industry held the second largest share of enterprises, at around 20%.

(2) Promoting the Establishment of an SME Incubator Center within the Tainan Science-based Industrial Park

In coordination with the development of the Tainan Science-based Industrial Park, the Ministry of Economic Affairs has allocated funds from the SME Development Fund to establish an incubator building (located on a 1,983m² site, with a total floor area of 11,900m²) within the Tainan

Science-based Industrial Park. The development of this new incubator center will involve the integration of the R&D capabilities of the National Science Council, the Industrial Technology Research Institute, and the Tainan Science-based Industrial Park itself. It is anticipated that the Tainan Science-based Industrial Park incubator center will develop into the main center for hi-tech R&D in Southern Taiwan. As of the end of 2003, five companies had already secured approval to locate themselves in the incubator center.

(3) Promoting the Development of the Nankang Software Industry Incubator Center

Taiwan's information industry has grown rapidly in the last few years, and has been selected as one of the key development items for the Challenge 2008 National Development Plan. In order to stimulate the growth of the software industry, the government has invested in the establishment of a "Nankang Software Industry Incubator Center" within the Nankang Software Park. The Institute for Information Industry has been commissioned to manage the incubator center, which will provide both "software" and "hardware" facilities with the aim of cultivating SMEs that have significant growth potential. The Nankang Software Industry Incubator Center began operations in July 2000; by the end of 2003 a total of 29 companies had located themselves in the facility, representing an occupancy rate of 89%.

(4) Promotion of Other Incubator Center Related Work

The following work items have been implemented with the aim of improving incubator center performance:

- a. Two joint incubator center presentations were held, and attended by more than 400 SME owners and managers. In addition, a joint incubator center exhibition was held in Hall Two of the World Trade Center in Taipei City; the exhibition received more than 8,500 visitors.
- b. Special training courses were arranged for incubator center managers. Courses were held in northern, central and southern Taiwan, with a total of 112 trainees participating, of which 102 completed the courses.
- c. An incubator yearbook has been published, along with a bimonthly periodical and incubator center operations manual, with the aim of publicizing incubator center activities and related information.
- d. Planning has already begun for the establishment of a “Nankang Biotech Incubator Center,” so as to meet the needs of Taiwan’s biotech industry.

3. Helping SME Start-ups to Obtain Working Capital

In order to stimulate investment in SME start-ups with strong development potential and upgrade the overall level of Taiwanese industry, funds have been allocated from the SME Development Fund to establish an “SME Incubation Trust Investment Account.” In addition, the government has leveraged the platforms provided by the National New Enterprise Award competition and the Entrepreneurship and Innovation Fair to establish indices for seed fund investment, with the aim of encouraging exchange in the area of new business establishment and encouraging venture capital firms (both domestic and international) to invest more in new

businesses in Taiwan. The main achievements in this respect in 2003 were as follows:

(1) More Funds Will be Invested by SME Incubation Trust Investment Account

It is anticipated that the SME Incubation Trust Investment Account will invest a total of NT\$2 billion over a period of four years. Investment began in October 2003; as of the end of 2003 a total of more than NT\$440 million had been invested in eleven newly-established SMEs that displayed particularly strong potential.

(2) SMEs Have Been Helped to Apply for Relevant Government Subsidies, Including:

- a. Guidance was given to 37 SMEs to help them apply for SBIR funding. Twelve of these companies applied for SBIR funding for “preliminary research”; 25 applied for funding for “research and development.”
- b. April 4, 2003 saw the holding of the “Experience-sharing Seminar for Assisting SMEs to Apply for Government Subsidies.”
- c. Regular maintenance has been performed on the SBIR information network system, to ensure that SMEs have access to the latest information.

4. Attaching Due Importance to SME Human Resources Development and Training

In the last few years, Taiwan has experienced major changes in its economy and a transformation of its industrial structure.

Information technology has replaced traditional, labor-intensive production methods, knowledge-intensive industries have replaced capital-intensive industries, and lifelong learning has become the key factor that can help SMEs to boost their core competitiveness. SME employees account for nearly 80% of the employed population, but most of them are educated only to senior high school level (or senior vocational level) or below; at the same time, SMEs' small scale of operation and high employee turnover make it difficult to improve manpower quality. There is therefore a need to strengthen SME talent cultivation, and to help SME owners upgrade the quality of their employees so as to meet the challenge of the new era of knowledge-intensive industries and the new economy.

The following section examines some of the important measures taken in 2003 to help Taiwan's SMEs upgrade their manpower quality and improve their manpower structure:

(1) Organizing Training for Specialist Talent

The courses provided in 2003 included: two introductory classes, two advanced classes and two consultant training classes in the area of financial management, with a total of 228 trainees; 10 seminars on important trends in SME development and 50 lectures on trends in SME development, with a total of 6,641 people attending; four classes to train managerial talent for SMEs, involving a total of 17 groups of trainees and a special audiovisual presentation at the end of the course, with a total of 656 trainees; three management strategy courses held in northern, central and southern Taiwan, with a total of 120 trainees. There were also various international conferences and other manpower cultivation activities.

(2) Cultivation of SME Guidance Personnel

In order to improve the overall level of managerial expertise in Taiwan, so as to help strengthen the management of Taiwan's SMEs, cultivation activities have been organized for consultants and for managerial diagnostics guidance personnel. In 2003 two classes were organized for managerial consultants, with a total of 100 people being trained. In addition, 20 lectures were held for guidance and service personnel, with a total of 1,368 people participating.

(3) Ongoing Provision of Subsidies for the SME Training Centers

Every year, subsidies are provided from the SME Development Fund to the SME Training Centers in northern Taiwan, central Taiwan and southern Taiwan. The training centers, working in collaboration with neighboring universities and colleges, undertake surveys of the manpower cultivation needs of SMEs in their region; the survey results are then used as the basis for the production of teaching materials and for instructor training.

(4) Ongoing Promotion of the Lifelong Learning System

Beginning in January 2000 the SME Training Centers, working in collaboration with other SME training organizations, have been commissioned by SMEA to issue training records that constitute a comprehensive record of the training that individual SME employees have undergone. As of the end of 1993 a cumulative total of more than 76,000 such records had been issued, with 18,759 being issued in 2003 alone.

5. Active Participation in International SME Activities

In the last few years, in line with the trend towards economic globalization and the internationalization of industry, the government has been actively helping SMEs to participate in international economic and trade organizations and related activities, thereby facilitating the establishment of international networks and the development of global markets. International business activities, strategic alliances and collaboration on the establishment of international brands now constitute an important element in the government's SME guidance strategy. The efforts made to encourage SME participation in international economic and trade activities in 2003 included the following:

(1) Attendance at the 10th APEC SME Ministerial Meeting

As part of Taiwan's efforts to participate actively in Asia Pacific Economic Cooperation (APEC), in August 2003 Vice Minister Shih Yen-shiang of the Ministry of Economic Affairs led a delegation to attend the 10th APEC SME Ministerial Meeting in Chiang Mai, Thailand. During the meeting, Vice Minister Shih read a paper entitled "Taiwan's Experience with Policies for Developing Entrepreneurial Spirit." The meeting gave a joint declaration of support for the hosting of a second Incubator Center Forum by Taiwan. Following the meeting, the Taiwan delegation held bilateral talks with representatives of nine countries, including Thailand, Vietnam, Russia and Chile.

(2) Attendance at the 2003 APEC SME Forum

In order to encourage Taiwanese SMEs to participate in international activities, it was arranged for a group of 27 SMEs

to attend the APEC SME Forum. This was followed by the holding of discussion meetings relating to technology and business opportunities in Bangkok and Chiang Mai, which were attended by a total of 248 representatives of local SMEs and Taiwanese companies operating in Thailand. The total value of contracts signed was around US\$4.4 million, with follow-up business opportunities totaling US\$14 million. Overall, participation in these activities had impressive results.

(3) Attendance at Other Relevant APEC Meetings

- a. Attendance at meetings of the 16th and 17th APEC SME Working Group.
- b. Attendance at the 1st and 2nd meetings of the Exporters Community.
- c. Attendance at the Conference on Entrepreneurial Spirit.
- d. Attendance at meetings of the Level Two Micro-enterprise Working Groups.

(4) Attendance at Other SME-related Activities

- a. Delegations from Taiwan attended the 48th Annual World Conference of the International Council for Small Business (ICSB) held in Ireland, and the 30th International Small Business Congress held in Singapore.
- b. Delegations from Taiwan attended the “Conference on the Role of the Entrepreneurial Spirit in the Global Economy – Strategic Issues and Policies” held in Hungary, and the “Conference on the Relationship Between Promoting Statistical Management in SMEs and the Entrepreneurial

Spirit” held in France, along with various relevant OECD conferences.

- c. Delegations from Taiwan attended the “Taiwan-Vietnam SME Conference” and “Conference on Business Opportunities in Vietnam and APEC” held in Vietnam, along with the “Conference on Bilateral Trade Between Taiwan and Russia Under the WTO Framework” held in Moscow, and the “UN Information Summit” held in Geneva. These conferences provided an opportunity for the Taiwan representatives to give presentations on Taiwan’s experience with SME development and strategies, and to contribute to the development of international collaboration.

(5) Organizing International Conferences and Other Exchange Activities for SMEs

While participation in the international conferences and meetings described above provided an opportunity for the Taiwan representatives to describe Taiwan’s experience with SME development and the prospects for future development, Taiwan itself hosted various international conferences and meetings relating to SME issues in 2003. These included:

a. The Holding of the 1st APEC Incubator Center Forum

The 1st APEC Incubator Center Forum was held over the period July 30–August 1 at the Grand Hotel in Taipei. The participants included 41 delegates from 18 APEC member economies, along with more than 160 Taiwanese participants, with a total of around 200 people participating in the event. This was the first time that a wireless, paperless international conference had been held in Taiwan. Overall, the forum was a

great success, garnering praise from the representatives of other APEC member economies who attended.

b. Organizing International Collaboration and Exchange Activities

Bilateral ministerial-level meetings and economic cooperation meetings provided a venue for discussing SME collaboration issues with Malaysia, Singapore, the Philippines, France and South Africa. Several SME-related collaboration agreements were reached at these meetings, thereby contributing to the development of bilateral trade links.

c. Reception of Foreign Dignitaries

As part of the implementation of the Memorandum on Collaboration between Taiwanese and Russian SMEs, towards the end of October 2003 a Deputy Minister of Russia's Ministry for Anti-Monopoly Policy and Enterprise Guidance led a delegation to visit Taiwan. The delegation, which visited the entrepreneurship fair, made a significant contribution towards the promotion of exchange and collaboration between SMEs in Taiwan and Russia. In addition, more than 20 other groups of foreign dignitaries visited the SMEA in 2003, where the Administration's officials were able to explain Taiwan's SME policy and guidance measures.

III Upgrading SMEs' Technology and IT Capabilities

1. Strengthening the Information Management Capabilities of SMEs

The rapid advances in information technology that have taken place in the last few years have placed Taiwan's SMEs in a situation where they have to speed up the computerization of their internal management and develop on-line marketing capabilities if they are to survive the intense competition in both the domestic market and international markets. The SMEA has been actively providing guidance to help SMEs upgrade their technology and IT capabilities.

The main measures implemented by the SME Information Management Guidance System in 2003 to help upgrade the IT application capabilities of Taiwan's SMEs included the following:

(1) Continuing Provision of Guidance to Help SMEs Establish Industry-specific On-line Databases and e-Commerce Systems

To strengthen their overall capabilities and become more competitive, SMEs will need to speed up the process of computerization and e-adoption. With this in mind, in July 1999 the SME Information Management Guidance System began promoting the establishment of e-commerce systems by SMEs. As of the end of 2002, these efforts had led to the establishment of on-line databases for 48 industries, including: the foundry industry; shoe manufacturing; silk weaving; woven fabrics; cotton fabric printing, dyeing and finishing; the food

processing and pharmaceuticals manufacturing machinery; the wire and cable industry; publishing; ornamental plants; plastics manufacturing; the art products and gift industry; the hand-tools industry; the multimedia industry; rubber manufacturing; architectural design; the electronics and electromechanical industry; the clothing accessories industry (hats, gloves, stockings, etc.); the printing industry; Chinese traditional medicine; printed circuit boards; garment manufacturing; medical instruments; environmental engineering; non-woven fabric; gauze; bicycle manufacturing; mold-making; frozen foods; the candy, confectionery and pasta industry; the stone industry; the paper products industry; the electronic engineering industry; the baking industry; the compound materials industry; the paper-making industry; and the hotel industry. In 2003 this project continued the provision of assistance for the establishment of on-line databases and e-commerce systems in 10 more industries, along with the establishment of an Enterprise Resource Planning (ERP) model, and the provision of assistance to three individual SMEs to help them set up their own e-commerce systems. In this way, the government has been helping SMEs to make use of information technology to bring down their operating costs and develop new markets.

(2) Establishment of e-Enablement Service Teams

In order to encourage e-adoption among SMEs, in 2003 the government established nine industry-specific “e-Enablement Service Teams.” Besides visiting SMEs to provide on-site diagnostics and guidance, these teams also formulate processes and guidelines for e-adoption and assist with e-adoption appraisal, thereby developing a clearer picture of the level of e-adoption achieved before and after the provision of guidance.

The Teams have also publicized the government's e-adoption policy to 1,000 companies, and held 15 presentations to publicize the results achieved, thereby making SMEs more aware of the benefits of e-adoption.

(3) Stepping Up the Cultivation of e-Adoption Talent

So as to speed up the process of e-adoption among Taiwan's SMEs, in 2003 e-adoption talent cultivation training and guidance work was implemented for a total of 1,900 individuals. These activities were accompanied by the establishment of on-line courses and a synchronous learning system. In addition, the government encouraged private enterprises and academic institutions to develop e-learning materials, and worked with e-learning companies in the private sector to create on-line course content and materials, thereby strengthening the on-line learning environment in Taiwan. The underlying goal here is to build a first-class environment for on-line learning and interaction.

(4) Establishment of Electronic Marketplaces and Appraisal of their Effectiveness

The government has helped in the establishment of an electronic marketplace system, and has completed evaluation of the utilization of this system by SMEs.

(5) Promotion of On-line Learning

The main work items implemented in this area in 2003 included: planning the establishment of on-line learning platforms; selection of 26 sets of on-line teaching materials; getting a total of 21,000 individuals to make use of on-line learning; the establishment of a grade-specific, function-

specific training module; the holding of one promotional activity.

(6) Promoting the Adoption of Broadband Internet Access by SMEs

- a. Completion of a market survey on broadband adoption by SMEs, along with the formulation of a five-year work plan to serve as the basis for promotion work in the coming years.
- b. Holding of a work plan presentation and conference to discuss case studies, along with a presentation of the results achieved.
- c. Printing of 2,000 booklets outlining broadband e-adoption solutions.
- d. Helping 1,125 SMEs to complete the adoption of basic broadband e-adoption applications.

(7) Promotion of SME Information Management Applications

- a. The government expanded the provision of ongoing guidance for the establishment and maintenance of 48 on-line information systems.
- b. Remote learning equipment was used to provide 75 hours of training on IT applications.
- c. Short-term diagnostic guidance and consulting services were provided to 100 enterprises.
- d. Two presentations were held on the results achieved

(mid-term and final).

2. Strengthening the Provision of SME Information Management Guidance Service

With the rapid advances that have been made in information technology and the growth of the knowledge economy, it has become increasingly important to strengthen SMEs' awareness and utilization of knowledge management, thereby enhancing their overall management capability. With this in mind, in 2003 the government undertook planning of shared platforms for knowledge management, along with the formulation of regulations to govern their use for the reference of SMEs. In addition, information was collected on 56 issues of key importance to SMEs, and three conferences and seminars were held on the subject of knowledge management, with the aim of encouraging SMEs to make more effective use of knowledge management so as to boost their competitiveness.

3. Provision of Guidance for the Enhancement of SMEs' Quality Management Capability

In coordination with the operations of the SME Quality Upgrading Guidance System, efforts have been made to speed up the promotion of industrial upgrading and transformation, and to strengthen the competitiveness of SME products. The main tasks implemented in 2003 were as follows:

(1) Expanded Publication and Promotion of Quality Concepts

In order to make SMEs more aware of the importance of quality improvement to the enhancement of overall operational

performance, besides printing posters, slogans and handbooks, the government has also published three ISO 9000 promotion handbooks and held three ISO 9000 presentations.

(2) Promotion of ISO 9000 Standards

As part of the efforts to ensure that SMEs implement quality management in an appropriate manner, in 2003 the government undertook the drawing up of one industry-specific ISO 9000 standard, one set of quality management internal auditing standards (and accompanying handbook), and one set of industry-specific ISO 9000 KPI indicators (and accompanying handbook). In addition, the government promoted ISO 9000 environmental research analysis and ISO 9000 surveys, and provided guidance for five enterprises in the establishment of quality indicator self-assessment modules and for another five enterprises in the establishment of customer satisfaction measurement modules.

(3) Organizing Education and Training, and Working to Improve Service Provision

To help SMEs keep up to date with the latest developments in quality management, the government organized one regular training program and six advanced training programs. In addition, quality management related consulting services were provided on 120 occasions, and diagnostic service was administered to 30 companies.

(4) Implementation of Consumer Protection

In coordination with the government's efforts to get consumers to pay more attention to product quality, various activities were implemented in 2003, including:

- a. The holding of three presentations in northern Taiwan, two in central Taiwan, three in southern Taiwan and one in Hualien.
- b. The printing of 1,000 copies of The Consumer Protection Law and SMEs (Volume Four).

IV Strengthening SME Management

1. Improving the Quality of SME Management and Promoting SME Upgrading and Transformation

Following the establishment of the SME guidance systems in 1992, the various agencies responsible for the provision of guidance to SMEs have carried out various programs to enhance SME management efficiency on an annual basis. The main results achieved in this guidance work in 2003 are outlined below:

- (1) Implementation of the Guidance Plan for Strengthening SME Management. The implementation of this plan involved the provision of consulting services to 1,774 enterprises, the provision of short-term diagnostic service to 157 enterprises, the provision of regular individual guidance to 22 enterprises, the provision of guidance to 14 model SMEs, and the holding of 50 presentations.
- (2) Four new product and new business opportunity presentations were held, involving a total of 30 enterprises, along with three presentations to highlight the achievements of enterprises that had been particularly successful in upgrading and transforming themselves,

involving a total of 10 enterprises.

- (3) Implementation of the Plan for Helping SMEs to Upgrade Their Technology Application Capabilities. The implementation of this plan included setting up data bank system for registering technical demand and supply information (<http://www.technomart.org.tw>). More than 400 technical suppliers and more than 900 demanders have registered with the system. In addition, technology and investment seminars, overseas technology exchange activities, hi-tech enterprise matching projects, feasibility appraisals of technology, etc. have also been implemented.
- (4) Having the Technology Adoption Team assist with the adjustment of enterprise technology, commercialization of R&D results and technology adoption, provision of guidance for SME transformation, and the holding of an industrial upgrading and transformation presentation which it is estimated led to the signing of 10 contracts.
- (5) Provision of factory migration guidance. This involved the provision of consulting service and business opportunity diagnostics to 23 companies, three instances of helping companies to develop new markets, and arranging 11 meetings at which companies could share their experience of factory migration (with a total 675 people participating), as part of the government's efforts to encourage collaboration between government and industry.
- (6) Publication of the SME Marketing Compendium and the Chain Store and Franchise Industry Handbook, along with the provision of assistance to help SMEs participate in exchange activities with overseas companies.

2. Helping SMEs to Strengthen Their Financial and Accounting Systems and to Ensure Them Adequate Financing

For many years, the main problems that Taiwan's SMEs have experienced in their operations have been difficulty in securing financing and the limited range of channels available to them for this. SMEs' small size puts them at an inherent disadvantage in this respect. Furthermore, the majority of SMEs are run as family businesses, and in many cases their rudimentary accounting systems make it impossible for them to produce detailed financial statements or evidence of debt repayment ability. Besides helping SMEs to obtain financing from the financial system, therefore, the government has always attached great importance to the employment of policy tools to help SMEs obtain the funds they need. The main measures adopted to help SMEs in the areas of investment and financing in 2003, and the results achieved, are outlined below:

(1) Using the SME Financial Guidance System to Help SMEs Secure the Financing

Following the establishment of the SME Financial Guidance System in July 1992, various agencies became involved in the provision of financing guidance to SMEs. In the last few years, on average, financing diagnostic service has been provided to around 300 SMEs a year. Financing recommendations are issued in around one third of cases, with the total amount of recommended financing exceeding NT\$1 billion per year.

The main achievements in the provision of investment and financing assistance to SMEs in 2003 were as follows:

- a. Financial institutions were encouraged to establish financing service windows to expand the service that they provide to SMEs. In addition, 12 financing promotion activities were held, and various financing handbooks were compiled to help SMEs access new financing channels.
- b. SMEs were given assistance in matters relating to credit guarantees and mutual assistance. 10 meetings were held to promote SME mutual assistance circles, along with 12 mutual assistance circle presentations, 100 visits to mutual assistance circle members, and other related activities.
- c. Short-term diagnostic service was provided to 40 SMEs to help them strengthen their financial management, internal controls, accounting operations and billing systems.

(2) Provision of Financing via Special Purpose Loans

With special purpose SME loans, SMEs are helped to secure financing, either directly through a special fund or via the banking system. What makes these special purpose loans different from regular SME financing is that the funding is earmarked for specific purposes, and usually there is a preferential interest rate. The different types of special purpose loan are described below:

a. SME Loans Involving the Executive Yuan Development Fund

(i) SME Upgrading Loans (Phase Eight)

In order to help Taiwan's SMEs to strengthen themselves, the Executive Yuan Development Fund and the SMEA of the Ministry of Economic Affairs joined forces to launch the Plan for the Provision of Guidance for SME Upgrading.

Implementation of Phase One of the project began in August 1989, with 29 public and private banks being commissioned to provide various types of loans, including loans for the purchase of automation equipment, loans for the purchase of office equipment, loans for the development of new production technology and the manufacturing of new products, loans for the computerization of management operations, loans for the purchase of land in industrial districts, etc. For each loan, the Executive Yuan Development Fund paid the bank providing the loan a handling charge based on the amount outstanding; for any individual enterprise, the total amount of loans was capped at NT\$60 million, although there was no limit on the number of loan applications that could be made. This loan program is now entering Phase Eight; in Phase Seven an additional NT\$50 billion in loans was granted as part of the reconstruction efforts following the major earthquake that took place in Taiwan on September 21, 1999. Implementation of Phase Eight (for which funding of NT\$30 billion was made available) began in April 2000. As of the end of December 2003, a total of 26,348 loans had been granted, with a total value of NT\$164,913 million. As the funding allocated for SME loans under Phase Eight will soon be used up, implementation of Phase Nine of the SME Upgrading Loans was due to begin in December 2003. The amount of funding allocated for Phase Nine is NT\$30 billion; the upper limit on the size of individual loans has been raised to NT\$80 million.

(ii) Loans for the Purchase of Automation Equipment

So as to speed up the replacement of old machinery and equipment, the Executive Yuan Development Fund offers special loans with preferential interest rates. Loans to individual enterprises are capped at NT\$400 million. These

loans are available for the purchase of automation equipment by both state-owned and private-sector enterprises; they can be used to purchase automated machinery, office automation equipment, construction automation equipment, computer software and hardware, etc. Implementation of this program began in late 2002. By the end of December 2003, a total of 5,039 loan applications had been approved, with loans totaling NT\$325.75 billion.

(iii) NT\$50 Billion of Reconstruction Loans Following the Major Earthquake of September 21, 1999

On September 21, 1999, Taiwan experienced a major earthquake that caused serious damage. Subsequently, special loans were made available to help SMEs in the affected areas get back on their feet again. Implementation of this program began in October 1999. As of the end of December 2003, a total of 1,770 loan applications had been approved, with loans totaling NT\$14.46 billion.

(iv) Loans for the Revitalization of Traditional Industries

In the last few years, the government has been working to help Taiwan's traditional industries raise their productivity, thereby boosting overall competitiveness. Since December 1999 the Executive Yuan Development Fund has provided NT\$30 billion for medium and long-term loans to assist in the revitalization of traditional industries. Of this, NT\$5 billion has been made available to help enterprises in traditional industries purchase land in industrial districts (with individual loans being limited to NT\$60 million per enterprise, or 80% of the total value of the upgrading plan). These loans are available to both large enterprises and SMEs, with the maximum term for each

loan being 10 years. As of the end of December 2003, a total of 2,994 loans of this kind had been granted, with a total value of NT\$28.20 billion.

**b. Special Loans Provided by the Ministry of Economic Affairs
SME Development Fund**

Following the promulgation of the Statute for the Development of Small and Medium Enterprises by the president in February 1991, in September that same year the Regulations Governing SME Development Fund Receipts, Expenses, Custody and Utilization were approved. The SME Development Fund was established to facilitate the healthy development of Taiwan's SMEs, to meet their financing needs, and to provide special loans for the following purposes: to boost competitiveness; to move factories to new locations in accordance with government policy; to help SMEs recover from natural disasters; to develop exports; to implement overseas investment or overseas construction projects, etc. As of December 2003 a total of 3,256 loan applications had been approved, with loans totaling NT\$46.48 billion.

**c. Special Loans for SMEs Provided by the Council for Economic
Planning and Development Medium and Long-term
Development Fund**

In order to help SMEs strengthen their operations and boost their competitiveness, since August 1996 the Council for Economic Planning and Development Medium and Long-term Development Fund has provided funding to make special project loans available to SMEs by 29 state-run and private-sector banks. So far, five phases of this special loan project have been implemented; a total of 10,130 loans have

been approved, with the amount of loans granted totaling NT\$136.78 billion. Implementation of the Phase Five with funding of NT\$50 billion commenced in the end of 2002. By the end of December 2003 Phase Five had also been implemented, with a total of 808 loans totaling NT\$9.17 billion being granted.

d. Convenient Small Loans for SMEs

By simplifying the credit approval procedures, this project makes it possible for SMEs to secure the funding they need rapidly, thereby helping them to overcome shortages of working capital. The scheme, implementation of which began in March 1999, has proved very popular with SMEs. As of the end of December 2003, a total of 80,255 loans worth NT\$48.26 billion had been approved.

e. Young Entrepreneur Loans Provided through Collaboration with the Executive Yuan Sino-American Fund

In order to help young entrepreneurs overcome their financing difficulties, since February 1968 the National Youth Commission of the Executive Yuan has commissioned the Taiwan Business Bank and five other banks to provide loans to young entrepreneurs at a ratio of one to two. As of the end of June 2003, a total of 16,006 loan applications had been approved for 22,454 loan recipients, with the total amount of financing being NT\$20.32 billion.

f. Special Loans to Traditional Industries

Operating costs have risen dramatically in Taiwan in the last few years, causing Taiwan's traditional industries to lose the

competitive advantage that they enjoyed before. In order to help traditional industries speed up the process of upgrading, in October 2000 the Ministry of Finance and the Central Bank formulated the *Principles Governing the Provision of Special Project Loans and Credit Guarantees to Traditional Industries by Financial Institutions*. The aim was to provide companies in traditional industries with financing to meet both medium and long-term capital expenditure needs and short-term working capital needs; the interest rates on these loans are 1.15–1.65% higher than the interest paid on a two-year Post Office deposit account. These loans are available to both SMEs and large enterprises. As of the end of December 2003, the 32 participating banks had received applications for loans totaling NT\$1.4 trillion, of which 147,754 loans worth a total of NT\$1.25 trillion had been approved.

g. Loans to Micro-enterprise Entrepreneurs

As part of the government's efforts to help the middle-aged unemployed build new careers, on January 22, 2003, the SMEA began implementation of the "Loans to Micro-enterprise Entrepreneurs" program. The loans are available to entrepreneurs aged 45–65 who have had a micro-enterprise employing less than five persons registered for a period of not more than one year at the time of applying for the loan. If the entrepreneur has insufficient collateral the SME Credit Guarantee Fund can provide a guarantee for up to 80% of the value of the loan.

Besides these efforts to provide funding for the establishment of business enterprises by the middle-aged unemployed, in order to strengthen the entrepreneurial capabilities of the middle-aged unemployed, the SMEA has

been coordinating the provision of guidance by relevant agencies, before, during and after the granting of the loans. The Administration has also provided a start-up consulting service, training in entrepreneurial skills, operational management guidance and other services, to help ensure that businesses established by middle-aged entrepreneurs are a success. As of the end of December 2003 a total of 2,494 loan applications had been approved, with a total value of NT\$2.03 billion.

(3) Helping SMEs to Obtain Financing through the Provision of Loan Guarantees through the SME Credit Guarantee Fund

In 1974 the government established the SME Credit Guarantee Fund to help SMEs overcome the problems they experience due to having insufficient collateral and being unable to find guarantors. To be eligible to receive a loan guarantee from the fund, an SME must have significant growth potential, be operating normally, be able to demonstrate clearly how the loan will be used, be capable of repaying the loan, and have a good debt repayment record; its problems must be limited to inability to provide collateral or find guarantors. The SME Credit Guarantee Fund thus helps SMEs to obtain the financing they need to grow.

While those SMEs that merely lack collateral or guarantors can obtain loan guarantees through the SME Credit Guarantee Fund, in cases where the handling bank feels that the SME in question does not meet the requirements for loan approval, the SME Joint Guidance Center can provide the SME with financial diagnostic service, thereby making full use of an all-round financing function that incorporates financing, guarantees and guidance.

a. The Functions and Special Characteristics of the SME Credit Guarantee Fund

The SME Credit Guarantee Fund serves as an intermediary, helping SMEs to obtain financing from banks; its loan guarantees help those SMEs that have insufficient collateral to obtain the loans they need. Many enterprises that were granted loans because of credit guarantees provided by the fund and which also received guidance from the fund were subsequently able to strengthen themselves to the point where (with a satisfactory credit record) they were able to secure bank loans without the Fund's assistance. Some of the main characteristics of the fund's operations are as follows:

(i) The Enterprises to Which Credit Guarantees are Provided Tend to be Very Small

According to statistics published by the SME Credit Guarantee Fund, as of the end of 2003, 73.67% of the credit guarantees provided to SMEs by the Fund were to a value of NT\$2 million or less, 90.67% were for NT\$5 million or less, and 97.24% were for NT\$10 million or less. Viewed in terms of capitalization, 96.16% of the enterprises receiving credit guarantees from the fund had capitalization of NT\$30 million or less. On average, the amount of financing received through the provision of credit guarantees by the fund was just over NT\$3 million per enterprise. It can thus be seen that, for the most part, the enterprises to which the fund provides credit guarantees are still small enterprises.

(ii) The Recipients of Credit Guarantees are Mostly in Traditional Industries

Credit guarantees are mainly provided to SMEs, and the data indicates that around 90% of these enterprises are in traditional industries.

(iii) In Geographical Terms, Credit Guarantee Recipients are Widely Distributed

Currently, a total of 46 state-owned and private-sector banks in Taiwan (not including life insurance companies, credit cooperatives and the credit divisions of farmers' associations) have signed contracts with the SME Credit Guarantee Fund. Between them, these financial institutions have more than 2,500 branches in locations throughout Taiwan, all of which are authorized to receive applications for credit guarantees; loans can be approved by the individual branches with the credit guarantees being issued retroactively by the fund. The scope of operation of the SME Credit Guarantee Fund thus extends over the whole of Taiwan, including offshore islands such as Penghu, Kinmen, etc. SMEs in all of these regions can obtain credit guarantees through the banks participating in the scheme. In 2003 Taipei County accounted for the largest number of credit guarantees, at 49,042; in terms of the combined value of the guarantees, however, Taipei City was in first place, with NT\$48.77 billion.

(iv) The Recipients of Credit Guarantees Belong to a Wide Range of Different Industries

With the exception of enterprises in the finance and insurance industry, mining and quarrying industry, real estate industry and entertainment industry, enterprises in all other industries may apply for credit guarantees. As of the end of 2003, the manufacturing sector accounted for the largest share of loan

guarantees granted (43.30% of the total value of all guarantees granted), followed by the wholesale and retail sector with 35.71%.

b. Provision of Guarantees by the Credit Guarantee Fund

The SME Credit Guarantee Fund began operation in July 1974. By the end of December 2003 credit guarantees had been provided on a total of 2,333,015 occasions, with a total value of more than NT\$2,685.8 billion. These guarantees helped SMEs to secure financing worth over NT\$3,770.7 billion from financial institution. The number of credit guarantees granted in 2003 was 199,783, with the combined value of the guarantees being NT\$205.18 billion. These credit guarantees helped 100,287 enterprises to secure loans to the value of NT\$347.85 billion. It is worth noting that more than 3,000 past recipients of credit guarantees have now grown large enough to be classed as large enterprises, making them ineligible for further SME credit guarantees. One-hundred-and-ninety-three companies that had in the past received credit guarantees from the fund have been listed on the stock market, and 202 have been listed on the OTC exchange. Furthermore, over the years around 70% of the winners of the National Awards for SMEs, the Little Giant Award and the SME Innovation and Research Award have been former recipients of credit guarantees.

c. Developing New Types of Credit Guarantee Service on the Government's Behalf

Besides handling regular credit guarantees for SMEs, the SME Credit Guarantee Fund has also been commissioned by the government to develop various new types of credit guarantee business, including the following:

(i) Credit Guarantees for Young Entrepreneur Loans

In order to help young entrepreneurs start their own businesses, thereby creating new jobs and promoting overall national economic development, the SME Credit Guarantee Fund has been providing special credit guarantees to young entrepreneurs since October 1986. As of the end of December 2003, a total of 6,134 credit guarantees of this kind had been provided, with the total amount of financing exceeding NT\$3.72 billion.

(ii) Credit Guarantees for Brand Development Loans

The SME Credit Guarantee Fund began providing credit guarantees for own brand development loans in October 1990, with the aim of helping Taiwanese enterprises to establish and develop their own brands in international markets. These credit guarantees are available to large enterprises as well as SMEs. As of the end of December 2003, 88 credit guarantees of this kind had been provided, with the total amount of financing being more than NT\$1.94 billion.

(iii) Credit Guarantees for NT\$1.4 Trillion in Special Loans for Traditional Industries

In line with the government's efforts to speed up the upgrading and transformation of traditional industries, in October 1990 the SME Credit Guarantee Fund began providing credit guarantees for special loans to enterprises in traditional industries (with preferential interest rates). The reaction to this new initiative has been very positive, and as a result it has been steadily expanded, to a scale of NT\$1.4 trillion. The types of financing provided include short and medium-term working

capital financing, and financing for capital expenditure. As of the end of December 2003, a total of 26,019 credit guarantees of this kind had been approved, with the total amount of financing coming to NT\$100.18 billion. Of this, 8,234 credit guarantees (for financing totaling NT\$39,913 million) went to large enterprises.

(iv) Credit Guarantees for Reconstruction Loans Following Natural Disasters

Besides handling credit guarantees for the special reconstruction loans granted following the major earthquake which took place in Taiwan on September 21, 1999, beginning in June 2001 the SME Credit Guarantee Fund also began to provide credit guarantees for special loans to enterprises affected by the earthquakes, so as to help them rebuild their productivity and competitiveness. These credit guarantees were available to both large enterprises and SMEs; the Ministry of Economic Affairs allocated a budget appropriation to cover the risk involved in providing the guarantees. As of the end of December 2003 a total of 252 loan guarantees of this kind had been approved, with the total amount of financing coming to NT\$1.55 billion.

(v) Credit Guarantees for Special Loans to Micro-enterprises

In order to boost employment among the middle-aged and help middle-aged workers and unemployed persons to build new careers (thereby creating new jobs for others in addition to themselves), in January 2003 the SME Credit Guarantee Fund began to provide credit guarantees for special loans for the establishment of micro-enterprises. By December 2003, a total of 24,947 of these credit guarantees had been approved, with

the total amount of financing provided exceeding NT\$2.06 billion.

3. Promoting Collaboration among SMEs to Establish Enterprise Networks

The overall business environment in Taiwan has been changing rapidly. Faced with this rapid pace of change, teamwork is needed to help SMEs leverage their strengths. This teamwork may take the form of strategic alliances, intra-industry collaboration, cross-industry collaboration, etc. By working together, SMEs can achieve greater economies of scale; by sharing operational resources (including technology, production, sales and information resources), SMEs can compensate for the lack of resources that affects them as individual enterprises, thereby enhancing their overall competitiveness. The main areas in which the government provided guidance for SME collaboration in 2003 were as follows:

(1) Provision of Guidance for “Collaboration and Exchange Meetings”

The objective of this work item is to encourage SMEs to take the sharing of resources, complementarity and mutual benefit as the basis for exchanging experience and learning from one another, thereby building a foundation for further collaboration of a more practical nature in the future. In 2003 the government provided guidance for the holding of 44 “Collaboration and Exchange Meetings.”

(2) Provision of Guidance for “Practical Collaboration Meetings”

The aim of this work item is to foster collaboration of a more practical nature among SMEs. This type of collaboration covers a wide range of areas, including collaboration on PR work, technology transfer, joint production, joint marketing, collaboration on the development of new business areas, etc. Eight “Practical Collaboration Meetings” of this kind were held in 2003.

(3) Industry Cluster Guidance

The government is seeking to encourage the formation of industry clusters consisting of 12 or more enterprises located in the same district and collaborating on production, R&D, design, purchasing, marketing, delivery, etc. The aim of these efforts is to promote the development of the local economy and strengthen the overall capabilities of the enterprises concerned. In 2003, guidance was provided for the development of two clusters of this kind.

(4) Publicizing the Importance of Mutual Assistance and Collaboration

To achieve effective promotion of mutual assistance and collaboration, the government has printed 1,000 brochures and 500 books outlining the results achieved in the government’s guidance efforts, so that people in all walks of life can gain a better understanding of what the government is attempting to do in this area.

4. Expansion of the Government’s Efforts to Promote the Development of Traditional Local Industries

Many of the small enterprises have clustered together to form local industries, either for historical reasons or in order to make

effective use of local resources; others fall under the category of “community enterprises” that are closely integrated into the daily life of the people of that locality. The scale of operation of these enterprises tends to be very small, and their combined sales account for only a very small percentage of total SME sales; nevertheless, these enterprises make an important contribution to job creation in local communities and to the maintenance of social stability. Every year since 1989 the SMEA has commissioned SME guidance organizations to provide guidance for these local industries and community enterprises, with the aim of helping them to upgrade and transform themselves, thereby boosting their overall competitiveness. This work continued in 2003, with the following results being achieved:

(1) Providing Guidance for Traditional Local Industries

As noted above, the government provides guidance to local industries in order to boost local economic development and the industrial development of the country as a whole. Guidance is provided to individual industries over a three-year period. The main achievements in 2003 were as follows:

- a. Guidance was provided to 13 local industries that were making efforts to innovate. These included: the “coconut culture industry” in Laochuangchiao, Pingtung County; the vegetable dyes industry in Chungliiao Rural Township, Nantou County; the hot springs industry in Hsin Peitou, Taipei City; the lotus farm (tourist farm) industry in Kuanyin Rural Township, Taoyuan County; the taro industry in Tachia, Taichung County; the stone-carving industry in Hualien County; the lemongrass industry in Kuohsing Rural Township; the hot springs industry in Ssuchunghsi,

Ch'e-ch'eng Rural Township, Pingtung County; the traditional Hakka food industry in Shancheng, Taichung County; the stocking-weaving industry in Shetou Rural Township, Changhua County; the model local industries project in Hsinpu Township, Hsinchu County; the Local Industries and Local Products Innovation Production and Marketing Project; the Lanyang River Valley Strategic Alliance Guidance Program. The guidance provided included assisting enterprises in the following areas: new product R&D, strategic alliances, enterprise diagnostics, manpower cultivation, resource surveys, tourism planning, image building, product display and sales promotion, etc.

- b. Two-hundred local enterprises were given assistance in strengthening their operations.
- c. Visits were arranged to 10 model local enterprises.

(2) Provision of Guidance to Small “Community Enterprises”

The government has also been working to improve the business environment for small “community enterprises,” and to help in the building of consensus among these enterprises. The aim is to make effective use of local resources (taking local circumstances into consideration) to strengthen the vitality of the community as a whole. The main achievements in this area in 2003 were as follows:

- a. Implementation of 8 guidance projects for the establishment of community industries. These included: the Economic Development Project in Wutai Rural Township, Pingtung County; the eco-tourism tourist farm project in the Shihlin

District of Taipei City; the tourism industry in Mataian Community, Kuangfu Rural Township, Hualien County; the traditional handicrafts industry in Lukang Township, Changhua County; the “East Fukien Culture” industry in Lienchiang County (Matsu); the Jinkuashi Community Industry guidance project; the Tapaohsi Eco-tourism Industry guidance project in Sanhsia; the “organic eco-art village” guidance project in Wanpao Community, Miaoli County; the community guidance project in Hsinkang Rural Township, Chiayi County; the Lichia Forest Highway guidance project; the local culture and tourism development guidance project in Hohsing Community. The areas covered by this guidance include: resource surveys, establishment of the relevant organizations, education and training, management diagnostics, product display and sales promotion, etc.

- b. Promotion of eight local festivals.
- c. Provision of guidance for the establishment of community industry “self-government” in three communities.
- d. Provision of guidance to strengthen the operations of local industries on 220 occasions.
- e. Assisting in the creation of 770 new jobs, cultivation of 50 training personnel, and cultivation of 330 community industry managers.
- f. Holding of six seminars to share the experience acquired by outstanding community enterprises.

V Building a First-class Environment for SME Development

The enactment of the *SME Development Statute* in 1991 heralded the beginning of a new era in the provision of guidance to SMEs by the government, in which SME guidance work was promoting in an ongoing, systematic manner. This section provides an overview of the policies and measures implemented by the government in 2003 to improve the overall business environment for SMEs.

1. Ensuring that SMEs' Legal Rights are Protected

The existence of a fair, equitable legal environment has a major impact on SMEs' ability to participate fully in the market, and on their ability to survive and grow. To ensure that Taiwan's SMEs receive fair treatment under the legal system, the government undertakes regular review of the formulation and revision of legislation relating to SMEs and relevant government authorities. It also commissions academic research into the legal issues that affect SMEs, and invites academics and other experts to hold coordination meetings and public hearings in this area. The results of these meetings are included in the reports submitted to the executive branch of government, to provide a reference for the formulation and revision of laws and regulations.

The main work items implemented in this area in 2003 were as follows:

(1) Research on SMEs and the Law, and Efforts to Ensure that SMEs' Legal Rights are Protected

- a. Research on bills relating to SMEs: 2003 saw the completion of research on three statutes – the statute relating to investment by the SME Development Fund, the statute relating to SME participation in industry supply chains, and the implementation regulations for the SME Development Statute (along with the relevant sub-statutes).
- b. Production of 5,000 copies of a questionnaire on SME-related legislation, and the holding of 12 conferences, public hearings and coordination meetings.
- c. The holding of the 29th and 30th meetings of the Legislative Yuan SME Development Promotion Committee, and the arranging of two visits to SMEs by legislators. In addition, a coordination meeting was held regarding the revision of the legislation relating to special project financing for SMEs.
- d. A conference on SME-related legislation was held, along with three forums. The total number of people participating in these events was approximately 700.
- e. Publication of the 2003 edition of *The Report on SMEs and the Legal Framework*.

(2) Helping SMEs to Establish Legal Affairs Systems, and Organizing Related Education and Training Activities

- a. The government organized the holding of three meetings of the Association of Legal Affairs Personnel, five legal affairs training courses, three courses on the regulations governing international trade, and three courses on the legal system in mainland China. A total of approximately 1,500 people participated in these activities.

- b. The government helped 50 SMEs to appoint legal affairs personnel, and provided short-term legal affairs guidance for 20 SMEs.

(3) Provision of Information on Laws and Regulations, along with Related Consulting Services, to SMEs

- a. The government completed the updating of the on-line listings of attorneys willing to provide legal affairs assistance to SMEs. In addition, the content of the legal affairs website and related promotional brochures was finalized, along with the direct marketing materials for the attorney service and the website. The content of new research projects was also finalized, and the on-line legal dictionary and its hyperlinks were updated, with the addition of new graphics.
- b. The government has continued to recruit “SME attorneys.” In 2003, an “Annual SME Attorney Licensing and Awards Ceremony” was held, and a list of 500 “SME attorneys” was produced.
- c. Explanatory booklets were published for various issues relating to SMEs, including SMEs and Corporate Governance and SMEs and SARS (1,000 copies each). In addition, three meetings of the “SME Attorneys Association” were held in order to expand the provision of service by the “SME attorneys.”

2. Helping SMEs to Secure Government Procurement Opportunities

While some of the government’s annual budget goes on

personnel expenses, a very high percentage (over 40%) goes towards construction, materials and labor procurement. When SMEs try to participate in government procurement, they often find that they are handicapped by unfamiliarity with the relevant laws and procedures, that they are unable to secure the necessary bidding information, and that they are subjected to unfair, unequal treatment. The question of how to help SMEs secure some of the business opportunities deriving from government purchasing has been a key issue for some time now.

Articles 37 and 38 of the *SME Development Statute* relate specifically to SME participation in public construction and government purchasing; they thus provide a legal basis for promotion of SME participation in these areas. When the Constitution was revised in July 1997, a special provision was included requiring the government to ensure that the interests of SMEs are protected. Furthermore, Article 97 of the *Government Procurement Law* that came into effect in May 1999 clearly stipulates that the regulatory authorities may take appropriate measures to help SMEs bid for government purchasing opportunities.

However, as noted above, because SMEs are small and have limited access to information, most of them have only limited knowledge of the laws and procedures relating to government purchasing; this makes it difficult for them to secure government purchasing business opportunities. Furthermore, when SMEs do try to secure government purchasing opportunities, they often run into difficulties because they do not know how to ensure that their interests are protected when they find themselves involved in disputes. With

these problems in mind, the government implemented various measures in 2003 to help SMEs participate in government purchasing:

(1) Provision of Information Relating to Government Procurement Opportunities and Provision of Consulting Services Relating to the Government Procurement Law

The Ministry of Economic Affairs Service Center for Assisting SMEs to Participate in Government Purchasing, which was established in 1999, has won plaudits in many quarters. The Service Center's main responsibilities include providing consulting services relating to the legislation that governs SME participation in government purchasing, helping to solve disputes relating to government tenders, and providing information services relating to government purchasing. The Service Center's achievements in 2003 included the following: provision of government purchasing consulting services to 242 enterprises; handling 10 requests for assistance in settling tender-related disputes; printing 1,200 copies of *Manual for SME Participation in Government Purchasing*; helping SMEs to gain a better understanding of the points to watch out for when participating in government purchasing; updating of the contents of the "Information Site for SME Participation in Government Purchasing" website; helping SMEs to secure the information they need about purchasing opportunities of various types as rapidly and comprehensively as possible. The Service Center also invited experts to provide on-site consulting services, offering companies concrete suggestions to solve the complex problems with which they are faced.

(2) Ongoing Statistical Analysis of the Share of Government Procurement Opportunities Secured by SMEs

In order to help SMEs secure government procurement business opportunities (either directly or as subcontractors to other companies), besides continuing to implement statistical surveys of the actual amount of business opportunities secured by SMEs, the government has also established a new database covering large enterprises.

(3) Seminars to Help SMEs Participate in Government Procurement

In light of the revision of the Government Procurement Law and of some of its sub-statutes, along with the trend for government purchasing to take place on-line, 15 “Seminars on SME Participation in Tendering Operations for Government Purchasing” were held in 2003, giving more than 993 SMEs the opportunity to gain a clearer understanding of the legal framework governing government purchasing and of the relevant bidding procedures.

VI The Resources Allocated to SME Development by the Government

Item 3 of Article 4 of the *SME Development Statute* stipulates that the regulatory authority for SMEs should stipulate in the annual *White Paper on Small and Medium Enterprises in Taiwan* all the resources that the government allocates to SME development. As a result, since 2001 the *White Paper* has included a section that explains the allocation of government

resources to SME development. However, in previous years this section has not given a clear definition of the scope of SME-related resource allocation. For the purposes of this section, the scope of “government resources allocated to SME development” is limited to the resources that Level One central government agencies allocate to this purpose, including: government subsidies, guidance and incentive measures targeting SMEs; government purchasing of goods, construction work or labor from SMEs; provision of special project loans to SMEs by the government. Calculations are based on the actual amount spent.

In 2003, the total amount spent on SMEs came to NT\$690.6 billion. The resources allocated to SME development for different purposes are described below.

1. The Government Purchased Goods and Services Worth NT\$653 Billion from SMEs in 2003

According to the tender award statistics produced by the System for the Announcement of Government Procurement Information, in 2003 SMEs sold to the government goods and services worth a total of NT\$653 billion (either directly or as sub-contractors of companies from which the government purchased goods or services). This represented an increase compared to the 2002 total of NT\$643.2 billion. However, SMEs’ share of total government procurement declined from 79.29% in 2002 to 60.92% in 2003. The System for the Announcement of Government Procurement covers all levels of government, so this data includes purchasing by both central government agencies and local government.

2. The Ministry of Economic Affairs Provided Guidance to SMEs Worth a Total of NT\$18.98 Billion

The main government agencies involved in the operations of the 10 Major Guidance Systems, which play a major role in the provision of guidance to SMEs, include the SMEA, the Industrial Development Bureau, the Board of Foreign Trade, the Commerce Department, the Department of Industrial Technology and the Industrial Development and Investment Center (all of which fall under the Ministry of Economic Affairs). The budget results for each of these agencies in 2003 are shown in Table 9-6-1; the combined expenditure for all of these agencies put together was NT\$29.48 billion, of which NT\$18.72 billion was allocated to SMEs.

The amount allocated to SMEs thus accounted for 63.51% of total spending. The Department of Industrial Technology spent the largest amount on SME guidance (NT\$10.1 billion), followed by the SMEA (NT\$4.37 billion) and the Industrial Development Bureau (NT\$2.2 billion). As for the amount spent on SME guidance as a percentage of that agency's total expenditure, apart from the SMEA (100%), the agency spending the highest percentage of total expenditure on SMEs was the Board of Foreign Trade (96%).

Total expenditure by the SMEA was significantly higher in 2003 than in 2002. The main reason for this increase was the government's implementation of the SME Manpower Assistance Plan in 2003, with a total budget appropriation of NT\$3.33 billion. At the Commerce Department, the percentage of total expenditure going on SME guidance fell from 54.94% in 2002 to 21.47% in 2003. This was mainly because the allocation of NT\$398 million for three new projects – Public

Key Infrastructure Promotion, the Global Logistics e-Enablement Project and the Commercial Services Network Plan – caused SMEs' share of total spending by the Department to decline.

Table 9-6-1 Funds Allocated by the Ministry of Economic Affairs to SME Guidance in 2003

Units: NT\$ thousands ; %

Name of Agency	Annual Expenditure	Final Budget Result	Amount Spent on SME Guidance
SMEA (including the SME Development Fund)		4,365,676	4,365,676 (100.00)
Industrial Development Bureau (Industrial Technology Upgrading Guidance and Industrial Development Zone Management Fund)		4,300,729	2,206,482 (51.30)
Board of Foreign Trade (Overseas Market Development Guidance and Trade Promotion Fund)		1,665,372	1,598,757 (96.00)
Commerce Department (Promotion of the Modernization of Commerce and Technology Development)		1,794,459	385,347 (21.47)
Department of Industrial Technology		17,187,907	10,113,802 (58.84)
Industrial Development and Investment Center (Overseas Investment Guidance and Recruitment of Overseas Experts)		163,305	52,248 (31.99)
Total		29,477,448	18,722,312 (63.51)

Note: Figures in parentheses are percentages of the total expenditure for that agency.

Source: The respective agencies.

Besides, training subsidies for SME personnel provided by the Bureau of Employment and Vocational Training of the Council of Labor Affairs totaled NT\$262 million, making the guidance provided by the government worth an amount of NT\$ 18.98 billion.

3. Special Project Loans for SMEs Totaling around NT\$18.61 Billion

The funds used to provide special project loans to SMEs derive from a variety of sources, including the Sino-American Fund, the Executive Yuan Development Fund, the SME Development Fund, the Agricultural Development Fund, the Council of Indigenous Peoples and individual banks. In some cases banks provide all the funding themselves, with the government's role being limited to subsidizing the preferential interest rates. In the case of SME Development Fund Project Loans, SME Root Establishment Project Loans and the Loans for Indigenous Peoples, the loans are provided mainly from the relevant Funds. Provision of funding for the National Youth Commission Young Entrepreneur Loans and SME Upgrading Loans is shared by the government and the banks, while in the case of the Agricultural Development Fund Agricultural Machinery Loans and the Micro-enterprise Loans the funding is provided by the banks, with the government compensating the banks for the preferential interest rates.

Those special project loans available to both SMEs and large enterprises have generally not been included. However, in the case of special loans for farmers, fishermen and aborigines, although these loans are available to enterprises of any size, in reality the recipients are almost all small enterprises, so these loans have been included in the calculations. In total, the amount of loans to SMEs provided by the government in 2003 came to approximately NT\$13.27 billion (Table 9-6-2).

In addition, the SME Credit Guarantee Fund paid out a total of NT\$5.34 billion in compensation to banks for SMEs failing to repay loans for which credit guarantees had been

provided. In total, government's funding for special project loans for SMEs were around NT18.61 billion.

Table 9-6-2 Government-funded SME Project Loans

Unit: NT\$ billions

Loan Type	Type of Applicant Targeted	Funding Unit	Terms of Funding	Operating Status in 2003	
				Total Amount of Loans	Government Funding
SME Upgrading Loans	SMEs	Development Fund, Executive Yuan	25% of the value of each loan is provided by the Development Fund, with the handling bank providing 75%	6.62	1.66
National Youth Commission Young Entrepreneur Loans	Young entrepreneurs	Council for Economic Planning and Development, Executive Yuan	50% of the value of each loan is provided by the Sino-American Fund, with the handling bank providing the other 50%	0.85	0.43
SME Development Fund Project Loans	SMEs	SME Development Fund	Financing provided from the SME Development Fund	1.12	1.12
Agricultural Development Fund Agricultural Machinery Loans	Individual farmers or fishermen engaged in farming or fisheries activity, along with organizations engaged in the provision of farming services or equipment rental	Farmers Bank	Financed by the handling agency, with the Agricultural Development Fund compensating the handling agency for the preferential interest rate offered	0.32 (January–June 2003)	0.05 (January–June 2003)
SME Root Establishment Project Loan	SMEs	Post Office	The Council for Economic Planning and Development provides funding support from mid-term and long-term funds.	9.18	9.18
Loans for Indigenous Peoples	Indigenous peoples	Council of Indigenous Peoples	All financing provided by the Council of Indigenous Peoples	0.81	0.81
Micro-enterprise Loans	The middle-aged unemployed who started their own business less than one year ago	Bureau of Employment and Vocational Training, Council of Labor Affairs	Preferential interest rates subsidized by the Council of Labor Affairs	2	0.04
Total				20.90	13.27

Source: The respective agencies.

