

Chapter 10

A Review of Current SME Guidance Policy and the Prospects in the Future

Chapter 9 described the main features of SME guidance policy in 2003. In recent years, the vision underlying the government's SME guidance activities has been the desire to turn Taiwan into an ideal location for the establishment and growth of SMEs. There is thus clearly a need to review the mechanisms employed by the government in the last few years in the areas of new business establishment, incubation, financing, etc., as well as the government's planning for SME guidance policy in the future. At the same time, the legal framework is one of the most important elements in the overall environment for SME development. The *SME Development Statute* constitutes the ultimate legal foundation for the provision of guidance to SMEs. Following the discussion in Section I of the changes taking place in the overall business environment, Section II will point out areas where the *Statute* may need revising in future, and will put forward suggestions for revisions of the relevant sub-statutes. Section III considers the form that the government's SME guidance policy can be expected to take in the future.

I An Examination of the Government's Current SME Guidance Policy

With the trend towards economic globalization and the development of the knowledge economy, the key factors affecting SME operations today are innovation, speed and

markets. These three factors are of course closely inter-related. Innovation derives from creativity, which has its origins in democracy, social organization, commercial experience and proximity to markets. Speed derives from the development of the Internet and the rapid pace of change in technology. As for markets, they need to be customer-oriented. In the past, the assistance that the Taiwan government has provided to SMEs in these three areas has taken many different forms. These have included the establishment of incubator centers and other start-up mechanisms, financing assistance, etc. There has thus been a wide range of external resources available for SMEs to use. However, although these measures are perfectly sound in theory, in practice several problems have been encountered, and there are several areas in which improvements are needed.

1. Guidance for Business Establishment

SMEs account for the vast majority of enterprises in Taiwan; on average, nearly 100,000 new SMEs are established every year. However, in the past seven years Taiwan's incubator centers have provided guidance for only a little over 1,000 enterprises. There is thus still considerable room for improvement in the provision of guidance to start-ups.

2. Innovation and Cultivation

(1) Making Adjustments to the Relevant Laws and Regulations

Currently, 83% of Taiwan's incubator centers are located on university campuses. In the past, the law has tended to treat university professors as government employees, and has not attached sufficient importance to the need for university

professors to be able to transfer the results of their research to industry. As a result, there is still a need for further strengthening of the linkages between academia and industry. Another problem is that the *Statute Governing University Funds* places onerous restrictions on fund utilization. These problems make it difficult for universities to play as large a role as they should in innovation and R&D.

The tax laws have also thrown obstacles in the way of the development of incubator centers. For example, universities and other non-profit institutions are exempt from house tax and land tax. However, if an SME is registered within a university incubator center, the university is at risk of having its tax-exempt status abolished by the Ministry of Finance. This has created a situation where universities have to ask the SMEs that locate themselves in the university's incubator center to register themselves as being located elsewhere, which may put the SME in violation of Article 9 of *Company Law* (which prohibits falsification of the location of company establishment). To ensure the healthy development of Taiwan's incubator centers in the future, revisions will need to be made to these laws.

(2) Collaboration and Provision of Support by Relevant Agencies

The regulatory authority for incubator centers varies depending on the type of incubator; incubator centers' achievements are directly affected by the level of support that they receive from the regulatory authority. In the case of incubator centers attached to universities, the attitude taken by the Ministry of Education and the National Science Council has a major impact on the effectiveness of the guidance that the incubator

center is able to provide. There is also a definite need for the Ministry of Economic Affairs and the Ministry of Finance to reach consensus on the tax issues relating to incubator centers. If the areas on which incubator centers focus are closely related to important local industries, then incubator centers can help to direct the development of local industry, but only there is sufficient support from local chambers of commerce and local government authorities.

(3) The Development of Private Incubator Centers

Currently, most incubator centers in Taiwan are located on university campuses; incubator centers attached to universities account for 83% of all incubator centers established with government guidance. Apart from the incubator centers attached to universities, there are just six incubator centers attached to research institutes, three attached to government agencies and one private incubator center. There are also several private incubator centers that were established without government guidance, including the Mingshui Peissu Incubator Center, the Hung Yuan Incubator Center, the Acer Kewang Innovation Center, etc. Possibly because the profits that can be made on incubator center operation are too low, the private sector has shown little enthusiasm for incubator center establishment. In the future, efforts will need to be made to create an environment conducive to the development of the incubator center industry, so that incubator centers can thrive on their own without the need for government funding support.

3. Guidance System Establishment

Currently, the legal basis for the SME guidance system is the *SME Development Statute* promulgated in February 1993.

Article 1 of this statute clearly stipulates that there is a need to improve the overall business environment for SMEs, promote collaboration, and provide guidance so that SMEs can achieve growth through their own efforts, thereby promoting the healthy development of Taiwan's SMEs.

The plans for the establishment of the SME guidance system and the relevant guidance methods were drawn up by the Ministry of Economic Affairs and submitted to the Executive Yuan for approval, which was granted in November 1991. In December of that same year, the government announced the establishment of guidance systems for finance, operational management, production technology, R&D, information management, industrial safety, pollution prevention, and marketing. Guidance methods were also promulgated. Following the revision of the *SME Development Statute* in December 2000 and the approval of these revisions by the Executive Yuan in 2001, the *Regulations Governing the SME Guidance Systems and Guidance Methods* were revised in June 2001, with the addition of new guidance systems for mutual assistance and quality upgrading.

Although the establishment of a closely-knit service network by the Ten Major Guidance Systems did result in significant achievements in the provision of guidance to SMEs, it was found that this system did have its limitations. The *SME Development Statute* had been formulated to meet the needs of the 1980s. Today, with the business environment changing rapidly both in Taiwan and overseas, and with new industries coming into being, not only is the SME guidance system in need of overhauling, the government needs to make sure that it has the flexibility to make adjustments to the system as needed.

There is also a need for a communication and coordination mechanism that would link the different guidance systems more closely together, and for the implementation of an appraisal system. It will thus be necessary to make revisions to both the *SME Development Statute* and the *Regulations Governing the SME Guidance Systems and Guidance Methods*, to ensure that the legal basis for the new measures is sound.

4. Credit Guarantees

(1) The Functions of Credit Guarantee Fund

The SME Credit Guarantee Fund was established in 1974 with the aim of helping SMEs to secure financing. The Fund's main function is to make financial institutions more willing to lend to SMEs by overcoming the problem that SMEs tend to have insufficient assets that can be used for collateral. On May 15, 2003 the Ministry of Economic Affairs replaced the Ministry of Finance as the regulatory authority for the SME Credit Guarantee Fund. Guidance, financing and credit guarantees were thus integrated into the Joint Diagnostics Guidance dual-track system, making it possible to achieve effective coordination with the Ministry's overall policy for SME development.

(2) The Challenges Faced by the Credit Guarantee Fund

The SME Guarantee Fund is currently experiencing several problems. These include the need to make the securing of funding sources more systematic, the need to improve credit quality, the need to achieve more effective risk control and the need to achieve a better balance between receipts and expenses. With regard to funding sources, the higher the Fund's credit

guarantee multiple the higher the level of risk it must absorb. The government is encouraging the fund to provide more guarantees; the establishment of stable funding sources is thus an urgent priority if the net worth of the fund is not to decline.

a. Stabilization of Funding Sources and Adjustment of the Loan Guarantee Multiple

On December 17, 2003 the government promulgated several revisions to the *SME Development Statute*. Items 2 and 3 of Article 13 were revised as follows:

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

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

During the first meeting of the President's Economic Advisory Team, held on July 10, 2003, President Chen Shui-bian said that he hoped that the size of the SME Credit

Guarantee Fund could be increased by NT\$10 billion a year over the next five years, for a total of NT\$50 billion, so as to strengthen the fund's performance.

With the economy starting to pick up again, the SME Credit Guarantee Fund has an important role to play, and the amount of loan guarantees that it provides should be increased. However, as of the end of 2003, the total of NT\$169.2 billion in loan guarantees that the fund had provided to SMEs was equivalent to 19.39 times the fund's net value of NT\$8.73 billion. More money will need to be allocated to the fund if its operations are to be maintained over the long term.

b. Ensuring Effective Control of the Delinquent Loan Ratio

In the last few years the SME Credit Guarantee Fund has become more aggressive in its implementation of risk control measures, while at the same time trying to keep the negative impact on SME financing to a minimum. These efforts to reduce the level of risk have already started to pay off. In the past, the delinquent loan ratio had generally been around 4.53%; in 2003 it was just 2.75%, representing a significant improvement compared to the 2002 figure of 4.97% (Table 10-1-1).

As a rule, banks require collateral when granting loans. The SME Credit Guarantee Fund focuses on providing credit guarantees for SMEs that are unable to put up sufficient collateral; the level of risk that the fund has to bear is thus inherently higher than that borne by banks in their regular lending operations. Nevertheless, in order to ensure that its funds are used efficiently, the SME Credit Guarantee Fund will need to work closely with financial institutions to try to

improve the quality of the credit provided through its efforts.

Table 10-1-1 Delinquent Loan Ratios, 1975 – 2003

Unit: %

Year	Ratio of New Delinquent Loans	Year	Ratio of New Delinquent Loans
1975	14.79	1990	3.03
1976	4.21	1991	2.46
1977	2.68	1992	2.87
1978	1.64	1993	4.51
1979	2.00	1994	4.42
1980	1.06	1995	6.13
1981	1.34	1996	6.48
1982	2.98	1997	4.83
1983	3.46	1998	5.41
1984	3.05	1999	5.97
1985	6.06	2000	4.92
1986	3.64	2001	7.25
1987	2.77	2002	4.97
1988	2.01	2003	2.75
1989	2.32	Average	4.53

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

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

Source: SME Credit Guarantee Fund.

II Revision of Relevant Sub-statutes of the SME Development Statute

The business environment is constantly changing. The *SME Development Statute* needs to be adjusted as necessary in line with the changes taking place in the overall environment. This section will put forward some suggestions for revision of the relevant laws and regulations. The survey conducted for the *2003 Examination of the Possibilities for Revision of the Laws and Regulations Governing SMEs* has shown that there is a widespread feeling in the private sector that the SME Development Fund should invest directly in SME operations. This section will examine the legal problems relating to direct investment, and put forward suggestions for their solution.

1. Regulations Governing the Provision of Guidance for SME Start-up

In order to ensure the effective provision of guidance for SME start-up, the guidance principles and objectives must be clarified, and the guidance content must be comprehensive. The regulations governing the provision of guidance for SME start-up should take the form of general principles, with the regulatory authorities being allowed to draw up detailed regulations according to actual needs. The main contents for inclusion in any future “Regulations Governing the Provision of Guidance for SME Start-up” should be as follows:

(1) Start-up Guidance Principles

The main emphasis in provision of guidance for SME start-up should be on the creation of an appropriate environment for business start-up and on the strengthening of entrepreneurial

capabilities, with the aim of encouraging the establishment of new SMEs, creating jobs and contributing to the economic growth of the nation as a whole. When providing guidance for business start-up, the regulatory authorities should base their activities on the principle of meeting entrepreneurs' needs, while making use of the resources of government agencies, private companies and other organizations to ensure that new enterprises can obtain the assistance they require.

(2) Guidance Content

The regulatory authorities should provide start-ups with assistance in the following areas in line with entrepreneurs' needs with respect to technology, information, funds, management, market development, manpower and other needs:

- a. Using the SME Development Fund to provide loans for business start-up.
- b. Coordinating the provision of loan guarantees by the SME Credit Guarantee Fund.
- c. Coordinating investment in start-ups by the SME Development Corporations, the Venture Capital Industry Association and other relevant organizations.
- d. Coordinating the provision of technology transfer, training and information management assistance by specialist agencies and universities.
- e. Provision of start-up consulting service, market information and training, or arranging for these services to be provided by other agencies or organizations.

- f. Helping and encouraging local government authorities and enterprises to establish business start-up guidance centers.
- g. Establishment of mechanisms whereby retired managers can provide consulting services to new businesses.
- h. The regulatory authorities can draw up individual guidance plans (and related operational guidelines) to meet the needs of female entrepreneurs, handicapped entrepreneurs, aboriginal entrepreneurs and micro-enterprises.

(3) Establishment of Mechanisms for the Cultivation of Entrepreneurial Talent

In order to further the cultivation of entrepreneurial talent, the regulatory authorities may help public and private universities and colleges to establish organizations for academic research into entrepreneurial activity, and may coordinate the handling of related activities by the relevant agencies.

(4) Establishment of a Performance Appraisal Mechanism

So as to ensure the effective implementation of guidance policy and the appropriate exercise of the guidance function, the regulations governing the provision of guidance for SME start-up should clearly stipulate the need for the establishment of a performance appraisal mechanism, to ensure that resources can be used with maximum efficiency.

2. Regulations Governing the Management of Incubator Centers and Venture Capital Firms

In order to stimulate the development of SME start-up and R&D activity, the regulatory authorities may establish or

provide guidance for the establishment of incubator centers and venture capital firms, and may provide guidance to such enterprises as necessary. The main content of these regulations should be as follows:

(1) Management Principles and Performance Appraisal System

So as to ensure effective management and guidance of incubator centers and venture capital firms, the objectives on which the measures are based should take the form of general principles, and should be supported by the establishment of a performance appraisal system.

(2) The Scope of Operation of Public and Private Agencies

The scope of operation of public and private agencies should be clearly stipulated, and regulations should be laid down covering the establishment of incubator centers by private sector enterprises and applications for tax exempt status and tax credits for investment; such incentives should be available only to corporations limited by shares.

(3) Incubator Center Infrastructure and Service Items

Incubator centers should be required to possess certain basic infrastructure and full-time personnel. They should be able to provide both specialist and general services to SMEs, including laboratory research and inspection and testing services, technology transfer and technology development consulting services, business management consulting services, computer-related consulting services, specialist knowledge and general business knowledge cultivation services, and other general services.

(4) Incubator Center Guidance and Management

The regulatory authorities should be authorized to undertake all necessary guidance and management of incubator centers. When necessary, they should be authorized to conduct audits of incubator center operations. Incubator centers should be required to submit an operations report and statement of receipts and expenses to the regulatory authority within three months after the end of each year, to ensure that incubator center management and guidance can be conducted effectively.

(5) Provision of Subsidies

Provided that incubator centers conform to the stipulations contained in these regulations, they may submit applications for subsidies. Items for which subsidies could be made available would include the addition of new facilities, and the purchase of machinery, equipment, testing and inspection materials, etc.

3. SME Guidance Measures

The Regulations Governing the Establishment of the SME Guidance System and the Guidance Measures to be adopted were drawn up in accordance with the SME Development Statute. However, the content of the SME Development Statute was based largely on Taiwan's industrial structure as it was in the 1980s. In order to adapt to the changes that have taken place in the overall economic environment and ensure that the SME guidance mechanism can be implemented effectively, it would appear that the Regulations may need to be adjusted. Some suggestions as to ways in which they should be revised are given below:

(1) Formulation of Guidance Objectives and Guidance Principles

To ensure that the regulatory authorities have clear guidance principles and objectives to follow when implementing SME guidance, regulations governing guidance objectives and principles should be drawn up in accordance with the provisions of the *SME Development Statute* and with the experience of the advanced nations.

(2) Guidance Plan and Guidance System Establishment

In order to meet the needs of Taiwan's various emerging industries, and to further the growth of business enterprises establishment by members of disadvantaged minorities, it may be necessary for the regulatory authorities to undertake an overhaul of guidance planning and guidance systems. The regulatory authorities should be able to make adjustments to the guidance systems and mechanisms as necessary in line with the changes taking place in the macroeconomic environment.

(3) Establishment of Mechanisms for Communication and Coordination

To ensure that the different guidance systems support one another effectively, the regulatory authorities should set about establishing mechanisms for communication and coordination.

(4) Establishment of a Performance Appraisal System

So as to be able to appraise the level of success achieved in different areas of guidance work, the regulatory authorities should implement regular performance appraisal for each area; revisions should be made to the *Regulations* requiring them to

do so.

(5) Publication of Business Environment Indicators for SMEs

The regulatory authorities should be authorized to publish business environment indicators for SMEs on a regular basis; these would serve as a reference for SMEs in their operational planning, while also providing the relevant government agencies with a basis for policy formulation.

4. Direct Investment by the SME Development Fund

The purpose of the SME Development Fund established in accordance with Article 9 of the *SME Development Statute* is to promote the healthy development of Taiwan's SMEs. Currently, the fund's main responsibilities include the provision of support and guidance, implementation of policy loans, provision of credit guarantees, investment and development, incubation of new start-ups, provision of subsidies and establishment of awards to encourage SMEs to undertake R&D work.

There are currently two ways in which the SME Development Fund invests in SMEs. The first is to invest in SME Development Corporations, which then invest in SMEs. The second method is to establish trust investment accounts through the SME Development Corporations, financial institutions or approved investment agencies; the SME Development Corporation, financial institution or approved investment agency can then invest in SMEs as the fund's agent. Given the need to make the fund's investment activities more efficient and for the fund to accumulate sufficient funds to

continue its operations, it might be advisable to allow the fund to invest directly in SMEs in a similar manner to the direct investment in start-ups by the Executive Yuan Development Fund.

According to the 109 questionnaires collected from SMEs for the *2003 Examination of the Possibilities for Revision of the Laws and Regulations Governing SMEs*, it appears that around 85% of SMEs feel that it is “important” or “very important” for the SME Development Fund to be allowed to invest directly in SMEs. Clearly, there is a real demand for direct investment by the government among Taiwan’s SMEs.

Currently, although Paragraph 5, Item 1, Article 9 of the *SME Development Statute* contains a general provision regarding “other uses relating to the promotion of the healthy development of SMEs and the provisions of this Statute,” if the SME Development Fund is to be allowed to invest directly in SMEs it would be advisable to undertake a formal revision of the laws governing the fund’s scope of operation so that a clear legal basis can be established. However, bearing in mind the cost of implementing this kind of systemic transformation, it is proposed that the regulatory authority should be authorized to formulate the various ancillary regulations (governing the restrictions on investment methods and targets, adherence to the principles upon which investment is undertaken, requirements relating to the rate of return on investment, monitoring mechanisms, exit mechanisms, etc.) in the form of executive orders. An addition would need to be made to Item 1, Article 9 of the *SME Development Statute* authorizing the SME Development Fund to invest directly in SMEs; Item 3 would also need to be revised to authorize the regulatory authority to

issue executive orders.

III The Future of SME Guidance Policy

1. Guidance for Enterprise Start-up

The Small and Medium Enterprise Administration of the Ministry of Economic Affairs has been implementing the “SME Start-up Consulting Service Plan,” which involves the establishment of an SME Start-up Guidance Service Center and the proactive provision of regular interactive consulting service to SMEs that have been in existence for less than five years. Newly-established enterprises can also submit applications for diagnostic guidance service. The aim of these measures is to make newly-established enterprises more competitive and raise their chances of survival. The SMEA has also set up an SME Start-up Service Network to provide entrepreneurs with the information they need. The SMEA aims to provide “one-stop service” with each request for assistance being handled by the same official from beginning to end. Where the SMEA staffer is unable to provide the information needed immediately, the SME making the request for information is assured of a reply within 72 hours.

Since implementation of this program began, SMEs have been highly impressed by the government’s concern for their welfare. Around 63% of the requests for consulting service relate to financing issues; clearly, financing is still the issue of greatest concern to most entrepreneurs. Other issues include tax law, management, etc. It appears that obtaining information about relevant laws and regulations is still a major challenge for SMEs.

Looking ahead to the future, the SME Start-up Guidance Service Center should continue to provide “one-stop service” by the same staffers. At the same time, it should strive to achieve an effective division of labor between itself and other agencies providing similar services. In particular, the activities of the SME Start-up Guidance Service Center need to be integrated with those of the Instant Solution Center, and with those of the “Dual-track Financing System” being promoted by the Instant Solution Center, the SME Credit Guarantee Fund and the Joint Guidance Center, so as to keep the cost of communication and coordination to a minimum.

2. Innovation and Incubation

(1) Relaxation of the Legal Framework and Clarifying the Status of Persons Working in the Academic Sector

There have been repeated complaints, both from industry and from academia, that the classifying of university professors and other academic personnel as government employees affects their willingness to collaborate with industry, and that this is one of the main reasons for the relatively poor performance of those incubator centers attached to universities and colleges. To encourage academics to display greater enthusiasm for collaboration with industry, it is felt that the status of academics needs to be clarified, and that academic institutions need to be allowed greater flexibility in their operations, for example by relaxing the restrictions that limit the amount of outside work academics can perform and restrict their compensation for this work.

The government has started to listen to these calls for reform. The Executive Yuan has already decided to relax the

restrictions on academics' activities; the areas covered include payment, performance bonuses, compensation for projects involving collaboration with industry, easing of the restrictions on the amount of time that may be allocated to such projects, etc. The aim is to provide incentives for the academic sector to offer greater support to enterprises engaged in high technology research. The measures being adopted will give universities and colleges greater flexibility, and should lead to a significant improvement in the performance of Taiwan's incubator centers.

(2) Strengthening the Cultivation of SMEs in the Service Sector

On average, around 100,000 new businesses are created in Taiwan every year, most of which are in the service sector. Of 112,157 new enterprises established in 2003, 99,183 (88.43% of the total) were in the service sector. This gives some idea of the importance that the service sector has in terms of job creation. Creating new jobs is part of the mission of Taiwan's incubator centers; the role that these centers are expected to play should therefore be repositioned so that they can contribute more to the cultivation of new SMEs in the service sector.

In the advanced nations, more and more leading companies that in the past were usually thought of as manufacturers are starting to think more carefully about how the consumer perceives their company; they are beginning to re-position themselves as providers of services rather than manufacturers of products. One example of this trend is Ford, which now positions itself as a provider of automobile travel services, car purchase loans, insurance, maintenance service,

in-car communications, second hand car purchase and sales services, etc. At the same time, in an era of mass consumption “image” is coming to play a more important role in the competition amongst leading manufacturers. With this new emphasis on service and image, the distinction between service providers and manufacturers is becoming blurred. In the future, incubator centers will need to focus on the new types of service industry that are now emerging.

(3) New Technology – Access and Applications

The trend towards economic globalization has stimulated rapid transnational flows of technology, trade, investment and manpower, leading to changes in population structure, social structure and the structure of the job market. These changes have in turn had a major impact on the prospects for maintaining sustainable development in the economy as a whole. In their allocation of R&D resources and their innovation policies, the OECD member nations have been focusing heavily on three main areas – information technology, biotechnology and nanotechnology. In line with developments in society as a whole, the range of applications of new technology is being expanded to cover industries with significant future growth potential, such as providing services for the elderly, the leisure industry, “green” industries and education. It is anticipated that this will help to inject new vitality into Taiwanese industry, and create new value. Taiwan needs to leverage the advantages that its existing industries confer on it to develop a strategy for globalization that takes into consideration the rapid pace of change in the area of technology.

3. The SME Credit Guarantee Fund – Focusing on Diversification

The new century has presented the SME Credit Guarantee Fund with an environment characterized by rapid change, intense competition and customer diversification; there is also the impact of the emerging “knowledge-based economy.” The fund will need to adjust to this new environment; it will need to formulate strategies for its own transformation so that it can provide a credit guarantee mechanism that more closely matches the real needs of SMEs, while creating the maximum degree of synergy with other guidance activities. The new strategy should emphasize strengthening the overall provision of SME financing, making it easier for SMEs to secure access to financing, implementing the government’s industrial policy goals, coordinating the full range of guidance resources, leveraging the information available to the fund, and developing first-rate credit risk management techniques. The five main areas on which the fund will need to focus are as follows:

(1) Expansion of the Direct Credit Guarantee Mechanism

In the case of SMEs that have significant growth potential but which are unable to secure bank loans through the market mechanism as it operates as present, besides continuing to provide credit guarantees directly through the dual-track “Joint Diagnostic Guidance” system, the government should also make it possible for such SMEs to submit applications for credit guarantees directly to the SME Credit Guarantee Fund.

(2) Promotion of a New Enterprise Appraisal System

The government will need to make adjustments to the existing enterprise appraisal standards. This will involve the establishment of new financing standards, and expanding the scope of appraisal to cover the enterprise's financial structure, management team, intangible assets, customer relationships, the prospects for the growth of the industry to which the enterprise belongs, etc. The new appraisal system should make it easier for those enterprises that have strong R&D capabilities and whose products have strong market potential, but which have not yet built up a credit record and performance record, to obtain the funding they need. At the same time, the fund should gradually be building up a database holding information on the enterprises to which it has provided credit guarantees. Through the accumulation and analysis of this data the fund will be able to establish its own internal creditworthiness evaluation system, which would provide an important reference when deciding whether the Fund should grant a credit guarantee to a particular enterprise.

(3) Diversification of Credit Guarantee Operations

In order to meet SMEs' increasingly diverse financing needs, the SME Credit Guarantee Fund will need to increase new types of credit guarantee service. By developing new financing channels, the fund will make it easier for SMEs to secure loans.

a. Batch-type Credit Guarantees

By working with financial institutions to provide batch-type credit guarantees – an innovative new financing channel for SMEs' medium-term funding needs – the SME Credit Guarantee Fund will be able to help meet industry's development needs and to build an environment conducive to

the growth of knowledge-intensive industries.

b. Differentiation of Credit Guarantee Handling Charges

To ensure that applicants are treated fairly, the handling charges for the provision of credit guarantees should vary depending on the level of credit risk. This new system should be implemented in stages. In the first stage, differentiated handling charges would apply only to those credit guarantees provided directly by the fund or using the new enterprise appraisal systems. In the second stage, the new system would be extended to cover all applicants. In the third stage, handling charges would be determined on the basis of the new enterprise credit evaluation system.

c. Securitization

By securitizing credit guarantee risk, the Fund could help SMEs to secure interest-free financing, creating a situation where the credit risk and the rate of return on investment offset one another.

(4) Strengthening the Financial Health of the Fund

There is a high level of risk involved in providing financing to SMEs. To be able to provide credit guarantees for this kind of financing over the long term, an institution needs to possess ample funds and stable funding sources. Besides ensuring that the government, banks and private enterprises provide a steady flow of funding for the SME Credit Guarantee Fund in accordance with the provisions of the *SME Development Statute*, the fund also needs to adopt advanced financial management techniques so as to achieve security and stability

in fund utilization. At the same time, the fund will need to strengthen its debt collection operations, possibly by outsourcing these operations or offering incentives for debt collection to the banks.

(5) Efficient Service

The steps that the SME Credit Guarantee Fund could take to enhance the efficiency of the service that it provides would include: making adjustments to the fund's organizational structure, personnel changes, improved training, improved operational procedures and the further computerization of fund operations.

