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PREFACE

At the 14th Meeting of the APEC Small and Medium Enterprises in Viña del Mar, Chile on 3-5 April, 2002 a small ad hoc group, co-led by Mexico and Canada, was formed to enhance the SPAN and its implementation by APEC economies and fora. In addition, the SMEWG agreed to revise the SPAN so that it considered amendments to the Osaka Action Agenda (OAA) Part II relevant for SMEs.

This document provides a strategic policy framework and action program for SME development. It is intended to help economies and fora review and implement SME policies and programs, in order to better identify the needs of SMEs and balance competing priorities. This proposal also provides background on the development of the SPAN from its 1998 inception.

In consideration of Mexico’s hosting of the High Level Meeting on Micro-enterprises, the proposed revision also attempts to strengthen its priority areas that form SPAN’s strategic policy framework. At the 15th Meeting of the APEC SMEWG, participants will be asked to consider how this document reflects the OAA, and advances the role APEC economies and other fora play in addressing the special needs of micro-enterprises, and SMEs owned and managed by women and indigenous peoples in the Asia Pacific region.

I. INTRODUCTION

Background on the SPAN
Since its endorsement by APEC Leaders in Kuala Lumpur in 1998, SPAN has been used as a framework for economic cooperation among APEC fora and economies, on issues affecting the development and growth of SMEs in the region. It provides guidelines for reviewing the issues and impediments facing SMEs in each economy, and implementing policies and activities that address these issues. SPAN assists developing economies plan and implement their strategies for SME development. All economies and fora should recognize the SPAN as an essential tool for addressing proposals and recommendations on SME development, made by the business community. APEC relies on the business community for practical and relevant advice on the challenges of a more liberal and open trading environment.

There are three key purposes of SPAN:

- Guidelines for economies to develop domestic SME Policy Agenda/Strategy
- Framework for economic cooperation concerning SMEs within APEC
- Tool for addressing proposals/recommendations from the business community

The SPAN was derived from the Osaka Action Agenda (OAA), which was developed in 1995. Part One of the OAA translates APEC’s 1994 Bogor vision into a long-term action plan for opening trade and investment across the APEC region. Part Two of the OAA consists of a framework for Economic and Technical Cooperation (Ecotech) among APEC’s action programs and working fora. There are three essential elements in this framework: Common Policy Concepts; Joint Activities; and Policy Dialogue. Common Policy Concepts indicate the strategic elements necessary in APEC’s program for SME development, including objective, vision, basic principles and priorities.

SPAN 1998 adopted the five priority outlined in the OAA’s SME Common Policy Concepts:

- Human Resource Development
- Access to Information
- Technology and Technology Sharing
- Financing
- Market Access

These issues represent the common difficulties faced by SMEs in all APEC economies, and as a result, form the pillars of a strategic framework for the cooperative development of SMEs in the APEC region.

In 2001, the OAA was amended to reflect the transformation of the global business environment due to technological advancement and trade liberalization.

In Chile in April 2002, the SMEWG agreed to revise the SPAN in order to incorporate the 2001 OAA amendments. The SMEWG also discussed ways for improving the usefulness of SPAN as a mechanism for implementing SME development policies and programs, particularly among developing economies, and those economies with large numbers of micro-enterprises, SMEs in rural and remote areas, and SMEs owned and operated by women entrepreneurs.

This document includes revisions to SPAN proposed by Canada, Malaysia, Mexico, New Zealand, the U.S.A. and ABAC. Canada and Mexico co-led the preparation of this document. Among the suggestions incorporated in the document are:

- A sixth priority area "Policy Environment" to the Strategic Policy Framework
- The benefits of strengthening policy dialogue among all APEC economies and for
- A new section - "Evaluation Framework", to help developing economies and other APEC fora implement and evaluate the effectiveness of SME policies and programs
Since SPAN 1998, technological advancement and trade liberalization has changed the marketplace environment for APEC SMEs. Economies are recognizing the impact of government policies on SME development, particularly those policies relating to competitive market structures and systems. Marketplace framework policies in the areas of taxation, regulation, finance and capital markets, and business support systems may significantly limit the development and growth of APEC SMEs. Therefore, the policy environment affecting SMEs is a key priority in the proposed revision to the SPAN. The six priority areas in the proposed revision to the SPAN are intended to guide Joint Activities and collaborative Policy Dialogue among APEC economies, as well as informing other APEC fora and working groups about policies, programs and best practices that can contribute meaningfully to SME development.

The proposed reviewed SPAN thus sets out a common policy and program framework and guidelines for the support, economic and technical development of SMEs in economies. Developing economies could more effectively review the revised SPAN against their own needs and priorities and thereby plan their SME development agendas accordingly. For all APEC economies, the revised SPAN will provide a more useful framework within which opportunities for APEC cooperation could be explored and work programs could be carried out through the activities of the various APEC fora. As with SPAN 1998, implementation of this policy framework and action plan will be on a voluntary basis.

**Background on the SMEWG**

SMEs form the backbone of the economies of APEC. They employ as much as 80 percent of the workforce, contribute 30 to 60 percent of the GNP and account for around 35 percent of total exports in the region. They also make up over 95 percent of all enterprises including micro-enterprises.

The status and performance of SMEs in APEC reflect the varied levels of development of APEC economies. Thus, the developing economies are likely to require a more pro-active approach in developing the SMEs while in the more advanced economies SME development is largely guided by market forces. However, whether developed or developing, economies recognize that a supportive business policy environment is crucial for enhancing trade and investment across the Asia Pacific region.

The establishment of the SME Policy Level Group (PLG) in 1994, with the objective of helping SMEs improve their competitiveness and to facilitate their transition to a more open trade and investment environment, provided a central focus for SME activities in APEC.

With the establishment of a permanent working group in 2001, the SME WG provides the foundation for other APEC fora to incorporate SME considerations within their own mandates and activities. In response to calls by Leaders and Ministers for "the incorporation of small and medium enterprises (SME) priorities throughout the APEC agenda", a Framework for SME Activities was adopted in Ottawa in 1997. "The overarching goal of the framework is to enhance the relevance of APEC work to SMEs and ensure that activities across the APEC fora provide measurable benefits to SMEs".

According to the Guidelines of the Framework, APEC initiatives and activities related to SMEs should:

- **Directly benefit SMEs**
- **Be of broad benefit to APEC economies**
- **Complement private sector activities**
- **Complement and advance the SME work of other APEC working groups**
- **Provide opportunities for public - private sector dialogue and cooperation**

The implementation of the Policy Framework involves the annual preparation of a guide on SME related activities across APEC fora according to the priority areas outlined in the OAA. With the proliferation of SME related activities across the various APEC fora, there is a need for an integrated plan which would provide the long term objectives and direction, as well as form the guidelines for the development of SMEs in the developing economies of APEC. This Policy Framework will provide the basis for developing economies to participate more effectively in APEC activities and to draw upon the
experiences of SMEs in the more advanced economies of APEC. It would also serve to pave the way for more meaningful cooperation between economies in the activities of the various APEC fora.

The role of the public sector whether in the advanced or developing economies is to facilitate the development of SMEs without interfering in the global marketplace. Moreover, the public sector has to assume an affirmative role in the development of SMEs in the developing economies. Assistance programs are meant to be developmental and facilitate the transition of SMEs to the challenges of a more liberal trading environment. Developing economies will balance the need to liberalize trade and investment with a time period of assisting SMEs to adjust.

II. ELEMENTS IN PLANNING FOR SME DEVELOPMENT

The SPAN has the following key features for a supportive longer-term framework for planning and policy development

- Identification of long term policy objectives and strategic directions and priorities,
- Identification of issues in each of the six priority areas and measures to address them,
- The strengthening of the physical and economic infrastructure specifically for SMEs,
- The incorporation of inputs from the business sector, and
- A checklist for assessing SME policies in the context of APEC overall objective.

III. THE SIGNIFICANCE OF SPAN

SPAN provides the strategic policy framework to support SME growth and competitiveness in APEC and the guidelines for SME development. It covers two key components of SME development in APEC: how best to

- Harness and increase the potential for SMEs to contribute to growth and development in the region for the good of its peoples; and
- Assist the adjustment of SMEs to the changes brought about by APEC actions towards open regionalism and increased economic interdependence.

Presently, some of the projects related to SMEs address the issue of capacity building of SMEs in order to capitalise upon the market opportunities brought about by the APEC process. However, for many of the developing economies, the majority of the SMEs need to make adjustment to the changes and challenges brought about by increased trade and investment liberalization. Thus, there is also the need to give attention to adjustment as well for it is critical in ensuring the continued economic performance of many of the developing economies and thus their interest in the APEC process. The extent of SME development depends on the stage of development of each economy.

SPAN’s Strategic Policy Framework and guidelines benefits all APEC economies by helping SMEs adjust to policies that support open regionalism. SPAN helps participating economies benefit in three ways:

- Allows for international comparability of policies, programs and best practices (what works in a given economy),
- Helps all APEC fora identify specific policies and programs which foster the development, growth and competitiveness of micro-enterprises and SMEs (MSMEs) across the region, and
- Situates the assessment of specific MSME policies and programs in the context of regional trade and investment policies.

IV. OBJECTIVES AND STRATEGIES

In 1996 the average real GDP growth for APEC economies was 3.7 percent. By 1997, the growth rate has fallen to 3.4 percent due to the Asian financial crisis. According to the APEC 1997 Economic
Outlook Report, in the medium term, the APEC region as a whole has good prospects for sustained moderate growth despite the current economic turmoil. Against this economic outlook, the pace of SME development has to be accelerated.

The objectives of an SME Development Plan take into account the differences in the levels of development of each economy. In some economies, there is also a need for special consideration of the interests of micro-enterprises and SMEs operated and managed by women and indigenous people as they form the core of poverty alleviation and rural income augmentation programs.

The objectives of SPAN are to:

- Accelerate the pace of SME development in accordance with its growth potential in the APEC region;
- Maximize SMEs’ efficiency along the region’s key economic sectors - primary, industrial, trade and services;
- Enhance SMEs’ dynamism by facilitating their access to markets, technology, human resources and skills, financing and information;
- Strengthen the resilience of SMEs to withstand adverse macroeconomic and financial developments including external shocks; and
- Achieve socio-economic goals through MSMEs as a source of growth and employment especially in the rural sector of the developing economies of APEC.

A comprehensive approach to SME development is necessary to integrate its role of supporting the industrial structure. This ensures that policy and program initiatives create a conducive, enabling business environment and provide the requisite economic infrastructure and support services.

Within these broad objectives, three key strategic directions for SME development can be identified:

i. The creation of a conducive business policy environment to facilitate the competitive performance of SMEs.

ii. The strengthening of the economic infrastructure so as to enhance the resilience of SMEs to adverse macro-economic developments.

iii. The improvement of regional and sub-regional trade and investment linkages among SMEs in APEC economies by identifying viable economic opportunities, cross-border projects and relevant information services among APEC economies.

These objectives and strategic directions constitute the scope for both collective and individual actions by APEC economies. Individual economies should devise their own criteria with which to measure the achievement of their stated objectives. MSMEs require a comprehensive policy and program package to help them meet the challenges and opportunities they encounter in an increasingly competitive market environment. Therefore, the approach employed in adopting an MSME development plan includes:

- Identification of issues, constraints and impediments to SME development such as those pertaining to skills, finance, technology, marketing and information. (Part 5)
- Measures that address key issues and overcoming various impediments, and focus on strengthening the economic infrastructure. This includes developing business skills, improving access to provision of financial assistance, facilitating technology development and absorption, improving market development and providing relevant strategic information. (Part 6)
- A mechanism by which the components of the SME Development Plan and areas of cooperation may be identified and explored, at the economy level and at the APEC level, through the activities of the various working groups. (Part 7)
V. ISSUES AND IMPEDIMENTS TO SME DEVELOPMENT

Six constraints to SME development have been identified as priority areas, namely:

- **Policy Environment** - prudent fiscal management, effective regulatory environment, competitive trade policies.
- **Human Resource Development** - skills in management and quality control, training and retaining workers, training in financial management.
- **Financing** - defining and articulating financing needs, high transaction costs, lack of collateral and risk
- **Technology** - a component of policies on human resource development (financing and skills)
- **Market Access** - market development and promotion skills, knowledge and information on niche markets, trade barriers
- **Access to Information** - effective outreach or dissemination system, quality of the content of information

**Policy Environment**

A conducive policy environment at the economy level benefits all enterprises by reducing barriers to competitiveness. Micro-enterprises in particular are at a significant disadvantage relative to larger firms when faced with existing non-tariff and regulatory barriers. Transaction costs are relatively higher for small businesses.

Specific policies to facilitate and promote the development of SMEs need to address the major constraints that impede their growth. These include access to human resources development, finance, technology, markets and relevant information.

**Human Resource Development**

In the long term, the competitiveness of APEC economies rests on an effective program of investment in human resources. Human resource development (HRD) policies that are SME specific are focused on developing the management skills of the entrepreneur. SMEs generally lack skills in management and quality control. Many are unable or unwilling to train their workers for a number of reasons. Training is a costly undertaking; and many SMEs find it difficult to retain trained workers, thereby losing such workers to the other corporations. Yet, without the requisite skills SMEs would find it difficult to expand or adjust to the demands of globalization as technology becomes a critical input.

Recent financial and exchange rate instability have adversely affected SMEs in the developing economies of APEC. Years of operating under relative exchange rate stability have insulated SMEs from the imperative to hedge against exchange rate risks. Training modules on financial management should include measures to deal with exchange rate risks.

**Financing**

SMEs lack awareness of financing resources and programs made available from both private and public sources. In addition, they have difficulties in defining and articulating their financing needs. The small size of these enterprises and the high transactions costs arising from the lack of collateral and thus high risks, explain the reluctance of bankers to provide financing.
SMEs therefore experience delays in obtaining financing. There is a tendency for commercial banks to treat SMEs no differently from the big corporations by insisting on detailed project proposals and collateral.

**Technology**

The level of technology and skills is a function of the technology applied. SMEs generally lack information on the technological capabilities available. Even when they are able to access the information on technology, their capacity to apply is constrained by the lack of financial resources and the skills that go with the new technology. SPAN emphasizes assistance to SMEs as a package to overcome the multi-faceted nature of the constraints faced by SMEs in applying and adopting technological improvements, that SPAN emphasises assistance to SMEs as a package.

The technology dimension reflects the diversity of SMEs in APEC, ranging from very high-tech innovators to very low-tech informal enterprises. Applications in information and communications technology will greatly contribute to narrowing the disparity among APEC economies. Since technology is embodied in people, a long-term view of technological advancement must form a critical component of policies on human resource development.

These issues also cut across the APEC Working Group on Industrial Science and Technology (IST) as well as the Telecommunications and Information Working Group (TEL). The establishment of APEC Centre on Technology Exchange and Training for SMEs (ACTETSME) marked a significant step forward in recognizing that technology and HRD issues are intertwined. This link was further advanced in 2001 with the e-APEC Strategy, which recognizes that human capacity building and entrepreneurship are fundamental to the development of innovation-oriented policies supporting SME development and growth.

At the economy level, there is a case for the sharing of facilities through pooling resources across industries that is feasible when similar industries are clustered in a specific location. This is evident in the area of contributing to environmentally sustainable development. It is more cost effective to institute common treatment for effluents and pollution control along industry clusters. Apart from the provision of facilities, SMEs also need technical expertise and advice on environmental protection measures. APEC expertise has and will continue to provide guidance in the area of sharing technical knowledge on environmental control.

In order to help remove impediments to technology access, SMEs require information on the technologies available, the cost of the technology and the expertise available to impart the requisite skills that accompany the adoption of new technology. Relevant information on market structures and the legal and regulatory regime supporting e-business and investments in ICT infrastructure facilitate effective technology exchange and technology sharing among SMEs. Information will also enable the pooling of resources and sharing of facilities across industries, especially where they are clustered within a similar locality.

**Market Access**

There are several aspects to the issue of market access. Among these are market development and promotion, market information, trade and market barriers. APEC achievements in this regard have been most significant in the area of reducing tariff and non-tariff measures and in promoting trade and investment facilitation. Individual Action Plans (IAPs) in each economy have set out the schedule for tariff reductions to meet the 2020 milestone. Progress has also been made in the area of non-tariff barriers to trade, on the harmonisation of customs procedures and better protection for intellectual property. Activities are also undertaken to establish best practices studies and seminars on market development. Such activities should be extended on an industry basis.

At the economy level, SMEs face difficulties in marketing their products due to poor quality, knowledge of markets and marketing skills. Owing to their low level of technology, products produced by the SMEs are of poor and inconsistent quality. Often the products are not attractively packaged nor properly described. SMEs often lack the knowledge to explore the niche markets for their products. One of the constraints is that they lack the resources to advertise and promote their products.

**Access to Information**
There are two dimensions to the issue of information access. One is the content of the information, the other is the information dissemination system or effective outreach. With regard to the content of information, SME’s immediate needs include the following:

- information on markets, material suppliers, technology and technical services
- information on the sources and types of financing available
- information on industry, national, regional and international outlook

The discussion of the issues with regard to the areas which have been endorsed by APEC Leaders as priorities for SME development, suggests a role for affirmative action at the economy level to overcome the many difficulties faced by SMEs. As the problems faced by SMEs are circularly causative, programs to assist SMEs to be truly effective, must be delivered in a comprehensive package.

SPAN essentially recognizes that these enterprises have different capacities both managerial and financial from the larger corporations and therefore must be nurtured. Such a plan should therefore include the following components:

- planning the provision of the physical and economic infrastructure
- making available the requisite financing
- establishing the institutional structures

VI. MEASURES TO ADDRESS SME ISSUES

This paper proposes that the above is best achieved by enhancing and reconfiguring the six priority areas of SPAN (human resource development, finance, technology and technology sharing, access to markets, access to information and policy environment) with the following eight enablers of SME development:

- Regulatory and business environment;
- Enabling access to skills and expertise;
- Facilitating new business opportunities;
- Promoting entrepreneurial culture;
- Enabling access to finance;
- Fostering access to innovation and new technologies; and
- Access to infrastructure and resources;
- Fostering collaboration and linkages.

Proposes some policy initiatives that could respond to specific gaps or weaknesses identified in APEC economies, such as:

- Business Environment - an affordable physical environment or infrastructure where firms can work in collaboration for the benefit of their community, a clear and transparent regulatory framework that serves as a mechanism for dispute settlement and protection of property rights, and taxation policy.
- Human Resource Development - skills development funds, institutions for vocational or specialised training, tax incentives to encourage R&D among SMEs.
- Finance - specialised financial institutions, credit guarantee corporations and export credit refinancing schemes.
- **Technology Adoption** - community-based or cluster context that facilitates industry linkages and interaction among firms, extension centres that provide technical skills, an R&D culture among SMEs.

- **Market Development** - standards that enhance product quality, contract manufacturing (outsourcing), franchise development, trade fairs, adoption of e-commerce, micro-business development through enhanced consumer protection regulations, databases for business matching government procurement.

- **Information Dissemination** - institutions that promote SME development through outreach, mechanisms that increase private-public dialogue on issues, strengthened trade and industry associations.

Includes a model policy framework that helps economies and other APEC fora identify the needs and requirements of SMEs, with consideration to the stage of enterprise growth and the life cycle of the product and services provided.

Highlights the need to integrate micro-enterprises and SMEs operated by women entrepreneurs into the economy as it adjusts to more liberalised trade and investment.

**Regulatory and Business Environment**

The regulatory and business environment in which firms operate is critical to the development and growth of firms as it can generate the certainty and trust necessary for production activity and growth. Improvements to the regulatory and business environment are likely to focus on fostering a competitive business environment (domestic and international), minimizing regulatory compliance costs, encouraging eco-efficiency, specifying and protection of intellectual property rights and enabling access to foreign markets.

The economic environment is shaped by the regulatory framework. It is recognised that the regulatory framework provides the rules within which businesses operate need to be transparent and unambiguous. It serves as a mechanism for dispute settlement, protection of property rights, both physical and intellectual and sets the ground rules for competition. However the uniform application of such rules and regulations can be onerous on the SMEs. These enterprises therefore need some interim assistance to comply, at the same time that steps are taken to strengthen the regulatory framework.

Taxation policy has a significant and fundamental influence on economic growth and competitiveness, and job creation for SMEs. Taxation policies are the rules by which governments raise revenue for targeted programs and services that support SMEs and other social and economic development initiatives. But complying with taxation policies and regulations can impose particular burdens on SMEs with limited access to financial and technical resources, particularly new businesses starting their operations and micro-enterprises. To ease the compliance burden, encourage business incubation and job creation in SMEs, tax measures and systems could be made simpler by linking them directly to the earning of net income, rather than to other business functions such as buying supplies or hiring people. Tax measures that facilitate retention of earnings will help SMEs finance their own growth internally.

**Human Resource Development**

**Enabling Access to Skills and Expertise**

Research suggests that SMEs often struggle to access the skills and capabilities that are required to pursue innovative and entrepreneurial opportunities. This may be due to a low domestic ‘stock’ of human capital or an inability, particularly in the private sector, to absorb and successfully apply commercially relevant and valuable knowledge currently available and accessible. It is also important to note that the rate of technological change is likely to continually change the demand for skills in the labour market. The pace of change makes it more likely that today’s workers will need to up-skill more often, change jobs and probably careers several times during their working lives. Rather than technological and science skills per se, the most crucial "skills set" for innovation and entrepreneurship is likely to consist of:
- Soft skills such as teamwork and communication, a willingness to learn new skills, and motivation to seek new educational opportunities, including enterprise skills;
- The flexibility to adapt to new technologies; and
- Basic skills such as literacy and numeracy.

Promoting Entrepreneurial Culture

Governments also have a role in economic development through initiatives aimed at building confidence and positive attitudes towards entrepreneurship, pride in business success and acceptance of failure, and encouraging and supporting new ideas and social responsibility.

- Soft skills such as teamwork and communication, a willingness to learn new skills, and motivation to seek new educational opportunities, including enterprise skills;
- The flexibility to adapt to new technologies; and
- Basic skills such as literacy and numeracy.

Increasingly human resource development and technological advancement have become requisites in the pursuit of competitiveness. Public policies to address issues faced by SMEs in these two areas which are intertwined, include:

- The setting up of a fund for on-the-job training: such skills development funds are essentially financed by industry
- The creation of institutions for vocational or specialised training which can be either public or private funded
- The provision of funds and tax incentives to encourage r&d among smes; in particular the encouragement of collaborative research between public and private research institutes
- The promotion of high technology ventures through the creation of venture capital companies

Technology

Fostering Access to Innovation and New Technologies

Technology is key to productivity increases in SMEs and allows SMEs to develop new products and access new markets. However, SMEs generally face barriers in taking up new technologies. Transaction costs tend to be high for SMEs when implementing new technologies such as ICT and biotechnology. As a result, the risk of failure tends to be high when investing in these technologies and, unless competitive pressures are great, will typically far exceed the risks of doing nothing. Given these risks, SMEs must have a very high confidence level that new technologies will be successful, and with a minimum disruption to operations.

Technological issues need to be considered in the context of the industry cluster within which SMEs operate. There is a need to move beyond removing impediments and providing the means of acquiring technology towards fostering the relationship for interaction between firms. The best way for innovations and technological improvements to take place will be through industry linkages. Ultimately, the private sector should take the lead in hastening the pace of technological advancements in SMEs.

In addressing the technology needs and access to technology, cognizance must be given to the differences in the level of development within an economy and between enterprises across the APEC region. Therefore, strategic directions in addressing the access to technology will point to the need to:

- Create and increase awareness of technological developments
- Encourage adoption of appropriate technology
- Inculcate r&d culture in smes whenever appropriate
• Encourage and support innovation and creativity in smes
• Set up extension centres and provide trained personnel to help smes make effective decisions about technology
• Eliminate impediments including gender-biased impediments to technology acquisition

Finance

*Enabling Access to Finance*

The growth of firms is dependent on access to financial capital so that they may finance investment in land, labour, capital (physical and human) and knowledge or technology. Research indicates that many firms face difficulties in raising capital at an early stage of development, which may be attributed to too few financiers and deal making experts focussed on start-ups and early stage innovations due to the relatively high risks and costs of assessment, investment and monitoring involved. Further, SMEs often overestimate value and underestimate risk, do not know how to present proposals, are unwilling to share control or provide information on their ideas in return for capital, and do not have a good understanding of when or how they should seek access to capital.

In developing economies, SMEs face difficulties in terms of both availability and access to finance. Given the reluctance of commercial banks to lend to this sector, governments take the lead in setting up specialised financial institutions. There is a limit to the effectiveness of such a measure and some mechanism has to be explored to encourage commercial banks, with their larger branch network to lend to SMEs. Governments can set up credit guarantee corporations to insure commercial banks from default arising from advancing loans to SMEs without collateral. Similarly, export credit refinancing schemes may be instituted to reduce the risks arising from exporting. Documentation difficulties can be overcome by designing simple forms for loan applications rather than insisting that SMEs submit detailed project proposals.

Other forms of financing should also be made known to the SMEs. These include equity financing, issue of debt and venture capital, especially in the high-technology industries. SMEs also need to be trained in managing various financial risks, in particular those arising from exposure to foreign exchange volatility that has now become a major feature of globalisation.

ABAC recommended that other new initiatives that would provide more favourable financial environment for SMEs are:

• Create financial institutions to support SMEs
• Develop performance-based lending practices
• Encourage banks to allow loan restructuring
• Provide credit on an equal and open basis
• Provide micro lending
• Allocate funds from the IMF’s Structural Adjustment Loan (SAL) to provide low interest loans to SMEs
• Provide short term, tax relief options for SMEs

Market Development

*Facilitating New Business Opportunities*

In terms of facilitating new business opportunities, governments have a role to play both in enabling a conducive environment for foreign direct investment, facilitating and adjusting factors that may affect new opportunities, and fostering access to overseas markets for firms, mostly through export promotion and consulting on opportunities. This area is directed at enabling economic development through the following:
• Providing advice and information on managing rapid growth and/or attracting foreign direct investment (FDI);
• Fostering export opportunities;
• Promoting the development of eco-business opportunities; and
• Maintaining a database of purchasers and suppliers.

Product quality is the primary consideration in marketing. Various initiatives can be taken to assist SMEs in developing their market, both locally and internationally:

• Create institutions to enhance product quality through the setting up of standards and encouraging SMEs to apply for ISO 9000 certification
• Promote contract manufacturing or its variant, vendor development programmes and an integrated marketing effort which draws on the expertise of large enterprises in terms of product quality and technology transfer
• Encourage SMEs to take up franchises and assist others to develop franchises.
• Organise SMEs to undertake collective efforts in support provided marketing through the setting up of marketing boards which are self-financing
• Provide incentives for SMEs to participate in trade fairs and market promotion
• Enable smes to take advantage of the opportunities for market expansion through the adoption of electronic commerce

Measures to improve market access include:

• Better information on markets by economy and by industry
• Accelerate efforts to reduce the transactions costs of international commerce
• Facilitate smes bidding for government procurement by debundling of contracts on trade and investment
• Assist smes to access into export market through joint trade and investment promotion missions
• Facilitate the forging of inter and intra firm linkages
• Making available electronic databases on business matching and facilitation services
• Encourage the adoption of electronic commerce
• These measures meet the needs of SMEs that are internationally competitive or those that have the potential to internationalise their operations.

Apart from these measures, special consideration should be given to domestic-oriented SMEs through:

• Market development programmes
• Special consideration in government procurement
• Institute special marketing authorities or marketing boards to handle the marketing of their products
• Further extension and outreach efforts in marketing skills and management
In anticipation of the critical importance of electronic commerce in dictating the way in which markets are accessed in the future, an important component of the integrated plan is to seek to accelerate the adoption of electronic commerce among SMEs throughout APEC. This would entail adopting and implementing the work programme of the APEC Task Force on Electronic Commerce over the next 5 years:

- Provide SMEs with access to electronic commerce through the provision of the requisite information infrastructure
- Identification of impediments to electronic commerce in the region in cooperation with relevant APEC fora and other international organisations
- Promote greater public sector use of e-commerce as a catalyst for wider uptake
- Development of joint government-business outreach and training programmes

**Information Dissemination**

SMEs require a variety of information with regard to regulations, financing, technology development, sources to obtain training, and market trends and development. While a variety of services and assistance programmes may already be available, many SMEs remain passively uninformed. Thus, enhancing the dissemination of such information is desirable. However it is a very costly activity, as it entails the organising of seminars all over the country, printing and distribution of brochures. Putting in place an effective system of dissemination remains a challenge in efforts to promote the development of SMEs in most developing economies. Among the measures that can be taken are:

- Establishment of institutions to promote SME development
- Private-public sector dialogue mechanisms
- Strengthening trade and industry associations

**Access to Infrastructure and Resources**

SME development is dependent on access to infrastructure such as provision of roads, solid waste management/disposal, electricity and telecommunications and the sustainable consumption of natural resources. In order to ensure that environmental concerns are taken into account, it is important that government ensures that well-defined property rights exist for natural resources such as radio spectrum and minerals in their control. Where property rights are not enforceable or transaction costs are high then there is a role for government intervention through regulation. This can be achieved by providing, for example:

- Efficient electricity and telecommunications communications markets that are, as far as possible, self regulating (through competition and governance mechanisms);
- Resource management legislation that addresses environmental needs, but does not unnecessarily impede economic development; and
- Effective management regimes and property rights for natural resources that are controlled by the State (e.g. radio spectrum, minerals, etc).

**Fostering Collaboration and Linkages**

In recent years, a number of economies have undertaken extensive research into what would constitute a best practice policy framework for SME development, including the participation and inputs from academics, international bodies such as the OECD and practitioners of SME development. Particular emphasis was placed on appropriate policy design, implementation and evaluation.

This research included an international comparison of economic policy objectives among key organisations and government departments, which revealed that there is consistency in the approach taken towards fostering economic development and growth. Respected organisations such as the OECD and the London Business School and countries such as Mexico, the United States and
Australia all adhere to a policy framework emphasising the importance of a supportive regulatory and business environment, information, finance, a culture of enterprise, skills and management capabilities, and innovation and new technologies.

For the purposes of policy development, it is proposed that the strategic policy framework of SPAN prioritise the following eight best practice enablers of firm/SME development:

Given the significance of collaboration and linkages in current thinking on innovation and entrepreneurship, it is also important that these are fostered for several reasons. At the firm level, SMEs are often unable to capture and/or identify market opportunities that require a large scale of combination of inputs. Collaboration can improve the competitive position of SMEs and reduce the problems related to their size through mutual support. The advantages of co-operation among SMEs are usually connected with collective economies of scale, the benefits of dissemination of information and inter-firm division of labour. These benefits tend to increase when transaction costs are low, and these in turn tend to decrease with geographic proximity and the establishment of shared infrastructure.

In addition, regional collaboration tends to have strong formal and informal linkages between firms and other institutions such as local government, local universities, government research labs, and other units in the supporting technological and business infrastructures. The larger the collaboration or cluster, the more it is able to supply its own demand for critical intermediate inputs. In addition, collaboration gives practical emphasis to the idea that flows of information and, in particular, knowledge between people and institutions are essential to regional development.

**A Model of an Integrated Plan**

Many of the various measures and programmes to promote SMEs that are integral components of a comprehensive planning effort have, at one time or other, been adopted in many of the APEC economies. These are summarised in Figure 1 which shows the various initiatives that can be undertaken to promote the start and growth of new enterprises. The needs and requirements of SMEs vary not only with the nature of their businesses, but also with the stage of enterprise growth and product life cycle. This is illustrated in Figure 2.

An important consideration in planning the development of SMEs is the need to integrate the interests of micro enterprises, and SMEs operated and managed by women entrepreneurs. Micro enterprises provide an important means of employment and income generation. These enterprises have to be integrated into the mainstream as the economy transforms. There is a case in developing such enterprises that provide inputs or services to for example the tourist industry or to localised agro-industries.

In the case of SMEs operated and managed by women entrepreneurs it is necessary to discern the extent to which these enterprises face gender-bias impediments in their attempts to seek financing, skills, technology and training and in marketing their products. The interests of women entrepreneurs form an integral part of an overall approach to entrepreneurial development. Measures to address gender-bias impediments should seek to change mind-sets, assist women in their attempts to seek financing, skills, technology and training, and in marketing their products, and publicize the fact that women have better repayment records as experience with rural credit institutions testifies.
Figure 2: Assistance Programmes by Stage of Enterprise Growth

<table>
<thead>
<tr>
<th>Start-up</th>
<th>Growth</th>
<th>Expansion</th>
<th>Going Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computerisation</td>
<td>Finance</td>
<td>Prod. Development</td>
<td>R&amp;D Incubator Skills</td>
</tr>
<tr>
<td>ISO 9000 Certification</td>
<td>Computerisation</td>
<td>Finance Technical Assistance Industry</td>
<td>Upgrading Market</td>
</tr>
<tr>
<td>Development Tax</td>
<td>Benefits Skills</td>
<td>Development Software</td>
<td>Development Venture</td>
</tr>
<tr>
<td>Automation Leasing</td>
<td>Brand Development</td>
<td>Business Development</td>
<td>Franchise Development</td>
</tr>
<tr>
<td>Computerisation</td>
<td>Finance Technical Assistance Industry</td>
<td>Upgrading Market</td>
<td>Development Product</td>
</tr>
<tr>
<td>Development Skills</td>
<td>Development Venture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Development Tax Benefits Franchise Development Finance Industry Upgrading Market Development Investment Development</td>
<td></td>
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</tbody>
</table>

Source: Adapted from: Supporting the Start and Growth of New Enterprises, UNDP, 1997
VII. IMPLEMENTATION MECHANISM

An implementation mechanism

- Notes that the form and structure for SME development adopted by economies is less important than the development of clear policies and programs which aim to make access more convenient for SMEs.

- Establishes APEC’s first target or milestone (in 2003) for measuring the progress of economies’ efforts towards SME development, namely: larger roles for APEC Working Groups in concert with the Committee on Trade and Investment (CTI).

- Identifies SPAN’s role in identifying the needs of SMEs, particularly for micro-enterprises and in developing economies, to help other APEC fora consider these needs in their planning activities.

The varied and multi-dimensional needs of SMEs suggest that planning for their development is a continuous process. To be effective, the planning process must be supported by an institutional structure that enables policy development, implementation and evaluation. In some countries specialized agencies or ministries are established to take responsibility for the development of SMEs. Whatever the form, it is important that the impact of the government policies affecting SMEs are well-understood and programs carefully designed to avoid duplication and waste of scarce resources. Support and assistance programs for SMEs, whether delivered by agencies or government ministries, should be widely accessible and convenient, such as one-stop service centres provide such convenience.

At the APEC Level, the SMEWG is now best placed to coordinate APEC-sponsored SME related activities across fora, and ensure that such activities reflect the policy priorities outlined in SPAN. The SMEWG is entrusted with the task of communicating SME related issues to the other Working Groups and in turn integrating feedback from these Working Groups into planning future activities.

Since 1998, APEC Working Groups have assumed larger roles for SME development in areas relating to the priority areas outlined in SPAN. This effort cooperatively facilitates the adjustment of SMEs to the demands of market liberalization. In designing future activities, the following should be considered:

- Determine the extent of the impact of trade and investment liberalisation on SMEs

- For SMEs affected, undertake measures to facilitate their diversification to other activities

- Involve private sector groups in the design of self-help programmes for SMEs

The ultimate beneficiaries of SPAN are the private sector. APEC’s business community should assume a larger role in cooperating among themselves to further the interests of the SMEs. In this connection existing private sector participation at the APEC level such as ABAC should increase their efforts to communicate APEC decisions to the SMEs in their home economies. Consideration of the views and recommendations by the business sector along the priority areas for SME development would certainly form an integral part of the planning process under SPAN.

In many economies, however, industry associations and other intermediaries are not well developed. Strengthening such organizations should be a top priority. Industry associations and intermediaries also provide the channels for information dissemination and outreach and form a convenient focus for private-public sector dialogue to shape or fine-tune public policies.

APEC Cooperation
While SPAN has particular relevance for the developing economies of APEC, it also provides the focus around which the activities of the various fora can be constructed. The experiences of SMEs in the more advanced APEC economies serve as best practices and models that can potentially be replicated elsewhere, especially since such experiences arise in response to market forces.

The activities of the APEC Working Groups should reflect the developmental needs of SMEs by planning activities that are sequenced towards achieving desired outcomes. While the Working Groups are separated according to policy areas of concern, the need remains to work cooperatively within the SPAN in order to address the issues faced by SMEs. This suggests a necessity for Working Groups to undertake activities on a joint basis in future.

VIII. EVALUATION FRAMEWORK

An Evaluation Framework

Describes three elements required to assist APEC fora and economies to identify and analyze policy issues, including the review of best practices:

- Efficiency Criteria
- Relevance to Priorities and Objectives
- Cost Effectiveness

To ensure that APEC SMEs benefit from cooperative economic development among economies, and to respond to those economies concerned about doing more to improve the policy environment affecting SMEs, a framework for assessing SME policies and programs should be developed and implemented. An evaluation framework will help APEC fora and individual economies increase their contribution to SME development through a more focused analysis and identification of best practices, in order to guide resource allocation decisions and allow for lessons to be drawn and communicated.

An effective evaluation framework ensures that each economy assesses its SME policies and programs according to the six priority areas outlined in SPAN, and its own objectives, needs and priorities. One economy for example, may determine through its assessment that issues relating to policy environment have been satisfactorily addressed, while technology development and absorption among SMEs is disappointing. Using a common evaluation framework also allows for comparability of SME policies and programs across the APEC region, and helps the various APEC fora explore joint activities and work programs, and identify opportunities for cooperation.

Three elements are important in analyzing and evaluating policies and programs:

- **Efficiency Criteria** - Consider whether the policy, program or instrument is more efficient than others in terms of trade liberalization and investment facilitation, whether it addresses a clear Ecotech priority; whether it complements conditions created within APEC’s regional economic and business environment; and whether it ensures a degree of flexibility in responding to unpredictable changes.

- **Relevance to Priorities and Objectives** - Consider whether the policy, program or instrument meets:
  - Overall government priorities - e.g. job creation, enhancing competition, export promotion, regional policies.
  - Specific SME development objective - e.g. information provision, training and education, enhanced market access.
  - Market, government and systemic failures - i.e. How will the policy or program alleviate identified market failures? What co-ordination is needed between different orders of government?
  - Framework conditions - e.g. government/industry relationships, tax systems, competition rules, bankruptcy laws, overall macroeconomic framework.
• **Cost Effectiveness** - Consider how the policy or program was implemented, the expected costs and benefits of its implementation, and whether approach chosen was reasonable given the benefits to SMEs across the APEC region. For developing economies, cost effectiveness may be one of the most important considerations when deciding how to allocate scarce resources to SME development policies and programs.

The assessment or evaluation of policies and programs is an important pre-requisite for identifying best practices. Best practices are drawn from the evaluations of policies and programs, and illustrate what “works” despite differences among economies’ structure, performance, marketplace conditions, etc. Best practices help economies and other APEC fora identify practical policy options and recommendations for adjustment.

To determine best practices and the overall impact on the development and growth of APEC SMEs, the SMEWG and economies should seek feedback on the evaluation results from other fora and the private sector.

**IX. CONCLUSION**

SPAN provides the guidelines in the formulation of an integrated plan for SME development that serves to bridge the gap in the level of development among APEC economies. It forms a convenient reference point for economies to review their own initiatives and programmes to promote the growth and development of SMEs in order to plan future action at the economy level and collaborative efforts at the APEC level. At the same time, it also provides the framework for continuity in planning future APEC projects and in ensuring that initiatives are balanced in meeting the needs and aspirations of economies, and the special interests of micro-enterprises and SMEs operated and managed by women entrepreneurs.

• Concludes that SPAN serves three functions:

  • Bridges the gaps between different stages of SME development among enterprises, and levels of enterprise development in APEC economies;
  
  • Acts as a guide or reference point for economies to review their own initiatives and programs, and to plan future action;
  
  • Provides a strategic framework for cooperation among APEC working groups that leads to initiatives that consider the special interests of micro-enterprises and women entrepreneurs.