

ASEAN Strategic Action Plan for SME Development 2016 – 2025: 2020 KPI Monitoring Report

How SME policies are progressing to create resilient and globally competitive SMEs by 2025



one vision
one identity
one community



ASEAN Strategic Action Plan for SME
Development 2016 – 2025:
2020 KPI Monitoring Report

**How SME policies are progressing to create resilient
and globally competitive SMEs by 2025**

**The ASEAN Secretariat
Jakarta**

The Association of Southeast Asian Nations (ASEAN) was established on 8 August 1967. The Member States of the Association are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

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Foreword

The *ASEAN Strategic Action Plan for SME Development 2016-2025: 2020 KPI Monitoring Report* is a significant milestone for the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) in the implementation of the ASEAN Strategic Action Plan for SME Development 2016-2025 (SAP SMED 2025). The report provided insights on the progress of the key performance indicators (KPIs) of the five (5) strategic goals of SAP SMED 2025, up until 2020, as compared to their baseline figures in 2017.

The report concluded with recommendations to overcome the challenges faced by the MSMEs in accessing internal market and participating in cross-border e-commerce and the financial institutions in providing business loans to MSMEs. In addition, recognising the impact of the COVID-19 pandemic to the MSMEs, the report shared the priority areas that should be focused on for the MSMEs to emerge resilient post-pandemic. Further, the report also imparted learnings and challenges faced by policymakers in AMS particularly in producing relevant MSME data required in updating the KPI figures, concluded with recommendations for policymakers to address those challenges with the end objectives to enhance MSME data collection mechanism and analysis in AMS, and subsequently increase the availability of MSME data in ASEAN.

These insights and recommendations are timely as the ACCMSME enters into the second phase of the implementation of SAP SMED 2025. They form the basis in shaping regional MSME policies over the next five years, particularly those that require consolidated and collective effort from various stakeholders in creating globally competitive and innovative MSMEs by 2025. As such, we hope that this report will serve as a useful reference document for ASEAN in understanding where its enterprises stand in the respective AMS and moving forward, in formulating supporting MSME policies.

The report was made possible by inputs from the ACCMSME, the ASEAN Secretariat, and technical assistance from the PricewaterhouseCoopers Consulting (Thailand) Ltd. (PwC) engaged by the AEM-METI Economic and Industrial Cooperation Committee (AMEICC) Secretariat through the project "KPI Monitoring Support of the ASEAN Strategic Action Plan for SME Development (2016-2025): Phase 2 toward 2020". The project was implemented with the funding support from the Government of Japan using Japan-ASEAN Integration Fund (JAIF). We appreciate the successful cooperation between ASEAN and Japan and look forward to more successful cooperation in the future.

Bountheung Douangsavanh

ACCMSME Chair/
Director-General Department of SME Promotion
Ministry of Industry and Commerce
Lao PDR

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1. Formulation of the Strategic Action Plan for SME Development 2016 - 2025 (SAP SMED) 2025)

1.1 Formulation of the SAP SMED 2025 upon the creation of the ASEAN Economic Community in 2015

The ASEAN Strategic Action Plan for SME Development 2016 - 2025 (SAP SMED 2025) was endorsed at the 47th Meeting of the ASEAN Economic Ministers in August 2015 and launched at the 27th ASEAN Summit in November 2015, one month before the establishment of the ASEAN Economic Community (AEC), the realisation of regional economic integration. Equitable economic development of the region through SME development is one of the four pillars of AEC.

ASEAN Member States (AMS) have different definitions of what Small and Medium Enterprises (SMEs) are. Micro-enterprises are included with standard SMEs when reporting and measuring, so they are included as part of SMEs in the SAP SMED 2025.

Allowing for the different definitions of SMEs in each AMS, there are over 70 million SMEs throughout the region, and SMEs contribute a significant share of total establishments in each AMS between 97.20% (Brunei Darussalam) and 99.99% (Indonesia) according to the national statistical reports in AMS. There are about 180 million SME employees in the region and their share of total employees is about 85%.

The total **number of SMEs** in the region is over **70,000,000**

SMEs' share of total establishments in each AMS is between **97.20% - 99.99%**

SMEs' contribution to employment at regional level is 85% or number of employees is 180 million



Link to the full document:
<https://asean.org/wp-content/uploads/2015/12/SAP-SMED-Final.pdf>

SAP SMED 2025 sets out the common vision and mission statement of the AMS: 'By 2025, ASEAN shall create globally competitive, resilient and innovative MSMEs, which are seamlessly integrated to ASEAN community and inclusive development in the region'. SAP SMED 2025 has these five strategic goals:

Strategic Goal A) Promote Productivity, Technology and Innovation

Improvements to productivity and technology are considered to be the key drivers to integrate SMEs with the production networks of multinational corporations (MNCs) in the region. In addition, SMEs are considered to perform better when they are allied with other SMEs or with large enterprises including

MNCs. From this perspective, industry clusters would help SMEs enhance productivity and foster innovation.

Strategic Goal B) Increase Access to Finance

Access to financing from formal financial institutions is required for SMEs to grow and become competitive in the global market. However, the access to finance is limited due to various size-related reasons. There is a strong need to enhance SMEs' financial literacy to make them more aware of financial resources and support programmes available to them. SMEs need to be encouraged to utilise diversified sources of financing.

Strategic Goal C) Enhance Market Access and Internationalisation

SMEs have limited information on how to access markets, and are not well aware of the issues related to international requirements. Lack of technical knowledge prevents them from participating in global value chains, and thus SMEs' contribution to exports remains small. Providing information platforms and capacity building programmes can play an important role in enhancing SMEs' market access.

Strategic Goal D) Enhance Policy and Regulatory Environment

Inter- and intra-governmental cooperation and orchestration of SMEs development is important for regional integration. SME policies and regulations that are aligned and applied in all AMS would promote synergies at the regional level. SMEs are not effectively involved in the institutional framework's decision-making process. Collaborative actions should be encouraged. From an administrative perspective, less costly and faster registration processes would facilitate and increase the number of start-ups.

Strategic Goal E) Promote Entrepreneurship and Human Capital Development

In a changing environment where global competition is becoming more intense, human capital development is one of the driving forces for SMEs to succeed. This is especially true in respect of business skills and entrepreneurship which are often success determining factors for women and youth entering the labour market.

1.2 Time-based prioritisation of actions

While the creation of the regional economic integration would bring more opportunities for SMEs in ASEAN, the rapidly changing business environment means that local SMEs need to become more capable in many ways so that they can be resilient and globally competitive. For this purpose, the SAP SMED 2025 highlights the importance of addressing not only current issues but also the future challenges SMEs in the region will likely face. SAP SMED 2025 takes measures based on the time-based prioritisation of actions:

- **Post Integration Period (2016 – 2020):** To seamlessly integrate with the AEC and the regional value chain, highlighting 'productivity', 'global supply chain' and 'industry cluster'.
- **Global Expansion Period (2021 – 2025):** To become globally competitive, innovative, inclusive and resilient, highlighting 'export', 'entrepreneurship' and 'innovation'.

In the entire ten-year period, SAP SMED 2025 aims to enhance employment in the region.

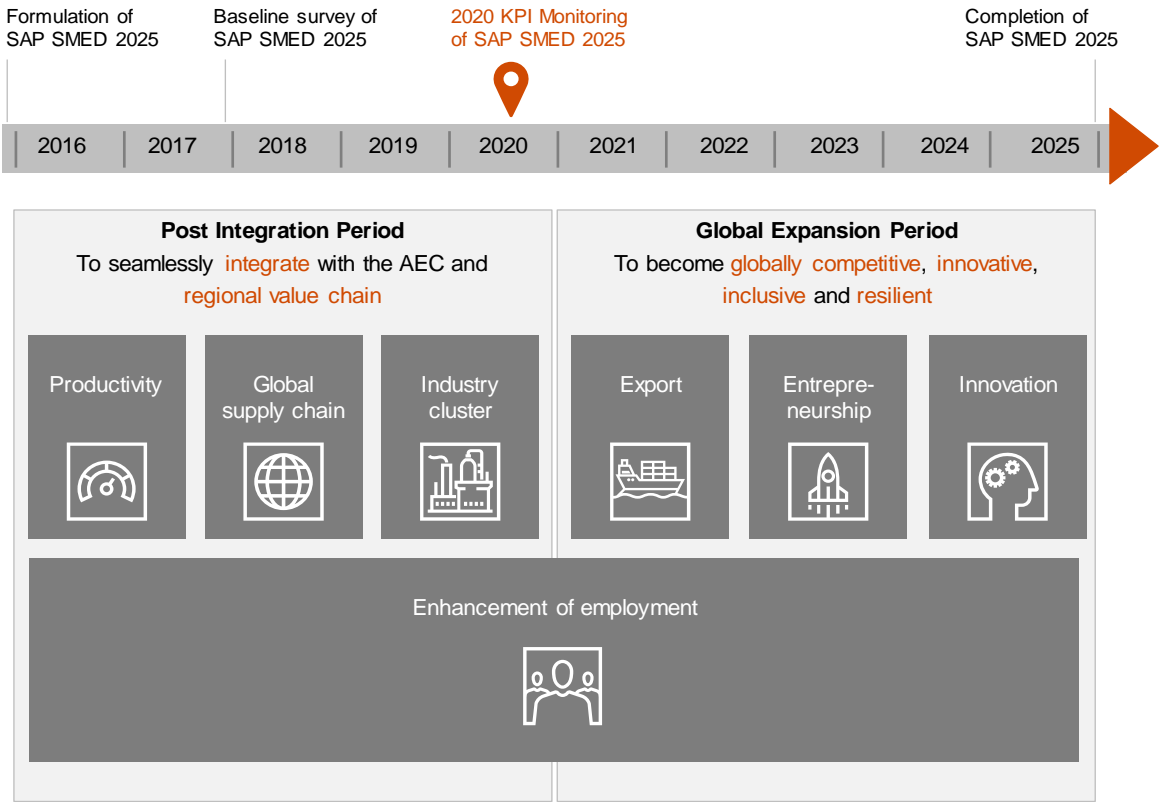
1.3 SAP SMED 2025 timeline

The ASEAN Coordinating Committee on Micro, Small, and Medium Enterprises (ACCMSME) formulates policies, programmes, and activities on MSME development included in the SAP SMED 2025. Baseline survey was conducted from 2016 to 2017 in the Implementation Support of SAP SMED 2025 (Phase 1 project) using the Japan–ASEAN Integration Fund (JAIF). The Phase 1 project compiled SME policy environment information for all AMS at the beginning of the ten-year period of the SAP SMED 2025. The results of this baseline survey were reported in 2017.

Recognising the need to continually monitor the SME policy environment after the completion of the Phase 1 project, the KPI Monitoring Support of the ASEAN Strategic Action Plan for SME Development 2016-2025: Phase 2 toward 2020 (Phase 2 project) was implemented by ACCMSME with the technical assistance from the PricewaterhouseCoopers Consulting (Thailand) Ltd. (PwC), an external consultant engaged by the AMEICC Secretariat, the project proponent. The project was implemented with the funding support from the Government of Japan using Japan-ASEAN Integration Fund (JAIF).

As a result of the Phase 2 project, this report provides the stakeholders of the AEC within and beyond the ASEAN region with an update on the SME policy indicators at 2020 and identifies recommendation of way forward to overcome challenges of MSME development in the region to create resilient, inclusive, innovative and globally competitive SMEs by 2025.

Figure 1. Timeline of SAP SMED 2025



2. Strategic goals and Key Policy Indicators (KPIs) of the SAP SMED 2025

2.1 Five strategic goals and related KPIs

The ASEAN Strategic Action Plan for SME Development 2016-2025 (SAP SMED 2025) set out a set of ten Key Policy Indicators (KPIs) to measure the achievement of the five strategic goals. In addition to these ten KPIs, SMEs’ contribution to gross domestic product (GDP) was added as a key macro-economic indicator to measure the overall capacity of SMEs. SME’s use of cross-border e-commerce was also included in the set of KPIs to get a better understanding of the state of market access by SMEs in ASEAN at the beginning of the Phase 2 project.

Figure 2. Strategic Goals and KPIs of the SAP SMED 2025

| STRATEGIC GOALS | | KEY POLICY INDICATORS (KPIs) |
|-----------------|--|---|
| A | Promote productivity, technology and innovation | KPI A-1) National labour productivity (USD) |
| | | KPI A-2) R&D expenditure (% of GDP) |
| B | Increase access to finance | KPI B-1) Percentage of business loans to SMEs (%) |
| C | Enhance market access and internationalisation | KPI C-1) Percentage share of SMEs’ contribution to national exports (%) |
| | | KPI C-2) Percentage of SMEs with international activities (%) 1. Foreign direct investment (FDI) 2. Consignment and/or outsourcing 3. Export of goods |
| | | KPI C-3) NEW SMEs’ use of cross-border e-commerce (% of all SMEs) |
| D | Enhance policy and regulatory environment | KPI D-1) Time required to start a business (days) |
| | | KPI D-2) Cost of business startup procedures (% of GNI per capita) |
| E | Promote entrepreneurship and human capital development | KPI E-1) Contribution of SMEs to employment (%) |
| | | KPI E-2) Labour force participation rate, female (% of female population, age 15+) |
| | | KPI E-3) Labour force participation rate, youth (% of population, age 15-24) |
| | | KPI E-4) SMEs’ contribution to GDP (%) NEW |

2.2 KPIs definitions

A-1) National labour productivity (USD)

This KPI indicates the productivity by worker in the country measured as GDP in USD at constant basic prices using purchasing power parity (PPP) divided by the total number of employees in the country.

A-2) R&D expenditure (% of GDP)

This KPI indicates the amount of expenditure measured as a percentage of GDP for research and development (R&D) comprising of activities that increases the stock of knowledge and how to use it.

B-1) Percentage of business loans to SMEs (%)

This KPI indicates SMEs' access to finance compared to large enterprises, measured by the percentage of business loans from banks to SMEs among total business loans in the country.

C-1) Percentage share of SMEs' contribution to national exports (%)

This KPI indicates SMEs' internationalisation compared to large enterprises measured as a percentage of the total amount of exports of the country.

C-2) Percentage of SMEs with international activities (%)

This KPI indicates the percentage of SMEs engaging in international activities in relation to all SMEs under these three categories:

- 1) **Foreign Direct Investment (FDI) (%)**
- 2) **Consignment and/or outsourcing (%)**
- 3) **Export of goods (%)**

C-3) SMEs' use of cross-border e-commerce (% of all SMEs)

This KPI indicates the percentage of SMEs who conduct electronic sales transactions of goods or services with businesses (B2B), individuals (B2C) and other organisations in the international market across borders conducted using computer-mediated networks.

D-1) Time required to start a business (days)

This KPI indicates the ease of doing business in the policy and regulatory environment measured as the number of days a company needs to complete the procedures to legally start a business operation.

D-2) Cost of business start-up procedures (% of GNI per capita)

This KPI indicates the ease of doing business in the policy and regulatory environment measured as the cost of required business start-up procedures as a percentage of gross national income (GNI) per capita.

E-1) Contribution of SMEs to employment (%)

This KPI indicates how capable SMEs are of creating jobs in an economy, measured as a percentage of SME employees to the total employees in the country.

E-2) Labour force participation rate, female (% of female population, age 15+)

This KPI indicates the proportion of a country's female population, ages 15 and older, that is economically active: i.e. all people who supply labour for the production of goods and services during a specified period.

E-3) Labour force participation rate, youth (% of population, age 15-24)

This KPI indicates the proportion of a country's youth population, ages between 15 and 24, that is economically active: i.e. all people who supply labour for the production of goods and services during a specified period.

E-4) SMEs' contribution to GDP (%)

This KPI indicates the overall contribution of SMEs to the economy of the country measured as the percentage of the gross value added (GVA) generated by SMEs.

3. Turning a corner at 2020 in the middle of SAP SMED 2025

3.1 Social and economic impact of COVID-19 in ASEAN

The COVID-19 pandemic is disrupting the growth prospects of the ASEAN economy. SMEs are the most vulnerable enterprises in this global crisis due to their limited resources to wait out the pandemic.

According to an assessment of the potential economic impact of COVID-19, conducted by the Asian Development Bank (ADB), unemployment could increase by potentially 6.4 million people (approximately 3% of total employees) across the region in 2020 in a scenario 'Longer containment, larger demand shocks'.

Source: 'COVID-19 Economic Impact Assessment Template (version of 28 March 2020)', ADB
<https://data.adb.org/dataset/covid-19-economic-impact-assessment-template>

The heads of the states and ministerial-level officials are strengthening the collective effort to safeguard socio-economic stability, employment and livelihoods at the regional level. Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic was adopted by the ASEAN Heads of State/ Government at a Special ASEAN Summit held on 14 April 2020. It called on AMS to 'Promote the use of science, technology and innovation, digital economy, and provide mechanisms to facilitate customs clearance and processing to allow businesses, especially the micro, small and medium enterprises (MSMEs) to continue operations amidst the economic challenges such as the COVID-19 pandemic while ensuring responsible business practices, with observance of the relevant rules and regulations of each ASEAN Member State including those on digital related platforms, and empowering their business to access the regional and global market and staying competitive in the era of digital economy in the long run.'

Source: Hanoi Plan of Action on Strengthening ASEAN Economic Cooperation and Supply Chain Connectivity in Response to the COVID-19 Pandemic
<https://asean.org/storage/2020/06/Hanoi-POA.pdf>

Across the region, various measures have been rolled out to cushion the shock of the pandemic and improve stability of the regional economy including SMEs as they are the backbone of the economy in each country.

Figure 3. Special ASEAN Summit on Coronavirus Disease 2019 (COVID-19) via video conference on 14 April 2020



Source: ASEAN Secretariat

Commemorating the International MSME Day 2020 – Policy Insight on boosting resilience of MSME amidst COVID-19 pandemic

AMS have made laudable efforts to strengthen the resilience of their enterprises in response to the COVID-19 crisis. By deploying a mix of short-term stimulus measures alongside longer-term structural measures. They have encouraged enterprises to re-evaluate their business models, upskill their staff, digitalise and explore new partnerships to source and sell their products and services.

Chair of ACCMSME and Director General of the Department of SME Promotion, Ministry of Industry and Commerce of Lao PDR, Bountheung Douangsavanh noted that “while each AMS is doing its best to manage the crisis domestically, information sharing and learning from one another is crucial to strengthen MSME resilience in the region. Invaluable exchanges of information and lessons learnt would pave the way for effective regional actions and collaborations to go through this hard time.”

Source: International MSME Day 2020 <https://asean.org/asean-oecd-release-policy-insight-boosting-resilience-msmes-amidst-covid-19-pandemic/>

3.2 Implications for the SAP SMED 2025 in the post-pandemic period

There will be immense uncertainty in the next five years for ASEAN SMEs, as the COVID-19 pandemic has moved the way of doing business to a different normal. Digital transformation of economy will accelerate globally and in ASEAN.

SMEs need to change their way of doing business to adapt to this new normal, and emerge resilient by finding opportunities in this world crisis. Particular attention should be paid to the following points:

- **Diversification of supply sourcing and sales distribution channels**

SMEs may need to diversify their supply channels for materials and labour. They may also need to diversify the channels they use to distribute their products and services, from physical to digital, or a combination of both (omni channel) due to changes in consumer lifestyles in the post-pandemic period. For international activities, revision of SMEs’ current sourcing and/or destination countries may be required in order to enhance their supply chain flexibility and business continuity, due to the restrictions on the free movement of people and goods.

- **Increased use of digital technology**

SMEs may need to change the way of doing business to replace or supplement tasks conducted by humans to those implemented by or using digital technologies (e.g. Cloud computing, Internet-of-Things (IoT), Artificial Intelligence (AI), Robotic Process Automation, etc.). Remote-working and/or automation of processes with digital technology enable business continuity during times of crisis. Increased use of digital technology also enhances productivity.

- **Change in required skills of human capital**

SMEs may need to upskill their digital literacy to use technology to transform the business and stay connected to digital networks. Increased digital literacy would help business owners and employees enhance their competitiveness in the new normal of the global economy.

- **Increased demand for financing**

From the short-term perspective, SMEs may need working capital to avoid bankruptcy during the non-operating period due to the government orders for business closure. From the long-term perspective, SMEs may need to make investments in digital technology and human capital with the right skills to adapt to the new normal.

To support a resilient recovery from this unprecedented crisis and to restore SME growth in the next five years, further cooperation is needed between the ACCMSME members and the related government agencies and financial institutions in each AMS. Working together, they can help enhance SMEs’

capabilities and improve the policy environment related to each KPI of the SAP SMED 2025, particularly the following six KPIs:

1. KPI B-1) Percentage of business loans to SMEs (%)
2. KPI C-1) Percentage share of SMEs' contribution to national exports (%)
3. KPI C-2) Percentage of SMEs with international activities (%)
 - Foreign direct investment (FDI)
 - Consignment and/or outsourcing
 - Export of goods
4. KPI C-3) SMEs' use of cross-border e-commerce (% of all SMEs)
5. KPI E-1) Contribution of SMEs to employment (%)
6. KPI E-4) SMEs' contribution to GDP (%)

4. Progress of the KPIs under the five strategic goals compared to the baseline

Time-based changes of ten KPIs showing an improving trend across all indicators except two related to the labour participation

Results against each of the ten KPIs have been updated as of July 2020 and compared to the results of the baseline survey completed in 2017 for all AMS.

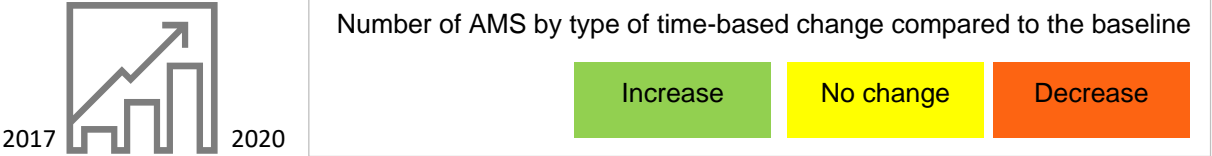


Figure 4. Breakdown of time-based progress of AMS by KPI

Strategic Goal A. Promote productivity, technology and innovation

KPI A-1) National labour productivity (USD)

| | |
|-------|---|
| 9 AMS | 1 |
|-------|---|

KPI A-2) R&D expenditure (% of GDP)

| | | |
|-------|---|---|
| 7 AMS | 1 | 2 |
|-------|---|---|

Overall in most AMS, national labour productivity increased compared to the baseline figures, both in higher and lower labour productivity countries. However, a large gap remains between the highest country (Singapore, with USD 142,300) and the lowest country (Cambodia, with USD 6,500).

Malaysia and Singapore spent more than **1%** of GDP on R&D. Brunei Darussalam, Thailand and Viet Nam have significantly increased their R&D expenditure compared to the baseline figures.

Governments of higher R&D expenditure countries are striving to transform their countries into innovation-driven economies with a labour force providing higher productivity.



Strategic Goal B. Increase access to finance

KPI B-1) Percentage of business loans to SMEs (%)



Percentage of business loans to SMEs increased in AMS compared to the baseline figures, except in Brunei Darussalam, the Philippines, and Singapore. Malaysia and Thailand have the highest percentages, reaching the 50% level with the presence of SME-focused banks. In the majority of countries, the percentages are between the 10% to 30% levels.



Strategic Goal C. Enhance market access and internationalisation

KPI C-1) Percentage share of SMEs' contribution to national exports (%)



Overall, the growth rate of SMEs' contribution to national exports is slight, and is negative in some AMS. Myanmar, Singapore, and Thailand have the highest percentages and exceed the 20% level.

Most AMS established a specialised agency to enhance SMEs' capability to export, and implement a wide range of initiatives for SMEs to access the global market.

The regional average of SMEs' contribution to national exports is 18% level, which is significantly lower than their dominant share of the number of establishments (exceeding 97% in all AMS).

KPI C-2) Percentage of SMEs with international activities (%)

1. Foreign direct investment (FDI)



Comparing to the baseline figures across the three categories of activities, the percentage of SMEs with international activities in most of AMS are increased.

2. Consignment and/or outsourcing



Looking at the results by category of international activities, the percentages of SMEs with consignment and/or outsourcing and export of goods (both at the **20%** level on average) are higher than FDI (at the **10%** level on average).

3. Export of goods



This indicates that FDI has higher capacity requirements for SMEs expanding their business abroad compared to consignment, outsourcing and export of goods.



Strategic Goal D. Enhance policy and regulatory environment

KPI D-1) Time required to start a business (days)



Brunei Darussalam and Thailand have significantly shortened the number of days with strong initiatives to ease the cost of doing business and are number three and two after Singapore. Cambodia and Lao PDR require a lengthy process.

KPI D-2) Cost of business start-up procedures (% of GNI per capita)



Brunei Darussalam, Singapore and Thailand have all established digital systems to encourage start-ups (e.g. online registration, and one-stop shop system that link to different government agencies).

Among ASEAN Countries, Cambodia has the highest cost for starting a business.



Strategic Goal E. Promote entrepreneurship and human capital development

KPI E-1) Contribution of SMEs to employment (% of total labour force)



The contribution of SMEs to employment has slightly increased or has no change except in Brunei Darussalam, Cambodia and Viet Nam. The levels of contribution of SMEs to employment are diverse amongst the countries between **35.38%** and **97.00%**.

The high levels of informal sector enterprises (micro and small businesses that operate

KPI E-2) Labour force participation rate, female
(% of female population, age 15+)



KPI E-3) Labour force participation rate, youth
(% of population, age 15-24)



without formal registration) in many AMS makes it difficult to assess the SME employment landscape accurately. As such, it is likely that the actual numbers of SME employees are larger than the figures published.

While gender diversity and equal opportunity in economic activities is one part of the policy agenda for all AMS, female labour force participation rates have declined in all AMS except for Indonesia, Malaysia, and Singapore whose rates slightly increased compared to the baseline figures. In the majority of countries, the rates are between **45.90%** and **76.82%**.

Overall, the youth labour participation rate shows a declining trend compared to the baseline figures in most AMS except for Brunei Darussalam and Malaysia whose youth labour participation rates increased but are relatively low reaching the 40% level.

The lower and/or declining figures may be explained by youth staying in higher education for a longer period.

5. SMEs' access to finance in ASEAN

5.1 Access to finance is a key element that affects SMEs' business growth

Access to finance is one of the key elements that impact SMEs' ability to grow and become competitive in the global market. However, financing from formal financial institutions to SMEs is limited due to various size-related reasons. This prevents them from making investments in needed technology and learning how to upskill their people and upscale their business. Policy-makers responsible for SME development recognise that a strong foundation for a financial sector ecosystem needs to be laid in order to improve access to finance for SMEs.

The governments of each AMS are committed to enhancing access to finance for SMEs. This is the reason SAP SMED 2025 stipulates Strategic Goal B 'Increase Access to Finance', and monitors the level of business loans provided to SMEs as opposed to large enterprises.

Figure 5. Key components of strong ecosystem foundation in the financial sector



5.2 Progress of business loans to SMEs

KPI B-1 'Percentage of business loans to SMEs (%)' increased in all AMS compared to the baseline figures except in Brunei Darussalam, the Philippines, and Singapore. The results show a wide range across the region with Malaysia and Thailand having the highest percentage, reaching the 50% level, while Myanmar and the Philippines show below the 10% level. The regional average is 25.38%.

Regional average of the percentage of business loans to SMEs (%) is 25.38%

To calculate this KPI, the business loans granted to legally registered SMEs are divided by the total business loans in the country. Consumer loans are excluded from the calculation. The preferred method uses the national definition of SMEs.

The central banks of Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore and Thailand use the national definition of SMEs for their measurements. On the other hand, the central banks of Brunei Darussalam, Cambodia, and Viet Nam do not compile data on loans provided by the banks under their supervision using the national definition of SMEs. In these three AMS, face-to-face interviews were conducted with central banks and business associations to collect the data needed to calculate this KPI. The central banks of Brunei Darussalam and Viet Nam provided their estimate, while statistical models were used to calculate KPI B-1 in Cambodia as the data was not available through interviews.

5.3 Dialogue with the financial sector and SME Finance Roundtable

Financial institutions are important stakeholders in the SME community in ASEAN. Interviews with institutions in various countries across the region were conducted between March and October 2019. The SME Finance Roundtable was organised in November 2019 in Cambodia and was attended by central banks and SME-focused banks from ASEAN Countries. They collected insights about the key challenges and barriers faced by financial institutions in providing business loans to SMEs. There was also a sharing of good practices from central banks and government agencies to enhance the SMEs' access to finance, as well as identifying and prioritising the possible actions to enhance SMEs' access to finance. These actions included nurturing innovative SMEs.

Figure 6. SME Finance Roundtable (Phnom Penh, Cambodia on 27 November 2019)

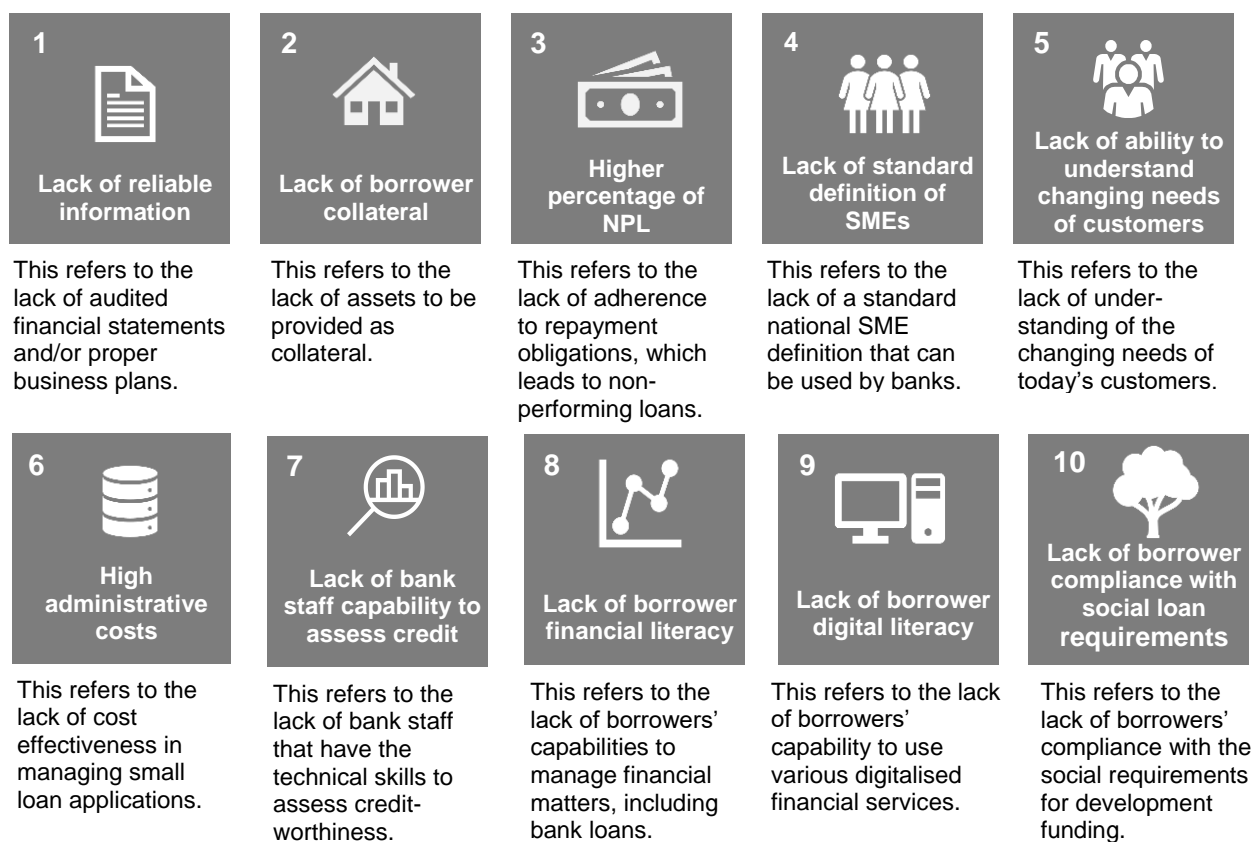


Source: ACCMSME

5.4 Key challenges that hold back banks' lending to SMEs

Interviews with financial institutions and the finance roundtable provided insight into the key challenges faced by financial institutions when providing business loans to SMEs across the ASEAN region. Lack of reliable information about the SMEs' business tops the list of challenges across the region. A relatively new issue is that conventional banks are finding it difficult to understand the changing needs of today's SME customers and to offer new services (e.g. financial services with digital technology) in an increasingly competitive banking market.

Figure 7. Key challenges faced by financial institutions in providing loans to SMEs



5.5 Recent measures to enhance SMEs' access to finance in AMS shared at the SME Finance Roundtable 2019

Allowing for the different stages of the development of a financing ecosystem across the region, the governments of each AMS have taken measures to enhance SMEs' access to finance from the perspectives of the legal and regulatory framework, financial products and services, as well as financial sector transformation. These measures often also nurture innovative SMEs. At the roundtable, central banks and ACCMSME members shared the recent measures taken in their AMS, as summarised on the following pages.

Brunei Darussalam



Legal and regulatory framework

- Significant efforts have been underway with regards to the establishment of a securities exchange project in Brunei Darussalam with the support of Ministry of Finance and Economy (MoFE) and the Autoriti Monetari Brunei Darussalam (AMBD). This project is expected to create possible opportunities for public companies to raise capital and expand their businesses.

- AMBD issued a consultation paper on 28 June 2018 on a proposed legal and regulatory framework for private equity and venture capital fund management companies. This is part of AMBD's efforts to develop the fund management industry in Brunei Darussalam. Feedback to the consultation paper had been taken into consideration for proposed amendments to the legal and regulatory framework.
- AMBD issued a Notice on Equity Based Crowdfunding (ECF) Platform Operators in August 2017 and a Notice on Peer-to-peer Financing (P2P) Platform Operators in April 2019 with the objective of providing start-ups and small businesses with alternatives to raise capital. Both notices had imposed additional requirements for any persons intending to operate ECF and P2P platforms in Brunei Darussalam.

Financial products and services

- In 2017, the Government of Brunei Darussalam established a dedicated bank for SMEs namely Bank Usahawan, with the objective of supporting SME growth by improving their access to finance. Its mission is "to improve the access to a broad range of appropriate financial services for the majority of Brunei businesses and their owners in a sustainable and efficient manner".
- In response to the demand for larger financing amounts and more flexible repayment options formulated by SMEs regarding previous schemes, Bank Usahawan provides loans of up to BND 750,000. The products offered by Bank Usahawan are Sharia-compliant and include Tawarruq (operating expenses & stocks/working capital) and Murabaha (fixed assets and working capital).
- In 2019, Darussalam Enterprise (DARe) introduced Co-Matching Grant which aims to provide funding in assisting businesses/companies in Brunei to grow and be export-ready. The recipient is expected to "co-match" 30% of the total amount proposed, while DARe will fund the remaining 70% for a maximum of BND 20,000. Under the scheme, businesses are eligible to cover the costs of technology adoption, purchasing of machine and equipment, marketing (locally and regionally) getting standards and certification as well as other cost that may help in the growth of MSMEs.

Financial sector transformation

- The development of Sharia-compliant financial services is one of the diversification strategies of the current government and a range of measures to support financial sector development have been implemented over the past few years. As part of continued efforts to develop Islamic finance, AMBD issued a Notice on Syariah Governance Framework in 2018 to ensure that the structure, processes, products and services of Islamic Financial Institutions (IFIs) are in accordance with Sharia Principles. This framework hopes to involve the introduction of more innovative Sharia-compliant financial products and services that will meet the more diverse global demands for Sharia-compliant financial solutions. The framework is also in accordance to international best practices in ensuring effective Syaria compliance in the Islamic finance industry.
- As part of growing the financing ecosystem, DARe looks to diversify the current available access to finance options such as traditional bank financing and the co-matching scheme. One of the avenues that has potential as an alternative access to finance is the Angel Investment. DARe is currently looking to nurture the Angel Investment scene in Brunei by giving awareness talks on the benefits and advantages of Angel Investment.

Cambodia



Legal and regulatory framework

- The Ministry of Economy and Finance (MEF) launched the SME Bank of Cambodia in April 2020.
- The Committee of SME-focused banks is drafting a financial scheme to support SMEs in priority sectors.

Financial products and services

- The government has set up a 'Tradership Promotion Center' and 'Start-up Center' in the Royal University of Phnom Penh to provide both financial support and knowledge transferral.

Financial sector transformation

- The respective government agencies promote the use of digital technology in finance for SMEs to scale up their business.

Indonesia



Legal and regulatory framework

- The government mandates under financial law that all banks in the country allocate at least 20% of their total loans to SMEs.
- The government has established the Export-Import Bank of Indonesia (EXIM Bank Indonesia), which provides export financing products.

Financial products and services

- The government provides soft loans with a 4.5% interest rate to new entrepreneurs, while the interest rate charged by the commercial bank is around 12-18% per annum.
- The government is promoting banks to provide more online services in pursuit of customers' (including SMEs) convenience.

Financial sector transformation

- The government encourages technology-based companies to expand the FinTech environment to enhance access to finance for SMEs including those who do not have bank accounts.

Lao PDR



Legal and regulatory framework

- The SME Promotion Fund (SME-Fund) was established in 2019 to provide business loans to qualifying SMEs through selected commercial banks.
- The government compels all financial institutions in the country to use the national definition of SMEs when classifying their loan portfolio and reporting to the government.

Financial products and services

- The government has provided capacity building training to 600 SMEs on how to draft a business plan which is a requirement to get finance from banks.

Malaysia



Legal and regulatory framework

- Since its establishment in 2005, Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank) has been providing both financing assistance and development expertise to SMEs.

Financial products and services

- In 2018, Credit Guarantee Corporation Malaysia Berhad (CGC) launched 'imSME' platform that shows the most suitable financing facility in the market that matches the borrower's needs.

Financial sector transformation

- The government has implemented and promoted alternative sources of financing (e.g. Equity crowdfunding (ECF), Peer-to-peer financing (P2P)) to enhance access to finance for SMEs in more cost- and time-efficient manner compared to the traditional financing.

Myanmar



Legal and regulatory framework

- Myanmar has established a Small and Medium Enterprise Development Bank (SME–Development Bank) which was formerly known as the Myanmar Industrial Development Bank (MID Bank).

Financial products and services

- Since 2014, the government and the financial sector have been providing capacity building training to more than 50,000 SMEs on how to create a proper business plan and use basic digital tools (e.g. emails and websites).
- The government encourages commercial banks to introduce products for SMEs.

The Philippines



Legal and regulatory framework

- Under Republic Act No. 9501 or the Magna Carta for MSMEs, the government mandated all lending institutions to allocate at least 10% of their total loans to MSMEs for the period of 2008-2018. The revival of this mandatory allocation provision is still pending in Congress.
- Republic Act No. 11057 or the Personal Property Security Act was enacted in 2018 to allow intangible property to be used as collateral for loans, which is expected to reduce the strictness of the collateral requirements for SMEs. Also, Republic Act No. 11293 or the Philippine Innovation Act in 2019 promoted easier access to finance, market, and internationalisation for SMEs.
- The Department of Finance is developing a credit scoring system for SMEs with support from the Japan International cooperation Agency (JICA).

Singapore



Legal and regulatory framework

- In 2019, the government implemented a Loan Insurance Scheme (LIS) to help companies secure short-term trade financing loan from Participating Financial Institutions (PFIs) by co-sharing against the insolvency risks of the borrowers with the PFIs.

Financial products and services

- The government has set up 13 SME centres in partnership with trade associations and chambers in different locations to provide business advisory including financing matters and drive capability upgrading among SMEs.
- In 2019, the government introduced Grow Digital under the 'SME Go Digital' programme to help SMEs go onto pre-approved B2C and B2B e-commerce platforms, which can facilitate prompt access to financing.

Financial sector transformation

- The government promotes alternative financing such as crowd funding, invoice financing, and supply chain financing.

Thailand



Legal and regulatory framework

- In 2015, the government issued the Business Collateral Act (2015) that allows movable and intangible assets to be used as collateral.
- The Office of SME Promotion (OSMEP), Thai Credit Guarantee (TCG), and National Science and Technology Development Agency (NSTDA) are working collaboratively to launch an SME credit scoring system focussing on innovative business.

Financial sector transformation

- The government has introduced 'PromptPay', which is a national online payment system. This helps keeping and tracking online financial transaction data, as SMEs tend to avoid leaving their digital footprint for tax purposes.
- In 2017, the Bank of Thailand (BOT), its central bank, established a regulatory Sandbox for FinTech, and has been testing the functionality, regulatory compliance and safety of alternative financing.

Viet Nam



Legal and regulatory framework

- In 2016, the government has endorsed the SME Development Fund (SMEDF), which aims to support start-ups and encourage SMEs to participate in the value chain. In the programme, SMEs can borrow up to 100% of their loan directly from the fund.
- The State Bank of Viet Nam (SBV), its central bank, encourages commercial banks to diversify their loan portfolio to include more SMEs.

Good practices in the region (Case 2: Brunei Darussalam, Indonesia, Lao PDR, Malaysia, and Thailand)

SMEs' access to finance

A strong ecosystem foundation in the financial sector needs to be laid in order to enhance access to finance for SMEs. Many good practices in the region were shared at the roundtable, including the following initiatives.

Credit bureau and collateral registry (Brunei Darussalam)

- As part of efforts to create an enabling environment for increased access to credit for MSMEs, Brunei Darussalam reformed its secured lending legal framework in 2016 by enacting the Secured Transactions Order, 2016 (“STO”) and the accompanying Secured Transactions Regulations, 2016 (“STR”). The legislations provide a significant and comprehensive reform of personal property law that introduces a single approach to dealing with personal property (movable assets). Under this framework, a Collateral Registry Office was established under the AMBD, which serves as a national electronic register that lists out the security interests over the said movable asset as well as flags the parties that have claimed the security interests.
- Following the commencement of a full-pledged Credit Bureau operations in September 2012, the Credit Bureau AMBD continued to pave in more major milestones over the years with the roll-out of the Self-Inquiry & Dispute Resolution service to the general public in 2014; the inclusion of utility data inside credit report in 2016; and the recent introduction of the credit scoring system in 2018. The provision of credit score as a value-added service will assist the banks and finance companies to make better-informed lending decisions, and to further enhance their credit risk management.

Government credit guarantee programme for SMEs and flexible collateral (Indonesia)

- The government credit guarantee programme for SMEs is composed of the following two credit products:
 - Productive credit (3-7 years; IDR 25 – 500 million)
 - Ultra Micro Credit (less than 1 year; less than IDR 10 million; no collateral requirement)
- The flexible collateral system allows movable and intangible assets. Applications can be made online to shorten the time needed for collateral registration.

Financial sector transformation (Lao PDR)

- The Bank of the Lao P.D.R. (BOL), the central bank, is implementing the financial sector transformation, and introduced the following financial schemes:
 - SME financing scheme through commercial banks
 - Lao Access to Finance Fund (LAFF) in cooperation with KfW, a German state-owned development bank
 - Village banks scheme in cooperation with GIZ, a German development agency

Development of a comprehensive SME financing ecosystem (Malaysia)

- Malaysia has taken various initiatives to ensure SMEs' continuous access to financial services including the following:
 - Financial infrastructure (e.g. establishment of Credit Bureau Malaysia)
 - Financing and guarantee schemes (e.g. Bank Negara Malaysia (BNM)'s Fund for SMEs)
 - Financing facilitation (e.g. a complementing agency to manage unsuccessful financing applicants)

- Avenues to seek information and redress (e.g. BNMLINK, SME Information Counter)
- Debt resolution and management (e.g. Small Debt Resolution Scheme)
- Outreach and awareness programmes (e.g. Financial education, nationwide SME events)

Development of a comprehensive SME financing ecosystem (Thailand)

- Thailand has various initiatives to ensure SMEs' continuous access to financial services including the following:
 - Alternative financing to complement traditional financing (e.g. Angel Fund, Venture Capital)
 - Databases (e.g. SMEs Database, National Credit Bureau, e-commerce/e-payment transaction data)
 - Payment infrastructure (e.g. 'PromptPay' (online money transfer), standardised QR code)
 - Guarantees (e.g. Portfolio Guarantee Schemes for SMEs, MSMEs and start-ups with innovation)
 - Laws and regulation (e.g. Regulation on Equity Crowdfunding and P2P Lending)

6. SMEs' internationalisation in ASEAN

6.1 Business survey on SMEs' internationalisation

KPI C-2 'Percentage of SMEs with international activities (%)' is the most difficult KPI to monitor due to limited available data. Because no open data is available for the KPI in any of the AMS, there was a need to adopt a business survey for data collection.

Business survey methodology

Total sample size **1,763**

- The business survey was conducted from February 2019 to November 2019 (ten months).
- Sample SMEs were selected, mainly from national databases but with additions from business associations, directories, etc.
- Number of samples was consistent with industry breakdown (primary, secondary, tertiary) of each AMS.
- The sample size is varying.
- The survey collected information necessary to calculate KPI C-2, as well as other qualitative information such as destination economies, challenges faced, use of digital technology, etc.
- Modes of responses were online, email, telephone and in workshops.

| ASEAN Member States | Sample size |
|---------------------|-------------|
| Brunei Darussalam | 100 |
| Cambodia | 200 |
| Indonesia | 300 |
| Lao PDR | 100 |
| Malaysia | 203 |
| Myanmar | 116 |
| The Philippines | 242 |
| Singapore | 102 |
| Thailand | 200 |
| Viet Nam | 200 |

Modes of responses

| Online | Email | Telephone | Workshop |
|---|---|--|---|
|  |  |  |  |

Questions to SMEs

Quantitative questions

- What industry does your organisation focus on?
- Is your organisation currently participating in foreign direct investment (FDI), in other words, does it have a foreign affiliate or branch overseas?
- Does your organisation currently have consignees for production overseas?
- Does your organisation currently outsource business operations overseas?
- Is your organisation currently exporting goods to an overseas market(s)?
- What is the export channel used by your organisation?

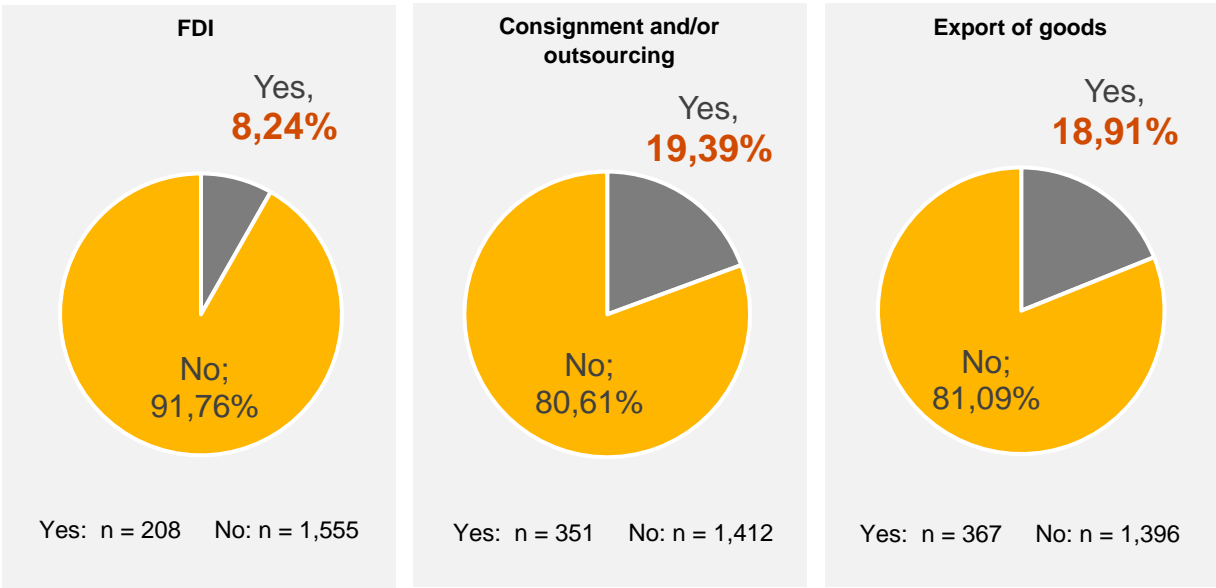
Qualitative questions

- Please specify the top five destination econom(y/ies) where your organisation is conducting international activities.
- Does your organisation use any technology and innovation in your business?
- Please specify the type(s) of technology and/or innovation that is/are used in your business.
- What is your main distribution channel for selling products and/or services?
- Please specify the type(s) of challenges faced by your organisation when expanding overseas.
- Please specify the type of government support received by your organisation for Internationalisation.

6.2 Percentage of SMEs' internationalisation by category of international activities

While SAP SMED 2025 has a time-based priority for SMEs to be seamlessly integrated into the regional value chain created by the AEC, many SMEs are struggling to get access to the regional markets and internationalise their business. On average, 20% or less of ASEAN SMEs are engaged in international activities. Among the three categories of international activities, consignment and/or outsourcing and export of goods are the more common modes of internationalisation, both showing at the 20% level of SME engagement, compared to foreign direct investment (FDI) which shows only 11.80% of SME engagement at the regional level.

Figure 8. Percentage of internationalisation by category



Source: Business survey on SMEs' internationalisation 2019

FDI is the most difficult mode of international activity, as it has higher capacity requirements, such as capital, legal expertise and human resources. The SMEs need people who can set up a foreign affiliate or branch and can operate the business (e.g. manufacturing, wholesale and/or retail, service) outside the domestic market. Singapore and Malaysia show the two highest percentages of SMEs with FDI.

As for consignment and/or outsourcing, the figures increased in most AMS compared to the baseline results, particularly for Brunei Darussalam, Indonesia, Malaysia and Thailand, where the growth rate is over 50%. The scarceness of the labour force in these AMS and the flexible nature of hiring the right skills at the right time are assumed to be one of the reasons for the increase in consignments and/or outsourcing.

As for the export of goods, there is a significant gap in the level of engagement according to the country. Singapore has the highest percentage with more than 50% of SMEs engaged in the export of goods. The percentage has increased in most AMS compared to the baseline results, particularly in Indonesia, Malaysia, the Philippines and Thailand where the growth rate is over 50%. The diversification of destination countries and the use of e-commerce are considered to be the key reasons for the increase in export of goods figures for Malaysia, Singapore and Thailand.

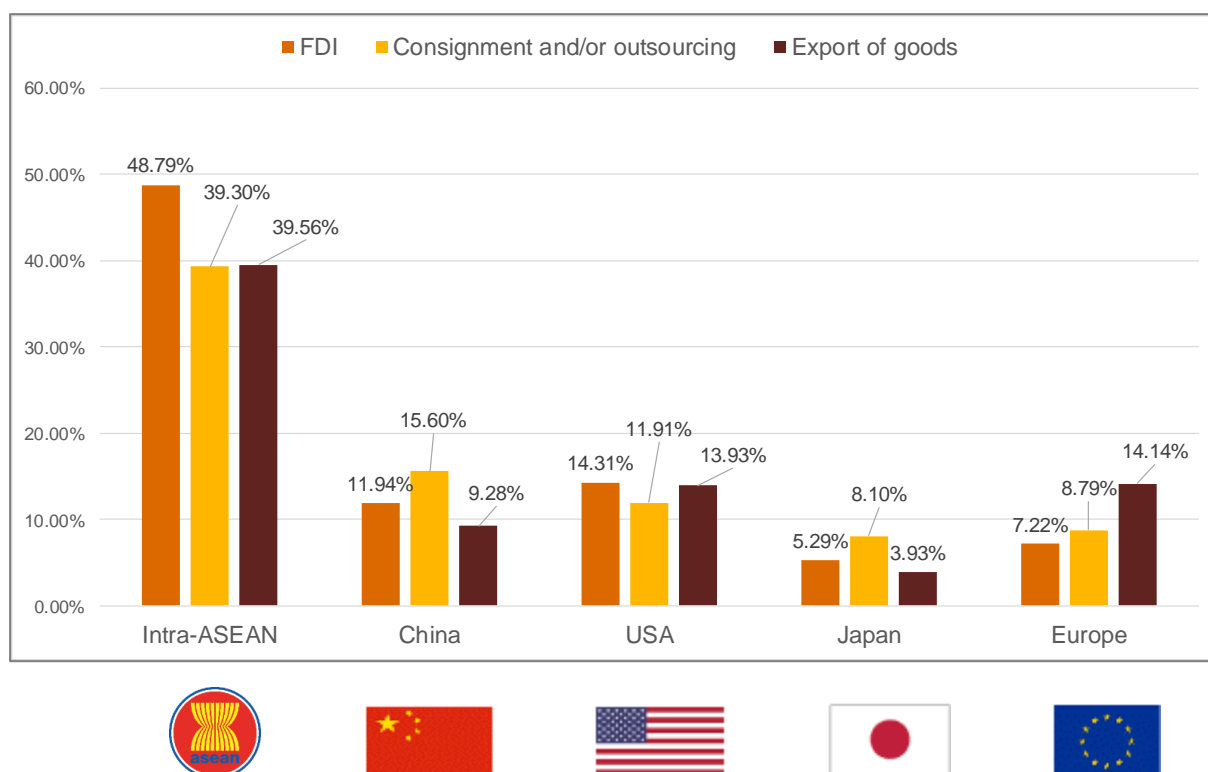


6.3 Destination economies of SMEs' international activities

For the destination economies, intra-ASEAN transactions are at the 40% to 50% level among three categories with FDI relying more on intra-ASEAN than extra-ASEAN activities. This shows that ASEAN SMEs first start expanding, in any category, within the ASEAN region. The key reason for their destination decision is better knowledge of the markets and the government initiatives at the regional level to facilitate the free movement of capital, goods and people as a single market, which is one of the pillars of the AEC. Higher intra-ASEAN activities also indicate that the region's business environment for trade and investment is improving with key initiatives, such as the ASEAN Free Trade Area (AFTA). AFTA significantly promoted the import and export of goods, services and investment within the region through the removal of tariffs and the alleviation of non-tariff barriers. The increase in consumers' buying power, along with the rapid economic growth in most AMS, is another reason for the intra-ASEAN trade.

Looking at the extra-ASEAN activities across all three categories of international activities, China and the USA are the top destination countries, followed by Japan and the European region (including the UK). These countries and region are ASEAN's major trade partners, and ASEAN is one of the largest sources of supplies for them. ASEAN has developed mutually beneficial dialogue, cooperation and partnerships with these countries and region over the past forty years. The economic ministers of ASEAN and their dialogue partners regularly meet to discuss key policy agendas in relation to trade and investment. The seamless integration of SMEs in the regional and global supply chain is one of the priorities of the SAP SMED 2025.

Figure 9. Top destination countries and regions



Source: Business survey on SMEs' internationalisation 2019

6.4 Intra-ASEAN destination economies and origins of AMS inflows

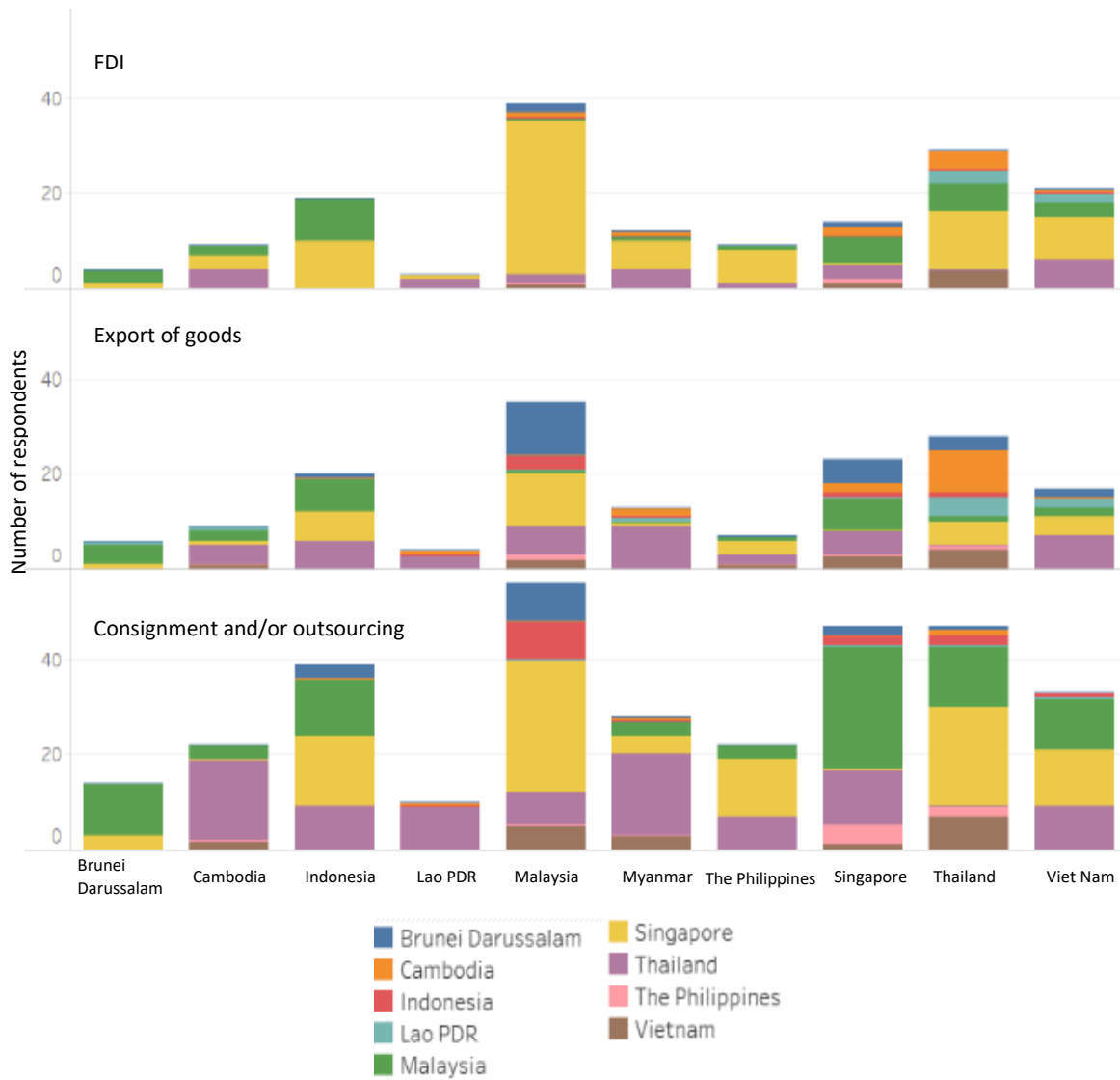
The survey results revealed that the major destination economies for intra-ASEAN activities are Malaysia, Singapore, Thailand and Viet Nam across all three categories of international activities. This suggests that these four AMS have positive market prospects for peer ASEAN SMEs, sound business environments, and fewer barriers for market entry, etc. The excellent results for the two KPIs from Strategic Goal D 'Enhance policy and regulatory environment' also provide the reasons for higher investment and trade inflow in these four AMS.

Table 1. Results of KPI D-1 and D-2 for Malaysia, Singapore, Thailand, and Viet Nam

| KPI | Malaysia | Singapore | Thailand | Viet Nam |
|---|------------|-----------|-----------|------------|
| D-1) Time required to start a business (days) | 17.00 days | 1.50 days | 6.00 days | 16.00 days |
| D-2) Cost of business start-up procedures (% of GNI per capita) | 11.10% | 0.40% | 3.00% | 5.60% |

Source: 2020 KPI Monitoring of SAP SMED 2020

Figure 10. Destination economies and number of respondents by country of origin



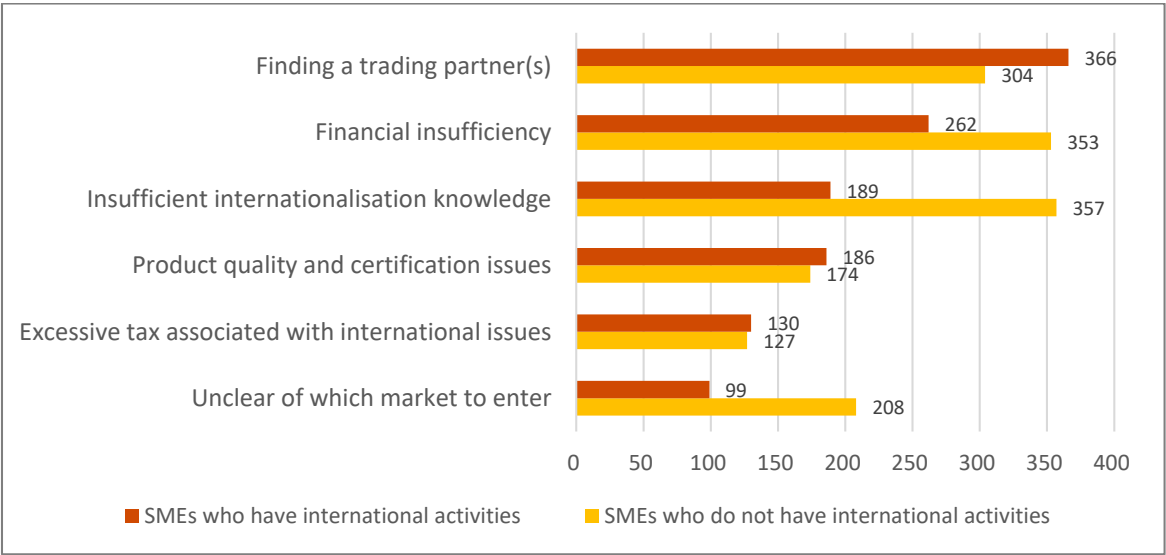
Source: Business survey on SMEs' internationalisation 2019

(Note) Response data for destination countries are not available for Myanmar due to the limitation of sample SMEs.

6.5 Key challenges faced by SMEs for internationalisation

The survey results show that SMEs are facing various challenges when expanding internationally. At the regional level, 'Finding a trading partner(s)', 'Financial insufficiency' and 'Insufficient internationalisation knowledge' are the top three challenges. The challenges are different for SMEs who conduct international activities and SMEs who do not. 'Finding a trading partner(s)' is the biggest challenge faced by SMEs who conduct international activities. For SMEs who do not conduct international activities, 'Insufficient internationalisation knowledge' is the biggest challenge.

Figure 11. Number of responses for challenges SMEs face when expanding internationally (multiple responses)

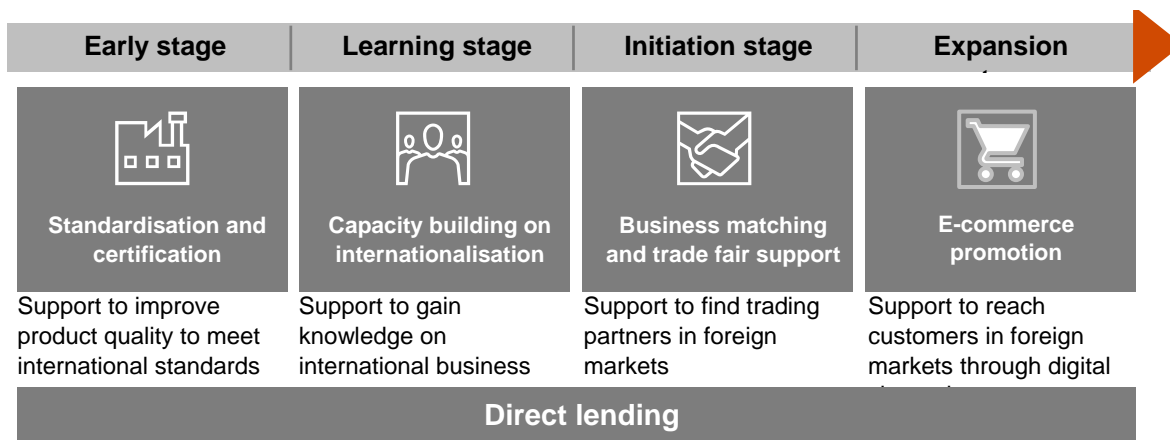


Source: Business survey on SMEs' internationalisation 2019

6.6 Government support programmes commonly used by SMEs

SMEs from five AMS (Brunei Darussalam, Indonesia, Malaysia, the Philippines and Thailand), that responded to the online survey, shared five support areas that are commonly used by SMEs to overcome internationalisation challenges: 1. Standardisation and certification to improve product quality, 2. Capacity building to gain internationalisation knowledge, 3. Business matching and trade fair support to find trade partners, 4. E-commerce promotion to gain access to foreign markets, and 5. Direct lending to mitigate financial insufficiency.

Figure 12. Stages of business and government support programmes commonly used by SMEs



Source: *Business survey on SMEs' internationalisation 2019*

(Note) Responses are from Brunei Darussalam, Indonesia, Malaysia, the Philippines and Thailand only due to the limited use of the online survey platform in other AMS.

Good practices in the region (Case 3: Thailand)

Government support programme for SMEs' e-commerce

Thailand has the highest percentage of SMEs who conduct electronic sales transactions, using computer-mediated networks, for goods or services with businesses (B2B), individuals (B2C) and other organisations in the international market. The survey results from Thailand also indicate that the percentage of SMEs who have applied for any government support programme is the highest (53.33%) among the ASEAN Member States. One of the popular government support programmes is e-commerce promotion as described below.

Technology and online services support for e-commerce promotion

- **ThaiTrade Web Portal** is an official e-marketplace established by the Department of International Trade Promotion (DITP) under the Ministry of Commerce (MOC). It focuses on B2B and B2C trade.
<https://www.thaitrade.com/>
- **Thai government partnership with Alibaba** is a strategic alliance with the Chinese e-commerce platform operator. It provides Thai SMEs with opportunities to gain digital skills and start or expand their business through Alibaba's 'one-stop-shop' e-commerce platform.
- **The online directory of shops in Thailand** is one of the flagship initiatives of the 'Digital Economy Promotion' programme and was developed by the Digital Economy Promotion Agency (DEPA).
- **'PromptPay'** is a national e-payment system initiated by the government of Thailand. Its vision leads with the "digital payment is to be the most preferred choice in efficient, safe, low-cost payment systems that meet users' needs".

Source: 'Payment Systems Roadmap No. 4 (2019 - 2021)', Bank of Thailand

https://www.bot.or.th/English/PaymentSystems/PolicyPS/Documents/PaymentRoadmap_2021.pdf

- **SMEGoOnline Web Portal** is a collaborative initiative between the Office of SME Promotion (OSMEP) and the Electronic Transactions Development Agency, and the Ministry of Digital Economy and Society. It offers online training courses to educate and encourage SMEs on how to use e-commerce.

<http://www.smesgoonline.go.th/>



(Extracted from the website of OSMEP)

Photo: credit: iStock.com/Panya_sealim

7. SMEs' use of cross-border e-commerce in ASEAN

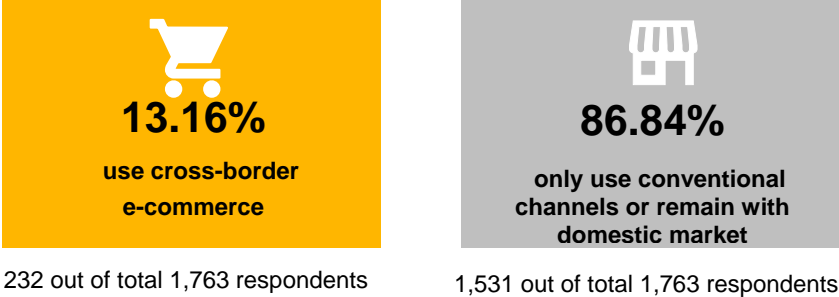
7.1 Current status of SMEs' use of cross-border e-commerce

Data for the newly added KPI C-3 'SMEs' use of cross-border e-commerce (% of all SMEs)' was collected through the business survey on SMEs' Internationalisation. The survey results revealed that the regional average for SMEs' use of cross-border e-commerce was 13.16%. While 86.84% of SMEs in the region still do not use e-commerce platforms and only use conventional channels (e.g. agents, trading houses) for internationalisation or remain with the domestic market even if they use e-commerce.

The country figures vary from 4.55% to 27.00% across the region. SMEs in Thailand have the highest use of cross-border e-commerce according to the business survey.

There has been exponential growth of the e-commerce market in the ASEAN region. And it is expected the market will provide SMEs that have limited resources opportunities to start and/or expand their business globally if they have the right mindset and digital skills. However, the survey results indicate that SMEs are less active compared to the overall market growth in the use of e-commerce. As shown in Case 3 of the good practice in the region (p22), government support for e-commerce promotion is helpful for SMEs to better understand today's consumers' needs, which would help increase SMEs use of cross-border e-commerce and strengthen their distribution channels.

Figure 13. Percentage of distribution channel types



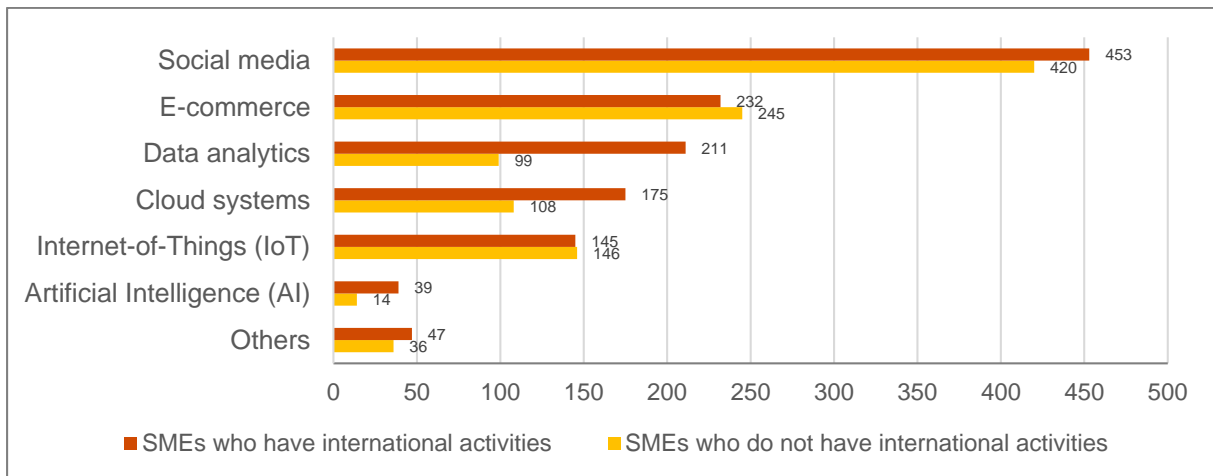
Source: Business survey on SMEs' internationalisation 2019

7.2 Survey results on SMEs' use of digital technology in general

The business survey asked a question about the type of digital tools in business in general. The results indicate that SMEs who have international activities use more technology in their business compared to SMEs who stay in domestic markets.

Among the types of technology used, 'Social media' is the most common digital solution for SMEs. 'E-commerce' comes next and the number of users is about the same for SMEs who have international activities and SMEs who stay in domestic markets. For 'Data analytics' and 'Cloud systems' there is a large gap between the two groups of SMEs. Many of the SMEs with international activities responded that they use data analytics in order to better understand their customer demographics and assess the effectiveness of their advertisements. The use of more advanced technologies such as 'Internet-of-Things (IoT)' and 'Artificial Intelligence (AI)' is still low for all SMEs.

Figure 14. Number of responses for types of technology used (multiple responses)



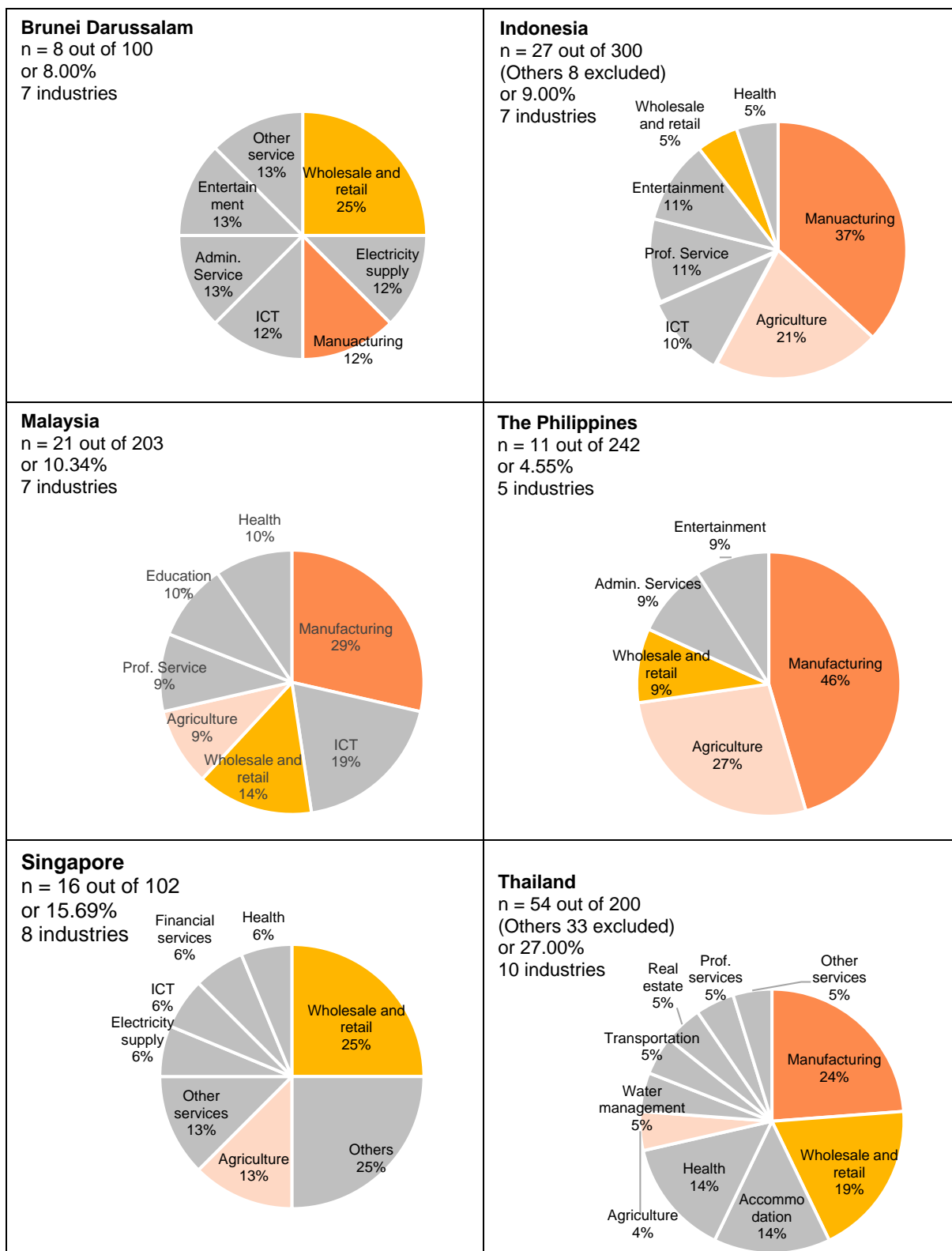
Source: *Business survey on SMEs' internationalisation 2019*

7.3 Industry breakdown of SMEs that conduct cross-border e-commerce

Among the respondents who use cross-border e-commerce for B2B or B2C transactions, 'Manufacturing' and 'Wholesale and retail trade' are the major industries followed by 'Agriculture, forestry & fishing' with some breakdown difference by AMS, in line with their national industry structures.

The survey results showed that the ASEAN Member States that have higher percentage of SMEs' use of cross-border e-commerce (i.e. Thailand with 27.00% and Singapore with 15.69%) have more diversified industry breakdown of SMEs profile. Industrial classification follows the International Standard Industrial Classification (ISIC).

Figure 15. : Industry breakdown of respondents with cross-border e-commerce by country (selected AMS)



Source: Business survey on SMEs' internationalisation 2019

(Note) Industry breakdown for Cambodia, Lao PDR, Myanmar and Viet Nam are not available due to the limitation of sample SMEs.

8. SMEs' contribution to GDP in ASEAN

8.1 Contribution to GDP is a key indicator of SMEs' impact on the macro-economic fundamentals of a country

Among the indicators, the newly added KPI E-4 'SMEs' contribution to GDP (%)' represents their comprehensive impact on the macroeconomy of a country. Many of AMS stipulate the policy targets for the percentage of SMEs' contribution to GDP as part of their long-term SME development agenda. Some AMS set a target that 50% of GDP should be generated by SME sector as SMEs are expected to be the growth engine for national economies.

The governments of Indonesia, Malaysia, Singapore and Thailand publish key SME indicators, including SMEs' contribution to GDP, annually as part of their SME development initiatives. According to the open data published in these four AMS, the growth rate of SMEs' portion of GDP has outperformed national GDP in the past few years.

Figure 16. Flags of ASEAN Member States



Source: ASEAN Secretariat

8.2 Status of SMEs' contribution to GDP at the regional level

The regional average for **SMEs' contribution to GDP** is

44.80%

The figure for each AMS varies widely, from 15.75% to 69.34%, and the region's average figure is 44.80%. Considering the predominance of SMEs in terms of total establishments (exceeding 97% in all AMS) and employment (85% at the regional level), SMEs are considered to have the potential to contribute to GDP at exceeding the 50% level, which is a long-term policy target in many of the AMS.

8.3 Data availability of SMEs' contribution to GDP

Although the policy-makers responsible for SME development recognise the importance of SMEs' contribution to GDP as a key macro-economic indicator to measure the overall capacity of SMEs, the scarcity of relevant data makes it difficult to calculate the figure through desktop research alone. Three different data collection approaches were used in this project depending on the availability of open data as below:

Desktop research where open data is available

- Indonesia
- Malaysia
- Singapore
- Thailand

Face-to-face interviews and/or data requests where related government agencies have internal supporting data

- Brunei Darussalam
- Cambodia
- Myanmar
- Viet Nam

Statistical assumptions where related government agencies do not have internal supporting data

- Lao PDR
- The Philippines

Open data refers to data that anyone can freely use, re-use and redistribute for any purpose without restrictions.

8.4 Proxy methodology to calculate SMEs' contribution to GDP

When open data is not available, the method used to calculate SMEs' contribution to GDP is analysing the Gross Value Added (GVA) of the SMEs. GVA is the value of output less the value of input.

$$\text{Gross Value Added (GVA)} = \text{Total output} - \text{Total input}$$

The proxy methodology follows the five steps below:

1. Confirm definitions of industry classification;
2. Collect industry output and input data;
3. Confirm definition of SME;
4. Calculate the GVA amount by industry; and
5. Calculate the SME portion in each industry, and combine.

Good practice in the region (Case 1: Indonesia, Malaysia, Singapore, and Thailand)

SME statistical data available on government websites

An action lines of the SAP-SMED 2025 is to develop comparable MSME statistics through an annual business survey for KPI monitoring under Strategic Goal D. Enhance policy and regulatory environment. In order to achieve this, it is necessary for governments to establish a national database of companies.

Examples of information that should be included in the national database of companies are:

- Registered legal name of company, registration date, corporate ID;
- Address with postal code, telephone number, email address;
- Economic sector, nature of business;
- Number of employees; and
- Information about outputs (net operating surplus, indirect taxes, depreciation, remuneration, etc.) and inputs (materials, labour force, utilities/fuel/transportation costs, other operating costs) to calculate GVA.

Indonesia's national statistical bureau, Badan Pusat Statistik (BPS), publishes a report of key indicators of SMEs annually.

| NO | INDIKATOR | SATUAN | TAHUN 2017 ¹⁾ | | TAHUN 2018 ²⁾ | | PERKEMBANGAN TAHUN 2017-2018 | |
|-----|--|--------------|--------------------------|------------|--------------------------|------------|---------------------------------|--------|
| | | | JUMLAH | PANGSA (%) | JUMLAH | PANGSA (%) | JUMLAH | % |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 1 | UNIT USAHA (A+B) | (Unit) | 62.928.077 | | 64.199.606 | | 1.271.529 | 2,02 |
| | A. Usaha Mikro, Kecil dan Menengah (UMKM) | (Unit) | 62.922.617 | 99,99 | 64.194.057 | 99,99 | 1.271.440 | 2,02 |
| | - Usaha Mikro (UMI) | (Unit) | 62.106.900 | 98,70 | 63.350.222 | 98,68 | 1.243.322 | 2,00 |
| | - Usaha Kecil (UK) | (Unit) | 757.090 | 1,20 | 783.132 | 1,22 | 26.043 | 3,44 |
| | - Usaha Menengah (UM) | (Unit) | 58.627 | 0,09 | 60.702 | 0,09 | 2.075 | 3,54 |
| | B. Usaha Besar (UB) | (Unit) | 5.460 | 0,01 | 5.550 | 0,01 | 90 | 1,64 |
| 2 | TENAGA KERJA (A+B) | (Orang) | 120.260.177 | | 120.598.138 | | 337.961 | 0,28 |
| | A. Usaha Mikro, Kecil dan Menengah (UMKM) | (Orang) | 116.431.224 | 96,82 | 116.978.631 | 97,00 | 547.407 | 0,47 |
| | - Usaha Mikro (UMI) | (Orang) | 105.509.631 | 87,73 | 107.376.540 | 89,04 | 1.866.909 | 1,77 |
| | - Usaha Kecil (UK) | (Orang) | 6.546.742 | 5,44 | 5.831.256 | 4,84 | -715.486 | -10,93 |
| | - Usaha Menengah (UM) | (Orang) | 4.374.851 | 3,64 | 3.770.835 | 3,13 | -604.016 | -13,81 |
| | B. Usaha Besar (UB) | (Orang) | 3.828.953 | 3,18 | 3.619.507 | 3,00 | -209.446 | -5,47 |
| 3 | PDB ATAS DASAR HARGA BERLAKU (A+B) | (Rp. Milyar) | 12.840.859,0 | | 14.038.598,5 | | 1.197.739,6 | 9,33 |
| | A. Usaha Mikro, Kecil dan Menengah (UMKM) | (Rp. Milyar) | 7.820.282,6 | 60,90 | 8.573.895,3 | 61,07 | 753.612,8 | 9,64 |
| | - Usaha Mikro (UMI) | (Rp. Milyar) | 4.827.398,9 | 37,59 | 5.303.075,7 | 37,77 | 475.676,8 | 9,85 |
| | - Usaha Kecil (UK) | (Rp. Milyar) | 1.234.334,1 | 9,61 | 1.347.104,3 | 9,60 | 112.770,2 | 9,14 |
| | - Usaha Menengah (UM) | (Rp. Milyar) | 1.758.549,6 | 13,69 | 1.923.715,4 | 13,70 | 165.165,7 | 9,39 |
| | B. Usaha Besar (UB) | (Rp. Milyar) | 5.020.576,4 | 39,10 | 5.464.703,2 | 38,93 | 444.126,8 | 8,85 |
| 4 | PDB ATAS DASAR HARGA KONSTAN 2000 (A+B) | (Rp. Milyar) | 9.504.148,6 | | 9.995.305,9 | | 491.157,3 | 5,17 |
| | A. Usaha Mikro, Kecil dan Menengah (UMKM) | (Rp. Milyar) | 5.445.564,4 | 57,30 | 5.721.148,1 | 57,24 | 275.583,7 | 5,06 |
| | - Usaha Mikro (UMI) | (Rp. Milyar) | 2.804.585,0 | 29,51 | 2.927.890,5 | 29,29 | 123.305,4 | 4,40 |
| | - Usaha Kecil (UK) | (Rp. Milyar) | 1.272.701,4 | 13,39 | 1.355.705,7 | 13,56 | 83.004,3 | 6,52 |
| | - Usaha Menengah (UM) | (Rp. Milyar) | 1.368.277,9 | 14,40 | 1.437.551,9 | 14,38 | 69.273,9 | 5,06 |
| | B. Usaha Besar (UB) | (Rp. Milyar) | 4.058.584,3 | 42,70 | 4.274.157,9 | 42,76 | 215.573,6 | 5,31 |

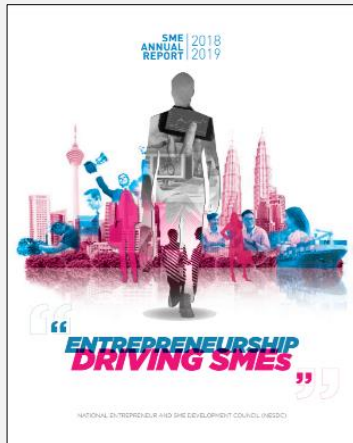
Source: <http://www.depkop.go.id/data-umkm>

Singapore's national statistical office, Singapore Department of Statistics (DOS), provides tabulated figures of SMEs annually.

| Variables | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|------|------|------|------|------|
| Share Of Nominal Value Added Of Enterprises, Total (Per Cent) | 100 | 100 | 100 | 100 | 100 |
| Share Of Nominal Value Added Of Enterprises, SMEs (Per Cent) | 47 | 48 | 47 | 45 | 45 |
| Share Of Nominal Value Added Of Enterprises, Non SMEs (Per Cent) | 53 | 52 | 53 | 55 | 55 |

Source: <https://www.tablebuilder.singstat.gov.sg/publicfacing/createDataTable.action?refId=15808>

Malaysia's SME agency, SME Corp. Malaysia, publishes SME report annually.



PERFORMANCE OF SMEs IN MALAYSIA
Overview: Growth Trends of SMEs in 2016 - 2018

The latest time series data from the Department of Statistics, Malaysia (DOSM) based on Gross Domestic Product (GDP) in constant 2010 prices showed that the SME GDP grew at an average annual growth rate of 8.2% in the period of 2016 - 2018. In fact, the SME GDP growth rate of 8.2% in the period of 2016 - 2018, which is higher than the average annual growth rate of overall GDP of 5.0%. The same trend can be seen since 2013. In fact, the GDP growth of SMEs has consistently outperformed the overall economic growth. The contribution of SMEs to the overall GDP has increased from 37.6% in 2015 to 38.2% in 2018.

Table 2.1 SME GDP by Economic Sector (Constant 2010 prices)

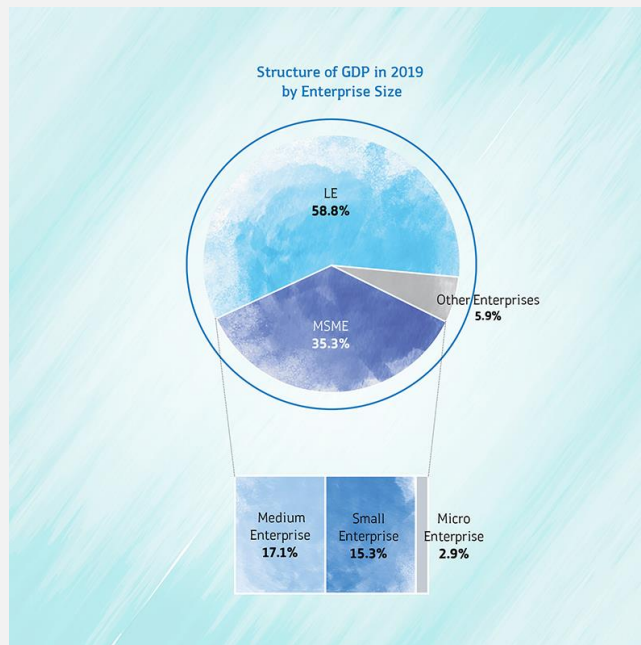
| Economic Sector | SME GDP (RM billion) | | SME GDP Contribution to Overall GDP (%) | |
|-----------------|----------------------|------------------|---|------------------|
| | 2016 (Q4 Annual) | 2018 (Q4 Annual) | 2016 (Q4 Annual) | 2018 (Q4 Annual) |
| Overall | 37.0 | 38.2 | 37.6 | 38.2 |
| Services | 22.4 | 25.8 | 41.5 | 73.3 |
| Manufacturing | 11.1 | 10.7 | 30.0 | 28.0 |
| Construction | 3.5 | 1.7 | 9.4 | 4.5 |
| Agriculture | 0.0 | 0.0 | 0.0 | 0.0 |

Note: GDP values are preliminary figures. Source: Department of Statistics, Malaysia.

Source:

http://smecorp.gov.my/images/SMEAR/SMEAR2018_2019/final/english/SME%20AR%20-%20English%20-%20All%20Chapter%20Final%2024Jan2020.pdf

Thailand's SME Agency, Office of SMEs Promotion (OSMEP), publishes GDP data annually



Source: <https://www.sme.go.th/en/page.php?modulekey=365>

9. Way forward to overcome the challenges and realise the vision by 2025

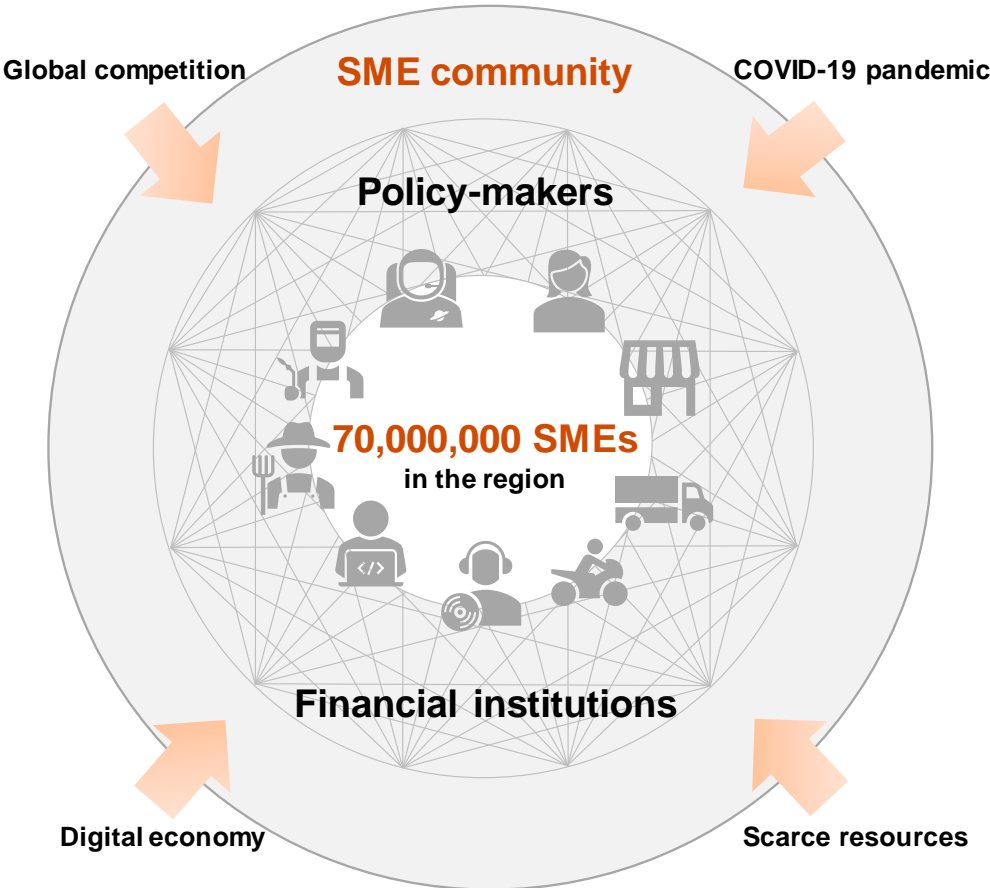
Key challenges for stakeholders in the SME community and effective actions to overcome these challenges

Throughout this project, monitoring focus has been given to SME-specific KPIs under Strategic Goal B 'increase access to finance' and Strategic Goal C 'enhance market access and internationalisation' because of the difficulty in accurately understanding the progress of these KPIs due to the limited availability of statistical data in most AMS. Dialogue with financial institutions and the SME Finance Roundtable were conducted to obtain the necessary data to calculate the KPI B-1 'percentage of business loans to SMEs (%)'. Whereas for the KPI C-2 'percentage of SMEs with international activities (%)', a sample-based business survey was conducted in all ten AMS with a standardised survey questionnaire.

These data collection approaches provided ACCMSME with insight on the progress of SME policies, and identified four areas of challenges faced by the stakeholders in the SME community in ASEAN: SME themselves, financial institutions and policy-makers.

This section summarises these challenges and discusses example of measures as well as potential actions for ACCMSME considered to be effective in overcoming these challenges and realising the vision of the SAP SMED 2025: creating resilient and globally competitive SMEs by 2025.

Figure 17. Stakeholders in the SME community



1. Challenges faced by SMEs for internationalisation

The results of the 2019 survey revealed SMEs' level of engagement in international activities and the key challenges they face when expanding their business internationally.

1. **'Finding a trading partner(s)'** is the biggest challenge for SMEs who have international activities. They already have capacity to expand their business globally, however they face a challenge in finding reliable business partners.
2. **'Insufficient internationalisation knowledge'** is the biggest challenge for SMEs who do not have international activities. They do not know the processes of cross-border business even if they wish to participate.



Example of measures to overcome challenge

- Business matching and trade fair support through digital platforms (e.g. digital directory of companies, effective matching supported by AI, automation of administration process)
- Industry specific market information and business intelligence (e.g. analysis of historical and predictive data on business opportunities)
- Digital lending platforms that show the most suitable financing facility in the market for the borrower's needs, etc.



Effective action for ACCMSME

Continued close monitoring of SMEs' international activities through similar business surveys to get insights on SMEs' actual needs

Further business surveys with larger sample sizes, combined with an online survey platform, would be an effective way to understand the progress of SMEs' trade and investment activities, including the impact of the COVID-19 pandemic. Collecting data-driven evidence is critical for developing effective policy that helps optimise the recovery and revitalisation of SMEs' international activities.

2. Challenges faced by SMEs for adopting cross-border e-commerce

The 2019 business survey results indicate that SMEs are less active compared to the overall market growth in the use of e-commerce.



Example of measures to overcome challenge

Developing regional training contents that covers the following topics necessary for cross-border e-commerce:

Regulations on cross-border e-commerce

The trade issues set out by trade organisations (i.e. payment, taxation, tariffs, IPR)

Digital applications and platforms

The one-stop-shop portals that showcase products and services to a large consumer audience

Consumer behaviours

The analysis of customer needs and experiences to help increase their satisfaction

Innovative marketing with AI, machine learning, etc.

The digital technologies that can be used to effectively promote products and services to the right targets

Personal data protection laws, etc.



Effective action for ACCMSME

Conducting a scoring assessment on SMEs' digital literacy and developing capacity-building plans for cross-border e-commerce

A scoring assessment would be an effective method to get an objective understanding of the current level of digital literacy in each AMS, which will then be the basis for making an actionable national plan to enable SMEs fully seize business opportunities in the digital economy.

This knowledge should be disseminated to SMEs across the region, so they have sufficient knowledge to expand their business abroad using cross-border e-commerce.

3. Challenges faced by financial institutions for providing business loans to SMEs

Although governments of AMS have implemented various measures to enhance access to finance for SMEs, financial institutions themselves are facing various challenges.

Below are the top ten challenges faced by financial institutions in providing business loans to SMEs. These were collected in interviews with representatives of 38 financial institutions across the region and at the SME Finance Roundtable in Cambodia in November 2019.

1. **Lack of reliable information** on SMEs' business (e.g. audited financial statements, proper business plans) to assess loan applicants' creditworthiness
2. **Lack of borrowers' collateral**
3. Borrowers' lack of adherence to repayment obligations, which leads to a **higher percentage of non-performing loans (NPL)**
4. **Lack of a standard definition of SMEs** for financial institutions
5. **Lack of banks' ability to understand the changing needs of today's SME customers** and offer new services (e.g. financial services with digital technology)
6. **High administrative costs** to manage numerous applications for small loans
7. **Lack of bank staffs' technical capability to assess credit**
8. **Lack of borrowers' financial literacy** and/or resources to manage financial matters
9. **Lack of borrowers' digital literacy** to use various digitalised financial services
10. **Lack of borrowers' compliance with social loan requirements** for SME development fund loans provided by international organisations



Example of measures to overcome challenge

Legal and regulatory framework

Development of sound financial infrastructure (e.g. SME banks, credit bureaus, credit guarantee and credit insurance schemes, SME databank including credit worthiness, and flexible collateral)

Financial products and services

Diversification of products and services and reduction of administrative time to meet the specific needs of target customer groups (e.g. products that comply with Sharia law, digital banking services, digital financing facility matching platform)

Financial sector transformation

Promotion of the digital economy (e.g. digital upskilling for SMEs, alternative financing such as crowdfunding and peer-to-peer financing, FinTech solutions such as blockchain).



Effective action for ACCMSME

Continued close monitoring of SMEs' access to finance through dialogue with financial institutions and similar roundtable to get insights on SMEs' financing needs

Continuing the dialogue between SME policy-makers (i.e. ACCMSME members) and the financial institutions in each AMS, and organising a similar roundtable at the regional level would be effective in updating the understanding of the financing needs of today's SMEs and avoiding mismatch between the demand and supply sides.

Sharing good practices in the region is also an effective way to help lay a strong ecosystem foundation in the financial sector, from the perspectives of legal and regulatory framework, financial products and services, and financial sector transformation.

4. Challenges faced by policy-makers in conducting efficient data collection

Government agencies responsible for SME development are facing challenges that hold back effective data collection:

1. Limited sharing of knowledge on data location across government agencies

- The compilation of SME statistical data requires coordination between different government agencies within a country.
- Any calculation requires using multiple data sets owned by and located at different government agencies.
- There are cases where one agency has some data, and another agency has other data needed to calculate the SMEs' share, but the data cannot be systematically collected.

2. Lack of centralised or nationwide database of SMEs

- Several AMS do not have an integrated national database of companies within governments to cross-reference company data to identify SMEs' activities.
- The company registration process is not thorough, and a significant portion of SMEs are unregistered (informally set up) in several AMS.
- The ideal business survey would use a list of SMEs randomly selected from the national database to represent the nation's SME profile and the geographical spread of SMEs.

3. Limited use of digital tools for large-scale SME business surveys

- National-level surveys covering a large sample of enterprises are needed to collect data on business activities including international activities (KPI C-2) and use of cross-border e-commerce, that reflect the true population profile.
- However, the methodology of national-level surveys is labour-intensive in most AMS and requires a significant amount of time by government officials.
- An online survey platform is expected to bring a fast, painless, end-to-end experience to collect both quantitative and qualitative data on KPI C-2 and SMEs' use of cross-border e-commerce. But this requires SMEs and policy-makers to be able to access the online survey through computers and/or mobile devices.



Example of measures to overcome challenge

Developing a sound data collection mechanism for SME statistics across government agencies within a country with the following infrastructure and schemes:

National database of companies

Database covering nation-wide companies from different locations and industries need to be established. Mandatory information includes registered legal name, corporate ID, address with postal code, email address, economic sector, nature of business and number of employees.

Regular reporting of SME statistics

Key indicators of SMEs' socio-economic profile (i.e. number of SME establishment, SMEs' contribution to employment, SMEs' contribution to GDP, SMEs' contribution to export) need to be reported regularly.

Dedicated unit of SME data collection and analysis within the government

Unit(s) of government officials responsible for SME data collection and analysis need to be identified and appropriate trainings should be provided to these officials.



Effective action for ACCMSME

Gap assessment and development of capacity-building plans for data collection and analysis

Conducting a gap assessment of the data collection and analysis capability of the relevant government agencies and developing capacity building plans would be an effective approach to improve the SME statistics environment.

Using the national-level assessments, it would be effective to develop a cross-country harmonisation of the national work plans and develop a regional work plan to achieve Action-line D-1-1-2 'development of comparable MSME statistics through annual business survey for KPI monitoring' of the SAP SMED 2025.

Appendix: Data collection and analysis approaches

The limitations of SME statistical data make it difficult to update the KPI figures through desktop research alone. Therefore, finding out effective and efficient approaches to data collection was key to the KPI monitoring activities. The following four approaches of data collection were used depending on the level of SME statistical data availability:



The steps for collecting and analysing data are as shown below:

Step 1: Open data availability check

Open data refers to data that anyone can freely use, re-use and redistribute for any purpose without restrictions. Open data is available through the websites of national government agencies and/or international organisations.

All KPIs in each AMS have been assessed to determine if the open data is readily available. The assessment used data from authoritative national organisations, such as statistics bureaux, SME agencies, ministries of economy, trade and industry, central banks, and economic planning agencies. Published figures for KPIs or other supporting data to calculate KPIs were also found from authoritative international organisations.

Step 2: Desktop research

If open data was readily available, the next step was to conduct desktop research. Findings were recorded on a check sheet. This helped speed up and reduce duplication in the data collection process. The open data catalogue contains:

- Data title (e.g. World Development Indicators)
- Data owner (e.g. World Bank)
- Update frequency (e.g. annually, at regular intervals or in random years), and
- Direct links to the open data

Step 3: Face-to-face interviews

Face-to-face interviews were conducted with government and financial institutions to get the information needed to calculate the KPIs. The other objective of the interviews was to understand the national policy environment and government initiatives around the Strategic Goals.

In the Phase 2 project, 54 face-to-face interviews (16 interviews with government institutions and 38 interviews with financial institutions) were conducted across the region.

Step 4: Business survey

A business survey was conducted with sample SMEs in all ten AMS. Samples of SMEs in each AMS were selected to reflect the nation's profiles in terms of the industry distribution of SMEs.

The objective of the business survey was to collect quantitative data to calculate KPI C-2 ‘SMEs with international activities (%)’, and qualitative data to help understand SMEs’ international activities (e.g. destinations, key challenges, and technology used to expand business).

Step 5: Statistical assumptions

Statistical assumptions were used to estimate the missing KPI figures after conducting desktop research (step 2), face-to-face interviews (step 3) and a business survey (step 4).

Statistical assumptions were also used to cross-check the validity of the data collected from the business survey.

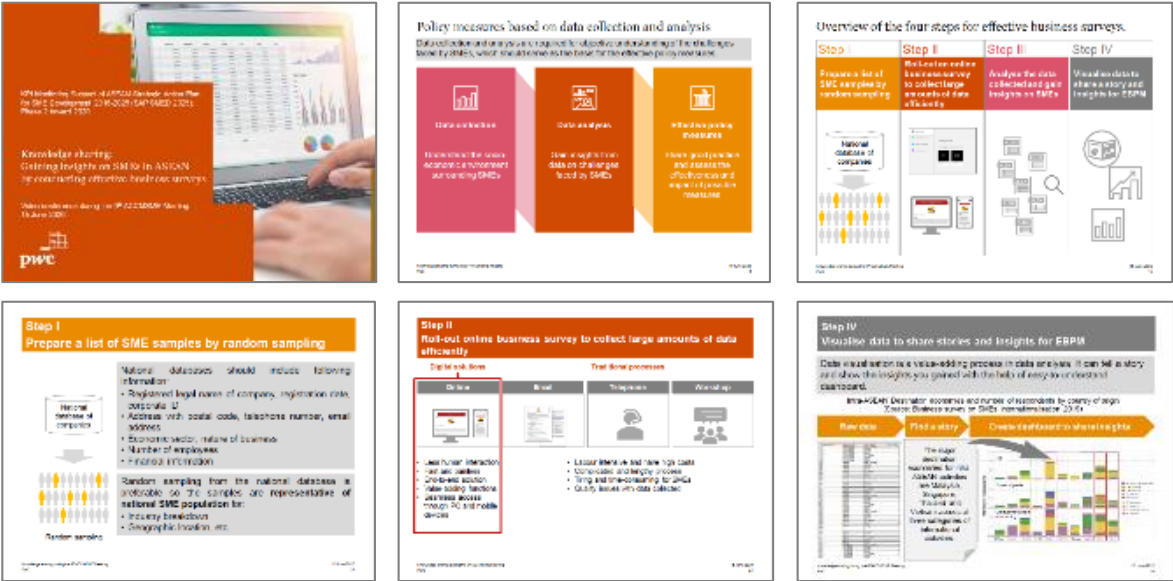
The applied statistical methods follow several steps including the compilation of time series of open data, the linear regression model, the country cluster modelling.

Step 6: Data analysis

The data collected through the different approaches were analysed into figures to convert them to useful information and insights. These figures were used to assess the historical changes within a country, cross-country comparability, and/or effectiveness of policy measures.

Data analysis is the last step to optimise the data assets collected throughout this Phase 2 project.

Figure 18. Extract from the material of the knowledge sharing session on data collection and analysis conducted during the 9th ACCMSME meeting on 15 June 2020



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