

Executive summary

SME development is an increasing priority for policy makers across ASEAN as they seek to establish a broader base for growth while ensuring that it is resilient and inclusive. This is becoming more pertinent as incomes rise and trade barriers across the region are lowered, opening up new opportunities to produce goods and services. In most ASEAN countries, SME policy has traditionally had a social orientation, but in some countries (notably in Brunei Darussalam, Malaysia, Singapore, Thailand and Viet Nam) this has evolved to focus increasingly on stimulating innovation and technological upgrading.

This report looks at the policy landscape for SME development across ASEAN, identifying potential gaps and offering recommendations going forward. It is based on an assessment of the scope and intensity of policies across eight thematic areas. The ten ASEAN countries are scored on a comprehensive set of qualitative and quantitative indicators. This methodology builds on the OECD's *SME Policy Index* methodology, which has been applied in various regions, including ASEAN in 2014. It integrates the goals of the ASEAN Strategic Action Plan for SME Development (SAP SMED) 2016-2025. The assessment was conducted by the OECD and ERIA at both the regional and country levels, and was carried out in co-operation with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) and national policy makers, as well as academic experts and the private sector. This report was endorsed at the 50th Meeting of the ASEAN Economic Ministers (AEM) as a reference tool to help monitor and evaluate ASEAN's efforts in advancing MSME development policies.

The report finds that most ASEAN countries are active in the area of SME policy and apply a mix of horizontal and targeted approaches. On the horizontal side, they tend to prioritise measures to cut red tape and streamline business registration. On the targeted side, they tend to focus on measures to enhance productivity and increase access to finance. The intensity and extent of policy intervention varies greatly among countries, and this correlates with the overall level of institutional development. Indonesia, Malaysia, Singapore, the Philippines and Thailand have invested significantly in business development services, an area that Brunei Darussalam and Viet Nam are increasingly exploring, while Cambodia, Lao PDR and Myanmar have focused more on improving the legal and regulatory environment for SMEs and building institutions for SME policy. ASEAN countries are very active in the area of market access and internationalisation, and this is where most regional co-operation on SME policy takes place. Finally, while the social contribution of SMEs is an important consideration for most policy makers, relatively few interventions take place in the areas of SME greening and inclusion.

Based on these findings, the report makes the following key recommendations:

- **Ensuring an integrated approach to SME policy**, whereby interventions are strategic, sequenced and coherent, can increase the impact of interventions and programmes. Some countries pursue a mix of competitiveness and social policy objectives in their SME policy, and at times these objectives may contradict one

another. Taking stock and clearly elaborating the SME agency's mission may help to increase coherency. This should be informed by data on the contribution and nature of SMEs, as well as feedback from business owners. Feedback and co-ordination mechanisms between local and central government could also be enhanced in many countries, as this may clarify objectives and facilitate implementation.

- **Strengthening data collection and analysis** can ensure that policies are evidence-based and well-targeted. Accurate and comprehensive data on the contribution and nature of SMEs is an important foundation for the development of a coherent and measured SME policy. In many countries, such statistics are missing or are not collected systematically. The lack of data also hinders monitoring and evaluation of the impact of SME policies.
- **Attention to policy process throughout the entire policy cycle** from design, adoption and implementation, through to monitoring and evaluation can help to ensure that policies remain responsive to firms' real needs. For example, public-private consultations and regulatory impact assessments in many instances are not carried out systematically. Stakeholder consultation is often approached as a box-ticking exercise, with limited participation. Similarly, many ASEAN countries conduct some form of monitoring and evaluation, but few systematically do robust impact assessments, even for major programmes. Systematic monitoring and evaluation can help to ensure that public resources are used efficiently and, when fed back into policy design, can inform the design of future policies.
- **Expanded regional co-operation on SME development** could allow countries to better leverage domestic resources. ASEAN has a number of regional co-operation programmes and projects in the area of market access and internationalisation, and a few in the area of productivity, technology and innovation. Policy makers could consider other areas where regional co-operation may be valuable. At present, such co-operation principally takes the form of knowledge-sharing, and the ACCMSME is doing important work here. However, more could be done to operationalise the lessons learned from these exchanges, for instance via the secondment of staff between AMS or the development of joint projects between SME agencies and institutions. This could be particularly valuable in the development of better regulations and the creation of e-governance systems. A standardised system for the exchange of financial information could also be very beneficial. This would require more complete company registers and the establishment of harmonised credit reporting systems and information and could therefore be seen as a long-term goal.
- **Greater attention to the social contribution of SMEs in policymaking** could help ASEAN Member States to pursue greener, more inclusive economic development. The social aspect of SME development is a priority for many policy makers in ASEAN. Its importance is evidenced by the fact that it falls under the "resilient, inclusive and people-oriented and people-centred" pillar of the ASEAN Economic Community Blueprint. Yet the region's median score is lowest in the areas of SME greening and inclusive SMEs. This appears to stem from a concern that interventions here could place unnecessary burdens on SMEs. Instead, actions here (as opposed to subsidies in other areas) could enhance the social contribution of SMEs. A range of policy options is available to encourage rather than oblige SMEs to engage in greener and more inclusive practices.



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