



SME COMMITTEE

RECOMMENDATIONS FOR BUDGET 2018

Singapore Business Federation
December 2017

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FOREWORD

“Singapore’s economy is looking better this year, with restructuring efforts producing promising results, but the work is not done yet. If we persist in these efforts, we will continue to make good progress.”

Finance Minister Heng Swee Keat
29 October 2017

The Committee on the Future Economy (CFE) is the third iteration of a committee tasked to develop economic strategies for Singapore’s future. In the CFE’s report released on 9 February 2017, it was emphasized that Industry Transformation Maps (ITMs) were the way to go in giving companies and their employees the best chance to succeed. As of 30 November 2017, 14 of 23 ITMs had been launched¹.

With Singapore’s present economic transformation journey in its early stage, the formation of Enterprise Singapore is timely. The new agency will be better-positioned to help Singapore companies grow and seize international opportunities in the next phase of Singapore’s economic development. This is an important signal that the Government is responsive to businesses’ changing needs.

In the current knowledge-based economy, technology and innovation are differentiators that would play increasingly larger and more important roles in businesses. Many of the fastest growing and disruptive businesses are start-ups that are less than ten years old, such as Grab² and Airbnb³. There would be growth opportunities in attracting innovative startup companies to base in Singapore to catalyse the business ecosystem.

On the growth front, the global economy is projected to continue its forward momentum by growing 3.6 percent in 2017 and 3.7 percent in 2018⁴ after exceeding growth

¹ Industry Transformation Maps (ITMs), Ministry of Trade and Industry, 06 November 2017

<https://www.mti.gov.sg/MTIInsights/Pages/ITM.aspx>

² Grab was founded in 2012, <https://www.grab.com/sg/about/>

³ Airbnb was founded in 2008, <https://www.airbnb.com.sg/about/about-us>

⁴ IMF raises global economic outlook this year and 2018, J.Zumbryum, The Wall Street Journal, 10 October 2017

expectations in 2016 (3.1 percent expected, 3.2 percent actual⁵), while Singapore's economic growth is expected to remain firm going into 2018⁶. The SME Committee (SMEC) opined that growing the topline is an important priority for SMEs pursuing growth amidst industry transformation. The brightening global growth prospects present opportunities for SMEs to expand their business and grow their revenues. Section I of this Budget Recommendations is focused on growth strategies to help companies ride on the momentum of industry transformation brought about by the government's launch of ITMs, to grow their business both locally and internationally.

Since its inauguration in December 2011, SMEC had put up 133 budget recommendations for the Government's consideration. Amongst them, there were those already adopted by Government and some that merit further consideration. The recommendations set forth in this paper therefore not only discusses the SMEC's strategy for growth, but also includes some previous recommendations that have not yet been adopted but which the SMEC opined as relevant in the current context and worth another look. These recommendations with revisions and updates are re-introduced for consideration in Section II of this paper.

Lastly, Section III of this paper elaborates on broad-based support that would give a tailwind to SMEs' industry transformation efforts, and are derived from a cumulation of the SMEC's engagement efforts with the business community, as well as from surveys and reports relevant to doing businesses in Singapore. These include recommendations that look into enhancing SMEs' access to government schemes, participation in government procurement, improving SMEs' cashflow by better timeliness in account receivables collection, preparing businesses for the future economy and helping them build intangible assets such as intellectual property.

⁵ "Global growth is projected to slow to 3.1 percent in 2016", World Economic Outlook, October 2016, <http://www.imf.org/external/pubs/ft/weo/2016/02/>

⁶ Singapore's 2018 economic growth likely to 'moderate' from this year: MAS, S.K. Tang, Channelnewsasia, 27 October 2017, <http://www.channelnewsasia.com/news/business/singapore-s-2018-economic-growth-likely-to-moderate-2017-gdp-9348276>

I. GROWTH STRATEGY - HARVESTING TRANSFORMATION EFFORTS

1. Private Sector as Co-Driver of Globally Competitive Companies/Unicorn Development

The private sector is a powerful resource and an important stakeholder in the business community and agent of change that could spur the development of globally competitive companies (GCCs) if corporates could be given a conducive environment to provide financial and non-financial support to innovative young companies.

The Economic Development Board currently have a CREATE Initiative that sought to drive value creation with large enterprises. The SMEC opined that the government should also attract startup companies with potential to become unicorns⁷ to relocate to Singapore, emulating the success of the strategy that have drawn many multi-national companies to set base on our shores. A plausible way to do this is for Government to incentivise private companies to invest or co-invest in unicorns through grants and tax incentives. Tax deductions and rebates could be considered for private companies that ended up with failed investments to defray their losses. Unicorn companies could also be accorded with special treatment, such as pioneer status, to attract them to set up base or relocate to Singapore.

This calls for the government to consider a dual pronged approach in the development of promising start-ups. In addition to the current practice of giving grants and tax incentives to start-ups, the government could also tap on the resources of the private sector by incentivising private companies to invest in these unicorns that could potentially bring greater benefits to our economy.

Merits of such schemes include better synergistic tie-ups between private companies and the start-ups that go beyond just equity injections, and could potentially make Singapore

⁷ Unicorn – Companies that quickly achieve a billion-dollar valuation (Financial Times)

a hub for unicorns or even decacorns⁸ through schemes that bring in the private sector as co-driver of unicorn development. The SMEC opined that Singapore has the ecosystem to become a successful unicorn hub.

Criteria such as a minimum Singaporean equity stake and requiring the startups to house its headquarters or key operations like research and development (R&D) and intellectual property holding (IP) here will boost local involvement and participation. For example, IP holding and the derivation of revenue streams from IP could be channelled back to Singapore and/or commercialised from Singapore.

It is also key for such companies to be able to generate high value jobs for Singaporeans. This could have ripple effects of generating domestic demands and business for local enterprises. It will also help create and develop more Singaporean owned GCCs which is currently very much lacking.

Recommendation

Devise schemes to make Singapore an attractive hub for unicorns and investors to set base here by:

- 1. Designing incentives to attract start-ups with the potential to be unicorns to set up base or relocate to Singapore.**
- 2. Incentivising private companies to invest or co-invest in potential unicorns through grants and tax incentives, and providing tax deductions and rebates for private companies that ended up with failed investments.**

To benefit Singapore companies and Singapore residents, the schemes should incorporate criteria such as:

- i. a minimum Singaporean equity stake in the potential unicorn company of say, 30 percent**
- ii. requiring the unicorn company to house its headquarters, research and development, IP holding and other key functions in Singapore**
- iii. creation of jobs good for the Singapore economy and Singaporeans**

⁸ Decacorn – companies that achieves a \$10 billion valuation (Financial Times)

2. Promote Partnerships between Large Companies and Small and Medium Sized Enterprises

During the Future Economy Conference and Exhibition, Minister for Finance, Mr Heng Swee Keat, emphasised on the importance of collaboration at the industry and national levels, to ensure economic success in the future.

Reported in the SME Development Survey 2017, 13 percent of respondents cited “Domestic Collaboration with Local Partners” as a strategy to address competition. For the respondents’ overseas strategy, only 2 percent (a drop from 2016’s 5 percent) indicated “Partnering with Established Singapore Companies to Venture Abroad” as their focus, in comparison with 23 percent of respondents indicating “Collaboration with New Overseas Partners” as their strategy. This could be due to very few known opportunities for SMEs to collaborate with more established large enterprises. There are also other challenges like coming to an agreement for all parties, as well as the related bureaucracy and associated legalities when dealing with larger companies which are concerns for SMEs. The lack of resources, both in terms of expertise and monetary, can be challenging for some SMEs.

In economies such as Korea, Japan and Taiwan, their SMEs have managed to gain international exposures through partnering with their large local enterprises, which are already established in the global market. These partnerships have enable the SMEs to gain the necessary track records to pitch for their next overseas deals independently.

In order to foster greater collaborative efforts between large companies and SMEs, incentives in the form of tax rebates or other incentives could be considered. Non-monetary recognition could also be accorded to businesses, which have significantly contributed towards partnerships between companies.

Recommendation

- 1. Provide tax or other incentives specifically for projects with substantial SME involvement to induce and promote partnerships and collaborations between large companies and SMEs on overseas ventures.**
- 2. Instate a Presidential Award to recognise companies that have made significant contributions towards the partnership efforts of large companies and SMEs, especially in the area of internationalisation.**

3. Leveraging on Industry Transformation Maps to Internationalise

The ITMs are important in helping companies upskill their employees, increase productivity, increase their focus on innovation and be successful overseas. These ITMs will enable our businesses to strive for the next level of growth.

Support for internationalisation in particular, would enable businesses to increase their topline which is especially important given our small domestic market. Local companies will benefit greatly from growing internationally.

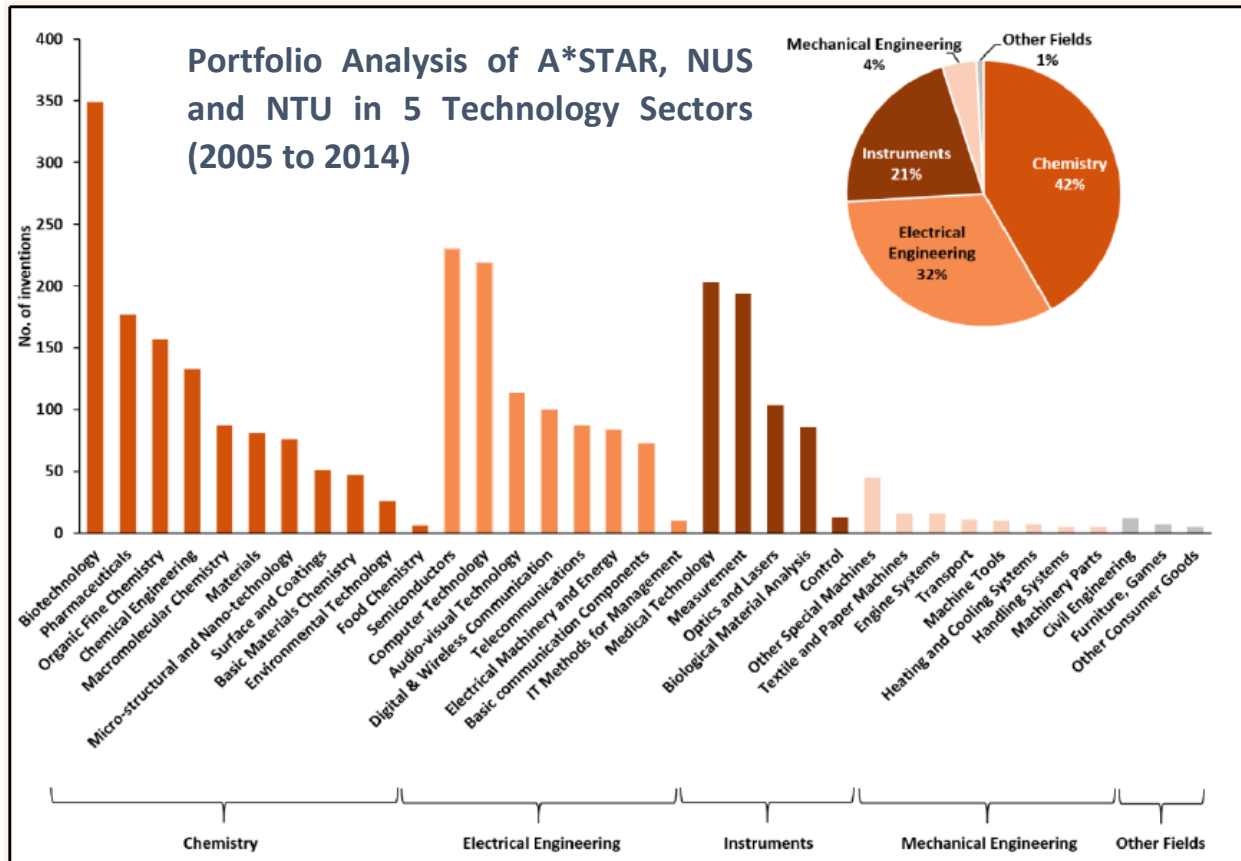
ITMs should be expanded to include market intelligence and information such as demand trends to help companies better achieve growth and success in their internationalisation efforts as part of overall industry transformation process.

Recommendation

The government could include as a component of the industry ITMs, market intelligence and information to help businesses grow their revenue and explore new markets.

4. Boost Innovation

More Research and Development and Technology Commercialisation Support in Identified Growth Industries and Industry Transformation Maps



Source: Singapore Patent Landscape Report 2016, IPOS

One key thrust in the government's Industry Transformation Programme is to leverage on R&D to develop new products and services through an industry-centred strategy in a systematic and co-ordinated way⁹.

R&D Resources - The Singapore Patent Landscape Report 2016 revealed that A*STAR, National University of Singapore (NUS) and Nanyang Technological University (NTU) held patent portfolios in technological fields like instruments, electrical engineering and

⁹ Integrated roadmaps to drive industry transformation, Ministry of Trade and Industry, 2016

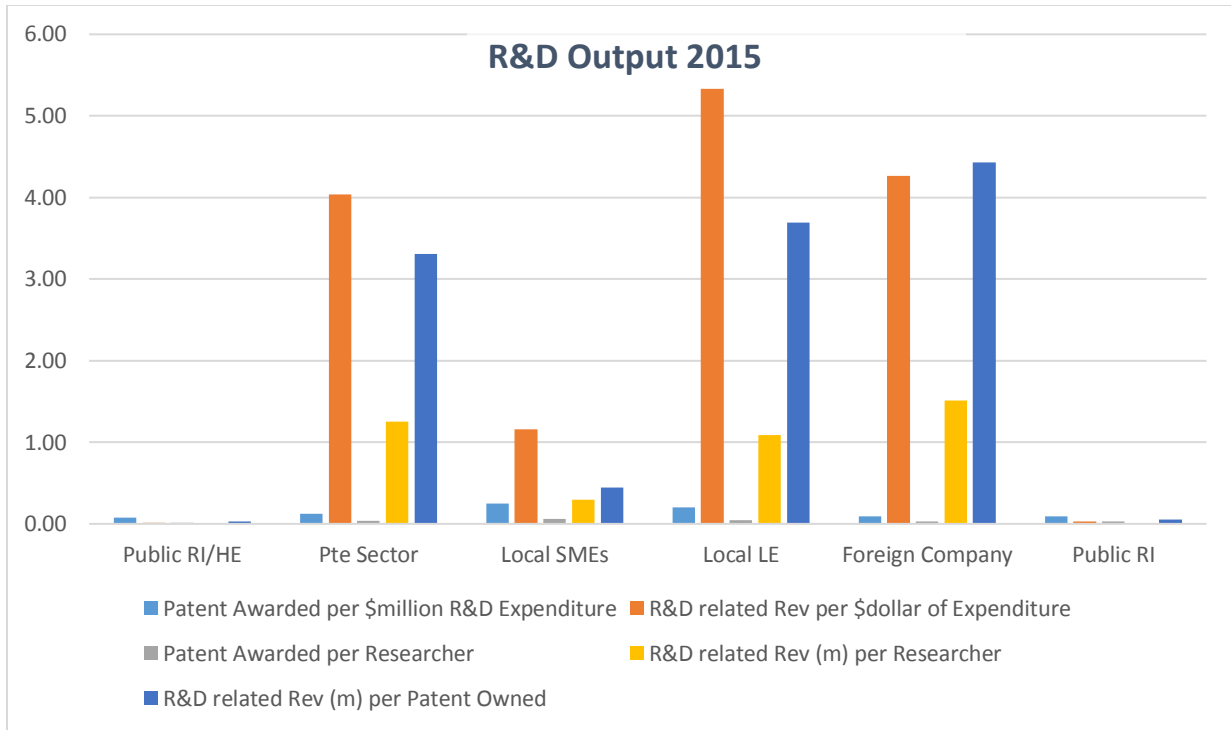
chemistry. These intellectual property (IP) could have potential applications to the manufacturing, built environment, logistics, healthcare and energy & chemicals sectors identified in the ITMs.

In A*STAR's National Survey of R&D 2015 that was published in 2017, it was found that public research institutes (PRIs) have a comparatively larger talent pool of R&D talent relative to local SMEs and local large enterprises (LLEs). With the necessary resources like skilled manpower and patent portfolios available in PRIs, the SMEC opined that PRIs could play a larger role in ITMs not only by leveraging on existing assets, but also supporting SMEs in technology adoption and application. As announced in Budget 2017, the government will top up the National Productivity Fund by S\$1 billion to support industry transformation, and the National Research Fund by S\$500 million to support innovation efforts¹⁰. The SMEC opined that PRIs could forge closer partnerships with ITM agencies to provide technological support to businesses in industry transformation.

R&D Returns - According to the Global Innovation Index 2017, Singapore ranked first in innovation inputs, but seventeenth in innovation outputs¹¹. The SMEC examined data from A*STAR's National Survey of R&D in 2015, and found that private sector R&D generated higher outputs compared to public sector R&D. In 2015, PRIs were able to generate \$0.031 in revenue for every dollar of R&D expenditure, while LLEs and SMEs were able to derive \$5.33 and \$1.16 in revenue for every dollar of R&D expenditure respectively. For every million dollars spent on R&D expenditure, public sector research institutes were awarded 0.095 patents, while LLEs and SMEs were awarded 0.204 patents and 0.245 patents respectively. With the roll out of the Industry Transformation Maps, more funding could be channelled to the private sector to support R&D. SMEs may require deeper assistance from centres of innovation (COIs) in the commercialisation of their IP.

¹⁰ SG Budget 2017: S\$1b top-up for National Productivity Fund, J.Lee, The Business Times, 20 February 2017

¹¹ The Global Innovation Index 2017 (10th edition), Cornell SC Johnson College of Business, Insead, WIPO, 2017



Source: Data extracted from National Survey of R&D 2015, A*STAR

Recommendation

- 1. PRIs and ITM agencies to forge deeper partnerships to provide technological support and advice to SMEs.**
- 2. Provide more R&D funding support to local businesses in identified growth sectors through the ITMs.**
- 3. Enhance the accessibility and expand the services provided by COIs to help SMEs with technology application.**

Trade Association and Chambers as Intellectual Property Aggregator for Member Companies

Top Local Patent Filers										
Rank	2012		2013		2014		2015		2016	
1	A*STAR	401	A*STAR	345	A*STAR	335	A*STAR	347	A*STAR	329
2	NUS	45	NUS	63	NTU	127	NTU	177	NTU	187
3	Global Foundaries	40	Stats Chippac	49	NUS	69	NUS	82	NUS	158
4	NTU	37	NTU	41	Stats Chippac	29	Mastercard Asia Pacific	40	Mastercard Asia Pacific	44
5	Stats Chippac	35	Global Foundaries	27	Singapore Health Services	29	Singapore Health Services	33	SUTD	26

Source: IPOS annual reports 2012/2013 to 2016/2017

In Singapore, A*STAR and institutes of higher learning are among the top filers of patents from 2012 to 2016, and would have accumulated a treasury of IP assets which could be useful if placed in the right hands.

Industry specific trade associations and chambers (TACs), such as the Textiles and Fashion Federation, Singapore Precision Engineering and Technology Association, Singapore Food Manufacturer's Association, which are keenly aware of their industry's trends and developments, might be well-placed to play the role of an IP aggregator or IP bank to serve their member companies' needs. The TACs could work with PRIs and institute of higher learning (IHLs) where patents generated by PRIs and IHLs could be acquired by the TAC to spur growth and innovation among their member companies. Although PRIs are amongst the top patent filers, TACs could also aggregate suitable IP from the private sector that is most appropriate or most needed by their industry members. The TAC as an IP aggregator could help to extract value from relevant IP from both the public sector and other sources (including the private sector), and industries can benefit.

Recommendation

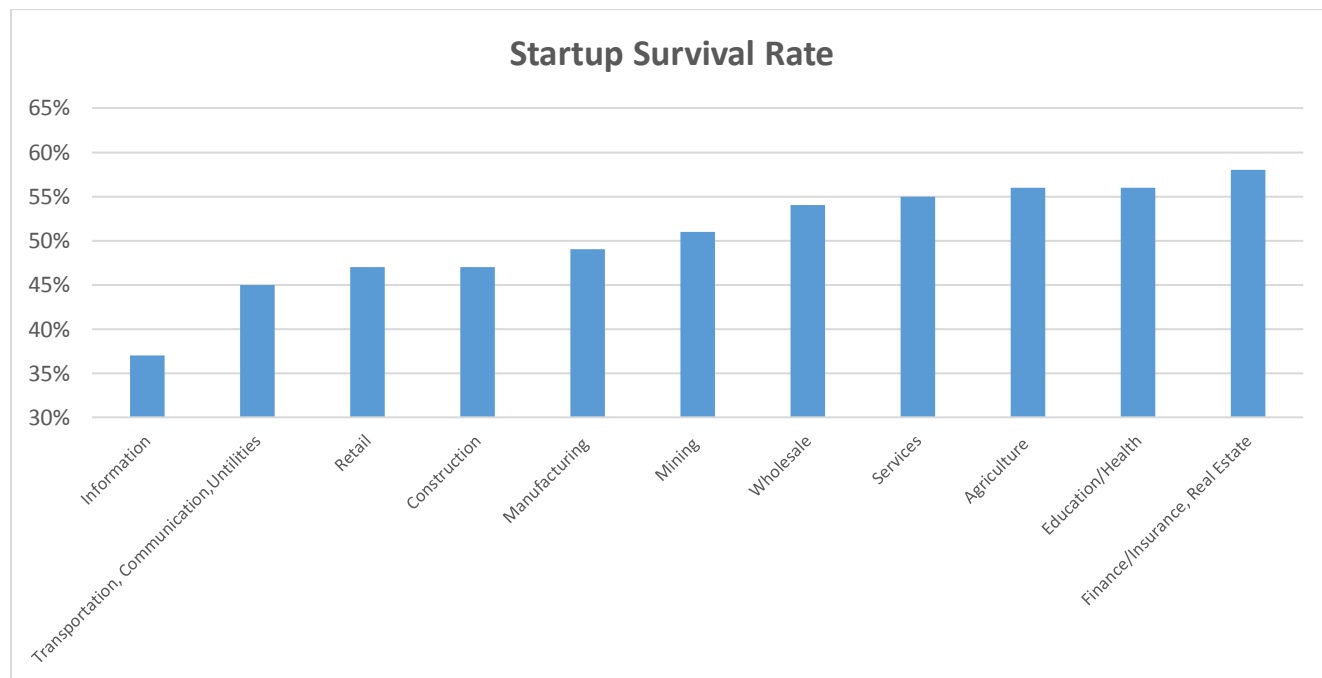
The government to conduct a feasibility study and initiate a pilot scheme on TACs as IP aggregators.

II. RELEVANT PAST SMEC RECOMMENDATIONS

Asset Protection for Business Continuity

(Previously raised in Budget Recommendations 2017)

Enterprises venturing into disruptive technologies are often high-risk with potentially high failure rates. Statistics¹² show that among US start-ups, those in the information sector had the least survival rates as compared to traditional sectors like finance, healthcare and agriculture.



Source: SBRI (2016)

¹² Startup Business Failure Rate by Industry, Statistics Brain Research Institute, 2016, <http://www.statisticbrain.com/startup-failure-by-industry/>

However, it should be recognised that risk is also the primary advantage¹³ entrepreneurs have over market competition in their pursuit of ideas that could potentially disrupt the existing market place. The SMEC opine that the local business environment could introduce new elements that encourage entrepreneurs to explore, develop, harness and bring to market disruptive or innovation products and services.

The assignment for the benefit of creditors framework available in some US states is a business liquidation facility¹⁴ available to an insolvent debtor as an alternative to bankruptcy proceedings, and facilitates:

- The transfer of the assets, which may include intellectual property, know-how and inventions, of the troubled business to an acquiring entity free of the unsecured debt incurred by the transferor and;
- The winding down of the company in a manner designed to minimise negative publicity and potential liability for directors and management.

In the event that companies (in particular, companies with potentially disruptive intellectual property) may be at risk of being unable to continue operating as a going concern, it is important that options are available for entrepreneurs and investors to protect their businesses' key assets, particularly intellectual property, during the liquidation process, so that the entrepreneurs and investors can continue to refine and develop their respective business ideas after initial unsuccessful attempts. This is an essential safeguard if we are to promote the spirit of entrepreneurship in Singapore.

Recommendation

The government to study the feasibility of implementing a framework to enable entrepreneurs and investors, particularly those in high-technology industries, to protect important assets and investors' interests so that distressed businesses can find solutions to alleviate their situation.

¹³ Ali Partovu Tells Startups to Maximise Risk, Ronald P.B., Tech.Co, 2013, <http://tech.co/ali-partovi-maximize-risk-2013-06>

¹⁴ Assignment for the Benefit of Creditors: Effective Tool for Acquiring and Winding Up Distressed Businesses, David S.K., American Bar Association, 2015, http://www.americanbar.org/publications/blt/2015/11/05_kupetz.html

Intellectual Property Financing Scheme for Intellectual Property Acquisition

(Previously raised in Budget Recommendations 2017)

IPOS has a S\$100 million IP Financing Scheme (IPFS)¹⁵ to help IP-rich companies monetize their IP for business growth and expansion. Under the IPFS enhanced in June 2016, companies incorporated in Singapore can access loan facilities not only using their granted patents, but also granted trademarks and copyright related rights as loan collaterals. The Singapore government partially underwrites (50 percent) of the loans issued by participating financial institutions.

Apart from acquiring IP through R&D, SMEs could also acquire IP through other means. The SMEC believes that the IPFS could be enhanced by expanding its scope to include IP acquisition financing. This would encourage SMEs to look for and acquire either just the IP asset or the company that has that asset, to bring it into Singapore. This expands the use of IPFS from purely loans relying on IP as collateral to IP asset acquisition that will allow generation of revenue, not unlike lending for acquisition/purchase of a manufacturing plant or machinery.

Recommendation

Expand the IPFS to include IP acquisition financing for IP assets and acquisition of IP-owning companies.

Internationalisation: Overseas Market Support

(Previously raised in Budget Recommendations 2015 and 2016)

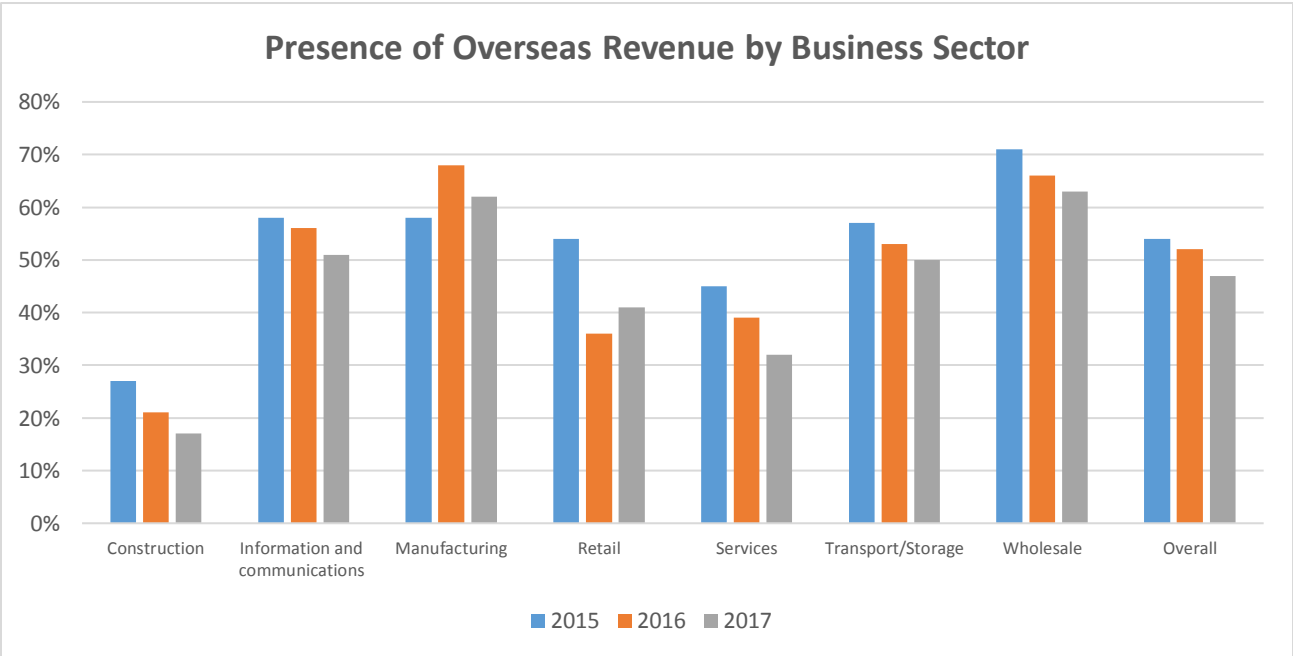
36 percent and 34 percent of the respondents of the SME Development Survey 2017, indicated that access to detailed and extensive market information and familiarisation with rules and regulations in overseas market respectively, as the top assistance required for internationalisation.

¹⁵ Intellectual Property Financing Scheme, IPOS, 2016, <http://www.ipos.gov.sg/IPforYou/IPforBusinesses/IPFinancingScheme.aspx>



Source: SME Development Survey 2017

There had been an overall decline of 5 percent of businesses that generate revenues from overseas, with the exception of the retail sector, which has seen an increase of 5 percent as compared to 2016. This could be attributed to the higher adoption of e-commerce to reach out to overseas customers.



Source: SME Development Survey 2017

The current support structure available from the government, would require businesses to submit applications, which are then reviewed before determining if support could be accorded, which could be too onerous a process, especially in the increasingly fast paced business environment. Having a readily available resource for all Singapore businesses to turn to for information regarding the overseas markets' rules and regulations, would add tremendous value and hasten the overseas expansion of our businesses.

Our Singapore Ambassadors overseas also play a vital role in helping to promote and connect our local enterprises to the overseas markets. Members of the SMEC recounted overseas events organised together with some Singapore Ambassadors and the host government and businesses, paved the way for more potential collaboration and opportunities for Singapore companies. Networking and having the right connections in the overseas markets, remain a key formula for business success as opined by the SMEC.

TACs can potentially be the lynchpin to bridge the gap of providing critical knowledge of overseas markets, and at the same time be the bridge which links up our Singapore businesses with businesses from these overseas markets. However, TACs are limited by resources and sustaining international or even regional support could pose as a challenge.

In Budget 2013 Recommendations, SMEC had identified that Singapore businesses do not have a formal structure that represents their interests in overseas markets such as AmCham (for Americans), AustCham (for Australians) and EuroCham (for Europeans). There are various Singapore business communities in overseas markets such as the Singapore clubs in Dubai and Vietnam. These are often informal groups led mainly by volunteers to organise activities and events for Singaporeans in those locations. Generally they do not have the capacity nor obligation to champion Singapore businesses' interests in that country.

Based on anecdotal accounts from the members of the SMEC, connecting with these informal groups are very valuable for businesses venturing into new markets. These groups could provide on-the-ground advisory and support in areas such as regulatory

environment, business culture, recruitment and employment policies, contacts with government officials and agencies, and networking opportunities with potential business partners, suppliers and customers.

It would therefore be beneficial to tap on the resources of these informal groups to help our businesses in overseas markets. This requires less effort and resources, and can be set in motion faster without duplication of available resources.

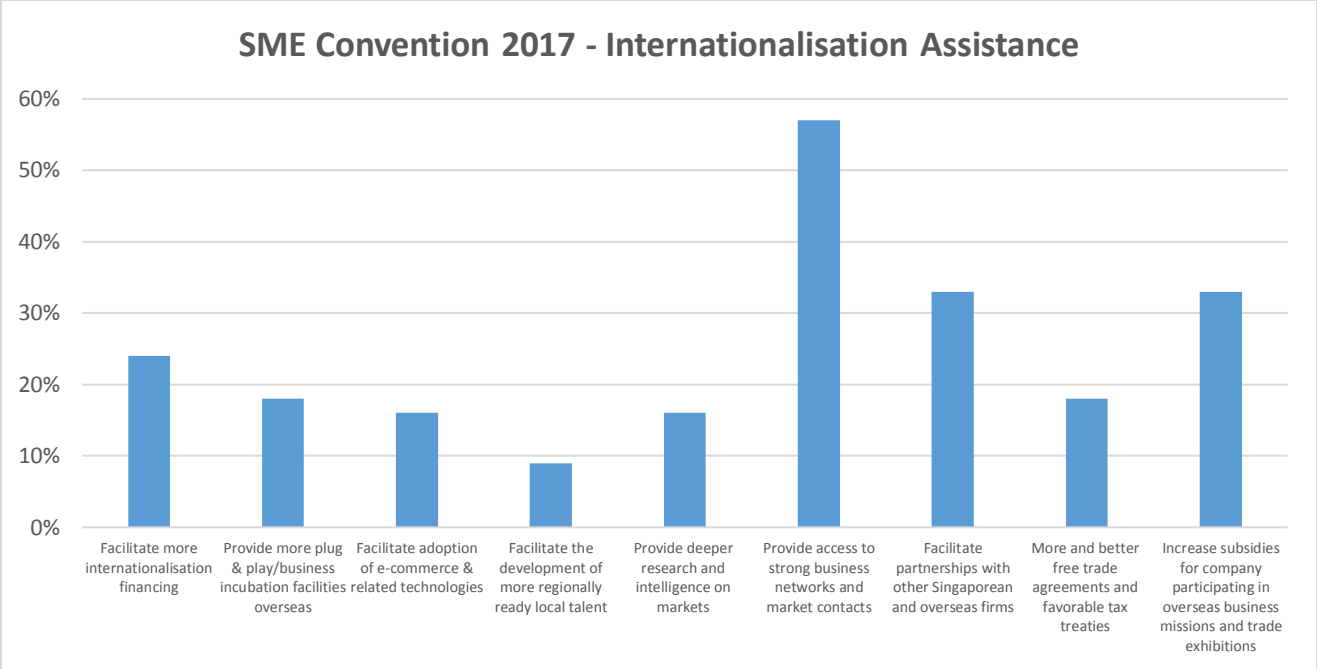
Recommendation

Provide financial support to TACs to connect and formalise their working relationship with selected overseas based Singapore business groups and equip them with necessary resources to establish a network that provides assistance to businesses that are venturing into or operating in the overseas markets.

Enhancement to Support Schemes for Internationalisation

(Previously raised in Budget Recommendations 2012, 2013, 2014, 2015 and 2017)

From the poll at the SME Convention 2017, majority (57 percent) of the respondents would like help with access to strong business network and market contacts. This is in congruence with the views of the SMEC that connecting directly with foreign prospects would add a lot of value to their efforts in overseas expansion.



Source: SME Convention 2017 Poll

Participating in overseas business missions and international trade shows have always been an effective way to prepare businesses for internationalisation. The international exposure and networks built during these events are valuable benefits to businesses. This resonates with the response from another poll question from the convention, whereby “Increase subsidy for companies to participate in overseas business missions and trade exhibitions” came in top (33 percent), as the support businesses would like to see for venturing overseas.

The high-costs involved in attending such international events and the longer gestation period needed to have a positive return on investments, makes it difficult for companies to attend such events on a frequency necessary to yield results. The high-costs would pose as an even greater challenge to cash-strapped smaller businesses and start-ups, which would have otherwise benefitted from these events. The government could assist companies by providing subsidies for more cost items, such as cost of venue, booth set up and accommodation, etc.

Feedback from the business community revealed that IE Singapore's Global Company Partnership (GCP) programme could be enhanced to provide better assistance to companies.

New markets are currently defined under the GCP as markets where a company has not had sales of more than S\$100,000 for any of the past three years (non-cumulative). This definition may hinder companies from accessing the necessary support they need, especially when they are exploring large markets that have multiple regions or for sectors where S\$100,000 could possibly be the size of one deal.

In relation to the exploration of larger markets, feedbacks from the business community cited that the current financial support under GCP, of up to 70% of costs incurred, capped at \$100,000 per year to access new markets is insufficient.

Recommendation

- 1. The government could consider expanding the type of supported common costs to companies that participate in overseas missions and trade shows.**
- 2. Increase the sales turnover from \$100,000 to \$300,000 in the definition of new markets.**
- 3. Increase support quantum from \$100,000 a year to \$300,000 over two years.**

Increase the number of source countries of foreign workers

(Previously raised in Budget Recommendations 2014, 2015 and 2016)

While Singapore moves towards higher productivity through technology and innovation, our labour force remains limited. As we build a stronger Singapore core, with higher value jobs for Singaporeans, there would be certain sectors and industries, which would still require manpower in jobs that are less attractive to Singaporeans.

Most businesses have adapted to the foreign worker quota and are improving their productivity through automation and digitalisation. However, due to the limited selection of foreign worker source countries, some companies find it difficult to hire from these sources, as among other reasons, the economy of these sources have also improved and are able to offer better job opportunities domestically.

For example, the services sector are not able to hire workers on work permit from non-traditional source countries. Many food and beverage (F&B) and retail operators have given feedback that workers from countries such as Philippines (which is a non-traditional source country) were more suitable for the service line.

Current source countries of foreign workers that can be hired under work permit are Malaysia, People Republic of China, North Asia sources (Hong Kong, Macau, South Korea and Taiwan).

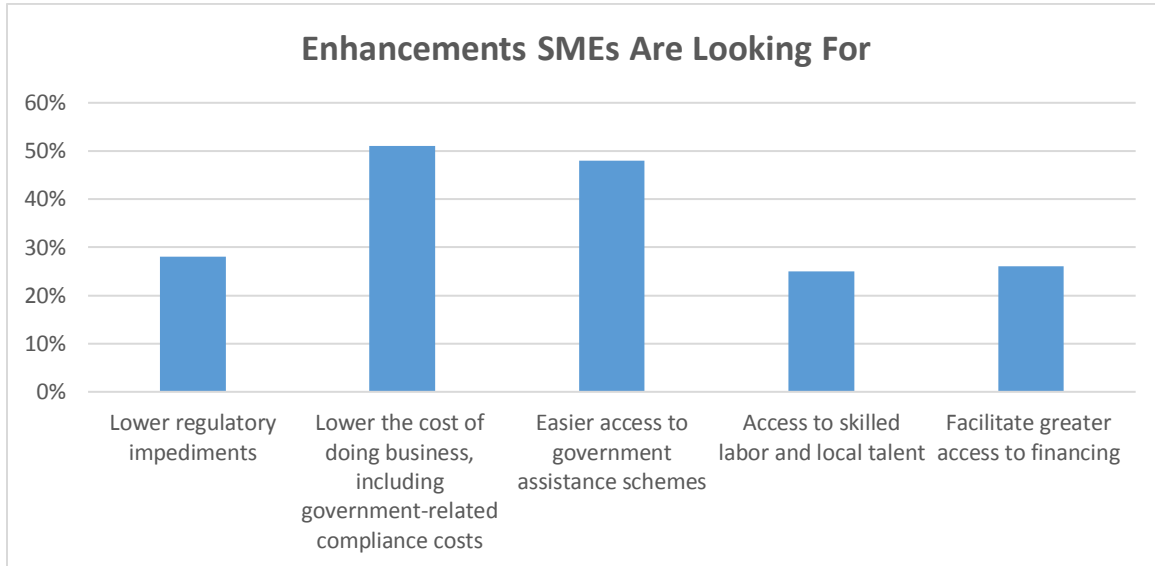
Recommendation

The government could consider reviewing the source countries for work permit holders in certain sectors and industries, which would still require physical manpower and are of less appeal to the Singapore workforce.

III. BROAD-BASED SUPPORT

Easier Access to Government Schemes

In a poll conducted at the SME Convention 2017 attended by some 400 SME participants on the areas of enhancement SMEs would like to see, 48 percent of respondents indicated they would like to have easier access to government assistance schemes.



Source: SME Convention 2017 Poll

Feedback gathered through the SMEC found that SMEs face two main issues when accessing government assistance programmes – (1) unsure which programme to choose and, (2) difficulty understanding and applying for the right grant or scheme. The SMEC noted that different programmes have different grant quantum and criteria, and recognised it was necessary for grants to have built-in safeguards against potential abuse. These inadvertently contributed to the complexity of grant applications.

The Business Grant Portal (BGP) (www.businessgrants.gov.sg) was launched in 2016, and have features that help SMEs find the right grant for their business and manage their grant applications from a single portal. To enhance access to government grants and programmes, the business community feedback that the BGP and SME Portal

(www.smeportal.sg) could include useful illustrations, such as model grant application templates, to help SMEs put up better grant proposals.

Given the diversity of SMEs, the business community opined that the government could adopt a fresh approach towards grant evaluation. The grant eligibility criteria could be made less rigid, and modified to better suit the changing dynamics of today's business environment such as shorter business and product life cycles, where new businesses seeking support may be young and unable to meet the minimum number of years in operation, among other currently existing criteria.

Recommendation

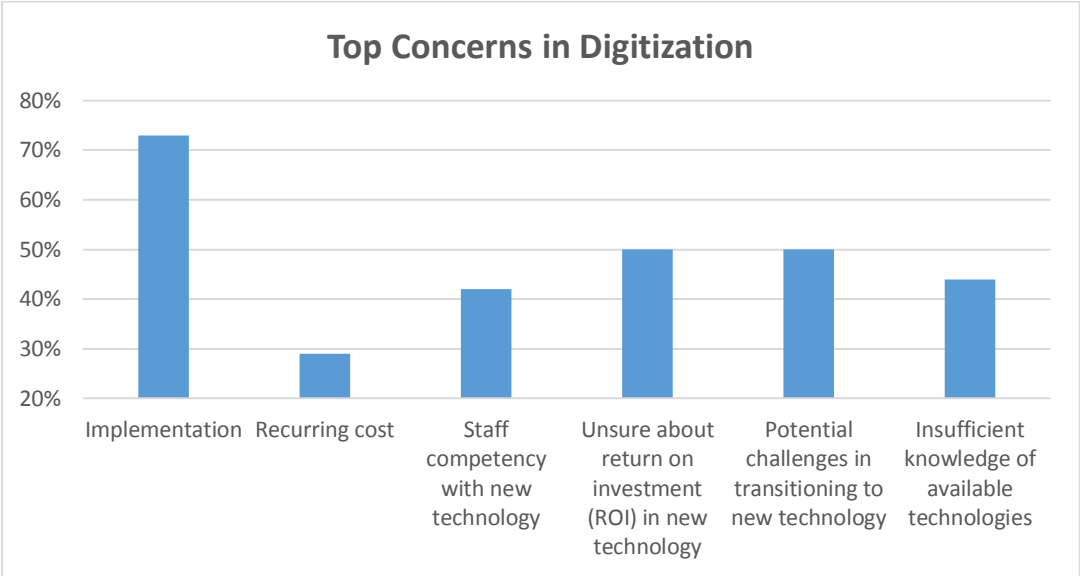
- 1. Enhance the BGP and SME Portal with new features to help SMEs better understand the grant application process and requirements.**
- 2. The Government could adopt a “multiple pathways to success” approach that considers different aspects of a SME’s strengths beyond metrics such as years in operation and revenue in the grant eligibility criteria.**

Introduce a Credits Based Scheme That Can Support Fundamental Adoption and Development of New Technology and Skills for Businesses

With the Productivity and Innovation Credit (PIC) set to expire in YA 2018, it is timely to introduce a new form of credits which would ease the cost pressures for businesses that are looking to equip themselves to be future economy ready. The PIC has been an effective and successful scheme that enabled businesses to upgrade themselves to increase productivity.

During the SME Convention 2017, 73 percent of the respondents indicated “Implementation Cost” as the top concerns when adopting digitalisation for their company. “Staff competency with new technology” (42 percent) and “Unsure about return on investment in new technology” (50 percent), were other concerns flagged out by

respondents as hindering businesses' adoption of technology, which is a critical component of success in the economy of the future.



Source: SME Convention 2017 Poll

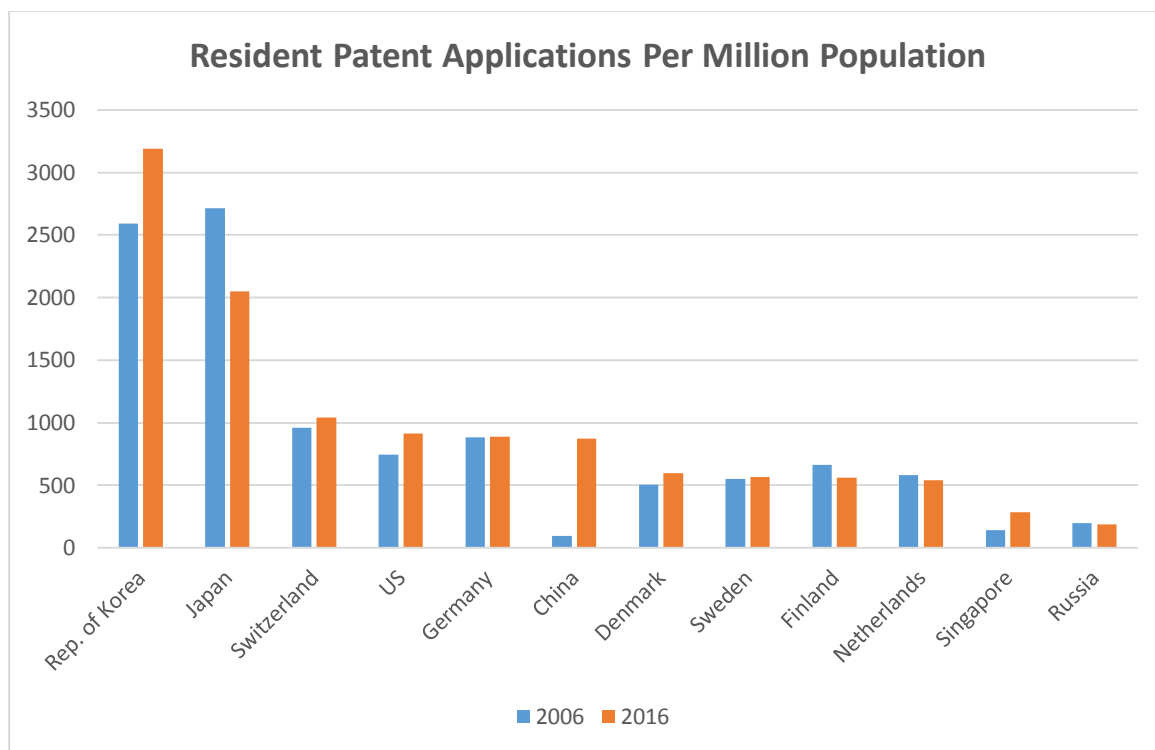
The scheme could focus on educating and helping businesses implement digital strategies, in areas like e-commerce, digital marketing and digitalisation of processes.

Recommendation

The government could introduce a “Credits-based scheme” similar to how PIC support SMEs in productivity and innovation, which focuses on helping companies adopt relevant technology to support their business and training of staff to upskill them to be future economy-ready, with additional criteria to prevent abuse of the scheme.

Patent Application Fund

In IPOS's Patent Landscape Report 2016, it was noted that IP would be an important and valuable asset to companies in the present knowledge-based economy. Some companies apply patents to avert litigation in a hotly-contested technology space; others use patents to increase their bargaining power in business IP negotiation or as a means to generate revenue through licensing fees. Patent filings allow Singapore entities to capture and own the technology they develop through significant labour, effort and cost.



Source: *World Intellectual Property Indicators 2017*, World Intellectual Property Organization

Participants at SME Convention 2017 felt that owning intellectual property was important to their company. However, statistics on patent activity indicated that Singapore trails behind developed economies such as Sweden, Finland, Japan and Korea in the number of patent applications per million residents¹⁶. In 1992, Singapore established a Patent Application Fund (PAF) to provide financial assistance for covering part of the costs of

¹⁶ World Intellectual Property Indicators 2017, World Intellectual Property Organization, 2017

patent applications, including drafting, legal and filing costs. The PAF supports 50 percent of the legal, official and other related fees incurred in the process of applying for a patent, up to a maximum of S\$30,000 for each invention. Its aim is to encourage Singapore SMEs and individuals to apply formally for the protection of intellectual property rights. The PAF is believed to have contributed significantly to the increase in patenting activity by financially assisting companies and independent inventors to seek patent protection for their inventions¹⁷. The PAF was replaced by the PAF-Plus in 2002. PAF-Plus provides each inventor with support for up to three inventions as compared to two under PAF¹⁸.

It is noted that similar government grants/funding in China had resulted in the 2017 patent filing statistics at the State Intellectual Property Office (SIPO) to hit a record of 1.1 million patent filings year-to-date¹⁹. This could be attributed to a clear government emphasis on importance of patent filing.

The SME Development Survey 2017 found that recent government programmes like the PIC had helped to drive technology investment and adoption for many SMEs in Singapore. The business community opined that more support in patent drafting and patent commercialisation from the government to support patenting activity would lend a tailwind to businesses in the present knowledge based economy. This could be in the form of funding support in patent drafting and commercialisation related costs similar to that of the PAF-Plus.

Recommendation

Provide funding support to SMEs in patent drafting and commercialisation-related expenses.

¹⁷ The Intellectual Property of Singapore: Measures to facilitate the use of IP systems by SMEs, World Intellectual Property Organisation, http://www.wipo.int/sme/en/best_practices/singapore.htm

¹⁸ Revised government fund to offset cost of patent applications, International Law Office, 11 November 2002, <http://www.internationallawoffice.com/Newsletters/Intellectual-Property/Singapore/Ella-Cheong-Mirandah-Sprusons-/Revised-Government-Fund-to-Offset-Costs-of-Patent-Applications>

¹⁹ SIPO monthly statistics reports, SIPO,2017, <http://english.sipo.gov.cn/statistics/2017/november/>

JTC Progressive Investment Criteria

Companies applying for lease renewal have to meet the criteria set by JTC, which comprises the fixed asset investment in new plant and machinery (P&Ms), building and civil works and refurbishment. The assessment would be based on the investments to be done at the time the renewal is being considered, which is intended to ensure that the land would continue to be used productively.

However, the companies that have been occupying the land, could have already been putting in progressive investments to ensure the productive use of the land. Also, with technologies being updated much more frequently than before, P&Ms could be upgraded or replaced over shorter lifespan.

In the new knowledge-based economy, companies could have spent substantial investments on intangible assets such as IP. It would be helpful to these companies if such investments could be counted towards meeting the investment criteria for lease renewal.

Recommendation

The renewal criteria of determining fixed asset investment could be more flexible and could take into account the progressive investments and investments in intangible assets that have been made over the existing period of lease.

Government Procurement

In February 2017, the SMEC commissioned NUS to conduct a study to better understand SMEs' perception towards government procurement. Government procurement is increasingly recognized as a feasible and instrumental tool to drive growth and spur innovation within a nation. In Singapore, efforts to boost participation from SMEs has

yielded limited success. Statistics revealed that only five percent of SMEs are actively participating in the government procurement.

Build Awareness of Government Procurement

Despite the benefits associated with government procurement, participation of SMEs in government procurement is still low. There are currently about 70,000 registered GeBIZ Trading Partners but only 5,000 to 8,000 accounts are active. Contrasting this number to the approximate figure of 200,000 existing SMEs in Singapore (Singapore Department of Statistics), this means that only 2.5 to 4 percent of SMEs take part in government procurement, assuming all the above-mentioned active accounts belong to SMEs.

The NUS study found that government procurement entities (GPEs) might not possess up-to-date market knowledge on products and services available in the market place. Thus, the specifications drawn up by GPEs might not be up to date and could restrict participation to a smaller number of suppliers. For certain products and services, the GPEs could allow suppliers to propose alternative solutions that meet the GPE's requirements.

On the supplier's side, the study revealed a lack of awareness amongst SMEs about government procurement in the following areas:

- Procurement opportunities,
- GeBIZ features,
- Future government procurement directions.

In order to boost SMEs' participation rate in government procurement, more could be done to improve communications between GPEs and SMEs, such as leveraging on TACs as one of the channels.

Recommendation

1. The government could raise SMEs' awareness and understanding of government procurement by:

- **Establishing stronger communication channels and outreach efforts to businesses, particularly the registered GeBIZ Trading Partners.**
- **Partnering TACs for outreach activities on government procurement.**

2. GPEs could introduce more outcome-base procurement practices that allow for alternative solutions to be adopted for government tenders.

Enhance Feedback to SMEs Who Participated In Government Tenders and Quotations

Currently, SMEs are notified of their bidding results on GeBIZ. However, this might be insufficient for the unsuccessful tenderers as they are unaware of their performance. Unsuccessful tenderers are allowed to request for feedback by contacting the respective Government officer.

However, the NUS study revealed that existing perceptions such as biasness of GPEs towards well-established vendors discourage SMEs from approaching the GPEs for feedback. The study found that SMEs felt that the feedback provided by GPEs were inconsistent and lack useful information, such as areas of improvement and deficiency. This limits the overall usefulness of the feedback and does not help SMEs' understanding of their own performance.

Recommendation

Study the feasibility of introducing a government procurement scorecard to be sent to all bidders containing relevant and useful information.

Consortium Bidding

Consortium Bidding - Consortium bidding allows SMEs to submit joint bids for selected projects which on their own might not meet the pre-requisites or qualifying criteria to bid. The pooling of resources amongst various SMEs could allow the entry of smaller SMEs with limited resources into the government procurement environment by meeting the tender requirements as a consortium. Consortium bidding allows suppliers without prior experience, but with complementary expertise to partner each other to jointly meet the tender's technical and financial requirements.

Government would also stand to gain in the form of a broader bidder base and more competitive bidding. Firms in a consortium could jointly gain the track record that would be useful as reference or pre-requisites for future projects.

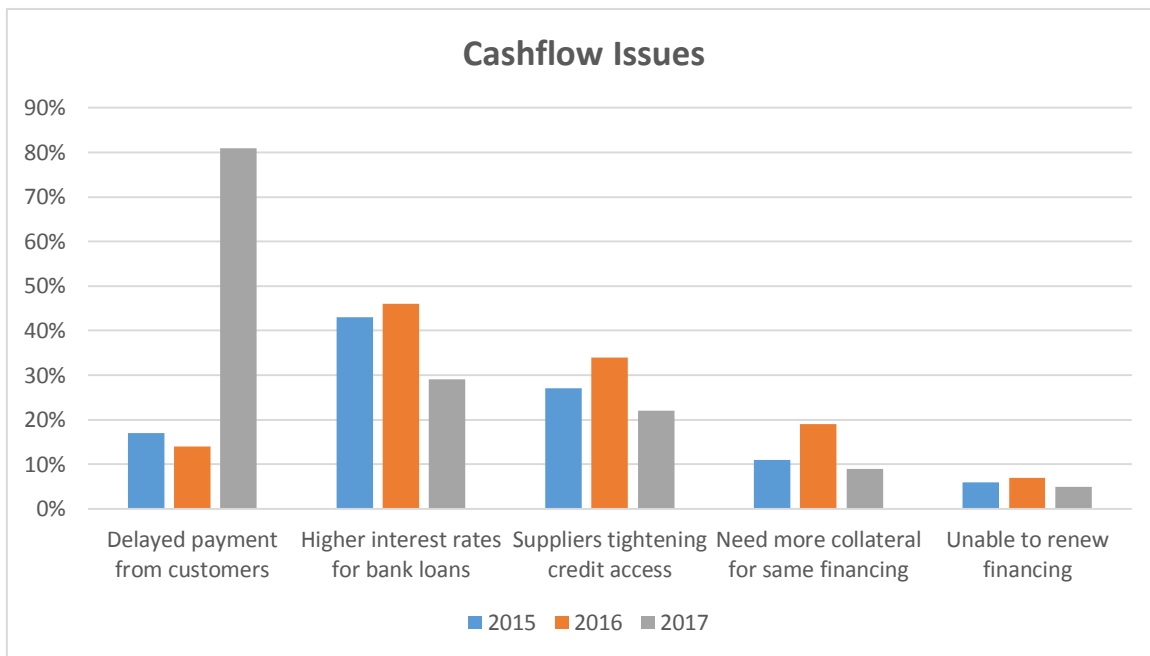
However, careful execution and regulation of consortium bidding would be necessary to prevent exploitation of the system. The government could introduce a clear set of guidelines to regulate consortium bidding that will help ensure compliance with competition law.

Recommendation

- 1. Introduce clear guidelines to inform SMEs of the regulations of consortium bidding.**
- 2. Create awareness and promote benefits of consortium bidding.**
- 3. Government could recognise joint track records of firms who participate in projects as a consortium.**

Voluntary Supplier Payment Code

The SME Development Survey 2017 found that 35 percent of companies surveyed faced financing issues, up 13 percent year-on-year, and more than doubled when compared with 2015. The increase in proportion of SMEs with financing challenges was observed across all sectors. In particular, two out of five companies in the information and communications and transport/storage sectors faced financing challenges.



Source: SME Development Survey 2017

Among the financing issues SMEs faced, all categories surveyed showed improving trends with the exception of Delayed Payment from Customers which increased nearly six times from 14 percent in 2016 to 81 percent in 2017. In the 2017 SME Development Survey, the proportion of SMEs making losses has increased to 21 percent. Of the profitable SMEs, 42 percent have thin margins of zero percent to five percent. A reliable cash flow and working capital is crucial to sustain many of our financially strapped SMEs. Delayed payments can create ripple effects affecting the cashflow position of the SME community; when a debtor company delays payment, the creditor company may also slow down its payment to companies it owes money to.

The phenomenon of payment timeliness is not unique to Singapore. According to the Atradius Payment Practices Barometer 2017²⁰, close to 90 percent of B2B businesses reported that they faced late payment issues. The Atradius Payment Practices Barometer 2017 also found that Singapore ranked second (47.1 percent) after India (56.4 percent) in terms of proportion of domestic past due B2B invoices in Asia Pacific (average of 44.6 percent). Australia performed well in this measurement with one of the lowest proportion of domestic past due B2B invoices (42.4 percent). It is noted that the larger Australian companies under the Australian Business Council got together and implemented a voluntary supplier payment code that help drive their payment behaviour to their smaller SME suppliers and partners. This is their collaborative effort between large and small companies. We can do the same in Singapore. To drive payment timeliness in the Singapore business landscape, the SMEC recommends for a voluntary supplier payment code to be established. It is envisaged that the payment code could include elements of incorporating technology that speeds up payment accuracy and processes, and at the same time put in place clear and fair guidelines for prompt payments and dispute resolution. As many of the large companies of Singapore are members of SBF and its constituent chambers, SBF will establish this voluntary industry code and advocate for companies to adopt this. Government support for this effort will be important. As SMEs are suppliers to government, it is important that government be amongst the first adopter of the proposed Supplier Payment Code.

Recommendation

Government to support the establishment of a voluntary Supplier Payment Code in Singapore and adopt the Code for payment to its suppliers.

²⁰ Atradius Payment Practices Barometer, Atradius N.V., 2017

ANNEX

SME Committee

Advisors

Ms Sim Ann	Senior Minister of State	Ministry of Trade & Industry
Mr Teo Ser Luck	Chairman	BRC Asia Ltd
	Chairman	Nufindata Pte Ltd
	Deputy Chairman	Serial Systems Ltd
	Board Director	United Engineers Ltd

Chairman

Mr Lawrence Leow	Chairman & CEO	Crescendas Group
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Vice-Chairman

Mr Melvin Tan	Managing Director	Cyclelect Group
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Members

Mr Teo Siong Seng	Chairman	SBF
Mr Abdul Rohim Sarip	Immediate Past President	SMCCI
Mr Casey Kesavan	Council Member	SICCI
Mr Dennis Foo	President	SNBA
Ms Donna Lee	President	FLA
Mr Douglas Foo	President	SMF
	Council Member	SNEF
Mr Ernie Koh	President	SFIC
Mr Kenneth Loo	President	SCAL
Mr Kurt Wee	President	ASME
Mr Lau Tai San	Chairman & Managing Director	Kim Ann Engineering
	Senior Honorary Council Member	SCCCI
Mr R Dhinakaran	President	SRA
Dr Ricky Souw	Immediate Past Chairman	SPETA
Mr Roderick Chia	Member	SGTech
Mr Stanley Lim	Chairman	SLA
Mr Ooi Tiat Jin	Chairman, SME Committee	SCIC
Mrs Wong Sioe Hong	Vice President	SRA
Ms Audrey Yap	Managing Partner	Yusarn Audrey
Mdm Cynthia Phua	Consultant	ASME

SME Committee (continue from previous)

Mr Linus Goh	Head, Global Commercial Banking	OCBC Bank
Mr Saktiandi Supaat	Executive Vice President	Maybank Group
Ms Susan Chong	CEO	Greenpac (S) Pte Ltd

Sub-committee on Cost of Doing Business**Chairman**

Mr Kurt Wee	President	ASME
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Vice-Chairman

Mr Tay Hong Beng	Partner, Head of Tax	KPMG
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Members

Mr Kenneth Loo	President	SCAL
Mr Benjamin Tan	Treasurer	SCAL
Mrs Wong Sioe Hong	Vice President	SRA
Mr Adrin Loi	Executive Chairman	Ya Kun International
Mr Alvin Yapp	Head, Corporate Affairs	BusAds
Mdm Cynthia Phua	Consultant	ASME
Mr See Chern Yang	Legal Director	Premier Law LLC
Mr Steven Chen	Executive Chairman	NAT Aire Builder

Sub-committee on Financing**Chairman**

Mr Linus Goh	Head, Global Commercial Banking	OCBC Bank
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Mr Steven Koh	Executive Director	SPETA
Mr Roderick Chia	Member	SGTech
Mr Lawrence Yong	CEO	Moolah Sense
Mr Nicholas Malcomson	Director	Pay2Home Direct
Ms Chew Mok Lee	Assistant CEO	SPRING Singapore
Mr Dennis Kuah	Deputy Director	SPRING Singapore
Ms Gina Lim	Group Director	IE Singapore
Mr Paul Ng	Divisional Director	IE Singapore

Sub-committee on Internationalisation (continue from previous)

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Mr Kelvin Chia	Senior Partner	Kelvin Chia Partnership
Mr Low Ming Wah	President & COO	Micro-Mechanics (Holdings) Ltd
Ms Wong Lee Ling	Divisional Director	IE Singapore
Ms Irene Boey	Consulting Director	Integral Solutions Pte Ltd

Sub-committee on Manpower and Productivity**Chairman**

Ms Susan Chong	CEO	Greenpac (S) Pte Ltd
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Vice-Chairman

Mr Dennis Foo	President	SNBA
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Members

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Mr Danny Lien	President	SASS
Mr Erman Tan	President	SHRI
Mr Jeffrey Yu	Council Member	SCAL
Mr Kay Kong Swan	Deputy Chairman	SLA
Mr R Dhinakaran	President	SRA
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Mr Foo Chek Wee	Talent Partner	Riot Games
Mr Francis Koh	Regional CEO – SEA	TS Kelly Asia Pacific
Mr Chan Wing Kai	Director	Seed Global Investment
Mr Kwa Kim Chiong	Chief Executive Officer	Justlogin Pte Ltd
Mr Paul Lim	Director	Fidelium Capital
Ms Pearl Yu	Director	Keystone Cable Pte Ltd

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Mdm Cynthia Phua	Consultant	ASME
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Mr Alan Goh	EXCO Member	RAS
Mr Ang Yuit	Vice President	ASME
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Mr Wei Chan	Assistant Honorary Secretary	RAS
Mr Calvin Yeo	Executive Director & Head of Office Advisory	Knight Frank (Singapore)
Ms Frances Chang Yoke Ping	Property and Projects Director	Cold Storage Singapore (1983) Pte Ltd
Ms Priscilla Yap	Senior Manager, Real Estate	NTUC FairPrice
Mr See Chern Yang	Legal Director	Premier Law LLC
Mr Tay Kah Poh	Executive Director, Agency Services	Knight Frank (Singapore)

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Mr Andrew Khng	Director	Tiong Seng Contractors (Pte) Ltd
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Mr Nelson Tee	President	STAS
Mr Theodore Khng	President	YEA
Ms Christina Koh	Managing Director	Harvest Link International
Mr Kelvin Chia	Senior Partner	Kelvin Chia Partnership
Mr Teo Teck Chye	General Manager	AMOS International

SMEC Secretariat

Mr Ho Meng Kit	Chief Executive Officer, SBF
Ms Joanne Guo	Assistant Executive Director, SBF
Mr Alan Tan	Director, SME Committee, SBF
Mr Lin Guoliang	Deputy Director, SME Committee, SBF
Mr Lai Wei Bing	Deputy Director, SME Committee, SBF

Abbreviations

BGP	Business Grant Portal
CFE	Committee for the Future Economy
COI	Centre of Innovation
GCC	Globally Competitive Company
GPEs	Government Procurement Entity
IHL	Institute of Higher Learning
IP	Intellectual Property
IPFS	Intellectual Property Financing Scheme
ITM	Industry Transformation Map
LLE	Large Local Enterprise
NTU	Nanyang Technological University
NUS	National University of Singapore
P&M	Plant and Machinery
PAF	Patent Application Fund
PIC	Productivity and Innovation Credit
PRI	Public Research Institute
SMEC	SME Committee
TAC	Trade Association and Chamber

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