Regulatory Reform – Case Studies on Promoting the Business Environment for SMEs

Purpose: Information
Submitted by: Policy Support Unit, APEC Secretariat
Case Studies on Improving the Business Environment for SMEs

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Outline

1. Overview of project and report.

2. Lessons learned.
Overview of Project and Report

- Developing Trade Consultants retained by PSU to undertake case studies on improving the business environment for SMEs as one case of regulatory reform.
  - Primary focus on APEC economies, but also look at external examples if relevant.

- Report published in November 2015, available online through the APEC portal.

Overview of Project and Report

- The project identified four areas for attention in the case studies.

- The team distilled these issue areas down into four general types of regulatory reform.

- Each type of regulatory reform is illustrated with a number of case studies.
Overview of Project and Report

- Improving the Business Environment for SMEs
  - General Business Environment
  - Access to Finance
  - Easing Regulatory Burden
  - Assessing Costs and Modulating Burden
  - Agencies for SME Growth, Development, Compliance, and Internationalization
  - Agencies and Institutions for SME Finance
  - Regulatory Tying
  - SME-Friendly RIA

Case Studies

Case Study One: Agencies for SME Growth, Development, Compliance, and Internationalization

- Chinese Taipei
- Mexico
- Viet Nam and Southeast Asia
- Malaysia
- The Philippines
Case Studies

The main lessons drawn from the examples for the first case study include:

- The regulatory framework governing SME activities is important, and gains can be reaped from having targeted rules designed to loosen the business constraints SMEs face.
- Rules are not enough on their own, however. Dedicated government agencies are also typically required to support SME growth, development, compliance, and internationalization. These agencies need to be responsive to SME needs, and provide tailor made services such as management consulting and capacity building.
- Transparency and dialogue with the private sector, including SMEs, are key factors supporting the success of the programs reviewed in this case study. Transparency is an important part of any regulatory reform, but it is all the more pressing an issue in the SME context, when accessing information is often costly in terms of an entrepreneur’s time—a barrier that successful programs need to overcome, so that SMEs can fully take advantage of what is on offer.

Case Study Two: Agencies to Support SME Finance

- Japan
- Mexico
- China
- Chinese Taipei
Case Studies

The main lessons drawn from the examples for the first case study include:

- SME financing is an issue in developing and developed economies alike. There is scope to socialize approaches within APEC, as the problems confronted by traditional finance disclose some similarities across contexts.
- Strong interventions, like the provision of guarantees and credits, need to be managed so that finance is only extended to creditworthy companies that would not be recognized as such by traditional lenders.
- A key problem is information asymmetry, so measures that can improve the flow of information from businesses to the financial...

Case Study Three: Regulatory Tiering

- Canada
- Chinese Taipei
- The Philippines
- Singapore and Other APEC Economies
- Japan and Other APEC Economies
- China
Case Studies

The main lessons drawn from the examples for the first case study include:

- Regulatory tiering to improve the business environment for SMEs is not just about regulation that directly affects those businesses, but also businesses that serve them (e.g., regulation of microfinance in developing economies).
- It is not always necessary to create more flexible regulations in substance. Sometimes, flexible schedules (for example, for payment of tax obligations) can help. The focus should be on identifying constraints for SMEs in particular, and development of mechanisms that make it easier for them to comply.
- Intellectual property rights is one area where tiering can aid innovative SMEs. In developed economies, the emphasis can be on improving administration and lightening fees. In developing economies, special mechanisms (e.g., model patents in China) may be needed to cover incremental innovations.

Case Study Four: SME-Friendly RIA

- USA
- Canada
- Chinese Taipei
Case Studies

- The main lessons drawn from the examples for the first case study include:
  - Regulatory compliance costs can often fall particularly heavily on SMEs in terms of per employee or time costs. Limited ability to outsource compliance, so often it is the entrepreneur who bares the brunt of compliance work in effect.
  - Elements of RIA can be introduced selectively to benefit SMEs without developing a full-blown RIA infrastructure.
  - Ex ante evaluations can assist in policy design, and ex post analysis can help in ongoing dynamic development. Important to undertake regular assessments of SME regulatory compliance costs.

Lessons Learned from the Case Studies

- Regulatory reform to improve the business environment for SMEs should include aspects of rule making and institution design, including as appropriate the putting in place of specialized agencies. Many APEC economies have dedicated agencies to support SME growth and development, and continued work in areas such as incubators could prove fruitful. Similarly, measures and agencies to promote SME access to finance can help alleviate a serious business constraint, for example through the provision of market-friendly guarantees, or facilitation of information exchange among private actors through appropriate regulatory frameworks.

- SMEs need to be included in the reform process, and given a voice. Consultation with the sector is key to a better understanding of the business constraints SMEs face, as well as the measures they see as most needed for overcoming those constraints. A peak body for SMEs can be one way of effectively channeling their views to the government, but other means of consultation can also be effective.

- The public and private sectors need to work together to promote regulatory reforms that improve the business environment for SMEs. This observation is not limited to SMEs themselves. In terms of internationalization, for example, most SMEs will need to link to larger firms in order to become embedded in GVCs. It is therefore important that governments adopt incentive-compatible regulations that promote linkages between SMEs and lead firms, both domestic and international.
Lessons Learned from the Case Studies

- Regulatory compliance, and compliance with voluntary standards, can be a major obstacle for SMEs. There is much that governments can do to ease the burden. On the one hand, regulatory tiering can offer SMEs more flexible schedules or structures for dealing with regulatory obligations. For voluntary standards, capacity building exercises that include the private sector can help develop the ability of SMEs to satisfy relevant standards, which in turn facilitates their access to GVCs.

- Regulatory reform to improve the business environment for SMEs is a process, not a one off event. As such, instruments such as RIA—whether formalized or not—are crucial in helping sustain the momentum behind reforms. Similarly, tracking performance and implementation on the ground is an important element in continuously improving policies that affect SMEs. Measurement and data are key elements both of RIA and of performance monitoring and evaluation. Economies can benefit from increased attention to data collection and publication in relation to SMEs and the regulatory burdens they face.