ESC Subcommittee on Developing a Vibrant SME Landscape and Globally Competitive Local Enterprises

---

COMMITTEE CO-CHAIRED BY:

MRS LIM HWEE HUA
MINISTER, PRIME MINISTER'S OFFICE;
2ND MINISTER FOR FINANCE AND
2ND MINISTER FOR TRANSPORT

DR. RICKY SOUW
CEO SANWA GROUP, PRESIDENT OF
SINGAPORE PRECISION ENGINEERING
AND TOOLS ASSOCIATION

1. Singapore is widely regarded as one of the best places in the world for doing business. With a deep pool of talent and expertise, strong connectivity to the world, and a reputation as a trusted hub, Singapore-based companies are well-positioned to seize global opportunities.

2. However, Singapore's small domestic market makes it necessary for local enterprises to internationalise, often at a relatively early stage of their growth. In particular, emerging markets, especially in Asia, represent a major opportunity for local enterprises in the next decade and beyond. These markets will increasingly demand solutions in areas which Singapore companies have strengths in – such as township and property development, water/waste solutions, urban transport and healthcare. Singapore-based companies which can seize these huge opportunities could potentially become globally competitive companies (GCCs).

3. To this end, the Government can do much more to help companies access capital, build capabilities, establish networks and nurture talent. This subcommittee recommends that the Government:

   a. Develop an Export-Import bank-like institution to provide internationalisation finance;

   b. Catalyse supply of growth capital;

   c. Empower local trade organisations to drive growth and internationalisation;

   d. Establish track record with significant consumers; and

   e. Enhance access to human capital.

4. The local corporate ecosystem can be greatly strengthened and enhanced by these supporting enablers. By implementing the following strategies, the ESC believes that in the next 10 years, we can double the number of local enterprises with revenues of over S$100 million to 1,000.

CATALYSE CROSS-BORDER FINANCING CAPACITY

Demand for Cross-Border Financing

5. As the overseas business opportunities for Singapore companies expand, the need for cross-border financing will increase. Singapore corporates require funding for three major purposes: (a) trade finance and credit insurance for exports and imports; (b) internationalisation finance (funding of overseas plants and operations); and (c) project finance. However, in each area, there exist structural constraints that limit the local market's capacity to lend. This has been accentuated by the global economic crisis, which has reduced banks' capacity for cross-border finance. Going forward, commercial banks will increasingly utilise specialist financial institutions like ECAs (Export Credit Agencies) and EXIM (Export-Import) banks to complement their activities[15].

(a) Trade Finance

6. Global trade is moving away from financing through letters of credit to open accounts. This has raised exporters' need for insurance to mitigate default risk, while lending banks often request insurance before approving loans.

7. Currently, the Singapore market is significantly under-served, compared to other financial centres with regard to single-name and single-country credit insurance (as distinct from portfolio-based insurance). In other economies, the national ECA would act as an aggregator and can lay off the risks in global reinsurance markets. Furthermore, the penetration of factoring as an alternative risk mitigation method is also low relative to global levels.

(b) Internationalisation Finance

8. When Singapore-based corporates invest in operations abroad, they frequently require shorter tenor loans in relatively smaller amounts, for example as working capital.

9. However, there exists a mismatch as foreign banks are mainly interested in the larger loans, whereas local banks whom our SMEs principally rely on typically lend relatively low quanta and may lack underwriting expertise for emerging market risk. There is currently no aggregator able to pool risks and invest in deeper expertise.

(c) Project Finance

10. Globally and in Asia, project finance is characterised by long-tenor loans, with limited recourse to the project sponsor. Even in countries with mature financial markets, provision of project financing by commercial banks is typically facilitated by a supporting infrastructure which the risk can be transferred to or shared with. Due to the large loan sizes involved,

---

[15] 28 out of 30 OECD countries have a specialist financial institution to address cross-border financing, whether EXIM or ECA.

guaranteeing against such risks commonly requires an independent credit assessment capability within an EXIM Bank or ECA.

11. Singapore's financial system faces additional constraints. Project finance here is significantly less developed than elsewhere, and capabilities of local banks in this area are relatively limited. Although most global project finance banks are represented in Singapore, cross-border deals accounted for only 20 percent of project finance deal volume in the last five years, well below that in other centres despite the relatively small size of our domestic project finance market. Foreign banks which are active in project finance globally, such as Standard Chartered and Deutsche Bank, have indicated the need for a government-linked facility to complement and support bank financing out of Singapore.

12. Both companies and banks have indicated that many major projects now require EXIM support at the pre-qualifying stage in order to ensure certainty of funding. As foreign EXIMs remain largely nationalistic, Singapore companies are currently disadvantaged in this space. They are also less likely to be accepted into consortiums for major projects, which in turn limits their ability to build a track record of working with globally-reputable partners.

Need for Market-based Solutions and Institutions

13. Given these structural limitations, this subcommittee has identified the need for Government to help plug these gaps in cross-border financing capacity through market-based solutions and institutions. Specialist financial institutions like ECAs and EXIM banks have helped complement private financial institutions in several other markets, and have gained importance since the crisis. They are also an integral part of the Asian project finance market.

14. A specialised institution along similar lines in Singapore could support the market by performing the following functions:

a. Risk and credit insurance for trade finance;

b. Guarantees for loans by commercial banks for overseas investments;

c. Guarantees for project finance and where necessary, co-financing with commercial banks.

15. By aggregating demand for emerging market/sector lending, such an institution would be able to justify specialist risk assessment capabilities to complement commercial banks. Partnering such an entity will enable banks to engage in cross-border financing without having to carry the risk exposure and capital requirements in their balance sheets.

16. Such an institution must have a clearly-defined mandate, where the raison d'etre is one of facilitating the supply of capital and not of subsidising loans. The Government should not be utilising the national balance sheet for this purpose, absorbing risk from the commercial banking system without financial discipline. As such, the institution would have to be commercially managed and obtain a fair return on its capital, even if it is funded with government equity.

17. The institution should attract and develop specialist market expertise and capabilities, with a focus on key sectors and geographies that Singapore companies have strengths in. It should also partner financial institutions to develop the market for cross-border finance, and not crowd out other market participants. To achieve this, it would have to take a proactive stance in searching for co-financing opportunities, and may have to offer a spectrum of financing instruments including guarantees and insurance.

This subcommittee recommends that the Government develop market-based solutions and institutions for cross-border financing, including a commercially-managed specialist institution. This institution would build new and enhanced capacity to provide risk insurance for trade finance and overseas investments. As it builds capabilities over time, the institution should also provide guarantees and – where necessary – co-financing with commercial banks for project finance.

CATALYSE SUPPLY OF GROWTH CAPITAL

Market Financing of SMEs

18. Feedback from both local companies and the financial sector suggests that there is room to develop and catalyse market financing for SMEs. SMEs with good capabilities, particularly those in non high-tech sectors, face challenges in raising patient[16] growth capital as they are typically not large enough to interest private equity, nor able to provide sufficiently attractive returns in a relatively short time horizon for venture capital firms.

19. Globally too, venture capital firms have shifted their focus from growth-stage companies to those with better prospects of going public. Coupled with the deleveraging in the private equity industry since the global financial crisis, the shortage of growth capital will likely persist over the next few years.

Leverage on Private Sector Supply and Expertise

20. In this regard, this subcommittee has assessed it to be opportune for the Government to spur the expansion of SME financing over the next 5-10 years. A financial environment that is conducive and supportive of SME growth would also further enhance Singapore's value proposition as a base for global enterprises to anchor and internationalise. It can also help seed alliances among foreign and home-grown businesses anchored in Singapore.

21. Rather than supplant private capital, this subcommittee recommends that government intervention should create the incentive for private equity financing of Singapore-based SMEs through co-investment funds[17]. Government, as co-investor, should rely principally on private

[16] Investments with a long-term horizon that allow sufficient time for expansion plans to come to fruition.

[17] The US Small Business Investment Company (SBIC) programme and Israel Yozma initiative are two examples of government financing schemes that have shown some success at catalysing the flow of private capital to SMEs as well as the growth of the venture capital industry.

sector expertise to assess investment worthiness, so as not to erode commercial discipline in investment decisions.

22. Over the next 10 years, up to S$1.5 billion of new capital could be catalysed to facilitate the growth of Singapore enterprises, with the Government contributing about half this amount, i.e., S$750 million. This could be implemented in phases in tandem with the availability of pipeline of investible enterprises and supply of private capital. For a start, the Government can seed S$250 million of funds to attract the interest of potential co-investors, bringing the total available funds to S$500 million. Of this, it is estimated about S$300 million could be channelled to SMEs below revenues of S$100 million.

This subcommittee recommends that the Government catalyse supply of growth capital of up to S$1.5bn to Singapore-based enterprises through co-investing with the private sector.

Facilitating Corporate Restructuring

23. As part of their growth and internationalisation strategy, Singapore-based enterprises may embark on mergers and acquisitions. Where opportunities arise especially post-crisis, such strategies can enable enterprises to sharpen their business models, acquire new capabilities and gain access to new markets, making them more globally competitive.

This subcommittee recommends that the Government provide incentives for mergers and acquisitions so that companies can take advantage of post-crisis opportunities to grow inorganically.

EMPOWER LOCAL TRADE ORGANISATIONS TO DRIVE GROWTH AND INTERNATIONALISATION

24. Local trade organisations, such as trade associations and chambers, can serve as strategic platforms that provide capability building support, networking opportunities, and business insights. Relying on their networks and expertise, trade organisations can potentially be an important pillar of support for corporates, complementing government support programmes by offering customised outreach and assistance that better target unique industry needs.

25. Currently, trade organisations are already involved in manpower development, networking and consultancy/information services. There is scope to empower them to take on greater responsibilities and roles, and encourage industry-led initiatives to foster a more cohesive and synergistic enterprise community. Specifically, this subcommittee has identified that trade organisations can:

a. Champion productivity, capability and talent development programmes;

b. Help member companies to focus on core business functions through demand aggregation of outsourcing non-core corporate functions; and

c. Facilitate market access through brand development, promotion and overseas networks, particularly in the immediate region. To complement the trade organisations' efforts, the Government should also expand the scope of overseas business activities supported.

26. However, the level of competency across trade organisations varies substantially. Hence, there is a need to consolidate and strengthen institutional capabilities of trade organisations in order to better serve the community.

This subcommittee recommends that the Government strengthen trade organisations' institutional capabilities and empower trade organisations to serve as industry champions and market facilitators.

ESTABLISH TRACK RECORD WITH SIGNIFICANT CONSUMERS

27. The Singapore domestic market, though small, has significant consumers with sophisticated demand and large purchasing power. They offer good opportunities through which enterprises can build exportable capabilities and thereby establish track record.

28. One major source of significant consumers is our ecosystem of MNCs that anchor value-chains and capabilities in key economic clusters. While EDB's current Local Industry Upgrading Programme (LIUP) encourages MNCs to procure from our local suppliers by supporting the manpower cost of MNC procurement managers, MNCs often require goods and services that may not be found locally. The process of qualifying new suppliers, which may involve capability transfer and development, as well as the production of a prototype or sample, can often be a substantial expense.

This subcommittee recommends that the Government provide incentives to facilitate partnerships in which MNCs, including large local companies, assist local companies to develop new capabilities and navigate MNCs' qualification process, thereby building the foundation for deeper partnerships between large and small companies.

29. Another significant consumer with sophisticated demand is the Government. However, currently government agencies do not systematically co-develop innovative solutions with the private sector and tend to adopt existing solutions or rely on internal R&D efforts.

30. There is hence scope for government agencies to share their future innovation needs with companies and work with companies to co-develop innovative solutions for public sector needs. The Government could be a significant consumer and first-user of the innovative solutions developed if these solutions provide good value for money. In doing so, the Government could achieve the twin objectives of enhancing public service delivery and growing innovative

enterprises. Grants could also be provided to companies for R&D and test-bedding collaborations with the Government. In the medium term, government agencies could be mandated to set aside a portion of their budget for such collaborations with companies.

This subcommittee recommends setting up a platform whereby government agencies and companies can co-develop innovative solutions in partnership.

ENHANCE ACCESS TO HUMAN CAPITAL

31. Enterprises need talent, as well as requisite domain expertise and management capabilities to drive their growth. However, many local enterprises lack exposure and profile as employers. Hence, they face the perennial difficulty of attracting and retaining their fair share of talent.

32. In 2009, SPRING launched the Executive Training Programme as a short term recession measure to help SMEs acquire fresh talent and engage seasoned professionals. This has proven useful in matching SMEs to talent and advice. Going forward, this subcommittee has assessed a need for longer-term and enhanced programmes that build up a sustained pipeline of talent and a ready pool of professional advice and business expertise that SMEs can tap on.

This subcommittee recommends that the Government (i) formalise and broaden the scope of internship programmes at the polytechnic and undergraduate levels; and (ii) facilitate a ready network of advisors and mentors to provide strategic advice, functional and domain-specific expertise to local enterprises.