SINGAPORE BUSINESS FEDERATION
Apex Business Chamber

SME COMMITTEE

RECOMMENDATIONS FOR BUDGET 2020

Singapore Business Federation

December 2019

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FOREWORD

The SBF SME Committee (SMEC) has been providing recommendations to the annual Singapore Budget since the committee's inception in 2011. The recommendations are rigorously put together through collective inputs from business leaders and representatives from the various Trade Associations and Chambers (TACs). The SMEC also obtains feedback from various government agencies in coming up with the recommendations. SBF is grateful to have this platform that has effectively brought together businesses, TACs and our Government, to engage in regular meetings with one another.

Prevailing sentiments amongst local businesses remain soft and global economic uncertainties continue to loom over the prospect for the year 2020. Our SMEs will have to remain resilient to tide through this depressed economic environment of protracted slow growth. Therefore, the SMEC Budget Recommendations 2020 comprises a balanced mix of measures that supports business sustainability, as well as measures to prepare our SMEs for the next opportunity for growth.

These recommendations are reflective of the key areas of focus of SMEC's sub-committees, which oversee topics relating to Business Finance & Cost Competitiveness, Manpower, Talent & Skills, Markets & Internationalisation and Technology, Innovation & Productivity. These sub-committees are supported with data by the newly formed Research sub-committee.

We would like to thank all business leaders, representatives from TACs and the government for their time and effort contributing to the SMEC. Special thanks go to Senior Minister of State for Ministry of Trade and Industry and Education, Mr Chee Hong Tat and Minister of State for Ministry of Manpower and National Development, Mr Zaqy Mohamad, for their openness and candid feedback on issues that matter most to the SME community.

1. One-Stop Digital Trade Platform to Enable Trade Amongst Organisations

Our Government has been driving the digital transformation of our economy and its various sectors. Through initiatives like the Industry Transformation Maps, Industry Digital Plans and SMEs Go Digital programme, our Government has been helping companies to digitalise their processes to improve productivity. The Government can maintain the momentum by helping companies drive growth, after helping companies with the optimisation of their business processes.

Growing revenue has remained the number one priority of our local businesses for three consecutive years[1]. Our Government can help B2B companies grow their businesses by encouraging, enabling and optimising trade amongst them. This can be achieved by creating a one-stop digital platform, where companies can conduct trade from listing of opportunities to offering of services. GeBIZ is an important platform that enables the Government to procure goods and services from the private sector. The new platform can adopt some of the features of GeBIZ and incorporate enhancements to enable trade between B2B companies.

Notwithstanding the development of new B2B e-commerce marketplaces both locally and regionally, the SMEC believe that there still is merit in leveraging the government's procurement spend and its continued focus on buying from SMEs by building GeBiz as a strong local B2B platform that can be an important driver for the digitalisation of the SMEs. This will underscore the commitment of the government to not just help companies enhance their productivity but also help them increase their revenue growth by enabling trade.

Alternatively, the Government may consider listing some of their contracts on a few selected commercial procurement platforms to give a boost to the development of these

[1] Singapore Business Federation National Business Survey 2019/2020

platforms and help increase spending of local suppliers that are already on these platforms.

Companies are also more likely to adopt digital solutions such as e-invoicing and e-payments with greater sales opportunities generated from a one-stop digital trade platform. With a firm focus on revenue growth, businesses can align their key processes to a digital strategy, riding on a good digital trade platform.

Recommendation

Our Government to develop a one-stop digital trade platform, or encourage the usage of available procurement platforms, by leveraging GeBiz and government spending on local SMEs' products and services, so as to enable buying and selling activities amongst companies online.

2. Increase Support to SME Financing

The 2018 SBF 'Singapore's SME Debt Financing Landscape' study identified a 15% (or S$19 billion) credit demand gap of the total approved loan facilities extended to SMEs. The study identified that an increase in lending via invoice financing could have a significant impact on closing the credit demand gap.

The Loan Insurance Scheme (LIS) supports short term financing lines such as invoice financing. The Government currently shares 50% of the insurance premium payable with Financial Institutions under the LIS. By enhancing the LIS to encourage invoice financing, it would help meet the financing needs of SMEs without collaterals and those with a higher risk profile. The enhanced support from LIS could also help SMEs shift to e-invoicing as they tap on invoice financing through the LIS.

Recommendation

Our Government to increase the sharing of the cost of insurance from 50% to 70% for the LIS.

3. Government to Support and Adopt a Payment Code of Conduct

Our Government has been exemplary by ensuring that it pays its suppliers promptly. We applaud the effort. Feedback gathered from SBF's Seminar on Business Outlook held on 21 August 2019 indicated that there is a tendency for some large companies to impose unduly long payment terms (e.g. for as long as 90-120 days before payments are dispensed) in their contracts with SMEs.

The SBF National Business Survey 2019/2020 found that almost 50% of the late payments experienced by companies were above 30 days past due, which is on top of the average two months credit term they offer. This trend in late payment had caused seven in ten businesses to face moderate to severe cash flow issues.

Our SMEs' ability to serve our large companies should not be turned into a disadvantage for them by having to provide credit terms and suffer payment delays. It is hoped that more of our larger companies can follow the Government's practice of paying our SMEs quickly and on time.

The Australian Government had implemented a Supplier Payment Code in May 2017. In their Code, the signatories commit to pay eligible Australian small business suppliers on time and within 30 days of receiving a correct invoice. Their Payment Code encourages large companies to publish their suppliers' payment processes online and includes measures to help small businesses implement new technologies and practices, such as e-invoicing in order to speed up the payment process. The Australian Government in support of the Code, sets a pre-requisite for Government suppliers to pay their vendors within 20 days for government contracts. 69% of the respondents to SBF National

Business Survey 2019/2020 felt that a similar code would help reduce late payment in Singapore.

SBF is prepared to take the lead in setting up a similar payment code of conduct for the local business community. The SMEC recognises that the Government plays an important leadership role that catalyses behaviourial change in local businesses. Therefore, it would be important for the Government to also endorse and adopt the payment code of conduct. The Government could further stimulate the adoption of payment timeliness and e-invoicing by stipulating that businesses who issue e-invoicing for Government procurement contracts would receive payment within a shorter time.

The Government can also encourage larger enterprises to endorse the payment code of conduct and implement e-invoicing, by extending incentive schemes to these larger enterprises to onboard their SME suppliers onto e-invoicing platforms.

Recommendation **Our Government to support SBF in the development of a Payment Code of Conduct for Singapore. Government Procurement Entities should endorse and adopt this code. Government should also use this development to proliferate the adoption of e-invoicing by paying their suppliers who e-invoiced even faster and introduce incentive schemes for larger enterprises to onboard their SME suppliers onto e-invoicing platforms.**

4. Promote Collaboration Between A*STAR and Local Enterprises to Conduct more Research and Development (R&D) Activities and Channelling More Research Funds Directly to Private Enterprises

R&D is an investment in Singapore's future as a knowledge-based economy. This thrives on innovation and enterprise[2]. A stronger push to encourage collaboration between Research Institutions (RIs) like A*STAR and our local SMEs is needed. This will ensure that our SMEs, which are often constrained by the lack of resources, are also able to develop new capabilities through R&D.

A*STAR reported that they have achieved 4,000 industry R&D projects in 2016 and 2017. Out of which, one-third (1,333) were in collaboration with local enterprises over the two years[3]. The SMEC noted that public sector R&D needs to have a greater focus on supporting local SMEs to ensure a sustainable and vibrant economy in the future.

In addition, there is also a general sense that allocated research funds are often channelled through the Institutes of Higher Learning and public research institutes in collaboration with private businesses on joint projects and joint development of products and applications. However, operationally, most of such funding often go towards financing the research needs of the Institutes of Higher Learning. Therefore, more can be done to expand the allocation of funds to private enterprises directly. In this way, institutional and domain R&D knowledge in commercial areas can be built up faster and in areas and projects that are relevant to the needs of the industry.

The need for local enterprises to develop intellectual property is critical in our drive towards becoming a knowledge-based economy. By developing new technologies and intangible assets, our companies can move up the value chain and thereby drive economic growth. Our Government has put in place many measures and infrastructure in the drive to become an innovative nation. Helping our SMEs to reduce the costs of IP development could encourage more enterprises to endeavour in R&D and the creation of intellectual property.

[2] The Business Times, January 2016 - Record S$19b set aside for R&D until 2020 (https://www.businesstimes.com.sg/government-economy/singapores-future-economy/record-s19b-set-aside-for-rd-until-2020)

[3] A*STAR Annual Report 2017-2018 (https://www.a-star.edu.sg/Portals/81/Data/News%20And%20Events/Publications/Astar%20Yearbook/Files/Astar%20Yearbook/AStar%20Yearbook/A-STAR%20Annual%20Report%20FY2017_3%20Sep%20Final%20v2.pdf)

Recommendation:

1. **There should be more funding help for companies in the areas of creation, regulation and the administration of their intellectual property filing in global markets.**

2. **To place greater focus and channel more resources towards collaborative R&D between RIs/Institutes of Higher Learning (IHLs) and our local SMEs. Taking reference from ESG's Enterprise Development Grant and Productivity Solutions Grant, to offer support of up to 70% of eligible R&D cost directly to private enterprises to conduct applied R&D to develop industry-relevant technologies and innovations, in close partnership with RIs and IHLs. The RIs and IHLs can also help to identify common challenges faced by similar companies and aggregate the demand for R&D for the same outcome.**

5. Financial Incentives for Productivity Driven Innovation

The current R&D tax incentive schemes may not be attractive to SMEs especially those who are not making profit as they do not benefit from corporate tax deductions offered.

An option for a cash or cash-back system for companies who are not paying tax can be introduced to drive R&D activities amongst SMEs which are not yet profitable. This is currently practised by the Australian government. Under the Australian scheme, the tax incentive reduces company R&D costs by offering tax offsets for eligible R&D expenditure. Eligible companies with a turnover of less than A$20 million receive a refundable tax offset, allowing the benefit to be paid as a cash refund if they are in a tax loss position. All other eligible companies receive a non-refundable tax offset to help reduce the tax they pay.

Recommendation:

To introduce a research expenditure rebate for R&D activities for local SMEs that are in the non-taxable group, similar to that provided by the Australian government, to supplement the current R&D tax benefits.

6. Greater Assistance for Adoption of Cybersecurity Solutions

Given the Government's big push for businesses to digitalise and for Singapore to succeed as a smart nation, cybersecurity will be a vital pre-requisite and key enabler for business and economic growth. As cyber threats grow in scale and sophistication, SMEs will need to make their systems as secure as possible. Cybersecurity will be an increasingly important aspect to protect our economy, given that our systems are increasingly networked. Apart from the cost of technology adoption, cybersecurity risk was also listed as one of the top three barriers to adopting technologies[4].

In 2017, the Government announced the SMEs Go Digital programme which includes some cybersecurity pre-approved solutions. In addition, there is a Cybersecurity Co-Innovation and Development Proof-of-Concept Funding Scheme which aims to develop new solutions that would meet the national cybersecurity and strategic needs. Other related programmes include: (1) GoSecure Programme[5], which provides cybersecurity capability support to ICT companies, (2) ESG's Productivity Solutions Grant[6] (PSG), which assists SMEs with readily adoptable solutions, and (3) ESG's Enterprise Development Grant[7] (ESG), which assists SMEs with core capability and productivity enhancements.

[4] Singapore Business Federation National Business Survey 2019/2020
[5] IMDA GoSecure Programme (https://www.imda.gov.sg/programme-listing/gosecure)
[6] ESG Productivity Solutions Grant (https://www.enterprisesg.gov.sg/financial-assistance/grants/for-local-companies/productivity-solutions-grant)
[7] ESG Enteprise Development Grant (https://www.enterprisesg.gov.sg/financial-assistance/grants/for-local-companies/enterprise-development-grant/overview)

However, the needs of SMEs in cybersecurity are increasingly complex as enterprise IT systems sit across in-house and outsourced systems, incorporating desktops and mobile platforms and having to cater to the needs of public, customers, suppliers and employees. As such SMEs need expert assistance to be layered over the incumbent schemes who can provide cybersecurity advisory to: (1) conduct a diagnosis to identify vulnerabilities, and (2) develop cybersecurity solutions to protect their day-to-day operations.

Recommendation: **Our Government to introduce an Enterprise Cybersecurity Advisors programme where selected advisors are deployed to SMEs to facilitate the adoption of comprehensive cybersecurity solutions and customised training for the needs of individual SMEs.**

7. Increase Support for Companies to Employ Older Workers

The retirement age in Singapore had progressively increased through the years, due to the increase in life expectancy and the desire of the older workforce to continue working. In 2011, the Retirement and Re-employment Act was passed in Parliament, which introduced the rehiring of older workers beyond age 62. The Special Employment Credit (SEC) was also announced in the same year, to help employers adjust to the re-employment legislation. The SEC was subsequently extended in Budget 2016 and 2019. The SEC will cease in December 2020.

The SEC is direct support to employers who hire older workers by providing subsidies of up to 11% of the older employees' monthly wages. The SEC provides a strong signal of our Government's support for employers to keep older workers employed. During the 2019 National Day Rally, it was announced that the retirement and re-employment age will be further increased progressively over 10 years, up to the year 2030. In addition, CPF contribution rates for older workers will also increase between 4% to up to 11% over the same period.

With the increased uncertainty of the global economy, greater support for companies is needed for them to continue employing our older workers. Our companies need the assurance that their rising employment costs will be supported so that they can continue to hire and retain these older workers who have a wealth of experience. To provide this assurance, the SEC should be extended beyond December 2020 for ten years. We should keep the current wage support level under the SEC which gives companies who hire older workers more wage credits. The extension of the SEC for the next ten years will provide long term assurance to companies to meaningfully plan the careers of their older workers.

To help employers adjust to the increase in employers' CPF contributions for older workers in 2015, Government introduced the Temporary Employment Credit which helped cushion employers' cost when the CPF contributions for older workers were increased. It is proposed that the Government reintroduce the TEC at every occasion when the CPF contribution rates for older workers are increased over the next decade. The same level of transitionary support provided by the TEC can be retained.

One of the other concerns for employers when hiring older workers is the high cost of employee benefits, particularly medical benefits. The Government had introduced the Portable Medical Benefits Scheme (PMBS) which enable employees to bring along the medical benefits when they change employers. To support this, additional tax-deductibles are also given to employers who offer PMBS. The PMBS is a good scheme which rationalises our revised national health insurance scheme with medical insurance benefits provided by employers. It is particularly relevant with the changing age profile of our workforce. However, only 5% of companies offer PMBS. Awareness of the benefits of PMBS therefore must be increased. The SBF SMEC will work with other TACs and the Singapore National Employers Federation for greater outreach to companies on the PMBS.

Recommendation:

1. Our Government to extend the SEC beyond December 2020 in tandem with the Government plans to progressively increase the retirement and re-employment age by 2030.

2. Our Government to reintroduce the TEC at every occasion when the CPF contribution rates for older workers are increased over the next decade.

ANNEX

SBF SME Committee

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