SME Policy Index: ASEAN 2024 – Enabling Sustainable Growth and Digitalisation

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Preface

Small and medium-sized enterprises (SMEs) constitute more than 99% of firms in the ASEAN region, playing a vital role in employment and inclusive economic growth. SMEs also drive technological innovation and contribute significantly to the transition towards greener economies. Despite the numerous challenges that SMEs have faced globally in recent years since the COVID-19 pandemic, the SME sector has become more resilient, digitally savvy, and better positioned to compete internationally. Access to finance for many SMEs has significantly improved, driven by the rapid rise of fintech solutions, with certain fintech-based financing recording triple-digit growth. The pandemic also accelerated the adoption of digital technologies, prompting SMEs to embrace e-commerce and digital payments.

The SME Policy Index: ASEAN 2024 – Enabling Sustainable Growth and Digitalisation provides a comprehensive analysis of small and medium-sized enterprises (SMEs) policies across the ten ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam), highlighting how countries have addressed recent economic and geopolitical shocks. The report includes regional trends, country-specific analyses, and actionable recommendations for both regional and national governments.

The report finds that SME policies across ASEAN are continually advancing, driven by policymakers' efforts to ensure inclusive and sustainable economic growth. Policymakers have implemented measures to address the challenges posed by crises such as rising inflation and supply chain disruptions, successfully enhancing the long-term competitiveness of SMEs. ASEAN Member States have promoted SME digitalisation through various capacity-building activities, digital trade promotion, and efforts to improve access to digital payment systems and finance. The emphasis on upskilling has also increased, with programmes aimed at boosting digital, innovation, and business management skills for SME owners and employees.

The report urges governments to further strengthen SME support by adopting more coordinated policy approaches and ensuring coherence across public institutions. ASEAN Member States should continue to deepen regional cooperation, particularly in enhancing access to finance and supporting projects aimed at market access and internationalisation. Improving data collection, availability, comparability, and analysis, along with dedicating resources to policy monitoring and evaluation, will enable more informed decision-making. The report also calls for enhanced regional collaboration on SME greening, raising awareness amongst policymakers and SMEs about relevant tools, initiatives, and best practices.

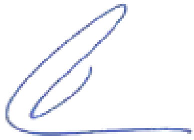
This third edition features an updated methodology that analyses SME digital transformation support policies and presents the latest findings on SME development. Aligned with the objectives of the ASEAN Strategic Action Plan for SME Development 2016–2025, it allows for an assessment of the plan's implementation and serves as a crucial tool for encouraging domestic reforms that will enhance ASEAN policy harmonisation. We are confident that it will be a valuable resource for assessing SME policies across ASEAN and informing the development of the post-2025 action plan for micro, small, and medium-sized enterprises (MSMEs).

This study results from collaboration between the ASEAN Coordinating Committee on Micro, Small, and Medium Enterprises (ACCMSME) through the ASEAN Secretariat, the Economic Research Institute for ASEAN and East Asia (ERIA), and the Organisation for Economic Co-operation and Development (OECD). It was made possible thanks to the cooperation of the governments of the ASEAN Member States, stakeholders, and representatives of the MSME sector.

We look forward to continuing this fruitful collaboration to enhance SME development as a key driver of growth, job creation, and social cohesion in Southeast Asia.

Tetsuya Watanabe

President
Economic Research
Institute for ASEAN and
East Asia (ERIA)



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Co-operation and
Development (OECD)

Foreword

Small and medium-sized enterprises (SMEs) are the cornerstone of ASEAN economies, playing a pivotal role in fostering a competitive, diverse, and resilient economic landscape that can adeptly navigate global trends such as digitalisation and the green transition. Despite their significance, SMEs often face unique challenges due to limited financial resources, technical capacity, and understanding of regulatory environments, making them vulnerable to crises. Therefore, it is imperative that SMEs receive robust support through well-defined policies and programmes to enhance their competitiveness, resilience and to ensure inclusive growth.

In November 2015, the ASEAN Strategic Plan for SME Development 2016–2025 (SAP SMED 2025) was launched to support the implementation of the ASEAN Economic Community (AEC) Blueprint. This plan aims to deepen the integration of SME policies across the region and narrow the development gap amongst ASEAN Member States (AMS). The ASEAN Coordinating Committee on Micro, Small, and Medium Enterprises (ACCMSME) oversees the implementation of SAP SMED 2025.

From the outset, the ASEAN SME Policy Index (ASPI) was integrated into SAP SMED 2025 as a critical tool to assist policymakers in monitoring and assessing policies across the region. The Index's scoring framework aligns with the objectives of SAP SMED 2025, providing targeted metrics for ACCMSME to evaluate progress. This report seeks to enhance policymakers' capacity to identify areas for future reform and implement policies in accordance with international best practices.

It is with great pleasure that I introduce the new edition of the ASPI. This marks the third iteration of the ASPI, building on the foundations laid by the 2014 and 2018 editions. The 2024 edition offers a robust empirical basis for SME development, presenting the latest findings on SME policy design, implementation, and impact across the ten AMS. Notably, this edition focuses on key topics such as digitalisation, adoption of new technologies like artificial intelligence, disaster risk management, inclusive business support, and national policies related to bankruptcy and promoting second chances for SMEs.

I am pleased to observe that average scores across AMS and dimensions have improved since the last assessment, indicating continuous enhancement of SME policies across ASEAN. The narrowing gap between scores reflects the convergence of regional SME policies. Policymakers have effectively addressed the challenges posed by COVID-19, responded swiftly to minimise losses and laid the groundwork for enhanced competitiveness, creating more digitally enabled and sustainable enterprises. This report highlights an increase in the number and scope of services provided to SMEs, with many AMS offering customised support and initiating specific tracks for high-potential and high-growth enterprises, particularly start-ups.

Looking beyond SAP SMED 2025, the Index identifies priorities for change and improvement, calling to further improve coordination across ministries, institutions, and governments to ensure a more integrated approach to SME policy development. The report underscores the need to enhance access to finance for SMEs and promote greener, more sustainable practices. Its findings and recommendations will be instrumental in guiding us in the development of the post-2025 agenda to ensure the continued competitiveness, resilience, and inclusivity of ASEAN SMEs.

On behalf of the ACCMSME, I extend my deepest gratitude to the AMS, ERIA, and OECD for their invaluable contributions and support in the preparation of this report.

Joanne Tan

Chair of the ACCMSME

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The '**SME Policy Index: ASEAN 2024 – Enabling Sustainable Growth and Digitalisation**' is the culmination of efforts by the ten ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam); ASEAN through the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME); the Economic Research Institute for ASEAN and East Asia (ERIA); and the Organisation for Economic Co-operation and Development (OECD) through its Southeast Asia Regional Programme (SEARP). The report is based on the SME Policy Index methodology developed by the OECD and applied to over 40 countries and five regions worldwide. It builds on the previous editions of the report: 'The ASEAN SME Policy Index 2014' and 'SME Policy Index ASEAN 2018: Boosting Competitiveness and Inclusive Growth.'

This report was written under the guidance of *Toru Furuichi*, Chief Operating Officer of ERIA; members of the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises; *Dr. Le Quang Lan,* Director, Market Integration Directorate of the ASEAN Secretariat; *Andreas Schaal*, Director of OECD Global Relations and Cooperation and OECD G20 Sherpa to the G7, the G20, and APEC; and *Alexander Böhmer*, Head of the South and Southeast Asia Division at the OECD.

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List of Abbreviations and Acronyms

ACCMSME	ASEAN Coordinating Committee on Micro, Small and Medium Enterprises
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEO	Authorised Economic Operator
AMS	ASEAN Member States
APO	Asian Productivity Organisation
ASEAN	Association of Southeast Asian Nations
ASEC	ASEAN Secretariat
ASPEC	ASEAN Patent Examination Co-operation
ASPI	ASEAN SME Policy Index
B2C	Business-to-Consumer
BDS	Business Development Services
CGF	Credit Guarantee Fund
CGS	Credit Guarantee Scheme
CIB	Credit Information Bureau
CIP	Collaborative Industry Projects
COVID-19	Coronavirus Disease 2019
DFTZ	Digital Free Trade Zone
EIA	Environmental Impact Assessment
EL	Entrepreneurial Learning
EMS	Environmental Management System
EPZ	Export Processing Zone

ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
EZ	Economic Zone
FAO	United Nations Food and Agriculture Organization
FDI	Foreign Direct Investment
FEC	Future Economy Council
FIL	Foreign Investment Liberalisation
FTA	Free Trade Agreement
GAP	Green Action Plan
GDP	Gross Domestic Product
GERD	Gross Domestic Expenditure on R&D
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GLC	Government-Linked Company
GMV	Gross Merchandise Value
GNI	Gross National Income
GVC	Global Value Chain
HCD	Human Capital Development
IC	Innovation Centre
ICT	Information and Communications Technology
ICV	Innovation and Capability Voucher
IDP	Industrial Development Policy
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund

IP	Intellectual Property
IPN	International Production Network
IPO	Initial Public Offering
ISO	International Organization for Standardization
ITC	International Trade Centre
JICA	Japan International Co-operation Agency
KPI	Key Performance Indicator
MFI	Microfinance Institution
MNC	Multinational Corporation
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium-Sized Enterprise
NGO	Non-Governmental Organisation
NSW	National Single Window
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PPC	Public–Private Consultation
PWD	person with disabilities
R&D	Research and Development
RIA	Regulatory Impact Analysis
SAP SMED	Strategic Action Plan for SME Development
SE	Social Enterprise
SEZ	Special Economic Zone
SME	Small and Medium-Sized Enterprise
SOE	State-owned Enterprise

STI	Science, Technology and Innovation
TFI	Trade Facilitation Indicators
TIN	Tax Identification Number
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VAT	Value-Added Tax
VC	Venture Capital
WEF	World Economic Forum

Executive Summary

The *ASEAN Economic Community (AEC) Blueprint 2025* underscores the critical role of small and medium-sized enterprises (SMEs) as the backbone of ASEAN economies. Over the past decade, ASEAN Member States (AMS) have rolled out a range of SME support policies and instruments. However, recent challenges – like supply chain disruptions from the COVID-19 pandemic, surging inflation, and rising interest rates – have hit SMEs hard. These turbulent times have put SME support systems to the test, challenging their ability to truly bolster local businesses and to foster resilience.

This report examines the current landscape of SME policies across the ASEAN region, providing an updated assessment of progress across eight thematic areas (i.e. dimensions) as well as a description of AMS-specific challenges and recommendations for further reform. Its methodology builds on the SME Policy Index methodology of the Organisation for Economic Co-operation and Development (OECD), including new analyses of policies for the digital transformation of SMEs, and utilises previous assessments in 2014 and 2018 as points of comparison. It also integrates the goals of the ASEAN Strategic Action Plan for SME Development 2016–2025 (SAP SMED 2025). The assessment was conducted by OECD and the Economic Research Institute for ASEAN and East Asia (ERIA) at both the regional and country levels and was carried out in cooperation with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) and national policymakers, as well as academic experts and the private sector. This report can be used as a reference tool to help monitor and evaluate ASEAN's efforts in advancing micro and SME development policies throughout the region.

The findings of the report indicate a broad positive trend in the region in relation to the development of SME-related policies compared to the 2018 edition. Specific findings of the report include:

- **SME policies are continually improving across the ASEAN region, driven by the support of policymakers seeking to ensure inclusive and sustainable economic growth**. Average scores across AMS and dimensions have increased since the last assessment. For example for Institutional Framework the ASEAN median increased from 4.20 (2018) to 4.69(2024). There is also clear evidence of convergence of regional SME policies, with a lower variation in scores amongst AMS and an indication of some catching up with stronger performers across dimensions. There is also more evidence of regional programmes such as ASEAN Access and ASEAN SME Academy, which shows that there is larger appetite for development of regional initiatives.
- **The COVID-19 pandemic was a significant disruption to local and international markets, but most AMS were able to respond quickly and to minimise losses**. Governments reacted rapidly through a variety of measures including job retention schemes, deferral of payments, and financial support via debt channels. Beyond immediate relief, they also focussed on enhancing SMEs' long-term competitiveness through digitalisation, innovation, and market access programmes, propelling SMEs into the digital era. The pandemic also catalysed efforts towards digitalisation amongst SMEs.
- **SME policy frameworks have become more sophisticated, and AMS are equipped with a wider array of instruments and better responses to the needs of micro and SMEs**. In a majority of AMS, the variety of services and support provided to enterprises have increased and been extended across the enterprise development cycle. AMS are increasingly providing customised support to SMEs, and several countries have initiated a specific track for high-potential and high-growth enterprises with an explicit targeting of startups.

- **The region has made significant strides in promoting digitalisation amongst SMEs, through a variety of capacity-building activities, expanding access to digital trade and payment systems**. Digital payment services have expanded tremendously over the period, providing SMEs with new business models and financing possibilities. Incubators and accelerators are commonly used across AMS to provide digitally focussed startups with the means to capitalise on their growth and to expand into new markets.
- **Greater attention is paid to greening SMEs**. AMS have progressed in emphasising the significance of environmental sustainability and have been putting a greater focus on climate-change mitigation and adaptation measures. Increasingly, SMEs are being considered in environmental strategies. While awareness is increasing, more effort is needed to ensure that SMEs are actively engaged in greening initiatives.

While AMS-specific challenges and reforms are outlined in detail in the following chapters, this report identifies some key recommendations that are relevant for the entire region:

- **Enhance better coordination across different ministries, institutions, and levels of government to ensure a more integrated approach to SME policy development**. In most AMS, there is a dedicated institution responsible for policy development and implementation activities around SMEs. However, this is a horizontal area that requires close collaboration with other institutions. Strong leadership is necessary to guarantee effective coordination amongst these institutions, and national coordination committees should be established, chaired at the highest possible level.
- **Take steps to embed emerging priorities such as promoting SME digital transformation, supporting startups in the high-tech sector, and integrating SMEs into global value chains in their SME development strategies**. Policymakers should create links between SME strategies and sectorial strategies, such as those covering digitalisation, innovation, and skills upgrading. A coordination committee could support this more integrated approach.
- **Boost the availability, comparability, and analysis of SME data to inform evidence-based policies**. Strengthening data collection will support the development of policies that are evidence-based and well-targeted. Accurate and comprehensive data on the contribution and nature of SMEs provide a basis for decision-making in relation to variety of policies. In many AMS, these data are still not available nor are they regularly collected. Further, in the regional context, having a harmonised technical definition of micro and SMEs will help ensure comparability. Gathering more data around the economic impacts of SMEs in policymaking could be beneficial, taking into account that the social contributions of SMEs are important considerations for most policymakers in the region.
- **Expand regional cooperation on SME development**. ASEAN has several regional cooperation programmes and projects for market access and internationalisation. In most of these cases, cooperation takes the form of knowledge sharing; however, more could be done on an operational level. Examples include peer-learning exercises between AMS with more advanced and less advanced policy frameworks; development of joint projects and programmes between agencies from which SMEs could benefit on both sides; and/or creation of pilot projects by several AMS to test initiatives and SME-related support projects, aiming to roll them out to more countries if successful. Establishing regional initiatives around credit information bureaus or digital finance schemes could also be beneficial.
- **Ensure an integrated nature regarding SME development**. Across ASEAN, most AMS continue to pursue a mix of competitiveness and social policy objectives in their SME policies. Building on more available data and on feedback could be beneficial. This could be realised by regular dialogues between local and central governments as well as by increasing the use of public–private consultations to enhance the participatory nature of policy design. Through this, governments can better identify gaps in support and increase the transparency of the policymaking cycle.

- **Continue working on improving access to financing for SMEs**. Despite improvements to financial frameworks and the increased availability of traditional and alternative financing for SMEs in the region, SMEs still face barriers to accessing finance. Relatively high interest rates pose a challenge to many SMEs, and there is still lack of knowledge of the available mechanisms and opportunities around SME financing. Policymakers should continue working on improving the financial literacy of SMEs through upskilling programmes or other capacity-building efforts, including the sharing of best practices on this subject amongst AMS. Promoting regional-level mechanisms that help collect data, decrease the cost of financing, and facilitate export financing should be encouraged.
- **Further incorporate SMEs into greening plans and strategies**. By specifically targeting SMEs in greening strategies and increasing the provision of support to foster SME greening activities, policymakers can better facilitate a net-zero transition. As international supply chains move towards increasing their sustainability reporting, SMEs must be given tailored aid that allows them to participate and to report on their progress in the green transition.
- **Finally, continue improving monitoring and evaluation frameworks for more robust evidence-based policymaking**. While AMS have embraced regular monitoring practices of their broad SME policy documents and initiatives, rigorous and especially independent evaluations are rare. AMS should continue integrating measurable key performance indicators into the policy cycle. AMS should invest in robust, evidence-based policymaking by incorporating measurable key performance indicators and using firm-level data for impact analysis. This will enhance policy precision and effectiveness, offering a clearer picture of how public policies affect business performance across key dimensions. Moreover, statistical offices should develop nationwide outcome-oriented indicators that reflect the broader impact of SME policies on innovation, environmental sustainability, and internationalisation.

Regional Recommendations per Dimension

Dimension 1: Productivity, Technology, and Innovation

Regional recommendation

- Consider the development of an ASEAN-wide programme that could support the enhancement of innovative SMEs with high potential from one AMS benefiting from the infrastructure and advice from another AMS.

Group	Policy Recommendations
Early stage *Cambodia* *Lao People's Democratic Republic (Lao PDR)* *Myanmar*	• Expand a range of operating models across business development services (BDS) centres. BDS support can build on virtual support as well as a variety of services offered. • Continue working on linking SMEs to larger companies, also by ensuring their presence in business clusters, innovation parks, and industrial zones. • Consider partnerships with the private sector and other stakeholders to implement support schemes (e.g. mentoring and peer learning). • Create awareness amongst SMEs about the importance of productivity enhancement. Governments through outreach programmes and advisory services should communicate the advantages of BDS and importance of innovation/technology adoption in improving SME competitiveness. • Continue working on linking SMEs to larger companies. This should be done via ensuring their presence in business clusters, innovation parks, and industrial zones.
Mid-stage *Brunei Darussalam* *Indonesia* *Philippines* *Viet Nam*	• Support should be available for SMEs and startups across their stages of development. Agencies should focus on improving connectivity between programmes and creating clear roadmaps of support that can guide SMEs as they scale up. • Ensure that BDS programmes address both the needs of traditional SMEs and high-growth firms. • When designing innovation or BDS-related infrastructure, explore models that are financially self-sustaining. • Foster the development of private BDS providers. Governments should seek to grow private BDS providers through public funding support and calls for tenders for BDS delivery. • Expand the use of accreditation and voucher schemes. These help grow the network of certified consultants available to SMEs.
Advanced stage *Malaysia* *Singapore* *Thailand*	• Increase collaboration on the international level by sharing infrastructure with AMS peers. Governments should collaborate actively with other major global tech hubs and create partnerships with top universities and industry leaders. • Provide peer-level support to other countries in the region. Advanced economies can utilise their expertise to foster the development of other countries in the region, allowing for standardisation and increasing the integration of the region. • Explore the creation of regulatory sandboxes. These may be required for specific innovative business models. • Expand the use of independent evaluations across agencies. These should also include more evaluations from non-governmental sources.

Dimension 2: Environmental Policies and Greening SMEs

Regional recommendation

- Consider development of ASEAN-wide guidelines on micro and SME greening that will provide guidance to policymakers on possible mechanisms, share good practices on engaging SMEs, and explore specific measurable targets.

Group	Policy Recommendations
Early stage *Myanmar*	• Develop national greening policies that specifically target SMEs as opposed to broadly targeting industry. • Ensure that guidance is clear regarding minimum legal requirements. Responsible agencies must specify the distinction between compliance and moving ahead of good practice(s). • Develop single information windows that support SMEs to become greener. • Encourage greening awareness campaigns for SMEs and for policymakers organised by industry experts.
Mid-stage *Brunei Darussalam* *Cambodia* *Indonesia* *Lao PDR* *Philippines* *Viet Nam*	• Create one-stop shops to offer support to SMEs. These will increase their awareness of and secure their continued engagement in green practices. • Continue developing and implementing assistance in accessing finance, incentives, and training to promote greening amongst SMEs. Consider specific programmes that build the capacity of environmental managers and link their services to BDS. • Improve the monitoring and evaluation of implemented incentives and support schemes targeting SMEs. • Focus the national environmental and climate-change strategies on SMEs, both in sector-specific approaches and targeted assistance in accessing finance, incentives, and training. • Establish environmental regulatory regimes that differentiate between SMEs and larger enterprises.
Advanced stage *Malaysia* *Singapore* *Thailand*	• Continue working on development of robust monitoring and evaluation mechanisms. This will generate feedback for improving uptake and enabling adoption of green technologies and new technical standards. • Link the provision of fiscal assistance with adoption of certain environmental goals. This will ensure compliance and enable close monitoring and evaluation by lending institutions to achieve its environmental goals.

Dimension 3: Access to Finance

Regional Recommendations

- Consider the development of regional financing solutions, such as platforms for sharing good practices in strengthening the legislative and institutional framework for SME financing amongst policymakers.
- Explore the development of partnerships amongst several AMS or at regional level that could help SMEs access finance to fuel their regional expansion if they do not distort the market.
- Consider sharing information at the regional level that can facilitate SME access to finance (e.g. through development of a regional information bureau that will share information across ASEAN).
- Promote a regional-level mechanism of export financing that could also be put forward to improve access to finance for exporting SMEs or to encourage newer small or medium-sized exporters.
- Explore how technology-based solutions, such as internet banking, payment cards, and digital finance, can help microfinance institutions reduce operating costs and expand the reach of their services.

Group	Policy Recommendations
Early stage *Myanmar* *Lao PDR*	• Take steps to strengthen credit bureaus. For AMS where credit information is limited, credit bureaus should strengthen and expand their coverage to allow financial institutions to better assess the creditworthiness of potential SME borrowers. In AMS with only public credit registries, supporting the establishment of private credit bureaus can be a cost-effective means of increasing the coverage of available credit data. • For AMS that do not have credit guarantee schemes in place, consider establishing credit guarantee schemes. This will allow creditworthy SMEs that lack sufficient collateral to access bank financing. • Ensure that microfinance operators are subject to adequate supervision and regulation, informed by accurate data on their activities. Across the region, there is scope for more informed supervision of microfinance institutions to ensure that microfinance benefits small enterprises without contributing to their over-indebtedness. A first step may involve improved data collection on the volume and terms of microfinance loans as well as default rates. • Enhance capacity building around financial skills for SMEs. Online platforms can be a powerful tool for making information available on the training options available and for introducing basic financing skills learning modules. To maximise impact, it is important to target these trainings to different segments such as students, businessowners, and the self-employed.
Mid-stage Brunei Darussalam Cambodia Philippines Thailand Viet Nam	• Ensure that cadastres and movable asset registries are modern, readily accessible, and fit-for-purpose. Although cadastres and movable asset registries have been established in most AMS, there is potential to improve their coverage and to modernise them, including through greater centralisation and digitalisation, allowing for collateral-based lending to flourish. • Continue expanding the coverage of established credit-reporting systems so that financial institutions can confidently assess the credit risk of borrowers. Increasing the availability of historical credit data on potential borrowers – both firms and individuals – will help reduce information asymmetries between financial institutions and SMEs, in addition to reducing the costs associated with assessing borrowers' credit risk, ultimately supporting expanded access to credit. • For AMS that have established credit guarantee schemes, efforts could be devoted to monitoring their effectiveness, evaluating their impact, and adjusting to the dynamics and needs of local SMEs to not distort the market (e.g. targeting specific sectors). • Continue working on promoting SME access to finance, including the development of specific mechanisms for high-growth SMEs that may need tailored approaches.
Advanced stage *Indonesia* *Malaysia* *Singapore*	• Continue strengthening secured transaction legislation and creditor rights, bringing national legislation in line with internationally agreed good practices. Secured transaction legislation should clearly establish the rules for perfection of security interests (i.e. how creditors can make a security interest legally enforceable) and for payment priority amongst differed secured creditors. Legislation in force in several AMS does not ensure the payment priority of secured creditors in the case of bankruptcy and/or default outside of bankruptcy, which may disincentivise creditors from engaging in more secured lending. More broadly, there is a longer-term need to streamline bankruptcy and insolvency procedures, whose length and cost may further deter financiers from lending to SMEs, even in cases where existent laws grant them sufficient rights. • Explore avenues for supporting the development of alternative financing instruments, which can help compensate for SMEs' challenges in accessing traditional bank credit. This could specifically focus on fostering alternative financing instruments, including factoring, fintech, and crowdfunding.

Dimension 4: Access to Market and Internationalisation

Regional Recommendations

- Encourage the governments of AMS to promote the ASEAN Access platform, an online portal for information on trade and market access in ASEAN, to their SMEs as one of their main tools for improving internationalisation efforts by penetrating overseas markets.
- Expand the use of e-commerce by SMEs, as e-commerce became one of the most resilient platforms for trading activities during the COVID-19 pandemic.

Group	Policy Recommendations
Early stage *Cambodia* *Myanmar* *Lao PDR*	• Conduct a comprehensive, nationwide assessment of the characteristics of SMEs to identify gaps between what is currently being provided by SMEs and what is in demand in the global market. This would provide a baseline or main reference for identifying the assistance needed by SMEs to meet global demand, such as market intelligence and financial assistance. • Establish comprehensive programmes and/or strategies that are specifically aimed towards SME internationalisation. Such programmes should cover the whole export process and could address specific bottlenecks faced by SMEs in exports, such as non-tariff measures and quality compliance. • Establish a comprehensive programme related to quality standards compliance for SMEs. In particular, encourage initiatives implemented to help SMEs meet quality standards and create a mechanism for monitoring and evaluation of the programme to improve the rate of assurance on the quality of SMEs' products for the global market. • Learn from best practices by countries grouped in the more advanced stage and map out the gaps between current efforts by countries in the less advance group and programmes from countries in the advanced group, including planning, implementation, and monitoring.
Mid-stage *Brunei Darussalam* *Viet Nam*	• Promote the participation of SMEs in global value chains. One of the ways that this can be done is by creating a special economic zone where SMEs can physically be in the same area as multi-national corporations and create linkages that could eventually result in technological transfers. • Improve the market access of SMEs by promoting the utilisation of free trade agreements by SMEs that export goods and/or services, as one of the main concerns is the noticeably smaller rate of free trade agreement usage by SMEs compared with bigger corporations, and by intensifying business-matching forums that can prioritise SMEs so that they can bridge the network and knowledge gap and align themselves with the global market.
Advanced stage *Indonesia* *Malaysia* *Philippines* *Thailand* *Singapore*	• Intensify and widen sectoral coverage for policies supporting SME exports and participation in global value chains. One of the ways is by increasing the SME participation rate in the services sector; establishing solid services linkages is considered a significant step in developing digital and sustainable trade for this cluster. • Assist SMEs in trade facilitation by creating a specific authorised economic operator programme that is tailored to SME characteristics to provide them with further help when trading in the global market

Dimension 5: Institutional Framework

Regional Recommendations

- AMS should take steps towards a region-wide ASEAN micro and SME definition. It is recommended that ASEAN start with setting common employment thresholds for micro and SMEs, as common asset and turnover thresholds are probably more difficult to establish.
- AMS could conduct regional peer reviews on the implementation of SME development and SME support programmes. The peer reviews could be conducted, on a voluntary basis, within the structure of ACCMSME.
- At a regional level, it would be useful to include policies for reducing informality amongst the policy interventions selected for a peer review, as there are potentially several lessons to be learned by countries facing similar situations.

Group	Policy Recommendations
Early stage *Myanmar*	• Establish a clear SME definition, aligning it with international standards. Ensure that the definition is in line the country's selected SME policy scope, covers all relevant segments of the SME population, and is used by all public entities relevant to SME policy and SME data collection. • Take steps to better define SME policy objectives and the SME policy process, elaborating a dedicated medium-term SME development strategy in coordination with the country's economic strategy or other relevant strategies. • Put in place a comprehensive strategy to coordinate efforts on tackling business informality. Take a more proactive approach towards reducing informality, using incentives and sanctions to change the balance of the entrepreneur's perceived gains and risks associated with operating informally.
Mid-stage *Brunei Darussalam* *Cambodia* *Lao PDR* *Indonesia* *Philippines* *Viet Nam*	• Take steps to integrate new priorities in SME development strategies, such as promoting SME digital transformation, supporting startups in the high-tech sector, and integrating SMEs in global value chains and advanced industrial/sector clusters. Create links between the SME strategy and sectorial strategies, such as those covering digitalisation, innovation, and skills upgrading. • Continue working to improve the monitoring of SME development strategies and SME support programmes. Define monitoring requirements and selected indicators in SME development plans, organising data collection and putting in place a well-structured reporting system. • For those that do not have dedicated SME development agencies, separate policy elaboration and supervision functions from policy implementation tasks with a dedicated budget and operational autonomy.
Advanced stage *Malaysia* *Singapore* *Thailand*	• Strive to have independent evaluations in place. Make monitoring and evaluation results public and discuss them with all SME stakeholders to learn lessons from past experiences.

Dimension 6: Legislation, Regulation, and Tax

Regional Recommendation

- AMS should continue working on regional-level promotion of good practices around company registration and continue working on the establishment of regionally comparable and recognisable unique business identification number (UBIN)/digital business identities across ASEAN.

Group	Policy Recommendations
Early stage *Cambodia* *Lao PDR* *Myanmar*	• Integrate public-private consultations in the formal sector and explore alternative mechanisms for public-private consultations in the informal sector. • Improve the planning and design stage for legislative simplification by first securing technical assistance and support. • Facilitate and explore ways to promote company registration and tax filing. • Revise and explore ways to improve the e-government services. • Explore ways to support SMEs experiencing distress and insolvency by providing clear instructions in relation to bankruptcy.
Mid-stage *Brunei Darussalam* *Indonesia* *Philippines* *Thailand* *Viet Nam*	• Consider developing key performance indicators to improve the monitoring and evaluation of public-private consultations. • Provide a mandate to include impact analyses of new laws and regulations on SMEs in regulatory impact analyses. • Continue to foster interagency collaboration, especially in the form of database information integration. At the same time, governments must work on streamlining, simplifying, and reducing the cost of filing activities. • Increase investment in e-government services and promote greater awareness amongst SMEs of the e-government opportunities and initiatives. • Explore the need to develop a dedicated second-chance policy.
Advanced stage *Malaysia* *Singapore*	• Maintain an emphasis on continuous re-evaluation of existing laws and regulations with a view to update them if necessary.

Dimension 7: Entrepreneurial Education and Skills

Regional Recommendation

- Building on the digitalisation efforts in the region, an ASEAN digital framework should be developed, and this framework should be integrated in entrepreneurial education and skills development at country levels.

Group	Policy Recommendations
Early stage *Cambodia* *Lao PDR* *Myanmar* *Viet Nam*	• Consider introducing an entrepreneurial learning curriculum in the national educational system. • Develop and implement a model for training of trainers and explore collaboration with private sector activities. • Improve awareness of the need for entrepreneurial education and skills amongst SMEs and entrepreneurs.

Group	Policy Recommendations
Mid-stage *Brunei Darussalam* *Philippines* *Thailand*	• Develop a stronger entrepreneurial education framework and explore its expansion in the national education system. • Ensure that there is a qualifying skills training framework in place for entrepreneurs as well as an accreditation mechanism.
Advanced stage *Indonesia* *Malaysia* *Singapore*	• Improve the monitoring and evaluation of entrepreneurial education and promotion activities.

Dimension 8: Social Enterprises and Inclusive SMEs

Regional Recommendations

- Further expand initiatives such as the ASEAN Inclusive Business Forum or ASEAN Social Entrepreneurship Development Programme at the regional level to increase awareness and exchanges amongst various regional stakeholders.
- Consider the establishment of a regional knowledge centre around social entrepreneurship and inclusive business models with support from OECD, which could help increase awareness and promote instruments amongst policymakers.

Groups of countries	Policy recommendations
Early stage *Brunei Darussalam* *Cambodia* *Lao PDR* *Myanmar* *Viet Nam*	• Promote awareness around the difference of various concepts such as social entrepreneurship, inclusive business, and inclusive entrepreneurship. Consider using role models to raise awareness on barriers that some of the target groups could face. • Consider developing specific criteria to identify social enterprises. Make a specific reference to their role and contributions to national policies. • Collaborate with donors, the private sector, foundations, and other stakeholders on developing financial support programmes especially for SMEs in early stages of development. • Continue working on specific policy frameworks and action plans focussed on specific target groups.
Mid-stage *Indonesia* *Malaysia* *Philippines* *Singapore* *Thailand*	• Clarify the scope and criteria for concepts such as social enterprises, inclusive business, and inclusive entrepreneurship, wherever applicable. • Develop and put in place accreditation mechanisms for different target groups based on identified criteria. • Ensure that SME development strategies and action plans integrate the needs of specific target groups. • Put in place support mechanisms for various target groups including capacity building, investment support, peer learning, impact measurement support, and market access. • Analyse the obstacles and develop self-employment counselling/mentorship mechanisms for target groups such as youth, women, and persons with disabilities. • Improve data collection mechanisms to include disaggregated data on target groups for integrating them into policymaking and utilising them for monitoring and evaluation.

Groups of countries	Policy recommendations
	• Raise awareness and generate interest in both social enterprises, inclusive business, and entrepreneurship through social entrepreneurship education, which could be offered in public education systems to youth. • Develop international exchange programmes amongst various target groups with the aim of exchanging experience and ensuring collaboration with policymakers. • Improve monitoring and evaluation mechanisms to include disaggregated data on target groups, integrating it into policy making and utilising it for monitoring and evaluation. • Work on improving access to finance for each phase of enterprise development. This support can be done in partnership with the private sector or impact-oriented institutions.
Advanced stage	[None of the countries scored over 5.]

ASEAN SME Policy Index 2024 Scores

This section presents the 2024 assessment scores by country for each dimension and sub-dimension, as well as the overall median, standard deviation, and weights used for each element. Scores range between 1 and 6, with a higher score indicating a more advanced level of policy development and implementation. These numbers were calculated based on ASEAN SME Policy Index 2024 Assessment Grid data provided by the AMS.

Dimension 1. Productivity, Technology, and Innovation

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
1 Productivity, technology, and innovation	4.43	3.34	4.72	3.17	5.42	2.32	4.54	5.82	5.09	4.21		4.49	1.03
1.1 Productivity measures	5.15	3.39	4.99	3.45	5.63	2.27	4.41	6.00	5.07	4.38	25%	4.70	1.09
1.2 Business development services	4.68	3.34	4.78	3.32	5.38	2.43	4.57	5.92	5.06	4.03	25%	4.62	1.01
1.2.1 General business development services	4.87	3.32	4.89	3.61	5.53	2.52	4.85	6.00	5.16	3.95	70%	4.86	1.03
1.2.2 Business support services for the digital transformation of SMEs	4.24	3.40	4.53	2.63	5.02	2.22	3.91	5.72	4.83	4.21	30%	4.23	1.02
1.3 Productive agglomerations and clusters enhancement	4.14	3.89	4.74	3.60	5.22	2.76	4.66	5.36	5.07	4.42	25%	4.54	0.77
1.4 Technology and innovation promotion	3.73	2.73	4.38	2.31	5.46	1.83	4.54	6.00	5.14	4.02	25%	4.20	1.31

Note: The 2024 edition has a new section focussed on the digital transformation of SMEs. Hence, the scores for the 2024 edition are not fully comparable with the 2018 edition. Sub-dimension 1.2.1 could be used as a proxy for the comparison of scores with the 2018 edition under Sub-dimension 1.2 – Business Development Services.

Dimension 2. Environmental Policies and Greening SMEs

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
2 Environmental policies and SMEs	3.02	2.47	4.96	2.35	5.56	2.48	4.51	5.56	5.01	3.79		4.15	1.24
2.1 Environmental policies targeting SMEs	4.43	3.09	5.48	2.97	5.60	4.03	4.74	5.93	5.63	4.37	60%	4.58	1.00
2.2 Incentives and instruments for greening SME operations	2.09	2.06	4.61	1.94	5.53	1.45	4.36	5.31	4.00	3.40	40%	3.88	1.46

Dimension 3. Access to Finance

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
3 Access to finance	4.74	3.73	5.07	2.85	5.45	2.52	4.87	5.53	4.92	4.67		4.81	0.99
3.1 Legal, regulatory, and institutional framework on access to finance	5.39	3.69	4.82	3.01	5.38	2.68	4.64	5.39	4.46	4.67	50%	4.66	0.93
3.1.1 Legal regulatory framework for commercial lending	5.77	3.53	4.53	2.73	5.24	2.68	4.69	5.33	4.10	4.43	70%	4.48	1.00
3.1.2 Credit information bureau	6.00	4.52	5.81	4.33	6.00	2.85	3.96	5.26	5.26	5.26	20%	5.26	0.96
3.1.3 Stock market operations and facilities for SME listing	1.55	3.20	4.88	2.38	5.15	2.38	5.72	6.00	5.43	5.16	10%	5.02	1.55

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
3.2 Diversified sources of enterprise finance	4.09	3.77	5.32	2.69	5.51	2.36	5.10	5.67	5.38	4.66	50%	4.88	1.13
3.2.1 Bank credit or loans/traditional debt	4.09	3.83	5.55	1.96	5.60	1.33	5.12	5.62	5.37	4.41	70%	4.77	1.46
3.2.2 Microfinance	N/A	4.13	4.75	5.38	5.38	6.00	5.38	N/A	5.58	6.00	20%	5.38	0.55
3.2.3 Alternative sources of enterprise finance	4.08	2.62	4.88	2.49	5.14	2.28	4.38	6.00	5.07	3.73	10%	4.23	1.21

Note: Methodological changes were introduced under Sub-dimension 3.2 – Diversified Sources of Enterprise Finance; hence, its comparison to 2018 edition would not be complete.

Dimension 4. Access to Markets and Internationalisation

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
4 Access to markets and internationalisation	3.63	2.95	5.48	2.84	5.56	2.47	5.30	5.96	5.52	4.58		4.94	1.26
4.1 Import/export promotion	3.51	2.96	5.58	2.76	5.75	2.83	5.66	6.00	5.75	4.88	50%	5.23	1.31
4.2 Integration into global value chains	2.83	2.63	5.19	2.69	5.13	1.70	4.53	5.89	5.69	5.02	15%	4.77	1.43
4.3 Use of e-commerce	3.87	3.01	5.72	3.22	5.69	2.51	5.47	6.00	5.61	4.16	10%	4.81	1.25
4.4 Quality standards	4.32	2.28	5.77	2.32	5.51	2.14	5.47	6.00	5.28	3.95	10%	4.80	1.47
4.5 Trade facilitation	4.23	3.64	5.06	3.33	5.28	2.26	4.62	5.84	4.69	3.89	15%	4.43	0.99

Dimension 5. Institutional Framework

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
5: Institutional framework	4.53	4.21	4.78	3.86	5.90	2.09	4.85	5.91	5.37	4.60		4.69	1.05
5.1 SME definition	5.62	5.07	4.89	5.62	6.00	3.93	4.51	5.62	6.00	5.62	10%	5.62	0.64
5.2 Strategic planning, policy design and co-ordination	4.35	4.54	5.12	4.23	5.88	2.18	5.34	5.96	5.84	4.94	60%	5.03	1.07
5.3 Measures to tackle informal economy	N/A	3.27	4.06	2.53	N/A	1.29	3.97	N/A	4.22	3.60	30%	3.60	0.97

Dimension 6. Legislation, Regulation, and Tax

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
6 Legislation, regulation, and tax	3.93	2.61	4.53	2.71	5.16	2.41	4.12	5.56	4.36	3.71		4.03	1.02
6.1 Public-private consultations	2.82	2.29	4.24	3.19	5.21	2.90	4.51	5.64	4.91	3.69	25%	3.96	1.07
6.2 Legislative simplification and regulatory impact analysis	3.00	2.66	4.51	2.74	5.48	1.68	3.40	5.03	3.67	3.35	25%	3.38	1.10
6.3 Company registration	5.12	2.82	4.80	3.16	4.90	3.26	4.13	5.78	4.57	4.35	25%	4.46	0.90

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
6.4 Ease of filing tax	4.33	3.20	4.30	1.55	4.87	2.65	4.32	5.43	3.75	4.33	10%	4.31	1.08
6.5 E-government	5.10*	2.27	4.75	1.88	5.14	1.25	4.53	6.00	4.66	2.86	15%	4.60	1.54

*Note: some of the indicators are based on the World Bank "Doing Business" latest edition, as it was agreed. This might result in the fact that some of the recent changes, especially under sub-dimension 6.4 "Ease of fining tax" might not integrate some of the latest changes introduced by the AMS.

Specifically for Brunei Darussalam, for sub-dimension 6.5 "E-government", the score in 2018 edition should have been "5.03" and not "5.70" due to the calculation error. The error has been adjusted and the current score in 2024 indicates improvement compared to 2018 edition.

Dimension 7. Entrepreneurial Education and Skills

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
7 Entrepreneurial education and skills	4.21	3.17	5.03	2.83	5.05	2.17	4.63	5.38	4.76	3.20		4.42	1.05
7.1 Promotion of entrepreneurial education	4.29	3.32	4.96	3.10	5.00	2.39	4.44	5.20	4.47	3.40	40%	4.36	0.90
7.2 Entrepreneurial skills	4.16	3.06	5.07	2.65	5.08	2.03	4.77	5.50	4.95	3.06	60%	4.46	1.16

Note: The comparison with 2018 edition is not complete, since some indicators under Sub-dimension 7.2 – Entrepreneurial Skills were integrated into Sub-dimension 1.2 – Business Support Services.

Dimension 8. Social Enterprises and Inclusive SMEs

Dimension / sub-dimension / thematic block	BRU	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM	Weights	Median	StD
8 Social enterprises and inclusive entrepreneurship	3.48	2.59	4.13	2.49	4.75	2.16	4.20	4.40	3.78	3.00		3.63	085
8.1 Social enterprises	3.24	1.92	4.84	2.91	5.51	2.52	3.44	5.47	4.97	3.30	25%	3.37	1.22
8.3 Inclusive entrepreneurship	3.55	2.81	3.90	2.36	4.50	2.04	4.45	4.04	3.38	2.90	75%	3.47	0.81
8.3.1 Inclusive SMEs for women	3.88	3.23	4.09	3.31	5.42	2.12	5.28	5.30	3.73	3.34	35%	3.80	1.02
8.3.2 Inclusive SMEs for youth	3.54	3.04	4.19	2.20	4.62	2.38	4.08	3.47	3.21	2.69	35%	3.34	0.76
8.3.3 Inclusive SMEs for persons with disabilities	3.19	2.06	3.33	1.42	3.29	1.54	3.92	3.23	3.16	2.64	30%	3.17	0.79

Overall Notes: SMEs = small and medium-sized enterprises. Scores have been developed using the 2024 ASPI assessment methodology, with occasional exceptions incorporated. Weights are expressed in percentages, and scores were re-weighted when countries were excluded from particular indicators. For further information on how scores were calculated, please refer to the technical annex of this report (Annex A) N/A= not applicable (please refer to Annex A)

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid

Chapter 1

Economic Context and Roles of SMEs in ASEAN

1. Economic Context

The Association of Southeast Asian Nations (ASEAN) is composed of 10 ASEAN Member States (AMS), which are home to 674.47 million people. In 2022, it had a combined gross domestic product (GDP) of US$3.23 trillion (United Nations, 2022) (ASEAN, 2024; ASEAN, 2024). The region is a strategic hub for trade, in proximity to one of the world's busiest shipping routes. It is also well-endowed with natural resources – including petroleum, rubber, precious stones, metals, minerals, and timber – and has been one of the world's largest producers of agricultural commodities, especially palm oil, rice, cocoa, and coffee. AMS have leveraged their natural resources to drive industrialisation; today, the region is a thriving hub for global manufacturing and trade, particularly in electronics, automobiles, and textiles.

Part of the region's success in creating resilient growth is due to the diversity across its economies, providing synergistic opportunities and the potential for regional value chains. A recent economic outlook foresees economic growth in the region driven by robust domestic and regional demand and continued recovery of the services sectors, particularly tourism. The acceleration of the digital and green economy could benefit the services sector and exports in the region (OECD, 2024).

AMS vary significantly in terms of economic structure, development levels, population and density, political and legal systems, geographic endowment, and cultural and religious traditions (**Box 1.1**). This diversity, while beneficial, has also created challenges for integration.

Box 1.1. ASEAN Member States – Economic Snapshots

Brunei Darussalam is a small oil-rich country located on the island of Borneo. It has a very high income per capita with a small population of around 450,500 (DEPS, n.a). With the oil and gas sector representing almost 53% of gross domestic product in 2023, recent price shocks to oil have buffered some of the negative impacts caused by the COVID-19 pandemic and war in Ukraine. Recent efforts by policymakers have focussed on diversifying Brunei Darussalam's economic base, increasing the size of its non-oil and gas sector and reducing its vulnerability to price shocks.

Cambodia is a lower-middle-income country located in the Greater Mekong Subregion. The country is one of the fastest growing economies in the world, with a strong textile and garment industry and quickly growing tourism and construction sectors. Cambodia reached lower-middle-income status in 2015 and plans to graduate from least-developed country status in 2027. Cambodia's economy, though, faces several difficulties, being highly reliant on a few products/markets and slow to transition to higher value-added activities.

Indonesia is an upper-middle-income archipelagic nation covering an estimated 17,508 islands, of which around 920 are inhabited. It is ASEAN's biggest and most populous country. Its economy has traditionally been commodity-driven, benefitting from the country's substantial natural resources endowment, but the economy is quickly evolving with an expanding services sector and increased investment in downstream commodity processing. For example, the country seeks to leverage its nickel and cobalt endowments to become a hub for battery and electronic vehicle production.

Lao People's Democratic Republic is a landlocked lower-middle-income country located in the Greater Mekong Subregion. It remains a largely agrarian economy but is developing its tourism industry, with a concentration on ecotourism. It has also invested substantially in hydropower facilities and is an important provider of electricity to neighbouring countries. The country post-pandemic has faced several difficulties regarding inflation and high public debt, leading to currency fluctuations that threaten macro-economic stability.

Malaysia is an upper-middle-income country on the path to graduating to high-income status. Since the 1970s, it has managed to transform itself from a principally commodity-driven economy to one predominantly based on manufacturing and services, although commodities remain important.

Myanmar is a lower-middle-income country located in the Greater Mekong Subregion, with a largely rural economy, substantial natural resources, and a sizeable consumer market. The country experienced high economic growth between 2011 to 2019, averaging 6% per year; however, recent crises have eroded many of the recent development gains. A military coup in 2021 resulted in ongoing internal conflict and displacement, slowing economic growth and foreign investment. Myanmar's economy is around 10% smaller than it was in 2019, and growth is expected to remain low as conflict disrupts business operations, increases logistics costs, and drives internal displacement.

The Philippines is a lower-middle-income country and archipelago covering an estimated 7,107 islands, of which around 200 are inhabited. It has the second-largest population in ASEAN and an important services sector, with strong business process outsourcing and tourism industries. Its large diaspora makes an important contribution to GDP via remittances. It has developed a specialisation in the production of electronics.

Singapore is a high-income city-state with one of the highest population densities in the world. Its strategic location on one of the world's busiest shipping lanes and its highly educated population have enabled it to develop strategic market niches. It is a global hub for financial and insurance services, oil trading and pricing, shipping, and biotechnology.

Thailand is an upper-middle-income country and anchor economy for the Greater Mekong Subregion. While its agricultural sector remains important to employment and exports, it has become a leading producer and exporter of vehicles and vehicle parts. It has a vibrant tourism sector and has invested significantly in infrastructure. Today, it is a logistics hub for many countries in the region, with one of the biggest ports and airports in the ASEAN region.

Viet Nam is a lower-middle-income country and market-oriented socialist economy. It remains largely rural and agrarian but is rapidly building up a strong manufacturing sector via an export-oriented foreign direct investment-driven industrialisation model. While the country has made tremendous development gains and aims to become a high-income country by 2045, several challenges to development remain. Low productivity in non-foreign direct investment sectors, an ageing population, and a carbon-intensive production model may limit the country's growth.

Note: Country income classifications denoted here are based on World Bank country income group classifications for the 2024 fiscal year, which are based on the gross national income per capita of 2022 (calculated using the World Bank's Atlas method). Further information on the methodology and country groupings can be found in Hamadeh, van Rompaey, Metreau (2021).

Several AMS (i.e. Cambodia, Lao People's Democratic Republic [Lao PDR], Myanmar and Viet Nam) are still largely agrarian, with the share of private sector employment being 37% in Cambodia, 70% in Lao PDR, 46% in Myanmar, and 34% in Viet Nam (WorldBank-ILO, 2024; WorldBank-ILO, 2024). Across these AMS, a lack of business formality is a consistent problem, and increasing climate disasters pose risks to crop yields and ultimately farmers' welfare. ASEAN also plays an important part in international agricultural trade, making up 8.2% of exports and 6.5% of imports in 2018 (Sakata, 2020; Sakata, 2020). Thailand, Viet Nam, and Indonesia are the largest agricultural exporters within ASEAN, although other AMS – such as Cambodia and Lao PDR – have shown the highest growth rates in terms of their agricultural exports.

Beyond agriculture, the region has also become an important manufacturing hub that acts as an important source of GDP and employment across ASEAN. Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam have progressively made improvements to productivity, transitioning their strong manufacturing bases towards producing higher value-added products such as electronics and automobile parts. Cambodia has developed a strong textile and garment industry, which remains one of the main drivers of employment, revenue, and export earnings in the country. ASEAN also features a vibrant services sector, with services accounting for more than 50% of gross value added in Malaysia, the Philippines, Singapore, and Thailand.

Table 1.1. Main Macroeconomic Indicators for ASEAN, 2022

Indicator	Unit of Measurement	Country									
		BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
GDP per capita	PPP constant 2021 international US$	77,440.78	4,860.45	13,495.53	8,215.13	32,735.40	5,308.75	9,325.68	129,083.50	20,751.66	13,102.32
GDP growth	%, year-on-year	−1.63	5.24	5.31	2.71	8.65	4.04	7.57	3.65	2.60	8.02
Inflation	%, average	3.68	5.34	4.21	22.96	3.38		5.82	6.12	6.08	3.16
Unemployment	% of active population	5.19*	0.40	3.46	1.21	3.93		2.60	3.59	0.94	1.52
Net FDI	% of GDP	−1.75	12.13	1.87	4.11	3.62	1.99	2.35	31.87	2.27	4.38

BRN = Brunei Darussalam, FDI = foreign direct investment, GDP = gross domestic product, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, PPP = purchasing power parity, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note 1: Unemployment in Cambodia used data from 2021, as no data for 2022 are currently available. Inflation rates for 2022 are also not representative of the country's long-term inflation rates, as global headline inflation peaked in 2022.

Note 2: *Latest data from Brunei's Department of Economic Planning and Statistics indicates that unemployment stood at 5.16% of the active population in 2022. https://deps.mofe.gov.bn/SitePages/Key%20Indicators%20of%20Labour%20Market%20(KILM).aspx

Source: World Bank, 2024.

The region is export-oriented and highly integrated into global value chains, with top exports including electronics, machinery and mineral fuels (primarily petroleum products) (**Table1.2**). The region has a consistent level of trade integration, with inter-regional exports accounting for 20%–25% of annual total exports from 2015 to 2021 (ASEANStats, 2024) . Principal non-ASEAN trading partners include Australia, China, Japan, India, South Korea, and the United States.

Table 1.2. Top Commodity Exports across ASEAN, 2021

Commodity	Share of total exports	Top countries
Electronics	27.06%	Singapore, Viet Nam, Malaysia
Nuclear reactor, machinery or parts	10.34%	Singapore, Thailand, Malaysia
Mineral fuels	8.91%	Singapore, Indonesia, Malaysia
Rubber	3.53%	Thailand, Malaysia, Indonesia
Plastics	3.36%	Thailand, Singapore, Malaysia

Note: Countries are listed in order of their share of gross value of exports for a given commodity.

Source: ASEANStats (2024).

Economic zones have played an important role in ASEAN's integration with global value chains, attracting foreign direct investment (FDI) in export-oriented industries with tax exemptions, subsidies, and streamlined regulations. ASEAN's free trade agreements (FTAs) have also been a crucial part to the region's rapid growth and economic integration. Bilateral FTAs exist between ASEAN and major trading partners such as Australia and New Zealand, China, India, and South Korea. In 2020, ASEAN signed the largest FTA in history, the Regional Comprehensive Economic Partnership. This multi-lateral FTA amongst ASEAN, Australia, China, Japan, New Zealand, and South Korea will help reduce tariffs, simplify rules of origin, and increase investment in the services sector (ASEANBriefing, 2021)

ASEAN remains one of the fastest growing regions in the world, although recent slowdowns in trade and economic crises have exposed structural issues across AMS. The pandemic, war in Ukraine, and other geopolitical conflicts have generated shocks in commodity prices, particularly energy and food. As a result, Lao PDR, Malaysia, and Myanmar have suffered sharp currency devaluations, and elevated levels of debt are noted for Cambodia, Lao PDR, and Malaysia (OECD, 2024).

Despite sharp rebounds in trade volume during 2021–2022, export trends in 2023 revealed a slowdown in goods exports across ASEAN. This decline in external demand could represent a downside risk for growth, although strong increases in domestic demand in Cambodia, Indonesia, Malaysia, the Philippines, Singapore, and Viet Nam have largely compensated for any declines in trade. During this time, the services sector has continued to grow, becoming the largest contributor to growth across the region. The full recovery of the tourism sector and a revival of international air travel have been an important boost to countries where tourism is a significant contributor to GDP, such as Malaysia, the Philippines, Singapore, and Thailand. The rapid expansion of business services and technology-business process exports have been noted for Indonesia and the Philippines as well.

Moving forwards, the outlook for the region remains increasingly positive. The stabilisation of interest rates and early signs of a turnaround in demand for global electronics should lead to growth in goods exports. The services sector is expected to continue to expand, with high-technology-based services such as cloud computing and generative artificial intelligence (AI) becoming drivers for growth in advanced economies such as Indonesia, Malaysia, and Singapore. FDI is also expected to pick up, with ASEAN's share of global FDI rising significantly from 14.4% in 2021 to 17.3% in 2022 (OECD, 2024). Despite recent declines in exports, the region's attractiveness for investment in manufacturing remains robust. Newly announced greenfield projects will form critical links in the supply chain and attract a sizeable share of FDI in the near term. Expected growth in the semi-conductor industry, driven by demand for AI-integrated electronics, will benefit Malaysia and Singapore's existing industries as well as newcomers Indonesia and the Philippines. In addition, the expansion of electric vehicles is likely to deliver substantial gains to the automotive industries in Indonesia and Viet Nam. A growing number of multi-lateral FTAs and partnerships, such as the ASEAN Free Trade Area and Regional Comprehensive Economic Partnership, are also expected to boost trade, increase investment, and harmonise standards across all AMS.

2. The ASEAN SME Policy Index

The Small and Medium-sized Enterprise (SME) Policy Index provides an analytical tool for understanding SME policies across the ASEAN region as well as a framework for assessing and benchmarking progress in the design and implementation of SME policies. This assessment builds on similar exercises piloted by the Organisation for Economic Co-operation and Development (OECD) and Economic Research Institute for ASEAN and East Asia (ERIA) in 2014 and 2018 and shares a common methodology with other OECD SME Policy Index assessments. The SME Policy Index has been widely used across OECD's external partner programme, being implemented in 40 countries since its creation in 2007. The core methodology of the SME Policy Index has been slightly adapted to reflect the economic priorities in the ASEAN region, and adjustments since previous assessments have been made to refine the methodology and to capture emerging concepts.

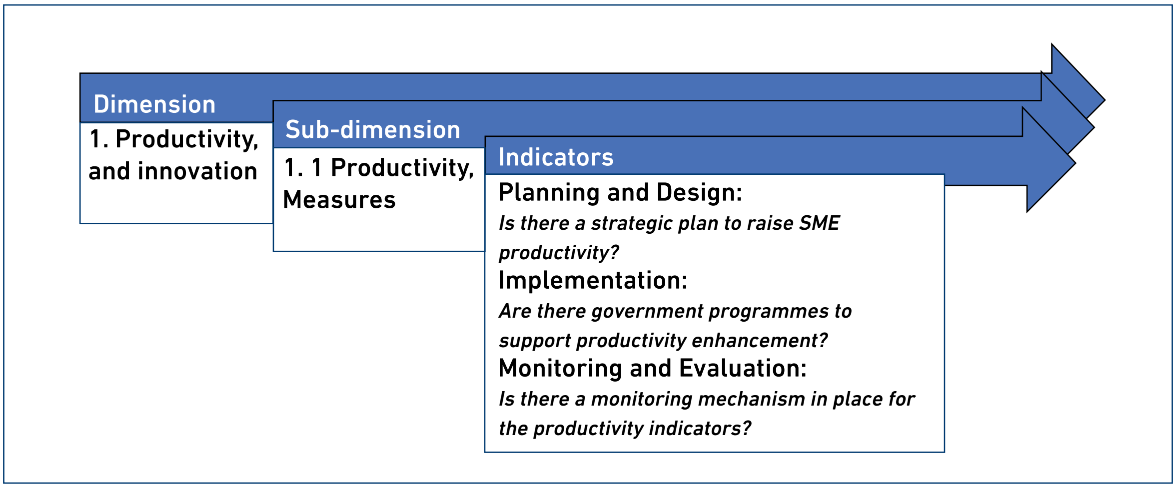
This report is divided into two parts. Part 1 provides a comprehensive presentation of the assessment results categorised by thematic dimensions, with each chapter dedicated to one dimension. Part 2 presents individual country chapters, delving into the assessment outcomes for each AMS.

The results were then compiled into an assessment framework commonly employed by OECD. This assessment framework allows for policy information across countries to be aggregated and transformed from largely qualitative inputs into harmonised quantitative indices. These indices provide a point of comparison across time and different economies and regions. Additionally, by regularly repeating the assessment every several years, participating economies can assess their progress in responding to SME needs and aligning with internationally recognised good practices.

The framework assessment in ASEAN aligns with the objectives of the *ASEAN Strategic Action Plan for SME Development 2016–2025* (SAP SMED 2025), allowing for an assessment of the plan's implementation and countries' progress in achieving the goals outlined within the plan. The analysis is supplemented by policy recommendations at the regional and country levels, as well as good practice examples from ASEAN and OECD member countries. It is the result of collaboration between the OECD's Southeast Asia Regional Programme, ERIA, and ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME), in partnership with the governments of the 10 AMS as well as experts, stakeholders, and representatives of the SME sector.

The assessment was primarily conducted through questionnaires, and results were tabulated into an assessment grid. The assessment grid, developed by OECD and partner organisations with expert and stakeholder feedback, was organised around different dimensions that reflect relevant policy areas: (i) productivity, technology, innovation; (ii) green SMEs; (iii) access to finance; (iv) access to market and internationalisation; (v) institutional frameworks; (vi) legislation, regulations, and taxes; (vii) entrepreneurial education and skills; and (viii) social enterprises and inclusive SMEs. Dimensions were then further broken down into component sub-dimensions. The 2024 ASPI assessment grid comprised 8 dimensions and 25 sub-dimensions. The sub-dimensions were further divided into thematic blocks, each with its own set of indicators. The thematic blocks were typically broken down into three components, representing different stages of the policy cycle: planning and design, implementation, and monitoring and evaluation (**Figure 1.1**).

Figure 1.1. Dimension, Sub-dimension, and Indicator-Level Examples



SME = small and medium-sized enterprises.

Source: Authors.

This approach – slicing scores to reflect different stages of the policy cycle – allows governments to identify and target stages where they face notable strengths or weaknesses. In a few sub-dimensions where this approach was not applicable, thematic blocks may differ. Several sub-dimensions were also broken down further to provide more granularity in scores. For example, Dimension 3 featured several different sub-dimensions capturing different sources of finance.

The 2024 edition expanded upon the areas of analysis covered by previous assessments to capture emerging economic and policy trends (i.e. digitalisation) as well as to strengthen the link between policies and economic outcomes. Thus, the 2024 SME Policy Index included:

(i) new sub-dimensions on bankruptcy and second chances, inclusive business models, and business development support around digitalisation;
(ii) additional indicators on raising SMEs' sustainability awareness and providing greening tools to SMEs;

(iii) additional indicators on ensuring SME access to sustainable financing across a variety of financial instruments/sources;
(iv) adjustments due to the changes to the availability of the recent supplementary data used for the scoring; and
(v) minor adjustments and inclusions to various other indicators.

The scores per dimension ranged from 1 to 6, and they were calculated by aggregating results for each analytical indicator using relative weights. Typically, AMS that obtained scores ranging from 1.0 to 3.5 are at an early of policy development. Scores that ranged from 3.5 to 5.0 denote an intermediate (or mid-) level of policy development, while scores above 5.0 are an indication of an advanced level of policy development and could present examples of good policy practice.

All the scores were calculated based on policy situations as of 31 December 2023. Policymaking is a process; as such, some reforms may have already taken place by the time of publication but were not integrated into the calculations.

For the purpose of this publication, and given the varied definitions of micro, small, and medium-sized enterprises across the region, the authors of this report typically use the collective terms 'MSME' and 'SME' synonymously, unless specified otherwise.

The SME Policy Index methodology adds value by transcending statistics, delving into the SME policy environment across diverse areas. It offers an independent and rigorous assessment, but it also has a number of limitations (**Table A.1**). For more information on the 2024 methodology update and to ensure comparability with previous assessments, see Annex A.

3. Navigating SME Policies during the COVID-19 Pandemic in ASEAN

On the cusp of 2020, the world experienced a pandemic situation that called for dramatic measures of impeding physical mobility to be put in place, slowing down the economy everywhere and halting business operations. The sudden onslaught of COVID-19 unleashed supply chain disruptions, labour shortages, and an intense contraction in demand, thrusting SMEs into a dire liquidity crisis that threatened their survival (ASEAN and OECD, 2020). The impact, however, was not uniform across all sectors. Tourism, hospitality, manufacturing, and agriculture faced severe challenges due to lockdown measures and a sharp decline in demand ((ASEAN and OECD, 2020).

The uneven impact necessitated a nuanced analysis of the policy measures undertaken by AMS governments, categorised into immediate policy measures and structural policy adjustments, especially regarding SME survival. Indeed, some of these were put in place, focussing on enterprise formalisation, workforce training, digitalisation, and expanding market access (OECD, 2021).

Each AMS reacted to the pandemic differently, although there had been noticeable differences amongst their SME environments and development since before the pandemic. The 2018 SME Policy Index showed that some AMS were still in the early development stage in terms of their SME policy architecture, and their responses to the pandemic consequently differed than their more developed counterparts.

Cambodia, for example, an AMS with a less-developed SME policy framework, relied heavily on digitalisation initiatives in an attempt to turn the pandemic into an opportunity to help its SMEs break through digitalisation barriers. DAI and Ipsos (2022)highlighted that there had been an increase amongst Cambodian SMEs in using digital tools to run their businesses during the pandemic compared to the pre-pandemic period, from 36% to 45% of surveyed SMEs. Amongst those SMEs, 73% reported that digital tools are important or essential to keeping their business running during the pandemic. A similar situation was also observed in another less-developed AMS, Lao PDR. There, the number of micro and SMEs 'working as usual' increased over the pandemic, from 30% during the first lockdown period to 71% in July 2020, 83% in October 2020, and 85% in January 2021, thanks to their increasing reliance on digital tools (The Asia Foundation, 2022).

Meanwhile, AMS with more mature SME policy ecosystems and digitalisation rolled out more varied interventions to ease their SMEs' burden over the course of the pandemic, while deepening their digital presence to keep them afloat. Access to broader markets through government procurement was a widely adopted strategy, often strengthened by financial relief programmes.

The assessment framework examined the context of the pandemic; however, unlike the other sub-dimensions, the COVID-19 pandemic part of the scores was not calculated. The questions were put in place to dive into initiatives and policies by AMS and to draw insights from pandemic responses. Amongst types of measures, interest rate subsidies, credit guarantees, and credit payment deferrals were the most frequently used across AMS. Credit meditation schemes were also popular in Malaysia, the Philippines, Singapore, and Thailand.

Indonesia is an example that heavily used financial measures to help its SMEs stay afloat during the pandemic. It enacted a string of instruments under the National Economic Recovery Plan (*Kebijakan Pemulihan Ekonomi Nasional*), which included deferred loan payments, debt restructuring, and subsidies on loan interest. The country's financial service authority, *Otoritas Jasa Keuangan* (OJK), also extended its stimulus policy in 2021, aimed at preparing banks and SME debtors affected by the pandemic for a soft landing when the stimulus ended in March 2023. In addition, Indonesia reduced interest on its SME microcredit scheme, *Kredit Usaha Rakyat* (KUR), to ease the interest burden amongst SMEs.

Other AMS also used financial measures as a main tool to help their SMEs navigate the pandemic. Malaysia followed the interest reduction route by decreasing its policy rate in 2020 to lessen the cost of SME lending via Bank Negara Malaysia's Fund for SMEs, along with other financial measures for SMEs. Meanwhile, emergency measures intended to offer relief for businesses was a part of the Philippines's economic recovery measures to address concerns of the business sector brought about by the pandemic in the form of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law in 2021.

Thailand, however, put an emphasis on business development support programmes. Its Office of SMEs Promotion (OSMEP) conducted various trainings to assist SMEs navigating the 'new normal' measures, creating assistance centres in 77 provinces and recruiting 2,700 experts as SME assistants. Other AMS with stronger financial bases also focussed their efforts on business development programmes during the pandemic, such as the Covid GoBusiness portal on the SafeEntry website offered by Singapore for its SMEs and Brunei Darussalam's EKedai by the Authority for Info-communication Technology Industry (AITI) in collaboration with Darussalam Enterprise (DARe[1]) to help its SMEs expand their markets. These initiatives, however, tended to overlap with these countries' broad directions and programmes for their SMEs – regardless of the pandemic. Therefore, while these may have specifically helped SMEs during the pandemic, a more thorough analysis of these policy measures can be found in respective dimension chapters in this report.

The COVID-19 pandemic presented AMS with unprecedented challenges for its SMEs. The responsive policy measures implemented by AMS were pivotal not only in mitigating the immediate impacts of the pandemic but also in leveraging competitiveness of SMEs at the end of the pandemic. Significantly, the pandemic catalysed a shift towards digital transformation amongst SMEs, especially in AMS with less-developed policy frameworks pre-pandemic.

These development responses have put AMS in better positions to direct their efforts into their SMEs' respective critical vulnerabilities. According to one survey, 54% of SMEs reported that poor or no connectivity is a difficulty that their businesses face, followed by a lack of knowledge (36%) and access to digital devices such as a mobile phone, tablet, or computer (21%) (DAI and Ipsos, 2022). These findings highlighted areas where government policy frameworks and initiatives can be directed and prioritised, especially in developing AMS such as Cambodia, Lao PDR, and Myanmar, to ensure that the digitalisation leapfrogging opportunities ushered in by the pandemic will not go to waste.

The COVID-19 pandemic allowed for advancement in the development of disaster risk management and existing mechanisms.

South-east Asia is amongst the world's most disaster-prone regions, and the threat of disasters, such as floods, storms, earthquakes, and droughts, is increasing. Beyond their potentially devastating immediate effects, disasters often hinder the achievement of sustainable development. Achieving disaster-resilient development requires the strategic introduction of a holistic policy approach, and better coordination is essential for this approach to be effective. This includes governance and institutional capacity, budgeting, risk financing, infrastructure and land-use planning, training and education, health, adoption of cutting-edge technology, and partnerships with the private sector (OECD, 2024).

[1] With retroactive effect from 1 April 2024, Darussalam Enterprise (DARe) has merged with the Brunei Economic Development Board (BEDB) to form a single organisation, now operating under a rebranded BEDB. The newly unified BEDB focuses on three strategic thrusts: Enabling Private Sector Growth, Increasing Internationalisation, and Enhancing BEDB Capabilities.

BEDB envisions a resilient and diversified economy, committed to catalysing sustainable growth by attracting and facilitating impactful investments that create jobs and generate opportunities for local enterprises. The organisation provides effective support and resources to enterprises of all sizes to spur innovation and growth while developing fit-for-purpose industrial infrastructure to enable businesses to thrive in a conducive environment.

Through its Enterprise Development division (formerly DARe), BEDB is responsible for driving meaningful and strategic growth of local enterprises within the priority sectors and beyond, improving firms' competitiveness, resilience, sustainability, and contribution to Brunei's economy.

The lessons learned during the COVID-19 pandemic have pushed governments to reflect more broadly on disaster risk management and existing mechanisms. Governments have several options to develop SME-specific disaster risk management support. In 2022, ACCMSME created specific regional guidelines enhancing the resilience of micro and SMEs to crises and disasters. Following the four phases of disaster risk management (i.e. prevention, preparedness, response, and recovery), the guidelines provide information on how relevant agencies can identify resources, determine roles and responsibilities, establish coordination mechanisms and include disaster risk management in existing or new policies and regulations (ASEAN, University of Cambridge, SPI, 2022).

The SME Policy Index process identified that governments have started promoting the guidelines locally and, in certain cases, have put in place disaster risk management mechanisms supporting enterprises. It confirms that the five concrete steps from the report remain relevant. AMS should create awareness of disaster risk policies and better evaluate how effective communication channels and policies have been in reaching and supporting SMEs. There is a need to develop national and sub-national coordination mechanisms and leverage regional collaboration.

Even if some efforts have been made, governments face several roadblocks to disaster resilience in the region, including lack of funding and lack of mechanisms for risk financing options such as disaster insurance and risk transfer instruments. There is also low awareness of policy options. Governments should also set overarching, clear, and mandatory policies of disaster risk reduction education at the national level while allowing implementation to be adapted to local contexts.

Moving forwards, policymakers should encourage the adoption of state-of-the-art technologies and innovations in disaster risk reduction and management. They should also broaden disaster risk financing options. Effective disaster risk financing requires formulating a grand design that covers the entirety of the economy. Facilitating access to disaster insurance and risk transfer instruments and ensuring their widespread delivery to populations at risk are crucial (OECD, 2024).

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Part I

Chapter 2

Productivity, Technology, and Innovation

1. Introduction

Enhancing productivity, promoting technology, and fostering innovation are seen as crucial to economic development in South-east Asia. Support of these dimensions, however, cannot be isolated to large and multi-national companies; it must be extended to small and medium-sized enterprises (SMEs) as well. Recent reports have shown a widening gap in labour productivity across Organisation for Economic Co-operation and Development (OECD) member countries, demonstrating a need for more government interventions (OECD and ILO, 2022). Proactive engagement with SMEs – through public-private consultations and their inclusion into national development plans – is critical to ensuring sustainable productivity growth. Business development services (BDS) can also help bridge the gap, allowing SMEs to improve their efficiency, enhance their productivity, access new markets, and ultimately better compete with large enterprises. The inclusion of SMEs into industrial clusters has been identified as a lever for sector growth and is crucial for sustaining increases to domestic value, employment, and productivity. Additionally, emerging and middle-income economies must proactively support innovation and technology enhancement in SMEs to move towards knowledge-based economies.

1.1. Productivity Measures

The competitiveness of companies is strongly linked to their ability to increase productivity while upgrading their innovation and technological capacity. The *Association of Southeast Asian Nations (ASEAN) Strategic Action Plan for SME Development, 2016–2025* notes this importance, with productivity being identified as a key driver for the integration of SMEs into larger markets (ASEAN, 2015).

Long-standing studies have shown the importance of capital investments in driving productivity (Fisher, 2005; Greenwood, Hercowitz, Krusell, 1997). Investments in new technologies can have a direct impact on resource efficiency and operational resilience, and they can also result in technical advances that redefine business processes and gains to labour productivity. This latter point may prove instrumental for SMEs, as emerging digital technologies (e.g. cloud computing and generative artificial intelligence [AI] tools) have low barriers to entry and have the potential to enhance productivity. The total impact that these tools will have in driving productivity has yet to be determined, as current studies revealed a range of gains in productivity (OECD, 2021). As these tools are adopted, ASEAN must also pursue targeted improvements to labour quality in the region. Previously, improvements in labour productivity for ASEAN Member States (AMS) have been mostly due to improvements in the quality of labour, contextualising the 73% of regional improvement in labour quality over 2000–2020 (APO, 2022). To properly realise gains from digitalisation, it is important that digital technologies are complemented by adequate managerial skills and technical expertise. In addition, firms must have easy access to finance to fuel this transition as well as regulatory frameworks that promote competition and an efficient re-allocation of resources (OECD, 2019).

1.2. Business Development Services

BDS are generally defined as non-financial services that enable companies to enhance their competitiveness and to improve their performance across a wide range of activities. BDS play a crucial role in improving profitability, efficiency, and the competitiveness of firms, allowing them to reach new markets and to compete against larger enterprises. BDS support firms by disseminating information and offering training on a wide range of strategic and operational issues.

There are several major approaches to offering BDS. Business incubators and accelerators are forms of BDS designed to assist entrepreneurs in establishing and growing their businesses during the initial phases of the business life cycle. These support systems often deliver a comprehensive suite of services, which may include training sessions, workshops, coaching, mentoring, advice, networking opportunities, and access to finance. Additionally, business incubators typically provide physical space for businesses to operate. Competence centres focus on organising and transferring knowledge, offering expertise, resources, and assistance in areas such as application development, software language proficiency, data management, internet development, and network design. Digital innovation hubs aim to help companies, particularly SMEs, enhance their processes, products, and services through the adoption of digital technologies.

Ultimately, BDS act as a supporting force to firms, allowing businesses to focus on their core competencies and providing them with the knowledge and resources required to innovate and to grow. This is especially important for SMEs that are often unable to develop their own internal support services due to cost and complexity constraints.

There are limitations to BDS regarding SMEs, however. SMEs often have limited knowledge of what BDS programmes are available to them and are often unclear about the effectiveness of these programmes and the potential benefits that they can bring to driving business growth.

There are also supply-side limitations. Because of the heterogeneity amongst SMEs, BDS suppliers often lack information regarding SME needs and are constrained in their ability to offer effective, timely support to SMEs. Private BDS providers especially face disincentives in catering towards SMEs due to uncertainty regarding compensation, less substantial contracts, and shorter-term engagement.

Because of this, there is a need for governmental intervention to ensure the proper provision of BDS to SMEs. Governments should provide SMEs with updated information about BDS and incentivise the use and provision of BDS. Approaches must be conservative in nature to prevent the crowding out of private investment, however. Government should also not distort the market and should only intervene in the provision of BDS when there is a market gap or lack of services. Too-generous direct interventions of the government may negatively impact the BDS market.

1.3. Productive Agglomerations and Cluster Enhancement

Clusters are defined as geographically close groups of interconnected companies, service providers, and associated institutions in a particular sector linked by common technologies and skills (Porter, 2003). Clusters are sources of competitive advantage, generating proximity gains through better infrastructure utilisation and being sources of potential innovation as talent pools congregate in an area and different actors begin to collaborate.

Clusters are viewed as an instrumental feature of regional and national economies and are seen as drivers of innovation, competitiveness, and enhanced productivity (OECD, 1999). SMEs occupy essential positions on the value chains of clusters, acting as sub-contractors or suppliers of intermediate goods. Despite this, SMEs are often excluded from formal cluster arrangements, limiting their ability to contribute to job creation and to disseminate innovations (OECD, 2009).

Governments can intervene to support cluster development, increase the ability of clusters to generate knowledge spillovers, and create other local positive externalities. Typical governmental interventions are investment incentives, building/infrastructure provision, and information dissemination to potentially mobile firms and workers to grow clusters and to foster proximity gains. Alternative interventions may focus on improving collaboration amongst actors within a cluster by creating local knowledge exchange networks, commercialising public research, and developing science and innovation parks (OECD, 2009).

1.4. Technology and Innovation Promotion

Innovation and research and development (R&D) play an important role in knowledge-based economies and have been shown to be important drivers of productivity for emerging economies (Griffith, Redding, Van Reenen, 2024). Beyond generating new innovations, the country-level capability to harness and to commercially exploit existing technology is also identified as a critical part of economic competitiveness (Fagerberg, Srholec, Knell, 2007).

In line with the *ASEAN Strategic Action Plan for SME Development, 2016–2025*, there are strong links between SMEs engaging in innovation and their integration in global value chains (Nguyen, 2008; Love and Roper, 2015). Innovative SMEs are not only more likely to successfully embed themselves into regional and international markets but are also shown to have higher productivity growth.

SMEs are identified as potential sources for innovation. Their limited bureaucracy and rapid internal communication allow for fast decision-making and more flexibility in adapting business operations, making SMEs well-suited to capitalise on disruptive innovations (Vossen, 1998). Despite this, SMEs are often hindered from commercialising their innovations. SMEs, compared to large firms, face financial and technological constraints that prevent them from exploiting opportunities or engaging in dedicated R&D. Because of this, it is important that SMEs receive additional support that allows them to capitalise on their innovations and to generate knowledge spillovers. Support must be tailored to fit the diverse needs of different SMEs. For instance, high-technology startups tend to establish their business models around a single technology that they can commercialise, whereas SMEs in other sectors tend to act as adopters or enablers of innovation (Qian and Lee, 2003). Evidence suggests that services-based SMEs are only found to have gains in productivity when they are engaging in both exploratory and exploitative innovation, demonstrating that polices should offer holistic support and capitalise on synergies between the modes of innovation (McDermott and Prajogo, 2012). Additionally, SMEs in the non-information technology (IT) services sector tend to be much more local than manufacturing-based SMEs, raising the importance for distributed provincial support.

2. Assessment Framework

The framework used to assess Dimension 1 on policy for enhancing productivity, technology, and innovation in ASEAN covered four sub-dimensions (**Figure 2.1**). Each sub-dimension was evaluated based on the planning, implementation, and monitoring capacity of AMS, and scores were compared when applicable to the 2018 results. The 2024 edition has a new section focussed on the digital transformation of SMEs; hence, the scores for 2024 edition are not fully comparable with the 2018 edition. However, Sub-dimension 1.2.1 could be used as a proxy for the comparison of scores with the 2018 edition under the Sub-Dimension on BDS.

Figure 2.1. **2022 Framework for Assessing Productivity, Technology, and Innovation**

Dimension 1 : Productivity, Technology, and Innovation		
1.1 Productivity measures	• Strategic plan to enhance productivity • Budget mobilization to implement strategic plan • Monitoring mechanisms and use of KPIs	
1.2 Business development services	• Actionable policy framework • Evaluation of demand & capacity • One-shops • Start-up promotion	General
	• Digitalization roadmap • Support programmes for SME digitalization • Enabling digital infrastructure	Digitalisation
1.3 Productive agglomeration and industrial clusters	• Background studies • Support on linkages among SMEs • Support on linkages between SMEs and large enterprises • Availability or science & industrial parks	
1.4 Technology and innovation promotion	• Innovation strategy • Inter-governmental body for innovation policy • Intellectual property rights • Public procurement for innovation • R&D tax credits • High-tech start-ups	

KPI = key performance indicator, R&D = research and development, SMEs = small and medium-sized enterprises.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 1.1 – Productivity Measures examined measures to enhance productivity that are specifically aimed at SMEs. For planning and implementation, the main agencies involved in SME productivity enhancement policies and the inclusion of productivity enhancement in national development plans were examined. Implementation also measured the operationalisation of strategic plans and focussed on how much of the budget is mobilised and through what sources. For evaluations, the analysis considered the availability of key performance indicators (KPIs), presence of independent evaluations, and impact of evaluations on affecting governmental action.

Sub-dimension 1.2 – Business Development Services has been expanded from 2018 to include a sub-section dedicated to digital transformation. This increased focus on digital transformation reflects the accelerating usage of digital technologies and their importance to labour productivity. The analysis focussed on the different aspects of BDS for SMEs in the ASEAN region. It looked at whether studies exist that gauged the demand and availability of public services, allowing for governments to evaluate the risk of crowding out private BDS providers. It then explored the SME policy framework, evaluating whether support services are strategically incorporated with actionable, timely goals necessary to respond to gaps in the BDS market and whether such plans have been met with equal budget mobilisation. In contrast to the 2018 assessment, SME policy was also examined in regard to whether there is a dedicated policy framework to support startups and early-stage ventures. This reflects the growing importance of startups in driving innovation and productivity enhancement (OECD, 2020). To address demand-side constraints and to facilitate the uptake of BDS, the existence of one-stop business centres was also considered.

The sub-section on digitalisation largely reflects the earlier sub-section but with a focus on digitalisation. It analysed whether studies exist to gauge demand and whether an SME policy framework has a dedicated programme to foster SME digitalisation. Attention was paid to the existence of governmental best practices (e.g. self-assessment tools, up-skilling programmes, and advisory activities) and facilitating innovation infrastructure (e.g. incubators, accelerators, and innovation hubs). Additionally, recent activities to support businesses going digital in response to the COVID-19 pandemic and achievements in expanding IT infrastructure were examined to reflect the changing market landscape and digital availability.

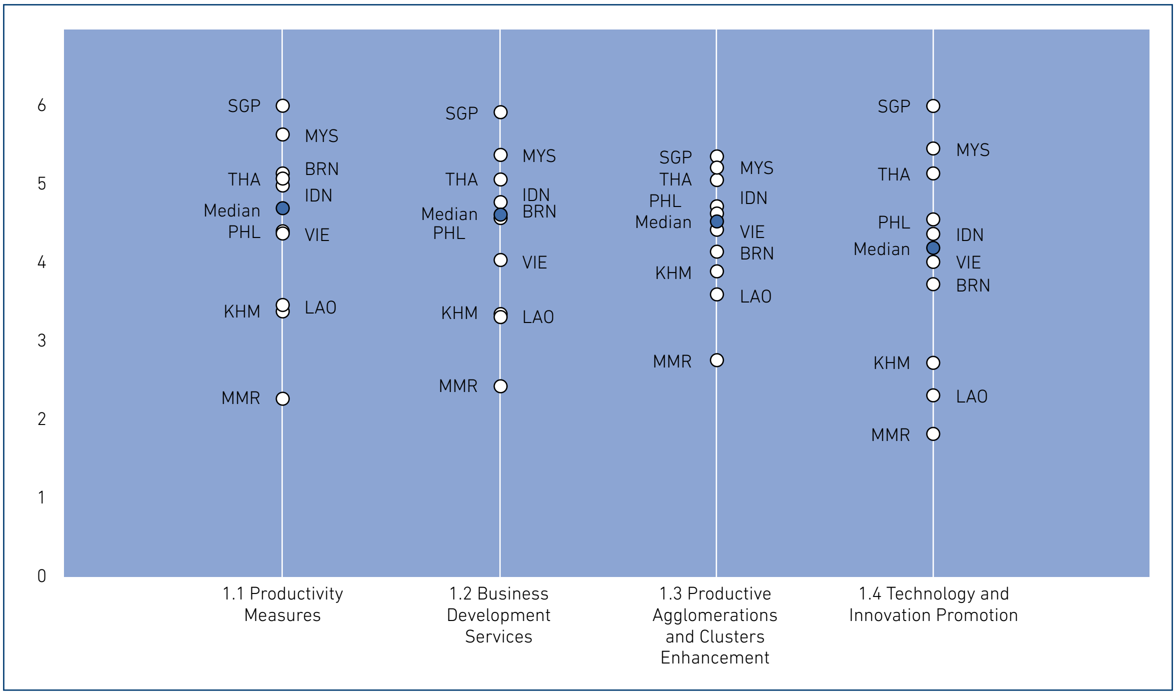
Sub-dimension 1.3 – Productive Agglomerations and Industrial Clusters focussed on the enhancement of productive agglomerations and industrial clusters in the ASEAN region, with a primary emphasis on the manufacturing sector. This sub-dimension examined policies and programmes related to the development of business agglomerations and clusters. The role of infrastructure as a crucial economic factor for cluster formation was analysed, including the existence and enhancement of such infrastructure since 2014. It considered various obstacles to cluster investment faced by both domestic and international investors and reviewed both financial and non-financial incentives aimed at supporting business cluster zones. The liberalisation of foreign direct investment (FDI), using Economic Research Institute for ASEAN and East Asia (ERIA) Foreign Investment Liberalisation and OECD Regulatory Restrictiveness indices, was also evaluated. Furthermore, it assessed the mechanisms for monitoring and evaluation (M&E) programmes designed to boost industrial clusters.

Sub-dimension 1.4 – Technology and Innovation Promotion investigated the policies and mechanisms in place within ASEAN to foster technology and innovation amongst SMEs. It evaluated the innovation policy landscape to see how SMEs are incorporated into innovation policies and whether a governmental agency is responsible for coordinating innovation strategies. The existence of R&D incentives, intellectual property protection, and innovative public procurement policies was examined. For implementation of this sub-dimension, this assessment reviewed the availability of infrastructure supporting innovation, such as incubators, science and technology parks, and technology transfer offices, as well as government-backed collaboration projects between businesses and academic institutions. In addition, scores for instruments supporting high-tech or high-growth startups have been added to the 2024 assessment framework, reflecting this assessment's increased focus on digitalisation. Lastly, the assessment considered the mechanisms for monitoring and evaluating policy implementation and the integration of these findings into ongoing policy development.

The four sub-dimensions of Dimension 1 are given equal weight (25%) as they are presumed to be of equal importance and relevance, as established by experts in the previous assessments.

3. Analysis

Figure 2.2. Weighted Scores for Dimension 1: Productivity, Technology, and Innovation



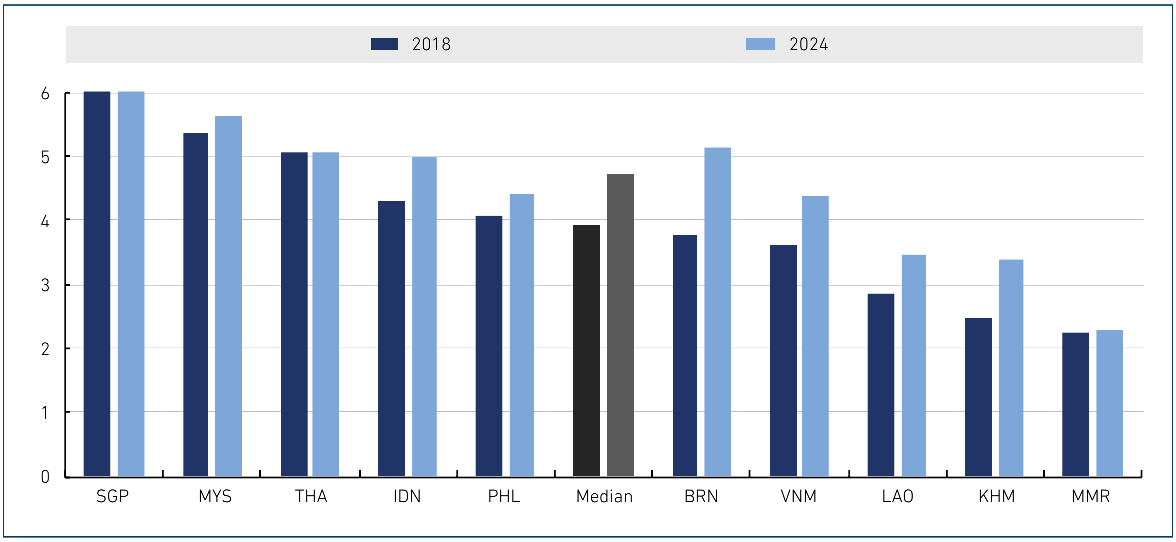
BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note : Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Subdimension 1.1: Productivity Measures

Figure 2.3. Weighted Scores for Sub-dimension 1.1 – Productivity Measures (2018 versus 2024)



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Labour productivity growth across the ASEAN region has been overall positive over 2018–2023, but gains were not equal across sectors or countries (**Table 2.1**). The impact of the COVID-19 pandemic had immediate consequences on productivity, with all AMS except Viet Nam facing decreases in total factor productivity over 2019–2020 (APO, 2022). Even in the recovery period, certain sectors, such as health and tourism, are still severely impacted and in the process of rebounding (OECD, 2023a).

Table 2.1. Scores for Sub-dimension 1.1 – Productivity Measures

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Medi-an	StD.
Planning & Design	4.73	3.90	5.36	4.53	5.79	2.44	4.73	6.00	5.58	4.95	**4.84**	**0.99**
Implementation	5.62	3.38	5.06	3.20	5.81	2.65	4.32	6.00	4.50	4.12	**4.41**	**1.10**
Monitoring & Evaluation	4.84	2.52	4.19	2.14	4.97	1.13	4.06	6.00	5.48	3.94	**4.13**	**1.47**
Total score	**5.15**	**3.39**	**4.99**	**3.45**	**5.63**	**2.27**	**4.41**	**6.00**	**5.07**	**4.38**	**4.70**	**1.09**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Overall, the current median score for the productivity enhancement sub-dimension for ASEAN is 4.70, showing a marked increase from 3.91 in 2018 (Figure 2.3 and Table 2.1). This high score shows that the region is not only actively pursuing plans for productivity enhancement but has increasingly intensified efforts. When evaluating the planning and integration of productivity enhancement into policy frameworks, ASEAN has a rather high median score – 4.84 – which is a sizeable improvement from 2018 (4.01). Implementation also boasts a relatively high median score – 4.41 – but has a smaller increase from the 2018 median score of 4.03 due to decreases in scores for budget mobilisation and cross-sectoral instruments.

M&E have shown improvement since 2018 but have the smallest gains within the sub-dimension, only moving from a median score of 3.93 in 2018 to 4.13 in 2024. These modest gains were mostly due to increases in the availability of productivity measurements and KPIs across the region. It should be noted that there is wide variation in the scores for M&E compared to planning and design or implementation, but that variation over time is decreasing.

Planning and design: Strategic plans are increasingly common, but improvements in coverage can still be made.

The structure of the agencies responsible for planning productivity policies and programmes varies. Most AMS have a single productivity policy development agency dedicated to enhancing productivity in both SMEs and large firms. The Philippines, in contrast, has a separate planning agency dedicated specifically to SME productivity, the MSMED Council for MSME Productivity Policy. Other AMS take a less a structured approach. In Brunei Darussalam, policy enhancement occurs under sector-specific agencies, such as the Ministry of Primary Resources and Tourism for the agriculture, fishery, and forestry sectors. Across AMS, agencies beyond those dedicated to productivity enhancement also pursue programmes focussed on enhancing the productivity of SMEs. For example, in Viet Nam, the Ministry of Planning and Investment; National Productivity Institute; and Directorate for Standards, Metrology and Quality are the main agencies for productivity enhancement policies, yet the National Technology Innovation Programme also features support to help enhance SME productivity.

Plans for SME productivity enhancement tend to be embedded in larger national development plans across AMS. Productivity plans in Brunei Darussalam, Cambodia, and Thailand are noted for having only a marginal SME focus. In contrast, Lao People's Democratic Republic (Lao PDR) has instituted the National MSME Development Plan (2021–2025) that acts as a stand-alone document to assess SME productivity while still referring to the National Productivity Master Plan. Other AMS have also begun developing stand-alone plans that complement national development plans. In Indonesia, a micro and SME strategic plan provides actionable goals for SME development and indicators for measuring SME productivity. SME Corp Malaysia Business Strategic Plan (2022–2030) supports the national entrepreneurship policy and offers SME-specific data and guidance.

In developing these policies, input is given from a variety of sources. Consultation from businesses and academic institutions is a part of the policy-planning process across all AMS. Additionally, the Asian Productivity Organization (APO) plays an important role in helping national agencies shape their productivity policies. Working in concert with national bodies, APO seeks to promote innovation, align national offices with best practices, and provide a unified standard across APO members. Currently, all AMS except Brunei Darussalam and Myanmar are members of APO.

Compared to the 2018 assessment, AMS are increasingly utilising data to track their progress on enhancing productivity. In this area, both Indonesia and Viet Nam showed improvement in their utilisation of KPIs. In Indonesia, annual micro and SME performance reports assess SME access to finance and utilises KPIs such as number of entrepreneurs and SME contribution to gross domestic product (GDP), labour force, and/or exports to aid evaluations of SME productivity. In Viet Nam, the National Programme for Labour Productivity has sector-specific goals and KPIs to assess labour productivity growth. Brunei Darussalam and the Philippines also showed gains since the 2018 assessment, increasingly utilising other statistics. In the Philippines, governmental agencies (e.g. Philippines Institute for Development Studies, Department of Labor and Employment, and National Wages and Productivity Commission) are increasingly employing studies and surveys to assess SME productivity and to alleviate potential gaps in data. Despite these improvements, there is still room to grow, with most AMS only having KPIs that measure general productivity advancements and are not SME-specific.

Implementation: Improvements have been made in mobilising budgets for a range of programmes.

As noted in the 2018 report, across AMS, the primary agency responsible for SME productivity improvement initiatives typically operates under the principal ministry in charge of SME development programmes. In addition, the corresponding ministry of science and technology plays a role as a key governmental stakeholder in driving productivity enhancement efforts across all AMS. The exception to these findings is in Brunei Darussalam, where sector-specific productivity falls under the purview of the relevant ministries, and financial assistance is primarily provided through Darussalam Enterprise (DARe).

The programmes and support given by governmental agencies varies across AMS. Brunei Darussalam and Indonesia have undertaken efforts to improve integration of SMEs into value chains through export promotion. In Indonesia, the Ministry of Industry and Indonesia Eximbank work alongside the Ministry or Cooperatives and SMEs to disseminate foreign market knowledge and to offer advisory services to export-oriented SMEs.

An increasing number of AMS have prioritised digitalisation to enhance productivity as well (see **Box 2.1** for an example). In Singapore, Productivity Solutions Grants provide SMEs with sector-specific subsidies to help enhance their digital capabilities. These grants are also indicative of a growing trend of programmes across AMS that aim to provide SMEs with funding support so that they have the necessary capital to enhance their productivity. Compared to the 2018 assessment, these programmes have become increasingly prevalent and accessible – especially in Brunei Darussalam, Indonesia, and Myanmar. In Brunei Darussalam, DARe offers a co-matching programme to encourage innovative startups, enhance the productivity of SMEs, and facilitate their integration into global value chains (DARe, 2019). The programme funds 70% of project costs (up to a maximum of US$20,000) for innovative startups in their first 12 months or for businesses aiming to enhance their productivity. In Indonesia through the Kredit Usaha Rakyat programme, unsecured business loans up to Rp500 million are awarded to micro and small businesses to fulfil their investment needs.[1] In Myanmar, capital investment support for enhancing SME productivity is given through preferable loans offered to SMEs registered with the Directorate of Industrial Supervision and Inspection.

[1] PT Bank BTPN, People's Business Credit (Kredit Usaha Rakyat/KUR), https://www.btpn.com/en/produk-dan-pelayanan/pinjaman/kur

Box 2.1. Lao PDR – Enhancing Productivity and Building Resilience in Agricultural Value Chains

The US$46 million programme, Climate-friendly Agribusiness Value Chains Sector Project (CFAVC), supports the *Agricultural Development Strategy to 2025 and Vision to the Year 2030* of Lao People's Democratic Republic (Lao PDR). The CFAVC aims to improve the productivity and competitiveness of small-scale farmers in rice and vegetable value chains by increasing resource efficiency, improving value chain resiliency, and supporting the development of agricultural markets and cooperatives. The main activities involve upgrades to infrastructure, the dissemination of best practices for climate-smart agriculture, and capacity-building efforts for local governmental actors.

Improvements to infrastructure seek to enhance resiliency by upgrading irrigation systems for protection from abnormal weather events (e.g. flooding, landslides, and droughts), retrofitting post-harvest infrastructure to improve resource efficiency, rehabilitating transport infrastructure to improve access to roads, and adding flood defence in low-lying areas to address disaster risk. The CFAVC helps improve the productivity of small-scale farmers and disseminate best practices in climate-smart agriculture through advisory efforts on water management and adoption of climate-resilient rice/vegetable strains. Capacity-building efforts for local actors involve policies to mainstream agribusiness regulations, increase integration of climate resiliency into planning, and advisory efforts for attracting financial instruments such as crop insurance.

The programme is still ongoing, but the expected outcomes are a 20% increase in yields of rice and vegetables, a 5%–10% increase in water efficiency in at least 30 agribusinesses,15% reduction in rice post-harvest losses (from 25% to 10%), 20% reduction in vegetable post-harvest losses (from 35% to 15%), 30% increase in rural household income for affected areas, and creation of at least five operational agricultural cooperatives. Similar projects are being implemented with support from the Asian Development Bank and Green Climate Fund in Myanmar and Cambodia.

Sources: ADB (2018), Government of the Lao PDR, Climate-friendly Agribusiness Value Chains Sector Project (CFAVC), https://cfavc.daec-laos.org/index.php/en/our-work

In all AMS, public–private consultations on the implementation of productivity enhancement programmes are conducted regularly, but there are still large gaps in terms of representation. In Lao PDR, the dialogues are organised annually and only in Vientiane, excluding representatives from outlying provinces. In Myanmar, while public–private consultations are reported to be organised several times per year, they have limited regional coverage.

To ensure that SMEs can remain competitive and to undergo digitalisation, it is crucial that SMEs have access to finance for large-scale fixed investments. For example, Enterprise Singapore's SME Fixed Assets Loans provide SMEs with loans up to S$30 million for the purchase of equipment, machinery, or factories. Indeed, capital investment programmes for SMEs exist in eight AMS. For early-stage countries, such as Myanmar and Cambodia, there is still room for improvement, however. Implementation is generally fragmented and small in scale, and these AMS would benefit from implementing best practices across their investment programmes. To illustrate, the Philippines Shared Services Facility Program evaluates technical proposals by first assessing whether they address manufacturing or processing gaps or could increase cluster productivity.

The instruments for enhancing SME productivity are being increasingly self-financed across AMS. In the 2018 assessment, advanced economies were found to self-finance instruments, with organisations such as APO providing non-financial support. Mid-stage economies, such as Brunei Darussalam and Indonesia, tend to increase their budgets dedicated to improving productivity. For lower-income countries, where several initiatives are financed or co-financed by development partners, stakeholders should ensure that programmes provide sustainable gains in productivity and that the right actors are the beneficiaries.

Monitoring and evaluation: Monitoring systems are improving, but a lack of standardised approaches impedes comparability.

Compared to the 2018 assessment, AMS improved the monitoring for their productivity enhancement programmes. Most AMS have a monitoring system in place, and five AMS have a robust monitoring system (i.e. Brunei Darussalam, Malaysia, Singapore, Thailand, and Viet Nam). They provide data on labour productivity as well as on total factor productivity. AMS at earlier stages of policy development, such as Lao PDR and Myanmar, lack a systematic approach for monitoring, offering only information about labour productivity. Lao PDR is in the process of addressing this gap in data through a planned monitoring mechanism as part of its National Productivity Master Plan.

ASEAN presents distinct heterogeneity amongst the monitoring systems of all AMS, with productivity enhancement KPIs well-defined. For example, the Annual Viet Nam Productivity Report measures the number of assisted businesses under their productivity improvement programmes while also measuring broader productivity indicators, such as the proportion of investment in science and technology to total GDP. Singapore stands out for its extensive suite of productivity indicators. Each sector has an Industry Transformation Map (ITM), which is tailored to help promote innovation, drive domestic enterprise growth, and support highly advanced job creation for citizens. ITMs combine sector-wide performance indicators (e.g. contribution to total GDP and sector-specific value added per hour worked) with sector-specific goals (e.g. number of graduates from specific talent programmes or the creation of specific job categories like professionals, managers, executives, and technicians).

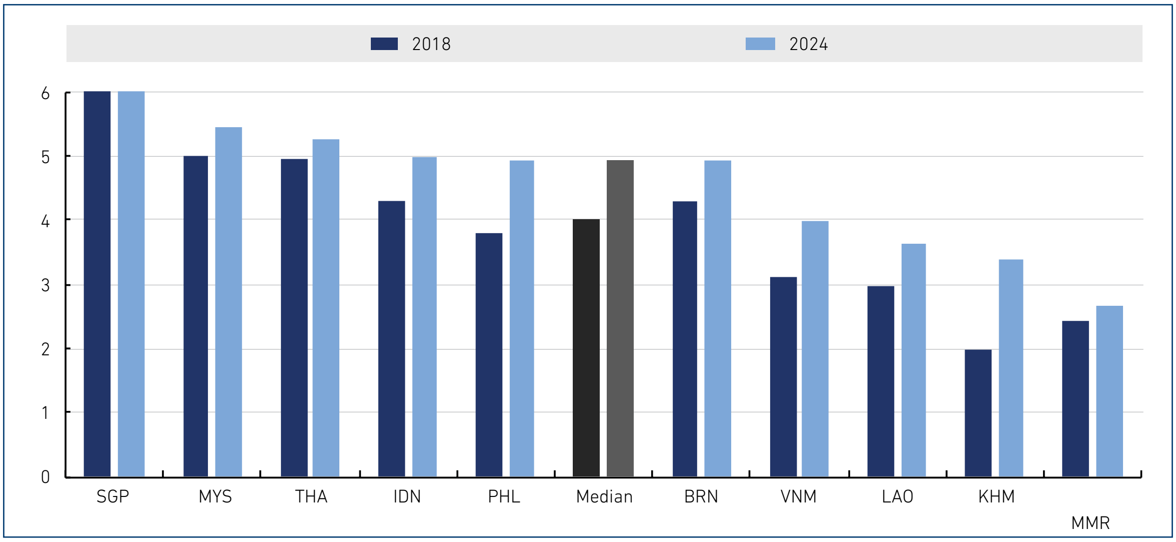
Even if productivity improvement is well defined as a regional priority, SMEs are not always specifically targeted, and few AMS have SME-related indicators on productivity enhancement. Monitoring often reviews broader indicators, and it is difficult to distinguish the impact of specific activities, such as skills enhancement. For example, Directive No. 07/CT-TTg in Viet Nam focusses on measures that would increase labour productivity and contribute to technology adoption, yet no indication of a budget is given.

Subdimension 1.2: Business Development Services

Subdimension 1.2 has been expanded since the 2018 assessment and is split into two: (i) general BDS, and (ii) business support services for the digital transformation of SMEs. The first sub-dimension largely mirrors the methodology used in the 2018 assessment and serves as a point of comparison. The second sub-dimension has been included to reflect the increasing relevance of digital technologies to support business growth and productivity and to explore the efforts of governments to support SMEs addressing digitalisation.

When comparing scores between the first sub-dimension and the 2018 assessment, progress in strengthening BDS for SMEs has been notably positive. The median score rose from 3.94 in 2018 to 4.86 in 2024. Scores increased for every AMS except Singapore, which maintains a score of 6.00, indicating a good policy example (**Figure 2.4** and **Table 2.2**).

Figure 2.4. Weighted Scores for Sub-dimension 1.2.1 – General Business Development Services (2018 versus 2024)



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6, with 6 being the highest. For comparability with the 2018 assessment, Sub-dimension 1.2.1 was compared to Sub-dimension 1.2 from the previous assessment. Sub-dimension 1.2.1 is adapted from 2018's Sub-dimension 1.2 while Sub-dimension 1.2.2 features new scoring metrics. For a full list of methodological changes, see Annex A.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Table 2.2: Scores for Sub-dimension 1.2 – Business

Table 2.2. **Scores for Sub-dimension 1.2 – Business Development Services**

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning & Design	4.74	2.99	4.28	4.36	5.83	2.53	5.29	6.00	5.58	4.36	**4.55**	**1.10**
Implementation	5.47	3.88	5.50	3.34	5.58	2.83	5.23	6.00	5.33	4.21	**5.28**	**1.03**
Monitoring & Evaluation	3.77	2.65	4.61	2.93	4.88	1.83	3.22	6.00	4.05	2.65	**3.49**	**1.19**
Total	**4.87**	**3.32**	**4.89**	**3.61**	**5.53**	**2.52**	**4.85**	**6.00**	**5.16**	**3.95**	**4.86**	**1.03**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Subdimension 1.2.1 General Business Development Services

Planning and design: BDS are a key part of governments' SME strategies.

Policy frameworks for BDS are spread across different documents, typically embedded into national development plans or specific SME roadmaps. All AMS except Myanmar were found to embed business support services into their SME strategies or policy documents. In countries where no dedicated SME strategy exists, development strategies define BDS and establish internal guidelines for SME support. In comparison to the 2018 assessment, there has been a notable increase in the number of AMS assessing the demand and availability of BDS. Almost all AMS gather information regarding BDS, trying to understand the needs of SMEs so that support can be tailored. Across AMS with mid- and advanced-stage policy frameworks, demand assessments increasingly consider the risk of crowding out private support providers, with governments intervening in areas where gaps in support exist.

The increasing importance of small high-impact or high-growth firms has been realised by policymakers, leading to a notable uptick in policies that target startups and early-stage ventures, especially in early and mid-stage AMS. This represents an important milestone in development, where frameworks for BDS are beginning to diversify their offerings and to pursue multiple societal goals related to productivity enhancement.

Implementation: In the wake of the COVID-19 pandemic, AMS support of digitalisation mainly focussed on promoting access to markets and increasing the digital skills of SMEs.

Since the last assessment, the digitalisation of SMEs has become a new issue, largely due to the COVID-19 pandemic, which made digitalisation a necessity for many SMEs. Since that time, the scope and scale of BDS have increased significantly across all AMS. AMS provided a number of BDS in a short period of time, mainly helping SMEs improve digital skills and access to markets using digital platforms and e-commerce as well as payment solutions. Promotion of e-commerce is commonly employed to help alleviate the impacts of the pandemic on trade. In Brunei Darussalam, the e-Kedai platform was established to act as a directory for online merchants, while in Singapore, Hawkers Go Digital and Heartlands Go Digital help promote e-commerce and accelerate digital transformation.

Another trend observed in all AMS since the previous assessment is more provisions made for BDS, especially more infrastructure. Some AMS that are at the early stages of BDS improved their performance (i.e. Brunei Darussalam, Cambodia, Lao PDR, and Myanmar), while those with existing networks of BDS providers increased BDS infrastructure and the services that they offer (i.e. Indonesia, the Philippines, Thailand, and Viet Nam). For instance, the Philippine's Negosyo Centers have grown from 789 in 2017 to 1,378 centres as of 2023 (**Box 2.2**). Across the region, the most common form of support given is training and advice on business management, with other advisory services such as technology development, information handling, networking, and access to finance being less common.

Box 2.2. Facilitating Access to Business Development Services: The Philippines's Negosyo Centers

The Philippines established Negosyo Centers to strengthen micro, small, and medium-sized enterprises (SMEs) by facilitating job creation, production, and trade. The centres are responsible for promoting ease of doing business by integrating a single business processing system for registration, permits, set-ups, and management of micro and SMEs. They were established under the 2014 Go Negosyo Act (Republic Act No. 10644) and are governed by the Department of Industry and Trade (DTI).

The centres provide services such as business registration assistance, business consulting, information dissemination, product development, trade promotion, financing facilitation, and investment promotion. Registered barangay micro enterprises can benefit from incentives including income tax exemption on operations income, exemption from the minimum wage law, and a special credit window of government financing institutions serving such enterprises.

Negosyo Centers are classified into three operating models that differ in the level of services offered. Full-service centres are equipped with staff who can deliver all of the services offered at any given time and conduct activities independently. Advanced centres are similar but need the support of DTI or the nearest full-service centre to execute programmes, activities, and consulting. Basic centres mainly process documentation and disseminate business-related information and can provide only minimal forms of consulting or advisory work without the full support of DTI.

With the implementation of the Go Negosyo Act, there was a rapid increase in the number of centres. By 2023, 1,378 Negosyo Centers had been established nationwide – a significant increase from just 5 in 2014 and 789 in 2017. The centres have considerably facilitated the provision of business development services and registration of micro enterprises.

The Go Negosyo Act also provides an opportunity for DTI business counsellors and staff to develop their competency for providing development services to the public. Personnel who are assigned to the Negosyo Centers take a small business counselling course that covers several modules on business management and operations. The training aims to deepen their knowledge and skills on coaching, consultation, and mentoring services for micro and SMEs.

Source: Government of the Philippines, DTI, Negosyo Center, https://www.dti.gov.ph/negosyo/negosyo-center/

Under less-developed policy frameworks, BDS are often provided through a set of government-run SME development centres or incubators for free. Typically, as AMS evolve their BDS, offers become more varied and the private sector becomes more engaged. Also, beneficiaries are encouraged to co-finance some of the services. Market-oriented channels are generally the preferred option for BDS delivery, but a certain level of economic development is necessary for this mechanism to be effective. This is also the case across ASEAN where AMS apply different delivery methods for BDS. The quality of BDS thus varies significantly, with some AMS offering high-quality, tailored services and others providing generic, less effective support. Since the last assessment, the offer of high-quality and tailored services has increased across the region.

In AMS with more advanced policy frameworks, BDS are often offered through a network of providers at the local level. Governments provide a set of services for free; at the same time, SMEs can access customised support from private providers for which they typically have to pay. This is the case in Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, where co-financing schemes are available. In Viet Nam, BDS includes provision of information and services to SMEs at the regional level and includes public incubators as well as private incubators. As of 2023, 800 intermediary organisations are in operation in Viet Nam. Cambodia, Lao PDR, and Myanmar have started to provide BDS through incubators, business development centres, or regional SME development agencies. In Cambodia, BDS have increased under Khmer Enterprise, Techo Startup Centre, and Startup Cambodia. However, BDS provided in these AMS is still often limited to provision of basic information, training, and some level of advisory services. BDS providers also can lack necessary skills and expertise to offer specialised support tailored to SME needs.

Despite the overall increase in the number of BDS across the ASEAN region, there are still gaps in coverage. For some AMS, it is challenging to deliver BDS across all regions due to large territories, remoteness of some regions, and difficulty in accessing them. Typically, BDS are concentrated in urban areas, leaving rural SMEs underserved. Even if digitalisation of some BDS can partially address the issue of limited reach, there is still a need for BDS infrastructure to create a consistent ecosystem at the local level.

The sophistication of the offer and variety of BDS across AMS must translate to a more complex ecosystem of institutions and agencies that provide support to SMEs. This calls for a solid coordination mechanism and a risk that some of the programmes could overlap. It also generates complexity for assessments of governmental effectiveness. Policymakers should be mindful of this if wanting to rapidly expand of the delivery mechanisms and types of programme support offered.

All AMS offer some information regarding public or private BDS providers, although a few do have a central repository listing every accredited provider. For instance, in Viet Nam, the Ministry of Planning and Investment's Business Development Department is primarily responsible for maintaining information about BDS to SMEs. Yet BDS connected to export promotion are not included and are found under alternative information channels within the Ministry of Industry and Trade.

Since 2018, there has been a policy focus in most AMS on promoting high-potential and high-growth ventures. A majority of AMS have put in place special advisory services to support early business ventures and startups (see **Box 2.3** for an example). In Thailand, the Department of Industrial Promotion has implemented a startup incubator network that provides mentorship, workshops, and networking opportunities. In Brunei Darussalam, DARe offers a set of business 'boot camps' that act as intensive advisory sessions. The boot camps are differentiated based on the stage of the firm, offering both preliminary guidance to businesses in the ideation stage as well as more concrete guidance such as developing a roadmap for scaling a business. Brunei Darussalam incentivises the use of these boot camps by giving beneficiaries who graduate from these programmes preferential treatment for other support initiatives.

Box 2.3. Malaysia's Business-matching Service, MatchMe

SME Corp Malaysia is a central coordinating agency under the Ministry of Entrepreneur and Cooperatives Development that coordinates development programmes for small and medium-sized enterprises (SMEs) across all ministries and agencies. It has established a new platform to connect SMEs to large firms and to allow them to integrate effectively into larger value chains.

The MatchMe platform was introduced in 2021 as a digital platform connecting SMEs with anchor companies such as multi-national corporations, global logistics providers, and large companies locally and internationally. This platform's main objective is to save time and costs and to increase efficiency. The platform offers an active database that comprises a large number of SME companies. Their profiles include information on their business priorities, projects, and potential cooperation opportunities through their products or services. The MatchMe platform has achieved significant milestones from 2021 to 2023. It engaged 672 SMEs together with 113 anchor companies through 276 sessions. The total potential sales generated through this programme is estimated at RM31,850,000.

Source: SME Corp Malaysia, MatchMe, https://myassist-msme.gov.my/match-me/

Monitoring and evaluation: Monitoring systems are robust, but more evaluations are needed.

Monitoring components for BDS were found in all AMS except Myanmar. Monitoring components are typically embedded into strategic plans for SMEs or tied to evaluations of specific programmes. Likewise, monitoring of co-financing support was found in over half of AMS, although there are noted gaps in transparency. Only advanced-stage AMS were found to publish information regarding the beneficiaries of co-financing schemes.

Little data are collected on the effectiveness of programmes and government intervention. Only five AMS are monitoring the satisfaction of firms using BDS. Additionally, prospective assessments of BDS demand are rarely conducted in early- and mid-stage AMS.

Subdimension 1.2.2: Business Support Services for the Digital Transformation of SMEs

This new sub-dimension captured the availability of dedicated government-led initiatives to support digitalisation of SMEs, examining the services and infrastructure in place to facilitate SMEs' digital transformation. The scores for the sub-dimension show high performance amongst the more advanced economies, with five AMS demonstrating a 4.83 average score (**Table 2.3**).

Table 2.3. Scores for Sub-dimension 1.2.2 – Business Support Services for the Digital Transformation of SMEs

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Design & Implementation	4.22	3.67	4.66	2.70	5.11	2.36	4.31	5.65	5.12	4.52	**4.41**	**1.00**
Monitoring & Evaluation	4.32	2.32	3.99	2.33	4.66	1.66	2.33	6.00	3.66	3	**3.33**	**1.27**
Total	**4.24**	**3.40**	**4.53**	**2.63**	**5.02**	**2.22**	**3.91**	**5.72**	**4.83**	**4.21**	**4.23**	**1.02**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6, with 6 being the highest. Sub-subdimension 1.2.2 features an adjusted methodology, combining design and planning with implementation. StD stands for the standard deviation across all countries for the given score.

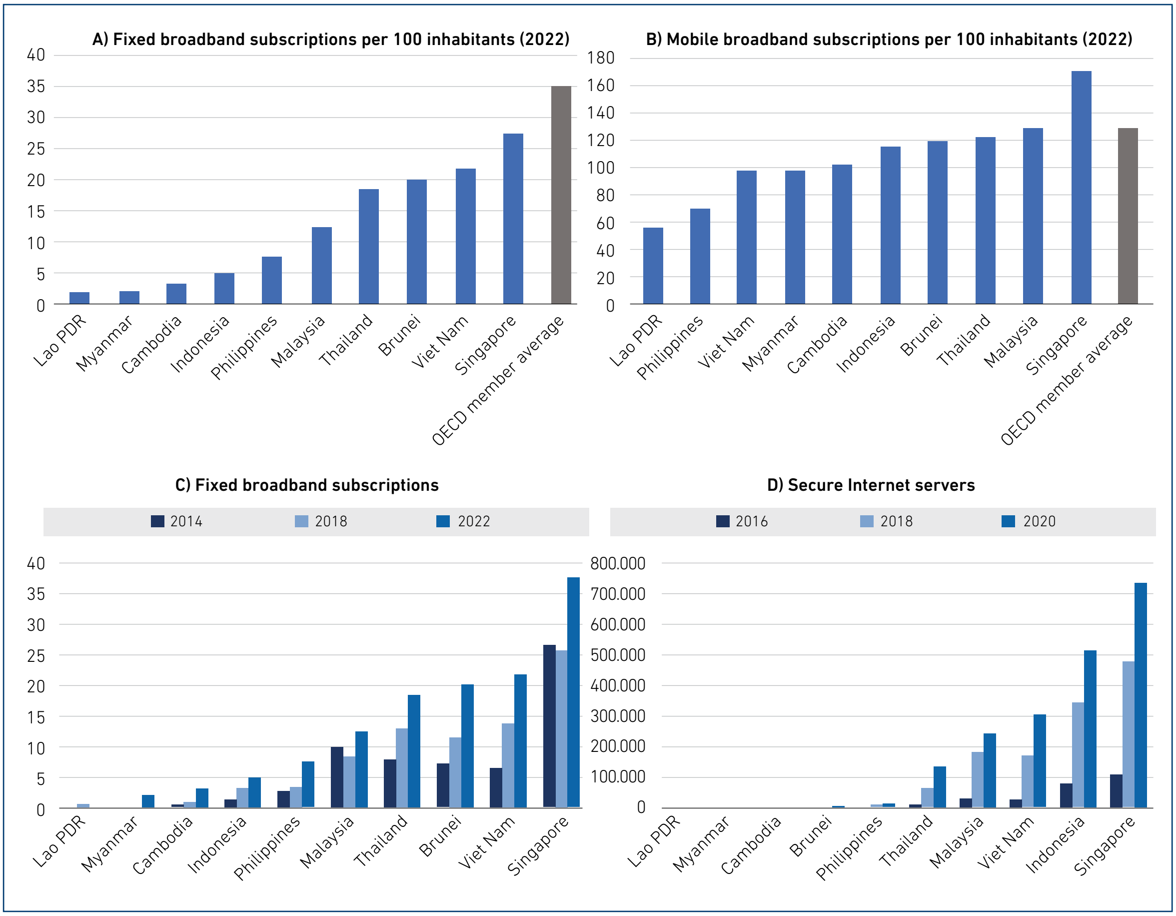
Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Design and implementation: While programmes are supporting digitalisation, SMEs are being left behind.

Despite the potential benefits of digitalisation, digital transition remains a challenge for many SMEs in the ASEAN region. The digital divide between SMEs and large firms is widening, with small firms struggling to keep pace with large firms' uptake of new technologies due to lack of access to finance and limited digital expertise. To address this, it is important to focus on the enabling conditions (e.g. IT infrastructure and digital skills) for digitalisation as well as specific policy instruments to support SMEs' digitalisation efforts.

When looking at the overall level of broadband infrastructure and internet connectivity in the ASEAN region, there is much variation across AMS. Many AMS have been improving the digital infrastructure (Figure 2.5), yet early-stage economies generally have a lower level of digital connectivity and digital skills. The existence of reliable and high-quality IT infrastructure is critical to SMEs' uptake of digital technologies, especially those in rural or remote areas. The availability of broadband should be aligned with public policy initiatives to increase coverage and adoption of services, particularly by improving digital literacy across AMS (OECD, 2023b).

Figure 2.5. Broadband Subscriptions across ASEAN



ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, OECD = Organisation for Economic Co-operation and Development.

Sources: OECD (2023b); World Bank, World Development Indicators, https://databank.worldbank.org/source/world-development-indicators/Series/IP.PAT.RESD# [accessed 10 May 2024].

Going beyond enabling infrastructure, most countries acknowledge the importance of fostering digitalisation in SMEs (see **Box 2.4** for an example). Dedicated programmes to support SME digitalisation were found in seven AMS, typically embedded into the national digital strategies or SME strategies. While the pandemic provided a large push towards digital services, most AMS are still in the process of deploying tailored programmes. Most have adopted dedicated digitalisation strategies and have established ambitious strategic goals. This also concerns governments that are in early stage of development and see digitalisation as an opportunity. For example, the Myanmar Digital Economy Roadmap (2018–2025) guides the development and transformation of the country's digital economy and aims to develop a robust digital economy. It includes digital infrastructure and skills training. Unfortunately, however, it remains unrealised due to the current unrest in the country.

Most AMS offer advisory services and training programmes on a range of topics related to digitalisation (e.g. digital marketing, use of accounting software, and e-commerce) and engage in awareness-raising activities. Outside of the advanced-stage economies, however, more advanced support (e.g. self-assessment tools, sector-specific roadmaps, and voucher schemes for the adoption of digital technologies) is lacking. Policy tools are essential to address SME needs, helping reduce financial barriers, improve their implementation of digital tools, and allow them to benchmark their performance.

Box 2.4. Ireland's Trading Online Voucher Scheme

The Trading Online Voucher Scheme was designed by the Department of Communications, Climate Action and the Environment (now Department of Environment, Climate and Communications) of the Government of Ireland. The original focus of the scheme was to target micro and small enterprises that were considered to be at risk of being left behind by the digital divide. It was designed to be a catalyst for a change in behaviours of small businesses towards trading online. Moreover, it was envisaged that the scheme would not support all business but rather encourage a sufficient number to make the transition, which, in turn, would drive an organic demand from the remaining businesses.

The Trading Online Voucher Scheme offered a voucher of up to EUR2,500 (with 50% co-funding by the applicant) to help businesses develop their online trading capability. It included training sessions that covered various topics, including developing a website, digital marketing, social media for business, and search engine optimisation. The information provided assisted applicants in deciding what trading online options are right for their business. Funding could also be used towards adding payment facilities or booking systems to their websites, developing new apps for their customers, or purchasing subscriptions to low-cost online retail platform solutions to help companies quickly establish a retail presence online.

The vouchers were targeted at businesses with the following profile: (i) limited or no trading online presence, (ii) 10 or fewer employees, and (iii) turnover of less than EUR2 million.

Following a pilot phase, the scheme was launched nationally in July 2014 and has resulted in over 28,000 approved vouchers as of June 2024. The scheme is administered by the 31 Local Enterprise Offices.

The Trading Online Voucher Scheme will be renamed the Grow Digital Voucher, doubled to EUR5,000, and be available for all small businesses in Ireland. Eligible expenditure will be modernised to include a wide variety of digital interventions to support businesses on their digitalisation journey and to contribute to the target in the National Digital Strategy of 90% basic digital intensity for small and medium-sized enterprises by 2030.

Source: Local Enterprise Office, Trading Online Voucher Scheme, https://www.localenterprise.ie/Discover-Business-Supports/Trading-Online-Voucher-Scheme/

The digital skills landscape in AMS is continually evolving, reflecting the region's rapid digital transformation. Despite the significant progress reflected across assessments and the number of national government initiatives, a digital skills gap across the region persists. The 2020 ASEAN Digital Integration Index (and subsequent reports) indicate varying levels of digital skills across AMS, with Singapore, Malaysia, and Thailand leading in digital literacy and advanced skills (ASEAN, 2021). In Thailand, the Digital Economy Promotion Agency is in charge of improving digitalisation amongst SMEs, running digital literacy programmes and supporting tech startups through funding and training. Additionally, SkillsFuture Singapore provides digital skills training for SMEs, with courses covering coding, data analytics, and cybersecurity. In Malaysia, the eRezeki and eUsahawan programmes provide technical assistance to help SMEs and micro entrepreneurs digitalise their businesses, while SME Digitalisation Grants offers financial support to SMEs for adopting digital solutions.

Almost all AMS use digitally focussed incubators and accelerators to provide digital startups with the means to capitalise on their growth and to expand into new markets. For example, Brunei Darussalam's iCentre incubation programme offers co-working spaces, capacity-building programmes, and investment opportunities for innovative tech startups. Digital innovation hubs are also commonly implemented alongside incubators/accelerators to act as focal points for SMEs, technology experts, research institutions, and investors. In Singapore, the SMEs Go Digital programme, launched in 2017, aims to assist SMEs in adopting digital solutions and building stronger digital capabilities to seize growth opportunities in the digital economy (**Box 2.5**). Malaysia's National Policy on Industry 4.0 aims to transform the manufacturing sector by adopting Fourth Industrial Revolution technologies and practices. It provides a readiness assessment for SMEs to evaluate their current capabilities and identify areas for improvement in adopting these technologies. In Viet Nam, the Department for Enterprise Development implemented the Programme on Business Support for Digital Transformation of Firms (2021–2025) comprising trainings on digital transformation and supporting self-assessment of SMEs in relation to digital transformation. Most AMS were found to have a network of private certified consultants, but in emerging sectors where expertise may not yet exist, governments should explore and foster partnerships with universities, research institutions, and other stakeholders on promoting digital transformation.

Box 2.5. Singapore's SMEs Go Digital Programme

Singapore's SMEs Go Digital programme, launched in 2017, has helped more than 80,000 small and medium-sized enterprises (SMEs) adopt digital solutions. Coordinated by Singapore's Infocomm Media Development Authority (IMDA), IMDA works with sector leaders to develop industry digital plans (IDPs) that provide SMEs with step-by-step advice on digital technologies and relevant technical skills at each stage of their growth. IDPs help SMEs acquire advanced capabilities in cybersecurity, data protection, and data analytics. IDPs for SMEs have been rolled out for 18 different sectors: environmental services, food services, logistics, media, retail, security, wholesale trade, sea transport, accountancy, hotels, construction and facilities management, training and adult education, land transport, early childhood education, food manufacturing, marine and offshore engineering, energy and chemicals, and precision engineering.

The SMEs Go Digital programme has expanded since the previous assessment, with the Start Digital and Grow Digital initiatives being launched in 2019 and 2020, respectively. Start Digital is a joint initiative amongst IMDA, Enterprise Singapore, and partnering banks that helps newly incorporated SMEs begin to digitalise. The initiative offers Start Digital Packs, which are consolidated digital solutions based around core business activities such as accounting, human resources management and payroll, digital marketing, digital transactions, cybersecurity, and digital collaboration. SMEs can purchase Start Digital Packs from partnering banks, receiving cost waivers from IMDA. Grow Digital focusses on helping SMEs participate in e-commerce platforms. It provides SMEs with a pre-approved list of e-commerce platforms, and participating SMEs can receive subsidies up to 70% of the total cost.

Source: IMDA (2022).

Monitoring and evaluation: Programme participation is assessed, but national impact is not.

The regional score for M&E is 3.33, showing that AMS are still in the process of developing procedures to adequately measure the progress of SMEs and to monitor the impact of digitalisation policies. Most AMS measure the level of SME participation in digitalisation support programmes, but only advanced-stage economies provide disaggregated data regarding the uptake of digital tools by SMEs. Likewise, there are gaps in data transparency, with few AMS regularly publishing information regarding the uptake of digitalisation.

Considering the speed by which the digital sector evolves, it is vital that governments routinely evaluate the effectiveness of their support programmes to assess whether the needs of SMEs are being addressed. To this end, only four AMS – Indonesia, Malaysia, Singapore, and Thailand – perform evaluations that tied the provision of these support programmes to tangible outcomes.

Sub-dimension 1.3: Productive Agglomerations and Cluster Enhancement

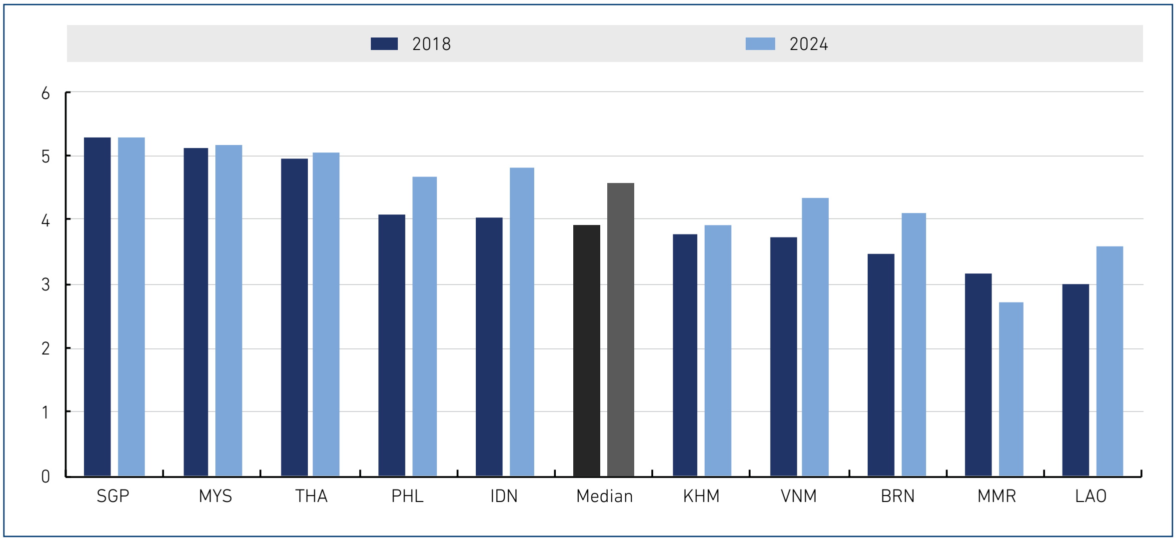
Productive business agglomerations and clusters have been the heart of development strategies in the ASEAN region, attracting significant amounts of FDI and fostering integration of firms into global value chains. While special economic zones (SEZs) have played a crucial role in attracting FDI and boosting exports, SEZs have often struggled to generate high-skilled jobs and backward linkages with domestic companies. For SEZs to create stronger linkages with domestic firms and to drive sustainable economic growth, their development must be integrated into broader national development agendas. This includes ensuring adequate connectivity with the wider economy and reducing barriers to investment.

All AMS were found to be relatively advanced in developing policies related to industrial clusters and productive agglomerations, with a median score of 4.54 (**Figure 2.6**). This an improvement from the 2018 regional median of 3.91, with Viet Nam, Brunei Darussalam, Indonesia, and the Philippines showing the most growth over the period (**Table 2.4**). Most of this improvement is due to advanced-stage AMS enhancing their policies on the promotion of industrial clusters/business agglomerations and emerging markets implementing incentives to support the development of business cluster zones.

Variance across scores flattened since the 2018 assessment, and performance across this sub-dimension is relatively equal across levels of development. M&E are a mild exception, with a noted lack of evaluations on the promotion of industrial clusters in emerging markets.

FDI inflows into the ASEAN region reached an all-time high of US$224 billion in 2022 (ASEAN, 2023). This has fuelled the growth of industrial and technological clusters across ASEAN by bringing in capital, advanced technologies, and management expertise. This has particularly benefited manufacturing, automotive, electronics, and agribusiness clusters and created an opportunity for SMEs to benefit from FDI growth.

Figure 2.6. **Weighted Scores for Sub-dimension 1.3 – Productive Agglomerations and Clusters Enhancement (2018 versus 2024)**



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Table 2.4. **Scores for Sub-dimension 1.3 – Productivity Agglomerations and Clusters**

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Medi-an	StD.
Planning & Design	5.02	4.73	5.45	5.19	5.90	3.55	5.53	5.87	5.60	5.62	**5.49**	**0.66**
Implementation	4.28	3.78	4.67	3.23	4.80	2.63	4.59	4.68	4.99	4.27	**4.43**	**0.72**
Monitoring & Evaluation	2.32	2.65	3.64	1.66	4.99	1.66	3.31	6.00	4.32	2.65	**2.98**	**1.36**
Total score	**4.14**	**3.89**	**4.74**	**3.60**	**5.22**	**2.76**	**4.66**	**5.36**	**5.07**	**4.42**	**4.54**	**0.77**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source:. Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Planning and design: SME development in industrial policy is being emphasised.

All AMS have policy frameworks in place, typically embedded into national development plans or within frameworks for industrial development, which specify the promotion of productive agglomerations. Business agglomerations, such as economic zones, SEZs, industrial zones, and export-processing zones, are typically defined by a geographic area and offer a combination of special arrangements to attract FDI.

To ensure the effective planning and use of best practices, studies are being undertaken to evaluate existing business networks in eight AMS. These background studies are typically done by the ministry in charge of industrial development and in preparation of relevant strategic documents, such as Indonesia's *Ministry of Industry Strategic Plan*, 2020–2024.

Some AMS are actively adapting their SEZs to emphasise SME development. For example, Malaysia and Thailand have established secondary industrial zones alongside major export-processing zones, with data banks and 'marriage counsellors' that link foreign firms with local suppliers. Policymakers have also introduced SME-targeted business advisory services and incubators within SEZs (e.g. Malaysia's Penang SME Centre) (OECD and UNIDO, 2019).

Across the region, recent policy developments have been focussing on spurring innovation and addressing sustainability across business clusters. In Viet Nam, where business clusters/productive agglomerations have played a key role in the government's FDI strategy, a policy framework was adapted in 2022 to streamline licensing procedures in high-tech industrial parks and to offer additional investment incentives for eco-industrial parks. Additional work is also being done to facilitate the integration of SMEs into business agglomeration policy frameworks with a dedicated decree. The Philippines has revised its industrial cluster approach with the goal of implementing enhancement projects to its existing economic zones to help foster the development of SMEs.

Implementation: The combination of FDI and digitalisation policies has significantly advanced cluster development in ASEAN.

Several AMS have improved their investment promotion strategies and implementation modalities, such as streamlining procedures. These have been focussed on reducing bureaucratic hurdles and offering more incentives to attract FDI, leading the further development of specialised industrial zones and economic corridors (e.g. Malaysia's Digital Free Trade Zone and Indonesia's SEZs).

Fiscal incentives to support business cluster zones (e.g. corporate income tax and value-added tax) are already in place in all AMS, except for Myanmar. For example, in Lao PDR, investors are granted profit tax exemption for 6–17 years, have highly reduced value-added tax for construction projects, and are granted long-term land leases for up to 50 years. In Thailand, similar incentives exist with investors being exempt from import/export tariffs and receiving tax refunds for raw materials or machinery. The overall provision of incentives has increased since the 2018 assessment, especially in Brunei Darussalam, Indonesia, and Malaysia.

One of the notable developments in the region is the focus of incentives on high-growth sectors. This has had a direct impact the growth of high-tech clusters, such as Malaysia's Cyberjaya and Thailand's Eastern Economic Corridor, which focus on sectors like electronics, biotechnology, and aerospace. The Eastern Economic Corridor has attracted several companies from high-tech industries, fostering the growth of SMEs through supply chain linkages and technology transfer. Across ASEAN, some AMS had a specific focus on digital clusters and tech hubs, enhancing regional connectivity and collaboration in IT, fintech, and e-commerce sectors, which is the case in Indonesia, Malaysia, and Singapore. In Singapore, the Biopolis hub for the biomedical science has attracted significant investment and talent. SMEs in this cluster benefit from access to state-of-the-art facilities and research partnerships.

To encourage networking amongst innovative companies, all AMS except for Lao PDR have ongoing science and industrial parks, competitive clusters, or technology centres. The number of these sites has been increasing since the last assessment. Yet there is still a gap between the levels of participation of large firms and SMEs. Programmes to support linkages amongst SMEs and between SMEs and large enterprises exist in most AMS but are typically small and not mainstreamed across facilities. The Malaysian Investment Development Authority has several programmes designed to connect SMEs with larger supply chains, fostering industrial linkages and enhancing the competitiveness of Malaysian SMEs (**Box 2.6**). In Viet Nam, the Industries Development Programme encourages large companies to source from local SMEs; it also facilitates matchmaking events and supplier development programmes led by multi-national companies such as Samsung. In Cambodia, the Techo Startup Centre organises networking programmes that offer SMEs the chance to benefit from peer-learning and to make industry connections.

Box 2.6. Malaysia's Penang SME Centre

The Penang SME Centre was set up in 2011 within the Bayan Lepas Industrial Park to promote foreign direct investment and to support small and medium-sized enterprises (SMEs) in the industrial sector. The centre serves as a home for around 10–20 SMEs, offering them business support, a network with larger multi-national corporation, and promotional events to integrate themselves into global value chains.

SMEs, as part of the SME centre, can utilise shared infrastructure, taking advantage of meeting rooms, information technology support, and utilities. SMEs also receive various benefits such as fast-tracked processing for industrial land purchases and rental discounts.

To make SMEs competitive and attractive partners for large firms, targeted support is given to SMEs in the centre through capacity-building workshops and business mentoring on technological skills. This support is complimented by parallel efforts to give SMEs market intelligence, through the SME Market Advisory, Resource and Training (SMART) Centre.

Competitive SMEs are then promoted through the centre's Penang Supply Chain showcase and through the network provided by InvestPenang. The centre seeks to align SMEs with venture capitalists for potential equity investments, research institutions for potential collaboration, or larger firms for potential business opportunities.

Source: Eng (2012).

Monitoring and evaluation: More data are being collected, but mechanisms for review are needed.

AMS have been increasing the capacity and depth of their monitoring mechanisms, although more work remains. Additional SME-specific KPIs have been introduced since the last assessment. For instance, in Indonesia, the number of SME clusters is tracked, while in Thailand, the percentage of entrepreneurs engaging in promotional support for certain sectors is recorded.

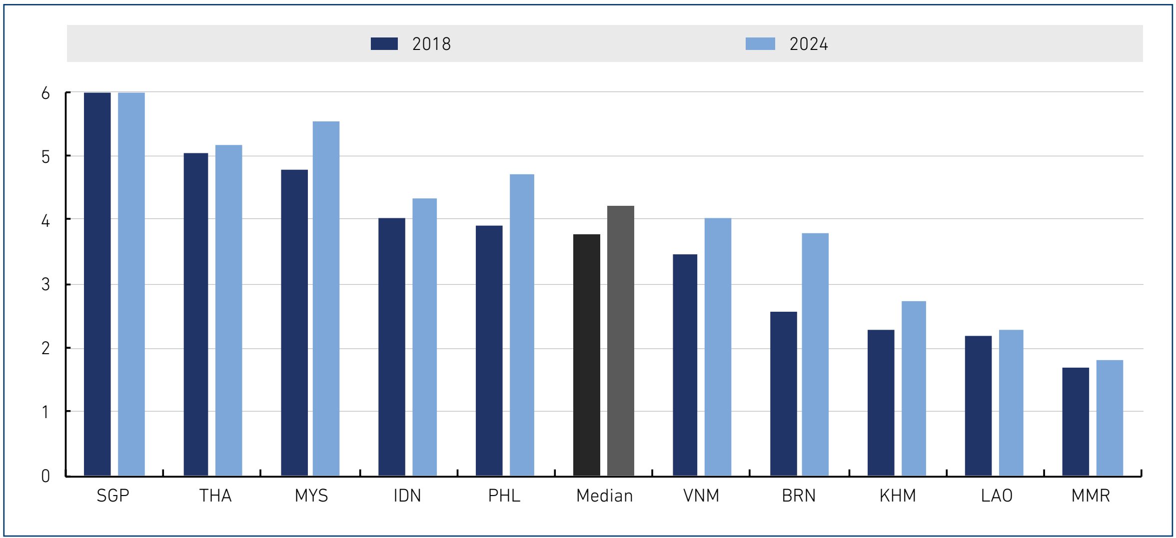
Additionally, there is a need for more independent evaluations of policy efforts to promote business agglomerations. Only half of AMS were found to audit their policy efforts. Beyond independent audits, it is important that AMS begin to employ mechanisms for policy revision, incorporating the findings from audits to improve policy design.

Assessing and tracking the effectiveness of policies aimed at supporting productive agglomerations and clusters is crucial for gauging their economic impact and associated costs. Such monitoring processes enable policymakers to evaluate the success of these policies and incentives in terms of their efficiency, ability to attract appropriate businesses, and contribution to the development of local skills.

Sub-dimension 1.4: Technology and Innovation Promotion

In recent years, technology and innovation promotion has been at the heart of the ASEAN economy. Since 2014, the average number of patents from the region has grown by 30% (WIPO, 2023). In 2018, the assessment highlighted policy frameworks for promotion of technology and innovation in Malaysia, Singapore, and Thailand (**Figure 2.7**). The performance in 2024 is also positive, with regional performance for this sub-dimension showing a substantial increase from 2018; the median score rose from 3.70 to 4.20 (**Table 2.5**). Across AMS, the largest improvements came from Brunei Darussalam, Malaysia, and the Philippines, respectively. The disparity across scores and comparisons of widely used metrics to assess innovation (e.g. overall low average share of R&D expenditure) show that more work needs to be done.

Figure 2.7. Weighted Scores for Sub-dimension 1.4 – Technology and Innovation Promotion (2018 versus 2024)



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Table 2.5. Scores for Sub-dimension 1.4: Technology and Innovation Promotion

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and design	3.66	1.52	4.10	2.67	5.42	2.22	5.19	6.00	4.93	4.11	**4.11**	**1.40**
Implementation	4.27	3.84	5.22	2.17	6.00	1.75	4.12	6.00	5.52	4.56	**4.42**	**1.39**
Monitoring and evaluation	2.65	2.32	2.98	1.99	4.31	1.33	4.33	6.00	4.66	2.65	**2.82**	**1.37**
Total score	**3.73**	**2.73**	**4.38**	**2.31**	**5.46**	**1.83**	**4.54**	**6.00**	**5.14**	**4.02**	**4.20**	**1.31**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Planning and design: SMEs are increasingly part of innovation policies.

Promotion of innovation and technological development is a priority for all AMS. Innovation is often seen a cornerstone of national development plans across the region, and several AMS are global leaders in innovation policy design. The Global Innovation Index ranks Singapore as the top country for its business and regulatory environment, with Malaysia and Indonesia also ranking within the top 20 for their business environment (WIPO, 2023). Across the region, half of AMS (i.e. Malaysia, the Philippines, Singapore, Thailand, and Viet Nam) have a dedicated innovation policy in place, with Malaysia and the Philippines having instituted theirs since the last assessment. Beyond dedicated documents, innovation is a key element in the Brunei Darussalam, Indonesia, and Myanmar national development plans or integrated into their digitalisation roadmaps (i.e. Brunei Darussalam, Cambodia, and Lao PDR).

Innovation policy spans across different aspects of society and includes many institutions. For this reason, a high-level coordinating mechanism is important for establishing priorities and ensuring whole-of-government action. Seven AMS have dedicated councils or committees for technological innovation, with Brunei Darussalam and Myanmar[2] having established theirs since the previous assessment. In Indonesia, Lao PDR, and Viet Nam, the coordinating role is held by the relevant ministry or division, most often the ministry of science and technology.

All AMS recognise the importance of SMEs in driving innovation, with explicit support being mandated in all but Lao PDR. Innovation support for SMEs is typically driven by capacity-building efforts and financial instruments, but demand-side innovation policies (e.g. innovative public procurement and user-led innovation initiatives) are increasingly used to boost technological innovation. Malaysia, the Philippines, Singapore, Thailand, and Viet Nam have applied demand-side policies to accelerate innovation in selected sectors.

[2] While a policy framework for Myanmar's Science, Technology and Innovation Council is in place, the council is not yet operational.

SME-targeted R&D incentives, including cash refunds and carry-forward provisions, are also commonly used across OECD countries, with SMEs on average receiving a 3% higher subsidy on R&D expenditure compared to large firms (OECD, 2024). AMS are following suit, with all (excluding Lao PDR) offering some form of R&D incentive that is targeted to SMEs.

Implementation: Institutional support is slowly expanding and increasingly targeting high-tech sectors.

Implementation efforts in the region have remained consistently high with a median score of 4.42, demonstrating that AMS are expanding implementation efforts to offer support to SMEs and to target specific high-growth sectors. This support comes in various forms, including financial incentives, consultancy services, training programmes, and networking events.

Indonesia, Malaysia, Singapore, Philippines, Thailand, and Viet Nam have established autonomous innovation agencies responsible for implementing innovation programmes. In AMS where an autonomous agency does not exist, the main ministry responsible for innovation support is typically handled by the equivalent ministry of science and technology. SME-specific innovation support is typically led by the agency responsible for SME development with assistance from the country's innovation agency, such as Enterprise Singapore and Brunei Darussalam's DARe.

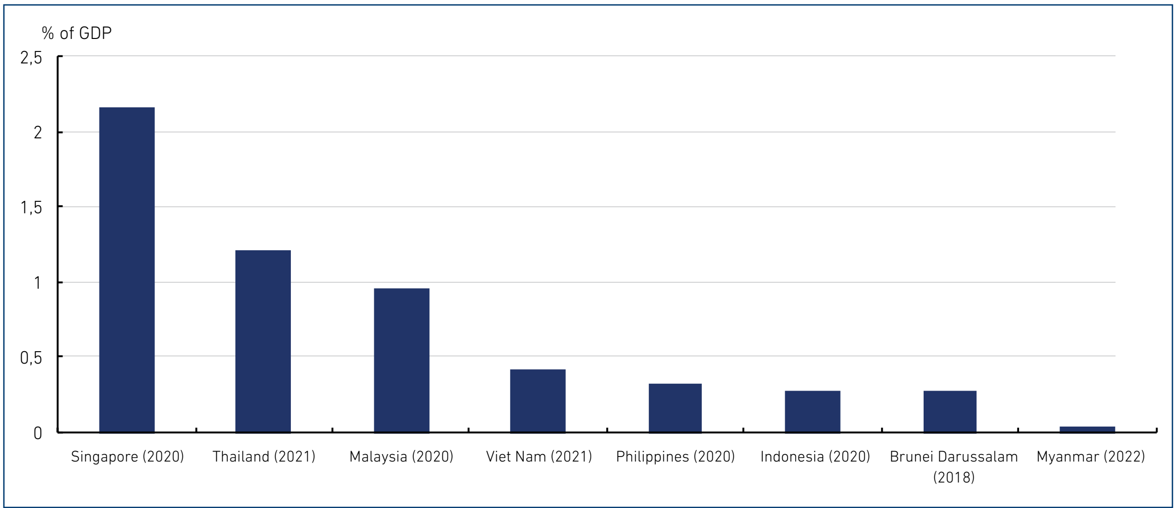
In terms of the types of support to promote innovation, all AMS engage in efforts to raise awareness of the importance of innovation and its role for SMEs, with governments organising conferences, festivals, and exhibitions on innovation.

Science and technology parks, innovation centres, business incubators and accelerators, and technology transfer offices can act as key enablers for SMEs, combining needed infrastructure with services to enable innovation. High-tech incubators and innovation centres are the most common type of institutional support for innovation, being found in eight AMS (Myanmar and Lao PDR excluded). The impact of COVID-19, while disruptive in the short term, has led to an increased focus on technology adoption and increased investment by policymakers into institutional support. Additionally, the pandemic was a catalyst for innovation in terms of how support is offered, with business support for innovation being increasingly digital. As the level of support increases, the coordination across government actors becomes increasingly important. Brunei Darussalam, Cambodia, and Lao PDR have responded to this need, establishing online portals to centralise information relating to R&D and innovation since the 2018 assessment.

Financial support schemes for innovation are targeting both SMEs and innovation enablers (i.e. incubators, accelerators, and innovation centres). For R&D, incentives in the form of cash refunds and carry-forward provisions are common to help subsidise the cost. Grant schemes – such as Thailand's National Innovation Agency's Innovation Coupon – are also common, offering subsidies for innovative projects up to B1.5 million. Financial support for innovation enablers is being offered in all AMS except Myanmar. These programmes enable providers to foster collaboration with the private sector for innovation support. **Figure 2.8** shows AMS gross domestic expenditure on R&D.

To increase the uptake of innovation services, AMS have increasingly tried to centralise information regarding governmental support for innovation, with Brunei Darussalam, Cambodia, Indonesia, Malaysia, the Philippines, Singapore, and Thailand creating dedicated portals on government programmes for innovation promotion. In other AMS, information is fragmented and split across agencies, making it challenging for users to access the full spectrum of available initiatives.

Figure 2.8. Gross Domestic Expenditure on Research and Development across ASEAN, 2018



Note: The graph illustrates the most recent data available for each country. Recent data are not available for Cambodia and Lao People's Democratic Republic.

Source: UNESCO, Gross Domestic Expenditure on R&D as a Percentage of GDP, https://data.uis.unesco.org/index.aspx?queryid=74# [accessed 10 May 2024]

Infrastructure is essential for the growth of new e-services, yet the availability of reliable and fast internet access varies across the region. Some AMS, like Indonesia, Malaysia, the Philippines, Singapore, and Thailand, offer a comprehensive range of infrastructure that benefits SMEs (see **Box 2.7** for an example). For instance, Singapore's Centres of Innovation serve as one-stop shops providing laboratory facilities, consultancy and training services, and assistance for SMEs to test and to develop their technology projects. Universities are also key sources of advanced infrastructure and programmes. For example, the Philippine's Department of Science and Technology SIBOL Laboratory allows for university researchers to gain commercialisation support while also enabling SMEs to share their facilities.

While AMS are focussing on establishing ecosystems conducive to innovation, advanced-stage AMS are also looking to foster disruptive innovations. For example, Malaysia launched the National Technology and Innovation Sandbox in 2020, which offers relaxed regulatory standards to accelerate the development and commercialisation of new technologies. In addition, Singapore in 2024 launched GenAI, their first AI-focussed sandbox for SMEs. GenAI provides solutions tailored to SMEs' needs and will allow them to implement tools such as personalised recommendations, automated customer support, and improved marketing campaigns that are traditionally mostly used by only large firms.

Box 2.7. Malaysia's i-SEE Programme

Malaysia's Inclusive SME Ecosystem (i-SEE) programme is not just working to facilitate the development of innovative small and medium-sized enterprises (SMEs) but also to leverage innovation to empower marginalised groups such as women, older persons, rural populations, and those in the bottom 40% of the income bracket. The programme offers financial support in the form of grants with a maximum amount of RM200,000 for SMEs registered with the Companies Commission of Malaysia that maintain 100% domestic ownership. Business expenses eligible for grant financing include prototype development, testing, regulatory certification, and intellectual property registration.

Source: Government of Malaysia, MISTI, Inclusive SME Ecosystem (I-SEE), https://mastic.mosti.gov.my/sti/incentives/inclusive-sme-ecosystem-i-see

Monitoring and evaluation: Monitoring systems exist but are fragmented and not independently reviewed.

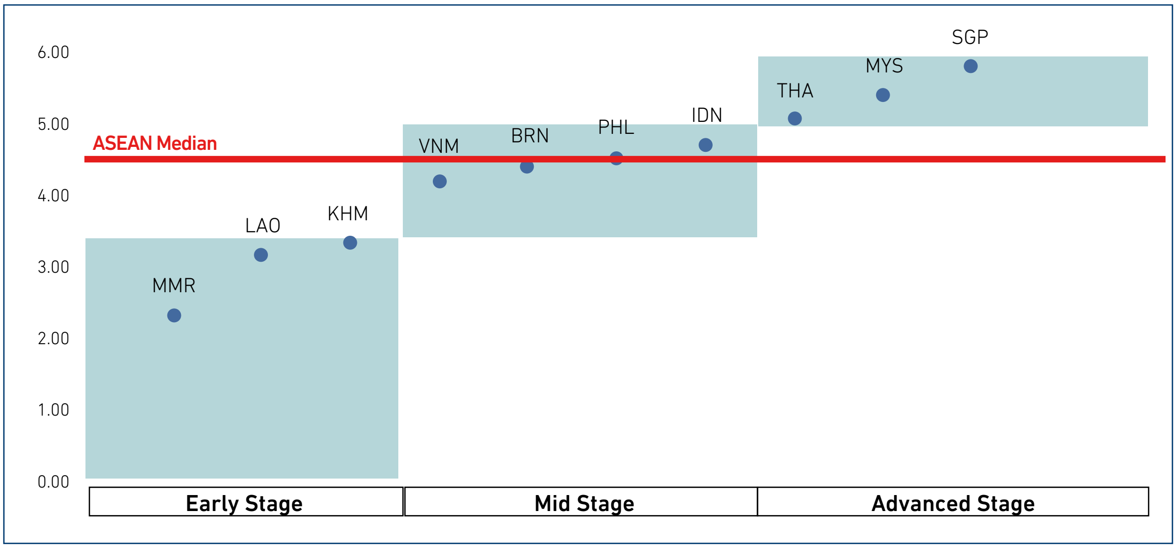
Progress for M&E has improved since the 2018 assessment, rising from a median score of 2.16 to 2.82, but the overall score leaves room for improvement. National performance indicators to monitor the success of innovation programmes have been established in nearly all AMS. Despite this, there is a fragmentation across monitoring efforts. The scope of monitoring activities is typically isolated to individual programmes, and the results are not readily shared across agencies. This fragmentation complicates holistic assessments of innovation promotion and limits comparability across systems.

Additionally, evaluations are scarce across the region, with only Malaysia and Singapore consistently evaluating SME innovation strategy. As the region moves forwards, it is vital that evidence-backed policymaking guides decision-making. As such, the development of timely, pragmatic, transparent, and actionable evaluations must be prioritised amongst AMS.

4. The Way Forward

Figure 2.9 presents the weighted scores for the dimension for AMS. While re-engaging with priorities outlined in the *ASEAN Strategic Plan for SME Development (2016–2025)*, AMS should consider the development of an ASEAN-wide programme that could support the enhancement of innovative SMEs with high potential from one AMS benefiting from infrastructure and advice in another AMS. Considering the wide variation across scores in the region, recommendations have been into three categories: early stage, mid-stage, and advanced stage policy levels of development (**Table 2.6**).

Figure 2.9. Weighted Scores for Dimension 1 – Productivity, Technology, and Innovation



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHL = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Early stage AMS (i.e., Cambodia, Lao PDR, and Myanmar) have begun instituting a number of policies relating to productivity enhancement but still must expand upon the provision of supporting infrastructure and intensify their efforts to address information gaps. Mid-stage AMS (i.e. Brunei Darussalam, Indonesia, the Philippines, and Viet Nam) have established a number of instruments and programmes to support SMEs, but additional effort is still needed to provide coordinated responses and tailored service offerings that adjust to SMEs' sector-specific needs and level of development. Advanced stage AMS (i.e. Malaysia, Singapore, and Thailand) are comprehensive in their service offerings and are increasingly focussing on the development of certain high-growth sectors to ensure their continued economic success.

Looking ahead, government officials and policymakers could explore the following policy directions (**Table 2.6**).

Table 2.6. Policy Recommendations to Boost Productivity, Technology, and Innovation amongst SMEs

Level of Policy	Policy Recommendations
Early stage *Cambodia* *Lao PDR* *Myanmar*	• **Expand a range of operating models across BDS centres**. BDS support can build on virtual support as well as a range of BDS centres with a variety of services offered. • **Consider partnerships with the private sector and other stakeholders to implement support schemes** (e.g. monitoring and peer learning). • **Create awareness amongst SMEs about the importance of productivity enhancement.** Governments through outreach programmes and advisory services should communicate the advantages of BDS and the importance of innovation/technology adoption in improving SME competitiveness. • **Continue working on linking SMEs to larger companies**. This should be done via ensuring their presence in the business clusters, innovation parks, and industrial zones.
Mid-stage *Brunei Darussalam* *Indonesia* *Philippines* *Viet Nam*	• **Support should be available for SMEs and startups across their stages of development.** Agencies should focus on improving connectivity between programmes and creating clear roadmaps of support that can guide SMEs as they scale up. • **Ensure BDS programmes address both the needs of traditional SMEs and high-growth firms.** • **When designing innovation or BDS-related infrastructure, explore models that are financially self-sustaining.** • **Foster the development of private BDS providers.** Governments should seek to grow private BDS providers through public funding support and calls for tenders for BDS delivery. • **Expand the use of accreditation and voucher schemes.** These help grow the network of certified consultants available to SMEs.
Advanced stage *Malaysia* *Singapore* *Thailand*	• **Increase collaboration on the international level by sharing infrastructure with AMS peers**. Governments should collaborate actively with other major global tech hubs and create partnerships with top universities and industry leaders. • **Provide peer-level support to other countries in the region**. Advanced economies can utilise their expertise to foster the development of other countries in the region, allowing for standardisation and increasing the integration of the region. • **Explore the creation of regulatory sandboxes**. These may be required for specific innovative business models. • **Expand the use of independent evaluations across agencies**. These should also include more evaluations from non-governmental sources.

AMS = ASEAN Member State, BDS = business development services, SMEs = small and medium-sized enterprises.

Source: Authors.

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Part I

Chapter 3

Environmental Policies and SMEs

1. Introduction

The Association of Southeast Asian Nations (ASEAN) region depends heavily on natural resources for its economic growth, which makes it critical for ASEAN Member States (AMS) to adopt sustainable development mechanisms and to enable a transition towards greener growth. The region is also severely threatened by climate change-related disasters, with high percentages of people living in coastal areas and establishing their businesses in such settings (OECD, 2024).

While the region has made significant successful efforts in enhancing its renewable energy capacity, increasing sustainability reporting, and reducing hazardous waste, much remains to be done to meet the responsible consumption and production objectives set by the region by 2030 (UNESCAP, 2024). The evidence from the region has indicated that environmental degradation undermines both the potential for economic growth as well as the well-being of the population (OECD, 2014). Targeted approaches are required for reducing dependence on fossil fuels, decreasing emissions, and setting quality and monitoring standards for greening.

AMS have registered progress over the past few years in planning, implementing, and investing in the green economy, especially in priority sectors such as agriculture, tourism, energy, and infrastructure (ILO, 2021), and have been focussing on formulating green growth strategies since the mid-2010s (OECD, 2024). In this analysis, comprehensive strategies directed towards small and medium-sized (SMEs) are investigated, both in a broad and a targeted manner.

A vast majority of employment in AMS is dependent on SMEs, as they make up 97%–99% of the firms in the region, therefore making greening of SMEs essential (OECD and ERIA, 2018). SMEs still face several challenges in the course of greening; often, a green transition is not a priority for SMEs as they may be already facing challenges concerning mere survival and day-to-day operations. Moreover, for SMEs, a step towards a green transition may impose additional costs of doing business, and constraints – such as limited knowledge, skills deficits, and poor access to financing – can further prevent SMEs from greening.

Typically, green SMEs can be placed into two categories: (i) 'green innovators', which develop new products, technologies, and approaches for enabling transformational impacts; and (ii) 'green performers', which are conventional SMEs progressing towards making their operations more environmentally friendly and resource-efficient to improve their competitiveness (McDaniels and Robins, 2017). Notably, SMEs that adopt greener practices experience increased profitability, resilience, and competitiveness as well as opportunities for accessing new markets. Beyond the conventional advantages, a green economy also encourages SMEs to excel in new fields, like green services provision, green consulting, and renewable energy installation (OECD and ASEAN, 2021).

A transition to circular economy models has also been adopted by ASEAN, especially via the Framework for Circular Economy for the ASEAN Economic Community (ASEAN Secretariat, 2021), launched in 2021. Adopting circular principles can result in economic growth of US$324 billion and create 1.5 million jobs across Asia by 2025 (ERIA, 2018). This shift towards involving the circular economy in national-level strategies presents a significant opportunity to mainstream the policies for SMEs to tackle unsustainable waste management practices across a wide range of sectors (ADB, 2022). ASEAN has also outlined the objective of ensuring a carbon-neutral future; however, in the context of SMEs, this will require a substantial effort (Yoshino et al., 2023).

Supporting the greening of SMEs requires a holistic and consistent approach, involving regulatory apparatus, awareness raising, and adequate financial tools. Potentially, an all-encompassing framework – including regulatory and financial incentives – can allow the mainstreaming of a green transition in the context of SMEs. Towards this goal, this chapter will investigate the existing state of affairs, outline the good policy examples, and suggest best policy practices for the region towards greening for SMEs.

2. Assessment Framework

The assessment of greening SMEs through Dimension 2 includes two sub-dimensions: environmental policies targeting SMEs (Sub-dimension 2.1), and incentives and instruments for greening SMEs (Sub-dimension 2.2) (**Figure 3.1**). Both sub-dimensions are also intertwined to a certain extent, wherein steps planned and implemented under Sub-dimension 2.1 are necessary to facilitate progress of initiatives in Sub-dimension 2.2, and vice versa. Further, each sub-dimension is organised into three thematic areas: (i) planning and design, (ii) implementation, and (iii) monitoring and evaluation (M&E). The final score of Dimension 2 is based on a 60/40 weighting between Sub-dimensions 2.1 and 2.2, respectively.

Figure 3.1. 2024 Framework for Assessing SME Greening

Dimension 2 : Environmental Policies and SMEs	
2.1 Productivity measures	• Strategy for SME greeting • Responsible government body • Private sector consultation
2.2 Incentives and instruments for greening SMEs operations	• Regulatory incentives • Financial incentives • Private sector consultation and advisory services • Promotion of environment management systems • Existence of green certification programmes • **Capacity building around greening (NEW)** • Green sustainable finance • **Awareness raising (NEW)**

SMEs = small and medium-sized enterprises.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 2.1 looked at into environmental policies designed to target SMEs. Through well-rounded inquiry, the sub-dimension assessed the characteristics of environmental policies as well as the implementation of these policies by the responsible government agencies. It examined budget mobilisation, measurable targets, expected impact, and relevant stakeholders, including both public and private, all of which contribute to the progress of greening SMEs. Also, the sub-dimension provided insights into the evaluation mechanisms, both governmental and independent.

Holistic analysis of strategies aiming to green SMEs was conducted, especially through a focus on reviewing eco-innovation, eco-efficient production processes, green quality standards, and the circular economy. As compared to the previous edition, there was a greater emphasis on probing into the responsible government agencies and their efforts towards the creation of a network of public and private actors that could assist SMEs in improving their environmental performance. In the long term, the coordinated actions of relevant stakeholders should create a collaborative ecosystem allowing SMEs to learn and to flourish.

Similar to the 2018 assessment, the fundamental questions in Sub-dimension 2.1 were the following: (i) Are environmental policies for SMEs included in any of the government's strategies? (ii) Has a budget been mobilised for the action plan? (iii) Are the environmental policies targeted towards SMEs regularly monitored?

Sub-dimension 2.2, on incentives and instruments for greening SME operations, took a closer look at the policy foundations analysed in Sub-dimension 2.1, and evidence was gathered for measuring progress. Regulatory and financial incentives were explored, from the lens of planning and implementation, to grasp the extent of benefits experienced by SMEs. To develop such support mechanisms, the private sector should play a significant role in structure and delivery; hence, the question of involvement of private sector was explored as well.

The sub-dimension probed compliance assurance activities undertaken by the relevant government agencies, including efficient utilisation of environmental management systems. Significant attention was paid to the range of programmes, awareness-raising initiatives, and finance instruments to support SMEs in their environmental transformations. Finally, to examine the impact of regulatory and financial incentives, M&E mechanisms were assessed. Additionally, this edition emphasised on capacity-building initiatives; environmental, social, and governance (ESG) performance; and measurement of SME carbon footprints.

Incentivising compliance and enforcing environmental regulations, when required in cases of non-compliance, are significant features of greening SMEs. These processes engage a diverse group of stakeholders, including policymakers, regulators, certification agencies, enforcement agencies at the national and sub-national levels, experts, financial institutions, and non-governmental organisations. These efforts are generally concentrated towards a smoother, cost-effective transition to greening; for instance, in the context of regulatory regimes, a rules-based system is preferred over a complex permit setup to ensure ease of transitioning and reduced compliance costs. Hence, the key questions in Sub-dimension 2.2 were: (i) Does the government provide regulatory incentives, support schemes, and financial incentives for the greening of SMEs? (ii) Is there evidence of SMEs benefitting from regulatory incentives, support schemes, and financial incentives for green practices? (iii) Do national or local government authorities promote the use of environmental management systems amongst SMEs?

Improving environmental performance may seem like an additional cost of doing business for SMEs, however. They rarely have – or can afford – dedicated staff to work on environmental performance, including understanding complex environmental requirements. However, experience from around the world demonstrates that adopting greener practices can have real benefits for SMEs, including increasing profitability and lowering operating costs, increasing competitiveness and resilience, and opening access to new markets and sources of finance (OECD and ASEAN, 2021).

3. Analysis

The complete scores for Dimension 2 are shown in **Table 3.1**. **Figure 3.2** shows the relative distribution of scores for the 2024 assessment across the sub-dimensions, and **Figure 3.3** shows the relative improvement across dimension scores from 2018 to 2024. Largely, AMS have progressed in emphasising the significance of environmental sustainability and have been putting a greater focus on climate-change mitigation and adaptation. The median score of 4.15 for this dimension compared to the score of 3.45 in 2018 shows that the region has improved both its environmental policies targeting SMEs as well as increased instruments and incentives. This is a relatively new policy area in the region, and it is encouraging to see how fast the policies have been advancing and becoming a priority in many AMS. However, challenges remain in implementation and regulatory efforts as well as in monitoring. This section includes a detailed analysis of each sub-dimension.

Table 3.1. Scores for Dimension 2: Greening SMEs

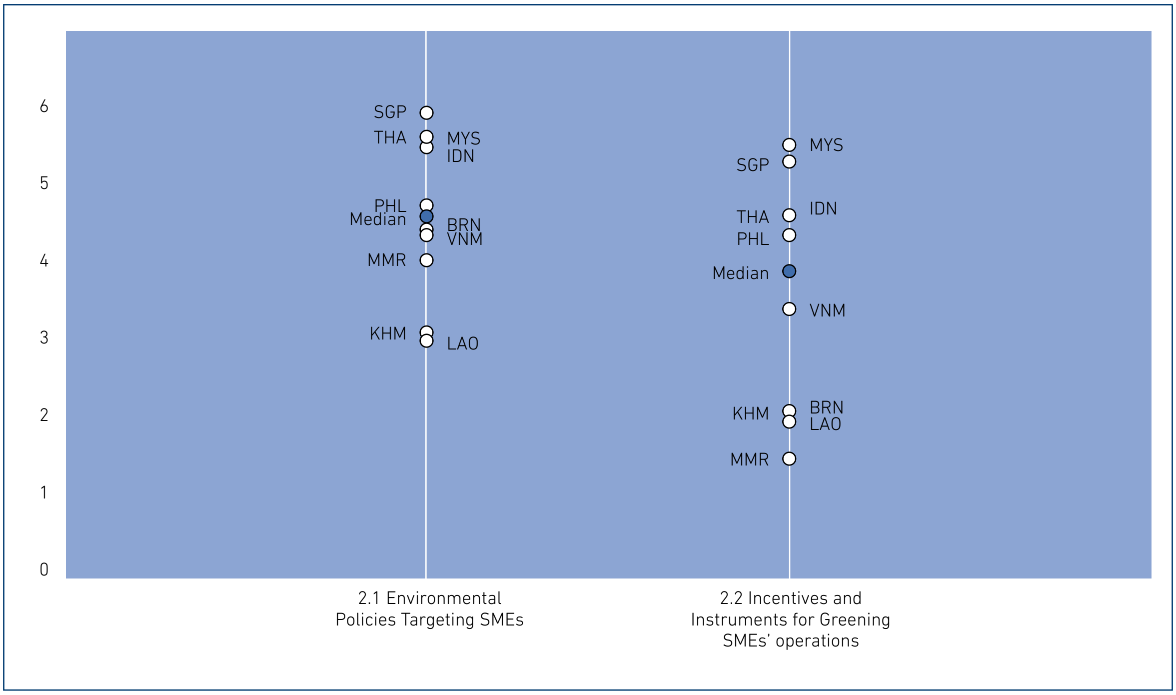
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
2.1 Environmental Policies Targeting SMEs	4.43	3.09	5.48	2.97	5.60	4.03	4.74	5.93	5.63	4.37	**4.58**	**1.00**
2.2 Incentives and Instruments for Greening SMEs' operations	2.09	2.06	4.61	1.94	5.53	1.45	4.36	5.31	4.60	3.40	**3.88**	**1.46**
Total dimension score	**3.02**	**2.47**	**4.96**	**2.35**	**5.56**	**2.48**	**4.51**	**5.56**	**5.01**	**3.79**	**4.15**	**1.24**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 3.2. Weighted Scores for Dimension 2 – Environmental Policies and SMEs

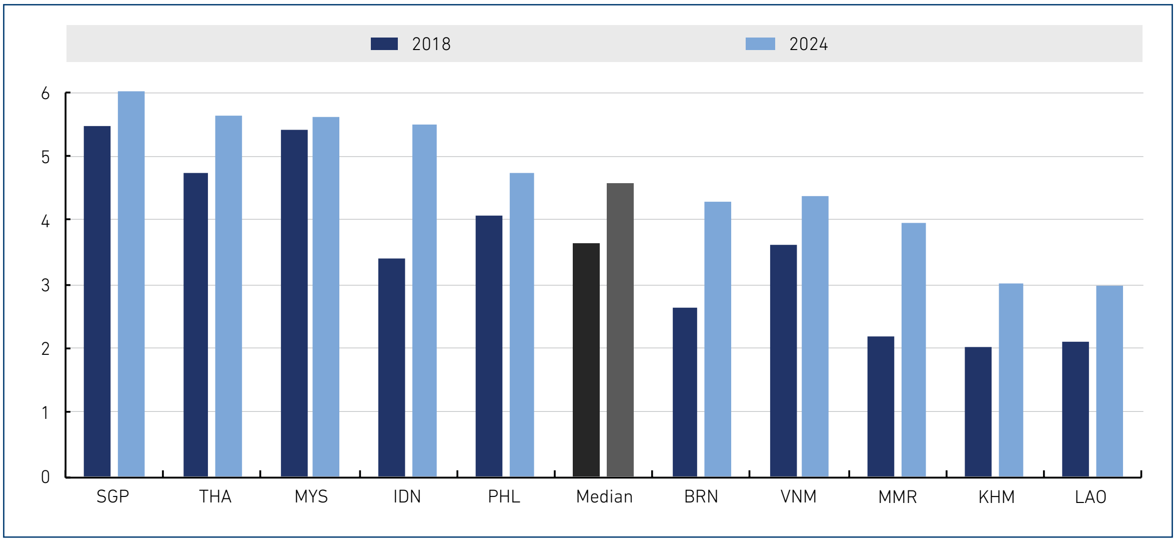


BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 3.3. Weighted scores for Sub-dimension 2.1: Environmental Policies Targeting SMEs)



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 2.1: Environmental Policies Targeting SMEs

The transition towards greener practices for SMEs typically commences with the formulation of targeted policies, ideally at the national level. As SMEs operate differently from larger corporations and have less capacity to ensure good environmental management of their operations, legislative frameworks must recognise this distinction and propose tailored strategies to effectively address SMEs' environmental concerns and to allow a gradual and smoother transition, supported where needed and justified by governmental mechanisms at every step. Support of SME greening requires the development of effective policies that target SMEs specifically. This sub-dimension investigates these fundamentals.

The region has emphasised environmental matters and put national policies in place.

The median score for this dimension is 4.46, which indicates a relatively advanced level of environmental policy development. It also shows the progress that AMS have made since the 2018 edition (**Table 3.2** and **Figure 3.4**). The region as a whole has put much more emphasis on environmental matters and put in place national policies as well as regional initiatives such as the Framework for Circular Economy for ASEAN Economic Community.

Table 3.2. Scores for Sub-dimension 2.1 – Environmental Policies Targeting SMEs

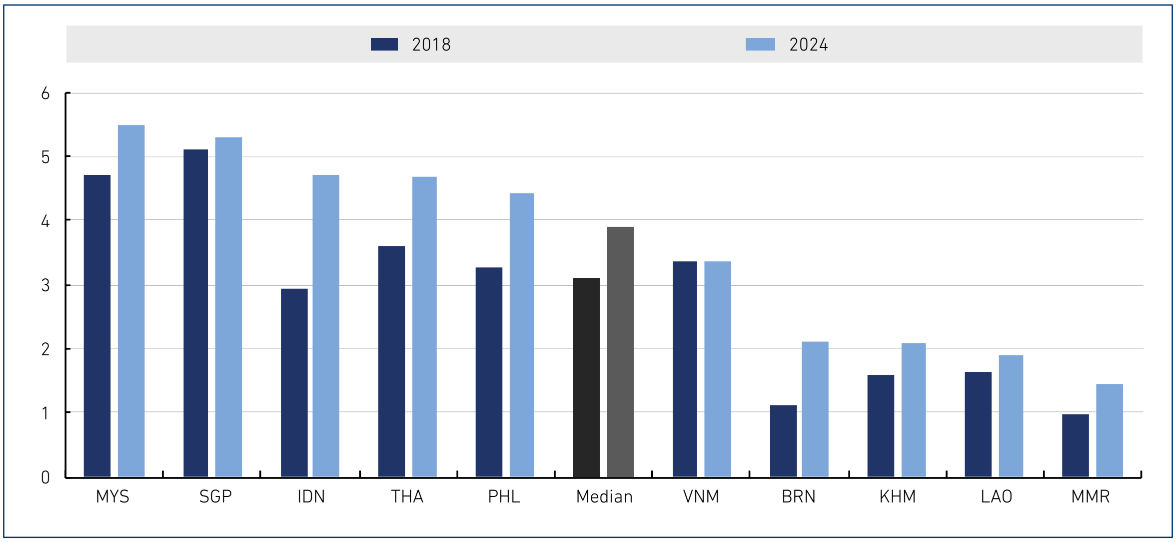
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning & Design	4.81	3.68	5.82	4.14	6.00	4.80	5.03	6.00	5.51	4.31	**4.92**	**0.77**
Implementation	4.33	2.38	5.43	2.65	5.72	4.03	5.15	6.00	6.00	4.59	**4.87**	**1.24**
Monitoring & Evaluation	4.00	3.66	5.00	1.66	4.66	2.65	3.31	5.66	5.00	3.98	**3.99**	**1.14**
Total score	**4.43**	**3.09**	**5.48**	**2.97**	**5.60**	**4.03**	**4.74**	**5.93**	**5.63**	**4.37**	**4.58**	**1.00**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source:Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 3.4. Weighted Scores for Sub-dimension 2.1 – Environmental Policies Targeting SMEs



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

While the maturity of greening policies for SMEs varies, it is much more present compared to the 2018 assessment. While some have advanced in policymaking through developing policies specifically targeting SMEs and encompassing priority issues such as climate-change mitigation, others remain in less advanced stages of developing national strategies. Compared to the 2018 assessment, the biggest change is that greening policies have become much more present across the region. More advocacy for mainstreaming green growth policies for SMEs is important to make an impact (OECD and ASEAN, 2021).

Within Sub-dimension 2.1, the assessment first examined the planning and design of environmental policies tailored to SMEs. All AMS have environmental policies that have a whole-of-nation approach. While more advanced AMS in terms of green SME development have SME-specific strategies for greening, others in earlier stages have policies that support green growth more broadly but do not have an SME focus. In those AMS, SMEs must comply with general environmental policies.

As compared to the 2018 assessment, all AMS have developed at least a national environmental policy and/or strategy. Notably, climate change and circular economy promotion have been areas of high importance.

AMS were then assessed on whether their environmental policies that target SMEs include action plans, measurable objectives, timelines, and anticipated outcomes. Most AMS have a broad range of environmental policies targeting the private sector and dedicated action plans. When analysing the focus of these strategies and implementation plans, it was noted that they mainly target greening of SMEs through development of eco-efficient products and adoption of more energy- and material-efficient processes. Policies that incentivise eco-innovation and design are at an initial stage of development but are receiving growing support. There is an increasing focus on promotion of circularity amongst enterprises as well.

Indonesia, Malaysia, Singapore, and Thailand have enhanced their national strategies to include the priority aspects of environmental schemes, such as fostering green growth, promoting a green economy, adopting green technology, and facilitating the circular economy. For instance, in Thailand, the Thirteenth National Economic and Social Development Plan (2023–2027) commits to increasing efficiency in product manufacturing and services in line with the circular economy and a low-carbon society. Further, Malaysia's Green Technology Master Plan (2017–2030) establishes planning for green quality standards, energy management, and the circular economy. In the Philippines, the National Climate Change Action Plan 2011–2028 places a strong emphasis on helping businesses and SMEs adhere to environmental regulations and practice eco-efficient consumption and production.

Ideally, support for green SMEs should be mainstreamed within countries' overall strategies for SMEs rather than regarded as a separate issue.

Integrating support for the greening of SMEs into the government's overall support for SME development can help SMEs benefit from more efficient practices. One of the challenges that policymakers are facing is that policies involving a wide range of governmental stakeholders – especially the ministries of environment and industry – can be difficult to coordinate. Having regular meetings or an official coordination procedure could thus be beneficial.

Policymakers should also examine what message that they want to send to SMEs on greening. In many AMS, the agency tasked with supporting the greening of SMEs is based at the ministry responsible for environmental protection or for assisting enterprises with environmental compliance. This sends a signal to SMEs that greening has a compliance cost and is not a tool for green growth and improved efficiency and competitiveness. Some AMS have given the mandate to their ministries of industry, however, which promotes greening of SMEs through the prism of green growth and innovation rather than just a matter of compliance.

AMS are more advanced with the implementation of the policies compared to 2018 assessment and have put in place instruments and budgets to address greening of SMEs in almost all AMS.

Implementation of a strategy cannot take place without a budget; not only is it crucial for actual implementation but indicates a commitment towards implementing policies. Malaysia, Singapore, and Thailand have clear budget allocations for implementation plans from their national budgets. Malaysia continues to support the development of green businesses in six key sectors, including energy, manufacturing, transport, construction, waste, and water through the Green Technology Financing Scheme 4.0, dedicating RM1.0 billion to 31 December 2025.[1] Singapore, for its Energy Efficiency Fund under the National Environment Agency, has committed over S$75 million since its launch in 2017 to support businesses in implementing energy-efficiency improvement and carbon-abatement projects (NEA, 2023). Finally, in Thailand, the Ministry of Industry has been implementing the Green Industry Project since 2010; for 2023, the allocated budget was B7.93 million for fostering a green economy.[2]

Where budgets have not been allocated, some AMS have to rely on external sources such as development banks and international organisations on a project-to-project basis. Donor funding can be instrumental in initiating green growth policies and technical assistance for SMEs, but governments should aim to rely less on it. Governments should initiate their own budget allocations to support green growth plans and then complement those allocations with external funding sources. This would ensure long-term stability and signal the prioritisation and significance of green initiatives to all stakeholders.

SMEs often lack information about the costs and benefits of relevant green practices, may have limited capacity to understand environmental requirements, and possess low awareness of the need to address their environmental impacts. Awareness raising is thus an important part of the green transition. Across the region, governments have been establishing online portals for disseminating information on greening plans and providing training to SMEs for transitioning. Thailand and Indonesia, for instance, are undertaking online initiatives for supporting capacity development, transferring knowledge about environmental management systems, and providing information on financing avenues. Policymakers have a range of tools to support the uptake of green practices that they could explore (**Box 3.1**). The Philippine Green Public Procurement Roadmap encourages manufacturers and SMEs to produce green products through promotion of energy and resource efficiency as well as through meeting international production and process standards.

1 Malaysian Green Technology and Climate Change Corporation, Green Technology Financing Scheme, https://www.gtfs.my/
2 MIND, Green Industry Project https://greenindustry.diw.go.th/webgi/about-1/ [in Thai]

Box 3.1. Tools for policymakers to help countries advance with the green transition

Governments have a vital role in creating conditions to support the uptake of green practices by small and medium-sized enterprises (SMEs). Policymakers can support SME adoption of greener practices in ways that ensure that the green transition is seen as a business opportunity and not just a compliance cost. To provide further details on tools, a policy toolkit has been developed in 2021 with inputs from the region and around the world that governments can employ to make the business case for SMEs to adopt green practices. The aim of this toolkit is to better equip governments with information on the benefits of greening for SMEs, as well as the knowledge and tools to support SME greening. These tools could be divided into three broad categories:

- **Regulatory tools**. These include simplification of regulatory requirements for SMEs through standardised permits or general binding rules, as well as other better regulation initiatives, offering regulatory incentives for the establishment of environmental management systems and moving towards sector-specific strategies for compliance assurance.
- **Financial tools**. These comprise grants, low-interest loans, and tax incentives for businesses willing to go beyond compliance and invest in greener technologies, encouraging supply chain pressure from larger companies and exerting it through green public procurement.
- **Information tools.** Theses advise individual businesses directly or disseminate guidance on environmental compliance and good practices to a wide audience in printed and electronic form, introducing sector-specific certifications and eco-labels as well as other environmental recognition awards.

Source: OECD and ASEAN (2021).

A crucial element of implementation is sector-specific planning, particularly to consider the distinct environmental opportunities and challenges faced by different sectors as well as the mechanisms to shape tailored approaches. Most AMS have provided sector-level support. In Malaysia, the *Green Technology Master Plan (2017–2030)* targets six sectors – energy, manufacturing, building, transport, water, and waste management – and this support could be provided to SMEs. Indonesia has a sector-specific focus on timber, benefitting mainly the furniture industry. Singapore has allocated S$4.5 billion for developing industry transformation maps for 23 industries addressing sector-specific issues, including SMEs and sectors related to the environmental services industry (MISTI, 2016).

Generally, AMS have broad mechanisms for M&E; only a few AMS have progressed on specific measures targeting the M&E of SME greening.

M&E policy implementation is crucial to receive insights into the effectiveness of policy planning, design, and implementation measures. Further, it is needed for scaling up or modification of pilot programmes and efficient allocation of resources. To enhance the impact of greening policies, it is essential that AMS mainstream comprehensive M&E strategies in environmental policies from the outset.

In AMS, monitoring is still in relatively early stages compared to policy design and implementation. The median score is just below 4.00, which indicates that some practices have been put in place, but further work on integrating key performance indicators and establishing an independent review process can be improved. Even if most AMS have put in place M&E practices, few AMS have SME-focussed monitoring systems; they concern monitoring of general environmental policies. No AMS conducts regular independent, third-party reviews of implementation of its greening policies.

Thailand regularly monitors the progress of the Green Industry Project; monitoring is the responsibility of the project's committee and sub-committees. *The Singapore Green Plan 2030* and Viet Nam's environmental protection activities are jointly monitored by several governmental ministries on a regular basis. The Philippines Environmental Management Bureau conducts monitoring across industrial and commercial stakeholders and performs environmental management system audits to ensure compliance. Most other AMS also have broad mechanisms of M&E in place, such as annual performance reports of concerned ministries.

Sub-dimension 2.2: Incentives and Instruments for Greening SMEs

Governments possess a variety of tools to aid SMEs in adopting environmentally sustainable practices, ranging from financial assistance to regulatory incentives (**Box 3.2**). This sub-dimension evaluated the availability of such incentives and instruments as well as their implementation and efficacy. The focus was also on noting the presence of significant elements such as green financial instruments, capacity-building initiatives, and awareness-raising activities.

There are more offers of investments and instruments for greening SMEs in ASEAN, yet there is still a lack of understanding of the benefits of greening at the enterprise level. The median score under this sub-dimension of 4.31 indicates that good progress has been made since the 2018 assessment (3.12) in regard to the readiness of fiscal incentives and support schemes (**Table 3.3** and **Figure 3.5**). For regulatory incentives, a palpable interest in exploring it was observed. There is a notable commitment across the region to experiment with innovative approaches to support SMEs in ensuring green growth and sustainability. As governments strive to refine and to implement these strategies, continued evaluation and revision is crucial for success in fostering sustainable practices and compliance amongst SMEs.

Table 3.3. Scores for Sub-Dimension 2.2 – Incentives and Instruments for Greening SME Operations

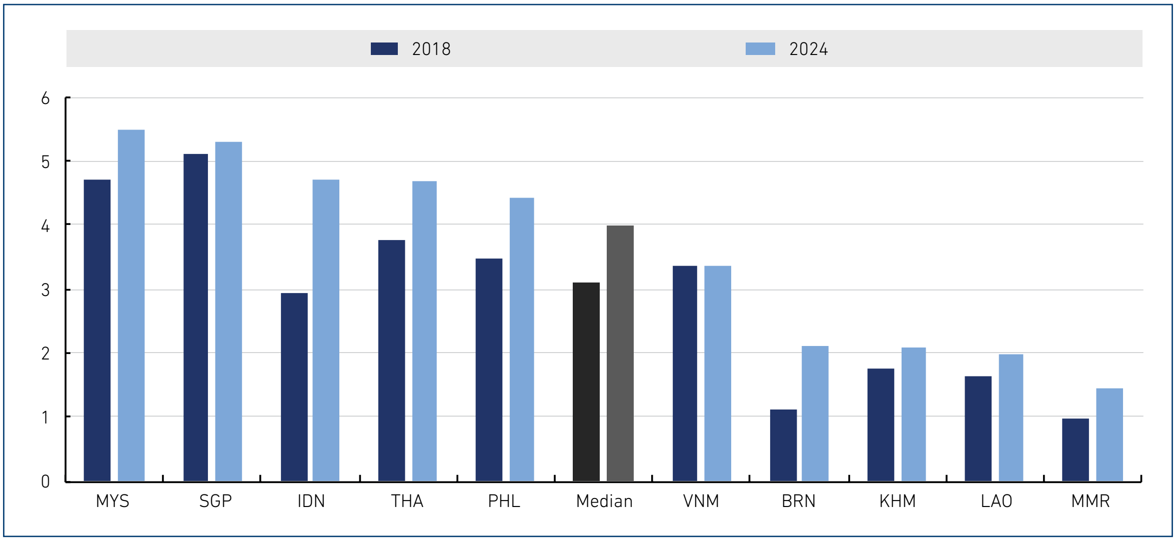
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning & Design	3.20	2.67	4.03	2.38	6.00	1.83	5.43	4.88	4.59	4.60	**4.31**	**1.32**
Implementation	1.71	2.07	4.44	1.83	5.88	1.35	3.36	5.52	4.91	2.42	**2.89**	**1.62**
Monitoring & Evaluation	1.00	1.00	6.00	1.41	3.90	1.00	4.75	5.58	3.90	3.50	**3.70**	**1.86**
Total score	**2.09**	**2.06**	**4.61**	**1.94**	**5.53**	**1.45**	**4.36**	**5.31**	**4.60**	**3.40**	**3.88**	**1.46**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 3.5. Weighted Scores for Sub-dimension 2.2 – Incentives and Instruments for Greening SME Operations



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source. Calculated based on ASEAN SME Policy Index 2024 Assessment Grid

AMS have variety of approaches for environmental regulatory practices, and they have put in place more fiscal incentives, soft loans, grants, and tax and investment incentives to promote greening practices.

AMS have diverse approaches and levels of centralisation regarding environmental regulatory practices and encounter the challenge of striking a balance between environmental preservation and regulatory burdens imposed on industry and government. Typically, environmental regulation and enforcement, including the requirement for environmental impact assessments, primarily target larger enterprises and projects in sectors prone to significant environmental impacts. However, the assessment did discover instances of enforcement of regulations for SMEs, although inconsistent. Most AMS, like Cambodia and Lao People's Democratic Republic (Lao PDR), are still developing their regulatory approaches towards SMEs.

The Philippines provides regulatory incentives, such as reduced reporting requirements and ease of permit renewals, to SMEs that go beyond compliance in their environmental performance, as per the Philippines Environment Partnership Programme. Singapore adopts the use of regulatory sandboxes to support the growth of new technologies and emerging sectors to accelerate innovation in the green economy. Singapore's Green Economy Regulatory Initiative provides a platform for businesses and agencies to co-develop regulatory solutions for enabling businesses to seize new green growth opportunities and to remain competitive while developing sustainable products. This is a good example of regulatory coordination aiming to minimise burdens on both industry and government.

Since the 2018 assessment, there has been further advancement in the development of fiscal incentives, soft loans, grants, and tax and investment incentives to promote greening practices. Malaysia established a number of relevant programmes including the Green Technology Financing Scheme, which provides financing for green technology projects, including projects aimed at reducing emissions. Malaysia's Low Carbon Transition Facility supports SMEs to adopt sustainability practices, along with providing financial assistance through its SME Bank. Indonesia's Center for Forest Development Financing, operating under the Ministry of Environment and Forestry, provides soft loans to SMEs through various structures, offering extended payback periods, grace periods, and below-market interest rates. The Monetary Authority of Singapore provides the Sustainable Loan Grant Scheme, which supports businesses of all sizes in their greening endeavours. Further, Thailand encourages investment in green industries through incentives such as fee exemptions and relaxed monitoring requirements. Similarly, Viet Nam has proposed several financial incentives to investment projects using clean technology (Decision No. 130/2007/QD-TTg). These incentives are crucial for SMEs to adopt greener practices and invest in new equipment.

Box 3.2. Financing SMEs for Sustainability

Addressing the climate crisis requires the net-zero transition of millions of small and medium-sized enterprises (SMEs) globally. With SMEs generating around 40% of business-sector emissions, net-zero cannot happen without SMEs. Equally, SMEs, startups, and the entrepreneurs behind them are important drivers of the many innovations that can advance sustainable development and the green transition. In recent years, the supply of sustainable finance has been growing rapidly in response to wider demand for sustainable products and for greater transparency and accountability of financial institutions and large enterprises with respect to their environmental and social performance.

The drivers for SME greening are growing, too, as SME participation in value chains' access to finance and competitiveness increasingly depend on businesses' ability to measure, report on, and improve their sustainability performance. This largely reflects spill-over effects from the emerging regulatory requirements on financial institutions and large enterprises mentioned above. Although SMEs will generally not be subject to mandatory reporting in the coming years, many of them will be affected indirectly: (i) via their participation in value chains of large enterprises that must report on the sustainability performance of their entire value chain, and (ii) via financing by financial institutions that have to report on the environmental performance of their financed portfolios.

SMEs also face challenges in tapping into the growing pool of sustainable finance. They must navigate a complex ecosystem with a growing number of actors, including public and private financial institutions; policymakers; regulators; fintech companies; environmental, social, and governance (ESG) rating providers; consulting services providers; and auditors. Furthermore, as financial institutions seek to comply with mandatory environmental reporting requirements, SMEs risk losing out on sustainability-linked finance due to their limited capacity to produce data on their sustainability performance, including ESG assessments.

Governments have an important role to play in bringing in private sector financing for SMEs' green transition, through the provision of credit guarantees for green or sustainability-linked lending and by supporting the provision of equity finance for innovative green ventures through intermediaries and partnerships. They must also support SME participation in green capital markets and provide financial incentives for SME greening, such as subsidies and tax incentives. Public institutions also play an important role in providing non-financial support for SME greening, which can in turn stimulate demand for green finance and investment. This includes support for measuring, reporting, and reducing their environmental footprint through the provision of online tools, mentorship and consulting services, as well as access to data and information to help SMEs make more informed decisions and establish timelines for greening.

Since 2021, the OECD Platform on Financing SMEs for Sustainability has provided a forum for global collaboration, knowledge sharing, and implementation of good practices amongst public and private financial institutions, policymakers, and SME representatives to enhance the provision and uptake of SME sustainable finance for a successful climate transition.

Sources: OECD, OECD Platform on Financing SMEs for Sustainability, https://www.oecd.org/cfe/smes/financing-smes-sustainability.htm; OECD, Southeast Asia Regional Programme, https://www.oecd.org/en/about/programmes/southeast-asia-regional-programme.html.

Surveys show that most SMEs in the region have only taken basic steps towards greening their business models, and few have set targets or transition plans or are measuring and reporting on their environmental performance. A large share of SMEs lacks the awareness, knowledge, skills, and financing to undertake these actions. Despite the progress in developing regulatory and fiscal incentives, a minority of programmes target SMEs, that is why policymakers should promote green transition financing for SMEs (**Box 3.2**). Moreover, financial incentives in certain AMS rely on donor funding, raising uncertainty about their long-term financial sustainability, but are a good start to promote awareness of greening.

While limited evidence is present from regulatory incentives, stronger evidence exists regarding the impact of fiscal incentives on SMEs.

Evidence to demonstrate the tangible benefits accruing to SMEs from regulatory incentives are limited, making it challenging to estimate the efficiency of such initiatives. While this may partly stem from weaker monitoring mechanisms, it also underscores the necessity of developing tailored regulatory incentives for SMEs. The median score for the implementation is much lower (2.89) compared to the planning and design block (4.31). This is explained by the fact that even if many AMS have developed policies, only some are advanced regarding their implementation. Indeed, there is a large gap between AMS that have advanced implementation mechanisms and those that are only at the beginning.

Stronger evidence is present regarding the impact of fiscal incentives on SMEs, enabling an increase in the creation of diverse and innovative financial assistance programmes. Indonesia, Malaysia, the Philippines, Singapore, and Thailand are particularly striving to offer programmes aimed at facilitating SME access to green finance. In the Philippines, the *Sustainable Finance Framework* aims to support the government in developing a conducive environment for sustainable financing, mainstreaming sustainable financial products, such as green, social, and sustainable bonds, and creating a sustainable pipeline database for public and private stakeholders. In Thailand, the Board of Investment offers tax holidays, import duty exemptions, and other financial incentives to SMEs that invest in green technologies or sustainable practices. SMEs can take advantage of these incentives to reduce their operational costs and to improve their competitive edge.

The region has also developed stronger financial offers with a specific greening focus.

In Thailand, Bangkok Bank provides green loans with favourable terms to SMEs investing in renewable energy, energy efficiency, and other sustainable projects. These loans often come with lower interest rates and extended repayment periods, making green investments more financially feasible for SMEs. In Malaysia, through the Green Technology Financing Scheme, it is possible to obtain a soft loan for an enterprise. In Singapore, there is the Enterprise Sustainability Programme (**Box 3.3**).

Box 3.3. Singapore's Enterprise Sustainability Programme

The Enterprise Sustainability Programme (ESP), by Enterprise Singapore, is an initiative under the Green Economy Pillar of the *Singapore Green Plan 2030*, aimed at supporting local businesses, especially small and medium-sized enterprises (SMEs), in improving their sustainability performance and capturing new opportunities in the green economy. Launched in 2021, a budget of S$180 million was mobilised for various initiatives that are expected to benefit at least 6,000 enterprises over the next 4 years.

Enterprises today are at different stages of their sustainability journeys; thus, the ESP supports enterprises on their various sustainability needs – from courses and playbooks that first build awareness and knowledge to projects where enterprises want to take further action to strengthen their sustainability capabilities in sustainability strategy development, resource optimisation, sustainability standards adoption and product/service development.

Components of the ESP include:

- Developing sustainability capabilities in enterprises by providing training to develop an understanding of sustainability and supporting sustainability capability development projects and innovative products/services.
- Strengthening sector-specific capabilities through partnerships with trade associations and chambers of commerce as well as corporations for developing sector-specific sustainability initiatives, resulting in sustainability across value chains and sectors.
- Fostering a vibrant and conducive sustainability ecosystem by partnering with service providers and enablers that can offer support in making the sustainability ecosystem in training, certification, and financing robust.

As part of the ESP, Enterprise Singapore promotes sustainable innovation through Enterprise Development Grants, which support enterprises, including SMEs, to develop technologically innovative and sustainable products, services, or solutions for commercialisation (e.g. products/services that are resource-efficient or use recycled materials). The grants also include support for companies to review resource consumption and to adopt or develop solutions to improve performance (e.g. reduce emissions and waste generation and improve energy and water consumption).

Enterprise Singapore also partners industry stakeholders – including corporates and trade associations and chambers of commerce. As the sustainability space is evolving, Enterprise Singapore regularly reviews the programme to ensure that support remains relevant. Besides the ESP, the Energy Efficiency Grant provides co-funding support to help businesses improve their energy efficiency by investing in energy-efficient equipment.

Source: Enterprise Singapore, Enterprise Sustainability Programme, https://www.enterprisesg.gov.sg/ESP

Environmental management systems are more prevalent amongst AMS; they are present in Indonesia, Lao PDR, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. SME Corp Malaysia assists SMEs in use of environmental management systems and ensuring compliance; in Singapore, the adoption of an ISO 14001 system was supported by an Enterprise Development Grant under the purview of Enterprise Singapore. However, environmental standards can be expensive and complex to implement for SMEs, presenting technical and financial barriers for most SMEs.

Governments can also play a pivotal role in expanding the market for green products to bolster the business case for investing in sustainable practices. For this objective, supporting mechanisms include initiatives such as greening of public procurement and development of eco-label regimes. Certification for green industry has been developed in Indonesia, Malaysia, Singapore, and Thailand. In the Philippines, the *Philippine Green Public Procurement Roadmap* and National Ecolabelling Programme – Green Choice Philippines (NELP-GCP) encourage clean manufacturing practices, energy efficiency, and consumption of products and services that are better for environment. Similarly, in Singapore, the Green Labelling Scheme assists the public in identifying environment-friendly products that meet eco standards. Lao PDR has recently introduced an eco-label to drive green consumption and production.

Information dissemination is an equally significant aspect of ensuring compliance with environmental regulations and uptake of regulatory and fiscal incentives. With increasing visibility and utilisation of digital platforms for awareness raising, most AMS have enhanced their apparatus for diffusing relevant knowledge to SMEs. For instance, in Cambodia, a website has been developed by Khmer Enterprise and Only One Planet Cambodia, which includes information on environmentally conscious products and services. In Viet Nam, several ministries have collaborated to generate guidance materials and workshops to ensure compliance with environmental regulations. Despite the increasing creation of awareness-raising platforms, however, there is considerable room for improvement across the region in ensuring the provision of targeted information.

Compared to the 2018 assessment, more AMS have M&E mechanisms in place for financing and incentivising the greening of SMEs.

It is imperative to enhance the region's procedures for monitoring and evaluating the efficacy of incentives and programmes for greening SMEs. This step is crucial in evaluating the effectiveness of policies, making necessary modifications for improvement and providing continued financial support. As compared to the 2018 assessment, more AMS have M&E mechanisms in place, such as Indonesia, Malaysia, the Philippines, Singapore, and Thailand. In Viet Nam, the Ministry of Planning and Investment reported the implementation of the SME Support Fund and various official development assistance projects to support SME greening. Notably, Indonesia and Malaysia also use surveys to seek feedback for their schemes. Nevertheless, inconsistency remains regarding the agencies and ministries responsible for monitoring, and there is a lack of independent evaluations. Other AMS do not have any procedures for M&E.

4. The Way Forward

There is increased awareness in the region of the importance of the promotion of greening practices. All AMS are showing determination and interest in continued SME greening. Issues surrounding climate-change effects are enabling sectoral endeavours involving energy efficiency, the circular economy, and decarbonisation. Over the last 2 years, much relevant work has been done by a variety of policymakers and regional stakeholders to identify pathways for development. Working in partnership with the private sector, policymakers, and academia, there were several policy dialogues around greening of SMEs. One resulted in a short policy brief with a set of policy recommendations (**Box 3.4**).

Box 3.4. Policy Actions from the Public–Private Consultation on Greening SMEs and the Circular Economy

The public–private consultation conducted alongside the ASEAN Coordinating Committee on Micro, Small, and Medium-sized Enterprises (SMEs) meeting in Thailand in 2023 resulted in a set of policy recommendations presented in a policy brief. These recommendations were developed through a stakeholder consultation including the private sector, policymakers, as well as academia. The summary is presented below.

Green awareness

- Adopt a national platform, targeted communication campaigns, and incentives to raise awareness and innovation potential on the circular economy sector amongst SMEs.
- Establish an inter-ministerial body on circularity and circular economy practices to streamline awareness on circular economy principles and practices and include SME needs.
- Raise awareness on circular economy practices amongst SMEs and the importance of waste separation amongst citizens and companies, including through promotion of long-term economic and financial benefits.
- Share more information on the types of circular business models available and provide information on their financial feasibilities.
- Monitor greenwashing practices and ensure avoiding spreading harmful misinformation.
- Raise awareness on the financial benefits of circular economy practices and applicable business models for micro and SMEs.

Resources for greening

- Establish a funding framework for circular economy initiatives in the business sector throughout the life cycle of the product development process.
- Develop policies to encourage investments into innovative technologies but avoid disproportionate compliance costs for micro and SMEs.
- Support scaling up small circular economy initiatives by setting up dedicated local funding and mentoring/capacity-building support measures.
- Support financial institutions in improving their competence on circular economy finance that can support and facilitate micro and SMEs in receiving targeted and suitable funding.

Green knowledge and innovation

- Increase platform and stakeholder coordination mechanisms between stakeholders and micro and SMEs to promote collaboration on the circular economy and sustainable development.
- Link larger companies with micro and SMEs to help promote circularity, as larger companies often have more resources and knowledge on how to address circularity.
- Conduct knowledge-sharing and capacity-building activities between larger companies and micro and SMEs to ensure better processes and practices.
- Extend capacity-building programmes for micro and SMEs to adapt waste management at the business level, such as sectoral waste management training and toolkits for workers and businesses in line with circular economy principles.
- Enhance business-industry-academia partnerships to promote innovation around circularity and its application in industries.
- Develop programmes and initiatives enhancing applied innovation in greening, circularity, and sustainability, especially involving micro and SMEs, as much as possible.
- Work together with industry associations and research organisations to help conduct material flow assessments, vulnerability assessments, and sustainability reporting that could be used by micro and SMEs.

Green regulations

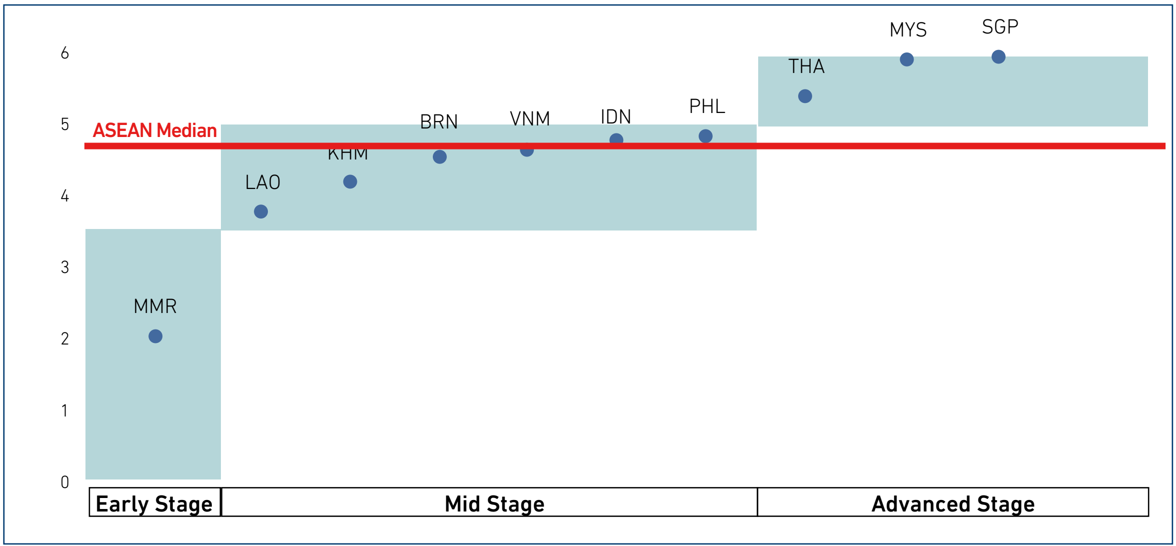
- Create green standards and indicators to establish a benchmark for private companies to strive towards.
- Implement policies to strengthen markets for secondary materials such as through extended producer responsibility schemes and setting recycled content standards and harmonise national standards with international good practices.
- Apply regulatory impact analyses when integrating new regulations or standards, which can analyse the impact on micro and SMEs and help define a timeline for their application.

Source: OECD (2024).

Even if AMS have made progress under this dimension, much is still to be done. **Figure 3.6** provides the weighted scores for Dimension 2 and showcases the level of policies in each of the AMS.

For most AMS, efficient implementation remains challenging. Moreover, M&E practices are still underdeveloped in the region. **Table 3.4** provides a set of policy recommendations based on the findings. Policymakers should consider development of an ASEAN-wide guidelines on micro and SME greening, featuring possible mechanisms, good practices on how to engage SMEs, and specific measurable targets.

Figure 3.6. Weighted Scores for Dimension 2 – Environmental Policies and SMEs



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Table 3.4. Policy Recommendations to Support Greening SMEs

Level of Policy	Policy Recommendations
Early stage *Cambodia* *Myanmar* *Lao PDR*	• **Develop national greening policies that specifically target SMEs as opposed to broadly targeting industry.** • **Ensure that guidance is clear regarding the minimum legal requirements**. Responsible agencies must specify the distinction between compliance and moving ahead of good practice(s). • **Develop single information windows that support SMEs to become greener.** • **Encourage greening awareness campaigns for SMEs and for policymakers organised by industry experts.**
Mid stage *Brunei Darussalam* *Indonesia* *Philippines* *Viet Nam*	• **Create one-stop shops to offer support to SMEs**. These will increase their awareness and secure their continued engagement in green practices. • **Continue developing and implementing assistance in accessing finance, incentives, and training to promote greening amongst SMEs**. Consider specific programmes that build the capacity of environmental managers and link their services to business development services. • **Improve M&E of implemented incentives and support schemes targeting SMEs.** • **Focus national environmental and climate-change strategies on SMEs, both regarding sector-specific approaches and targeted assistance in accessing finance, incentives, and training.**

Level of Policy	Policy Recommendations
Advanced stage *Malaysia* *Singapore* *Thailand*	• **Continue working on development of robust M&E mechanisms**. This will generate feedback for improving uptake and enabling adoption of green technologies and new technical standards. • **Link the provision of fiscal assistance with the adoption of certain environmental goals.** This will ensure compliance and enable close M&E by lending institutions to achieve its environmental goals. • **Establish environmental regulatory regimes that differentiate between SMEs and larger enterprises.**

M&E = monitoring and evaluation, SMEs = small and medium-sized enterprises.

Source: Authors.

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Part I

Chapter 4

Access to Finance

1. Introduction

Limitations in accessing external financing are frequently cited by micro, small, and medium-sized enterprises (SMEs) as a key challenge to growing their business activities (World Bank, 2017). This perception is borne out by data; according to the World Bank's *Enterprise Surveys* of over 6,000 companies, SMEs across the world are more likely than larger businesses to face credit constraints (Kuntchev et al., 2014). In global comparisons, such credit constraints are more pronounced in South Asia and East Asia and the Pacific, where 23%–25% of surveyed firms were found to be fully credit constrained, compared, for example, to just 9% in Latin America and the Caribbean and 10% in Eastern Europe and Central Asia (Kuntchev et al., 2014). Fully credit constrained firms are those that applied for a loan and had been rejected in the previous fiscal year and that did not access any external financing during that time period.[1] In Association of Southeast Asian Nations (ASEAN) Member States (AMS) involved in the survey, 10%–17% of firms reported limited access to finance as a major constraint, while collateral requirements were quite high, exceeding 150% of the loan value in every AMS and reaching 413% in Myanmar (OECD, 2020a).[2]

The reasons for micro and SME financing constraints are multiple, but an underlying factor is that investing in – or lending to – micro and SMEs is often more challenging given their heterogeneity, the typically scant credit information available on them, and the fixed-cost nature of sourcing and monitoring micro and SME financing (Nassr and Wehinger, 2015). Regarding commercial credit – which represents SMEs' most significant source of external financing (OECD, 2015) – these perceptions partly reflect SMEs' higher failure rates in practice but can also be exacerbated by other factors specific to SME lending, including information asymmetries, high transaction costs, and principal/agent problems (OECD, 2018). A key information asymmetry in SME lending is the fact that compared to SME owners, financiers have limited information on an entity's business viability or likelihood of repayment. High transaction costs are associated with the fact that even small SME loans require similar background checks, repayment monitoring, and enforcement efforts as larger loans with higher profit margins. Micro and SME financing also share principal/agent problems, such as that lenders (principals) have different interests and incentives than borrowers (agents), who may, for example, use obtained funds differently than agreed, which could lead to increased default risks.

All of these factors can lead lenders to limit their exposure to the SME market or to apply high interest rates, collateral requirements, and/or fees that can make commercial loans prohibitively expensive – or simply unattainable – for SMEs. Even creditworthy SMEs with well-established and successful businesses may not be able to access loans because they do not own sufficient collateral, such as real estate, to secure their loans. SMEs' heavy reliance on bank lending itself can also ultimately hinder their access to financing, since SME loans are often the first to taper off in periods of economic downturn when banks engage in deleveraging. This signals the need to develop the market for non-bank alternative financing mechanisms for SMEs alongside efforts to promote SMEs' increased access to bank financing (Nassr and Wehinger, 2015).

1 The category 'fully credit-constrained' also includes firms that did not apply for loans for reasons other than not needing extra capital, signifying that the terms of the potential loans were a deterrent.

2 *Enterprise Survey* data do not include Brunei Darussalam or Singapore.

Although SMEs' difficulty in accessing financing can partly signify a well-functioning market where risks and rewards are adequately aligned, many of the aforementioned challenges lead to market failures where policy interventions can be deployed for the benefit of SMEs and ultimately the broader economy. Key policy interventions to support SME access to financing include:

- A strong legal framework and efficient judicial system to protect creditor rights and to streamline insolvency and settlement procedures, so that creditors have confidence in their likelihood of recuperating loaned funds. The legal framework should include robust secured transactions legislation allowing for – and adequately regulating – the use of a variety of assets as collateral.
- Credit bureaus that provide detailed historical information on individual and businesses' credit histories so that financial institutions can better assess their credit risk, thus reducing information asymmetries.
- Robust cadastres and asset registries to allow borrowers to use both immovable and movable assets as collateral for loans. Reliable and well-functioning movable collateral registries can be used to publicly record a lender's right to certain collateral in the case of a borrower's default or insolvency, allowing for the development of a robust secured transactions market. Such registries should be widely available and digitised to promote their widespread and efficient use.
- Direct credit support interventions, where a public entity takes on some direct lending risk to incentivise financial institutions to extend loans to SMEs. Such interventions include credit guarantee schemes, whereby a public guarantor commits to a lender to partially refund SME loans in the case of default in exchange for a fee borne by the borrower.[3] Such schemes need to be carefully designed and monitored to ensure that guarantees are extended only to creditworthy SMEs (that have viable businesses but may, for example, lack sufficient collateral to obtain bank loans) and to avoid distorting the lending market.
- Support for the development of non-bank market-based instruments – such as securitisation of pools of SME loans as well as public equity markets dedicated to SMEs to complement (rather than substitute for) bank credit intermediation.[4]

2. Assessment Framework

The assessment framework on SME access to finance comprises two sub-dimensions. The first sub-dimension examined the legal, regulatory, and institutional framework on SME finance, looking at the strength of creditor rights and secured transactions legislation; presence of collateral registries and credit information bureaus to mitigate information asymmetries; and existence of functioning stock exchanges, including dedicated listing segments for SMEs, to facilitate access to equity financing. This sub-dimension received the greatest weight in scoring, reflecting the importance of strong laws and institutions in allowing for financial markets to develop.

[3] Such schemes can also be privately operated.

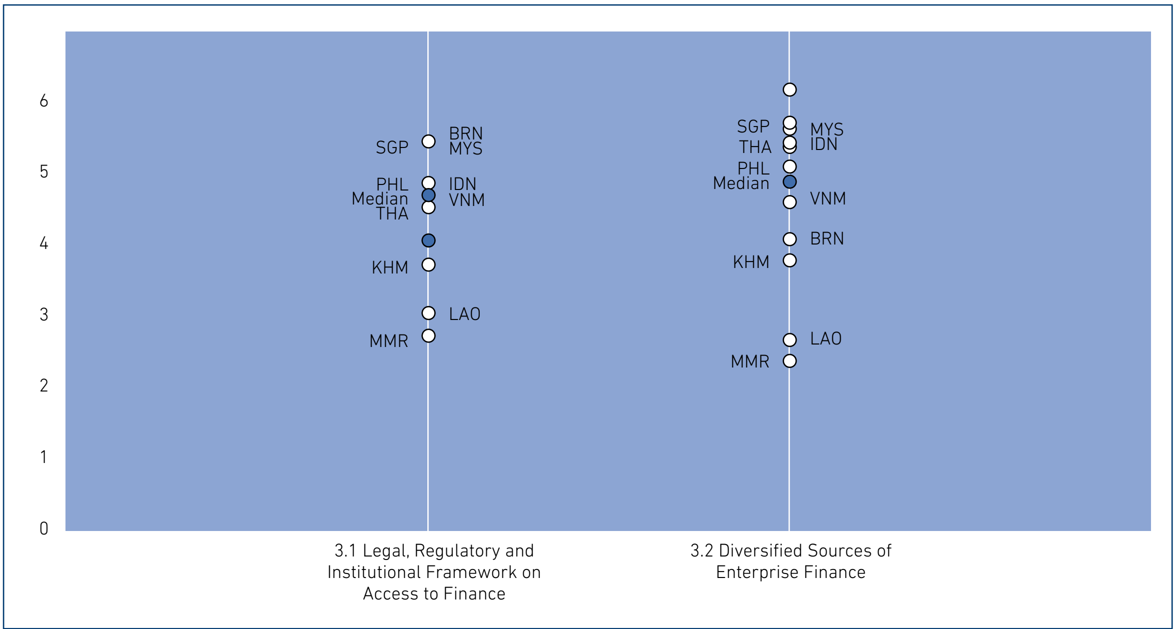
[4] SME loan securitisation was not examined in detail. More information on this means of non-bank alternative financing, as well as on the use of covered bonds, is available in Nassr and Wehinger (2015).

The second sub-dimension delved into the different types of financing available to SMEs as well as the policy interventions employed to facilitate their access. It first examined SME access to bank credit and the policy interventions employed to facilitate such access, including credit guarantee schemes; export guarantee schemes; measures to incentivise lending to target groups of SMEs to promote environmental sustainability, finance SME digital transformation, or enhance inclusiveness; and temporary support to promote lending to SMEs that were negatively impacted by the COVID-19 pandemic. It then looked at the availability of microfinancing, including its geographic accessibility and uptake. Finally, it examined the availability of alternative sources of enterprise financing, including specific types of asset-based financing (e.g. factoring, leasing, and trade finance), debt and equity crowdfunding schemes, and equity instruments such as venture capital. The 2024 framework also gathered information on policy efforts to promote the development of digital financial services, which were not scored.

3. Analysis

Figure 4.1 provides a comparative overview of AMS scores across the two sub-dimensions. **Figure 4.2** shows the relative improvement across dimension scores from 2018 to 2024. A more detailed analysis of practices and performance within each of the sub-dimensions' components follows.

Figure 4.1. Weighted Scores for Dimension 3 – Access to Finance

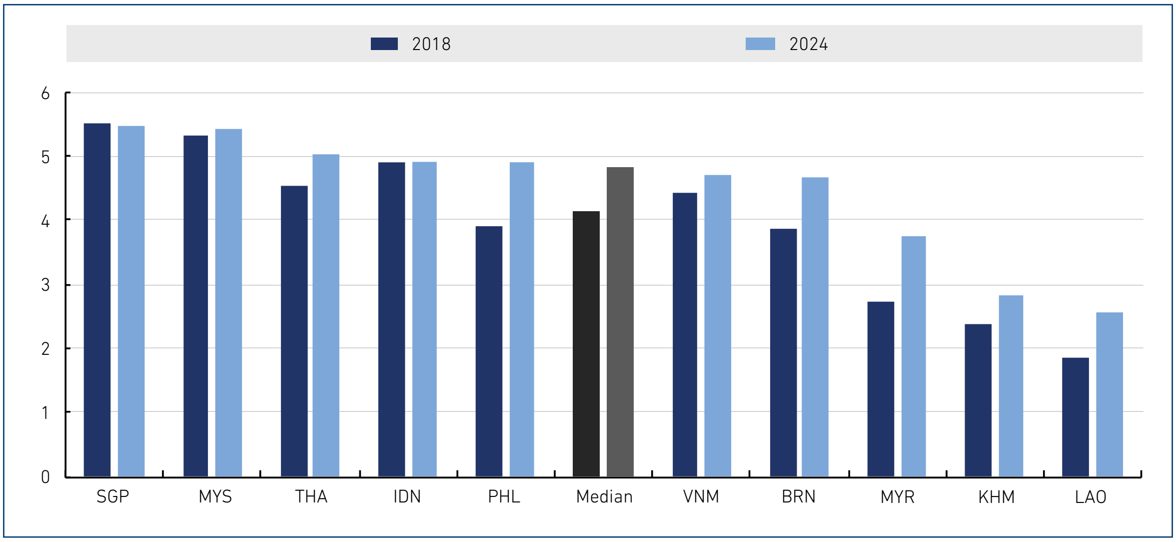


BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 4.2. **Weighted Scores for Dimension 3 – Access to Finance**



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Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 3.1: Legal, Regulatory, and Institutional Framework on Access to Finance

A legal, regulatory, and institutional framework that protects creditors and allows borrowers to use different types of collateral to secure loans can have a significant impact on SME ability to obtain credit. Research has shown that efficient legal frameworks for credit access correlate with higher private credit–gross domestic product (GDP) ratios, while the introduction of collateral registries leads to an increase in the number of firms receiving credit and a reduction in the cost of credit for firms (World Bank, 2019). When laws allow SMEs to use a variety of assets to secure loans – including movable assets such as machinery, equipment, inventory, and accounts receivable – and infrastructure is in place to record these securities and to establish transparent pay-out priorities amongst lenders, this can facilitate the growth of the SME lending market.

Table 4.1 and **Figure 4.3** provide an overview of AMS performance across this sub-dimension. The median regional score is relatively high, 4.66, reflecting largely sound basic creditor rights in the majority of AMS, as well as the presence of asset registries and credit-reporting systems in every AMS. Variation across AMS reflects some remaining national weaknesses in secured transactions legislation and creditors' rights as well as differences in coverage and/or levels of development of national asset registries, credit reporting systems, and stock exchanges.

Table 4.1. Sub-dimension 3.1 – Legal, Regulatory, and Institutional Framework

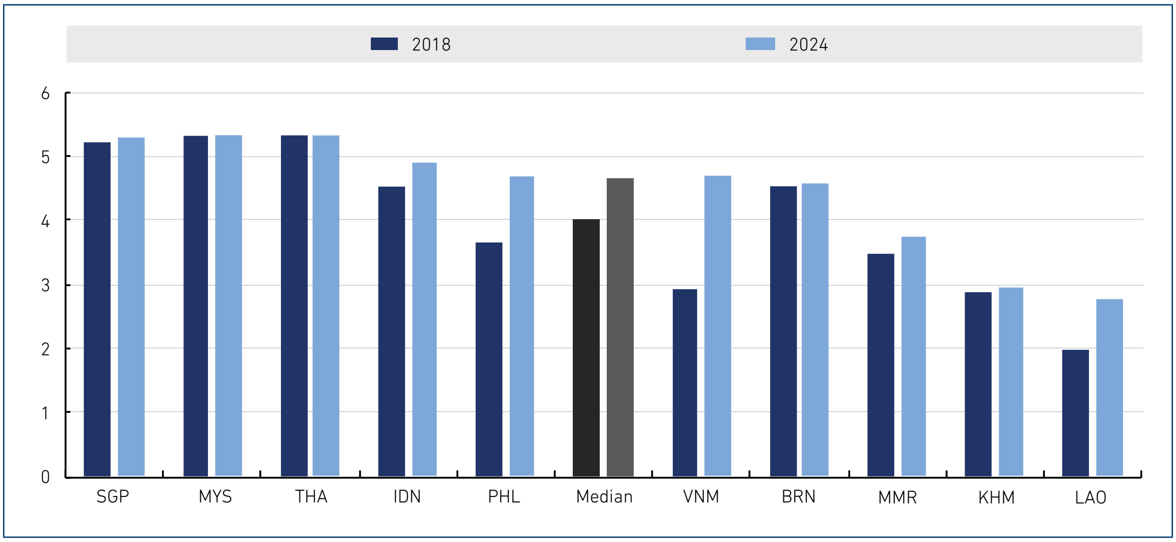
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Legal and regulatory framework for commercial lending	5.77	3.53	4.530	2.73	5.24	2.68	4.69	5.33	4.10	4.43	**4.48**	**1.00**
Credit information bureau	6.00	4.52	5.81	4.33	6.00	2.85	3.96	5.26	5.26	5.26	**5.26**	**0.96**
Stock market operations and facilities for SME listing	1.55	3.20	4.88	2.38	5.15	2.38	5.72	6.00	5.43	5.16	**5.02**	**1.55**
Total Score	**5.39**	**3.69**	**0.82**	**3.01**	**5.38**	**2.68**	**4.64**	**5.39**	**4.46**	**4.67**	**4.66**	**0.93**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note 2: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 4.3. Weighted Scores for Sub-dimension 3.1 – Legal, Regulatory, and Institutional Framework on Access to Finance



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Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Although reforms have been initiated in a few AMS, weaknesses in secured transactions legislation persist.

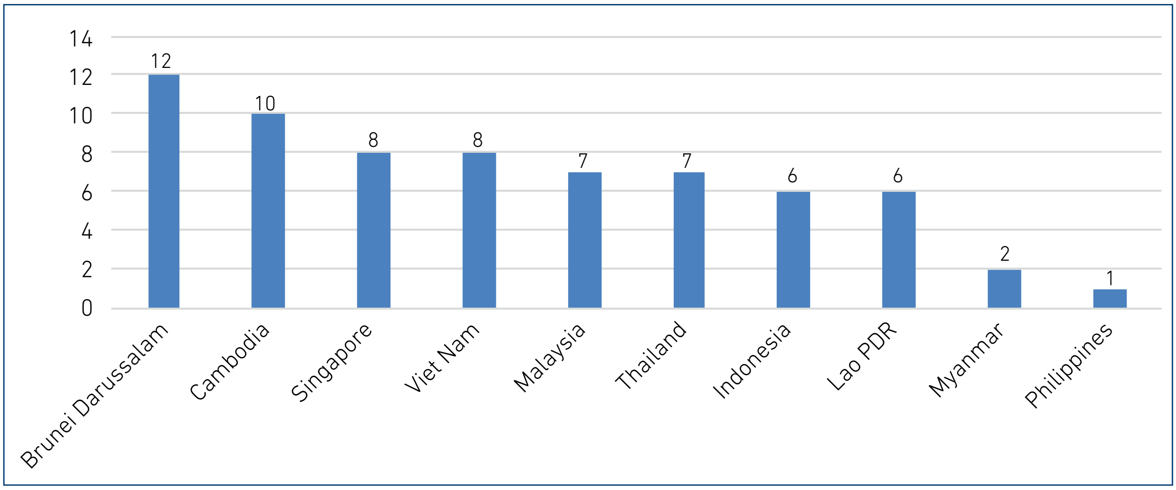
Figure 4.4 provides an overview of how AMS scored on the strength of a legal rights index, which examines the strength of secured transactions legislation, presence of a collateral registry to record pledged securities, as well as elements related to protecting creditors' rights in the case of bankruptcy (World Bank, 2019).[5] Importantly, recent efforts to improve the secured transactions framework in the Philippines could increase its score and ranking on this index.[6]

Only two AMS – Brunei Darussalam and Cambodia – had in place, by 2019, a unified legal framework for secured transactions comprising all good practices identified as important in the World Bank's Doing Business methodology (World Bank, 2019). Four additional AMS – Malaysia, Singapore, Thailand, and Viet Nam – had in place many of the good practice elements of a secured transactions framework, albeit without having established a single, unified legal framework. For example, although Singapore and Viet Nam do not have one unified secured transactions law, the legislation in force allows for businesses to grant security rights over movable assets and allows for all types of debts and obligations to be captured in collateral agreements. Weaknesses persist across the region concerning creditor rights in the case of default or bankruptcy, however; in six AMS, secured creditors are not paid first (i.e. before taxes and employee claims) in the case of bankruptcy, while in five AMS, they are not paid first in the case of default outside of bankruptcy. These legal limitations in creditor rights – together with weaknesses in the judicial system and lengthy bankruptcy proceedings in many AMS – may create disincentives for financial institutions to extend loans to small businesses.

[5] The latest round of data collection for the World Bank's Doing Business series was completed in May 2019.

[6] Information provided by the Philippines in the context of this assessment indicates that its secured transactions framework fulfils 9 of the 12 criteria on the strength of legal rights index as of 2021. Its new electronic moveable asset registry was soft-launched in 2021 but does not yet allow users to register or search for notices.

Figure 4.4. Strength of Legal Rights Affecting Credit Access in ASEAN Member States



Lao PDR = Lao People's Democratic Republic.

Notes: Scores are on a scale of 0 to 12. Cambodia scores lower than Brunei Darussalam owing to issues related to the bankruptcy regime. Information provided by the Philippines in the context of this assessment indicates that its secured transactions framework fulfils 9 of the 12 criteria on this index as of 2021, but its electronic movable assets registry is not yet fully operational.

Source: World Bank (2019).

Concerning recent or ongoing reforms related to secured transactions frameworks, the Philippines approved the fee structure for its movable asset registry in 2021, allowing for fuller implementation of the Personal Property Security Law, which was enacted in 2018 to allow borrowers to use movable assets as loan securities. At the time of this writing, a new electronic movable asset registry is in place but does not yet allow users to create or to search for notices. Myanmar commenced work in 2019 to develop a new law on secured transactions. In Viet Nam, a new decree on secured transactions, which took effect on 15 January 2023, seeks to reduce the burden of obtaining a registration for a security interest and allows the use of electronic signatures for secured transactions registered online.

There is scope to modernise asset registries and to continue improving the coverage of credit-reporting systems.

All AMS have established cadastres for immovable property, although their coverage, accessibility, and online availability vary across the ASEAN region. In about half of AMS, land ownership is not fully documented in the cadastre systems. Similarly, all AMS – except Myanmar – have established movable asset registries, which is a crucial step in allowing SMEs to post movable assets as security for loans, as it offers a public record of which assets already have security interests claimed on them.

Across the region, significant scope remains to modernise existent movable asset registries and to make them fit-for-purpose. For example, only three AMS – Brunei Darussalam, Cambodia, and Lao People's Democratic Republic (Lao PDR) – have made their asset registries notice-based, whereby creditors can register a notice of their rights over a security without having to provide supporting documentation or to undergo a legal review. Weaknesses also remain related to many registries' availability to the public and online accessibility. Amongst the most recent reformers in this area is the Philippines, which as mentioned earlier, agreed on a fee structure for its movable asset registry in 2021, a first step to making it operational.

All AMS have in place credit-reporting systems, with coverage varying across the region but generally growing in recent years. Credit-reporting systems are provided by private credit bureaus (in eight AMS), sometimes in tandem with a public credit registry (in three AMS). Myanmar's private credit bureau is the newest in the region, having commenced operations in 2020 after receiving its license to operate in 2018. Brunei Darussalam and Lao PDR are the only AMS where credit information is only collected by public credit registries, and no private credit bureaus are in operation.

As shown in **Figure 4.5**, the coverage of credit-reporting systems varies widely across the region, with the highest coverage – over 60% of the adult population – recorded in Malaysia, Brunei Darussalam, and Singapore, and the lowest coverage – under 20% – in Lao PDR and the Philippines.[7] AMS with the highest credit-reporting system coverage rates compare favourably with Organisation of Economic Co-operation and Development (OECD) high-income countries, where the average coverage of credit bureaus is 67% of the adult population (World Bank, 2019). In the remaining AMS, there is scope to expand the coverage of credit-reporting systems so that financial institutions can more easily assess potential borrowers' credit risk, thus facilitating increased lending to creditworthy SMEs.

Available data point to continued progress in increasing the coverage of credit bureaus in the region. For example, as of the end of 2022, the Credit Information Corporation of the Philippines (CIC) had credit information on 49.0% of the adult population, up from 13.5% in 2019 (CIC, 2022). Brunei Darussalam's credit bureau covered 79.3% of the population in 2022, up from 76.8% in 2019. Its credit bureau also introduced credit scores in 2018, offering another tool for assessing borrowers' credit risk. By 2022, 465,000 scores had been generated for retail and commercial borrowers.[8]

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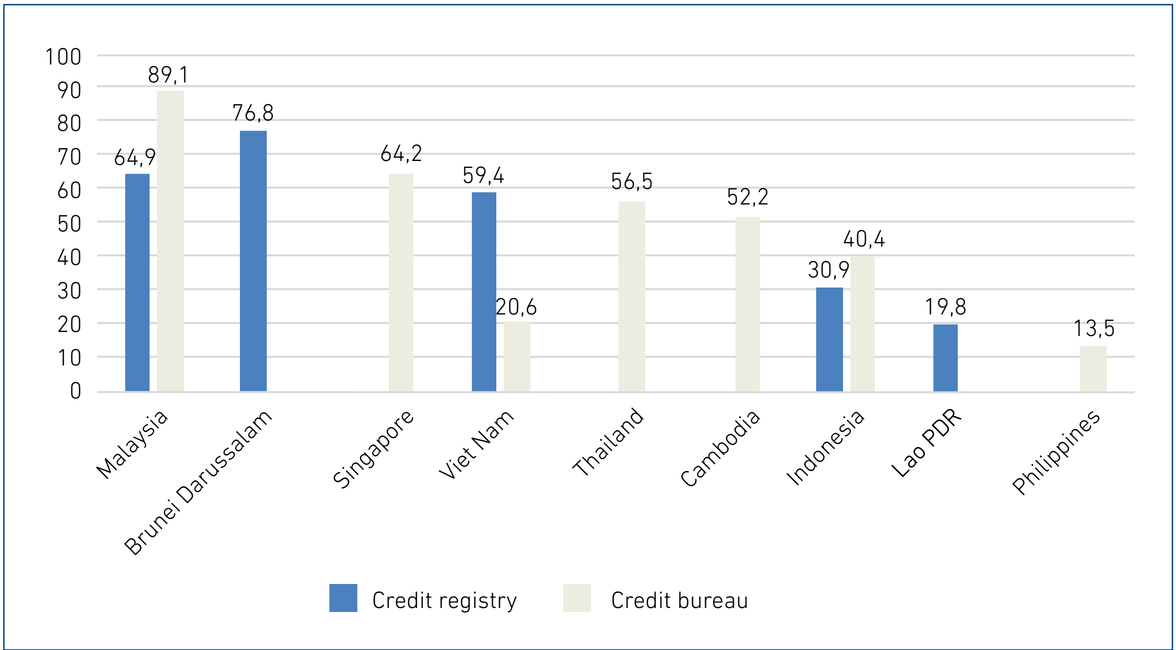
[7] Data were not available for Myanmar's newly launched private credit bureau.

[8] Data on credit-bureau coverage were based on information provided by the Central Bank of Brunei Darussalam in the context of this assessment.

Figure 4.5. Coverage of Credit Reporting Systems in ASEAN Member States, 2019
(% of adult population)



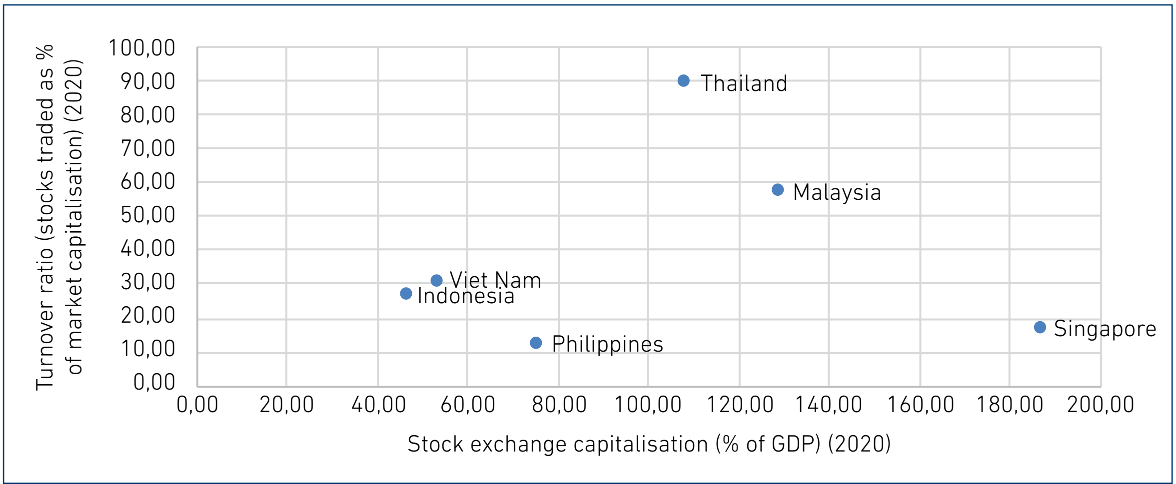
Lao PDR = Lao People's Democratic Republic.
Note: Myanmar is not included in the figure since its private credit bureau was launched in 2020 after this Doing Business survey.
Source: World Bank (2019a).

Stock-exchange volume and activity have grown modestly over the past decade, and most exchanges in the region include dedicated platforms for SMEs.

All AMS have an operational stock market, except for Brunei Darussalam, although it adopted the requisite securities market legislation and implementing regulations in 2013 and 2015, respectively.

When measured as a percentage of GDP, the value of national stock exchanges in AMS experienced only modest growth from 2010 to 2020, with some exchanges even shrinking in value as a percentage of GDP (**Figure 4.6**). However, this partly reflects rapid GDP growth in the region over the past decade. More recently, there have been signs of nominal growth in exchange activity across the region, with the value of initial public offerings (IPOs) in the ASEAN region in the first half of 2023 increasing by 43% year-on-year. These 79 IPOs – of which 41 took place on the Indonesian stock exchange – were valued at US$4.1 billion (Sato and Akama, 2023). This trend in recent high-value IPOs extends even to some of the region's smallest exchanges. The 2023 IPO of the mobile telecommunications company, Cellcard, on Cambodia's exchange was one of the largest IPOs in the exchange's history, valued at over US$5.0 million (Cambodia Investment Review, 2023a).

Figure 4.6. Stock Market Capitalisation and Turnover in ASEAN, 2020



GDP = gross domestic product.

Notes: Data are not available for Brunei Darussalam (no stock exchange), Cambodia, Lao People's Democratic Republic, or Myanmar (which all have less than 10 companies listed). All data are from 2020, except for Singapore, for which the figure on stocks traded as a percentage of domestic market capitalisation is the latest available, from 2019.

Source: World Bank, Stocks Traded, Turnover Ratio of Domestic Shares (%), World Bank Open Data, https://data.worldbank.org/ [accessed 2 May 2024]

Regarding other recent changes on the region's stock exchanges, a trend towards consolidation has continued, with Viet Nam merging its Ha Noi and Ho Chi Minh City exchanges into the Viet Nam Stock Exchange in 2021. Lao PDR adopted a new 10-year capital market development strategy in August 2022, which foresees building the institutional capacity of Lao Securities Commission Office and listing several state-owned enterprises to attract investors and to increase liquidity on the market.

Stock exchange volume and activity vary significantly across AMS, with the largest stock exchanges in the region relative to economy size found in Singapore, Malaysia, and Thailand, where stock exchange market capitalisation as a percentage of GDP reaches 187%, 129%, and 109%, respectively.[9] By way of comparison, global high-income countries, on average, have stock exchanges valued at 170% of their GDP.[10] AMS with the highest liquidity in their exchanges are Thailand, Malaysia, and Viet Nam, where turnover ratios (i.e. stock trades as a proportion of market capitalisation) reach 89%, 57%, and 31%, respectively.[11] By this measure, stock exchange activity remains somewhat low by some international comparisons; on average, global

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[9] In absolute terms, Singapore has the largest stock exchange by market capitalisation in the region, followed by Thailand and Indonesia. See World Bank, Market Capitalization of Listed Domestic Companies (% of GDP), World Bank Open Data, https://data.worldbank.org/ [accessed 2 May 2024]

[10] *Ibid.*

[11] World Bank, Stocks Traded, Turnover Ratio of Domestic Shares (%), World Bank Open Data, https://data.worldbank.org/ [accessed 2 May 2024]

low- and middle-income countries posted stock exchange turnover ratios of 170% in 2020.[12] The smallest exchanges in the region – with less than 10 companies listed – are found in Cambodia (9 companies), Lao PDR (11), and Myanmar (8). In terms of market performance, Indonesia perhaps merits special mention, with growth in its stock exchange outpacing all other emerging market exchanges in the nearly 20 years following the global financial crisis, coinciding with reforms to strengthen the country's institutions and to reduce red tape (Authers and Abbey, 2024).

Nearly all AMS with operational stock exchanges – except Lao PDR and Myanmar – have established specialised SME equity platforms, with varying levels of participation by SMEs (**Table 4.2**). The most recently launched such exchange is LiVE in Thailand, established in 2022.[13] In some cases, these junior boards aim to prepare firms with high growth potential to subsequently list on the main board by offering them some exposure to securities market regulations (e.g. disclosure standards) but with more lenient listing requirements (e.g. lower income or capital requirements). As an example of this, since 2009, 48 corporations originally listed on Malaysia's junior ACE market migrated to the main market by February 2023, signalling the junior board's role in supporting SME growth (Box 4.1).

Box 4.1. Supporting SME Access to Equity Capital – Malaysia's LEAP and ACE Markets

Malaysia has two specialised equity platforms for small and medium-sized enterprises (SMEs), the ACE market (with 159 firms listed as of end 2022) and the Leading Entrepreneur Accelerator Platform (LEAP) market (with 47 firms listed). By comparison, its main stock exchange has 766 listed companies.

The ACE market was launched first, in 2009, to offer a dedicated fundraising platform to SMEs, while the LEAP market was launched in July 2017 to cater to smaller SMEs. The LEAP market is advisor-driven, meaning that SMEs wishing to list on the LEAP must maintain the services of an advisor for at least 3 years to support compliance with the market's listing requirements. Companies that have been listed for 2 years on the LEAP market can, if they meet the listing requirements, subsequently graduate to the ACE market, offering a path to increased funding opportunities.

The ACE market is 'sponsor-driven' and designed for more established SMEs. To list on the ACE, an SME must be deemed by a corporate sponsor as suitable for the market based on its business prospects, corporate conduct, and strength of internal controls. The listing requirements are more extensive on the ACE than on the LEAP, for example, involving more detailed disclosures to be set forth in a corporate prospectus. Listings are growing on both markets, with 25 initial public offerings (IPOs) having been conducted on the ACE market and 1 on the LEAP market in 2023 alone.

[12] *Ibid.*

[13] In Brunei Darussalam, where the establishment of a stock exchange is foreseen, authorities report that there are plans to accommodate smaller companies on it.

This dual listing system, involving advisor support first on the LEAP market and then (if desired) graduation to the ACE market, serves as a channel to provide dedicated support to SMEs in complying with the heightened corporate governance, disclosure, and internal control requirements associated with stock exchange listings. This offers companies a path to gradually strengthen their corporate practices and progressively give them access to larger capital markets. Since the listing requirements of the LEAP and ACE markets do not include minimum profit requirements (although ACE requires sufficient working capital of 12 months from the date of a published prospectus), they allow companies with strong growth prospects – but not strong enough financial performance to join the main board – to access capital and to implement improvements to their corporate governance and disclosure practices with dedicated support.

Sources: Bursa Malaysia (2024a); (2024b).

Policy efforts to encourage SMEs to list on these dedicated platforms continue in the region. For example, in 2021, regulators in the Philippines eased the SME board listing rules by removing minimum capital requirements and reducing required operating history from 3 to 2 years. Indonesia launched the Acceleration Board in 2019 dedicated to SMEs, complementing the offerings of its Development Board available to companies that do not yet meet the main board's listing requirements. Malaysia, the Philippines, and Singapore employ a sponsorship model, whereby SMEs interested in listing on the junior boards must have the support of a corporate sponsor.

In AMS with the smallest national stock exchanges – Cambodia, Lao PDR, and Myanmar – policy efforts have been generally more focussed on developing the main exchanges. In August 2023, the securities regulators of Cambodia and Lao PDR signed a memorandum of understanding committing to share experiences, information, and assistance on securities market regulation and development. Lao PDR's capital markets development strategy emphasises goals related to building the necessary infrastructure, including information technology systems, strengthening the human resources capacities of the regulator, as well as raising awareness amongst market participants about applicable regulations. It also foresees the future listings of shares of state-owned enterprises attracting more investment to the exchange. Myanmar, whose stock exchange lists only 8 companies, opened the exchange to foreign investors in 2020.

Table 4.2. Specialised SME Equity Platforms on Stock Exchanges in ASEAN

Country	Name	Select Characteristics
Cambodia	CGX Growth Board	• 2 companies listed, compared with 9 on the main board • More lenient listing requirements than the main board, plus tax incentives offered to SMEs that list
Indonesia	Acceleration Board	• 23 SME stocks listed as of September 2022
Malaysia	ACE market LEAP market	• 206 companies listed on both markets as of end of 2022 • ACE allows firms to list with the support of a corporate sponsor, if they have been successfully listed on the LEAP market for at least 2 years. The LEAP market is adviser-driven; all companies are required to work with licensed advisors who help them prepare for listing and comply with post-listing requirements.
Philippines	Philippine Stock Exchange SME Board	• 10 companies listed as of end of 2022 • Lower requirements than main board, e.g. 2-year operational history versus 3-year on the main board and lower annual net income requirements.
Singapore	Catalist	• 208 companies listed, compared to 438 on the main board • Firms are not subject to the income requirements applicable to companies on the main exchange but must have a corporate sponsor and proof of sufficient working capital to operate for 18 months.
Thailand	LiVE exchange	• 3 companies listed • Governing regulations (which came into force in the first quarter of 2022) allow for more lenient listing requirements and lighter supervision by the regulatory authority.
Viet Nam	UpCom market	• 860 companies with listed securities (includes both equity and convertible bonds) as of October 2023 • Market allows firms securities market exposure prior to listing on the main exchange.

SMEs = small and medium-sized enterprises.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 3.2: Diversified Sources of Enterprise Finance

Traditional bank loans constitute the most prevalent source of external financing for many SMEs, making policy interventions to support this type of financing crucial. Yet there is also a growing consensus that supporting alternative financing sources – such as asset-based financing outside of traditional bank loans, or equity instruments such as venture capital or specialised SME equity exchanges – can be useful to help respond to SME financing needs over the entire business life cycle (OECD, 2015).

This sub-dimension assessed the enterprise financing landscape and policy measures to facilitate SME access to both traditional bank products and alternative financing sources. It first examined policy measures to facilitate SME access to traditional bank credit, including public incentives to encourage lending to target SME groups, temporary measures to mitigate the negative impacts of the COVID-19 pandemic, and credit guarantee and export-financing schemes. It then examined policies to support the development of the microfinance industry, on which micro enterprises are particularly reliant for their financing needs. Finally, it looked at policy measures to support alternative sources of financing for SMEs, including asset-based financing, crowdfunding, and equity financing.[14] Reflecting SMEs' relative reliance on these different sources of external financing, the greatest weight in scoring is accorded to policies in support of bank credit, followed by those in support of microfinance, and, finally, those in support of alternative sources of SME finance. Although not scored, this section also surveyed policy efforts to expand digital financial services.

Table 4.3 and **Figure 4.7** provide an overview of AMS performance across this sub-dimension. The relatively high median score for the entire sub-dimension, 4.88, reflects the deployment of policy efforts in most AMS to facilitate SME access to bank credit, including long-standing programmes such as credit guarantee schemes, but also more recent efforts to mitigate the impact of the COVID-19 pandemic on SME financing constraints and to provide targeted support to enterprises promoting environmental sustainability, SME digital transformation, and/or inclusiveness. The microfinance component posts the highest median score, reflecting the high level of development of this type of financing support in many AMS. The region's median score is the lowest on the alternative sources of enterprise finance component, reflecting the relatively limited development and/or uptake by SMEs of asset-based lending tools and equity finance.

[14] The assessment framework did not examine all forms of non-bank alternative financing sources, many of which are addressed in detail in OECD (2015). It did not examine the availability of alternative debt instruments such as corporate bonds, use of debt securitisation and covered bonds, or the market for hybrid instruments such as mezzanine finance.

Table 4.3. Scores for sub-dimension 3.2: Diversified sources of enterprise finance

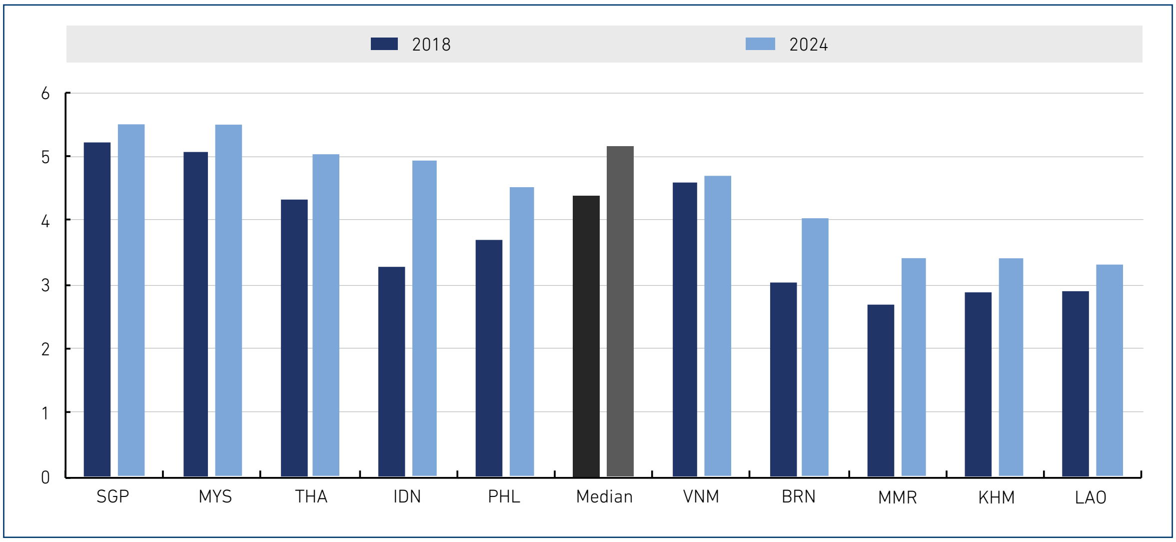
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Bank credit or loans	4.09	3.83	5.55	1.96	5.60	1.33	5.12	5.62	5.37	4.41	**4.77**	**1.46**
Microfinance		4.13	4.75	5.38	5.38	6.00	5.38		5.58	6.00	**5.38**	**0.59**
Alternative sources of enterprise finance	4.08	2.62	4.88	2.49	5.14	2.28	4.38	6.00	5.07	3.73	**4.23**	**1.21**
Total score	4.09	3.77	5.32	2.69	5.51	2.36	5.10	5.67	5.38	4.66	**4.88**	**1.13**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 4.7. Weighted Scores for Sub-dimension 3.2 – Diversified Sources of Enterprise Finance



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Digital finance is growing as an alternative source of financing in AMS.

Digitally enabled financing is expanding rapidly in the ASEAN region, with some forms of fintech-based financing recording triple-digit growth rates in recent years in many AMS (OECD, 2020a). Peer-to-peer lending is one example of such financing and can be particularly useful in supporting funding for micro and SME projects while also promoting greater financial inclusion. In some OECD economies, fintech lenders participated in the disbursement of COVID-19 government support programmes with multiple observed benefits (OECD, 2022). Empirical evidence from the pandemic suggests that fintech lenders disproportionately served areas with fewer bank branches and lower incomes, greater minority-owned micro and SMEs, and lower ex-ante business lending. Studies also suggested the expansion of credit supply during this period where fintech lenders participated, although there was also a large incidence of fraud in digitally assisted disbursement of governmental support. This points to a possible trade-off between the rapid disbursement or extended reach of fintech lenders and the greater risk of fraud.

Important activity has also been recorded in decentralised finance activity in ASEAN, including crypto assets, stablecoins, and decentralised finance protocol activity (**Box 4.2**). Given that such activity involves unregulated or uncompliant financial services provision, participants in these markets – particularly retail ones – have been exposed to important risks. Digital finance-related policy frameworks are indeed emerging in some AMS and will need to be carefully calibrated to ensure the consistency of domestic rules with global frameworks, such as the recent Financial Stability Board framework for crypto assets and stablecoin arrangements.

Box 4.2. Lessons from ASEAN on the Limits of Decentralised Finance for Financial Inclusion

Important crypto asset flows per capita have been recorded in almost all Association of Southeast Asian Nations (ASEAN) Member State (AMS) economies, with peaks in activity coinciding with high crypto asset valuations, indicating speculative forces driving these markets. Thailand, the Philippines, and Viet Nam were amongst the top 10 crypto asset adopters globally in 2022, while Malaysia was one of nine countries with the largest bitcoin-mining activity on its territory. 'Play-to-earn' blockchain-based gaming applications involving crypto assets lured in many young individuals in the Philippines and other AMS, although these activities proved short-lived. Bitcoin and stablecoins dominate decentralised finance activity in the region, following global trends in the preference for such mainstream crypto assets. Although it is difficult to obtain accurate statistics on the geographic breakdown of decentralised finance activity, industry estimates of aggregate flows indicated important protocol activity in Asia for 2022–2023.

Part of this activity could be attributed to ASEAN users seeking to participate in these markets for their purported benefits regarding financial inclusion. Indeed, crypto asset and decentralised finance protocols have been marketed as tools to promote the democratisation of finance by replacing legacy centralised and intermediated finance with peer-to-peer disintermediated markets. These markets, however, involve the unregulated or non-compliant provision of financial services, depending on the jurisdiction, and thus expose investors to important risks in the absence of traditional safeguards for investor protection, market integrity, and financial stability.

In practice, at the current stage of development of these markets, decentralised finance has failed to deliver on the promise of democratisation of finance, instead exposing retail participants to disproportionately high risks and loss of investment without recourse. Asia was at the epicentre of the 2022–2023 crypto asset market downturn (the 'crypto winter'), as the first major collapse of the domino failures was the Terra-Luna implosion. The impact of crypto asset firm failures on many retail holders was disproportionately high compared to large investors that managed to cover some of their losses. In fact, small wallet-holders appear to be net buyers in the aftermath of the failures against larger wallet-holders that offloaded their holdings early on.

Speculative forces and a fear of missing out, rather than practical use cases – such as to facilitate payments – have driven participation in these markets. The huge volatility of crypto assets and the difficulty in valuing them make them unsuitable for payment purposes. Regarding currently unregulated stablecoins, it is difficult to assess whether these have been used for real use cases, such as remittances; however, there are indications that these are used to hedge against weak/volatile currencies or as a means of exchange within decentralised finance. Given that crypto asset exchanges do not offer trading across all crypto asset pairs, the trading of small altcoins needs to go through stablecoins, and this is also showcased by the high correlation between stablecoin and altcoin trading in the ASEAN region. The important risks associated with unregulated stablecoins (including unreliable reserves, unclear redemption rights, and a lack of stability) make them unsuitable for remittance use cases.

Source: GIIN (2024), (OECD, 2024)

Other digital finance tools can act as important catalysts for financial inclusion in ASEAN, particularly regarding micro and SME financing. 'Thin-file' clients (i.e. those with limited or no credit history) can be serviced through better calibration of lending risks, including through the deployment of artificial intelligence-based models and big data for creditworthiness assessment (OECD, 2021). Distributed ledger technology (DLT)-based finance and tokenisation can offer possible efficiencies by lowering the cost of servicing small transactions (OECD, 2020c). These can also allow for fractionalisation (i.e. splitting up loan or equity assets to share them across a larger portfolio of investors) and offer new pathways for capital formation. Nevertheless, such innovative applications come with challenges and risks that need to be accounted for and mitigated.

Governments and regulators can provide support to fintech-related initiatives by (i) building infrastructure (institutional or otherwise) and regulatory frameworks to enable fintech firms to thrive in a properly regulated environment, and (ii) ensuring that the services provided are fair and safe for financial consumers. Regulatory sandboxes are a way that policymakers can encourage fintech companies to experiment and to test prototypes of their projects in a safe environment before services and products are launched to a wider market. By fostering responsible and safe digital innovation in finance, ASEAN policymakers can help unlock the potential for financial inclusion and productivity gains, while anticipating and addressing emerging risks for market participants.

All AMS adopted temporary regulatory or direct financing measures to help SMEs weather the economic downturn associated with the COVID-19 pandemic.

SMEs in AMS, as across the world, were hit hard by the economic downturn associated with the COVID-19 pandemic. Reduced cash flows from falling revenues meant that many businesses needed additional financing just to cover their operating costs and to stay afloat. By May 2020, every AMS had implemented monetary policy changes, such as interest rate reductions, in response to the pandemic, and eight had instituted changes in financial prudential regulations, such as lowering of reserve requirements for supervised financial institutions (OECD, 2020b; Singh and Jena, 2021). The resultant easing of liquidity constraints allowed many financial institutions to extend additional financing to businesses negatively affected by the pandemic or to change the terms of existent loans to mitigate the impact of cash-flow restrictions on businesses' operating costs. Many governments also issued guidelines or instituted incentives to encourage – or, in some cases, to mandate – financial institutions to implement loan deferral agreements or payment term adjustments for borrowers. As an example of mandated loan condition adjustments, the Philippines imposed, through dedicated COVID-19 response legislation, a loan payment moratorium of 60 days for any commercial loan falling due on or before 30 December 2020.

Several governments also offered more direct forms of financing support, such as direct low-interest loans for small businesses, subsidies on operational costs like electricity, as well as temporary tax deferrals. By May 2020, 9 AMS had extended targeted public sector loans or capital injections to firms, and 7 had extended public sector subsidies to businesses (OECD, 2020b). Interest rate subsidies were introduced as a response to the pandemic in Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. The establishment of a new credit guarantee institution in Cambodia, discussed below, was also undertaken partly in response to the pandemic. Lao PDR's MSMEs Promotion Fund financed interest rate subsidies for financial institutions, including microfinance providers, that extended loans to micro and SMEs. It is currently piloting a matching grant programme to co-finance micro and SME investments in new technology and machinery.

A few AMS used fintech firms to support the disbursement of COVID-19 aid, including Cambodia, Indonesia, and, to some extent, the Philippines[15] (*Kiripost*, 2023; Sugandi, 2021; BSP, 2020). This approach was also deployed in some OECD countries – notably the United States and United Kingdom – where the use of fintech firms was shown to facilitate the rapid disbursement of pandemic aid, to micro enterprises and entrepreneurs without access to formal banks (OECD, 2022). Lessons from these experiences point to the need to ensure appropriate risk management practices by fintech firms; while their participation in aid disbursement schemes allowed for the rapid distribution of support, they were also involved in a disproportionately high share of fraud (OECD, 2022).

[15] The Philippines has undertaken a number of policy measures to promote the use of digital payments in the disbursement of government aid.

The provision of direct public support for SMEs in the context of the pandemic reflects a broader trend across the ASEAN region for public institutions to intervene directly in the financing market, notably through publicly funded loans extended directly to SMEs or the extension of credit lines to banks in exchange for them lending to target groups such as SMEs. These practices, although prevalent across the region, were not scored in this assessment owing to their market-distorting potential, but they constitute an important feature of the SME financing landscape in the region. As highlighted in the 2018 assessment, eight AMS (except Brunei Darussalam and Myanmar) offer public credit lines to banks that extend financing to SMEs, while interest rate subsidies are offered in Cambodia, Indonesia, the Philippines, and Malaysia (OECD, 2018). Singapore, Thailand, and Viet Nam introduced temporary interest rate subsidies on SME loans during the pandemic. For example, Singapore's Temporary Bridging Loan Programme (2020–2022), involving 19 financial institutions, offered loans to SMEs with interest rates capped at 5.5% per year, with public risk-sharing of up to 90% of the value of the loans. In Viet Nam, interest rate subsidies valued at 2% of loan value per year were offered from the state budget to financial institutions for eligible loans coming due between January 2022 and December 2023.

Indonesia is the only AMS to maintain regulations mandating that commercial banks devote a certain percentage of loans to micro and SMEs. Central bank regulations in force in Indonesia required commercial banks to extend 20% of their total financing to micro and SMEs by the end of 2022, with the ratio increasing to 30% by June 2024. A similar mandatory minimum proportion of loans to micro and SMEs that was instituted by the Philippines central bank expired in 2018.

Policy interventions to support bank lending increasingly prioritise SMEs' environmental sustainability, their digital transformation, and/or inclusiveness.

Eight AMS – except Lao PDR and Myanmar – implement targeted measures to channel funds to projects that promote environment sustainability, SMEs' digital transformation, and/or inclusivity. In many cases, such targeted measures are design elements of various financing schemes offered by national development banks and/or dedicated SME banks. In Indonesia, the measures are primarily regulatory in nature and are implemented by the central bank. **Table 4.4** provides an overview of some of these targeted measures.

Table 4.4. SME Financing for Environmental Sustainability, Digital Transformation, or Inclusiveness – Select Policy Measures

Country	Implementing Institution	Targeted Measure(s)
Brunei Darussalam	Bank Usahawan in Brunei Darussalam (state-owned SME Bank)	• SME loans can offer a special interest rate for projects dedicated to green transition, digital transformation, or inclusiveness.
	DARe (Darussalam Enterprise)	• Direct grant of 70% of start-up costs for innovative startups, with the possibility to consider business impact on environmental sustainability, SME digital transformation, or inclusiveness

Country	Implementing Institution	Targeted Measure(s)
Cambodia	SME Bank of Cambodia (SME Bank)	• Cambodia Digital and Automation Scheme and Cambodia Women Entrepreneurs Scheme offer loans with capped interest rates to target groups.
Indonesia	Bank Indonesia	• Relaxed regulatory requirements (e.g. required loan–value ratios) are offered to commercial banks for financing extended to support green finance. • Regulatory requirement for banks extends a minimum proportion of total loans to micro and SMEs.
	Bank Rakyat Indonesia (majority state-owned commercial bank focussing on microfinance)	• Issuance of sustainability bonds and green bonds, whose proceeds finance projects supporting environmental sustainability and SME development
Malaysia	Bank Negara Malaysia	• The Low Carbon Transition Facility (LCTF) encourages SMEs to adopt sustainability practices for business resilience. • The iTEKAD programme, which supports low-income microentrepreneurs, aligns with the Sustainable Development Goal of eradicating poverty. • The High Tech & Green Facility (HTG) is designed to help SMEs and innovative startups grow their businesses and invest in strategic sectors and technology fields (e.g. digital tech, green tech, and biotech) for a sustainable and entrenched economic recovery.
	SME Bank	• SME Technology Transformation Fund (established jointly with the Ministry of Finance) offers financing assistance to help SMEs digitalise and/or automate their operations. • The Young Entrepreneur Fund offers loans to entrepreneurs between the ages of 18 and 30 years.
	SME Corp Malaysia	• The Digital Financing Initiative offers a fully digitised platform for SMEs to access loans.
Philippines	Development Bank of the Philippines	• Sustainable Enterprises for Economic Development Program offers direct loans to MSMEs.
Singapore	Enterprise Singapore	• The Enterprise Financing Scheme – Green offers a 70% risk-share to catalyse lending from participating financial institutions to enterprises developing enabling technologies and solutions to reduce waste, resource use, or emissions, especially in the sectors of clean energy, circular economy, green infrastructure, and clean transport. • SME Start Digital Programme (implemented jointly with the Infocomm Media Development Authority), offers 6-month fee waivers on select subscription-based digital tools.
Thailand	EXIM Thailand	• The EXIM Green Start Loan offers a credit line with an advantageous interest rate (starting at 4% per year) to businesses that are environmentally friendly.
	Bank of Thailand	• The Transformation Loan program offers low fixed-interest rate loans for SMEs to support their digital technology transformation. Loans are provided through participating private financial institutions.

Country	Implementing Institution	Targeted Measure(s)
Viet Nam	Ministry of Planning and Investment, in cooperation with other relevant public institutions	• 2021 Law on Provision of Assistance for Small and Medium Enterprises and its implementing decrees foresee 50% coverage from the state budget of SMEs' costs related to digitalisation and automation of processes related to business operations, manufacturing, and technology. • Law gives priority to SMEs owned by women or with over 50% female employment.

SMEs = small and medium-sized enterprises.

Note: According to information gathered in the context of this assessment, Lao People's Democratic Republic and Myanmar have not implemented any targeted policy measures to incentivise bank lending in support of SMEs' green transitions, digital transformation, or inclusiveness.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Complementing these governmental efforts to promote SME financing for sustainability, the ASEAN region has also witnessed strong growth in the impact investing industry (i.e. investments that seek positive social and environmental impacts alongside financial returns) in recent years.[16] Impact investors include both private investors and governmental entities, notably development finance institutions. An estimated US$6.7 billion in impact investment capital was deployed in ASEAN through 298 deals from 2017 to 2019 (ASEAN-Japan Centre, 2021). This amount represents nearly half of the total amount of deals undertaken in the entire preceding decade from 2007 to 2016, signalling a rapidly growing industry. The largest value of deals from 2017 to 2019 was recorded in Indonesia, followed by Thailand and Viet Nam. The financial services sector – including notably fintech – received nearly half of investments made by private impact investors during that period, while the remaining portion was attributed to a wide variety of sectors, including energy, agriculture, infrastructure, and education (ASEAN-Japan Centre, 2021).

Credit guarantee and export-financing schemes are prevalent across the region.

As mentioned previously, lack of sufficient collateral to secure loans often prevents otherwise creditworthy SMEs from accessing traditional bank lending. Credit guarantee schemes can help address this challenge by establishing that a guarantor – either a public or private institution – commits to partially reimburse loans extended to target groups such as SMEs in the case of default. When well designed, credit guarantees are considered one of the more market-friendly interventions to support SME access to bank loans. They are usually favoured over more direct forms of support such as public loans or interest rate subsidies, which can distort the market and channel available financing to less creditworthy firms.

[16] The definition of impact investing as proposed by GIIN (2024). Impact investment is provided by both private investors and governmental development finance institutions.

Credit guarantee schemes are fully operational in Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam, and two AMS are either in the process of establishing one (i.e. Lao PDR is developing related regulations) or are examining the possibility of establishing one (i.e. Brunei Darussalam).[17] Of existing credit guarantee schemes, all are operational nationwide. Cambodia's public credit guarantee scheme is the newest in the region, having been established in November 2020 as the Credit Guarantee Corporation of Cambodia in the context of the government's efforts to mitigate the economic impact of the COVID-19 pandemic.

Public export-financing schemes are similarly prevalent in the region, having been established in Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam, with again the newest programme being that of Cambodia. Export-financing schemes are offered through public export-import banks in five AMS; in Cambodia and Singapore, they are provided by the newly established SME Bank of Cambodia and Enterprise Singapore, respectively. Khmer Enterprise in Cambodia also provides direct funding to SMEs to contribute to the costs of developing promotional materials for exporting their products through its Export Market Development Grant Programme established in 2022. Brunei Darussalam, Lao PDR, and Myanmar do not have export-financing schemes in place.

Microfinance remains an important source of financing for micro enterprises in most AMS.

Microfinance is a prominent element of the SME financing landscape in most AMS. Exceptions are Brunei Darussalam and Singapore, where high per capita income levels correspond with relatively lower demand for this type of financing, but where commercial banks – rather than dedicated microfinance institutions – do offer micro loans to clients.[18] In Lao PDR, Malaysia, Myanmar, Thailand, and Viet Nam, the interest rates that microfinance institutions can charge are capped by regulators.[19] Still, a common challenge across the region is limited regulatory oversight over some microfinance institutions with different regulators depending on whether the microfinance provider is a bank, nongovernmental organisation, or cooperative, coupled with often patchy data on the number of microfinance institutions, indebtedness of their clients, and average default rates. There is limited evidence of efforts to improve regulation and/or data collection on the microfinance industry since the last assessment.

[17] At the time of this writing, the Ministry of Industry and Commerce of Lao PDR was scheduled to submit related regulations for approval by the end of 2023. The 2018 assessment did not score Brunei Darussalam or Singapore on the existence of a credit guarantee scheme, noting their limited need for this type of instrument (OECD, 2018). Singapore does not have a dedicated credit guarantee institution in place, but Enterprise Singapore offers risk-sharing on losses from loans extended to SMEs through its Enterprise Financing Scheme.

[18] In Singapore, financial institutions offer micro loans to clients. Similarly, in Brunei Darussalam, micro loans are provided by the country's largest privately owned Islamic bank, Bank Islam Brunei Darussalam, and its state-owned SME bank, Bank Usahawan. Neither country was scored on the microfinance component, given the relatively limited need for this type of financing support in light of high income levels.

[19] In Thailand, the central bank has the authority to establish interest rate caps on retail loans extended to individuals by banks and non-bank financial institutions.

Efforts to promote alternative sources of SME finance, such as asset-based lending and equity finance, are limited but growing.

The availability and uptake of asset-based lending, wherein businesses can use movable and/or intangible assets (e.g. machinery, inventory, or accounts receivable) to secure loans, vary across the region. Asset-based lending instruments (e.g. leasing and factoring) appear to have the most uptake in Malaysia, Singapore, Thailand, and, with more recent growth, Viet Nam (OECD, 2018). This partly reflects these countries' stronger secured transactions legislation and institutions. However, two AMS with relatively strong secured transactions frameworks – Brunei Darussalam and Cambodia – do not have correspondingly well-developed asset-based lending markets. In Brunei Darussalam, this may simply reflect that more time is needed for the 2016 reforms to the secured transactions law to bear fruit, whereas in Cambodia, earlier assessments noted that long and costly court procedures for insolvency limit creditors' ability to take possession of securities, hindering the development of asset-based lending (OECD, 2018).

Recent and ongoing efforts to improved secured transactions legislation – notably in the Philippines, Myanmar, and Viet Nam – can be expected to allow this type of financing to further develop in the region. Improving credit information systems as well as the functioning of collateral and accounts receivable registries can have a positive impact on the factoring market, where firms receive loans in exchange for offering financiers a right to their accounts receivable (OECD, 2020a). Addressing remaining weaknesses in creditor rights, together with streamlining court procedures to allow creditors to claim their security interests in the case of borrower default, will be necessary to allow for asset-based lending to fully develop in the region.

Concerning private equity and venture capital, the region's most mature markets are found in Singapore, Malaysia, and Indonesia, whereas more nascent markets exist in Myanmar and Viet Nam (OECD, 2020a). The number of private equity and venture capital deals in ASEAN underwent steady increases almost every year from 2010 to 2019, with the number of annual deals rising from 147 in 2010, reaching a peak of 401 in 2018, before falling to 307 in 2019 (OECD, 2020a). The development of private equity and venture capital markets requires a predictable investment environment, including sound investor protections with legal and regulatory clarity, to attract private equity firms. Targeted tax incentives may be deployed to attract venture capital funds to countries where the market is more nascent (OECD, 2020a).

Several AMS have adopted a regulatory sandbox approach to promote innovative digital financial services and tools.

Most AMS have adopted a regulatory sandbox approach to support the development of innovative digital financial services (i.e. fintech) while managing related risks. Regulatory sandboxes are arrangements wherein regulators allow financial institutions or other market participants to experiment with innovative financial products in a relaxed regulatory environment for a defined period. Fintech regulatory sandboxes currently operate in seven AMS and are under development in Viet Nam, where draft regulations were awaiting approval as of the end of 2023. **Table 4.5** provides an overview of the date of introduction of regulatory sandboxes in the region. Across the region, regulators also continue to introduce, or to fine-tune, regulations applicable to a variety of digital financial services available to firms and investors, such as online peer-to-peer lending, equity crowdfunding, or initial coin offerings.

Table 4.5. Fintech Regulatory Sandboxes – Year of Introduction in ASEAN

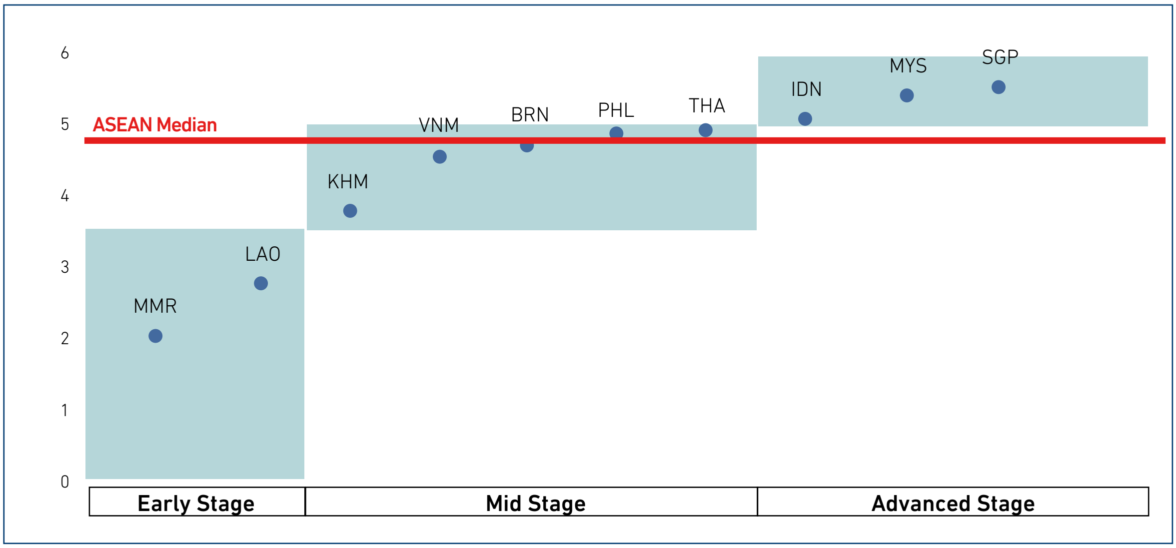
2016	2017	2018	2022	2023
Malaysia Singapore	Brunei Darussalam Thailand	Indonesia	Philippines	Cambodia Viet Nam (under development)

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid, (OECD, 2024).

4. The Way Forward

The degree of financial market development varies widely across the ASEAN region, as does the strength of the laws and institutions necessary to allow different types of SME financing to flourish. The **Figure 4.8** presents the weighted scores for the dimension for AMS based on the level of their policy development. In AMS with lower levels of SME financing policy development (i.e. Cambodia, Lao PDR, and Myanmar), there is still significant scope to strengthen the basic laws and/or institutions that are foundational for the extension of both bank credit and alternative financing options. In AMS with more developed financial markets, further improving upon existing legislation – in particular on secured transactions – and modernising or expanding the scope of institutions (e.g. asset registries and credit bureaus) should be prioritised. Many governments directly intervene in the SME lending market, for example through interest rate subsidies or publicly financed lending programmes. Given the market-distorting potential of such interventions, they should not be prioritised over other types of public intervention that focus on establishing adequate legislative, regulatory, and institutional support for a well-functioning and competitive financial market.

Figure 4.8. **Weighted Scores for Dimension 3 – Access to Finance**



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6 (highest).

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Most AMS have undertaken dedicated policy measures to support the development of financing options for SMEs. These range from institutional development to direct financial support, to the testing of new regulatory approaches to support emerging financing solutions such as fintech-enabled financing. In this context, there is scope for AMS on a regional level to:

- Consider the development of regional financing solutions, such as platforms for sharing good practices in strengthening the legislative and institutional framework for SME financing amongst policymakers.
- Explore the development of partnerships amongst several AMS or at the regional level that could help SMEs access finance to fuel their regional expansion if they do not distort the market.
- Consider sharing information at the regional level that can facilitate SME access to finance (e.g. through development of a regional information bureau that will share information across ASEAN).
- Promote a regional-level mechanism of export financing that could also be put forward to improve access to finance for exporting SMEs or to encourage newer small or medium-sized exporters.
- Explore how to connect technology-based solutions, such as internet banking, payment cards, and digital finance, that can help microfinance institutions reduce operating costs and expand the reach of their services.

Depending on the level of SME finance policy development, AMS can additionally consider the avenues outlined in **Table 4.6** for further policy support to improve the SME financing landscape.

Table 4.6. Policy Recommendations per Level of Policy Development

Level of Policy	Policy Recommendations
Early stage *Myanmar* *Lao PDR*	• **Take steps to strengthen credit bureaus**. For AMS where credit information is limited, credit bureaus should strengthen and expand their coverage to allow financial institutions to better assess the creditworthiness of potential SME borrowers. In AMS with only public credit registries, supporting the establishment of private credit bureaus can be a cost-effective means of increasing the coverage of available credit data. • **For AMS that do not have credit guarantee schemes in place (i.e. Lao PDR[20] and Myanmar), consider establishing credit guarantee schemes**. This will allow creditworthy SMEs that lack sufficient collateral access bank financing. • **Ensure that microfinance operators are subject to adequate supervision and regulation, informed by accurate data on their activities**. Across the region, there is scope for more informed supervision of microfinance institutions to ensure that microfinance benefits small enterprises without contributing to their over-indebtedness. A first step may involve improved data collection on the volume and terms of microfinance loans, as well as default rates. • **Enhance capacity building around financial skills for SMEs**. Online platforms can be a powerful tool for making information available on the training options available and for introducing basic financing skills learning modules. To maximise impact, it is important to target these trainings to different segments such as students, businessowners, and the self-employed.
Mid-stage *Brunei Darussalam* *Cambodia* *Philippines* *Thailand* *Viet Nam*	• **Ensure that cadastres and movable asset registries are modern, readily accessible, and fit-for-purpose**. Although cadastres and movable asset registries have been established in most AMS, there is potential to improve their coverage and to modernise them, including through greater centralisation and digitalisation, allowing for collateral-based lending to flourish. It is considered good practice for movable asset registries to be centralised, allow online registrations and searches, and be notice-based (i.e. register the existence of a creditor's security interest without undertaking legal reviews of transactions or filing any underlying documentation). The majority of AMS have yet to make their asset registries notice-based, while several do not yet have a centralised, searchable system in place. • **Continue expanding the coverage of established credit-reporting systems so that financial institutions can confidently assess the credit risk of borrowers**. Increasing the availability of historical credit data on potential borrowers – both firms and individuals – will help reduce information asymmetries between financial institutions and SMEs, in addition to reducing the costs associated with assessing borrowers' credit risk, ultimately supporting expanded access to credit. • **For AMS that have established credit guarantee schemes, efforts could be devoted to monitoring their effectiveness, evaluating their impact, and adjusting to the dynamics and needs of local SMEs** to not distort the market (e.g. targeting specific sectors). • **Continue working on promoting SME access to finance**, including the development of specific mechanisms for high-growth SMEs that may need tailored approaches.

[16] The definition of impact investing as proposed by GIIN (2024). Impact investment is provided by both private investors and governmental development finance institutions.

Level of Policy	Policy Recommendations
<u>Advanced stage</u> *Indonesia* *Malaysia* *Singapore*	• **Continue strengthening secured transaction legislation and creditor rights, bringing national legislation in line with internationally agreed good practices**. Secured transaction legislation should clearly establish the rules for perfection of security interests (i.e. how creditors can make a security interest legally enforceable) and for payment priority amongst differed secured creditors. Legislation in force in several AMS does not ensure the payment priority of secured creditors in the case of bankruptcy and/or default outside of bankruptcy, which may disincentivise creditors from engaging in more secured lending. More broadly, there is a longer-term need to streamline bankruptcy and insolvency procedures, whose length and cost may further deter financiers from lending to SMEs, even in cases where existent laws grant them sufficient rights. • **Explore avenues for supporting the development of alternative financing instruments**, which can help compensate for SMEs' challenges in accessing traditional bank credit. This could specifically focus on fostering alternative financing instruments, including: - **The factoring industry can be further developed through better functioning asset registries and more comprehensive credit information** offered by credit bureaus and registries. - **Policymakers can further support leasing. Globally, policy interventions to support leasing include having a clear licensing regime for institutions** that offer leasing, supportive tax frameworks (e.g. allowing lessees to treat lease payments as tax-deductible expenses), and clear rules on ownership and usage rights of lessors and lessees. - **For private equity and venture capital, strong investor protections together with a predictable legal and regulatory environment are crucial**, while more targeted measures such as co-investment schemes with regional pension and sovereign wealth funds can also be usefully deployed. Tax incentives can be appropriate temporary mechanisms to attract private equity funds to less developed markets. - **Concerning fintech-enabled financing, the regulatory sandbox approach employed in many AMS has the potential to facilitate innovation** in the sector while establishing a degree of necessary supervision to help manage and mitigate related risks.

AMS = ASEAN Member State, SMEs = small and medium-sized enterprises.

Source: Authors.

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Part I

Chapter 5

Access to Market and Internationalisation of SMEs

1. Introduction

For most of human history, production and consumption have been tightly bundled together, as the prohibitive cost of moving goods resulted in a geographic clustering of production and people (Baldwin, 2006). Baldwin and others argue that this situation was disrupted by two great production 'unbundlings' that precipitated a significant expansion in global trade. The first of these unbundlings was highly aggregative, and had the effect of substantially increasing income disparities between countries – disparities that became persistent as firms in higher-productivity countries continued to innovate, scale, and increase their productivity, and thus the price and quality competitiveness of their goods, via agglomeration.[1] The second, brought about by a reduction in communication and coordination costs, allowed firms in industrialised countries to take advantage of productivity-adjusted wage gaps in lower-income countries (Baldwin, 2006) by unpacking their operations and beginning to 'trade in tasks' (Grossman and Rossi-Hansberg, 2008). This second unbundling affords firms in lower-income countries the opportunity to trade competitively[2] on global markets, with trade in turn acting as a competitive pressure to incentivise the firm to boost its productivity over time.

The development of global value chains (GVCs) – a result of the second unbundling – enables countries to industrialise without first establishing an extensive industrial base. Small and medium-sized enterprises (SMEs) may have a particular role to play in this process. Their flexibility may enable them to adapt quickly, making them particularly well suited to fill supply niches (OECD, 2013; 2008). Linkages between SMEs and larger international firms can also be an important conduit for transferring know-how, technology, and better quality inputs; and can allow SMEs to specialise while increasing their productive and innovative capacity (see also López González, 2017; OECD/UNIDO, 2019). Internationalisation can also benefit SMEs in industrialised countries: SMEs often use internationalisation as a tool to grow and achieve economies of scale that would not be possible while operating in the domestic market alone (OECD, 2009). Internationalisation may be particularly important for high-technology start-ups since it allows them to recover initial fixed costs more quickly, and their business success often depends on being able to get to market and scale as rapidly as possible (Bürgel et al., 2000).

Machinery sectors, for instance, have become central players in GVCs/international production networks (IPNs) and have developed long and sophisticated supply chains in the past decades because they consist of multilayered production processes with different technologies and diversified materials. Massive machinery GVCs/IPNs have been formed in East Asia, including Northeast and Southeast Asian countries, as well as North America and Europe. East Asia has aggressively utilised the mechanics of the second unbundling and developed machinery GVCs/IPNs involving countries at more widely different stages of

1 The theory posits that the 'first unbundling' took place in two waves between 1850 and the 1980s, with a hiatus from 1914 to the 1960s, while the 'second unbundling' began in the 1980s and continues to the present day. The first was triggered by a decrease in transportation costs, which allowed for a spatial separation of factories and consumers as productive firms increased the price competitiveness of their products and thus reached new customers. The phenomenon led to an agglomeration of production as competitiveness began to hinge on specialisation and achieving the critical mass required to realise economies of scale as well to develop and diffuse innovations. The second unbundling, dated to the 1980s, was initiated by huge strides in information and communication technology (ICT) adoption and sophistication that significantly reduced communication and coordination costs. The net result was the ability to spatially unbundle factories and offices (Baldwin, 2006) and outsource labour-intensive activities to lower-wage countries, thereby increasing price competitiveness.

2 Mainly on labour cost in labour-intensive activities.

development than those in other regions (Ando, Kimura, and Yamanouchi, 2022). Even in a period of 'slow trade' during 2011–2016, when the growth rate of world trade became slower than the growth rate of world gross domestic product (GDP) in real terms, network trade in East Asia grew steadily (Obashi and Kimura, 2018). Moreover, machinery GVCs/IPNs in East Asia had much smaller negative impacts and more rapid recovery amid the coronavirus disease (COVID-19), compared with those in North America and Europe, showing their robust and resilient nature (Ando and Hayakawa, 2021; Ando, Kimura, Obashi, 2021; Ando, Hayakawa, and Kimura, 2024). Another distinctive feature of machinery GVCs/IPNs in East Asia is their strong interregional linkage as suppliers. Interregional machinery exports of East Asia are much larger than the predicted levels that are estimated based on basic conditions such as economic size and geographical distance, unlike the case of North America or Europe, and this is particularly true in the case of the Association of Southeast Asian Nations (ASEAN), suggesting significantly strong interregional linkages of ASEAN Member States (AMS) as suppliers (Ando, Kimura, and Yamanouchi, 2022). SMEs in AMS must have contributed to developing these GVCs/IPNs as well as forming industrial clustering, partly taking advantage of the benefits discussed above.

Nevertheless, SMEs are in general less likely than larger firms to internationalise. Their limited size, resources, managerial structure, and geographic location can result in informational, technical, and administrative barriers that make it difficult to access finance, comply with quality standards, bridge connectivity and infrastructure constraints, and innovate or find and develop suitable human capital (UNCTAD, 2010; Harvie, Narjoko and Oum, 2013). Policy interventions designed to increase SME presence in export markets and GVCs thus often focus on facilitating SME exports, from providing financial support, training programmes, and portals for international marketing, to facilitating business matchmaking activities between SMEs and exporting companies or multinational companies (MNCs).

2. Assessment Framework

The framework used to assess the sophistication and intensity of policies to enhance market access for SMEs covers five sub-dimensions. These sub-dimensions look at policies and programmes to encourage SMEs to internationalise, help them upgrade their capacity, and take advantage of the new opportunities opening up with global technological change. The sub-dimensions and their key components are presented in **Figure 5.1**.

Figure 5.1. 2024 ASPI Framework for Assessing SME Access to Market and Internationalisation

4. Access to Market and Internationalisation

4.1 Export Promotion	• Policy information and market intelligence • Major trade fairs participation • Self-certification • FTA compliance and orientation
4.2 Integration to Global Value Chains	• Business matchmaking with MNC's and large exporters • Linkages with external or intermediary suppliers • Technology transfers from MNC's
4.3 Use of E-Commerce	• Legal framework for e-trading activities • E-trading platform availability • Access to e-commerce platforms
4.4 Quality Standards	• Financial support for quality standard improvement • Promoting compliance with international standards • Service quality certification coverage
4.5 Trade Facilitation	• OECD Trade Facilitation Indicators • Customs procedures compliance programmes • Transparency and predictability • Simplification of procedures

ASPI = ASEAN SME Policy Index, FTA = free trade agreement, OECD = Organisation for Economic Co-operation and Development, MNC = multinational corporation, SMEs = small and medium-sized enterprises.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

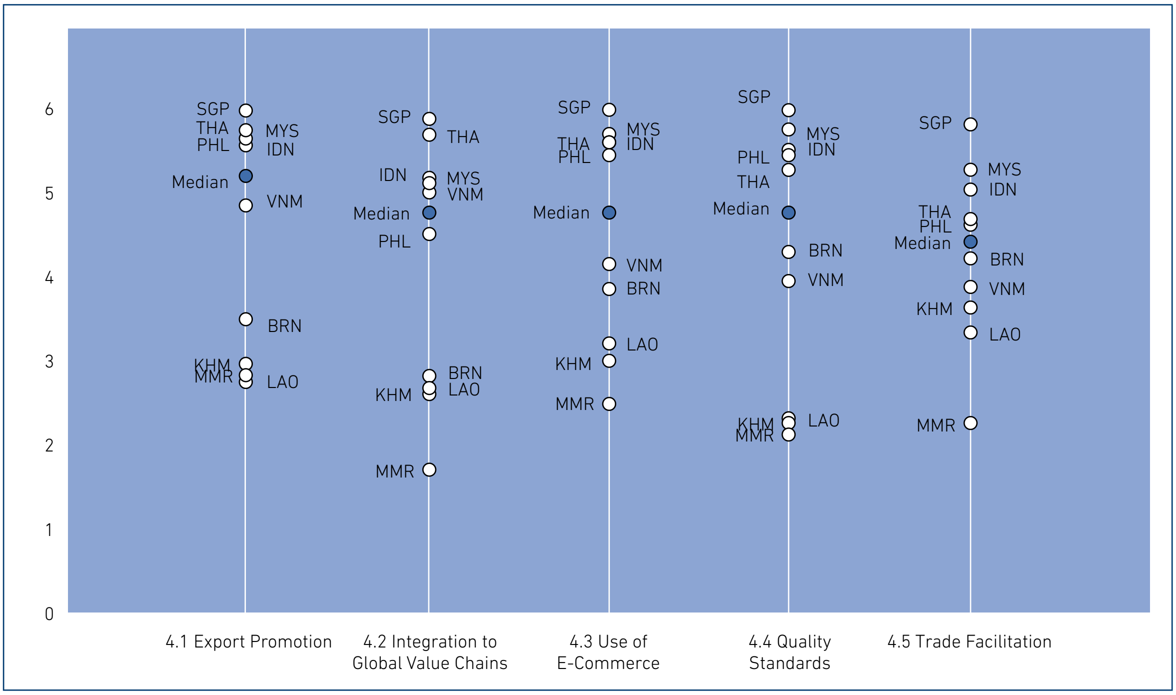
The five sub-dimensions were weighted based on expert opinion. Sub-dimension 4.1 was assigned a weight of 50% based on the notion that this is a foundational step to encourage SMEs to ‘think global’. Sub-dimensions 4.2 and 4.5 were assigned the second highest weights (15% each), based on the rationale that integration into GVCs and trade facilitation are an important next step, greatly supporting SMEs that have started to think about going global. Sub-dimensions 4.3 and 4.4 on the use of e-commerce and quality standards were assigned weights of 10% since they are more concerned with helping SMEs to increase the sophistication of their products and trade networks. These weights do not imply that policymakers should prioritise export promotion, for instance, above other ‘access to market’ related measures. Priorities should be decided on a case-by-case basis, following a clear articulation of policy objectives as well as an analysis of firm-level dynamics in each country. The Organisation for Economic Co-operation and Development (OECD), for instance, has found the use of foreign inputs to be a significant determinant of firm-level productivity amongst a sample of Southeast Asian SMEs (OECD/UNIDO, 2019).

Four of the five sub-dimensions consist of three thematic blocks that are weighted as follows: (i) planning and design, 35%; (ii) implementation, 45%; and (iii) monitoring and evaluation, 20%. The exception is sub-dimension 4.5, where the four thematic blocks have each been assigned a weight of 25%.

3. Analysis

The overall median across ASEAN in Dimension 4 is 4.94, which is even higher than 4.55 in the previous 2018 version (OECD/ERIA, 2018). Since scores are from 1 to 6, with 6 being the highest, this suggests that the region is already quite advanced in this area and is improving. However, as seen from **Figure 5.2**, country-to-country variation is still high, both overall and in the five sub-dimensions, suggesting wide variation in policy development across AMS.

Figure 5.2. **Weighted Scores for Dimension 4 by Sub-Dimension**



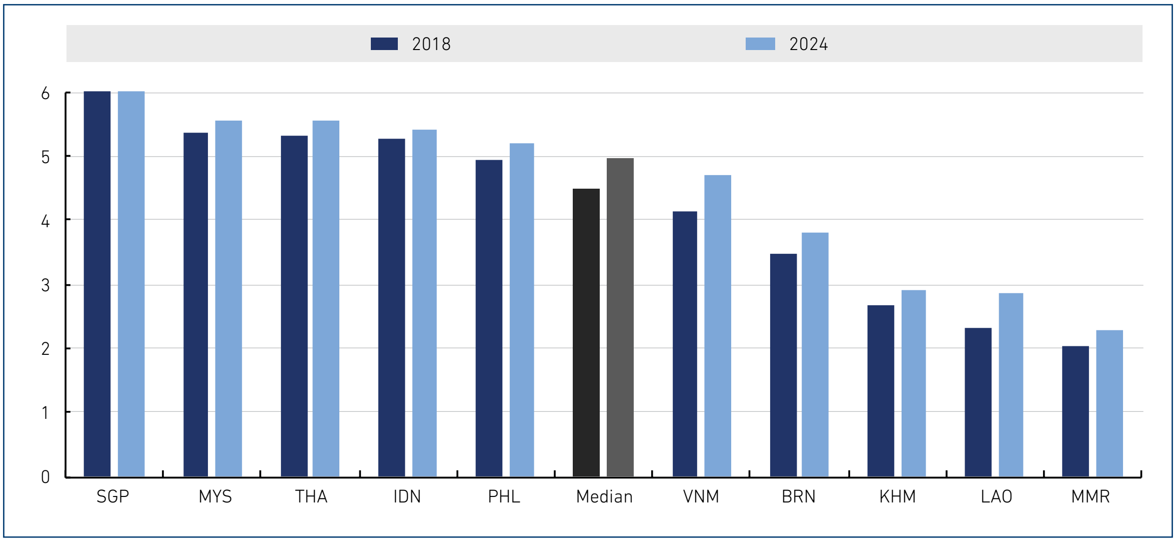
Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

The highest regional median score at the sub-dimensional level is in export promotion, which receives a score of 5.23, although cross-country variation remains. This is unsurprising since many AMS have long pursued an export-oriented growth strategy, a consistent trend in the past decade. Policymakers could prioritise policies in weaker areas such as trade facilitation, which only received a median score of 4.43, significantly lower than the export promotion sub-dimension.

When compared with the 2018 version, as can be seen in **Figure 5.3**, the higher median score in Dimension 4 is caused by the increase in scores by all AMS. In addition, there seems to be a catch-up effect, where all countries that had scores lower than 5.02 in the 2018 version increased their scores by a larger extent, i.e. around 0.3 or more, except Brunei Darussalam, compared with countries that already had higher scores, such as Singapore, Malaysia, Thailand, and Indonesia. In particular, the improvement in the score is outstanding for Lao People's Democratic Republic (Lao PDR) and Viet Nam, though the score of Lao PDR is still the second lowest. As a result, the gap amongst AMS in this dimension is narrowing, suggesting that their policies are heading in the right direction.

Figure 5.3. Overall Scores for Dimension 6 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 4.1: Export promotion

The indicators covered in this sub-dimension explore initiatives by AMS to reduce some of the costs for SMEs exporting across borders, provide them with information on trading opportunities and requirements, support their attendance at major trade fairs, and support their compliance with free trade agreement (FTA) rulings and quality certification.

Table 5.1. Scores by thematic block for sub-dimension 4.1: Export Promotion

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and Design	4.31	4.55	6.00	3.59	6.00	3.12	6.00	6.00	6.00	5.76	**5.88**	**1.08**
Implementation	3.55	2.60	5.36	2.60	5.90	3.12	5.40	6.00	5.74	4.44	**4.90**	**1.32**
Monitoring and Evaluation	1.99	1.00	5.33	1.66	5.00	1.66	5.66	6.00	5.33	4.32	**4.66**	**1.87**
Total Sub-Dimension Score	**3.51**	**2.96**	**5.58**	**2.76**	**5.75**	**2.83**	**5.66**	**6.00**	**5.75**	**4.88**	**5.23**	**1.31**

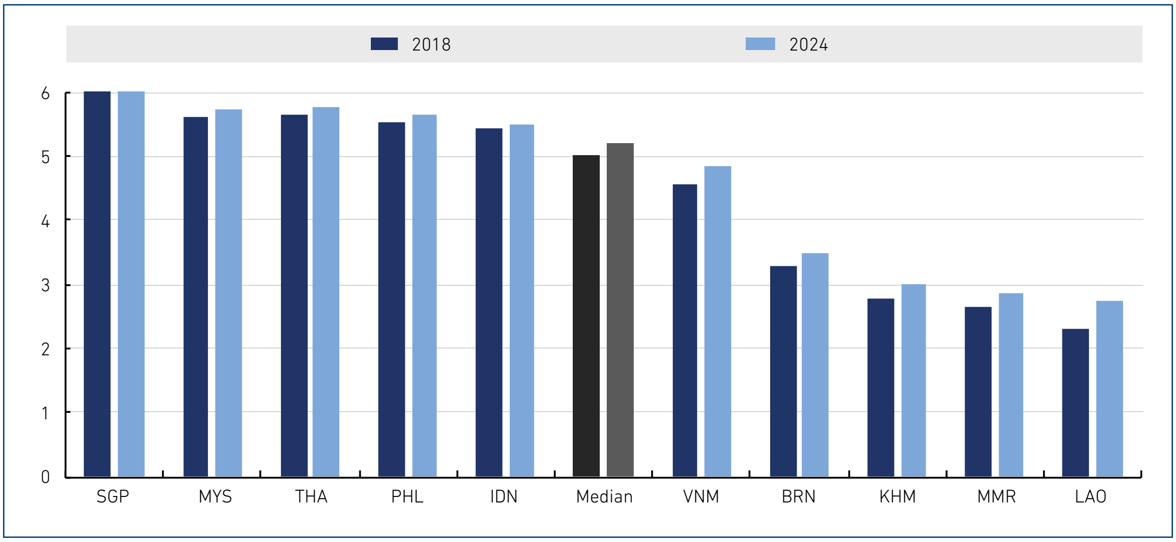
Med. = median StD. = standard deviation.

Note: Scores are on a scale of 1 to 6, with 6 being the highest. See the Policy Framework and Assessment Process chapter for information on the methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Based on **Table 5.1**, the 2024 scores suggest that AMS are well advanced in the planning and design of export promotion policy. On the other hand, the median score for AMS overall is the lowest, with the largest variation in monitoring and evaluation. This indicates significant room to improve export promotion, particularly in terms of monitoring and evaluation and to close the gap with other areas of policies. For instance, Cambodia only scores 1.0 for monitoring and evaluation, which is the lowest amongst AMS, while it has a relatively high score of 4.6 for planning and design. Thus, for countries with large variation amongst the three thematic blocks (planning and design, implementation, and monitoring and evaluation), it is important to understand which area needs to be improved to achieve further export promotion. Compared with the 2018 scores, as seen in **Figure 5.4**, all AMS improved their performance in promoting export policies – except Singapore, which already had the maximum score of 6. Like the overall pattern for Dimension 4, the improvement in the score is outstanding for Lao PDR and Viet Nam, though Lao PDR's score is still the lowest. This implies that it is important to maintain its efforts to improve.

Figure 5.4. Overall Scores for Sub-Dimension 4.1 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Planning and design

The 2024 assessment suggests that Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam have developed comprehensive export promotion programmes for SMEs, while Brunei, Cambodia, Lao PDR, and Myanmar are at an intermediate stage of policy development. But when compared with the 2018 scores, these four countries have managed to narrow the gap with more developed countries by either having more export promotion programmes or having stronger cooperation with the private sector.

All AMS have an export promotion agency in place, which is usually embedded in the Ministry of Commerce or a related ministry. Countries with relatively advanced export promotion policies have integrated these efforts into broader strategic goals and planning documents. In Malaysia, for example, the action plans related to promoting the contribution of SMEs towards national export performance are integrated into the country's National Trade Blueprint, 2021–2025. Countries with less developed export promotion policies, by contrast, tend to have fewer initiatives in place for SMEs, sometimes scattered. These tend to take the form of facilitating SME participation in trade fairs. They also tend to lack targeted export promotion policies for SMEs, and some are still developing more structured national export strategies.

Implementation

The 2024 findings suggest that Singapore, Malaysia, Thailand, the Philippines, and Indonesia (in descending order of scores) have relatively well-advanced policies and programmes in place to promote SME exports. In addition, the programmes provided by these countries appear to be fully operational and have sufficient funds. They tend to offer SMEs support across a wide range of areas, from trade policy information and market intelligence to complying with FTA rulings.[3] They not only facilitate SME participation at major trade fairs but also support them with marketing, product development, and navigating export markets. For instance, to encourage export efforts from SMEs, the Indonesian government established trade centres on the Indonesia–Malaysia and Indonesia–Timor-Leste borders to facilitate export development and increase the export of regional and national products to neighbouring countries.

When compared with the 2018 scores, a similar trend is observed. While five countries manage to improve their standards, the other five are catching up, though the performance gap is still evident, particularly in the number of programmes and other complementary support from the respective export promotion agencies. For example, the Government of Lao PDR now facilitates compliance with rules of origin but almost no financial support. A similar pattern can be seen in Viet Nam, which has more programmes related to marketing from the SME promotion centre but limited financial support. Cambodia currently lacks initiatives to support SMEs in navigating the country's FTAs, while Myanmar lacks services to facilitate self-certification and compliance with rules of origin.

[3] For instance, providing guidance on new rules under the FTA and assistance with self-certification.

Monitoring and evaluation

The 2024 findings suggest that in Singapore, the Philippines, Thailand, and Indonesia (in descending order of scores), the agency responsible for export promotion appears to have concrete monitoring and evaluation mechanisms in place. The annual performance reports of these agencies are made publicly available. In Cambodia, Lao PDR, and Myanmar, meanwhile, relatively little monitoring and evaluation currently takes place.

Sub-dimension 4.2: Integration into global value chains

The indicators covered in this sub-dimension look at the sophistication and intensity of government programmes to promote linkages between SMEs and MNCs and/or larger exporters, and/or with external or intermediary suppliers. They also explore the level of policies and programmes in place to promote technology transfer from MNCs to SMEs.

Table 5.2. Scores by Thematic Block for Sub-Dimension 4.2 – Integration into Global Value Chains

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and Design	3.48	4.07	5.51	2.77	5.64	1.94	5.28	6.00	5.76	5.88	**5.40**	**1.39**
Implementation	2.65	2.24	5.58	2.65	5.58	1.83	4.30	6.00	6.00	5.15	**4.73**	**1.60**
Monitoring and Evaluation	2.10	1.00	3.77	2.65	3.22	1.00	3.75	5.43	4.88	3.20	**3.21**	**1.40**
Total Sub-dimension Score	**2.83**	**2.63**	**5.19**	**2.69**	**5.13**	**1.70**	**4.53**	**5.89**	**5.69**	**5.02**	**4.77**	**1.43**

Med. = median, StD. = standard deviation

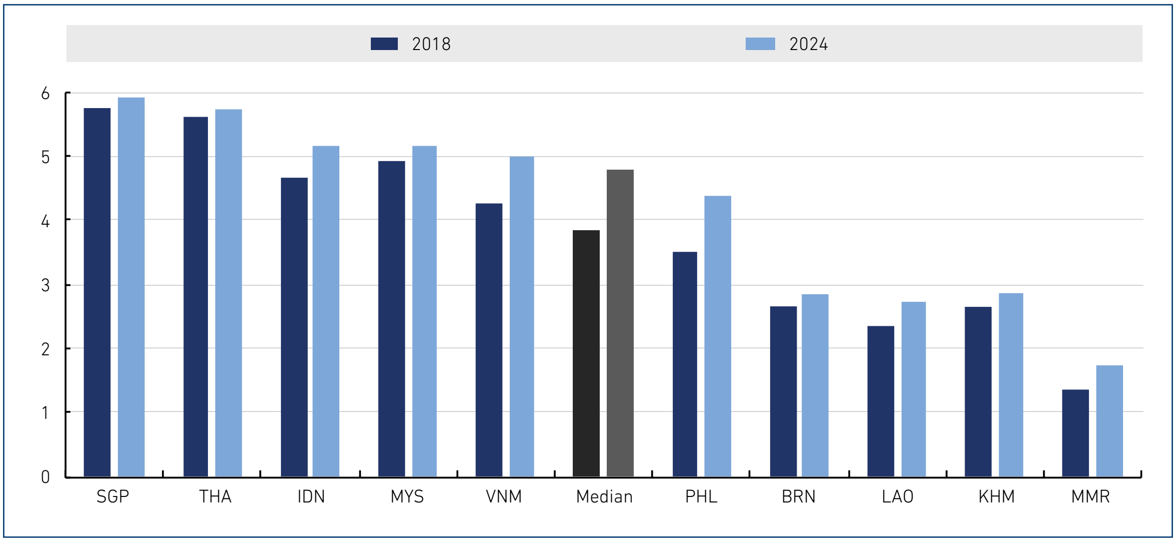
Note: Scores are on a scale of 1 to 6, with 6 being the highest. See the Policy Framework and Assessment Process chapter for information on the methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Based on **Table 5.2**, the 2024 scores suggest that AMS have several policies and programmes in place to promote SME participation in GVCs and that six members are well advanced, having scores over 5.0 in the planning and design of integration into GVCs, which results in the region's score of 4.77. A high standard deviation for implementation amongst the three thematic blocks suggests a large variation amongst countries when it comes to implementing their programmes. This indicates that while some countries offer a comprehensive range of policies and programmes successfully, others do not necessarily offer this. For integration into GVCs, whether the relevant policies and programmes are implemented well or not seems to be the key, and the gap amongst countries need to be narrowed. Without their implementation, it would be natural to get lower scores for the stage of monitoring and evaluation as well. Indeed, the median score for the AMS overall is the lowest at 3.21 in monitoring and evaluation amongst the three components. The score for this area is as low as 1.00 for Cambodia and Myanmar. In the case of Cambodia, its score for planning and design is relatively high at 4.07 but lower for implementation at 2.24 and the lowest is for monitoring and evaluation. On the other hand, Myanmar has scores lower than 2.00 for all three components. This evidence suggests that even amongst countries with lower sub-dimension scores, the priorities to improve integration into GVCs may be different; some countries need to start improving their planning and design, while others need to make efforts in the next stages such as implementation, and monitoring and evaluation.

Having said that, compared with the 2018 scores (**Figure 5.5**), all AMS improved their performance in promoting policies that can integrate SMEs into GVCs, with notable improvements in the scores for the Philippines and Viet Nam (by 1.0 and 0.8, respectively). As a result, Viet Nam achieved a score over 5.00. Viet Nam has rapidly become an important player for machinery GVCs/IPNs during the last decade or so (Ando, Kimura, and Yamanouchi, 2022). Moreover, considering the intensifying geopolitical tensions in the recent environment of international trade and GVCs, especially the United States (US)–China trade conflict, AMS may have opportunities to expand their exports (e.g. to the US) and activate their transactions in GVCs if they provide an improved enabling environment for exports and GVCs.

Figure 5.5. Overall Scores for Sub-Dimension 4.2 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Planning and design

The 2024 assessment suggests that Singapore has the most comprehensive programmes in place to promote SME participation in GVCs, in line with a similar pattern observed from the 2018 version. Enterprise Singapore collaborates with the Singapore Economic Development Board to develop initiatives to promote SME integration into GVCs. The main programmes include the Partnership for Capability Transformation (PACT) scheme and various Co-Innovation Programmes, which connect Singapore-based enterprises with overseas partners and provide funding support for enterprises to pursue co-innovation projects.

Indonesia, Malaysia, Thailand, and Viet Nam have also made notable progress in this area relative to their 2018 scores. In Indonesia, Law No. 7 of 2021 and Presidential Regulation No. 10 of 2021 require partnership with micro, small, and medium-sized enterprises (MSMEs) if major companies plan to apply for investment/ fiscal facilities. In the Philippines, the Regional Interactive Platform for the Philippine Exporters Plus (RIPPLES Plus) aims to provide a business environment that enables MSMEs to establish niches in regional and global markets and to become significant players in GVCs.

The remaining AMS are at an earlier or intermediate stage of policy development, but work has taken place in the past few years, which is sometimes supported by development partners. In Lao PDR, for instance, one of the improvements from the 2018 version is that the Technology Promotion and Transfer Center created a handbook on technology transfer. The handbook helps to introduce technical training in the promotion and transfer of technology to local students and entrepreneurs with start-up business models, and SMEs. In Cambodia, the government has provided several incentives, such as Sub-Decree No. 50 dated 25 March 2019 on customs incentives, to provide incentives for export-oriented SMEs in the manufacturing sector. In addition, 'industries supplying regional and global production chains' is listed as one of the activities that is entitled to incentives in the Law on Investment of the Kingdom of Cambodia (2021). Meanwhile, such technology transfer can also be enhanced through initiatives that link SMEs with larger markets and companies, as illustrated in **Box 5.1** below:

Box 5.1. Link Them Up with Larger Markets Through Digital Technology Adoption to Help Malaysia's SMEs Thrive Post-COVID-19

As the central coordinating agency under the Ministry of Entrepreneur Development and Cooperatives (MECD) that coordinates the implementation of development programmes for small and medium-sized enterprises (SMEs) across all related ministries and agencies, SME Corporation Malaysia (SME Corp. Malaysia) has placed special attention on helping SMEs recover following the impact of the coronavirus disease (COVID-19) pandemic. Disruption to supply chains in the world economy affected Malaysian SMEs to various degrees, but was especially hard for SMEs with limited cash flow. To mitigate these effects, SME Corp. Malaysia saw an opportunity amid value chain disruption that could work as long-term leverage for SMEs through digital transformation.

SME Corp. Malaysia's Inclusive SME Ecosystem Programme, for instance, provides technical support and financial assistance to start or run microenterprises in rural areas, by helping them adopt the use of digital technology for delivery and e-commerce platforms. As a result, as of July 2022, nearly 21,151 participants of the programme had registered and started businesses through digital platforms.

However, such transformation is not always easy. Responding to this, SME Corp. Malaysia provided SMEs with financial assistance via grants and loans to subscribe to digitalisation, and supported the effort through a web portal called MyAssist MSME to 'assist SMEs in resolving their business-related issues'. In practice, MyAssist provides Malaysian SMEs a portal (called MatchMe portal) to connect with larger government-linked firms, hypermarkets, and other multinational corporations, exposing them to larger markets and the opportunity to be connected to a larger value chain. Within just 6 weeks of its launch, the platform had helped SMEs generate over US$200 million of potential sales.

The momentum was strong, and SME Corp. Malaysia encouraged SMEs to switch to e-commerce by providing 100,000 SMEs with grants totalling over US$33 million to give them access to training, sales assistance, and digital equipment. In retrospect, the shutdown of many traditional economic linkages during the pandemic provided the opportunity for SMEs to embrace digitalisation and catapulted them into larger and more global value chains while encouraging e-commerce to flourish under an appropriate policy framework and ecosystem.

Source: Liew (2022).

Implementation

The 2024 findings suggest that Singapore and Thailand are well advanced in this area, followed by Malaysia and Indonesia. This rank is consistent with the 2018 version. These countries not only have many programmes in place, but they are also well funded and executed. In Singapore, for instance, the government has allocated S$150 million to support initiatives within the PACT programme, which have benefited more than 2,000 Singapore-based firms including SMEs. In Thailand, meanwhile, the government estimated that in terms of business linkages between SMEs and multinationals, the value of the linkages between SMEs and larger enterprises in 2021 amounted to B12.5 billion. In addition, Indonesia and Viet Nam experienced significant progress in this area compared with the 2018 version. Viet Nam, for example, collaborated with Samsung in the country to link SMEs to its value chain, and the number of Vietnamese enterprises that became Samsung tier 1 suppliers increased from 4 in 2012 to 51 in 2022.

Amongst the remaining AMS, Cambodia highlighted SME integration in GVCs under its Industrial Development Policy, 2015–2025 and has added several programmes supporting SMEs, such as collaborating with the ASEAN Access team to create the Asian Cross-Border Business Match Forum matchmaking programme and creating the Suppliers Database with Sustainability Dimensions (SD2) to improve the chain linkage between domestic firms and foreign enterprises. Other countries appear to have more limited implementation. Lao PDR, for example, collaborated with the European Union in creating the ASEAN Regional Integration Support from the EU Plus (ARISE) Plus Lao PDR, but is limited by the government budget in implementing other programmes. In Myanmar, no clear measures are in place.

Monitoring and evaluation

Based on the 2024 scores, this area receives the lowest median score from this sub-dimension, just as in the 2018 scores, though the performance of AMS is noticeably improving, as shown by the narrowing gap with the other median scores. Singapore still leads the way, followed by Thailand, Indonesia, and the Philippines. Although these countries conducted programme monitoring and reviews, the method of conveying the results is different – Indonesia released the ratio of its SME participation in GVCs through the Ministry of Cooperatives and SMEs' Performance Report and Singapore released its report on PACT through fact sheets and ministerial speeches, while Thailand does not make the results public. This is already an improvement from 2018, when the results of the monitoring and reviews were generally not made public. The Philippines, through the Export Marketing Bureau of the Department of Trade and Industry, reviews programmes through a client satisfaction feedback method, but these programmes are not independently monitored by a third party, like the previous version.

Brunei Darussalam, Lao PDR, and Viet Nam have varying degrees of improvements in monitoring and reviews compared with the 2018 version. For instance, Brunei conducts informal feedback for internal reporting and usage, while Viet Nam uses various decrees to incorporate provisions on reporting requirements for monitoring and evaluation purposes. On the other hand, Cambodia and Myanmar seem to be at the very early stage of implementing policies in this area.

Sub-dimension 4.3: Use of e-commerce

As the policy environment for increasing SME use of e-commerce, this sub-dimension focuses on three perspectives: (i) the availability of e-trading platforms in each AMS, such as e-payment, logistics facilities, and online marketplaces; (ii) government programmes to facilitate SME access to these platforms; and (iii) the sophistication of legal and regulatory frameworks to govern e-commerce activities.

Table 5.3. **Scores by thematic block for sub-dimension 4.3: Use of E-Commerce**

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Medi-an	StD.
Planning and Design	4.74	3.89	6.00	4.31	6.00	3.06	6.00	6.00	6.00	5.58	**5.79**	**1.03**
Implementation	3.99	3.21	5.89	2.87	5.32	2.76	5.32	6.00	5.89	3.97	**4.65**	**1.24**
Monitoring and Evaluation	2.10	1.00	4.87	2.10	6.00	1.00	4.87	6.00	4.30	2.10	**3.20**	**1.88**
Total Sub-Dimension Score	**3.87**	**3.01**	**5.72**	**3.22**	**5.55**	**2.51**	**5.47**	**6.00**	**5.61**	**4.16**	**4.81**	**1.25**

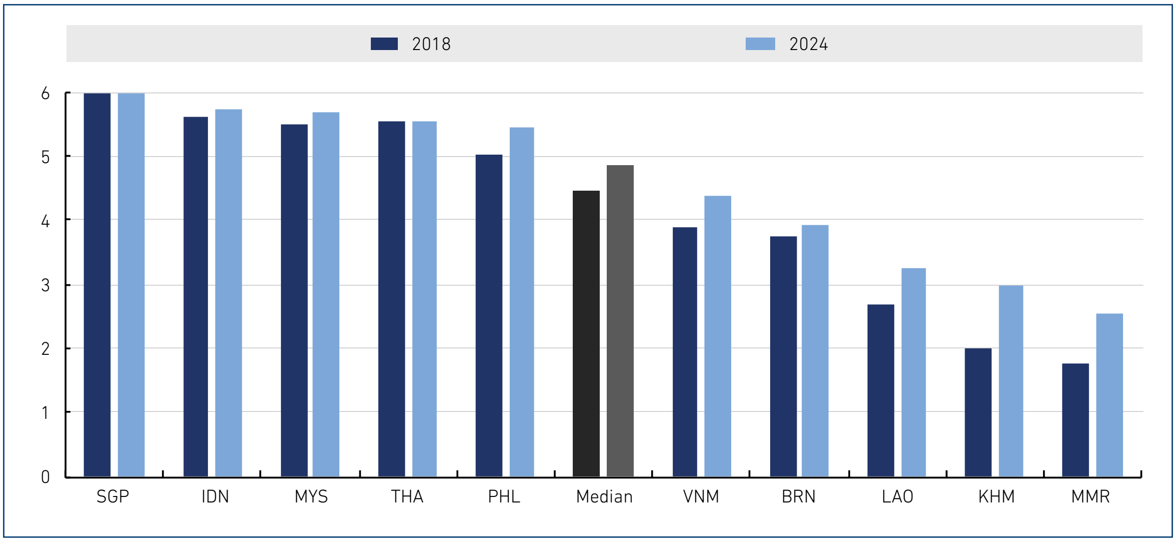
Med. = median, StD. = standard deviation.

Note: Scores are on a scale of 1 to 6, with 6 being the highest. See the Policy Framework and Assessment Process chapter for information on the methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Based on **Table 5.3**, the 2024 scores suggest that the region performs relatively well in this area, with a median score of 4.81. Looking at the three thematic blocks, the region is well advanced in planning and design for the use of e-commerce, where it achieves a median score of 5.79, with the lowest variation amongst members. On the other hand, the median score for the AMS overall is the lowest in monitoring and evaluation, with the largest variation amongst the Member States – from the score of 6.00 for Singapore and Malaysia to the score of 1.0 for Cambodia and Myanmar. As in the case of export promotion, there is significant room to improve the use of e-commerce, particularly in terms of monitoring and evaluation, and to close the gap in this area in some countries with other areas of policies. Compared with the 2018 scores (**Figure 5.6**), all AMS improved their performance in promoting the use of e-commerce, except Singapore, which already had the maximum score of 6.00, as well as Thailand. Cambodia, Myanmar, and Lao PDR, which had much lower scores than other AMS in the 2018 version, have made greater improvements during the last 6 years. Although their scores are still lower, compared with others, a catch-up trend is apparent in the use of e-commerce, partly triggered by the COVID-19 pandemic. According to Hayakawa, Mukunoki, and Urata (2023), the development of e-commerce in importing countries contributes to mitigating the negative effect of COVID-19 on trade. Thus, enhancing the use of e-commerce will not only provide SMEs with more opportunities/channels to be connected to the international market easily at a lower cost than before, including cases of the 'third unbundling' in which tasks are fragmented into smaller components carried out by remotely located individuals (Baldwin, 2016), but also provide more economic resilience for sectors in which SMEs are involved.

Figure 5.6. **Overall Scores for Sub-Dimension 4.3 (2024 vs 2018)**



Note: Scores are on a scale of 1 to 6, with 6 being the highest.
Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Planning and design

The 2024 assessment suggests that six countries in the region can be considered as well-advanced in planning and design: Singapore, Thailand, Indonesia, the Philippines, Malaysia, and Viet Nam. This is in line with a similar pattern observed in the 2018 version, in addition to the incremental improvements in scores. These countries have clear, concrete legal instruments in place to manage e-commerce, e-payments, and consumer protection, e.g. Thailand's Royal Decree on Digital ID Services in 2022. In addition, these countries have more programmes to promote SME involvement in e-commerce, compared with the previous version. For example, the e-commerce promotion programmes for SMEs in Indonesia are implemented by multiple ministries, from the Ministry of Cooperatives and SMEs to the Ministry of Industry.

The rest of the region – Brunei, Cambodia, Lao PDR, and Myanmar – lags, but is narrowing the gap on the front runners, relative to the 2018 version. For instance, Cambodia created a new e-commerce platform for SMEs called CambodiaTrade, while Lao PDR issued the Decree on Electronic Commerce No. 296 in 2021 and the Instruction on the Operations and Organization of Consumer Protection Association No. 0707/DT in 2020.

Implementation

The 2024 findings suggest that Singapore receives the highest score in this area, followed closely by Thailand, Indonesia, and then Malaysia and the Philippines. These countries have implemented e-commerce programmes for SMEs, and compared with the 2018 version, they have consolidated these programmes on a national scale. Singapore, for instance, launched its Grow Digital initiative in 2020, developed by the Infocomm Media Development Authority and Enterprise Singapore, to enable SMEs to sell overseas without needing physical stores. In Malaysia, the Malaysia Digital Economy Corporation consolidated its eUsahawan training programmes, which are available for SMEs, and collaborated with other e-commerce platforms for the implementation of Kempen Beli Barangan Malaysia (Buy Malaysia Product Campaign), which includes SME products.

The remaining AMS have begun to catch up with the frontrunners as they are rolling out the implementation of e-commerce programmes, continuing the positive trend relative to the 2018 version. Viet Nam, for example, is maintaining the Vietnam E-Commerce Portal (ECVN), by the Ministry of Industry and Trade, complemented by its Foreign Market Information Portal. However, their progress is not without limitations, such as in Lao PDR and Myanmar, which have limited funding allocations for e-commerce and still lack programmes considered as comprehensive.

Monitoring and evaluation

Based on the 2024 scores, this area receives the lowest median score from this sub-dimension, just as in the 2018 scores, suggesting that the region has less advanced mechanisms for monitoring and evaluating e-commerce initiatives. But this does not mean that there is no progress from 2018. Several countries improved upon how they conduct monitoring, with Singapore reflecting the best practice. Singapore, through the Infocomm Media Development Authority, monitors the implementation of several e-commerce programmes and publishes the findings via news articles, press releases, and ministerial speeches, in addition to conducting surveys on the usage of e-commerce.

The other notable performers in this area are Malaysia, the Philippines, and Indonesia. The Malaysian government underlines the obligation to conduct monitoring through its National E-Commerce Strategic Roadmap and publishes quarterly reports for initiatives under the roadmap. In addition, the Department of Statistics Malaysia collects statistics on the income and expenditure of e-commerce by sector and publishes the results. In the Philippines, the Department of Budget and Management replaced the E-Commerce Office with the E-Commerce Division, which is responsible for implementing and monitoring e-commerce policies under the e-Commerce Philippines 2022 Roadmap. Continuing the trend from the previous years, Indonesia maintains internal evaluations of all ministry-level programmes, while the government also collects key performance indicators on e-commerce, which can be consulted in the e-commerce statistics publications.

Some other countries, though, do not yet have clear mechanisms for the monitoring and evaluation of e-commerce programmes. Cambodia and Myanmar, for example, have limited work related to reviewing the implemented e-commerce programmes, and unlike in the 2018 version, Lao PDR now has a monitoring and evaluation framework that is mostly only implemented in programmes under grant or loan provisions from third-party or international counterparts.

Sub-dimension 4.4: Quality standards

The indicators included in this sub-dimension look at the availability of support programmes to increase compliance with quality standards, support schemes to obtain quality certification, the presence of adequate funding behind these programmes and comprehensive monitoring mechanisms to regularly assess their performance.

Table 5.4. Scores by Thematic Block for Sub-Dimension 4.4 – Quality Standards

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and Design	4.30	2.65	6.00	2.65	6.00	1.83	6.00	6.00	5.15	3.48	**4.73**	**1.56**
Implementation	5.32	2.32	6.00	2.65	5.66	2.65	5.32	6.00	5.32	4.65	**5.32**	**1.39**
Monitoring and Evaluation	2.10	1.55	4.87	1.00	4.32	1.55	4.87	6.00	5.43	3.20	**3.76**	**1.74**
Total Sub-dimension Score	**4.32**	**2.28**	**5.77**	**2.32**	**5.51**	**2.14**	**5.47**	**6.00**	**5.28**	**3.95**	**4.80**	**1.47**

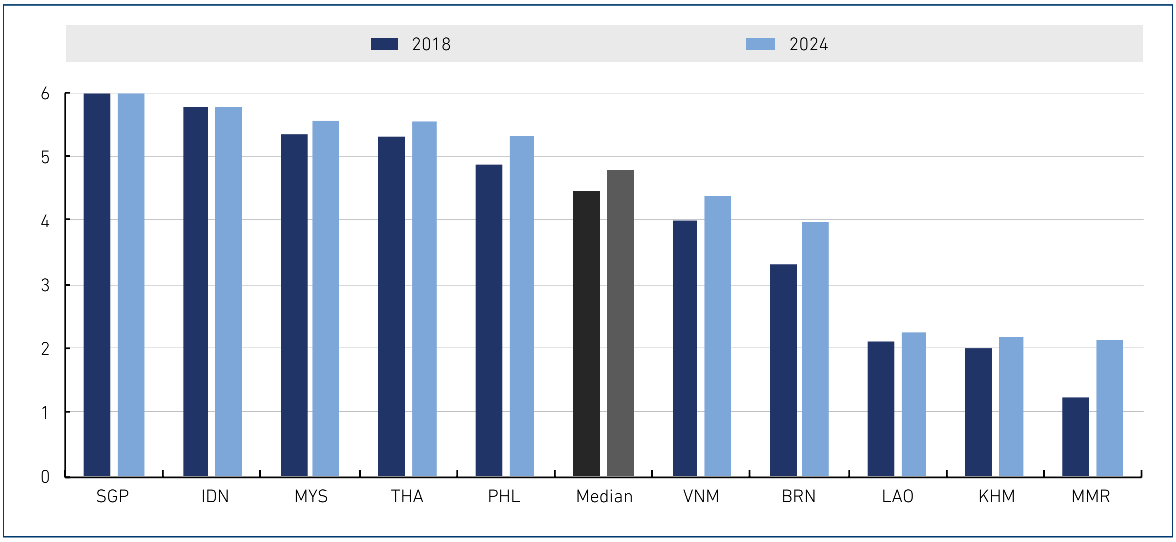
Med. = median StD. = standard deviation.

Note: Scores are on a scale of 1 to 6, with 6 being the highest. See the Policy Framework and Assessment Process chapter for information on the methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Based on **Table 5.4**, the 2024 scores suggest that the region performs relatively well in this area, with a median score of 4.80. Looking at each thematic block, the region achieves the highest score of 5.32 for the implementation of quality standards, unlike the pattern for previous sub-dimensions namely export promotion, integration into GVCs, and the use of e-commerce, with the lowest variation amongst member states. On the other hand, the region has the lowest score in monitoring and evaluation, as is the case of those three sub-dimensions. Comparing with the 2018 scores (**Figure 5.7**), all Member States improved in terms of quality standards, except Singapore and Indonesia, which maintain the same scores at the higher levels. Myanmar, Cambodia, and Lao PDR (with the three lowest scores in this order compared with other Member States), however, are still by far in the lowest position. Clearly, this field needs to narrow the gap in the region.

Figure 5.7. **Overall Scores for Sub-Dimension 4.4 (2024 vs 2018)**



Note: Scores are on a scale of 1 to 6, with 6 being the highest.
Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Planning and design

The 2024 assessment suggests that four countries in the region can be considered well advanced in planning and design: Singapore, the Philippines, Malaysia, and Indonesia. This continues the trend in the 2018 version, where these four countries reflected the best practices.

In Singapore, Enterprise Singapore established the Singapore Standardisation Programme and the Singapore Accreditation Programme, and has collaborated with the Singapore Standards Council and Singapore Accreditation Council to create robust infrastructure to help SMEs meet international standards. In the Philippines, the Bureau of Philippine Standards of the Department of Trade and Industry serves as the National Standards Body to develop, promulgate, and implement standards for all products in the Philippines. The Bureau of Philippine Standards also conducts capacity building activities on the Philippine National Standards to increase the awareness of SMEs. In Malaysia, SME Corp. Malaysia collaborates with SIRIM QAS International to implement the National Mark of Malaysian Brand programme, which is available for SMEs. In addition, the Department of Standards Malaysia provides training for SMEs on certain listed standards. In Indonesia, the National Standardization Agency of Indonesia (BSN) is tasked with overseeing programmes related to the quality standards of SMEs in Indonesia.

In Thailand, which follows the top four countries, this is the responsibility of the Thai Industrial Standards Institute (TISI).

Other countries have also improved compared with the 2018 version and are narrowing the performance gap with the four front runners. In Brunei, Darussalam Enterprise (DARe) launched the Standard Consultancy Programme to help MSMEs meet industry requirements, increase their productivity, and add value through conformance with quality standards. The Institute of Standards of Cambodia provides testing services through its Science Technology and Innovation National Laboratory, and Lao PDR has Lao National Chamber of Commerce and Industry as the main representative from the private sector to consult with the government on quality standard programmes. However, in Cambodia and Lao PDR, these programmes are not particularly comprehensive.

Implementation

The 2024 findings suggest that Singapore again receives the highest score in this area, closely followed by Indonesia. This continues the trend in the 2018 version, where these two countries reflected the best practices in implementation. In Singapore, besides implementing the Singapore Standardisation Programme and the Singapore Accreditation Programme, in which standards help SMEs build trust and ease entry into global markets, Enterprise Singapore provides financial support to promote the adoption of standards amongst SMEs through its Enterprise Development Grant.

When it comes to Indonesia, BSN provides several financing mechanisms to help SMEs meet the designated national standard, such as full assistance from BSN in the certification process and collaboration between BSN and its stakeholders (for specific certifications such as the Hazard Analysis Critical Control Point (HACCP) certification). BSN has launched the Electronically Integrated Business Licensing System (OSS). BSN assists in licensing through OSS, so that MSMEs get permits including the designated national standard more easily.

Notable progress has also been made by Thailand, which introduced the Thai Industrial Standards (TISs), a new quality standard by TISI that targets SME entrepreneurs. Other countries are also improving compared with the 2018 version, though progress is limited. In Brunei Darussalam, despite limited funding for the programme implementation, 77 companies have received subsidised consultancy and training, with 59 companies successfully obtaining certifications, signalling an increase in the uptake of the quality standard programme. In Cambodia, a few initiatives are available for SMEs to meet quality standards, such as a collaboration between Khmer Enterprise and Australia to offer financial assistance to SMEs within the agrifood industry to enhance the standards of food safety and quality.

Note that progress is still limited for quality certification in the service sectors, where only a few AMS have developed a comprehensive programme. Indonesia, for example, has maintained its Minimum Service Standard, particularly for education and health services. It has the National Professional Certification Agency (BNSP), an independent certification agency responding to the President, which acts as an authority to certify professional competency of the workers in Indonesia. In Singapore, certification services are still largely delivered by private service providers and cover a vast variety of service sector certifications, such as Singapore Management University's Institute of Service Excellence. Some other countries' implementation is more specific, such as the Philippines, which has the Department of Agriculture and Fisheries for organic agriculture practitioners and the Department of Tourism's accreditation system for tourism establishments, and Thailand, which initially only had the Thailand Tourism Standard certification issued by the Department of Tourism, Ministry of Tourism and Sports, but now also has the TISs as it increases its emphasis on services.

Monitoring and evaluation

Based on the 2024 scores, Singapore, Thailand, Indonesia, and the Philippines (in descending order of scores) have relatively clear monitoring mechanisms in place for their quality certification programmes. This is similar to the findings from the 2018 version, including that Singapore is the regional leader again in this regard. In Singapore, both the Singapore Standards Council and the Singapore Accreditation Council are each responsible for reviewing standards and overseeing the assessment, and they report to Enterprise Singapore, which reports to the Ministry of Trade and Industry. In Thailand, TISI is monitored and evaluated by the Office of the Public Sector Development Commission in terms of TISI's ability to follow their key performance indicators, in addition to having use of the budget evaluated by the Budget Bureau. In Indonesia, BSN has its own monitoring mechanism, and all programmes under BSN are evaluated and disclosed in its annual reports.

Some improvements have been made by Brunei, in which DARe through its Standard Consultancy Programme now conducts monthly progress reports with its programme participants and post-programme surveys to identify areas of improvement related to standard certifications. And just like the pattern observed in the 2018 version, there is little monitoring and evaluation of quality standard programmes in Cambodia, Lao PDR, and Myanmar. This may be because only a few quality standard programmes take place in those countries.

Sub-dimension 4.5: Trade facilitation

The indicators included in this sub-dimension look at the presence and nature of public programmes to support SME compliance with customs procedures. Specifically, they look at the existence of facilities to bridge information gaps for SMEs, e.g. manuals or other guidelines, support centres, and/or a trade portal. They also look at progress in simplifying customs procedures, e.g. via the creation of an e-customs platform, an Authorised Economic Operator (AEO) programme,[4] and/or a National Single Window (NSW) facility. They look at whether these programmes and facilities include specific criteria for SMEs and whether support programmes are in place. Finally, this sub-dimension also integrates the 2022 OECD Trade Facilitation Indicators (TFI) for AMS.

[4] The World Customs Organization (WCO) defines an AEO as 'a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national customs administration as complying with WCO or equivalent supply chain security standards.' The idea is that customs will trust AEOs and expedite procedures for them.

Table 5.5. Scores by Thematic Block for Sub-Dimension 4.5 – Trade Facilitation

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Medi-an	StD.
OECD TFI	5.15	4.31	5.58	3.06	5.58	3.06	5.15	6.00	5.15	5.58	**5.15**	**0.99**
Planning and Design	2.65	2.65	5.15	2.65	4.30	1.83	4.30	6.00	4.30	1.83	**3.48**	**1.36**
Transparency and Predictability	5.43	4.32	4.87	4.87	6.00	2.65	5.43	6.00	4.87	4.87	**4.87**	**0.92**
Simplification of Procedures	3.70	3.28	4.63	2.75	5.26	1.52	3.60	5.36	4.43	3.28	**3.65**	**1.12**
Total Sub-dimension Score	**4.23**	**3.64**	**5.06**	**3.33**	**5.28**	**2.26**	**4.62**	**5.84**	**4.69**	**3.89**	**4.43**	**0.99**

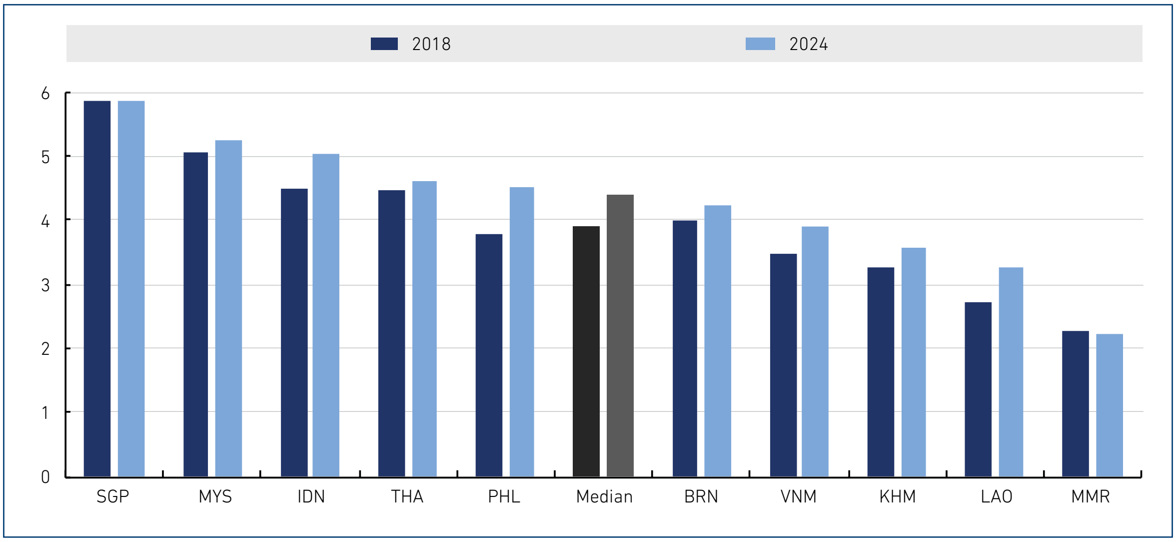
Med. = median, OECD = Organisation for Economic Co-operation and Development, StD. = standard deviation, TFI = Trade Facilitation Indicators.

Note: Scores are on a scale of 1 to 6, with 6 being the highest. See the Policy Framework and Assessment Process chapter for information on the methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Based on **Table 5.5**, the 2024 scores suggest that the region performs well in enhancing trade facilitation for SMEs, with a median score of 4.43, up from 3.89 in the 2018 version. Looking at each thematic block in this sub-dimension, the region performs well in transparency and predictability for trade facilitation, with the highest median score of 4.87 amongst components other than the OECD TFI and the lowest variation amongst Member States. The score for transparency and predictability is over 4.00 in all AMS except Myanmar. This indicates that a relatively similar degree of transparency and predictability is achieved amongst AMS in terms of trade facilitation for SMEs. This is important not only for trade facilitation per se but also for activating GVCs and being involved in them for SMEs. In addition, the variation amongst countries is relatively low for other components of trade facilitation as well. When comparing countries' 2018 and 2024 scores (**Figure 5.8**), most AMS improved in performance, except Myanmar, which has been stagnant at the lowest level, and Singapore, which is already at a high-performing rate. Notable improvements are observed particularly for the Philippines (with an increase of 0.8), Lao PDR (0.6), Indonesia (0.6), and Cambodia (0.5). In the case of Myanmar, all components are the lowest amongst AMS, which results in a much lower level of overall scores for trade facilitation. Moreover, the OECD TFI component gained the most improvement compared with the 2018 version amongst all components in this category.

Figure 5.8. **Overall Scores for Sub-Dimension 4.5 (2024 vs 2018)**



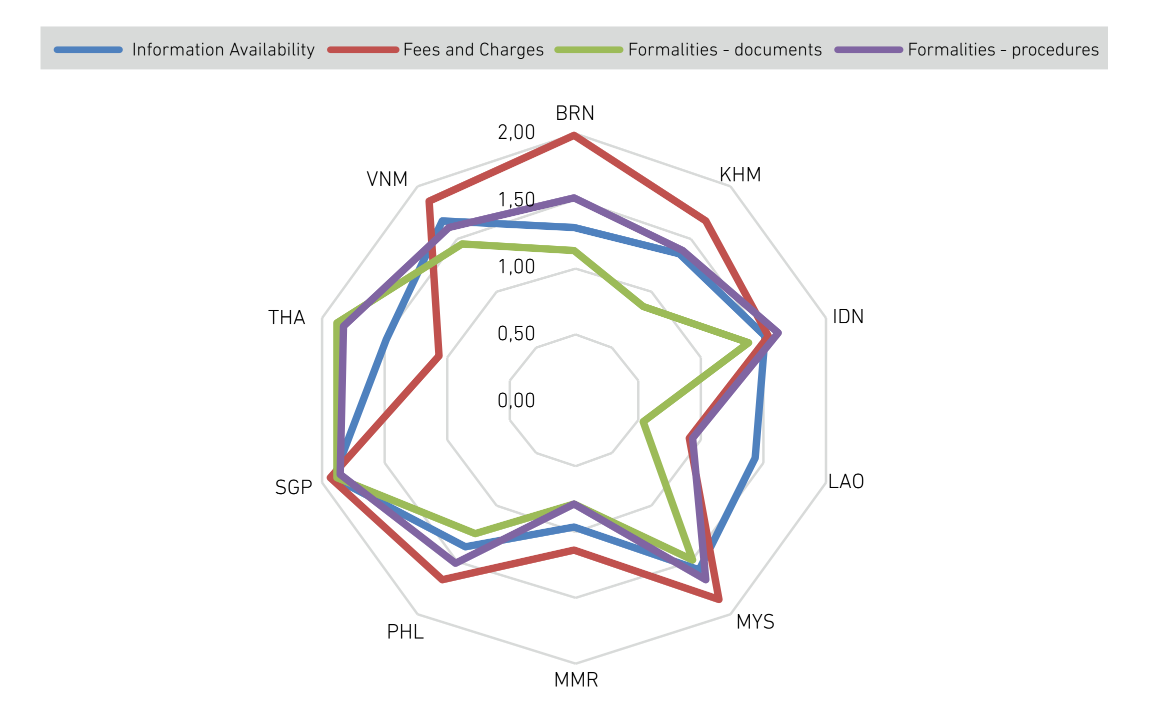
Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

OECD TFIs

The 2022 OECD TFIs are used to help assess trade facilitation measures in AMS. These indicators measure the extent to which countries have introduced and implemented trade facilitation measures in absolute terms. Four sets of these indicators are included in the 2024 ASEAN SME Policy Index (ASPI): (i) information availability, (ii) fees and charges, (iii) formalities - documents, and (iv) formalities - procedures.

Figure 5.9. AMS Performance on OECD Trade Facilitation Indicators, 2022



AMS = ASEAN Member States, ASEAN = Association of Southeast Asian Nations, OECD = Organisation for Economic Co-operation and Development.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: OECD Trade Facilitation Index 2022.

Based on **Figure 5.9**, Singapore scored the highest on these indicators.[5] This is similar to the finding from the 2018 version, and this is as expected given Singapore's long outward-looking trade policies. Malaysia, Viet Nam, Thailand, and Indonesia then follow in rank, and these are at what can be considered a relatively advanced level of development. By contrast, Lao PDR and Myanmar are still at an early stage, again similar findings to the 2018 version.

Planning and design

The 2024 assessment suggests that Singapore receives the highest score when it comes to planning and design, followed by Indonesia, Malaysia, the Philippines, and Thailand. This is similar to the 2018 version where the ranking is identical, though score-wise there have been some improvements. Singapore, as in the previous version, does not have specific programmes to support SMEs in terms of compliance with customs procedures, but it provides several resources that are available for SMEs to use. Examples include the Networked Trade

[5] See Moïsé, E. and S. Sorescu (2013) for further information on the OECD's TFI scores.

Platform, which connects players across the trade value chain in Singapore and abroad; TradeNet, which integrates import, export, and transhipment documentation processing procedures; and Singapore Customs, which provides courses on how to access and navigate the single window platforms. Indonesia has several initiatives to help SMEs in the customs part of trade, such as facilitating customs clearance processes for small businesses; fiscal incentives, including the Ease of Import for Export Purposes of Small and Medium Industries (KITE-IKM); and classes on customs for MSMEs by the Customs and Excise Directorate General of the Ministry of Finance.

Compared with the 2018 version, some countries are also improving in terms of programme provisions that can help SMEs clear customs procedures, or at least in the process of doing so. In Viet Nam, Vietnam Customs has been modernising customs in the last few years. In addition, the agency is engaging in dialogue with the business community on customs procedures. Similarly, Lao PDR has utilised the working mechanism of the Trade and Transportation Facilitation Committee at the provincial and capital levels and collaborated with business sectors. Myanmar, for example, now has training courses provided by the Trade Training Institute under the Ministry of Commerce.

Transparency and predictability

The 2024 findings suggest that Singapore and Malaysia are the most advanced in this area, and this is similar to the findings from the 2018 version. And when compared with the previous version, countries like the Philippines, Brunei, Indonesia, Lao PDR, Thailand, and Viet Nam are closely behind them, signalling that they are also advanced in this regard. The score variation amongst countries is the lowest in this sub-dimension, signalling more equal policy implementation in providing support to SMEs for handling customs procedures.

All countries provide procedural guidance on trade facilitation, including Myanmar with the help of the German government in terms of support. Similar to the 2018 version, this guidance is not necessarily specific to SMEs, with the exception of a few AMS such as the Philippines, whose *Philippine Export Guidebook* explicitly aims to 'help micro, small, and medium enterprises (MSMEs) become globally competitive through export' (DTI-Export Marketing Bureau, 2018: vii); and Cambodia, which also has a specific guidebook for SMEs titled *Handbook on Export Procedures.*

To help SMEs navigate the import or export process, almost all countries provide support centres, though they are for general usage and not specifically for SMEs, where SMEs can submit enquiries either online or by visiting the customs department offices. Only Myanmar does not have such a service. All countries also provide a trade portal that offers a one stop point for all import and export information, except Myanmar. Some countries, including Cambodia, the Philippines, Thailand, and Viet Nam, have this portal under their National Trade Repository platform.

Simplification of procedures

Based on the 2024 scores, Singapore and Malaysia are amongst the highest scorers in this area. Continuing the trend from the 2018 version, both of these countries have a well-advanced e-customs system, complemented by the provision of information technology (IT) support programmes available for SMEs, such as Singapore with its Networked Trade Platform, a one-stop trade information management platform that enables end-to-end data sharing and work-flow integration amongst businesses and the government. But improvements have also been made by other countries regarding e-customs systems, such as Cambodia, which has integrated the Automated System for Customs Data (ASYCUDA) system for Import/Export Single Administrative Declaration (SAD), in addition to the government developing various toolkits to help traders, including SMEs, with customs-related matters, such as the Cambodia Customs Trader mobile app and the Customs Tariff of Cambodia 2022.

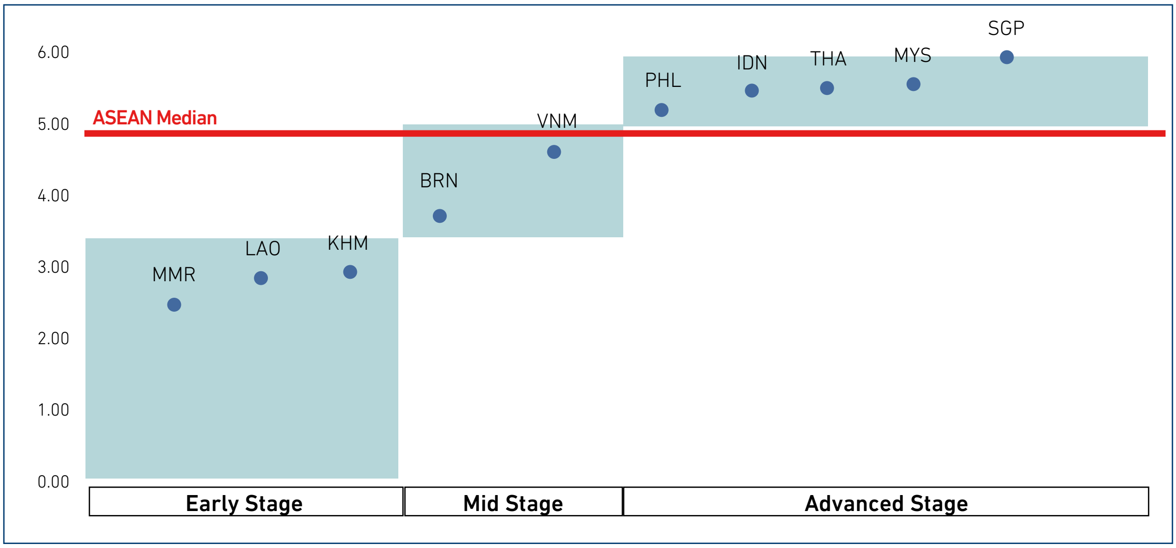
Regarding the AEO programme, Singapore is amongst the most advanced as it does not include volume traded as part of the criteria to qualify for AEO, paving the way for SMEs to be included in this programme. Other countries have tried to follow suit compared with the 2018 version. For example, Brunei has an AEO programme called the Sutera Lane Merchant Scheme, which initially had trade value of B$1 million in the past 12 months as one of the requirements. Since then, the government has provided a degree of flexibility for SMEs that intend to join the programme but are unable to meet this requirement, and such cases can be considered on a case-by-case basis. Lao PDR, as another example, has established a new AEO programme, with the first Lao company receiving accreditation in February 2023.

In general, most countries in the region have also implemented an NSW, though just like in 2018, they are at different stages of implementation. In the Philippines, the initial NSW had some limitations and had to be replaced by TradeNet, an online trading platform to perform the functions of the NSW, which aims to facilitate trade, heighten transparency in customs procedures, and improve revenue collection in the Philippines. It was pilot tested in 2017 and was only officially launched in March 2023. Lao PDR, on the other hand, has updated its NSW by integrating the ASYCUDA system into Lao National Single Window, and has since rebranded it as National Single Window ASYCUDA (NSWA+), creating a streamlined single point of service for trade procedures.

4. The Way Forward

In general, compared with the 2018 performance, all AMS showed improvements in terms of access to market and internationalisation between 2018 and 2024, as can be seen in **Figure 5.3**. However, this progress is not equal across AMS, as it depends on the developments made by each country and is partly influenced by the catch-up effects created by countries with previously lower scores. And based on **Figure 5.10**, the distribution of the weighted scores for this dimension indicates that the AMS can be categorised into three groups: early stage, mid stage, and advanced stage. The country membership in these groups is similar to that of the 2018 version, with a slight change. The country members of the early stage are Cambodia, Lao PDR, and Myanmar. The mid stage now has two country members rather than the three of the 2018 version: Brunei Darussalam and Viet Nam. The country members of the advanced stage have expanded to five countries from the 2018 version: Indonesia, Malaysia, Singapore, Thailand, and the new addition of the Philippines.

Figure 5.10. Weighted Scores for Dimension 4 – Access to Market and Internationalisation



ASEAN = Association of Southeast Asian Nations.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Moving forward, the region should consider the following recommendation that is relevant to the areas covered under Dimension 4:

- Encourage the governments of AMS to promote the ASEAN Access platform, an online portal for information on trade and market access in ASEAN, to their SMEs as one of their main tools for improving internationalisation efforts by penetrating overseas markets.
- Expand the use of e-commerce by the SMEs of AMS, as e-commerce became one of the most resilient platforms for trading activities during the COVID-19 pandemic.

Assist SMEs by integrating support for SMEs in trade facilitation, through creating a specific AEO programme that is tailor-made to SMEs' characteristics to provide them with further help and support when trading in the global market.

Table 5.6. Policy Recommendations to Enhance Access to Market and Internationalisation of SMEs in ASEAN

Level of Policy	Policy Recommendations
Early stage *Cambodia* *Myanmar* *Lao PDR*	• **Conduct a comprehensive, nationwide assessment of the characteristics of the SMEs** to identify gaps between what is currently being provided by SMEs and what is in demand in the global market. This would provide a baseline or main reference for identifying the assistance needed by SMEs to meet global demand, such as market intelligence and financial assistance. • **Establish comprehensive programmes and/or strategies that are specifically aimed towards SME internationalisation**. Such programmes should cover the whole export process and could address specific bottlenecks faced by SMEs in exports, such as non-tariff measures and quality compliance. • **Establish a comprehensive programme related to quality standards compliance for SMEs**. In particular, encourage initiatives implemented to help SMEs meet quality standards and create a mechanism for monitoring and evaluation of the programme to improve the rate of assurance on the quality of SMEs' products for the global market. • **Learn from best practices by countries grouped in the advanced stage**, and map out the gaps between current efforts by these countries in this group and programmes from countries in the advanced group, including planning, implementation, and monitoring.
Mid stage *Brunei Darussalam* *Viet Nam*	• **Promote the participation of SMEs in GVCs**. One of the ways that this can be done is by linking SMEs to GVCs in Special Economic Zones (SEZ) where SMEs can be in the same area to multinational corporations (MNCs), or within the productive agglomerations through development of specific collaboration programmes between larger and smaller companies. • **Improving the market access of SMEs by promoting the utilisation of FTAs by SMEs that export goods and/or services**, as one of the main concerns is the noticeably smaller rate of FTA usage by SMEs compared with bigger corporations, Intensifying business matching forums that can prioritise SMEs so that they can bridge the network and knowledge gap and align themselves with the global market.
Advanced stage *Indonesia* *Malaysia* *Philippines* *Thailand* *Singapore*	• **Intensify and widen sectoral coverage for policies supporting SME exports and participation in GVCs**. One of the ways is by increasing the SME participation rate in the service sector; establishing solid service linkages is considered a significant step in developing digital and sustainable trade for this cluster. • **Assist SMEs by integrating support for SMEs in trade facilitation**, through creating a specific AEO programme that is tailor-made to SMEs' characteristics to provide them with further help and support when trading in the global market. • **Assist SMEs in trade facilitation by creating a specific authorised economic operators programme that is tailored to SME characteristics** to provide them with further help when trading in the global market.

Source: Authors.

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Part I

Chapter 6

Institutional Framework

1. Introduction

Establishing a clear and transparent institutional and regulatory setting is critical to guide entrepreneurial activity. Results from the Small and Medium-sized Enterprise (SME) Policy Index assessments of the Organisation for Economic Co-operation and Development (OECD) – conducted in more than 40 developed and emerging economies – indicated that the capacity to design and to implement an effective SME policy is highly related to the level of institutional development, ability to take a strategic approach to SME development, and engagement with an open and productive dialogue with private entrepreneurs to closely monitor the implementation of public policy interventions and to evaluate their impact.[1]

Institutions, laws, and regulations define the rules that influence the actions and behaviours of economic actors (North, 1990; Williamson, 2000). An effective, efficient institutional framework is, therefore, essential for promoting entrepreneurial risk-taking, encouraging investment and innovation, and ensuring fair competition amongst business of all sizes. At the same time, it contributes to reducing informality and the diffusion of corruptive practices.

Yet implementing an effective and efficient SME policy is a challenge, given the diversification of the SME population, its geographical spread, budget and human resources constraints, and pressures faced by governments to pursue multiple objectives (e.g. employment generation, productivity enhancement, export growth, and research and development [R&D]) with a limited set of policy tools. The fact that SME policy cuts across several different policy areas – such as entrepreneurship promotion, skills development, access to finance, and regulatory simplification – adds to the challenges of SME policymaking. Policy coordination, sequencing, planning, and careful targeting of interventions are crucial elements for an effective SME policy.

Defining the SME policy scope by establishing a clear SME definition – including micro enterprises – applied across all public institutions, constitutes the first building block. This definition must be complemented by the timely and regular collection of business sector data and enterprise surveys to observe how enterprises adapt to changing business conditions and react to government policies. The assignment of a clear mandate over SME policy, establishment of policy coordination mechanisms, elaboration of a medium-term SME development plan or strategy integrated into a country's broad economic development strategy, creation of institutions in charge of implementation, presence of channels for public-private consultations, and application of monitoring and evaluation (M&E) tools constitute other crucial SME policy building blocks.

A large majority of micro, small, and medium-sized firms throughout the developing world operate in the informal sector, and South-east Asia is not an exception. Informal enterprises tend to be less productive than formal enterprises, face higher external financing costs (as they often have no access to bank financing and have to rely on informal financing networks), tend not to invest in staff training, and strive to stay small to remain undetected by public authorities. In addition, they can be a source of unfair competition with formal enterprises, which often face higher operational costs. The presence of many

[1] OECD, SME Policy Index, https://www.oecd-ilibrary.org/development/sme-policy-index_24136883#:~:text=The%20SME%20Policy%20Index%20is,small%20and%20medium%2Dsized%20enterprises

informal enterprises lowers a country's economic growth potential and introduces significant distortion in its economic structure. Formalisation of the economy can bring many advantages. When enterprises become formal, governments may obtain better access to data from these companies and broaden their tax bases, which could help increase the rule of law and level the playing field across the economy (OECD and ASEAN, 2020).

2. Assessment Framework

The assessment framework for the Dimension 5 covering the institutional framework for SME policy (**Figure 6.1**) comprised three sub-dimensions, each focussing on a different policy building block. The first and third sub-dimensions were concerned with the scope of SMEs, while the second sub-dimension dealt with the institutions in charge of SME policy, policy strategic planning, and organisation of policy interventions.

Figure 6.1. 2024 Framework for Assessing the Institutional Framework

Dimension 5. Institutional Framework	
5.1 SME Definition	• Legal definition • Consistent use of definition in legislation
5.2 Strategic planning, policy design, and coordination	• National SME development strategy • Alignment of national SME strategies to ASEAN SAP SMED (2016-2025) • SME policy implementation agency or equivalent • Availability of statistical data on SMEs
5.3 Informal Economy	• Measures to tackle informal economy

ASEAN = Association of Southeast Asian Nations, SAP SMED 2025 = Strategic Action Plan for SME Development (2016–2025), SME = small and medium-sized enterprises.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 5.1 reviewed the nature and use of a country's SME definition. The adoption of a specific SME definition is instrumental for defining the scope of a country's SME policy, establishing a common understanding of the targets of associated public policies and programmes, and facilitating coordination amongst public institutions. Specifically, this sub-dimension looked at the parameters used to define an enterprise as an SME and if it includes a segmentation of the SME population by sub-class (i.e. micro, small, and medium). If the primary purpose of the SME policy is to address market failures of scale and scope, the definition is crucial to set the upper threshold above which such structural market failures no longer play a significant role.

Sub-dimension 5.2 examined the institutions in charge of SME policy and how policy interventions are organised. In line with other structural development policies, SME policy should have a medium-term horizon, ranging from 3 to 10 years; the set of policy interventions should be partly horizontal, covering the entire SME population, as well as vertical, targeting specific segments of the SME population. The policy mix and sequence should be determined by ultimate policy objectives. It was, therefore, important to assess if the SME policy is organised around a medium-term strategic project; is integrated into the country medium-term economic development strategy; or consists of ad-hoc policy interventions, responding to changes in economic trends or to demands of lobbying groups. If it is part of a strategic plan, policy coordination mechanisms should be in place; otherwise, institutions will operate independently with a risk of overlapping mandates and sending conflicting signals to the enterprise sector. Finally, policy implementation must properly be monitored and evaluated, and a comprehensive set of SME statistics must be regularly collected.

Sub-dimension 5.3 covered the measures introduced to tackle the informal economy. In many Association of Southeast Asian (ASEAN) Member States (AMS), a significant number of SMEs – particularly those operating at the micro level – are considered informal. Informality is defined as a collection of firms, workers, and activities that operate outside of the legal and regulatory framework (Loayza, Servan, Sugarawa, 2009). At the firm level, informality includes all enterprises and self-employed persons who are engaged in the production of legal goods and services, but they often do not comply with the country's labour, fiscal, and other administrative regulations (Feige, 2016). There are different degrees of informality, ranging from total informality, when the enterprise operates completely outside any public administration control and does not appear in company and tax registers, to partial informality, when the enterprise has completed registration procedures but employs non-registered workers and/or under-declares revenues and profits to the tax authorities.

The degree and nature of enterprise informality across the ASEAN region vary considerably. While significant in less-developed AMS, enterprise informality still exists in AMS belonging to the middle- and upper-middle-income groups (e.g. Indonesia, the Philippines, and Thailand) and is marginal in those with the highest per capita income.[2]

The assessment framework assigned a weight of 10% to Sub-dimension 5.1, 60% to Sub-dimension 5.2, and 30% to Sub-dimension 5.3.

[2] For this reason, there are no scores for Brunei Darussalam, Malaysia, and Singapore related to this sub-dimension.

3. Analysis

Table 6.1 provides a comparative overview of AMS scores on the three sub-dimensions.

Table 6.1. Scores for Dimension 5 – Institutional Framework

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
5.1 SME definition	5.62	5.07	4.89	5.62	6.00	3.93	4.51	5.62	6.00	5.62	**5.62**	**0.64**
5.2 Strategic planning, policy design and coordination	4.35	4.54	5.12	4.23	5.88	2.18	5.34	5.96	5.84	4.94	**5.03**	**1.07**
5.3 Measures to tackle the informal economy	N/A	3.27	4.06	2.53	N/A	1.29	3.97	N/A	4.22	3.60	**3.60**	**0.97**
Total dimension score	4.53	4.21	4.78	3.86	5.90	2.09	4.85	5.91	5.37	4.60	**4.69**	**1.05**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, N/A= not applicable, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6, with 6 being the highest. Brunei Darussalam, Malaysia, and Singapore were not scored for Sub-dimension 5.3.

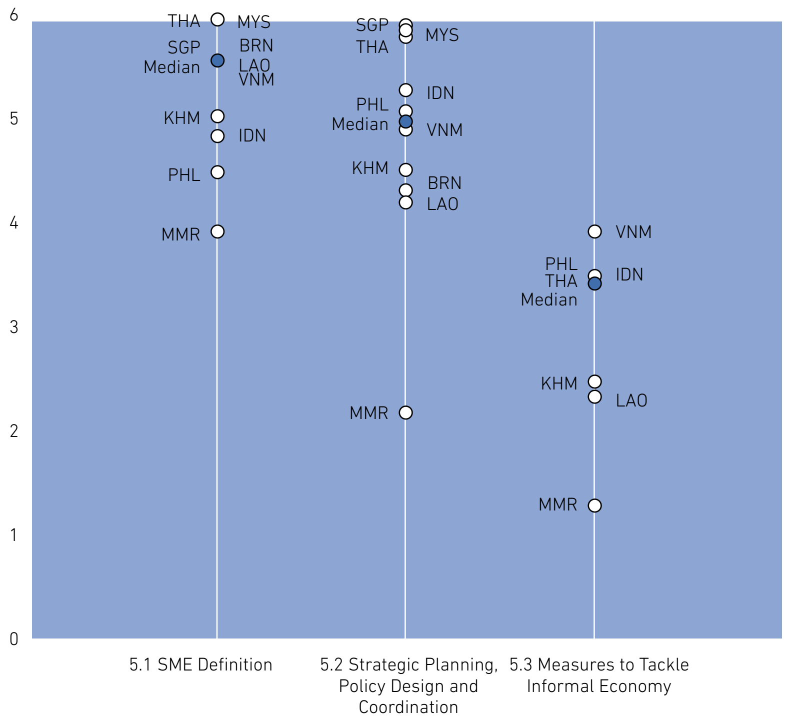
Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Policy convergence has increased across the region.

The results show that considerable progress has been achieved since 2018. The most significant progress has been made in Cambodia and Lao People's Democratic Republic (Lao PDR), two AMS that in 2018 were in the early development stages of SME policy. Myanmar's performance has been marginally deteriorating since 2018 due to the political, economic, and security crisis that followed the 2021 coup. All other AMS recorded incremental improvements in their performance at the dimension and sub-dimension levels.

In 2024, AMS are, therefore, divided into two groups. Malaysia, the Philippines, and Thailand are at an advanced stage of institutional development, while Brunei Darussalam, Cambodia, Lao PDR, and Viet Nam are in the intermediary development group. Only Myanmar remains at an early development phase. This an indication that a process of convergence took place across the region. The standard deviation calculation at the dimension level fell from 1.21 to 1.05 between 2018 and 2024, while the regional median score increased from 4.20 to 4.69 during the same period. **Figure 6.2** showcases the different levels of policy advancement across AMS for each sub-dimension, while **Figure 6.3** shows the growth across the total scores for Dimension 5 between the 2018 and 2024 assessments.

Figure 6.2. **Weighted scores for Dimension 1: Productivity, technology and innovation**

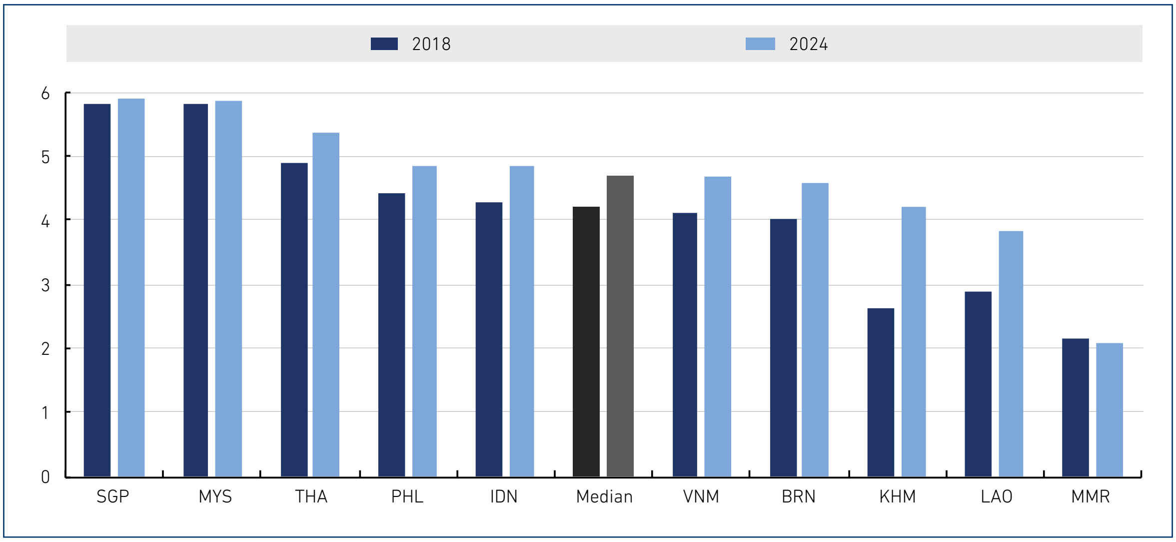


BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SME = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6 (highest). For Sub-dimension 5.3, Brunei Darussalam, Malaysia, and Singapore were not scored. The median was calculated for seven AMS.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 6.3. **Weighted Scores for Dimension 5 – Institutional Framework, 2018 versus 2024**



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SME = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6 (highest).

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 5.1: SME definition

The 2018 assessment noted that all AMS – except Brunei Darussalam and Singapore – formalised their SME definitions by enshrining them in a specific SME law or charter. The results of the 2024 assessment show that there has been further improvement in this sub-dimension amongst AMS. The average regional score for this sub-dimension increased from 4.69 in 2018 to 5.62 in 2024 (**Table 6.2** and **Figure 6.4**); furthermore, the standard deviation index fell from 0.70 to 0.64. Together, the two scores indicate that there has been a greater convergence towards higher standards within the ASEAN region regarding defining SMEs.

Table 6.2. Scores for Sub-dimension 5.1 – SME Definition

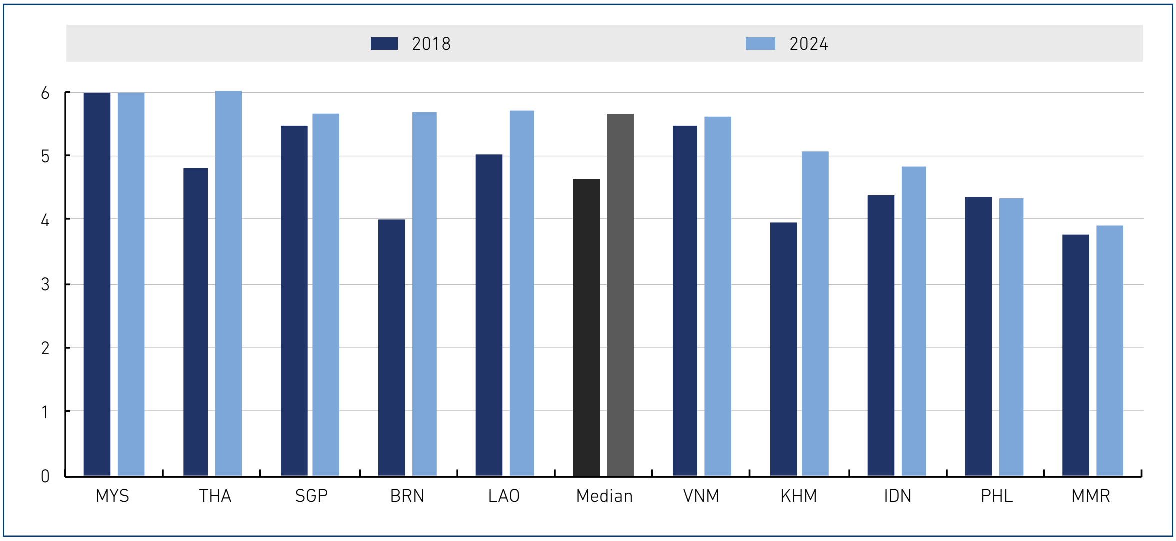
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Medi-an	StD.
Planning & Design	5.62	5.07	4.89	5.62	6.00	3.93	4.51	5.62	6.00	5.62	**5.62**	**0.64**
Total score	**5.62**	**5.07**	**4.89**	**5.62**	**6.00**	**3.93**	**4.51**	**5.62**	**6.00**	**5.62**	**5.62**	**0.64**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SME = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6 (highest).

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 6.4. Weighted Scores for Sub-dimension 5.1 – SME Definition



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SME = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6 (highest).

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

More AMS have adopted SME definitions in line with international standards.

This positive outcome is the result of actions taken by several AMS – which in the previous assessment had relatively low scores – to improve their SME definitions, often in conjunction with other reforms related to SME institutional frameworks. This has happened, for instance, in Brunei Darussalam, Cambodia, Lao PDR, and Viet Nam.

Brunei Darussalam adopted a new official SME definition in November 2023, based on three parameters (i.e. total annual turnover, total employees, and total assets) instead of the single employment parameter previously used, and added an independence clause, stating that an SME controlled by a large company belongs automatically to the large enterprise class.

Cambodia revised its SME definition in 2018. It is now based on three parameters (i.e. total annual turnover, total assets, and total employment). Firms need to satisfy two of the three parameters to be classified as an SME. In January 2021, the Committee on SME Promotion Policy, the inter-ministerial body coordinating SME policy, issued a decision to ensure that this definition is used across all public entities. However, the revised definition still formally has only one class for micro and small enterprises.

In 2022 in Lao PDR, the government adopted a new SME definition as part of a revised law on SME promotion. The new definition is based on three parameters (i.e. total annual turnover, total assets, and total employment), with differentiation by sector of activity. Viet Nam also revised its SME definition based on three parameters (i.e. total annual turnover, total assets, and total employment, with differentiation according to sector of activity) in 2021. It increased the thresholds for total annual turnover and assets in line with inflation and noted that the definition should be applied across public administration.

Malaysia and Thailand had already adopted legal SME definitions in line with standard good policy practices. In 2020, Thailand modified its SME definition used across public administration; it is now based on two parameters, total employment and annual turnover, having abolished the fixed asset parameter. This is considered redundant given that enterprises conducting e-commerce and digital services activities are able to reach high turnovers with limited fixed assets.

Singapore has taken a more flexible approach to a definition, using a set of criteria responding to the operational needs of various government agencies. There has been no change since 2018. The definition is based on two parameters (i.e. total annual turnover or total employment), and it is an operational definition set by Enterprise Singapore, the public agency in charge of enterprise development.

Yet some AMS still must complete the SME definition revision process.

As noted in 2018, Indonesia and the Philippines adopted SME definitions not fully in line with standard good policy practices. Both AMS did not include an employment parameter due to the diffusion of informal employment. Multiple SME definitions are in use in the two AMS, as several public bodies introduced their own definitions in addition to the legal one. Indonesia had used a definition that includes individual farmers amongst the SME population, expanding significantly the number of SMEs operating in the country. However, Indonesia modified its SME definition in 2021, eliminating asset parameters. In the Philippines, the Philippines Statistical Authority uses an SME definition based on employment parameters, which is not in line with the legal definition set in its Magna Carta for SMEs.

Myanmar has adopted a complex SME definition, based on multiple parameters, sector of activity, and type of ownership. The definition has not been revised since 2018 and has become less relevant for policymaking due to the deterioration of the country's economic situation, rising inflation, and growth of the informal sector. Despite the advanced level of economic integration reached by the region and the establishment of the regional medium-term *Strategic Action Plan for SME Development 2016–2025* (SAP SMED 2025), ASEAN still does not have a common SME definition. As national SME definitions vary (**Table 6.3**), it may be beneficial to agree to establishing a common threshold for SME definitions for the ASEAN region, including micro, small, and medium classifications based, for instance, on a single parameter such as total employment. Such a SME definition will facilitate policy harmonisation at the regional level and be a useful tool in trade and investment with other economic blocks.

Table 6.3. SME Definitions by Type, Criteria, and Sector Approach across AMS

Economy	Type		Criteria			Sector approach		Upper threshold for employment
	Legal	Working	Employ-ment	Assets	Turnover	Cross-sectorial	Sector-specific	
Brunei	√		√	√	√	√		100
Cambodia	√		√	√	√	√		199
Indonesia	√			√	√	√		–
Lao PDR	√		√	√	√		√	99
Malaysia	√		√		√		√	200
Myanmar	√		√	√	√		√	600
Philippines	√			√		√		–
Singapore		√	√		√	√		200
Thailand	√		√		√		√	200
Viet Nam	√		√	√	√	√		200

AMS = ASEAN Member State, Lao PDR = Lao People's Democratic Republic, SME = small and medium-sized enterprises.
Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

A second issue concerns the classification of being self-employed. With the rapid expansion of the gig economy, the number of freelancers and self-employed workers has grown across the region, and their legal status and working contracts are subject to different interpretations. On one hand, these workers can be considered self-entrepreneurs, fully responsible for their economic performance, working time and conditions, taxes, and social contribution obligations. On the other, they are often totally dependent on information technology (IT) platforms that act as intermediaries between them and their clients and set all fee and service provision conditions. From this perspective, these workers can be considered contract employees; therefore, the IT platforms should observe labour protection laws (OECD, 2023). In some cases, such workers set up a company with just one employee (themselves); in this way, they contribute to expanding the size of the SME population – specifically the micro enterprise segment. In other cases, they continue to act as physical entities, declaring the income from services provision as personal income.

Currently, there are no estimates of the size of the gig economy across the region, and the status of gig economy self-employed workers remains undefined. There are no references to them in current legal SME definitions. However, the gig economy has growing implications for social, employment, and entrepreneurship policies, and a debate at the regional level on how to deal with those issues would be beneficial for all AMS.

Sub-dimension 5.2: Strategic Planning, Policy Design, and Coordination

This sub-dimension analyses the main building blocks associated with SME policy. It looks at the assignment of the SME policy mandate, presence of a medium-term plan guiding public policies supporting SME development, existence of policy coordination mechanisms, channels for public-private consultation, institutions in charge of policy implementation, and policy M&E.

The presence of a strategic plan for SME development is of central importance. The strategic plan can take the form of a dedicated medium-term SME development strategy or be part of a country's broader development strategy. The plan should include (i) a clear indication of how the SME sector is expected to perform at the end of the strategic period; (ii) well-defined qualitative and quantitative objectives; (iii) an outline of how policy interventions are organised in relation to the set targets; and (iv) a sequence of the planned policy interventions, including resources needed to achieve the set targets and legislative and normative actions required to proceed with plan implementation.

The strategic plan should also be complemented by shorter-term (i.e. 1–3 years) action plans, assigning responsibility for policy implementation to different institutions and partners and setting the basis for monitoring the plan's implementation with a timeline and performance indicators.

The region is increasingly adopting good SME policymaking practices, despite the disruption caused by the COVID-19 pandemic.

The 2024 scores have improved related to this sub-dimension compared with the 2018 scores for all AMS, except Myanmar. This is a remarkable result, as the COVID-19 pandemic largely disrupted the policymaking process in many countries around the world. ASEAN policymakers responded with measures to ease the economic crisis generated by the epidemic, supporting segments of the SME population most affected (see Chapter 1). AMS also continued the policy planning process and made progress on strengthening institutions while improving policy coordination. This double approach put most AMS in the position to reap benefits from the global economic recovery experienced since 2022.

Similar to the previous sub-dimension, strong progress in scores is seen in AMS that were in relatively early stages of SME policy institutional framework development. Progress has been particularly strong in Cambodia, Lao PDR, and Viet Nam, while all other AMS recorded marginal improvement. Myanmar again stands out as the only exception, having experienced a deterioration in its performance since 2018, due to the impact of freezing the policymaking process and political instability. As a result of this dynamic, the standard deviation – measuring how dispersed are the scores across the region – fell from 1.31 in 2018 to 1.07in 2024, while the median regional score increased to 5.03 in 2024 from 4.40 in 2018 (**Table 6.4** and **Figure 6.5**).

Table 6.4. Scores for Sub-dimension 5.2 – Strategic Planning, Policy Design, and Coordination

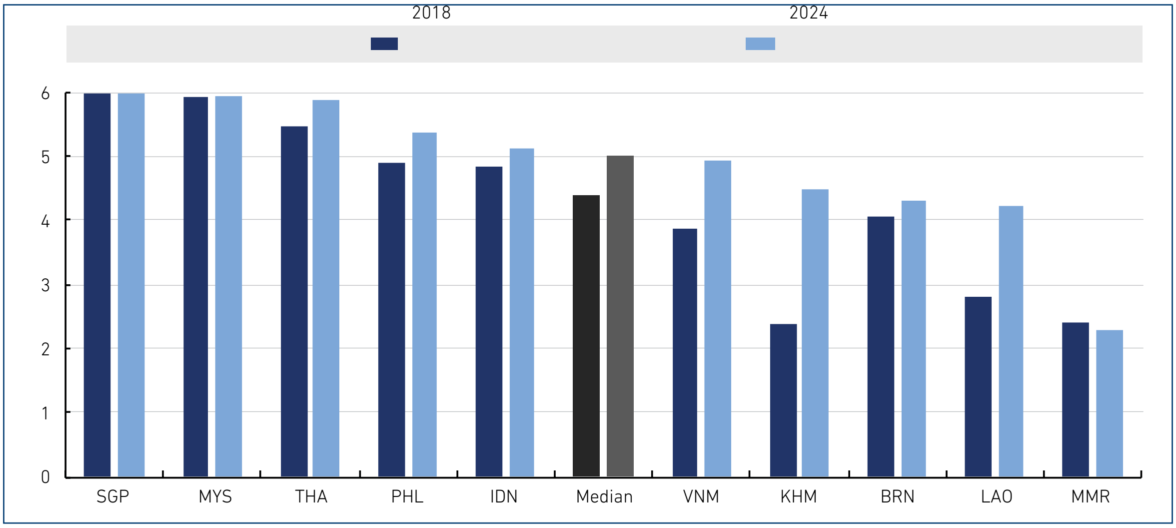
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning & Design	3.70	5.02	6.00	5.17	5.88	1.59	5.37	6.00	5.64	5.54	**5.45**	**1.30**
Implementation	5.36	4.18	4.38	3.54	6.00	3.06	5.86	6.00	6.00	4.66	**5.01**	**1.04**
Monitoring & Evaluation	3.21	4.50	5.25	4.13	5.62	1.24	4.12	5.81	5.81	4.51	**4.50**	**1.33**
Total score	**4.35**	**4.54**	**5.12**	**4.23**	**5.88**	**2.18**	**5.34**	**5.96**	**5.84**	**4.94**	**5.03**	**1.07**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6 (highest).

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 6.5.Weighted Scores for Sub-dimension 5.2 – Strategic Planning, Policy Design, and Coordination



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SME = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6 (highest).

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

In several AMS, SME policy mandates have been better defined.

In most AMS, SME policy is assigned to line economic ministries, including in Brunei Darussalam, Cambodia, Lao PDR, Myanmar, the Philippines, Singapore, and Viet Nam. Since 2018, there have been a limited number of changes related to the assignment of the SME policy mandate and in the structure of policy coordination mechanisms.

Indonesia and Malaysia are the only AMS that have established a dedicated SME ministry. In Indonesia, it is the Ministry for Cooperatives and SMEs. In Malaysia, a specific ministry existed until 2009, when it was dissolved as part of the institutional reorganisation of the government. Then, in 2018, Malaysia established the Ministry of Entrepreneur Development, later renamed the Ministry of Entrepreneur and Cooperatives Development (MECD). MECD is the central institution responsible for SME policy development at the national level. The National SME Development Council in Malaysia, an inter-ministerial committee chaired by the prime minister, is the highest SME policy authority in charge of supervising policy elaboration and ensuring policy coordination.

In Cambodia, the Ministry of Industry and Handicraft had its mandate expanded and has recently been renamed the Ministry of Industry, Science, Technology and Innovation. Under the purview of the ministry is the Department for SMEs and Handicraft, which oversees SME policy elaboration and implementation. Since 2020, the SME Sub-Committee, an inter-ministerial committee previously chaired by the minister, has been upgraded and renamed the SME Promotion Committee, operating under the umbrella of the Economic and Financial Policy Committee. It includes senior representatives of 15 different ministries and is playing an increasingly important role in SME policy elaboration and coordination. Those changes have raised the profile of SME policy and have created more effective policy coordination in Cambodia. In Brunei Darussalam, the Industry and Business Ecosystem Division, in charge of SME policy design, was moved in 2019 to the Ministry of Finance and Economy. It has been granted a larger portfolio, covering – in addition to SME policy – industrial development, economic diversification, and public-private cooperation.

As mentioned above, most AMS have been able to continue the policy planning process, despite the COVID-19 pandemic. Furthermore, a new generation of SME development strategic documents has been focussing on more advanced objectives – such as enhancing innovation, promoting SME digital transformation, upgrading skills development, and developing IT skills – in addition to the traditional objectives of promoting entrepreneurial activity and improving access to finance and export promotion for SMEs. Moreover, it is evident that SME policy strategic planning is a consolidated practice across the region; seven AMS are currently implementing dedicated medium-term SME development strategies. As noted in 2018, several AMS (i.e. Indonesia, Lao PDR, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam) have elaborated a specific strategy for SME development, closely integrated with the broader medium-term economic or industrial plans. Their SME development strategies are in line with the objectives set by the SAP SMED 2025 as well.

Brunei Darussalam, Cambodia, and Myanmar do not have strategies dedicated to SME development, however. In Brunei Darussalam, SME policy objectives are set by the Industry and Business Ecosystem Division and included in the country's industrial road map, an internal document, which guides the country's strategy for economic diversification. At the same time, it is in the process of elaborating a medium-term SME development strategy.

Until 2023, Cambodia's SME development was guided by three different strategic documents. The *Rectangular Strategy*, the country's long-term development plan, was launched in 2004 and is now in its fourth phase of implementation (2019–2023). It contains a section on promoting SMEs and entrepreneurship, presenting several objectives covering the improvement of the operational environment for SMEs as well as targeted programmes for improving access to finance, innovation capacity, and productivity growth. The *Cambodia Industrial Development Policy (2015–2025)*, complemented by sector-specific plans such as those on automotives, e-commerce, and digital economy, focusses on SME modernisation and integration in international value chains. The Strategic Framework and Programmes for *Economic Recovery in the Context of Living with Covid-19 in a New Normal 2021–2023* set SME development objectives in the context of the post COVID-19 economic recovery.

Myanmar has no current SME development strategy. Initial steps were taken by the Central Committee for Development of Micro, Small and Medium Enterprises, an inter-ministerial body established in 2013 chaired by the president. *The SME Master Plan 2020–2030* was developed in accordance with the SAP SMED 2025 and launched in 2019. However, as mentioned, most activities have been put on hold since February 2021.

The new generation of SME development strategies must deal with a new set of challenges and priorities.

The new set of SME development strategies by AMS have various configurations and focus areas, but they also respond to many common challenges.[3] Typically, they address issues of digitalisation, focus on making SMEs more innovative, and examine ways to make SMEs more sustainable. Typically, they also cover elements of accessing SME global markets and promoting their internationalisation.

Lao PDR had a tradition of organising SME policy according to 5-year SME development plans. The latest plan (2021–2026) covers 7 policy areas and includes 43 measures and policy interventions, with an emphasis on regional economic integration. SMEs are incorporated in the 5-year industry and commerce sector development plan, which is in line the country's *9th Five-Year National Socio-Economic Development Plan (2021–2025)*.

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[3] Note that this analysis only covered strategies issued at the national level. However, in AMS organised as federal states or characterised by a high level of administrative decentralisation (i.e. Indonesia, Malaysia, and the Philippines), local authorities have significant influence over the strategic directions of SME policy.

In Indonesia, the Ministry for Cooperatives and SMEs has elaborated a strategic plan covering 2020–2024. It is in line with Stage 4 of the country's multi-year long-term (2005–2025) strategic plan developed by the National Development Planning Agency (Bappenas). The SME strategic plan, complemented by a strategic action plan, has set the following priorities: (i) modernise cooperatives, and create new entrepreneurs; (ii) increase micro and SME competitiveness in local and global markets; and (iii) reform prime services of cooperatives and micro and SME management.

Malaysia had a tradition of developing medium-term SME master plans; the last was completed in 2020. After the restructuring of the SME policy institutional framework, Malaysia launched the *National Entrepreneurship Policy (2021–2030)* with the objective of creating a holistic and conducive entrepreneurial ecosystem.

The Philippines has a 5-year micro and SME development plan completed in 2022. The new Marcos administration, which was established following the 2022 presidential elections, is currently elaborating a new plan in line with the *Philippine Development Plan (2023–2028)*. Its main priorities are related to industrial modernisation and promoting investment in science and technology.

In Viet Nam, the government has approved new guidelines for SME development proposed by the Ministry of Planning and Investment for 2021–2025. Between 2016 to 2020, Viet Nam continued to implement the Resolution No. 35/NQ-CP dated 16 May 2016 on support to and development of enterprises. Between 2021 and 2022, SME support was guided by a programme on SME support for 2021–2025. Yet in 2022, the contents related to SME development were incorporated into the broader governmental programme to restructure the economy under Resolution No. 54/NQ-CP dated 12 April 2022. Its main priorities are to support SME digital transformation and to promote innovation and the participation of SMEs in industrial clusters and global value chains. The government has also approved a new strategy for the promotion of women's entrepreneurship.

Different strategic approaches to SME development are present in the region.

As noted in 2018 assessment, AMS can be broadly divided in two groups according to their SME development policy approach. The largest group, including Brunei Darussalam, Cambodia, Malaysia, Singapore, and Viet Nam, view SME policy as a tool for achieving productive transformation. Their strategic plans emphasise productivity growth, innovation, skills development, enterprise internationalisation, and integration into global value chains. The second group, including Indonesia, Lao PDR, and the Philippines, see SME policy as a tool for social development. They emphasise the promotion of entrepreneurship, particularly in less-developed areas; job creation; and inclusion of informal enterprises. Thailand has been trying to combine the two approaches. The Office of SMEs Promotion (OSMEP), the country's SME development agency, has been focussing on micro enterprises and has designed programmes to follow enterprises through their different growth stages.

The two different approaches have led to different policy actions. AMS in the first group tend to conduct targeted interventions, directed at the sectors and enterprises that present the highest growth potential. SME policy institutions in AMS in the second group tend to promote programmes focussing on micro and small enterprises, providing guidance and support at the initial phase of development, leaving the task of promoting structural transformation to other ministries and agencies. Singapore and Thailand are illustrative of the difference in the two approaches (**Box 6.1**).

Box 6.1. Transformative SME Development Plan – Singapore and Thailand

Singapore

Singapore has created a multi-layer economic strategy, aiming to reinforce and to ensure the country's leading technological and innovation processes. The Singapore Economy Vision 2030 outlines the country's broad economic development strategy based on four pillars: trade, manufacturing, services, and enterprises. It has identified 23 Industry Transformation Maps (ITMs) across four domains: manufacturing, trade, and connectivity; human health and potential; urban solutions and sustainability; and smart nation and digital economy. The Ministry of Industry and Trade, Enterprise Singapore, and other key government bodies, such as Smart Nation Singapore and the Government Technology Agency, are currently establishing operational plans in line with the strategy and organising their implementation in cooperation with trade associations and chambers of commerce, research institutions, and the private sector.

The government has taken a whole-of-government approach to monitor the implementation of its economic strategy. It established three inter-linked platforms, bringing together all ministries, agencies, and other bodies involved in its implementation: the Future Economic Council, overseeing ITM implementation; Economic Forum; and Future Economic Council-Select.

Thailand

In Thailand, the *Thirteenth National Economic and Social Development Plan* (NESDP) launched in 2022 has a central theme of promoting sustainable green growth. The plan identifies a number of priority industries and sectors, such as electric vehicle production, smart farming, improved health services, and sustainable tourism. Other priorities include human resources development, upskilling, lifelong learning, equal opportunities promotion, and smart cities. In 2023, the government has also launched the Action Plan on Thailand Logistics Development, 2023–2027, which seeks to improve infrastructure and to promote the integration of local enterprises in global value chains.

The *Fifth SMEs Promotion Plan (2023–2027)* is one of 15 sector master plans that are included in the NESDP. It has three objectives: establishing an enabling environment conducive to the growth and competitiveness of SMEs; developing SME business capability, improvability, and adaptability to competition; and ensuring that SMEs can effectively access and receive government support. Specific actions are planned for promoting SME digital transformation and supporting innovative startups. The plan is measuring its success in terms of the share of SME contribution to the country's gross domestic product and 21 economic targets.

Sources: MITI, Singapore Economy 2030, https://www.mti.gov.sg/COS-2023/Committee-of-Supply-2023/Singapore-Economy-2030; GOT (2023).

Most AMS conduct regular public-private consultations on SME policy issues.

Most AMS have developed a consensual approach to SME policy, and public-private consultations are a consolidated practice. Private sector representatives are consulted during the policy elaboration phase. For instance, Indonesia and Malaysia conduct regular meetings with private sector organisations during elaboration of their medium-term SME development strategies. In those meetings, Indonesia includes non-governmental organisations and SME experts and promotes a public discussion on the SME strategy in the press. Malaysia, in addition to online and formal consultations, organises townhall meetings to involve local organisations in strategy elaboration. In the Philippines, the Micro and SME Development Council, an inter-ministerial and inter-agency body assisting the Department of Trade and Industry with SME policy elaboration, includes representatives from the private sector and labour unions, while in Viet Nam, formal and centralised consultations with private sector representatives take place twice a year.

A good practice is to split policy design, monitoring, and supervision from policy implementation. This approach avoids potential conflicts and lack of transparency that may occur when the same institution is responsible for designing and implementing public policy programmes, as the institution may be reluctant to admit potential faults and implementation delays. Furthermore, staff in line ministries in charge of SME policy are experienced in dealing with legal and economic issues, communicating with private enterprises, understanding their needs, and cooperating with them to fulfil private and public policy objectives. There is also a need to apply flexibility in structuring SME support programmes and to respond rapidly to enterprise needs.

For these reasons, several AMS have established specialised public agencies in charge of supporting SMEs and, sometimes, enterprise development, providing direct or indirect business consultancy services and managing SME support programmes. Those agencies tend to employ staff with direct experience in working with entrepreneurs and managers. They have relatively significant operational autonomy, create their own governance structures, and respond to objectives set by the supervising authority.

Six AMS have established SME or enterprise development agencies, and their operational capacity has significantly increased.

To date, Brunei Darussalam, Myanmar, Malaysia, Singapore, and Thailand have established SME or enterprise development agencies with significant operational autonomy. Viet Nam has also established the Agency for Enterprise Development in charge of both policy design and implementation, operating within the structure of the Ministry of Planning and Investment.

In Cambodia, Lao PDR, Indonesia, and the Philippines, policy implementation is conducted by the unit within the line ministry in charge of SME policy, which is also responsible for policy design and supervision. However, these AMS are increasingly separating policy design from policy implementation functions within the SME unit/department and relying on external organisations for the implementation of SME support programmes.

SME Corp Malaysia and Thailand's OSMEP are long-established institutions, having been set up, respectively, in 1996 and 2000. Both have accumulated considerable knowledge on SME development, have well-defined roles within the SME policy institutional framework, have a presence across the country, and tend to receive adequate funding. Both are the main implementers of national SME development strategies and play an important role as central agency in coordinating the actions of other public agencies and institutions dealing with SMEs. SME Corp Malaysia, operating under MEDC, also acts as secretariat for the National Entrepreneur Development Council, the main authority for formulating SME development policy. OSMEP, reporting to the Prime Minister's Office, coordinates a network of other public agencies operating in the SME policy domain and manages the integrated budget for SME development.

In Singapore, the country's enterprise development agency, the Standards, Productivity and Innovation Board (SPRING), first established in 1996, merged in 2018 with International Enterprise Singapore. The new entity, re-branded Enterprise Singapore, is a statutory board of the Ministry of Industry and Trade, and it has been allocated wide operational autonomy. The agency can hire staff independently on the labour market and decide its organisational structure. Enterprise Singapore is one of the main implementers of the *Singapore Economy 2030* Vision and Industry Transformation Maps (ITMs) programmes, the country's two main economic strategic programmes.

Darussalam Enterprise (DARe)[4] was established in 2016 with the mandate of supporting SME development in Brunei Darussalam, improving the operational environment for private enterprises, and promoting public–private cooperation.

Myanmar's SME Development Agency was established in 2018 as part of the country's effort to structure a more operational framework for SME policy. In the first years of operation, the agency benefitted from the assistance of several international and bilateral organisations, particularly for funding, staff training, and programme design. However, with the withdrawal of international assistance and the increased deterioration of the country's internal security situation, the operational capacity of the agency has been significantly diminished.

In Viet Nam, the Agency for Enterprise Development has been in operation since 2017. It falls under the Ministry of Planning and Investment and combines policy formulation with policy implementation functions.
Other AMS have a single unit in charge of policy elaboration and implementation.

[4] Effective 1 April 2024, Darussalam Enterprise (DARe) has merged with the Brunei Economic Development Board (BEDB) to form a single organisation operating under a rebranded BEDB. The organisation is now focused on three strategic thrusts: Enabling Private Sector Growth, Increasing Internationalisation, and Enhancing BEDB Capabilities. BEDB envisions a resilient and diversified economy and is committed to catalysing sustainable growth by attracting and facilitating impactful investments that create jobs and generate opportunities for local enterprises. It provides effective support and resources to enterprises of all sizes to spur innovation and growth and develops fit-for-purpose industrial infrastructure to enable enterprises to thrive in a conducive environment. Through its Enterprise Development division (formerly DARe), BEDB is responsible for driving meaningful and strategic growth of local enterprises within priority sectors and beyond, improving firms' competitiveness, resilience, sustainability, and contribution to the country's economy.

Indonesia and the Philippines do not have dedicated agencies for SME development. Responding to the challenges given by their dispersed geographic configurations, they have built a network of local institutions supporting SME development. In Indonesia, the Ministry of Cooperatives and SMEs has a mandate for SME policy coordination that is mentioned in Law No. 20/2008 and regularly communicates with over 20 governmental institutions. Indonesia's approach to implementation is also largely decentralised; it has focussed on providing financial resources administrated through the local branches of public financial institutions through the SME Revolving Fund and Kredit Usaha Rakyat (KUR) microcredit programme. In the Philippines, the Department of Trade and Industry is the lead agency on SME implementation, responsible for coordinating agency efforts and strategically linking programmes. The Philippines has established a network of entrepreneurship and SME development centres, known as Negosyo Centers, across the country (**Box 2.2**).

As previously mentioned, in Cambodia, policy implementation is coordinated by the Department for SMEs and Handicraft, while policy elaboration functions have been increasingly taken over by the SME Promotion Committee. The government is testing a new structure, Khmer Enterprise, which is a national platform for promoting entrepreneurial activities established under the Entrepreneurship Development Fund.

In Lao PDR, the Department of SME Promotion within the Ministry of Industry and Commerce is in charge both of policy elaboration and implementation. The department cooperates with a number of public agencies, local authorities, and donors (e.g. Asian Development Bank, GIZ, Mekong–Lancang Cooperation, United Nations agencies, United States Agency for International Development, and World Bank), which play a significant role in funding and implementing entrepreneurship and small-scale enterprise development projects in the country.

Progress has been less marked in associated monitoring and evaluation.

M&E are crucial functions for ensuring that public policy interventions reach their objectives and respond to the needs of small-scale enterprises. The implementation of AMS medium-term SME development strategies, as well as the implementation of SME support programmes, should be regularly monitored. The most important SME support programmes should be subject to full evaluations after their completion.

Monitoring ensures that a plan is conducted according to the sequence set in strategic documents and that the planned actions are still consistent with the strategic objectives. The elaboration of annual or bi-annual action plans as well as the setting of intermediate objectives are crucial to improve the quality of the monitoring activity and to adjust public policy interventions according to general economic conditions.

Programme implementation should also be subject to regular monitoring to ensure that programmes are conducted according to plans and that they target the selected segments of the SME population. Programme evaluations, if conducted by independent experts and according to proper methodology, give an understanding of how public policy operates and how enterprises react, providing useful lessons for the design of future policy interventions. As a good practice, M&E activities should be presented in a country's medium-term strategic document. M&E results should be made public and discussed with all SME stakeholders to gain lessons from past experiences.

Strategic and programme monitoring is regularly conducted in all AMS except for Myanmar, while evaluation activity is still at an early phase. Amongst AMS, Indonesia, Malaysia, Singapore, and Thailand are operating at an advanced stage, while Brunei Darussalam, Cambodia, Lao PDR, the Philippines, and Viet Nam are at an intermediate stage of M&E.

Enterprise Singapore, as well as the other statutory boards in Singapore, report quarterly to the Ministry of Trade and Industry on programme implementation and grant disbursement. Enterprise Singapore also commissions research consultancy firms, academics, and economists working in other public sector departments to conduct programme reviews and evaluations. Those reports are considered confidential and are not made public.

In Thailand, according to the Small and Medium Enterprises Promotion Act, the Office of SMEs Promotion must assess the status of implementation of the SME development plan every year and report findings to the National Board for SME Promotion, the inter-ministerial body in charge of SME policy elaboration chaired by the prime minister. The report covers the plan overview, implementation of measures and programmes, and impact on SMEs. Programme evaluations are assigned to external independent experts. OSMEP also publishes an annual white paper on SMEs, which contains a comprehensive set of data on SME development and a survey of stakeholder satisfaction.

SME Corp Malaysia is tasked to explore and to enhance the smooth facilitation and data collation of SME development programmes through the SME Integrated Plan of Action (**Box 6.2**), which is designed to facilitate coordination of SME planning, implementation of SME development programmes, and M&E of their performance. SME Corp Malaysia then publishes an annual report containing the results of the SME Integrated Plan of Action. In Indonesia, the Ministry for SMEs and Cooperatives has an internal M&E department. The ministry also invites external consultants and non-governmental organisations to review SME support programmes. In 2023, the ministry invited Katadata, a media and business analysis group, to review the ministry's SME support programmes.

Monitoring activity amongst AMS at an intermediary stage is less regular and stringent. In the Philippines, the Department of Trade and Industry is due to publish a report on the accomplishment of the micro and SME development plan. The latest report was published in 2021. In Viet Nam, monitoring requirements were set by a 2016 decision on supporting SMEs (No. 35/2016/NQ-CP). The Agency for Enterprise Development must report regularly to the Ministry of Planning and Investment, but monitoring has thus far focussed more on budget rules than on programme implementation. Documents are not publicly available.

There are challenges in adopting a cross-governmental approach to SME and entrepreneurship policy. In Malaysia, 16 ministries and over 60 agencies implement SME programmes. This was dealt with in Malaysia by forming the inter-ministerial council, the National SME Development Council, with responsibility for crafting and governing the implementation of the national master plan on SMEs. As the scope of SME policy issues has expanded, so has the membership of the council. As of 2016, membership was broadened to include other relevant ministries with a view to be more inclusive of entrepreneurship and entrepreneurial initiatives across targeted groups.

Box 6.2. Case for Regular Policy Monitoring and Evaluation – SMEIPA, Malaysia

Coordination of a small and medium-sized enterprise (SME) strategy is often a key challenge, requiring extensive resources. It also involves collecting relevant data from different ministries and agencies and providing associated reporting. In Malaysia, this reporting is done on a yearly basis through the SME Integrated Plan of Action (SMEIPA), which is conducted by SME Corp Malaysia.

The SMEIPA enables SME Corp Malaysia to conduct the monitoring and evaluation of programme performance and achievements, thereby assisting in the formulation and implementation of further plans or strategies. SMEIPA reporting provides an overview of the effectiveness of entrepreneurship and micro and SME development programmes on an annual basis for programme planning, mid-year review, and programme achievements. Programme reporting is conducted through an online platform, the SMEIPA-SCenIc Integrated System (SSiS), where all participating ministries, agencies, and state governments are given access to provide input.

The achievements of entrepreneurship and micro and SME development programmes are measured through a results-based approach, the Impact Analysis Framework for Micro and SME Development Programmes (IAFSP). There are eight IAFSP elements that aim to improve reliability in measurement: (i) high-growth innovative firms, (ii) increased productivity and efficiency, (iii) business sustainability, (iv) increased formation and formalisation of business, (v) increased profitability, (vi) employment created, (vii) increased social benefits in the entrepreneurial ecosystem, and (viii) strengthened global supply chains.

The IAFSP measures the achievement of each programme through key performance indicators (KPIs), represented by outputs, outcomes, and financial allocations. In addition, SMEIPA reporting includes focus areas and target groups. In total, there are more than 40 indicators updated by programme owners, including data on programme owners/implementers, programme background, scope, and KPI targets and achievements.

Collecting timely information from participating ministries and agencies on programmes and progress can be a challenge, as it requires cooperation from several ministries and agencies. SMEIPA is an example of a good policy instrument allowing the collection of data from a variety of institutions on a regular basis that can be used for adjustment of the policies and relevant instruments.

Source: SME Corp Malaysia, SMEIPA, https://www.smeinfo.com.my/sme-resources/publication/sme-integrated-plan-of-action-smeipa/

SME data availability varies considerably across the region.

The availability of SME statistics varies significantly across AMS. Indonesia, Malaysia, Singapore, and Thailand produce timely and extensive business sector statistics, including information by enterprise size.

SME data collection is improving in Brunei Darussalam, the Philippines, and Viet Nam, while SME data in Cambodia and Lao PDR are not regularly published. They are collected through economic censuses that are conducted every few years, however. Data on Myanmar only include enterprises operating the manufacturing sector and registered with the Ministry of Industry. These have become even more unreliable since the coup and have been undermined by the expansion of informal activity.

Sub-dimension 5.3: Measures to Tackle the Informal Economy

A high level of informal economic activity has significant economic, social, and fiscal implications. Furthermore, a high level tends to constrain enterprise growth by distorting enterprise competition dynamics and to undermine the effectiveness of public policy interventions. Informality is mostly concentrated on low-tech, labour-intensive, and low-productivity sectors. It is highest amongst individual entrepreneurs and micro and small enterprises and in family-run businesses. It is expected to decrease with per capita income increases (i.e. transition informality), but in a number of cases, it persists in spite of economic development (i.e. structural informality).

The level of informality varies amongst AMS. Long-term trends support the view that informality in South-east Asia is largely transitional, but the correlation with a country's stage of development is not always evident. While there no reliable comparable data about enterprise informality, data on labour informality compiled by the International Labour Organization allow for cross-country comparison.

Labour and enterprise informality is still high in many AMS.

Data from the Labour Force Statistics of the International Labour Organization show that informal employment is very high in Cambodia (84% of non-civil servant workers in 2019) and in Lao PDR (86.4% of the workforce in 2022), with per capita incomes of US$1,851 and US$2,599, respectively. Informal employment remains significantly high in Indonesia (71.2% in industry and 72.2% in services in 2022) and in Thailand (42.2% in industry and 56.8% in services in 2022), with per capita incomes of US$4,758 and US$7,070, respectively. Viet Nam, on the other hand, had a per capita income of US$4,086, with a labour informality lower than Indonesia's and close to Thailand (47.7% in industry and 58.0% in services in 2013) (ILO Labour Force Statistics).[5]

[5] Labour informality is also present in Brunei Darussalam and Malaysia but at significantly lower rates. It is nearly non-existent in Singapore. For this reason, these three AMS were not scored for this sub-dimension.

AMS lack comprehensive and coordinate strategies to tackle informality.

Progress in this sub-dimension has been more limited compared with the other two sub-dimensions. The sub-dimension regional median score for the seven AMS has marginally increased from 3.44 in 2018 to 3.60 in 2024, while the standard deviation increased from 0.87 to 0.97 (**Table 6.5** and **Figure 6.6**). No AMS reached an advanced stage of policy development in this area. Two AMS – Lao PDR and Myanmar – are still in an early stage of development in this area due to few policy measures and implementation activities.

Table 6.5. Scores for Sub-dimension 5.3 – Measures to Tackle the Informal Economy

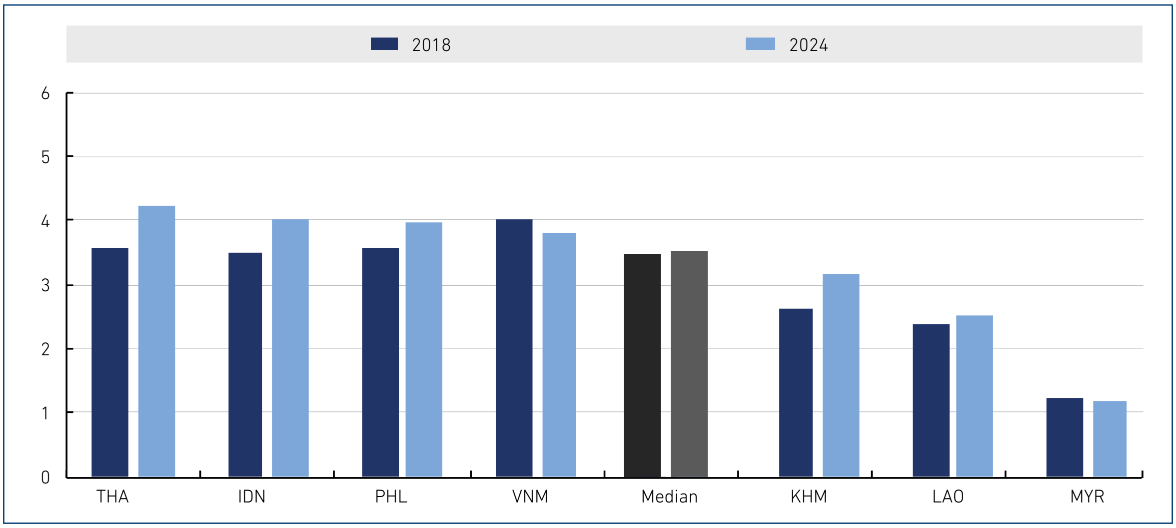
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and design	NA	3.48	4.33	1.83	NA	1.83	4.30	NA	4.30	3.48	**3.48**	**1.03**
Implementation	NA	3.75	4.30	3.75	NA	1.00	4.30	NA	4.30	3.75	**3.75**	**1.09**
Monitoring and evaluation	NA	1.83	3.06	1.00	NA	1.00	2.65	NA	3.89	3.48	**1.83**	**1.08**
Total score	**NA**	**3.27**	**4.06**	**2.53**	**NA**	**1.29**	**3.97**	**NA**	**4.22**	**3.60**	**3.60**	**0.97**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, NA = not applicable, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6 (highest). Brunei Darussalam, Malaysia, and Singapore were not scored for this category. The median score and standard deviation were calculated on the basis of seven countries.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 6.6. Weighted Scores for Sub-dimension 5.3 – Measures to Tackle the Informal Economy



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6 (highest). Brunei Darussalam, Malaysia, and Singapore were not scored for this category.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

To effectively fight informality, governments need to put in place a coordinated and inclusive strategic plan that tackles the different factors that set the conditions that feed informality. These factors include the structure of the tax regime, particularly for single entrepreneurs and micro enterprises; organisation of tax administration; quality of the regulatory environment; labour regulations; social and pension contributions and the related access to medical assistance and retirement benefits; and instruments to fight social marginalisation. In addition, the provision of public infrastructure for small business activity, such as organised marketplaces, food centres, and business areas, play a relevant role.

The involvement of the business community as well as local administration plays an essential part in securing the success of such plans. Governments also need to balance incentives to move towards full enterprise formalisation and sanctions for those who refuse to do so and to design a path – or a bridge regulatory and tax regime – allowing enterprises to move from an informal to a formal system without excessive penalisation.

The economic difficulties faced by many small enterprises during the COVID-19 pandemic have pushed more enterprises towards partial or total informality, particularly in less-developed AMS. The collapse of public administration and the deterioration of economic conditions after the coup in Myanmar have contributed to large expansion of informality there as well.

Indonesia, the Philippines, and Thailand have recently made efforts to tackle informality in a systematic manner, taking a more strategic approach but without elaborating comprehensive medium-term strategies to reduce informality. In Indonesia, Law No. 11/2020 – the Omnibus Law – supports micro enterprises to transform to formal enterprises with lighter registration modalities. As an indicator of micro enterprise formalisation, the Government of Indonesia has set a target of 38% of micro enterprises being able to access bank loans for working capital through the KUR programme as well.

The Philippines has a large informal sector. Several studies have focussed on its size, features, and impact, but the last comprehensive informal sector survey was conducted by the Philippines Statistical Authority in 2008. As noted above, in Thailand, the level of informality – particularly labour informality – is high in relation to its upper-middle income country status. This situation is partially due to the lack of registration of employees working in family-run business, which is optional. In addition, until recently, individual entrepreneurs, micro enterprises, and small family businesses were not required to formally register; they only needed to obtain a license from local authorities. Data on the informal sector are collected regularly through household and labour market surveys and analysed by the Office of the National Economic and Social Development Council, allowing the government to elaborate a targeted response. The office has also developed an informal economy management strategy, and specific measures to reduce informality are included in the *Thirteenth National Economic and Social Development Plan (2023–2027).*

In Cambodia and Lao PDR, the governments tend to see informality as a cost to achieving full employment; they have not yet taken any systemic approach to tackle informality. In Cambodia, the government is promoting the integration of local enterprises operating in the manufacturing sector into international value chains. By doing so, enterprises should be forced to comply with tax and labour regulations. In Lao PDR, the 2020 economic census put forth a better picture of the size and features of the informal sector, allowing the tax administration to better calibrate the tax regime for micro enterprises.

In Viet Nam, the reduction of enterprise informality was not a high priority until 2017, when the government set the target to reach 1 million formally registered enterprises by 2020. The main targets are family-run enterprises, and incentives have been put in place to promote their registration.

Since 2018, a number of AMS have taken more decisive actions to tackle enterprise and labour informality. Those actions have been mainly directed at improving the legal status of micro enterprises, simplifying company registration procedures, and improving the tax regime for small enterprises. More limited actions have been taken to increase controls and sanctions for informal enterprises and to mobilise local communities, entrepreneurs, and other stakeholders to promote the transition towards formalisation, with Thailand taking a prominent role.

A number of initiatives have been launched to reduce informality, but progress is still limited.

Cambodia and Lao PDR have improved company registration procedures. Cambodia has launched an online registration platform, while Lao PDR has reduced the number of steps and time required to complete registration. In Indonesia, the Ministry of Cooperatives and SMEs established Garda Transfumi to promote SME transition into the formal sector. The programme aids micro and SMEs in conducting the company registration process, providing information on the regulatory environment and assisting enterprises in obtaining business licences and business certifications.

The Philippines has put in place incentives to promote the registration of informal enterprises with the registration authority and tax authorities; for this, it has introduced the Single Unified Business Application Form. Tax incentives and social contribution reductions were introduced by the Barangay Micro Business Enterprise Act (Republic Act No. 9178), while informal enterprises can consult the Negosyo Centers to receive guidance for completing the formalisation process. A main instrument is the Integrated Livelihood Programme, managed by the Department of Labor and Employment. In Thailand, the government introduced in 2022 an amendment of the Company Law, lowering to two the minimum number of shareholders/promoters to incentivise the registration of family businesses. In Viet Nam, the Ministry of Planning and Investment elaborated in 2022 the National Programme to Enhance Labour Productivity, including actions to formalise informal labour.

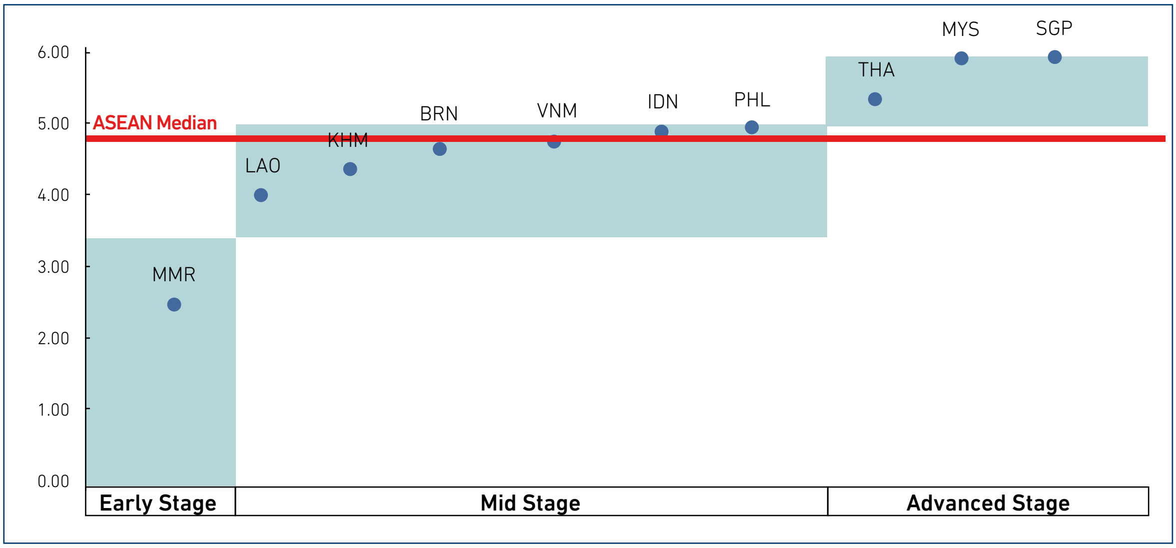
Monitoring and evaluation of those initiatives are still at an early stage in most AMS.

M&E of the measures taken for tackling informality remain weak. This is a consequence of a lack of a comprehensive strategy to tackle informality. However, in Thailand, the Office of the National Economic and Social Development Council regularly monitors the actions taken for reducing labour and enterprises informality. In Indonesia, the Ministry of Cooperatives and SMEs monitors the implementation of the Garda Transfumi programme, with the support of Mercy Corps. Internal assessment results for 2022 indicated that the programme has led to the registration of 2.7 million informal enterprises, exceeding the government's target of 2.5 million.

4. The Way Forward

Figure 6.7 demonstrates the level of policy development in each AMS indicated by the 2024 assessment. AMS fall into one of three categories and were ordered based on the score received.

Figure 6.7. Weighted Scores for Dimension 5 – Institutional Framework



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6 (highest). Scores are based on level of policy development.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

An institutional framework is the main building block for effective and consistent policy towards the SME sector. There is a strong correlation between the level of a country's institutional and policy framework and the results that it achieves across the other policy dimensions. Across the region, AMS are moving towards closer cooperation in the areas of SME policy. There are number of new initiatives that could make the region stronger. Moving forwards, policymakers should consider the following policy options at the regional level:

(i) AMS should take steps to towards a regional ASEAN micro and SME definition. It is recommended that ASEAN start with setting common employment thresholds for micro and SMEs, as common asset and turnover thresholds are more difficult to establish.

(ii) AMS should conduct regional peer reviews on the implementation of SME development and SME support programmes. The peer reviews should be conducted, on a voluntary basis, within the structure of the ASEAN Coordinating Committee on Micro and SMEs.

(iii) At the regional level, it would be useful to include policies for reducing informality amongst the policy interventions selected for a peer review, as there are potentially several lessons to be learned by countries facing similar situations.

Table 6.6. Policy Recommendations per Level of Policy Development

Level of Policy	Policy Recommendations
Early stage *Myanmar*	• **Establish a clear SME definition, aligning it with international standards**. Ensure that the definition is in line with the country's selected SME policy scope, covers all relevant segments of the SME population, and is used by all public entities relevant to SME policy and SME data collection. • **Take steps to better define SME policy objectives and the SME policy process**. Elaborate a dedicated medium-term SME development strategy in coordination with the country's economic strategy or other relevant strategies. • **Put in place a comprehensive strategy to coordinate efforts on tackling business informality**. Take a more proactive approach towards reducing informality, using incentives and sanctions to change the balance of an entrepreneur's perceived gains and risks associated with operating informally.
Mid stage *Brunei Darussalam* *Cambodia* *Indonesia* *Lao PDR* *Philippines* *Viet Nam*	• **Take steps to integrate new priorities in SME development strategies, such as promoting SME digital transformation, supporting startups in the high-tech sector, and integrating SMEs in global value chains and advanced industrial/sector clusters**. Create links between the SME strategy and sectorial strategies, such as those covering digitalisation, innovation, and skills upgrading. • **Continue working to improve monitoring of SME development strategies and SME support programmes**. Define monitoring requirements and selected indicators in SME development plans, organising data collection and putting in place a well-structured reporting system. • **For those that do not have dedicated SME development agencies separate policy elaboration and supervision functions from policy implementation tasks with a dedicated budget and operational autonomy.**
Advanced stage *Malaysia* *Singapore* *Thailand*	• **Strive to have independent evaluations in place**. Make monitoring and evaluation results public and discuss them with all SME stakeholders to learn lessons from past experiences.

SME = small and medium-sized enterprises.

Source: Authors.

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Part I

Chapter 7

Legislation, Regulation, and Tax

1. Introduction

Legislation, regulation, and tax are key institutions in economies. They are formal constraints that shape economic activities. According to North (1991), institutions define the choice set, which then determines transaction and production costs, affecting the profitability and feasibility of engaging in economic activity. In the long term, differences in economic development across countries can be explained by differences in economic institutions (Acemoglu, Johnson, and Robinson, 2005).

Notwithstanding the compelling macro-theoretic and empirical arguments for good institutions, the landscape for micro and meso-level analyses of economic regulations and small and medium-sized enterprises (SMEs) is complex. Regulations that are size-independent can impact SMEs differently from their larger counterparts. Property rights protection benefits small firms, but labour market regulations may disadvantage them (Almeida and Carneiro, 2009; Xu, 2011; Chambers, McLaughlin, and Richards, 2022). Size-dependent regulations, with thresholds based on firm size, can favour smaller firms below the size threshold (Garicano, Lelarge, and Van Reenen, 2016). This could lead to discontinuity in firm size distribution whereby small firms choose to keep their size below the threshold. Size-dependent regulations could also encourage firms to operate informally (Xu, 2011). The complex interactions between regulations and firms are reflected in the heterogeneous and adaptive responses of firms to regulations (Gourio and Roys, 2014).

An important aspect of the complex interactions between regulations and firms is the heterogeneity in economic regulations that are underpinned by different types of normative justifications. These justifications include encouraging static and dynamic economic efficiencies; correcting market failures (concentrated markets, asymmetric information, externalities, and network effects); and meeting other developmental goals (poverty and inequality).

The positive analyses of economic regulations embrace a broader set of multidisciplinary considerations, which reflect various factors that explain the existence of regulations and their impacts. Information on these considerations in the Association of Southeast Asian Nations (ASEAN) Member States (AMS) are collated and assessed in this chapter of the report as Dimension 6 of the ASEAN SME Policy Index (ASPI) 2024. The information is classified into six categories: (6.1) public–private consultations (PPCs), (6.2) legislative simplification and regulatory impact analysis, (6.3) company registration, (6.4) ease of filing tax, (6.5) e-government, and (6.6) bankruptcy and second chance. These six categories constitute the components of Dimension 6 of the ASPI 2024.

2. Assessment Framework

Dimension 6 of the ASPI 2024 covers regulatory factors (legislation, regulation, and tax) that affect the performance of SMEs. The assessment framework for Dimension 6 is structured around six sub-dimensions (**Figure 7.1**). These sub-dimensions cover the regulatory governance and structure for legislation, regulation, and tax.

Two of these sub-dimensions (6.1 and 6.2) cover the process of developing regulation. Three sub-dimensions cover the facilities and procedures surrounding the key points of transaction between an enterprise and the public administration: company registration (6.3), the ease of filing taxes (6.4), and the use of digital versus analogue platforms for the payment of pensions and other forms of social security (6.5). The last one (6.6) is a new dimension that covers bankruptcy and second chance policy.

Figure 7.1. ASPI 2024 Framework for Assessing Legislation, Regulation, and Tax

Dimension 6. Institutional Framework	
6.1 Public Private Consultations	• Frequency and transparency of consultations • Private sector involvement in consultations • Monitoring and evaluation
6.2 Legislative Simplification and Regulatory Impact Analysis	• Initiatives to simply regulation • Formal requirements • Use of regulatory impact analysis
6.3. Company Registration	• Step, time, cost required to register • One-stop-shop company registration • Online registration • Administrative identification numbers in dealing with the public administration • Monitoring and evaluation
6.4 Ease of Filling Tax	• Tax policy design (i.e. tax rates, tax bases, etc) • Tax administration policy • Online portal for tax-related information • Tax measures to mitigate COVID-19 pandemic impact on SMEs
6.5 E-Government	• Online filing of tax, social security, pensions online • Encryption • Database integration among public institutions • Digital Government for MSMEs
6.6. Bankruptcy and Second Chance Policy	• Laws and procedures related to bankcruptcy • Strategy or framework related to bankcruptcy and second-chance policy

ASEAN = Association of Southeast Asian Nations; ASPI 2024 = ASEAN SME Policy Index 2024; MSMEs = micro, small, and medium-sized enterprises; SMEs = small and medium-sized enterprises.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 6.1 assesses whether PPCs are conducted to inform the development of business-related regulations, and whether they are frequent, transparent, and representative. Such consultations are an important element of good regulatory practice, enabling policymakers to establish a constructive, transparent, and open dialogue with representatives of the SME sector; obtain their feedback on proposed reforms; and better calibrate regulatory measures that maximise compliance while minimising negative impacts on private sector activity.

Sub-dimension 6.2 looks at legislative simplification and whether the potential impacts of regulatory reform are evaluated. In particular, it examines whether mechanisms are in place for systematic reviews of legislation, and whether regulatory impact analysis (RIA) or a similar tool is in place to assess the impact of reforms, particularly when they are major. Within this, it looks at whether the impact analysis includes an SME-specific component.

Sub-dimensions 6.3 and 6.4 look in greater detail at policies governing two main interfaces of government in the regulatory function – company registration and tax filing – as well as the performance of both functions.

Sub-dimension 6.5 gauges the sophistication of e-government services. These services platforms can significantly lower compliance costs for smaller companies by reducing the time and cost required to visit public administration offices and fill out paper forms. The indicators used in this dimension cover the existence and operationality of e-government platforms, synchronicity across different government databases, and the use of electronic signatures or other forms of unique identification.

Sub-dimension 6.6 looks at an overview of the government's support of efficient bankruptcy legislation for SMEs and promotes a second chance for entrepreneurs who have experienced business failures. Some of the indicators used in this sub-dimension include strategies for the implementation of programmes or measures averting SMEs' financial distress and/or insolvency and the overall national strategy or a comprehensive policy framework to promote second chances for entrepreneurs.

In aggregating the Dimension 6 assessment scores, the first three sub-dimensions (6.1, 6.2, and 6.3) have been assigned an equal weight of 25% each, while sub-dimension 6.4 on the ease of tax filing carries a weight of 10% and sub-dimension 6.5 on digital government services is assigned a weight of 15%. Sub-dimension 6.6 is a new element in the ASPI 2024. Due to its exploratory nature, this element has not been assigned any weight.

3. Analysis

The overall assessment results for Dimension 6 (Legislation, Regulation, and Tax) are presented in **Figure 7.2**.

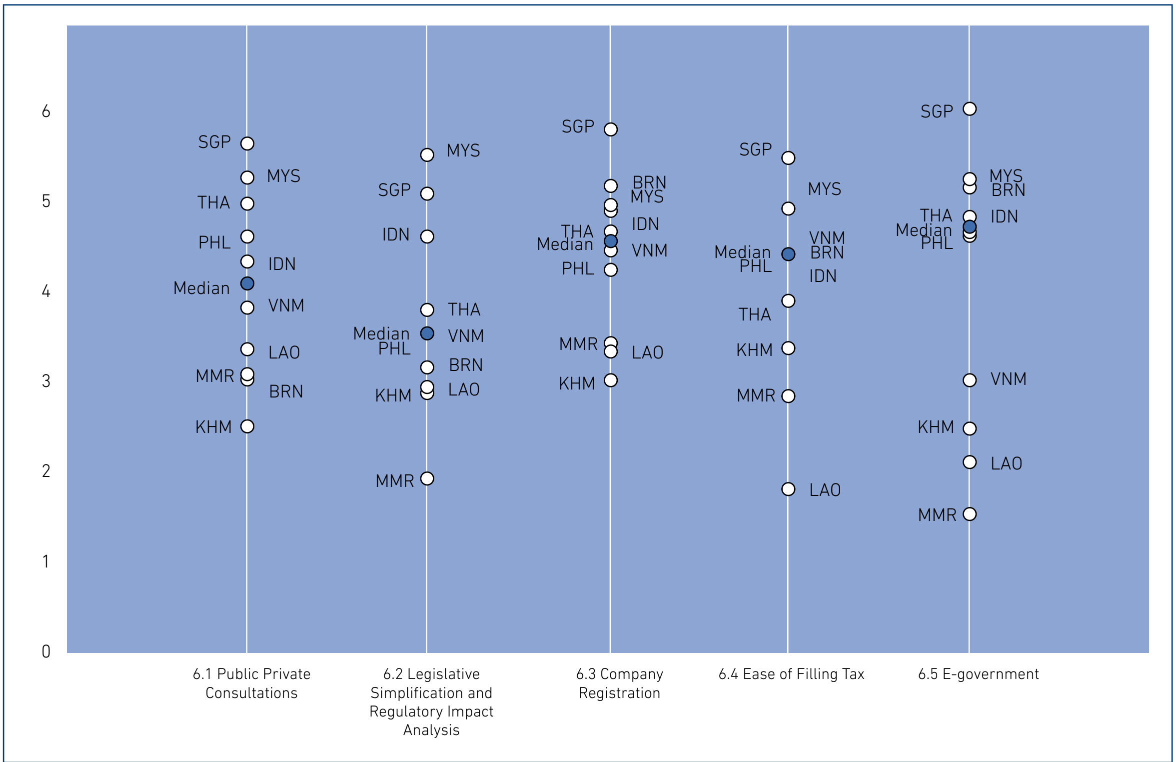
There are significant differences across AMS in terms of the weighted scores achieved for each of the sub-dimensions on the index (**Figure 7.2**). Two countries – Malaysia and Singapore – have obtained scores in Dimension 6 that are above those of the other AMS. Of the two, Singapore was designated as being in the 'advanced stage' in the ASPI 2018. At the other end, the scores for three countries – Cambodia, the

Lao People's Democratic Republic (Lao PDR), and Myanmar – are at the lower end of the weighted scores for Dimension 6. These countries were designated as in the 'early stage' in the ASPI 2018. The remaining countries – Brunei Darussalam, Indonesia, the Philippines, Thailand, and Viet Nam – were classified as 'mid stage' countries. These labels remain useful for describing the clustering of countries based on the scores obtained for Dimension 6.

A comparison of the overall scores achieved in 2018 and 2024 is summarised in **Figure 7.3**. The overall scores for Dimension 6 of three countries within the mid-stage category –Indonesia, Thailand, and Viet Nam – experienced a significant increase. As a result, the gap between advanced-stage countries and mid-stage countries for Dimension 6 has narrowed between 2018 and 2024. This indicates a convergence of SME policies across the region.

Countries are scored for each sub-dimension on a scale of 1 to 6. Detailed analysis by sub-dimension follows. Public–Private Consultations

Figure 7.2. Weighted Scores for Dimension 6 by Sub-Dimension

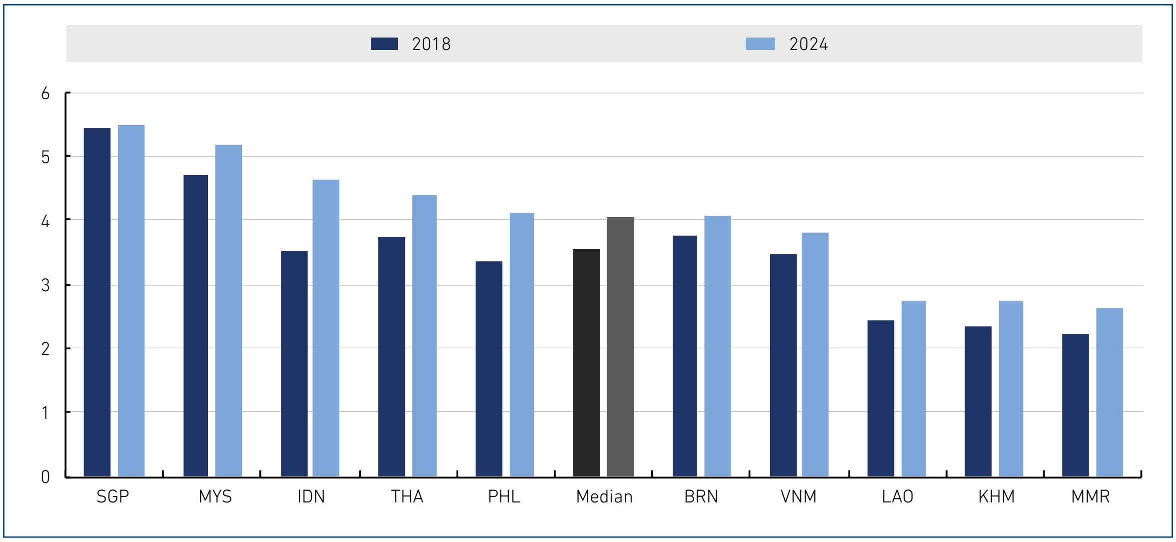


ASEAN = Association of Southeast Asian Nations, ASPI = ASEAN SME Policy Index, COVID-19 = coronavirus disease, SMEs = small and medium-sized enterprises.

Note: Scores are on a scale of 1 to 6, with 6 being the highest. There are some changes in the grid design for the sub-dimensions in the ASPI 2024 compared with the ASPI 2018. The grid design for sub-dimensions 6.1 and 6.2 has not changed. The grid design for sub-dimension 6.3 in the ASPI 2024 has been simplified by reducing the number of questions and adding new ones. Sub-dimension 6.4 has not changed; additional questions were posed related to COVID-19, but these were not used in the computation of the sub-dimension value. Much of sub-dimension 6.5 remains unchanged, apart from the addition of a few new questions.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 7.3. **Overall Scores for Dimension 6 (2024 vs 2018)**



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 6.1: Public–Private Consultations

A wide range of scores was recorded for sub-dimension 6.1 (PPCs) across AMS (**Table 7.1**). Amongst the three areas of PPCs, the overall (median) score for private sector involvement in PPCs was the highest at 4.32. The gap between the score for private sector involvement in PPCs and the score for monitoring and evaluation is particularly large for countries such as Cambodia, Myanmar, Thailand, and Viet Nam. Monitoring and evaluation of PPC activities remains a key area of weakness for most AMS.

Table 7.1. **Scores for Sub-Dimension 6.1 – Public–Private Consultations**

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Frequency and Transparency	2.90	2.68	4.22	3.17	5.03	2.07	3.89	5.38	5.43	3.77	**3.83**	**1.12**
Private Sector Involvement in PPCs	3.11	2.28	4.50	3.48	5.44	4.14	5.25	6.00	4.96	4.12	**4.32**	**1.08**
Monitoring & Evaluation	2.10	1.55	3.75	2.65	4.87	2.10	4.30	5.43	3.75	2.65	**3.20**	**1.23**
Total Sub-Dimension Score	**2.82**	**2.29**	**4.24**	**3.19**	**5.21**	**2.90**	**4.51**	**5.64**	**4.91**	**3.69**	**3.96**	**1.07**

PPC = public–private consultation, StD. = standard deviation.

Note: Scores are on a scale of 1 to 6, with 6 being the highest. See the Policy Framework and Assessment Process chapter for information on methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

A comparison between the overall scores for sub-dimension 6.1 improved for some AMS – Brunei Darussalam, Indonesia, Lao PDR, Thailand, and Viet Nam (**Figure 7.4**). The increase in the overall scores was particularly impressive for Indonesia and Thailand (**Box 7.1**).

Box 7.1. Strengthening of Public–Private Consultations in Indonesia and Thailand

Case of Indonesia

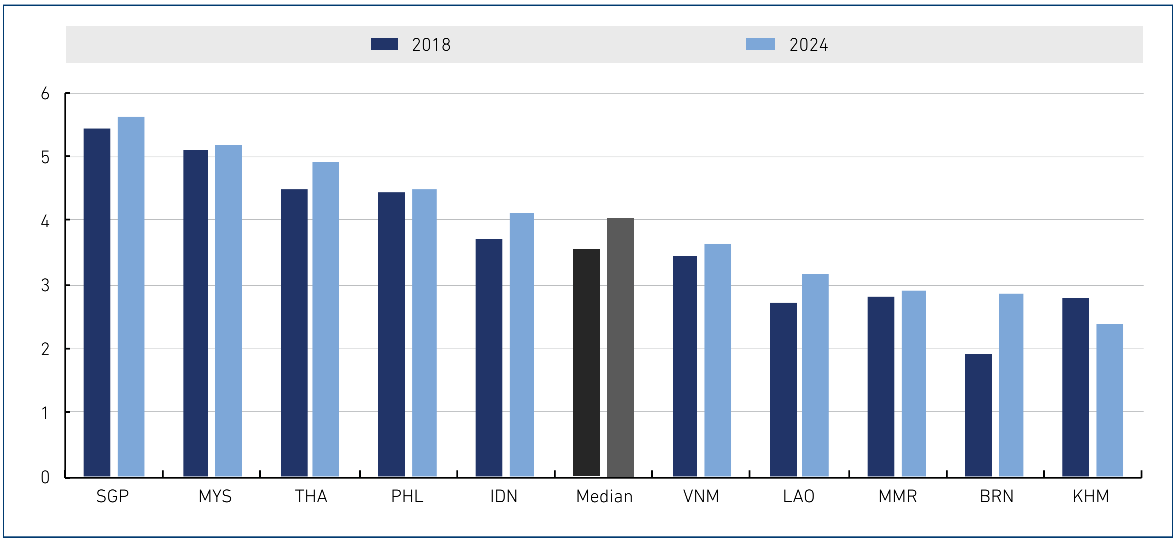
In Indonesia, the frequency and transparency of, as well as private sector involvement in, public–private consultations (PPCs) were strengthened by the enactment of Law No. 13 (2022), which related to the Second Amendment of Law No. 12 (2011). This new law strengthened the role of PPCs in the regulatory process. In addition, the Ministry of Cooperatives and Small and Medium-Sized Enterprises introduced Regulation No. 3 (2022) on public consultation for draft legislation on small and medium-sized enterprises.

Case of Thailand

In Thailand, the Act on Legislative Drafting and Evaluation of Law B.E. 2562 (2019) mandated the establishment and use of an electronic central database system to support PPCs. The law requires all government agencies to undertake PPCs with a view to analysing the potential impacts of proposed legislation.

Source: Authors.

Figure 7.4. Overall Scores for Sub-Dimension 6.1 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 6.2: Legislative simplification and RIA

A cross-country comparison of the overall scores for sub-dimension 6.2 (legislative simplification and RIA) indicates that the gap is very large between the leading countries (Malaysia and Singapore) and other AMS (**Table 7.2**).

The scores for the three thematic blocks of sub-dimension 6.2 indicate that countries differ in terms of their strengths in the three stages of legislative simplification and application of RIA. Countries with high overall scores tend to have higher scores for the planning and design of regulatory simplification as well as their implementation, compared with monitoring and evaluation using RIA analysis.

The use of RIA in Malaysia was strengthened through the establishment of the Digital Regulatory Notification (DRN) in 2021. Regulators in the country use the DRN to announce their proposals to introduce new regulations or amend existing regulations. The DRN will then notify the regulatory agencies as to whether RIA is required. The DRN has made it easier for regulatory agencies to assess the need for RIA.

Countries such as Cambodia and Myanmar have low scores for planning, design, and implementation, but have made improvements. Cambodia began the implementation of Phase 3 of the RIA of laws and regulations in 16 ministries in 2018–2019 (Economic, Social and Cultural Council, 2010).

Comparing the scores for sub-dimension 6.2 recorded for 2018 and 2024, two countries made large gains in legislative simplification and use of RIA: Indonesia and Thailand (**Figure 7.5**). In the case of Indonesia, the Ministry of National Development Planning (BAPPENAS) has been tasked with analysing the impact of new laws and regulations, including those affecting SMEs. In Thailand, a new law and regulation govern the use of RIA in the drafting process of designated laws. The Act on Legislative Drafting and Evaluation of Law B.E. 2562 (2019) mandates the evaluation of new laws at least every 5 years.

Table 7.2. Scores for Sub-Dimension 6.2 – Legislative Simplification and RIA

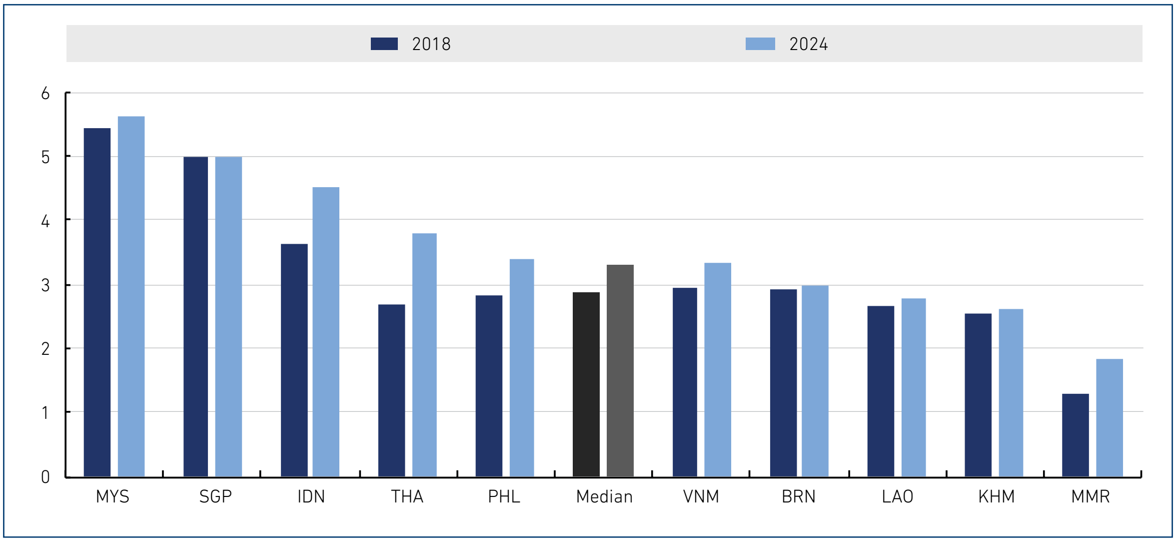
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning & Design	2.74	2.83	4.40	2.38	5.81	2.10	3.57	4.58	4.21	3.57	**3.57**	**1.09**
Implementation	3.53	2.17	5.06	2.89	5.38	1.66	3.42	5.70	3.53	2.94	**3.48**	**1.28**
Monitoring & Evaluation	2.24	3.48	3.48	3.06	5.15	1.00	3.06	4.31	3.06	3.89	**3.27**	**1.07**
Total Sub-Dimension Score	**3.00**	**2.66**	**4.51**	**2.74**	**5.48**	**1.68**	**3.40**	**5.03**	**3.67**	**3.35**	**3.38**	**1.10**

RIA = regulatory impact analysis, StD. = standard deviation.

Note: Scores are on a scale of 1 to 6 being the highest. See the Policy Framework and Assessment Process chapter for information on methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 7.5. Overall Scores for Sub-Dimension 6.2 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 6.3: Company registration procedures

The overall median scores for company registration procedures are above four for most AMS (**Table 7.3**). The three AMS with low scores are Cambodia, Lao PDR, and Myanmar. In terms of the scores for the three components of sub-dimension 6.3, the performance achieved (measured using the World Bank's Doing Business methodology) is lower than the implementation scores for countries such as Brunei Darussalam, Cambodia, Malaysia, the Philippines, Singapore, and Thailand. Some of these countries also have lower scores for monitoring and evaluation of registered firms.

A comparison of the scores recorded for 2018 and 2024 indicates that many AMS have made significant improvements in the implementation of company registration procedures (**Figure 7.6**). These countries include Cambodia, Indonesia, Malaysia, and the Philippines. A significant driver of these improvements is the adoption of online company registration in these four countries.

In Cambodia, Sub-Decree No. 84 ANK.BK was enacted in 2020 to enable online registration of businesses covering the first two phases of business registration: (i) pre-registration and issuance of business registration certificates, and (ii) notification and linkage to tax authority (but not to labour office).

Indonesia launched its Online Single Submission (OSS) licensing system in 2018. In 2021, the system was revised by refining the investment threshold classification (in 2020) and by introducing a risk-based classification (in 2021). Malaysia launched its online business registration (MyCoID) in 2016 and all online services (core system registry) will be accessible through a single platform, SSM4U, by the end of 2024.

Table 7.3. Scores for Sub-Dimension 6.3 – Company Registration Procedures

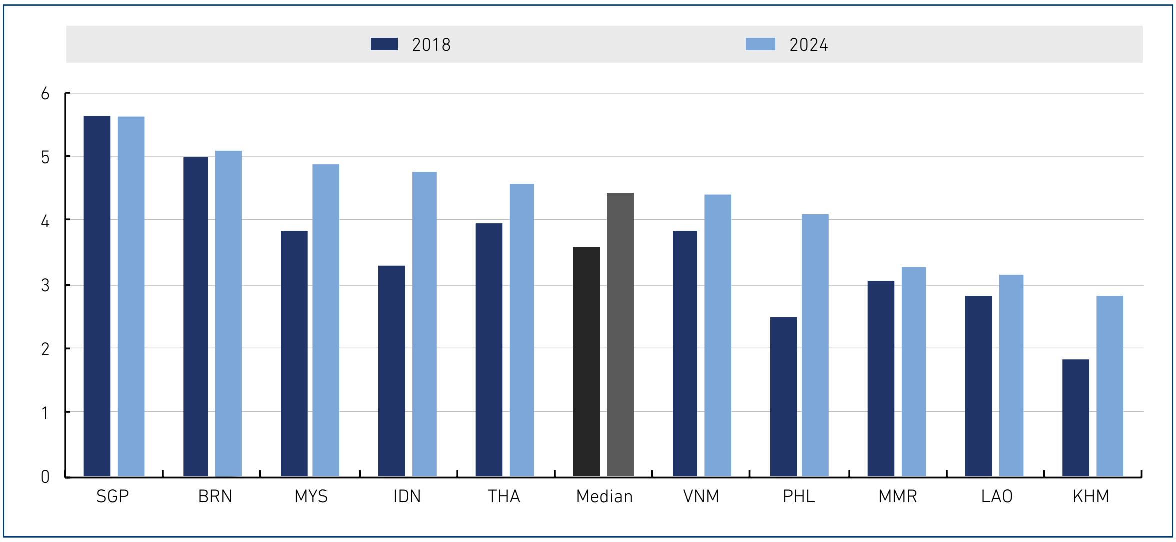
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Performance (WB Doing Business)	4.75	2.25	5.38	3.50	4.13	3.50	4.13	5.38	4.75	5.38	**4.44**	**0.97**
Implementation	6.00	3.83	4.06	3.12	5.51	3.59	4.30	6.00	4.79	4.30	**4.30**	**0.95**
Monitoring & Evaluation	3.77	1.55	5.43	2.65	4.87	2.10	3.75	6.00	3.75	2.65	**3.75**	**1.38**
Total Sub-Dimension Score	**5.12**	**2.82**	**4.80**	**3.16**	**4.90**	**3.26**	**4.13**	**5.78**	**4.57**	**4.35**	**4.46**	**0.90**

StD. = standard deviation.

Note: Scores are on a scale of 1 to 6 being the highest. See the Policy Framework and Assessment Process chapter for information on methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 7.6. Overall Scores for Sub-Dimension 6.3 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 6.4: Ease of filing taxes

The ease of filing taxes (sub-dimension 6.4) is measured using the World Bank's Doing Business methodology, which takes into account the number of tax payments (per year), the number of hours spent filing taxes, and the cost of post-filing taxes (VAT refunds and tax corrections). Several AMS have achieved scores above four, including Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Viet Nam.

Comparing the scores for sub-dimension 6.4 in 2018 and 2024, impressive gains have been made by Indonesia – its scores increased from 2.67 to 4.30. A possible reason is the promotion of online filing of taxes. The M-Pajak app was also introduced to help SMEs keep track of their transactions and compute their tax liabilities. The implementation of online registration of companies could also be a factor.

Table 7.4 shows the scores for sub-dimension 6.4 while **Figure 7.7** illustrates the differences between scores of AMS in 2018 and 2024.

Table 7.4. Scores for Sub-Dimension 6.4 – Ease of Filing Taxes

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Performance (World Bank Doing Business)	4.33	3.22	4.30	1.55	4.87	2.65	4.32	5.43	3.75	4.33	**4.31**	**1.08**

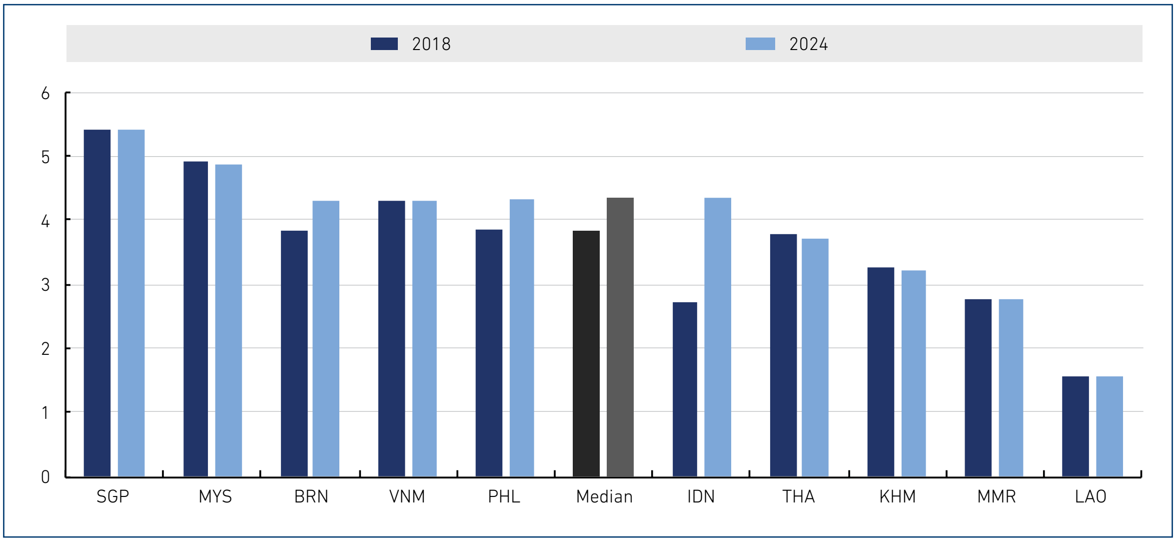
ASEAN = Association of Southeast Asian Nations, StD. = standard deviation.

Notes:

1. Scores are on a scale of 1 to 6, with 6 being the highest. See the Policy Framework and Assessment Process chapter for information on methodology.
2. Some of the indicators are based on the World Bank's Doing Business latest edition (2020). This may result in the fact that some of the recent changes, especially under sub-dimension 6.4, may not integrate some of the latest changes introduced by the ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 7.7. Overall Scores for Sub-Dimension 6.4 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 6.5: e-Government services

Sub-dimension 6.5 covers several dimensions of e-government services grouped into three blocks. The first block (planning & design) captures the existence of online filing services for tax returns, social security returns, and pensions, as well as electronic signatures. Block two (implementation) probes the operationalisation of seven types of e-government services: (i) online filing of tax returns, (ii) online filing of social security returns, (iii) online filing of pensions, (iv) integration of electronic signatures with other e-government services, (v) data sharing across public institutions, (vi) SMEs' digital access to selected e-government services, and (vii) SMEs' access to information available in databases of public institutions. Finally, block three (monitoring and evaluation) records the government's use of surveys to collect information about the usage, satisfaction, and effectiveness of their e-government services. It also captures whether the government has made any adjustments to its e-government services in response to the feedback received. **Box 7.2** gives an example of how AMS could tie together SME digital adoption initiatives with e-government services that suit the SMEs' needs in a timely manner.

Box 7.2. All-Around Initiatives on e-Government Services and Digital Adoption for SMEs in Cambodia

Amongst the lower-scored countries, Cambodia has shown notable efforts in providing small and medium-sized enterprises (SMEs) with better digital government services and support, especially in response to the coronavirus disease (COVID-19) pandemic.

Realising that its SMEs are the backbone of the country's economy, representing 70% of total employment and contributing to almost 60% of the gross domestic product (GDP), the Cambodian government seized the opportunity during the pandemic to accelerate the adoption of more advanced technology for SMEs, most notably through institutions such as Khmer Enterprise and the Techo Startup Center.

Techo Startup Center has played an active role in fostering SME digital adoption through platforms like the Cambodia Data eXchange (CamDX) platform and the Online Business Registration System. These initiatives and the Enterprises Go Digital Program aim to drive the nation's digital transformation.

On fintech adoption, the National Bank of Cambodia formulated the FinTech Development Roadmap, 2020–2025, with the aim of providing SMEs with greater accessibility to more efficient and affordable digital financial services. The National Bank of Cambodia has focused its efforts on enabling fintech payments for SMEs. In these efforts, Wing Bank, a Cambodian-owned private bank, has supported and partnered with various entities including the Cambodia Chamber of Commerce, Federation of Associations for SMEs of Cambodia, Techo Startup Center, Khmer Enterprise, Pact Cambodia, Young Entrepreneurs Association of Cambodia, and many more to introduce innovative financial products and services tailored for SME owners, indicating thriving public–private collaboration in fostering SMEs' adoption of more advanced technology and support.

Source: SME Digital Adoption in Cambodia (https://cambodiainvestmentreview.com/2023/08/23/sme-digital-adoption-in-cambodia/)

Overall, the median scores for the three components of sub-dimension 6.5 indicate a significant gap between the planning and design of e-government services and their implementation (**Table 7.5**).

For countries with high overall scores for e-government services, the gap is particularly large for Indonesia. Much of this gap can be traced to challenges related to electronic signature integration and data sharing across e-government services and public institutions.

The gap is less meaningful for countries with low scores. Notably, Viet Nam recorded a lower score for sub-dimension 6.5, primarily due to the lack of implementation progress in e-government services for pensions and the monitoring and evaluation of these services.

A comparison of the 2018 and 2024 scores shows that the digital divide in e-government services amongst AMS has persisted in recent years (**Figure 7.8**). This is reflected in the large standard deviations of the scores for the three blocks. While the gap between mid-stage countries (such as Indonesia, Malaysia, the Philippines, and Thailand) and the advanced-stage country (Singapore) has narrowed, the gap between these countries and those in the lower score tier (Cambodia, Lao PDR, Myanmar, and Viet Nam) remains substantial.

Table 7.5. Scores for Sub-Dimension 6.5 – E-Government Services

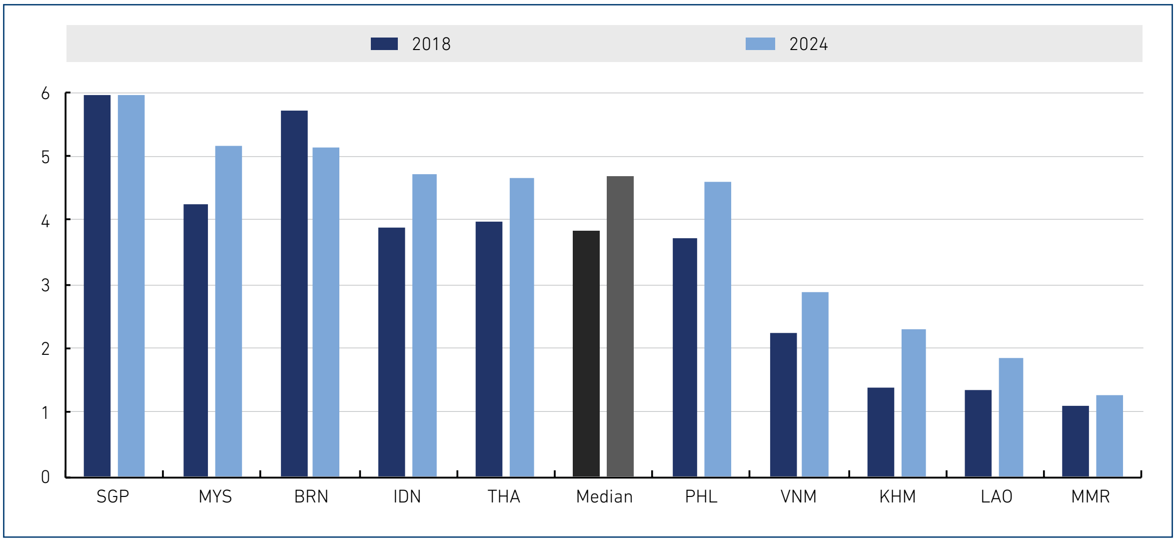
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning & Design	5.58	2.65	6.00	1.83	5.58	1.41	5.58	6.00	5.15	3.90	**5.36**	**1.69**
Implementation	4.32	2.18	3.59	1.94	4.79	1.24	4.55	6.00	4.07	2.89	**3.83**	**1.40**
Monitoring & Evaluation	6.00	1.83	5.15	1.83	5.15	1.00	2.65	6.00	5.15	1.00	**3.90**	**1.99**
Total Sub-Dimension Score	**5.10**	**2.27**	**4.75**	**1.88**	**5.14**	**1.25**	**4.53**	**6.00**	**4.66**	**2.86**	**4.60**	**1.54**

StD. = standard deviation.

Note: Scores are on a scale of 1 to 6 being the highest. See the Policy Framework and Assessment Process chapter for information on methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 7.8. Overall Scores for Sub-Dimension 6.5 (2024 vs 2018)



Notes:

1. Scores are on a scale of 1 to 6, with 6 being the highest.
2. For Brunei Darussalam, the score for sub-dimension 6.5 (e-government) in the 2018 edition should have been 5.03, not 5.70, due to a calculation error. The error has been adjusted, and the 2024 score indicates improvement compared with the 2018 edition.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 6.6: Bankruptcy and second chance policy

Sub-dimension 6.6 is used to capture information on bankruptcy and second chance policy. Such a policy is important as it encourages entrepreneurial development, which entails risk-taking. This sub-dimension looks at the existence of alternatives to in-court bankruptcy processes, such as the establishment of early warning systems and out-of-court settlement mechanisms that economies use to help SMEs avoid bankruptcy. It also looks at survival and bankruptcy procedures, focusing on legislation and practice and their alignment with international standards. Finally, promoting second chances examines how economies facilitate a second chance for entrepreneurs who have experienced business failures, assessing attitudes towards giving honest entrepreneurs a fresh start. It specifically looks at the existence of training, information, and second chance campaigns.

This is achieved by facilitating the exit of entrepreneurs who have experienced business failures or bankruptcy, but provides them with a second chance to restart their business. This is particularly important when markets have experienced exogenous and systemic shocks such as the coronavirus disease (COVID-19) pandemic. In this regard, sub-dimension 6.6 covers information on the existence of programmes/schemes/tools/measures that are aimed at averting SMEs' financial distress and/or insolvency.

Seven of the 10 AMS have strategies to implement programmes aimed at averting SMEs' financial distress and/or insolvency (**Table 7.6**). However, there are differences amongst these countries. For example, only Singapore and Thailand have specialised commercial or insolvency courts. Indonesia does not have a formal bankruptcy and insolvency register.

Only a few AMS have an overall national strategy or a comprehensive policy framework to promote second chances for entrepreneurs. These countries include Malaysia and the Philippines.

Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants and tax and social security authorities, to flag to the debtor a negative development. **Box 7.3** illustrates a European Union Case for early warning systems.

Box 7.3. European Union Case for Two Models for Early Warning Systems

The development of insolvency prevention policy measures provides a useful tool for policymakers to help create a sound financial status and avoid riskier decisions. Two such models are available in the European Union:

1. **Self-assessment tool**: Creating tools for small and medium-sized enterprises (SMEs) and entrepreneurs to assess their economic situation anonymously. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs only have to enter basic financial data about their business. The application produces a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur. This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism**: This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, the identification of problematic areas causing financial distress, and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows a series of interventions by different actors, aiming to avoid company insolvency. The process can include:

(i) A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.

(ii) If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
(iii) If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation, or even trigger a special preventive measure court procedure.
(iv) Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used, together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: Garrido et al. (2021).

In Malaysia, the Insolvency (Amendment) Act 2023 was passed by Parliament in October 2023. The act provides for automatic discharge of bankrupt individuals 3–5 years from the date on which the debtors submit the declaration of assets. In addition, the second chance policy on bankruptcy in the act covers individuals aged 40 and below with debts not exceeding RM200,000. Despite these developments, Malaysia does not have courts with specialist judges hearing insolvency cases.

Table 7.6. Responses for Sub-Dimension 6.6 – Bankruptcy and Second Chance Policy

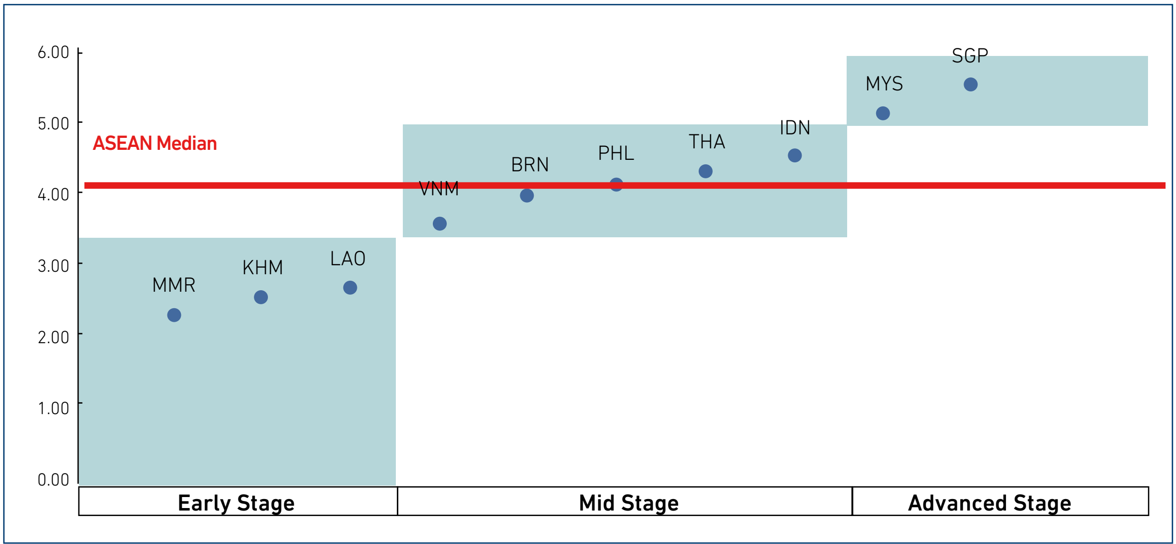
	BRN	KHM	IDN	LAO	MYS	MMR	PHL	SGP	THA	VNM
Strategy – Bankruptcy (SMEs)	Yes	NA	Yes	NA	Yes	No	Yes	Yes	Yes	Yes
Second Chance Policy	No	NA	No	NA	Yes	No	NA	No	Yes	No

NA = not available, SMEs = small and medium-sized enterprises.
Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

4. The Way Forward

All AMS showed improvements in legislation, regulation, and tax between 2018 and 2024. However, this progress was uneven across AMS in upgrading legislation, regulation, and tax systems for SMEs (**Figure 7.9**). The distribution of the weighted scores for Dimension 6 indicates that the AMS clustered around three groups. Malaysia has joined Singapore in the Advanced Stage cluster. Five countries are in the mid stage cluster: Brunei Darussalam, Indonesia, the Philippines, Thailand, and Viet Nam. Countries in the early-stage cluster include Cambodia, Lao PDR, and Myanmar.

Figure 7.9. Weighted Scores for Dimension 6 – Legislation, Regulation, and Tax in ASPI 2024



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

As the state of the regulatory environment differs significantly across the three clusters, a list of policy recommendations is provided for each cluster (**Table 7.7**). These recommendations reflect different priorities in each cluster. Regionally, ASEAN should continue to promote good practices around company registration and explore the potential introduction of a Unique Business Identification Number (UBIN) across ASEAN.

Table 7.7. Policy Recommendations to Enhance the Regulatory Environment for SMEs in ASEAN

Level of Policy	Policy Recommendations
Early stage *Cambodia* *Myanmar* *Lao PDR*	• Integrate Public–Private Consultations (PPCs) into the formal sector and explore alternative mechanisms for the informal sector, aiming to create a more inclusive approach to enhancing the regulatory environment. • Improve the planning and design stage for legislative simplification by seeking technical assistance and support. • Facilitate and promote company registration and tax filing to incorporate more SMEs into the policy framework. • Revise and enhance e-government services by adopting best practices and learning from fellow AMS. • Provide clear guidance for SMEs in distress or insolvency, particularly regarding bankruptcy procedures.
Mid stage *Brunei Darussalam* *Indonesia* *Philippines* *Thailand* *Viet Nam*	• Develop Key Performance Indicators (KPIs) to improve the monitoring and evaluation of PPCs, ensuring the effectiveness and adaptability of the partnership mechanism. • Mandate the inclusion of impact analyses of new laws and regulations on SMEs within Regulatory Impact Assessments (RIA) to establish a more institutionalized framework. • Continue fostering inter-agency collaboration, particularly in database information integration, while streamlining, simplifying, and reducing the cost of filing activities. • Increase investment in e-government services and raise awareness among SMEs about available opportunities and initiatives. • Explore the development of a dedicated second-chance policy to better address the specific needs of businesses, particularly SMEs.
Advanced stage *Malaysia* *Singapore*	• Maintain an emphasis on the continuous re-evaluation of existing laws and regulations to ensure that the policy framework remains up-to-date and adaptive to the evolving dynamics of real-world business, especially for SMEs.

Source: Authors.

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Part I

Chapter 8

Entrepreneurial Education and Skills

1. Introduction

Entrepreneurial activities directly affect productive performance in the domestic economy. The dynamism of economic growth is the process of creation and destruction: the creation of new firms, new investments, and new methods of production that replaces the redundant and less productive firms and methods of the past (Schumpeter, 1943). Without the entrepreneur to bring the key factors of production and organisational structure together, to utilise and deploy them efficiently, and to seek out new ways of conducting business and undertaking new investments, the economic churn that drives productivity growth would not take place. Entrepreneurs create new businesses and new investments. These investments create new jobs, intensify competition, and can increase productivity by introducing new technologies or work practices.

Entrepreneurial activities to start up a new business and structurally improve an existing one are the key mechanisms for the productive performance of the economy. An Organisation for Economic Co-operation and Development (OECD) study highlighted that the process of entry, exit, and changing market shares improves productivity and economic growth of the economy (Ahn, 2001). Productive and innovative firms are often the backbone of economic growth, while an economy with fewer innovative firms may be more vulnerable to downturns caused by external factors.

However, several studies have highlighted that not all entrepreneurial activities are productive or desirable (Baumol, 1990, 1993; Dallago, 1997). Overall, we should expect the engine of entrepreneurial activities of 'creative destruction' to generate profits and improve the average productive activities in the economy. However, activities of power and prestige do not necessarily lead to improvements in the average productive performance of firms in the economy. Thus, Baumol (1993) defined the importance of distinguishing between 'positive' and 'negative' activities of entrepreneurs, i.e. productive, unproductive, and destructive entrepreneurship. Several studies by Baumol (1990, 1993) and Dallago (1997, 2000) and Foss and Foss (2002) highlighted that activities that are rent seeking – in the form of litigation, lobbying, takeovers, and tax evasion and avoidance efforts, as well as 'use of the legal system', illegal and shadow activities, and activities that generate prestige and power – are often mentioned amongst unproductive or destructive entrepreneurship activities. Job generation and innovativeness, when not used for rent-seeking purposes, are mainly associated with a 'productive value' on the societal and economy levels (e.g. Baumol, 1990, 1993; Foss and Foss, 2002; Dallago, 2000).

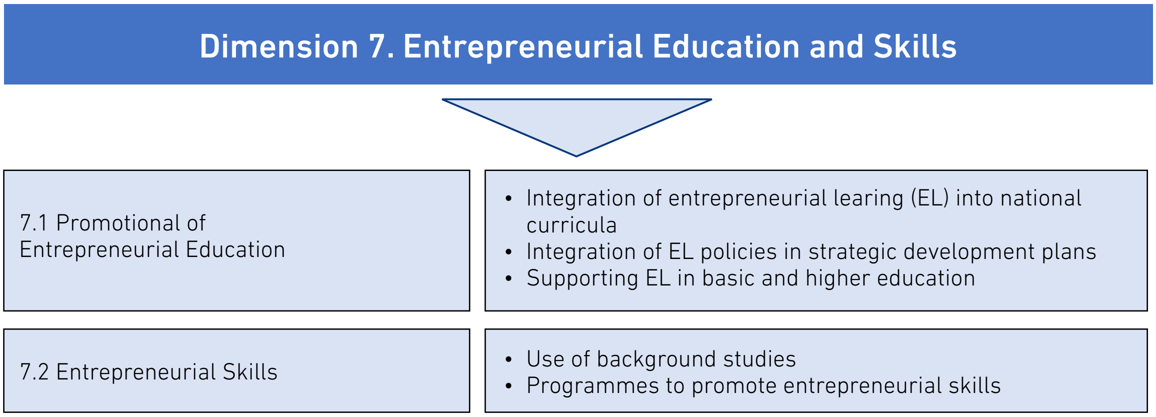
Acs (2006) highlighted that economic development depends on a combination of successful corporations and entrepreneurs. A study by Galindo and Méndez (2014) of 13 developed economies from 2002 to 2007 showed that policy, institutions, and social climate are important for achieving a positive impact from entrepreneurship on economic growth. Acs (2010) also observed non-linearity between entrepreneurship and economic development. According to Acs (2010), there is an 'S' shape relationship between entrepreneurship and economic development, as entrepreneurship plays a visible role in the initial stage of development. However, its role diminishes as technology and innovation accelerate in shifting away from resource-based activities. The role of entrepreneurship increases as the economy shifts to a more knowledge-driven stage as the innovation driven-economy accelerates. According to Acemoglu and Johnson (2005), as institutions are strengthened, more entrepreneurial activity is shifted towards productive entrepreneurship, thereby driving economic growth. A recent study by the Asian Development Bank (ADB, 2020) highlighted the importance of strong institutions in enabling innovative entrepreneurs.

2. Assessment Framework

The development of policies and programmes to promote entrepreneurial mindsets is a complex task since entrepreneurial skills and dispositions are difficult to nurture and capture. It is particularly complex to monitor the performance of programmes to foster this mindset, since such programmes often target 'softer' outcomes, such as changes in attitude, rather than 'hard' outcomes, such as the number of business start-ups initiated.

Dimension 7 of the ASEAN SME Policy Index (ASPI) 2024 thus looks at the policy framework for developing entrepreneurship in the Association of Southeast Asian Nations (ASEAN). It is divided into two sub-dimensions: the first (7.1) assesses policies and programmes to promote entrepreneurial education, while the second (7.2) assesses policies and programmes to enhance entrepreneurial skills. **Figure 8.1** below illustrates the structure of Dimension 7.

Figure 8.1. 2024 ASPI Framework for Assessing Promotion of Entrepreneurial Education and Skills



ASPI = ASEAN SME Policy Index; ASEAN = Association of Southeast Asian Nations.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Policies that promote entrepreneurial education (sub-dimension 7.1) are assigned 40% of the weight, while policies that help develop the entrepreneurial skills of small and medium-sized enterprises (SMEs) (sub-dimension 7.2) are assigned 60%. While both sub-dimensions focus on building knowledge and skills in entrepreneurship, sub-dimension 7.2 zeroes in on increasing entrepreneurial capabilities amongst SMEs: management skills, accounting, marketing, and technical knowledge.

Sub-dimension 7.1 centres on shifting people's attitudes towards recognising and capitalising on entrepreneurial opportunities. Since any shift in mindset does not happen overnight, ASEAN Member States (AMS) need to embed entrepreneurship education in their long-term national strategies. This sub-dimension assesses the extent to which governments have endorsed the elements of entrepreneurial learning in their national education policies and integrated them in other national strategic plans.

It also covers how entrepreneurial learning has been institutionalised at all education levels. It specifically looks at the level of adoption of a common entrepreneurship curriculum; entrepreneurial education in universities; capacity building of teachers for entrepreneurial learning programmes; and how entrepreneurial learning policies, programmes, and projects are monitored and evaluated. It also assesses the way in which private entities are incentivised to provide entrepreneurial education.

Sub-dimension 7.2 centres on the design of strategies and implementation of measures to promote the entrepreneurial skills of SMEs in each AMS. Small firms serve as a vehicle for entrepreneurship (Acs, 1992; Thurik and Wennekers, 2004), and it is therefore essential to upgrade such skills amongst SMEs. Entrepreneurship can contribute to economic development when a country has high-growth enterprises or firms that can serve as a source of income and employment for vulnerable populations (Valerio, Parton, and Robb, 2014).

3. Analysis

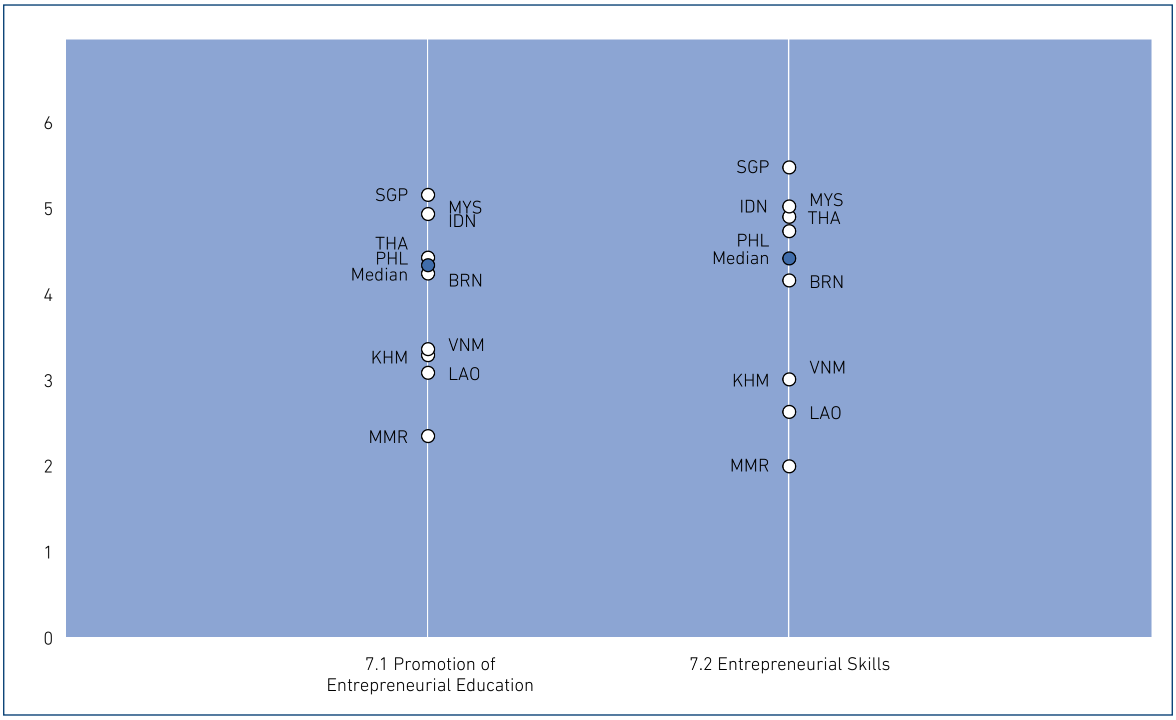
The overall score for entrepreneurship (Dimension 7) for ASEAN is higher in 2024 than in 2018. The average median score is 4.42 for 2024 compared with 4.27 observed in 2018. Although the trend is in a positive direction, there is plenty of room to improve the overall score for Dimension 7 in entrepreneurship. Overall, scores indicate that there are good progressions in promoting entrepreneurial education and skills in AMS.

Figure 8.2 provides the overall score for the sub-dimensions under Dimension 7 for (i) the promotion of entrepreneurial education and (ii) entrepreneurial skills. Indonesia, Malaysia, and Singapore are performing relatively well in the entrepreneurial ecosystem in terms of promoting entrepreneurial education and skills. The higher stage of entrepreneurial education promotion (sub-dimension 7.1) is strong for Singapore, Indonesia, and Malaysia. In the intermediate stage of entrepreneurial education promotion are Thailand, the Philippines, and Brunei Darussalam. Viet Nam, Cambodia, and Lao People's Democratic Republic (Lao PDR) are in the lower stage of developing entrepreneurial promotion and education. Myanmar is only at the initial stages of promoting entrepreneurial education and skills.

In terms of entrepreneurial skills (sub-dimension 7.2), Indonesia, Malaysia, and Singapore tend to have a higher score of above 5.00. Singapore has a strong score of 5.50, compared with Indonesia and Malaysia, which barely scrape a score of 5.00. Thailand, the Philippines, and Brunei have an intermediate score, but Thailand has a high score closer to 5.00 and is much closer to the entrepreneurial skills of Indonesia and Malaysia. It is interesting and important to observe strong scores from Indonesia, Malaysia, the Philippines, and Thailand for entrepreneurial skills. The development of SMEs in these AMS is critical to strengthening and consolidating the global value chain activities in the region. At a lower tier, Viet Nam and Cambodia are clustered together for scores of 3.06. It is encouraging to see that countries in the lower tier have also been converging with each other and have pushed themselves forward in a positive direction since the ASPI 2018.

The level of entrepreneurial promotion and skills development is directly related to the stage of development of the industries and the support provided by the institutions. More developed countries have a more structured framework to incorporate entrepreneurial promotion and skills development in the formal education system. As Singapore is at a later stage of development, its entrepreneurial activities and education are stronger to support and provide complex value-added activities for the SMEs in the country. In contrast, Indonesia, Malaysia, the Philippines, and Thailand are still at 'skilled-capital-intensive activities', hence we observed lower entrepreneurial promotion activities in the skills development framework.

Figure 8.2. Weighted Scores for Dimension 7 – Entrepreneurial Education and Skills



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

In **Figure 8.3**, the overall score of Dimension 7 is given for the respective AMS. Overall, all AMS show improvement in the score for entrepreneurial promotion and skills activities in 2024 compared with 2018. Singapore shows the highest score of 5.38 in 2024, up from 5.36 in 2018. The consistency and stability of entrepreneurial activities in Singapore are very clear, based on the positive trend. Indonesia and Malaysia also maintained scores of 5.03 and 5.05, respectively, for 2024. Indonesia shows a strong improvement from 4.52 in 2018 to 5.03 in 2024, validating the strong support for entrepreneurial promotional activities in Indonesia. We also observed that the overall score improved for Malaysia, rising from 4.58 in 2018 to 5.05 in 2024. Similarly, there were moderate improvements in the Philippines and Thailand in 2024, at 4.63 and 4.76, respectively.

In the overall dimension, Viet Nam, Cambodia, and Lao PDR show strong improvements in their scores. Viet Nam shows an improvement from 2.87 in 2018 to 3.20 in 2024. Similarly, Cambodia shows a strong improvement of 2.54 in 2018 to 3.17 in 2024, which is nearly an improvement of 20 percentage points from 2018. In 2024, Cambodia and Viet Nam have national strategies to develop SME activities in the domestic economy, compared with SME policies in 2018. The initial stages of developing SME curricula in secondary schools and universities have been evident. The overall score improved from 2.29 in 2018 to 2.83 in 2024 for Lao PDR, which is an improvement of nearly 19 percentage points. Myanmar's score declined in the current edition of the index, dropping from 2.38 in 2018 to 2.17 in 2024. **Box 8.1** below provides a closer look at how Viet Nam has fostered entrepreneurial learning through various strategic policy instruments.

Box 8.1. Blazing a Path Towards a Flourishing Start-Up Ecosystem Through Entrepreneurial Learning – Viet Nam's Case

Nurturing an entrepreneurial mindset and skills through strategic education planning and execution would require time and is realised in mostly intangible ways. However, it is an essential element of creating fertile ground for start-ups to flourish. Trying to crawl its way out of the developing stage of entrepreneurial learning policies, Viet Nam has undertaken notable strategies and initiatives focused on providing support and an enabling environment for an entrepreneurial mindset to take shape in the minds of its productive population since 2020, and these may have contributed to the country's expanding start-up market ever since.

According to Viet Nam's National Agency for Technology Entrepreneurship and Commercialization (NATEC), the number of start-ups in Viet Nam has almost doubled since the onset of the coronavirus disease (COVID-19) pandemic from around 1,600 in 2021 to over 3,000 by July 2022, with investment in Vietnamese start-ups reaching over US$1.3 billion in 2021, four times higher than the previous year. In 2023, Startup Genome, a world-leading innovation ecosystem development organisation, placed Ho Chi Minh City in third place in ASEAN in terms of start-up ecosystem value, trailing only Singapore and Jakarta.

These rapid developments in the country's start-up ecosystem cannot be separated from the Vietnamese government's initiatives to support and nurture the growth of the ecosystem, including tax incentives, funding programmes, and strategic plans and programmes geared towards promoting entrepreneurship. In 2022, the government launched the Youth Entrepreneurship Support programme for 2022–2030 to develop the entrepreneurial capacity of its youth through textbooks, documentaries, and support manuals, amongst others, to propagate the importance of entrepreneurial learning amongst youth. This programme is linked to other entrepreneurship programmes such as the One Commune One Product programme, which is an entrepreneurship programme crafted for rural areas that focuses on value chain-based development of branded One Commune One Product products based on local advantages.

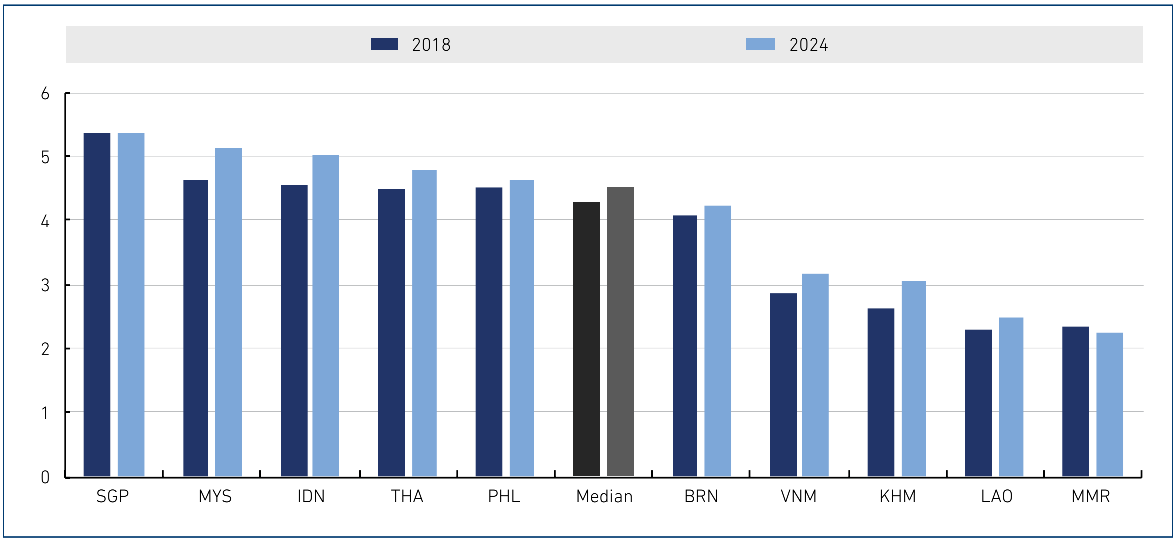
Another driver of the promotion of entrepreneurial learning is vocational training, and the Vietnamese government has put special emphasis on this area, including for students in vocational schools. Circular No. 14/2022/TT-BLDTBHX dated 30 August 2022 prescribed the provision of career and job consulting and start-up support for students at vocational education and training institutions, focusing on promoting entrepreneurship amongst learners and offering them access to start-up knowledge and skills during their learning time, in line with a more coherent framework set by Decision No. 2239/QD-TTg dated 30 December 2021 on the strategy for the development of vocational education during 2021–2030 with a vision to 2045.

The Vietnamese government has also established multiple policy frameworks to promote entrepreneurial learning to the public, especially amongst SMEs, since 2020. Decree No. 80/2021/ND-CP dated 26 August 2021 elaborated initiatives to provide financial assistance and other support for direct training in entrepreneurship and business administration for SMEs in Viet Nam, while the National Master Plan for 2021–2030 with a vision scheduled for 2050 directed entrepreneurial learning to focus more on specific sectors through measures such as establishing a national innovative entrepreneurship centre for agriculture and its supporting industries. Entrepreneurial learning in Viet Nam has also been integrated in the country's national strategies to reduce poverty sustainably (Decision No. 90/QD-TTg dated 18 January 2022) and as a pillar of the country's national programme for start-up ecosystem assistance by 2025 (Circular No. 01/2018/TT-BKHCN dated 12 April 2018). All these strategies have gradually pushed Viet Nam towards being one of the most fertile grounds for SMEs and high-growth enterprises in the region.

Source: Source of Asia (2023); and Viet Nam's Official Legal Documents Repository (https://thuvienphapluat.vn/).

The overall improvement in scores for AMS is encouraging and shows that educational and institutional reforms are critical to improve the overall entrepreneurial activities in ASEAN. However, the improvements are only moderate overall for most AMS, so more effort is needed to promote greater entrepreneurial activities and further institutional reforms are needed to support greater global value chain activities in the region.

Figure 8.3. Overall Scores for Dimension 7 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.
Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 7.1: Promotion of entrepreneurial education

The sub-component scores for sub-dimension 7.1 are given in **Table 8.1**. In terms of the planning and design sub-component, Brunei Darussalam, Indonesia, Singapore, Malaysia, and Thailand are above the ASEAN median of 4.83. Indonesia (5.72), Singapore (5.64), Malaysia (5.16), and Brunei (5.00) score the highest in this category. There were strong improvements in 2024 for promoting entrepreneurial education in primary and secondary schools in these countries. For example, in 2024, Brunei Darussalam, Indonesia, Malaysia, and Singapore have strongly promoted entrepreneurial education in primary and secondary schools, incorporating business planning and understanding company growth and opportunities into their formal education systems. In terms of incorporating and implementing the overall design of entrepreneurial education in national strategies, Indonesia, Malaysia, and Singapore tend to have incorporated entrepreneurial education and learning as part of the overall economic strategies. The initial implementation has been observed in the Philippines, Thailand, and Viet Nam.

In 2024, improvements were visible in the entrepreneurial education and promotion activities amongst the CLMV countries (Cambodia, Lao PDR, Myanmar, and Viet Nam). For example, Cambodia has a higher score of 4.40, above Viet Nam, in the planning and design sub-component as Cambodia improved its entrepreneurial education and promotion in secondary schools. However, there is generally a lack of funds to formalise and incorporate entrepreneurial education in ASEAN countries with lower scores in this area. Both Lao PDR and Myanmar's scores are quite low, suggesting lack of funds and the need for stronger support for the planning and design of their programmes.

The weakness of this sub-component is the implementation, except in Indonesia, Malaysia, the Philippines, and Singapore, which had high scores. AMS that have strong national strategies and SME development agencies tend to have strong implementation of entrepreneurial education and skills at the national level. Indonesia, Malaysia, the Philippines, and Singapore scored higher than the ASEAN median of 3.98, as these countries have national level SME development agencies. Singapore scored the highest at 4.99, followed by Indonesia at 4.65 and Malaysia at 4.43. Both Brunei and Thailand are at the median due to their weaker national level agencies for implementing key SME education and promotion strategies in the domestic economy. Similarly, national level agencies to promote entrepreneurial education was observed weak in Cambodia, Lao PDR, and Viet Nam, which are below the median. Cambodia has a low score of 2.54, which is quite close to Myanmar's score of 2.43. There is an urgent need for Cambodia to evaluate this important sub-component.

Under the monitoring and evaluation of the sub-component, Indonesia, Malaysia, the Philippines, Singapore, and Thailand score above the ASEAN median. In fact, Malaysia scores the highest in this category at 6.00, followed by both Singapore and Thailand at 4.88. These countries have incorporated entrepreneurial education in the primary, secondary, and university education system, which allows them to monitor and evaluate the development of entrepreneurial education in the domestic economy. Both Cambodia and Viet Nam score lower at 3.20, highlighting the need for stronger monitoring and evaluation strategies as they have not formalised entrepreneurial education at the primary and secondary level.

Table 8.1. Scores for Sub-Dimension 7.1 – Promotion of Entrepreneurial Education

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and Design	5.00	4.40	5.72	2.30	5.16	2.18	4.80	5.64	4.87	3.63	**4.83**	**1.21**
Implementation	3.98	2.54	4.65	3.43	4.43	2.43	4.20	4.99	3.98	3.31	**3.98**	**0.81**
Monitoring and Evaluation	3.75	3.20	4.33	3.75	6.00	2.65	4.33	4.88	4.88	3.20	**4.04**	**0.94**
Total sub-dimension score	**4.29**	**3.32**	**4.96**	**3.10**	**5.00**	**2.39**	**4.44**	**5.20**	**4.47**	**3.40**	**4.36**	**0.90**

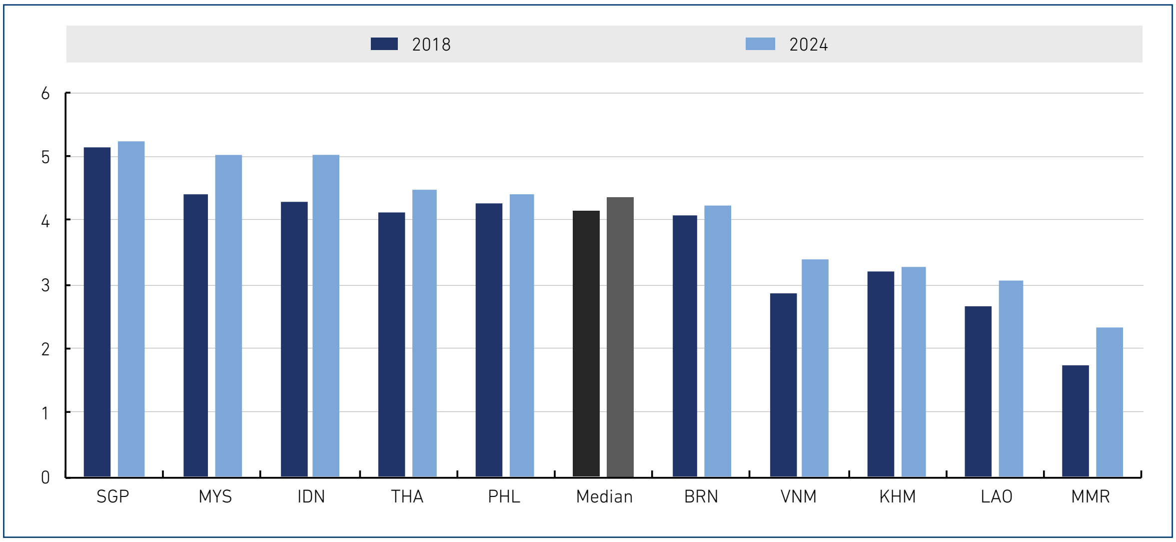
StD. = standard deviation.

Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to the Policy Framework and Assessment Process chapter for further information on the methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

The overall score for sub-dimension 7.1 is given in **Table 8.1** and **Figure 8.4**. At the high end, most of the scores are stable. Singapore's score is very stable between 2018 and 2024, with increasing from 5.16 in 2018 to 5.20 in 2024.. Both Indonesia and Malaysia have a significant increase of 11 percentage points (from 4.41 to 4.96) and 10 percentage points (from 4.58 to 5.00), respectively, between 2018 and 2024. This shows the improvements in entrepreneurial education in Indonesia and Malaysia. A significant increase in the overall score for Viet Nam was observed, as it has a 19-percentage point increase (from 2.77 to 3.40) from 2018 to 2024.

Figure 8.4. Overall Scores for Sub-Dimension 7.1 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

This demonstrates significant improvement in entrepreneurial activities and education in Viet Nam. Both Thailand and the Philippines have seen marginal score increases, from 4.08 to 4.47 and 4.34 to 4.44, respectively, between 2018 and 2024. Amongst the ASEAN Least Developed Countries (LDCs), Lao PDR shows a strong improvement of 14 percentage points, rising from 2.67 to 3.10 between 2018 and 2024. Myanmar also shows notable progress, with a 25-percentage point increase over the same period. These advancements are crucial for ASEAN countries with weaker scores in this sub-dimension, as developing robust entrepreneurial activities at the early stages of development is essential for establishing a strong domestic industrial base. However, Cambodia only saw a marginal improvement, with its score increasing slightly from 3.30 to 3.32 between 2018 and 2024. This underscores the pressing need for Cambodia to formalise entrepreneurial education and promotion at the primary and secondary levels and to effectively implement the SME strategy adopted at the national level.

Sub-dimension 7.2: Entrepreneurial skills

The scores for the sub-dimensions for entrepreneurial skills are provided in **Table 8.2**. Overall, the scores for Indonesia, Malaysia, the Philippines, Singapore, and Thailand are above the ASEAN median. Singapore attained the highest score of 5.50.

Under the sub-component of planning and design, Singapore scored 6.00, followed by the Philippines at 5.15, Malaysia at 4.33, and Indonesia at 4.30. Singapore introduced key entrepreneurial skills development at the national level in the domestic economy and promoted the skills development framework in the domestic economy. Skills development studies are undertaken by SME development agencies. Although Indonesia and Malaysia undertake studies on entrepreneurial skills development, they have weaker alignment of such results with national level strategies.

Thailand has a lower score of 3.48, which is higher than the ASEAN median for this sub-component. However, Thailand has a weaker framework for studies on entrepreneurial skills and on incorporating and aligning the results of the studies with national level strategies. Brunei, Cambodia, Lao PDR, Myanmar, and Viet Nam have low scores as there is a lack of studies on entrepreneurial skills development. The low score for Cambodia, Lao PDR, and Viet Nam is critical as their stage of development requires strong entrepreneurial skills and activities to manage the risk of investment and innovation in the domestic economy.

In terms of the sub-component for implementation, Brunei, Indonesia, Malaysia, Singapore, and Thailand have strong scores. There is a strong incentive to develop entrepreneurial skills in the region, and these countries have incorporated key measures to promote entrepreneurial skills. However, Cambodia, the Philippines, and Viet Nam have lower scores than the ASEAN median. Again, there is significant room for improvement in developing strong entrepreneurial skills and activities in these countries. A framework is also lacking to implement entrepreneurial skills development in national level strategies. Again, Myanmar has the lowest score for this sub-component at 2.65.

For the sub-component on monitoring and evaluation, Indonesia, Malaysia, the Philippines, and Thailand scored highly in this category. These countries have a framework to monitor the development of entrepreneurial skills training as it is provided by government agencies and private training facilities. Singapore is close to the ASEAN median score for this sub-component, as it only has a national level evaluation framework and no private evaluation framework. Viet Nam and Lao PDR are below the ASEAN median score but are much better than Cambodia, which scored the same as Myanmar. ASEAN countries with less developed policies in this sub-dimension have few national level evaluation frameworks. This is a critical issue for ASEAN's less developed countries, including Cambodia, to urgently improve the entrepreneurial skills development framework in national level strategies as well as the competitiveness of their entrepreneurial activities.

Table 8.2. Scores by Thematic Block for Sub-Dimension 7.2. – Entrepreneurial Skills

	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and design	2.65	2.65	4.30	2.65	4.33	1.83	5.15	6.00	3.48	2.65	**3.06**	**1.26**
Implementation	6.00	4.30	6.00	2.65	6.00	2.65	4.30	6.00	6.00	4.30	**5.15**	**1.31**
Monitoring and evaluation	2.65	1.00	4.33	2.65	4.33	1.00	5.15	3.50	5.15	1.00	**3.08**	**1.59**
Total Sub-dimension Score	**4.16**	**3.06**	**5.07**	**2.65**	**5.08**	**2.03**	**4.77**	**5.50**	**4.95**	**3.20**	**4.46**	**1.05**

StD. = standard deviation.

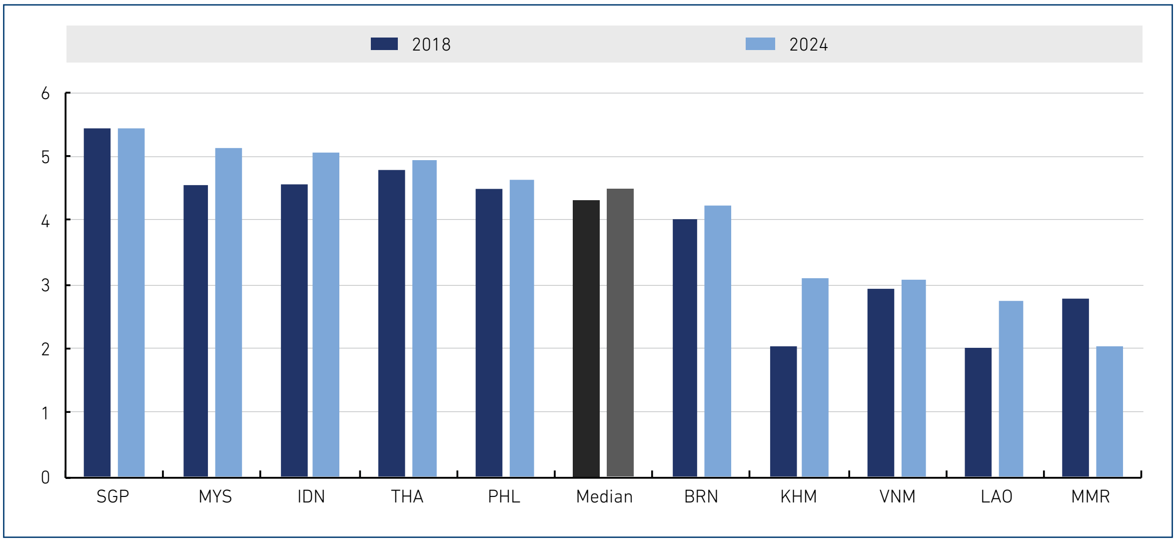
Note: Scores are on a scale of 1 to 6, with 6 being the highest. Please refer to the Policy Framework and Assessment Process chapter for further information on the methodology.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 8.5 provides the overall scores for sub-dimension 7.2. Singapore maintains the same score for both 2018 and 2024 (5.50). Strong improvements were observed in the overall scores for Indonesia and Malaysia, with an increase of around 9 percentage points between 2018 and 2024, respectively. Indonesia and Malaysia's economies achieved 5.07 and 5.08 in 2024, while the scores in 2018 were 4.60 and 4.63, respectively. These improvements are mostly from the development of national level entrepreneurial skills promotion strategies. There are marginal increases for the Philippines from 4.60 to 4.77 and Thailand from 4.78 to 4.95 between 2018 and 2024, respectively. There is a lack of national entrepreneurial skills development framework in these countries.

For ASEAN countries with weaker scores in this sub-dimension, there is a significant improvement for Cambodia, an increase of 34 percentage points (from 2.03 to 3.06) between 2018 and 2024. This is very important for Cambodia, as the increase is in entrepreneurial skills promotion strategies and efforts to incorporate entrepreneurial education at the secondary school level. Further improvements are expected in the coming years. Lao PDR also improved its overall score by 23 percentage points (from 2.03 to 2.65) between 2018 and 2024. These improvements are observed from the sub-dimension of entrepreneurial skills promotion strategies. Positive improvements are observed in Viet Nam, as its score improved from 2.94 to 3.06 between 2018 and 2024. This is very important for increasing the overall entrepreneurial competitiveness and alignment with national level strategies for Viet Nam. Myanmar, however, is the only AMS that stayed at its 2018 score in this dimension, suggesting the need for improvement in its national strategies to foster entrepreneurial learning.

Figure 8.5. Overall Scores for Sub-Dimension 7.2 (2024 vs 2018)



Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

4. The Way Forward

Overall, there are significant improvements in the scores of AMS in 2024 compared with 2018. Entrepreneurial promotion and skills development generally tend to depend on the stage of economic development in the ASEAN region. Advanced countries like Singapore have improved their score in 2024 and maintained it at a higher threshold, as entrepreneurial promotion and skills development are in line with the higher stage of development of services activities and linkages with the global production value chain. The development of key services and the need for more sophisticated entrepreneurs in skills and technologies are also observed in the more mature economies of Indonesia, Malaysia, the Philippines, and Thailand. Indonesia and Malaysia have also improved their scores and moved to a higher threshold – from mid-stage development in 2018 to the advanced stage in 2024. This reflects the significant reforms and activities to support entrepreneurial activities in Indonesia and Malaysia.

Similarly, Thailand and the Philippines have moved to a higher threshold with the mid-stage development of entrepreneurial activities. Both countries are above the ASEAN median score in 2024. While Brunei has shown improvement, it is still below the ASEAN median score and has room for improvement.

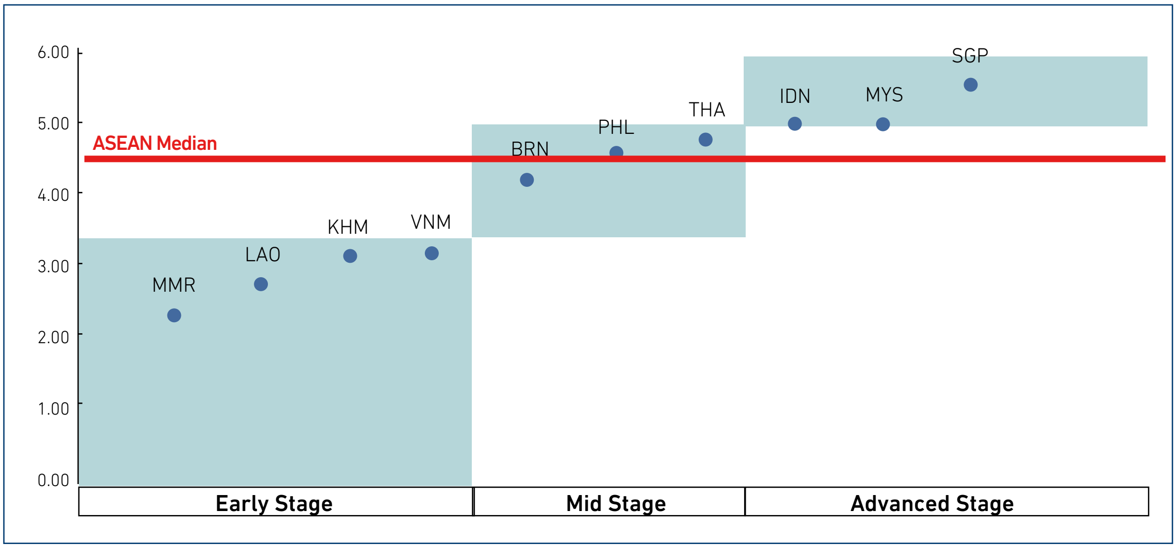
ASEAN's less developed countries have made significant improvements from 2018 to 2024, as they have shifted from early stage to mid-stage development in entrepreneurial activities and skills. This is critical for these emerging ASEAN economies. Cambodia and Viet Nam have improved their entrepreneurial programmes and skills in 2024. However, the quality of these activities needs to be improved to undertake more value-added manufacturing and services activities in the region. Based on the 2024 scores, Lao PDR and Myanmar are still in the early stage of entrepreneurial activities. Lao PDR is at the threshold of moving to mid-stage development of its entrepreneurial activities, and there is a strong need to improve the promotional and implementation programmes. Myanmar is at the lowest level of entrepreneurial activities, and there is a need to provide more economic cooperation and support for Myanmar to develop the key institutions for entrepreneurial activities.

Overall, ASEAN faces two key challenges for entrepreneurial promotion and skills development. First, a clear framework for entrepreneurial promotion and education activities is lacking at the national level in many AMS. This may be due to the difficulty of defining the entrepreneurial activities and skills needed in different AMS. Thus, regional level coordination and an ASEAN framework need to be established on entrepreneurial skills promotion and development. Second, a national fund is imperative to promote and develop entrepreneurial skills at the domestic level.

Moving forward, the region should consider the following recommendation that is relevant to the areas covered under Dimension 7:

- Building on the digitalisation efforts in the region, develop an ASEAN digital framework and begin integrating it into entrepreneurial education and skills development at the country level.

Figure 8.6. Weighted scores for Dimension 7



ASEAN = Association of Southeast Asian Nations.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Table 8.3. **Policy Recommendations to Improve Entrepreneurial Education and Skills**

	Policy Recommendations
Early stage *Cambodia* *Lao PDR* *Myanmar* *Viet Nam*	• **Introduce an Entrepreneurial Learning Curriculum**: Consider integrating an entrepreneurial learning curriculum into the national education system to foster an entrepreneurial mindset from an early age. • **Develop a Training of Trainers (ToT) Model**: Create and implement a ToT model, exploring partnerships with the private sector. As countries move towards a more integrated entrepreneurial learning policy framework, high-quality ToT programs will be essential. Private sector collaboration could supply experienced entrepreneurs to mentor and train the next generation. • **Raise Awareness Amongst SMEs**: Increase awareness amongst SMEs and potential entrepreneurs about the importance of entrepreneurial education and skills. Many SMEs may not realise the potential for growth that comes with a more sophisticated entrepreneurial mindset and knowledge.
Mid Stage *Brunei Darussalam* *The Philippines* *Thailand*	• **Introduce an Entrepreneurial Learning Curriculum**: Consider integrating an entrepreneurial learning curriculum into the national education system to foster an entrepreneurial mindset from an early age. • **Develop a Training of Trainers (ToT) Model**: Create and implement a ToT model, exploring partnerships with the private sector. As countries move towards a more integrated entrepreneurial learning policy framework, high-quality ToT programs will be essential. Private sector collaboration could supply experienced entrepreneurs to mentor and train the next generation. • **Raise Awareness Amongst SMEs**: Increase awareness amongst SMEs and potential entrepreneurs about the importance of entrepreneurial education and skills. Many SMEs may not realise the potential for growth that comes with a more sophisticated entrepreneurial mindset and knowledge.
Advanced Stage *Indonesia* *Malaysia* *Singapore*	• **Improve Monitoring and Evaluation**: Enhance the monitoring and evaluation of entrepreneurial education and promotion activities. This will ensure their effectiveness and adaptability to the ever-evolving dynamics of entrepreneurial activities in the real world.

Source: Authors.

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Part I

Chapter 9

Social Enterprises and Inclusive SMEs

1. Introduction

The *ASEAN Economic Community Blueprint 2025* is composed of five interrelated and mutually reinforcing objectives, including shaping a 'resilient, inclusive, people-oriented, and people-centred' Association of Southeast Asian Nations (ASEAN) through strengthening the role of micro and small and medium enterprises (SMEs) and creating 'more equitable and inclusive economic growth in ASEAN that narrows the development gap, eliminates if not reduces poverty significantly, [and] sustains high growth rates of per capita' (ASEAN, 2015). At the same time, the *ASEAN Strategic Action Plan for SME Development (2016–2025)* (SAP SMED 2025) focusses on human capital development for micro and SMEs, especially those associated with women and youth (ASEAN, 2016). Social enterprises were specifically referenced in the *ASEAN Framework Action Plan on Rural Development and Poverty Eradication (2016–2025)* as well (ASEAN, 2017).

Inclusive entrepreneurship policies, social enterprises, as well as inclusive business promotion policies can be useful tools for policymakers to address inclusion, issues related to poverty alleviation, social challenges, and market-friendly alternatives to cost-intensive social policy programmes. Indeed, policymakers in ASEAN are interested in adopting these policies alongside traditional SME promotion policies.

The concept of social enterprises is recent; it has gained much influence in the ASEAN region as a tool for sustainably assisting underprivileged groups, including by providing access to education to help improve their socio-economic status (Seelos, Ganly, and Mair, 2006; OECD, 2014). Policies to stimulate social entrepreneurship are becoming popular across Organisation for Economic Co-operation and Development (OECD) countries as well as in high-income ASEAN Member States (AMS), such as Singapore. The range of social enterprises varies across ASEAN, with Indonesia, the Philippines, Thailand, and Viet Nam having the most (Nathan Associates, 2018).

Along with social enterprises, there is increasing interest in the concept of inclusive business,[1] which can have overlapping characteristics with social enterprises (British Council, UNESCAP, Social Enterprise UK, 2021). The concept is particularly relevant to the ASEAN region, because it is greatly involved in global value chains and is considered a global manufacturing hub. Thus, part of the index investigated the social enterprise landscape in various AMS and the progress made by policymakers in promoting inclusive business initiatives in the region.

Under inclusive entrepreneurship policies, this assessment aimed to address any market failures that prevent an individual from setting up and operating a business based on an aspect of their identity. The aspects covered are gender, age, and disability status. Such policies aim to level the playing field for entrepreneurship.

[1] ASEAN defines inclusive business by referencing the global definition, developed by the G20, which states that 'inclusive businesses provide goods, services, and livelihoods on a commercially viable basis, either at scale or scalable, to people at the base of the economic pyramid … making them part of the value chain of companies' core business as suppliers, distributors, retailers, or customers (ASEAN, 2017b).

Inclusive entrepreneurship is also a way to enhance the resilience and competitiveness of SMEs. Although there is an increased interest in addressing women's roles in the SME ecosystem mainly due to the changing global marketplace, issues remain such as limited access to financing as well as unfavourable societal norms and restricted access to training (Fauzi, Tamyez, and Kumar, 2022).

Additionally, many young people are working towards contributing to meaningful endeavours that create positive social and environmental impacts; SMEs and/or social enterprises may allow these aspirations to be fulfilled. However, young entrepreneurs often face challenges regarding access to finance, training, and supportive legal frameworks (OECD, 2022b). Additionally, social attitudes impact entrepreneurs from under-represented groups, and their businesses are influenced by the perceptions of various stakeholders, which is both contextual and complex (OECD and EC, 2023).

2. Assessment Framework

The framework used to assess policy under Dimension 8 comprises three sub-dimensions: social enterprises, inclusive business, and inclusive SMEs (**Figure 9.1**). Each sub-dimension has three thematic blocks spanning the breadth of the policy cycle: planning and design, implementation, and monitoring and evaluation (M&E).

Sub-dimension 8.1 evaluated the evolution and maturity level of the social enterprise ecosystem in an AMS, primarily through the range of policies enabling its creation and operation. Key indicators included presence of a formal definition for social enterprises, existence of national legislation and strategies, mandate of governmental agencies for following up on the functioning of social enterprises, and formation of national registries for social enterprises. The assessment considered the contributions of diverse stakeholders, beyond governmental agencies, including the private sector, international organisations, and civil society. The portion on implementation evaluated the availability and accessibility of support mechanisms, such as budgetary allocations, market access support, and training instruments. For assessing the efficiency of monitoring mechanisms, the presence of key performance indicators (KPIs) and disaggregated data on target groups was probed. This sub-dimension assigned the highest weight to implementation activities, followed by planning and design, and then M&E.

This index considered social enterprises as vehicles that involve private activity conducted in the public interest, organised with an entrepreneurial strategy, whose main purpose is not maximisation of profit but the attainment of certain economic and social goals, and has the capacity to bring innovative solutions to the problems of social exclusion and unemployment. For facilitating comparison and considering the relative novelty of the concept of social enterprises, an array of socially focussed ventures in the ASEAN region – such as cooperatives, associations, and inclusive business initiatives – were considered as social enterprises in the implementation and M&E blocks. In the planning and design block, the aforementioned definition of a social enterprise was adhered to.

Figure 9.1. ASPI 2024 framework for assessing social enterprises and inclusive SMEs

Dimension 8. Social Enterprises & Inclusive SMEs

8.1 Social enterprises	• Social enterprise definition and registry • Responsible body or agency • Awareness raising activities • Support instruments
8.2 Inclusive business	• Inclusive business definition and registry • Responsible body or agency • Awareness-raising activities • Support instruments
8.3 Inclusive SMEs	• Existence of targeted entrepreneurship programmes for women, youth and PWD (e.g. workshops, credit lines) • Existence of background studies to assets needs • Assesment conducted on uptake and satisfaction level

PWD = people with disabilities, SMEs = small and medium-sized enterprises.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 8.2, on inclusive business, has been newly added to the assessment, taking into consideration the growing significance and improved policy framework for inclusive business endeavours in ASEAN. This sub-dimension focussed on scrutinising the definitions, policy frameworks, agencies, and registries created to facilitate the development of inclusive business in AMS. Additionally, key indicators investigated the breadth of stakeholders involved and their role in facilitating instruments, such as financial aid and advisory services, for fostering growth and sustainability within the inclusive business landscape. Given the novelty of this sub-dimension, as well as the concept of inclusive business, the decision was made to not score this sub-dimension, but the evidence gathered will be used to enhance current knowledge of inclusive business. Data gathered through this exercise will also help create a baseline for the monitoring process for the implementation of the *Plan of Action for the Promotion of Inclusive Business in ASEAN (2023–2027).*

In Sub-dimension 8.3,[2] which examined the policies and mechanisms for promoting equitable opportunities through inclusive SMEs, the focus was on three target groups: women, youth, and persons with disabilities (PWD). Given varying policy priorities across AMS, interventions for each target group were assessed individually. Indicators included whether such policies are covered under a strategic plan, the mechanisms for coordination across different government agencies, availability of data, existence of dedicated training programmes and business networking facilities, and financial support programmes. As in Sub-dimension 8.1, the greatest weight was assigned to implementation activities, followed by planning and design, and then M&E.

[2] Sub-dimension 8.3, on inclusive entrepreneurship, was Sub-dimension 8.2 in 2018.

Sub-dimension 8.1 was allocated 25% of weightage, and the remaining 75% was attributed to the broader policy scope of Sub-dimension 8.3. Within Sub-dimension 8.3, inclusive entrepreneurship policies for women and youth were assigned a weight of 35%, respectively, and policies for PWD were allotted a weight of 30%. Again, Sub-dimension 8.2 was not scored in this edition.

3. Analysis

The overall assessment results for each sub-dimension are presented in **Table 9.1**. The table also presents scores for the three target groups analysed in Sub-dimension 8.3 on inclusive SMEs. **Figure 9.2** showcases the different levels of policy advancement across AMS for each sub-dimension, while **Figure 9.3** shows the growth across the total scores for Dimension 8 between the 2018 and 2024 assessment.

Table 9.1. Scores for Dimension 8 – Social Enterprises and Inclusive SMEs

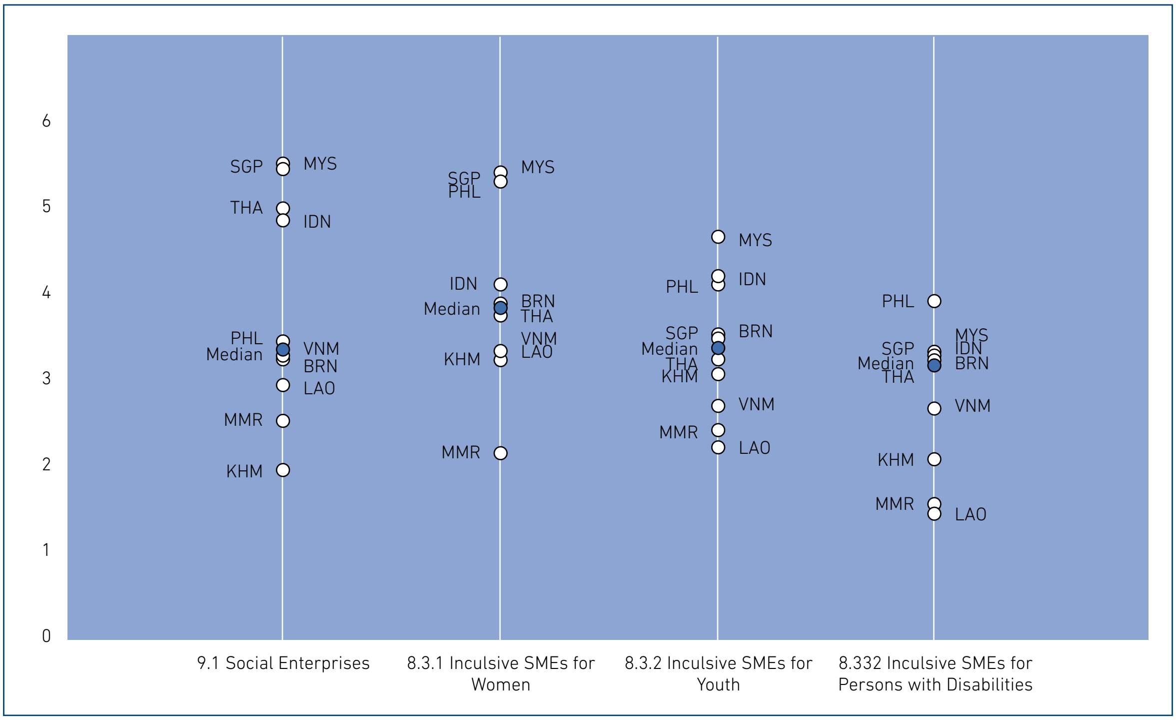
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
8.1 Social enterprises	3.24	1.92	4.84	2.91	5.51	2.52	3.44	5.47	4.97	3.30	**3.37**	**1.22**
8.3 Inclusive entrepreneurship	3.55	2.81	3.90	2.36	4.50	2.04	4.45	4.04	3.38	2.90	**3.47**	**0.81**
Total score	**3.48**	**2.59**	**4.13**	**2.49**	**4.75**	**2.16**	**4.20**	**4.40**	**3.78**	**3.00**	**3.63**	**0.85**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MYS = Malaysia, MMR = Myanmar, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Notes: Sub-dimension 8.2 – Inclusive Business was not scored in the 2024 assessment. In 2018, Inclusive Entrepreneurship was Sub-dimension 8.2.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 9.2. **Weighted Scores for Dimension 8 – Social Enterprises and Inclusive SMEs by Sub-dimension**

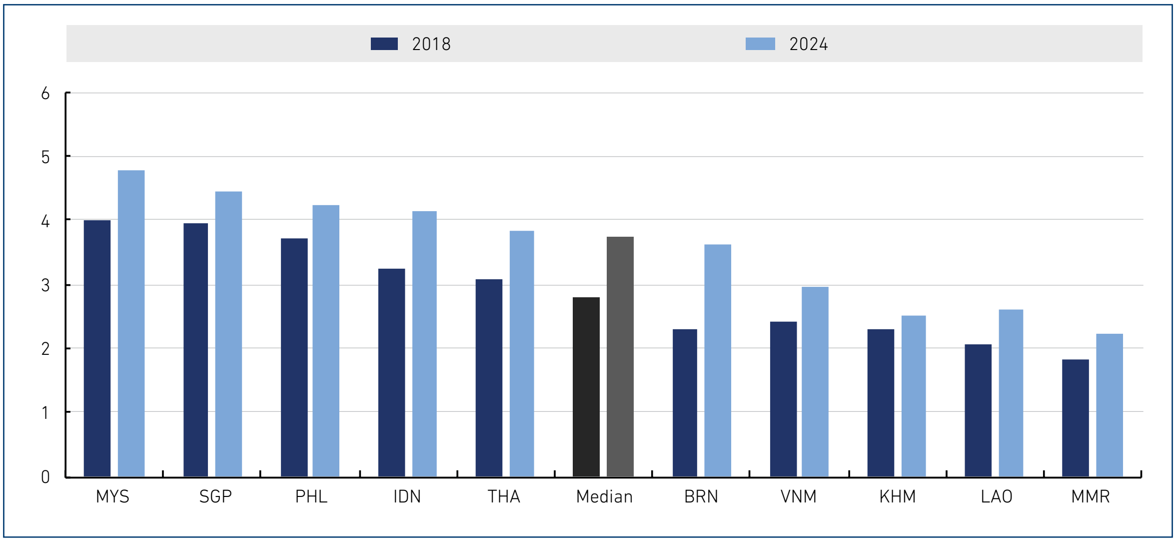


BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6, with 6 being the highest. Sub-dimension 8.2 as added, and scores for it are not present in this edition.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 9.3. Weighted Scores for Dimension 8 – Social Enterprises and Inclusive SMEs, (2018 versus 2024)



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Notes: Scores are on a scale of 1 to 6, with 6 being the highest. Sub-dimension 8.2 was recently added, and scores for it are not present in this edition.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Sub-dimension 8.1: Social Enterprises

ASEAN's policy framework for social enterprises has matured significantly since the 2018 assessment

This sub-dimension investigated the planning and structuring of social enterprise policy, along with its implementation and evaluation. The median score for this sub-dimension increased from 2.74 in 2018 to 3.37, which indicates that the region has a more mature policy ecosystem for the promotion of social entrepreneurship (**Table 9.2** and **Figure 9.4**). Yet, in some AMS it remains at a relatively early stage of policy development.

Table 9.2. Sub-dimension 8.1 – Social Enterprises

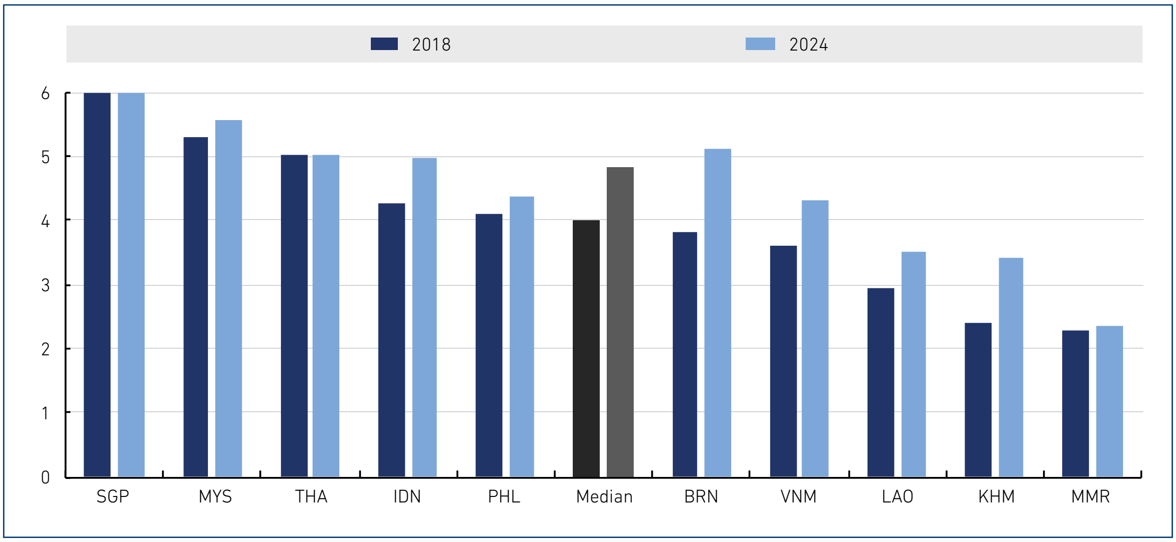
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and design	4.14	2.28	5.63	3.76	6.00	3.22	3.76	5.26	6.00	4.88	**4.51**	**1.19**
Implementation	2.80	1.90	4.31	2.66	5.07	2.50	3.10	5.85	4.76	2.65	**2.95**	**1.26**
Monitoring and evaluation	2.65	1.33	4.65	1.99	5.66	1.33	3.66	4.98	3.64	1.99	**3.15**	**1.48**
Total score	**3.24**	**1.92**	**4.84**	**2.91**	**5.51**	**2.52**	**3.44**	**5.47**	**4.97**	**3.30**	**3.37**	**1.22**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 9.4. Weighted Scores for Sub-dimension 8.1 – Social Enterprises (2018 versus 2024)



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

The median score for planning and design – 4.51 – indicates an improvement compared to the 3.58 score in 2018. This is due to AMS integrating social enterprises into their policy frameworks as well as increased awareness of the concept. The salience of social enterprises – and commitment towards supporting them – has risen in the region. It must be noted that in certain AMS, various forms of social organisations, such as non-governmental organisations (NGOs), cooperatives, not-for-profit organisations, associations, and foundations, are also considered to fall under the umbrella of social enterprises. Therefore, it becomes essential for AMS to provide a definition for social enterprises.

Box 9.1. What Is a Social Enterprise?

Social enterprises include any private entrepreneurial activity that strives to benefit the general interest by pursuing specific social, environmental, and economic goals rather than the maximisation of profit for personal gain. The Recommendation of the Council on the Social and Solidarity Economy and Social Innovation of the Organisation for Economic Co-operation and Development (OECD) referred to a social enterprise as an entity that trades goods and services, fulfils a societal objective, and whose main purpose is not the maximisation of profit for the owners but reinvestment for the continued attainment of societal goals. This recommendation is a ground-breaking international standard providing a policy framework to promote the social economy and social innovation. It recognises the social economy's potential to create jobs and to engage youth.

Social enterprises often leverage innovative business solutions to address various social problems, such as unemployment and social exclusion. More recent OECD analysis suggested that social enterprises are characterised by an entrepreneurial approach, with their income primarily generated through commercial activities, rather than grants and donations. Social enterprises may emerge from within the social economy or as spinouts from broader private sector activity.

Additional guidance on developing the ecosystem to support the social economy and social entrepreneurship is found in the OECD Better Entrepreneurship Policy Tool and numerous publications. Promoting Social and Solidarity Economy Ecosystems was launched in 2020, funded by the European Union, to further support OECD policy guidance on the social economy in 33 countries. It focusses on two critical policy levers that can help unlock the potential of the social and solidarity economy – legal frameworks and social impact measurements – while considering the entire policy ecosystem as a framework.

Sources: OECD (2018); (2022a); (2022c); OECD, Social Economy and Social Innovation, https://www.oecd.org/en/topics/sub-issues/social-economy-and-social-innovation.html; OECD, The Better Entrepreneurship Policy Tool, https://betterentrepreneurship.eu/en/home

Legal frameworks are most effective when complemented by other policy tools, including mechanisms such as tax policy, strategies, and action plans (OECD, 2022a). More broadly, OECD (2022c) provided nine policy building blocks to support the development of social economy entities, including social enterprises in any context. Compared to 2018, more AMS have formally established definitions and characteristics of a social enterprise, including Indonesia, Malaysia, Singapore, Thailand, and Viet Nam (**Table 9.3**). A clear definition and/or eligibility criteria are crucial to understand the nature of activities to be undertaken as well as to provide appropriate legal support mechanisms and visibility. While adopting definitions and frameworks is a complex process, such frameworks can facilitate the development and growth of social enterprises by creating opportunities for raising visibility via legal recognition, enabling their entry into new markets, easing access to finance, facilitating targeted public schemes, and generating public awareness (OECD, 2023a).

Table 9.3. Definition of Social Enterprises in Selected ASEAN Member States

Country	Definition
Indonesia	According to Perpres No. 2/2022, Article 1, Section 6, a social enterprise is defined as having a mission to solve social problems and/or to make a measurable positive impact in the welfare of the community and the environment through planning, development, empowerment, and reinvestment of a large portion of profits towards the mission.
Malaysia	A social enterprise is a registered entity under a written enterprise law, is purpose-driven, and has a financially viable business model that addresses social and/or environmental challenges, aiming to achieve positive impacts for its beneficiaries and the economy.
Singapore	The Singapore Centre for Social Enterprise defines social enterprises as a business entity set up with clear social goals where there is clear management intent and resources allocated to fulfil social gaps and needs. Social enterprises must generate the majority of revenue from the provision of goods and services and have a clear business plan to achieve financial sustainability and profitability.
Thailand	According to the Act of Social Enterprise B.E. 2019, a social enterprise is a business with a clear objective to solve a specific problem and to develop the community, society, and environment. Fifty percent of its revenue must come from selling its products or services, and it must be commercially viable.
Viet Nam	As per Article 10 (item 1) of the Enterprise Law 2020, a social enterprise must be registered, operate to resolve social and environmental issues for the public interest, and use at least 51% of its annual after-tax profit for re-investment to achieved registered targets.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

A few AMS are in the process of carving out definitions. For example, the Philippines has proposed a bill to the Senate – the Poverty through Social Entrepreneurship (PRESENT) Act – which will define social enterprises and stipulate them as not-for-profit organisations. Other AMS still lack definitions, although they have definitions related to similar entities like cooperatives, associations, foundations, and NGOs, whose activities often align with social entrepreneurship. In Cambodia and Lao People's Democratic Republic (Lao PDR), social enterprises are briefly mentioned in broad national entrepreneurship strategies, especially in regard to poverty reduction mechanisms.

When analysing the implementation modalities for the policies, only a few AMS have clearly defined institutions that have mandates to support social enterprises – Singapore, Thailand, Brunei Darussalam, and Malaysia. In Singapore, the Singapore Centre for Social Enterprise (raiSE), established in 2015, brings together public and private entities in charge of developing the social enterprise ecosystem. Thailand established the Office of Social Enterprise Promotion following the adoption of the Act of Social Enterprise B.E. 2019. In Malaysia, the Ministry of Entrepreneur and Cooperatives Development was assigned in 2021 the responsibility for overseeing the development of social enterprises in the country. In Brunei Darussalam, the Ministry of Culture, Youth and Sports has a mandate to cover social entrepreneurship and a working group to support social enterprises. The Philippines has proposed the creation of the Center for Social Enterprise Development as per Bill No. 782. Other AMS have ministries or agencies responsible for social affairs or enterprise development conducting ad-hoc activities.

In addition, several AMS have put in place dedicated action plans, including Thailand (*Thirteenth National Economic and Social Development Plan, 2023–2027*) and Malaysia. Malaysia's Social Entrepreneurship Blueprint 2030 includes 5 strategic goals, 20 strategies, and 45 initiatives to support social enterprises. Social enterprises are also mentioned in the national development plans and enterprise laws of Cambodia, Indonesia, Singapore, and Viet Nam.

There has been a rising number of accreditation systems for social entrepreneurship, currently present in four AMS.

Accreditation systems support the setting of standards and help maintain and reinforce formal criteria for enterprises. They form the basis for the registries, which are often based on the established accreditation system. Given the progress of the concept of social entrepreneurship in the region, more AMS have established registries of social enterprises, including Malaysia, Singapore, Thailand, and Viet Nam.[3] Registries assist in sectorial mapping and data collection for enhanced policymaking and play a critical role in M&E. Online registries also enable peer-to-peer learning, collaboration, and networking. For example, in Malaysia, social enterprises are encouraged to get accredited to access various incentives offered by the government as well as other organisations. As of August 2024, 408 accreditations with different levels of have been awarded to social enterprises.

[3] For example, in Singapore, by 2021, there were 365 registered social enterprises. By 2020, Malaysia counted some 414 registered social enterprises.

The median score for implementation across the region is 2.95, registering a slight increase from 2018 (2.88); the scores continue to vary significantly. Dedicated budget mobilisation and support mechanisms specifically tailored for social enterprises have been observed in Indonesia, Malaysia, Singapore, and Thailand. Based on the data received from national authorities, in 2020, Malaysia allocated US$2.90 million for social enterprises; in 2023, the SME Bank, which is under the Ministry of Finance, allocated US$4.52 million for the launch of the ASEAN Social Enterprises Development Programme, comprising two schemes – the Social Enterprise Financing Scheme and *Juara Lestari* (i.e. a capacity-building programme to support accreditation). Thailand offered US$371,000 to the Office of Social Enterprise in 2023; Singapore's raiSE was provided US$2.70 million in 2021 to develop the social enterprise sector. Further, raiSE's Venture for Good scheme provides up to S$300,000 in grant funding to social enterprises with sustainable business models to enable more human-centred social impact. Significant budgets have been allocated regionally by increasing the number of external players such as donors, foundations, social impact investors, and private initiatives, especially in Viet Nam.

Box 9.2. ASEAN Social Enterprises Development Programme

The ASEAN Social Enterprises Development Programme, initiated by the ASEAN Foundation in 2021, is a pivotal initiative that seeks to address socio-economic issues and to enhance the social enterprise landscape across the region. The programme offers targeted capacity building, mentorship, market facilitation, and seed funding to youth-led social enterprises in the region. It works towards promoting the following objectives:

- empowering youth-led social enterprises through product refinement, business model improvement, and mentoring;
- contributing to the achievement of the Sustainable Development Goals;
- increasing investor access to sources of funding for participating youth-led social enterprises; and
- engaging ASEAN youth-led social enterprises in the national and regional policymaking processes with key stakeholders.

In 2021, 163 social enterprises from 10 ASEAN Member States applied for the programme, and 20 companies were selected and were able to benefit from the entire programme cycle with capacity building and match-making activities.

The programme is supported by GIZ and a private company, SAP. Building on the success of the first programme, the ASEAN Foundation is implementing another with the support of a new partner, TikTok, and SAP. The new programme was launched in 2023 and aims to reach 200 social enterprises across ASEAN.

Source: ASEAN SEDP, https://aseansedp.org/about-asean-sedp/

Across ASEAN – even if some governmental agencies do not have clear mandate to do so – they have been able to support social enterprises on the ground. In 2020, Indonesia's Ministry of Social Affairs launched a set of pilot projects for social entrepreneurship called ProKUS, which seeks to improve social enterprises' financial skills, business planning, entrepreneurial spirit, and competitiveness. In the Philippines, the Philippine Social Enterprise Network, an NGO and not-for-profit organisation, helps social enterprises with capacity building, business development services, market analyses, and sub-sector analyses. Malaysia, Singapore, and Thailand have specific implementation agencies, offering initiatives encompassing skills development, mentoring support, and funding through grants and capital investments. In Malaysia, support includes the adaptation of technology and digitalisation, widening access to financing and financial support, and providing access to the domestic and international markets for social enterprises. Other AMS oversee social enterprises through coordinated efforts of several governmental agencies. For example, in Brunei Darussalam, the Ministry of Culture, Youth and Sports runs capacity-building initiatives for socially oriented firms.

Social enterprises also tend to be supported through financing tools such as social finance, impact investment, and social investment, which are emerging instruments in the region. Within the region, the top three impact investment destinations are Indonesia, the Philippines, and Viet Nam (Nathan Associates, 2018). Investing in social capital is essential for empowering human and financial capital, which is key for entrepreneurs to flourish and to facilitate innovation (Fauzi, Tamyez, Kumar, 2022). The Government of Thailand also offers tax incentives to businesses that qualify as social enterprises.

Only a few AMS provide impact measurement support services for social enterprises.

Social enterprises must be able to measure the impact that they create to ensure that they generate societal value. It also constitutes a crucial element important for impact investors. Governments must create tools to support this through the development of impact measurement approaches. In Singapore, raiSE created the Social Value Toolkit for social enterprises to measure their human-centred social impact and value through KPIs, such as number of jobs created for disadvantaged groups. The Philippines developed the Social Enterprise Quality Index (**Box 9.3**) for monitoring and evaluating social enterprise performance in 2009. Similarly, Thailand's Office of Social Enterprise developed a social impact assessment tool.

Box 9.3. The Philippines Social Enterprise Quality Index

The Philippines Social Enterprise Network created the Social Enterprise Quality Index, which is a self-administered and voluntary tool to assess the status of social enterprises in terms of a triple bottom line. It is built around comprehensive evaluation criteria such as social impact, financial sustainability, innovation, scalability, governance, and management. It promotes the use of standardised metrics to ensure consistency in evaluation across different social enterprises. This helps benchmark performance and identify areas for improvement. Finally, the index aids in tracking the direct and indirect benefits delivered to the target communities or beneficiaries.

Currently, the Social Enterprise Quality Index is mainly used by social enterprise members of the Philippines Social Enterprise Network for planning. These indicators are valuable for understanding the core standards of social enterprise operations, and they provide a brief reference to differences in outcomes of social enterprises.

Source: British Council (2015).

There has been improvement in developing M&E mechanisms in the region. Several AMS consider this component a significant aspect of policymaking, including Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. Considering the advancements, the median score for this block in the region is 3.15, surpassing the previous edition's median score of 1.99.

Sub-dimension 8.2: Inclusive Business

This is a new sub-dimension in the ASEAN SME Policy Index. It is included because inclusive business is expected to make significant contributions to the *ASEAN Economic Community Blueprint 2025*, especially for strengthening SMEs and the private sector, bridging the development gap, fostering public–private partnerships, and accomplishing the Sustainable Development Goals.

There are several reasons why the concept is relevant to the region and why policymakers have started paying more attention to it. The region's growing middle class and consumer base present significant market opportunities for inclusive businesses. As incomes rise, demand increases for affordable and relevant products and services. Inclusive businesses are well-positioned to meet this demand by offering goods and services that cater to the needs of low-income consumers, thus driving both economic growth and social impact. The region's heavy reliance on agriculture, with a significant percentage of the population living in rural areas, also makes it well-suited for inclusive business models. ASEAN is also known as the 'factory of the world' due to the presence of many multi-national corporations that can apply an inclusive business model to obtain quality materials.

ASEAN has made impressive progress in raising awareness about inclusive business models and developing an associated regional policy framework.

Since 2017, ASEAN has mainstreamed the agenda of inclusive business, urging AMS to build enabling environments to grow inclusive practices by businesses in the region. In 2017, the ASEAN Economic Ministers endorsed the ASEAN Inclusive Business Framework, with the objective of providing a foundation to AMS for fostering and engaging with inclusive business regionally and nationally. Specifically, it looks at strengthening inclusive business enabling policy environments in AMS, fostering regional collaboration, encouraging cross-country adoption of inclusive business practices, and linking the visions of the ASEAN Economic Community and ASEAN Socio-Cultural Community with inclusive business practices (ASEAN, 2017b).

In 2020, the ASEAN Economic Ministers endorsed *Guidelines for the Promotion of Inclusive Business in ASEAN*, which outline detailed support mechanisms for inclusive business on the national and regional levels. Further, in 2023, the *Plan of Action for the Promotion of Inclusive Business in ASEAN (2023–2027)* was launched, which will be used as a mandate for creating strategic partnerships and mobilising resources for inclusive business in ASEAN. The plan aims to include a diverse set of stakeholders, including the private sector, financing institutions, and NGOs. It focusses on four main areas: (i) policy advisory support in developing and adopting policies and strategies for inclusive business promotion and design of policy instruments; (ii) inclusive and sustainable business development to support firms in the development of inclusive and sustainable business models, in particular by providing business coaching services to develop inclusive business models, by supporting micro and small enterprises to link with larger companies and by training firms in impact measurement and management; (iii) access to finance through the establishment of financing vehicles such as fund(s) to pilot innovative financing instruments for inclusive and sustainable business models; and (iv) creation of an ASEAN inclusive business knowledge hub to generate awareness about inclusive business, share information on associated policies and initiatives, provide access to inclusive business events and resources, and build a community of inclusive business experts (ASEAN, 2023).

Even if the awareness and acknowledgement of the inclusive business concept at the regional level has advanced rapidly over the last several years, only a few AMS have put in place dedicated definitions, policy documents, and mechanisms to support inclusive business implementation. This analysis examined the definition(s) of inclusive business, presence of inclusive business registries, budget mobilisation, awareness-raising activities, as well as M&E mechanisms to assess performance and impact of inclusive business throughout the region (**Table 9.4**).

Table 9.4. Glimpse of Inclusive Business in ASEAN

	Definition	Inclusion in policy documents	Registry / Accreditation	Capacity-building and Awareness-raising Activities	Budget Mobilisation
Brunei Darussalam				√	
Cambodia	√	√	√	√	
Indonesia		√		√	√
Lao PDR		√			√
Malaysia		√		√	√
Myanmar					
Philippines		√	√		√
Singapore	√		√	√	√
Thailand	√	√			
Viet Nam	√	√	√	√	√

Lao PDR = Lao People's Democratic Republic.

Source: Based on ASEAN SME Policy Index 2024 Assessment Grid.

Thanks to the ASEAN definition of inclusive business, several AMS have adopted a national definition of inclusive business, including Cambodia, Singapore and partially Thailand and Viet Nam. Viet Nam has established a policy framework for IB, primarily through Decision 167/QĐ-TTg issued on 8 February 2022 which provides a clear definition. Generally, the definitions are aligned with those of ASEAN and the G20. Singapore takes a broad approach by classifying inclusive businesses as companies with strong environmental, social, and governance practices contributing to the Sustainable Development Goals with the potential to generate both social and environmental impact, along with business profits. Indonesia does not have its own criteria for inclusive business; it uses that of the G20.

Dedicated policies and strategies at the national level are uncommon, but inclusive business is typically mentioned in national plans for development and/or entrepreneurship.

In Cambodia, the Ministry of Industry, Science, Technology, and Innovation formulated the IBeeC Strategy, aiming to promote an enabling environment for inclusive business, including raising awareness, creating an accreditation system, providing investment incentives, and monitoring. In Malaysia, even if policy documents do not specifically mention inclusive business, the government has a policy focus on marginalised segments of the population, including the B40 group.[4] In Lao PDR, even if there is no law or specific definition, the

[4] All Malaysians are categorised into three different income groups: the top 20% (T20), middle 40% (M40), and bottom 40% (B40).

National SME Development Plan (2021–2025) includes provisions for enhancing understanding of the importance of inclusive business, studying possible financing sources to support inclusive business, and promoting inclusive business models to allow participation of low-income populations. In Indonesia, the government has emphasised inclusive business through its *National Medium-Term Development Plan 2020-2024.*

Registry of inclusive business occurs in Cambodia, Malaysia (as part of social enterprises), the Philippines (focussed on specific sectors), Singapore, and Viet Nam. In Viet Nam the launch of the pilot IB accreditation system in June 2023 allows IB companies benefit from business training, awareness raising, and market support through its r SME support policy implementation. Regarding the focal agency, overseeing inclusive business initiatives is more of a collaborative effort amongst varied stakeholders mainly serving SMEs.

Budget mobilisation is critical for facilitating inclusive business, and several AMS have allocated budgets by mainstreaming inclusive business into inclusive entrepreneurship mechanisms. Malaysia, the Philippines, Singapore and Viet Nam have gathered budgets from the government, whereas the Indonesia (GIZ and Swisscontact) and Lao PDR relies on donor funding for inclusive business.

Governments use various models to support the implementation of inclusive business models. In Singapore, raiSE supports inclusive business model development. Inclusive business events are organised by various organisations, including raiSE, as well as by SG Enable. Malaysia supports firms transitioning towards inclusive business models through the Inclusive Business Value Chain Development Initiative pilot project. Apart from advocating for inclusive business, the government has continued to tackle inequality through the *Shared Prosperity Vision 2030* and *MADANI Economy Framework*. In Indonesia, some activities related to the development of inclusive business is carried out by the National Development Planning Agency (Bappenas) through a strategic partnership programme with the Australia–Indonesia Partnership for Promoting Rural Incomes through Support for Markets in Agriculture (PRISMA), Indonesia Cooperative Business Development Association (ICBDA), and Strengthening Agricultural Finance in Rural Areas (SAFIRA).

Given the relative novelty of inclusive business in the region, capacity-building and awareness-raising activities are urgently needed.

On a regional level, the ASEAN Inclusive Business Summit is organised once a year, bringing together a number of key stakeholders. At the national level, AMS are conducting awareness-raising activities. For example, raiSE, SG Enable, and Tripartite Alliance for Fair and Progressive Employment Practices in Singapore organise several events and workshops; in Malaysia, awareness is generated on social media platforms by offering educational modules on inclusive business and social entrepreneurship. SME Corp Malaysia launched the Inclusive Business Value Chain Development Initiative, emphasising the significance of inclusive business practices in different aspects of entrepreneurial initiatives. Cambodia has organised various events to raise awareness on inclusive business and disseminated crucial information pertaining to its implementation.

M&E mechanisms for inclusive business are lacking in almost all AMS. Yet in Indonesia and Singapore, the broad monitoring mechanisms for enterprises enable limited monitoring of inclusive business elements. However, robust monitoring mechanisms must be designed to measure the progress of regional and national initiatives as well as to guide future endeavours towards inclusive business.

Sub-dimension 8.3: Inclusive SMEs

This sub-dimension investigated the institutional frameworks, programmes, and monitoring mechanisms aimed at fostering inclusive entrepreneurship for three target groups: women, youth, and PWD. In the first thematic block, the focus was on policy planning and design and the extent of integration of entrepreneurship for these groups into national strategies. The subsequent block focussed on implementation, especially through the diversity of support available to these entrepreneurs. The final block measured the effectiveness of M&E mechanisms, with an emphasis on the utilisation of KPIs.

ASEAN has been striving to develop numerous initiatives aimed at engaging women, youth, and PWD in entrepreneurship, and this assessment showcases the progress made. Despite the growing activities, often mandated through national strategies, implementation is lacking. The assessment revealed that while several AMS have successfully developed and implemented comprehensive plans for the target groups, others are in the nascent stage and are yet to align existing initiatives and to mainstream the requirements of the target groups into broader policy mechanisms.

Inclusive Entrepreneurship for Women

Women encounter more and greater barriers – some of which are related to the business environment and cultural contexts – when pursuing entrepreneurship, including restricted access to financial resources, societal pressures, digital discrimination, insufficient business acumen, and limited opportunities to expand professional networks. These challenges underscore the need for tailored policies and programmes for women entrepreneurs. The overall median for this sub-dimension is 3.80 compared to 2.81 in 2018; this showcases that there have been a number of improvements related to better policies and implementation modalities (**Table 9.5** and **Figure 9.5**).

Table 9.5. Sub-dimension 8.3.1 – Inclusive Entrepreneurship for Women

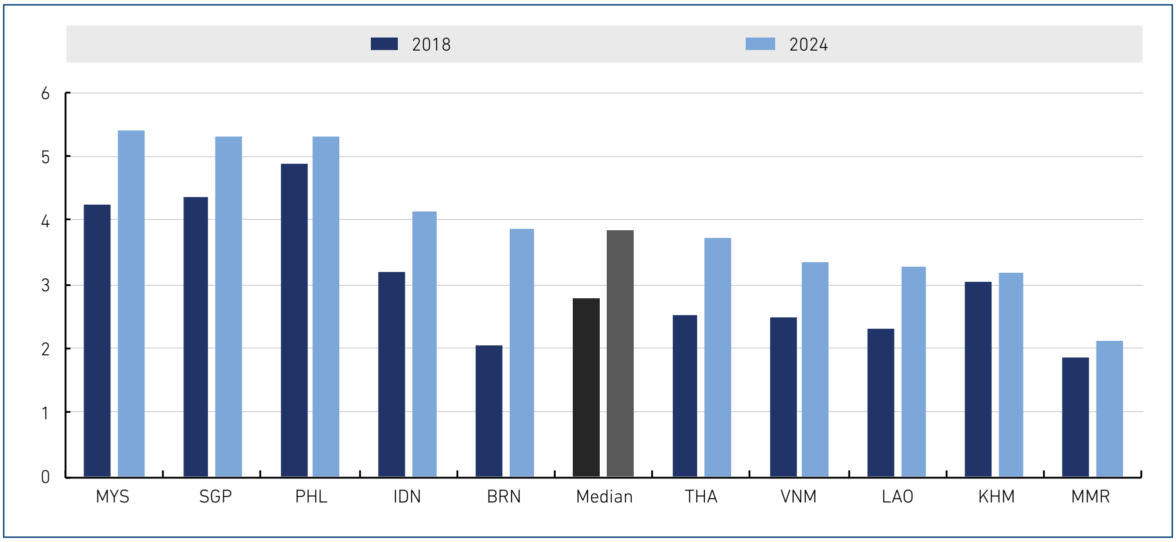
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and design	2.66	4.58	4.16	3.91	4.74	2.42	6.00	5.75	4.74	4.49	**4.54**	**1.09**
Implementation	4.13	2.79	4.43	3.26	5.69	2.39	5.02	5.16	3.54	2.99	**3.84**	**1.06**
Monitoring and evaluation	5.43	1.83	3.20	2.38	6.00	1.00	4.60	4.87	2.38	2.10	**2.79**	**1.63**
Total score	3.88	3.23	4.09	3.31	5.42	2.12	5.28	5.30	3.73	3.34	**3.80**	**1.02**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 9.5. Weighted Scores for Sub-dimension 8.3.1 – Inclusive Entrepreneurship for Women



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

The promotion of women's entrepreneurship and economic empowerment is widely recognised as a primary objective in the region.

Significant strides have been made, with all AMS establishing agencies and coordination mechanisms dedicated to enhancing women's status and participation. Moreover, ASEAN has developed plans for addressing issues of women's entrepreneurship, especially through the ASEAN Committee on Women and the ASEAN Women Entrepreneurs' Network. With a median regional score of 4.54, this block registers the advances in planning and structures for enabling women entrepreneurs since the score of 3.62 in 2018.

Following typical conventions, policymaking and implementation of women's entrepreneurship initiatives in most AMS are managed by the respective ministries for women's affairs, social affairs, and/or family affairs, demonstrating a gender mainstreaming approach. In contrast, in the Philippines, implementation for women entrepreneurship is formally overseen by the lead SME agency, the Department of Trade and Industry. Further, women's associations and business communities in most AMS play significant roles in coordinating entrepreneurial activities. For instance, in Singapore, BoardAgender, an initiative by the Singapore Council of Women's Organisations, offers a mentoring programme for aspiring women entrepreneurs and conducts studies on the state of women's entrepreneurship in the country.

There are no specific policy documents focussed on women's entrepreneurship in any AMS; however, objectives, milestones, and action plans are included in broad national policies on gender equality, women's development, and/or entrepreneurship policy. Cambodia, Indonesia, Lao PDR, Philippines, Singapore, Thailand, and Viet Nam rely on their national strategies for women's development to seek guidance for encouraging their entrepreneurial endeavours. In Malaysia, the mechanisms for facilitation of women entrepreneurs are included in the national entrepreneurship policy. Moreover, as certain segments of women, such as low-income women or single mothers, may face greater challenges in entrepreneurship, Brunei Darussalam and Malaysia have recognised this by implementing action plans specifically for single mothers who are entrepreneurs.

Budget mobilisation specifically for fuelling entrepreneurial initiatives regarding women is difficult to identify, since it is often part of the overall budget of ministries of women's affairs, complimented with isolated schemes. In Indonesia, the Ministry of Women Empowerment and Child Protection developed a special financing programme, Ultra Micro Financing (UMi), to target underprivileged women who run micro and ultra-micro businesses. From 2017 to 2021, Rp18.08 trillion was distributed under the UMi programme to business actors, amongst which 95% of the debtors were women (NA, 2022). In addition, Thailand's Krungsri Bank issued the first Women Entrepreneur Bond in 2019, worth US$220 million, to boost access to finance and capital for women entrepreneurs in the country.

Women entrepreneurs in the ASEAN region are often able to access general support services provided by governments and non-governmental stakeholders. The regional score for the implementation of women's entrepreneurship activities is 3.84, considerably improved from 2018 (2.63), indicating that dedicated programmes are offering multi-faceted support.

The numbers of female entrepreneurs benefiting from general business development support are high in Malaysia, the Philippines, Singapore, and Thailand. When female entrepreneurs do not generally access support schemes, women-specific schemes should be developed; low take-up rates are often used as a rationale for women-specific schemes (OECD, 2023a).

There has been a considerable increase in training and mentoring programmes tailored specifically to develop the IT skills of women entrepreneurs in the region.

For instance, in Thailand, the Women Made programme trains women entrepreneurs to use technology to expand their businesses and to foster innovation; in Indonesia, the HERfuture initiative focusses on digital literacy, teaching strategies for maximising the use of technology to support women-owned businesses (**Box 9.4**). Malaysia's Women Netpreneur programme aims to train women entrepreneurs to acquire skills related to e-commerce to set up and to run businesses online.

Box 9.4. Indonesia's HERfuture Training and Mentoring Programme

The HERfuture programme is a collaboration amongst the UK–Indonesia Tech Hub, Indonesia's Ministry of Women's Empowerment and Child Protection, and Krealogi by Du Anyam for conducting virtual training and mentoring for women entrepreneurs leading micro and ultra-micro businesses. The programme was designed to facilitate the government's vision of fostering a digital economy and promoting digitalisation of small and medium-sized enterprises (SMEs). The main objectives are to:

- increase digital literacy and internet security, allowing women entrepreneurs to be equipped digitally and to maximise the use of technology for their businesses;
- encourage economic recovery from the COVID-19 pandemic; and
- improve the livelihoods of women entrepreneurs in targeted underprivileged regions.

The programme comprises several diverse activities, including:

- facilitating an increase in the scale of business through training, mentoring, technical guidance, and certification;
- offering assistance in the form of grants, incentives, and infrastructure as well as market mapping, target market analysis, and strategies for building a sustainable business;
- organising entrepreneurship competitions and exhibitions/festivals to ensure networking opportunities;
- fostering an understanding of gender, and tackling the peculiarities of entrepreneurship through a gender perspective and women's leadership in business; and
- providing training to develop soft skills required for digital marketing, such as branding, product photography, and copywriting.

The programme has successfully supported 158 marginalised women entrepreneurs, wherein 90% of the participants were able to use digital mediums to facilitate their business growth, and 82 products were featured online. Moreover, 64 participants experienced increased gross profits despite the spillovers of COVID-19 pandemic crisis.

The HERfuture programme exemplifies the potential benefits of promoting collaboration amongst diverse stakeholders to leverage knowledge sharing and peer-to-peer learning amongst governments and private entities.

Source: Government of the UK (2021).

Additionally, in Indonesia, Lao PDR, Malaysia, Philippines, Singapore, Thailand, and Viet Nam, several business development services have been established, along with capacity-building programmes and training, for women. In Lao PDR, the Competitiveness and Trade Project under Lao PDR Business Assistance Facility II has a particular focus on small businesses owned by women. Moreover, in Malaysia, the Women Exporters Development Programme targets women exporters, aiming to encourage competitive and sustainable women-owned enterprises to expand their products and services exports.

A major element of facilitating women's entrepreneurship is capacity building and training. More evidence of such initiatives has been observed in the region. For instance, in the Philippines, the Technical Education and Skills Development Authority launched the Special Training for Employment Program, a community-based training programme to promote employment through entrepreneurial, self-employment, and service-oriented activities. Further, to boost visibility, awards are being developed for women entrepreneurs in Brunei Darussalam, Cambodia, and Singapore.

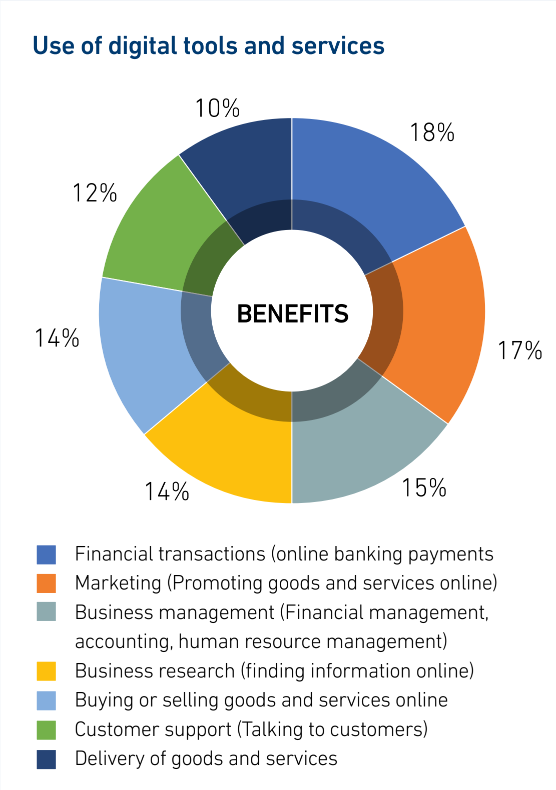
Networking is emphasised in several initiatives in the region, and women's business associations are helping facilitate peer-to-peer learning and collaboration. Viet Nam's Women's Initiatives for Start-ups and Entrepreneurship network connects female-owned startups and helps identify gaps to offer tailored assistance. In Singapore, the Singapore Indian Chamber of Commerce and Industry provides a dynamic platform for women entrepreneurs to interact with like-minded, ambitious women in business, developing a solid network.

Associated M&E mechanisms are present in Brunei Darussalam, Indonesia, Malaysia, Singapore, and Thailand; however, the mechanisms of monitoring vary, and the focus is on evaluating the performance of individual programmes instead of developing all-encompassing evaluation strategies.

Due to these diverse monitoring mechanisms, the regional median score has improved and stands at 2.79. This indicates that the monitoring programmes are becoming more present compared to 2018, when the region was in the early stages of the policy M&E process (1.55).

Thailand utilises KPIs to evaluate the performance of its training programmes catering to women entrepreneurs. Gender-disaggregated information is only available in Indonesia, Malaysia, the Philippines, and Singapore, and largely missing in other AMS, making both evidence-based policymaking and implementation complicated. Moreover, when information is collected, policymakers need to assess the impact and cost-effectiveness of support and adjust the policies to make them more effective and efficient.

Box 9.5. Policy Recommendations Based on an ASEAN Survey



In 2023, the Organisation for Economic Co-operation and Development (OECD) conducted a 30-question survey for female entrepreneurs across the ASEAN region. It collected 236 responses, helping define the profile of a female entrepreneur in the region and identify the challenges of starting a business, its operation, and digitalisation. It aimed to facilitate dialogue amongst stakeholders for providing better support to women entrepreneurs, especially to enable a smooth digital transition and to promote inclusive growth in ASEAN.

Findings suggested that access to finance continues to be a significant obstacle for women entrepreneurs. This issue intersects with other challenges in different stages of business development, involving constraints on budget allocation for keeping up with digital trends as well as high operational costs.

The survey also found that women entrepreneurs in ASEAN are inclined to adopt digital technologies, as 94% of respondents use them. Apart from enhancing their business operations, they perceived that digital technology gives them a greater sense of confidence and independence in managing their own businesses. Many also feel comfortable with digital tools and services, which can reflect their willingness to embrace digitalisation as a driving force for growth and empowerment.

The survey allowed to produce a short policy brief with several recommendations on digitalising women-owned and -led businesses:

- expand access to affordable and reliable digital infrastructure across ASEAN, as it provides women entrepreneurs with equal opportunities to participate in the digital economy;
- establish digital innovation hubs specifically catering to women as well as targeted funding, incubation, and accelerator programmes for women-led startups in key digital sectors such as e-commerce, fintech, and edtech; and
- tailor innovative digital financial products and services to the needs of women entrepreneurs.

Source: OECD (2024).

Inclusive Entrepreneurship for Youth

Involvement of youth in entrepreneurship, especially in the emerging economies of ASEAN with predominantly young workforces, is essential for the growth and prosperity of the region. Nearly half of young people say that they would prefer entrepreneurship over working as an employee. However, young people are much less likely than adults to be self-employed. Youth entrepreneurs face obstacles in the areas of awareness, skills, finance, and networks for entrepreneurship. They are also often disadvantaged by their lack of experience in the labour market and credit history (OECD and EC, 2020).

The intersection of digital skills and entrepreneurship skills for young people is thus topical. A growing number of initiatives and even education programmes are bringing these two topics close together. To generate thriving and innovative businesses, AMS must invest in developing the capabilities of its youth, and policymakers can address many of the market and institutional failures impeding youth entrepreneurship. The regional median score for this area has grown to 3.34 from 2.75 in 2018. This indicates a growing engagement of the AMS in this policy area (**Table 9.6** and **Figure 9.6**).

Table 9.6. Sub-dimension 8.3.2 – Inclusive Entrepreneurship for Youth

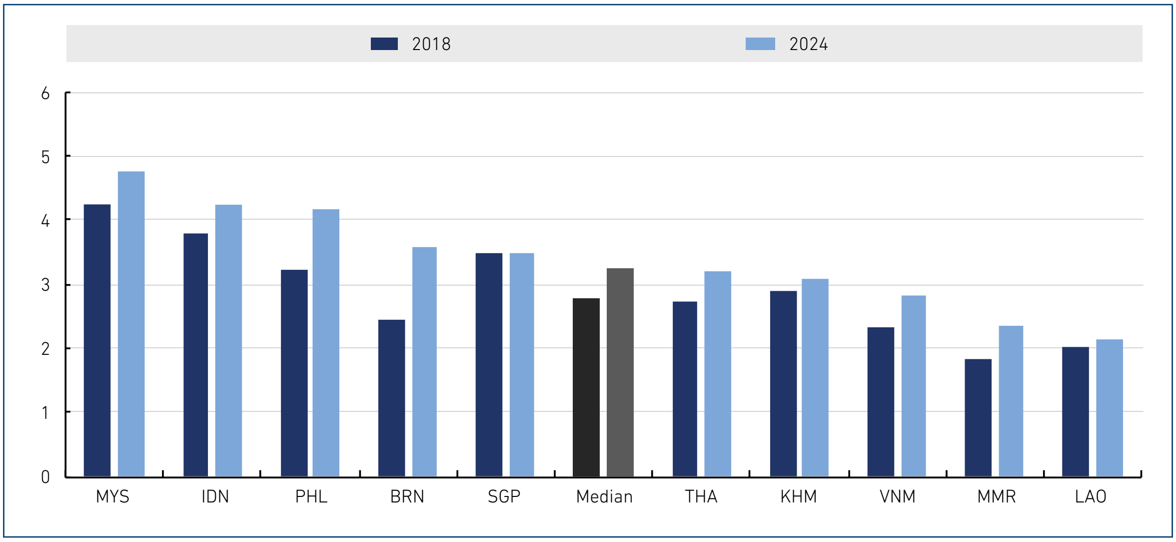
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and design	3.00	3.00	3.00	2.32	3.00	2.32	3.00	1.66	2.66	2.33	**2.83**	**0.44**
Implementation	3.49	3.49	5.18	2.52	5.64	2.79	4.44	4.75	3.40	3.48	**3.49**	**0.98**
Monitoring and evaluation	4.60	2.10	4.04	1.28	5.17	1.55	5.17	3.77	3.76	1.55	**3.76**	**1.46**
Total score	**3.54**	**3.04**	**4.19**	**2.20**	**4.62**	**2.38**	**4.08**	**3.47**	**3.21**	**2.69**	**3.34**	**0.76**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 9.6. Weighted Scores for Sub-dimension 8.3.2 – Inclusive Entrepreneurship for Youth



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

A significant portion of the population in AMS comprises young people; addressing youth employment remains a crucial policy concern.

The regional median score for planning and design is 2.83, compared to 2.00 in 2018, indicating that progress in this policy area has been gradual and that most AMS are moving to more advanced levels of policy.. While some AMS, such as Indonesia, Lao PDR, and Malaysia, have specific strategies focussing on youth development and entrepreneurship, others rely on more general mechanisms. In Indonesia, there is the *National Strategy for Youth Entrepreneurship. Monitoring, Evaluation and Learning*, targeting a growth rate of new entrepreneurs at 4%. In the Philippines, the Youth Development Plan (2023–2028) is being finalised. In Singapore, the entrepreneurship strategy is neutral towards sex, age, race, and abilities of existing or aspiring entrepreneurs, which explains a relatively low score.

The regional median score for the implementation of youth entrepreneurship policy stands at 3.49, an increase from 3.12 in 2018. This improved landscape involves not only government-backed training programmes but also significant engagement from universities, the private sector, and various associations. While the environment for youth entrepreneurship appears relatively vibrant, activities are sometimes sporadic and lack coordination.

*At the national level, youth entrepreneurship initiatives involve multiple ministries such as those focussed on youth, industry, employment, social affairs, sports, and education, all contributing to shaping entrepreneurial policies and programme*s.

In Viet Nam, the Youth Startup Support Programme 2022–2030 brings together several stakeholders, such as the Youth Union, local people's committees, and Vietnam Bank for Social Policies, to develop a startup ecosystem enabling youth entrepreneurs to tackle obstacles like lack of funding and mentorship. Further, funding opportunities are coordinated through a wide range of stakeholders, involving both governmental agencies and external entities. The National Youth Council Singapore offers funding through the Young ChangeMakers Grant; in Malaysia, the SME Bank's Young Entrepreneur Fund aims to assist young entrepreneurs in elevating their businesses and ensuring viability in the post-pandemic period.

Support tends to be for capacity-building and training programmes for prospective youth entrepreneurs or early-stage youth-led enterprises. For instance, in Indonesia, the Ministry of Youth and Sports emphasises supporting the pre-entrepreneurial phase for youth by instilling entrepreneurial competence as part of the curriculum, while also striving to improve the ecosystem for youth entrepreneurship. Malaysia's Centre for Entrepreneur Development and Research offers coaching programmes for the realisation of businesses and sustaining their growth.

There is also an increased commitment by AMS towards developing funding mechanisms for youth engaging in innovation activities. For instance, Indonesia directs seed investment grants towards tech-based enterprises; Viet Nam claimed to have mobilised VND350 billion during 2016–2021 to support start-up businesses set up by youth entrepreneurs. It also launched the Support for Youth Entrepreneurship programme for 2022–2030. Malaysia offers the Youth Exporters Development Programme, which includes specialised training and courses for youth entrepreneurs interested in export activities.

Youth associations in several AMS, such as Brunei Darussalam, Lao PDR, Thailand, and Viet Nam, are significant support platforms, providing networking opportunities and knowledge dissemination prospects to participants. Additionally, training and mentorship mechanisms have improved. For instance, the National Innovation Agency in Thailand, Youth Development Centre's Youth Self-Reliant Program in Brunei Darussalam, and Department of Trade and Industry's Youth Entrepreneurship Program in the Philippines offer a wide variety of innovative capacity-building courses, skills development modules, and information about market access.

The regional score of 3.76 for M&E indicates considerable progress from the previous assessment, wherein the regional score was 2.52. National-level M&E mechanisms are currently deployed by Indonesia, Malaysia, and the Philippines. In Indonesia, as multiple stakeholders are involved in fostering youth entrepreneurship, the concerned ministries, agencies, and regional entities report to the chief executive of the National Entrepreneurship Development Committee through the National Entrepreneurship Information System. This system is also utilised for collecting national data. Notably, Thailand collects data and feedback on its training programmes catering to youth entrepreneurs.

Inclusive Entrepreneurship Policies for Persons with Disabilities

PWD, on average, face greater barriers in business start-up and development due to lower levels of education, less work experience, and negative social attitudes. In addition to challenges related to skills and finance gaps, obstacles to self-employment include limited access to entrepreneurship support, disincentives related to interactions between income and income support, and difficulties building networks. Moreover, many PWD do not see themselves as having entrepreneurial potential (OECD, 2023b). Hence, governments should develop instruments to support this group and enable their successful integration, helping these entrepreneurs contribute to economic prosperity by creating viable businesses.

Table 9.7. Sub-dimension 8.3.3 – Inclusive Entrepreneurship for Persons with Disabilities

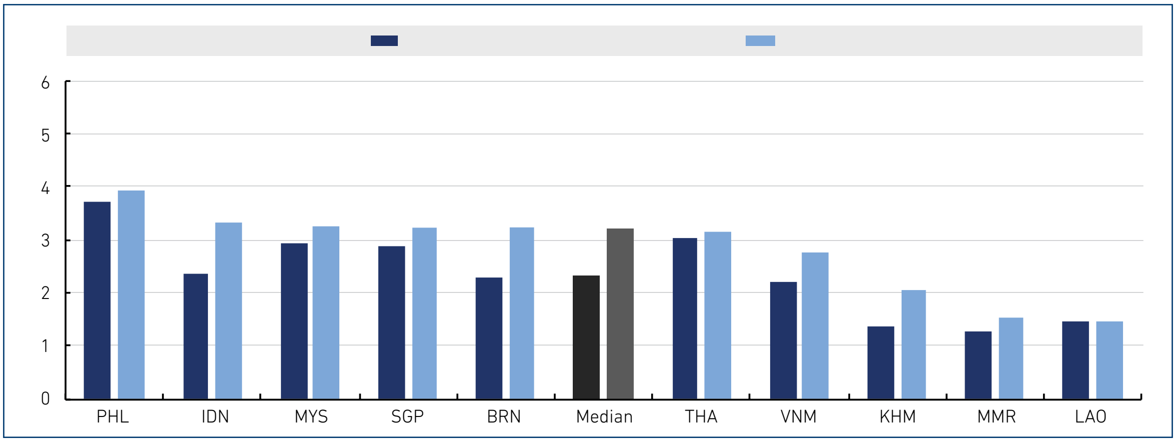
	BRN	KHM	IDN	LAO	MYS	MMR	PHI	SGP	THA	VNM	Median	StD.
Planning and design	3.22	2.84	2.84	1.73	3.22	1.73	3.22	2.84	3.22	2.48	**2.84**	**0.55**
Implementation	2.91	1.69	3.76	1.25	3.88	1.50	4.27	3.41	3.46	3.01	**3.21**	**1.02**
Monitoring and evaluation	3.76	1.55	3.20	1.28	2.10	1.28	4.33	3.48	2.38	2.10	**2.24**	**1.03**
Total score	**3.19**	**2.06**	**3.33**	**1.42**	**3.29**	**1.54**	**3.92**	**3.23**	**3.16**	**2.64**	**3.17**	**0.79**

BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Figure 9.7. Weighted Scores for Sub-dimension 8.3.3 – Inclusive Entrepreneurship for Persons with Disabilities



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

The planning and design of inclusive policies for PWD should focus on the holistic empowerment of PWD, with an emphasis on entrepreneurship and employment. The regional score of 2.84 compared to 2.66 in 2018 shows some progress in policy planning (**Table 9.7** and **Figure 9.7**).

Virtually all AMS have enacted laws and action plans aimed at safeguarding and enhancing opportunities for PWD.

The broad focus of most of these plans is to ensure discrimination-free opportunities for PWD, but rare are initiatives specifically on entrepreneurship promotion for this group. The Twelfth Malaysia Plan 2021–2025 includes a section on empowering PWD, and the Philippines's Magna Carta for Disabled Persons 1992 offers entrepreneurial opportunity programmes for PWD. Also in the Philippines, the Department of Trade and Industry outlined the PWD Economic Empowerment Program, including three key intervention areas: enterprise-level assistance, fostering an enabling environment, and policy advocacy. Singapore's Enabling Masterplan 2030 is a national roadmap that covers all life stages of PWD, offering them enabling environment.

Regarding overseeing initiatives in line with these strategies, most AMS do not have a focal point; they depend on coordination amongst several ministries and NGOs. In contrast, however, Thailand established the Department for Empowerment of Persons with Disabilities, under which strategic plans and action plans are formulated. In Singapore, the Ministry of Social and Family Development has set up SG Enable, which is a dedicated platform for PWD, involving advocating for inclusion and building a robust ecosystem to allow the integration of PWD.

Box 9.6. PWD Webstore by the Philippines National Council on Disability Affairs

The PWD Webstore, an initiative by the Philippines National Council on Disability Affairs, represents a transformative approach to empowering persons with disabilities (PWD) by integrating them into the digital economy. Launched in response to the challenges faced by PWD in accessing economic opportunities, the PWD Webstore aims to provide an inclusive, accessible, and sustainable platform for PWD entrepreneurs and artisans to market and to sell their products online. Moreover, this portal provides entrepreneurs with the access to overseas clientele and potential investors. It also provides detailed descriptions of the businesses and entrepreneurs behind them.

Even if the initiative faced some difficulties related to the digital divide, lack of awareness, and some technical challenges, the PWD Webstore is a success story. It has achieved significant milestones since its launch as it:

- helped increase income for numerous PWD;
- enhanced skills through the training programmes (e.g. digital and business skills, empowering them to manage their enterprises more effectively);
- helped change perceptions about PWD, showcasing their abilities and potential as active contributors to the economy; and
- has proven to be a sustainable model, with a growing number of PWD entrepreneurs joining the platform and increasing sales volumes.

Source: National Council on Disability Affairs, PWD Webstore, https://ncda.gov.ph/3539-2/

The regional score for implementation stands at 3.21; it was 2.30 in 2018. The increase is a positive indication showcasing progress in assistance available for PWD. Along with it, awareness-raising initiatives have been noted in Cambodia, Malaysia, and the Philippines through governmental strategies, with sporadic involvement from the private sector, NGOs, and donors. Particularly, the Negosyo Centers in the Philippines are at the forefront of running inclusive informational campaigns.

AMS use a variety of delivery mechanisms for support, mainly through targeted capacity-building and funding mechanisms. In Malaysia, a collaboration between two private entities led to the creation of the Reach Independent and Sustainable Entrepreneurship (RISE) mentorship programme, involving a 6-month commitment for supporting disadvantaged groups. This is in line with the international good policy practices where the most impactful implementation approach for PWD appears to be offering very intensive support that combines financing, coaching, and training (OECD, 2023b). The Employees' Compensation Commission in the Philippines launched the KaGabay Program, wherein one of its core features is to offer entrepreneurial training to accredited training institutions to enable occupationally disabled workers to establish home-based businesses. Another initiative from the Philippines is detailed in **Box 9.6**. Initiatives with similar objectives can be found in Indonesia, Lao PDR, Singapore, and Viet Nam.

Access to finance remains a significant barrier to entrepreneurship for PWD, prompting initiatives across the region to facilitate access through specialised financial instruments.

One robust example of targeted financial assistance can be seen in Thailand, through the Fund for Empowerment of Persons with Disabilities, under which interest-free loans are offered to entrepreneurs. Moreover, PWD can receive loans for business initiation without collateral or guarantors through microcredit facilities, mainstream banks, or special government funds in Brunei Darussalam and Malaysia. However, there is a clear lack of enough institutions, such as cooperatives, for facilitating access to finance for PWD.

Limited progress in the development of M&E mechanisms has been recorded, however. The regional score for M&E is 2.24 compared to 1.69 in 2018; however, AMS scores vary. Monitoring remains at the programme and training levels. Thailand utilises KPIs for evaluating operations, management, and development of the Fund for Empowerment of Persons with Disabilities. SME Corp Malaysia has designed all-encompassing M&E methods for entrepreneurial initiatives, as per the SME Integrated Plan of Action (SMEIPA). Disaggregated data are largely lacking, although they are pivotal in addressing the specific requirements of PWD already engaged in entrepreneurial pursuits.

4. The Way Forward

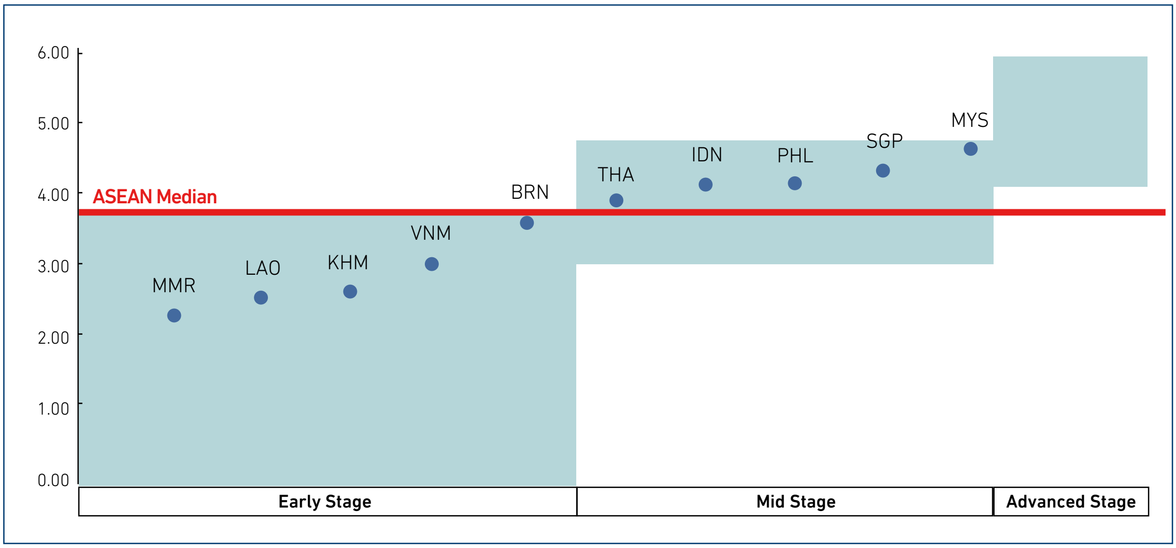
Figure 9.8 demonstrates the level of policy development in each AMS indicated by the 2024 scores for Dimension 8. AMS fall into one of three categories and were ordered based on the score received. **Table 9.8** provides policy recommendations per level of policy development for this dimension.

The ASEAN region should further expand regional initiatives for socio-economic development and inclusion. Moving forwards, the region should consider the following recommendations at the regional level that are relevant for all areas covered by Dimension 8:

(i) Further expand initiatives such as the ASEAN Inclusive Business Forum or ASEAN Social Entrepreneurship Development Programme at the regional level to increase awareness and exchanges amongst various regional stakeholders; and

(ii) Consider the establishment of a regional knowledge centre around social entrepreneurship and inclusive business models with support from OECD, which could help increase awareness and promote instruments amongst policymakers.

Figure 9.8. Weighted Scores for Dimension 8 – Social and Inclusive SMEs



BRN = Brunei Darussalam, IDN = Indonesia, KHM = Cambodia, LAO = Lao People's Democratic Republic, MMR = Myanmar, MYS = Malaysia, PHI = Philippines, SGP = Singapore, SMEs = small and medium-sized enterprises, THA = Thailand, VNM = Viet Nam.

Note: Scores are on a scale of 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Table 9.8. Policy Recommendations per Level of Policy Development

Level of Policy	Policy Recommendations
Early stage *Brunei Darussalam* *Cambodia* *Lao PDR* *Myanmar* *Viet Nam*	• **Promote awareness around various concepts such as social entrepreneurship, inclusive business, and inclusive entrepreneurship**. Consider using role models to raise awareness on barriers that some of the target groups could face. • **Consider developing specific criteria to identify social enterprises**. Make a specific reference to their role and contributions to national policies. • **Collaborate with donors, the private sector, foundations, and other stakeholders on developing financial support programmes especially for SMEs in early stages of development.** • **Continue working on specific policy frameworks and action plans focussed on specific target groups.**
Mid stage *Indonesia* *Malaysia* *Philippines* *Singapore* *Thailand*	• **Clarify the scope and criteria for concepts such as social enterprises, inclusive business, and inclusive entrepreneurship wherever applicable.** • **Develop and put in place accreditation mechanisms for different target groups based on identified criteria.** • **Ensure that SME development strategies and action plans integrate the needs of specific target groups.** • **Put in place support mechanisms for various target groups including capacity building, investment support, peer learning, impact measurement support, and market access.** • **Analyse the obstacles and develop self-employment counselling/mentorship mechanisms for target groups such as youth, women, and persons with disabilities.** • **Improve data collection mechanisms to include disaggregated data on target groups for integrating it into policymaking and utilising it for monitoring and evaluation.** • **Raise awareness and generate interest in both social enterprises and inclusive business and entrepreneurship through social entrepreneurship education, which could be offered in public education systems to youth.** • **Develop international exchange programmes amongst various target groups with the aim of exchanging experience and ensuring collaboration with policymakers.** • **Improve monitoring and evaluation mechanisms to include disaggregated data on target groups, integrating it into policy making and utilising it for monitoring and evaluation.**
Advanced stage	

SMEs = small and medium-sized enterprises.

Source: Authors.

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Part II

Chapter 10

Brunei Darussalam

1. Economic Context

Brunei Darussalam is the smallest Association of Southeast Asian Nations (ASEAN) Member State and is heavily reliant on its oil and gas exports, which until 2020 consistently made up over half of the country's gross domestic product (GDP). Disruptions to global value chains (GVCs) and increases in the commodity price of imported food contributed to the negative GDP growth over 2020–2022. Recent price shocks to oil have alleviated some of the lasting impact, and strong year-on-year growth has been noted in 2023 across various sectors (services, banking, and construction). Extensive efforts are being made to curb inflation through price controls, and despite rising interest rates in the region, lending rates have also been fixed at 5.5% since 1999.

Micro, small, and medium-sized enterprises (MSMEs) make up the majority (93.4%) of enterprises (with 39.2% of enterprises being microenterprises) but comprise a much smaller share of value added (5.9%) and employment (52.3%). MSMEs in Brunei Darussalam appear to provide a much lower structural contribution to the broader economy compared with other countries in the region. This discrepancy is due to the large economic impact of the oil industry and the large percentage of workers in the public sector, comprising 30.8% of employment in 2022. Recent efforts by policymakers have focused on diversifying its economic base, increasing the size of its non-oil and gas sectors, and reducing the country's vulnerability to price shocks.

The national long-term development plan, known as Wawasan Brunei 2035 or Vision Brunei 2035, aims to enhance the skills and quality of life of the population and to build a dynamic and sustainable economy. It focuses on the promotion of productivity, diversification of the economy, and other measures making the country more sustainable. The main policy reforms since 2018 are the Eleventh National Development Plan, 2018–2023 (with its 'Increasing Non-Oil & Gas Sector Output as Catalyst for Economic Growth' theme) and the Digital Economy Masterplan 2025, which focuses on digitalisation. Darussalam Enterprise (DARe) was established in 2016 and has been the dedicated coordinating agency for programmes related to MSME development.[1] **Table 10.1** provides an overview of the macroeconomic data for Brunei Darussalam.

[1] Effective 1 April 2024, Darussalam Enterprise (DARe) has merged with the Brunei Economic Development Board (BEDB) to form a single organisation operating under a rebranded BEDB. The organisation is now focused on three strategic thrusts: Enabling Private Sector Growth, Increasing Internationalisation, and Enhancing BEDB Capabilities. BEDB envisions a resilient and diversified economy and is committed to catalysing sustainable growth by attracting and facilitating impactful investments that create jobs and generate opportunities for local enterprises. It provides effective support and resources to enterprises of all sizes to spur innovation and growth and develops fit-for-purpose industrial infrastructure to enable enterprises to thrive in a conducive environment. Through its Enterprise Development division (formerly DARe), BEDB is responsible for driving meaningful and strategic growth of local enterprises within priority sectors and beyond, improving firms' competitiveness, resilience, sustainability, and contribution to the country's economy.

Table 10.1. Macroeconomic Data for Brunei Darussalam

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	78,734.76	81,076.51	81,313.02	79,364.09	77,440.78
GDP growth	%, yoy	0.05	3.87	1.13	-1.59	-1.63
Inflation	%, average	1.03	-0.39	1.94	1.74	3.68
Unemployment	Percent of active population	8.7	6.6	7.409	4.905	5.191*
Net FDI	% of GDP	3.80	2.77	4.71	1.46	-1.75

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Note: The latest data from Brunei's Department of Economic Planning and Statistics indicates that unemployment in 2022 stood at 5.16% of the active population. https://deps.mofe.gov.bn/SitePages/Key%20Indicators%20of%20Labour%20Market%20(KILM).aspx

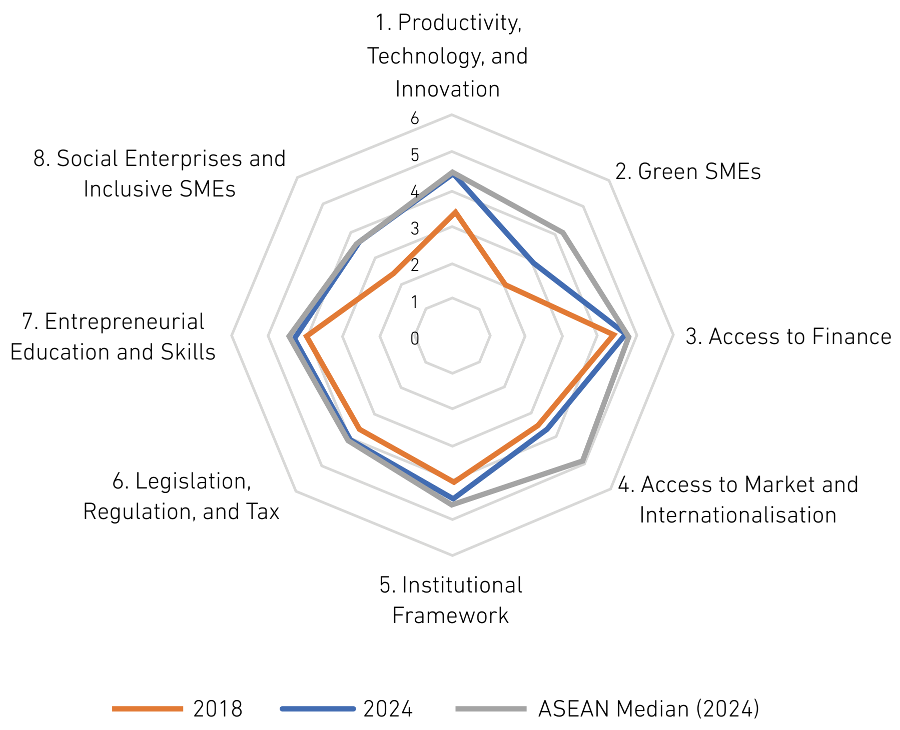
Source: World Bank, n.d.

2. 2024 ASPI Results

Overall Scores

Brunei Darussalam scores well across the framework, with improvements across all dimensions. The country has had a substantial increase in scores for Dimension 1 (Productivity, Technology, and Innovation) and Dimension 8 (Social Enterprises and Inclusive SMEs). The country scores highest on Dimension 3 (Access to Finance) (4.74) and Dimension 5 (Institutional Framework) (4.53). **Figure 10.1** shows the overall scores for Brunei Darussalam for the 2024 assessment.

Figure 10.1. **SME Policy Index 2024 Scores for Brunei Darussalam**



ASEAN = Association of Southeast Asian Nations, SMEs = small and medium-sized enterprises.

Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

Strategic considerations for SMEs are present, but a dedicated strategy is still missing.

Brunei Darussalam has an average score of 4.53 for Dimension 5 (Institutional Framework), reflecting the country's strategic consideration of SMEs but the lack of a dedicated SME strategy and appropriate monitoring mechanisms. The score of 3.93 for Dimension 6 (Legislation, Regulation, and Tax) is approaching the ASEAN median, showing that while legislative review and simplification are happening, procedures are not robust and there is further room for improvement.

Even though the SME focus has only been present for about a decade, Brunei Darussalam is progressively undertaking initiatives to improve its institutional and regulatory framework. The country has yet to develop a strategy exclusively dedicated to SME development. Instead, strategic considerations of SMEs are found across different strategies and programmes dedicated to private sector development. For instance, the Ministry of Finance and Economy's Industry and Business Ecosystem Division has developed an internal industrial roadmap that outlines key industry clusters while also emphasising the importance of SME integration with GVCs.

Over the last decade, several initiatives have been put in place to support SME development in the country. Prior to 2019, the responsibility for SME policy was under the Ministry of Energy, Manpower and Industry. In 2019, responsibility for MSME policy development was transferred to the Ministry of Finance and Economy. Since 2016, Brunei Darussalam has a dedicated agency for SME development – DARe. In 2023, the country adopted a new official definition for SMEs that is being implemented across all agencies. This new definition offers an expanded view that aligns more closely with international standards, considering annual revenue, the number of employees, and total assets.

Measures to increase business formality are also a policy priority even though business informality is relatively low in the country. Estimates show that in 2022 the informal sector made up around 6.7% of total employment, and its share is declining. Fiscal incentives such as micro-grants and business awards are being used to incentivise business registration.

In Brunei Darussalam, progress on the integration of good regulatory practices is evident, though there is potential for more systematic and structured enhancement, especially related to small and medium-sized enterprises (SMEs). For instance, while public–private consultations and regulatory impact assessments are regularly conducted by relevant ministries, they are not legally mandated for business-related legislation in Brunei Darussalam and are done on an ad hoc basis.

For e-governance, Brunei Darussalam has made considerable progress in offering more services digitally. In 2021, it integrated various government services into a single platform – the One Common Portal (www.ocp.mofe.gov.bn) –including business registration, tax filings, and other related documentation. Digital signatures in Brunei Darussalam are legally valid and integrated into government services regarding land title transfers, permit applications, job centre registrations, road tax, and licence renewals.

The One Common Portal has streamlined the tax filing process, making it easier for SMEs to report their financial data. In terms of tax, non-limited SMEs and SMEs with annual income below B$1 million are exempt from paying income tax. Despite this, for tax purposes all SMEs are required to retain financial records for up to seven years.

Facilitating SME access to finance (Dimension 3)

Improvements to financing frameworks and additional programmes will catalyse SME financing.

Brunei Darussalam scores 4.74 for Dimension 3 (Access to Finance), reflecting the country's excellent regulatory framework but noting the limited supply of alternative sources of financing such as crowdfunding, venture capital, and business angels.

Brunei Darussalam has had several developments in terms of its financial regulatory framework since the last assessment. In 2018, the central bank launched a credit scoring system that helps lenders evaluate a borrower's creditworthiness. The regulatory sandbox dedicated to testing fintech solutions launched in 2017 has also been a noted success, leading to the establishment of the country's first peer-to-peer lending platform, Jana Kapital.

Brunei Darussalam has also improved its support towards helping SMEs access affordable financing. Currently, DARe and Bank Usahawan are the two main sources of support for SMEs. DARe facilitates access to finance for MSMEs through the Co-Matching Grant Scheme, established in 2019. This scheme provides eligible enterprises with a grant covering up to 70% of their total costs, with a cap of B$10,000 for startup expenses and B$20,000 for expansion costs. Bank Usahawan offers loans to SMEs up to B$750,000 with low interest rates and flexible collateral options. The loans have been widely utilised, with Bank Usahawan having financed 166 small businesses and 52 medium-sized businesses as of 2023. Since the last assessment, the bank has streamlined its processes to offer expanded access to SMEs.

The country has also put in place a co-financing scheme for digital adoption projects (PENJANA) under the Authority for Info-Communications Technology Industry (AITI). PENJANA aims to encourage the digitalisation of MSMEs by partially funding the cost of digital solutions. Through the adoption of digital solutions, the scheme aims to help MSMEs scale their businesses, reduce operating costs, and improve productivity by managing resources efficiently.

Brunei Darussalam Central Bank recognises the importance of promoting innovation on sustainable financial products and services, including green financing. It is developing a sustainable finance roadmap that, amongst others, aims to identify and adopt suitable standards or frameworks for the promotion of sustainable finance products and services.

Enhancing access to market and internationalisation (Dimension 4)

DARe has helped expand export-oriented SME support, but regulatory improvements are still needed.

Brunei Darussalam is still in the mid stage for policy development, with a score of 3.63 for Dimension 4 (Access to Market and Internationalisation). This reflects that the country has room for improvement in expanding full implementation of initiatives to support export-oriented SMEs and establishing monitoring mechanisms. This dimension is of particular importance for local SMEs due to the limited local market.

Despite Brunei Darussalam having robust infrastructure for trade facilitation (including a national single window, a central trade repository, and active Authorised Economic Operator schemes), the institutional framework does not have regulatory considerations that take into account the needs of SMEs. Flexibility in meeting reporting requirements is provided to SMEs but only on a case-by-case basis.

Since the last assessment, Brunei Darussalam has strengthened its endeavours to support SMEs expanding into international markets through enhanced coordination amongst agencies and improved programmes in export promotion, GVC integration, e-commerce, and trade facilitation.

DARe has developed initiatives to support export-oriented SMEs and facilitate the expansion of SMEs into international markets., DARe also provides various other programmes to foster SME integration with GVCs. The Elevate programme offers promising SMEs customise assistance to facilitate their expansion and integration into global value chains, coaching sessions, funding advice, and networking opportunities with key industry players and growth partners. Additionally, DARe LINKS, launched in 2019, connects locally registered businesses, including MSMEs, with clients such as government entities, statutory bodies, Government-Linked Companies (GLCs), foreign direct investment (FDI), and established corporations. Through the DARe LINKS online portal, clients can advertise contracts and business opportunities for MSMEs to bid on or apply for, aiming to enhance in-country value by increasing MSMEs' participation in the local supply chain.

Alongside digitalisation efforts, recent efforts to promote e-commerce across the country have increased since the introduction of the Digital Economy Masterplan 2025 in 2020. The AITI has organised several workshops to improve MSMEs' e-commerce knowledge as well as promotion events such as the ASEAN Online Sale Day. To promote the use of e-commerce, AITI also launched eKedai Brunei Darussalam, a centralised repository for different e-commerce platforms, logistics services, and online vendors.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

Business support is increasing to help SMEs embrace high-technology activities.

BBrunei Darussalam boasts high scores of 4.43 for Dimension 1 (Productivity, Technology, and Innovation), reflecting the country's strong policy frameworks for productivity enhancement for SMEs, though noting gaps in SME inclusion in the country's innovation strategy. The middling score of 3.02 for Dimension 2 (Green SMEs) illustrates that while environmental policies for SMEs exist, there is a lack of evidence that SMEs' needs are being addressed with incentives and instruments for their greening operations.

Developments in this dimension have largely coincided with government efforts to diversify the economy. Brunei Darussalam's Economic Blueprint (2021) targets information and communication technology (ICT) as one of five priority sectors and one of the six cross-sectoral goals to leverage technology and innovation to boost business productivity.

Significant advancements have been seen in the field of technology adoption. The Digital Economy Masterplan 2025 has led to various initiatives focused on digitalisation. For instance, AITI's PENJANA scheme provides co-financing for up to 70% of the total cost of digital adoption projects. A Digital Economy Council was also established, which ensures that different business clusters increasingly adopt digital solutions and are aligned with countrywide goals in digital transformation.

The Brunei Darussalam Economic Blueprint identifies five priority sectors as engines of growth for economic development and diversification: downstream oil and gas, food, tourism, Info-communications and Technology (ICT), and services. With a vision to foster a resilient and diversified economy, BEDB, through the Investment Promotion and Facilitation (FAST), serves as the focal point for both foreign and domestic investors. From market and feasibility study support to ongoing facilitation via its Investors' Concierge service, BEDB ensures a seamless transition for businesses entering Brunei, offering tailored relationship management and support from the early stages through to aftercare once projects are implemented. Brunei Darussalam attracts FDI with its low corporate tax rate (18.5%), absence of personal income tax, allowance for full foreign ownership in businesses, political stability, a historic lack of significant natural disasters, and a commitment to environmental sustainability.

In supporting local SMEs and FDIs, BEDB, through Industrial Sites Management (ISM), aims to provide industrial land and space catering to different business cluster needs. ISM develops and manages a total of 23 industrial parks, creating industrial land and business cluster-specific infrastructures, implementing zoning requirements, and ensuring efficient business operations. These industrial parks aim to reduce business capital expenditure and allow companies to focus on their core operations.

Moreover, BEDB, through DARe, provides support and resources to local enterprises to spur innovation and growth, enabling fruitful collaborations between foreign investors and local businesses. Innovation-specific support reached a milestone with the establishment of the Brunei Darussalam Innovation Lab in 2022. The Lab drives innovation-related initiatives to support startup creation and the development of the technopreneur ecosystem through nationwide hackathons, capacity-building programs, prototyping programmes, and public awareness initiatives promoting the use of emerging technologies. The Lab is dedicated to strengthening its presence across industries, institutes of higher learning, and the general public, aiming to be a catalyst for the development of innovative products and services throughout the landscape. Additional work has been done in improving research and development (R&D) across the country and establishing a National Science, Technology, and Innovation (STI) Framework, with the Council for Research and Advancement of Technology and Science offering research grants and promoting collaboration between firms and research institutions.

The country is yet to develop SME-specific measures to promote greening practices. It has national environmental policies such as the Environmental Protection and Management Act, Chapter 240 and the Brunei Darussalam National Climate Change Policy (2020). The 11th National Development Plan, 2018–2023 outlines several environmental priorities, although nothing is SME specific. Across the country, environmental impact assessments are increasingly required, and legislation requiring green building techniques, waste reduction practices, and utilisation of the best available technology is already in place. Yet, no mandated financial incentives or instruments specifically target the greening of SMEs nor are there streamlined regulatory requirements for SMEs under growing pushes for sustainability reporting. Some banks such as Bank Usahawan provide special concessional interest rates for green SMEs, but this is done on a case-by-case basis.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Entrepreneurial learning is widely supported, but additional progress can be made in making sure marginalised groups are supported in their business efforts.

Brunei Darussalam has a high score of 4.21 for Dimension 7 (Entrepreneurial Education and Skills), illustrating that entrepreneurial learning is well integrated into the national learning curriculum, with progress being made across the education system to promote entrepreneurial learning. The score of 3.48 for Dimension 8 (Social Enterprises and Inclusive SMEs), which is above the median, demonstrates the substantial progress Brunei Darussalam has made in providing a strategy for youth-owned SMEs and improving monitoring mechanisms for women-owned SMEs.

Brunei Darussalam's population is well educated, and entrepreneurial skills have been incorporated into the national education system. The country has taken significant steps towards developing an education system that is conducive to nurturing entrepreneurial talent. It has both a broad framework for entrepreneurial education and a specific curriculum. In 2019, the Entrepreneurship Innovation Centre was established under the Ministry of Education, signalling an increased focus on integrating entrepreneurship into the core educational curriculum for primary and secondary school. The Entrepreneurship Innovation Centre helps schools embed elements of entrepreneurship into existing subjects and, in collaboration with Shell LiveWIRE Brunei, offers bootcamps and competitions that reward aspiring entrepreneurs. At the university level, support for entrepreneurship is even more established, with institutions offering specific programmes, grants, incubation programmes, and start-up centres. In vocational schools, entrepreneurial education is already well included, with dedicated programmes focused on entrepreneurship as well as non-business programmes featuring entrepreneurship fundamentals.

Social enterprises are still an emerging concept in Brunei Darussalam, with no formal definition having been established. Despite this, government support for them is increasingly present. In 2019, a working group was established to support Brunei Darussalam's social enterprises. Inclusive business, a new concept for the country, is also being explored. DARe organised the Fourth ASEAN Inclusive Business Summit, virtually in 2021 as part of activities during Brunei Darussalam's ASEAN Chairmanship with the objective of increasing awareness around the concept at national level.

Brunei Darussalam, in its effort to promote inclusivity amongst SMEs, established definitions for women- and youth-owned enterprises in 2023. The Youth Entrepreneurship Committees, created in 2018, serve as an inter-ministerial platform to update and coordinate youth entrepreneurship initiatives, ensuring alignment with the Dasar Belia Negara dan Strategi ('DBNS') 2020–2035. The committee's aim is to incorporate a Whole of Nation approach into Brunei Darussalam's youth entrepreneurship strategy, ensuring that strategies, initiatives, and deliverables are well-coordinated. It also seeks to facilitate effective collaboration, minimise duplication of efforts amongst relevant parties, and maximise results for the growth of the youth entrepreneurship scene in Brunei Darussalam. In addition to supporting women-owned and youth-owned SMEs, agencies are increasingly developing programmes to support entrepreneurship amongst people with disabilities. In 2022, the Ministry of Culture, Youth and Sports (MCYS) conducted a survey to assess the number of persons with disabilities (PWDs) employed in both the government and private sectors.

3. Recommendations

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Establish a dedicated SME development strategy to enable relevant ministries and agencies to approach the development and growth of SMEs in a more structured and systematic manner. This would provide a dedicated institutional framework for SME policy, following the formalisation of the SME definition in November 2023.
- Establish clear guidelines for the monitoring and evaluation of SME support programmes and ensure that the results of those exercises are presented and discussed with SME stakeholders to learn lessons and improve public interventions and instruments.
- Institute a mandatory consultation process to ensure that the impacts of regulatory changes on MSMEs are thoroughly considered before waiting for challenges to arise. This step would contribute to a more inclusive and effective regulatory environment for SMEs, building on the current ad hoc public–private consultations.

Facilitating SME access to finance (Dimension 3)

- Develop venture capital and business angel financing schemes. Although a regulatory framework for venture capital industry is in place, no venture capital schemes have been registered.
- Continue testing the regulatory sandbox approach to fintech and assess its application. Providing a space where innovations can be tested could help facilitate innovators' access to finance and the development of appropriate rules to regulate innovative business models
- Continue collaboration with traditional financial institutions, exploring options on improved access to finance for MSMEs and how financial institutions can contribute to improving the financial literacy of MSMEs.

Enhancing access to market and internationalisation (Dimension 4)

- Develop a strategic policy to promote SME integration into GVCs. Consider how the priority sectors could help integrate SMEs into GVCs, which could include dedicated programmes integrating local SMEs into special economic zones where multinational corporations operate, or developing knowledge and technology transfer programmes that establish links between SMEs and multinational corporations. These initiatives should help SMEs acquire the skills and business linkages necessary for active participation in GVCs.
- Integrate support for SMEs in trade facilitation system development.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

- Develop instruments to promote SMEs' development of business models and help SMEs expand to regional and international markets. This could include programmes focused on productivity enhancement, capital investment in productivity, and the enhancement of quality standards.
- Establish a comprehensive range of support programmes that focus not only on priority sectors but could also cover a range of MSME support.
- Develop national policies that specifically support the greening of SMEs, as opposed to industry broadly, and that have clear action plans and timelines.
- Further develop instruments and incentives for greening, once policies on SME greening are in place.
- Develop a central focal point to provide information to SMEs in relation to greening, providing advice and signposting to available resources.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

- Establish a national entrepreneurial education system, which includes clear milestones for measuring programme effectiveness. This could help engage various institutions in the entrepreneurial learning platform.
- Form a national network of universities that regularly reviews the implementation process of entrepreneurial learning courses in universities to ensure consistency in educational offerings and to collaborate if necessary. Explore the development of a regional exchange programme to support entrepreneurial skills and education enhancement.
- Explore regional and international examples of policies promoting entrepreneurial education and skills, and integrate them into the policy design.
- Establish a legal definition or set of criteria for social enterprises and clarify the scope of these entities. This definition could encompass initiatives with inclusive business characteristics, fostering a more supportive environment for social entrepreneurship.
- Explore collaboration with the private sector and how various private sector initiatives could collaborate with support to target groups (women-owned SMEs, youth-owned SMEs, SMEs led by people with disability).

Brunei Darussalam Scores 2024

Brunei Darussalam Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**4.43**		**4.49**	**1.03**
1.1 Productivity Measures	**5.15**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	4.73	35%	4.41	0.99
Thematic Block 2: Implementation	5.62	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	4.84	20%	4.70	1.47
1.2 Business Development Services	**4.68**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	4.87	70%	4.86	1.03
Thematic Block 1: Planning & Design	4.74	35%	4.55	1.10
Thematic Block 2: Implementation	5.47	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	3.77	20%	3.49	1.09
1.2.2 Business Support Services for the Digital Transformationof SMEs	4.24	30%	4.23	1.02
Thematic Block 1: Planning & Design	4.22	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	4.32	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**4.14**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	5.02	35%	4.43	0.66
Thematic Block 2: Implementation	4.28	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	2.32	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**3.73**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	3.66	35%	4.42	1.40
Thematic Block 2: Implementation	4.27	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	2.65	20%	4.20	1.37

Brunei Darussalam Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	3.02		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**4.43**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	4.81	35%	4.92	0.77
Thematic Block 2: Implementation	4.33	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	4.00	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**2.09**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	3.20	35%	4.31	1.32
Thematic Block 2: Implementation	1.71	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.70	1.86

Brunei Darussalam Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	4.74	100%	4.81	0.39
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**5.39**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	5.77	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	5.00	20%	3.50	1.85
Thematic Block 2: Implementation	6.00	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	5.92	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	6.00	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	6.00	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	1.55	10%	5.02	1.55
Thematic Block 1: Planning & Design	1.55	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**4.09**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	4.09	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	5.22	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	1.47	30%	3.32	1.52
3.2.2 Microfinance	NA	20%	5.38	0.59
Thematic Block 1: Planning & Design	NA	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	4.08	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	5.44	35%	5.02	1.08
Thematic Block 2: Crowdfunding	2.67	35%	3.35	1.57
Thematic Block 3: Equity Instruments	4.13	30%	4.22	1.18

Brunei Darussalam Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**3.63**		**4.94**	**1.26**
4.1 Export Promotion	**3.51**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	4.31	35%	5.88	1.08
Thematic Block 2: Implementation	3.55	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	1.99	20%	4.66	1.87
4.2 Integration to Global Value Chain	**2.83**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	3.48	35%	5.40	1.38
Thematic Block 2: Implementation	2.65	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.21	1.40
4.3 Use of Commerce	**3.87**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	4.74	35%	5.79	1.03
Thematic Block 2: Implementation	3.99	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.20	1.88
4.4 Quality Standards	**4.32**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	4.30	35%	4.73	1.56
Thematic Block 2: Implementation	5.32	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.76	1.74
4.5 Trade Facilitation	**4.23**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	5.15	25%	5.15	0.99
Thematic Block 2: Planning & Design	2.65	25%	3.48	1.36
Thematic Block 3: Implementation	5.43	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	3.70	25%	3.65	1.12

Brunei Darussalam Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	4.53		4.69	1.05
5.1 SME Definition	**5.62**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	5.62	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**4.35**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	3.70	35%	5.45	1.30
Thematic Block 2: Implementation	5.36	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	3.21	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**4.35**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	NA	35%	3.48	1.03
Thematic Block 2: Implementation	NA	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	NA	20%	2.65	1.08

Brunei Darussalam Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	3.93		4.03	1.02
6.1 Public-Private Consulatations	**2.82**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	2.90	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	3.11	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**3.00**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	2.74	40%	3.83	1.12
Thematic Block 2: Implementation	3.53	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	2.24	20%	3.20	1.23
6.3 Company Registration	**5.12**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	4.75	35%	4.44	0.97
Thematic Block 2: Implementation	6.00	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	3.77	20%	3.75	1.35

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**4.33**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	4.33	100%	4.03	1.08
6.5 E-government	**5.10**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	5.58	35%	5.36	1.69
Thematic Block 2: Implementation	4.32	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.90	1.99

Note: Please note that some of the indicators are based on the World Bank "Doing Business" latest edition, as it was agreed. This might result in the fact that some of the recent changes, especially under sub-dimension 6.4 "Ease of fining tax" might not integrate some of the latest changes introduced by the AMS. Specifically for Brunei Darussalam, for sub-dimension 6.5 "E-government", the score in 2018 edition should have been "5.03" and not "5.70" due to the calculation error. The error has been adjusted and the current score in 2024 indicates improvement compared to 2018 edition.

Brunei Darussalam Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**4.21**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**4.29**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	5.00	35%	4.83	1.21
Thematic Block 2: Implementation	3.98	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	3.75	20%	4.04	0.94
7.2 Entrepreneurial Skills	**4.16**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	2.65	35%	3.06	1.26
Thematic Block 2: Implementation	6.00	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.08	1.59

Brunei Darussalam Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	**3.48**		**3.63**	**0.85**
8.1 Social Enterprises	**1.92**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	4.14	35%	4.51	1.19
Thematic Block 2: Implementation	2.80	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	2.85	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**3.55**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	3.88	35%	3.80	1.02
Thematic Block 1: Planning & Design	2.66	35%	4.54	1.09
Thematic Block 2: Implementation	4.13	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	5.43	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	3.54	35%	3.34	0.76
Thematic Block 1: Planning & Design	3.00	35%	2.83	0.44
Thematic Block 2: Implementation	3.49	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	4.60	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	3.19	30%	3.17	0.79
Thematic Block 1: Planning & Design	3.22	35%	2.84	0.55
Thematic Block 2: Implementation	2.91	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	3.76	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, NA = not applicable, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business latest edition (2020), as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States. For Brunei Darussalam, the score for sub-dimension 6.5 (e-government) in the 2018 edition should have been 5.03, not 5.70, due to a calculation error. The error has been adjusted, and the 2024 score indicates an improvement on the 2018 edition.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

References

World Bank (n.d.), *World Bank Development Indicators*, https://databank.worldbank.org/source/world-development-indicators (accessed 19 June 2024).

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Part II

Chapter 11

Cambodia

1. Economic Context

Cambodia is a lower middle-income country located in the Greater Mekong Subregion. It is the third smallest country in the ASEAN region, with a population of 17.1 million (United Nations, 2024[1]). The country has achieved strong GDP growth over recent years, with the 2017-2022 average being 5.88%. According to Economic Census of Cambodia 2022, MSMEs account for approximately 99.7% of companies and are responsible for 59.2% of employment.

Table 11.1. Macroeconomic Data for Cambodia

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	4,521.43	4,785.871	4,584.211	4,668.238	4,860.452
GDP growth	Percent, yoy	7.469169	7.054107	-3.09601	3.026389	5.23981
Inflation	Percent, average	2.459085	1.942575	2.940295	2.920735	5.343703
Unemployment	Percent of active population	-	0.50	0.17	0.40	-
Net FDI	Percent of GDP	13.07	13.52	14.01	12.92	12.13

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: World Bank, n.d.

Over the past decade, the country has experienced rapid GDP growth. However, the economic gains have been compromised by a series of global crises – the coronavirus disease (COVID-19) pandemic and issues around global supply chains. The impact of COVID-19 was severe across several key industries, especially in the tourism and garment sectors and particularly for small and medium-sized enterprises (SMEs). SMEs have reported a 50% decrease in their average revenue, with employment within SMEs dropping by 30%. The government responded quickly with interest subsidies and credit guarantees that alleviated some SMEs' immediate financing constraints. As a result, the country has rebounded soundly, with GDP growth rates for 2021–2023 matching pre-COVID-19 rates of over 5% (World Bank, n.d.).

Despite this recovery, recent price shocks and supply chain disruptions threaten economic stability in the country. Inflation rose to 5.3% in 2022 (up from an average of 2.9% during 2012–2022) as global oil and food prices spiked, likely as a result of the war in Ukraine (FocusEconomics, n.d.). Rising interest rates in key trading partners also pose a potential risk to economic growth, inhibiting inflows of foreign direct investment that have been key to stimulating economic activity.

Cambodia's guiding economic document is the Rectangular Strategy for Growth, Employment, Equity and Efficiency, which outlines the country's objective of becoming an upper middle-income nation by 2030 and a high-income nation by 2050. Phase 4 of this strategy began in 2018, with human resources development designated as the top priority. Recent efforts have focused on raising the quality of science, technology, engineering, and mathematics (STEM) education, diversifying the country's economic base, preparing for the digital transition, strengthening public–private partnerships, and promoting private sector development (particularly through support to entrepreneurs and SMEs). Fostering inclusive and sustainable development is a new priority area, focusing on environmental sustainability and climate adaptation in primary industries.

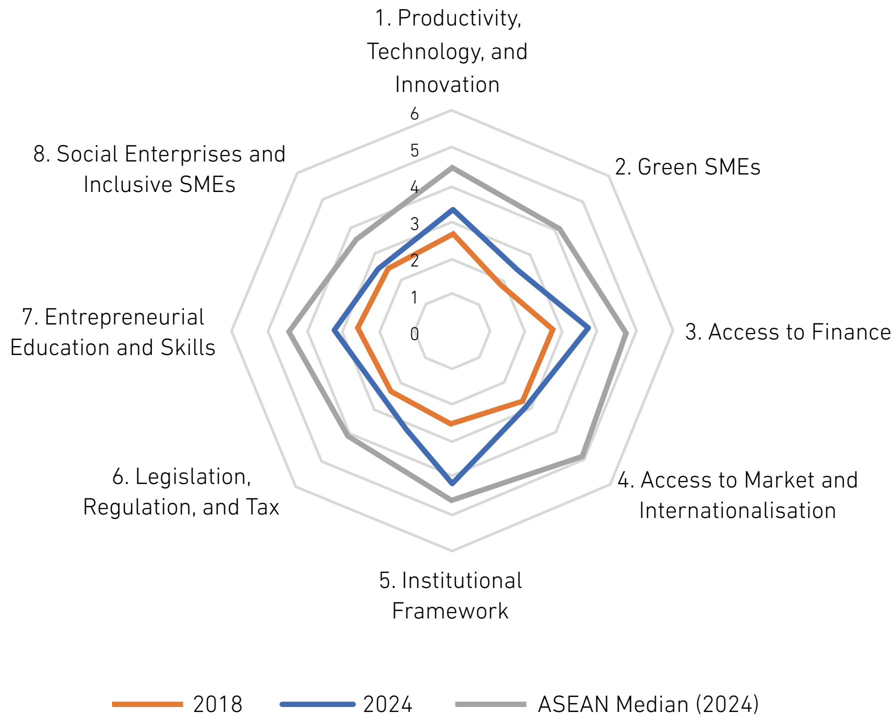
Cambodia's government has taken steps to facilitate the growth of SMEs and improve the business environment. These steps include governance reforms, education enhancement, tax incentives, e-governance platforms, and the launch of the SME Bank of Cambodia. Cambodia does not have a dedicated SME policy, but SMEs feature in other national documents such as the Rectangular Strategy. The agency responsible for the management and promotion of SMEs is the General Department of SMEs and Handicrafts within the Ministry of Industry, Science, Technology, and Innovation (MISTI), previously the Ministry of Industry and Handicrafts. MISTI is responsible for the formulation of SME policy in Cambodia. The General Department of SMEs and Handicrafts is a specialised unit that focuses on SME policy and the promotion of SME development. It also coordinates collaboration with other countries, institutions, and development partners to promote the development of SMEs. Additionally, in 2020, the SME Promotion Committee was established under the umbrella of the Economic and Financial Policy Committee to help formulate policies that address concerns pertaining to SMEs.

2. 2024 ASPI Results

Overall Scores

Figure 11.1 shows the overall scores for Cambodia for the 2024 assessment. Compared with the 2018 edition, Cambodia has made significant progress – especially in revamping its institutional set-up and working on improving business development services to SMEs as well as access to finance. The country scores highly on its institutional framework (4.21). Cambodia is still at the early policy framework stage for areas related to green SMEs (2.47), legislation and tax (2.61), and social enterprises (2.59).

Figure 11.1. SME Policy Index 2024 Scores for Cambodia



ASEAN = Association of Southeast Asian Nations, SMEs = small and medium-sized enterprises.

Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

Cambodia has been working on improving the institutional set-up but must still address issues related to implementation modalities and informality.

Cambodia has a legal SME definition that was developed under the SME Development Framework in 2005. Size is determined by the number of employees and either the annual turnover or total assets, with different criteria applied depending on the sector (**Table 11.2**). The definition is being increasingly used across government institutions but does not distinguish between micro and small enterprises.

Table 11.2. **Cambodia's SME definition**

Sector	Number of Employees		Annual Turnover (US$)			Total Assets (US$)	
	Small	Medium-Sized	Small	Medium-Sized		Small	Medium-Sized
Agriculture	5–49	50–199	62,250–250,000	250,001–1,000,000	or	50,000–250,000	250,001–500,000
Industry	5–49	50–199	62,500–400,000	400,001–2,000,000		50,000–500,000	500,001–1,000,000
Services &Trading	5–49	50–99	62,500–250,000	250,001–1,500,000		50,000–250,000	250,001–500,000

SMEs = small and medium-sized enterprises.
Source: ASEAN, 2024.

The Rectangular Strategy and other policies refer to SMEs, but no comprehensive policy has been designed for SMEs. The current policies pertaining to SMEs are fragmented, with measures aiming to develop and promote SMEs. In terms of implementation, the government has launched several relevant initiatives such as Khmer Enterprise. Other positive trends include policy focus on digitalisation and start-ups. Government policy documents such as the Cambodia Digital Economy and Society Policy Framework, 2021–2035 support the promotion of digitalisation amongst SMEs. The monitoring and evaluation of SMEs' development are documented in some reports such as the midterm review of the Industrial Development Policy, 2015–2025.
Business informality remains pervasive in Cambodia, with a 2019 United Nations and Asian Development Bank labour force survey showing 88% of Cambodia's workforce engaged in informal employment (ILO-ADB, 2019[6]). The government is attempting to address business informality through financing and tax incentives, and the overall trend of informality is declining, with rates down from 93% in 2012.

Regulatory impact analysis is mandated and conducted across 18 ministries and institutions. Within the regulatory impact analysis framework, the government has established several working groups across ministries. While public–private consultations are routinely conducted, previously identified challenges from the last assessment have not been addressed. Consultations are still not readily and widely available on digital platforms, and the formal written instructions regarding the process of conducting consultations still lack clarity.

In the area of business registration and tax filing, the most notable progress has been the online provision of government services, which has the potential to reduce both the time and cost of the registration process. Business name reservation, tax filing, and social security contributions can be done digitally. Additionally, the government launched a single business portal called the Cambodia Data Exchange (CamDX) that distributes data provided by SMEs to the appropriate ministries. For SMEs, the government developed a one-stop site called KhmerSME where SMEs can find information on starting and expanding a business, laws and regulations, opportunities for business networking, and access to financial services, as well as regularly updated directories of service providers, training programmes, and events.

Facilitating SME access to finance (Dimension 3)

Government provides several funded SME support programmes, but alternative finance mechanisms should be strengthened.

The score indicates progress in access to finance for SMEs. The country has a cadastre system in place, as well as an online moveable assets registry and a legal framework for secured transactions. Numerous endeavours are being undertaken to provide financial assistance to SMEs. The government's National Financial Inclusion Strategy, 2019–2025 aims to 'increase access to quality formal financial services, reduce the financial exclusion of women by half from 27% to 13%, and increase usage of formal financial services from 59% to 70% by 2025' (Government of Cambodia, 2019[7]). SME Bank of Cambodia has several initiatives to increase financial access for SMEs, including the SME Co-Financing Scheme, Export Market Development Grants, and Improving Small Package e-Trade for SMEs. In addition, Credit Bureau Cambodia has been in place since 2012 to address SMEs' reporting obligations.

According to the United Nations Capital Development Fund, microfinance serves as a prominent avenue for securing funding, with over 2.6 million Cambodians holding microfinance loans (United Nations Sustainable Development Framework, 2023[7]). A total of 83 microfinance institutions and 1,453 microfinance branches are spread across Cambodia, making it accessible to SMEs. Equity finance across the country is relatively underdeveloped. According to the United Nations Economic and Social Commission for Asia and the Pacific, the country has 16 venture capital and private equity firms (UNESCAP, 2022[8]). SMEs can also register on the Cambodia Securities Exchange, although only two companies have listed since its launch in 2015.

Enhancing access to market and internationalisation (Dimension 4)

E-commerce and export promotion are being utilised to improve SME market integration.

Improving access to markets is highlighted as a policy priority for Cambodia in the Rectangular Strategy; the National Strategic Development Plan, 2019–2023; the Cambodia Industrial Development Policy, 2015–2025; and the Cambodia Trade Integration Strategy, 2019–2023. The industrial development policy and the trade integration strategy stress the need to improve SMEs' export performance. No specific policy is exclusively dedicated to enhancing SMEs' export activities. Instead, various programmes have been implemented to promote exports, with an emphasis on supporting SMEs. For example, the Export Market Development Grant programme is designed to support firms seeking to enter global export markets. The programme offers a range of SME incentives, such as covering 50% of the expenses incurred for marketing activities aimed at expanding into new export markets.

Other programmes to support SME integration into global value chains, such as promotional events for the SME business matching platform ASEAN Access MATCH, have been ongoing. The government has also established a database of domestic suppliers, with information regarding their sustainability profile.

The government has implemented a variety of policies and initiatives with the aim of fostering the adoption and utilisation of e-commerce. To establish a sound legal framework, the government adopted the Law on Electronic Commerce in 2019 and has updated it with sub-decrees creating consumer protection standards and outlining procedures for obtaining permits for online service providers or licences for e-commerce activities. In 2020, the government also launched its e-commerce strategy, which aims to build the e-commerce ecosystem and create a digitally based service economy.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

SME and start-up support has increased since the last assessment, but efforts to facilitate SME greening are lacking.

In recent years, Cambodia has stepped up efforts to formulate a comprehensive framework of policies aimed at fostering productivity, technology, and innovation. The National Policy Framework for Cambodia's Economic Productivity, 2022–2035 was introduced in 2022, but there is still no specific policy dedicated to enhancing SME productivity. This, combined with the high level of informality and the lack of awareness amongst SMEs, hinders effective use of government support.

Business development services (BDS) have dramatically increased since the previous assessment, with Cambodia establishing Khmer Enterprise, the Techo Startup Center, Startup Cambodia, and KhmerSME. These organisations have created online platforms to provide information on the support available, host business competitions, and establish programmes to enhance connectivity/peer learning. Dedicated programmes focused on start-ups, such as incubators or accelerators, are also available and provided by both the public and private sectors (e.g. Impact Hub, Bio Program, and SHE Investments). Additionally, various forms of support are in place to assist the digital transformation of SMEs. Financial support for business transformation is provided through SME Bank's Cambodia Digital & Automation Scheme, and financial support for digital upskilling is provided through the Skills Development Fund and the Capacity Building Research and Development Fund. In terms of SME policy for business clusters, no major progress has been recorded. Effective regulations and incentives promoting the use of SME clusters, science/industrial parks, and technology centres have been established.

To develop technological innovation, the government introduced the Science, Technology and Innovation Roadmap 2030 and the Digital Tech Roadmap. Both policies set measurable targets, establish an action plan, and are matched with a monitoring/evaluation system. Various innovation support incentives and programmes have been established, including the Techo Startup Center's Innovation Programme, Reverse Innovation, and Turing Hackathon; and the Global Cleantech Innovation Programme. These programmes provide a variety of support, including funding, business mentoring, and access to high-tech infrastructure. Additionally, the Cambodia 4.0 Centre has established the Khmer Tech Market to provide a digital business matching platform for technology services.

To date, there is a lack of environmental policies that specifically target SMEs. However, various initiatives and programmes implemented by both the government and development partners enhance the environmental performance of SMEs. Those include the Global Cleantech Innovation Programme, Inclusive Green Economy, and Program Impact-Driven SME.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Schools increasingly prioritise entrepreneurship, and support for women and youth-owned businesses is robust.

As one of its policy priorities, the Education Strategic Plan, 2019–2023 set out to incorporate entrepreneurial learning in the national curriculum. With support from the International Labour Organization, Know About Business modules have been integrated into secondary-level education curricula across the country. Additionally, universities are taking steps to support start-ups and increase business skills, including entrepreneurial programmes, start-up facilities, collaborations between universities and businesses, and competitions focused on developing business plans (Khantey and Leung, 2023[9]). Beyond universities, other organisations offer training programmes and support activities, including development partners, governmental entities, and private enterprises. The SmartStart Unipreneur Learning Platform (ULP) initiative has helped to promote entrepreneurship amongst universities since 2019 and helps to integrate entrepreneurship into the university curriculum.

To date, there is still no common definition for social enterprises. However, measures to promote social entrepreneurship are featured in the National Strategic Development Plan, 2019–2023 and Cambodia Industrial Development Policy, 2015–2025. In addition, Cambodia has a robust support framework for inclusive business and entrepreneurship amongst marginalised groups. For inclusive business, MISTI approved the Inclusive Business Enabling Environment for Cambodia (IBeeC) strategy in 2020. Cambodia has organised various events to raise awareness on inclusive businesses and disseminate crucial information pertaining to the implementation of inclusive businesses. Dedicated policies and support programmes have been established for women- and youth-owned businesses. Cambodia has 18 centres for the development of women and young entrepreneurs, while Khmer Enterprise and the Techo Startup Center offer special award programmes and mentorship initiatives for these groups. The National Disability Strategic Plan, 2019–2023 promotes entrepreneurship amongst people with disability. However, the number of support programmes and representation of people with disability across other policy documents is quite limited.

3. Recommendations

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Strengthen coordination amongst bodies responsible for SME development through a dedicated high-level coordination mechanism.
- Separate policy elaboration, supervision, and monitoring functions from the policy implementation function. The government should consider establishing an SME or enterprise development agency, with operational autonomy, or providing such a mandate to one of the existing organisations (e.g. Khmer Enterprise).
- Develop a dedicated SME development strategy, in line with the country's overall and sectoral development strategies. The SME strategy should contain clearly defined quantitative and qualitative objectives, as well as a timeline, and should be used as a platform for policy coordination.
- Improve data collection throughout the SME sector to access regularly updated SME-related data for the formulation of policies and strategies that are grounded in evidence and tailored to specific needs. The country could consider integrating differentiation between micro and small enterprises, as it could gather more detailed data relevant for policymaking.
- Fight business informality and continue making progress on the formalisation of the economy, e.g. by streamlining registration procedures for SMEs, and work on digitalisation and automation of the business registration procedures. This could include the integration of business support services in conjunction with digital business registration. Facilitate the taxation process and procedures, and provide mechanisms to support SMEs in filing tax declarations.

Facilitating SME Access to Finance (Dimension 3)

- Decrease lending practices that rely exclusively on real estate as collateral.
- Diversify sources of SME finance, especially around alternative financing mechanisms. The utilisation of crowdfunding and digital finance mechanisms should be further promoted. Additionally, financial institutions should be encouraged to develop a range of products specifically designed to meet the unique requirements of SMEs.

- Government should collaborate with SME finance institutions on ways to enhance the financial literacy of SMEs.
- Improve SME financial inclusion through capacity building and financial literacy. SMEs need support with financial literacy and skills to improve their capacity to access credits and finance through other means. SMEs need to be better informed on the potential finance and other services available to them through capacity building.

Enhancing access to market and internationalisation (Dimension 4)

- Explore ways to support SMEs with engagement in the export sector, enhancing their overall export capacities and aiding them in navigating bureaucratic procedures. This could be done through dedicated links with export agencies or dedicated programmes for upskilling SMEs' export and import capacities.
- Explore ways to link SMEs with larger companies with the aim of improving quality and productivity and supporting them to engage in global value chains. This could be done through a sectoral or cluster approach, matchmaking centres for industrial subcontracting. The government could also support linkages by providing business development support to help SMEs improve the quality of their products or services, and by promoting Responsible Business Conduct standards amongst SMEs, while engaging with larger companies and involving multinational enterprises in these processes.
- Embed SME support in national trade facilitation initiatives and ensure that they can benefit from existing measures relating to trade facilitation.
- Increase the international exposure of SMEs and further strengthen backward linkages by organising more networking events, exchange programmes, and international expos.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

- Explore partnerships with the private sector, development agencies, and foreign technology parks to improve the productivity and innovation capacity of SMEs. Collaboration with larger entities and engagement with foreign companies could help enhance market knowledge and technical expertise and catalyse innovation.
- Improve digital literacy amongst SMEs. To advance the accessibility of digital and technological resources for young people, digital and technology literacy must be integrated in the national education curriculum. Technology hubs can also be set up in provincial areas to provide existing SMEs with knowledge on digital skills.
- Promote cluster development by playing a catalytic role (e.g. promoting inter-firm networking, ensuring access to infrastructure and communications, disseminating information, and supporting educational and training services) and ensuring that local SMEs have access to the clusters.

- Continue creating business development services infrastructure, such as incubators, business development centres, and innovation centres, where access to appropriate infrastructure and laboratories can be envisaged. For rural areas, consider developing partnerships with universities as well as mobile incubator programmes. For more high-tech activities, the government could consider developing partnerships with countries in the region where the available infrastructure already exists.
- Work on the expansion of peer-to-peer networks to build capacity. Non-profit organisations, such as the Youth Entrepreneurs Association of Cambodia, have already found success in fostering start-ups and the growth of SME skills. By coordinating these efforts with large businesses and banks, Cambodia could help extend the reach of these networks and address capacity constraints in the region.
- Share information about the importance of greening and establishing more incentive schemes for greening SMEs. The government could consider introducing more fiscal and non-fiscal incentives, but feasibility studies would be required beforehand.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

- Revamp the entrepreneurial learning curriculum regularly, keeping it relevant and up to date.
- Continue working on the development of an entrepreneurial mindset by organising events, facilitating the exchange of knowledge and experience with successful entrepreneurs.
- Explore ways to develop train-the-trainer modules, especially with specific target groups.
- Develop a clear definition or set of criteria for social enterprise and inclusive business ventures. Such a definition would help create dedicated support programmes, create better awareness of the concepts, and explore the possibility of developing relevant registries and accreditation schemes.
- Build on the success of the IBeeC strategy and dedicate the necessary resources to the accreditation mechanisms, working in partnership with impact investors.
- Develop the curriculum for teacher training on entrepreneurship by emphasising the implementation of existing initiatives such as SmartStart ULP. Further efforts could be taken in promoting entrepreneurship and self-employment modules amongst the vocational education and training courses.

Cambodia Scores 2024

Cambodia Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**3.34**		**4.49**	**1.03**
1.1 Productivity Measures	**3.39**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	3.90	35%	4.41	0.99
Thematic Block 2: Implementation	3.38	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	2.52	20%	4.70	1.47
1.2 Business Development Services	**3.34**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	3.32	70%	4.86	1.03
Thematic Block 1: Planning & Design	2.99	35%	4.55	1.10
Thematic Block 2: Implementation	3.88	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	4.24	30%	4.23	1.02
Thematic Block 1: Planning & Design	3.67	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	2.32	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**4.14**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	4.73	35%	4.43	0.66
Thematic Block 2: Implementation	3.78	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	2.65	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**2.73**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	1.52	35%	4.42	1.40
Thematic Block 2: Implementation	3.84	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	2.32	20%	4.20	1.37

Cambodia Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	2.47		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**3.09**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	3.68	35%	4.92	0.77
Thematic Block 2: Implementation	2.38	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	3.66	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**2.06**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	2.67	35%	4.31	1.32
Thematic Block 2: Implementation	2.07	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.70	1.86

Cambodia Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	3.73	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**3.69**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	3.53	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	1.00	20%	3.50	1.85
Thematic Block 2: Implementation	5.17	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	3.16	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	4.52	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	4.52	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	3.20	10%	5.02	1.55
Thematic Block 1: Planning & Design	3.20	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**3.77**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	3.83	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	4.39	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	2.52	30%	3.32	1.52
3.2.2 Microfinance	4.13	20%	5.38	0.59
Thematic Block 1: Planning & Design	4.13	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	2.62	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	3.39	35%	5.02	1.08
Thematic Block 2: Crowdfunding	1.83	35%	3.35	1.57
Thematic Block 3: Equity Instruments	2.65	30%	4.22	1.18

Cambodia Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**2.95**		**4.94**	**1.26**
4.1 Export Promotion	**2.96**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	4.55	35%	5.88	1.08
Thematic Block 2: Implementation	2.60	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	1.00	20%	4.66	1.87
4.2 Integration to Global Value Chain	**2.63**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	4.07	35%	5.40	1.38
Thematic Block 2: Implementation	2.27	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.21	1.40
4.3 Use of Commerce	**3.01**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	3.89	35%	5.79	1.03
Thematic Block 2: Implementation	3.21	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.20	1.88
4.4 Quality Standards	**2.28**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	2.65	35%	4.73	1.56
Thematic Block 2: Implementation	2.32	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	1.55	20%	3.76	1.74
4.5 Trade Facilitation	**3.64**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	4.31	25%	5.15	0.99
Thematic Block 2: Planning & Design	2.65	25%	3.48	1.36
Thematic Block 3: Implementation	4.32	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	3.28	25%	3.65	1.12

Cambodia Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	**4.21**		**4.69**	**1.05**
5.1 SME Definition	**5.07**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	5.07	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**4.54**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	5.02	35%	5.45	1.30
Thematic Block 2: Implementation	4.18	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	4.50	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**3.27**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	3.48	35%	3.48	1.03
Thematic Block 2: Implementation	3.75	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	1.83	20%	2.65	1.08

Cambodia Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	**2.61**		**4.03**	**1.02**
6.1 Public-Private Consulatations	**2.29**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	2.68	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	2.28	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	1.55	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**2.66**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	2.83	40%	3.57	1.09
Thematic Block 2: Implementation	2.17	40%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	3.48	20%	3.27	1.07
6.3 Company Registration	**2.82**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	2.25	35%	4.44	0.97
Thematic Block 2: Implementation	3.83	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	1.55	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**3.20**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	3.20	100%	4.03	1.08
6.5 E-government	**2.27**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	2.65	35%	5.36	1.69
Thematic Block 2: Implementation	2.18	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	1.83	20%	3.90	1.99

Cambodia Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**3.17**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**3.32**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	4.40	35%	4.83	1.21
Thematic Block 2: Implementation	2.54	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	3.20	20%	4.04	0.94
7.2 Entrepreneurial Skills	**3.06**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	2.65	35%	3.06	1.26
Thematic Block 2: Implementation	4.30	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.08	1.59

Cambodia Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	2.59		3.63	0.85
8.1 Social Enterprises	**1.92**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	2.28	35%	4.51	1.19
Thematic Block 2: Implementation	1.90	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	1.33	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**2.81**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	3.23	35%	3.80	1.02
Thematic Block 1: Planning & Design	4.58	35%	4.54	1.09
Thematic Block 2: Implementation	2.79	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	1.83	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	3.04	35%	3.34	0.76
Thematic Block 1: Planning & Design	3.00	35%	2.83	0.44
Thematic Block 2: Implementation	3.49	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	2.06	30%	3.17	0.79
Thematic Block 1: Planning & Design	2.84	35%	2.84	0.55
Thematic Block 2: Implementation	1.69	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	1.55	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

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Part II

Chapter 12

Indonesia

1. Economic Context

Indonesia is the largest and most populous country in the Association of Southeast Asian Nations (ASEAN), with a population of 279.8 million and a total land area of 1,913,579 square kilometres (United Nations, 2024). The country is rich in natural metals and minerals such as tin, copper, gold, and nickel, as well as coal. It has substantial oil and gas reserves and is a major global producer of agricultural commodities such as rubber, palm oil, and grains. The country has achieved strong gross domestic product (GDP) growth in recent years, averaging 5.37% during 2017–2022 (World Bank, n.d.). Micro, small, and medium-sized enterprises (MSMEs) represent over 99% of the total enterprises, with the vast majority classified as microenterprises. According to the latest data, MSMEs contribute to 96.9% of total employment in the country and 60.5% of GDP (Indonesian Government, 2022).

Table 12.1. Macroeconomic Data for Indonesia

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	12,394.63	12,895.27	12,523.23	12,897.06	13,495.53
GDP growth	Percent, yoy	5.17	5.02	-2.06	3.703	5.31
Inflation	Percent, average	3.20	3.03	1.92	1.56	4.21
Unemployment	Percent of active population	4.39	3.59	4.26	3.83	3.46
Net FDI	Percent of GDP	1.81	2.23	1.81	1.79	1.87

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: World Bank, n.d.

The country has shown robust growth over the period, although recent geopolitical crises (e.g. the coronavirus disease (COVID-19) and the war in Ukraine) have impeded development efforts. Indonesia had a robust response to supporting small businesses during COVID-19, enacting deferred loan payments, debt restructuring, reduced interest rates, voucher programmes, and subsidies on loan interest. The impact of these policies was a robust recovery from the pandemic, with GDP growth rates for 2022 and 2023 only slightly below pre-pandemic levels (**Table 12.1**). However, other global crises have complicated this recovery. The escalation of the war in Ukraine has raised concerns about supply shortages, as Indonesia is a major importer of wheat from Ukraine. To alleviate concerns, in early 2022 the government implemented price controls and export bans on various food products to ensure food security. More recent economic shocks to credit conditions have also led the monetary authority to raise interest rates and prevent capital outflows (OECD, 2023).

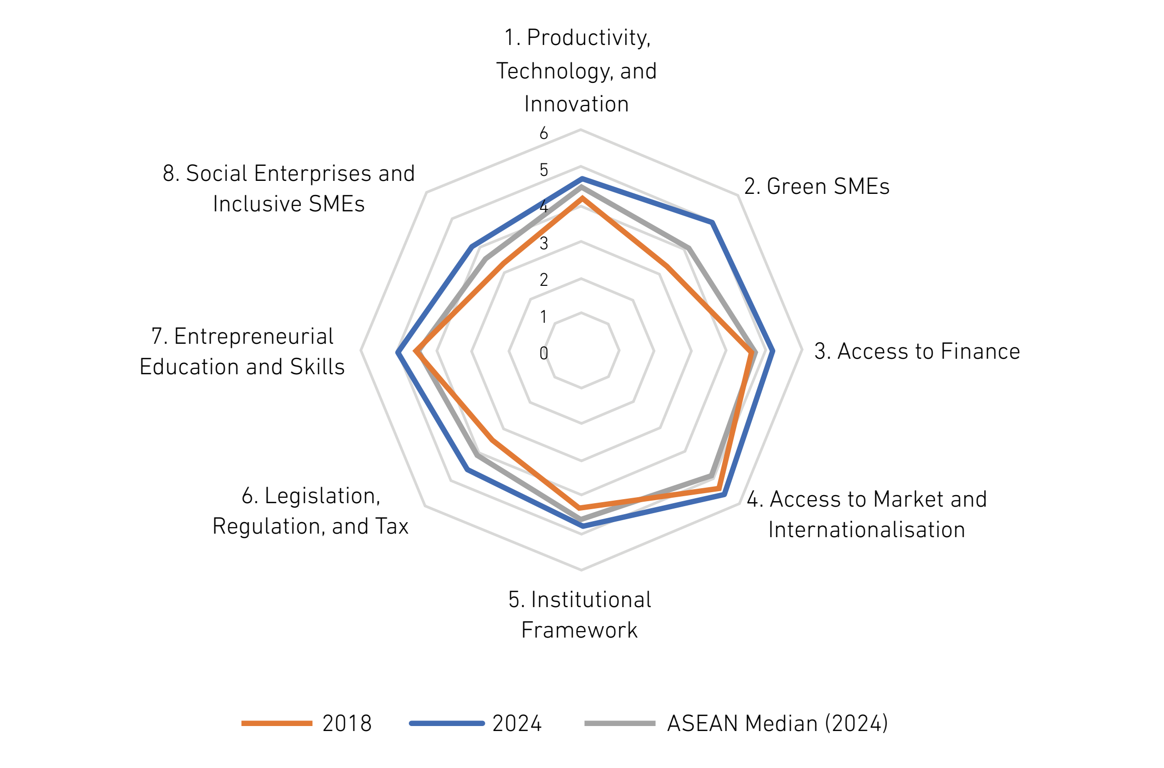
Indonesia has a large MSME sector, which accounts for about 99.9% of companies and 96.9% of employment. Microenterprises comprise 98.7% of firms and provide 89.9% of employment. To support MSMEs, Indonesia established the Ministry of Cooperatives and Small and Medium-Sized Enterprises (MCSME). The MCSME has various strategic plans on MSME development, and benchmarks for MCSME performance can be found in the National Medium-Term Development Plan, 2020–2024 and the MCSME Strategic Plan, 2020–2024.

2. 2024 ASPI Results

Overall Scores

The ASEAN SME Policy Index (ASPI) scores confirm that Indonesia has a high level of policy development around small and medium-sized enterprises (SMEs), consistently scoring above the ASEAN median scores across the eight dimensions (**Figure 12.1**). The country scores highest on dimensions related to the ease of doing business, such as access to markets (5.48) and access to finance (5.07). The country's lowest score was in social enterprises (4.13). Overall, Indonesia has shown strong growth since the previous assessment, particularly in dimensions relating to green SMEs and the country's legislative and regulatory framework.

Figure 12.1. **SME Policy Index 2024 Scores for Indonesia**



ASEAN = Association of Southeast Asian Nations, SMEs = small and medium-sized enterprises.

Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

Recent reforms have merged regulations and reduced the complexity for SMEs to do business.

The MSME definition in Indonesia was revised in 2021. The prior 2008 definition defined the company size based on total assets, capital, and turnover, while the modified MSME definition has eliminated the asset criteria and raised MSMEs' capital and turnover requirements. The current definition is summarised in **Table 12.2**.

Table 12.2. Indonesia's SME Definition

Category	Total Capital (excluding land and buildings)	Annual revenue
Micro	Enterprises with a business capital up to Rp1 billion	Enterprises with annual revenue up to Rp2 billion
Small	Enterprises with business capital from Rp1 billion to Rp5 billion	Enterprises with annual revenue of Rp2 billion to Rp15 billion
Medium-sized	Enterprises with business capital from Rp5 billion to Rp10 billion	Enterprises with annual revenue of Rp15 billion to Rp50 billion

SMEs = small and medium-sized enterprises.

Source: Government Regulation No. 7/2021 on the Ease, Protection, and Empowerment of Cooperatives and MSMEs.

As mentioned above, the MCSME is responsible for MSME development. Its 2020–2024 Strategic Plan establishes four pillars for SME transformation: (i) cooperative modernisation, (ii) transformation of microenterprises from informal to formal, (iii) transformation of SMEs in the supply chain, and (iv) growth of productive entrepreneurship.

In developing new regulations, public–private consultations are mandatory and routinely occur several times a month. Citizens can find information regarding public–private consultations through the government's regulation and information platform, the National Legal Documentation and Information Network (JDIHN), as well as government social media accounts and official government websites.

Indonesia retains a rather complex institutional, regulatory, and operational environment for SMEs. Since the last assessment, the government has enacted a set of reforms to simplify business processes. In 2020, the Job Creation Law (also known as the Omnibus Law) merged 51 regulations into 11 main regulations. The reforms have made it easier for MSMEs to obtain business licences, tax reductions, and tax relief; and provided exemptions from paying the provincial or regency/city minimum wage. According to the MCSME, 30%–40% of redundant business-related regulations were eliminated as a result.

Implementation of the Omnibus Law has led to various improvements in the ease of doing business and advancements in e-governance. For instance, business registration for MSMEs is now done electronically through the Online Single Submission (OSS) System. Additionally, the Directorate General of Taxes has provided a digital platform for filing and paying taxes, pensions, or social security contributions online.

The country, while conducting regulatory impact analysis before and after each piece of regulation, has started to look at the impact of policies on SMEs only recently. In 2018, the Ministry of National Development Planning/ National Development Planning Agency (Bappenas) conducted research on regulatory impact analysis for 48 regulations from 16 ministries and institutions. The study applied cost–benefit analysis and identified that more than half of the regulations were ineffective. One of the recommendations of the study was the suggestion to simplify MSME regulations.

Statistical data (BPS-Statistics Indonesia, 2022) suggest that the informal sector is relatively large in Indonesia, with about 59.31% of 135.5 million workers estimated to operate informally, making up a substantial part of the national economy. In its strategic plan, the government set a target to move 16% of MSMEs from the informal sector to the formal sector over 2021–2024. This involves 4% of microenterprises moving to the formal sector each year during the strategic plan's implementation. The MCSME established Garda Transformasi Formal Usaha Mikro (Transfumi) programme to assist SMEs in transitioning to the formal sector. It informs MSMEs about relevant regulations and provides assistance on the business registration and certification processes.

Facilitating SME access to finance (Dimension 3)

Access to financial services and financial literacy amongst MSMEs should still be addressed.

Indonesia's financial market has been rapidly developing over the last several years, and new alternatives to traditional financial instruments are becoming more common. Indonesia adopts a dual banking system in which both conventional banks and Islamic banks operate. As of June 2022, the market share of the Islamic banking industry was 6.87% of the national banking industry. According to a report by Indonesia's central bank (Bank Indonesia), 69.5% of SMEs had no access to banking credit, and the total credit for the MSME segment was 21.17% in March 2021 as a share of the total credit in commercial banks (Bisnis, 2021). The country's most substantial programme to catalyse SME financing is the People's Business Credit (KUR), a government-sponsored subsidy programme that allows banks to provide low interest rates (6%) for SMEs.

One of the biggest problems faced by SMEs in most Southeast Asian countries is the lack of access to financial services, as well as the lack of financial literacy. Currently, most SME lending in Indonesia is dominated by loans from commercial banks. Of note, Bank Rakyat Indonesia has adopted a 'go smaller' strategy, providing smaller loans to ultra-micro firms and subsidised loans to micro-entrepreneurs below the poverty line.

Enhancing access to market and internationalisation (Dimension 4)

Promotional events are being used to increase SME exports.

MSMEs play an important role in the Indonesian economy as a key source of domestic income growth and employment creation. However, MSMEs' participation in the international economy is limited, contributing only 15.65% of total non-oil and gas exports.

The Indonesian government recognises these challenges and has established the Ministry of Trade's Directorate General for National Export Development (DGNED) as the main national export promotion agency. In 2012, the DGNED launched the Export Communication Forum for Small and Medium Enterprises, which provides foreign market information tailored to SMEs. The DGNED also facilitates the participation of local SMEs by organising international trade fairs and other promotional events, although these events are not SME-specific. In terms of capacity building programmes, the Ministry of Trade, through the Training Centre for Human Resources Export and Trade Services (PPEJP), conducts various training programmes for MSMEs. The PPJEP also organises an export coaching programme that is carried out in 12 regions.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

Indonesia offers a variety of business support, but coordination between programmes could be further improved.

In Indonesia, many agencies are involved in national productivity policies. Bappenas is the lead agency for developing productivity policy, while the MCSME, Ministry of Labour, and Ministry of Industry are the main agencies responsible for its implementation. The MCSME Strategic Plan, 2020–2024 covers the policy priorities for raising SME productivity – including improvements to production capacity, access to markets, access to finance, human capital development, institutions, and the business environment in general.

Recent policy developments on productivity have focused on increasing digitalisation and supporting innovative SMEs. For instance, the Digital Entrepreneurship Academy under the Ministry of Communications and Informatics aims to equip MSMEs with digital entrepreneurship skills and competences. As of June 2023, the ministry has reached 4.7 million participants through its digital literacy programmes and offers digital consulting to 30,000 businesses (AntaraNews, 2023).

The Indonesian government offers a multitude of business development services to MSMEs, with 21 MSME empowerment programmes under 19 ministries/agencies. For example, the Integrated Business Service Center (PLUT) Re-design Program was established to provide guidance and assistance to MSMEs and entrepreneurs, enabling them to upgrade their businesses.

Regulatory frameworks are in place for business clusters that cater directly to SMEs. Under the Ministry of Industry, the Directorate General of Small, Medium and Miscellaneous Industries (IKMA) was established to oversee SME development centres. Indonesia has a 'factory sharing' programme that brings together companies from several industries (furniture, livestock, and essential oils) and promotes industry infrastructure sharing. The objective of these clusters is to encourage the competitiveness of SMEs and promote innovation through the use of technology, innovation, and creativity in one integrated location.

To foster innovative businesses and high-tech start-ups, IKMA organises competitions for innovation-based SMEs. These competitions are typically sector specific, such as the Indonesia Food Innovation programme for food and beverage products, the Indonesia Fashion and Craft Awards programme for fashion and craft products, and the Startup4Industry programme for technology start-up products. Additionally, since 2021, the MCSME facilitates start-up incubation programmes through a series of programmes, including start-up selection, bootcamps, coaching clinics, demo days, and business matching. The programme is conducted in partnership with universities and start-up incubators, as well as venture capital and financing institutions that aim to create innovative start-ups. The MCSME encourages demand-side innovation in MSMEs by establishing business incubators within universities. These incubators link and match the innovation needs of MSMEs with research conducted by university researchers, lecturers, and students.

Indonesia's most recent medium-term development plan prioritises low-carbon development and green growth, although policy provisions do not specifically consider SMEs. Despite this, various programme initiatives are dedicated to SME greening. For instance, the Ministry of Forestry and Environment provides a soft loan for green SMEs through the Centre for Forest Development Financing (P3H). Additionally, the Ministry of Finance provides tax incentives to business entities implementing renewable energy development. Bank Indonesia also supports green MSMEs through capacity development, corporatisation, and better access to financing. Additionally, Bank Indonesia seeks to increase the supply of sustainable finance, providing incentives to banks that distribute credit/financing to priority sectors and meet Macroprudential Inclusive Financing Ratio targets.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Indonesia is home to many entrepreneurs, but further integration of entrepreneurship education in the national curriculum could improve the skills and quality of management practices in the country.

Entrepreneurship education is still in development in Indonesia's formal education system, and elements of entrepreneurial learning are only mandated for secondary level vocational schools. At the university level, support for entrepreneurship is facilitated through the Independent Entrepreneurship Programme. The programme, initiated by the Ministry of Education, Culture, Research and Technology and partnering universities, empowers students with a comprehensive entrepreneurship education through workshops, training, and self-development programmes. In 2022, the programme reached 11,524 participants across 12 implementing universities (Universitas Pendidikan Ganesha, 2023[9]). Beyond formal education, programmes also exist to improve the entrepreneurial education of existing SMEs. The MCSME's Entrepreneur Development (Entredev) programme offers business consultation and assistance to entrepreneurs and has reached around 3,700 beneficiaries. Additionally, the MCSME has several programmes to boost the number of entrepreneurs, such as the EntrepreneurHub programme, which aims to increase entrepreneurial awareness and skills amongst entrepreneurs and serves as a platform to connect entrepreneurs with business mentors and experts. Other MCSME programmes, such as the Business Incubator Program, Start-up Development Program, Entrepreneur Financial Fiesta programme, and MSMEs Digital Transformation Program, also boost entrepreneurs' competitiveness.

According to Presidential Decree No. 2/2022 'Article 1, Section 6', social enterprises are defined as 'having a mission to solve social problems and/or make a measurable positive impact on the welfare of the community or the environment, reinvesting a large portion of their profits towards supporting that mission'. The Ministry of Social Affairs launched a set of pilot projects for social entrepreneurship called ProKUS in 2020. ProKUS seeks to improve social enterprises' financial skills, business planning, entrepreneurial spirit, and competitiveness. In addition, the ministry offers business packages to decentralised Joint Business Groups (KUBE) that improve the social welfare of impoverished communities.

While the government in Indonesia does not specifically measure or define women-owned SMEs, various forms of support are in place. In 2020, the National Strategy for Financial Inclusion was adopted, with a priority to make women one of the main targets for financial inclusion. To increase financial inclusion, the Ultra Micro Enterprises (UMi) financing programme offers microfinance solutions to those without access to formal finance. From 2017 to 2021, UMi distributed Rp18.08 trillion across 5.4 million beneficiaries, of whom 95% were women. Additionally, the Ministry of Women Empowerment and Children Protection (KemenPPPA) has a special financing programme that targets underprivileged women who run micro and ultra-micro businesses. The ministry has also launched several partnerships with non-governmental organisations and the private sector to increase digital literacy training for women. Indonesian young entrepreneurs often have difficulty accessing finance. The government has prepared various integrated financing schemes for youth entrepreneurs. For novice entrepreneurs who are just starting micro and small businesses, there are several other programmes such as Super Micro KUR, Regular KUR, and commercial credit financing. The requirements for students to become KUR debtors are simplified.

3. Recommendations

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Consider revising the country's SME definition [GR] No. 7/2021, even though the latest changes date from 2021. The government could update the MSME definition, clarify the scope of SME policy, revise the asset and turnover parameters, and include an employment parameter in the definition. Including this parameter could facilitate harmonisation and comparability with other countries.
- Consider separating the policy development and monitoring function from the policy implementation function. The MCSME, under its current structure, has responsibility for both policy development and policy implementation functions. Evaluating the need to separate policymaking and policy implementation could be the first step in this process.
- Consider ways to ensure better coordination amongst the 28 ministries/institutions in Indonesia that have MSME development programmes, including sharing and harmonisation of MSME data and indicators. An inter-ministerial council or committee that could bring together the relevant representatives of the institutions could help to achieve a regular and coordinated exchange of information and data and could help improve coordination.
- Perform further work to support monitoring of the implementation of SME-related policies. The impact of SME facilities also needs to be monitored and evaluated independently to ensure that the facilities are accessible to SMEs and being utilised.
- Continue working on streamlining company registration procedures. This could include exploring options to facilitate company registration, especially for the self-employed or microenterprises.

Facilitating SME access to finance (Dimension 3)

- Assess the performance of current public schemes to stimulate bank lending. A review of existing financial support programmes could be conducted to improve their independence, enhance market orientation, and address financial gaps throughout the enterprise development and growth cycle.
- Improve SME financial inclusion through capacity building and financial literacy. SMEs need support with financial literacy and skills to improve their capacity to access credit. SMEs need to be better informed on the finance and other services available to them through capacity building and assistance from financial services providers to maximise their uptake of financial services. This could be done through working with a range of private sector financial institutions as well as through the government entrepreneurship support programmes.

- Government could explore financial innovation options to create more opportunities for SMEs through traditional and alternative sources of financing, and task state-owned banks such as Bank Rakyat Indonesia and Bank Mandiri with developing a specific programme to support SMEs. This would build on the government's financing facilities dedicated to SMEs by providing low-interest rates (Kredit Usaha Rakyat) and incentives.

Enhancing access to market and internationalisation (Dimension 4)

- Continue working on improving the internationalisation of SMEs through strengthening business matching forums and product promotional campaigns.
- Continue working on measures and strategies to integrate SMEs into global and regional value chains. Linking multinational companies as well as large companies with MSMEs could help them improve their standards and integrate smaller companies into regional and global value chains.
- Explore the possibility of having a more focused approach to the internationalisation of MSMEs, with an emphasis on high-potential sectors. Indonesia has large potential for SMEs to go global. To optimise SMEs' internationalisation, priority sectors should be identified based on competitiveness and comparative advantage. Indonesia could explore conducting a study examining the export potential of selected sectors based on the composition of the country's export basket, available skills, and value added.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

- Provide support to build up the capacity of consultants. Although existing support structures are beneficial for most SMEs, Indonesia could build on international best practices to involve private consultants. Instruments such as voucher schemes and certification mechanisms could prove useful for developing an ecosystem of knowledgeable consultants who can help SMEs get customised support for improving productivity.
- Establish a database on support programmes for SMEs. This would address demand-side constraints, providing SMEs with programme information and eligibility requirements.
- Expand programme support to cover SMEs of different sizes and typologies. Programme support in Indonesia needs to expand beyond a focus on microenterprises, and parallel programme tracks need to be established that differentiate support focused on the growth of high-potential enterprises and more traditional business development services.
- Clarify the roles of institutions that promote productivity. Currently, at least 21 MSME empowerment programmes with several focus areas are ongoing under 19 ministries/agencies. A clearer delineation of each agency's role and mandate would reduce overlap, improve coordination, and make programmes more efficient.

- Continue building an ecosystem, especially in rural areas and provinces, to help SMEs get professional support from various sources. These sources could involve the formal business support programmes under PLUT, as well as voucher support schemes, mentoring, and coaching, amongst others.
- Intensify efforts to foster research and development (R&D) activities amongst SMEs. National experts note that R&D tax incentives are currently mainly used by large firms. Therefore, it is important to evaluate the effective uptake of R&D support programmes and ensure they are well-targeted to foster SME engagement.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

- Strengthen university-level entrepreneurial education programmes. Entrepreneurship should be promoted in academic institutions by inviting companies to present case studies and business models during the relevant curricula. MSMEs could be invited for discussions with business actors (as mentors), academics, professionals, enablers, and consultants to explore the potential and challenges of MSMEs. The multidisciplinary nature of universities can support SMEs in various sectors.
- Continue to roll out entrepreneurship programmes nationwide. Public programmes to develop entrepreneurial skills could support poverty reduction measures across Indonesia and strengthen local economies.
- Promote inclusive development with an emphasis on women entrepreneurs, since most MSMEs in Indonesia (64.5%) are owned by women.
- Develop a clear definition or set of criteria for social enterprise and inclusive business ventures. Such a definition would help create dedicated support programmes and better awareness of the concepts, and explore the possibility of creating relevant registries and accreditation schemes. An ecosystem review could clarify the current needs, gaps, and existing instruments across various actors.

Indonesia Scores 2024

Indonesia Dimension 1

Dimension	Assessment Score		Weights		ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**4.72**				**4.49**	**1.03**
1.1 Productivity Measures	**3.39**		**25%**		**4.84**	**1.09**
Thematic Block 1: Planning & Design		5.36		35%	4.41	0.99
Thematic Block 2: Implementation		5.06		45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation		4.19		20%	4.70	1.47
1.2 Business Development Services	**4.78**		**25%**		**4.62**	**1.01**
1.2.1 General Business Development Services	4.89		70%		4.86	1.03
Thematic Block 1: Planning & Design		4.28		35%	4.55	1.10
Thematic Block 2: Implementation		5.50		45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation		4.61		20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	4.53		30%		4.23	1.02
Thematic Block 1: Planning & Design		4.66		80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation		3.99		20%	3.33	1.27
1.3 Productive Agglloromerations and Cluster Enhancement	**4.74**		**25%**		**5.49**	**0.77**
Thematic Block 1: Planning & Design		5.45		35%	4.43	0.66
Thematic Block 2: Implementation		4.67		45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation		3.64		20%	4.54	1.36
1.4 Technology and Innovation Promotion	**4.38**		**25%**		**4.11**	**1.31**
Thematic Block 1: Planning & Design		4.10		35%	4.42	1.40
Thematic Block 2: Implementation		5.22		45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation		2.98		20%	4.20	1.37

Indonesia Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	4.96		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**5.48**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	5.82	35%	4.92	0.77
Thematic Block 2: Implementation	5.43	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	5.00	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**4.61**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	4.03	35%	4.31	1.32
Thematic Block 2: Implementation	4.44	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.70	1.86

Indonesia Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	5.07	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**4.82**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	3.53	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	4.00	20%	3.50	1.85
Thematic Block 2: Implementation	3.50	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	5.83	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	5.81	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	5.81	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	4.88	10%	5.02	1.55
Thematic Block 1: Planning & Design	4.88	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**5.32**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	5.55	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	5.55	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	5.55	30%	3.32	1.52
3.2.2 Microfinance	4.75	20%	5.38	0.59
Thematic Block 1: Planning & Design	4.75	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	4.88	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	4.88	35%	5.02	1.08
Thematic Block 2: Crowdfunding	4.87	35%	3.35	1.57
Thematic Block 3: Equity Instruments	4.88	30%	4.22	1.18

Indonesia Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**5.48**		**4.94**	**1.26**
4.1 Export Promotion	**5.58**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	6.00	35%	5.88	1.08
Thematic Block 2: Implementation	5.36	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	5.33	20%	4.66	1.87
4.2 Integration to Global Value Chain	**5.19**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	5.51	35%	5.40	1.38
Thematic Block 2: Implementation	5.58	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	3.77	20%	3.21	1.40
4.3 Use of Commerce	**5.72**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	6.00	35%	5.79	1.03
Thematic Block 2: Implementation	5.89	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	4.87	20%	3.20	1.88
4.4 Quality Standards	**5.77**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	6.00	35%	4.73	1.56
Thematic Block 2: Implementation	6.00	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	4.87	20%	3.76	1.74
4.5 Trade Facilitation	**5.06**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	5.58	25%	5.15	0.99
Thematic Block 2: Planning & Design	5.15	25%	3.48	1.36
Thematic Block 3: Implementation	4.87	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	4.63	25%	3.65	1.12

Indonesia Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	**4.78**		**4.69**	**1.05**
5.1 SME Definition	**4.89**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	5.07	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**5.12**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	6.00	35%	5.45	1.30
Thematic Block 2: Implementation	4.38	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	5.25	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**4.06**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	4.33	35%	3.48	1.03
Thematic Block 2: Implementation	4.30	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	3.06	20%	2.65	1.08

Indonesia Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	**4.53**		**4.03**	**1.02**
6.1 Public-Private Consulatations	**4.24**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	4.22	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	4.50	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	3.75	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**4.51**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	4.40	40%	3.57	1.09
Thematic Block 2: Implementation	5.06	40%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	3.48	20%	3.27	1.07
6.3 Company Registration	**4.80**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	5.38	35%	4.44	0.97
Thematic Block 2: Implementation	4.06	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	5.43	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**4.30**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	4.30	100%	4.03	1.08
6.5 E-government	**4.75**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	6.00	35%	5.36	1.69
Thematic Block 2: Implementation	3.59	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	5.15	20%	3.90	1.99

Indonesia Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**5.03**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**4.96**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	5.72	35%	4.83	1.21
Thematic Block 2: Implementation	4.65	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	4.33	20%	4.04	0.94
7.2 Entrepreneurial Skills	**5.07**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	4.30	35%	3.06	1.26
Thematic Block 2: Implementation	6.00	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	4.33	20%	3.08	1.59

Indonesia Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	**4.13**		**3.63**	**0.85**
8.1 Social Enterprises	**4.84**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	5.63	35%	4.51	1.19
Thematic Block 2: Implementation	4.31	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	4.65	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**3.90**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	4.09	35%	3.80	1.02
Thematic Block 1: Planning & Design	4.16	35%	4.54	1.09
Thematic Block 2: Implementation	4.43	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	3.20	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	4.19	35%	3.34	0.76
Thematic Block 1: Planning & Design	3.00	35%	2.83	0.44
Thematic Block 2: Implementation	5.18	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	4.04	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	3.33	30%	3.17	0.79
Thematic Block 1: Planning & Design	2.84	35%	2.84	0.55
Thematic Block 2: Implementation	3.76	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	3.20	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

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Part II

Chapter 13

Lao PDR

1. Economic Context

Lao People's Democratic Republic (Lao PDR) is a landlocked lower middle-income country located in the heart of the Greater Mekong Subregion. The country is highly agrarian, with over 50% of the working population operating in the agricultural sector. The country has made great advancements in economic growth and poverty reduction over the past 20 years, with more than 7% annual gross domestic product (GDP) growth between 2000 and 2019 (OECD, 2024). This growth has been driven by large-scale capital-intensive investments, concentrated in a few sectors (e.g. mining and hydropower) that are dominated by state-owned enterprises. Against this backdrop, the impact of the coronavirus disease (COVID-19) on Lao PDR economy has been substantial. While the country did not experience an economic contraction in 2020, annual growth was reduced to 2%–3% and has remained there (**Table 13.1**). However, the investments used to drive development have been mostly financed by external debt, and government revenue has remained subdued despite the significant GDP growth. The result is mounting debt distress, which is driving inflation and threatening macroeconomic stability (World Bank, 2024).

Table 13.1. Macroeconomic Data for Lao PDR

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	7,800.30	81,03.92	8,025.24	8,111.06	8,215.13
GDP growth	%, yoy	6.25	5.46	0.50	2.53	2.71
Inflation	%, average	2.04	3.32	5.10	3.76	22.96
Unemployment	% of active population	-	-	-	-	1.21
Net FDI	% of GDP	7.49	4.03	5.10	5.69	4.11

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: World Bank, n.d.

To combat this, Lao PDR's 9th Five-Year National Socio-Economic Development Plan (NSEDP), 2021–2025 and the National Agenda on Addressing Economic and Financial Difficulties, 2021–2023 aim to diversify the economy and drive growth in emerging sectors such as agriculture and tourism while tackling several of the country's structural issues, including the high rate of business informality, the low rate of labour productivity outside the priority sectors, and general improvements to the ease of doing business. Small and medium-sized enterprises (SMEs) are an important part of this recovery strategy, as firms with less than 99 employees comprise 99.8% of firms and SMEs make up 80% of all employment (OECD, 2024).

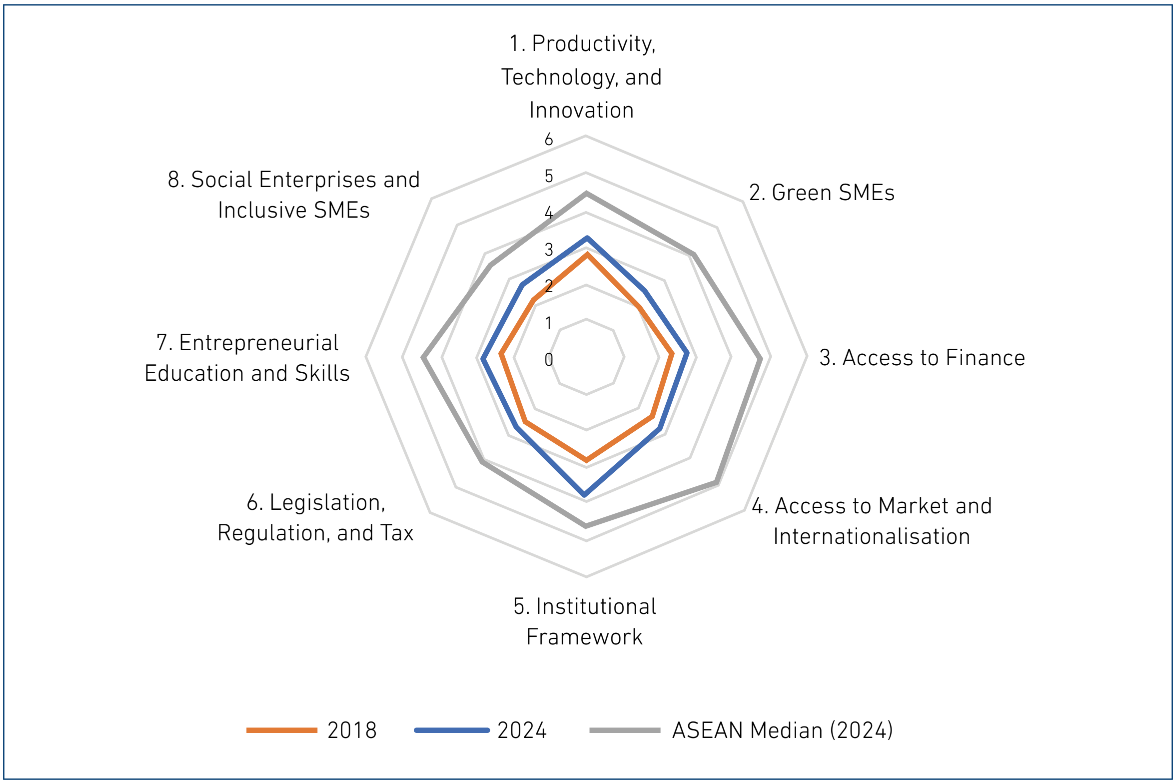
Support for the country's SMEs has been in place since 2004, with Decree No. 42/PM establishing the Small and Medium Enterprise Promotion and Development Office, later renamed the Department of SME Promotion (DOSMEP) and as of 2023 renamed the Micro, Small and Medium Enterprise Promotion Agency (MSMEPA). The country's policy initiatives for SMEs work under five-year SME development plans. The current SME Development Plan, 2021–2025 has seven policy priorities: (i) promoting and increasing productivity, technology, and innovation; (ii) promoting access to finance; (iii) promoting business development advisory services; (iv) promoting market access and expansion; (v) creating and developing new entrepreneurs and enterprises; (vi) creating an enabling environment for business establishment and operation; and (vii) tax-customs and finance policy. These priorities are largely in line with the goals of the Association of Southeast Asian Nations (ASEAN) Strategic Action Plan for SME Development, 2016–2025, and various achievements have been made since the 2018 ASEAN SME Policy Index (ASPI).

2. 2024 ASPI Results

Overall Scores

Lao PDR has shown improvement across all policy dimensions since the 2018 assessment, with particular improvement in Dimension 5. The country scores highest (3.86) in Dimension 5 (Institutional Framework), which is also the dimension with the greatest improvement since the previous assessment. The country is making positive changes but is still at the early policy framework stage for the areas related to green SMEs (2.35); social enterprises and inclusive SMEs (2.49); legislation, regulation, and tax (2.71); access to market and internationalisation (2.84); and access to finance (2.85). **Figure 13.1** shows the overall scores of Lao PDR in the 2024 SME Policy Index assessment, compared with previous assessment scores and the ASEAN median for 2024.

Figure 13.1. SME Policy Index 2024 Scores for Lao PDR



ASEAN = Association of Southeast Asian Nations, SMEs = small and medium-sized enterprises.

Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

Lao PDR has made substantial improvements to provide a framework for SMEs although more work is needed to streamline regulations.

Lao PDR's improvement to its institutional framework has been substantial, with the score of 3.86 for Dimension 5 up 0.97 since the 2018 assessment. The score of 2.71 for Dimension 6 (Legislation, Regulation, and Tax) shows that while the country has taken steps to conduct regulatory impact assessments, streamline legislative processes, and enact e-governance policies, implementation has only been cursory and monitoring frameworks are yet to be reinforced.

As mentioned above, a dedicated SME strategy has been in place since 2004, and the current five-year plan is the MSME Development Plan, 2021–2025. The body responsible for formulating SME policy in Lao PDR is the MSMEPA. Lao PDR has had a legal SME definition in place since 2011 under the SME Law, disaggregating firm size according to the number of employees, total assets, and annual income, with different thresholds depending on the industry (**Table 13.2**).

Table 13.2. Lao PDR's SME definition

Size	Manufacturing			Services			Wholesale and retail		
	Sales turnover (KN)	Total employment	Total capital (KN)	Sales turnover (KN)	Total employment	Total capital (KN)	Sales turnover (KN)	Total employment	Total capital (KN)
Micro	≤ 400 million	1–5	≤ 120 million	≤ 400 million	1–5	≤ 240 million	≤ 400 million	1–5	≤ 180 million
Small	400 million–3 billion	6–50	120 million–1.2 billion	400 million–2.25 billion	6–50	240 million–1.8 billion	400 million–4.5 billion	6–50	180 million–1.2 billion
Medium	3 billion–6 trillion	51–99	1.2 billion–4.8 trillion	2.25 billion–6 trillion	51–99	1.8 billion–7.2 trillion	4.5 billion–9 trillion	51–99	1.2 billion–4.8 trillion

KN = Lao PDR's kip

SMEs = small and medium-sized enterprises.

Source: ASEAN, 2024

Various advancements have been made since the previous assessment in refining the country's SME framework. The new Law on MSME Promotion (16/NA dated 7 July 2022) was adopted, which articulates the organisational structure, roles, and responsibilities of the MSME Promotion Committee at the central and provincial levels. The new SME Development Plan has been expanded to consider the concerns of microenterprises, reflecting an expanded awareness of SME needs. Additionally, a monitoring framework has been set up under MSMEPA to track the implementation of the MSME Development Plan.

According to the latest estimates, only 10%–20% of employment in Lao PDR occurs in the formal economy and more than 70% of businesses in Lao PDR are not registered (ILO, 2023). Informality is most prevalent in agriculture (98% of workers are in the informal sector), construction (94%), and retail and trade (92%), while services (66%) and manufacturing (77%) record the lowest levels of informality. Part of the high level of informality is due to lack of administrative transparency and consistency across the tax system. The current system is noted for its complexity, with evidence of rules being selectively applied by tax administration officials (OECD, 2024).

Efforts to tackle business informality have been at the heart of Lao PDR's recent policy efforts. These include the National Rural Employment Strategy, which targets sustainable employment creation in rural areas, focusing on the agricultural sector. In implementing the National Rural Employment Strategy, Lao PDR government partnered with the International Labour Organization in 2023 for the Rural Employment Promotion Project, which aims to improve local government capacity to capture rural employment while empowering rural workers (ILO, 2023).

Additionally, the government has made concerted efforts since 2019 to improve the ease of doing business. Key achievements include time and cost reductions for starting a business, the introduction of a risk-based approach to business licensing, and improved access to laws and regulations related to trade and investment for SMEs through the establishment of the MSMEPA website. The government has also taken steps to reduce regulatory requirements and decreased charges levied on enterprises. Since 2018, the cost and processing time of business registration were reduced by one-third.

Part of these advancements has been due to the introduction of e-governance services. The Tax Revenue Information System (TaxRIS), which was launched in 2015, allows electronic tax filing. The system has been linked to an enterprise registration system, enabling simultaneous issuance of taxpayer identification numbers and enterprise registration certifications. Easy Tax, which is a tax e-payment system, has been implemented to collect taxes and duties through the banking system.

Facilitating SME access to finance (Dimension 3)

Progress is being made with establishing a credit guarantee facility for SMEs.

Lao PDR's score of 2.85 for Dimension 3 (Access to Finance) reflects the country's underdeveloped financial sector, the early stage of development of its regulatory framework, and the performance of indicators on access to and regulation of equity instruments. On the positive side, the country performs relatively well on the legal rights index, has affordable financial services, and has strong microfinance performance. Improvements on the 2018 edition have taken place and create a solid base for the future. Yet, programmes offering finance to SMEs are relatively small in scale and should be developed further. According to the Bank of Lao PDR, by the end of 2022, the cumulative amount of loans to SMEs by banks was only about US$88 million.

Since the previous assessment, various forms of SME financial support have been offered to improve their financial access. The government provided a response to the COVID-19 pandemic and scaled up financing through credit initiatives. Lao PDR received a US$40 million soft loan from the World Bank under the MSME Access to Finance – Emergency Support and Recovery (MSME A2F – ESR) Project to facilitate MSMEs' access to finance and provide a study on the establishment of the credit guarantee facility. Lao government's Small and Medium Enterprises (SMEs) Promotion Fund also injected around US$7.3 million in financing to SMEs to offset the impact of the pandemic (Lao News Agency, 2023).

SMEs can receive discounted loans through the SME Fund, the International Development Association-financed SME A2F Project, the China SME Loan, and the Bank of Lao PDR Policy No. 238 (World Bank, 2020). Lao SME Promotion Fund provides subsidised low interest rate loans to commercial banks. Commercial banks provide loans to SMEs with low interest rates defined by the fund. The financial literacy of the Laotian MSMEs is generally low and constitutes a barrier to access to finance.

Furthermore, the MSME Development Plan, 2021–2025 stipulates improving the access to finance of MSMEs through the development of targeted financial products. In 2020, the Bank of Lao PDR issued the Decision on Credit Guarantee Company (No. 730/BOL) to establish a credit guarantee facility. Implementation of the facility is ongoing, with the MSMEPA in partnership with the World Bank Group's International Development Association performing a feasibility assessment and guiding efforts (GOPA AFC, 2022).

Non-bank financial institutions have been growing over the last decade, enabling MSMEs' access to finance. One of the main sources of external financing for MSMEs is microfinance, provided through a wide network of village banks. The number of microfinance institutions increased from 76 in 2016 to 130 in 2022, with the number of credit and savings cooperatives rising from 28 to 34 over the same period.

Enhancing access to market and internationalisation (Dimension 4)

Support to help SMEs integrate into global value chains (GVCs) exists, but SMEs still are a small part of Lao PDR's export economy.

Lao PDR's score of 2.84 for Dimension 4 (Access to Market and Internationalisation) reflects the county's marginal improvements in SME inclusion in export–import promotion and GVC integration programmes.

Increasing access to markets and supporting firms' export orientation has been a clear part of Lao PDR's economic strategy. The results have been positive, with total exports increasing considerably from US$1.9 billion in 2010 to US$7.2 billion in 2022. However, MSMEs are a small part of this group, with only 6.07% of MSMEs exporting their products overseas and MSMEs accounting for only 12.91% of the total export value in 2016. To improve MSMEs' access to market and internationalisation, the MSMEs Development Plan, 2021–2025 identifies export promotion and GVC integration as policy priorities to enhance MSMEs' competitiveness. Progress has been made in simplifying cross-border trade procedures. Regulations for Authorised Economic Operators were established, with the first Laotian company receiving accreditation in February 2023. In November 2022, the integration of the Automated System for Customs Data (ASYSCUDA) within Lao National Single Window system was successful.

Export promotion programmes for MSMEs are available but are not systematically designed and implemented. There is no specific financial scheme for MSMEs to support them with export activities. The four main agencies offering export promotion programmes are the MSMEPA, the Department of Trade Promotion, the Department of Import and Export, and Lao National Chamber of Commerce and Industry. The types of support include capacity building, information dissemination on international markets and export requirements, trade fairs showcasing Lao products, design competitions, and assistance for Lao firms participating in foreign trade fairs. For instance, Lao PDR Trade Portal assists SMEs in cross-border trade by providing all trade-related information in English and Lao on the rules, regulations, and import and export procedures for different exports. Additional examples of domestic programmes in 2023 include Lao Good Design Award; the Made in Laos Expo; the One District, One Product trade fair; and the Mega MSME Fair. In 2023, export promotion agencies also supported Laotian firms participating in Bangkok's Food & Hospitality Thailand and Nanning's 20th China–ASEAN Expo. Lao PDR government has also found success working with development partners. From 2019 to 2023, the European Union through the ASEAN Regional Integration Support for Lao PDR (ARISE Plus Lao PDR) Project provided targeted capacity building and training to support Lao PDR economy's integration into global production chains, with a focus on smallholders and SMEs.

Regulatory improvements to facilitate e-commerce have also been realised in Lao PDR. In 2021, the Decree on Electronic Commerce established principles, regulations, and measures pertaining to the management of e-commerce, while the Law on Electronic Transactions was amended in December 2022 to replace the previous 2012 law, offering an expanded scope and provisions to support electronic signatures and digital contracts. Additionally, the Ministry of Industry and Commerce has attempted to launch an e-commerce platform (plaosme.com) with support from the Asian Development Bank. The platform was launched in August 2017 but became inactive in 2021 due to financial constraints.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

Labour productivity remains low, but Lao PDR is increasingly targeting high-technology activities.

Lao PDR's score of 3.17 for Dimension 1 (Productivity, Technology, and Innovation) shows that while the country's model of growth has effectively utilised special economic zones (SEZs) and productive agglomerations, labour productivity remains low and could impact the country's capacity to attract investment. The score of 2.35 for Dimension 2 (Green SMEs) highlights a core concern in the country's development, with the government's previous model of growth resulting in substantial environmental degradation (World Bank, 2024). Even though several strategies have been put in place, implementation of SME-focused initiatives is still lacking.

In terms of the policy framework, the SME Development Plan, 2016–2020 and the MSME Development

Plan, 2021–2025 establish enhancing productivity, technology, and innovation as one of the seven key policy priorities. In addition, the Productivity Master Plan until 2030, with technical support from the Korea Development Institute and the Asian Productivity Organization, was recently drafted although it is not yet in effect. The MSMEPA is the main policy development and implementation agency for national productivity, as it is the main coordinator with the Asian Productivity Organization. The country scores relatively high in policy planning and design across the dimension, with scores over 4, but has weaker performance in implementation as well as monitoring and evaluation.

Programmes for supporting productivity enhancement have been established but are largely not self-sustaining and are dependent on the technical and financial assistance of development partners. Promoting access to business development services (BDS) is clearly stipulated in the MSME Development Plan, 2021–2025, and the number and range of BDS support have increased over the period. Lao SME Service Center has opened four provincial branches since the last assessment, with the Luang Prabang and Champasak branches opening in 2019, the Savannakhet branch opening in 2020, and the Oudomxay branch opening in 2022. These branches provide training and business consultancy services, with more than 900 SMEs receiving assistance since the establishment of Laos SME Service Center.

Various co-financing programmes cover some of the costs related to firms upgrading their productivity. For instance, Lao PDR Competitiveness and Trade Project's Business Assistance Facility II provides matching grants covering 50% of the cost for BDS related to enhancing competitiveness, adopting technology, and improving efficiency. Additionally, the Climate-Friendly Agribusiness Value Chains Sector Project provides matching grants to agribusinesses (covering up to 60% of total investment) for investment in equipment or technical assistance to boost productivity, reduce water and energy consumption, or adopt the use of clean energy. Technical assistance is also provided through these schemes, such as Lao Agribusiness Competitiveness Project's Agriculture Value Chain Facility, which provides free technical assistance to support the development of business proposals while offering matching grants for upgrading post-harvest handling and processing facilities.

Compared with its regional peers, Lao PDR is only starting to focus on promoting digitalisation and transitioning to a digital economy. The MSME Development Plan, 2021–2025 stipulates support for start-ups under the entrepreneur development policy. At the time of publication, the government drafted a decree on start-up promotion. Several initiatives are being undertaken, such as a start-up competition organised by the Ministry of Technology and Communications during Lao Digital Week 2022. Plans are also under way to establish a business incubator to support start-ups.

While the development of SEZs has been crucial to fuelling the economic development of Lao PDR, with 12 SEZs in effect as of 2023, no information or studies are available on the linkages between local SMEs and SEZs or business clusters. The MSME Development Plan, 2021–2025 establishes the need to raise awareness on the importance of clusters amongst SMEs but does not have specific targets or proposed activities on how to enhance SME engagement with productive agglomerations or business clusters.

In terms of innovation support, no specific innovation strategy is in place. However, the NSEDP, 2021–2025 establishes the need for promoting a knowledge-based economy and society and identifying ways to incorporate technological innovations, with targets related to the country's research output and information and communication technology (ICT) adoption. In addition to the NSEDP, the National Digital Economy Development Vision, 2021–2040; National Digital Economy Development Strategy, 2021–2030; and National Digital Economy Development Plan, 2021–2025 all provide support for developing Lao PDR into a high-technology economy. Various regulatory improvements have supported the digital transformation of SMEs in Lao PDR. These efforts are led by the Ministry of Technology and Communications, which was established in October 2021 following the merger of the Ministry of Science and Technology and the Ministry of Posts and Telecommunications. In 2023, the Digital Economy Development Vision was adopted, establishing the Digital Transformation Committee and setting goals for using digital technologies and innovation as key tools for production innovation, distribution, marketing, and digital economy services. Since the launch of the strategic vision, many activities have been carried out, including the annual Lao Digital Week, which highlights business opportunities and products in telecommunications, ICT, cybersecurity, and other high-technology fields.

In terms of environmental sustainability, the government launched the National Green Growth Strategy till 2030 in 2018. This strategy provides definitions for what qualifies as green growth, provides national objectives for Lao PDR to achieve environmental sustainability, and has been integrated into the National Socio-Economic Development Plan, 2021–2025. In terms of SME greening, one of the priority actions of the strategy is to improve environmental protection and reduce disaster risk, while the NSEDP, 2021–2025 calls for the promotion of green and sustainable SMEs, especially in agriculture and tourism. However, no government incentives or instruments are currently in place for greening SMEs. Some technical assistance is provided as part of Lao PDR Competitiveness and Trade Project's Business Assistance Facility II, the Climate-Friendly Agribusiness Value Chains Sector Project, and the Agriculture Value Chain Facility co-financing schemes to help SMEs understand and meet environmental safeguard prerequisites, although this assistance is not the focus of the projects.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Initial steps are being taken to consider entrepreneurship within the education system and to incorporate the needs of marginalised groups into SME development strategies.

The score of 2.83 for Dimension 7 (Entrepreneurial Education and Skills) illustrates the early stage of entrepreneurial education policies across Lao PDR's educational system and the need for additional programmes to promote entrepreneurship. Lao PDR's score of 2.49 for Dimension 8 (Social Enterprises and Inclusive SMEs) reflects the country's progress in developing strategies to support women- and youth-owned SMEs although more work needs to be done in providing robust support and monitoring frameworks.

Entrepreneurial learning is an established part of the national education curriculum and a priority within the Education and Sports Sector Development Plan, 2021–2025. In 2020, the Ministry of Education and Sports completed revisions to education curricula at the secondary level to include appropriate content on entrepreneurship and ICT. At present, universities do not offer entrepreneurship degrees although subjects on enhancing entrepreneurship skills are incorporated into business administration degree programmes. In addition, the MSME Development Plan, 2021–2025 has various proposals to increase entrepreneurial education and increase the number of entrepreneurs, including plans for a business incubation centre, student business competitions, and training programmes on entrepreneurial skills. Most programmes for improving entrepreneurial education beyond education rely on development assistance, such as International Labour Organization assistance to the Ministry of Education and Sports in adopting the Know About Business methodology to improve entrepreneurial awareness amongst youth.

Currently, both social and inclusive entrepreneurship are nascent. There is no law covering social enterprises nor a shared formal definition, although the MSME Development Plan, 2021–2025 stipulates formulating regulations and incentives to support MSMEs that contribute positively to poverty reduction or other social issues. Measures in the MSME Development Plan, 2021–2025 include provisions for enhancing understanding of the importance of inclusive business, studying possible financing sources to support inclusive businesses, and promoting inclusive business models to allow the participation of low-income populations. Lao PDR has provided long-standing support for women-owned SMEs, with the current leading policy document being the National Action Plan on Gender Equality, 2021–2025 and technical assistance being provided by Lao Women's Union. The progress made in supporting youth-owned SMEs has been more notable, with the establishment of Lao Youth and Adolescent Development Strategy, 2021–2030. Promotional events and capacity building are being offered by various agencies to promote young entrepreneurship, such as the Green Entrepreneurship Forum for Young Entrepreneurs, which highlights sustainable innovation from youth-owned SMEs. For people with disability, there is no dedicated strategy although capacity building support is provided by the Disability Service Center and Lao Disabled Women's Development Centre.

3. Recommendations

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Operationalise the newly established MSME Promotion Committee at the central and provincial levels. The MSME Promotion Law (2022) set up the MSME Promotion Committee, whose operations will improve the policy formulation process and implementation by enhancing inter-ministerial/sectoral coordination and engagement.
- Carry out studies to support the implementation of the MSME Development Plan, 2021–2025 and policy formulation. Formulation of the current MSME Development Plan is based on information and data from existing studies, relevant ministries, and stakeholder consultations. However, information and data on some aspects, such as financing needs, productivity, and GVC linkages, remain limited or outdated. More thorough research and data collection to understand specific needs and challenges faced by MSMEs could ensure that the development plan and policies are well targeted.
- Maintain the momentum for improving the business environment and tax simplification. The government has made good progress in improving business registration and the modernisation of tax services. It should retain that momentum and ensure the nationwide rollout of the electronic tax system.
- Explore opportunities for peer review by ASEAN Member States for new policies implemented in Lao PDR, which have already been implemented in other contexts. This could be either during the design of the instrument or used as one of the monitoring exercises for a specific instrument.

Facilitating SME access to finance (Dimension 3)

- Accelerate the establishment of credit guarantees scheme. Over the past decade, one of the key recommendations made to enhance SMEs' access to finance has been the establishment of a credit guarantee facility. Such a facility could improve access to finance for SMEs.
- Ensure the financial sustainability of the MSME Promotion Fund. The current structure of the fund, with subsidised loans and high inflation, could pose a risk to its financial sustainability. The government could explore ways to sustain this sustainability by increasing the interest rate or exploring new partnerships with players in the financial system (commercial investors, guarantors, etc.).
- Expand the coverage of the MSME Promotion Fund, which provides long-term low interest rate loans to MSMEs through financial institutions (a two-step loan). However, the requirements to access credit are still high. The fund provides technical assistance for the public and private sector in MSME promotion activities. It could consider introducing long-term coaching in business plan development and financial and accounting management.

- Promote financial literacy amongst MSMEs through dedicated capacity building activities with financial sector providers, as well as an awareness raising campaign.
- Explore ways to offer a spectrum of financial instruments for different levels of company development, including high-growth enterprises. The government could explore how to ensure the presence of venture capital, business angels, and other new financial instruments for MSMEs (e.g. crowdfunding).

Enhancing access to market and internationalisation (Dimension 4)

- Build on the 12 SEZs in the country and develop programmes linking SMEs to these zones. This could be done by encouraging SMEs to enter SEZs by lowering the cost of entry or helping SMEs become suppliers to firms in SEZs. The government should consider its procurement rules and ensure that SMEs can offer competitive products and services.
- Support supplier financing schemes. Participation in global and regional value chains often requires substantial investment to acquire or develop superior production technologies and logistics systems, invest in human capital, etc. Policies aimed at improving SMEs' accounts receivable and facilitating SME financing could help small subcontractors overcome liquidity problems, e.g. by contributing to the development of financial schemes such as factoring.
- Develop a clear strategy and policies to promote SME participation in GVCs. Lao PDR has promoted foreign direct investment (FDI) by introducing incentives and promoting SEZs. Previous studies have suggested that there are limited linkages between FDI and local SMEs. Therefore, it is important to develop a clear strategy with concrete action plans on how to promote SME linkages to FDI and SMEs' participation in GVCs. The government could consider designing policies that incentivise FDI or large companies to integrate SMEs into their value chains.
- Develop a comprehensive programme to support SMEs' internationalisation. Currently, export promotion programmes do not cover the whole export process. Programmes often focus on providing market information and requirements but provide limited support for SMEs to meet those requirements, especially on non-tariff measures and quality compliance. A more comprehensive programme requires more resources but would be highly beneficial.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

- Stimulate the rise of qualified BDS providers. Services should be aligned with demand assessments and address SME needs. Information on BDS providers should be shared with SMEs through relevant networks (e.g. start-up support centres and incubator referrals).

- Develop BDS focused on support to technological upgrading for SMEs to capture more value added from participation in GVCs. Policies in this area should aim to support training and capacity building via skill development programmes; promote partnerships between SMEs and organisations overseas that can develop or transfer technology, products, processes, or management practices; and facilitate technological upgrading through various financial schemes, such as credit lines.
- Improve data collection on SMEs' productivity and technology adoption. The Ministry of Industry and Commerce should consider discussing with Lao Statistics Bureau the possibility of including information to calculate firm-level productivity and technology adoption in the economic census questionnaires.
- Explore opportunities for partnerships with other business centres in the region. By utilising foreign expertise, business centres enhance the provision of their own services and offer improved networking opportunities to SMEs.
- Consider developing clusters to promote local production and innovation. Cooperation with partners upstream and downstream improves SMEs' efficiency, and the government should aim to integrate local SMEs into the clusters.
- Enhance policies that incentivise greening. Like the promotion of innovation and technology adoption, the government could identify key areas where greening has the largest potential and start mapping key sectors and actors and develop concrete projects involving MSMEs.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

- Make entrepreneurship promotion programme for SMEs more systematic. Lao PDR could utilise lessons learnt from initiatives and programmes that have been carried out with development partner support to design more systematic and sustainable national programme with human resources and financial commitment. Some good initiatives in the past include business incubation centre and business plan competition.
- Promote capacity building and vocational education and training programmes to improve the skills of the workforce. Access to skilled labour could contribute to improved competitiveness of local SMEs and facilitate greater value creation in the country.
- Develop a clear definition or set of criteria for social and inclusive entrepreneurship and raise awareness about the needs of certain marginalised business owners (women, youth, people with disability, etc.). The lack of a legal definition and awareness of social and inclusive entrepreneurship can lead to confusion and the reluctance of policymakers to develop supporting policies or to promote programmes that cater to marginalised groups.
- Explore collaboration with academic institutions or seek technical support from international organisations to enhance understanding of social and inclusive entrepreneurship concepts amongst policymakers.

Lao PDR scores 2024

Lao PDR Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**3.17**		**4.49**	**1.03**
1.1 Productivity Measures	**3.39**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	4.53	35%	4.41	0.99
Thematic Block 2: Implementation	3.20	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	2.14	20%	4.70	1.47
1.2 Business Development Services	**3.32**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	3.61	70%	4.86	1.03
Thematic Block 1: Planning & Design	4.36	35%	4.55	1.10
Thematic Block 2: Implementation	3.34	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	2.93	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	2.63	30%	4.23	1.02
Thematic Block 1: Planning & Design	2.70	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	2.33	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**3.60**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	5.19	35%	4.43	0.66
Thematic Block 2: Implementation	3.23	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	1.66	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**2.31**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	2.67	35%	4.42	1.40
Thematic Block 2: Implementation	2.17	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	1.99	20%	4.20	1.37

Lao PDR Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	2.35		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**2.97**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	4.14	35%	4.92	0.77
Thematic Block 2: Implementation	2.65	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	1.66	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**1.94**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	2.38	35%	4.31	1.32
Thematic Block 2: Implementation	1.83	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	1.41	20%	3.70	1.86

Lao PDR Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	2.85	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**3.01**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	2.73	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	1.00	20%	3.50	1.85
Thematic Block 2: Implementation	3.50	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	2.82	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	4.33	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	4.33	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	2.38	10%	5.02	1.55
Thematic Block 1: Planning & Design	2.38	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**2.69**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	1.96	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	2.17	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	1.47	30%	3.32	1.52
3.2.2 Microfinance	5.38	20%	5.38	0.59
Thematic Block 1: Planning & Design	5.38	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	2.49	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	3.20	35%	5.02	1.08
Thematic Block 2: Crowdfunding	2.10	35%	3.35	1.57
Thematic Block 3: Equity Instruments	2.10	30%	4.22	1.18

Lao PDR Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**2.84**		**4.94**	**1.26**
4.1 Export Promotion	**5.58**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	3.59	35%	5.88	1.08
Thematic Block 2: Implementation	2.60	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	1.66	20%	4.66	1.87
4.2 Integration to Global Value Chain	**2.69**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	2.77	35%	5.40	1.38
Thematic Block 2: Implementation	2.65	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.21	1.40
4.3 Use of Commerce	**3.22**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	4.31	35%	5.79	1.03
Thematic Block 2: Implementation	2.87	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.20	1.88
4.4 Quality Standards	**2.32**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	2.65	35%	4.73	1.56
Thematic Block 2: Implementation	2.65	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.76	1.74
4.5 Trade Facilitation	**3.33**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	3.06	25%	5.15	0.99
Thematic Block 2: Planning & Design	2.65	25%	3.48	1.36
Thematic Block 3: Implementation	4.87	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	2.75	25%	3.65	1.12

Lao PDR Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	**3.86**		**4.69**	**1.05**
5.1 SME Definition	**5.62**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	5.62	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**4.23**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	5.17	35%	5.45	1.30
Thematic Block 2: Implementation	3.54	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	4.13	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**2.53**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	1.83	35%	3.48	1.03
Thematic Block 2: Implementation	3.75	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	1.00	20%	2.65	1.08

Lao PDR Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	**2.68**		**4.03**	**1.02**
6.1 Public-Private Consulatations	**3.19**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	3.17	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	3.48	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**2.74**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	2.38	40%	3.57	1.09
Thematic Block 2: Implementation	2.89	40%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	3.06	20%	3.27	1.07
6.3 Company Registration	**3.16**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	3.50	35%	4.44	0.97
Thematic Block 2: Implementation	3.12	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**1.55**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	1.55	100%	4.03	1.08
6.5 E-government	**1.88**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	1.83	35%	5.36	1.69
Thematic Block 2: Implementation	1.94	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	1.83	20%	3.90	1.99

Lao PDR Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**2.83**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**3.10**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	2.30	35%	4.83	1.21
Thematic Block 2: Implementation	3.43	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	3.75	20%	4.04	0.94
7.2 Entrepreneurial Skills	**2.65**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	2.65	35%	3.06	1.26
Thematic Block 2: Implementation	2.65	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.08	1.59

Lao PDR Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	2.49		3.63	0.85
8.1 Social Enterprises	**2.91**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	3.76	35%	4.51	1.19
Thematic Block 2: Implementation	2.66	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	1.99	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**2.36**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	3.31	35%	3.80	1.02
Thematic Block 1: Planning & Design	3.91	35%	4.54	1.09
Thematic Block 2: Implementation	3.26	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	2.38	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	2.20	35%	3.34	0.76
Thematic Block 1: Planning & Design	2.32	35%	2.83	0.44
Thematic Block 2: Implementation	2.52	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	1.28	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	1.42	30%	3.17	0.79
Thematic Block 1: Planning & Design	1.73	35%	2.84	0.55
Thematic Block 2: Implementation	1.25	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	1.28	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

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Part II

Chapter 14

Malaysia

1. Economic Context

Malaysia is one of the richest and most open economies in the Association of Southeast Asian Nations (ASEAN), with a trade to gross domestic product (GDP) ratio averaging over 130% since 2010. The country is well integrated into global value chains, with around 40% of jobs linked to export activities. Malaysia's main exports are electrical and electronics products (38.3%), petroleum (10.4%), palm oil (6.2%), chemicals (5.2%), and liquefied natural gas (4.4%). Its main export partners are Singapore, China, the United States, Japan, Hong Kong, and Thailand. The country has achieved strong GDP growth over recent years, averaging 4.99% during 2017–2022 (**Table 14.1**) (World Bank, n.d.).

Table 14.1. Macroeconomic Data for Malaysia

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	30,950.28	31,917.44	29,815.85	30,456.09	32,735.4
GDP growth	Percent, yoy	4.84	4.41	-5.46	3.30	8.65
Inflation	Percent, average	0.88	0.66	-1.14	2.48	3.38
Unemployment	Percent of active population	3.3	3.26	4.54	4.64	3.93
Net FDI	Percent of GDP	2.31	2.51	1.20	5.42	3.62

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.
Source: World Bank, n.d.

The country has recovered well from the coronavirus disease (COVID-19) pandemic thanks to a variety of fiscal measures and support programmes. Malaysia adjusted its monetary policy during the pandemic, reducing the policy rate by a total of 125 basis points to a historical low of 1.75% in 2020, and eased regulatory reserve requirements. It offered direct support through 16 aid initiatives launched in 2021, such as the Central Bank of Malaysia (BNM) Fund for SMEs. The government also worked to improve the supply of small and medium-sized enterprise (SME) financing by relaxing prudential requirements on minimum liquidity coverage ratios and net stable funding ratios. Repayment assistance programmes were also introduced, such as BNM allowing a temporary exemption on credit reporting of rescheduling and reporting and credit impairments under the public credit bureau.

Recent slowdowns in global trade and a decline in net exports have negatively impacted Malaysia's economic forecast and emphasised the importance of domestic demand as a key driver of growth (OECD, 2023[2]). Malaysia has recognised the need to develop the MSME sector, as it is identified as one of the crucial components of Malaysia's strategy to become a high-income country. SMEs will be a major part of this growth, as they are major sources of employment and value added and have a key role in sectors such as construction and tourism.

Malaysia has a vibrant MSME sector that as of 2023 accounts for 96.9% of firms. Out of the total of 1,101,725 MSMEs, microenterprises accounted for 69.7% of firms (small enterprises, 28.5%; medium-sized enterprises, 1.8%) (SMEcorp Malaysia, 2023).

Recognising the importance of MSMEs and their relatively low contribution to GDP and exports, Malaysia launched the SME Masterplan, 2012–2020 in 2012 to increase the productivity of SMEs, foster their participation in the national economy, and ultimately promote inclusive growth. The plan has been partly successful, increasing the share of GDP and exports from 32.0% and 16.0% in 2010 to 38.2% and 17.3% as of 2022 (OECD, 2022).The Ministry of Entrepreneur and Cooperatives Development (MECD) followed up on the success of the SME masterplan with the National Entrepreneurship Policy (NEP) 2030, which has a set of national targets for the contribution of MSMEs by 2030. The policy is supported by the MSME Strategic Plan 2030, which outlines 13 strategies with 56 initiatives aimed at developing an enabling business environment for MSMEs that addresses critical megatrends to remain sustainable and resilient while improving MSME productivity and competitiveness. This includes developing MSMEs into sustainable, high-growth, and competitive businesses on a global scale that further complement Malaysia's characteristics as an export-orientated nation.

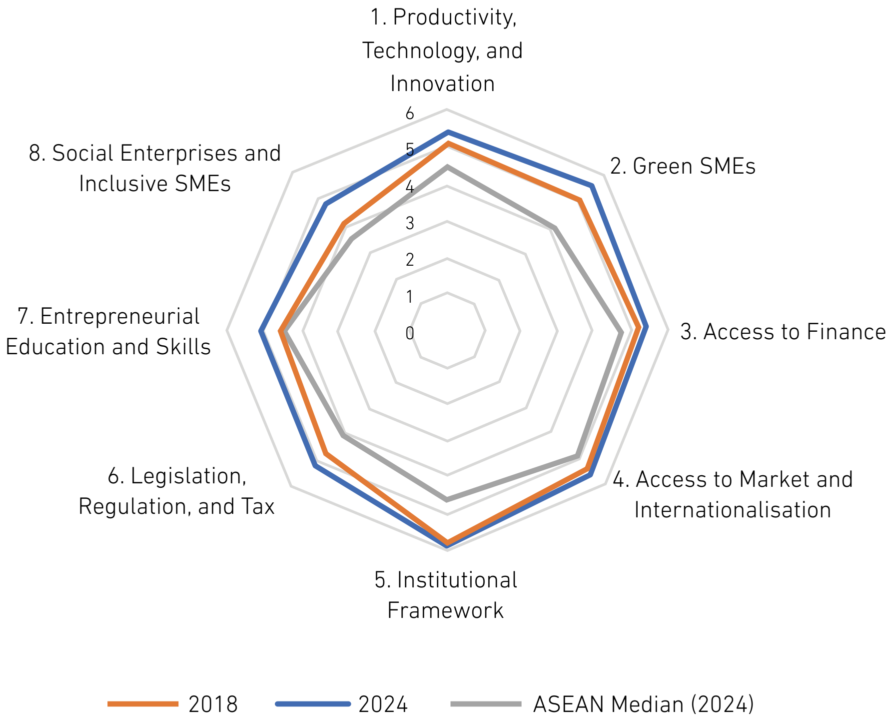
The country's intervention measures in combating the impact of COVID-19 yielded encouraging economic results, with early signs of recovery evident in improved economic indicators. Despite a significant GDP contraction of –17.1% in the second quarter of 2020 due to the implementation of the Movement Control Order, a remarkable turnaround was reflected in GDP growth rebounding by 25.4% in over just 3 months, from –28.6% (April) to –19.5% (May) to –3.2% (June). Moreover, the Industrial Production Index has seen a positive shift, increasing from –32.0% in April 2020 to a positive 0.3% in August 2020. The unemployment rate also showed improvement, declining from 5.0% in April 2020 to 4.7% in August 2020.

2. 2024 ASPI Results

Overall Scores

Malaysia consistently scores as one of the region's top performers on its business environment and is in the advanced phase of SME-related policies in the region, which is showcased by high performance across all eight dimensions – well above the ASEAN median score (**Figure 14.1**). The country scores highest on dimensions relating to the country's institutional framework (5.90) and access to market (5.56). The country's lowest score is in the social enterprises and inclusive SMEs dimension (4.75), yet well above the regional median and with substantial progress since the 2018 assessment.

Figure 14.1. SME Policy Index 2024 Scores for Malaysia



Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

Malaysia has a strong framework for SME development and set of regulatory policies that help guide SME growth.

Malaysia has one of the most robust and advanced institutional frameworks for SMEs in ASEAN. A definition of SMEs has been implemented since 2014, with the size being determined depending on the firms' annual sales turnover and total employment (**Table 14.2**).

Table 14.2. Malaysia's SME Definition

Size	Manufacturing		Services and other sectors	
	Annual turnover	Total employment	Annual turnover	Total employment
Micro	< RM300,000	< 5	< RM300,000	< 5
Small	RM300,000–RM15 million	5–74	RM300,000–RM 3 million	5–29
Medium	RM15 million–RM50 million	75–200	RM 3 million–RM 20 million	30–75

SMEs = small and medium-sized enterprises.
Source: SME Corporation Malaysia.

The National Entrepreneur SME Development Council (NESDC) (formerly known as the National SME Development Council) has been the main authority for developing and formulating SME policies and strategies since its inception in 2004. It coordinates, monitors, and evaluates the development and implementation of SME programmes across all ministries and agencies. The council is chaired by the deputy prime minister and is composed of heads of various ministries involved in SME development, the chief secretary to the government, and the BNM governor.

Following the re-establishment of the MECD in 2018, the ministry developed the NEP 2030, a new policy to set the direction for the development of entrepreneurship in the country. Under the NEP 2030, strategic thrust 5 is dedicated to SME development. The strategic thrust for SMEs comprises four strategies and 14 initiatives for strengthening SME capabilities and performance to achieve the status of an entrepreneurial nation by 2030. To accelerate progress towards the NEP 2030 goals, the MSME Strategic Plan 2030 was then introduced. The MSME Strategic Plan addresses SMEs' immediate needs following COVID-19 and paves the way for improving SMEs' long-term sustainability and resilience. Meanwhile, in the Twelfth Malaysia Plan, 2021–2025, SMEs are the focus in Theme 1, Game Changer III: Transforming Micro, Small and Medium Enterprises as the New Driver of Growth. SME strategic development is also included in the New Industrial Master Plan 2030, launched in

October 2023. The plan highlights the significance of SMEs as crucial contributors to economic expansion and outlines several action plans to enhance the industrial development of SMEs as part of the country's vision to be a high-tech industrialised nation by 2030.

In developing business-related regulations, regulators are required to conduct public–private consultations, perform regulatory impact analysis, and complete regulatory impact statements. In relation to SMEs, regulators need to consider the impact of new regulations on SMEs, including the number of SMEs that will be affected and the overall impact on SMEs, involved parties, and the community. Progress has been made in facilitating public–private consultations through a digital consultation platform, the Unified Public Consultation portal, launched in 2019. Additionally, the Malaysia Productivity Corporation published two revised handbooks in 2021, the National Policy on Good Regulatory Practice and the Best Practice Regulation Handbook 2.0, which provide clear guidelines and best practices on conducting regulatory impact analyses.

The informal economy is relatively small compared with other countries in the region. Around 10% of employment from the non-agricultural sector is expected to be informal, and contributions to the country's gross domestic product are estimated to be around 5.8% as of 2019 (DOSM, 2020[7]; Tumin, 2021[8]). The Malaysian government has taken several initiatives to regulate and reduce the size of the country's informal economy. For example, the MECD introduced Pelan Pemformalan Usahawan Informal (Informal Entrepreneur Formalization Plan) in parallel with the NEP 2030, which aims to support and encourage the formalisation of businesses of informal entrepreneurs (MECD, 2023). Another government initiative through Budget 2023 was the implementation of the Bina Kerjaya Programme for the Informal Sector, which is organised by the Social Security Organisation (PERKESO). The programme aims to equip informal workers with the skills required to secure employment in the formal sector, hence improving labour market productivity (PERKESO, n.d.)

According to the World Bank's Doing Business 2020 report, Malaysia ranked below the global average in the ease of starting a business (126 out of 190) and paying taxes (80 out of 190) (World Bank, 2020) due to long processes related to filing and payment of taxes and company registration processes. Since then, Malaysia has been developing various reforms to improve the ease of doing business. The Special Task Force to Facilitate Business (PEMUDAH) is developing reforms that will consolidate business registration efforts that are currently spread across five agencies into a single procedure.

In line with these reforms, progress has been made in implementing digital government services. In 2020, the MalaysiaBiz portal was launched, providing a one-stop online platform for business registration and licensing. Additionally, SME Corporation Malaysia (SME Corp. Malaysia) launched the MyAssist MSME portal in 2020, offering an online and mobile application that serves as a comprehensive business advisory tool for SMEs, including digital marketing opportunities, technology innovation, business matching services, financial assistance, and others. By going digital, administrative bodies can hopefully become more efficient and responsive, reducing processing times and improving the ease of doing business.

Facilitating SME access to finance (Dimension 3)

Malaysia has advanced with supporting alternative forms of finance to enable the growth of innovative SMEs.

Malaysia has an advanced policy framework under the dimension of SME financing, with a score of 5.45. The country's financial sector is well structured to offer accessible financing to SMEs and start-ups. The government has promoted the development of alternatives to formal debt financing by investing in the venture capital sector. Dana Penjana Nasional (National Generator Fund) is a funding programme adopted in 2020 that is expected to inject up to RM1.2 billion of funding into the venture capital sector over a 5- to 7-year period. Innovative financing approaches are also being supported, such as peer-to-peer financing and equity crowdfunding.

The impact of COVID-19 on SMEs was substantial, stressing their financial resources and constraining their access to capital. The government responded during the pandemic with multiple financial schemes to alleviate liquidity concerns, with 16 different aid initiatives launched in 2021. Moving forward towards the post-pandemic recovery, the Special PRIHATIN Grant provided one-off financial assistance to qualified MSMEs to alleviate their financial burden while increasing the productivity of production and services. Other financing support, such as imSME, MyKNP, and AKPK, are specifically for recovery facilitation (SME Corporation Malaysia, 2022).

SME Corp. Malaysia identified two main funding gaps in the firm life cycle: the ideation stage and the commercialisation stage (SME Corporation Malaysia, 2022[6]). Non-financial government support to SMEs at these stages is provided through SME Bank's training series, the Agrobank Centre of Excellence's development clinics, and Bank Rakyat's RAKYATpreneur 2.0 programme; and guarantee schemes are being provided by Malaysia's Credit Guarantee Corporation.

Enhancing access to market and internationalisation (Dimension 4)

Increasing SMEs' contribution to national exports is a policy priority.

The country scores highly under the internationalisation dimension (5.56), which proves a long-standing commitment to fostering the internationalisation of its SMEs. As outlined in the SME Masterplan, 2012–2020, Malaysia has a dedicated focus on improving the export capacity of SMEs. The Malaysia External Trade Development Corporation (MATRADE) acts as the country's main export promotion agency. Established export promotion programmes include the Women Exporters Development Programme, the Youth Exporters Development Programme, and the Bumiputera Exporters Development Programme. The Global Linkages SME

Programme provides support to SMEs to integrate into global value chains. Government programmes for SMEs on e-commerce (e.g. eUsahawan) promote the use of digital technology and e-commerce for individuals and entrepreneurs. Programmes such as the Buy Malaysia Product Campaign (Kempen Beli Barangan Malaysia) help create awareness about local produce. These programmes help the country focus on creating export champions in high-value sectors and increasing inclusivity and digitalisation amongst current exporters.

Due to market uncertainties during the pandemic, business deals were often cancelled, significantly harming SMEs. To help SMEs, MATRADE announced partial compensatory support through Market Development Grants. The temporary expanded scope of Market Development Grants allowed SMEs to claim reimbursements on specific expenses incurred due to cancellations or postponements of trade promotion events.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

Malaysia offers multiple services for business support although coordination amongst programmes could be strengthened.

The country is amongst the leaders in this dimension, with an advanced policy framework in these two dimensions (1 and 2). Malaysian policymakers have put in place several policies focused on the promotion of innovation and productivity, with a particular emphasis on SMEs. The Twelfth Malaysia Plan, 2021–2025 identified low productivity amongst MSMEs as a key issue and has established narrowing the productivity gap between SMEs and large firms as a priority goal (Malaysian Government, 2021[7]). The plan also outlined ambitious goals, including achieving 100% internet subscription in urban and rural households, allocating 2.5% of gross expenditure on research and development to GDP, targeting a 10.5% contribution of e-commerce to GDP, and aiming for a 25.5% contribution of the digital economy to GDP.

The Twelfth Malaysia Plan established a strategic framework for business development services (BDS), with the Global Acceleration and Innovation Network (GAIN) and Digital Hub initiatives acting as action plans for the enlargement of BDS. Part of the government's response has been to foster the development of private BDS services through co-financing schemes such as the Business Accelerator Programme and the PEMERKASA Matching Grant. Public BDS services have also been established, such as SME Bank's development programmes, which aim to expand export capabilities and enhance capacity for adopting environmental, social, and governance (ESG) practices, and MyAssistMSME, which acts as an online comprehensive business advisory platform. Additionally, SME Corp. Malaysia provides a physical space set-up for advisory services called the SME Hub and assessment tools such as the SME Competitiveness Rating for Enhancement (SCORE) and SME ESG Assessment.

In terms of digitalisation, the Ministry of Communications and Multimedia and the Malaysia Digital Economy Corporation have formulated the Malaysia Digital Economy Blueprint to facilitate SME digitalisation. The Malaysia Digital Economy Corporation offers financial incentives for SME digitalisation (including subsidies, vouchers, and tax incentives); hosts various awareness-raising events; and has established multiple incubators, accelerators, digital innovation hubs, and competence centres dedicated to SME digitalisation.

Malaysia has a robust ecosystem for business cluster zones, with a diverse set of tax incentives to encourage domestic and foreign direct investment (FDI) and a network of science parks, cyber centres, and digital hubs to promote collaboration amongst innovative companies. Policies aimed at promoting industrial clusters and business agglomerations are outlined in the National Investment Aspirations, the Malaysia Digital Economy Blueprint (MyDIGITAL), and the Twelfth Malaysia Plan. To promote innovation, the Inclusive SME Ecosystem (I-SEE) Programme serves as the official innovation strategy, aiming to empower the bottom 40% of income earners and promote community transformation through guidance, technical support, and financial assistance for innovation.

Malaysia stands out as one of the leading nations in ASEAN regarding environmental policies directed at businesses and especially SMEs. Guiding national sustainability policies (e.g. the Twelfth Malaysia Plan, 2021¬–2025 and the Green Technology Master Plan) have provisions that are SME-specific. Various programmes have been implemented to promote the adoption of eco-friendly practices amongst SMEs (e.g. the Industrial Energy Efficiency for Malaysian Manufacturing Sector project or the MyHijau SME and Entrepreneur Development Programme). Numerous government bodies and agencies – including the Ministry of Energy, Green Technology and Water, the Standard and Industrial Research Institute of Malaysia (SIRIM) Berhad, MARA, the Malaysia Productivity Corporation, SME Corp. Malaysia, the Public Works Department (JKR), and the Construction Industry Development Board – provide environmental advice and guidance to SMEs. The government also provides several green financing initiatives such as the Green Technology Financing Scheme, the New Entrepreneurs Fund, the Green Technology Tax Incentive, the Energy Audit Conditional Grant, and the Credit Guarantee Corporation Malaysia Berhad's guarantee schemes. In addition, the government has introduced the National Industry Environmental, Social, and Governance Framework to support the New Industrial Master Plan 2030 and promote the adoption of sustainable practices amongst MSMEs in the manufacturing sector.

Additional supporting guidelines have been introduced to assist SMEs in their transition to sustainable practices. These include Bursa Malaysia's ESG Reporting Guidelines, the MSME Resource and Guide for ESG from the Joint Committee on Climate Change, SME Corp. Malaysia's ESG Quick Guide for MSMEs, and the Simplified ESG Disclosure Guide by Capital Markets Malaysia.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Increasing entrepreneurship amongst women, youth, and impoverished communities is key to promoting inclusive economic development.

Malaysia has demonstrated a constant commitment to fostering a culture of entrepreneurship through the introduction of the NEP 2030 and focused efforts in both education and training to promote inclusive and social entrepreneurship. Malaysia's universities have been embracing entrepreneurial education since the Entrepreneurship Development Policy for Higher Education Institutions was introduced in 2010, and the more recent Malaysia Education Blueprint, 2015–2025 highlights the development of the entrepreneurship curriculum as a key priority. In 2022, the Ministry of Higher Education introduced the MOHE Guide to Entrepreneurship Integrated Education, which offers guidelines for entrepreneurship curricula, programmes, and activities in higher learning institutions. In contrast to universities, no dedicated policies are in place for entrepreneurial education in primary or secondary education.

Malaysia has made progress in promoting social entrepreneurship since the re-establishment of MECD in 2018 to oversee the development of social enterprises in Malaysia. In addition, MECD launched the Malaysia Social Entrepreneurship Blueprint 2030 in April 2022 to provide a new national direction for the development of social enterprises and entrepreneurship in Malaysia. The blueprint has developed five strategic goals, 20 strategies, and 45 initiatives. These provisions include facilitating and supporting nation-wide awareness campaigns on the positive contributions of social enterprise, widening access to financing and financial support, and providing access to domestic and international markets. The MECD has also established the social enterprise information hub as a one-stop centre for information and networking platform and a gateway to access existing support systems for the development of social entrepreneurship. Social enterprises are encouraged to get accredited by MECD to access various incentives offered by the government as well as other organisations. As of August 2024, MECD has given 408 accreditations with different levels of accreditation.

Promoting inclusivity is a key objective of the Twelfth Malaysia Plan and the NEP 2030, as it is a core part of promoting balanced and sustainable socioeconomic progress. Malaysia supports firms transitioning towards inclusive business models through SME Corp. Malaysia's promotional activities and the Inclusive Business Value Chain Development Initiative pilot project. Apart from advocating for inclusive business, the government has continued to tackle inequality through the Shared Prosperity Vision 2030 and the MADANI Economy framework. The government promotes entrepreneurship amongst marginalised segments of the Malaysian population (the B40 group, people with disability, indigenous communities, women, youth, the Bumiputera, etc.) through programme support, financial incentives, and entrepreneurship training.

Amongst these groups, women and youth appear to have the most robust support. The Bumiputera, Women and Youth Exporters Development Programme is an export outreach programme offered by MATRADE to support target groups in exploring their potential in international markets as well as to create a pool of competitive and resilient exporters. Additionally, in 2024 the government allocated RM720 million for a small business loan facility through institutions including TEKUN, Bank Simpanan Nasional (BSN), and BNM to promote entrepreneurship amongst women and youth as micro-entrepreneurs and small traders. Nonetheless, other groups have also benefited from the assistance provided by the government. For example, the MECD has drawn up a special programme, known as CARE: Capable and Reliable Entrepreneurs, to assist entrepreneurs amongst people with disability, with a focus on mental disabilities. TEKUN Nasional from 2000 until 2024 has also provided financial assistance totalling RM8.4 million to 759 entrepreneurs with disability.

3. Recommendations

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Develop a more objective and standardised method in determining the success of the implemented SME programmes across various ministries and agencies in the SME Integrated Plan of Action. This could help strengthen the monitoring and evaluation process and outcomes to facilitate the enhancement and future development of SME policies.
- Promote greater awareness amongst SMEs and citizens to facilitate better engagement with e-government initiatives. In addition, policymakers should ensure that the e-government infrastructure and services are reliable and secure, thereby enhancing user satisfaction and views regarding the system's usefulness, transparency, and accountability.

Facilitating SME access to finance (Dimension 3)

- Promote SME financial education, which could include the provision of training on financial literacy, investment readiness, and credit management amongst MSMEs.
- Implement reforms to enhance the secured transaction framework. Financial institutions continue to face uncertainties in the secured transaction framework as a result of their lending to unincorporated entities.
- Explore options to regulate interest rates charged by microfinance institutions, especially during periods of high interest rates.

Enhancing access to market and internationalisation (Dimension 4)

- Strengthen MSMEs' capabilities to meet global standards. This can be done by offering training programmes on export readiness; providing market information; building capacity in terms of technical knowledge, negotiation skills, and international marketing; and through government-to-government (G2G) initiatives for international trade.
- Accelerate and increase the awareness and adoption of ESG and circular economy principles in international trade, and their implementation amongst SMEs. Regional export financing mechanisms could also be promoted to improve access to finance for exporting SMEs or to encourage MSME exporters.
- Continue collaboration with the private sector, exploring ways to link SMEs to larger companies and global value chains.
- Continue working on the evaluation and monitoring of existing support schemes, focusing on global value chains and the overall promotion of the internationalisation of SMEs.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

- Expand evaluations of BDS demand. These assessments of BDS demand will allow policymakers to plan interventions only where gaps in the market exist, preventing a crowding out of private BDS providers.
- Increase the number of local business support centres operating in rural areas. Currently, Malaysia's business support services tend to be concentrated in urban areas, with rural SMEs being underserved. Business support centres can solve some of the priority issues of SMEs in rural areas, providing them with high-quality infrastructure, business registration support, and international expertise.
- Expand upon monitoring mechanisms to incorporate the evaluations of non-governmental organisations. Independent evaluation of existing policy instruments could help policymakers adjust the programmes to improve efficiency, maximise reach, and ensure impact.
- Establish environmental regulatory regimes that differentiate between SMEs and larger enterprises, and that take account of the risk level of the activity being pursued, with regulatory incentives for going beyond compliance and with assistance for SMEs to accomplish this.
- Provide a clear mandate for the greening of SMEs to a single agency and ensure that a single-window approach to information on the support available to SMEs is applied. Malaysia has several support mechanisms for SME greening, and it might be not easy for stakeholders to find their ways around them.
- Fostering partnerships between SMEs and larger corporations, especially in pre-determined high-impact industries through value chain integration and promotion, facilitates knowledge exchange and provides SMEs with the necessary expertise and support to innovate.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

- Strengthen the partnership between academia and the entrepreneurship skills development ecosystem. This can provide resources, mentorship, and networking opportunities, especially with successful alumni entrepreneurs.
- Formulate more tangible strategies to incorporate entrepreneurial education into school curricula, especially for primary and secondary school students. The existing national education blueprint mandates that each student cultivate an entrepreneurial perspective; however, for primary and secondary level, no clear strategies have been adopted regarding this matter apart from some entrepreneurship knowledge embedded in existing curricula.
- Promote the establishment of more incubators and accelerators specifically focused on social enterprises. These programmes can provide mentorship, training, and resources to help social entrepreneurs refine their business models and scale effectively.
- Explore ways to promote the social enterprise accreditation system amongst SMEs and ways to create awareness of the benefits for receiving the accreditation.
- Establish a clear definition of inclusive business in Malaysia. Since the inclusive business concept is still quite new in Malaysia, it is important to differentiate inclusive businesses from social enterprises and corporate social responsibility initiatives and to raise awareness about inclusive businesses amongst policymakers, investors, and the public.

Malaysia Scores 2024

Malaysia Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**5.42**		**4.49**	**1.03**
1.1 Productivity Measures	**5.63**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	5.79	35%	4.41	0.99
Thematic Block 2: Implementation	5.81	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	4.97	20%	4.70	1.47
1.2 Business Development Services	**5.38**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	5.53	70%	4.86	1.03
Thematic Block 1: Planning & Design	5.83	35%	4.55	1.10
Thematic Block 2: Implementation	5.58	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	4.88	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	5.02	30%	4.23	1.02
Thematic Block 1: Planning & Design	5.11	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	4.66	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**5.22**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	5.90	35%	4.43	0.66
Thematic Block 2: Implementation	4.80	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	4.99	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**5.46**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	5.42	35%	4.42	1.40
Thematic Block 2: Implementation	6.00	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	4.31	20%	4.20	1.37

Malaysia Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	**5.56**		**4.15**	**1.24**
2.1 Environmental Policies Targeting SMEs	**5.60**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	6.00	35%	4.92	0.77
Thematic Block 2: Implementation	5.72	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	4.66	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**5.53**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	6.00	35%	4.31	1.32
Thematic Block 2: Implementation	5.88	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	3.90	20%	3.70	1.86

Malaysia Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	**5.45**	**100%**	**4.81**	**0.99**
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**5.38**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	2.73	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	6.00	20%	3.50	1.85
Thematic Block 2: Implementation	4.19	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	5.92	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	6.00	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	6.00	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	5.15	10%	5.02	1.55
Thematic Block 1: Planning & Design	5.15	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**5.51**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	5.60	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	6.00	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	4.66	30%	3.32	1.52
3.2.2 Microfinance	5.38	20%	5.38	0.59
Thematic Block 1: Planning & Design	5.38	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	5.14	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	5.16	35%	5.02	1.08
Thematic Block 2: Crowdfunding	4.88	35%	3.35	1.57
Thematic Block 3: Equity Instruments	5.43	30%	4.22	1.18

Malaysia Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**5.56**		**4.94**	**1.26**
4.1 Export Promotion	**5.75**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	6.00	35%	5.88	1.08
Thematic Block 2: Implementation	5.90	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	5.00	20%	4.66	1.87
4.2 Integration to Global Value Chain	**5.13**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	5.64	35%	5.40	1.38
Thematic Block 2: Implementation	5.58	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	3.22	20%	3.21	1.40
4.3 Use of Commerce	**5.69**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	6.00	35%	5.79	1.03
Thematic Block 2: Implementation	5.32	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.20	1.88
4.4 Quality Standards	**5.51**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	6.00	35%	4.73	1.56
Thematic Block 2: Implementation	5.66	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	4.32	20%	3.76	1.74
4.5 Trade Facilitation	**5.28**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	5.58	25%	5.15	0.99
Thematic Block 2: Planning & Design	4.30	25%	3.48	1.36
Thematic Block 3: Implementation	6.00	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	5.26	25%	3.65	1.12

Malaysia Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	**5.90**		**4.69**	**1.05**
5.1 SME Definition	**6.00**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	6.00	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**5.88**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	5.88	35%	5.45	1.30
Thematic Block 2: Implementation	6.00	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	5.62	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**NA**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	NA	35%	3.48	1.03
Thematic Block 2: Implementation	NA	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	NA	20%	2.65	1.08

Malaysia Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	**5.16**		**4.03**	**1.02**
6.1 Public-Private Consulatations	**5.21**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	5.15	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	5.44	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	4.87	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**5.48**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	5.81	40%	3.57	1.09
Thematic Block 2: Implementation	5.38	40%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	5.15	20%	3.27	1.07
6.3 Company Registration	**4.90**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	4.13	35%	4.44	0.97
Thematic Block 2: Implementation	5.51	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	4.87	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**4.87**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	4.87	100%	4.03	1.08
6.5 E-government	**5.14**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	5.58	35%	5.36	1.69
Thematic Block 2: Implementation	4.79	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	5.15	20%	3.90	1.99

Malaysia Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**5.05**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**5.00**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	5.16	35%	4.83	1.21
Thematic Block 2: Implementation	4.43	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	6.00	20%	4.04	0.94
7.2 Entrepreneurial Skills	**5.08**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	4.33	35%	3.06	1.26
Thematic Block 2: Implementation	6.00	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	4.33	20%	3.08	1.59

Malaysia Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	**4.75**		**3.63**	**0.85**
8.1 Social Enterprises	**5.51**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	6.00	35%	4.51	1.19
Thematic Block 2: Implementation	5.07	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	5.66	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**4.50**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	5.42	35%	3.80	1.02
Thematic Block 1: Planning & Design	4.74	35%	4.54	1.09
Thematic Block 2: Implementation	5.69	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	6.00	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	4.62	35%	3.34	0.76
Thematic Block 1: Planning & Design	3.00	35%	2.83	0.44
Thematic Block 2: Implementation	5.64	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	5.17	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	3.29	30%	3.17	0.79
Thematic Block 1: Planning & Design	3.22	35%	2.84	0.55
Thematic Block 2: Implementation	3.88	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	2.10	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, NA = not applicable, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

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Part II

Chapter 15

Myanmar

1. Economic Context

Myanmar is a lower middle-income country in the Association of Southeast Asian Nations (ASEAN), with a rich endowment of minerals and natural gas. The country remains highly agrarian and sparsely populated. Myanmar's economic condition remains turbulent. Between 2011 and 2019, Myanmar experienced high economic growth and strong foreign direct investment (FDI), leading to significant reductions in poverty. The economy shrank in 2020 because of the coronavirus disease (COVID-19) pandemic, and a military coup in 2021 has led to ongoing internal conflict and displacement, disrupting public service offerings and reversing some of the progress made as of the previous assessment (**Table 15.1**). Notably, spending on public health and education declined from almost 4% of gross domestic product (GDP) in 2020 to 2% in 2023, the lowest amongst countries in the ASEAN region (World Bank, 2024). Additionally, complications such as the war in Ukraine and Cyclone Mocha in 2023 have led to massive price shocks in food and fuel that further threaten the well-being of citizens.

The size of Myanmar's economy remains around 10% smaller than it was in 2019, and GDP growth is expected to remain subdued, at 0.8% in 2023. Forecasts for 2024 and 2025 show a modest but gradual increase in growth, at 1.2% and 2.2%, respectively (ADB, 2024).

Table 15.1. Macroeconomic Data for Myanmar

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	6,154.90	6,513.56	5,881.72	5,138.89	5,308.75
GDP growth	Percent, yoy	6.27	6.58	-9.05	-12.02	4.04
Inflation	Percent, average	6.87	8.83	-	-	-
Unemployment	Percent of active population	0.77	0.41	1.48	-	-
Net FDI	Percent of GDP	2.61	2.31	2.41	3.12	1.99

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: World Bank, n.d.

As of 2019, small and medium-sized enterprises (SMEs) comprise 89.9% of total manufacturing enterprises in the country (ADB, 2020). The country has had a long-standing policy of supporting SMEs, with the SME Development Bank having existed since 1996. The largest piece of SME-related policy is the SME Development Law of 2015, which provided an updated definition to SMEs and established a Central Committee of Small and Medium Enterprises dedicated to promoting the competitiveness of SMEs. Additional progress has been made in line with the goals of the SME Development Law to establish regional SME agencies and a digital SME portal (MyanmarDigitalNews, 2023).

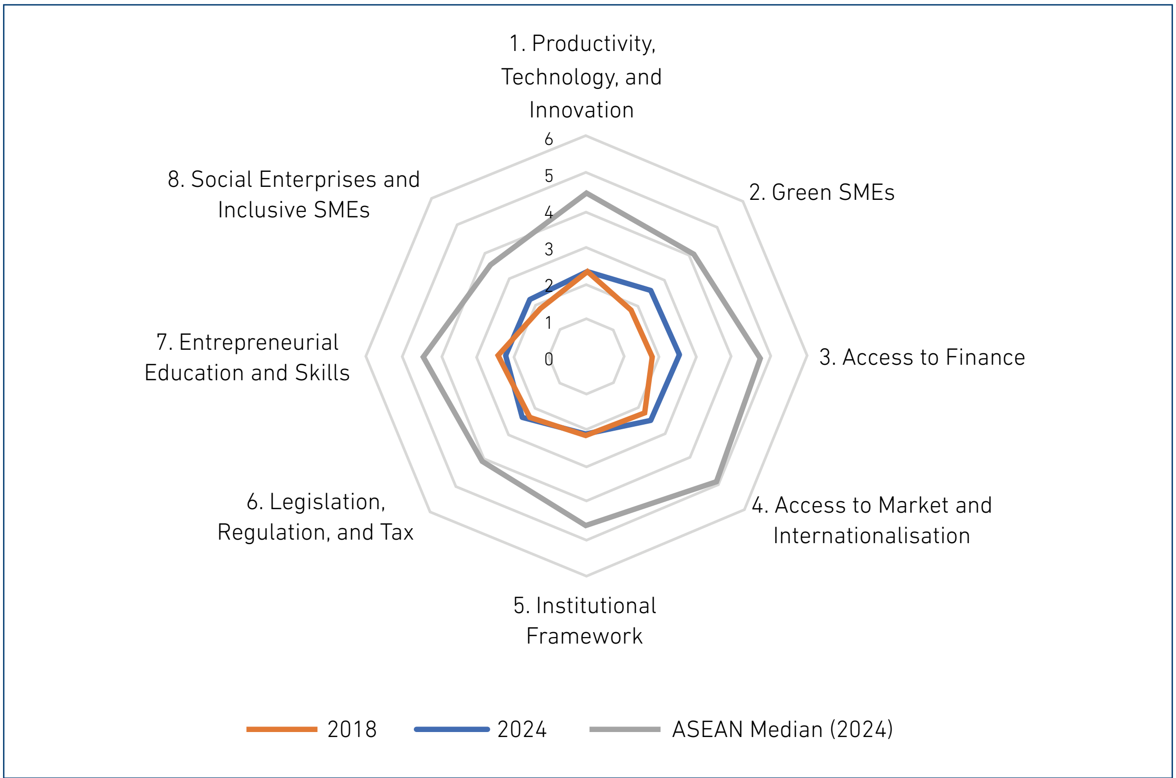
Prior to the change of government, a set of reforms was enacted to increase FDI and improve Myanmar's competitiveness. These include the Public Financial Management Reform Program Strategy, 2018–2022, which offers fiscal and tax reform, as well as the Myanmar Climate Change Strategy and Master Plan, 2018–2030, which sought to improve the country's resilience to climate change impacts. Limited information exists about the ongoing progress of these reforms and how they have impacted SMEs.

2. 2024 ASPI Results

Overall Scores

The research team is thankful for the information provided by the national authorities as well as the report drafted by the consultant; however, it was not possible for researchers to validate the information. Since the 2018 edition of the SME Policy Index, Myanmar has made some progress across five of the eight dimensions. As shown in **Figure 15.1**, the policies promoting SMEs are in the early stage of development, but some progress has been made on the policy side compared with the 2018 edition. Recently, the implementation efforts have been compromised by political and economic instability in the country.

Figure 15.1. SME Policy Index 2024 Scores for Myanmar



ASEAN = Association of Southeast Asian Nations, SMEs = small and medium-sized enterprises.

Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

Political will exists to promote MSME development in the country.

Myanmar's SME definition dates to 2015 (**Table 15.2**). The criteria depend on the industry, with the size for manufacturing firms being determined by total employment plus capital investment, whereas for other sectors size is based on a firms' total employees and annual income.

Table 15.2. Myanmar's SME definition

Industry	Small			Medium		
	Annual turnover	Total employment	Capital Investment	Annual turnover	Total employment	Capital Investment
Manufacturing	-	≤ 50	≤ 500	-	< 50 ≤ 300	< 500 ≤ 1000
Labour-intensive manufacturing	-	≤ 300	≤ 500	-	< 300 ≤ 600	< 500 ≤ 1000
Wholesale	≤ 100	≤ 30	-	< 100 ≤ 300	< 30 ≤ 60	-
Retail	≤ 50	≤ 30	-	< 50 ≤ 100	< 30 ≤ 60	-
Service	≤ 100	≤ 30	-	< 100 ≤ 200	< 30 ≤ 100	-
Other	≤ 50	≤ 30	-	<50 ≤ 100	> 30 ≤ 60	-

SMEs = small and medium-sized enterprises.

Source: Myanmar Small and Medium Enterprises Development Law (2015).

The Myanmar government cemented its goals for SME development in the SME Law in 2015. Several reforms followed, with the aim to create a more enabling environment for micro, small, and medium-sized enterprises (MSMEs). Myanmar has no current SME development strategy. The MSME Master Plan, 2020–2030 was developed in accordance with the ASEAN Strategic Action Plan for SME Development, 2016–2025 and launched in late 2019. Initial steps in this direction were taken by the Central Committee for SME Development, an inter-ministerial body established in 2013 chaired by the President. However, all activities have been put on hold since February 2021. In 2022, the Government of Myanmar re-established the Central Committee for Development of SMEs and set up a Working Committee for Development of Small and Medium Enterprises, both under the Ministry of Industry (MOI). The MSMEs Development Committee has developed tangible regional strategies for SME development that align with the goals of the State Administration Council and the SME Law (GlobalNewLightOfMyanmar, 2024). To represent MSME interests effectively in policy, Myanmar has had a legal requirement to conduct public–private consultations since 2012 (OECD, 2018). While there are no existing guidelines on MSME inclusion, public–private consultations between MSMEs and the State Administration Council's Committee on Development of MSMEs are stated to be routinely held across the 23 states/regions (GlobalNewLightOfMyanmar, 2024). In terms of evaluating policies' effectiveness, in 2018 the government experimented with regulatory impact analysis (RIA) on a pilot basis. Currently, though, there is neither a legal mandate for conducting impact analyses nor a regulatory oversight body in place (OECD, 2018).

Business informality remains significant, with estimates that 83% of firms in Myanmar are informal and that over half of Myanmar's GDP is from the informal sector (Medina and Schneider, 2018). The large informal sector can be explained by a weak entrepreneurial culture, cumbersome registration and licensing procedures, and lack of incentives to enter the formal sector. High informality rates pose a problem for policymakers, excluding many SMEs from policy interventions. While verified information regarding the informal sector remains scarce, efforts have been made by the Directorate of Industrial Supervision and Inspection of the MOI to raise awareness amongst regional and state development agencies about promoting formality amongst SMEs.

Since the last assessment, revisions have made starting a business easier thanks to an online platform for company registration and a reduction in incorporation fees. Myanmar MSMEs can use online registration, which was launched by the Directorate of Investment and Company Administration (DICA) in 2018. In 2020, Myanmar's Union Tax Law was updated with provisions to support SMEs, including tax incentives as well as simplified compliance procedures. SMEs were allowed to deduct certain expenses, such as depreciation, in full, granting income tax exemptions to businesses with earnings of up to MK100 million for up to 3 years. In 2023, these exemptions were expanded for technology-focused SMEs in the manufacturing sector. Additionally, government services in Myanmar are increasingly going digital. Business registration can be done through the Myanmar Companies Online (MyCO) portal, and income tax can be filed electronically. In February 2023, Myanmar launched a digital portal for electricity bill payments.

Facilitating SME access to finance (Dimension 3)

Reforms to the financial system are under way, but current instability threatens market confidence.

MSMEs in Myanmar are currently severely constrained in access to financial services, with an average interest rate of about 10% per annum and high variance in the collateral requirements for loans. MSME financing in Myanmar is led by over 170 microfinance institutions, yet no information is available on the current situation as many were dependent on international assistance. MSMEs also commonly rely on government support, even if little information is available on its recent activities. For example, the SME Credit Guarantee Insurance is a special financing scheme for the development of Myanmar SMEs, offering collateral-free loans with subsidised rates up to a maximum loan amount of MK20 million.

Prior to the COVID-19 pandemic, the Government of Myanmar was making significant progress in modernising the country's financial sector, with wide-ranging regulatory reform at the centre of the Financial Sector Development Strategy, 2015–2020. Myanmar's first credit bureau was established in 2018 and is still in operation. Additionally, the Myanmar Financial Inclusion Roadmap, 2019–2023 has led to the presence of 10 fintech companies operating within the country, providing needed services such as online banking, mobile phone top-ups, and various e-bill payment services including KPay, which is widely utilised by SMEs.

Enhancing access to market and internationalisation (Dimension 4)

Specific SME-related policy needs to be included in trade facilitation frameworks.

Myanmar has a series of challenges to implement the trade facilitation measures, mainly a lack of expertise and insufficient infrastructure. Financing constraints in the government budget complicate addressing these challenges, highlighting the need for external intervention. The National Export Strategy (NES) (2020-2025) of Myanmar was developed to address some of these constraints, guiding the country's trade development and boosting its export competitiveness. The Myanmar Trade Development Committee is the body responsible for coordinating and monitoring the implementation of the NES. While information on the implementation and progress of the NES is limited, other recent advancements in trade facilitation can be seen. In terms of SME-specific policies, Myanmar has few concrete measures and does not have a specific measure to promote SMEs' integration into global value chains.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

Programme support to boost SME productivity exists, although dedicated legislation is lacking.

According to the SME Law, the MOI is the lead agency on SME productivity, but it does not have a specific strategy for increasing SME productivity. The MOI's MSMEs Development Department and DICA are charged with business development promotion in Myanmar. The main coordination body for policy implementation is the MSMEs Development Department, which provides basic business development services (BDS) across the country through agencies located in different states. The MOI routinely engages in promotional activities to develop SMEs' technical capabilities, including knowledge sharing trainings, technical workshops, and trade fairs. Support is provided through a network of regional SME development agencies. The provision of private BDS is very limited. Currently, only a handful of BDS providers like Impact Hub operate in the country, often partnering with private banks to expand the reach of their support. Myanmar has relied on donor support for its implementation of BDS training and services, which is less available recently.

In 2014, the Directorate of Investment and Company Administration promulgated the Special Economic Zone Law, which sets out a generous incentive package for special economic zones (SEZs). To attract investors, SEZs offer a corporate tax holiday of up to 7 years and a subsequent extended period of a reduced corporate tax rate, as well as deductions linked to research and development investments and local staff training activities. In 2020, Myanmar had three SEZs: Kyaukphyu in Rakhine State; Dawei in the Tanintharyi region; and Thilawa located on the outskirts of Yangon (OECD, 2020). The country has more than 30 industrial zones, although the framework surrounding them is much less developed. The weak and outdated legal framework has resulted in the rapid proliferation of industrial zones, with inadequate planning and little assurance as to their performance and benefits. The Industrial Zone Law, 2020 seeks to address these problems, with legislation on land use, environmental conservation, and infrastructure provisions. However, information regarding its implementation is not readily available (OECD, 2020). Myanmar has low technological sophistication amongst SMEs and does not have an innovation strategy in place. The country's intellectual property rights framework is not up to international standards. The Trademark Law (2019) modernised the country's treatment of intellectual property rights, and Myanmar's first-to-file trademark registration system has been in place since 2023.

Myanmar has not implemented significant regulatory or financial incentives to support the greening of SMEs. SMEs are expected to comply with Myanmar's environmental impact assessment mandate. The system in place since 2015 requires SMEs to conduct an environmental impact assessment for each project proposal, increasing the cost for regulatory compliance. To promote the implementation of greening, Myanmar Citizens Bank offers green financing products dedicated to SMEs. Denmark's Responsible Business Fund has provided partial grants to SMEs for the implementation of projects with the potential to demonstrate responsible technologies or business practices.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

A policy document is in place, but its implementation is compromised by competing urgent needs and changing priorities.

Myanmar has developed the National Education Strategic Plan, 2021–2030, which aims to implement a dedicated business management curriculum and promote entrepreneurial learning. At the university level, classes and programmes on entrepreneurship and small business development are common. Government support exists across vocational schools, such as the MOI's Industrial Training Centre, the Centre for Vocational Training, and the Singapore–Myanmar Vocational Training Institute, which all provide tailored support to entrepreneurs within their given sector.

Support efforts took place previously to upskill and impart entrepreneurial education. From 2017 to 2021, the International Labour Organization, in collaboration with the MOI, helped establish a network of trainers offering services geared towards human capital development, including for SMEs. The programme assisted over 1,000 trainers across 400 partner organisations, helping reach over 20,000 entrepreneurs.

Myanmar's nascent social enterprise ecosystem faces numerous difficulties and struggles to grow due to recent global shocks and Myanmar's political instability. Since 2017, various initiatives to encourage social enterprise development have been launched, including the Myanmar Business Executive Association, Myanmar Young Entrepreneurs Association, the Union of Myanmar Federation of Chambers of Commerce and Industry, and the Social Enterprise Development Association Myanmar (SeDAM). Currently, social enterprises in Myanmar rely on institutional philanthropy as a source of funding.

Inclusive SMEs in Myanmar are underrepresented although efforts are beginning to shift to promote women- and youth-led SMEs. The Government of Myanmar, alongside the Myanmar Women Entrepreneurs Association, Myanmar Women Entrepreneurs Network (MYANWEN), and Myanmar Young Entrepreneurs Association, have begun efforts to promote inclusive SMEs and have initiated a mentoring scheme to improve their performance. In 2022, MYANWEN partnered with the United States Agency for International Development in the Feed the Future project to promote inclusive entrepreneurship amongst women in the agricultural sector. In addition, MYANWEN organised more than 10 Women in MSMEs trade fairs to showcase and promote local products. However, there is less interest and representation for inclusive SMEs relating to people with disability. Myanmar has nearly 6 million people with disability according to a 2019 survey, including nearly 3.5 million Myanmar women and girls. Members of this community face unequal access to business opportunities and employment discrimination.

3. Recommendations

The ASEAN SME Policy Index (ASPI) 2018 edition noted that Myanmar was in a relatively early stage of developing a comprehensive institutional framework. Following the 2018 edition, the team noted positive developments such as the establishment of the Central Committee for Development of SMEs; the establishment of regional SME development agencies; the adoption of the MSME Master Plan, 2020–2030; reform of the new enterprise registration system; and the establishment of an SME Development Bank. However, the research team was not able to verify the current situation in the country.

It is challenging to provide policy recommendations for SMEs in the current context of unrest in the country. The available information shows that businesses suffer from perpetual shortages because of foreign currency constraints, depressing exports, and rising inflation. For SMEs to grow, policymakers should prioritise the creation of a more politically stable environment as well as a stable macroeconomic situation. In that context, most of the recommendations from the 2018 edition remain relevant.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Consider reviewing the country's SME definition. Myanmar's SME definition includes three criteria and covers six sectors. This decreases its ease of use and its likelihood of being applied consistently throughout the public administration. Moreover, its employment criterion is based on a count of permanent employees, which may incentivise firms to employ more temporary workers. The government could consider setting up a working group to review and potentially update the definition, considering administrative capacity and the current structure of Myanmar firms. This could take place following the enactment of the new Company Act.
- Enhance SME statistics. Access to reliable data on Myanmar's enterprise population will be a crucial element in designing and delivering targeted SME policies. The fact that few data are available on the size and nature of the SME population is a critical barrier for policymakers. To finance and increase the accuracy of a first comprehensive economic census, Myanmar could consider seeking technical assistance from international or bilateral agencies with demonstrated expertise.
- Start work to disseminate the use of good regulatory practices. Myanmar could consider adopting the approach used by Cambodia and Lao People's Democratic Republic (Lao PDR) on introducing good regulatory practices. Those countries successfully set up a policy framework for RIA, and training programmes on its use, by creating an RIA Office funded by the Asian Development Bank.

Facilitating SME access to finance (Dimension 3)

Myanmar has a very underdeveloped financial sector by global standards, with only a rudimentary legal, regulatory, and informational framework in place to extend credit and few government programmes to support SME lending. Going forward, Myanmar could:

- Consider linking microfinance institutions (MFIs) to a credit reporting system when it is established. Many MFIs currently operate in Myanmar and are well placed to provide credit to unbanked citizens. Credit information on potential clients would help MFIs to scale their operations and increase their sustainability.
- Consider conducting a diagnostic exercise on credit guarantees. Myanmar has recently begun to provide credit guarantees, but other models could be tested with different features. In addition, several important framework conditions for the extension of credit guarantees are currently missing or incomplete, such as a sound regulatory framework, effective insolvency procedures, and strong financial literacy and accounting skills. Credit guarantees can be a market-friendly tool and can reach a higher number of SMEs than traditional credit lines or other instruments, but they are also challenging to implement. A diagnostic exercise could be helpful to increase the sustainability of such schemes. The exercise should seek to identify priority framework gaps as well as appropriate models for Myanmar's context.

Enhancing access to market and internationalisation (Dimension 4)

As Myanmar continues to carry out reforms in many areas to enhance national trade, specific forms of support for SMEs need to be developed. The country could consider the following actions to encourage its local SMEs to go global:

- Develop a national capacity building programme. This would help local SMEs improve their knowledge and skills to venture into international trade. A survey by the Centre for Economic and Social Development in 2016 suggested that the lack of knowledge on foreign trading and market opportunities was the main obstacle hindering Myanmar's SMEs from competing beyond its borders. Capacity building programmes could be delivered through the establishment of business centres or similar offices across the country, along with more frequent national-scale workshops and training for SMEs.
- Develop technology upgrade programmes for SMEs. Such programmes would acquaint SMEs with the latest technology, helping them improve standards and facilitate their move into international trade, promoting their integration into global value chains. The establishment of science parks and special industrial zones could allow SMEs to benefit from technology transfer from more advanced companies and promote their adoption of technology.
- Develop a digital platform for SME networking. SMEs, particularly those in rural areas, face significant connectivity constraints in Myanmar. Yet internet use is growing at a rapid pace in the country. A digital platform for SMEs to access new markets, both within and outside Myanmar, could be of significant value. However, auxiliary measures will be necessary to ensure SME access to such a platform. These measures could seek to increase investment in broadband infrastructure and competition amongst broadband providers to increase coverage and bring down prices. Training programmes may also be required.
- Develop policies on quality standards that target SMEs. SMEs face competition in local markets from imported goods of higher quality. Complying with international standards is also inevitable for any business wishing to penetrate foreign markets.
- Integrate SME-specific support in trade facilitation development. Myanmar has rapidly developed its trade facilitation system. Providing SMEs with assistance in accessing the improved trade facilities would boost their opportunities and competitiveness in trading across borders.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

To increase productivity, spur innovation, and promote the adoption of new technologies and SME greening, Myanmar could consider the following actions:

- Improve data collection and evaluation of SMEs. This would help policymakers monitor the implementation of SME productivity policies and get a better understanding of the current situation.
- Further promote collaboration with the private sector. Myanmar could benefit from closer collaboration with the private sector when developing and implementing initiatives for SMEs. Private BDS or technology-enabling support organisations could be invited to participate in government-managed business development centres or to co-develop a common curriculum for BDS that could be rolled out across the country.
- Develop links between local SMEs and companies present in SEZs and industrial zones. Collaboration with local SMEs as suppliers or secondary suppliers could be supported through incentives and other promotional activities and by co-developing quality upgrading instruments. In this way, policymakers could help SMEs enter regional and global value chains and improve their productivity in the long run.
- Promote policies that facilitate investment and technology upgrades. Few SMEs in Myanmar put effort and investment into innovation and the acquisition of technology. The government could support this by strengthening the linkages between SMEs and innovation and technology agents and by expanding the network of technological and business incubators, as well as multinational companies active in these areas.
- Develop dedicated provisions for SMEs in environmental policies. Policies to support SME greening need to be delineated from policies supporting better environmental performance for the economy as a whole. Concrete policy with targets and timelines would be valuable.
- Develop a coordination unit or function. Government coordination should be strengthened to avoid duplication and increase programme uptake and policy impact. Currently, responsibility for the planning and implementation of environmental policies is fragmented across government levels and branches.
- Promote exchanges on good practice. Myanmar could work with international organisations and regional peers to pinpoint the programmes and strategies that work best to support SME greening. It could then institutionalise their implementation within government policy. This includes projects such as the SMART Factories Programme, conducted until 2022, which focused on specific sectors but that may have lessons applicable to other sectors of the economy.
- Promote implementation through capacity building support exercises. Because of Myanmar's relatively decentralised approach to environmental governance, capacity building could be carried out at different levels of government to ensure that officials are equipped to implement support structures for green SMEs.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

The promotion of entrepreneurial education and skills has not yet been prioritised in Myanmar. Several actions could be considered to level up policy development on entrepreneurship:

- Introduce entrepreneurial learning in primary and secondary education. Activities could include pilot projects to provide business simulation for students or projects to develop creative business ideas or nurture leadership and teamwork skills. Myanmar could call on its foreign development partners or on successful local entrepreneurs to collaborate in designing and implementing such entrepreneurship projects in the national education system.
- Develop national programmes to improve entrepreneurial skills in society. The programmes could cater to the needs of different business maturity levels and cover different areas of starting and running a business, such as obtaining financial assistance, designing and developing products, and developing management skills. They could also target specific population groups, especially vulnerable sectors such as school leavers, low-income groups, and unemployed people.
- Improve awareness about social and inclusive entrepreneurship. Lack of understanding of these new concepts can be a source of confusion and lead to misperceptions amongst policymakers. Increasing their awareness could lead them to consider the need to develop measures to promote these concepts in the country.
- Explore collaboration with the private sector and academia. Lack of resources makes it challenging for Myanmar's policymakers to develop a range of activities supporting social or inclusive entrepreneurship. Partnering with academia and the private sector could accelerate progress on supporting the target groups.
- Consider promoting entrepreneurship amongst the target groups. One way for policymakers to empower women, youth, and people with disability is to integrate activities that promote entrepreneurship into policy.

Myanmar scores 2024

Myanmar Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**2.32**		**4.49**	**1.03**
1.1 Productivity Measures	**2.27**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	2.44	35%	4.41	0.99
Thematic Block 2: Implementation	2.65	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	1.13	20%	4.70	1.47
1.2 Business Development Services	**2.43**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	2.52	70%	4.86	1.03
Thematic Block 1: Planning & Design	2.53	35%	4.55	1.10
Thematic Block 2: Implementation	2.83	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	1.83	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	2.22	30%	4.23	1.02
Thematic Block 1: Planning & Design	2.36	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	1.66	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**2.76**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	3.55	35%	4.43	0.66
Thematic Block 2: Implementation	2.63	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	1.66	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**1.83**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	2.22	35%	4.42	1.40
Thematic Block 2: Implementation	1.75	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	1.33	20%	4.20	1.37

Myanmar Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	2.48		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**4.03**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	4.80	35%	4.92	0.77
Thematic Block 2: Implementation	4.03	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**1.45**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	1.83	35%	4.31	1.32
Thematic Block 2: Implementation	1.35	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.70	1.86

Myanmar Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	2.52	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**2.68**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	2.73	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	3.00	20%	3.50	1.85
Thematic Block 2: Implementation	1.97	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	3.23	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	2.85	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	2.85	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	2.38	10%	5.02	1.55
Thematic Block 1: Planning & Design	2.38	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**2.36**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	1.33	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	1.28	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	1.47	30%	3.32	1.52
3.2.2 Microfinance	6.00	20%	5.38	0.59
Thematic Block 1: Planning & Design	6.00	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	2.28	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	2.93	35%	5.02	1.08
Thematic Block 2: Crowdfunding	1.00	35%	3.35	1.57
Thematic Block 3: Equity Instruments	3.02	30%	4.22	1.18

Myanmar Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**2.47**		**4.94**	**1.26**
4.1 Export Promotion	**2.83**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	3.12	35%	5.88	1.08
Thematic Block 2: Implementation	3.12	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	1.66	20%	4.66	1.87
4.2 Integration to Global Value Chain	**1.70**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	1.94	35%	5.40	1.38
Thematic Block 2: Implementation	1.83	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.21	1.40
4.3 Use of Commerce	**2.51**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	3.06	35%	5.79	1.03
Thematic Block 2: Implementation	2.76	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.20	1.88
4.4 Quality Standards	**2.14**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	1.83	35%	4.73	1.56
Thematic Block 2: Implementation	2.65	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	1.55	20%	3.76	1.74
4.5 Trade Facilitation	**2.26**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	3.06	25%	5.15	0.99
Thematic Block 2: Planning & Design	1.83	25%	3.48	1.36
Thematic Block 3: Implementation	2.65	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	1.52	25%	3.65	1.12

Myanmar Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	**2.09**		**4.69**	**1.05**
5.1 SME Definition	**3.93**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	3.93	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**2.18**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	1.59	35%	5.45	1.30
Thematic Block 2: Implementation	3.06	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	1.24	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**1.29**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	1.83	35%	3.48	1.03
Thematic Block 2: Implementation	1.00	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	1.00	20%	2.65	1.08

Myanmar Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	**2.41**		**4.03**	**1.02**
6.1 Public-Private Consulatations	**2.90**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	2.07	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	4.14	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**1.68**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	2.10	40%	3.57	1.09
Thematic Block 2: Implementation	1.66	40%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.27	1.07
6.3 Company Registration	**3.26**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	3.50	35%	4.44	0.97
Thematic Block 2: Implementation	3.59	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**2.65**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	2.65	100%	4.03	1.08
6.5 E-government	**1.25**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	1.41	35%	5.36	1.69
Thematic Block 2: Implementation	1.24	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.90	1.99

Myanmar Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**2.17**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**2.39**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	2.18	35%	4.83	1.21
Thematic Block 2: Implementation	2.43	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	2.65	20%	4.04	0.94
7.2 Entrepreneurial Skills	**2.03**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	1.83	35%	3.06	1.26
Thematic Block 2: Implementation	2.65	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.08	1.59

Myanmar Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	2.16		3.63	0.85
8.1 Social Enterprises	**2.52**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	3.22	35%	4.51	1.19
Thematic Block 2: Implementation	2.50	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	1.33	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**2.04**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	2.12	35%	3.80	1.02
Thematic Block 1: Planning & Design	2.42	35%	4.54	1.09
Thematic Block 2: Implementation	2.39	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	1.00	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	2.38	35%	3.34	0.76
Thematic Block 1: Planning & Design	2.32	35%	2.83	0.44
Thematic Block 2: Implementation	2.79	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	1.55	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	1.54	30%	3.17	0.79
Thematic Block 1: Planning & Design	1.73	35%	2.84	0.55
Thematic Block 2: Implementation	1.50	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	1.28	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as it was agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

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Part II

Chapter 16

The Philippines

1. Economic Context

The Philippines is the second largest country in the Association of Southeast Asian Nations (ASEAN) in terms of population, with 119.1 million people residing on around 2,000 islands (UN Population Fund, n.d.). While rich in metal and minerals, the country is led by its strong service sector, which accounts for 61.2% of gross domestic product (GDP) and 60% of total employment (World Bank, n.d.) (Government of Philippines, 2024). The Philippines' strong industrial base accounts for 18% of total GDP and is a major producer of electronics, particularly integrated circuits and semiconductors ((World Bank, n.d.). Furthermore, many Filipinos leave to find work abroad, with around 10 million citizens living overseas. As a result, remittances provide an important contribution to the economy, accounting for around 9% of GDP in 2022 (Bangko Sentral ng Pilipinas, 2023).

Despite the impacts of the coronavirus disease (COVID-19) and other crises, the Philippines has had robust growth and a swift economic recovery (**Table 16.1**). The country's GDP growth rate was 5.6% in 2023 and declines in poverty rates and increases in per capita gross national income put it on track to graduate from lower middle-income to upper middle-income status within several years (World Bank, 2024).

The Philippine Statistics Authority recorded a total of 1,105,143 micro, small, and medium-sized enterprises (MSMEs) in 2022, representing 99.6% of all firms and 65.1% of total employment (Department of Trade and Industry Philippines, n.d.). Microenterprises accounted for the majority (90.5%) of MSMEs. The main MSME sectors, by number of firms, were wholesale and retail trade (49.5%), food services and hospitality (14.3%), and manufacturing (12.1%) (Government of Philippines, 2022). While MSMEs are an important source of employment (65.1%), they continue to have a relatively low value-added contribution to the economy, making up only 35.7% of GDP in 2020.

Table 16.1. Macroeconomic Data for the Philippines

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	9,090.73	9,488.59	8,446.92	8,797.17	9,325.68
GDP growth	Percent, yoy	6.34	6.12	–9.52	5.71	7.57
Inflation	Percent, average	5.31	2.39	2.39	3.93	5.82
Unemployment	Percent of active population	2.34	2.24	2.52	3.40	2.60
Net FDI	Percent of GDP	2.87	2.30	1.89	3.04	2.35

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: World Bank, n.d.

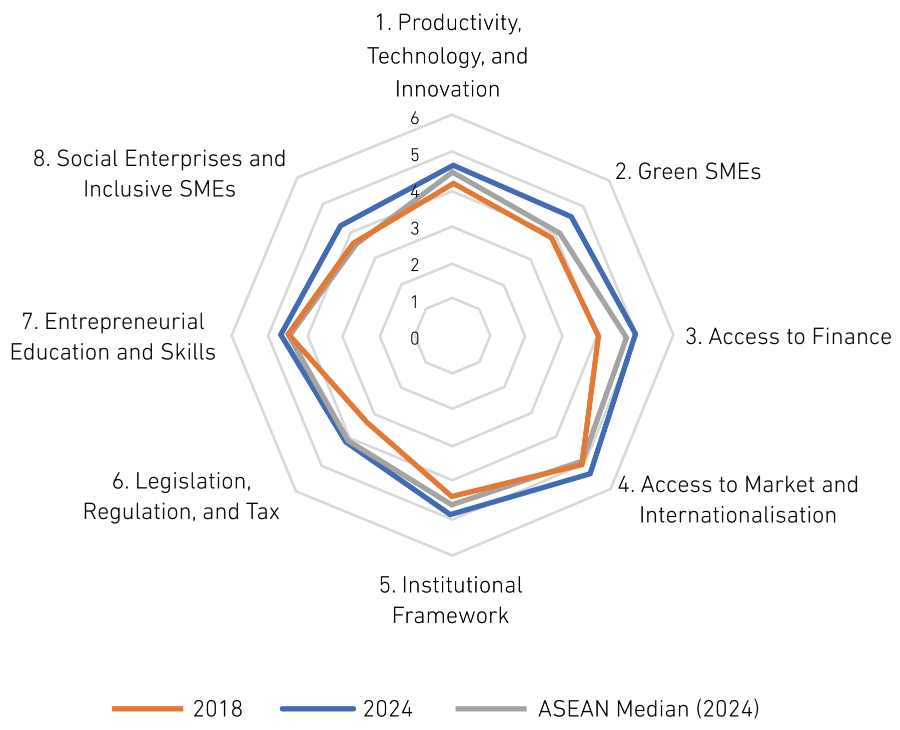
MSMEs have been consistently targeted as a priority focus since the Philippine Development Plan (PDP), 2011–2016. The country has traditionally adopted a 'service delivery' approach to small and medium-sized enterprises (SMEs) policy, providing services to help SMEs increase their competitiveness. SME policy is also seen as a tool to decrease poverty and regional inequalities. Recent efforts under the MSME Development (MSMED Plan) Plan, 2017–2022 of the Department of Trade and Industry (DTI) have focused on improving the business climate for MSMEs, improving MSMEs' access to finance, enhancing MSMEs' management and labour capacities, improving their access to global markets, and advancing their progress in digitalisation. The most recent PDP also utilises MSMEs as key levers for growth, promoting the revitalisation of industry through innovative start-ups and high-technology firms.

2. 2024 ASPI Results

Overall Scores

The Philippines has shown improvement across all policy dimensions since the 2018 assessment and scores slightly above the regional median score. The country scores highest on dimensions relating to SMEs' access to market (5.3) and access to finance (4.87), the latter being the dimension with the most improvement since the previous assessment. The country's lowest scores are in legislation, regulation, and tax (4.12) and social and inclusive entrepreneurship (4.2). On average, the scores indicate maturity of policies related to SMEs and an improved policy framework for MSME development (**Figure 16.1**).

Figure 16.1. SME Policy Index 2024 Scores for the Philippines



ASEAN = Association of Southeast Asian Nations, SMEs = small and medium-sized enterprises.

Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

New strategies focus on helping SMEs move up the value chain by accelerating the digitalisation and innovation of MSMEs and start-ups.

The body responsible for formulating SME policy is the MSMED Council, chaired by the secretary of trade and industry. The Philippines' national MSME strategy is the MSMED Plan, the latest version of which covers 2017–2022. At the time of publication, the government was finalising the new version covering 2023–2028 with a focus on utilising artificial intelligence and digitalisation to improve MSMEs' capabilities and resiliency (Government of the Philippines, 2024). The Philippines has been robust in offering dedicated legislative support to MSMEs, with recent efforts focusing on updating, streamlining, and harmonising legislation. The DTI is the lead agency on MSMED implementation, responsible for coordinating agency efforts and strategically linking programmes. In 2021, the DTI partnered with the United Nations Development Programme to assess the suitability of the MSMED Plan and its component programmes. The results confirmed that the plan aligned with international best practices but recognised that monitoring efforts still had room for improvement.

To improve the government's ability to address MSME needs, the DTI has been developing a wide-ranging reform called the Omnibus MSME Code. Expected to be finalised by the last quarter of 2024, the Omnibus Code is dedicated to addressing gaps in existing laws and measures relevant to MSMEs (e.g. access to finance, innovation and technology limitations, and market integration) to promote their development. One planned reform is to harmonise the Philippines' MSME definition. Currently, multiple MSME definitions exist across different agencies. The official government definition defines MSMEs only by a firm's total assets, while the Philippine Statistics Authority classifies MSMEs according to the total number of employees (**Table 16.2**).

Table 16.2. Philippines' MSME definitions

	Total assets	Total number of employees
Micro	≤ ₱3 million	1–9
Small	₱3 million– ₱15 million	10–99
Medium	₱15 million– ₱100 million	100–199

₱= Philippines peso
Source: ASEAN, 2023.

Non-SME-specific reforms that have improved the regulatory environment have also been implemented since the last assessment. In 2018, the Anti-Red Tape Authority (ARTA) was created, which serves as the dedicated agency for implementation of the 2018 Ease of Doing Business Act and ensuring public sector compliance with all anti-red tape and business facilitation measures. Through the Ease of Doing Business Act, regulatory impact assessment (RIA) has been mandated, and in June 2021 the ARTA initiated an RIA aimed at streamlining the business-related processes for MSMEs to help them stay afloat during the pandemic.

Since the last assessment, substantial improvements have been achieved in the ease of doing business. The Securities and Exchange Commission established a one-stop shop for business registration and digitalisation, the Philippine Business Hub. As a result, the number of steps and processing days was reduced from 13 steps and a processing time of 33 days to 1 step within 7 days. Additionally, since the last assessment, the Department of Information and Communications Technology launched the E-Government Masterplan in 2022, which provided a policy framework for promoting integrated digital government services. Various digital services, such as permit applications and electronic audited financial statements, are now available as a result.

Despite all this progress, several gaps remain in the Philippines' MSME framework. The informal sector still represents a substantial part of the economy. The latest official statistics come from 2008, when labour surveys estimated that the Philippines had around 10.5 million informal sector operators. The government seeks to incentivise MSME registration through its business support services, which are only offered to registered MSMEs.

Facilitating SME access to finance (Dimension 3)

The overall share of MSME loans in banks has increased due to the government assistance programmes.

The Philippines has a moderately developed financial sector according to global indicators. Since the last assessment, the legal, regulatory, and institutional framework – as well as external sources of finance – have improved in the country. The Personal Property Security Act of 2017 allows MSMEs to use their movable assets as collateral for loans, alleviating one of the main financial constraints in achieving formal financing. Regulations for crowdfunding were also implemented in July 2019, and 333 companies have successfully raised capital to date through Securities and Exchange Commission-licensed crowdfunding intermediaries (Government of the Philippines, 2023).

The overall share of SME loans from the Development Bank of the Philippines (DBP) has increased since 2018, rising from 1.88% in 2018 to 5.58% in 2022. Part of this is due to the special lending programme (DBP Response – MSME Recovery) implemented during the pandemic, which encouraged MSMEs to resume operations and assisted in accelerating recovery efforts. In addition, the Philippine central bank, Bangko Sentral ng Pilipinas, implemented a variety of credit relief measures during the pandemic and relaxed and introduced flexibility in capital/liquidity standards.

Various forms of MSME-related financial support are in place. For example, the Small Business Corporation is an agency under the DTI and serves as DTI's financing arm. The Small Business Corporation is mandated to provide financing initiatives for MSMEs, offering accessible loans with softer terms and requirements. The Department of Finance's Philippine Guarantee Corporation also offers various MSMEs targeted credit guarantee schemes, such as the MSME Credit Guarantee Facility and the Medium and Large Enterprises-Credit Guarantee Facility. The Philippines has one of the deepest microfinance networks in ASEAN, and it remains an important source of funding for many microenterprises

Enhancing access to market and internationalisation (Dimension 4)

MSMEs are well established in value chains, and the current focus is on upgrading their capacities.

Philippine MSMEs account for 60% of the country's exporters and 25% of the country's export revenues, higher than the equivalent SME contribution in other ASEAN Member States (Government of the Philippines, 2023). The Philippine government recognises the importance of MSMEs and has implemented several strategies to develop and promote them in the export sector.

The main legislative framework for market access is the Philippine Export Development Plan, a five-year road map that aims to improve the performance and competitiveness of the export sector. The current version for 2023–2028 proposes several dedicated MSME initiatives, including upgrading human capital through capacity building programmes; improving the export ecosystem through legislative reforms; organising MSMEs into cooperatives to improve service delivery; and government assistance across various MSME-specific domains (access to financing, access to infrastructure, certification requirements, etc.) (Government of the Philippines, 2023).

In terms of programme support, the DTI has various business development support services dedicated to export promotion, a business matching programme to improve integration into global value chains, and various programmes such as the Product Certification Scheme to help SMEs meet international standards. As of 2023, 1,378 Negosyo Centers are in operation, offering business support to more than 500,000 MSMEs. Additionally, the DTI in collaboration with the Philippine Center for Entrepreneurship launched the Kapatid Mentor ME (KMME) Program in 2018–2016 and the digital KMME-Money Market Encounter (MME) in 2024. The programmes offer mentoring on accessing international markets and financing, reaching 7,862 beneficiaries from 2018 to 2021. In 2024, the DTI and the Philippine Center for Entrepreneurship continue to innovate through the digital KMME-MME to integrate the MME into the regular KMME Program.

E-commerce in the Philippines is expanding rapidly, expected to grow from US$ 17 billion in 2021 to US$ 24 billion by 2025 (US Government, n.d.). MSMEs are considered in the government's strategy. Road maps for e-commerce (the previous e-Commerce Philippines 2022 and the new e-Commerce Philippines, 2024–2028) include provisions on addressing MSME barriers and scaling up digital transformations for MSMEs. Programme support is also in place, such as oneSTore under the Department of Science and Technology (DOST), which is an online marketing hub for MSME products that have been supported by DOST through its SETUP programme. oneSTore was introduced in 2016 and now has over 140 hubs.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

High-tech innovative SMEs are well promoted, while sustainability considerations are still at early stages of development.

Since the last assessment, the government has significantly strengthened efforts to promote productivity amongst MSMEs. Policy support for productivity is increasingly featured. In 2021, the Department of Labor and Employment (DOLE) crafted the National Employment Recovery Strategy, a 2-year plan to encourage job creation and ensure employee wellness and productivity during the pandemic. Additionally, productivity-enhancing programmes such as the DOLE–National Wages and Productivity Commission Productivity Olympics and DOST's SETUP programme are ongoing. The main area of improvement for the Philippines lies in its monitoring efforts for productivity. While the number of government studies on MSME productivity (e.g. by DOLE's National Wages and Productivity Commission and the Philippine Institute for Development Studies) has seen a notable increase, gaps in data availability remain for benchmarks identified in the MSMED Plan. Statistics such as MSME labour productivity and the labour force participation of women and youth workers are still not available.

Business development services (BDS) are a core part of the government's overall strategy to support MSMEs and have expanded since the previous assessment. While no formal co-financing scheme is in place for BDS in the country, government-initiated capacity building programmes aim to enhance and support MSME operations. Shared Service Facilities and Negosyo Centers offer a variety of BDS services, while other specialised programmes such as the DTI's Food Connect Program offer customised support for a given industry or MSME need. The implementation of the Go Negosyo Act (2013) precipitated a rapid increase in the number of Negosyo Centers. By 2023, 1,378 Negosyo Centers had been established nationwide – a significant increase from just 5 in 2014. Negosyo Centers provide core services to MSME clients such as business registration assistance, business information and advocacy services, product development services, trade promotion services, and financing facilitation.

The government has also been active in implementing support services for the digital transformation of SMEs. For instance, the DTI's Digital Maturity and Digital Mindset Toolkit helps MSMEs assess their organisational needs and provides recommendations for further digitalisation. As mentioned earlier, the e-Commerce Roadmap, 2024¬–2028 also has provisions for increasing MSME access to digital markets. This is in line with recent actions to support innovative start-ups and SMEs. The 2019 Innovative Startup Act provides for programmes that aim to support early-stage ventures or start-ups such as the Philippine Startup Development Program, the Startup Grant Fund, the Startup Ecosystem Development Program, and other Regional Inclusive Innovation Centers. In addition, Regional Inclusive Innovation Centers are part of the Philippines' industrial cluster policy. Industrial clusters and business agglomeration are covered under the MSMED Plan, 2017–2022 and the PDP, 2023–2028. Fiscal and non-fiscal incentives are provided by the Philippine Economic Zone Authority to registered business enterprises depending on the location and industry priority.

Although no dedicated policy is in place for the greening of SMEs, the new MSMED Plan aims to include a component promoting MSMEs' green growth. MSME operations must comply with environmental regulations including the 1999 Clean Air Act , the 2004 Clean Water Act, the 2000 Ecological Solid Waste Management Act, and the 1990 Toxic Substances and Hazardous and Nuclear Waste Control Act. Programme support for SME greening also exists. The National Climate Change Action Plan, 2011–2028 assists MSMEs in adopting sustainable production patterns, while the Philippine Green Public Procurement Roadmap provides incentives for government suppliers to acquire ecological certifications. Substantial room for improvement remains in this area. No monitoring mechanisms have been developed to track MSME sustainability, and the absence of sustainable regulation tailored to the size of firms may cause challenges for MSMEs facing increasing demands for sustainability data.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Ample programme support exists for entrepreneurs, but few monitoring activities are in place.

The Philippines is committed to incorporating entrepreneurial learning elements at all levels of education. At the university level, the Commission on Higher Education established a curriculum for bachelor's degrees in entrepreneurship in 2005, with the most recent update occurring in 2017. Policy also exists to increase the presence of entrepreneurial education in primary and secondary schools. The 2019 Youth Entrepreneurship Act helps embed business and entrepreneurial learning into the curriculum for students from kindergarten to Grade 12 (ManilaBulletin, 2019).

For people outside the education system, the Technical Education and Skills Development Authority (TESDA) has the National Technical Education Skill Development Plan, 2023–2028. TESDA provides various forms of assistance. The Special Training for Employment Program provides free training, competency assessment, and starter toolkits to jumpstart skill-based and self-employment activities. In partnership with Coca-Cola Philippines, TESDA also oversees the Sari-Sari Store Training and Access to Resources Program, which aims to empower female micro-entrepreneurs through a mix of online and in-person training sessions. DOLE provides grant assistance for capacity building initiatives, and the DTI's Small and Medium Enterprise Roving Academy provides upskilling to MSME managers.

The country's social enterprise sector has historically focused on poverty alleviation. Even though the policy frameworks for social entrepreneurship are in an early phase of development, there are number of inspiring private initiatives. The country does not have a formal definition for social enterprises although resolutions within the MSMED Council have recognised the role of social enterprises in poverty reduction and given them an informal definition.

For inclusive entrepreneurship policies targeting youth, women, and people with disability, the country offers various forms of programme support. The Youth Entrepreneurship Program provides skill development activities to youth-owned MSMEs, reaching 10,807 beneficiaries in 2020. The DTI runs several programmes in support of women-led MSMEs. SheTrades offers BDS, an exclusive business network, and virtual exhibits to promote members' products. The Great Women Project 2 of the Philippine Trade Training Center (PTTC) also provides consultancy services to improve female entrepreneurs' competitiveness. While there is no specific entrepreneurial policy for people with disability, agencies are mandated to assist people with disability in setting up projects and establishing business ventures. In terms of programme support, the DTI's Economic Empowerment offers enterprise-level assistance and provides policy advocacy to ensure an enabling environment for people with disability. In addition, the National Council for the Welfare of Disabled Persons has developed an online portal that serves as a virtual mall for entrepreneurs who are people with disability to showcase their products and services. Despite the number of programmes and level of support offered, however, monitoring systems for tracking SMEs owned by women, youth, or people with disability are not yet available.

3. Recommendations

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Develop and publish the next edition of the MSMED Plan covering the current period and integrating new policy areas and trends related to greening, inclusion, and digitalisation.
- Explore the possibility of separating the policy elaboration and supervision functions from policy implementation tasks with a dedicated budget and operational autonomy. Currently, the Bureau of Small and Medium Enterprise Development is mandated to review and formulate policies and strategies for MSMEs as well as the implementation of policies.
- Explore options on how to strengthen the DTI's monitoring and evaluation practices. Strengthening evaluation practices could help get additional information for policymakers to adjust policies in a timely manner and calibrate them to reach the appropriate segment of the MSME population.
- Intensify efforts to harmonise the definition of MSMEs within the government, ensuring consistency across legislation and statistical reporting to better cater to the needs of both formal and informal sector enterprises.
- Combat informality in the MSME sector with targeted programmes and initiatives. Further work should be done on monitoring the progress of programmes aimed at facilitating the transition of informal enterprises to the formal economy. Facilitating the formalisation of the self-employed and creating awareness of the benefits it can bring could help partially resolve issues related to informality.
- Continue working on tax reforms and facilitation of the company registration process. The government should finalise the recent tax reform laws, paying special attention to the provisions applicable to MSMEs, and ensure increasing awareness of these reforms.

Facilitating SME access to finance (Dimension 3)

- Improve the regulatory and legal framework to enhance access to finance for MSMEs, including reforms to movable assets as collateral, credit reporting, and secured transaction systems.
- Work with private sector finance providers on exploring alternative financing models, such as crowdfunding and peer-to-peer lending, tailored to MSMEs.
- Expand the reach and impact of government financial programmes for MSMEs, ensuring they are accessible and tailored to the needs of diverse MSMEs, including start-ups and microenterprises.
- Work more on promoting green finance mechanisms. Consider the development of a credit guarantee scheme targeting the enhancement of green practices, digitalisation, or inclusive entrepreneurship promotion.

- Continue expanding the coverage of credit reporting systems (as recommended to countries at an early stage of policy development) so that financial institutions can confidently assess the credit risk of borrowers.
- Explore ways to address informal moneylending practices and transform them into formal peer-to peer options through awareness raising, financial literacy education, and the provision of information on legal lenders.

Enhancing access to market and internationalisation (Dimension 4)

- Implement policies and programmes that reduce trade barriers and encourage MSME participation in global value chains. Explore the use of industrial linkages programmes and existing Business Matching programmes. Business linkage programmes can create opportunities for SMEs to integrate into global value chains through platforms, business matching services, and promotional events. SMEs with high growth potential should receive targeted support because of their economic impact.

- Continue to strengthen trade facilitation and export promotion efforts by leveraging existing initiatives like the Negosyo Centers and the KMME Program, amongst others. For example, the TradeNet platform (single window approach) and the Philippine Export Guidebook, once fully implemented and digitalised, will provide support to local SMEs. In parallel, SMEs' awareness of these instruments should be enhanced.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

- Ensure that business development services address the needs of both traditional SMEs and high-growth firms. While governments should prioritise high-potential firms through targeted and customised support, parallel BDS programmes should help traditional SMEs engage in upskilling, technology adoption, and operations refinement.
- Continue working on increasing MSMEs' productivity. This could include collaborating with industrial agglomerations (especially in the electronic and electrical industries and automotive industries) as well as helping SMEs take full advantage of digitalisation – going beyond e-commerce support to exploring how digital solutions can improve processes and increase productivity.
- Develop and implement targeted policies and programmes that encourage MSMEs to adopt environmentally sustainable practices. Provide incentives for green innovation and support MSMEs in accessing green finance.
- Incentivise environmental compliance and provide financial support for eco-efficient practices to encourage MSMEs to adopt environmentally friendly processes. Local Government Units should implement the National Greening Program amongst businesses for the sustainable management of natural resources through conservation, protection, and productivity enhancement.
- Implement mechanisms for independent evaluation and policy review within existing support programmes. Independent evaluation of existing support will allow for the refinement of programmes, improve efficiency, and provide additional opportunities for institutional learning.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

- Enhance entrepreneurial education and training to build a strong foundation of entrepreneurial skills and knowledge. Promote entrepreneurship amongst youth, women, and other under-represented groups to foster inclusive economic growth. Enhancing the implementation of existing programmes, such as the higher education curriculum, to incorporate entrepreneurship education and the Sari-Sari Store Training and Access to Resources Program could provide practical skills and support to aspiring entrepreneurs, particularly women and marginalised groups.
- Bolster educational efforts, take full benefit of mentoring initiatives, and align policies to foster a more inclusive and vibrant entrepreneurial ecosystem that encourages more MSME creation, empowering diverse groups to thrive in the business landscape.
- Create a clear legal framework for social enterprises and inclusive businesses. Aligning policies like the 2022 Poverty Reduction Through Social Entrepreneurship (PRESENT) Act with the promotion of social enterprises could foster sustainable development and poverty reduction.
- Integrate the accreditation systems for social enterprises and inclusive businesses to support the creation of registries, and provide policymakers with additional data.
- Support management skills and improve the capacities of inclusive SMEs through the existing infrastructure and programmes. Special support mechanisms and financial assistance instruments might need to be developed to support inclusive SMEs with specific needs or when they cannot benefit from generic support, e.g. to measure the societal impact generated.

The Philippines Scores 2024

The Philippines Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**4.54**		**4.49**	**1.03**
1.1 Productivity Measures	**4.41**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	4.73	35%	4.41	0.99
Thematic Block 2: Implementation	4.32	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	4.06	20%	4.70	1.47
1.2 Business Development Services	**4.57**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	4.85	70%	4.86	1.03
Thematic Block 1: Planning & Design	5.29	35%	4.55	1.10
Thematic Block 2: Implementation	5.23	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	3.22	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	3.91	30%	4.23	1.02
Thematic Block 1: Planning & Design	4.31	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	2.33	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**4.66**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	5.53	35%	4.43	0.66
Thematic Block 2: Implementation	4.59	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	3.31	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**4.54**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	5.19	35%	4.42	1.40
Thematic Block 2: Implementation	4.12	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	4.33	20%	4.20	1.37

The Philippines Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	4.51		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**4.74**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	5.03	35%	4.92	0.77
Thematic Block 2: Implementation	5.15	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	3.31	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**4.36**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	5.43	35%	4.31	1.32
Thematic Block 2: Implementation	3.36	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	4.75	20%	3.70	1.86

The Philippines Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	4.87	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**4.64**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	4.69	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	3.00	20%	3.50	1.85
Thematic Block 2: Implementation	4.89	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	5.33	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	3.96	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	3.96	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	5.72	10%	5.02	1.55
Thematic Block 1: Planning & Design	5.72	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**5.10**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	5.12	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	5.67	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	3.85	30%	3.32	1.52
3.2.2 Microfinance	5.38	20%	5.38	0.59
Thematic Block 1: Planning & Design	5.38	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	4.38	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	5.25	35%	5.02	1.08
Thematic Block 2: Crowdfunding	4.04	35%	3.35	1.57
Thematic Block 3: Equity Instruments	3.76	30%	4.22	1.18

The Philippines Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**5.30**		**4.94**	**1.26**
4.1 Export Promotion	**5.66**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	3.12	35%	5.88	1.08
Thematic Block 2: Implementation	3.12	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	1.66	20%	4.66	1.87
4.2 Integration to Global Value Chain	**4.53**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	5.28	35%	5.40	1.38
Thematic Block 2: Implementation	4.30	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	3.75	20%	3.21	1.40
4.3 Use of Commerce	**5.47**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	6.00	35%	5.79	1.03
Thematic Block 2: Implementation	5.32	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	4.87	20%	3.20	1.88
4.4 Quality Standards	**5.47**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	6.00	35%	4.73	1.56
Thematic Block 2: Implementation	5.32	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	4.87	20%	3.76	1.74
4.5 Trade Facilitation	**4.62**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	5.15	25%	5.15	0.99
Thematic Block 2: Planning & Design	4.30	25%	3.48	1.36
Thematic Block 3: Implementation	5.43	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	3.60	25%	3.65	1.12

The Philippines Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	**4.85**		**4.69**	**1.05**
5.1 SME Definition	**4.51**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	4.51	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**5.34**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	5.37	35%	5.45	1.30
Thematic Block 2: Implementation	5.86	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	4.12	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**3.97**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	4.30	35%	3.48	1.03
Thematic Block 2: Implementation	4.30	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	2.65	20%	2.65	1.08

The Philippines Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	**4.12**		**4.03**	**1.02**
6.1 Public-Private Consulatations	**4.51**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	3.89	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	5.25	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	4.30	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**3.40**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	3.57	40%	3.57	1.09
Thematic Block 2: Implementation	3.42	40%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	3.06	20%	3.27	1.07
6.3 Company Registration	**4.13**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	4.13	35%	4.44	0.97
Thematic Block 2: Implementation	4.30	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	3.75	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**4.32**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	4.32	100%	4.03	1.08
6.5 E-government	**4.53**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	5.58	35%	5.36	1.69
Thematic Block 2: Implementation	4.55	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.90	1.99

The Philippines Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**4.63**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**4.44**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	4.80	35%	4.83	1.21
Thematic Block 2: Implementation	4.20	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	4.33	20%	4.04	0.94
7.2 Entrepreneurial Skills	**4.77**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	5.15	35%	3.06	1.26
Thematic Block 2: Implementation	4.30	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	5.15	20%	3.08	1.59

The Philippines Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	**4.20**		**3.63**	**0.85**
8.1 Social Enterprises	**3.44**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	3.76	35%	4.51	1.19
Thematic Block 2: Implementation	3.10	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	3.66	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**4.45**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	5.28	35%	3.80	1.02
Thematic Block 1: Planning & Design	6.00	35%	4.54	1.09
Thematic Block 2: Implementation	5.02	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	4.60	20%	2.79	1.63

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8.2.2 Inclusive SMEs for Youth	4.08	35%	3.34	0.76
Thematic Block 1: Planning & Design	3.00	35%	2.83	0.44
Thematic Block 2: Implementation	4.44	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	5.17	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	3.92	30%	3.17	0.79
Thematic Block 1: Planning & Design	3.22	35%	2.84	0.55
Thematic Block 2: Implementation	4.27	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	4.33	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid

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Part II

Chapter 17

Singapore

1. Economic Context

Singapore is a highly developed city state, with the 10th highest gross national income (GNI) per capita, and the most advanced country in the world in terms of human capital development (World Bank, n.d.). Through strategic planning, Singapore has achieved rapid economic development and become a regional as well as a global hub for services and trade. The country's outstanding growth (**Table 17.1**) has moderated in recent years, matching other high-income economies, with the government forecasting 1%–3% gross domestic product (GDP) growth in 2024 (World Bank, 2024). Small and medium-sized enterprises (SMEs) represent an essential part of Singapore's economy, in 2022 making up 99% of firms, 71% of employment, and 44% of value added (Government of Singapore, n.d.[3]). The country has about 311,100 enterprises. Singapore is ranked fifth in the Global Innovation Index 2022, first in the World Economic Forum's Global Competitiveness Report 2019, second in the Bloomberg Innovation Index 2021, second in the International Property Rights Index 2022, and third in the World Trademark Review IP Office Innovation Ranking 2021.

Table 17.1. Macroeconomic Data for Singapore

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	117,426.7	117,636.2	113,400.3	128,731	129,083.5
GDP growth	Percent, yoy	3.58	1.33	-3.90	8.88	3.65
Inflation	Percent, average	0.44	0.57	-0.18	2.30	6.12
Unemployment	Percent of active population	-	3.10	4.10	4.64	3.59
Net FDI	Percent of GDP	21.76	28.10	23.17	32.39	31.87

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: World Bank, n.d.

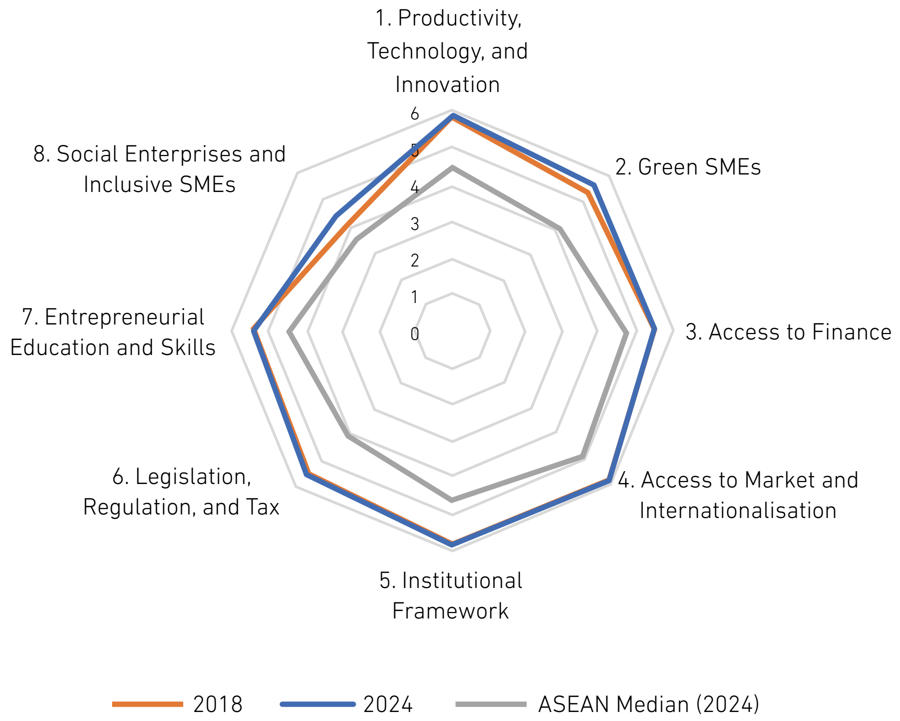
Several policy developments have occurred since the last assessment in 2018. In April 2018, IE Singapore and SPRING Singapore merged to form Enterprise Singapore (EnterpriseSG), an entity dedicated to championing enterprise development. In 2022, the Singapore Government announced the Singapore Enterprise 2030 strategy, which forms part of the broader Singapore Economy 2030 vision. This strategy includes various initiatives aimed at aiding local SMEs to capture new opportunities in capacity development, internationalisation, digitalisation, and innovation. Programmes introduced to support the implementation of the Enterprise 2030 strategy include the Singapore Global Enterprises initiative, expansion of the Corporate Venture Launchpad, the Partnerships for Capability Transformation scheme, and the Singapore Global Executive Programme.

2. 2024 ASPI Results

Overall Scores

Singapore scored highest in seven out of eight dimensions – well above the median score of the Association of Southeast Asian Nations (ASEAN) (**Figure 17.1**). The scores were highest for SMEs' access to market (5.96) and the country's institutional framework (5.91). Due to the already high scores, there was little fluctuation in scores between the current and past ASEAN SME Policy Index (ASPI) editions. Notably, progress was observed in the Environmental Policies for SMEs dimension, partly attributable to the Singapore Green Plan 2030 launched in 2021. With a score of 4.40, the social enterprises and inclusive SMEs dimension remained an area for improvement for Singapore.

Figure 17.1. SME Policy Index 2024 Scores for Singapore



ASEAN = Association of Southeast Asian Nations, SMEs = small and medium-sized enterprises.

Note: Scores are rated 1 to 6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

Singapore is making continuous efforts to streamline its regulatory frameworks to improve the business environment, easing the burden on SMEs.

The current criteria for SMEs in Singapore has been in place since 2011, with SMEs defined as any firm 'with annual sales turnover of not more than S$100 million or employing no more than 200 staff' (SingStat, 2022). There is no distinction between micro, small, and medium-sized enterprises. To qualify for SME policies and programmes, an enterprise must be classified as an SME and be able to demonstrate a minimum of 30% local shareholding.

The Ministry of Trade and Industry (MTI) is the ministry responsible for leading and coordinating enterprise development strategies, including strategies for start-ups and SMEs. Ministers in the MTI usually lead the task force or subcommittees that are responsible for reviewing and recommending enterprise development strategies. The MTI's Singapore Economy 2030 vision sets out the priorities and ambitions for Singapore. EnterpriseSG is the agency responsible for SME promotion. The Enterprise 2030 strategy reflects Singapore's vision to build and sustain a vibrant ecosystem of enterprises that are future-ready and possess deep capabilities to compete globally.

Sector-specific plans are also in place in the form of the country's Industry Transformation Maps (ITMs), which draw together tailored plans for each sector over a 5-year horizon (MTI, 2024). The ITMs are developed and implemented across 23 industries, covering about 80% of Singapore's economy.

The ITMs build on deep partnerships within and across sectors and provide a platform for key stakeholders, such as business leaders, academia, trade associations and chambers, unions, and the government, to connect and collaborate and to achieve win–win outcomes for workers, businesses, and Singapore.

Singapore adopts good regulatory practices in the development of legislation and regulatory policies, including those affecting SMEs. While Singapore does not have a mandate for formal regulatory impact analysis, such evaluation is conducted on an as-needed basis (ERIA, 2016). In pursuit of regulatory excellence across the public service, the government administers the Pro-Enterprise Survey biennially to gather business sentiment and feedback on the regulatory performance of government agencies. Insights from the Pro-Enterprise Survey enable agencies to identify best practices and areas of improvement, facilitating the enhancement of existing processes to foster a pro-enterprise regulatory environment in Singapore. Additionally, in April 2024, the inter-ministerial committee on Pro-Enterprise Rules Review chaired by the Deputy Prime Minister and Minister for Trade and Industry Gan Kim Yong was established. The committee's focus is to review business regulations and propose regulatory reforms that reduce the cost of doing business, especially amongst SMEs (TheBusinessTimes, 2024).

Starting a business is relatively straightforward. The incorporation of a company is done online through BizFile – the filing and information retrieval portal developed and operated by Singapore's Accounting and Corporate Regulatory Authority. Payment for company incorporation can be made via e-payment options such as PayPal, Google Pay, Apple Pay, and credit or debit cards.

Singapore has made significant advancements in e-governance capabilities. Singpass and/or Corppass are used as authentication for individuals and businesses for most e-service transactions with the government. Singpass is a gateway to more than 2,700 services by over 800 government agencies and businesses. The Inland Revenue Authority of Singapore (IRAS) has leveraged technology and digitalisation across the tax life cycle, from filing to payment, to improve the taxpaying experience for SMEs and ease their compliance burden. In addition to providing a suite of digital services for SMEs to transact with IRAS via myTax Portal, IRAS has collaborated with software developers to allow seamless filing of tax returns through accounting software that SMEs use for their operations.

For corporate tax filing, SMEs with annual revenue of up to S$200,000 only need to fill in six essential fields on the Form C-S (Lite). More than 80,000 companies benefitted from filing Form C-S (Lite) in the 2023 assessment year; this represented around 30% of the corporate taxpayer base.

In line with the national drive towards electronic payments, all goods and services tax (GST) and corporate income tax refunds have been made electronically since January 2022. All businesses, including SMEs, now enjoy fast, secure, and seamless e-refunds. Additionally, IRAS has onboarded eGIRO, which enables SMEs to register for the General Interbank Recurring Order (GIRO) within few days, a significant improvement from the traditional method of using paper application forms that could take up to a month.

Complementing these digital advancements, Singapore is a highly formalised economy where the vast majority of workers are afforded regulatory oversight as well as employment protection in its labour laws and regulations.

To ensure effective implementation of its policies to champion enterprise growth, EnterpriseSG monitors and reports its achievements on a regular basis to its parent ministry, the MTI. These achievements are published on a yearly basis, through EnterpriseSG's annual report and Year-in-Review.

Facilitating SME access to finance (Dimension 3)

Singapore has a well-developed ecosystem to provide finance to SMEs.

Singapore has strong framework conditions for SME lending. Its credit reporting system is facilitated by multiple private credit bureaus. Financial institutions can use contracting elements such as securitisation to mitigate credit risk. Furthermore, both movable and immovable asset registers are well established. The movable assets register is managed by the Accounting and Corporate Regulatory Authority, while the cadastre is managed by the Singapore Land Authority.

Unlike in many other countries, instead of providing credit guarantees, EnterpriseSG shares the loan default risk in the event of enterprise insolvency with the participating financial institutions through its Enterprise Financing Scheme (EFS). The EFS is a comprehensive tool that enables enterprises to access financing more readily across all growth stages. The EFS covers seven areas to address enterprises' financing needs: green loans, working capital loans, fixed asset loans, venture debt loans, trade loans, project loans, and mergers and acquisition loans.

Singapore is a global hub for equity and venture capital investment, accounting for 73% of the deal value in the ASEAN-6.[1] It accounts for the largest venture capital per capita investment (Enterprise Singapore, 2022) (Pitchbook, 2023). However, following the onset of the coronavirus disease (COVID-19), venture capital funding declined by 39% to US$4.14 billion (Statista, n.d.) in 2020. Likewise, equity markets in Singapore declined to US$10.99 billion in 2022 and dropped 44.7% year on year to US$6.1 billion in 2023 (Enterprise Singapore, 2022). Nonetheless, this was largely in line with global and regional equity market trends, with Singapore showing the smallest declines across the ASEAN-6. This was in part supported by Singapore's response to COVID-19, which included a comprehensive set of support measures including both, broad-based and targeted support schemes. For example, under the Special Financial Relief Programme, SMEs in all industries were able to defer 100% of the principal repayment of their secured loans until December 2020. Additionally, the Extended Support Scheme – Standardised allowed SMEs to defer their principal payments, with the duration of deferment varying based on the sector in which the SME operates. This scheme was discontinued in September 2021.

To develop the sector further, the Financial Services ITM 2025 was spearheaded by the Monetary Authority of Singapore. Launched in 2022, the ITM serves as a key policy instrument aimed at bolstering Singapore's financing ecosystem. Notably, Singapore is launching an SME trade discovery platform to facilitate easier access to trade finance for participating SMEs (Monetary Authority of Singapore, 2022).

[1] Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Enhancing access to market and internationalisation (Dimension 4)

A robust repository of resources is in place to enhance SME integration into global value chains.

Singapore is a global logistics and aviation hub, strategically located at major trading routes; it is a key global trading centre. In 2022, Singapore ranked 16th amongst both world merchandise exporters and importers, and 8th amongst both exporters and importers of services. As such, export–import promotion is integral to Singapore's economic development (World Trade Organisation, 2023) To deepen its connectivity with trading partners and facilitate local companies' access to overseas markets, Singapore has forged an extensive network of 27 free trade agreements (FTAs). This network not only enhances market access but also aligns with the Trade 2030 strategy, a key component of the broader Singapore Economy 2030 vision.

Moreover, the MTI and EnterpriseSG offer numerous online resources to support local SMEs in navigating the regulatory ecosystem and seizing business opportunities. For instance, the EnterpriseSG Export Toolkit provides a comprehensive guide for SMEs to export. Additionally, EnterpriseSG's Tariff Finder enables companies to compute their duty savings and understand trade-related rules and formalities across Singapore's FTA network. The Tariff Finder helps SMEs find the basic duties of most favoured nation (MFN) tariffs and preferential tariffs for import, as well as the requirements to export products to more than 120 destinations, including rules on product origin that are applicable under Singapore's FTAs and agreements under ASEAN.

Furthermore, SMEs can get in touch with one of EnterpriseSG's 36 overseas centres to better understand the trade policies and commercial ecosystems of specific markets. EnterpriseSG also has a set of programmes to help Singaporean SMEs establish networks and integrate into regional and global value chains. For example, the Enterprise Leadership for Transformation programme helps SME business leaders strengthen their business capabilities and develop growth supporting strategies. In addition, EnterpriseSG's Local Enterprise and Association Development programme, with the support of trade associations, facilitates the participation of local enterprises in international trade fairs by defraying part of the costs incurred. To support companies further in expanding into new markets overseas, EnterpriseSG's Market Readiness Assistance grant defrays costs related to overseas market promotion, business development, and market set-up.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

Singapore has created an agile ecosystem to promote innovation and productivity amongst SMEs.

Singapore has highly advanced policies and programmes in place to boost productivity, innovation, and the adoption of technology. The ITMs serve as a notable example, encompassing strategies for productivity, innovation, technology, trade, internationalisation, and skills for various sectors. Recently, the ITMs were refreshed through the ITM 2025 process, where the two additional pillars of resilience and sustainability were added to align with economic transformation goals.

The country has also developed an agile ecosystem that allows for rapid adjustment to the necessary changes. In response to COVID-19, the Future Economy Council convened the Emerging Stronger Taskforce to guide the economy towards a post-pandemic future. The task force identified six key shifts arising from the pandemic and recommended strategies for Singapore to enhance resilience and drive economic dynamism.[2]

Given the shift to digital transformation, the government has rolled out support tailored to enhance SMEs' digital capabilities and facilitate their digital transition. For example, EnterpriseSG's Productivity Solutions Grant provides financial support for business owners who adopt pre-approved information technology (IT) solutions to improve productivity. Furthermore, EnterpriseSG's Heartlands Go Digital programme offers advisory services to small domestic firms on e-payment and IT solutions. Under the Infocomm Media Development Authority (IMDA) SMEs Go Digital Programme, sector-specific Industry Digital Plans provide SMEs with a step-by-step guide to digital adoption and employee training. This is complemented by the Chief Technology Officer-as-a-Service model, which serves as a one-stop platform for SMEs to assess their digital health, find the appropriate Industry Digital Plan, access a curated suite of more than 400 market-proven and cost-effective solutions, and engage digital consultants. Within the Chief Technology Officer-as-a-Service platform, SMEs can also access a curated suite of grant-supported solutions via the Productivity Solutions Grant.

Singapore is one of the most advanced nations in the world when it comes to innovation-promotion policies, especially in supporting SMEs. Alongside the ITMs, policies like the Singapore IP Strategy 2030, which contributes to the advancement of intellectual property (IP) development and commercialisation as well as the Research, Innovation and Enterprise 2025 Plan help guide the country's research and development investment activities. For instance, businesses engaging in innovation-related activities can receive enhanced tax deductions under the Enterprise Innovation Scheme launched in 2023. In addition, EnterpriseSG's Global Innovation Alliance has various Co-Innovation Programmes that connect and provide funding support for

[2] The six key shifts are (i) a changing global order, (ii) accelerating industry consolidation and churn, (iii) reconfiguration of global supply chains and production, (iv) accelerating digital transformation and innovation, (v) changes in consumer preferences, and (vi) increased focus on sustainability.

Singapore-based enterprises to pursue co-innovation projects with overseas partners. Partnering with in-market players, the Global Innovation Alliance programme offers Acceleration Programmes in 21 cities worldwide that accelerate the market entry of tech start-ups and SMEs through workshops, mentorships, and connections with potential clients, as well as Co-Innovation Programmes across 37 countries that support collaboration between Singapore-based companies and overseas partners on research and development projects. EnterpriseSG, in partnership with IMDA, has also set up the Open Innovation Network, a single gateway to the open innovation ecosystem that showcases a directory of co-development opportunities and test-bedding prospects with local and global companies.

Moreover, Singapore has been a pioneer of SME greening in the region for over a decade. In February 2021, Singapore launched the Singapore Green Plan 2030, a whole-of-nation movement to advance Singapore's national agenda on sustainable development. The Enterprise Sustainability Programme is one of the initiatives under the Singapore Green Plan 2030 that aims to support local businesses, especially SMEs, in improving their sustainability performance and capturing new opportunities in the green economy. Additionally, in 2020 the Monetary Authority of Singapore launched Project Greenprint, a set of initiatives designed to support the financial sector's sustainability agenda. As part of Project Greenprint, an integrated digital platform called Gprnt was launched in 2023 to automate environmental, social, and governance (ESG) reporting for SMEs (Moodys, 2023).

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Singapore is a good case study on how to develop and promote entrepreneurial culture and education.

Singapore's strong entrepreneurial culture and high human capital development are largely due to the country's long-standing emphasis on holistic education. Students develop 21st century competencies, such as critical, adaptive, and inventive thinking; self-awareness; and responsible decision-making; as well as values such as resilience through a variety of learning experiences that equip them with the skill sets and dispositions to be entrepreneurial. While entrepreneurial education is not compulsory in general education, interested students can access opportunities to undertake such courses through elective modules, applied learning programmes, and co-curricular activities focusing on business and entrepreneurship.

Additionally, support for entrepreneurial learning beyond the education system has been developed in the form of SkillsFuture Singapore, a national upskilling programme dedicated to lifelong learning. An online portal, MySkillsFuture initiative, was launched in October 2017, showcasing more than 20,000 courses by private sector partners on topics such as accounting, banking, finance, and business management (SkillsFutureSG, 2017). As part of efforts to encourage employers to undertake enterprise and workforce transformation initiatives, the government introduced the SkillsFuture Enterprise Credit scheme in 2020, under which eligible employers can tap on a one-off S$10,000 credit to cover up to 90% of out-of-pocket expenses on qualifying costs for eligible initiatives.

Singapore has established a robust ecosystem to support social entrepreneurship, comprising a diverse array of stakeholders, including incubators, investors, and funding instruments. The Social Enterprise Committee was formed in 2006 to review social enterprises as part of Singapore's national strategy. While there is no formal shared definition for social enterprise, a qualification framework has been established to provide clarity.

Central to Singapore's social enterprise landscape is the Singapore Centre for Social Enterprise (raiSE), inaugurated in May 2015. Positioned as the sector's primary coordinating body, raiSE has absorbed responsibilities previously held by the Ministry of Social and Family Development (MSF), the Social Enterprise Association, and the Social Enterprise Hub. As a corporatised entity under the MSF, raiSE is tasked with nurturing the social enterprise sector. Its functions encompass acting as a membership body to cultivate social enterprises, providing business advisory and financing for social enterprises, and nurturing the ecosystem to support social enterprises. Notably, raiSE has compiled a directory titled 'Business for Good'. This aims to highlight social enterprises that drive social impact while ensuring financial sustainability, as well as promoting public recognition and awareness raising. As of 2021, Singapore had 365 registered social enterprises, many of which are SMEs.

The social enterprise ecosystem is further supported by various private initiatives such as DBS Foundation's Social Enterprise Grant Programme and Heritas Capital's Asia Impact First Fund, which provide catalytic capital to high-growth social enterprises. Institutes of Higher Learning also partner with raiSE to support social enterprise start-ups amongst their student cohorts.

While Singapore does not have a dedicated strategy focused on inclusive business, raiSE plays a pivotal role in advancing inclusive business model development. In parallel, SG Enable promotes practices like hiring people with disability. Businesses engaging in inclusive hiring can receive wage offsets via the Enabling Employment Credit and apply for relevant grants and services under the Open Door Programme. Additionally, Singapore has laid out a national road map, the Enabling Masterplan 2030, to chart the country's effort in enabling people with disability to participate as integral and contributing members of society, particularly in areas like employment. The Enabling Masterplan 2030 was crafted by a steering committee convened by the MSF and was released in August 2022.

Singapore's entrepreneurship strategy is neutral to the gender, age, race, and ability of existing or aspiring entrepreneurs. This neutrality (commitment to equal opportunities for all) mitigates the potential barriers faced also by women and youth in undertaking entrepreneurship or accessing support. Nevertheless, the government has several initiatives that address the specific challenges faced by the target groups such as women or youth.

The Singapore Council of Women's Organisations is the national coordinating body of women's organisations in Singapore, with more than 50 member organisations representing over 500,000 women in Singapore. The White Paper on Singapore Women's Development is a key milestone in Singapore's vision of a fairer and more inclusive society. In the realm of entrepreneurship, the Singapore Women Entrepreneurs Network, under the Singapore Business Federation, serves as a key platform supporting women entrepreneurs. Additionally, other initiatives include the HSBC Female Entrepreneur Programme and the Women in Entrepreneurship Incubator. The Women Entrepreneur Awards, supported by EnterpriseSG, IMDA, and SkillsFuture Singapore, celebrates and promotes successful and promising entrepreneurs who contribute not only to the business community and economy but also to the social community.

Singapore is committed to offering the best possible opportunities for women across all sectors, including high-growth areas like the tech industry. Through strategic partnerships, the government endeavours to equip women with the necessary skills and knowledge to fulfil their aspirations and remain competitive in their fields. Programmes are in place to encourage greater representation of women in the tech workforce, such as the SG Women in Tech initiative led by the IMDA. This initiative aims to foster a thriving tech sector in Singapore by attracting, retaining, and developing women talent and leadership roles within the information and communication technology sector. Through collaboration with the community and industry partners, SG Women in Tech has attracted more than 123,000 women to join the tech sector via various initiatives. The recent launch of the third edition of the Singapore 100 Women in Tech list in 2023 received a record 800 nominations – an increase of almost 30% from the 2021 edition, signalling the growing recognition and value that women bring to the tech sector.

The National Youth Council (NYC) plays a key role in promoting entrepreneurship amongst youth. For example, NYC runs the Youth Action Challenge, a structured 4-month programme that guides youth to turn their ideas into reality through a series of curated workshops, mentorship, and guidance from experienced industry professionals. *SCAPE, a non-profit organisation supported by NYC and the Ministry of Culture, Community and Youth, supports youth entrepreneurs and start-ups through programmes such as bootcamps where youths can test their ideas, receive coaching, and pitch for funds. Startup SG brings together the support schemes available for start-ups under a common brand. These schemes are open to all Singapore residents. Additionally, people with disability can tap schemes offered by Startup SG, further fostering inclusivity and diversity in the entrepreneurial landscape.

3. Recommendations

Singapore has exemplary institutions for SME policy development. To support SMEs even more, Singapore could consider:

Strengthening the institutional, regulatory, and operational environment (Dimensions 5/6)

- Align with emerging trends such as digitalisation, climate change, and the new global production value chain in terms of the servicification of manufacturing activities and the services around the global production value chain.
- Explore ways to engage more with independent reviews for the implementation of the major programmes and conduct occasional randomised control trial-type evaluations.
- Consider acting as a peer reviewer on specific SME-related instruments to peers in the region.

Facilitating SME access to finance (Dimension 3)

- Explore the need for reforms to enhance the secured transaction framework. Financial institutions may continue to face uncertainties in the secured transaction framework for lending to unincorporated entities. The introduction of the Personal Property Security Act regime might help to eliminate these uncertainties.
- Explore initiatives to build regional knowledge focused on areas such as digital finance or digital trade finance, given Singapore's role as a regional financial centre, or on SME-specific impact investment. Applying new models and sharing experience on testing regulatory sandboxes for new financial instruments could be valuable for the entire region.

Enhancing access to market and internationalisation (Dimension 4)

- Singapore could further explore SME-specific initiatives for trade facilitation. The effectiveness of trade facilitation schemes could be improved through specific allowances or programmes to help SMEs comply with customs procedures or through a special Authorised Economic Operator (AEO) qualification scheme for SMEs. Initiatives on digital trade facilitation, in terms of digital signatures and paperless trading for SMEs, could be further promoted.
- Continue to monitor and strengthen local enterprise participation in regional and global production value chains in both manufacturing and service activities and provide guidance on how the technical, environmental, and responsible business conduct standards could affect SMEs and the cost of trade and participating in the regional and global production value chains.

Boosting productivity, innovation, and the adoption of new technologies (Dimensions 1/2)

- Continue to promote the adoption and monitoring of the impact of the latest technologies and trends. The cost of adoption of new technical standards and technologies will increase with rapid technological changes.
- Building on the ITMs, Singapore could explore how attracting quality investment in the most innovative areas could also benefit local SMEs by allowing them to benefit from technical know-how and expertise in the newest segments.
- Explore ways to attract high-growth and high-potential companies to Singapore by allowing them to benefit from the infrastructure and entrepreneurship ecosystem.
- Explore the creation of regulatory sandbox environments as required for specific innovative business models.

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

- Explore schemes to ensure the supply of labour and the presence of appropriate capacity building, as well as vocational education and training support enhancement mechanisms, to address the labour shortage and access to relevant skills for SMEs. Digitalisation will also increase the mobility of some types of jobs. This could include building on existing schemes, such as the Career Conversion Programmes, to access a wider pool of talent by reskilling mid-career individuals.
- Improve policy development on social entrepreneurship, inclusive business, and inclusive entrepreneurship. The government could explore the possibility of developing relevant policies covering social entrepreneurship and inclusive business promotion. This could be built on the experience of raiSE.
- Continue to develop activities and instruments focused on the promotion of entrepreneurship amongst women and youth.

Singapore Scores 2024

Singapore Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**5.82**		**4.49**	**1.03**
1.1 Productivity Measures	**6.00**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	6.00	35%	4.41	0.99
Thematic Block 2: Implementation	6.00	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	6.00	20%	4.70	1.47
1.2 Business Development Services	**5.92**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	6.00	70%	4.86	1.03
Thematic Block 1: Planning & Design	6.00	35%	4.55	1.10
Thematic Block 2: Implementation	6.00	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	5.72	30%	4.23	1.02
Thematic Block 1: Planning & Design	5.65	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**5.36**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	5.87	35%	4.43	0.66
Thematic Block 2: Implementation	4.68	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	6.00	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**6.00**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	6.00	35%	4.42	1.40
Thematic Block 2: Implementation	6.00	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	6.00	20%	4.20	1.37

Singapore Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	5.56		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**5.93**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	6.00	35%	4.92	0.77
Thematic Block 2: Implementation	6.00	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	5.66	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**5.31**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	4.88	35%	4.31	1.32
Thematic Block 2: Implementation	5.52	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	5.58	20%	3.70	1.86

Singapore Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	5.53	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**5.39**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	5.33	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	6.00	20%	3.50	1.85
Thematic Block 2: Implementation	4.33	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	6.00	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	5.25	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	5.25	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	6.00	10%	5.02	1.55
Thematic Block 1: Planning & Design	6.00	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**5.67**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	5.62	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	5.81	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	3.19	30%	3.32	1.52
3.2.2 Microfinance	NA	20%	5.38	0.59
Thematic Block 1: Planning & Design	NA	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	6.00	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	6.00	35%	5.02	1.08
Thematic Block 2: Crowdfunding	6.00	35%	3.35	1.57
Thematic Block 3: Equity Instruments	6.00	30%	4.22	1.18

Singapore Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**5.96**		**4.94**	**1.26**
4.1 Export Promotion	**6.00**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	6.00	35%	5.88	1.08
Thematic Block 2: Implementation	6.00	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	6.00	20%	4.66	1.87
4.2 Integration to Global Value Chain	**5.89**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	6.00	35%	5.40	1.38
Thematic Block 2: Implementation	6.00	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	5.43	20%	3.21	1.40
4.3 Use of Commerce	**6.00**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	6.00	35%	5.79	1.03
Thematic Block 2: Implementation	6.00	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.20	1.88
4.4 Quality Standards	**6.00**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	6.00	35%	4.73	1.56
Thematic Block 2: Implementation	6.00	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.76	1.74
4.5 Trade Facilitation	**5.84**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	6.00	25%	5.15	0.99
Thematic Block 2: Planning & Design	6.00	25%	3.48	1.36
Thematic Block 3: Implementation	6.00	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	5.36	25%	3.65	1.12

Singapore Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	5.91		4.69	1.05
5.1 SME Definition	**5.62**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	5.62	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**5.96**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	6.00	35%	5.45	1.30
Thematic Block 2: Implementation	6.00	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	5.81	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**NA**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	NA	35%	3.48	1.03
Thematic Block 2: Implementation	NA	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	NA	20%	2.65	1.08

Singapore Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	5.56		4.03	1.02
6.1 Public-Private Consulatations	**5.64**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	5.38	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	6.00	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	5.43	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**5.03**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	4.58	40%	3.57	1.09
Thematic Block 2: Implementation	5.70	40%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	4.31	20%	3.27	1.07
6.3 Company Registration	**5.78**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	5.38	35%	4.44	0.97
Thematic Block 2: Implementation	6.00	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**5.43**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	5.43	100%	4.03	1.08
6.5 E-government	**6.00**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	6.00	35%	5.36	1.69
Thematic Block 2: Implementation	6.00	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	6.00	20%	3.90	1.99

Singapore Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**5.38**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**5.20**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	5.64	35%	4.83	1.21
Thematic Block 2: Implementation	4.99	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	4.88	20%	4.04	0.94
7.2 Entrepreneurial Skills	**5.50**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	6.00	35%	3.06	1.26
Thematic Block 2: Implementation	6.00	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	3.50	20%	3.08	1.59

Singapore Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	**4.40**		**3.63**	**0.85**
8.1 Social Enterprises	**5.47**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	5.26	35%	4.51	1.19
Thematic Block 2: Implementation	5.85	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	4.98	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**4.04**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	5.03	35%	3.80	1.02
Thematic Block 1: Planning & Design	5.75	35%	4.54	1.09
Thematic Block 2: Implementation	5.16	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	4.87	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	3.47	35%	3.34	0.76
Thematic Block 1: Planning & Design	1.66	35%	2.83	0.44
Thematic Block 2: Implementation	4.75	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	3.77	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	3.23	30%	3.17	0.79
Thematic Block 1: Planning & Design	2.84	35%	2.84	0.55
Thematic Block 2: Implementation	3.41	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	3.48	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid

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Part II

Chapter 18

Thailand

1. Economic Context

Thailand is an upper middle-income country that is the second-largest economy in the Association of Southeast Asian Nations (ASEAN). Small and medium-sized enterprises (SMEs) in Thailand represent an important piece of the economy, making up 99.5% of firms and 71.0% of total employment. The economic landscape of Thailand is characterised by the predominance of SMEs, particularly in low-skilled sectors such as wholesale and retail trade. While this creates employment opportunities, their dominance in low-skilled sectors may also pose challenges related to competition, productivity, and upgrading skills.

The impact of the COVID-19 pandemic on the economy was significant, with the gross domestic product (GDP) declining by 6.1%. World Bank estimates showed that more than 70% of households experienced a decline in their income between March 2020 and June 2021.[1] The pandemic has been particularly harsh for the hospitality and tourism sector, which represents a significant proportion of SMEs in Thailand.

A three-phase economic relief plan was implemented during and post-pandemic. The first phase targeted immediate liquidity concerns with low-interest loans, debt moratoriums, and fiscal initiatives for SMEs. The second phase was business-focussed, providing income compensation to employers affected by the pandemic and ensuring unemployment benefits for employees. The third phase focussed on reinvigorating the domestic economy, enacting training and skills enhancement courses, as well as establishing a government procurement quota for SMEs. The result has been a gradual economic recovery, with real GDP growth at 1.5% and 2.6% in 2021 and 2022, respectively (**Table 18.1**).

Table 18.1. Macroeconomic Data for Thailand

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international US$	20,943.00	21,331.88	19,990.62	20,253.35	20,751.66
GDP growth	%, yoy	4.22	2.11	–6.07	1.49	2.60
Inflation	%, average	1.06	0.71	–0.85	1.23	6.08
Unemployment	% of active population	0.77	0.72	1.10	1.22	0.94
Net FDI	% of GDP	2.71	1.01	–0.99	3.00	2.27
Central government debt	% of GDP	39.25	40.14	50.32	58.56	-
Poverty rate	%, average	0.2	0.2	0.2	0.1	-

FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: World Bank, Bank, World Bank Development Indicators, https://databank.worldbank.org/source/world-development-indicators (accessed 10 May 2024).

[1] World Bank, Bank, World Bank Development Indicators, https://databank.worldbank.org/source/world-development-indicators (accessed 10 May 2024).

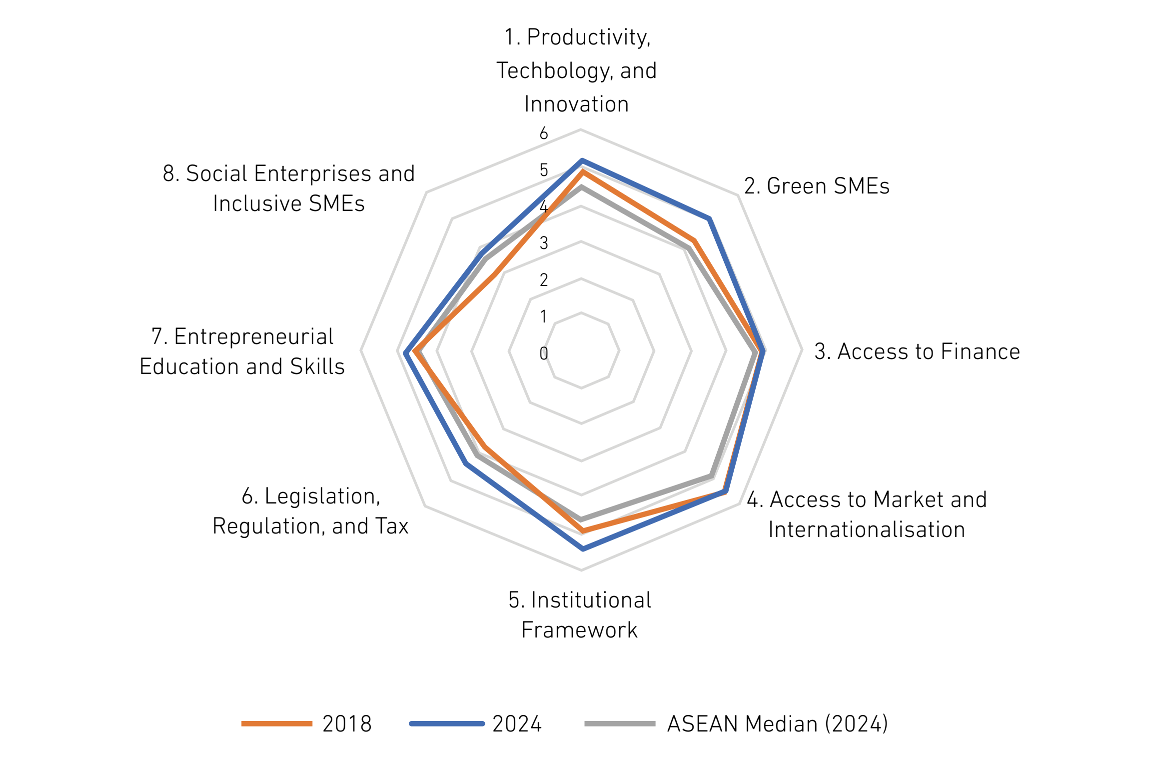
Recent reforms in Thailand have been based around goals outlined in the *National Strategy (2018–2037)*'s first 5-year phase (2018–2023), which outlines broad societal goals such as national security, public well-being, economic growth, equality, and sustainability, and the strategy of the *Twelfth National Economic and Social Development Plan (2017–2021)* and *Thirteenth National Economic and Social Development Plan (2022–2026)*. These strategies promote economic growth through innovation and technological advancements and advanced manufacturing. Policy reforms since 2018 have been largely based around improving the ease of doing business and increasing governmental services, mostly through digitalisation and e-governance systems as well as combating informality. Additional reforms have focussed on expanding the sustainability and inclusivity of government programmes, such as the bio-circular-green (BCG) economy model adopted in 2019.

2. 2024 ASPI Results

Overall Scores

Thailand has an intermediate or advanced level of policies around SME development, which have further improved since the assessment in 2018. The country scores highest on Dimension 4 – Access to Markets and Internationalisation (5.52) and Dimension 5 – Institutional Framework (5.37). The country scores lowest under Dimension 8 – Social Enterprises and Inclusive SMEs (3.78) and Dimension 6 – Legislation, Regulation, and Tax (4.36), although the latter shows great improvement since the 2018 assessment (**Figure 18.1**).

Figure 18.1. SME Policy Index 2024 Scores for Thailand



SMEs = small and medium-sized enterprises.

Note: Scores are rated 1-6, with 6 being the highest.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

Strengthening the Institutional, Regulatory, and Operational Environment (Dimensions 5 and 6)

Government services are increasingly embracing digitalisation to improve efficiency.

Thailand scores highly in Dimension 5 for its strong policy framework for policy planning and availability of an implementation agency and coordination committee. The country is at the intermediary stage of developing policies under Dimension 6, demonstrated by a score of 4.36.

Thailand's SME definition was updated in 2020, including new criteria for micro enterprises, and it moved from criteria based on the total value of fixed assets to analysing a firm's annual income (**Table 18.2**).

Table 18.2. Thailand's SME Definition

	Total assets		Total assets	
	Annual Income (B)	Total Employment	Annual Income (B)	Total Employment
Micro	≤ 1.8 million	< 5	≤ 1.8 million	< 5
Small	1.8 million–100.0 million	5–50	1.8 million–50.0 million	5–29
Medium	100 million–500 million	50–200	50 million–300 million	30–75

The body responsible for formulating SME policy is the National Board of SMEs Promotion, chaired by the prime minister. The board is mandated to endorse the SME promotion plan and to provide a strategic vision for the relevant reforms. The chief body responsible for coordinating the implementation of Thailand's SME policy is the Office of SMEs Promotion (OSMEP), a semi-autonomous agency that is also responsible for policy elaboration and formulating action plans for SMEs. OSMEP's current 5-year strategy, the Fifth SMEs Promotion Plan (2023–2027), focusses on adopting a new economic model for SMEs – the BCG model. Three economies are to be developed simultaneously: the bio economy, circular economy, and green economy. The plan is also integrated with the Eighth Economic and Social Development Plan under the National Strategy (2017–2036). OSMEP also conducts monitoring and evaluation of SME action plans.

Like those of many other peers in the region, the informal economy in Thailand remains sizable, particularly in the agriculture and services sectors, and challenges posed by the COVID-19 pandemic have hindered firms from transitioning to formal status. In 2020, about 54% of the labour force was engaged in informal work, with one-third being self-employed(International Finance Corporation, 2022). The government, however, has put in place a number of reforms to fight informality and to facilitate the formalisation of businesses. The Revenue Department implemented digital software to identify online transactions subject to taxation from informal businesses; in 2023, letters were sent to 30,000–40,000 entrepreneurs with incomes meeting the tax criteria, yielding a 70% satisfactory response. This enhanced accuracy in tax collection efforts and served as a warning to SMEs unaware of their tax obligations, reducing potential losses from increased fines.

Thailand also developed several initiatives to improve the regulatory process. Since 2017, public-private consultations and regulatory impact assessments have been mandated, although limited information exists as to their inclusion of SMEs. To increase implementation of regulatory impact assessments and alignment with best practices, in 2019, the Office of the Council of State established guidelines for the use of regulatory impact assessments in drafting legislation. In March 2022, this requirement was extended to draft regulations that involve licensing, permissions, approvals, registrations, and other conditions.

Improvements in the ease of doing business have been found across the country, with governmental agencies increasingly embracing digital services and policy frameworks eliminating cumbersome regulations. The Department of Business Development has improved the flexibility and efficiency of the registration process by offering an online registration system known as DBD e-Registration. Processing time for business registration was significantly reduced from 27.5 days in 2018 to only 1.5 if onsite or 2–5 days if online (OECD, ERIA, 2018).

For tax services, the Revenue Department has launched a host of digital service systems including e-filing, online value-added tax (VAT) registration, e-tax invoicing, duty stamp transactions, and overdue tax procedures. These are part of a broader trend of e-governance that was guided by the Digital Systems Act of 2019, which mandated the development of comprehensive digital government service platforms aligned with the concept of one-stop service as well as information exchange amongst agencies. To facilitate information exchange, the Government Data Exchange was set up to serve as the hub for digital information sharing.

Facilitating SME Access to Finance (Dimension 3)

Regulatory frameworks have expanded to improve SME access to alternative sources of financing.

Thailand has a relatively high level of financial sector development due to its diversified sources of enterprise finance (e.g. equity, microfinance, crowdfunding, and asset-based finance) and the soundness of its financial system, although additional steps still need to be taken to enhance the legal and institutional environment for getting credit, particularly regarding creditor rights. A legal framework for secured transactions is still not in place, and while the Collateral Act of 2016 broadened the range of securitised assets, movable assets cannot be assigned as collateral. No collateral registry has been established.

Since the 2018 assessment, there has been substantial regulatory improvements to Thailand's financial system. Thailand's Financial Sector Master Plan Phase III (2016–2020) resulted in various improvements to the financial infrastructure, digital payment systems, and financial access for SMEs. In 2020, the Bank of Thailand instituted a digital factoring ecosystem, minimising the risks and improving the efficiency of traditional factoring services. As part of this, the Central Web Service was established in 2021, acting as a centralised database to check invoice status and to prevent double-financing issues (OECD, 2024).

In August 2023, the Bank of Thailand also introduced a central financial and payment infrastructure system, PromptBiz, which enables the business sector to integrate trade data, including invoices, payments, and receipts. PromptBiz facilitates SME lending through the digital Supply Chain Finance platform, by utilising data from previous loan applications to detect instances of double-financing. Additionally, Thailand through its regulatory sandbox has been exploring various innovative solutions. The Electronic Letter of Guarantee System Project – e-LG on Blockchain – is a pilot to provide digital letter of guarantee services, potentially reducing the time for requesting letters of guarantee from 3 to 7 days to just under 1 hour. Furthermore, the Bank of Thailand is currently exploring a policy that would permit creditors to implement a risk-based pricing approach for retail borrowers within the regulatory sandbox.

To ensure SME access to finance, the Securities and Exchange Commission has also been prioritising support for alternative sources of financing that can efficiently meet SME needs. In 2019, private placement for SMEs began allowing SMEs and startups to raise private funds through crowdfunding with streamlined disclosure guidelines. Furthermore, the LiVE Exchange platform was established in 2022, which serves as a secondary market for stocks from SMEs, with simplified registration requirements that is limited to a specific class of investors. In addition, the Thailand Board of Investment in 2022 approved income tax exemptions for venture capital and private equity investments to improve SME and startup access to equity financing (ASEAN Briefing, 2022).

Enhancing Access to Market and Internationalisation (Dimension 4)

Thailand's e-commerce sector is in a period of rapid expansion.

Thailand is well integrated into intra-regional and international trade, and many of its enterprises – including SMEs – are part of global value chains. The country has an advanced level of policy development in promoting its SMEs to expand globally, reflecting a high score for this dimension.

In terms of export support, the Department of International Trade Promotion's SMEs Pro-active Programme Phase 3 (2019–2024) is facilitating the market expansion of SME entrepreneurs abroad and is reinforcing the global competitiveness of Thai SME products and services through various initiatives. Key activities include participation in overseas trade fairs, engagement in virtual exhibitions, and initiatives fostering trade opportunities and business networks abroad. Additionally, the Department of Foreign Trade has also been conducting seminars to encourage Thai entrepreneurs and exporters to leverage the benefits of free trade agreements to enhance their competitiveness on the global market.

Thailand Board of Investment's 5-year strategy (2023–2027) engages SMEs in the global supply chains of key industries. Focussing on SMEs in vital sectors, it offers tax benefits for firms transitioning into innovative or sustainable business models and hosts business networking events, such as SUBCON Thailand, to connect SMEs to global partners. Additionally, the Thailand Board of Investment collaborates with various agencies through the Thai Overseas Investment Support Center to provide counselling and courses (e.g. train-the-trainers programmes) that encourage Thai entrepreneurs to invest abroad and to disseminate knowledge about ongoing investment promotion programmes.

To ensure quality standards, Thai Industrial Standards Institute and Thailand's Community Product Standards provide certifications for products and services. In 2023, the Thai Industrial Standards Institute introduced Thai Industrial Standard for SMEs (TIS.S) to provide certifications for goods produced by SME entrepreneurs that were not previously covered.

Thailand's e-commerce sector stands out as one of the most rapidly expanding business domains in Southeast Asia, experiencing remarkable 68% growth in 2021, with an anticipated annual growth rate of 14% extending to 2025 (PWC, 2022). To guide the development of e-commerce, Thailand has established the Digital Economy Promotion Plan Phase 2 (2023–2027), which has four key strategies to ensure that growth in the sector is sustainable, inclusive, and future-oriented. To foster e-commerce amongst SMEs, the Digital Economy Promotion Agency (depa), in collaboration with various agencies, provides tax exemptions to encourage SMEs to increase utilisation of computer software and services, measures to enhance competitiveness amongst digital service providers, and initiatives to promote investment in digital parks. Various training programmes have been provided by numerous agencies, such as the Online Marketing Genius programme, Smart Trader for SMEs Enhancing Programme, Department of Intellectual Property SME Academy, and EASY e-Commerce online programme.

Boosting Productivity, Innovation, and Adoption of New Technologies (Dimensions 1 and 2)

Programme support has been focussing on digital and sustainable SMEs under the bio-circular-green economy model.

Thailand boasts high scores of 5.09 and 5.01 for Dimensions 1 and 2, highlighting the country's continued pursuit of inclusive economic development. Dimension 2 – Green SMEs saw the greatest improvement since the last assessment, reflecting the improvements made in monitoring SME policies and the expanded support being offered to green SME operations.

Several policy documents refer to enhanced SME productivity, including the *National Strategy (2018–2037) and Thirteenth National Economic and Social Development Plan (2023–2027).* Key strategies include creating a supportive business environment by revising regulations, promoting digital entrepreneurship, and facilitating collaboration between SMEs and large corporations.

Business development services (BDS) support for SMEs is primarily offered through OSMEP, Thailand's SME-dedicated agency. OSMEP established SME One-Stop Service (OSS) Centres that provide SMEs with BDS and consultation in areas including starting a business, accessing finance, achieving certifications, adopting technology and innovation, and improving marketing. Additionally, they serve as a network for SMEs, hosting promotional events that link entrepreneurs to governmental agencies and private sector collaborators.

Since the 2018 assessment, 11 OSS Centres have been created, raising the total number of centres to 77. Every province in Thailand has an OSS Centre. Furthermore, since 2018, OSMEP has been leveraging digital technology to enhance services for SMEs and entrepreneurs, launching the One-stop SME information portal, which consolidates information and projects from over 50 public and private sector organisations aimed at SME development, and the SME CONNEXT app, which serves as a centralised hub for micro and SME services in Thailand.

While policy support for startups (e.g. the Start-up Act) has been development since 2016, Thailand offers a variety of other support for startups. Agencies like the National Innovation Agency (NIA) and depa offer funding and advisory support for innovative and digital startups through various programmes (e.g. Innovation for Economy, Open Innovation, and Thematic Innovation). Indeed, Thailand has been promoting innovation for many years and through a number of policy documents. To improve coordination, the National Research and Innovation Policy Council was created in 2016. The National Science and Technology Development Agency (NSTDA) and NIA are the main implementation agencies. NSTDA is also responsible for transferring technology knowledge to entrepreneurs. There is a vast number of implementation programmes in place, including NSTDA's Industrial Technology Assistance Program (iTAP), which has a specific focus on SMEs. Another example is the Innovation Coupon Project, which is a grant for SMEs when they collaborate with innovation service providers to develop technology and innovation. OSMEP also has a mechanism to create competitiveness and innovation amongst SMEs through intermediaries, such as Innovation Business Development Services.

In terms of business clusters, the Industrial Estate Authority of Thailand (IEAT) is currently managing 68 industrial estates across 16 provinces. The number of clusters have increased since the last assessment, with new initiatives, such as Smart Park Thailand, which launched in 2024. IEAT's strategy for business clusters has prioritised the upskilling and technology adoption of firms through its Smart Industrial Estates programme. Under this, industrial estate developers meeting the criteria are exempt from income tax for up to 8 years. To become a smart industrial estate, various authorities capitalise on partnerships with private and public partners, such as IEAT's memorandum of understanding with the Korea Land and Housing Corporation and Lat Krabang Industrial Estate's partnership with True Digital.

The *Thirteenth National Economic and Social Development Plan* establishes a mandate for the country to become a low-carbon circular economy; accordingly, policy frameworks for SME greening have improved since the last assessment. Thailand's adoption of the BCG model in 2019 has filtered down into the strategy of OSMEP, which employs a three-pronged approach: (i) leveraging digital data resources for business advancement, incorporating biodiversity, cultural capital, and intellectual property; (ii) creating markets for BCG innovations and elevating income by transforming products into higher-value goods, aligned with sustainable and international standards; and (iii) cultivating human capital for the BCG economy through BCG developers. To achieve these goals, starting in 2024, all BDS centres will include a focus on the green economy, with support in areas such as carbon credit verification or environmental management system standards.

OSMEP also provides financial support to sustainable SMEs through the SME *Pang Tang Dai Kuen* project, which covers 50%–80% of business development expenses for projects focussed on the green economy, and has partnered with the Thailand Greenhouse Gas Management Organization (TGO) to strengthen sustainable consumption and production knowledge to SMEs (SwitchAsia, 2022).

Stimulating entrepreneurship and human capital development (Dimensions 7/8)

Entrepreneurial learning is cemented into Thailand's core educational curriculum.

Thailand has continued its support for a more holistic entrepreneurship curriculum. Thailand's Dimension 7 score of 4.76 reflects its commitment to providing entrepreneurial learning and improving entrepreneurship capacities. Thailand's Dimension 8 score of 3.78 shows an improvement in enhancing incentive programmes for social and inclusive entrepreneurship, although there is still significant room for improvement in terms of monitoring efforts and programme support to youth and persons with disabilities (PWD).

Entrepreneurial learning is cemented into Thailand's core educational curriculum through the country's national education plan and basic education development plan (2023–2027). At the university level, entrepreneurial education is offered through business degrees, with universities increasingly expanding the number of courses relating to entrepreneurship and increasing the amount of supplemental business events dedicated to entrepreneurs. NIA has programmes to promote youth innovation and entrepreneurship such as the Thailand Innovation Awards, Founder Apprentice Program, STEAM4INNOVATOR, and Startup Thailand League (Techsauce, 2021).

Thailand has expanded its policy support to social entrepreneurs since the last assessment. In 2019, the Social Enterprise Promotion Act established a clear definition for social enterprises and a dedicated agency, the Office of Social Enterprise Promotion. The *Thirteenth National Economic and Social Development Plan* makes a reference to social enterprises, and the government is in the process of exploring options to create a dedicated fund. The Office of Social Enterprise Promotion has a registry of social enterprises; in 2023, there were 226 registered enterprises. Current activities have been mainly focussed on awareness raising, capacity building, and providing access to markets through business matching and market fairs.

An inclusive business policy framework is still in the early stages of development, and very few associated activities have taken place. For example, in 2023, the Cabinet endorsed ASEAN's Declaration on Promoting Inclusive Business Models and *Plan of Action for the Promotion of Inclusive Business in ASEAN 2023–2027*. While concepts around corporate social responsibility, responsible supply chains, and social enterprises have been widely practiced across Thailand, there are few activities around inclusive businesses in the country, and understanding is still nascent.

In terms of inclusive entrepreneurship, the regulatory framework for female-owned SMEs is robust under the *National Action Plan on Women's Development (2023–2027)* along with the Cabinet's endorsement of the *Strengthening Women's Entrepreneurship in the National MSME Policy and Action Plans Toolkit for Policymakers in* 2022. In comparison, while a framework addressing entrepreneurship promotion for the youth and PWD exist, policies specifically targeting these groups have few concrete implementation instruments and lack monitoring mechanisms. However, new programmes have been established for these groups since the last assessment. In 2019, Krungsri Bank established the Women Entrepreneur Bond to target SMEs with female owners or executives in Thailand; in 2023, Kasikorn Bank launched the AFTERKLASS Business KAMP, an innovation competition targeting youth-owned SMEs. For entrepreneurs with disabilities, the Department of Empowerment of Persons with Disabilities provides interest-free loans.

3. Recommendations

Strengthening the Institutional, Regulatory and Operational Environment (Dimensions 5 /6)

- Streamline co-ordination among implementing agencies. Given the fact that a number of institutions are involved in the implementation of the strategies, a co-ordination mechanism should be put in place, led by OSMEP, as main SME policy implementation and policy co-ordination entity.
- The government should continue working on addressing the issue of informality. The government should explore the approach combining the incentives towards formalisation in parallel with increased number of enforcement measures. Explore the adjustments with the VAT and corporate tax regimes. Another angle to look is to improve data availability around the registration of MSMEs, especially micro enterprises.
- Streamline co-ordination among implementing agencies especially around data sharing. Effective SME data sharing among public sector agencies could be beneficial for having a better understanding of the needs of the sector and reforms expected. This could also help promote more collaboration among the agencies and institutions.
- Enhance the utilisation of Regulatory Impact Analysis (RIA) by fostering greater private sector participation. While RIA is in place and implemented in numerous regulations, its engagement has primarily been through business associations rather than direct involvement of SMEs. The Government can strengthen the benefits of RIA by posting outcomes online and assessing the performance and effectiveness of the impact analysis.

Facilitating SME access to finance (Dimension 3)

- Enhance financial literacy amongst SMEs. Thailand has developed a growing variety of funding options from both public and private sectors. However, many SMEs still rely on traditional methods like bank loans and credit guarantees due to a lack of awareness about alternative sources of funding.
- Explore support for the development of alternative financing instruments (e.g. factoring, leading, fintech, and crowdfunding).
- Foster collaboration between the government and the private sector to develop specialised funding solutions, such as tailored credit products and crowdfunding platforms, ensuring SMEs can access diverse and suitable funding opportunities for sustainable growth.
- Ensure that cadastres and movable asset registries are modern, readily accessible, and fit-for-purpose. Currently, the collateral registry in operation does not allow searches within registrations, amendments, and cancellations, and searches can be performed online by any interested third party.

Enhancing Access to Markets and Internationalisation (Dimension 4)

- Streamline customs and cross-border trading regulations. Thailand could explore the possibility of adopting systems that facilitate trade through simplification of procedures, linking online information on trade procedures with related documents.
- Develop specific cross-border assistance for SMEs. Developing specific assistance like an authorised economic operator programme for SMEs could help companies comply with customs procedures. An additional point is focussed on free trade agreement information to SMEs, which may be beneficial for them.

Boosting Productivity, Innovation, and Adoption of New Technologies (Dimensions 1/2)

- Clarify the roles of institutions and foster the exchange of information amongst them. There seems to be an overlap in the provision of services that could make it confusing for SMEs to obtain access to programmes. For example, activities for innovation promotion are split amongst NSTDA, National Innovation Agency, and Thailand Institute of Scientific and Technological Research.
- Expand programme support to cover SMEs of different sizes and types. It should differentiate support focussed on the growth of high-potential enterprises and more traditional BDS. Thailand should continue developing BDS, which would allow SMEs to scale up and to increase their added value in manufacturing as well as in the services sector. This support could be done through a more customised approach, voucher support, as well as links with international and regional larger companies.

- Further develop instruments linking SMEs to sources of knowledge. Thailand could benefit from scaling up bridging programmes with a focus on SMEs. Such programmes could enhance linkages between domestic and foreign firms and facilitate the entry of Thai SMEs into innovative domestic agglomerations, both horizontal and vertical.
- Explore ways to increase awareness of the opportunities related to greening combined with the promotion of the existing instruments and programmes. This could also be done through the establishment of dedicated single-window opportunities, possibly linked to OSS Centres, incubators, and company registration offices.

Stimulating Entrepreneurship and Human Capital Development (Dimensions 7/8)

- Develop a national entrepreneurship curriculum covering all levels of education.
- Create targeted policy instruments towards inclusive entrepreneurship for women, youth, and PWD. The government could explicitly mention target groups, especially women and youth, in policy documents; allocate budgets; and establish specific instruments tailored to their needs.
- Explore new ways of support for social entrepreneurship through dedicated implementation support programmes and instruments including financial schemes. This could be done in partnership with the private sector as well as impact investors.
- Building on the experience of social entrepreneurship, develop a policy framework for inclusive business. Policymakers should be encouraged to look more into the inclusive business model practice and to focus on micro enterprises. A policy framework should be developed, looking at how to promote inclusive business practices especially amongst SMEs and better linking them to larger enterprises.

Thailand Scores 2024

Thailand Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	5.09		4.49	1.03
1.1 Productivity Measures	**5.07**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	5.58	35%	4.41	0.99
Thematic Block 2: Implementation	4.50	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	5.48	20%	4.70	1.47
1.2 Business Development Services	**5.06**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	5.16	70%	4.86	1.03
Thematic Block 1: Planning & Design	5.58	35%	4.55	1.10
Thematic Block 2: Implementation	5.33	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	4.05	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	4.83	30%	4.23	1.02
Thematic Block 1: Planning & Design	5.12	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	3.66	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**5.07**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	5.60	35%	4.43	0.66
Thematic Block 2: Implementation	4.99	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	4.32	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**5.14**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	4.93	35%	4.42	1.40
Thematic Block 2: Implementation	5.52	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	4.66	20%	4.20	1.37

Thailand Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	5.01		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**5.63**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	5.51	35%	4.92	0.77
Thematic Block 2: Implementation	6.00	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	5.00	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**4.60**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	4.59	35%	4.31	1.32
Thematic Block 2: Implementation	4.91	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	3.90	20%	3.70	1.86

Thailand Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	4.92	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**4.46**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	4.10	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	1.00	20%	3.50	1.85
Thematic Block 2: Implementation	3.92	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	5.83	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	5.26	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	5.26	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	5.43	10%	5.02	1.55
Thematic Block 1: Planning & Design	5.43	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**5.38**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	5.37	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	5.72	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	4.56	30%	3.32	1.52
3.2.2 Microfinance	5.58	20%	5.38	0.59
Thematic Block 1: Planning & Design	5.58	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	5.07	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	6.00	35%	5.02	1.08
Thematic Block 2: Crowdfunding	4.32	35%	3.35	1.57
Thematic Block 3: Equity Instruments	4.87	30%	4.22	1.18

Thailand Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**5.52**		**4.94**	**1.26**
4.1 Export Promotion	**5.75**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	6.00	35%	5.88	1.08
Thematic Block 2: Implementation	5.74	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	5.33	20%	4.66	1.87
4.2 Integration to Global Value Chain	**5.69**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	5.76	35%	5.40	1.38
Thematic Block 2: Implementation	6.00	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	4.88	20%	3.21	1.40
4.3 Use of Commerce	**5.61**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	6.00	35%	5.79	1.03
Thematic Block 2: Implementation	5.89	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	4.30	20%	3.20	1.88
4.4 Quality Standards	**5.28**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	5.15	35%	4.73	1.56
Thematic Block 2: Implementation	5.32	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	5.43	20%	3.76	1.74
4.5 Trade Facilitation	**4.69**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	5.15	25%	5.15	0.99
Thematic Block 2: Planning & Design	4.30	25%	3.48	1.36
Thematic Block 3: Implementation	4.87	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	4.43	25%	3.65	1.12

Thailand Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	5.37		4.69	1.05
5.1 SME Definition	**6.00**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	6.00	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**5.84**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	5.64	35%	5.45	1.30
Thematic Block 2: Implementation	6.00	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	5.81	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**4.22**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	4.30	35%	3.48	1.03
Thematic Block 2: Implementation	4.30	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	3.89	20%	2.65	1.08

Thailand Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	4.36		4.03	1.02
6.1 Public-Private Consulatations	**4.91**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	5.43	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	4.96	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	3.75	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**3.67**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	4.21	35%	3.57	1.09
Thematic Block 2: Implementation	3.53	45%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	3.06	20%	3.27	1.07
6.3 Company Registration	**4.57**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	4.75	35%	4.44	0.97
Thematic Block 2: Implementation	4.79	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	3.75	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**3.75**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	3.75	100%	4.03	1.08
6.5 E-government	**4.66**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	5.15	35%	5.36	1.69
Thematic Block 2: Implementation	4.07	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	5.15	20%	3.90	1.99

Thailand Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**4.76**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**4.47**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	4.87	35%	4.83	1.21
Thematic Block 2: Implementation	3.98	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	4.88	20%	4.04	0.94
7.2 Entrepreneurial Skills	**4.95**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	3.48	35%	3.06	1.26
Thematic Block 2: Implementation	6.00	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	5.15	20%	3.08	1.59

Thailand Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	**3.78**		**3.63**	**0.85**
8.1 Social Enterprises	**4.97**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	6.00	35%	4.51	1.19
Thematic Block 2: Implementation	4.76	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	3.64	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**3.38**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	3.73	35%	3.80	1.02
Thematic Block 1: Planning & Design	4.74	35%	4.54	1.09
Thematic Block 2: Implementation	3.54	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	2.38	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	3.21	35%	3.34	0.76
Thematic Block 1: Planning & Design	2.66	35%	2.83	0.44
Thematic Block 2: Implementation	3.40	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	3.76	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	3.16	30%	3.17	0.79
Thematic Block 1: Planning & Design	3.22	35%	2.84	0.55
Thematic Block 2: Implementation	3.46	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	2.38	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid

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Part II

Chapter 19

Viet Nam

1. Economic Context

Viet Nam has demonstrated an impressive growth strategy and has launched several reforms in the last few decades. Since the launch of economic reforms – known as Đổi Mới – in 1986 and the pursuit of an export-oriented and foreign direct investment-driven industrialisation strategy, the country's gross domestic product (GDP) per capita has increased sixfold, and poverty rates have declined from 14.0% of the population in 2010 to 4.2% as of 2022 (World Bank, 2024).

The COVID-19 pandemic had adverse, severe, and direct and indirect impacts on Viet Nam's economy, as the country's GDP growth contracted sharply in 2020. However, it remained overall positive, rebounding sharply in 2022 (**Table 19.1**). Improvements to labour productivity were equally strong, with an average growth of 5.2% during 2018–2023. Trade expansion has been a key driver of growth; as global trade declines and Viet Nam experiences a contraction in both exports and imports, a moderate slowdown in growth is expected.

Table 19.1. Macroeconomic Data for Viet Nam

Indicator	Unit of Measurement	Year				
		2018	2019	2020	2021	2022
GDP per capita	PPP constant 2021 international $	11,078.29	11,786.48	12,014.83	12,219.01	13,102.32
GDP growth	%, yoy	7.47	7.36	2.87	2.56	8.02
Inflation	%, average	3.539628	2.795824	3.220934	1.834716	3.156507
Unemployment	% of active population	1.16	1.68	2.10	2.39	1.52
Net FDI	% of GDP	5.00	4.82	4.56	4.28	4.38
Central government debt	% of GDP					
Poverty rate	%, average	2.0		1.2		1.3

Note: FDI = foreign direct investment, GDP = gross domestic product, PPP = purchasing power parity, yoy = year on year.

Source: (World Bank, n.d.)

Viet Nam is entering the strategic period of 2021–2030 with new socio-economic development goals, having developed a long-term plan to promote economic recovery post-pandemic. Yet economic reform measures identified prior to 2019 remain relevant, including the need to improve domestic regulations in line with commitments under free trade agreements (FTAs), streamline business conditions, and restructure the economy and key sectors (i.e. state-owned enterprises, public investment, and credit institutions).

While the country had an immediate focus on alleviating the impacts of the pandemic through a variety of fiscal and monetary response measures, it also enacted several structural reforms dedicated to digitalisation, a green transition, and innovation support. For digitalisation, a 5-year (2021–2025) master plan on developing e-commerce was passed in 2020 (Decision No. 645/QD-TTg) along with a national digital transformation programme to 2025 (Decision No. 749/QD-TTg). A development strategy for e-governance (Decision No. 942/QD-TTg) was also adopted in 2021 as well as the National Strategy for Digital Economic Development and Digital Society (Decision No. 411/QD-TTg) in 2022. At the same time, Viet Nam improved the legal framework for a green transition through the Law on Environmental Protection in 2020 and the Circular Economy Development Project (Decision No. 687/QD-TTg) in 2022. The country also advanced sustainable business practices with the Program on Supporting Private Sector Enterprises in Sustainable Business for the period of 2022–2025 (Decision No.167/QD-TTg of the Prime Minister in 2022). Furthermore, Viet Nam began work on a policy framework for promoting innovation, with the Ministry of Planning and Investment (MPI) mandated to prepare a national programme on improving labour productivity in 2023 (Decision No. 1305/QD-TTg).

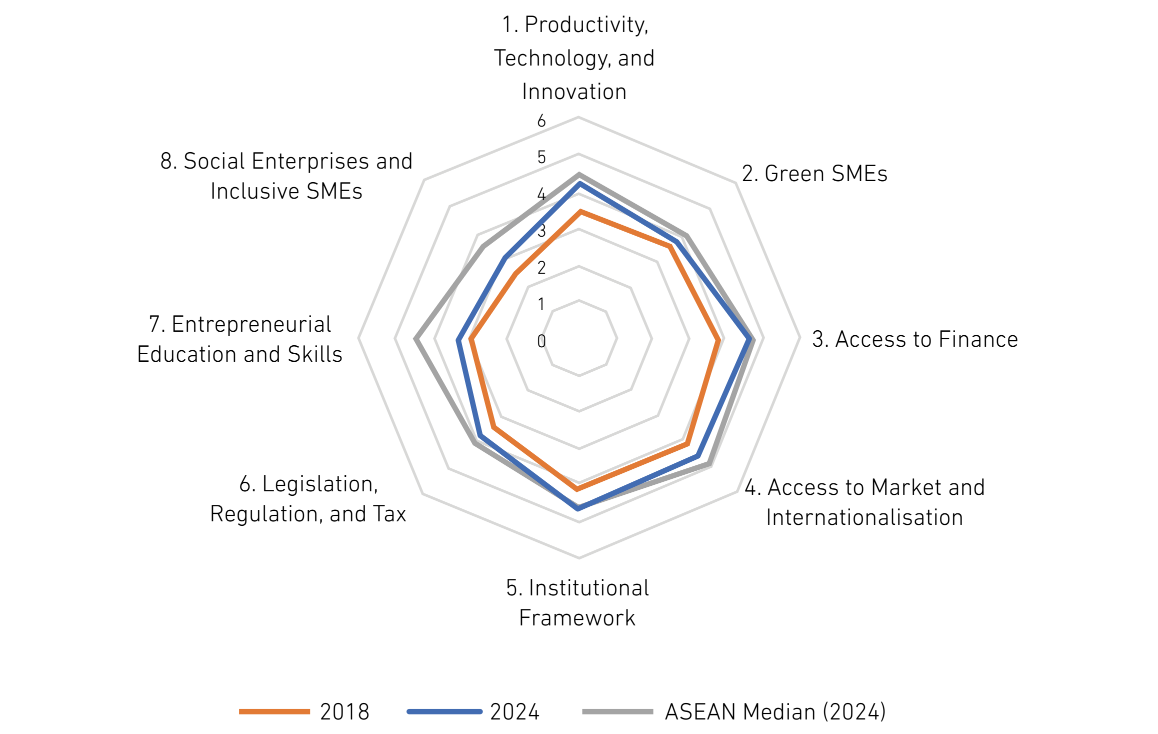
By the end of 2022, Viet Nam had 895,876 enterprises in operation. Micro and small and medium-sized enterprises (SMEs) represent 97.4% of firms, account for 43% of total employment, and play an important role in the economy. As of 2021, the respective shares of micro and SMEs were 69.3%, 24.5%, and 3.5% of the total number of enterprises (OECD, 2021).

2. 2024 ASEAN SME Policy Index Results

Overall Scores

Viet Nam has improved its performance across several policy areas since the last assessment (**Figure 19.1**). Although under some dimensions, the country performs under the Association for Southeast Asian Nations (ASEAN) median score, Viet Nam has still shown considerable progress, especially when compared to its 2014 scores and has rapidly caught up to regional leaders. It scores the highest on Dimension 3 – Access to Finance (4.67) and Dimension 4 – Access to Markets and Internationalisation (4.58), reflecting the country's dedication towards improving the business environment for SMEs. Viet Nam scores the lowest in Dimension 8 – Social Enterprises and Inclusive SMEs (3.0)[1] and Dimension 7 – Entrepreneurial Education and Skills (3.2), illustrating that more work is needed to improve monitoring efforts and to expand support for vulnerable communities.

Figure 19.1. SME Policy Index 2024 Scores for Viet Nam



Note: Scores are rated 1–6, with 6 being the highest.
Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

[1] Please note that while Viet Nam has recently made remarkable progress in promoting inclusive business, the Dimension 8.2 on Inclusive Business is not yet included in the total score of Dimension 8 in this Report as of 2024.

Strengthening the Institutional, Regulatory, and Operational Environment (Dimensions 5 and 6)

Viet Nam has made strong progress on regulatory reforms supporting SMEs.

Viet Nam has improved its institutional framework and scores 4.6 for Dimension 5 – Institutional Framework. While the country has made some progress in reforming and streamlining business regulations, the score of 3.71 for Dimension 6 – Legislation, Regulation, and Tax, reflects the country's slow implementation of digital government services and need for more progress in this area.

Since the last assessment, Viet Nam has put in place a number of relevant reforms, including the Law on SME Support with updated guidelines provided in 2018 (Decree No. 39/2018/ND-CP, Chapter 2) and 2021 (Decree No. 80/2021/ND-CP, Chapter 2).

The Agency for Enterprise Development (AED) of MPI has been the dedicated agency for SME development in Viet Nam since 2017. AED received an updated mandate in May 2023 (Decision No. 889/QD-BKHDT) to guide bilateral and multi-lateral cooperation with development partners for SME development.

Viet Nam has a continuous SME support strategy outlined in several policy documents. Between 2016 and 2020, it continued to implement Resolution No. 35/NQ-CP on support to and development of enterprises. Between 2021 and 2022, SME support was expected to be accelerated with a specific programme; however, following a proposal by MPI in 2022, Viet Nam issued Resolution No. 43/NQ-CP to cease the programme. The contents related to SME development were incorporated into the annual national social-economic development plan according to the SME Support Law, the Decree No. 80/2021/ND-CP, the MPI's Circular No.06, and the MOF's Circular 52.

Viet Nam has had an SME definition since launching its dedicated SME strategy, the Law on SME Support (Decree No. 80/2021/ND-CP) from 2018. Currently, micro and SMEs are defined according to their annual revenue, total employment, and total capital, with adjusted criteria for firms in the commerce and service sectors (**Table 19.2**).

Table 19.2. Viet Nam's SME Definition

	Total assets				Total assets	
	Annual Income (D)	Total Employment	Total capital (D)	Annual Income (D)	Total Employment	Annual Income (D)
Micro	≤ 3 billion	< 10	≤ 3 billion	≤ 10 billion	< 10	≤ 3 billion
Small	3 billion–50 billion	10–100	3 billion–20 billion	10 billion–100 billion	10–50	3 billion–50 billion
Medium	50 billion–200 billion	100–200	20 billion–100 billion	100 billion–300 billion	50–100	50 billion–100 billion

In the period since the last assessment, AED helped establish three self-assessment tools on circular economy, ESG, inclusive business readiness, and a consulting network for impact businesses. It provided direct technical support to 300 firms and helped 200 SMEs access financial resources to improve their capacity. More than 1,000 SME leaders have improved awareness on ESG and sustainable business practices.

In addition, since the previous assessment, Viet Nam has taken steps to address business informality. The government is helping household businesses formalise via technical support, financial incentives, exemptions from licensing fees, and advancements in simplifying bookkeeping systems. As of 2023, MPI has been drafting a decree on business households, which will strengthen governmental management over business households and improve incentives for business formalisation.

During 2018–2023, Viet Nam had a wide range of public-private consultation platforms. The development of regulations and legislation in Viet Nam is governed by the Law on the Promulgation of Legislative Documents. Under this law, both regulatory impact analyses and public-private consultations are mandated when developing legislation, although for regulatory impact analyses, there is no requirement to consider the impact of SMEs under the Law on Legal Normative Documents, passed in 2015 and amended in 2020. Draft regulations must be publicised so that business representatives, including those of SMEs, can provide comments and suggestions. Additionally, following the adoption in 2021 of the Law on SME Support (Decree No. 80/2021/ND-CP), MPI organised various workshops to consult with business representatives and other stakeholders to help shape implementation efforts. Governmental platforms for public-private consultations include the Prime Minister's Advisory Council on Administrative Procedure Reform, Prime Minister's Conference with Business, and Vietnam Business Forum.

In terms of e-government systems, Viet Nam continues to make progress. Online business registration has existed since 2015 (Decision No. 09/2015/QD-TTg) and is currently implemented nationwide. Systems for the online filing of tax and social security returns also exist. MPI has made advancements in the ease of filing taxes, introducing an online platform for filing social security contributions and abolishing a 12-month mandatory carry-forward period for value-added tax (VAT) credit. There is, however, further room for improvement. Systems for electronic signatures are in place but are not fully integrated, being used in less than 50% of governmental agencies. It is also hoped that a scheme to promote the information exchange of data, passed in 2022 (Decision No. 06/QD-TTg), will mandate and delineate procedures for handling population data.

Facilitating SME Access to Finance (Dimension 3)

Improvements to alternative sources of financing have mobilised SME growth.

Under this dimension, Viet Nam's scores have improved compared to the previous edition due to its upgraded financial system, enhanced credit registries, and strengthened regulatory frameworks that allow alternative sources of financing to flourish (e.g. microfinance, asset-based finance, and equity financing).

Viet Nam has improved the legal framework around SME financing as well. Compared to the 2018 assessment, the average collateral rates on loans have fallen. The country has a cadastre system in place as well as an online notice-based movable assets registry. It has a public credit-reporting system and several private credit bureaus, yet there is no specialised credit bureau for SMEs.

Since the last assessment, Viet Nam has made significant efforts to improve SME access to formal financing from bank loans. On average, from 2018 to 2022, outstanding credit debt for SMEs increased by 14.17% per year (Tap chi Tai chinh, 2023). Under the Law on SME Support (Decree No. 80/2021/ND-CP), the SME Development Fund was established, an off-budget, non-profit state financial institution that lends capital and supports capacity building for innovative SMEs as well as those participating in industry clusters or value chains. Additionally, it receives and manages loans, grants, aid, contributions, and trusts from organisations and individuals to support SMEs. The fund offers its own subsidised loans, with lending rates equal to 80% of the lowest commercial lending interest rate and loan terms under 7 years (Decree No. 39/2019/ND-CP, Decision No. 07/QD-HDTV, Decision No. 08/QD-HDTV).

The comprehensive Programme for Socio-Economic Recovery and Development, which began in 2022 (Resolution No. 11/NQ-CP), provides interest-subsidised loans to enterprises, mostly SMEs. A credit guarantee fund network was also established to facilitate access to financing for SMEs; it is a network of 27 credit guarantee funds available in certain cities and provinces. Their implementation modalities should still be reviewed, however, and improved to make them more impactful.

Viet Nam has made efforts to improve the regulatory framework for SMEs to access the securities market via the Securities Law and amendments from 2021 (Decree No. 153/2020/ND-CP, Decree No. 155/2020/ND-CP, Decree No. 156/2020/ND-CP) with further amendments in 2022 (Decree No. 65/2022/ND-CP). This law is expected to promote the corporate bond market and to mobilise capital for domestic enterprises. In 2023, further improvements were realised regarding regulations for public offerings, domestic trading of corporate bonds, and international issuing of corporate bonds (Decree No. 08/2023/ND-CP). Further, asset-based financing instruments (e.g. asset-based lending, factoring, warehouse receipts, and trade finance and leasing) are available and are widely used, except for purchase order financing. Fintech balance sheet lending, peer-to-peer lending, equity crowdfunding, and initial coin offerings remain unregulated in Viet Nam.

Enhancing Access to Markets and Internationalisation (Dimension 4)

E-commerce is being supported as a potential avenue to grow SMEs.

Viet Nam scores high under Dimension 4 at 4.58, reflecting the country's progress in facilitating SME access to e-commerce platforms and efforts towards export–import promotion and integration in global trade for SMEs. Gaps in programme support remain, most notably a lack of financial support for export–import promotion.

The Vietnam Trade Promotion Agency (VIETRADE), under the Ministry of Industry and Trade, defines national import and export efforts. It is focussed on implementing measures under the *National Export and Import Strategy 2011–2020* (Decision No. 2471/QD-TTg). Since 2022, Viet Nam has been guided by the new National Export Strategy 2022–2030 (Decision No. 493/QD-TTg), which sets the balance of trade targets to increase trade networks outside of Asia and to reduce the proportion of low-technology imports. Yet few of these measures specifically target SMEs.

Additionally, Viet Nam has improved monitoring systems to measure implementation of FTAs across provincial governments with the Ministry of Industry and Trade's FTA Index. There are governmental programmes to support SME integration into global value chains, supported by a set of decrees – including Decree No. 80/2021/ND-CP – yet few activities have been put in place focussed on helping enterprises, especially SMEs, deal with customs procedures.

Viet Nam has created a regulatory framework to encourage the development of linkages between SMEs and foreign companies as part of the national effort to engage in global value chains. This framework encourages the removal of barriers and improvement in foreign investment policies. Even if the share of exports to GDP reached 93% in 2021 – one of the highest in the world – domestic linkages with global value chains remain relatively weak in Viet Nam. A recent study confirmed that standards compliance has helped SME performance, which suggests that good social outcomes will be achieved if firms operate in accordance with commonly accepted rules (Le and Chu, 2023).

Viet Nam counted some 326 industrial parks in 2022. Indeed, industrial clusters play an important role in Viet Nam's economic development and have substantial potential regarding SMEs. The number of industrial zones in Viet Nam continues to increase as foreign investment pours in; policymakers should ensure that SMEs benefit from them as well. In terms of SME-related support, Vietnamese agencies and business associations often conduct training for business representatives, mostly of SMEs, on various content related to trade promotion and FTA implementation. Such training seeks to improve the capacity and competitiveness of SMEs, helping them integrate into global value chains. Government programmes also support SME integration into global value chains, supported by a set of decrees, including Decree 80/2021/ND-CP.

Additionally, Viet Nam is attempting to promote engagement of SMEs in e-commerce. The 2020 *National Master Plan on Developing E-commerce 2021–2025* (Decision No. 645/QD-TTg) identifies various measures to explicitly support SMEs. It calls for improvements to education, implementation of online dispute resolution systems to protect consumer rights, development of cross-border e-commerce, creation of schemes to assist SME participation in major e-commerce platforms, and efforts to promote the digital transformation of SMEs. In addition, in 2021, the Scheme to Promote Applications of Information Technology and Digital Transformation in Trade Promotion Activities during 2021–2030 (Decision No. 1968/QD-TTg) was passed. As part of the scheme, the Ministry of Industry and Trade has identified several proposals to strengthen the export-related services of public and private business support organisations, focussing on SMEs. There are few monitoring mechanisms in place for e-commerce promotion programmes, but there is only one for Vietrade (i.e. reports from the E-commerce and Digital Economy Agency under the Ministry of Industry and Trade and the Vietnam E-commerce Association).

Boosting Productivity, Innovation, and Adoption of New Technologies (Dimensions 1 and 2)

Regulatory improvements for SME greening could help create more competitive enterprises.

Viet Nam's score of 4.21 for Dimension 1 – Productivity, Technology, and Innovation is a substantial increase from the previous assessment, reflecting the country's progress in adopting and implementing a strategic plan to raise SME productivity and business development services (BDS) support to SMEs. Viet Nam's score of 3.79 for Dimension 2 – Green SMEs has had only minor improvement since the last assessment and is still below the ASEAN median, revealing areas for improvement in creating policy frameworks that incentivise greening operations.

Improving productivity has been an important priority for Viet Nam. In 2020, the Prime Minister issued Decision No. 1322/QD-TTg on policies to enhance the productivity and quality of products and goods. In 2023, MPI's National Programme to Enhance Labour Productivity (Decision No. 1305/QD-TTg) was approved. While neither of these policies are SME-specific, the 2020 National Strategy for the Fourth Industrial Revolution (Decision No. 2289/QD-TTg) specifies explicit actions to ensure SME productivity.

The provision of BDS to SMEs is an important part of the Law on SME Support, and decrees on the implementation of the law (Decree No. 39/2018/ND-CP, Decree No. 80/2021/ND-CP) established a variety of co-financing mechanisms. Recently, the Minister of Planning and Investment issued Circular No. 13/2023/TT-BKHDT guiding the organisational mechanism for implementing a programme to support private sector enterprises in sustainable business (Decision 167/QD-TTg). The government has also put in place a system of initiatives to ensure the provision of BDS, which includes the development of infrastructure, provision of BDS to SMEs at the regional level, and dissemination of information of support available including finance.

Public business incubators and accelerators are available to SMEs through MPI's Vietnam National Innovation Center, while private incubators (e.g. ThinkZone, Vietnam Silicon Valley, and .NFQ Asia) have also been able to flourish. As of 2023, 800 intermediary organisations are in operation nationwide, including 22 provincial-level technology exchanges and 2 regional-level technology exchanges. Additionally, AED has been actively working with development partners like the United States Agency for International Development (USAID) to provide BDS, such as the LinkSME Project on Business Support Program for Digital Transformation (USAID, 2021). The MPI Minister approved the Program on Supporting Enterprises in Digital Transformation for the period 2021–2025 (Decision 12/QD-BKHDT).

Viet Nam has also been focussing on promoting innovation, especially digitalisation, amongst its enterprises. The countries' gross domestic expenditure on research and development was 0.43% of GDP in 2021, higher compared to many of its peers. The National Digital Transformation Programme through 2025 (Decision No. 749/QD-TTg) initiated various forms of support available to aid the SME digital transition. Training programmes, advisory services, and promotional events all occur under the LinkSME Project and as part of the Vietnam National Innovation Center. Additionally, MPI has been actively monitoring the digital readiness of SMEs, compiling this information into the *Report on Digital Transformation 2023*.

Until recently, Viet Nam did not have a specific policy that targeted the greening of SMEs. Since 2020, this has been changing, as a number of national policy documents refer to sustainable development of enterprises (e.g. *National Green Growth Strategy for 2021–2030, with a Vision to 2050* [Decision No. 1658/QD-TTg], Strategy for Clean Technologies by 2020 with a Vision to 2030 [Decision No. 2612/2013/QD-TTg], *National Action Plan for Sustainable Production and Consumption for 2021–2030* [Decision No. 889/QD-TTg]). This policy framework has a promising perspective, yet it still must realise implementation and concrete outcomes for SMEs. Viet Nam has recently promoted greening SMEs by supporting the circular economy, ESG, and inclusive business initiatives through Decision 167/QD-TTg of the Prime Minister. MPI/AED has been actively collaborating with development partners such as ESCAP, UNDP, and USAID to implement this decision.

The Ministry of Natural Resources and Environment has a subsidiary agency, the Vietnam Environment Administration, which is responsible for providing environmental guidance and advice to various target groups, including SMEs. Private banks provide green bonds to SMEs, and governmental initiatives such as the SME Development Fund and National Technology Innovation Fund provide financial support to aid SME greening. Concrete national projects include the Viet Nam Circular Economy Hub launched in 2021, which provides SMEs with capacity-building workshops and information about funding opportunities to promote the circular economy.[2] A project to promote circular economy development (Decision No. 687/QD-TTg), as well as MPI's Decree on Regulatory Sandbox for Circular Economy Projects are also contributing (THƯ VIỆN PHÁP LUẬT, 2022). Initiatives and policies undergo annual reviews, but there is still room for improvement. In particular, the government should seek to expand the use of independent reviews in its monitoring and evaluation efforts.

Stimulating Entrepreneurship and Human Capital Development (Dimensions 7 and 8)

Progress has been made to support social enterprises, but additional improvements are needed to support marginalised groups.

Viet Nam is an entrepreneurial nation, yet its policy framework to promote entrepreneurial skills and education is at an intermediary stage of development, with a score of 3.2 for Dimension 7 – Entrepreneurial Education and Skills. Progress is still being made, with the national curriculum establishing entrepreneurship as a subject, and teaching materials across levels of education are being improved. For Dimension 8 – Social Enterprises and Inclusive SMEs, the country is still in a relatively early stage of policy development with a score of 3.0, which is slightly below the ASEAN median. (Please note that while Viet Nam has recently made remarkable progress in promoting inclusive business, the Dimension 8.2 on Inclusive Business is not yet included in the total score of Dimension 8 in this Report as of 2024.) It has made progress in offering support for young entrepreneurs and increasing the number of training schemes offered to women-owned SMEs. More progress, though, is needed on improving the robustness of national strategies and aligning targets to needs-based assessments. Additionally, monitoring efforts across marginalised groups were found to be lacking, which limits assessments of programme effectiveness and impairs the ability of the government to find opportunities for action.

Since 2018, structural improvements for entrepreneurial learning across Viet Nam have initiated. The Ministry of Education and Training is cooperating with the Ministry of Labor, Invalids and Social Affairs to insert startup subjects into the curriculum. In May 2023, the Ministry of Education and Training issued a decision (Decision No. 780/QD-BGDDT) dedicated to promoting entrepreneurship amongst students. It seeks to update the curriculum, establish digital platforms to offer students employment and startup assistance, and develop a network of consultants to support student startups as well as a network of career consultants and startup support staff in secondary schools to help guide students and ensure staff effectiveness. Beyond this, the Ministry of Education and Training is working with MPI and training institutions to strengthen startup support centres for students and to develop co-working spaces for students. It also mandates building a database of all student-owned startups to enhance monitoring efforts and to connect them with potential business partners.

[2] Viet Nam Circular Economy, https://vietnamcirculareconomy.vn/ve-chung-toi/

Support for student entrepreneurs is also increasing. In 2021, the Hanoi University of Science and Technology launched the BK Fund, which aims to support scientific research and student-led startups (HUST, 2021).

Beyond the school system, the Vietnam National Innovation Center has various programmes to develop human resources for innovation in Viet Nam, including scholarships, workshops, and networking events and collaboration with development partners (e.g. USAID, Google, Meta, and academia). In partnership with USAID, it launched the Workforce for an Innovation and Start-up Ecosystem project in October 2021, which will build digital literacy, provide information on modern career pathways, improve talent acquisition, provide information and communication technologies, and promote upskilling efforts (USAID, 2021).

Viet Nam has made also progress in the policy framework around social entrepreneurship. The Enterprise Law established the definition of social enterprises as 'those operating for the purposes of resolving social and environmental issues for public interests and using at least 51% of the annual post-tax profit for re-investment to achieve registered targets'. In 2021, Decree No. 47/2021/ND-CP clarified various regulatory considerations for social enterprises (e.g. formation, dissolution, and merger procedures; shareholder responsibilities; and stipulations regarding aid and sponsorships) and established the process for converting social protection establishments, social funds, and charitable funds into social enterprises.

The Central Institute for Economic Management conducts policy research regarding social enterprises; in 2020, it identified at least 114 social enterprises. To support social enterprises, MPI, in collaboration with the United Nations Development Programme and the Embassy of Canada, launched the Leveraging Viet Nam's Social Impact Business Ecosystem in Response to COVID-19 (ISEE-COVID) project in 2021, which seeks to improve the effectiveness of social enterprises and to alleviate the impacts caused by COVID-19 (UNDP, n.d.).

Additionally, Viet Nam has been promoting ESG and inclusive business through a programme to support private sector enterprises in sustainable business (Decision 167/QD-TTg). The inclusive business concept is officially regulated by the Prime Minister's Decision. MPI has issued Circular 13/2023/TT-BKHDT to guide the implementation of the programme, while the Ministry of Finance (MOF) is designing a circular to guide the use of state budget funds to support SMEs in sustainable business.

Meanwhile, the AED has been actively collaborating with development partners such as ESCAP and USAID's Improving Private Sector Competitiveness (IPSC) project to promote inclusive business and ESG. So far, over 1,000 SME leaders have enhanced their awareness of ESG and sustainable business practices. The ESG Initiative has been launched, and three online self-assessment toolkits for sustainable businesses (focusing on ESG, the circular economy, and inclusive business) have been made available online. An inclusive business[3] accreditation system was piloted in Northern Viet Nam, and AED is exploring options to develop a broader accreditation system for inclusive business models and to enhance the promotion of inclusive business in the country.

[3] https://esg.business.gov.vn

Support for inclusive entrepreneurship focused on marginalized groups, such as women, youth, and persons with disabilities (PWD), is also increasing across Viet Nam. The Law on SME Support provides definitions for women-owned SMEs, and Decree No. 80/2021/ND-CP highlights support for these enterprises, including consulting, direct training for starting a business and managing corporate governance, as well as operational support for production and manufacturing activities. Additionally, MPI/AED has been actively working with ADB, UN Women, and ESCAP to enhance the ecosystem for women entrepreneurs. The 'Women-Owned SME in Viet Nam' White Book, which includes the first-ever national database on women-owned MSMEs, was launched in early 2024. Less robust regulatory frameworks exist for youth-owned SMEs and those owned by PWD. As noted above, various initiatives have begun promoting youth entrepreneurs, although dedicated strategies and monitoring systems are still lacking. Frameworks for PWD are equally lacking. Under the PWD Law (Law No. 51/2010/QH12), PWD are granted protection from financial discrimination, and several financing options exist to support PWD businesses (Viet Nam Government, 2010). Yet dedicated business support or monitoring frameworks do not exist to measure nor to address the needs of PWD-owned businesses.

3. Recommendations

Strengthening the Institutional, Regulatory, and Operational Environment (Dimensions 5 and 6)

- Continue working on facilitating company registration and fighting informality. One focus may examine the options of formalising business households as well as the self-employed into the formal economy.
- Consider ways to streamline the administrative burden for SMEs and review associated processes and procedures. In particular, tax regulations and administrative fees should be reviewed in light of ease of doing business and formalisation.
- Address business environment reforms, making the country's ecosystem more flexible and agile. This could include reviewing unnecessary regulatory burdens on businesses, noting that there is a thin line between unnecessary burdens and regulations for sustainable development. Simultaneously, the transparency of policies, regulations, master plans, and strategies at the sector, sub-sector, product, and local level should be strengthened, including via incorporation of projected impacts on SMEs in the regulatory impact assessment.
- To better integrate new policy areas related to digitalisation, the Fourth Industrial Revolution, and the circular economy, create or adjust legal frameworks. In doing so, Viet Nam should consider the issuance of regulatory sandboxes for new economic models, including facilitating implementation by SMEs.
- Strengthen and encourage the participation of the private sector in the process of developing and planning investment and business policies. This could be done by engaging the private sector in policy dialogue, especially SMEs, on innovation, productivity, and access to capital. Another vector of collaboration could

include integration of firm-level surveys of SMEs into the policy design cycle. By routinely engaging SMEs and aggregating feedback about existing support, policymakers can identify gaps in the market, and policies can be refined towards SME needs.

Facilitating SME Access to Finance (Dimension 3)

- Expand access to formal finance for SMEs. Support programmes should cover the entire process of company growth with dedicated finance for startups, finance for growth and development, as well as internationalisation. For example, development of instruments with a more flexible accession criteria and more customised responses to the financial needs of companies would be beneficial, especially for high-potential and rapidly growing SMEs.
- Use performance reviews of credit guarantee funds to access the performance of the funds and to identify areas where reforms are needed. Reviews could identify good policy examples in the region and internationally and explore the demand and supply side of different types of available financing in Viet Nam.
- Promote integration of alternative financing instruments (e.g. factoring, fintech, and crowdfunding). This could be done in consultation with financial institutions and private sector representatives.

Enhancing Access to Markets and Internationalisation (Dimension 4)

- Viet Nam needs further efforts to facilitate import, export and domestic trade activities of SMEs. Viet Nam should review and abolish unnecessary regulations and document requirements affecting freight transport activities.
- Viet Nam should introduce SME-specific support in trade facilitation. Efforts should be made to support SMEs in facilitation with the customs compliance and and getting a right information on the process and documents needed. A National single window and improved information available online could be a good starting point.
- Viet Nam should also build capacity for SMEs to take advantage of relevant commitments under its FTAs and comply with technical requirements of markets and value chain partners. This could also be done through the analysis and provision of information to the SMEs on the relevant FTAs and comparison with the other alternative agreements.

Boosting productivity, innovation, and adoption of new technologies (Dimensions 1/2)

- Expand and encourage innovation and technology adoption amongst SMEs. Viet Nam should increase the number of training opportunities and promote a future-oriented curriculum across its universities, thereby improving the knowledge capacity of SMEs and developing a large domestic source of qualified productivity experts.

- Further support SMEs in their digital transformation. Capacity-building efforts should target SMEs' ability to incorporate new technology, engage in digital markets, and make use of e-government services. Specific support should be given to the development of new economic models around the Fourth Industrial Revolution, sharing economy, circular economy, and creative economy.
- Expand a wide range of BDS across the country. Special attention should be paid to the possibility of SMEs obtaining access to customised support; BDS or innovation vouchers could be useful instruments. BDS should also allow high-growth and -potential companies to have a quick parallel track to obtain access to the infrastructure and resources needed.
- Continue strengthening innovation and BDS infrastructure, such as incubators, research centres, science parks, and innovation centres.
- Promote the development of diaspora networks and develop programmes that facilitate the participation of Vietnamese abroad in the domestic economy. This community can support generating productivity spillovers, utilising indigenous knowledge to adapt international expertise to local contexts.
- Review and improve the legal framework and policy mechanisms on data standards, technical standards, authentication, and e-identification systems; and continue to invest in infrastructure to promote the development of new business models and products and services based on information technology, digital banking, and digital payments.
- Continue working on promoting environmental policies targeting SMEs, especially on implementation of concrete programmes and instruments ensuring that SMEs have adequate information on the potential that greening can bring and the available support offered by the government. Development of a single window or virtual portal on the subject could be beneficial.

Stimulating Entrepreneurship and Human Capital Development (Dimensions 7 and 8)

- Focus on the development of relevant labour skills to ensure that SMEs have access to a relevant workforce. This could be done through enhancement of vocational education and training as well as development of the skills requested by employment demand.
- Build upon integrated policy to promote entrepreneurship and develop a standard curriculum across the country.
- Build on the formal definition of social enterprises and support social enterprises to build their capacities. Policymakers could consider development of dedicated support programmes and establishment of an accreditation system and provide specific support with services on demand (e.g. with impact measurement or development of impact-business models).
- Build on social enterprise development to help support inclusive business models in the country. This could be done through integration of the accreditation system, and concrete support activities.

Viet Nam Scores 2024

Viet Nam Dimension 1

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
1. Productivity, Technology, and Innovation	**4.21**		**4.49**	**1.03**
1.1 Productivity Measures	**4.38**	**25%**	**4.84**	**1.09**
Thematic Block 1: Planning & Design	4.95	35%	4.41	0.99
Thematic Block 2: Implementation	4.12	45%	4.13	1.10
Thematic Block 3: Monitoring & Evaluation	3.94	20%	4.70	1.47
1.2 Business Development Services	**4.03**	**25%**	**4.62**	**1.01**
1.2.1 General Business Development Services	3.95	70%	4.86	1.03
Thematic Block 1: Planning & Design	4.36	35%	4.55	1.10
Thematic Block 2: Implementation	4.21	45%	5.28	1.03
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.49	1.19
1.2.2 Business Support Services for the Digital Transformationof SMEs	4.21	30%	4.23	1.02
Thematic Block 1: Planning & Design	4.52	80%	4.41	1.00
Thematic Block 3: Monitoring & Evaluation	3.00	20%	3.33	1.27
1.3 Productive Aggloromerations and Cluster Enhancement	**5.07**	**25%**	**5.49**	**0.77**
Thematic Block 1: Planning & Design	5.60	35%	4.43	0.66
Thematic Block 2: Implementation	4.99	45%	2.98	0.72
Thematic Block 3: Monitoring & Evaluation	4.32	20%	4.54	1.36
1.4 Technology and Innovation Promotion	**5.14**	**25%**	**4.11**	**1.31**
Thematic Block 1: Planning & Design	4.93	35%	4.42	1.40
Thematic Block 2: Implementation	5.52	45%	2.82	1.39
Thematic Block 3: Monitoring & Evaluation	4.66	20%	4.20	1.37

Viet Nam Dimension 2

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
2. Green SMEs	3.79		4.15	1.24
2.1 Environmental Policies Targeting SMEs	**4.37**	**60%**	**4.58**	**1.00**
Thematic Block 1: Planning & Design	4.31	35%	4.92	0.77
Thematic Block 2: Implementation	4.59	45%	4.87	1.24
Thematic Block 3: Monitoring & Evaluation	3.96	20%	3.99	1.14
2.2 Incentives and Instruments for Greening SMEs' operations	**3.40**	**40%**	**3.88**	**1.46**
Thematic Block 1: Planning & Design	4.60	35%	4.31	1.32
Thematic Block 2: Implementation	2.42	45%	2.89	1.62
Thematic Block 3: Monitoring & Evaluation	3.50	20%	3.70	1.86

Viet Nam Dimension 3

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3. Access to Finance	4.67	100%	4.81	0.99
3.1 Legal, Regulatory and Institutional Framework on Access to Finance	**4.67**	**50%**	**4.66**	**0.93**
3.1.1 Legal Regulatory Framework for Commercial Lending	4.43	70%	4.48	1.00
Thematic Block 1: Collateral Requirements	4.00	20%	3.50	1.85
Thematic Block 2: Implementation	4.33	40%	4.26	1.03
Thematic Block 3: Monitoring & Evaluation	4.75	40%	5.58	1.24
3.1.2 Credit Information Bureau (WB Doing Business)	5.26	20%	5.26	0.96
Thematic Block 1: Credit Information Bureau	5.26	100%	5.26	0.96
3.1.3 Stock Market Operations and Facilities for SMEs Listing	5.16	10%	5.02	1.55
Thematic Block 1: Planning & Design	5.16	100%	5.02	1.55
3.2 Diversified Sources of Enterprise Finance	**4.66**	**50%**	**4.88**	**1.13**
3.2.1 Bank Credit or Loans	4.41	70%	4.77	1.46
Thematic Block 1: Export Financing Schemes	5.11	70%	5.38	1.56
Thematic Block 2: Credit Guarantee Schemes	2.80	30%	3.32	1.52
3.2.2 Microfinance	6.00	20%	5.38	0.59
Thematic Block 1: Planning & Design	6.00	100%	5.38	0.59

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
3.2.3 Alternative Source of Enterprise Finance	3.73	10%	4.23	1.21
Thematic Block 1: Asset-Based Finance	4.87	35%	5.02	1.08
Thematic Block 2: Crowdfunding	2.10	35%	3.35	1.57
Thematic Block 3: Equity Instruments	4.30	30%	4.22	1.18

Viet Nam Dimension 4

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
4. Access to Market and Internationalisation	**4.58**		**4.94**	**1.26**
4.1 Export Promotion	**5.75**	**50%**	**5.23**	**1.31**
Thematic Block 1: Planning & Design	5.76	35%	5.88	1.08
Thematic Block 2: Implementation	4.44	45%	4.90	1.32
Thematic Block 3: Monitoring & Evaluation	4.32	20%	4.66	1.87
4.2 Integration to Global Value Chain	**5.02**	**15%**	**4.77**	**1.43**
Thematic Block 1: Planning & Design	5.88	35%	5.40	1.38
Thematic Block 2: Implementation	5.15	45%	4.73	1.60
Thematic Block 3: Monitoring & Evaluation	3.20	20%	3.21	1.40
4.3 Use of Commerce	**4.16**	**10%**	**4.81**	**1.25**
Thematic Block 1: Planning & Design	5.58	35%	5.79	1.03
Thematic Block 2: Implementation	3.97	45%	4.65	1.24
Thematic Block 3: Monitoring & Evaluation	2.10	20%	3.20	1.88
4.4 Quality Standards	**3.95**	**10%**	**4.80**	**1.47**
Thematic Block 1: Planning & Design	3.48	35%	4.73	1.56
Thematic Block 2: Implementation	4.65	45%	5.32	1.39
Thematic Block 3: Monitoring & Evaluation	3.20	20%	3.76	1.74
4.5 Trade Facilitation	**3.89**	**15%**	**4.43**	**0.99**
Thematic Block 1: Trade Facilitation Indicators	5.58	25%	5.15	0.99
Thematic Block 2: Planning & Design	1.83	25%	3.48	1.36
Thematic Block 3: Implementation	4.87	25%	4.87	0.92
Thematic Block 4: Simplification of Procedures	3.28	25%	3.65	1.12

Viet Nam Dimension 5

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
5. Institutional Framework	**4.60**		**4.69**	**1.05**
5.1 SME Definition	**5.62**	**10%**	**5.62**	**0.64**
Thematic Block 1: Planning & Design	5.62	100%	5.62	0.64
5.2 Strategy Planning, Policy Design and Coordination	**4.94**	**60%**	**5.03**	**1.07**
Thematic Block 1: Planning & Design	5.54	35%	5.45	1.30
Thematic Block 2: Implementation	4.66	45%	5.01	1.04
Thematic Block 3: Monitoring & Evaluation	4.51	20%	4.50	1.33
5.2 Strategy Planning, Policy Design and Coordination	**3.60**	**30%**	**3.60**	**0.91**
Thematic Block 1: Planning & Design	3.48	35%	3.48	1.03
Thematic Block 2: Implementation	3.75	45%	3.75	1.09
Thematic Block 3: Monitoring & Evaluation	3.48	20%	2.65	1.08

Viet Nam Dimension 6

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6. Legislation, Regulation, and Tax	**3.71**		**4.03**	**1.02**
6.1 Public-Private Consulatations	**3.69**	**25%**	**3.96**	**1.07**
Thematic Block 1: Frequency and Transparency	3.77	40%	3.83	1.12
Thematic Block 2: Private Sector Involvement in PPCs	4.12	40%	4.32	1.08
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.20	1.23
6.2 Legislative Simplification and Regulatory Impact Analysis	**3.35**	**25%**	**3.38**	**1.10**
Thematic Block 1: Planning & Design	3.57	35%	3.57	1.09
Thematic Block 2: Implementation	2.94	45%	3.48	1.28
Thematic Block 3: Monitoring & Evaluation	3.89	20%	3.27	1.07
6.3 Company Registration	**4.35**	**25%**	**4.46**	**0.92**
Thematic Block 1: Performance (WB Doing Business)	5.38	35%	4.44	0.97
Thematic Block 2: Implementation	4.30	45%	4.30	0.95
Thematic Block 3: Monitoring & Evaluation	2.65	20%	3.75	1.38

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
6.4 Ease of Filling Tax	**4.33**	**10%**	**4.03**	**1.08**
Thematic Block 1: Performance (WB Doing Business)	4.33	100%	4.03	1.08
6.5 E-government	**2.86**	**15%**	**4.60**	**1.54**
Thematic Block 1: Planning & Design	3.90	35%	5.36	1.69
Thematic Block 2: Implementation	2.89	45%	3.83	1.40
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.90	1.99

Viet Nam Dimension 7

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
7. Entrepreneurial Education and Skills	**3.20**		**4.42**	**1.05**
7.1 Promotion of Entrepreneurial Education	**3.40**	**40%**	**4.34**	**0.90**
Thematic Block 1: Planning & Design	3.63	35%	4.83	1.21
Thematic Block 2: Implementation	3.31	45%	3.98	0.81
Thematic Block 3: Monitoring & Evaluation	3.20	20%	4.04	0.94
7.2 Entrepreneurial Skills	**3.06**	**60%**	**4.46**	**1.16**
Thematic Block 1: Planning & Design	2.65	35%	3.06	1.26
Thematic Block 2: Implementation	4.30	45%	5.15	1.31
Thematic Block 3: Monitoring & Evaluation	1.00	20%	3.08	1.59

Viet Nam Dimension 8

Dimension	Assessment Score	Weights	ASEAN Median Score	Standard Deviation
8. Social Enterprises and Inclusive SMEs	**3.00**		**3.63**	**0.85**
8.1 Social Enterprises	**3.30**	**25%**	**3.37**	**1.22**
Thematic Block 1: Planning & Design	4.88	35%	4.51	1.19
Thematic Block 2: Implementation	2.65	45%	2.95	1.26
Thematic Block 3: Monitoring & Evaluation	1.99	20%	3.15	1.48
8.2 Inclusive SMEs for Youth	**2.90**	**75%**	**3.47**	**0.81**
8.2.1 Inclusive SMEs for Woman	3.34	35%	3.80	1.02
Thematic Block 1: Planning & Design	4.49	35%	4.54	1.09
Thematic Block 2: Implementation	2.99	45%	3.84	1.06
Thematic Block 3: Monitoring & Evaluation	2.10	20%	2.79	1.63
8.2.2 Inclusive SMEs for Youth	2.69	35%	3.34	0.76
Thematic Block 1: Planning & Design	2.33	35%	2.83	0.44
Thematic Block 2: Implementation	3.48	45%	3.49	0.98
Thematic Block 3: Monitoring & Evaluation	1.55	20%	3.76	1.46
8.2.3 Inclusive SMEs for Persons with Disabilities	2.64	30%	3.17	0.79
Thematic Block 1: Planning & Design	2.48	35%	2.84	0.55
Thematic Block 2: Implementation	3.01	45%	3.21	1.02
Thematic Block 3: Monitoring & Evaluation	2.10	20%	2.24	1.03

ASEAN = Association of Southeast Asian Nations, PPC = public–private consultation, SMEs = small and medium-sized enterprises.

Note: Some of the indicators are based on the World Bank Doing Business (2020) latest edition, as agreed with the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises and experts during the consultation meeting for the ASEAN SME Policy Index 2024 methodology update. This may result in some of the recent changes, especially under sub-dimension 6.4 (ease of filing tax), not including some of the latest changes introduced by ASEAN Member States.

Source: Calculated based on ASEAN SME Policy Index 2024 Assessment Grid.

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Part II

Annex A:

Methodological Note

Annex A: Methodological Note

The Small and Medium-Sized (SME) Policy Index is a benchmarking tool for emerging economies to monitor and to evaluate progress in policies that support SMEs. The tool is structured around eight thematic dimensions that map to the five goals of the *ASEAN Strategic Action Plan for SME Development 2016–2025* (SAP SMED 2025). These thematic areas cover a wide range of measures to guide the design and implementation of SME policies. The main objective of the index is to provide governments with a framework to assess policies targeting SME development. It identifies strengths and weaknesses in policy design, implementation, and monitoring, allowing for comparison across countries and a means to improve policy harmonisation across the Association of Southeast Asian Nations (ASEAN) region.

Based on lessons learned from previous assessments, the assessment methodology for 2024 was adapted to capture important changes and emerging trends in the business and policy environment. The scope of the analysis was broadened to cover new topics, such as policies for SME digitalisation and the responses to the COVID-19 pandemic.

This annex provides a detailed explanation of the methodology used to calculate the 2024 SME Policy Index. It provides (i) a detailed overview of the assessment process, (ii) list of differences between the 2018 and 2024 ASEAN SME Policy Index assessments, and (iii) suggested methodology for calculating comparable scores between the 2024 and 2018 assessments.

Overview of the Assessment Process

OECD SME Policy Index Methodology

The SME Policy Index is an analytical tool developed by the Organisation for Economic Co-operation and Development (OECD), in cooperation with international partners, to map SME policies and programmes and to assess alignment with good practices over time. The index was developed for application in non-OECD partner countries within the context of the organisation's external partner programme. Since its first application in 2007, it has been applied in 32 economies and 4 regions worldwide.

The main objective of the index is to gather a comprehensive body of information on the policy inputs in each country to harmonise this information and to transform qualitative inputs into quantitative indices that can be compared across time and various economies and regions. By regularly repeating the assessment, typically every 3–4 years, participating economies can assess their progress in aligning to internationally recognised good practices, responding to the needs of their SME population, and converging towards a common set of objectives outlined at the regional level.

All SME Policy Index assessments share a common methodology. For each regional application, however, the methodology is adapted to reflect the regional priorities of the economies in question to anchor the assessment to the regional policy debate.

The SME Policy Index methodology adds value by transcending statistics, delving into the SME policy environment across diverse areas. It offers an independent and rigorous assessment, acting as a benchmark against international best practices and offering guidance for policy reform and development based on these insights. However, like all methodologies aiming to transform a complex reality into a tangible vision, the SME Policy Index methodology has both advantages and limitations (**Table A.1**).

Table A.1. ASEAN SME Policy Index 2024 – Advantages and Limitations

Sub-dimension	Updates from 2018 methodology
Embraces a multi-stakeholder approach to assessment, considering the perspectives and experiences of governments, the private sector, partner organisations, and academia.	Evaluates the levels of policy development across the entire policy cycle (i.e. planning and design, implementation, and monitoring and evaluation). Compares levels of policy development rather than assessing policy performance.
Is based on a dialogue allowing for better understanding of the situation in each country and reasons for specific policies.	Operates under the assumption that a positive correlation between effective policy practices and performance exists.
Does not provide a unique number but rather lists the policy areas and scores them, allowing for a more nuanced analysis, enabling policymakers to identify challenges that may lie ahead.	Weights of the indicators are based on expert opinions and may therefore be open to subjectivity.
Provides guidance on enhancing the SME policy framework in each country through policy recommendations and exemplifying best practices.	Divergent definitions of SMEs pose a limitation to the comparability of data across economies.
Contextualises the analysis by incorporating the country context and broader factors influencing SME development to complement the emerging scores.	Focusses on policy at the national or central level. The full picture of government policy can be hard to capture where SME policies are implemented mainly by local governments.
Concentrates on a specific region where shared history, culture, and geography enable more relevant benchmarking between countries.	

SMEs = small and medium-sized enterprises.

Sources: OECD and ERIA (2018); OECD, CAF, SELA (2024).

Development of the 2024 Assessment Framework

The ASEAN SME Policy Index 2024 assessment framework builds on the methodology used in the 2018 assessment. The 2018 assessment framework was developed to align with the generic OECD SME Policy Index methodology and the ASEAN SAP SMED 2025's goals and actions. Pre-existing data collected by OECD, the Economic Research Institute for ASEAN and East Asia (ERIA), and other international organisations have also been incorporated as a thematic block in many cases. The framework was also developed in reference to the ERIA-OECD ASEAN SME Policy Index 2014.

The methodology for the report was agreed upon by the ASEAN Coordinating Committee on Micro Small and Medium Enterprises (ACCMSME) and experts from the region. The methodology for this report was developed with the support of ASEAN Member States (AMS) (i.e. Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic [Lao PDR], Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam).

The assessment was conducted through questionnaires (i.e. the assessment grid). The framework comprised dimensions (i.e. policy areas), which were further broken down into component sub-dimensions. A set of indicators was identified for each sub-dimension. Most of these were qualitative, but many were quantitative, aimed at measuring the intensity of policy interventions. The indicators took one of the following forms:

(i) **Standard indicators**. These indicators, which determine the assessment score, were either binary or multiple-choice indicators on qualitative policy measures.

(ii) **Core indicators**. Like standard indicators, these could be qualitative or quantitative, but due to their importance, they were assigned greater weights.

(iii) **Open questions**. Open questions were included after the standard and core indicators for each sub-dimension in the assessment questionnaire. Open questions were not scored but helped assess the overall policy context, thus informing the final score.

In the 2024 assessment, AMS received graduated scores for each indicator to reflect the depth of policy development, implementation, and monitoring. This was necessitated by significant regional disparities in institutional capacity. Scores were calculated based on weighted medians at the thematic block, sub-dimension, and dimension levels.

Calculation of Scores

All scores were calculated based on policy situations as of 31 December 2023. Policymaking is a process; as such, some reforms may have already taken place by the time of publication but were not integrated into the calculation. Whenever possible, the research team aimed to integrate the changes that took place after the cut-off date into the text.

The results of the assessment were expressed as numerical indices (i.e. scores) on a scale from 1 (low) to 6 (high). They were calculated at both sub-dimension and dimension levels. To calculate these results, indicator scores were weighted based on perceived importance and relevance.

Weights were applied at the sub-dimension level and thematic block level in the same way for all AMS. Sub-dimension weights were assigned through a focus group meeting in October 2017 of some 50 stakeholders, including policymakers from all AMS and representatives of academia, the private sector, ERIA, and OECD. During this discussion, it was agreed how to assign the weights based on the importance of specific sub-dimensions for AMS and the region. The most common thematic blocks – planning and design, implementation, and monitoring and evaluation – were assigned respective weights of 35%, 45%, and 20% to emphasise the importance of policy implementation. This is supported by SME policy indices developed for other countries.
This approach – splitting scores to reflect different stages of the policy cycle – allows governments to identify and to target stages where they face notable strengths or weaknesses.

At the indicator level, when providing a score, the following levels were adopted for each indicator:
(i) 0.0 = no activity.
(ii) 0.33 = very little activity, significant limitations faced.
(iii) 0.66 = an adequate level of activity, yet limitations remain.
(iv) 1.0 = substantial activity, well-run, a case of good practice.

The scoring system introduced core indicators with higher weights in areas deemed crucial to enhance the SME policy environment in general or to realise the objectives of the SAP SMED 2025 in particular. An example of such an indicator would be the availability of an SME national strategy or framework.

The indicator scores were grouped into thematic block scores and were further composed of sub-dimension and dimension scores.

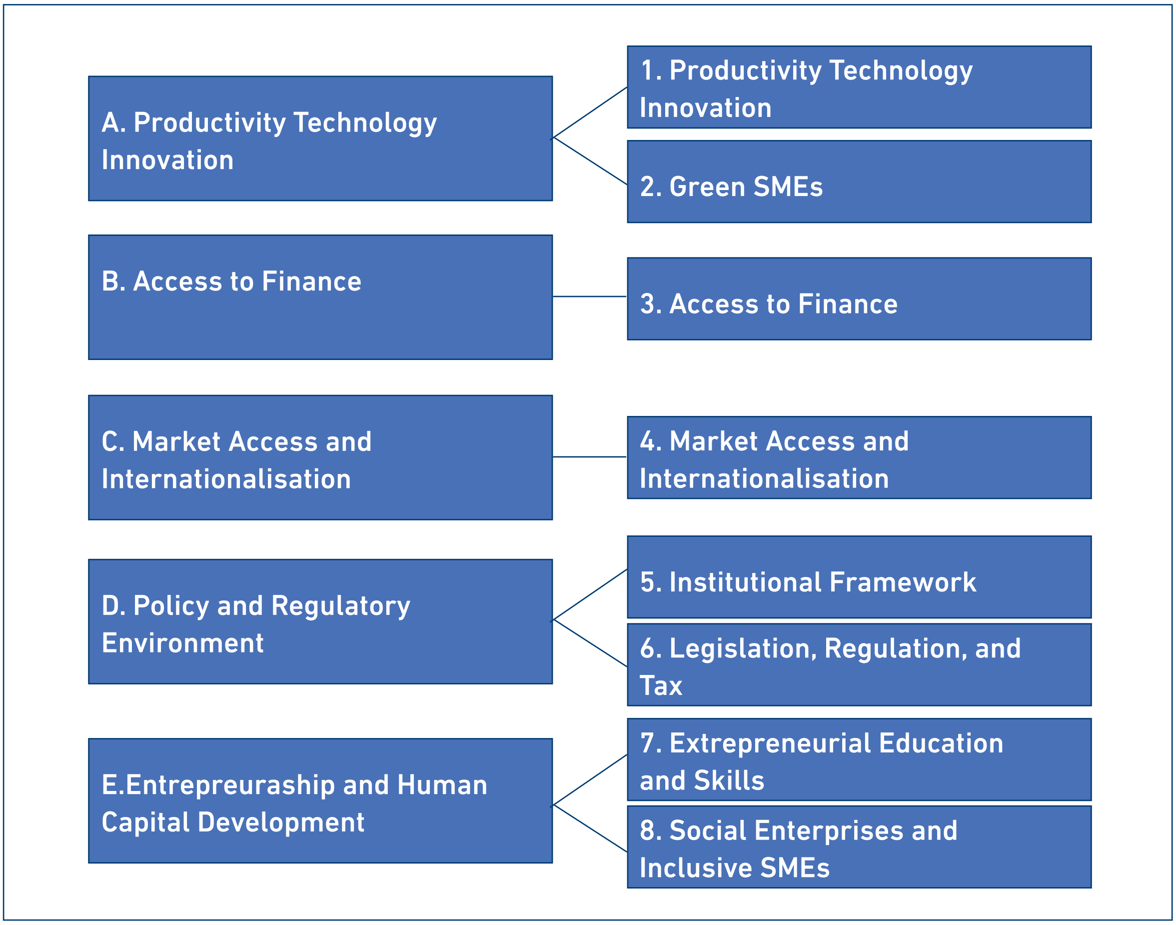
A median was calculated at the regional level for each dimension and sub-dimension, rather than the mean, as is typical in other regions. This helped address substantial regional disparity.

Integration of the 2016-2025 SAP SMED

The SAP SMED 2025 specifies 5 strategic goals, 12 desired outcomes, and 62 action lines for SME development in ASEAN. The 2024 assessment framework was developed in reference to the priorities identified in the SAP SMED 2025 to provide policymakers with an additional tool to monitor its implementation. The 2024 assessment's dimensions and sub-dimensions were directly linked to the SAP SMED 2025's goals and actions, striving to integrate as many action lines as possible.

Figure A.1 illustrates the correspondence between the 2024 assessment and the SAP SMED 2025.

Figure A.1. SAP SMED 2025 Goals to ASEAN SME Policy Index Dimensions



SAP SMED = *ASEAN Strategic Action Plan for SME Development 2016–2025*, SMEs = small and medium-sized enterprises.
Source: Authors.

Updates to the 2024 Edition

The overall approach to dimensions, sub-dimensions, and indicators remained the same, but certain new sections and indicators were introduced to reflect the needs of policymakers across various dimensions in 2024. Changes introduced to the 2024 edition included:

(i) a new sub-dimension on digitalisation;
(ii) additional indicators on raising SME sustainability awareness and providing greening tools to SMEs;
(iii) additional indicators on ensuring SME access to sustainable financing across a variety of financial instruments/sources;
(iv) adjustments necessary to compensate for the lack of data previously provided by the World Bank's Ease of Doing Business reports;
(v) a new sub-dimension under Dimension 6, focussing on bankruptcy and second-chance policy (not scored); and
(vi) new sub-dimension under Dimension 8 on inclusive business (not scored).

Table A.2 features the main updates to the assessment framework for the 2024 SME Policy Index per dimension.

Table A.2. ASPI 2024 – Changes in Scoring from the 2018 Edition

Dimension	Sub-dimension	Updates from 2018 Methodology
Dimension 1. Productivity, Technology, and Innovation	1.2 Business Development Services	Sub-dimension 1.2 was expanded and split into two: 1.2.1 – General Business Development Services and 1.2.2 – Business Support Services for the Digital Transformation of SMEs. Sub-dimension 1.2.1 contained all metrics from the previous assessment, with one question (relating to dedicated policy framework to support start-ups or early-stage ventures) added. For this reason, comparisons with previous editions' Sub-dimension 1.2 scores should use Sub-dimension 1.2.1 as a proxy. Sub-dimension 1.2.2 featured only new questions and, as such, could not be compared to previous assessments. Sub-dimension 1.2.1 included new indicators covering business development services for startups.
	1.4 Technology and Innovation Promotion	Sub-dimension 1.4 was expanded to include indicators covering high-tech startups.
Dimension 2. Environmental Policies and SMEs	2.1 Environmental Policies Targeting SMEs	For Sub-dimension 2.1, indicators were adjusted to monitor the present environmental policies in government strategies relating to global supply chains and the circular economy. Additional indicators were also included to measure whether there is a capacity-building network to help SMEs improve their environmental performance and if there are cost–benefit analyses to make SMEs more environmentally sustainable.
	2.2 Incentives and Instruments for Greening SME Operations	For Sub-dimension 2.2, additional indicators were included to measure the presence of dedicated green/sustainable finance instruments and non-financial support to help SMEs measure and report their carbon footprints. Additionally, indicators were included on raising awareness of the importance of becoming carbon-neutral and providing information about the presence of sustainable finance.

Dimension	Sub-dimension	Updates from 2018 Methodology
Dimension 3. Access to Finance	3.1 Legal, Regulatory, and Institutional Framework on Access to Finance	For Sub-dimension 3.1, the thematic block on creditor rights was based on the World Bank's Ease of Doing Business reports. Due to the discontinuation of the reports, for the purposes of the scores, the latest available data from the reports were used.
	3.2 Diversified Sources of Enterprise Finance	For Sub-dimension 3.2 under the bank credit or loans section, the first thematic block was expanded from just looking at export-financing schemes to a larger array of financial instruments, including guarantees, interest deferrals, credit mediation schemes, and other tools. Additionally, the second thematic block on credit guarantee schemes was expanded with one additional indicator related to credit guarantee schemes that support SME digitalisation, greening, or inclusivity.
Dimension 4. Access to Market and Internationalisation	4.1 Export and Import Promotion	The section on microfinance was also adjusted. Indicators related to the legal framework for regulating microfinance were replaced with indicators on whether there is a regulating government body, and additional indicators were added relating to whether there is an uptake of microfinance in the country and whether information relating to microfinance is routinely collected.
Dimension 5. Institutional Framework	5.2 Strategic Planning, Policy Design, and Coordination	Indicators on digital financial services were added to explore developments in relation to fintech balance sheet lending, peer-to-peer and marketplace lending, equity crowdfunding, and initial coin offerings. These indicators were not scored.
Dimension 6. Legislation, Regulation, and Tax	6.1 Public-Private Consultations	Sub-dimension 4.1 included new indicators on import and export promotion and available capacity-building support.
	6.3 Company Registration	Sub-dimension 5.2 included new indicators on the measures the governments have taken to respond to the COVID-19 pandemic (not scored). New indicators also included analysis of the measures to address disaster risk management (not scored).
	6.4 Ease of Filing Tax	Sub-dimension 6.1 included new indicators related to digital platforms and online public-private consultations.
	6.5 E-Government	Sub-dimension 6.3 was adjusted following the discontinuation of the World Bank's Ease of Doing Business reports. Thematic Block 1, which was based on the data from the Ease of Doing Business reports, as revised to 'Performance', and new indicators were introduced. Thematic Block 1 had two indicators measuring the cost and time in days for obtaining a company registration certificate. Additionally, Thematic Block 2 on design and implementation was expanded with two new indicators measuring online business registration.
	6.6 Bankruptcy and Second-Chance Policy	A new set of indicators under Sub-dimension 6.4 were introduced. The 2018 edition was largely based on the data from the World Bank's Ease of Doing Business reports. The current edition looked at the mechanisms that governments have put in place to facilitate tax filing by businesses.

Dimension	Sub-dimension	Updates from 2018 Methodology
Dimension 7. Entrepreneurial Education and Skills	7.1 Promotion of Entrepreneurial Education	Sub-dimension 6.5 had one new indicator dedicated to the number of government services SMEs can reasonably access digitally.
Dimension 8. Social Enterprises and Inclusive SMEs	8.2 Inclusive Business	A new sub-dimension (not scored) focussed on available policies by governments to mitigate financial distress of businesses, bankruptcy procedures, and policy frameworks to promote second chances for entrepreneurs.
3.1.3 Credit Information Bureau	2.1 Environmental Policies Targeting SMEs	Sub-dimension 7.1 had one new indicator dedicated to capturing the different areas of entrepreneurial learning across the national education policy. Several indicators on skills present in 2018 edition were moved to Sub-dimension 1.2.
3.1.3 Credit Information Bureau	2.1 Environmental Policies Targeting SMEs	Sub-dimension 8.2 was new, which looks at the policies for promotion of policies around inclusive business models and included a new set of indicators (not scored).

SMEs = small and medium-sized enterprises.

Source: Authors.

Integration of Pre-existing Data from Other Sources

Some thematic blocks take the form of existing OECD, World Bank, and ERIA data (**Table A.3**). The data for some of these indicators were converted into 4-level (0.33.66.1) or 5-level (0.25.5.75.1) scales. The intervals for each level were determined based on two considerations: (i) where the indicator had already been used in other OECD SME Policy Index assessments, this scaling system was duplicated (mainly taking the 5 level scale form); and (ii) where the indicator was used for the first time, a 4 level scale was applied. In the latter case, the interval was determined by the standard deviation of the indicator across ASEAN.

Table A.3. ASEAN SME Policy Index Indicators from Supplementary Data

Sub-dimension	Indicator(s)	Scale Used	Data Source
1.3 Productive Agglomerations and Clusters Enhancement	ERIA foreign investment rate 2014, improvement in the foreign investment liberalisation score from 2011 and 2014	Actual scores	ERIA foreign investment liberalisation rate (2011 and 2014), Intal (2015)
3.1.1 Legal Regulatory Framework for Commercial Lending	All indicators in Thematic Block 2: Creditor Rights	Actual scores	World Bank Doing Business 2020

Sub-dimension	Indicator(s)	Scale Used	Data Source
3.1.3 Credit Information Bureau	All indicators in the sub-dimension	Actual scores; 4-level scale for the coverage indicator	World Bank Doing Business 2020
4.5 Trade Facilitation	All indicators in Thematic Block 1: OECD Trade Facilitation Indicators	4-level scale	OECD Trade Facilitation Indicators

ERIA = Economic Research Institute for ASEAN and East Asia, OECD = Organisation for Economic Co-operation and Development.

Source: Authors.

Wherever possible, the 2024 assessment strove to supplement the framework's indicators with additional quantitative information such as the budget allocated and number of participants in the activity. Due to limited data or comparability, these indicators were often unscored but were used to inform the scoring of other indicators as well as the assessment write-up.

Comparability of the 2024 Edition to the Previous Editions

There is relatively high level of comparability between the editions of 2024 and 2018, as the research team at OECD and ERIA remain committed to safeguarding comparability with previous assessments. For this reason, the following table highlights sub-dimensions where indicators have been substantially changed and only limited comparisons can be made. When applicable, suggested proxy indicators are provided. In all other areas, adjustments are considered insubstantial, and one-to-one comparisons between dimensions/sub-dimensions are suggested (**Table A.4**).

Table A.4. SME Policy Index 2018, Areas of Limited Comparability with SME Policy Index 2024

2018 Dimension / Sub-dimension / Thematic block	Explanation	Applicable Proxy Indicator
Sub-dimension 1.2: Business Development Services	The sub-dimension was expanded and divided into two.	Suggested proxy comparison is with 2024's Sub-dimension 1.2.1 – General Business Development Services
Sub-dimension 3.2.1: Bank Credit or Loans, Thematic Block 1	Thematic Block 1 was expanded upon with new indicators, and the weights were adjusted significantly.	N/A

2018 Dimension / Sub-dimension / Thematic block	Explanation	Applicable Proxy Indicator
Sub-dimension 3.2.2: Microfinance	Indicators were substantially revised.	N/A
Sub-dimension 6.3: Company Registration, Thematic Block 1	The previous source of data was discontinued, and the thematic block was revised with new indicators.	Suggested proxy comparison is with 2024's Sub-dimension 6.3 – Company Registration, Thematic Block 1 – Performance
Sub-dimension 6.4: Ease of Filing Tax	New set of indicators was provided.	N/A

N/A = not applicable.

Source: Authors.

In relation to comparison of the results of the 2024 and 2014 assessments, the methodology has undergone significant alterations since the 2014 assessment; therefore, only a limited comparison between the 2014 and 2024 editions can be made. These changes included new dimensions and indicators. Moreover, the 2018 and 2024 editions applied a graduated approach to scoring as well as a median to calculate regional scores rather than the mean that was used for the 2014 edition.

Inapplicable Sub-dimensions/indicators

Due to significant regional disparities, some sub-dimensions and/or indicators were regarded as less relevant to some AMS related to the level of development or particularity of the geographies. In these cases, AMS were not scored for the sub-dimension and/or indicator in question, and the median and standard deviation were calculated with their exclusions. Weights were also adjusted proportionally. Brunei Darussalam and Singapore were not scored on Sub-dimension 3.2.2 (on the availability microfinance instruments) or Sub-dimension 5.3 (on measures to tackle the informal economy), given their small territory and high income. Additionally, Malaysia was not scored on Sub-dimension 5.3 (measures to tackle the informal economy), given the relatively marginal level of informality in the country.

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The **SME Policy Index** is a benchmarking tool designed to monitor and evaluate the progress of policies that support small and medium-sized enterprises (SMEs), including micro enterprises. The **ASEAN SME Policy Index 2024** is the result of a collaborative effort between the ASEAN Coordinating Committee on Micro, Small, and Medium Enterprises (ACCMSME), the Economic Research Institute for ASEAN and East Asia (ERIA), and the Organisation for Economic Co-operation and Development (OECD). Developed with the funding support of the Governments of Germany and Ireland, this report is the outcome of work conducted by the ten ASEAN Member States (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam).

This report is based on the SME Policy Index methodology developed by the OECD, which has been applied to over 40 countries and five regions worldwide. It builds on the insights and analysis of previous editions, including the **SME Policy Index: ASEAN 2014** Towards Competitive and Innovative ASEAN SMEs and the **SME Policy Index: ASEAN 2018** Boosting Competitiveness and Inclusive Growth. Divided into eight key policy dimensions relevant to SME policies, the report enables benchmarking of policy design, implementation, and evaluation across the ten ASEAN Member States.

The report provides both a regional perspective on recent developments in SME-related policies across Southeast Asia and detailed national-level insights. Based on this analysis, it offers a comprehensive menu of concrete policy options tailored for the region and individual countries, aiming to foster sustainable growth and digitalisation amongst SMEs in ASEAN

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