

Small Business Policies: A collation of Global Best Practices

The '[Draft National Policy'2022](#)' released by Ministry of Micro, Small, and Medium Enterprises (MSME) is a much needed intervention in the MSME sector. The pandemic's negative impact on this sector, specifically in terms of raw material procurement, finished goods supply and loss of employment, has made this sector one of the worst hit segments. The draft policy aims to stimulate efficiency and productivity of MSME sector and focuses following action areas -

- a) Inter-governmental Roles and Responsibility
- b) Legislation and Regulatory Framework for MSMEs in India
- c) Access to Finance/Financial Assistance for MSMEs
- d) Technology Upgradation/Adaptation
- e) Skill Development
- f) Knowledge Management
- g) Ease of Doing Business
- h) Exit Code

The draft policy has also referenced many international best practices in the above mentioned action areas and have accordingly proposed interventions for strengthening the MSME sector.

We at [Wadhvani Foundation](#) are working passionately on entrepreneurship, small business growth, innovation and skilling. The [Wadhvani Chair in U.S. – India policy studies](#) at The Centre for Strategic & International Studies (CSIS), Washington, DC, United States engages closely with centre and state governments in India on MSME policies with the aim to strengthen the MSMEs in the country leading to job creation and export promotion. As a part of our support to the Ministry of Small and Medium Enterprises, we have reviewed the draft MSME policy and have also gone through the various international best practices which are part of the policy document. We believe that there are few more global best practices that the Ministry may consider to review while finalizing the MSME policy.



In this paper, we present a collation of global best practices which would further aid the government in formulating the final national policy for MSMEs. This document does not include those practices already mentioned in the draft policy, to avoid duplicity. Measures have also been taken to exclude those practises which are wholly/partially implemented in India. These international best practises have been documented under the following categories so that they can be easily related to the action areas identified by the Ministry -

1. Access to Finance
2. Market Enablement
3. Infrastructure Support
4. Capacity Building (Employment & Skill Development)
5. Post pandemic support for MSMEs (Ongoing)

1. Access to Finance

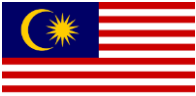

Country	Best Practices
<p>Australia</p> 	<p>⇒ Incentivizing collectivization of industrial activities in terms of tax breaks for participation in enterprise zones for better utilization of resources. The firms work together on innovation, product improvement and marketing activities.</p>
<p>Canada</p> 	<p>⇒ Tax credits and start-up incentives bolstered extensively for cluster formation linked to Research & Development (R&D) spending and access to laboratories specifically. There is cluster level investment in advertising and marketing, unprecedented R&D spending, and access to laboratories, through a government holding company entrusted with cluster development activities.</p> <p>⇒ Direct Financial Assistance to small businesses through federal loan program to modernize and improve Canadian small businesses. Includes a detailed framework for lenders on eligibility and loan amount, eligibility of borrowers and loan types (with lucid examples).</p>
<p>China</p> 	<p>⇒ Implementation of preferential policies like availability of desired land, tax reduction and exemptions to bolster investment into specific sectoral and regional clusters</p> <p>⇒ ‘Township government’ managing the industrial clusters have significant powers in terms of taxation and market regulation.</p>
<p>Colombia</p> 	<p>⇒ Equity Financing that has structured financing instruments to address needs at different stages of a company’s life cycle. This has been made possible due to the creation of networks of angel investors and capital funds, managed centrally.</p>

Country	Best Practices
<p>Germany</p> 	<p>⇒ State funded subscription for MSME asset backed securities for synthetic securitization of Small & Medium Enterprises (SME) asset portfolio under the PROMISE program.</p>
<p>Japan</p> 	<p>⇒ Inclusion of financial institutions (both federal & private) in the member base of cluster associations has the bonus effect of spurring private sector lending to SMEs. Participation in cluster activities increases banks' trust in cluster members.</p>
<p>Malaysia</p> 	<p>⇒ Adoption of alternate mode of credit delivery by banks and financial institutions, like the Small Debt Resolution Scheme which provides debt restructuring schemes to SMEs who are unable to service their existing debt obligations.</p> <p>⇒ SME Corporation Malaysia runs 1-InnoCERT (1-Innovation Certification for Enterprise Rating and Transformation) innovation standard. Firms in high technology sector choosing to obtain this standard are put on fast-track access to finance and business advisory services.</p>
<p>Mexico</p> 	<p>⇒ State owned "Nacional Financiera" (NAFIN) is one of the well-recognized models of the Mexican Development Bank that operates receivables financing platform. It also provides contract financing. It provides financing to suppliers up to 50% of confirmed contract orders from big buyers with NAFIN supply chains, with no fees or collateral, and a fixed rate.</p>
<p>South Korea</p> 	<p>⇒ Boost to SMEs through changing tax laws and changing bankruptcy laws. The reforms in the tax codes and bankruptcy laws have been made to promote small businesses and entrepreneurship. Hence, various statutes have been consolidated into one for easy compliance.</p> <p>⇒ Bankruptcy financing firm for restructuring of SMEs set up to be run by state run debt clearer 'Korea Asset Management Corp.' To enable 'market oriented' corporate restructuring, the firm will offer "debtor in possession" loans to SMEs where the person running the business can remain in control of its assets and day to day operations after receiving the loan.</p>

Country	Best Practices
<p>United Kingdom</p> 	<ul style="list-style-type: none"> ⇒ New sources of <u>equity & debt-funding</u> being made available through crowd-funding & peer-to-peer movement. This is especially beneficial for SMEs with business models revolving around import substitution. ⇒ <u>Incentivizing the banks</u> - Banks are allowed to draw £5 in the scheme for every £1 of net lending to SMEs – in order for them to proactively increase their SME lending. ⇒ <u>“Small Business Rate Relief”</u> is provided which is a discount on the rate of borrowing for SMEs.
<p>United States</p> 	<ul style="list-style-type: none"> ⇒ Using <u>Public Sector Guarantees</u> for encouraging SME Securitization, using standardized scoring and rating model for creating homogenous pool of assets. ⇒ <u>Promotion of SPV</u> for purchasing SME loan portfolio by select Government / other financial institutions. ⇒ <u>Individual State programs</u> promoting cluster formation through initial government seed funding and then through private sector funding. ⇒ Direct <u>Financial Assistance</u> to small businesses in terms of a federal backed loan program.

2. Market Enablement

Country	Best Practices
<p>Australia</p> 	<ul style="list-style-type: none"> ⇒ Promotion of <u>Industry Growth Centres</u> to drive innovation, growth and competitiveness in small businesses by providing national collaboration networks and connecting industry to research and technical expertise centres.
<p>Canada</p> 	<ul style="list-style-type: none"> ⇒ <u>Canada’s Business Innovation Access Programme</u> aims at connecting MSMEs with research institutes, universities and colleges to provide technical, commercial and marketing assistance.
<p>China</p> 	<ul style="list-style-type: none"> ⇒ <u>Local governments enact specific regulations</u> for rigorous benchmarking, monitoring, and regulating of quality and branding to compete globally.


Country	Best Practices
Malaysia 	⇒ <u>Going Export (GoEx)</u> Programme to offer customized assistance to new exporters and SMEs venturing into new markets. The end outcome is to increase global footprint of local SMEs.
South Korea 	⇒ Online interactive platform named “ <u>ecluster</u> ” is setup for information sharing amongst clusters. ⇒ <u>Focus on multi-lateral overseas marketing</u> of SMEs and other upcoming technologies in foreign markets so that domestic companies can deal directly with foreign players.

3. Infrastructure Support




Country	Best Practices
Canada 	⇒ Subsidies for operating infrastructure at <u>CentrePort Canada</u> which is an inland port through single window access, thus enabling SME exports and imports.
Italy 	⇒ Provides grants (starting from EUR 100,000) fund to MSMEs for <u>purchase of hardware/software/Information & Communication technology (ICT) tools</u> . EUR20,000 of tax credit is provided for improving network speed (of mobile and fixed line) to more than 30 Mbps.
United Kingdom 	⇒ ‘ <u>The Small Business: GREAT Ambition</u> ’ policy enabled conversion of high-street properties for multiple uses. This enables small enterprises to operate out of shared office spaces in key business districts where real estate would otherwise be unaffordable for them.
United States 	⇒ Has an ongoing “ <u>HUBZone</u> ” Programme to help small businesses in urban and rural communities gain preferential access to federal procurement opportunities. US has developed approximately 900 Small Business Development Center sites which are funded through a combination of state and Small Business Association (SBA) support in the form of matching grants.

4. Capacity Building (Employment & Skill Development)

Country	Best Practices
<p>Canada</p> 	<p>⇒ Subsidies / Insurance benefits to self-employed people or those who generate employment, which can be availed as early as twelve months from registering. The uniqueness of the program is the support it provides even for personal time off for entrepreneurs.</p>
<p>France</p> 	<p>⇒ Employment tax credits / incentives based on level of employment generated by MSMEs</p>
<p>Germany</p> 	<p>⇒ Financing training activities for up-skilling existing labor force</p> <p>⇒ Has a programme to recognize and reward policies for attracting highly talented skilled workers from across the world</p> <p>⇒ “WeGebAU” special program provides upfront financing for continuing training, particularly in MSMEs; secure and enhance employability, prevent unemployment and contribute to meeting the need for skilled labour</p> <p>⇒ Germany Skilled Labour Concept, launched in 2012, was a strategic initiative aimed at ensuring an adequate supply of skilled labour for German companies. Under the initiative, the Federal Ministry of Economics and Technology offers advice to MSMEs via a dedicated competence/advisory centre (Kompetenzzentrum Fachkräftesicherung) on how to avoid skilled labour shortages.</p>
<p>Malaysia</p> 	<p>⇒ Malaysia’s MSME Corp. provides incentives for setting-up skill development centres for employees and grants for reducing training costs.</p>
<p>Singapore</p> 	<p>⇒ Financing training activities for up-skilling existing labor force. Singapore launched enhanced training support initiative in 2012 to encourage MSMEs to register their employees for training for which enhanced funding will be provided by the government.</p>

Country	Best Practices
<p>United States</p> 	<p>⇒ Employment allowance or incentives to cover employee insurance. Tax credits in cost for assisting in health insurance to businesses with fewer than 25 employees and to businesses with less than 100 employees, provided they work at least 25 hours per week under the Wellness program.</p>

5. Post-pandemic Support for MSMEs (Ongoing)

Country	Best Practices
<p>Chile</p> 	<p>⇒ Introduced a number of measures to support digitalization and teleworking, such as SME Online, an initiative that seeks for SMEs to increase their sales, lower their costs and improve their relationship with customers and providers. It uses available digital technologies and training, changes to Labor Code for regulating teleworking, the development of teleworking / digitalization to connect affected SMEs with the main Chilean e-Commerce platforms and consumers.</p>
<p>China</p> 	<p>⇒ Introduced measures to foster the adoption by enterprises of new technologies, business practices (unmanned retail, contactless delivery, standardized package of fresh food) and business models (online shopping, online medical care, online education, online office, online services, digital entertainment, and digital life).</p> <p>⇒ To accelerate the adoption of digital technologies, active promotion of SMEs cloud computing and purchase of cloud technology for online working such as remote office, home office, video conferencing, online training, collaborative R&D and e-commerce.</p>
<p>Singapore</p> 	<p>⇒ Launched “Go Digital” Programme to provide support for businesses to digitally transform and expand the scope of pre-approved solutions eligible for the Productivity Solutions Grant.</p>

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